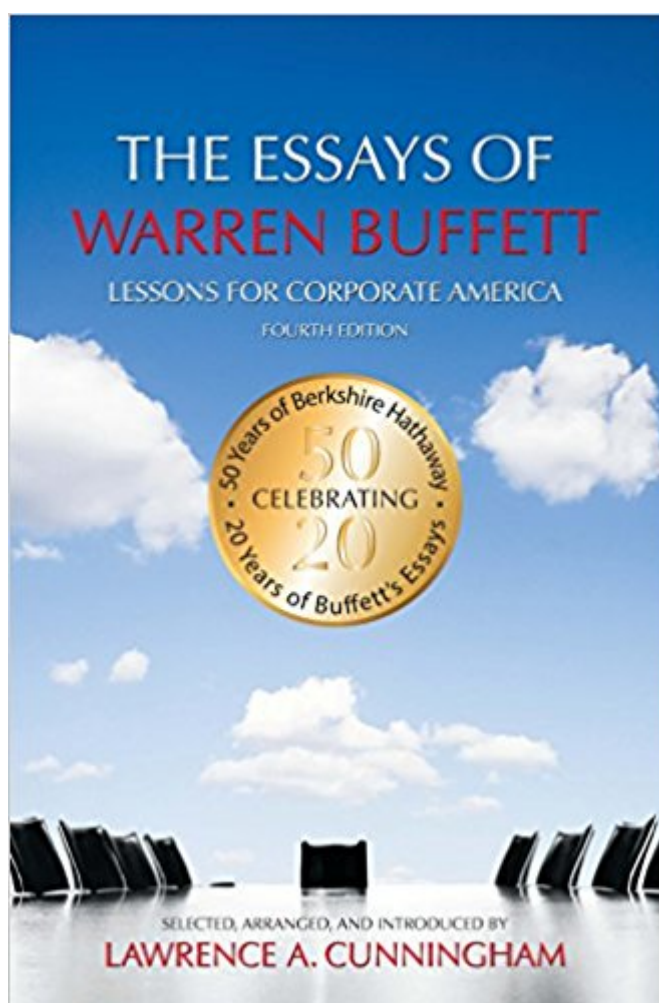


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# The Essays Of Warren Buffett: Lessons For Corporate America, Fourth Edition



## Synopsis

The year 2015 marks the fiftieth anniversary of Berkshire Hathaway under Warren Buffett's leadership, a milestone worth commemorating. The tenure sets a record for chief executive not only in duration but in value creation and philosophizing. The fourth edition of *The Essays of Warren Buffett: Lessons for Corporate America* celebrates its twentieth anniversary. As the book Buffett autographs most, its popularity and longevity attest to the widespread appetite for this unique compilation of Buffett's thoughts that is at once comprehensive, non-repetitive, and digestible. New and experienced readers alike will gain an invaluable informal education by perusing this classic arrangement of Warren's best writings. The fourth edition's new material includes: Warren's 50th anniversary retrospective, in what Bill Gates called Warren's best letter ever, on conglomerates and Berkshire's future without Buffett; Charlie Munger's 50th anniversary essay on "The Berkshire System"; Warren's definitive defense of Berkshire's no-dividend practice; and Warren's best advice on investing, whether in apartments, farms, or businesses.

## Book Information

Paperback: 328 pages

Publisher: The Cunningham Group & Carolina Academic Press; Fourth edition (November 30, 2015)

Language: English

ISBN-10: 1611637589

ISBN-13: 978-1611637588

Product Dimensions: 1 x 6.8 x 10 inches

Shipping Weight: 1.2 pounds (View shipping rates and policies)

Average Customer Review: 4.7 out of 5 stars 256 customer reviews

Best Sellers Rank: #14,084 in Books (See Top 100 in Books) #11 in [Books > Business & Money > Investing > Analysis & Strategy](#) #48 in [Books > Business & Money > Finance > Corporate Finance](#) #733 in [Books > Textbooks > Business & Finance](#)

## Customer Reviews

Buffett, the Bard of Omaha, is a genuine American folk hero, if folk heroes are allowed to build fortunes worth upward of \$15 billion. He's great at homespun metaphor, but behind those catchy phrases is a reservoir of financial acumen that's generally considered the best of his generation. For example, in an essay on CEO stock options, he writes, "Negotiating with one's self seldom produces a barroom brawl." This is his way of saying that an executive who can give himself compensation totally disproportionate to his performance surely will. There are uncountable gems of

financial wisdom to be harvested from these essays, taken from the annual reports he writes for Berkshire Hathaway, his holding company. Just to pick one more, here's a now-famous line about those he competes with when making stock-market investments: "What could be more advantageous in an intellectual contest--whether it be chess, bridge, or stock selection--than to have opponents who have been taught that thinking is a waste of energy?" While Buffett has a policy of seldom commenting on stocks he owns--he feels public pronouncements will only lead to the public's expectation of more public pronouncements, and he likes to keep his cards close to his vest--he loves to discuss the principles behind his investments. These come primarily from Ben Graham, under whom Buffett studied at Columbia University and for whom he worked in the 1950s. First among them is the idea that price is what you pay and value is what you get--and if you're a smart investor, the first will always be less than the second. In that sense, the value of the lessons learned from Buffett's Essays could be far greater than the book's price. --Lou Schuler --This text refers to an alternate Paperback edition.

"The book I autograph most." --Warren Buffett "Takes Warren's brilliant letters to a still-higher level." --Carol Loomis "A very important book." --Bill Ackman

I feel privileged to have read the thoughts and principles of Warren Buffet. Many of the poor reviews of this book said the information was dated. When are honesty and superior intelligence ever dated? Others claimed there wasn't any information about trading, but as Buffet says, comparing trading to investing is like comparing a one night stand with romance. Secondly, no trader in history has ever sustained the returns that Buffet has achieved. Comparing traders (paper shufflers) with Buffet is like comparing sludge with Perrier. These essays should be compulsory reading for company directors, and CEOs who prefer to cook the books rather than produce tangible profits. They would learn something from Buffet and Charlie Munger's integrity, and corporate America would be the better for it. In 100 years time, Warren Buffet will be talked about in the same breath as J P. Morgan, Carnegie and Rockefeller. He is a giant of his time. A wonderful book about a man who values honesty, integrity and humility more than money.

Lawrence A. Cunningham opens this book with an appropriate excerpt from the essays of Michel de Montaigne: "The speech I love is simple, natural speech, the same on paper as in mouth; a speech succulent and sinewy, brief and compressed, not so much dainty and well-combed as vehement and brusque." There is no shortage of books on Warren Buffet. It is an interesting state of affairs:

numerous writers, pundits, and other Warren Buffet "experts" opining on the life and investing decisions of perhaps the greatest investing and capitalist "expert" of all time. Others opining on the life of a genius is often necessary, when it comes to understanding the broader impact that genius has had on society. A masterful investor, scientist, engineer, or whatever is not also necessarily always an effective writer and communicator. Mr. Buffet, however, is a rare breed. Not only has Mr. Buffet, across his lifetime, compiled the most impressive track record capitalism has ever produced— one of growth, achievement, societal awareness and improvement, but he can also write. He writes in a language that is, in the words of Montaigne, "simple...succulent and sinewy, brief and compressed...brusque." Lawrence A. Cunningham through this book expresses an important truth— when a man such as Mr. Buffet writes with the clarity and power that he does, not much benefit is given to the reader by adding words on top of what is already clear and powerful prose. If one is trying to make sense of Mr. Buffet and his philosophies, the best place to start is with Mr. Buffet's own "sinewy" words, which are presented, unadorned except with a short preface, in this book. "Essays" is a bit of a misnomer for the content of this book. In fact, this book is actually a compilation of excerpts from the Annual Letters Mr. Buffet has written to the shareholders of his company, Berkshire Hathaway, over the last thirty plus years. Worth noting, these very letters are available, in their entirety, on the World Wide Web for free. Something, however, is definitely gained through reading Mr. Buffet's words as Mr. Cunningham has arranged them. Mr. Cunningham has arranged this book by subject, rather than time— and the effect is pleasing and effective. The way that Mr. Cunningham chose to arrange Mr. Buffet's letters is into the following categories: Corporate Governance, Corporate Finance and Investing, Alternatives to Common Stock, Common Stock, Mergers and Acquisitions, Accounting and Valuation, and Accounting Policy and Tax Matters. The effect of Cunningham's carefully-chosen delineations is a book that has more the feel of an educational guide, than a story of Mr. Buffet's investing career and his company, Berkshire Hathaway. What emerges out of this educational guide is the philosophy and teachings of a gifted Professor and practitioner. No matter whether Mr. Buffet is waxing poetic on business or outlining his scruples over how corporations account for equity stock options, out of his writing emerges a consistent and eloquent philosophy on the "right" and effective approach to business, investing, capitalism, and life. The "Buffet Way", perhaps impossible to summarize fully in a few short sentences, is stoic and original. The practitioner of this philosophy is one who stands apart from society, ignores any "institutional imperative" that may impede rational decision-making. The "Buffet Way" is a mode of analysis that knows the bounds of its own limitations, and is free of emotion. The Buffet Way demands that every decision require a "margin of safety" or room for error. Most

importantly, Mr. Buffet's view of investing, and particularly of investing in the stock market or in other marketable securities, grasps a simple but important concept that is lost on so many market pundits and practitioners: stocks are not abstractions. Stocks are certificates that represent a share of ownership in an underlying business. Too often people don't look through stocks to the underlying business they represent. This book aptly is subtitled, "Lessons for Corporate America", because Mr. Buffet is after all an evaluator of businesses. Stocks and their prices are only relevant when they become disjointed, in a favorable way, from the underlying realities of the business they represent. To think the "Buffet Way" takes more, though, than knowing the concept's basic precepts. It takes discipline, and a stoic fight against the animal spirits that so often lead investors astray. This book and its precepts are worth reading, and rereading, until hopefully its lessons are engrained in the psyche in a way that they become impossible to ignore.

This is my review of the THIRD EDITION, dated March 18, 2013. If you wish to read my review of the SECOND EDITION, it follows. This is the Third Edition of an ongoing process by which Warren Buffett presents a "chairman's letter" (i.e. progress report with his unique reflections) to Berkshire Hathaway shareholders at their annual meeting. Lawrence A. Cunningham edited each of the three editions, with the latest including Buffett's annual letters to Berkshire shareholders since 2008, the date of the prior edition. Other new material includes:

- o The financial crisis and its continuing implications for investors, managers and society;
- o The housing bubble at the bottom of that crisis
- o The debt and derivatives excesses that fueled the crisis and how to deal with them
- o Controlling risk and protecting reputation in corporate governance
- o Berkshire's acquisition and operation of Burlington Northern Santa Fe
- o The role of oversight in heavily regulated industries
- o Investment possibilities today
- o Weaknesses of popular option valuation models

Some other material has been rearranged to deepen the themes and lessons that the collection has always produced:

- o Buffett's "owner-related business principles" are in the prologue as a separate subject
- o Valuation and accounting topics are spread over four instead of two sections and reordered to sharpen their payoff.

According to Cunningham, "Those who are familiar with The Essays will notice that we have made the cover snappier than has been our custom. (Thanks for the cover design to Tim Colton, of Carolina Academic Press, which will continue to partner with me in the distribution of the book.) The main reason: the book's traditional covers could be seen well in physical form but pictures of them, shown on the internet, could not. Since most sales are done over the Internet these days, the cover needed a face-lift." The adage remains, however, that one should not judge a book by its cover. This book should continue to be judged on its content and organization, in which a distinctive investment

and business philosophy is coherently articulated. Thanks to the many fans of the book, first published in 1997. I hope you enjoy the updated edition. And I hope to see many of you in Omaha for the Berkshire shareholders' meeting in May."With regard to the Third Edition's subtitle, "Lessons for Corporate America," my own opinion is that almost all of the lessons can be of substantial value to leaders in any organization, whatever its size and nature may be. Among Buffett's most important and yet least appreciated talents is his ability to establish a direct and personal rapport with each person he meets or who reads any of his letters as well as any of his articles such as those included in Carol Loomis' superb book, *Tap Dancing to Work: Warren Buffett on Practically Everything, 1966-2012*. I watched three segments of Buffett and Loomis' appearances on *The Charlie Rose Show* and their informal but gracious manner made me feel as if I had been a personal friend of theirs for many years. (I wish I had purchased Berkshire stock 50 years ago!) Credit Cunningham with brilliant editing as well as his own contributions to what continues to be a "moveable feast" of information, insights, wisdom, and wit. Once again, his Introduction (all by itself) is worth much more than the cost of the book as he again discusses with rigor and eloquence what he considers to be key points about Buffett and his leadership of Berkshire Hathaway in recent years.\* \* \*Review of Second Edition:Over the years, I have read several of the essays that Warren Buffett included in Berkshire Hathaway's annual reports. After reading two biographies of him (Alice Schroeder's *The Snowball: Warren Buffett and the Business of Life* and Roger Lowenstein's *Buffett: The Making of an American Capitalist*), I purchased a copy of this volume and began to work my way through the contents selected, arranged, and introduced by Lawrence A. Cunningham. I began with Cunningham's Introduction (all by itself, worth much more than the cost of the book) in which he reviews what he considers to be key points about Buffett and his leadership of Berkshire Hathaway. For example, "The CEOs of Berkshire's various operating companies enjoy a unique position in corporate America. They are given a simple set of commands: to run their business as if (1) they are its sole owner, (2) it is the only asset they hold, and (3) they can never sell or merge it for a hundred years." With regard to investment thinking, "one must guard against what Buffett calls the 'institutional imperative.' It is a pervasive force in which institutional dynamics produce resistance to change, absorption of available corporate funds, and reflexive approval of suboptimal CEO strategies by subordinates. Contrary to what is often taught in business and law schools, this powerful force often interferes with rational business decision-making. The ultimate result of the institutional imperative is a follow-the-pack mentality producing industry imitators, rather than industry leaders - what Buffett calls a lemming-like approach to business."Cunningham organizes the essays within seven sections between Buffett's Prologue (Pages 27-28) and his Epilogue

(Pages 273-282): I Corporate Governance II Corporate Finance and Investing III Alternatives to Common Stock IV Common Stock V Mergers and Acquisitions VI Accounting and Valuation VII Accounting Policy and Tax Matters

As Buffett explains in his Prologue, members of Berkshire Hathaway's shareholder group receive communications directly "from the fellow you are paying to run the business. Your Chairman has a firm belief that owners are entitled to hear directly from the CEO as to what is going on and how he evaluates the business, currently and prospectively. You should demand that in a private company; you should expect no less in a public company. A once-a-year report of stewardship should not be turned over to a staff specialist or public relations consultant who is unlikely to be in a position to talk frankly on a manager-to-owner basis." Those who share my own keen interest in Warren Buffett's leadership and management principles will learn a great deal from a careful reading of these essays. They are quite literally "from the horse's mouth." The substantial value-added benefits include the fact that Buffett thinks and writes so clearly, duly acknowledges bad decisions and personal regrets (yes, there were several), explains what he learned from them, and meanwhile reveals a playful (albeit dry) sense of humor. He also includes a number of personal observations about America, especially about its culture and economy, at various times throughout the last 25-30 years. The two aforementioned biographies indicate that throughout his life, Buffett thoroughly enjoyed each and every opportunity to increase others' understanding of sound business principles that include but are by no means limited to investments. Readers who are not among Berkshire Hathaway's shareholders will especially appreciate the fact that, in each of these essays, Buffett establishes and then sustains a direct and personal rapport. The tone is conversational and, better yet, inclusive. He never talks down to his reader. He never "dumbs down" the material. Inevitably and appropriately, he cites Berkshire Hathaway situations when illustrating certain key points but, really, most of the material in this book will have wide and deep general interest to executives as well as to shareholders who otherwise have no association with either Buffett or his company. I highly recommend this book without hesitation or qualification.

Love the Warren Buffet philosophy of investing. As a shareholder of Berkshire-Hathaway I love the company. Better than buying a mutual fund with predictable and great returns. Hearing about his common-sense views of capital allocation and valuation is very useful as is the evaluation of egos in the C Suite (mostly the CEO). Shows what can happen if you spend less than you make on a consistent basis.

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