WARREN BUFFETT: A PRACTICAL UNDERSTANDING OF FINANCIAL LITERACY EXTENDED TO MANAGING INVESTMENTS

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ABSTRACT 2020 has been a time of unprecedented change. Financial markets and consumer confidence have collapsed. The unemployment rate has reached double digits; the United States appears headed into a recession. Financial planning is in more demand as individuals and financial markets react to the COVID-19 pandemic.

The increased demand highlights financial literacy concerns around managing investments. Since investment financial decision making can be a complex web with multiple factors, industry practitioners take various approaches to it. Often, people involved in the market make irrational decisions that violate sound judgment and basic economic investment principles. Therefore, financial advisors need to become leaders in adopting new research into practice that can advance financial literacy knowledge.

Warren Buffett offers unconventional success to the fundamental approach to managing investments. Despite his success and large following in the investment world, Buffett's approaches have not been passed to Americans. In this article, we use a thematic qualitative study to analyze Buffett's approaches to managing investments by examining 11 years of his comments via the Warren Buffett Archive. Our analysis yields eight critical findings that are well-suited for industry, practitioners, and investors to make better, more informed investing decisions; two findings are uncommon approaches to managing investments.

Keywords: Warren Buffett, financial literacy, thematic analysis, qualitative data analysis, Warren Buffett archive

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INTRODUCTION

The problem of financial literacy concerns surrounding managing investments is a long-time pragmatic issue. Since investment-based financial decision making can be a complex web with multiple factors to consider, industry practitioners take many different approaches to investing. Too often, people involved in the market make irrational decisions that violate sound judgment and basic economic investment principles. In fact, evidence has shown that individuals lack the basic financial framework and literacy to make informed decisions on investments as Frydman and Camerer note, "because of cognitive constraints and a low average level of financial literacy, many household decisions violate sound financial principles" (2016, p. 3). For example, most retail investors buy high and sell low while institutional investors buy low and sell high. However, an example of practicing sound investments principles over time can be found in Warren Buffett.

Successful billionaire investor Warren Buffett offers unconventional success to the fundamental approach to managing investments. This article places Buffett in the center of a conversation about financial literacy, specifically in regard to planning for a successful retirement and making wise decisions, which require financial literacy. The aim of this research is to learn how Buffett approaches financial concepts, like compound interest as well as how he thinks about markets and investments.

In reviewing the academic literature on financial literacy, we determined that Buffett's perspective could be a lighthouse in the fog of misinformation or lack of information about the way to approach investing. Haslem (2014) states, "Financial literacy has become a major area of research in recent years, both in the investment and retirement literature with respect to the increasing complexity of financial products and more frequent need to save for retirement.

Studies find individuals are generally financially uninformed and lacking in basic financial principles" (p. 46). In addition, Remund (2010) describes the broad concept of financial literacy: "Scholars, policy officials, financial experts and consumer advocates have used the phrase [financial literacy] loosely to describe the knowledge, skills, confidence and motivation necessary to effectively manage money" (p. 276).

Little and Rhodes (1991) characterize the financial literacy problem in America: "Over the years, the public has been encouraged to own a share of America. Yet, how many individuals have been prepared to invest wisely? The stock market is rarely taught in high school, and even on the college level, investment courses are typically selected only by students with specialized business interests. Moreover, investors have found it difficult to educate themselves, even with the flood of literature available to date. Free pamphlets and superficial guides have not provided substance, encyclopedic texts have been too intimidating, and the get-rich-quick books have deluded investors with false hopes" (p. 1).

In this article, we focus on one component of financial literacy: managing investments. Lowenstein (1995) identifies Buffett's stature in the investment world: "Warren Buffett stands alone. Starting from scratch, simply by picking stocks and companies for investment, Buffett amassed one of the epochal fortunes of the twentieth century" (p. xiii). Since Buffett is an expert in markets and investments, we focus on this field of study. By reading and classifying Buffett's comments shared at his annual shareholder meetings, we examine the work of making personal money grow to create wealth.

Buffett provides an understanding of markets, finance concepts and investments that can improve financial literacy. Based on our qualitative research of the Warren Buffett Archive, we have found Buffett's statements to add value to the financial literacy conversation with different stakeholders. Buffett explains finance concepts in a way that helps individuals better understand the subject area. Our research supports the need to insert Buffett's comments into the literature stream to help individuals and academics understand financial concepts.

First, we define **financial literacy**. Second, we use a conceptual, not an operational, definition of financial literacy because our research focuses on qualitative analysis of comments made by Buffett. In defining the concept of financial literacy, Remund (2010) states, "By the most basic definition, financial literacy relates to a person's competency for managing money" (p. 279). In addition, Haslem (2014) supports Remund's definition: "Remund [2010] provides a useful definition of financial literacy: A measure of the degree to which one understands key financial concepts and possess the ability and confidence to manage personal finances through appropriate short-term decision-making and sound, long-range financial planning, while mindful of life events and changing economic conditions" (p. 47). The reader should note that this definition includes two components: 1) the correct understanding of key financial concepts and 2) the ability and confidence to act. Buffett possesses both characteristics, which is the reason he was identified as the best example for this research.

METHODOLOGY

This section contains discussions of this study's methodology. The research was approached using an **interpretive** framework starting with textual data and analyzing the phenomenon of interest, Warren Buffett, from observed transcripts and videos of Berkshire Hathaway annual meetings.

From an epistemology standpoint, we employed the qualitative analytic method of **thematic analysis**. In their seminal research (Braun and Clarke 2006, p.78.) state, "qualitative approaches are incredibly diverse, complex and nuanced (Holloway and Todres, 2003), and thematic analysis should be seen as a foundational method for qualitative analysis." Braun and Clarke (2006, p.79) further state, " thematic analysis does not appear to exist as a 'named' analysis in the same way that other methods do (eg, narrative analysis, grounded theory), In this sense, it is often not explicitly claimed as the method of analysis, when, in actuality, we argue that a lot of analysis is essentially thematic." Furthermore, Silver and Lewins (2014, p. 30) describe Braun and Clarke (2006) thematic analytic method stating, "a six-phase guide, involving (I) familiarizing yourself with data; (II) generating initial codes; (III) searching for themes; (IV) reviewing themes; (V) defining and naming themes; and (VI) producing the report."

Specifically, we operationalized **Qualitative Data Analysis** using NVivo software. For this study, the scope of data collected is 11 transcript documents gathered from the *Warren Buffett Archive*. The unit of analysis is at the individual level, which is Buffett's comments. According to Jackson and Bazeley (2019), "Most researchers engaged in qualitative data analysis have heard of Qualitative Data Analysis Software (QDAS) or Computer Assisted Qualitative Data Analysis (CAQDAS) and know that NVivo is one of the options for storing, managing, and analyzing qualitative data" (p. 3). Given the extensive collection of transcripts in the Warren Buffett Archive, using a QDA approach was appropriate to gain different insights into Buffett's comments. Furthermore, given the textual nature of the archive data, a coding approach using NVivo software was selected.

The key concepts and themes in the transcripts were defined by coding each section of the annual transcripts using a word or short phrase made by Buffett during the six-hour question and answer period during each Berkshire Hathaway annual meeting. Saldana (2016) states , "In qualitative data analysis, a code is a researcher-generated construct that symbolizes or translates data and thus attributes interpreted meaning to each individual datum for later purposes of pattern detection, categorization, assertion or proposition development, theory building, and other analytic processes" (p. 4).

All the data was pulled from public information available on the *Warren Buffett Archive* website, which is located at: buffett.cnbc.com. The public website contains 26 full Berkshire Hathaway annual meeting videos and full transcripts dating back to 1994, 130 hours of searchable video and 2,800 pages of transcripts. A random number generator was used to randomize the first year, which was selected as 1999. Then, an interval of every two years was selected, which resulted in the years 1999, 2001, 2003, 2005, 2007, 2009, 2011, 2013, 2015, 2017, and 2019. Each year had six hours of transcript and video data, which totals approximately 66 hours of remarks during the Berkshire Hathaway annual meetings in Omaha, Nebraska.

The study involved identifying themes to answer the research question. The data was imported into NVivo software and analyzed by creating codes and identifying themes to answer the research question: **What major themes can be extracted from the Warren Buffett Archive?**

FINDINGS

The importance of managing money and making wise decisions with investments is critical to financial literacy. Consider how you would react to a huge market correction due to a pandemic: Would you be fearful and sell all your investments, or would you be measured and look for buying opportunities as prices declined to more attractive values? Remund (2010) states, "If American consumers learned anything from the financial crisis that began in 2008, it was the importance of managing money" (p. 276). At the time of the writing of this article, the market sharply declined due to the Coronavirus epidemic. The Dow Jones Industrial Average fell from 29,000 to below 20,000 in two weeks, completely shocking consumers. However, not Buffett.

Berkshire Hathaway had been stock piling cash to reinvest in solid businesses at the appropriate time. As of December 2019, Berkshire had a $125 billion cash balance.

Financial literacy has several components. Anderson, Baker and Robinson (2017) explain, “Most research in financial literacy has focused on a small set of questions that are meant to capture peoples’ overall financial knowledge, and cover topics such as **compounding, inflation, interest, diversification, and bond pricing**” (p. 385). A large body of quantitative work measures and correlates financial literacy to different demographic factors. This article does not address this correlation; instead, it provides a unique contribution to the literature by inserting Buffett’s comments into financial concepts, including those mentioned by Anderson, Banker and Robinson.

Based on the analysis of 11 years of transcripts, we found eight critical findings focused on the concepts of financial literacy. **The eight critical findings are**:

1. Hold cash rather than having money sit in the market
2. Compound Interest
3. Inflation
4. Stock Market Capitalization to GDP Ratio
5. Stocks are Businesses
6. Self-discipline
7. Emotional Stability
8. Electronic Herd

These eight findings that resulted from the thematic analysis are described in detail in the pages below. Of these eight additions, at least the first and fourth findings are not common approaches to better understanding how to manage investments from a financial literacy standpoint. The supporting quotes for each finding from the Warren Buffett archive provide strong evidence that the eight findings are fundamental to Buffett’s success.

Critical Finding #1

The first critical finding addresses the unusual and strange things that happen in the market and holding cash rather than having money sit in the market.

In a 2003 shareholder meeting, Buffett stated, “In terms of how we’re positioned, you know, we have 16 billion of cash, not because we want 16 billion of cash, or because we expect interest rates to go up, or because we expect equities to go down. We have 16 billion in cash because we don’t see anything that makes us want to part with that cash where we feel we’re getting enough for our money. But we would spend — we spent a Monday morning on the right sort of business, or even if we could find equities that we liked, or if we could find — like last year we found some junk bonds we liked. We’re not finding them this year at all, because prices have changed dramatically. We’re not ever positioning ourselves. We’re simply trying to do the smartest thing we can every day when we come to the office. And if there’s nothing smart to do, cash is the default option.”

Several of Buffett’s comments made during the annual Berkshire Hathaway meetings attest to his approach of building and holding cash until the right opportunities surface in the market (see Table 1).

TABLE 1

Selected Findings-Hold Cash Because Unusual and Strange Things Happen in Markets

Finding	**Sources**
In terms of future opportunities, the issue is, it's at all likely that there'll be an opportunity like 1973-4, or 1982, even, when equities generally are just mouthwatering.	Charlie Munger, 2003 Annual Meeting Transcript
Charlie and I have benefited enormously by the fact that over a 50-year period, there have been a few periods, probably the most extraordinary being 1973 and '74, where you could buy stocks unbelievably cheap, cheaper than happened in 2008 and 2009.	Warren Buffett, 2015 Annual Meeting Transcript
And, you know, it doesn't make sense to have that much volatility in the market, but humans behave the way humans behave, and they're going to continue to behave that way in the next 50 years.	Warren Buffett, 2015 Annual Meeting Transcript

Critical Finding #2

Another critical finding in the review of Buffett's comments focuses on perhaps the most important basic concept in personal finance: compound interest. Keown (2019, p.22) describes compound interest as, "interest paid on interest. This occurs when interest paid on an investment is reinvested and added to the principal, thus allowing you to earn interest on the interest, as well as on the principal."

During a 1999 shareholder meeting, Buffett explained compound interest in a simple to understand analogy describing a snowball. He stated, "Charlie's always said that the big thing about it is we started building this little **snowball** on top of a very long hill. We started at a very early age in rolling the snowball down. And, of course, the snowball — the nature of compound interest is it behaves like a snowball of sticky snow. And the trick is to have a very long hill, which means either starting very young or living very — to be very old. The — you know, I would do it exactly the same way if I were doing it in the investment world. I mean, if I were getting out of school today and I had $10,000 to invest, I'd start with the As. I would start going right through companies. And I probably would focus on smaller companies, because that would be working with smaller sums and there's more chance that something is overlooked in that arena. And, as Charlie has said earlier, it won't be like doing that in 1951 when you could leaf through and find all kinds of things that just leapt off the page at you. But that's the only way to do it. I mean, **you have to buy businesses and you — or little pieces of businesses called stocks — and you have to buy them at attractive prices, and you have to buy into good businesses.** And that advice will be the same a hundred years from now, in terms of investing. That's what it's all about. And you can't expect anybody else to do it for you. I mean, people will not tell — they will not tell you about wonderful little investments. There's — it's not the way the investment business is set up. When I first visited GEICO in January of 1951, I went back to Columbia. And I — that rest of that year, I subsequently went down to Blythe and Company and, actually, to one other firm that was a leading — Geyer & Co. — that was a leading analyst in insurance. And, you know, I thought I'd discovered this wonderful thing and I'd see what these great investment houses that specialized in insurance stocks said. And they said I didn't know what I was talking about. You know, they — it wasn't of any interest to them. You've got to follow your own — you know, you've got to learn what you know and what you don't know. Within the arena of what you know, you have to just — you have to pursue it very vigorously and **act on it when you find it.** And you can't look around for people to agree with you. You can't look around for people to even know what you're talking about. You know, you have to think for yourself. And if you do, you'll find things."

Buffett's snowball analogy is unforgettable and should be used in the financial literacy literature to explain the basic concept of compound interest (see Table 2).

TABLE 2

Selected Findings-Compound Interest

Finding	**Sources**
The snowball — the nature of compound interest is it behaves like a snowball of sticky snow.	Warren Buffett, 1999 Annual Meeting Transcript

Critical Finding #3

The next major critical finding identified in the analysis of the Warren Buffett Archive are Buffett's views on inflation, which was another element of the Anderson, Baker and Robinson article in the *Journal of Financial Economics*. Inflation is an important concept to understand because it erodes buying power over time. Keown (2019) states that inflation is "an economic condition in which rising prices reduce the purchasing power of money" (p. 9). Again, basic financial concepts are critical to improving financial literacy.

To better understand inflation, consider the fact that the cost of a McDonald's hamburger will be more in the future than it is today. Likewise, the value of your dollar today will be worth less in the future due to inflation. In a 2003 annual shareholder meeting, Buffett (2003) stated, "If you get into high inflation, as I wrote about back in '77, you could easily have the real return, to investors, get to a very, very low number, and perhaps negative. **I mean, inflation can swindle the equity investor**." Buffett (2003) further explained, "There's no question that the lack of inflation is a plus for owners. I mean, the real return you will obtain, in my view, from owning American business — if purchased at similar prices — the real return will be higher if we have long periods of lower or close to no inflation, than if we had long periods of high inflation. I don't think there's any question about that." In our analysis of the Warren Buffett

Archive, Buffett addresses inflation repeatedly at his annual Berkshire Hathaway meetings (see Table 3).

TABLE 3

Selected Findings- Inflation

Finding	**Sources**
Inflation is the one thing that, over a long period of time, can turn investors' results, in aggregate, into a negative figure. And it's the investors' enemy.	Warren Buffett, 2003 Annual Meeting Transcript
A low inflation period over any long period is better for investors.	Warren Buffett, 2003 Annual Meeting Transcript
Your own earning power is your best — is the best hedge against inflation. The second-best hedge is to own a wonderful business.	Warren Buffett, 2007 Annual Meeting Transcript

During one meeting, Buffett (2007) acknowledged that "the best protection for inflation is your own earning power. I mean, somebody that is a first-class surgeon, or lawyer, or teacher, or salesperson, or anything else, whether the currency is seashells, or paper money, or whatever, will do all right in terms of commanding the resources of other people. The second-best hedge is to own a wonderful business. And the truth is, if you own Coca-Cola, if you own Snickers bars, if you own Hershey bars, if you own anything that people are going to want to give a portion of their current income to keep getting, and it has relatively low capital investment attached to it so that you don't have to keep plowing tremendous amounts of money in just to meet inflationary demands, that's the best investment you can probably have in an inflationary world. But inflation is bad news for investors under almost any circumstances. You can argue that if you own some business that required very little capital investment and had real flexibility of price during an inflationary period so that people would continue to give up a half an hour of work — of their own work — every month to buy your product, and you leveraged it, then you might even beat inflation to some extent."

The main conclusion to add to the financial literacy literature stream about inflation, based on our analysis of Buffett's comments, is that individual investors need to have the knowledge that owning stocks of a solid business can be a way to protect themselves from inflation risk.

This knowledge gap can be filled by reading, studying and teaching Buffett's investment principles, which he shares at the Berkshire Hathaway meeting. At the 2007 annual meeting, a 17-year old boy asked Buffett what he thought was the best way to become a better investor. Buffett (2007) answered, "I think you should read everything you can. I can tell you in my own case, I think by the time I was — well, I know by the time I was ten — I'd read every book in the Omaha Public Library that had anything to do with investing, and many of them I'd read twice. I don't think there's anything like reading, and not just as limited to investing at all. But you've just got to fill up your mind with various competing thoughts and sort them out as to what really makes sense over time. And then once you've done a lot of that, I think you have to jump in the water, because investing on paper and doing — you know, and investing with real money, you know, is like the difference between reading a romance novel and doing something else. There is nothing like actually having a little experience in investing."

At the same time, our analysis indicates that Buffett is extremely humble about the knowledge and success he has amassed, which is evidenced by a response at one of the Berkshire Hathaway meetings.

When asked, during the 2015 meeting, about his most memorable failure and how he dealt with it, Buffett (2015) replied, "Well, we've discussed Dexter many times in the annual report, where I — back in the mid-1990s — I looked at a shoe business in Dexter, Maine, and decided to pay 400-or-so million dollars for something that was destined to go to zero in a few years, and I didn't figure that out. And then on top of that, I gave the purchase price in stock, and I guess that stock would be worth, I don't know, maybe 6 or 7 billion now. It makes me feel better when the stock goes down because the stupidity gets reduced. Nobody misled me on that, in any way. I just looked at it and came up with the wrong answer. But I would say almost any time we've issued shares it's been a mistake."

Bond pricing, which is tied to future inflation expectations, is a basic concept for financial literacy. Most retirees have bonds in their portfolios because bonds are safe and stable. However, it is critical to have a clear understanding of bond pricing since it is fundamental to the valuation structure on stocks. Bond pricing was referenced in the financial literacy questions used by Anderson, Baker and Robinson. Their (2017) article asked," If interest rates fall, what should happen to bond prices?" (p. 386). Any finance textbook would give the answer of "rise" as correct.

Our analysis of the Warren Buffett Archive gives insight into Buffett's perspectives on bond pricing, which provides an understanding of bonds in relation to stocks. In a 2015 meeting, Buffett explained, "Profits are worth a whole lot more if the government bond yield is 1 percent, than they're worth if the government bond yield is 5 percent. It gets back — and, you know, Charlie in that movie talked about **alternatives and opportunity cost**. And for many people, the opportunity cost is owning a lot of bonds, which pay practically nothing, or owning stocks, which are selling at fairly high prices historically, but they weren't selling at those historic prices with interest rates like this. I would not — I look at those numbers, but I also look at them in the context of the fact that we're living in a world that has incredibly low interest rates, and the question is how long those are going to prevail. Is it going to be something like Japan that goes on decade after decade, or will we be back to what we thought was normal interest rates? If we get back to what are normal interest rates, stocks at these prices will look pretty high. If we continue with these kinds of interest rates, stocks will look very cheap."

Critical Finding #4

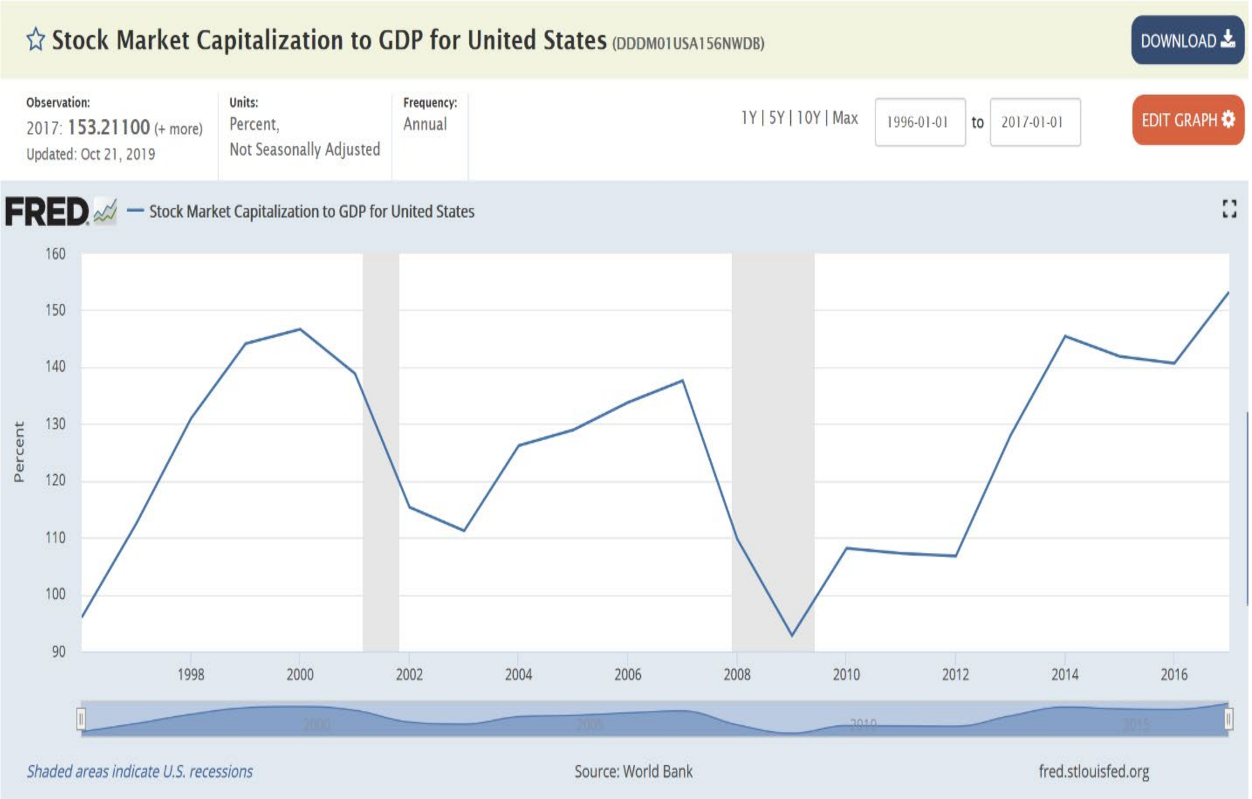
The fourth critical finding from our qualitative research on Buffett, addresses a macroeconomic statistic he uses to monitor the market. In 2015, Buffett stated that the percentage of total market cap relative to the U.S. Gross Domestic Product is probably the best single measure of where valuations stand at any given moment.

In essence, Warren Buffett believes Stock Market Capitalization to GDP is the single best measure of the general level of the stock market. In Figure 1, you can see this indicator is at 150 percent as of October 2019, which is an all-time high. It is important to include this framework into the financial literacy literature stream because individuals can use this simple statistic to make more informed decisions.

Furthermore, another measure Buffett uses to measure the general level of the stock market is corporate profits as a percent of GDP. In his 2007 annual shareholder meeting, Buffett stated, "Corporate profits in the United States are — except for just a very few years — are record, in terms of GDP. I've been amazed that after being in a range between 4 and 6 percent of GDP, they have jumped upward. You would not think this would be sustainable over time. But corporate profits, when they get up to 8 percent plus of GDP, you know, that is very high."

FIGURE 1

Stock Market Capitalization to GDP for the US from the St. Louis Federal Reserve



☆ Stock Market Capitalization to GDP for United States (DDDM01USA156NWDB)

Observation: 2017: 153.21100 (+ more)
Updated: Oct 21, 2019

Units: Percent, Not Seasonally Adjusted

Frequency: Annual

1996-01-01 to 2017-01-01

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EDIT GRAPH
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— Stock Market Capitalization to GDP for United States
Percent
160
150
140
130
120
110
100
90
1998
2000
2002
2004
2006
2008
2010
2012
2014
2016
2000
2005
2010
2015

Shaded areas indicate U.S. recessions

Source: World Bank

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This measure is extremely useful information that would allow ordinary investors to make informed investment decisions. Consumers would fare better if they checked the general level of the stock market prior to investing their 401K and IRA funds. Our analysis of Buffett's comments shows that during his Berkshire Hathaway annual meetings, Buffett discusses his approach to the market and investing. Financial literacy advocates would do well by studying and understanding his approach.

Critical Finding #5

The fifth critical finding addresses how Buffett thinks about stocks as businesses (see Table 4).

TABLE 4

Selected Findings - Stocks are Businesses

Finding	Sources
It's an enormous advantage in stocks, is that you only have to be right on a very, very few things in your lifetime as long as you never make any big mistakes.	Warren Buffett, 2003 Annual Meeting Transcript
Very few people have this idea of searching for just a few opportunities.	Charlie Munger, 2003 Annual Meeting Transcript
I think it's almost impossible if you're — to do well in equities over a period of time if you go to bed every night thinking about the price of them. I mean, Charlie and I, we think about the value of them.	Warren Buffett, 2003 Annual Meeting Transcript
That whole idea that you own a business, you know, is vital to the investment process.	Warren Buffett, 2007 Annual Meeting Transcript
I would think of stocks as a small piece of a business. I would think of investment fluctuations being there to benefit me, rather than to hurt me. And I would try to focus my attention on businesses where I thought I understood the competitive advantage they had and where they would — what they would — look like in five or ten years.	Warren Buffett, 2015 Annual Meeting Transcript

Based on our analysis of Buffett's comments made during his annual shareholders' meetings, Buffett's position is the market is strictly a mechanism to purchase businesses. His first objective is to investigate and assess the long-run durability of that business. In the 1999 shareholder meeting, Buffett stated, "Our own emphasis is on trying to find businesses that are predictable in a general way, as to where they'll be in 10 or 15 or 20 years. And that means we're looking for businesses that, in general, are not going to be susceptible to very much change. We view change as more of a threat into the investment process than an opportunity. That's quite contrary to the way most people are looking at equities now. But we do not get enthused about — with a few exceptions — we do not get enthused about change as a way to make a lot of money. We try to look at — we're looking for the absence of change to protect ways that are already making a lot of money and allow them to make even more in the future. We look at change as a threat. And whenever we look at a business and we see lots of change coming, 9 times out of 10, we're going to pass on that."

Buffett made an insightful statement in the preface of The Intelligent Investor, a book written by Benjamin Graham. He stated (1973), "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**" (p. vii).

Based on our analysis of his comments, Buffett reiterates the mindset needed to invest effectively during his annual shareholders' meeting. Buffett first assesses the individual business. He tries to understand the dynamics of a business and uses an investigative process to do so. In comments made at the 2013 annual shareholder meeting, Buffett explains his approach, "We're looking at quantitative and quality — we aren't looking at the aspects of the stock, we're looking at the aspects of a business. It's very important to have that **mindset**, that we are buying businesses, whether we're buying 100 shares of something or whether we're buying the entire company. We always think of them as businesses."

These quotes are a continuation of our findings on how to think about stocks, according to Buffett. Over the years, Buffett has purchased and built a solid collection of different businesses at Berkshire Hathaway. He approaches the process of investing like a collector of unique art at Sotheby's. Munger (2001), Buffett's partner, describes this process: "Stocks sell like Rembrandts. They don't sell based on the value that people are going to get from looking at the picture. They sell based on the fact that Rembrandts have gone up in value in the past. And when you get that kind of valuation in the stocks, some crazy things can happen. Bonds are way more rational, because nobody can believe that a bond paying a fixed rate of modest interest can go to the sky, but with stocks they behave partly like Rembrandts."

In my mind, Buffett is focused on the unique intangible brand of a business. He has been successful investing in companies with a strong brand. For example, one of Buffett's first investments was American Express.

In our analysis of comments made during his meetings, Buffett describes his process of investing. In the 2013 annual shareholder meeting, Buffett explains how they value a business when purchasing a stock: "When Charlie and I leaf through Value Line or look at annual reports that come across our desk or read the paper, whatever it may be, that, for one thing, we have a — we do have this cumulative knowledge of a good many industries and a good many companies, not all by a long shot. And different numbers are of different importance — or various numbers are of different importance — depending on the kind of business. I mean, if you were a basketball coach, you know, you would — if you were walking down the street and some guy comes up that's 5′4″ and says, you know, "You ought to sign me up because you ought to see me handle the ball," you would probably have a certain prejudice against it. But there might be some — one player out there it made sense on. But on balance, we would say, "Well, good luck, son, but, you know, we're looking for 7-footers." And then if we find 7-footers, we have to worry about whether we can get them halfway coordinated and keep them in school, a few things like that. But we see certain things that shout out to us, look further or think further. And over the years, we've accumulated this background of knowledge on various kinds of businesses, and we also have come up with the conclusion that we can't make an intelligent analysis out of — about all kinds of businesses."

Finally, our conclusion to the finding on how to think about stocks is that Buffett's process is simple. A good example of this simplicity is the way he approached Bank of America as a potential investment. In the 2013 Berkshire Hathaway meeting, Buffett (2013) explains his decision, "The Bank of America — whenever it was — in 2011 — was subject to a lot of rumors, terrible — I mean, lots — big short interest, morale was terrible, and everything else. It just struck me that an investment by Berkshire might be helpful to the bank and might make sense for us. And I'd never met Brian Moynihan at that point — maybe I'd met him at some function, some party or something, but I had no memory of it — and I didn't have his phone number but I gave him a call. And things like that happen. And it's not because I calculate some price — precise — P/E ratio or price-book value ratio or whatever it might be. It is because I have some idea of what the company might look like in five or ten years, and I have a reasonable amount of confidence in that judgment, and there's a disparity in price and value, and it's big." Buffett's comments suggest that he takes his time and is not against purchasing companies that may have some short-term issues. He's focused on what the business will look like over the next 10-years.

One of Buffett's comments from an annual meeting (2013) reveals that he does not describe his investing approach in an exact manner, "It's a little hard to be precise on, because we don't really use screens — we're screening everything. But it's not like we sit there and say, you know, we want to look at things that are below the price of book value, or low P/Es, or something of the sort. We are looking at businesses exactly like we'd look at them if somebody came in and offered us the entire business, and then we try to think, what is this place going to look like in five or ten years, and how sure are we of it. And most — a lot of companies, you know, we just don't know the answer to it. We do not know which auto company is going to, you know, be knocking the ball out of the park ten years from now or which one is going to be hanging on by its fingernails. You know, we watched the auto business for 50 years, a very interesting business, but we don't know how to — we don't know how to foresee the future well enough on something like that." After reading the above statements, the reader gains the understanding that Buffett depends on his assessment and does not subscribe to Wall Street or academic theory.

Critical Finding #6

The sixth critical finding addresses how Buffett thinks about self-discipline. Our analysis of the Warren Buffett Archive shows that Buffett (2003) acknowledges self-discipline as a needed trait for becoming a good investor and turning money into wealth. He relates this self-discipline concept by comparing investing to hitting a baseball. (See Table 5).

In his 2017 meeting, Buffett describes that perfect pitch in investing: "We sort of know it when we see it. And it would tend to be a business that, for one reason or another, we can look out five, or 10, or 20 years and decide that the competitive advantage that it had at the present would last over that period. And it would have a trusted manager that would not only fit into the Berkshire culture, but that was eager to join the Berkshire culture. And then it would be a matter of price. But the main — you know, when we buy a business, essentially, we're laying out a lot of money now based on what we think that business will deliver over time. And the higher the certainty with which we make that prediction, the better off — the better we feel about it. You can go back to the first — it wasn't the first outstanding business we bought, but it was kind of a watershed event — which was a relatively small company, See's Candy. And the question when we looked at See's Candy in 1972 was, would people still want to be both eating and giving away that candy in preference to other candies? And it wouldn't be a question of people buying candy for the low bid. And we had a manager we liked very much. And we bought a business that was — paid $25 million for it, net of cash, and it was earning about 4 million pretax then. And we must be getting close to $2 billion or something like that, pretax, that was taken out of it. But it was only because we felt that people would not be buying, necessarily, a lower-price candy. I mean it does not work very well if you go to your wife or your girlfriend on Valentine's Day — I hope they're the same person — (laughter) — and say, you know, "Here's a box of candy, honey. I took the low bid." You know, it doesn't — it loses a little as you go through that speech. And we made a judgment about See's Candy that it would be special and — probably not in the year 2017 — but we certainly thought it would be special in 1982 and 1992. And fortunately, we were right on it. And we're looking for more See's Candies, only a lot bigger."

TABLE 5

Selected Findings - Self-Discipline and Waiting for the Fat Pitch

Finding	**Sources**
You wait for the fat pitch. Ted Williams wrote about this technique in a book called *The Science of Hitting*. He said, "The most important thing in being a good hitter, you know, is to wait for the pitch in the sweet spot, basically."	Warren Buffett, 2003 Annual Meeting Transcript
And the more people respond to short term events and exaggerated things or — anything that causes people to get wildly enthusiastic or wildly depressed, actually, is what allows people to make lots of money in securities.	Warren Buffett, 2015 Annual Meeting Transcript
I mean, if you're a young investor, and you can sort of stand back and value stocks as businesses and invest when things are very cheap, no matter what anybody is saying on television or what you're reading, and perhaps, if you wish, sell when people get terribly enthused, it is really not a very tough intellectual game. It's an easy game, **if you can control your emotions.**	Warren Buffett, 2015 Annual Meeting Transcript

Critical Finding #7

The seventh critical finding addresses how Buffett thinks about emotional stability (Table 6). Our analysis of Buffett's comments also uncovered the theme of emotional stability and approach to markets. In the 2009 annual shareholder meeting, Buffett describes the important personal traits needed for an investor, "To a great extent, that is not a matter of IQ. If you have — if you're in the investment business and you have a IQ of 150, sell 30 points to somebody else, cause you don't need it. I mean, it — you need to be reasonably intelligent. But you do not need to be a genius, you know. At all. In fact, it can hurt. But you do have to have an emotional stability. You have to have sort of an inner peace about your decisions. Because it is a game where you get subjected to minute-by-minute stimuli, where people are offering opinions all the time. You have to be able to think for yourself. And, I don't know whether — I don't know how much of that's innate and how much can be taught. But if you have that quality, you'll do very well in investing if you spend some time at it. Learn something about valuing businesses. It's not a complicated game. As I say — said many times — it's simple, but not easy. It is not a complicated game. You don't have to understand higher math. You don't — you know, you don't have to understand law. There's all kinds of things that you don't have to be good at. There's all kinds of jobs in this world that are much tougher."

TABLE 6

Selected Findings -Emotional Stability

Finding	**Sources**
You have to know how to think about market fluctuations and really learn that the market is there to serve you rather than to instruct you.	Warren Buffett, 2009 Annual Meeting Transcript
But you do have to have sort of an **emotional stability** that will take you through almost anything. And then you'll make good investment decisions over time."	Warren Buffett, 2009 Annual Meeting Transcript

During the 2009 annual meeting, Buffett was asked how he would rank the 2009 market downturn in terms of investing opportunities in stocks during his investment career. Buffett (2009) responded, “It’s certainly not as dramatic as the 1974 period was. Stocks got much cheaper in 1974 than they are now. But you were also facing a different interest rate scenario. So you could say they really weren’t that much cheaper. You could buy very good companies at four times earnings or thereabouts with good prospects. But interest rates were far higher then. **That was the best period I’ve ever seen for buying common equities**. The country may not have been in as much trouble then as we were back in September. I don’t think it was. But stocks were somewhat cheaper then. In the recent period, I bought some equities. And then corporate bonds looked extraordinarily cheap. The spreads were very, very wide. So I bought some of those, too. **But the cheaper things get, the better I like buying them**. **If I was buying hamburgers at McDonald’s the other day for X, and they reduced the price to 90 percent of X tomorrow** — not likely — but if they did, **I’m happy**. **I don’t think about what I paid yesterday for the hamburger. I think I’m going to be buying hamburgers the rest of my life.** The cheaper they get, the better I like it. I’m going to be buying investments the rest of my life. And I would much rather pay half of X than X. And, the fact that I paid X yesterday doesn’t bother me, if I get — as long as I know the values in the business. On a personal basis, I like lower prices. I realize that that is not the way all of you feel when you wake up in the morning and look at quotes. It just makes sense that when things are on sale, that you should be more excited about buying them than otherwise.”

Our analysis of the Warren Buffett archive shows that the real distinction in how Buffett approaches capital markets is he views the market as a mechanism to be taken advantage of not to be used to direct people. In the 2017 shareholder meeting, Buffett describes his philosophy of the market, "If we get into periods that are very tough, Berkshire certainly will do reasonably well because it won't — we won't be — we won't get fearful. And **fear spreads like you cannot believe until you've seen a few examples of it**. At the start of September 2008, you had 35 million people with their money in money market funds with $3 1/2 trillion in them. And none of them were afraid that that dollar wasn't going to be a dollar when they went to cash in their money market fund. And three weeks later, they were all terrified, and 175 billion flowed out in three days. And so **the way the public can react is really extreme in markets**. And that actually offers opportunities for investors. People like action and they like to gamble. And if they think there's easy money to be made, a lot of them, you'll get a rush to it. And for a while it will be self-fulfilling and create new converts until the day of reckoning comes. They'll —Just keep preaching investing, and if the market swings around a lot, you'll keep adding a few people here and there to a group that recognizes that markets are there to be taken advantage of, rather than to instruct you as to what is going on."

Critical Finding #8

The eighth and final critical finding from our analysis of Buffett's comments is his discussion of the electronic herd mentality of markets and how it can be destructive to prices (see Table 7). He offers many facets through which to view the capital markets. Buffett's views seem to be timeless and can be used as a lens to improve financial literacy. In the 2005 annual shareholder meeting, Buffett explains to attendees, "I think there are more people that go to bed at night with a position in foreign exchange, or bonds, or a carry trade, or stocks, or whatever, that some event that could happen overnight would cause them to want to change that position in the next 24 hours. I think that's the highest, perhaps in history. Somebody [economist Thomas Friedman] has referred to it as the "**electronic herd**," that it's out there. I mean people can with

— they can give vent to decisions involving billions and billions and billions of dollars, you know, with the press of a key, virtually. And that electric — I think that electronic herd is at an all-time high. I think that some exogenous event — it was almost Long-Term Capital Management in 1998 — but some exogenous event — and we will have them — will cause it — I think it could very well cause some kind of stampede by that herd. But you can have people trying to head for the door very quickly with them, under certain circumstances."

TABLE 7

Selected Findings - Electronic Herd

Finding	Sources
There is an electronic herd of people around the world managing huge amounts of money who think that a decision on everything in their portfolio should be made, basically, daily or hourly or by the minute.	Warren Buffett, 2007 Annual Meeting Transcript
It just means that the participants are playing a different game, and that different game can have different consequences than in a buy-and-hold environment.	Warren Buffett, 2007 Annual Meeting Transcript

Buffett's long-term framework tends to work better in a bear market when prices are falling. Our analysis of his comments at meetings support this reality; Buffett states (2005), "If the market gets cheaper, we will have many more opportunities to do intelligent things with money. We are going to be buying things — one thing or another — operating businesses, stocks, high-yield bonds, whatever — we're going to be buying things for as long as I live, just like I'm going to be buying groceries."

Buffett (2005) further explains, "We're not good at forecasting markets. I mean, we, in a general way, knew that we were getting enormous bargains in the mid-'70s. We knew that the market went crazy to some extent in the late '90s. But we don't have much — we don't spend any time — Charlie and I spend no time — thinking or talking about what the stock market is going to do, because we don’t know. We do know, sometimes, that we’re getting very good value for our money when we buy some stocks or some bonds, as it may be. But we are not operating on the basis of any kind of macro forecast about stocks.”

LIMITATIONS OF QUALITATIVE DATA ANALYSIS

This study was done for a Doctor of Business Administration dissertation project. One person completed the coding analysis with the guidance of a dissertation committee. The research process employed was consistent across all transcripts but has limits as multiple individual coding perspectives are absent. The synthesizing of themes using qualitative data analysis is from one individual’s perspective.

FUTURE RESEARCH

Future research could examine more in-depth themes found from the coding process. The annual meetings frequently feature Buffett describing the outcomes of various financial endeavors, both his and those of other companies. Further study on Buffett’s responses through the lens of **attribution theory** would provide insight as to how he views success.

CONCLUSION

Predominately known for his influence on value investing and simple concepts, Buffett and his investment principles have long been touted as the gold standard for investors around the world. Public interest in Buffett and curiosity about his investment philosophy remain as strong today as in the 1950s. Tens of thousands of individuals journey to Omaha each year to attend the Berkshire Hathaway shareholder meeting to hear Buffett speak. Many individuals (devotees of Buffett) already have incorporated his principles into managing their investments, by becoming a long-term shareholder of Berkshire Hathaway or incorporating Buffett's money philosophy into their basic understanding of how to turn money into wealth.

This article provides a unique understanding of financial literacy using Warren Buffett's perspective on basic investing concepts and themes. By analyzing Buffett's comments made at his annual Berkshire Hathaway shareholder meetings over an 11-year period, this article provides vital information on managing investments. The article presents eight critical findings, using key quotes made by Buffett.

We planned to write this article for consumers and financial advisors. However, the more the paper developed, we realized that professors teaching finance and academic journals would also benefit from Buffett's common-sense approach. Academic finance journals tend to be too complicated for most individuals to understand. Therefore, we encourage these additional stakeholders to incorporate this knowledge into the classroom as well as in financial planning degree programs across the country.

Koposko and Hershey (2015) state, "In the current savings and investing climate, financial literacy and financial competency are perhaps more important than in previous decades. This is because the majority of responsibility for one's retirement income is no longer predominantly determined by one's employer and the state, but instead, it is largely determined by the savings and investment decisions of individual American workers" (p.540; Lusardi 2008). We agree with Koposko and Hershey that more than ever, individuals need wise counsel to navigate the road to financial success. Wise counsel can be found in the timeless words and works of Buffett.

Maginn and Tuttle (1990) state, "Portfolio management is both an art and science. It is much more than the application of a formula to a set of data input from security analysis. It is a dynamic decision-making process, one that is continuous and systematic but also one that requires large amounts of astute managerial judgement" (preface). In our view, Buffett's special contribution to financial planning is his money mind.

Our research shows that combining knowledge from the Warren Buffett Archive with Financial Literacy should positively impact household finance. Frydman and Camerer (2016) state, "The study of household finance has recently boomed due to a combination of excellent data and an interest in helping households after the 2008 great recession. The general conclusion from this evidence is that many households do not save and invest according to normative models. These mistakes occur despite the principles for optimal financial decision making being sometimes simple and intuitive" (p. 662). Consumers need to understand that they are stepping into an investment arena rather than an easy, get rich quick market.

Buffett (1999) states, "There was a book written, You Only Have to Get Rich Once. It's a great title. It's not a very good book. Walter Gutman wrote it many years ago. But the title is right, you only have to get rich once." Buffett expands the body of knowledge of financial literacy and managing wealth. Those within the financial sector, including financial advisors and their clients, as well as those in academia, including faculty members and business school graduates, would make better informed decisions through the understanding of these eight critical findings. Each individual investor is the sole master of his wealth journey. In a similar way, Buffett's approach to investing can become anyone's approach because these eight critical findings are well suited to industry, practitioners, and investors.

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