Seth Klarman: What I’ve learned from Warren Buffett

As Warren Buffett was a student of Benjamin Graham, today we are all students of Warren Buffett.

He has become wealthy and famous from his investing. He is of great interest, however, not because of these things but in spite of them. He is, first and foremost, a teacher, a deep thinker who shares in his writings and speeches the depth, breadth, clarity, and evolution of his ideas.

He has provided generations of investors with a great gift. Many, including me, have had our horizons expanded, our assumptions challenged, and our decision-making improved through an understanding of the lessons of Warren Buffett.

1. Value investing works. Buy bargains.

2. Quality matters, in businesses and in people. Better quality businesses are more likely to grow and compound cash flow; low quality businesses often erode and even superior managers, who are difficult to identify, attract, and retain, may not be enough to save them. Always partner with highly capable managers whose interests are aligned with yours.

3. There is no need to overly diversify. Invest like you have a single, lifetime “punch card” with only 20 punches, so make each one count. Look broadly for opportunity, which can be found globally and in unexpected industries and structures.

4. Consistency and patience are crucial. Most investors are their own worst enemies. Endurance enables compounding.

5. Risk is not the same as volatility; risk results from overpaying or overestimating a company’s prospects. Prices fluctuate more than value; price volatility can drive opportunity. Sacrifice some upside as necessary to protect on the downside.

6. Unprecedented events occur with some regularity, so be prepared.

7. You can make some investment mistakes and still thrive.

8. Holding cash in the absence of opportunity makes sense.

9. Favour substance over form. It doesn’t matter if an investment is public or private, fractional or full ownership, or in debt, preferred shares, or common equity.

10. Candour is essential. It’s important to acknowledge mistakes, act decisively, and learn from them. Good writing clarifies your own thinking and that of your fellow shareholders.

11. To the extent possible, find and retain like-minded shareholders (and for investment managers, investors) to liberate yourself from short-term performance pressures.

12. Do what you love, and you’ll never work a day in your life.