

The Snowball: Warren Buffett and the Business of Life

Author: Alice Schroeder

Book Summary

A popular insurance industry analyst and writer, Alice Schroeder, met Warren Buffett when she published her well-accepted research on Buffett's investment company Berkshire Hathaway. Buffett found himself impressed by Schroeder's grasp on the financial world and her keen insight and this led him to offer her complete access to his files and himself, paving the way for *The Snowball: Warren Buffett and the Business of Life*. Given her close relationship with Buffett, Schroeder's book is peppered with insightful comments about his childhood and the circumstances which enabled him to snowball his wealth and become the acclaimed investor he is today.

Schroeder's treatise on Buffett was named the top Business and Investing book on Amazon in 2008. Her penchant for all things finance made her an expert on the matter and she was well known for her coverage of insurer AIG, tough stock calls, insightful industry coverage and keen perspectives on the impact of terrorism on the insurance industry. She has invested five years of research and writing into *The Snowball* and will offer you unprecedented access to the defining features of Warren Buffett's upbringing, early history, investing, and philanthropy.

Key Takeaways

- Patience, temperament, and starting young will work wonders for your investment journey.
- Avoid being too reliant on a single source of income – spread out your income stream to make the best of new opportunities.
- Maintain a strong focus on who you want to be, rather than on what you want to do.
- Stop worrying about aspects and events that are out of your control. Instead, focus on the things you can control to attain success.
- Stay honest on your path to success – do not try fraudulent means.
- When you know something to be true, remain focused on your belief, even if people criticize your approach.
- Be extremely dedicated to learning your craft and then applying it to earn wealth.
- Start investing early to benefit from the tremendous power of compounding.

Warren Buffett's investment journey

Even as a child, Warren Buffett was extremely interested in statistics and numbers and he applied his insight into his lifestyle right from the beginning. At the tender age of six, when children are engaged in playing and learning basic educational skills, Buffett began to earn money. He started out small – selling chewing gum door-to-door – to begin his career. Following many such entrepreneurial tasks, he managed to build a corpus, formed a partnership with his sister, and entered the investing world. His first investment was in Cities Services Preferred and following this step, Buffett never looked back. He built his empire from childhood and remained committed to the journey, thus enjoying the fruits of compounding throughout his adult life.

Identify different income channels

Very few people end up becoming successful and wealthy by sticking to one source of income, especially in today's fast paced world where the job outlook changes at the drop of a hat. Buffett learned from his predecessors – he cites the instance of his father's friend, who was an absolute expert on shoe buttons, and believed that this niche knowledge made him an expert on all other subjects. Buffett believed in finding opportunities to make money at all times, be it through ventures such as selling chewing gum and used golf bats or delivering newspapers. There is dignity in every line of work, as long as you know where you want to go from your humble beginnings. Buffett was extremely creative when it came to building sources of income and he tried every route available from renting out his farmland to speculating on horses. He maintained this outlook towards income sources even later on in his life, as is obvious from his multinational conglomerate Berkshire Hathaway which has interests in diverse sectors such as rail transportation, insurance, manufacturing, retailing, and energy generation and distribution.

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Build your future consciously

Given his intense focus from an early age, Buffett knew what he wanted out of life from his childhood itself. And, based on these ideas, he managed to shape his future. For instance, he decided to enroll at Columbia University because he was keen on learning from investing greats Benjamin Graham and David Dodd. He knew exactly what he wanted, and who he wanted to be, and he undertook the actions and steps necessary to make his vision a success. He was also very conscious about how he earned his wealth. He took staunch efforts to avoid immoral means of earning money and was willing to give up on millions of dollars to remain honest in his approach. His actions teach you that it is better to stick to your ethics and avoid shortcuts and fraud while earning money and building wealth. Further, Buffett also believes in sticking to one's internal scorecard or conscience as it helps you remain focused on your values throughout your life.

Avoiding negativity in life

It is very important to understand that not everything will always be in your control. Many events in life, be it market volatility, or personal incidents, may be out of your control and it is essential that you accept this fact without any negativity. Buffett believes in keeping the 'drain plug' open, wherein he envisions a bathtub and allows his negative emotions to drain out through the plug instead of dwelling on the same incessantly. In life, you should worry about the things that you can control and navigate for success, instead of focusing on aspects which you cannot control. This will help you avoid unnecessary negativity while focusing on the things that can be changed.

Undying passion towards your craft

You can be successful in any chosen field, as long as you remain committed and passionate about learning everything that you can and applying the knowledge to craft a successful future. For Buffett, his passion and his craft was the stock market – he did not merely like stocks, he was obsessed by the market. And this helped him learn everything he possibly could and then, accordingly, craft his own success story. On this journey towards improving your craft and making a successful life, you will undoubtedly face harsh criticism. Despite the negativity towards his approach, Buffett always remained true to what he knew and believed in. For instance, it was his belief in his own convictions that led Buffett to take control of Berkshire Hathaway in the sixties. It was his self-belief that helped him steer away from mass emotion and psychological bias and take contrarian views when people got carried away by the technology boom in the 1990s. People sharply criticized his outlook on the sector and ridiculed him when he stated that the tech boom wouldn't last, only to see the sector lose 95% of the gains going ahead.

Break out of limiting circumstances

Buffett believes himself exceptionally lucky to have been born in the United States in 1930, widely considered the golden period of opportunity. However, your circumstances at birth need not define your future – people born in different scenarios may not be able to start investing as early as Buffett but that is no reason to not make the most of their own lives. As long as you take the right decisions and strive to better your situation, you can attain success. All you need to do is break out of the limiting mindset and circumstances. Further, once you do manage to elevate yourself, it is important to help those who face difficulties. Others may not have made the sacrifices you made, or their vision may be faulty, but once you are in a capable position, your moral compass should prompt you to help them the way Buffett did. Buffett believes that once you realize your potential, it is your

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duty to give back to the society and the country that supported you in your vision. This is the aspect which has acted as the bedrock to his philanthropic initiatives. Buffett has pledged to donate 99% of what he has earned, upon his death, even as he keeps multiplying his wealth throughout his life.

Reputation and transparency

Buffett does not tolerate liars or people who do not share the whole truth. He, and other great leaders, have maintained a zero tolerance policy for lack of transparency, and it has helped him earn success without worrying about the implications. He believes that absolute transparency is the way to leading a stress-free life filled with peace. Further, Buffett has always held his reputation higher than the money he can earn through disreputable means. In his own words, "It takes twenty years to build a reputation, and five seconds to ruin it." He believes that reputation far outweighs money and that is a good moral compass to follow.

It is true that Warren Buffett was born in a golden age and received the necessary support to build his empire. *The Snowball* teaches us that success need not be the bastion of the great – even common people can attain success as long as they take these life lessons to heart and craft their journeys accordingly.

Inarguably, a book on Warren Buffett will be filled with great investment nuggets and should help you craft your own portfolio strategy. There are so many elements that the book talks about. First is the importance of starting early – something that can help you benefit from the power of compounding. Second, it talks about the need to diversify, whether it is your income streams or your investment portfolio. And most importantly, it tells you the importance of maintaining transparency. Interestingly, mutual fund investments can help you easily embrace all of these imperatives. Let's first start with the need to diversify. As you might already know, mutual funds are investment vehicles that pool investor money and then invest it across a broad range of asset classes like equity, debt, commodities, etc., and as per specific strategies and mandates. Further, there are also hybrid mutual funds like the Balanced Advantage Fund that invest in both equity and debt instruments. They allow you to diversify through a single investment, i.e., you get to benefit from the growth potential of equities and limit your portfolio downside through exposure to debt. Now, comes the part about starting early and compounding. A great way to benefit from the power of compounding is to invest in mutual funds via the Systematic Investment Plan (SIP) route. When you start a SIP, you invest a fixed amount of money, in a mutual fund scheme of your choice and at time intervals that suit you best. As you keep investing the fixed amount, the returns generated will start compounding. Last, and perhaps the most important, is transparency. Mutual funds score well here. They are managed by experienced professionals, regulated by the Securities Exchange Board of India, and publish monthly factsheets that tell you where your money is invested and how it is performing.

So, if you want to follow the path of Warren Buffett, then mutual fund investments might be a great option.

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