

Анализ инвестиционной активности Уоррена Баффета

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Аннотация

В статье проведен анализ инвестиционной стратегии Уоррена Баффета – выдающегося инвестора, одного из богатейших людей планеты на сегодняшний момент, также активно занимающегося благотворительностью. Освещены ранние этапы его биографии и особенности его образования, что, по мнению автора, оказало влияние на ее формирование. Особое внимание уделяется рассмотрению важных в его жизни личностей и выдвинутых ими идей. Среди таких личностей Бенджамин Грэм, Джон Бэрр Уильямс, Филипп Фишер и Чарльз Мангер.

Ключевые слова: Уоррен Баффет, предпринимательская активность, инвестиции, инвестиционная стратегия, инвестиционный фонд.

Analyses of investment activity of Warren Buffett

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Annotation

The article analyzes the investment strategy of Warren Buffett who is an outstanding investor, one of the richest people on the planet nowadays also actively engaged in charity. The early stages of his biography and features of his education are covered, which, in the author's opinion, influenced its formation. Special attention is paid to the consideration of important personalities in his life and ideas put forward by them. Among such personalities are Benjamin Graham, John Burr Williams, Philip Fisher and Charles Munger.

Keywords: Warren Buffet, entrepreneurship, investments, investment strategy, investment fund.

Warren Edward Buffett is an American investor, business magnate, and philanthropist with a total net worth of \$86.6 billion which makes him one of the most successful investors and wealthiest person in the United States (constantly competing in that with Bill Gates).

Buffett was born in 1930 in Omaha, Nebraska. He was the second of three children and the only son of Leila and Congressman Howard Buffett. In 1942, his father was elected to the first of four terms in the United States Congress, and after moving with his family to Washington, D.C.

Buffett displayed an interest in business at a very young age. Buffett's early childhood were enlivened with entrepreneurial ventures. For example, Buffett sold chewing gum and Coca-Cola bottles with a 5 cent margin and was involved in many other business activities. Also at the age of 11, he bought some shares of Cities Service Preferred for himself and for his sister Doris Buffett for \$38.25. At first price dropped to \$27 then reached \$40 and Buffet decided to sell them with \$1.75 profit. Imagine his disappointment when in a couple of days these stocks reached astonishing \$202. This incident as many believe thought Buffet one of the most important advantages of its investment strategy: patience, long-term investments and accurate research.

But the greatest influence on him was provided by these four persons: Benjamin Graham, Philip Fisher, John Burr Williams, and Charles Munger. Together, they are responsible for Buffett's financial education, both formal and informal.

In 1947, Buffett entered the Wharton School of the University of Pennsylvania. There he met *Benjamin Graham* who was his teacher. v (1894 - 1976) was a British-born American investor, economist, and professor. He is widely known as the "father of value investing," and wrote two of the founding texts in neoclassical investing: *Security Analysis* (1934) with David Dodd, and *The Intelligent Investor* (1949).

Graham reduced the concept of sound investing to a motto he called the "margin of safety." Margin of safety is the difference between the intrinsic value of a stock and its market price. That means that securities are selling - for whatever reason - at less than their real value.

Buffet always turns to this principle in his investments and tries to buy stocks at the period of decrease being sure in upcoming positive trend.

In 1994 Buffet said: "*The basic ideas of investing are to look at stocks as businesses, use market fluctuations to your advantage, and seek a margin of safety.*"

The next person who influenced Buffet's investment philosophy is *Philip Fisher*. Philip Fisher (1907 - 2004) was an American stock investor best known as the author of *Common Stocks and Uncommon Profits*, a guide to investing that has remained in print ever since it was first published in 1958.

Fisher came to believe that people could make superior profits by (1) investing in companies with above-average potential and (2) aligning themselves with the most capable management. To isolate these exceptional companies, Fisher developed a point system that qualified a company by the characteristics of its business and its management.

Fisher gave Buffett an updated, workable methodology that enabled him to identify good long-term investments and manage a portfolio over the long term, and taught the value of focusing on just a few good companies.

John Burr Williams (1900 - 1989) was a 20th-century economist, recognized as a founder and developer of fundamental analysis, and for his pioneering analysis of stock prices as reflecting their “intrinsic value.” He is best known for his 1938 text *The Theory of Investment Value*, based on his Ph.D. thesis, which was amongst the first to articulate the theory of Discounted Cash Flow (DCF) based valuation, and in particular, dividend based valuation.

Williams described it this way: “*A cow for her milk; a chicken for her eggs; and a stock for her dividends.*”

Buffett condensed Williams’s theory as: “*The value of a business is determined by the net cash flows expected to occur over the life of the business discounted at an appropriate interest rate.*”

Williams gave Buffett a mathematical model for calculating true value.

The last but not the least person in this list is *Charlie Munger*. The story of their met is full of surprises. Both men grew up in Omaha and had many acquaintances in common but never met until 1959.

Munger soon became Buffet’s business partner and bring some of his ideas on investment into Buffer’s mind.

The key principle of his strategy is best seen in the following quote of himself: “*It’s far better to buy a wonderful company at a fair price than a fair company at a wonderful price.*”

Munger helped Buffett appreciate the economic returns that come from buying and owning great businesses. This may contradict the theory of Benjamin Graham but Buffet also takes advantages of this approach in such a complex game as investments.

Buffett’s dedication to Ben Graham, Phil Fisher, John Burr Williams and Charlie Munger is understandable.

Let’s describe here the key elements of Buffet’s investment strategy.

Dealing with what you understand

Buffett adamantly restricts himself to his “circle of competence” – businesses he can understand and analyze. As Hagstrom writes, investment success is not a matter of how much you know but rather how realistically you define what you don't know. Buffett considers this *deep understanding of the operating business* to be a prerequisite for a viable forecast of future business performance. After all, if one doesn’t understand the business, how can one project the performance? Buffett's business tenets each support the goal of producing a robust projection. First,

analyze the business accurately, not just the market or its sentiment. Next, check a consistent operating history. Finally, use that data to ascertain whether the business has favorable long-term prospects.

That's why he was not engaged in investment into high-tech companies for a long time. This helped him not to lose money in 2007 crisis NASDAQ fall.

Take the management into account

Perhaps, one of the most difficult analytical tasks for an investor is the analyses of company's management team. Is the management rational? Is the management wise enough when it comes to reinvesting earnings or returning profits to shareholders as dividends? How hardworking is the team? What working atmosphere is in the company?

These all are profound questions and they require an ability to understand people and some knowledge of psychology. And taking into account that Buffet as a young man took Dale Carnegie courses we may conclude it is a really important skill in business and in investment in particular.

Historically, as a group and on average, management tends to be greedy and retain a bit too much (profits), as it is naturally inclined to build empires and seek scale rather than utilize cash flow in a manner that would maximize shareholder value. Another tenet examines management's honesty with shareholders. That is, does it admit mistakes? Lastly, does management resist the institutional imperative? This tenet seeks out management teams that resist a "lust for activity" and the lemming-like duplication of competitor strategies and tactics. It is particularly worth savoring because it requires you to draw a fine line between many parameters (for example, between blind duplication of competitor strategy and outmaneuvering a company that is first to market).

Detailed financial analyses

But there is nothing more important in finance and investments than different financial indicators and statistics which should be carefully examined to draw up a final verdict upon the investment.

Buffett focuses on *return on equity (ROE)* rather than on *earnings per share*. Most finance students understand that ROE can be distorted by leverage (a debt-to-equity ratio) and therefore is theoretically inferior to some degree to the return-on-capital metric. Here, return-on-capital is more like return on assets (ROA) or return on capital employed (ROCE), where the numerator equals earnings produced for all capital providers and the denominator includes debt and equity contributed to the business. Buffett understands this, of course, but instead examines leverage separately, preferring low-leverage companies. He also looks for *high profit margins*.

His final two financial tenets share a theoretical foundation with *EVA*. First, Buffett looks at what he calls "owner's earnings," which is essentially cash flow available to shareholders, or technically, *free cash flow to equity (FCFE)*. Buffett defines it as net income *plus* depreciation and amortization (for example, adding back non-cash charges) *minus* capital expenditures (CAPX) *minus* additional working capital (W/C) needs. In summary, net income + D&A – CAPX – (change in W/C). Purists will argue the specific adjustments, but this equation is close enough to *EVA* before you deduct an equity charge for shareholders. Ultimately, with owners' earnings, Buffett looks at a company's ability to generate cash for shareholders, who are the residual owners.

Buffett also has a "one-dollar premise," which is based on the question: *What is the market value of a dollar assigned to each dollar of retained earnings?* This measure bears a strong resemblance to market value added (MVA), the ratio of market value to invested capital.

Buy companies with big value

Here, Buffett seeks to estimate a company's intrinsic value. A colleague summarized this well-regarded process as "bond math." Buffett projects the future owner's earnings, and then discounts them back to the present. Keep in mind that if you've applied Buffett's other tenets, the projection of future earnings is, by definition, easier to do, because consistent historical earnings are easier to forecast.

Buffett also coined the term "moat," which has subsequently resurfaced in Morningstar's successful habit of favoring companies with a "wide economic moat." The moat is the "something that gives a company a clear advantage over others and protects it against incursions from the competition." In a bit of theoretical heresy perhaps available only to Buffett himself, he discounts projected earnings at the risk-free rate, claiming that the "margin of safety" in carefully applying his other tenets presupposes the minimization, if not the virtual elimination, of risk.

It worth mentioning, that Buffett invests mostly in widely known companies which are also called 'blue chips'. This reduces the risk and guaranties a stabile long-term growth (positive trend).

Seeking for margin of safety

Focusing on businesses that are understandable, with enduring economics, run by shareholder-oriented managers — all those characteristics are important, Buffett says, but by themselves will not guarantee investment success. For that, he first has to buy at sensible prices, and then the company has to perform to his business expectations. The second is not always easy to control, but the first is: If the price isn't satisfactory, he passes.

Buffett's basic goal is to identify businesses that earn above-average returns, and then to purchase these businesses at prices below their indicated value. Graham taught Buffett the

importance of buying a stock only when the difference between its price and its value represents a margin of safety. Today, this is still his guiding principle, even though his partner and friend Charlie Munger has encouraged him toward occasionally paying more for outstanding companies.

The margin-of-safety principle assists Buffett in two ways. First, it protects him from downside price risk. If he calculates that the value of a business is only slightly higher than its price per share, he will not buy the stock. He reasons that if the company's intrinsic value were to dip even slightly, eventually the stock price would also drop, perhaps below what he paid for it. But when the margin between price and value is large enough, the risk of declining value is less. If Buffett is able to purchase a company at 75 percent of its intrinsic value (a 25 percent discount) and the value subsequently declines by 10 percent, his original purchase price will still yield an adequate return.

The margin of safety also provides opportunities for extraordinary stock returns. If Buffett correctly identifies a company with above average economic returns, the value of its stock over the long term will steadily march upward. If a company consistently earns 15 percent on equity, its share price will appreciate more each year than that of a company that earns 10 percent on equity. Additionally, if Buffett, by using the margin of safety, is able to buy this outstanding business at a significant discount to its intrinsic value, Berkshire will earn an extra bonus when the market corrects the price of the business.

In essence, we can say that Buffett's tenets constitute a foundation in value investing, which may be open to adaptation and reinterpretation going forward. His investment philosophy is not very complicated but it is certainly very effective. And his mentors have had no small share in framing of this philosophy. Although he said himself: *"I'm 85% Benjamin Graham"*, the left 15% may be that what makes him so unique and unbelievably successful.

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