THE STAN CLARK FINANCIAL TEAM'S

PERSPECTIVES

Investing

COPYCATTING BUFFETT – OR MAYBE JUST LEARNING FROM HIM

By Michael Chu, Senior Wealth Advisor

Warren Buffett is one of the world's greatest investors – also one of the richest. And Buffett makes no secret of his process, which is long-term, value investing.

Buffett's investment process involves looking for companies with excellent long-term prospects, but priced at a discount to their *intrinsic value*. That's sensible and sounds easy enough. Yet figuring out the intrinsic value – what a company is really worth – is tricky. Intrinsic value is very important, but it's also highly subjective.

If Buffett is so good, why don't others, including us, invest using a subjective process?

That's a good question. A lot of people say they can copy Warren Buffett. But can they, really?

This reminds me of golf. When playing, I sometimes find water between me and the green. Should I go for it, and try to hit the ball over the pond? Or perhaps do something more reliable, like take a couple of chip shots around the water? Sometimes I think I will be lucky and make it over the water. But most of the time, I'm better off taking the conservative approach.

So, I make the more conservative shot. A friend remarks, "Hey, Tiger Woods would have gone over the water. Why didn't you?" It's quite obvious why I would seldom try to play the same shots as Tiger Woods. *Because I can't!* I recognize that Tiger has skills I simply don't.

I'd argue that, like Tiger Woods, Warren Buffett has unique skills that make him special. Buffett has extraordinary analytical skills and independent thinking that allow him to go against the crowd. He has an unusual ability to recognize long-term trends, along with good business management skills and uncommon common sense. Many investors might *think* they have these same skills. Few truly do. So, if you don't have Warren Buffett's skills, then take care in trying to invest like him!

Also, Buffett rarely sells his companies. Perhaps this is yet another skill of Buffett's, as it is very hard to predict which companies will be able to have long-term, above-average growth.

Buffett has a further advantage: tremendous influence. Because he is such a good strategist, he can help "create" growth in his companies. If you don't have these special abilities, the only way to get better growth is to sell sub-par companies, then move on to better ones. You could also argue that Buffett tends to hold on to companies because it's very hard for him to sell, given his business size and iconic status. When Buffett was less well-known, and managed less money, he did trade more often.

Don't take this the wrong way. I'm not trying to shoot down Warren Buffett! Far from it. I think Buffett is amazing. I regard him highly. His approach works great – but maybe just for him. A lot of his approach requires unusual skills that most people just don't have.

At one of Buffett's famed shareholder meetings, a question came up. Why doesn't he have more copycats? Buffett's response: His process is simply "too hard and slow."

The good news is that our approach at the Stan Clark Financial Team follows some of Buffett's most important lessons. But our approach is also within reach of most people. In our *Stock Strategies* guide, we include the following quote from Warren Buffett: "To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights, or inside information. What's needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework." We believe this describes our own approach pretty well.

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