

Insights on Warren Buffett From His Friend and Editor

An Interview With Carol Loomis

Article Highlights

- Buffett believes investors willing to spend the time and who have both the aptitude and interest to pick stocks can do well.
- Buffett's intelligence, business knowledge, rationality and patience are traits that separate his approach from other money managers.
- Mimicking Buffett's investments is tough because he may have bought at lower prices than are currently prevailing.

Carol Loomis is a senior editor-at-large for Fortune and author of "Tap Dancing to Work: Warren Buffett on Practically Everything, 1966-2012" (Portfolio Hardcover, 2012), published last November. I spoke to Carol recently about Buffett's annual Berkshire Hathaway shareholder letter, which she edits, and about her sense of Buffett's attitudes and methods.



—Charles Rotblut

Charles Rotblut (CR): *Could you describe your relationship with Warren Buffett? I don't think people realize that it goes beyond you being a senior editor at Fortune magazine who has written about him.*

Carol Loomis (CL): I've known Warren since 1967, when I met him through my husband, who was a securities salesman who had called on Warren. He, his wife, my husband and I became good friends from then on. He has a group of people that meets every couple of years, and we were invited into that group. So I've known Warren for a long time. My husband and I are also Berkshire Hathaway shareholders. And the final connection is that beginning in 1977, Warren revamped his annual chairman's letter and he asked me to take a look at it. Since then—for the last 36 years—I have been his pro-bono editor. So those are my other Buffett connections: friend, shareholder and editor of his annual chairman's letter.

CR: *What's the extent of your involvement in the editing process? Are you mostly editing for grammar, or are you going back and forth with him on subject matter?*

CL: You can think of writing as roughly divided into two things, content and presentation. Warren is almost completely

responsible for the content of his letter. Once in a while I will say, "Well, since you have this sentence in there, shouldn't this one be in there also?" But that's really rare. He is the content provider almost entirely, and I help with the presentation. Yes, that includes grammar, although

his grammar, and that of his assistant who types up his hand-written drafts, is very good. I kid him that he missed the class about active verbs; I suggest changing a lot of passive verbs. Everything I do is in the form of suggestions. He can accept them or he can say "No, thanks."

I also try to eliminate what professional writers call dangles, which can creep into his writing. Sometimes I'll suggest moving a sentence around to a different place. So I'm really like a copy editor, but a very informed one because I've been doing this for so many years and know a lot about Warren Buffett.

CR: *I'm a Berkshire Hathaway shareholder, too, and I read his letter every year. So I know Warren gets into some pretty complicated subjects. Do you ever ask him to explain things in greater detail?*

CL: Yes, I do ask him once in a while to explain more. On the subject of derivatives, for example, I think I've said in the past that I think a little more explanation here would be very helpful. There have been other topics on which I have suggested that he add a little bit. But that's not a huge thing I do.

CR: *What about his partner, Charlie Munger? Is Warren bouncing ideas off of him, or is this all pretty much Warren's thought process?*

CL: The letter is basically Warren's thought process. He

and Charlie talk quite a lot, though I think less often today than they used to a couple of decades ago. Whenever Warren is thinking of making an acquisition for Berkshire, he definitely is talking to Charlie about that—and they are likely then to have spirited discussions. On some other topics Warren will say to Charlie, “I’m going to write about that in the annual report.” In general, I don’t think Charlie weighs in a great deal today on what is in the annual report.

CR: *What is the working relationship between the two? Obviously, a lot of people hear about Warren, but Charlie is pretty actively involved in Berkshire Hathaway as well.*

CL: He certainly is, and there is no one whose investment advice Warren respects more than he does Charlie’s. Charlie is vice chairman by title, and he certainly weighs in on some of the big decisions that Warren makes. He is also on the board of Berkshire, where I am sure his voice is powerful. But the person who decides most Berkshire things in the end is Warren.

CR: *How early does Warren start working on his shareholder letter? Is it something he does shortly before the meetings, or is this a process over several months?*

CL: He has said that the minute he finishes one annual letter, he starts working on another one. I certainly don’t see anything that soon. I normally get what he would think of as a first draft—although my impression is that the letter has gone through several drafts before it ever gets to this stage—sometime in December, usually a few days before Christmas. It adds up to a big block of copy landing on my desk around Christmas. The editing process then takes place during January and February, which is also a time in which Warren is making a lot of changes and filling in figures.

CR: *I know you’ve talked to many money managers over the years. What do you think separates Warren Buffett from the typical money manager or fund manager?*

CL: I think he’s simply the world’s best money manager. If he had been working with small amounts of money

all these years, there’s no telling what his returns would have been—though don’t think about that statement too hard because how could he keep working with small amounts of money if he’s having great returns? The fact is that Berkshire Hathaway has so much money now and has had for some time, and you just cannot invest large amounts of money in the same way you can small amounts. I don’t think anyone in the world could reasonably challenge his being the best money manager there is.

CR: *Do you see something unique in his approach that you don’t see other managers necessarily doing?*

CL: His intelligence and the business knowledge that he brings to this subject is probably greater than anyone else’s. And he has a rationality and a patience that I don’t see in most other money managers. Many of them have to worry about their careers if they try to be too patient and too rational. Warren has never had to worry about that and he never would have, even when he ran a hedge fund back in 1956 through 1969. He just is not going to be forced into a posture of irrationality. With most other managers, neither do they have the ability to be that rational nor could their careers take it over a long period of time.

CR: *You have written that Warren is one of those people who says both individual investors and money managers should limit the number of transactions they make.*

CL: Yes, he does believe that you would be better off if you thought of yourself as having a maximum of 10 transactions in your life, and you would sort of punch those out as you used them up. He thinks that non-stop trading is very disadvantageous for investors. The fees that go with a lot of trading really eat up returns. If you find a good company, he says, you should stick with it. You should not worry if it goes down; you should in fact buy more then. So, it is absolutely true that he thinks too much trading is a very bad thing for investors.

CR: *What does he look for in companies*

that gives him the confidence to hold onto them?

CL: He doesn’t want them to be unpredictable. That’s one of the big reasons he has shied away from technology companies. It’s not, he says, that technology isn’t a wonderful industry in many ways, but he does not believe himself capable of knowing what it will look like 10 years from now. Whereas, a company like Coca-Cola (KO) may go through ups and downs, but he knows what Coke will look like then. Or Wrigley chewing gum, which he has used often as an illustration. Or he thinks he knows what Wells Fargo (WFC) will look like in 10 years, and it will be different from most banks. American Express (AXP) is another company whose looks 10 years out Warren believes he can visualize.

CR: *I know Warren has more of a decentralized process when it comes to running the various divisions of Berkshire Hathaway. You have a couple chapters in your book, “Tap Dancing to Work,” about his hands-off approach to managers. Can you describe that?*

CL: Well, Berkshire certainly is decentralized. Headquarters consists of 24 people. Warren says when he buys a company, it has to come with good management because Berkshire cannot and will not provide management. So he is always looking for good management to be brought into the Berkshire fold. Berkshire is a conglomerate these days. Absolutely a conglomerate. And it’s most unusual in how totally decentralized it is. Now that doesn’t mean Warren isn’t getting monthly or weekly or perhaps even, in some cases, daily figures from Berkshire’s companies, because he does monitor what is going on in each of them. And I’m sure that if he sees a strange development in the figures of one of the operating companies, he will get on the phone with its CEO and try to find out why that is happening. He’s very vigilant from his post up there at the top. Charlie once said that Warren would die if he didn’t see those figures. But, he can’t and won’t run the companies.

CR: *What can you say about his process of evaluating managers, especially when he’s looking to make an acquisition?*

Table 1. Berkshire's Corporate Performance vs. the S&P 500 Index

Year	Annual Change (%)		Relative Results
	in Per Share Book Value of Berkshire	in S&P 500 With Dividends Included	
1965	23.8	10.0	13.8
1966	20.3	(11.7)	32.0
1967	11.0	30.9	(19.9)
1968	19.0	11.0	8.0
1969	16.2	(8.4)	24.6
1970	12.0	3.9	8.1
1971	16.4	14.6	1.8
1972	21.7	18.9	2.8
1973	4.7	(14.8)	19.5
1974	5.5	(26.4)	31.9
1975	21.9	37.2	(15.3)
1976	59.3	23.6	35.7
1977	31.9	(7.4)	39.3
1978	24.0	6.4	17.6
1979	35.7	18.2	17.5
1980	19.3	32.3	(13.0)
1981	31.4	(5.0)	36.4
1982	40.0	21.4	18.6
1983	32.3	22.4	9.9
1984	13.6	6.1	7.5
1985	48.2	31.6	16.6
1986	26.1	18.6	7.5
1987	19.5	5.1	14.4
1988	20.1	16.6	3.5
1989	44.4	31.7	12.7
1990	7.4	(3.1)	10.5
1991	39.6	30.5	9.1
1992	20.3	7.6	12.7
1993	14.3	10.1	4.2
1994	13.9	1.3	12.6
1995	43.1	37.6	5.5
1996	31.8	23.0	8.8
1997	34.1	33.4	0.7
1998	48.3	28.6	19.7
1999	0.5	21.0	(20.5)
2000	6.5	(9.1)	15.6
2001	(6.2)	(11.9)	5.7
2002	10.0	(22.1)	32.1
2003	21.0	28.7	(7.7)
2004	10.5	10.9	(0.4)
2005	6.4	4.9	1.5
2006	18.4	15.8	2.6
2007	11.0	5.5	5.5
2008	(9.6)	(37.0)	27.4
2009	19.8	26.5	(6.7)
2010	13.0	15.1	(2.1)
2011	4.6	2.1	2.5
2012	14.4	16.0	(1.6)
Compounded Annual Gain, 1965–2012	19.7	9.4	10.3
Overall Gain, 1964–2012	586,817.0	7,433.0	

Source: Berkshire Hathaway Inc. shareholder letter 2012, by Warren Buffett, March 1, 2013. See www.berkshirehathaway.com/letters/2012ltr.pdf for notes accompanying this table.

CL: He has said that the best clue to how good a management is is its earnings record, so that's very important. He also puts great stock in his ability to size up people. If he sees that a company he is thinking of acquiring is run by somebody who, as he says, makes his stomach turn, he just doesn't buy it. He wants to associate only with people he likes, and that includes the people who are running the companies that Berkshire buys.

CR: *A lot of business owners prefer to sell their businesses to him versus taking a premium elsewhere; do you think that's just a reflection of his philosophy toward management?*

CL: I think that's a big part of it. I think these managers know that if they do a good job, they won't be interfered with. There's a lot of respect between the managers and Warren. Also, once they get into the fold, they don't want to disappoint him; some of them have said that. So, that wish is an impetus to them to keep on doing a good job in managing their companies.

CR: *If an investor were to approach Warren and ask him, "How do I mimic what you're doing," what advice do you think he'd give?*

CL: He might say, "Why don't you just buy Berkshire?" An investor could mimic what he buys in the way of investments, but they cannot mimic the companies he owns entirely and that produce operating profits, which is such an important part of Berkshire. If you decide to only buy the companies he owns, like Coke, American Express, IBM (IBM), Wells Fargo and the other smaller positions, you're only really getting half of Warren Buffett. So, I think he might well say, just buy Berkshire.

CR: *Have you ever been in a room where someone has actually asked him how to invest better? If so, what advice has he given?*

CL: I certainly have seen that at the annual meeting. And in one annual report particularly, I would guess 10 years ago, he had quite a lot of advice for investors. He said there are some people who are willing to spend the time and have the aptitude and the interest

to decide for themselves what they will invest in; those people, he said, can often do a good job. Charlie, however, once broke into such a discussion and said that some of those people listening could *not* do a good job.

Warren's advice for the others—those that don't have the time and the aptitude and the interest—is that they should just buy a good index fund. Not all in one bunch, but instead put their money in gradually because you don't want to buy it at just the wrong time, like the beginning of 2008, say. But he believes that most people should be in index funds and should just ride the good economy that over the long term has been the U.S. economy.

CR: *What about people who try to just react to what his trades are, when news comes out of a new filing that he's bought more shares of this company or sold shares of that company? Has Warren ever commented on what he thinks about those actions?*

CL: I don't recall that he has ever commented on that. But first of all, he has made some mistakes, so you might choose to buy the one that he may later decide was a mistake. Secondly, he typically spreads out his buying—you have to when you have as much money as he has. IBM is an example. He bought all the way up until it was announced that Berkshire had a large interest. So if you bought then, you would not exactly be getting the price Berkshire did. In other words, there are problems with making this strategy work.

CR: *Has he ever discussed with you any common mistakes he sees investors making, either individuals or professionals?*

CL: The worst mistake is that they don't buy when prices drop. They get scared and irrational about it. Warren

is the best buyer in the world at low prices. If a stock that he likes goes way down, he's likely to buy more. Whereas, the instinct of the average investor is to panic and sell. And right now, just in the last month (January 2013), we've seen individual investors coming in and buying, which historically has been a sign that the stock market could fall. Many individual investors tend to do the wrong thing. It seems to be a pattern that just can't be broken.

CR: *In terms of Warren's temperament, does he have anything in place to cope with his own behavioral errors or to make sure he doesn't do anything that is irrational?*

CL: I think he only has his own mind. He's good at recognizing mistakes. Like ConocoPhillips (COP), which he acknowledged a few years ago having made a mistake in buying. He bought then on the basis of price. ConocoPhillips looked cheaper than some of the other oil companies. He recognized that he had made a mistake and stepped up and did a lot of selling.

CR: *I often hear "return on equity" when someone mentions Warren's investing method. Have you ever heard him mention that specifically?*

CL: Yes, I certainly have. It is one of the things he believes in strongly: that a company capable of producing a good return on equity and doing it consistently is the kind of company you want to be in. It's just a good marker to see what kind of company it is. A company with a standard balance sheet that can make 20% return on equity is a jewel. That's the kind of thing that investors should be looking for.

CR: *Has he ever listed what he considers to be a minimum return on equity that he*

looks for?

CL: Not that I can remember.

CR: *In terms of your relationship with him, what do you think you've learned from him over the years?*

CL: I think I've learned many of the things he has been saying, like don't panic. I don't panic about investing. I've learned about buying when stock prices are low. I probably qualify as one of the people who does have the interest and time and inclination to make my own decisions, so I'm not in index funds. I've done my best to learn from him.

CR: *In regard to the legendary value investor Benjamin Graham, who was Warren's mentor and teacher, how does Warren view his own strategy versus the manner in which Graham used to invest?*

CL: Ben was much more of a buyer of what may be called discarded cigar butts. He wanted a very large margin of safety, in the available assets, for anything that he bought. Warren did some of that too—buying discarded cigar butts—when he was younger. But Charlie Munger sort of talked him out of that and got him to focus much more on good companies, like See's Candies, which has been one of the best purchases Berkshire ever made. Still, Warren will say today that even now he sometimes finds discarded cigar butts too attractive.

Editor's Note: Warren Buffett's 2012 letter to Berkshire Hathaway shareholders was released on March 1, 2013. You can access it at www.berkshirehathaway.com/letters/2012ltr.pdf. Table 1 shows Berkshire's performance compared to the S&P 500 index from 1965 to 2012, as presented in this shareholder letter. ▲

Carol Loomis is a senior editor-at-large for Fortune and author of "Tap Dancing to Work: Warren Buffett on Practically Everything, 1966-2012" (Portfolio Hardcover, 2012). Find out more at www.aaii.com/authors/carol-loomis. Charles Rotblut, CFA, is a vice president at AAI and editor of the AAI Journal. Find out more about Charles at www.aaii.com/authors/charles-rotblut and follow him on Twitter at twitter.com/charlesrotblut.