



“You need to have a passionate interest in why things are happening. That cast of mind, kept over long periods, gradually improves your ability to focus on reality. If you don’t have the cast of mind, you’re destined for failure even if you have a high I.Q.”

and its industry, even if they are difficult to identify, measure, or reduce to numbers. His thoroughness, however, does not cause him to forget his overall “ecosystem” theme: Sometimes the maximization or minimization of a single factor (notably specialization, as he likes to point out regarding Costco’s discount warehouses) can make that single factor disproportionately important.

Charlie treats financial reports and their underlying accounting with a Midwestern dose of skepticism. At best, they are merely the beginning of a proper calculation of intrinsic valuation, not the end. The list of additional factors he examines is seemingly endless and includes such things as the current and prospective regulatory climate; state of labor, supplier, and customer relations; potential impact of changes in technology; competitive strengths and vulnerabilities; pricing power; scalability; environmental issues; and, notably, the presence of hidden exposures (Charlie knows that there is no such thing as a riskless investment candidate; he’s searching for those with few risks that are easily understandable). He recasts all financial statement figures to fit his own view of reality, including the actual free or “owners” cash being produced, inventory and other working capital



Warren and Charlie on “Moats”

Buffett: “So we think in terms of that moat and the ability to keep its width and its impossibility of being crossed as the primary criterion of a great business. And we tell our managers we want the moat widened every year. That doesn’t necessarily mean the profit will be more this year than it was last year because it won’t be sometimes. However, if the moat is widened every year, the business will do very well. When we see a moat that’s tenuous in any way—it’s just too risky. We don’t know how to evaluate that. And, therefore, we leave it alone. We think that all of our businesses—or virtually all of our businesses—have pretty darned good moats. And we think the managers are widening them. Charlie?”

Munger: “How could you say it better?”

Buffett: “Sure. Have some peanut brittle on that one.”

—From the 2000 Berkshire Hathaway annual meeting