

The Evolution of Warren Buffett as an Investor

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Before Warren Buffett became Chairman and CEO of Berkshire Hathaway, he ran a successful investment partnership. But his style of investing was not always the same, it gradually evolved over time. His high school jobs consisted of varied ventures including selling golf balls and delivering papers. The money he saved from these jobs was invested in the stock market using different investment styles.

Perhaps trying to find the best style for himself, Buffett had read every book related to finance in the Omaha Public Library by the time he graduated college.

His investment style up to this point was wide ranging. He had studied many different techniques including odd-lot investing and technical analysis.

Buffett's Investing Framework Takes Shape

In 1950 he came across a copy of [The Intelligent Investor](#) by Benjamin Graham, his future mentor at Columbia. This book had a dramatic effect on Buffett's investment style.

Graham's investment style could be seen on a deeper level in his other book, *Security Analysis*, which was co-authored by David Dodd.

Within Graham's two books, an [investing framework](#) was outlined that would shape Buffett's stock selection for the rest of his career.

Graham favored looking at a stock as a piece of a business. He viewed volatility more as an opportunity and less as a risk.

Working for Graham

While also a professor at Columbia, Graham ran the investment partnership Graham-Newman Corporation. Through his investment partnership he invested using the [Net Current Asset Value](#) formula to identify companies. Using this formula he was able to find companies selling for below an estimation of liquidation value.

In the early 1950s, Buffet was piggybacking off of Graham's ideas with his own money.

Through his partnership, Graham would sometimes buy large stakes in companies to influence managements and join the board of directors. Some examples include investments in Northern Pipeline, Philadelphia and Reading Coal & Iron Company, and Marshall-Wells.

It was at the Marshall-Wells annual stockholder meeting that Buffett first met Walter Schloss, whom he would later be colleagues with. It wasn't until 1954 that Buffet finally convinced Graham to hire him at Graham-Newman.

There, Buffet worked alongside Schloss in a spare room manually computing the liquidation value of companies. A signature trait of this investing was that little time was spent evaluating management. Buffet and Schloss merely filled out simple forms which would be used by Graham to make his investment decisions.

By ignoring the qualitative side, Graham's method was largely quantitative.

The Early Partnership

After the Graham-Newman partnership was closed in 1956, Buffet formed his own investment partnership. He employed many of the same methods that he used while working for Graham.

Buffet followed in his mentor's footsteps by buying companies selling below liquidation value and then proceeding to influence management. He did this with success at Sandborn Map, Dempster Mill Manufacturing, and Berkshire Hathaway.

The Birth of Berkshire Hathaway

Berkshire Hathaway did not start out as the conglomerate it is today, but as a textile mill selling below liquidation value. Buffett first began buying it in 1962 and by 1965 he had taken control of the company's board and made himself Chairman.

During this time, Buffett's investing style began to change again.

While he still favored buying companies that were selling below intrinsic value, how he came to a company's intrinsic value began to change.

While still managing his partnerships, Buffett was introduced to Charlie Munger. Munger felt better about buying a great business with high returns on capital than buying a struggling company selling below liquidation value.

Buffett's Investing Style Today

Over time, Buffett and Munger both began to move further from the strict Graham approach and more towards buying great businesses. By placing a greater emphasis on the intrinsic value as determined by the operating company's future cash flows (rather than the company's assets) a company's qualitative characteristics became more important.

Buffett views Phillip Fisher's book [Common Stocks and Uncommon Profits](#) as the best guide to successful qualitative investing.

By 1970, Buffett's partnerships had been wound down and Buffett concentrated his efforts on running Berkshire Hathaway.

Over the past 40 years Buffett has been able to combine the quantitative style of Graham with the qualitative style of Fisher, and in doing so has become arguably the greatest investor of all time.

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