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Buffett: Unabridged and Unabashed

Review by Andrew Clancy

THE SNOWBALL: Warren Buffett and the Business of Life

by Alice Schroeder

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These are daunting times for investors around the world. There are many individuals whose sweating palms dampen the pages of their copies of *The Wall Street Journal* on a daily basis. Others may feel apprehension before switching on CNBC or Bloomberg in the morning. However, there is one man, tucked comfortably into the folds of the Midwest, who has weathered every conceivable storm the market can create and still produced winning results year after year.

Warren Buffett, chairman and CEO of investment management firm Berkshire Hathaway (BRK), has often thrived while other investors were at their lowest. He is a model of both consistency and incredible success, and his fame reaches beyond the boundaries of the financial press. Yet there is a lot the public does not know about the man called the "Oracle of Omaha." Alice Schroeder, who became a full-time author at Buffett's suggestion, offers the first authorized glimpse into the private world of the Wall Street kingpin in the recent release *The Snowball: Warren Buffett and the Business of Life*.

While hundreds of pages have been devoted to Buffett's investing wizardry, details about his upbringing and development are less well known. He has been asked repeatedly, particularly as his age creeps closer to his 80th year, to pen a memoir and fill in the framework of a life that inspires many questions. How did Buffett

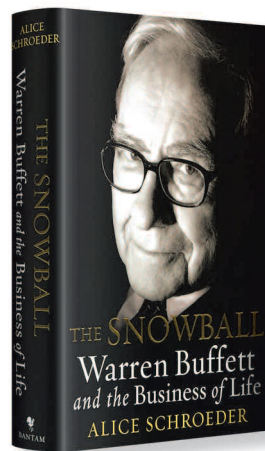
begin investing? Who helped sculpt his unique approach to the market? How did one man make that much money that quickly on stocks few people ever considered purchasing?

One aspect of Buffett's life that quickly becomes apparent to readers is his ability to push off anything that would preempt him from his main motivation of increasing the value of BRK's stock. Writing a memoir would easily rank among the list of petty distractions. However, Buffett's enjoyment of a little positive publicity balanced the scales and he asked Schroeder, who had tracked BRK's progress during her days as a financial analyst, to handle the labor of telling his life story. Despite his name not appearing as a co-author, Buffett made himself available for hundreds of hours of interview time with Schroeder. The result is a massive, 800-plus page account of Buffett's life viewed from every conceivable angle.

Endless Devotion, Relentless Drive

What separates the great from the ordinary? Many would say talent. What divides the brilliant from the great? The answer may be talent combined with

ambition. However, when one goes above brilliant to the realm of once-in-a-lifetime genius, there are three unique factors at work: talent, ambition and joy. It's the musician who skips parties as a teenager to gleefully sit alone and practice scale after scale. It's the basketball player who spends hours practicing the same jump shot in his driveway long after the sun has been extinguished for the day. From the moment in childhood when the genius finds his or her passion, there is a singular devotion to the pursuit of a dream that brings greater pleasure than anything else. This is the stratosphere of



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Mozart, Shakespeare, Einstein, Gates and a select few in the last two millennia.

If the question were posed to those in the financial realm, the majority would say Buffett deserves inclusion in this pantheon. *The Snowball* states a case from its opening chapters. A young Buffett proved from his earliest moments that he was born different, and his first

steps were trod on the path of capitalism. What sort of child would claim that his favorite toy is a change dispenser like the one worn by ballpark vendors in the early 20th century? Fortunately, readers are provided with photographic proof from Buffett's Nebraska childhood that the dollar was his earliest and best playmate.

Schroeder's exhaustive look into Buffett's career begins with six-year-old Warren selling chewing gum and soda to neighbors on summer evenings. It was the pennies he received from these early deals that became the initial snowflakes of the financial snowball that gives the book its title. Readers get the sense that Buffett may have thrown himself into a life of business in part out of passion and also out of a need to escape his home life. While he loved and respected his politician father, Buffett's mother was a stern disciplinarian whose family history of mental illness may have triggered the rages she directed at Buffett and his sister Doris. It leads one to wonder whether his mother's genetic pattern clicked in a more positive way in Buffett's voracious appetite for reading and his obsessive memory for detail.

The depiction of Buffett's early years sets a pattern that is repeated frequently in *The Snowball*. Buffett is the central character throughout the book, but readers get detailed information about virtually every individual to cross Buffett's path for more than a passing moment. Family members, business partners, teachers and mentors all receive more than just a two-sentence back-story. This can occasionally cause a slight drag in a reader's progress through the book. While Schroeder possibly justifies this level of detail by demonstrating each person's importance to Buffett's journey, the question remains whether the audience can retain both interest and information throughout.

Making the Most of the Market

The biggest benefit to readers of *The Snowball* is the book's insight into Buffett's investing method. While Buffett himself would be the first to say he does not give

advice on what stocks to buy, the book winds its way along the path of Buffett's development as an investor. Despite his plain-spoken descriptions of stock selection and financial analysis, one gets the feeling that like all geniuses, Buffett's path is nearly impossible to repeat. Still, the author's exploration of the relationship between Buffett and mentor Ben Graham is of particular interest. Buffett studied Graham's method of selecting "cigar butts," a term for companies that were near death but whose assets would turn a nice profit upon liquidation. These stocks proved particularly profitable because acquiring enough shares for controlling interest led to a potential win-win. If the stock was held, the company's assets could be used to leverage additional investments. If the company was liquidated, the profits from the sale could be used to fund the next venture. More often than not, Buffett held the stock and didn't liquidate the company.

The highly analytical nature of searching for these gold-plated needles among the Wall Street haystacks perfectly suited Buffett. Schroeder's descriptions of Buffett's research methods make one feel that were it not for his devotion to the dollar, he could easily have been a permanent fixture in academia. He devoured publications such as the *Moody's* and *Standard & Poor's* stock manuals and found more than his share of cigar butts. Many would accuse Buffett of being steadfast in his resistance to deviate from this method. Fortunately, *The Snowball* depicts Buffett's willingness to expand his focus for the greater cause of increasing his and his partners' wealth. Thanks to the advice of investor Herb Wolf, Buffett began to look beyond mere needles and seek what Wolf called "haystacks of gold."

One of the needles that later, thanks to Buffett, became a huge haystack was BRK. In the unique world of takeovers and mergers, BRK started life from the combination of two textile mills. When Schroeder first met with Buffett to discuss *The Snowball*, he mentioned that in moments where his own recollections failed him, she should seek information from others, then "use the less flattering version." The history of Buffett's involvement with BRK is one of the rare spots where readers may interpret Buffett's actions as bordering on less than flattering. His original interest in the company intensified once the firm's then-owner Seabury Stanton attempted to renege on a tender offer with Buffett. Money from Buffett's partnerships poured into the purchase of BRK stock and within a short period, Buffett held controlling interest and the Stanton family fled to the exit.

From the BRK platform, Buffett would turn a simple textile business into the front for one of the wealthiest investment firms in history. However, his resistance to abandon BRK's roots provides one of the best insights

revealed in *The Snowball*. The longing to be liked, embedded in Buffett since his youth in Omaha, combined with a deep sense of commitment to the workers at the mills, prevented him from rapidly closing the plants. He never wanted to be vilified as a liquidator, and this combination of fear and dedication kept the final mill running until 1985, long after most businessmen would have closed its doors. For all of his determination and cunning in the world of investments, it would be unfair of anyone to affix the label “ruthless” to Buffett.

Lifelong Partners in Success

No study of Buffett would be complete without examining the two people with whom he partnered in business and in life. *The Snowball* gives considerable space to the life and work of Buffett’s late wife Susie. Though their relationship ended in a permanent separation, but never divorce, Buffett remained captivated by his wife until her death in 2004. Through Schroeder’s loving tribute, readers will easily see why she held Buffett’s rapt attention for the length of their time together. She was influential in leading Buffett to more philanthropic projects while remaining the consistent anchor he needed during the early years of BRK.

Susie was a champion of human rights and according to Schroeder had an innate ability to connect with nearly everyone she met. Buffett marveled at his wife’s ability to get near-strangers to reveal their deepest secrets simply by showing them a modicum of compassion. While Buffett was piling up millions of dollars in investments, Susie spent her time leading the charge in various causes. In some respects, her battles were defined by the decades in which she operated: marching for civil rights in the 1960s and advocating AIDS research and treatment in the 1980s being just two instances. In each of these examples, Susie did not take the usual view of a wealthy patron who supported the cause in the form of cash, mailed from a great distance. Instead, she happily placed herself amongst those who struggled and shared a common bond that erased any pretense. Honestly, she deserves a biography of her own. One hopes that Schroeder’s apparent fascination with Susie will lead the author to pursue her as subject for a future project.

While Susie Buffett was responsible for keeping Buffett’s home life on the even keel he requested, it was a short, pessimistic lawyer from California who became one of his most trusted business associates. Charlie Munger, also a native Nebraskan, met Buffett at the ritzy Omaha Club in the summer of 1959. Buffett was meeting two of his various business partners and Munger, a childhood friend of one partner, happened to be along for the ride. Munger’s fascination with Buffett’s method

of investing sprouted into a friendship and partnership. Based on the depiction of Munger in *The Snowball* as a man who respected few opinions other than his own, it says a great deal that Buffett became so highly praised so quickly by Munger. His overwhelming belief in Buffett’s mission and principles provided a great boost in moments when self-doubt may have entered the picture.

The pair worked to diversify BRK’s portfolio and grow the stable of businesses that it owned. Munger prided himself on the integrity displayed by BRK, largely due to Buffett’s yearning for the firm to have a reputation as honest and trustworthy. Whatever venture the two investors entered, *The Snowball* demonstrates the power that can occur in a business when two talented individuals are committed to the same set of goals. Despite Munger being six years older than Buffett, readers will see that he learned a great deal from the Oracle of Omaha. However, his influence on Buffett’s life should not be overlooked.

A Tough but Worthwhile Search for Tips

If there is one drawback to *The Snowball* it’s the incredible amount of detail crammed into the work. Because of its length, readers may find it difficult to pick out takeaways from the text. Keep in mind that it is a biography and the legwork of learning from it falls to the reader. It may be best to start with the obvious. Buffett’s investing method consists of simplicity in design but intensity in execution. Between Buffett and Munger there is the discussion of the “Circle of Competence.” Investing should be limited to the areas in which the investor feels most comfortable. While this may prevent missteps in the stock market sector, the principle is not as likely to be applicable to most businesses. For those active in the market, it translates to doing diligent, all-encompassing research on the companies that fit the investor’s area of expertise, then making smart decisions when putting that knowledge to work.

Buffett is also a proponent of investing in core companies. These are the firms that form the backbone of the economy and operate in industries that are unlikely to vanish from the landscape. Food and beverage manufacturers, energy companies, insurance firms and even select media outlets all remain a major part of the daily American’s existence. There are those who criticize Buffett for this methodology and point to his resistance toward technology-based stocks as the trappings of an old man in a young man’s game. Buffett makes no secret of the fact that, despite counting Bill Gates among his closest associates, he really doesn’t understand technology. However, it’s no small coincidence that he skated through the tech-stock bust of 2000 while others lost a considerable fortune.

One of the more important lessons learned from *The Snowball* is Buffett's ongoing commitment to using his fortune as a way to improve the world. Philanthropy plays a key role throughout the book and culminates in Buffett's 2006 decision to give 85 percent of his BRK stock away to a number of foundations. The largest of these gifts, five out of every six shares, would go to the Bill and Melinda Gates Foundation, already the largest charitable organization in the world. Buffett's display puts him on par with Andrew Carnegie in terms of intention, but in actual adjusted dollars, Buffett's donations could end up being as much as 40 times that of the steel magnate's gifts. When some questioned why the Gates' already enormous foundation should receive such an overwhelming amount, the answer was typical Buffett. He explained that he felt the Gates Foundation was attempting to do the most good for the most people, a principle that any investor would appreciate.

The Unknown Buffett

Readers who have little familiarity with Buffett beyond the headlines may be surprised at some of the untold tales revealed in *The Snowball*. For instance, Buffett's initial attempt to gain a position at his mentor's company, Graham-Newman Corporation, ended in an outright rejection, despite Buffett having been Ben Graham's prize pupil. The logic behind Graham's decision resided in the anti-Semitic attitudes of many financial institutions during the 1950s. In a self-created form of affirmative action, Graham was willing to overlook a sure thing in Buffett for the sake of

fairness to those who had been discriminated against. It was a lesson that Buffett took to heart and only furthered his drive to promote equality in business and life.

Another aspect of Buffett's personality that threads through *The Snowball* is his impish sense of humor.

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Whether it was dressing as Mickey Mouse for an ABC television event or portraying any number of superheroes in the introductory film for BRK's annual shareholders' meeting, Buffett shatters the mold of the dour investor. He is more than willing to poke fun at himself and the long-standing perception that he is a cheapskate. Through each of these moments, readers get the feeling that Buffett has genuinely enjoyed himself during the various phases of his life. Despite being worth billions, there is a humility to Buffett that will likely cause readers to follow his exploits after reading the last of Schroeder's sentences.

As structured and precise as Schroeder's prose is throughout *The Snowball*, it is the moments where Buffett speaks that make for the best reading. These passages, marked by the use of italicized text, should not be missed by those readers who tend to skim their way through books of considerable

length. These are the spots where the true voice of the investing genius shines through. Readers quickly realize that Buffett, at his core, is a simple Midwesterner who devoted his life to pursuing his passion. What started with a few simple flakes rolled down a hill to become a snowball the size of the moon. If history is any indicator, not even the continued warnings of a market meltdown could make Buffett's legacy lose a single drop. ●

The author: Alice Schroeder was a Wall Street analyst and a managing director at Morgan Stanley when Warren Buffett became impressed with her financial writing talents. Buffett decided to cooperate with her on this book about himself, which moves beyond his investing style to reveal his full life story. Schroeder, who was born in Texas and earned her undergraduate degree and an MBA at the University of Texas at Austin before moving east to work in finance, is a former CPA and currently lives in Connecticut.



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