

# **THE SNOWBALL**

## **Warren Buffett and the Business of Life**

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*"Life is like a snowball. The important thing is finding wet snow and a really long hill".*

– Warren Buffett

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Warren Edward Buffett was born on August 30, 1930. In an interesting quirk of fate, this was about ten months after "BlackTuesday", October 29, 1929 when the U.S. stock market lost more than \$14 billion of capitalization in a single day. (\$14 billion was approx. four times the annual budget of the U.S. government at that time). Warren Buffett was born in the middle of what would come to be termed the "Great Depression".

Warren's father, Howard Buffett, had joined the Union State Bank as a stockbroker in 1927 and when the bank went bust and closed its doors in August 1931, Howard and two partners decided to start their own stockbrokerage firm. Even in the middle of the worst financial crisis ever to hit the United States, Howard Buffett's firm did well because Howard would only sell safe securities like utility stocks and municipal bonds.

His mother, Leila Stahl Buffett, was of German-American descent. She appeared outwardly to be a perfect mother but in private, she suffered from a what was described as "neuralgia". As a consequence, she would verbally deride the young Warren and his two sisters for imaginary faults until they would be reduced to tears. This generated a lot of tension in the home environment. Current affairs, politics and news could be discussed openly and freely but nobody ever talked about their feelings at the dinner table.

Despite this, Warren recalls his childhood with fondness.

*"When I was a kid, I got all kinds of good things. I had the advantage of a home where people talked about interesting things, and I had intelligent parents and I went to decent schools. I don't think I could have been raised with a better pair of parents. That was enormously important. I didn't get money from my parents, and I really didn't want it. But I was born at the right time and place. I won the 'Ovarian Lottery'."*

– Warren Buffett

When Warren started attending kindergarten at age six, his hobbies and interests revolved entirely around numbers. His favorite gift was a stopwatch which he used to time all kinds of things. By the time he started first grade in 1936, he and a friend would spend hours watching the traffic go down the main street of his town. Warren would write down the license-plate numbers of the passing cars in column after column. Warren loved anything which involved collecting, counting and memorizing numbers. He also had a very deep competitive streak and a healthy imagination which often cast himself as a crime fighter.

By grade five, Warren was busy trying to memorize the World Almanac and the stats for the 1938 professional baseball season. His aunt Alice introduced Warren to bridge which was sweeping the country. Warren took to the card game with a passion which would remain with him throughout his entire life. He also started selling packs of chewing gum to his classmates and around the neighborhood to make money. By the time he was twelve, Warren had moved on to selling Coca-Cola, the *Saturday Evening Post* and *Liberty* magazine door to door in his neighborhood. He also (since age ten) had a job selling peanuts and popcorn at the University of Omaha football games. His other idea – to sell used golf balls secured from the local golf course – fell by the wayside when someone complained and the local police came and talked to Warren's parents about it.

Warren also spent a lot of his spare time as a child hanging around at his father's stockbrokerage reading everything he could get his hands on. As a tenth birthday present, he asked his father to take him to see the New York Stock Exchange in person. The young Warren was hooked from day one and loved everything he saw and experienced. He decided then and there he wanted to be rich and set a goal to be a millionaire by the age of thirty-five. This was a reasonably audacious goal for an eleven-year-old kid to be making in the middle of the Great Depression but Warren was adamant.

*"Money could make me independent. Then I could do what I wanted to do with my life. And the biggest thing I wanted was to work for myself. I didn't want other people directing me. The idea of doing what I wanted to do every day was important to me".*

– Warren Buffett

By the age of twelve, Warren had saved \$120. In the spring of 1942, he enlisted his sister Doris as a partner and purchased three shares of Cities Service Preferred. The stock plunged from \$38.25 to \$27. When the stock recovered to \$40, Warren sold, netting a \$5 profit for the two siblings. He was, however, shocked to see the stock then continue to rise until it hit \$202 a share a short period of time later. Warren realized that if he had held off selling a little longer, he and his sister would have netted a profit of almost \$500.

*"Warren learned three lessons and would call this episode one of the most important of his life. One lesson was not to overly fixate on what he had paid for a stock. The second was not to rush unthinkingly to grab a small profit. He learned those two lessons by brooding over the \$492 he would have made had he been more patient. It had taken five years of work, since he was six years old, to save the \$120 to buy this stock. Based on how much he currently made from selling golf balls or peddling popcorn and peanuts at the ballpark, he realized that it could take years to earn back the profit he had 'lost'. He would never, never, never forget this mistake. And there was a third lesson, which was about investing other people's money. If he made a mistake, it might get somebody upset at him. So he didn't want to have responsibility for anyone's money unless he was sure he could succeed".*

– Alice Schroeder

Warren's father Howard was always active in politics and in the spring of 1941, the Nebraska Republican Party assigned him the job of finding someone to run for Congress against a popular Democratic Party incumbent, Charles F. McLaughlin. Unable to talk anyone else into running, Howard entered his own name on the ballot. When the elections were held on November 3, 1942, there was a huge swing against the Democrats and Howard Buffett was elected to Congress. The Buffett family made their way to Washington D.C. the following January and rented a home in Virginia. Howard served as a member of the 78th Congress and dedicated most of his efforts to a personal crusade to return the United States to the gold standard. Howard Buffett also became well known for being a straight-shooter who cared more about his conservative principles than he did about the perks of being in office.

Warren Buffett, along with his two sisters, attended high school full-time but spent most of his spare time finding ways to make money. He had several paper routes, and by age fifteen had accumulated more than \$2,000 in savings. When his father purchased a farm in Nebraska, Warren followed suit and purchased a forty-acre farm for \$1,200 about seventy miles

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