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MANAGEMENT LESSONS AND CAUTIONARY TALES FROM WARREN BUFFETT

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INTRODUCTION : TO THE SUCCESS STORY OF WARREN BUFFETT

Warren Buffett widely known as Oracle Of Omaha is one of the richest and most respected businessman in the World. He was born in Omaha, Nebraska on 30 August, 1930. Warren Buffett demonstrated keen business abilities at a young age. He may have been born with business in his blood. He purchased his first stock when he was 11 years old and worked in his family's grocery store in Omaha. His father, Howard Buffett, owned a small brokerage, and Warren would spend his days watching what investors were doing and listening to what they said. He formed Buffett Partnership Ltd. in 1956, and by 1965 he had assumed control of Berkshire Hathaway. Overseeing the growth of a conglomerate with holdings in the media, insurance, energy and food and beverage industries, Buffett became one of the world's richest men .

EDUCATION AND EARLY LIFE OF WARREN BUFFETT :

Buffett enrolled at the University of Pennsylvania at the age of 16 to study business. He stayed two years, moved to the University of Nebraska to finish up his degree .In 1951 he received his master's degree in economics at Columbia University, where he studied under economist Benjamin Graham, and furthered his education at the New York Institute of Finance. Influenced by Graham's 1949 book,

WARREN BUFFETT AND COMPANIES :

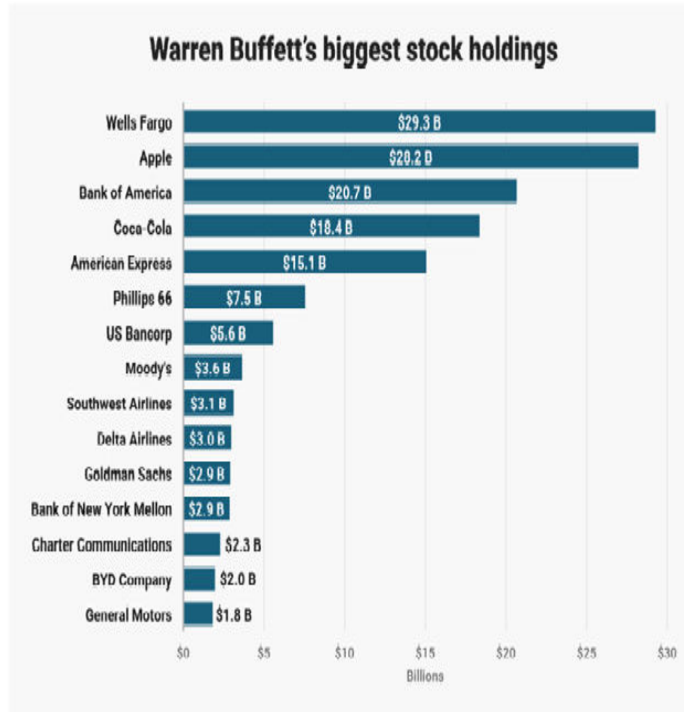
- 1956 – Formed Buffett Partnership Ltd. In hometown of Omaha
- 1960-1965 – Started accumulating stocks.

- 1960 – Became a integral part of BERKSHIRE HATHAWAY
- 1969- BUFFETT PARTNERSHIP Ltd got dissolved
- 1989- 2006 –Started expanding stock holdings with significant 6investment in media, insurance, oil , coca-cola and so on .

BERKSHIRE HATHAWAY COMPANY :

Number of employees : 387000 (2018)
Total Assets : US$ 707.794 Billion.
Total equity :US$348.703 Billion.
Revenue : US$ 247.537 Billion.
Operating Income : US$ 10.021 Billion.
Net Income : US$ 4.021 Billion.
Present : warren Buffett have 30.71% of the aggregate voting power and 16.45% of economic interest.

WARREN BUFFETT BIGGEST STOCK HOLDINGS :



NET WORTH OF WARREN BUFFETT:
As for 2018, Buffett has an estimated net worth of $84 billion.

- **MANAGEMENT LESSSONS GIVEN BY WARREN BUFFETT :**

For anyone wondering, “What would Warren Buffett do?” the 85-year-old billionaire has given plenty of advice in his public remarks and in annual letters to Berkshire Hathaway Inc. shareholders. It doesn't matter whether you're a home buyer considering a mortgage, or an executive weighing a takeover; he's got something for just about anyone looking to live a more rational, financially successful life.

➢ FOR THE MANAGERS AND THE INVESTORS :

Warren Buffett is not just a great investor; he is also a great manager. Entrepreneurs can learn a lot from his management principles. Mary Buffett's book Warren Buffett's Management Secrets: Proven Tools for Personal and Business Success is a great gift for managers who want to follow Buffett's management principles.

➢ CASH IS A KING :

One of the characteristics that define a great business is its ability to constantly generate more cash than it consumes. Cash is after the life-blood of a business, and the biggest wealth creators in history have been companies that have managed this assed well. Buffett has always stressed on the importance of cash, andthis is what he reiterates in his 2014 letter…

Financial staying power requires a company to maintain three strengths under all circumstances: (1) a large and reliable stream of earnings; (2) massive liquid assets and (3) no significant near-term cash requirements.

➢ Never Lose Money :

"Rule No. 1: Never lose money. Rule No. 2: Never forget rule No. 1." – Warren Buffet

What makes it impossible to say that you are *never* going to lose money, is that it would mean that you would never take the calculated risks that are necessary to make money in the first place. But that's the whole point – taking *calculated risks.*

If you use the *never lose money* mantra as a foundational strategy, it will have a positive effect on everything you will do, whether it has to do with a business or with investing. Many of the lessons that will follow will outline exactly how Buffett avoids losing money in the first place.

➢ Buy Businesses – Not Stocks :

"I never attempt to make money on the stock market. I buy on the assumption that they could close the market the next day and not reopen it for five years." – Warren Buffet

Despite being perhaps the most successful investor in stock market history, Warren Buffett never actually bets on stocks, at least not the way that most investors and even fund managers do.

Buffett looks not at the performance of a given stock, but at the performance of the underlying business. This is critical, because a strong underlying business means that an investment will almost always payoff, at least sooner or later.

- **You Are Ultimately Responsible For Your Success or Failure**

There are a lot more people in the financial markets then there is understanding of those markets. For this reason, people hold their investments through mutual funds, or pay for the services of investment advisers. Buffett holds that there is no substitute for getting involved in your investments.

Whether your investments succeed or fail will be completely on your shoulders, and not on those of your investment advisor. He maintains a policy of learning all about an investment and taking complete charge of how you go about managing it. In addition to being a solid strategy, this is also the only way that a novice investor learns to be an expert.

- **Invest in Quality**

One of Buffett's hallmark investment strategies is a investing in quality. This means that he invests in companies that have well-known, well-regarded products that add value to the consumer and the economy. The companies he inverts money in are usually household names, which is to say that they have both strong market penetration and brand recognition.

- **Be in the Game For the Long Haul.**

"Someone is sitting in the shade today because someone planted a tree a long time ago." – Warren Buffet

When you look at the companies that Buffett either owns individually, or through Berkshire Hathaway, they're all long-term investments. Buffett will buy stocks and hold onto them – not for years – but for decades. As long as the business is strong, the investment will payoff. Buffett's track record, and the size of his portfolios, are testaments to the success of this strategy.

- **Risk is Part of the Game – Get Used to It**

“Risk comes from not knowing what you’re doing “ – Warren Buffet

Buffets way to wealth is actually a very risky one by conventional standards. He doesn’t invest heavily in safe assets like bonds and treasury bills. He invests primarily in stocks. But stocks are not nearly as risky as people tend think – *as long as you know what you’re doing*. And Buffet clearly does.

Buffet is able to eliminate most of the risk associated with stocks, by buying them cheaply enough that the speculation – and high prices – are completely squeezed out. Most of the positions that Buffet takes have nowhere to go but up. That is the result of buying after everyone else has sold out their positions.

- **Pay Close Attention to Management :**

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

While many investment analysts tend to focus on a company’s numbers, market position, specific assets, and even public sentiment, Buffett looks more closely at management. Every one of those tangible metrics can change in the future, substantially weakening a company. But the caliber of management represents the future of the business. With the right people at the helm, the business will grow and prosper no matter what challenges it may face.

- **Keep It Simple :**

“Derivatives are financial weapons of mass destruction. “ – Warren Buffet

There are a small number of investors on Wall Street who are making a lot of money in exotic investments, such as derivatives. Buffett avoids all such investment schemes, preferring to keep his investments basic. It once again gets back to the concept of investing in what it is that you know and understand.

- **CAUTIONaRY TALES BY WARREN BUFFETT :**

Warren Buffett the sage of Oracle have the wide and wise knowledge of the Investment and Management , through his past successful experience of 85 years he lays down some of the cautionary things which one should follow while doing a business . These are explained through these

cautionary tales by Warren Buffett.

- **Invest in what you know.**

With such a long-term track record of success, some investors may assume that the Oracle of Omaha is an expert in all areas of the market. In reality, he has often admitted he is not the most tech-savvy person. Warren Buffett has never owned shares of Amazon.com (AMZN) or Alphabet (GOOG, GOOGL) subsidiary Google. "Never invest in a business you don't understand," Buffett once said. That philosophy may have caused him to miss out on Google and Amazon, but it also allowed him to avoid the worst of the dot-com bubble back in 2000 and the bitcoin collapse last year.

- **Be fearful when others are greedy.**

One of Warren Buffett's most frequently quoted lines is that investors should be "fearful when others are greedy and greedy when others are fearful." In other words, the best buying opportunities in the market often occur when other investors are selling. "This is one of his greatest expressions and is mostly self-explanatory," Murray says. "It speaks to being disciplined and rational in the face of the two extremes in investor sentiment — euphoria and panic." An excellent example of Buffett's contrarian tendencies is his $5 billion investment in Bank of America Corp. (BAC) in the wake of the 2008 financial crisis.

- **Control your emotions.**

A big part of being a disciplined investor like Warren Buffett is being able to control your emotions. Buffett is able to make rational investment decisions in situations where other investors often let emotions cloud their judgement. Michael Batnick, director of research at Ritholtz Capital Management, says it's not necessarily Buffett's intelligence that has made him so successful. "What made Warren Buffett such a great investor was not just superior intellect, it was his emotional fortitude to stay true to his strategy during deep drawdowns."

- **Identify companies with competitive moats.**

Warren Buffett once said that investors shouldn't focus on an industry's potential impact on society or how much it will grow

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over time. Instead, they should focus on identifying companies that have a durable, competitive advantage. Buffett also referred to the ability of a successful company to defend its business as a "competitive moat." DataTrek Research co-founder Nicholas Colas says there are plenty of cautionary tales of companies that did not have competitive moats. "What does Apple have in common with Eastman Kodak (KODK) and Woolworth's? The former is in the Dow; the latter two were there 20 years ago," Colas says

➢ CONCLUSION :

Must be modified appropriately by considering one's own particular situation.

The guidelines and pointers provided by Buffet related to the evaluation of a company are extremely effective for all kinds of investors

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