All ears for the Omaha oracle

profile America's second richest man, the brain behind Berkshire Hathaway, is venerated on Wall Street for his judgement and humility. David Usborne reports

WARREN BUFFETT | Sunday 19 February 1995

A FRIEND on Wall Street gave me a special gift last week: the Berkshire Hathaway 1993 annual report. This is the precious samizdat of American investors. Wealthy fathers give their progeny one share in the company when they come of age just to make sure they are on the mailing list each spring.

But how spectacularly unimpressive it seems. No company logo, no photographs showing off its achievements or assets, just pages of prose and tables and a gravy-coloured school exercise-book cover. And the letter to the shareholders from the company chairman just is not serious. It is full of jokes and whimsy, rather like the round-robins at Christmas from your cousin.

In these few pages, however, we can catch the essence of Berkshire Hathaway and, more particularly, of the man who runs it as his personal portfolio, Warren Buffett. Beneath the dowdiness and offhand tone are results that attest to stupendous success and wealth.

That one share for the family scion, by the way, would have cost Dad around $23,200 (£14,800) last week. The company's stock is the priciest on Wall Street and not for nothing. And while the unkempt and slightly bulging Buffett, who is 64, may not behave like a Donald Trump or a Ted Turner - he has kept the company headquarters at Omaha, Nebraska, where he grew up and still lives in the house he bought in 1958 for $31,500 - he happens to be a good deal richer than either of them.

According to the latest Forbes magazine, he has amassed a $9.2bn fortune. That makes him the second richest person in America after Bill Gates of Microsoft, who is a squeak ahead with $9.35bn. Last week, Buffett surfaced suddenly when markets learned that Berkshire Hathaway had increased its holding in American Express, the travel and credit card giant, from 5.5 per cent to 9.8 per cent and was applying to the Securities and Exchange Commission to raise it beyond 10 per cent, the threshold at which disclosure is required. A similar filing at the SEC showed Buffett had purchased 8.3 per cent of PNC bank, based in Pittsburgh.

When Buffett moves - and it is fairly rare, deliberately so - investors naturally take notice. Thus on Tuesday, when the purchases became known, shares in both companies shot higher, ending 4.3 per cent up for American Express. But Wall Street does more than just follow Buffett's lead, it also worships him like no other in the financial world. It calls him the "Oracle from Omaha" and venerates him for his judgement, his humility, his simple niceness and also for the life story that has led him to this point.

The early years make good legend-building material. His father was a modestly successful stockbroker in Omaha, who in 1943 was elected for one term in the US Congress. Buffett says that even when he was 11, he had his first shares and was memorising a book, One Thousand Ways to Make $1,000. He earned money on paper rounds.

In Washington, aged 13, he formed a company to install pinball machines in the Congressional barbershop. "I was fascinated with anything to do with numbers and money," he recently confessed. It was when he was a senior at Nebraska State University that Buffett read the writings of the man who was to become his mentor. That was Benjamin Graham, widely regarded as the founder of modern stock market analysis. It was the early 1950s, and Graham was teaching a course at Columbia University into which Buffett enrolled.

Buffett imbibed the Graham approach, though over the years he has modified it fairly radically. It said, in summary, that investors should find companies whose shares were so undervalued by the market that they were worth less than their actual book value. Once identified, they should be snapped up.

Armed with this wisdom, Buffett, at the age of 25 and with just $100,000 collected from family and friends, set up the Buffett Partnership. For nearly 15 years, he provided his clients with spectacular returns. Interestingly, his most dramatic early coup was on the back of American Express, which in 1964 was hobbled by a scandal in one of its subsidiaries. Buffett bet 40 per cent of his partnership on Amex stock at a cost of $13m. He sold it two years later for $20m.

He wound up the partnership in 1969, complaining that stocks had been driven to such a height by speculators on Wall Street that there was nothing left to invest in. In the meantime, however, he and his new partner, Charles Munger, who still remains by his side, had purchased an ailing textiles mill in Massachussetts called Berkshire Hathaway.

The mill never recovered and was eventually to be closed down; the name, though, was retained for what has become Buffett's empire, which also includes an insurance consortium specialising in catastrophe policies. With offices, in a nondescript building in Omaha, that do not even have computers, Buffett has not been turned by wealth. Indeed, his annual salary has been fixed at $100,000 for as long as anyone can remember.

His only concession to the high-finance whirl is his corporate jet, which he used to call "Indefensible". When he rushed in to bail out Salomon Brothers from disaster after its 1991 bond-trading scandal and briefly acted as its chairman, he renamed it "Somewhat Defensible", because of the shuttling it did.

Michael Goldberg, who runs 12 of Berkshire's insurance subsidiaries, headed by National Indemnity Company of Omaha, said: "He is a person who, the closer he gets, the more extraordinary he gets. If you tell people about him, the way he is, they just think you were bamboozled." His favourite hobby is playing bridge and he likes model trains and reading Bertrand Russell. His idea of a good meal: a burger and a cherry coke.

Meanwhile, Buffett promises that when he dies, his wealth will go back to society by way of the Buffett Foundation, which already works on population control projects and fighting nuclear proliferation. Barring a meltdown at Berkshire, the foundation will become the wealthiest in American history.

The Buffett wealth has sprung from investments that have compounded at 29 per cent annually. A 1989 buy into Coca-Cola marks one of his most daring moves, with the original $1bn position now worth roughly $5bn. Like the Coca-Cola recipe, the Buffett formula is the secret everyone wants to discover.

A recent book, The Warren Buffett Way, which promised to lift the veil, has become a US best-seller. The chairman himself has so far restricted his writings to letters in the annual reports, shot through with sage words and pithy aphorisms. But Buffett's guiding principles of what some have called "value investing" are not hard to grasp.

Decidedly averse to the speculator's view - the "Wall Street lemmings", as he calls them - he likes to invest long term in companies with a proven track record for making profits and especially ones that have dominant and enduring franchises "with moats around them", such as Coca-Cola. His other most important positions are in Gillette, Capital Cities/ABC, the Washington Post Company and Guinness.

His main departure from his mentor, Graham, is that today he is prepared to pay for high-priced stock if it is in good, well-managed companies. "When you find a really good business run by first-class people, chances are a price that looks high isn't high," he said recently. "The combination is rare enough, so it is worth a pretty good price."

He makes no apology for changing his position rarely. In my now well- thumbed 1993 report, he writes: "Charlie and I decided long ago that in an investment lifetime it's just too hard to make hundreds of smart decisions . . . therefore we adopted a strategy that required our being smart - and not too smart at that - only a very few times. Indeed, we'll now settle for one good idea a year (Charlie says it's my turn)."

With American Express and PNC, they seem to have come up with two new ideas. Have they over-stretched themselves?

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