

# Warren Buffett reveals golden rules in annual letter to Berkshire Hathaway shareholders

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Billionaire investor Warren Buffett has revealed his golden rules to investing in a letter to shareholders. Source: AP

**Warren Buffett is offering a refresher course on his approach to investing in his annual letter to Berkshire Hathaway Inc. shareholders.**

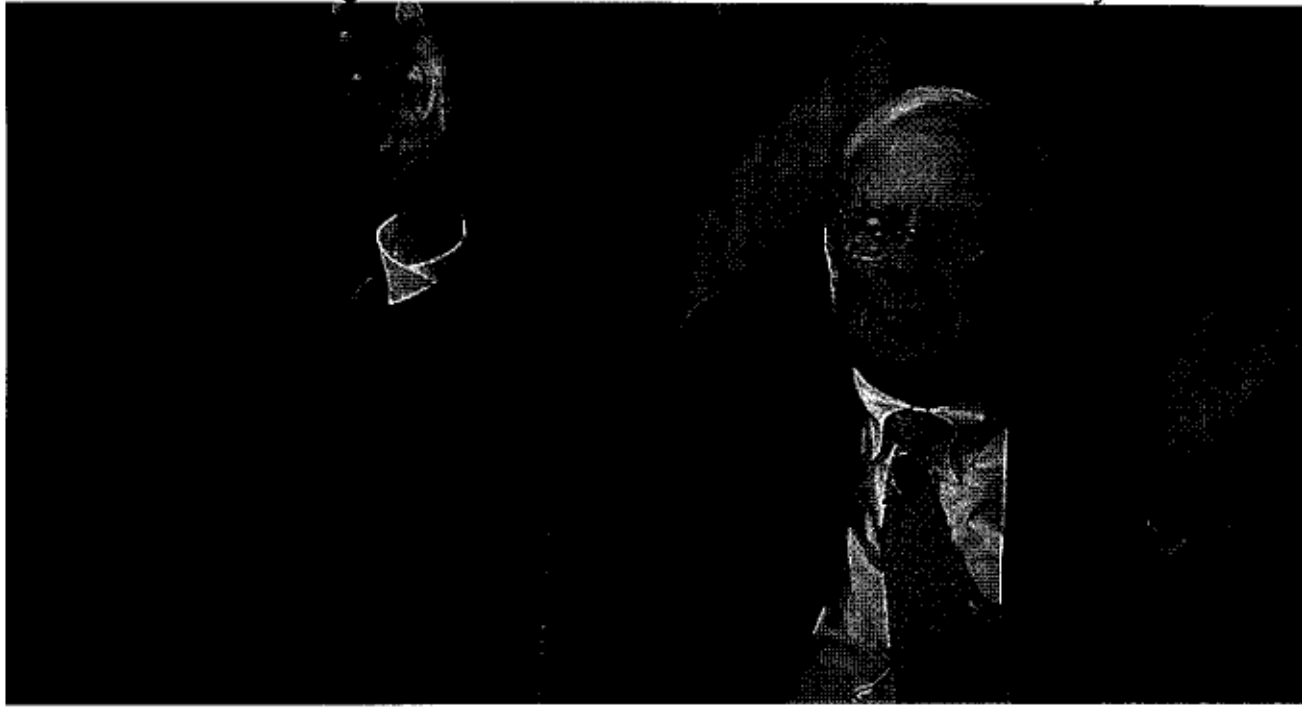
Buffett's full letter won't be released until Saturday, but Fortune magazine published an excerpt of it online on Monday. Fortune writer Carol Loomis, who is a longtime friend of Buffett's, edits his annual letter.

The billionaire uses two personal real estate investments he made to demonstrate some of his key principles: focus on what an investment will produce, not its price; stick to what you know; and don't try to predict what the economy or stock market will do.

"You don't need to be an expert in order to achieve satisfactory investment returns. But if you aren't, you must recognise your limitations and follow a course certain to work reasonably well," Buffett wrote. "Keep things simple and don't swing for the fences. When promised quick profits, respond with a quick 'no.'"

The examples Buffett cited were his 1986 purchase of a 400-acre Nebraska farm and his 1993 purchase of a retail property near New York University's campus. Both purchases were made after prices collapsed.

Buffett said he didn't know much about farming or retail, but he knew enough to determine the farm near Tekamah would remain productive and the retail centre would keep appealing to NYU students. He also said the largest tenant in the New York property had an underpriced lease that would expire nine years after the deal.



Warren Buffett has used personal experience to explain his surprisingly simple rules. Source: Supplied

Buffett said he could tell both investments had little downside even though he's only visited the farm twice and never seen the New York retail property.

Over the years, Buffett hasn't sought out any price quotes on his farm or retail property, and he isn't inclined to sell. And Berkshire Hathaway's chairman and CEO said stock investors shouldn't be eager to sell just because the market offers them price quotes all the time.

Buffett compared the stock market to having a moody farm investor shout out prices of Buffett's farm every day.

"If his daily shout-out was ridiculously low, and I had some spare cash, I would buy his farm," Buffett said. "If the number he yelled was absurdly high, I could either sell to him or just go on farming."

Andy Kilpatrick, who wrote "*Of Permanent Value: The Story of Warren Buffett*," said the essay offers a good summary of the techniques Buffett used to become one of the world's richest men.

"It was a great treatise on value investing," Kilpatrick said.

Buffett said he learned the keys to investing by reading former Columbia University professor Ben Graham's book "The Intelligent Investor." Buffett went on to study under Graham and later work with him.

But for investors who don't have the skills or time to estimate the value of investing, Buffett repeated his standard advice: make regular purchases of a low-cost stock index fund.

"So ignore the chatter, keep your costs minimal, and invest in stocks as you would in a farm," he said.

Buffett leads the Omaha, Nebraska, based Berkshire Hathaway conglomerate that owns more than 80 subsidiaries in a variety of industries, including insurance, utilities, railroads, retail and manufacturing. It also has major investments in such companies as Coca-Cola Co. and Wells Fargo & Co.

Buffett's shareholder letter, which is part of Berkshire's annual report, is always one of the most-quoted and best-read business documents.

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SOURCE: <http://www.news.com.au/finance/money/warren-buffett-reveals-golden-rules-in-annual-letter-to-berkshire-hathaway-shareholders/story-e6frfmdr-1226836794534>