

# Inflation



## Buffett on Inflation and Words to Help You Invest

*Inflation swindles everybody and when the world changes you must change*

We've all heard about Warren Buffett, the 92-year-old multibillionaire known for his friendly demeanor, modest style of living in Omaha, and remarkable ability to create wealth. How does he make so much money? How does Warren and his long-time associate, Charlie Munger (who is 99), choose their investments?

### Buffett and Berkshire Hathaway

Warren Buffett is chairman of Berkshire Hathaway, a multinational conglomerate holding company. What does this mean? Well, in simple terms, the company invests in or owns a variety of other corporations that make products sold all over the world. For perspective, Berkshire Hathaway is so large that it files a 30,000+ page Federal income tax return.

In the 1950s, Berkshire, which made linings for men's suits, and Hathaway, a cotton milling company, merged. Buffett began investing in Berkshire Hathaway in 1962, becoming its Chairman and CEO in 1970. Munger is Vice Chairman. The company abandoned the textile business in 1985.

In the early 1990s, Buffett began to focus on actually owning companies, and today Berkshire owns quite a few. In fact, Berkshire has 100% ownership in over 60 major companies, the majority share of several other major publicly-traded companies and minority holdings in dozens more.

### Buffett on Inflation

Buffett thinks that the very best defense against inflation is to be great at what you do, producing a great product/service that is in demand and offering a

product/service that people will pay for. Specifically, he said:

"The best protection against inflation is your own personal earning power...No one can take your talent away from you," Buffett said. "If you do something valuable and good for society, it doesn't matter what the U.S. dollar does."

When asked to predict inflation, Buffett said that predicting future inflation is a fool's game, and that no matter what someone might suggest, the truth is that no one can really know how much inflation there will be over the next 10 years, or 12 months, or even four weeks.

"Inflation swindles almost everybody," Buffett said, whether they are a stock investor, a bond investor, or a "cash-under-the-mattress person."

### Buffett is a Value Investor

Probably the most successful investor in history, Buffett is known as the "Oracle of Omaha" for his ability to predict an investment success through evaluating whether to buy or invest in a company.

So what's his strategy? In a nutshell, Buffett is a value investor. A bargain hunter, he searches for stocks that are valuable but not recognized as being valuable by most other buyers. Thus, he can buy a company when its stock prices are unreasonably low.

However, Buffett isn't especially interested in how the market treats his new stock. He chooses stocks based on the overall potential of the company to

generate earnings. He buys and holds stocks and companies for the long term. His primary concern is how well the company can make money for its shareholders. If the company does well, of course, its share value will also increase.

### Wise Words from Omaha

Buffett outlined a few of his recent thoughts from his Annual Shareholder Letter in February 2023:

- The world is full of foolish gamblers, and they will not do as well as the patient investor.
- If you don't see the world the way it is, it's like judging something through a distorted lens.
- If you don't care whether you are rational or not, you won't work on it. Then you will stay irrational and get lousy results.
- Patience can be learned. Having a long attention span and the ability to concentrate on one thing for a long time is a huge advantage.
- Don't bail away in a sinking boat if you can swim to one that is seaworthy.
- A great company keeps working after you are not; a mediocre company won't do that.
- If you keep making something more valuable, then some wise person is going to notice it and start buying.
- There is no such thing as a 100% sure thing when investing. Thus, the use of leverage is dangerous. A string of wonderful numbers times zero will always equal zero. Don't count on getting rich twice.
- You don't, however, need to own a lot of things in order to get rich.
- You have to keep learning if you want to become a great investor. When the world changes, *you* must change.

Can Buffett's strategy of long-term, value investing work for you?

### The Oracle's Strategy

Buffett's strategy requires patience, a long-term focus, and buying low (the value investing approach). The first thing to know about long-term, value investing: It's very difficult to determine whether a company is undervalued by the market, with greater intrinsic worth than most investors see. To make good decisions, you have to be able to analyze a massive amount of financial data, the market for a company's product, its management, and the future.

Recognizing this difficulty, Buffett advises other investors not to consider themselves "know-it-alls". He has said, "There is nothing wrong with a 'know nothing' investor who realizes it. The problem is when you are a 'know nothing' investor but you think you know something."

As Buffett said about wise planning for the future, "Someone's sitting in the shade today because someone planted a tree long ago."