7 WARREN BUFFETT ARTICLES YOU'D BE CRAZY NOT TO READ

Understand the world's greatest investor in a whole new way

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Have You Been Sucked Into The Warren Buffett Trap?

Warren Buffett is a legend among value investors — and for good reason. His investment record is unmatched by any other investor who existed in the last 100 years. Value investors, understandably, have tried to emulate Buffett's approach to investing in order to snag a sliver of his returns. This typically means being glued to CNBC in the hopes of catching an interview, pouring over a mountain of books written about him, or combing through Warren Buffett's annual letters for nuggets of wisdom.

Unfortunately, trying to emulate Warren Buffett has led investors to adopt a less than ideal strategy.

Don't get me wrong. I like Warren Buffett — a lot. I think he has a lot to teach investors. I appreciate his frank communication style and his generosity as a financial teacher. I just don't think that his contemporary investment style, one based around buying very profitable large cap companies with sizeable moats at fair prices, is the best strategy for people like you and me. Blindly adopting it after watching TV interviews, reading a couple books about the man, or taking a peek at his past record constitutes falling into the Warren Buffett trap. If you're sitting on a portfolio of less than $10 million USD then —

as those who have signed up to receive free net net stock ideas ultimately know — there are a lot better ways to make money in stocks.

Golden Nuggets From Warren Buffett

Now, I'm not trying to tell you that Warren Buffett is full of crap. Warren Buffett is incredibly intelligent with a far better investment record than I have (and, coincidentally, a lot more money, too) so I'm not trying to say that I know better than Buffett when it comes to investing. That would be silly. But, there is a large body of material out there in the form of interviews, his own articles, as well as his shareholder letters, and all of that has to be made sense of.

Let's start with the major pieces of advice that you should be taking from Warren Buffett. Buffett came from the Benjamin Graham school of investing and even today embraces most of its philosophy. Graham taught investors for years, for example, that a stock is just a fractional piece of ownership in a business. Its value is derived in large part from that business so a huge driving factor in earned capital gains when investing in stocks is tied to the performance of the underlying business. Warren Buffett still echoes that same principle. In his words:

"If a business does well, the stock eventually follows."

I totally agree.

This also implies that a stock will fluctuate around it's intrinsic value, the business value that the stock represents. When taking the two investment principles together, it's pretty clear that volatility should be seen as a gift, something to take advantage of. This is exactly what Benjamin Graham's Mr. Market analogy highlights, an analogy Buffet has used many times in the past.

Warren Buffett's suggestion that you stay within your circle of competence is great. Having well defined boarders is really valuable when it comes to investing and will ultimately lead to better returns. Sticking to what you know means making fewer costly mistakes.

Speaking of mistakes, my favourite piece of advice Warren Buffett ever gave was his suggestion to follow two simple rules: 1. don't lose money, and 2. never forget rule number one. This piece of advice comes into my own investment strategy in a very powerful way, which I'll talk about more in a bit.

These are just a few nuggets of gold from Warren Buffett, and all are consistent with the principles that Benjamin Graham originally taught decades earlier.

The Warren Buffett Way

But, while Warren Buffett still embraces the fundamental philosophy of Benjamin Graham, he obviously employs a much different investment strategy than Benjamin Graham argued for years before. In fact, Warren Buffett's investment style has shifted considerably since the 1950s. Rather than look for classic Benjamin Graham value stocks as he did when he ran his investment partnership, Warren Buffett has turned to finding good businesses at decent prices. His stock selection process has become very simple and now consists of only 4 filters. Charlie Munger, Warren Buffett's partner in crime, sums it up this way:

“We have to deal in things we're capable of understanding, and then, once we're over that filter, we have to have a business with some intrinsic characteristics that give it a durable competitive advantage, and then, of course, we would vastly prefer a management in place with a lot of integrity and talent, and then, finally, no matter how wonderful it is it's not worth an infinite price so we have to have a price that makes sense and gives a margin of safety given the natural vicissitudes of life.”

I'm convinced that as those on the top of their game develop more skill and experience they are able to pack a lot more of their philosophy, tactics, or strategy, into their explanations, and use increasingly simple language to do so. Despite how simple Charlie Munger's description is, there's a lot packed into these principles that would have to be unwound for a thorough assessment of the Warren Buffett & Charlie Munger investment style. This is obviously beyond the scope of this article, but Munger's simple explanation goes a long way to identifying exactly what the pair do when selecting stocks.

Other soundbites and quotes fill in some of the missing pieces:

“It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price.”

Buffett has turned to buying exceptional companies over the cheap marginal firms he once bought. The focus is very much on buying high quality businesses at adequate prices — often a price far above what Benjamin Graham would have paid.

“Our favourite holding period is forever.”

…and…

“Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years.”

Warren Buffett also holds his investments for an exceptionally long time — far longer than the bulk of every other "long term" Wall Street investor. While some professional managers talk about holding on to stocks for months or years, Warren Buffett talks about holding onto his investments for decades or for life.

Warren Buffett's popularity has attracted many new investors to the value investing philosophy. These investors typically get their first experience with value investing through the lens of Warren Buffett's contemporary investment style. Now long time value practitioners are witnessing an ocean of new value investors who seem to think that the best strategy for success is to buy firms with deep moats at adequate prices and to hold them forever. Typically this means buying medium or large cap companies that have been in the spotlight for years — firms with market capitalizations that reach well beyond a billion dollars.

Unfortunately, this strategy is far from ideal, and could be outright dangerous.

Is Warren Buffett's Current Strategy Dangerous?

Well, not exactly. It really come down to who is trying to use Warren Buffett's current strategy.

As simple as the strategy sounds, actually employing it successfully is very difficult. Warren Buffett and other money managers, such as David Winters, draw on their long experience in researching and investing, as well as a business acumen oceans deep, to employ the strategy successfully.

Take assessing the talent and integrity of management, for example. Warren Buffett is great at assessing people. He's been investing for well over 60 years which means he's read thousands of financial reports and shareholder letters. He's also spent time managing businesses. Taking in this much data over the course of a lifetime, and being able to draw on practical business experience, means inevitably being able to spot trends and draw conclusions based on details that a typical retail investor might not even notice.

The same goes for judging whether a business has a strong competitive advantage or not. Of course, everybody can recognize a competitive advantage after it's been pointed out but picking them beforehand is a whole other story. Warren Buffett has spent thousands of hours diving into industry analysis and reading economic data, on top of his experience combing through thousands of annual reports, so his ability to spot the trends and characteristics that make for a strong competitive advantage is far more developed than even most professional money managers. Think judging management or spotting strong competitive advantages is easier than I'm making it out to be? Even Seth Klarman doesn't think he can do it well — and Klarman has one of the best investment records in the industry. From an interview with Charlie Rose, *"I think Buffett is a better investor than me because he has a better eye for what makes a great business. And, when I find a great business I'm happy to hold it ...most businesses don't look so great to me."*

Joel Greenblatt is a world class investor, as well. During his early career, by focusing on deep value and special situations, he reportedly racked up returns even larger than Warren Buffett did during his partnership days. On page 49 of Greenblatt's unfortunately titled book, "You Can Be A Stock Market Genius," he writes referring to Buffett's contemporary investment strategy,

"The problem is that you're not likely to be the next Buffett or Lynch. Investing in great businesses at good prices makes sense. Figuring out which are the great ones is the tough part. Monopoly newspapers and network broadcasters were once considered near perfect businesses; then new forms of competition and the last recession brought those businesses a little bit closer to earth. The world is a complicated and competitive place. It is only getting more so. The challenges you face in choosing the few stellar businesses that will stand out in the future will be even harder than the ones faced by Buffett when he was building his fortune. Are you up to the task? Do you have to be?"

"Finding the next Wal-Mart, McDonald's, or Gap is also a tough one. There are many more failures than successes."

Once a company is selected, it still has to be valued. According to Warren Buffett,

“Intrinsic value can be defined simply: It is the discounted value of the cash that can be taken out of a business during its remaining life.”

But it's also a calculation that mere mortals have a very difficult time using with any accuracy. It is very easy to be off by a small margin on any one of your assumptions that make up discounted cash flow. If you're off by more than a hair, you will inevitably be off on your assessment of intrinsic value by a large margin. As Buffett continues,

“The calculation of intrinsic value, though, is not so simple. As our definition suggests, intrinsic value is an estimate rather than a precise figure, and it is additionally an estimate that must be changed if interest rates move or forecasts of future cash flows are revised.”

Some investors might have the skill to be able to use discounted cash flow with some degree of accuracy, but I definitely don't. Before you decide to use Buffett's current strategy, you should take a hard look in the mirror to really admit to yourself whether you're able to perform a detailed discounted cash flow calculation with any degree of accuracy, yourself.

Typically, a margin of safety is there to absorb the errors you make, and guard against uncertainty. It's unfortunate, then that investors who are emulating Warren Buffett are electing to invest in wonderful companies at fair prices rather than fair companies at wonderful prices. Overestimating the value of a company can lead to significant losses. Just look at Coca-cola — one of Warren Buffett's top investments!

What is sound in theory can sometimes have very painful consequences in practice; and, what lacks in theoretical accuracy can sometimes yield huge dividends in practice.

Should Skilled Investors Follow Warren Buffett's Current Investment Style?

Maybe. Clearly Warren Buffett's investment style suits Warren Buffett, so there must be other investors out there who would benefit from adopting his style — but that investor is very unlikely to be you. Why? Very simply, Warren Buffett moved away from Benjamin Graham's investment style because his portfolio grew far to large to take advantage of classic Benjamin Graham investment opportunities.

Warren Buffett used Benjamin Graham's investment strategy with tremendous success during the 1950s and 1960s. While he managed his investment partnership, he was able to rack up the best investment results of his career. Buffett was able to earn returns north of 20% over the course of his lifetime — but just look at how well he was able to do using Benjamin Graham's investment approach:

Table 3 • Buffett Partnership, Ltd.

Year	Overall Results From Dow (%)	Partnership Results (%)	Limited Partners' Results (%)
1957	− 8.4	10.4	9.3
1958	38.5	40.9	32.2
1959	20.0	25.9	20.9
1960	− 6.2	22.8	18.6
1961	22.4	45.9	35.9
1962	− 7.6	13.9	11.9
1963	20.6	38.7	30.5
1964	18.7	27.8	22.3
1965	14.2	47.2	36.9
1966	−15.6	20.4	16.8
1967	19.0	35.9	28.4
1968	7.7	58.8	45.6
1969	−11.6	6.8	6.6
On a cumulative or compounded basis, the results are:			
1957	− 8.4	10.4	9.3
1957–58	26.9	55.6	44.5
1957–59	52.3	95.9	74.7
1957–60	42.9	140.6	107.2
1957–61	74.9	251.0	181.6
1957–62	61.6	299.8	215.1
1957–63	94.9	454.5	311.2
1957–64	131.3	608.7	402.9
1957–65	164.1	943.2	588.5
1957–66	122.9	1156.0	704.2
1957–67	165.3	1606.9	932.6
1957–68	185.7	2610.6	1403.5
1957–69	152.6	2794.9	1502.7
Annual Compounded Rate	7.4	29.5	23.8

Since leaving Benjamin Graham's investment strategy and growing his managed funds his returns have significantly decreased. Of course, you will probably bring up the point that the increase in the amount of money he was managing meant that his returns would inevitably suffer — and you're rightwing. But when asked what he wold do if he was managing small sums of money once again his answer was very telling:

“The best decade was the 1950s; I was earning 50% plus returns with small amounts of capital. I could do the same thing today with smaller amounts. It would perhaps even be easier to make that much money in today's environment because information is easier to access.

You have to turn over a lot of rocks to find those little anomalies. You have to find the companies that are off the map - way off the map. You may find local companies that have nothing wrong with them at all. A company that I found, Western Insurance Securities, was trading for $3/share when it was earning $20/share! I tried to buy up as much of it as possible. No one will tell you about these businesses. You have to find them.

Other examples: Genesee Valley Gas, public utility trading at a P/E of 2, GEICO, Union Street Railway of New Bedford selling at $30 when $100/share is sitting in cash, high yield position in 2002. No one will tell you about these ideas, you have to find them.

The answer is still yes today that you can still earn extraordinary returns on smaller amounts of capital. For example, I wouldn't have had to buy issue after issue of different high yield bonds. Having a lot of money to invest forced Berkshire to buy those that were less attractive. With less capital, I could have put all my money into the most attractive issues and really creamed it."

Notice that the examples he gives in this quote come straight from the investment strategy of Benjamin Graham — they're very different from the way that Warren Buffett currently invests money. In fact, Warren Buffett often wrote about spectacular classic Graham investments. At a Berkshire Hathaway annual meeting held earlier this past decade, Warren Buffett answered a question which really spells out how he would invest if he wasn't handicapped with a large portfolio. Take a look:

"Yeah, if I were working with small sums, I certainly would be much more inclined to look among what you might call classic Graham stocks, very low PEs and maybe below working capital and all that. Although — and incidentally I would do far better percentage wise if I were working with small sums — there are just way more opportunities. If you're working with a small sum you have thousands and thousands of potential opportunities and when we work with large sums, we just — we have relatively few possibilities in the investment world which can make a real

difference in our net worth. So, you have a huge advantage over me if you're working with very little money."

So getting back to the question above, whether you're a skilled investor or not is just one factor that comes into play in deciding whether you should adopt Buffett's contemporary investment style — another huge consideration is the amount of capital you have to invest. If you're investing less than $10 000 000 then you would be much better off investing in the Graham styled bargains that Warren Buffett mentioned above -- provided that you want the highest possible returns for your money.

If you don't, that's fine. At some point a person wants to spend a lot less time and effort managing his or her own money. There's nothing wrong with that, and an index fund might be the next best choice.

How I Have Leveraged Warren Buffett to Yield Spectacular Returns in Classic Graham Stocks

Seeing as you're now reading an article on Net Net Hunter, it's pretty clear what strategy I've elected to use.

Not only has Benjamin Graham's investment strategy been shown to work exceptionally well in a number of academic studies, but it's also been used very successfully in practice by professional investors such as

Walter Schloss, Benjamin Graham, Tweedy Browne, Seth Klarman, Peter Cundill, and — of course — Warren Buffett.

"My cigar-butt strategy worked very well while I was managing small sums. Indeed, the many dozens of free puffs I obtained in the 1950s made that decade by far the best of my life for both relative and absolute investment performance." - Warren Buffett, Berkshire Hathaway 2014 Shareholder Letter

How well does the strategy work? Academic studies consistently show returns of baskets of net net stocks in the 25-35% range. That's not just the results of a single study — those results have been shown by each and every study I've looked at.

Right now I'm using a range of filters developed through a thorough study of Benjamin Graham, the scientific studies mentioned, and Buffett's own partnership letters. I've put all of this knowledge together into my NCAV investment scorecard and use that scorecard when assessing the merits of an investment opportunity.

Warren Buffett's influence has been profound. I've taken his advice to concentrate my portfolio and invest in the cheapest net net stocks possible to yield the highest possible returns. I've also kept his focus on not losing money front and center — I screen out companies that have weak balance sheets which ultimately decreases the likelihood that any of my stocks will slip into bankruptcy. As a result, my portfolio returns have been great.

How have my net net stocks done? Over the last 3 years my portfolio has returned ~140% against the S&P 500's 41% return. As you can see, this strategy yields returns much higher than the market, and is ultimately a much better strategy than the one that Warren Buffett has been forced into.

10 Reasons I Won’t Go To Warren Buffett’s 2016 Annual Meeting

Am I the only value investor who thinks that going to Warren Buffett's annual shareholder meeting is a waste of time?

Possibly, but I guess that would make me the contrarian's contrarian — a position I'm more than happy to fill.

Why?

Well, it's not because of so many value investors being sucked into the Warren Buffett trap; or the fact that Buffett achieved his best returns in the beginning of his investing career using a completely different investment strategy.

You see, I've been a fan of Warren Buffett for quite a while now. I've also been intrigued by the spectacle that Warren Buffett calls the Woodstock of Capitalism but I just don't think it's worth attending.

Why is it that I'll likely never attend the event?

...because Warren Buffett has already drowned me in resources.

Really, I already have so much to learn. Warren Buffett has written shareholder letters for roughly 50 years and there are so many Warren Buffett interviews and books that I'm positive I could learn a lot by focusing on that material. There's undoubtedly a lot of wisdom that's already out there which I've overlooked or haven't applied. Why collect more if I'm already not making full use of what's available?

...because books & articles are better teachers.

You can only get so much out of a question and answer session, even with someone like Buffett. By focusing on articles, books, or dissecting his past decisions I can gain far more insight into the areas that I'm keen to examine. If I want to learn about his strategy, for example, it would be far better for me to pick up a book that talks exclusively about it... and in great detail... than it would be to listen to a few comments he makes during a live interview.

...because I want a motorcycle.

How much does a ticket cost to the Warren Buffett show? At minimum, the cost of a Class B share. But then there's the flight cost to get out to Omaha, unless you want to walk, the hotel bills which have been grossly inflated during the shareholder meeting, and other expenses that are associated with travel. When all is said and done, visiting Omaha for Warren Buffett's event isn't cheap and there's a lot of other things that I would much rather spend money on.

After the split, Berkshire Hathaway's Class B shares are going for $125 USD. Add in the cost of a flight (up to $1500 depending on where you're flying in from) and the cost of a hotel room for a few nights (maybe another $2000) and you end up with $3625 that you could spend so many other ways. Skip two annual meetings and you have enough for a brand new motorcycle. You could buy a completely new wardrobe for the cost of even half one of Warren Buffett's shareholder meetings, or fix that leaky roof you've neglected for the past 4 years.

...because opportunity cost is a bitch.

Here's another thing you could spend your money on: stocks.

The cost of going to one of Warren Buffett's shareholder meetings is staggering when you consider the opportunity cost. Suppose it costs you $2500 to attend. That $2500 compounded at 15% per year would become $10 113 after ten years. If you're using one of Warren Buffett's earlier investment strategies, however, you'd inevitably compound your money at a far higher rate. If you're investing in net net stocks, like Warren Buffett used to when he was at his prime, then your trip out to Omaha would cost you nearly $35 000 USD in 10 years. Is it worth it?

...because Omaha is boring.

Of all the places you could possibly visit, can you think of a more mind-numbingly average place than Omaha? I can't, which makes it hard to understand why anybody would want to go there.

If I'm going to spend any time traveling it's going to be to somewhere a hellova lot more enticing than Omaha. Think about it — you could just as well go to New York city, Yellowstone, or Mexico. You could take in Carnival in Brazil or eat sushi in Japan. The south of France is spectacular and so is Munich. By comparison, why would anybody want to go to Omaha?

...because I don't need any more sleep.

The obvious answer to the last question is because you get to visit the Oracle himself, not to mention other top investors. But, you won't get significant 1 on 1 time with any of them — not in a way that would help your investing by leaps and bounds. And, unless you're one of those people who get weak in the knees at the thought of meeting a celebrity... there's nothing really exciting about Warren Buffett, Charles Munger, or Bill Gates.

...because I like my La-Z-boy.

If you go to Omaha to visit Warren Buffett on Shareholder Weekend, you will learn something. Nuggets of wisdom are being handed out as quickly as Warren Buffet can speak — but I would learn far more valuable things from the comfort of my La-Z-boy in my living room.

Nobody is perfect, my self especially, and there are a lot of areas I would like to improve. When it comes to growth as an investor, I'm a firm believer that you should tackle your weak spots, your bottlenecks, first. Tackling those spots unlocks your own potential as an investor... and the best way to address those weaknesses is with focused study.

What should you study?

What you're deficient in.

What resources should you use?

Nothing says you can't take one of Warren Buffett's book recommendations.

Going to Omaha, however, would be a distraction. Sure you'll learn some interesting things but you won't grow as much as you would with dedicated study.

...because I can always rely on the media circus.

Like I said, a lot of value will be offered up at the event. Warren Buffett is an ocean of knowledge. The nice thing is, however, that so many people cover the event already that if Warren Buffett says something of substance, something worth quoting, then someone will quote it and you'll be able to read that quote minutes later.

I recently came across an article that was actually covering the Berkshire Hathaway meeting in real time, as it happened. Not satisfied with articles? You can find YouTube videos of his more important diatribes over the years.

The point is that you can get a lot of the value offered up at Warren Buffett's shareholder meeting whether you go or not.

...because I haven't seen my kids in 3 weeks.

Money is important but relationships are even more important. I could spend my time in Omaha mingling with people who likely won't make much of an impact to my own psychological/emotional/spiritual well being but I'd rather live a more fulfilling life. That means spending time with the people I'm close to, the relationships I've neglected this past year while I was busy creating this website.

Those relationships are much more valuable than the marginal extra returns I could possibly collect by attending one of Warren Buffett's annual shareholder meetings. I have a strategy that returns 20-35% on average per year already. What's an extra % a year compared to the relationship I have with my best friend?

...because I'm managing less than $10 000 000 USD.

Here's the simple truth about Warren Buffett's current investment approach: it's geared towards those managing far more than $10 million USD. Don't believe me? Click this link about Warren Buffett right here.

Since Warren Buffett's current strategy is geared towards those managing large sums of money, and because my assets are currently less than $10 000 000 USD, the investment philosophy spouted at the shareholder meeting will be largely geared towards large investors. Advice about how a smaller investor can achieve the highest possible returns is noticeably lacking.

In short, I'm just not going to get much about investment strategy or tactics that would be hugely beneficial to my own investing operation. Or, at least, nothing that I can't read about.

Stay at Home, Up Your Returns, Earn More Money, Improve Your Life

So, as you can see, going to the Warren Buffett Annual meeting seems like a bit of a waste.

I've learned a lot from Warren Buffett over the years — the most significant lessons from studying his early career. I still have a lot of respect for the man, but that doesn't mean I'll be making the trip to Omaha any time soon.

No, Sir. That's not for me. I'll stay home and improve my competence as an investor, plow more money into stocks, reconnect with the girlfriend who hasn't seen me in months, and possibly even buy that motorcycle I've been itching for, instead.

What Warren Buffett Won't Say: Berkshire Hathaway Annual Meeting 2016

Small investors looking to earn higher investment returns should probably skip the upcoming Berkshire Hathaway annual meeting.

Every year thousands of investors flood Omaha, Nebraska, to listen to the words of the Oracle himself. They not only come from all over the country, the Berkshire Hathaway annual meeting has turned into a global investing conference, drawing an increasing number of investors to the small midwest city from all over the world.

The hope, as always, is that by flocking around what many pundits (myself included) call the greatest investor of all time, they'll grab some key insight into the nature of investing and be able to propel their portfolios that much higher.

This investing pixie dust is not distributed evenly, however. Over the last 50 years Warren Buffett's frame of reference, and resulting strategy, has shifted. Buffett is far from the small hedge fund manager he started out as after leaving Graham-Newman Corp to start his own firm. His tremendous success has meant a tremendous growth in the amount of capital he has to invest. As a result, the strategies and tactics once open to Buffett as an investor have slammed shut.

Nowadays, when Buffett speaks about investing, he's looking at the enterprise from the point of view of a large institutional investor. The advice he gives is congruent with that, and not realizing that fact will trip you up. In fact, I've called following Buffett's advice without thinking critically about the message falling into the Warren Buffett trap. There is a lot of wisdom on offer at the Berkshire Hathaway annual meeting, but if you're a small investor then you have to make sense of his advice and suggestions and pick out what's most applicable to your own situation.

Unfortunately, the advice that Warren Buffett gives at the Berkshire Hathaway annual meeting, among other venues, is mostly geared towards large professional investors and people who will be filling those sorts of roles. He rarely, if ever, talks about the course of action a small private investor like you should take. Still, you can pick out moments when Buffett had directed his comments to small investors, and those moments are incredibly valuable. This clip here from an older Berkshire Hathaway annual meeting is a case in point.

Warren Buffett rarely talks about what a small investor should do with their money if they want to earn great returns. Here Buffett makes it very obvious that the best returns for small investors are not the moat-type companies he's famous for investing in recently. The best use of a small investor's cash is to buy classic Graham, or deep value, stocks like he did years ago.

More recently, in 2015, Buffett gave further insight into what small investors can do to earn great returns on a small amount of capital. These comments didn't come out in his Berkshire Hathaway annual meeting, but in his shareholder letter:

"My cigar-butt strategy worked very well while I was managing small sums. Indeed, the many dozens of free puffs I obtained in the 1950s made that decade by far the best of my life for both relative and absolute investment performance." - Warren Buffett, Berkshire Hathaway 2014 Shareholder Letter

Deep value stocks in the form of high quality net nets, not fast growing companies with moats, was how Buffett built his empire. It was only when his portfolio got too big that he had to shift his investment strategy to focus on high quality growth companies that he had to hold as longer term investments.

"The answer is still yes today that you can still earn extraordinary returns on smaller amounts of capital. For example, I wouldn't have had to buy issue after issue of different high yield bonds. Having a lot of money to invest forced Berkshire to buy those that were less attractive. With less capital, I could have put all my money into the most attractive issues and really creamed it."

I think that part of the reason so many investors flock to Omaha is because they are really struggling to reap the best returns on their capital, time, and effort. Ironically, by attending the Berkshire Hathaway annual meeting, small investors are being lead down an entirely different path than the one they intended to follow. As a small investor, if you follow him into his current strategy, you're ultimately setting yourself up to earn lower returns over the course of your life.

Last year I wrote 10 Reasons Why I Won't Go to Warren Buffett's Annual Meeting. Buffett has had a huge impact on my own investing, and I've internalized many of the lessons he's been generous enough to offer. Still, there are good reasons why you should think twice about visiting him in Omaha. I guess you could put this article down as number 11.

Are Warren Buffett's Great Companies Great Investments?

Quick, think of a company.

What did you think of? Chances are really good that you thought of some large well known company. Maybe you thought of a consumer electronics company like Apple or a social media giant like Facebook or Twitter. If you're like me than you probably thought of something food related: McDonald's, Coca-Cola, Starbucks.

Even Better Than the Real Thing

One thing all of these companies have in common is that they are giant, well known, and well run businesses. More than that, they're great businesses. An early investment in any of these firms — so long as they have been listed for a number of years — would have worked out spectacularly well to date. Just take a look at Coke.

Since 1978, the first year recorded by Google Finance, the company returned over 5000% to shareholders. A $10 000 investment in Coca-Cola in 1978 would have turned into $516 000 by October of this year — even excluding dividends! — while the same $10 000 invested in the S&P500 would have netted just $180 000. All an investor had to do was pick up a couple shares of Coke.

Not bad, right?

Warren Buffett did exceptionally well when he bought in.

If you had invested in Starbucks, on the other hand you would have done even better in a much shorter period of time. Since 1992, Starbucks has returned 11 668%, which would have turned the same $10k into a cool $1 170 000. Not bad for sitting on your hands for 21 years.

Fools Gold?

Coke is one of those iconic companies that Warren Buffett loves to buy. Any investor anywhere in the world within the last 20 years should have been able to recognize Coca-Cola and known the significance of the business. Coca-Cola is one of those truly outstanding companies.

Meteoric growth, fantastically profitable, juggernaut-like competitive advantage in terms of distribution and brand.

Coca-Cola is the very definition of a great business, as Warren Buffett likes to remind us.

Yet countless people ended up actually losing money by investing in Coke. How could this be?

A lot of people — and not just those people new to investing — confuse a great company with a great investment. There is a big difference between the two. While a great company might be a good place to look for a great investment opportunity, buying the stock of a great company at the wrong time can have devastating consequences.

Take another look at Coke's graph. Your eyes ultimately want to follow Coke's rise in price from the late 70s until the line abruptly stops in early November of this year. It is easy to imagine how great the returns would have been if you had invested early and held the stock until 2013. But do you notice a substantial dip in the stock price on the

second half of that chart? If you bought at the end of 1997 you would have had a much different experience.

Investors who invested in the late 1990s have essentially experience a lost decade of returns despite having bought one of the planet's top companies. From the end of 1997 until November of 2013 Coca-Cola has badly lagged the S&P500. Instead of even seeing their money double over the 15 year stretch, investors have been handed a skimpy 20% return before dividends... That doesn't even take into account America's ~3% yearly inflation rate over the same period and God help investors who bought in 1998 only to sell out in frustration mid-decade.

No, a great company is not always a great investment and the above figures definitely show that.

Sure, But I'll Just…

"Yeah, but that wouldn't have happened to me," you say. "I'll know enough to get in when things look like they're going to take off and then exit when things are cooling off for the company," you say.

I said that once, as well.

In reality there are very serious complications that come with picking growing stocks — stocks that will rise by a demonic rate over the coming decade. For one, what you want isn't a company that's great right now but a company that will be great going forward — one that will provide the same sort of growth shown by Coke or Starbucks.

Unfortunately, it's always easy to spot the great companies in retrospect but terribly difficult to pick them in advance. For all the Cokes out there investors have managed to stumble into perhaps 50-100 other stocks that floundered. Without a titanically deep wealth of business experience picking the great companies from the not-so-great can be a real challenge.

Even if you're able to pick them, you still have to buy them at the right point in time. Unfortunately, the clearer it is that the company is going to be great the higher the price is likely to be. Remember Coke in the late 1990s? One of the reasons that the stock did so poorly from 2000 to 2010 is because of how great investors thought Coke was at the end of the 1990s. Essentially, investors bid up the price of the stock far beyond reasonable levels. As people come to realize just how good a company is more people start to buy causing strong social proof which infects other would-be investors. Even more people are pulled into the stock. At some point the whole Ponzi scheme collapses.

Show Me the Money!

Companies like Coke, the great companies of the world, don't rise in price despite their profits. Fundamentals were the driving force behind the massive long term stock increases of Coke, Starbucks, and Apple. A company's stock price will rise over decades if the value of the company also rises and that usually means rising earning power.

While there is a strong correlation over the long term, the price of a company never seems to stay locked to a company's value over the short run. Instead, the price of a firm in the stock market seems to jump around a company's actual value. If company X is estimated to be worth $100 million then in any given year, on any given day, the price could be vastly different — maybe $50 million or $150 million. Over the long run, though, prices always seem to gravitate back towards the actual value of the company. What's great about great companies such as Coca-Cola is that this value always tends to grow so, while the price can jump around wildly in the short term, over the long term the price will rise along with value.

Warren Buffett used to be fond of saying that while a good company doesn't necessarily make for a good investment it is a good place to look. An intelligent investor realizes that the price of a firm and the value of a firm can diverge wildly so buys well below the value of a company. This is the essence of value investing.

Investors can take away a few points from this. First, if value and price eventually converge then investors can make a lot of money if they buy well below the value of a company; conversely, they can lose a lot of money if they over-pay for a business. Second, a company doesn't have to be good for an investor to profit — investors can make a lot of money investing in mediocre or lacklustre firms if those firms are selling at a large enough discount to the value of the business. This is essentially the course that Benjamin Graham's net net stock strategy takes.

Valuing any great company is easy in theory but, ironically, very tough in practice. Not only do investors have to decide on the best way to value a good company but they also have to decide on the assumptions to be used in the model. All of this makes investing in potentially good companies far more complicated than it seems at first glance. This is why I advise individual investors to stick with simple metrics and focus on finding companies that are facing large, temporary, fixable problems over potential Coca-Colas.

But I Want Massive Profits!

And I don't? There's a reason why I chose to invest in net net stocks after years of investing my own money. When it comes down to it, not only is net net stock investing easy to do but it also provides the same rocket-like returns that investing in the Coca-Colas of the world provide. The catch is that being a net net stock investor takes a strong stomach and the ability to think for yourself despite what

TV commentators or people around you are saying. This is an investment strategy for those who are able to comfortably go against the crowd.

Another problem is that you have to be a small investor for this to work well. If you have a portfolio topping $10 million then you might want to try something else. Companies trading below their net current asset values are often very small, $2-50 million, and can be thinly traded. If your portfolio is too large then you probably wont be able to buy enough stock to see the same results that you could see with another value investment strategy.

Of course, net net stocks will help you get there quickly if your portfolio is smaller than $10 million.

The other catch, of course, is that great net net stock investment candidates can be tough to find. You can solve this problem by signing up for full Net Net Hunter membership. Not only do we have over 450 net net stocks to look at but we also dig through the listings to identify the best investment candidates. The money you could make off of even just one international net net stock would be enough to pay for full membership access for years.

Not ready for full membership? That’s fine. Just sign up for free net net stock ideas in the box below this article. No commitment, no obligation, and we keep your email address 100% confidential. Don’t wait. Sign up now so you can start making over 25% annual returns through net net stocks.

How A Young Warren Buffett Started His Fortune

Warren Buffett is legendary.

At 72.3 billion dollars, he’s currently the third richest man in the world. He’s been called a wizard, an oracle, and a sage, as if his value investing and wealth came from magic, psychic powers, or rubbing a lamp and getting stock picks from a genie.

Buffett is incredibly wise, but what he’s accomplished isn’t magical or mystical. It’s fundamental. And, more importantly, his philosophy isn’t a secret. Buffett is a great philanthropist who has shared both his wealth and his knowledge since the beginning of his meteoric rise.

More than 47 books have been written about Warren Buffett. The only other living people who have been written about more are U.S. presidents, world political figures, and the Dalai Lama. Everyone wants to know what makes the man tick, including me.

So now you may be asking, “what can you tell me about Warren Buffett that hasn’t already been written 47 books ago?”

This is where most investors get sucked into the Warren Buffett trap. They study the icon, but not the everyday man. They want to follow the strategies of a billionaire and not the lessons of a 20-year-old with $9,800 dollars who jumped on a train to work with his hero and mentor, Benjamin Graham.

Simply put, the way Warren Buffett invests now isn't nearly as effective as the way he invested when he was a mere mortal. That's something those who signed up for free net net stock picks know well. Choosing your investments the same way Warren Buffett does now is like trying to stop a freight train by standing in front of it. You can't match his investment skill, and it's not worth trying to do what he's currently doing.

You are not Superman. And that's a good thing.

Don't take it from me. Warren Buffett, in his famous Berkshire Hathaway shareholder letters, will tell you the same thing.

In the Beginning There Was Warren Buffett the Man

In 2014, Berkshire's gain in net worth was $18.3 billion, which increased the per-share book value of both Class A and Class B shares by 8.3%. The return was modest and, in fact, less than an investor would have gained from a passive investment in the S&P 500 that year.

Buffett reflected on this in his shareholders letter that year, giving those seeking his wisdom one of the most important lessons he could teach. He talked about the beginning:

"I purchased BPL's first shares of Berkshire in December 1962, anticipating more closings and more repurchases. The stock was then selling for $7.50, a wide discount from per-share working capital of $10.25 and book value of $20.20. Buying the stock at that price was like picking up a discarded cigar butt that had one puff remaining in it. Though the stub might be ugly and soggy, the puff would be free. Once that momentary pleasure was enjoyed, however, no more could be expected."

Instead of relinquishing the shares at an opportune time – taking a puff and throwing away the cigar - Buffett stuck it out, ultimately investing more than 25% of BPL's capital in a terrible business he knew very little about. In Buffett's own words, he "became the dog who caught the car."

Because of Berkshire's operating losses and share repurchases, its net worth at the end of fiscal 1964 had fallen to $22 million from $55 million at the time of the 1955 merger.

During the next 18 years, Buffett struggled unremittingly with the textile business. In 1985, he finally threw in the towel and closed the operation.

What went wrong?

Warren Buffett and Cigar-Butt Investing

Warren Buffett isn't the same investor now that he was when he was only dealing with small sums of money. Cigar-butt investing was only scalable to a point. With large sums, it would never work well.

His good friend and investing partner, Charlie Munger, offered him words of advice that has shaped Berkshire to this day:

"Forget what you know about buying fair businesses at wonderful prices; instead, buy wonderful businesses at fair prices."

Thus began Buffett's approach to finding businesses based on intrinsic value and holding on to them for a long time. Even for a lifetime. This is truly the best strategy when you're managing hundreds of millions of dollars or more, but, for sheer returns, investments in net net stocks will always be better.

You want to find cigar-butts, smoke them, get rid of them, and find more. This was the philosophy Buffett learned from Benjamin Graham and the most effective investment strategy that exists still.

“The many dozens of free puffs I obtained in the 1950s made that decade by far the best of my life for both relative and absolute investment performance.”

Are you listening yet?

Warren Buffett’s Greatest Competition

There’s no disputing that Warren Buffett is the best investor of all time. His net worth speaks for itself. In fact, there is only one person in history worthy of comparison.

That person is young Warren Buffett.

Let’s take a look at the numbers Buffett achieved in the 1950s and 1960s compared to his performance thereafter.

From 1957 to 1969, Buffett achieved an average return of 29.5% and a cumulative return of 2794.9%!

In this timeframe, the Dow had a negative return in 5 out 12 years. Buffett had a positive return in all 12 years, with his most successful year, 1968, reaching a remarkable 58.8%. That beat the Dow by more than 50 percentage points.

This was the pinnacle of Buffett utilizing the strategies of Benjamin Graham and investing in net net stocks. He focused on the best possible NCAV investments, such as

Western Insurance Securities Company, and often chose fairly concentrated portfolios. Once he found the stocks, he simply puffed the cigar and celebrated his victories.

Back then, finding these valuable, cheap companies was difficult. Young Warren Buffett had to do his own research and put in relentless man-hours. He spent months combing through Moody's stock manuals to find a handful of available net nets. Today, you can find a good selection of high-quality international net net stocks by signing up for full access to Net Net Hunter.

For comparison, between the years of 1965 and 2014 when Warren Buffett became a behemoth, Berkshire achieved a compounded annual return of 19.4%, over 10% less than the best years of his investment life. And, these numbers were heavily boosted by the returns young Warren Buffett achieved in the late 1960s. During this timespan, he also had a few negative years and a few more in which the S&P 500 outperformed his portfolio.

A return of 19.4% annually is nothing to sneeze at. Most investors do worse. Still, 84-year-old billionaire Warren Buffett wouldn't last a round in the ring with his agile, quick-footed 30-year-old self. At a Berkshire Hathaway annual meeting, he admitted it:

"Yeah, if I were working with small sums, I certainly would be much more inclined to look among what you might call

classic Graham stocks, very low PEs and maybe below working capital and all that. Although — and incidentally I would do far better percentage wise if I were working with small sums — there are just way more opportunities. If you're working with a small sum you have thousands and thousands of potential opportunities and when we work with large sums, we just — we have relatively few possibilities in the investment world which can make a real difference in our net worth. So, you have a huge advantage over me if you're working with very little money."

You have thousands and thousands of potential opportunities that Buffett does not! By being able to invest in net net stocks, classic Graham stocks, you have a huge advantage over the Oracle of Omaha.

Following Benjamin Graham and a Young Warren Buffett

So, this brings us back to the beginning. A young Warren Buffett risked everything and hopped on a train to Washington D.C. to work for Benjamin Graham, the father of value investing.

In 1954, he accepted a job at Graham's partnership for a starting salary of $12,000 a year. Under Graham's tutelage, he fine-tuned his ability to spot promising net net stocks, as opposed to merely cheap stocks.

Both are obviously value stocks, but cheap stocks can be any stock where the current price is lower than the underlying intrinsic value. Net net stocks are valued purely on their net current assets. That's cash, accounts receivable, and inventory minus total liabilities, preferred shares, and various off-balance sheet liabilities. Working capital. This is better known as the NCAV, or Net Current Asset Value.

If the stock price was 2/3 of the NCAV, Graham would buy. When the stock price returned to the full NCAV, Graham would sell. Assuming he found a good net net stock, his downside is protected by the discount to net liquid assets, providing a huge margin of safety. It's such a solid strategy that you, as a small investor, don't really have to know a thing about the industry. By comparison, Buffett went into textiles in a major way and lost his shirt.

There have been multiple studies that show Graham's strategy consistently shows returns of a basket of net net stocks in the 20-35% range. From 1970 to 1983, an investor could have earned an average return of 29.4% by purchasing stocks that fulfilled Graham's requirements and holding them for at least a year.

Buffett himself, using Graham's strategy, stated that he would see returns within a 2-year timeframe 70 to 80% of the time. He would take a puff and sell instead of collecting boxes of cigars and waiting for them to appreciate in value.

Despite the simplicity of his approach, it seems most investors ignore the stocks that Graham would have most coveted. Investors nowadays want to invest as if they're billionaires, choosing a wide range of large cap stocks and holding on to them until retirement, death, or the next big market crash.

Going against the market takes conviction and faith in your approach, something both Graham and Buffett had in spades. Smart value investors don't brag about owning Apple or Google. They talk about small wholesale electronics factories and unknown retail companies. They are excited about international microcap stocks in Japan or Australia.

If you've read this far, you're not Warren Buffett, the immobile billionaire. You're young Warren Buffett, the wide-eyed investor hopping on a train heading toward immeasurable wealth.

My Net Net Stocks

Both Graham and Buffett had to do a remarkable amount of research to find the best net net stocks, but you don't have to. I use a range of filters developed through my personal studies of Benjamin Graham, Buffett's partnership letters, and various academic papers that have directed Graham's net net stock strategy. This is tallied-up in my NCAV Core7 Scorecard, an investment checklist I use whenever I'm assessing the merits of each investment opportunity.

The rising market has lifted all boats, so there aren't many net net stocks around — that is, if you stay within the United States. I dig deep into Net Net Hunter's raw screens, combing through over 400 net net stocks in the USA, Canada, the UK, Australia, and Japan, using the mix of criteria that make up my Core7 Scorecard. I then choose the best NCAV stocks possible to yield the highest possible returns.

Finding dirt cheap stocks isn't my only criteria. I also focus on screening out companies that have weak balance sheets, among a range of other critical metrics on my Core7 Scorecard. My focus on solid balance sheets comes directly from Graham, who focused on safety of principle before investment profits. This doesn't guarantee every stock will be a winner, but it does reduce the possibility of any of the stocks slipping into bankruptcy.

The results speak for themselves. Over the last 3 years, the S&P 500 has had a total return of 41%. Berkshire Hathaway had a tremendous run, earning 87.5% since December 31, 2011.

My net net portfolio has returned 140%, nearly 100% more than the S&P and over 50% more than Warren Buffett and his army of world-class businesses. This is in no way putting down Buffett and I'm not saying that I'm a better investor than he is — that would be silly! It was his early strategies and letters that helped me create my hand-picked list of high quality net net stocks in the first place. There's truly only one reason not to invest in a portfolio of net net stocks, and that's if you find yourself as successful as Warren Buffett because of them.

How Should The Small Investor Manage His Money? Here's Warren Buffett's Answer

If you've been around the value investing community for a while then you've probably seen this little gem from Warren Buffett. If you haven't, then it's time to watch.

Two Drawbacks of Net Net Stock Investing

When I used to frequent the forums, there was a lingering debate about what kind of value investment style is best: Warren Buffett's current brand of value investing or classic Benjamin Graham styled stocks. People in the contemporary Warren Buffett camp kept bringing up the fact that Warren Buffett moved away from the classic Graham approach because it seemed to have a couple huge drawbacks.

Indeed it does. People who invest the way Benjamin Graham taught investors to invest miss out on any continuing growth and, consequentially, a lot of the good returns that a franchise stock can provide. Once an investor sells his stock at fair value — the firm's NCAV, at a price that reflects the market PE, at a price that nudges the dividend yield down to the market average yield — the stock can continue increasing it's intrinsic value long into the future.

While all of Benjamin Graham's strategies made money for investors if adhered to, some were far more profitable than others, such as investing in a bucket of net net stocks. But, if you're working with too large of a pot of money like Warren Buffett then it can be very hard to find enough net net stocks to invest in without having a global reach.

Warren Buffett Vindicates Graham

But investment returns speak for themselves. Despite the fact that investors could have squeezed out more from their investments if they hadn't of sold out at fair value, classic Benjamin Graham styled investing yields far better returns over the long term and the returns of net net stocks in particular are phenomenal.

Now Warren Buffett's preference for classic Graham investing is clear... so long as you're investing small sums. It's worth noting here that in terms of safety, ease, and profit, Benjamin Graham's net net stock strategy has proven far better than any other classic Graham value investing style. I guess all this means the ultimate vindication of classic Benjamin Graham investors everywhere. Click to Watch

Transcript

Question: *So I read about your investment in Korean stocks for your personal portfolio. My question is: If you're managing very small amounts of money, like $3 Million or $10 Million, will you still look for the Graham's approach for low PE or, you know, discount to book value? Would you still look for these kind of situations if you couldn't find any franchise stocks?*

Buffett: *Yeah, if I were working with small sums, I certainly would be much more inclined to look among what you might call classic Graham stocks, very low PEs and maybe below working capital and all that. Although -- and incidentally I would do far better percentage wise if I were working with small sums -- there are just way more opportunities. If you're working with a small sum you have thousands and thousands of potential opportunities and when we work with large sums, we just -- we have relatively few possibilities in the investment world which can make a real difference in our net worth. So, you have a huge advantage over me if you're working with very little money.*

One Hell Of A Net Net Stock: Warren Buffett On Western Insurance Securities Company

Can you make 50% annual returns? Warren Buffett can. Here's how.

'Adjust Your Perspective' - Warren Buffett

Warren Buffett has become a sort of god-like figure in the value investment community. It's pretty obvious as to why - during his tenure as head and chief investor at Berkshire Hathaway he's achieved some outstanding investment returns. While a lot of value investors are trying to emulate the investment style he's using today, many don't understand that his style has shifted away from a far more profitable investment strategy he used when he was much younger.

At least Warren Buffett himself thinks so. A number of years ago Warren Buffett commented that if he were running his partnership today he would be able to achieve much higher returns — in 50% per year range. Talking to a group of students in 2005, Warren Buffett responded to a question asking whether he still thought this was the case. He said, Yes, I would still say the same thing today. In fact, we are still earning those types of returns on some of our smaller investments. The best decade was the 1950s; I was earning 50% plus returns with small amounts of capital. I could do the same thing today with smaller amounts. It would perhaps even be easier to make that much money in today's environment because information is easier to access.

You have to turn over a lot of rocks to find those little anomalies. You have to find the companies that are off the map – way off the map. You may find local companies that have nothing wrong with them at all. A company that I found, Western Insurance Securities, was trading for $30/share when it was earning $20/share! I tried to buy up as much of it as possible. No one will tell you about these businesses. You have to find them.

One Hell of a Net Net

In the early 1950s Warren Buffett wrote a little known article for a newspaper called, "The Security I Like The Best." In it, he described a brilliant investment opportunity — an insurance holding firm called Western Insurance Securities Company. While Buffett talks a lot about the earnings and growth of this investment pay special attention to the net current asset values as compared to the price of the investment. This company is trading for a fraction of its net current asset value, earning a tremendous amount of money, and growing rapidly! Talk about NCAV investing at its best! Here's the Warren Buffett article transcribed in its entirety:

Again my favorite security is the equity stock of a young, rapidly growing and ably managed insurance company. Although Government Employees Insurance Co., my selection of 15 months ago, has had a price rise of more than 100%, it still appears very attractive as a vehicle for long-term capital growth.

Rarely is an investor offered the opportunity to participate in the growth of two excellently managed and expanding insurance companies on the grossly undervalued basis which appears possible in the case of the Western Insurance Securities Company. The two operating subsidiaries, Western Casualty & Surety and Western Fire, wrote a premium volume of $26,009,929 in 1952 on consolidated admitted assets of S29,590,142. Now licensed in 38 states, their impressive growth record, both absolutely and relative to the industry, is summarized in Table I below. [Net Net Hunter Note: no table. Sorry.]

Western Insurance Securities owns 92% of Western Casualty and Surety, which in turn owns 99.95% of Western Fire Insurance. Other assets of Western Insurance Securities are minor, consisting of approximately $180,000 in net quick assets. The capitalization consists of 7,000 shares of $100 par 6%

preferred, callable at $125; 35,000 shares of Class A preferred, callable at $60, which is entitled to a $2.50 regular dividend and participates further up to a maximum total of $4 per share; and 50,000 shares of common stock. The arrears on the Class A presently amount to $36.75.

The management headed by Ray DuBoc is of the highest grade. Mr. DuBoc has ably steered the company since its inception in 1924 and has a reputation in the insurance industry of being a man of outstanding integrity and ability. The second tier of executives is also of top caliber. During the formative years of the company, senior charges were out of line with the earning power of the enterprise. The reader can clearly perceive why the same senior charges that caused such great difficulty when premium volume ranged about the $3,000,000 mark would cause little trouble upon the attainment of premium volume in excess of $26,000,000.

Adjusting for only 25% of the increase in the unearned premium reserve, earnings of $1,367,063 in 1952, a very depressed year for auto insurers, were sufficient to cover total senior charges of $129,500 more than 10 times over, leaving earnings of $24.74 on each share of common stock.

It is quite evident that the common stock has finally arrived, although investors do not appear to realize it since the stock is quoted at less than twice earnings and at a *discount of approximately 55% from the December 31, 1952 book value of $86.26 per share. Table II indicates the postwar record of earnings and dramatically illustrates the benefits being realized by the common stock because of the expanded earnings base. The book value is calculated with allowance for a 25% equity in the unearned premium reserve and is after allowance for call price plus arrears on the preferreds.*

Since Western has achieved such an excellent record in increasing its industry share of premium volume, the reader may well wonder whether standards have been compromised. This is definitely not the case. During the past ten years Western's operating ratios have proved quite superior to the average multiple line company.The combined loss and expense ratios for the two Western companies as reported by the Alfred M. Best Co. on a case basis are compared in Table III with similar ratios for all stock fire and casualty companies.

The careful reader will not overlook the possibility that Western's superior performance has been due to a concentration of writings in unusually profitable lines. Actually the reverse is true. Although represented in all major lines, Western is still primarily an automobile insurer with 60% of its volume derived from auto lines. Since automobile underwriting has proven generally unsatisfactory in the postwar period, and particularly so in the last three years, Western's experience was even more *favorable relative to the industry than the tabular comparison would indicate.*

Western has always maintained ample loss reserves on unsettled claims. Underwriting results in the postwar period have shown Western to be over-reserved at the end of each year. Triennial examinations conducted by the insurance commissioners have confirmed these findings.

Turning to their investment picture, we of course find a growth in invested assets and investment income paralleling the growth in premium volume. Consolidated net assets have risen from $5,154,367 in 1940 to their present level of $29,590,142. Western follows an extremely conservative investment policy, relying upon growth in premium volume for expansion in investment income. Of the year-end portfolio of $21,889,243, governments plus a list of well diversified high quality municipals total $20,141,246 or 92% and stocks only $1,747,997 or 8%. Net investment income of $474,472 in 1952 was equal to $6.14 per share of Western Insurance common after minority interest and assuming senior charges were covered entirely from investment income.

The casualty insurance industry during the past several years has suffered staggering losses on automobile insurance lines. This trend was sharply reversed during late 1952. Substantial rate increases in 1951 and 1952 are being brought to bear on underwriting results with *increasing force as policies are renewed at much higher premiums.*

Earnings within the casualty industry are expected to be on a very satisfactory basis in 1953 and 1954.

Western, while operating very profitably during the entire trying period, may be expected to report increased earnings as a result of expanding premium volume, increased assets, and the higher rate structure. An earned premium volume of $30,000,000 may be conservatively expected by 1954. Normal earning power on this volume should average about $30.00 per share, with investment income contributing approximately $8.40 per share after deducting all senior charges from investment income.

The patient investor in Western Insurance common can be reasonably assured of a tangible acknowledgement of his enormously strengthened equity position. It is well to bear in mind that the operating companies have expanded premium volume some 550% in the last 12 years. This has required an increase in surplus of 350% and consequently restricted the payment of dividends. Recent dividend increases by Western Casualty should pave the way for more prompt payment on arrearages. Any leveling off of premium volume will permit more liberal dividends while a continuation of the past rate of increase, which in my opinion is very unlikely, would of course make for much greater earnings.

Operating in a stable industry with an excellent record of growth and profitability, I believe Western Insurance common to be an outstanding vehicle for substantial capital appreciation at its present price of about 40. The stock is traded over-the-counter.

Three Things You Should Take Away From Warren Buffett's Article

Three immediate takeaways from this immediately hit home. For one, investors can find tremendous opportunities in the net net stock universe. Here, Western Insurance Securities Company was trading for well below net current asset value, was profitable, and was growing rapidly.

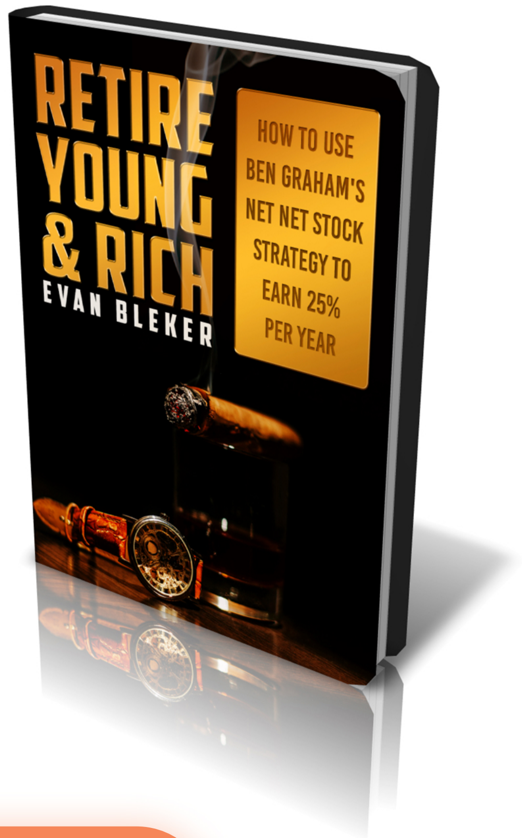
While stocks like this are incredibly hard to find just recently I was able to invest in a stock with solid management that was well on the way to returning their company to profitability. Trans World Entertainment could have made for a tidy 700% return in 3 years if an investor had invested at its low point.

The second takeaway is just how much a solid margin of safety in terms of financial ratios matter. Western Insurance Securities Company could cover its senior charges 10x over! Buffett's emphasis on balance sheet quality really says something about what he values when looking at small and incredibly cheap stocks.

Third, Warren Buffett's returns were definitely the highest when he was using his classic Benjamin Graham investment strategies at the beginning of his career. If you want to see massive gains in your portfolio, you should really do what Warren Buffett did early in his career.

Get My Net Net Stock Guide

1. Understand What Net Net Stock Actually Are
2. Learn How to Identify Great Net Net Stock Opportunities
3. Reviews The Academic Underpinnings Through Summary & Analysis Of 6 Studies
4. Gain a Deep Understanding of the Key Elements of My core7 Scorecard
5. Get Inside My Head With 2 Research Reports on Two Net Nets I Actually Bought



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