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The Quotable Warren Buffett

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You are likely familiar with Warren Buffett – the so-called Oracle of Omaha, Nebraska. His long-term performance record at Berkshire Hathaway is the envy of most investors. He is known around the world for his down-to-earth approach to investing, which makes the complex seem simple. What follows are some of Warren's best quotes through the years.

"If you aren't willing to own a stock for ten years, don't even think about owning it for ten minutes."

This quote encapsulates Warren's long-term view on investing. You should have an ample time horizon to not only grow your wealth but to recover from inevitable losses.

"Do not take yearly results too seriously. Instead, focus on four or five-year averages."

Even Berkshire Hathaway – Warren Buffett's holding company – has had its share of disappointing years, particularly when value stocks were out of favor. But since 1965 through 2020, Berkshire's compound annual rate of return is roughly 20%, or approximately twice the return for the S&P 500 over the same period.

"It is a terrible mistake for investors with long-term horizons -- among them pension funds, college endowments, and savings-minded individuals -- to measure their investment 'risk' by their portfolio's ratio of bonds to stocks."

The risk that Warren is referring to here is the potential profit that you forego over extended periods by being underweight in equities. Carrying a large bond position in a portfolio when your time horizon is relatively long (e.g. 20 years) could prove costly, hence the risk.

"I never attempt to make money on the stock market. I buy on the assumption that they could close the market the next day and not reopen it for five years."

If March 2020 taught us anything, it is the fact that liquidity, or the ability to buy and sell shares, is not guaranteed. There is no law that stipulates that the market must be open. When COVID hit last year, the markets were temporarily frozen. Trading was halted temporarily. The Fed provided a backstop. Nevertheless, the turmoil reminded us that markets can be fragile.

"The most important thing to do if you find yourself in a hole is to stop digging."

It is important to recognize that at some point, as an investor, you will inevitably make a mistake. Rather than accept a mistake and move on, some investors will stubbornly deny their error and expose their portfolios to additional losses.

"It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."

Your reputation can be your biggest asset or your biggest liability. A solid reputation, particularly when it comes to managing other people's money, is a highly valuable asset, and separates people like Warren Buffett from Bernard Madoff.

"You don't need to be a rocket scientist. Investing is not a game where the guy with the 160 IQ beats the guy with 130 IQ."

Investing does not have to be overly complex. One of the simplest strategies is to dollar-cost-average into a passive index fund over many years. This is essentially the strategy used by employees when they participate in their 401k plans.

"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."

As an investor you should always weigh the cost of advice and money management against the fees that you are paying. Over time, the true cost of investment fees can compound and take a bite out of your retirement savings.

"Predicting rain doesn't count, building the ark does."

There is no way to predict when market panics will materialize. They are an inevitable part of long-term investing. What you can do, however, is follow a sound and disciplined investment strategy to help get you through the turbulent times.

"The one thing I will tell you is the worst investment you can have is cash. Everybody is talking about cash being king and all that sort of thing. Cash is going to become worth less over time. But good businesses are going to become worth more over time."

Stashing away money in a checking account really is not an investment at all. Through inflation, cash loses its value over time, which means a negative real rate of return. However, thoughtful investments in good businesses are likely to deliver returns above and beyond the rate of inflation.

"In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497."

It is probably ill advised to bet against stocks over the long haul. Equity returns over the long run – despite some periodic headwinds – have proven quite resilient.

"For 240 years it's been a terrible mistake to bet against America, and now is no time to start."

Despite all the turmoil we have experienced over the past few decades, an investment in American business via the equity markets has generally paid off handsomely.