

# Financial Voyage

## Mapping Warren Buffet's ideas from Berkshire Hathaway AGM 2001

No recording equipment was permitted at the annual Woodstock for capitalist fest at Omaha. Therefore this map is based on a written transcript by an investment manager who was present at the meeting.

Warren Buffet and Charlie Munger have created for themselves virtuous loops over several decades. Virtuous loops fuel growth, and eventually bump into limits of growth. He had lamented often in public, how difficult it is to compound growth on a multi-billion dollar asset base.

This is their journey in map form how they overcome limits of growth.

GE, Microsoft, Intel, Cisco, Nokia etc., today's unquestioned winners face similar challenges. Each of them will have to find their equivalent formula for success. When they achieve it, they will also own a map with the same look and feel as this one we have drawn for Berkshire Hathaway.

June 13, 2001

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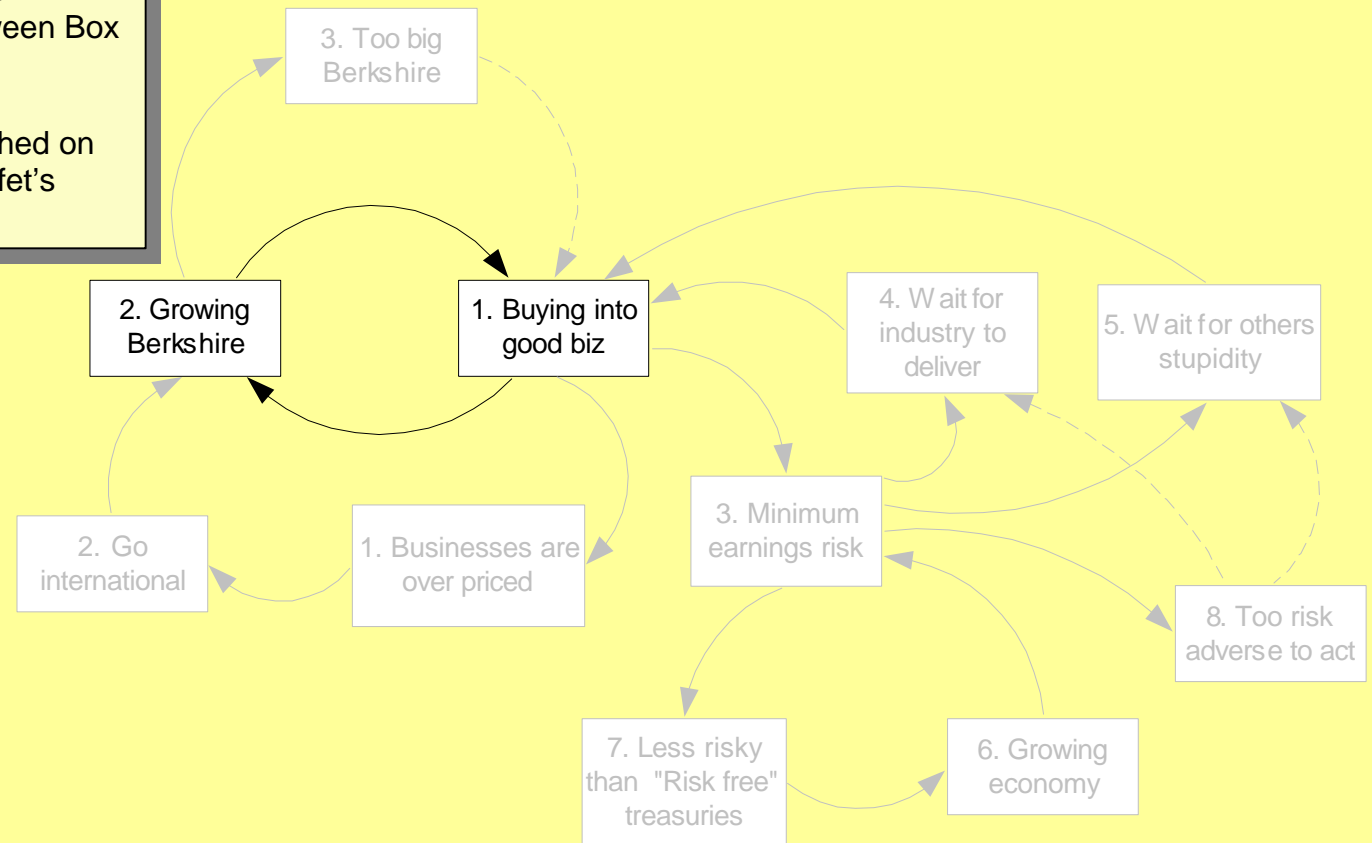
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1. After the initial growing pains that all small companies face, the early years were easy ones for growing Berkshire Hathaway. Except for brief periods, e.g., the mad bull of the early 70s, there were many undervalued assets waiting to be picked up.

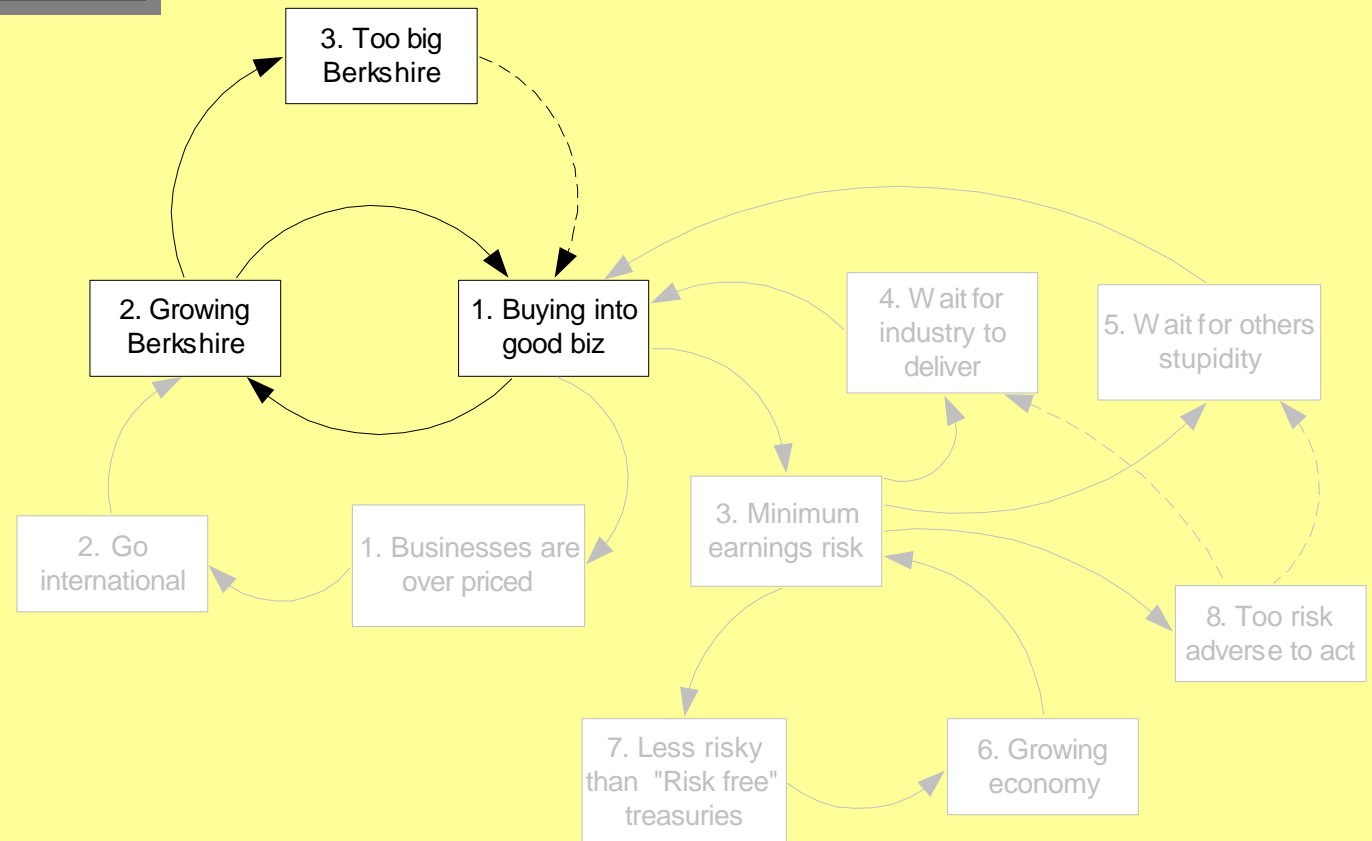
The business was built on a simple strategy - the reinforcing loop between Box 1 and Box 2.

(Tons of literature had been published on what is a good business along Buffet's simple and wise ideas)



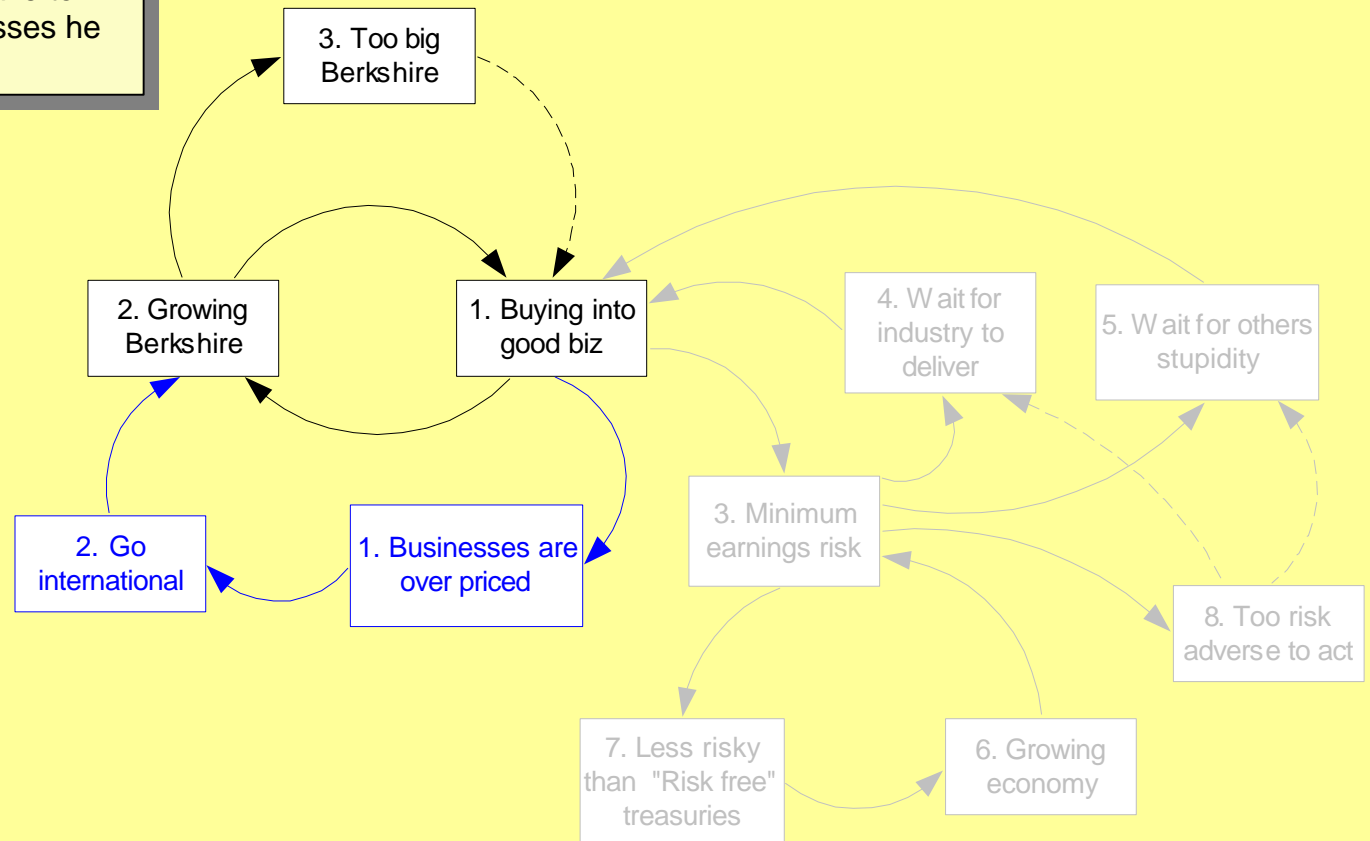
**2.** The magic of compounding works rapidly. Berkshire Hathaway became too big (box 3). For most enterprises and organizations, it is a limit of growth that is nearly impossible to overcome.

The next few slides are about how Warren Buffet plan to give himself the best chance of managing this growth barrier.



3. He was fond of saying why bother to look international when there are so many good companies in the USA. It is a valid position for those responsible for much more modest assets

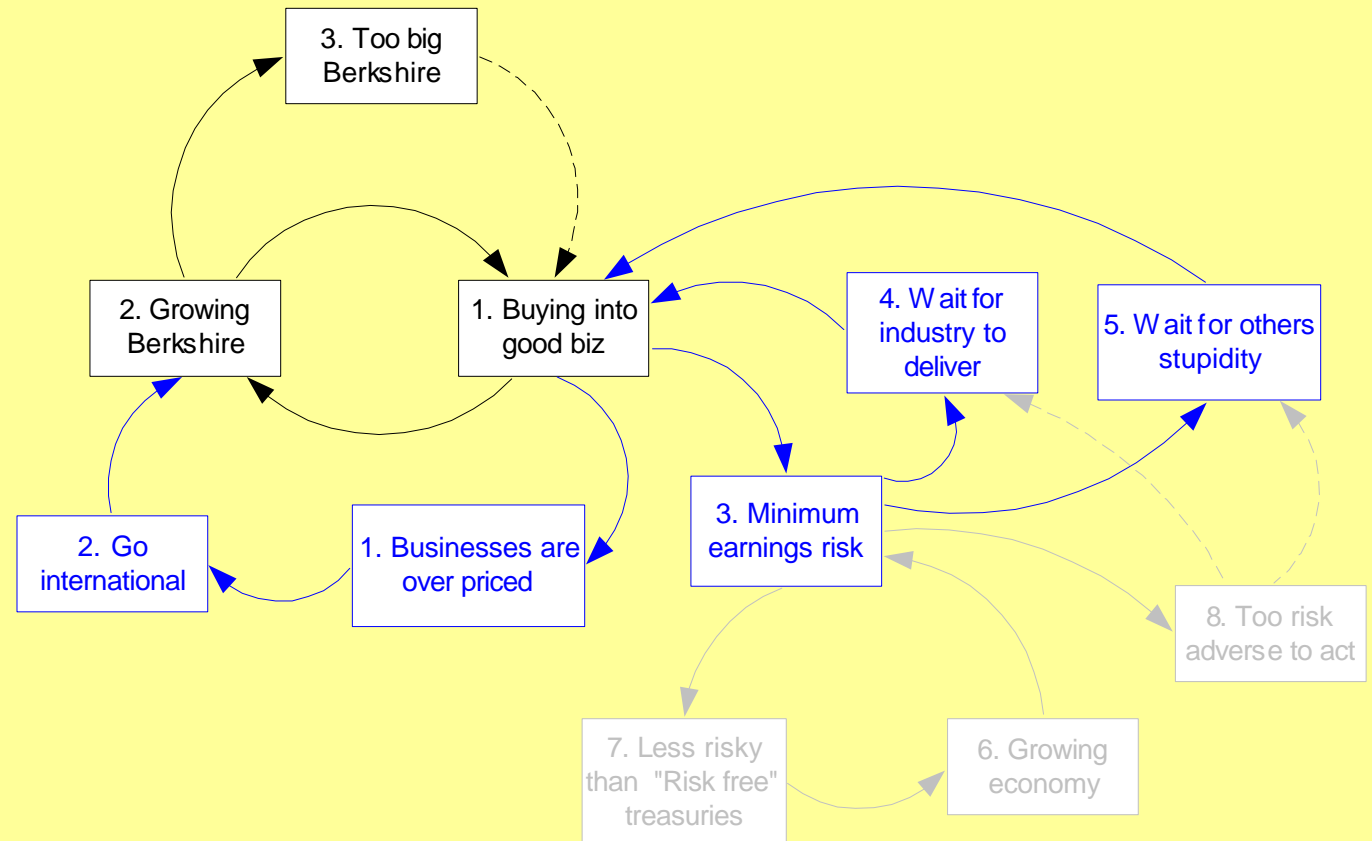
In Buffet's view, most large companies are no longer cheap (box 1). He never expected that he would one day have to look beyond the US for the businesses he wants (box 2)





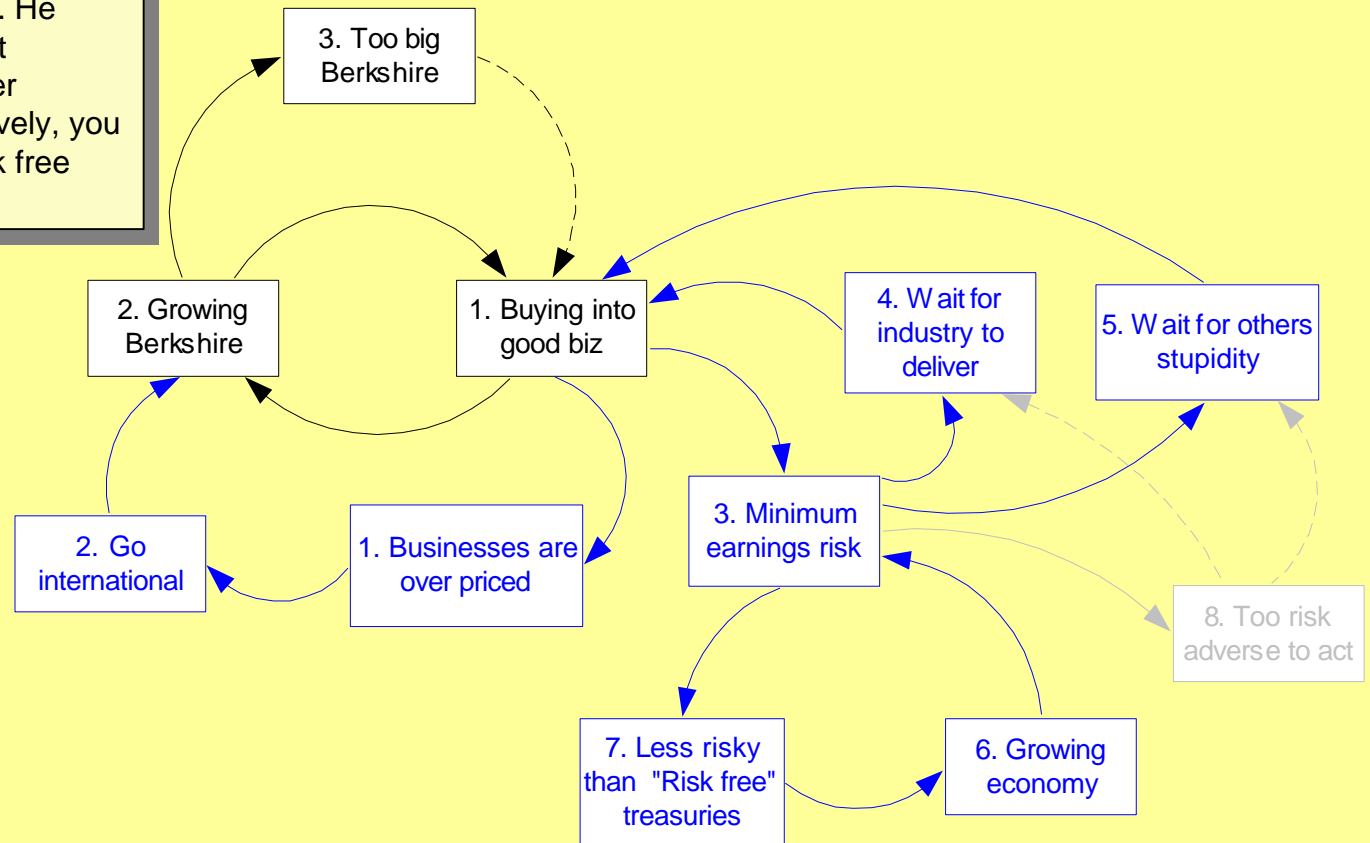
5. I hazard a guess that Berkshire Hathaway could become a more speculative enterprise compared to its past. This is one way to leverage its size, as its risk profile is very different from that of a much smaller enterprise. Often such opportunities are thrown up by the stupidity or blind spots of the consensus (box 5).

Therefore is the company becoming more risky? It is asymmetrical. The risk that it would not repeat its historical performance is higher - A strain to compound growth on a large asset base. On the other hand, its ability to protect its capital has increased considerably. In the past you have to go hunting for value, now you wait for the market to throw it up. The "volatility" of its stock price could rise.



6. Box 5 describes the speculative dimension of the business (I am sure he hates that word). Box 3, Box 6 and Box 7, which form another reinforcing loop represent the main investment selection activity.

As you know, Warren Buffet perception of risk is quite different from the theoretical textbook description of risk (box 7). He thinks that the US economy will not implode (box 6) even if it may suffer reversals from time to time. Effectively, you never need to make a claim on risk free treasuries.



7. He admitted that one of his glaring weaknesses over the years is that he frequently didn't buy enough of a good thing (box 8). This could prevent him from optimizing his investments - See dotted line from Box 8 to Box 4 and Box 5.

### Conclusion

From this map that we have drawn, going forward Berkshire Hathaway outstanding historical performance can only be sustained with luck. In fact over time, the role of Box 5 may rise. The loop in Box 1, Box 1, Box 2 and Box 2 is a difficult one as the US is already the largest economy. After so many years, he is also not likely to be able to do better with Box 8.

