THE SNOWBALL:
WARREN BUFFET AND THE BUSINESS OF LIFE
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LONDON: BLOOMSBURY, 2008

Warren Buffet is a most unusual man. He has been the world's richest person and yet he lives in the same house he bought half a century ago. He pays himself about US$100,000 per year (though he is worth billions via his investment holdings). He has promised to give most of the wealth away to the Bill and Melinda Gates charitable foundation.

In economic terms he is most unusual because his stunning rate of investment success challenges one of the basic ideas of modern investment theory: the "efficient markets hypothesis" (EMH). EMH argues that given the widespread simultaneous availability of the same information to many investors, an investor cannot in the long run do better than average. Investment managers, according to EMH, don't outperform the market in the long run. Therefore an investor should simply buy into an index fund (without the high fees charged by specialist investment managers) and wait.

But Buffet has outperformed the market over several years. His basic share price has risen by more than 7,000 times in less than half a century. As recently as January this year, it was reported that Buffet's investment fund had been one of only six of the big 1,591 US stock mutual funds to make money for investors last year. For the economics theorists there is the problem of trying to assess him: is he a one-off genius or a freak statistical event?

In personal terms, he is also unusual. He doesn't like New York City and so left Wall Street and returned home to bleak Omaha, Nebraska half a century ago. He was happily married to his first wife for several decades. When she preferred to live on the West Coast, she selected a woman to replace her at home, whom Buffet married on her death. Buffet, aged 79, defies ideas on healthy eating: "If a three year old won't it, neither will I". He seems to live on Coke and fast food. He has little interest in religion or culture. Annual reports and financial publications are his main source of reading.

Alice Schroeder has produced a remarkable book about a remarkable person. It is far too long and could easily loose a hundred pages from its 900 plus pages (for example, hearing repeatedly about his weird eating habits gets boring).

How does Buffet do so well in investments? The bits of “formula” distributed throughout the book are very simple: for example, invest for the long term (don’t speculate), remain well informed, don’t invest in areas you don’t understand, value integrity and honesty, avoid debt, always maintain a margin of investment safety, be optimistic (markets do recover in the long-term), select good managers and then leave them alone (don’t micro-manage). This is a reaffirmation of basic American values. He does well by doing good.

Keith Suter