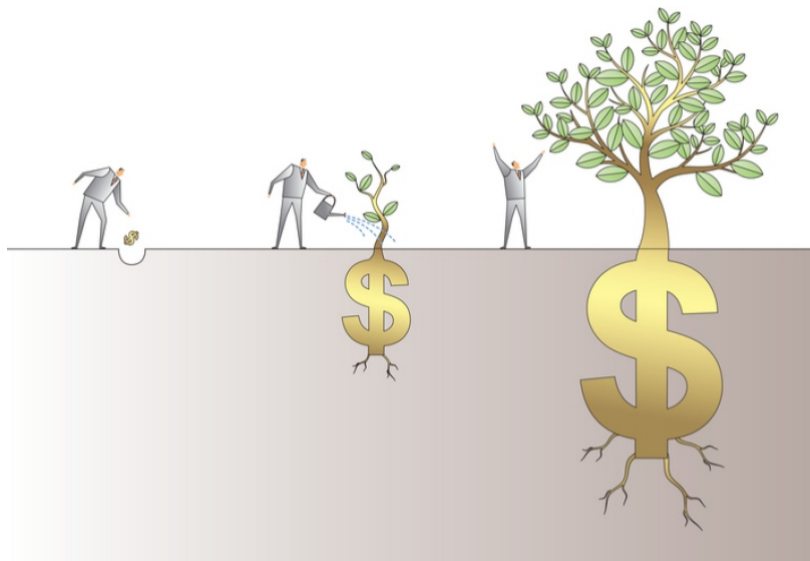


Brad Brain: The essence of Buffett

Brad Brain / Alaska Highway News

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Smart Money



Brad Brain: "Many of history's great investors have suggested that the key to their success lay not in what they did, but rather in what they did not do. They did not yield to their emotions or to the pressure to follow the crowd."

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This is one of those stories that makes you realize how old you are. It was way back in the late 1990s when I started writing for the *Alaska Highway News*. That seems hard to reconcile; how something that seems relatively recent was actually two decades ago.

I remember being excited for the opportunity, but also a little apprehensive. I remember wondering where, week in and week out, I would get the ideas for what to write on. As luck would have it, I mentioned this to a colleague, and he gave me some good advice: write on what I know.

Immediately I realized I would be frequently writing about Warren Buffett, one of the most successful investors of all time, and a man widely admired for his ethics and acumen. Buffett has had a formative influence on my own investment mindset, and this has served me well over the years.

I have a framed Buffett quote on my office wall. It reads, "To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights, or inside information. What's needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework."

Here is what a sound intellectual framework looks like: what I call, "the essence of Buffett."

Own Great Businesses: If a business is doing well and is managed by people with integrity, intelligence, and energy, it's inherent value will ultimately be reflected in its share price.

Build Concentrated Portfolios: Many investors are over-diversified. This leads to a dilution of the quality of investments, with too much capital tied up in poor investments and not enough in the really good ones. Consider taking meaningful positions in a fewer number of great investment ideas rather than resorting to the second or third best investment ideas.

Invest in What You Know: Some investors will make an investment without really understanding why they would want to invest in a business, or even just what it is that they are investing into in the first place. This is folly. Try to know a business inside and out. It is knowledge that allows us to avoid risk.

Ignore the Stock Market: Investment decisions should reflect an opinion of the long-term prospects for a business, not the short-term prospects for the stock market. The stock market is a tool that can be used for our advantage, it is not the arbitrator of your well being. As Buffett says, "As far as I am concerned, the stock market doesn't exist. It is only there as a reference to see if anyone is offering to do anything foolish."

Employ a Margin of Safety: The key to successful investing is the purchase of shares in good businesses when market prices are at a large discount to underlying business values, for any variety of reasons. Another great investor, Peter Cundill, puts it this way: "I am looking to buy a dollar for fifty cents."

Be Patient: Many of history's great investors have suggested that the key to their success lay not in what they did, but rather in what they did not do. They did not yield to their emotions or to the pressure to follow the crowd. Instead, they focused on the business they owned and watched as their value compounded over time.

As the expression goes, "Stand for something, or you will fall for anything." Consider this in the context of some of the influential developments of even just the last couple of years the rise and fall of marijuana stocks, cryptocurrency, the high-flying FANGMAN stocks, and the significant market volatility of 2020.

With a sound intellectual framework for making decisions, and the ability to keep emotions from corroding that framework, you will find it much easier to navigate through the challenges of investing successfully over a lifetime.

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