

## All Warren

“Insights and Knowledge from Warren Buffett”

Warren Buffett turned 87 years young today, and shared his best investment advice, and some insights and some quotes, including he said the 'elite' have wasted \$100 billion ignoring his basic investment advice.



Warren Buffett turns 87 on Wednesday.

**In honor of his birthday, Business Insider is highlighting Buffett's best investment advice.**

"Over the years, I've often been asked for investment advice, and in the process of answering I've learned a good deal about human behavior," Buffett said in his [2017 annual shareholder letter](#).

"My regular recommendation has been a low-cost S&P 500 index fund," he said. "To their credit, my friends who possess only modest means have usually followed my suggestion."

It's worth noting that in the same letter [Buffett describes Jack Bogle](#), who transformed investing with the creation of the index fund, as a "hero."

But not everyone listens to Buffett's advice. "I believe, however, that none of the mega-rich individuals, institutions or pension funds has followed that same advice when I've given it to them," he said.

He added (emphasis ours):

"Instead, these investors politely thank me for my thoughts and depart to listen to the siren song of a high-fee manager or, in the case of many institutions, to seek out another breed of hyper-helper called a consultant.

"That professional, however, faces a problem. **Can you imagine an investment consultant telling clients, year after year, to keep adding to an index fund replicating the S&P 500? That would be career suicide. Large fees flow to these hyper-helpers, however, if they recommend small managerial shifts every year or so.** That advice is often delivered in esoteric gibberish that explains why fashionable investment 'styles' or current economic trends make the shift appropriate.

"The wealthy are accustomed to feeling that it is their lot in life to get the best food, schooling, entertainment, housing, plastic surgery, sports ticket, you name it. **Their money, they feel, should buy them something superior compared to what the masses receive.**

**"In many aspects of life, indeed, wealth does command top-grade products or services. For that reason, the financial 'elites' – wealthy individuals, pension funds, college endowments and the like – have great trouble meekly signing up for a financial product or service that is available as well to people investing only a few thousand dollars. This reluctance of the rich normally prevails even though the product at issue is – on an expectancy basis – clearly the best choice.**

**My calculation, admittedly very rough, is that the search by the elite for superior investment advice has caused it, in aggregate, to waste more than \$100 billion over the past decade.** Figure it out: Even a 1% fee on a few trillion dollars adds up. Of course, not every investor who put money in hedge funds ten years ago lagged S&P returns. But I believe my calculation of the aggregate shortfall is conservative.

"Much of the financial damage befell pension funds for public employees. Many of these funds are woefully underfunded, in part because they have suffered a double whammy: poor investment performance accompanied by huge fees. The resulting shortfalls in their assets will for decades have to be made up by local taxpayers.'

"Human behavior won't change. Wealthy individuals, pension funds, endowments and the like will continue to feel they deserve something 'extra' in investment advice. Those advisors who cleverly play to this expectation will get very rich. This year the magic potion may be hedge funds, next year something else. **The likely result from this parade of promises is predicted in an adage: 'When a person with money meets a person with experience, the one with experience ends up with the money and the one with money leaves with experience.'**





**In honor of his August 30 birthday, we decided to look back at one of his brilliant insights.**

Back in 2010, in an interview with the Financial Crisis Inquiry Commission, Buffett answered several questions about what he thought caused the housing and credit bubble.

The interview comes from a [document dump from the National Archives](#), which in 2016 released transcripts, meeting agendas, and confidentiality agreements from the FCIC. The group was set up in the aftermath of the crisis by Congress to look into the causes of the event.

During the interview, Buffett also gave a crystal clear explanation of how bubbles are formed. It's a great read for anyone interested in investing or, more broadly, human behavior.

Anyway, here's Buffett (emphasis ours):

"My former boss, Ben Graham, made an observation 50 or so years ago to me that it really stuck in my mind and now I've seen evidence of it.

**"He said; 'You can get in a whole lot more trouble in investing with a sound premise than with a false premise.'**

"If you have some premise that the moon is made of green cheese or something, it's ridiculous on its face. If you come out with a premise that common stocks have done better than bonds ... [that] became the underlying bulwark for the [1929] bubble. People thought stocks were starting to be wonderful and they forgot the limitations of the original premise ... So after a while, the original premise, which becomes sort of the impetus for what later turns out to be a bubble is forgotten and the price action takes over.

"Now, we saw the same thing in housing. It's a totally sound premise that houses will become worth more over time because the dollar becomes worth less ...

"And since 66% or 67% of the people want to own their own home and because you can borrow money on it and you're dreaming of buying a home, **if you really believe that houses are going to go up in value, you buy one as soon as you can. And that's a very sound premise. It's related, of course, though, to houses selling at something like replacement price and not far outstripping inflation.**

"So this sound premise that it's a good idea to buy a house this year because it's probably going to cost more next year and you're going to want a home, and the fact that you can finance it gets distorted over time if housing prices are going up 10 percent a year and inflation is a couple percent a year. **Soon the price action – or at some point the price action takes over, and you want to buy three houses and five houses and you want to buy it with nothing down and you want to agree to payments that you can't make and all of that sort of thing, because it doesn't make any difference: It's going to be worth more next year.**

"And lender feels the same way. It really doesn't make a difference if it's a liar's loan or you know what I mean? ... Because even if they have to take it over, it's going to be worth more next year. And once that gathers momentum and it gets reinforced by price action and the original premise is forgotten, which it was in 1929.

"The Internet was the same thing. The Internet was going to change our lives. But it didn't mean that every company was worth \$50 billion that could dream up a prospectus.

**"And the price action becomes so important to people that it takes over the — it takes over their minds,** and because housing was the largest single asset, around \$22 trillion or something like that, not above household wealth of \$50 trillion or \$60 trillion or something like that in the United States. Such a huge asset. So understandable to the public — they might not understand stocks, they might not understand tulip bulbs, but they understood houses and they wanted to buy one anyway and the financing, and you could leverage up to the sky, it created a bubble like we've never seen."

## **13 brilliant quotes from Warren Buffett, the greatest investor of all time**

Warren Buffett is one of the most successful investors in history. "The Oracle of Omaha" has an estimated net worth of nearly \$77 billion, making him the [fourth-richest person in the world](#).

From [drinking Coke for breakfast](#) to [carrying around an old-school flip phone](#), Buffett has always done things his way.

On the occasion of his 87th birthday on August 30, we compiled a few of his best quotes to take you inside his head.



Always know who you're dealing with.

“

**You can't make a  
good deal with a  
bad person.”**

BUSINESS INSIDER

Jason Reed/Reuters



Pick the right crowd.

“

**It's better to hang out with people better than you. Pick out associates whose behavior is better than yours and you'll drift in that direction.”**

BUSINESS INSIDER

Kim Kyung Hoon/Reuters

Some things take time.

“

**No matter how great the talent or efforts, some things just take time. You can't produce a baby in one month by getting nine women pregnant.”**

BUSINESS INSIDER

David Silverman/Getty



Act with integrity.

“

**It takes 20 years to  
build a reputation and  
five minutes to ruin it.  
If you think about that,  
you'll do things  
differently.”**

BUSINESS INSIDER

Jason Lee/Reuters

If you want to be successful, make reading a habit.

“

**I just sit in my  
office and read  
all day.”**

BUSINESS INSIDER

Rick Wilking/Reuters





Bad things aren't obvious when times are good.

“

**After all, you only  
find out who is  
swimming naked  
when the tide  
goes out.”**

BUSINESS INSIDER

Ethan Miller/Reuters



Keep it simple.

“

**It is not necessary  
to do extraordinary  
things to get  
extraordinary  
results.”**

BUSINESS INSIDER

Paul Morigi/Getty

Go against the crowd.

“

**Be fearful when  
others are greedy  
and greedy when  
others are fearful.”**

BUSINESS INSIDER

Paul Morigi/Getty



Success is not defined by a price tag or number.

“

**I measure success  
by how many  
people love me.”**

BUSINESS INSIDER



Jason Miller/Getty

Be confident.

“

**I always knew I  
was going to be  
rich. I don't think I  
ever doubted it for  
a minute.”**

BUSINESS INSIDER

Alex Wong/Getty



Give to those less fortunate.

“

**If you're in the luckiest  
1% of humanity, you  
owe it to the rest of  
humanity to think  
about the other 99%.”**

BUSINESS INSIDER

Rick Wilking/Reuters



Don't forget business basics.

“

**Price is what you  
pay; value is what  
you get.”**

BUSINESS INSIDER

Rusty Jarrett/Getty



You don't have to be a genius to invest well.

“

**You don't need to be a rocket scientist. Investing is not a game where the guy with the 160 IQ beats the guy with 130 IQ.”**

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Pool/Getty