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Buffettology: The Previously Unexplained Techniques That Have Made Warren Buffett The World's Most Famous Investor



Synopsis

"Buffettology" is the first book from someone who, thanks to personal and professional access to Warren Buffett, has been uniquely positioned to learn from the master. Mary Buffett had the privilege-- during her twelve years as his daughter-in-law-- of sharing some of this very private genius's informal discussions of his investing philosophy, and now she shares some of her invaluable observations with us. This breakthrough book offers a full-blown explanation of how Buffett uses "Business Perspective Investing" as a wealth-building tool. His strategy is not so much to "pick stock" but to search for and invest in excellent companies whose intrinsic value and potential earnings he can reasonably predict through a series of steps we learn about throughout the book. Citing many fascinating case histories and examples, "Buffettology" shows us what kinds of companies Buffett looks for and why, and which he avoids and why. The authors show us the mathematical models and equations Buffett uses to determine the basic value and earnings potential of his final choices (and the right price to pay, for which he is willing to wait). We also learn how with the aid of an inexpensive, widely available handheld calculator, anyone can do similar equations. In addition to providing such in-depth analysis, this book offers two more firsts. One is a chapter on Buffett's rarely discussed and extremely successful arbitrage operations. The book gives us the arbitrage equation he uses to determine the positions he should take. The other is a comprehensive list and brief analysis of fifty-four companies in which Buffett has invested and the authors believe he continues to follow, many of which have never before been publicly identified as "Buffett companies".

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Customer Reviews

This book is a mixed blessing. I have read a stack of investing texts over the last 10 years, and this is the first to introduce the concept of purchasing a stock on the basis of a calculable return, as one would any other investment such as a bond or T-bill. For this alone the book is worth reading. It's also a very enjoyable read. I couldn't put it down. However, part of what made it so riveting was the promise that the author(s) will (1) teach me exactly how Warren determines which companies to buy, and (2) the later chapters would teach me in detail how to value a stock and determine what price to pay for it just as Warren does. Unfortunately, the first promise falls a little short, and the second promise proves to be a flat-out lie. Problem 1: She tells us the math is so complex that she had to enlist the aid of a second author to help with that part of the book. But the math turns out to be junior high school level stuff. She shows us a couple of ways that one CAN attempt to calculate a reasonable price for a stock, but does NOT show us how Warren does it, nor does she show any current examples of how we can go about to a stock today. Problem 2: The truth is, she doesn't know how to apply Warren Buffet's techniques, because if she did, she would have included at least one CURRENT example (at the time of printing). She would have chosen a stock and explained why it is a great investment and would have told us what price to pay for it, and would have shown how she made these determinations. After all, that is why we are interested in learning Warren's methods, so we can buy excellent investments TODAY. Merely showing us how much money he made on some stock he bought 20 years ago doesn't prove that she knows HOW he did it.

Probably the best of the Buffett books. Mary isn't part of the Buffett gang anymore, so she doesn't have anything to protect, just plenty to tell. Mary Buffett and David Clark spell out Buffett's methodology as well as anybody. But once you get into the meat of the book, you realize that Buffett had (and has) a lot of advantages over most other investors. That, in and of itself, doesn't take away from the genius behind the method, just that you aren't going to approximate his returns without a lot of luck. Particularly interesting is that many of his "great" purchases were made either when the market had momentarily beaten down a good company, or when the market in general was on the ropes. Both situations recall the sage advice to "buy when blood is running in the streets." Sadly, most investors are usually loaded up with stocks (and paper losses) and without the wherewithal to buy more when these panics hit. That's where Buffett's business strategy comes in. By investing heavily in insurance companies early and often, he's the beneficiary of a steady stream of cash, ready to be put to use whenever the opportunity presents itself. The authors' advice to mimic Buffett in seeking out consumer "monopolies" with intangible assets is good; "an unregulated monopoly

that the world hasn't recognized yet," as they say. However, thousands of Wall Street's brightest are hard at work all day and into the night looking for those same jewels. So you'll have plenty of competition. Two problems arise from this type of book. The first is that the assumptions made about the expected growth of earnings/dividends over the course of the next 10 years can easily go astray. The business environment is changing rapidly. Long-range predictions haven't held up well recently (and frequently don't).

Although I agree with some reviewers about the origin of the book I believe it should be judged by its merits rather than by whether or not Mary Buffett is capitalizing on her relationship with Buffet's son. The book makes a great deal of sense actually and I have made a great deal of money in the stock market using methods almost identical to those espoused in the book. However, the authors fail to explain why low debt, high return on equity companies are so attractive. They dance around but never hit the correct answer. This makes me wonder if they really understand it. For the reader's future reference, once this simple fact is truly understood the investor is on his or her way to understanding investment. Another difficulty is that there are mathematical errors in the book and simplistic mathematical calculations. But the errors induced thereby are not large and no one seems to realize that the calculations are just a poor man's replacement for calculus. As someone with a extensive mathematical background I find this perfectly acceptable. Quite frankly, I have never needed more than simple algebra to understand investments anyhow so restricting the reader to this is good. Also, some sections of the book wander about somewhat aimlessly trying to explain rather simple concepts. I just think the authors don't have a quantitative background. As I said above that is ok but these concepts can be explained better in words than they are in the book. Finally, other reviewers are correct. Mary Buffett using Warren said this and Warren said that etc. throughout the book grates after a very few pages. But in the final analysis the book is worth the time and effort.

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