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WARREN BUFFETT ON BUSINESS

Principles From the Sage of Omaha

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MAIN IDEA

If you want to invest like Warren Buffett, buy shares in Berkshire Hathaway and be done with it. However, taking into account Warren Buffett has been investing in public and private companies for more than 50 years now, he has some very good ideas about how companies can and should be managed. These nuggets of wisdom have mainly been included in the annual Berkshire Hathaway shareholders letters. When you get right down to brass tacks, to run a business the Warren Buffet way, you should:

- Communicate with and treat both your employees and your stockholders fairly and consistently.
- Practice responsible and ethical corporate governance.
- Be patient and persevere as you work to build value in your enterprise.
- Have a passion for your work and have fun but always be willing to readily admit mistakes.

“The Buffett/Berkshire Hathaway model of managing a business, large or small, should be required reading for all business executives, entrepreneurs, and business school students. When you strip it all away, effective business management – the Warren Buffett Way – is remarkably obvious and simple. He describes his business principles as ‘simple, old and few.’”

– Richard Connors

▶ 1	Shareholders	Always treat your shareholders as owner-partners and yourself as managing partner. Embrace stewardship as a way of life in your business practices.	..... Page 2
▶ 2	Culture	Run your company so it will become the “buyer of choice” when owners want to sell their business masterpieces in the future. Think long-term, act accordingly.	..... Page 2
▶ 3	Governance	Have robust corporate governance structures. Make certain all checks and balances are working by having a strong board to keep the CEO accountable.	..... Page 3
▶ 4	Managers	When you buy a business, you’re also buying the manager which comes with it. Make it a point to work with people you like and admire and everything will be fine.	..... Page 3
▶ 5	Communication	Always be open and transparent about what’s happening in your business. Disclose fully all the facts – good, bad or indifferent. Give people the information.	..... Page 4
▶ 6	Acquisitions	When making acquisitions, look at the people involved first and the dynamics of the business second. Find people you are prepared to back and then do that.	..... Page 4
▶ 7	Risk	Risk is always present in business. Don’t try and avoid it – that’s impossible. Just make very certain you are adequately compensated for the risks you take.	..... Page 5
▶ 8	Compensation	By all means be prepared to pay for performance but always establish a direct line of sight between what managers do and what they are paid. Keep it simple.	..... Page 5
▶ 9	Time	Build time to reflect and think into your schedule. Don’t feel like you have to be doing something all the time. Slow down and focus on what’s important.	..... Page 6
▶ 10	Crises	If you ever find yourself in the middle of a crisis, face up immediately to the bad news. Take responsibility. Then get to work doing what needs to be done.	..... Page 6
▶ 11	Principles	Focus on what your earnings rate is on equity capital employed rather than earnings per share. This distinguishes the stellar performers from the also-rans.	..... Page 7
▶ 12	Behavior	Always act like you own the company you work for outright and you’ll do fine. Good managers are stewards of their enterprises, not plunderers.	..... Page 7
▶ 13	Mistakes	Everyone makes mistakes. Expect that to happen. The key is to learn and move forward rather than getting discouraged. Hold regular post mortems and learn.	..... Page 8
▶ 14	Investing	Intelligent investing is not hard. All you have to do is to correctly evaluate businesses within your circle of competence which will grow in value in the future. Page 8

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