

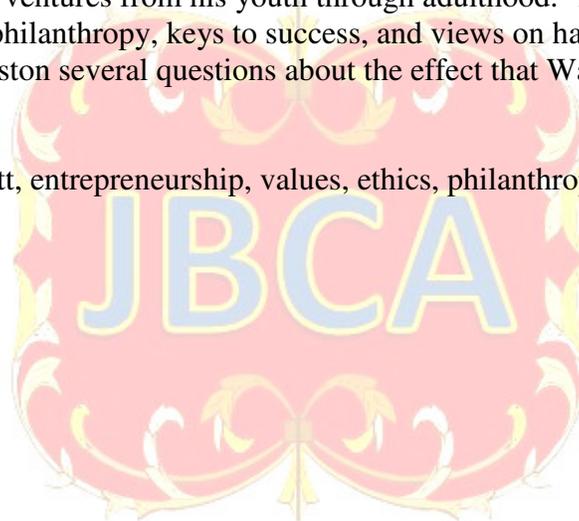
Warren E. Buffett

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ABSTRACT

The case flows from an entrepreneurial perspective based on the effect that Warren Buffett had on Tim Johnston, a recent graduate from Florida State University. The case starts with Johnston's difficult background and his desire to learn more about Buffett's life. His entrepreneurship professor at Florida State, Scott Silver, taught a variety of principles and lessons about Buffett over the two years that Johnston earned a degree in Entrepreneurship and Finance. Silver, who became a close friend of Johnston, invited him to attend the 2016 Berkshire Hathaway Shareholder Meeting and listen to Warren Buffett. Together they learned a great deal about the company and Buffett. The case reviews Buffett's background including his pursuit of entrepreneurial ventures from his youth through adulthood. The case also reviews Buffett's values system, philanthropy, keys to success, and views on happiness. At the end of the case, Silver asks Johnston several questions about the effect that Warren Buffett had on Johnston's life.

Keywords: Warren Buffett, entrepreneurship, values, ethics, philanthropy, happiness, keys to success



INTRODUCTION

Tim Johnston was a recent graduate of Florida State University's School of Business Administration. He was only 22 years old and was unsure about what he wanted to do with the rest of his life. Johnston was from a poor background and a broken home. He worked full-time while attending high school. Around Christmas during his senior year of high school, his father entered his room while he was listening to a song called "Breakdown" by the Alan Parsons Project. His father stated that he was getting a divorce from his mother and he had no money to help Johnston through college. This was a transformational period in the young life of Johnston. He quickly realized that night that he was forced to grow up quickly. While his friends were out having fun and playing Frisbee, he was working.

Johnston was determined to attend college. He realized that he had very little funds so he only applied to only two local schools that he might be able to afford; the local Community College and Florida State University, which was 50 minutes away from his home. He was accepted to both, but decided to attend Florida State University because he wanted to get away from the chaos of his home life and create a new start.

With very little assistance from his high school guidance counselor, he decided to declare independency at age 17. He had worked hard in everything he did and got good, but not great grades in high school. Despite this, he received scholarships, grants, and loans to attend Florida State. He also worked an average of 30 hours a week while attending school full-time. He decided to study business because that was the most practical. He studied entrepreneurship because he wanted to be his own boss someday. He also studied finance due to his fascination with investments.

Johnston graduated with a Bachelor of Science in Business Administration with Concentrations in Entrepreneurship and Finance and earned a respectable 3.5 GPA. Despite his success, he was unsure what he wanted to do with his life. He had little mentoring in his life. His father had been absent most of his life. He had friends, but they were about the same age as him and they had few, if any, life experiences.

At Florida State, Johnston was fortunate enough to have a professor, Scott Silver, who he admired and befriended. They came from similar backgrounds and both shared a love of Warren Buffett. Silver had his entrepreneurship students study a variety of entrepreneurs, including Warren Buffett. Silver emphasized the importance of learning from the best and Buffett was probably the most significant businessman in the United States since JP Morgan.

Silver had attended the Annual Berkshire Hathaway Meeting for the past eight years and asked Johnston if he wanted to attend the meeting with him. Johnston agreed. He looked at it as an opportunity to learn from one of the smartest men in the world. He was hoping that Buffett would be a mentor for him.

BERKSHIRE HATHAWAY SHAREHOLDER MEETING

It was 9:30 AM on Saturday, April 30, 2016 and the beginning of one of the most famous business events in the world, Berkshire Hathaway's Annual Shareholder Meeting in Omaha Nebraska. Warren E. Buffett, CEO and Chairman of the Board for Berkshire Hathaway, was putting on the company's 51st Annual Shareholder Meeting. After Buffett took over the company in 1965, the company had its first shareholder meeting in a cafeteria with a dozen people. Today the event grew to over 40,000 people coming to the meeting from all over the

world. Hotels were sometimes booked years in advance. The Omaha airport was filled with private jets with people coming to hear Buffett who had become one of the richest men in the world with a net worth of over \$67.9 billion (*TheRichest.com*, 2016).

The event was called the Woodstock for capitalists where people stood in line overnight in rain, snow, and/or sleet to get into the building at 7 AM. After flying to Omaha, Silver and Johnston stayed up all night waiting in line to enter the meeting. As they waited, they talked to people from all over the world. They talked to investors, grandmothers, lawyers, brokers, students, etc. This was one of the best parts of the event. Having the ability to learn from all of these bright people for hours. These were times that Johnston would never forget for the rest of his life.

Once the doors opened to the arena, Silver and Johnston sprinted to get the best possible seats while the famous song “Money” by Pink Floyd was blasting in the background. They swiftly moved to the front. Johnston stated to Silver, “I didn’t know you had it in you?” Silver responded, “I used to run track. I was a sprinter.” They made it to the front, only four rows away from where the Board of Directors sat. Within 20 minutes the arena was filled to the brim with approximately 40,000 people (mostly shareholders). From 7:30 to 8:30 AM, the crowd ate a complimentary continental breakfast. Some people visited the exhibits hall located on the ground floor. There were approximately 20 Berkshire Hathaway companies selling products there like See’s Candies, Dairy Queen, Brooks Brothers, Fruit of the Loom, The Pampered Chef, etc.

Silver and Johnston, reserved their seats with newspapers and walked over to the exhibit hall. While they walked in, they saw the newspaper throwing competition going on. Buffett had several newspaper routes growing up so he decided to have a competition every year at the meeting. Whoever threw a newspaper closest to the door of a mobile home in the hall would win a prize. However, they had to beat Buffett. There was a mini bookstore where several entrepreneurs who wrote books about Buffett signed them and talked to the guests. Bill Gates, Sr., the father of Bill Gates, the co-founder of Microsoft who was also on Berkshire Hathaway’s Board of Directors, was there signing a book he had written. After spending about 30 minutes in the hall, Johnston and Silver returned to their seats.

The Shareholder meeting began with a movie every year that ran from 8:30-9:30 AM that was part comedy and part business. Buffett integrated valuable lessons about life and business into the movie often with very famous actors who devoted their time for free. LeBron James was in the movie this year in one of the skits. Towards the end of the movie Buffett always recognized the managers of the businesses that he owned.

At 9:30 AM, there was a question and answer period with the shareholders. Charlie Munger, the Vice Chairman, and Buffett sat in the middle of a table in front of their Board of Directors. Buffett and Munger answered questions for 5 and one-half hours from 3 CNBC journalists, 3 experts in insurance, railroads, and energy, and shareholders with 13 microphones set up all over the arena.

As Buffett and Munger answered questions, they did their usual “Laurel and Hardy” comedy routine while they ate See’s Candies chocolate fudge and peanut brittle while sloshing down Coca-Cola products. As the two gave answers to the questions, there was total silence in the arena. People were grasping to learn as much information as possible. In 2016, the meeting was streamed live for free for the first time to people from all over the world. Despite the free streaming, it was the biggest year ever for international visitors with over 3,000 people flying

into Omaha from China. There were overflow rooms inside the arena reserved for only for Chinese shareholders with their own interpreters.

As the meeting began, Buffett and Munger were asked all types of questions on topics that ranged from business, economics, investments, personal growth, how to live your life, money, success, happiness, etc. The first shareholder question was, “What would you have done differently in life in your search for happiness?” Buffett stated, “Earlier in life, I decided that my favorite employer was myself. So nothing. I have enjoyed my life” (Buffett, 2016). Buffett had decided at a very early age that he wanted to be an entrepreneur.

As the meeting progressed Buffett and Munger reported that Berkshire had a 21% increase in net profit to \$24 billion and revenue of \$211 billion for 2015. Since 1965, Berkshire’s book value per share has grown by nearly 800,000%, compared with an 11,355% gain in the S&P 500 stock index (Anupreeta & Timiraos, 2016).

Another question was what do you think about the current state of the economic environment? Another question was what are you going to do with the \$58 billion in cash that Berkshire has on its balance sheet? Yet another question focused on succession issues. After all, Buffett was 85 years old and Munger was 92.

Buffett had built a dynasty over five decades by utilizing his value investing technique that he learned from Benjamin Graham. Exhibit 1 (see Appendix) showed how Berkshire Hathaway had beaten the S&P 500 index on average by 9.5% from 1965 through 2015.

BUFFETT’S ENTREPRENEURIAL CHILDHOOD

Born in Omaha, Nebraska in 1930, Warren Edward Buffett was one of three children born to Leila and Howard Buffett. Buffett’s family dated back to the 1600’s in the United States. Buffett’s family had entrepreneurial roots dating back to 1869 when his great grandfather founded a grocery store in downtown Omaha. Omaha, which was located on the Missouri river across from Council Bluffs, Iowa, was the largest city in Nebraska with a total population of around 1.3 million people within a 50-mile radius of downtown. The culture of Omaha was typical of a Mid-western city where the people were: warm and friendly, worked hard, and were extremely humble.

Omaha had 11 colleges and universities including the University of Nebraska Medical Center, University of Nebraska at Omaha, and Creighton University. The city used to be the world’s leading stockyards. Today, the city was the home to Boys Town, the College World Series, the Henry Doorly Zoo, and several Fortune 500 companies including: Berkshire Hathaway, Kiewit Corporation (Construction), Mutual of Omaha (Insurance and financial), and the largest railroad in the U.S., Union Pacific. Some other Fortune 1000 companies that were located in Omaha included: TD Ameritrade, Valmont Industries, Werner Enterprises, West Corporation, Green Plains Renewable Energy, Gallup Organization, First National Bank of Omaha, DLR Group, HDR, Inc., and Leo A. Daly. Notable people from Omaha include: Fred Astaire, Marlon Brando, Montgomery Clift, Henry and Peter Fonda, Dorothy McGuire, Buddy Miles, Nick Nolte, Alexander Payne, Gale Sayers, Johnny Rogers, Paula Zahn, and Malcolm X.

While growing up in Omaha, both Buffett and Munger worked at Buffett’s grandfather’s grocery store, which was called Buffett & Sons. The store had a major impact on both Buffett and Munger. They were paid \$2.00 a day for 12 hours of work doing manual labor, which included sweeping floors and unloading trucks. It was here that Buffett decided that he did not want to do manual labor for the rest of his life (Finkle, 2010) and wanted to be his own boss.

Munger stated that he learned some of the best lessons from working at that store, “I worked for Buffett’s grandfather, Earnest Buffett. When they passed social security, Earnest disapproved of this because he thought it reduced self-reliance. When he paid me \$2 for my day’s work, he made me give him two pennies which was my contribution to social security and then he gave me two one Dollar bills and a long lecture about the evils of the welfare state and the lack of self-reliance and it went on and on and on. So I had the right antecedents, too – I had Ernest Buffett telling me what to do” (*Biznews.com*, 2016).

Buffett’s father, Howard, was also an entrepreneur. He founded his own stock brokerage, called Buffett-Falk & Company, which sold diamonds on the side to hedge for inflation (Kilpatrick, 2008 p. 38). Buffett’s mother’s family were also entrepreneurs as they owned a print shop.

This intense exposure to entrepreneurship from family members rubbed off on Buffett at a very young age. Buffett’s first sign of entrepreneurial behavior came at age six, during the Great Depression, when he went door-to-door selling Juicy Fruit chewing gum. According to Buffett, “I remember a woman saying, I will take one stick of Juicy Fruit. I said, we do not break up packs of gum, I mean, I have got my principles.” Making a sale was tempting, but not tempting enough. If he sold one stick to her, he would have four sticks left to sell, not worth the work or the risk. He made two cents profit per pack (Finkle, 2010 p. 70).

After this venture, Buffett purchased six packs of Coca-Cola from his grandfather’s store for 25 cents and sold each bottle door-to-door for 5 cents (Miles, 2004 p. 25). Buffett also had a paper route. He juggled three different paper routes for two rival newspapers. What really made him stand out though, was how he utilized his brain doing this somewhat mindless chore. According to Buffett, “I liked to work by myself, where I could spend my time thinking about things I wanted to think about [...] I could be sitting in a room thinking, or I could be riding around flinging things and thinking” (Schroeder, 2008).

Buffett stated, “*By the age of 10*, I had read every book in the Omaha Public Library with the word finance in the title, some twice.” For Buffett’s 10th birthday, his father took him to New York. Buffett wanted to see three things: The Scott Stamp and Coin Company, the Lionel Train Company, and the New York Stock Exchange (NYSE). The last stop at the NYSE helped him to become one of the most powerful men on earth. A scene from the stock exchange dining room captured his imagination. According to Buffett, “We had lunch with At Mol, a Dutchman who was a member of the stock exchange. After lunch, a guy came along with a tray that had all these different kinds of tobacco leaves on it. He made up a cigar for Mr. Mol, who picked out the leaves that he wanted. I thought: It does not get any better than this.” Buffett was not interested in cigars, but saw what hiring a man for such a frivolous purpose implied. It meant that, even while most of the country was in the Great Depression, the cigar man’s employer, the stock exchange, was making a great deal of money. That day, a vision of his future was planted. He wanted money. Buffett stated, “It could make me independent. Then I could do what I wanted to do with my life. And the biggest thing I wanted to do was work for myself” (Schroeder, 2008).

At age 11, Buffett purchased three shares of Cities Service for \$38. He later sold it for \$40, only to watch it increase in value to \$200 (Kilpatrick, 2008 p. 62). This was one of the first lessons that Buffett learned about patience in investing. Buffett also made money by going to golf courses and gathering lost golf balls, cleaning them, and then reselling them for \$6 a dozen. He got into trouble with the police for doing this, but his parents did not mind as they liked his ambition. Buffett also sold peanuts and popcorn at games at the local university and sold stamps.

By age 13, Buffett filed his first tax form with the Internal Revenue Service (IRS). On the tax form he deducted his bicycle as a \$35 expense. At age 14, he purchased 40 acres of land from his father for \$1,200, which he rented out.

Warren Buffett and his friend Bob Russell were too young to gamble, but that did not stop them from cleaning up at the horse tracks. They looked everywhere for discarded tickets that might be worth something. Buffett described this in his own words, “They called that ‘stooping.’ At the start of the racing season, you get all these people who had never seen a race except in the movies. And they would think that if your horse came in second or third, you did not get paid, because the emphasis was on the winner, so they would throw away place and show tickets. The other time you would hit it big was when there was a disputed race. [...] By that time, people had thrown away their tickets. Meanwhile, we were just gobbling them up” (Steele, 1999 p. 28).

By the time Buffett was in junior high school his father moved the family to Washington D.C. because his father was elected to Congress. While in Washington, Buffett continued his serial entrepreneurial endeavors. By age 15, Buffett and a partner named Don Daly, started a pinball and peanut vending machine business called the Wilson-Coin-Operated Machine Company. They purchased a pinball machine for \$25 and placed it in a barber shop. They split the proceeds 50/50 with the owner. Buffett and Daly were so successful that they purchased five more machines and eventually had sales of \$200 a month (Steele, 1999 p. 28). Buffett also made \$175 a month from his two paper routes. Another entrepreneurial venture in high school was with Don Daly, a high school friend. It involved purchasing a 1928 Rolls Royce for \$350, fixing it up, and renting it out for \$35 a day (Vick, 2000 p. 10). At age 16, Buffett graduated from high school 16th in his class of 350 at Woodrow Wilson High School (Steele, 2009 p. 29). After high school, Buffett sold the Wilson-Coin-Operated Machine Company for \$1,200 and had savings of \$6,000, which he used for college. By age 16, Buffett had made \$6,000 or \$53,000 in today’s dollars. Years later, that small fortune would grow to one of the biggest accumulation of wealth in the world.

BUFFETT AND COLLEGE

Buffett did not want to go to college. He thought that he could get just as good of an education reading something than by just going to school. His father made him go to school. He attended the Wharton School of Business at the University of Pennsylvania. Buffett spent two years there and complained that he was bored, knew more than the professors, and was more interested in the practical applications of the business world. So Buffett transferred to the University of Nebraska at Lincoln where he managed over 50 people and their newspaper routes. Buffett graduated with a Bachelor of Science degree from the University of Nebraska at Lincoln in 1950 at the age of 19.

Buffett then applied to the Harvard Business School, but was rejected because they thought he was too young. After reading the *Intelligent Investor* (1949) by Benjamin Graham, he decided that he wanted to study under Graham at Columbia Business School. He applied, was accepted, and studied under Graham and David Dodd for one year. He earned a Master of Science degree in Economics and was one of Graham’s prized students.

It was under Graham that Buffett learned his investment philosophy. He was exposed to Graham’s two famous books, *Security Analysis* (1934) and *The Intelligent Investor* (1949). After graduation, Buffett told Graham that he would work for his firm for no pay. Unfortunately,

Graham turned him down saying that he undervalued himself (Finkle, 2010 p. 71).

During a question and answer session with university students in 2011, Buffett had this to say about college, “I do not know what my degrees were, but they mean a lot when you are seeking a job. There is a lot of value in education. Ninety-nine percent of companies value education. At Berkshire Hathaway we value it at 50%. When you have high demand you can increase prices at universities. When I was in school I learned a lot from a few courses. A few people inspired me and got me excited about doing things. Benjamin Graham had a huge influence on me. If you have a few teachers that have an influence on you, you are a lucky person” (Finkle & Buller, 2012).

Buffett has stated on many occasions that one of the best things he has done in life was take a Dale Carnegie course on public speaking for \$100. Proof of this was in his office where there were no university diplomas on his walls. The only thing was his certificate from the Dale Carnegie course that he took.

BUFFETT’S EARLY WORK YEARS

After graduating from Columbia, Buffett wanted to go to work for Benjamin Graham at his firm called Graham-Newman Corporation on Wall Street. Unfortunately, Graham, who was Jewish, did not want to hire a non-Jew. During that time there was a lot of discrimination on Wall Street and Jewish people had a hard time working for non-Jewish firms. He wanted to hold a position open for a Jewish applicant. As a result, Buffett moved back to Omaha and worked as a stockbroker for his father’s investment firm from 1951-1954. Over a five-year period, Buffett kept in close contact with Graham and made investment recommendations to him.

Due to Buffett’s persistence and excellent investment recommendations, Graham eventually hired Buffett from 1954-1956. At age 24, Buffet was making \$12,000 a year at Graham’s firm on Wall Street and learned about arbitrage. Over the next two years Buffett learned as much as possible from Graham. By age 25, Buffett had a savings equivalent to \$2 million in today’s dollars. In 1956, Graham retired and Buffett moved back to Omaha where he started his own investment partnership (Finkle, 2010 p. 72).

In 1956, Buffett knew that he could not work in the corporate world so he decided to become an entrepreneur. For many years, several people had asked him for financial advice. So he decided to create his own investment partnership called Buffett Partnership, Limited. The partnership was created with Buffet as the general partner with seven limited partners. Buffett contributed only \$100 and seven friends and family members contributed \$105,000. His office was located in a three story Dutch colonial home that he purchased for \$31,500 in 1957 (Buffett still lives in the same house today). Buffett had no office and ran things from a tiny sitting-room off his bedroom with no secretary and no calculator (Kilpatrick, 2008 p. 88).

At age 27, Buffett had three partnerships. At 28, he had five partnerships. By the time Buffett was 30 years old he had seven partnerships worth over \$7 million of which \$1 million was his. During these years, Buffett began his famous letters to partners (see http://www.rbcpa.com/WEB_letters/WEB_Letters_pre_berkshire.html). In these letters Buffett explained to the partners the following: performance of the fund, the current investment climate, and moves that he had made in the previous year.

In 1962 Buffett also began buying Berkshire Hathaway. Berkshire Hathaway was a textile manufacturer located in New Bedford, Massachusetts. During 1965, Buffett received \$300,000 from Laurence Tisch to invest in his Partnership with a very simple note “include me

in". Tisch described Buffett as one of the greatest investors of his generation (Mazzocco, 1999 p. 94). By the end of 1965, Buffett controlled Berkshire Hathaway, Inc. which had a stock price of \$18.00 (Fridson, 1999 p. 179). In 1966, Buffett became chairman of the company.

In 1969, Buffett decided to liquidate his partnership. He transferred all of the assets from his partnership into shares of Berkshire Hathaway, Inc. and gave the partners their shares. Buffett was now going to use Berkshire as a holding company to purchase other companies and investments. At the end of its life of 13 years, the partnership was worth \$100 million. The Partnership returned an average annual return of 30 percent (Kilpatrick, 2008 p. 16).

BERKSHIRE HATHAWAY, INC.

Buffett was Chairman of Berkshire Hathaway, a public company, by 1970. From 1965 to 1985 the company purchased several companies like Nebraska Furniture Mart, See's Candies, Borsheim's, and *The Washington Post*. Much of Berkshire Hathaway's initial cash came from the float on their insurance companies. Berkshire Hathaway bought National Indemnity and Geico Insurance Companies. Insurance companies were required to keep a certain percentage of cash on hand, however the other amounts can be used for investments. Berkshire used the free cash flow to invest in other projects. By 1985, the stock price of Berkshire had grown to \$1,000 a share. In the 1990s the company began purchasing investments in Coca-Cola, Gillette, Anheuser-Busch, ConocoPhillips, General Electric, Johnson & Johnson, Kraft Foods, and Wal-Mart.

Berkshire Hathaway, did not fare as well. The company closed in 1985 due to stiff competition. However, Buffett continued to keep the name of the company, Berkshire Hathaway, Inc. By 2006 Berkshire Hathaway purchased 80% of Iscar Metalworking Companies that were located in Israel. The companies do business in 60 different countries around the world. During the Great Recession, Buffett practiced his famous saying, "Be greedy when others are fearful". Buffett invested in insurance companies like Swiss Re and additional money into Goldman Sachs and General Electric. Berkshire also purchased Burlington Northern Santa Fe Railway (BNSF) for \$34 billion in November, 2009. When asked why he purchased the company, Buffett stated that he always wanted his own train company. When he was a kid he had his own train set. In doing this deal, Berkshire created two different classes of stock; Class A shares and Class B shares. The Class A shares were the highest priced stock listed on the New York Stock Exchange at well over \$215,000. The B were currently trading around \$143.

In 2010 and 2011, Berkshire Hathaway hired two new investment managers, Todd Combs and Ted Weschler. They both were given \$9 billion each to manage. In the following years Berkshire Hathaway bought Lubrizol Corporation in March, 2011. In 2015, the company bought Precision Castparts Corporation, which supplies aerospace components. Berkshire bought Duracell in 2016. Additionally, one of the investment managers recommended the purchase of \$1 billion in Apple stock in May, 2016.

In 2016, Berkshire Hathaway had 361,270 employees, however its corporate headquarters only had 25 employees. The company owned over 61 companies and owned stock in numerous great companies. From 2014 to 2015, Berkshire Hathaway increased its net worth by \$15.4 billion. This increased the per-share book value of its stock by 6.4%. Over the last 51 years (that is, since present management took over), per-share book value has grown from \$19 to \$155,501, a rate of 19.2% compounded annually (Buffett, 2016).

BUFFETT'S KEYS TO SUCCESS AND VALUES

Buffett was currently married to his second wife, Astrid Menks. His first wife, Susan Thompson Buffett died of cancer in 2004. Buffett had three children with his first wife who all went to public schools in Omaha. They all graduated from Central High School, which was the same school that Charlie Munger attended. Buffett gave each of his children \$2 billion to create their own foundation. The oldest, Susie, was in charge of the Susan Thompson Buffett Foundation that gave money that focused on education. Howard, an author, politician, and businessman, ran the Howard G. Buffett Foundation. The foundation focused on agricultural resource development for smallholder farmers. Peter, a composer, musician, and producer, was the youngest in the family. He was in charge of the NoVo Foundation that worked with adolescent girls' rights, violence against girls and women, advanced social and emotional learning, and promoted local living economies. Peter stated that his dad had the most integrity and was the most honest man that he had ever met (Finkle, 2010 p. 80).

Buffett's values were generally distilled into a few categories; integrity, frugality, and trust. Integrity as it meant to Buffett was summed up with his quote, "Do nothing that you would not be happy to have an unfriendly but intelligent reporter write about on the front page of a newspaper" (Schwartz, 2015). His value of frugality can be observed through his actions. He has lived in the same house in Omaha that he purchased in 1957 for \$31,500 and drove a Lincoln Town Car with license plates that said THRIFTY. He auctioned off the car on e-Bay. Buffett stated, "My suits are old, my wallet's old, my car's old and I have lived in the same house since 1957, so I hang on to things" (Kirkpatrick, 2008 p. 16). Finally, his value of trust was exhibited through his treatment of his employees by empowering them to make decisions. However, this was balanced with the responsibility to communicate bad news to him early and never try to cover it up (Finkle, 2010 p. 81).

Buffett had a philosophy that he shared with others. He emphasized that people should take a job that if you were independently wealthy you would do. He thought that you were out of your mind for taking a job that you did not love. Buffett emphasized,

"If you think you are going to be a lot happier with 2x instead of x, you are probably making a big mistake. Find something you like; you will get in trouble if you think that making 10x or 20x will make you happy because then you will do things you should not do like cut corners. Do something you enjoy and be associated with people you like. If I could make \$100 million dollars with some guy that made my stomach churn, I would say no. It is like marrying for money, which if you are already rich, is crazy" (Finkle, 2010 p. 81).

"I would recommend that you improve your oral and written communication skills. This will improve your pay by at least 50%. They will not teach you this in business schools. Good communication of good ideas gets you much further in life. At Berkshire Hathaway, we look for people with not necessarily the highest IQs, but people who have a good work ethic, are loyal, honest, and reliable." (Finkle & Buller, 2012).

Buffett did not believe in high CEO pay. He consistently spoke out about the abuses of management in relation to pay and stock options. Since 1980, Buffett made \$100,000 a year,

which he stated was more than enough to live on. He never cashed in a share of Berkshire stock for personal use.

Forever a student, Warren Buffett stated that if you want to become a successful investor you need to read all of the time. In 1965 he wrote, “We derive no comfort because important people, vocal people, or great numbers of people agree with us. Nor do we derive comfort if they do not. A public opinion poll is no substitute for thought. When you find a situation you understand, where the facts are ascertainable and clear, then act, whether the action is conventional or unconventional and regardless of whether others agree or disagree. When you are dead sure of something and are armed with all the facts, then everyone else’s advice is only confusing and time-consuming” (Cunningham, 2001).

Buffett disliked schedules, meetings, company rituals, and managing people. His office was in a simple building called Kiewit Plaza for over 30 years. He had an incredible high level of integrity (e.g., he mouthed no threats and never participated in hostile takeovers). Buffett considered character the most important ingredient of a hire, but he also wanted someone who was intelligent with a high level of energy. Other characteristics he admired were generosity; people that gave credit to other people even if they did the work, people that had strong leadership capabilities, and people that were not greedy. Buffett also believed in the philosophy that if you admired someone, you should behave like them (Finkle, 2010 p. 83).

Buffett was also a debt adverse person and had a strong dislike for being in debt. Buffett had two rules that he considered rich seekers must learn: Rule number 1: never lose money. Rule number 2: never forget rule number 1 (Loiacono, 2010).

One of the keys to Buffett and Berkshire’s success was the interest free leverage from the insurance premiums the company received. For example, Geico customers would pay their premiums and then Berkshire was free to use the money for other investments, such as the acquisition of successful companies like See’s Candies or Nebraska Furniture Mart. Of course, Geico would have to pay claims, but until then, they were free to use the cash on other investments.

This was not to say that Buffett has not made mistakes in his career, but he always worked to learn from them. According to Buffett, one of his biggest investment blunders was the purchase of Berkshire Hathaway itself. In the early 1960s, as he was building the partnerships that would make up the core of the modern Berkshire Hathaway, he purchased some of Berkshire Hathaway’s stock. Because it was losing money year after year, Buffett thought he would buy in and then sell the stock within a few years to make a profit. When it came time to sell, he made an oral offer with the owner of Berkshire Hathaway of \$11.50 a share. And later, when he received the tender offer in the mail it was for \$11.375 per share. As Buffett said, this slight made him mad enough to buy out Berkshire Hathaway completely and fire the owner. Buffett then attempted to run the textile business for twenty years while losing money. By his estimate, if he had put the investment in Berkshire Hathaway into an insurance company, his company would have been \$200 billion more valuable. As he put it: “When a manager with a reputation for brilliance, meets up with a business with a reputation for bad economics, it’s the reputation of the business that remains intact” (Crippen, 2010).

Buffett has talked about his other investing mistakes at various points in his career (e.g., Tesco, US Airways, Dexter Shoe Company, Salomon Brothers, Walmart, Energy Future Holdings, and not investing in his friend, Bill Gate’s company, Microsoft and several others). But he also emphasized that no one is perfect and you are bound to make mistakes.

Buffett's value system stressed the importance of being honest and forthright; something his father had taught him. His honesty was legendary. Buffett always stated that it was better to make less profit if it meant doing it honestly rather than questionably. As a result, it was not uncommon for leading investors and media to contact Buffett first to get his opinion on critical issues. People knew that when Buffett spoke, they got an honest, intelligent, and forthright answer (Finkle, 2010 p. 84).

BUFFETT AND PHILANTHROPY

Buffett was giving 99% of his fortune to the Bill & Melinda Gates Foundation and four other philanthropies (O'Brien & Saul, 2006). From 2006-2016, he contributed billions to charities. In 2015, five charities (including the Gates Foundation and his own education charity) received \$2.8 billion in Berkshire Hathaway stock. These donations gave Buffett the world record for the largest charitable contribution from an individual. Buffett stated, "I want my trustees to swing for the fence on a few projects that do not have natural funding constituencies, but that are important to society. I tell them that if they start giving half a million to this hospital and a million to that college, I will come back and haunt them" (Kilpatrick, 2008 p. 26). In addition, Buffett has advocated other billionaires to join him and Bill Gates in pledging to donate their fortunes to charity after they die. To date the Giving Pledge (started in 2010 by Warren Buffett and Bill and Melinda Gates) has attracted over 142 billionaires from around the world amounting to \$365 billion in wealth (*Insatiablenfox.com*, 2016).

When selecting charities to receive donations, Buffett used the same principles that he used to select investments. He wanted charities that got the job done and were in synch with his goals. Using these principles, Buffett donated to other charities in smaller amounts, including the Glide Foundation and Smile Train. Every year, Buffett auctioned off a luncheon with himself on eBay. The proceeds from that auction went directly to the Glide Foundation in downtown San Francisco. In 2016, the winning bid was over \$3.6 million.

Buffett stated that his children would not inherit a significant proportion of his wealth and that his great fortune would not be transferred from one generation to the next. Buffett stated, "I want to give my kids just enough so that they would feel that they could do anything, but not so much that they would feel like doing nothing. I do not have a problem with guilt about money. The way I see it is that my money represents an enormous number of claim checks on society. It is like I have these little pieces of paper that I can turn into consumption. If I wanted to, I could hire 10,000 people to do nothing but paint my picture every day for the rest of my life. And the GNP would go up. But the utility of the product would be zilch, and I would be keeping those 10,000 people from doing AIDS research, or teaching, or nursing. I do not do that though. I do not use very many of those claim checks. There is nothing material I want very much. And I am going to give virtually all of those claim checks to charity when my wife and I die" (Kilpatrick, 2008 p. 1775-1783).

BUFFETT AND HAPPINESS

Buffett always felt best when he was giving and helping others. Buffett's value system was a major reason why he was so successful. Buffett loved to teach and help others. He used to travel and make speeches at universities, however as he aged he decided to change his format and have universities visit him in Omaha. Every year for the past 10 years Buffett invited

anywhere from 15 to 40 universities and colleges a year from all over the world to Berkshire Hathaway's corporate headquarters. Buffett shared his thoughts on business and how to live your life. Buffett also auctioned off a lunch with himself every year on eBay. He gave the proceeds to Glide Foundation, a non-profit organization in San Francisco that helped the homeless and poor. This past year someone paid \$3.4 million for that honor (*SanFranciscoCBS.com, 2016*).

Buffett was renowned for his famous quotes. Some of these can be seen in the Appendix in Exhibit 2. Buffett stated that he was the luckiest person in the world because he loved what he did for a living and was surrounded by people that loved him. When asked in an interview about the key to happiness, Buffett made no mention of money or any materialistic things, but mentioned the importance of surrounding yourself with people that love you. He does not think money equals success: "I measure success by how many people love me. And the best way to be loved is to be lovable" (Altucher, 2016).

Buffett stated that he has as much fun now as when he had \$10,000. He added that satisfaction does not come with money; just with what you have got and what you are doing. Love what you do and you will be satisfied. It is important to recognize that happiness is not about making money, but money is a nice thing to have.

Buffett stated, "Always hang around people better than you are. Work for someone that you admire. You want to be around people that bring out the best in you. You want to be around people that you like. You want to be around people that make you want to jump out of bed in the morning. The most important decision you will make in your life is who you marry" (Finkle & Buller, 2012 p. 8).

When asked who had the most influence on his life besides his father Buffett responded, "The three most important people that had an influence on me in my life were my wife, Benjamin Graham, his professor at Columbia, and a Jewish friend that recently died in Omaha. He stated that his Jewish friend had to hide from the Nazis during World War II and someone turned him in. He had to go to a concentration camp. He survived the concentration camp and for the remainder of his life when he met people he would determine whether or not to be their friend based upon the premise of: Would this person hide me from the Nazis? Buffett also stated that the most important thing was unconditional love. If you can find two or three people who love you unconditionally, you are a lucky person" (Finkle, 2010).

JOHNSTON'S FUTURE

Johnston left the Berkshire Hathaway Shareholder Meeting with Silver around 3:30 PM. It was a long day given that they had stayed up all night. Silver suggested that they go eat a late lunch at Buffett's favorite steakhouse, Gorat's. They went to Gorat's and both ordered Buffett's favorite lunch; an open faced, hot roast beef sandwich with mashed potatoes and gravy on a piece of white bread and a Cherry Coke.

During lunch, Silver asked Johnston several questions including: What do you think motivated Buffett to become an entrepreneur? What made his so successful? What motivates him? What were some of his keys to success? Do his values have anything to do with this? What were his views on happiness and money and love? What have you learned over the years from Buffett that can make you a more successful person both personally and professionally? How can you use Buffett as a role model in your life?

Johnston thought hard about all of these questions as he ate his scrumptious lunch. He also thought how grateful he was that he had a professor like Silver who cared enough about him to be his mentor and friend. He thought about the importance of gratitude. That was such an important thing that he had learned in his young life. He also made a pledge to recognize gratitude in his life and pay it back in the future.

- Please contact the author for the Teaching Notes.

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APPENDIX

**Exhibit 1: Comparison of the Performance of Berkshire's stock versus the S&P 500:
1965-2015**

Years	Annual Percentage Change		
	In per-share book value of Berkshire (1)	In S&P 500 with dividends included (2)	Relative results (1)-(2)
1965	23.8	10.0	13.8
1966	20.3	(11.7)	32.0
1967	11.0	30.9	(19.9)
1968	19.0	11.0	8.0
1969	16.2	(8.4)	24.6
1970	12.0	3.9	8.1
1971	16.4	14.6	1.8
1972	21.7	18.9	2.8
1973	4.7	(14.8)	19.5
1974	5.5	(26.4)	31.9
1975	21.9	37.2	(15.3)
1976	59.3	23.6	35.7
1977	31.9	(7.4)	39.3
1978	24.0	6.4	17.6
1979	35.7	18.2	17.5
1980	19.3	32.3	(13.0)
1981	31.4	(5.0)	36.4
1982	40.0	21.4	18.6
1983	32.3	22.4	9.9
1984	13.6	6.1	7.5
1985	48.2	31.6	16.6
1986	26.1	18.6	7.5
1987	19.5	5.1	14.4
1988	20.1	16.6	3.5
1989	44.4	31.7	12.7
1990	7.4	(3.1)	10.5
1991	39.6	30.5	9.1
1992	20.3	7.6	12.7
1993	14.3	10.1	4.2
1994	13.9	1.3	12.6
1995	43.1	37.6	5.5
1996	31.8	23.0	8.8
1997	34.1	33.4	0.7
1998	48.3	28.6	19.7
1999	0.5	21.0	(20.5)
2000	6.5	(9.1)	15.6
2001	(6.2)	(11.9)	5.7
2002	10.0	(21.1)	31.1
2003	21.0	28.7	(7.7)
2004	10.5	10.9	(0.4)

2005	6.4	4.9	1.5
2006	18.4	15.8	2.6
2007	11.0	5.5	5.5
2008	(9.6)	(37.0)	27.4
2009	19.8	26.5	(6.7)
2010	13.0	15.1	(2.1)
2011	4.6	2.1	2.5
2012	14.4	16.0	(1.6)
2013	18.2	32.4	(14.2)
2014	8.3	13.7	(5.4)
2015	6.4	1.4	5.0
Compounded Annual Gain – 1965-2015	19.2	9.7	9.5
Overall Gain – 1965-2015	798,981	11,355	

Source: *Berkshire Hathaway's 2015 Annual Report*. Retrieved from <http://www.berkshirehathaway.com/2015ar/2015ar.pdf>



Exhibit 2: Warren Buffet Quotes

"Risk comes from not knowing what you are doing."

"Honesty is a very expensive gift. Don't expect it from cheap people."

"Opportunities come infrequently. When it rains gold, put out the bucket, not the thimble."

"In the world of business, the people who are most successful are those who are doing what they love."

"It's better to hang out with people better than you. Pick out associates whose behavior is better than yours and you'll drift in that direction."

"I don't look to jump over seven-foot bars; I look around for one-foot bars that I can step over."

"The difference between successful people and really successful people is that really successful people say no to almost everything."

"The most important investment you can make is in yourself."

"It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."

"You only have to do a very few things right in your life so long as you don't do too many things wrong."

"It is not necessary to do extraordinary things to get extraordinary results."

"Someone's sitting in the shade today because someone planted a tree a long time ago."

"You will be successful if the people who you hope to have love you, do love you."

"It's far better to buy a wonderful company at a fair price, than a fair company at a wonderful price."

"The best thing I did was to choose the right heroes."

"You've gotta keep control of your time, and you can't unless you say no. You can't let people set your agenda in life."

"A public-opinion poll is no substitute for thought."

"Of the billionaires I have known, money just brings out the basic traits in them. If they were jerks before they had money, they are simply jerks with a billion dollars."

“I always knew I was going to be rich. I don't think I ever doubted it for a minute.”

“What good is money? It buys time and flexibility to do what you want (work how you want). But, it doesn't really make a huge difference in other things.”

“The business schools reward difficult complex behavior more than simple behavior, but simple behavior is more effective.”

“Our favorite holding period is forever.”

“Price is what you pay. Value is what you get.”

“There seems to be some perverse human characteristic that likes to make easy things difficult.”

“Time is the friend of the wonderful company, the enemy of the mediocre.”

“We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful.”

“When a management with a reputation for brilliance tackles a business with a reputation for bad economics, it is the reputation of the business that remains intact.”

“Why not invest your assets in the companies you really like? As Mae West said, "Too much of a good thing can be wonderful.”

“Your premium brand had better be delivering something special, or it's not going to get the business.”

“Wide diversification is only required when investors do not understand what they are doing.”

“If past history was all there was to the game, the richest people would be librarians.”

“Never depend on a single income. Make an investment to create a second one.”

“I learned to go into business only with people whom I like, trust, and admire.”

“Never give up searching for the job that you're passionate about.”

“A contrarian approach is just as foolish as a follow-the-crowd strategy. What's required is thinking rather than polling.”

“Ignore the stock market, ignore the economy, and buy a business you understand.”

“Never get too hung up on mistakes.”

"In the short run, the market is "a voting machine, in the long run, it's a weighing machine." Considering that we do our living in the short run, we must learn to focus our investment gaze on the long run.

"I happen to have a talent for allocating capital. But my ability to use that talent is completely dependent on the society I was born into. If I'd been born into a tribe of hunters, this talent of mine would be pretty worthless. I can't run very fast. I'm not particularly strong. I'd probably end up as some wild animal's dinner."

"We've long felt that the only value of stock forecasters is to make fortune tellers look good. Even now, Charlie and I continue to believe that short-term market forecasts are poison and should be kept locked up in a safe place, away from children and also from grown-ups who behave in the market like children."

"In a bull market, one must avoid the error of the preening duck that quacks boastfully after a torrential rainstorm, thinking that its paddling skills have caused it to rise in the world. A right-thinking duck would instead compare its position after the downpour to that of the other ducks on the pond."

"I call investing the greatest business in the world ... because you never have to swing. You stand at the plate; the pitcher throws you General Motors at 47! U.S. Steel at 39! and nobody calls a strike on you. There's no penalty except opportunity lost. All day you wait for the pitch you like; then when the fielders are asleep, you step up and hit it."

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