

## **The Secret Billionaires' Club: Why Study Warren Buffett**

by Robert P. Miles

“I admire your effort,” Warren Buffett told the Executive MBA candidates and lifelong learners during their final presentations over lunch. The world’s most famed investor and admired CEO was dining on a burger and sipping Cherry Coke as each student team recommended stocks and companies they believed fit into the Berkshire family of businesses.

During their presentations, Buffett asked probing questions, debated each investment proposal and gave them a glimpse into the mind of this business genius. Liking one idea in particular—a private medical device maker—he reminded the group that he pays generous commissions for any acquisition suggestion upon its successful completion.

While more and more graduate business schools are sending students to Nebraska for 90-minute lunch and learn sessions with the man known as the Oracle of Omaha, the University of Nebraska at Omaha (UNO) has taken a different approach. Last year I was asked to develop and teach a new class in the Executive MBA program. “The Genius of Warren Buffett: The Science of Investing and the Art of Managing” studies Buffett himself, from his upbringing in Omaha and his Nebraska public education through his famed investment methods, managerial strategies, business culture, mistakes, succession plan, and philanthropy. The graduate level course culminates with participants presenting a business or stock they think Berkshire’s chairman would buy and their reasons why.

UNO’s College of Business course opens with a three-day seminar in the spring, geared towards international Berkshire shareholders, and is then followed with classes

that meet on three non-consecutive weekends in the fall. Enrollment is open to both UNO students and lifelong learners of all ages and backgrounds. Implementing the course completes a circle for the university, which began sixty years ago when Buffett taught courses such as “Women and Investing” at the school that was then known as the Municipal University of Omaha. It’s fitting UNO now offers a comprehensive study on its most famous former college instructor.

Many follow Warren Buffett because they relate to his Midwestern sense of homespun humor, admire his down-to-earth principles and trust the wisdom of his teachings. Even more find it refreshing that he still lives in the house he purchased as a young husband and father, drives himself around in his own car and enjoys a steady diet of burgers, fries and Cherry Cokes. “I live no better than the average college student,” he says with a grin.

Buffett’s beginnings as an investor were as unpretentious as his habits. Without starting a business, securing a patent, developing a unique process, product or service, and without the benefit of an inheritance, he began investing in the stock market. His success in choosing investments led to his becoming America’s second richest man. Long considered the world’s greatest financier, he should also be heralded as one of the world’s foremost CEOs—never in 47 years has a Berkshire subsidiary lost a CEO to a competitor.

The new course at UNO explains how this success began and continues. It all started with simple valuation methods Buffett learned from Ben Graham, one of his college

professors, and delves into important lessons on how to look at the stock market and invest safely.

The exclusive and once secret billionaire's club really isn't so private now that *Forbes Magazine* reveals its annual list of the world's wealthiest. What is revealing is the course's comprehensive and intensive review of all aspects of the business genius' life. Offering additional insight and behind-the-scenes perspectives into this remarkable businessman are several guest lecturers, including journalists, finance professors, professional investment managers, best-selling authors and Berkshire managers.

The Oracle of Omaha does not garner his prognostications by way of prophecy unavailable to mere mortals. The methods Buffett uses are available to anyone, and here are 12 reasons you too should study Warren Buffett:

### **#1 Better understand the unique characteristics of an investment and management genius**

Educators now know there are actually eight different ways to measure IQ. Four are particularly important in business, investment and management. Part of Buffett's genius is that he scores at least 40 percent higher than average in each of these four areas of IQ.

We all have different levels of ability in each of the categories. The average IQ is 100. A modern day renaissance man, Buffett has an estimated score of 160 and is considered both a genius and a polymath. While we may not be able to increase our own IQs by 40 or 60 points, learning the methods he employs in decision-making can dramatically increase success in business.

## **#2 Carefully select your character traits and heroes**

Character is the inner moral compass guiding our daily decisions. We are not born with character, but develop it on our own. “Tell me who your heroes are,” Buffett says, “and I’ll tell you what kind of person you will become.”

Buffett’s college professor, Ben Graham, suggested that his students list all the personality characteristics they admired, then list those traits they didn’t admire. Doing so is a great exercise in becoming a better person: If you admire punctuality and write it down and focus on it, after a while being on time and dependable becomes part of your personality. This exercise not only helps you become a better person, it helps you become a better manager of others. As Buffett frequently says to college students, “Be that person you want to become.”

## **#3 Learn business valuation methods used by Warren Buffett**

“Business schools reward difficult complex behavior more than simple behavior,” Buffett asserts, “but simple behavior is more effective.” As proof, without the aid of a calculator or computer he quickly calculates the value of a business and, therefore, its stock.

“Everyone wants to make business valuation complicated,” he says. “It’s part of human nature to believe that the more sophisticated the formula, the better the results.” The UNO course teaches his straightforward method by studying a dozen investments he made, based on information available at the time he selected them, and figures out how he came up with the businesses’ values.

#### **#4 Realize the important difference between the *price of the stock* and the *value of the business***

Unfortunately, most stock market players confuse the price of the stock with the value of the stock. They think, “If Kraft Foods is selling for \$30, then it must be worth \$30.” Buffett doesn’t make that mistake. He buys his stocks just like his socks—when they are on sale. He purchases stocks and companies when they are trading below their value. If they’re not a bargain, he waits. A very rational financier, he doesn’t allow his emotions to get in the way of sound reasoning.

“I will tell you the secret of getting rich on Wall Street,” Buffett says. “Try to be greedy when others are fearful, and fearful when others are greedy.”

#### **#5 Become a more informed investor and allocator of capital**

While some study Warren Buffett to become mega-millionaires, the real payoff in examining the master’s ways is in improving your own investment skill to lead to a lifetime payoff. Each of us needs to determine our own financial strategies as we go through life, including college education, choosing a trade or profession, home purchases, and ultimately retirement. Understanding how this famous financier selects investments will undoubtedly assist you in your own portfolio. “The root of my success,” Buffett explains, “is acting rationally about capital allocation over the long term.”

#### **#6 Understand the difference between being a manager and a leader**

Although acclaimed as a shrewd investor, great benefit accrues from studying Buffett for what he is unheralded for—his ability to develop a corporate culture, attract the

right people, compensate them well and keep them for long periods of time. In nearly 50 years of managing Berkshire, not one CEO of a subsidiary company has left to join a competing firm. No other conglomerate can claim such a record.

Legendary former GE chairman and manager Jack Welch may have said it best, “Everyone knows Warren is the greatest investor of our time ... [this UNO course] for the first time captures his genius as a *manager*.” Through studying Buffett, you can become a better manager of people by developing the right corporate culture to support and empower success.

#### **#7 Sharpen your communication skills, both orally and in writing**

All successful business managers must get things done through others, by being able to communicate through both the spoken and written word. Buffett is a masterful communicator, with the gifts of humor, example, metaphor and values. Careful reading of his annual letters to shareholders alone will help managers learn to express themselves more effectively. “You can learn a lot of complicated stuff as an MBA,” says Buffett, “but if you improve your communication skills, then you can increase your income by 50 percent.”

#### **#8 Examine Berkshire’s corporate governance and the role of its board of directors**

By developing a set of principles and values, an organization fosters growth and prosperity. Studying the corporate culture of Berkshire Hathaway can help medium to large organizations excel. Buffett recently wrote of the structure his fellow Berkshire board members subscribe to:

“They receive token compensation: no options, no restricted stock and, for that matter, virtually no cash. We do not provide them directors’ and officers’ liability insurance, a given at almost every other large public company. If they mess up with your money, they will lose their money as well. Leaving my holdings aside, directors and their families own Berkshire shares worth more than \$3 billion. Our directors, therefore, monitor Berkshire’s actions and results with keen interest and an owner’s eye.”

#### **#9 Recognize the unique challenges of business continuation and CEO succession**

Selecting the best candidate to succeed the chief executive is one of the most important responsibilities of the board of directors. “The corporate culture of Berkshire,” said Berkshire Vice Chairman Charlie Munger, “is more durable than that of the average corporation. That will go on.” The UNO course explores:

- How Berkshire’s board will select those who will replace Buffett
- How Berkshire was able to replace a key executive with four managers within hours of announcing his resignation
- Which criteria Buffett considered when he personally selected three people to invest Berkshire’s capital

#### **#10 Explore mistakes Buffett made and how to avoid them**

Buffett’s success is not because he is perfect and the rest of us are not. He is human and has made some big mistakes in investing and managing, although with a nickname like “the Oracle of Omaha” it is often easy to forget that. Buying a

company for stock instead of cash or not being quick enough to fire incompetent managers are just two of his errors. Each year in his annual letter to shareholders, he carefully documents his errors of commission—the mistakes he made that are well known, as well as errors of omission—mistakes that could remain unknown unless he admitted to them. Careful analysis reminds all of us that even successful investors make mistakes. More importantly, we can learn from them so as not to make the same ones ourselves.

### **#11 Determine how you will intelligently give back to the world**

Making lots of money is one skill set; giving it away for its best long-term use is a separate talent. Besides being a notable financier and advisor to Presidents, Buffett is also famous for pledging to give away 99 percent of his wealth and for asking fellow billionaires to do the same. It's important to understand how he uses the same principles in making money that he uses to determine how he gives it away. "Give your children enough so they can do whatever this want," he says, "but no so much they do nothing."

### **#12 Uncover a business or stock that would fit into the Berkshire family**

The conclusion of the UNO course is the opportunity to display new skills of recognizing businesses that fit into the Buffett model of wise investments. Through several case studies of businesses Berkshire has purchased, insight is gained in recognizing value and opportunity. The ultimate in understanding what is learned culminates in identifying a business or stock that fits the acquisition criteria set forth



by Berkshire's chairman. Each presentation is judged by fellow classmates and the winning presentation is then sent to Buffett for his final review.

### **How to Study the Master**

There are several methods to learn from Warren Buffett. The most obvious and most effective is to read his annual letters to shareholders, which are openly available at [www.berkshirehathaway.com](http://www.berkshirehathaway.com). Just click on the most current year to read his thoughts on a wide range of subjects.

Second, read his book, *The Essays of Warren Buffett: Lessons for Corporate America*, which was edited by Larry Cunningham. Cunningham categorized and rearranged the meat of the chairman's annual letters into sections, and it makes for a delightful read.

Third, join more than 37,000 shareholders from around the world at the mother of all annual meetings in Omaha, Nebraska. Berkshire's shareholder-fest is usually held the first Saturday in May. Buffett affectionately calls his annual meeting the "Woodstock for Capitalists" and Omaha the "Cradle of Capitalism."

Lastly, enroll in the Executive MBA course on Buffett's genius at the University of Nebraska at Omaha's College of Business. The program opens with three consecutive days of study prior to the Berkshire annual meeting. This one-of-a-kind course is an in-depth exploration into the science of investing and, more importantly, the art of managing.

Don't study Warren Buffett simply for the science or his remarkable record or to become a billionaire. Instead, become a student of "The Art of Being Buffett." His inspiration teaches a better way to live. His principles and practical methods work, and his success is proof positive of that.

"This course," as one lifelong learner said, "can change the way you look at the world of business forever." An Executive MBA candidate concurred. "This program captures the many dimensions of Warren Buffett—from Communicator to Investor to Manager to Chairman to Philanthropist. I'm leaving the course with a deeper understanding of value investing, including essential concepts such as a circle of competence, economic moats and margin of safety, as well as a greater appreciation of Warren Buffett's greatest asset—his character."

More information about the seminar and course is available online:

<http://cba.unomaha.edu/execmgmt/buffettgenius/>

- **Upcoming 2012 Spring Seminar Dates: April 30, May 1, May 2**
- **Upcoming 2012 Fall Course Dates: Sept 14 – 15; Sept 28 – 29; Oct 12 – 13**

**FREE LECTURE:** Friday, May 4, 2012 from 6:30 p.m. to 7:30 p.m., University of Nebraska at Omaha, College of Business, 6708 Pine Street, Omaha, NE 68106. Robert Miles presents "The Secret Billionaires' Club: Why Study Warren Buffett" This is the first of 12 topics offered as part of UNO Executive MBA elective graduate level course. Seating is limited. RSVP required to Debbie Kellogg <[dkellogg@mail.unomaha.edu](mailto:dkellogg@mail.unomaha.edu)>

**Robert P. Miles** (<http://www.valueinvestorconference.com/aboutVIC.html>) is an internationally acclaimed keynote presenter, American author and distinguished authority on Warren Buffett and Berkshire Hathaway. In the fall of 2011, Miles began teaching a graduate level Executive MBA course at the University of Nebraska at Omaha. Titled “The Genius of Warren Buffett: The Science of Investing and the Art of Managing,” the course is based on Miles’ worldwide lectures and books about Warren Buffett.

