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11 Warren Buffett quotes that'll make you a smarter investor

(Photo by Andy Kropa/Invision/AP, File)
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The world's third-richest person and Berkshire Hathaway (BRK-A, BRK-B) chairman and CEO Warren Buffett is known for his folksiness, pith, and ability to distill complex investing and economic concepts into super simple ideas.

His annual letter to shareholders is often the forum Buffett uses to not only explain Berkshire's wins and losses over the previous year, but also to espouse certain lessons the most novice investor can heed.

Ahead of the annual Berkshire Hathaway shareholder meeting on May 5, whichYahoo Finance is livestreaming from Omaha, we've collected a few of his notable quotes (as we've done before). Many touch on themes and ideas that he comes back to again and again; they all speak to his broad ideas about investing, money, and life in general.

You don't have to understand advanced investment theory to be a good investor

"To invest successfully, you need not understand beta, efficient markets, modern portfolio theory, option pricing or emerging markets. You may, in fact, be better off knowing nothing of these. That, of course, is not the prevailing view at most business schools, whose finance curriculum tends to be dominated by such subjects. In our view, though, investment students need only two well-taught courses – How to Value a Business, and How to Think About Market Prices."

-1996 shareholder letter

"…an investor needs some general understanding of business economics as well as the ability to think independently to reach a well-founded positive conclusion. But the investor does not need brilliance nor blinding insights."

-2000 shareholder letter

Invest for the long term and don't stray

"Your goal as an investor should simply be to purchase, at a rational price, a part interest in an easily-understandable business whose earnings are virtually certain to be materially higher five, ten and twenty years from now. Over time, you will find only a few companies that meet these standards – so when you see one that qualifies, you should buy a meaningful amount of stock. You must also resist the temptation to stray from your guidelines: If you aren't willing to own a stock for ten years, don't even think about owning it for ten minutes."

-1996 shareholder letter

Know what you know and what you don't know

"Defining your circle of competence is the most important aspect of investing. It's not important how large your circle is; you don't have to be an expert on everything. But knowing where the perimeter of that circle of what you know and what you don't know and staying inside of it is all important."

-Talk with to UGA-Terry College of Business students, 2001

"It's vital, however, that we recognize the perimeter of our 'circle of competence' and stay well inside of it. Even then, we will make some mistakes, both with stocks and businesses. But they will not be the disasters that occur, for example, when a long-rising market induces purchases that are based on anticipated price behavior and a desire to be where the action is."

-2013 shareholder letter

Put your money in index funds

“If a statue is ever erected to honor the person who has done the most for American investors, the handsdown choice should be [Vanguard founder] Jack Bogle. For decades, Jack has urged investors to invest in ultra-low-cost index funds. In his crusade, he amassed only a tiny percentage of the wealth that has typically flowed to managers who have promised their investors large rewards while delivering them nothing – or, as in our bet, less than nothing – added value.”

Continued…,

-2016 shareholder letter

A image of Warren Buffett towers over Berkshire Hathaway shareholders as they visit and shop at company subsidiaries in Omaha, Neb., Friday, May 5, 2017, at the Berkshire Hathaway shareholders meeting. (AP Photo/Nati Harnik)

-2016 shareholder letter

Resist stock market FOMO

“The line separating investment and speculation, which is never bright and clear, becomes blurred still further when most market participants have recently enjoyed triumphs. Nothing sedates rationality like large doses of effortless money. After a heady experience of that kind, normally sensible people drift into behavior akin to that of Cinderella at the ball. They know that overstaying the festivities– that is, continuing to speculate in companies that have gigantic valuations relative to the cash they are likely to generate in the future – will eventually bring on pumpkins and mice. But they nevertheless hate to miss a single minute of what is one helluva party. Therefore, the giddy participants all plan to leave just seconds before midnight. There’s a problem, though: They are dancing in a room in which the clocks have no hands.”

-2000 shareholder letter

How to value a business

“The formula for value was handed down from 600 BC by a guy named Aesop. A bird in the hand is worth two in the bush. Investing is about laying out a bird now to get two or more out of the bush. The keys are to only look at the bushes you like and identify how long it will take to get them out. When interest rates are 20%, you need to get it out right now. When rates are 1%, you have 10 years. Think about what the asset will produce. Look at the asset, not the beta. I don’t really care about volatility. Stock price is not that important to me, it just gives you the opportunity to buy at a great price. I don’t care if they close the NYSE for 5 years. I care more about the business than I do about events. I care about if there’s price flexibility and whether the company can gain more market share. I care about people drinking more Coke.”

-Q&A with students from Emory University and other business schools in Omaha, 2009

The average investor can often outperform the pros

“The goal of the non-professional should not be to pick winners – neither he nor his ‘helpers’ can do that – but should rather be to own a cross-section of businesses that in aggregate are bound to do well. A low-cost S&P 500 index fund will achieve this goal….The main danger is that the timid or beginning investor will enter the market at a time of extreme exuberance and then become disillusioned when paper losses occur. The antidote to that kind of mistiming is for an investor to accumulate shares over a long period and never to sell when the news is bad and stocks are well off their highs. Following those rules, the ‘know-nothing’ investor who both diversifies and keeps his costs minimal is virtually certain to get satisfactory results. Indeed, the unsophisticated investor who is realistic about his shortcomings is likely to obtain better long-term results than the knowledgeable professional who is blind to even a single weakness.”

-2013 shareholder letter

Better information doesn’t mean better investing

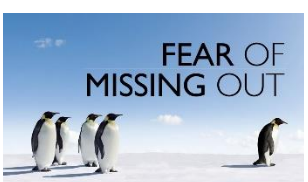
“There is no doubt that there are far more ‘investment professionals’ and way more IQ in the field, as it didn’t use to look that promising. Investment data are available more conveniently and faster today. But the behavior of investors will not be more intelligent than in the past, despite all this. How people react will not change – their psychological makeup stays constant. You need to divorce your mind from the crowd. The herd mentality causes all these IQ’s to become paralyzed. I don’t think investors are now acting more intelligently, despite the intelligence. Smart doesn’t always equal rational. To be a successful investor you must divorce yourself from the fears and greed of the people around you, although it is almost impossible."

-2005 Q&A with students at University of Kansas

Have people in your life who would hide you

"…Why am I frugal? You can't buy health and you can't buy love. I'm a member of every golf club that I want to be a member of. I'm the highest handicap member of Augusta National. I'd rather play golf here with people I like than at the fanciest golf course in the world. I can do anything that I want, and I do. I buy everything I want to have. I'm not interested in cars and my goal is not to make people envious. Don't confuse the cost of living with the standard of living. Bella Eidenberg was a Polish Jew who was at Auschwitz and some of her family didn't make it. Twenty years ago she said she was slow to make friends, and that the real question in her mind was always, 'Would they hide me?' If you have a lot of people that would hide you, you've had a very successful life. That can't be bought. I know people that have billions of dollars and their children would say, 'he's in the attic.'"

FEAR OF MISSING OUT: AN INVESTOR'S WORST ENEMY



Fear of missing out (FOMO) is an increasingly powerful emotion in our daily lives – so much so that FOMO was officially added to the Oxford English Dictionary in 2013.

Have you ever looked at your Facebook feed and been jealous of someone's picture from a beautiful viewpoint, or enviable of a friend's photo of an expensive dinner with a strategically placed bottle of fancy wine in the background? That is FOMO – the fear that at any given moment someone is doing something more appealing than what we are doing at the time.

A fear of missing out has always been part of life, but it has become more prevalent with the emergence of social media. Personally, I can't help but check my Twitter feed every hour or so to make sure that I'm not missing out on an article published by one of my favorite financial writers. Yet, social media has increased the power of FOMO more than I realized. For example, I have absolutely zero interest in horse racing – frankly, I dislike the sport. However, due to all the hype on Facebook and Twitter, I couldn't help but watch the Belmont Stakes out of fear of missing American Pharaoh become the first Triple Crown winner of my lifetime.

FOMO is frequently a counter-productive emotion, leading to jealousy of others, dissatisfaction with our own lives, and bad decision-making processes. Nowhere is the negative impact of FOMO more apparent than in some individuals' investment strategy. For years, no one has enjoyed going to the neighborhood BBQ only to have to listen to their next door neighbor brag about how his portfolio has outperformed the S&P 500 index over the last six months. Not only is listening to the boasting annoying, it makes us discontent with the return our own portfolio has achieved and makes us wonder if we should adapt a different strategy (i.e. take more risk right after the market achieved a new all-time high).

Social media has expanded the impact of FOMO on investment strategies. For the last year, the internet has ensured we are aware that large cap indexes like the S&P 500, Dow Jones Industrial Average, and NASDAQ are at all-time highs and achieving appealing returns, and we wonder why our more diversified portfolio isn't behaving in a similar fashion. It is hard to be content with our diversified strategy when every media outlet is constantly reminding us how we are missing out on the stellar performance that could be obtained if only we had a non-diversified portfolio that invested only in the asset category that is currently in the middle of a hot streak.

When it comes to investing, FOMO is significantly impacted by recency bias. Our fear of missing out becomes more and more intense after the market has just experienced an uptick. If we take a couple of steps back, it is clear why we maintain a diversified portfolio – it provides the most appealing tradeoff between maximizing returns and minimizing risk. Yet, it is hard to remind ourselves of this when it seems like everyone around us is taking advantage of the latest market trends and we are missing out. Of course, changing our portfolio to try and take advantage of a run that has already taken place would be foolish, as we would be selling assets with prices that have remained flat and may now be undervalued relative to the market in order to buy assets that have recently experience significant growth and are likely now expensive. These are the type of decisions that FOMO can cause and we would be wise to avoid this type of thinking.

We have been in this position before. In the late 1990s, people wanted to abandon their diversified portfolio and put a heavy focus on the technology stocks that were making all their neighbors rich. In the mid 2000s, everyone wanted to borrow as much money as possible and utilize the funds to buy and flip real estate. In the early 2010s, everyone was wondering if they should sell their stocks before a double-dip recession began and use the resulting funds to buy gold. In each of these scenarios we were hearing individual stories of others who had implemented these strategies and were doing better than we were. Of course, with the benefit of hindsight, we can see that changing our long-term investment strategy due to a fear of missing out on what was working for others over a short time period would have been a drastic mistake in each of these circumstances.

After the market has done well, recency bias and FOMO causes investors to be more afraid of missing a bull market than of suffering large losses. However, in these times, we need to remember that we chose a diversified investment strategy because it provides us with the highest probability of obtaining our financial goals while exposing us to the least amount of volatility possible. When the media and our acquaintances insist on informing us how we would have been better off placing heavy bets on the asset categories that have recently done well, we would be well served to remember that a diversified portfolio strategy will almost certainly provide us with the best chance to achieve long-term investment success.

- Lon Jefferies