








## 7<sup>(258)</sup> Pearls of Warren's Wisdom

*Few simplify complexity as effectively as Warren Buffett. Here are seven gems from Berkshire Hathaway's 2017 Annual Shareholder Letter:*

 One word sums up our country's achievements: miraculous. From a standing start 240 years ago – a span of less than triple my days on earth – Americans have combined human ingenuity, a market system, a tide of talented and ambitious immigrants, and the rule of law to deliver abundance beyond any dreams of our forefathers.

 Early Americans, we should emphasize, were neither smarter nor more hard working than those people who toiled century after century before them. But those venturesome pioneers crafted a system that unleashed human potential, and their successors built upon it. This economic creation will deliver increasing wealth to our progeny far into the future. Yes, the buildup of wealth will be interrupted for short periods from time to time. It will not, however, be stopped. I'll repeat what I've said in the past and expect to say in future years: Babies born in America today are the luckiest crop in history.

 Every decade or so, dark clouds will fill the economic skies and they will briefly rain gold. When downpours of that sort occur, it's imperative that we rush outdoors carrying washtubs, not teaspoons. And that we will do. During such scary periods, you should never forget two things: First, widespread fear is your *friend* as an investor, because it serves up bargain purchases. Second, *personal* fear is your enemy. It will also be unwarranted.

-  A number of smart people are involved in running hedge funds. But to a great extent their efforts are self-neutralizing, and their IQ will not overcome the costs they impose on their investors.
-  The problem simply is that the great majority of managers who attempt to over-perform will fail. The probability is also very high that the person soliciting your funds will not be the exception who does well.
-  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 the experience ends up with the money and the one with money leaves with the experience."
-  The bottom line: When trillions of dollars are managed by Wall Streeters charging high fees, it will usually be the managers who reap outsized profits, not the clients.