

**THE ESSAYS OF WARREN BUFFETT:  
LESSONS FOR CORPORATE AMERICA**





*Selected Books by Lawrence A. Cunningham*

Margin of Trust: The Berkshire Business Model (2020)

The Warren Buffett Shareholder: Stories from Inside the Berkshire Hathaway Annual Meeting (2018)

Quality Investing: Owning the Best Companies for the Long Term (2016)

Berkshire Beyond Buffett: The Enduring Value of Values (2014)

The AIG Story (2013)

Contracts in the Real World: Stories of Popular Contracts and Why They Matter (2012)

**THE ESSAYS OF WARREN BUFFETT:  
LESSONS FOR CORPORATE AMERICA**

ESSAYS BY

**WARREN E. BUFFETT**

SELECTED, ARRANGED, AND INTRODUCED BY

**LAWRENCE A. CUNNINGHAM**

FIFTH EDITION

## Library of Congress Cataloging-in-Publication Data

Cunningham, Lawrence A., 1962-  
Buffett, Warren E., 1930-

The Essays of Warren Buffett: Lessons for Corporate America / selected, arranged, and introduced by Lawrence A. Cunningham—5th ed.

Includes previously copyrighted material. Reprinted with permission. Includes bibliographical references and index.

1. Corporations—United States—Finance. 2. Corporate governance—United States. 3. Investments—United States. 4. Stocks—United States. 5. Consolidation and merger of corporations—United States. 6. Accounting—United States. I. Buffett, Warren E. II. Cunningham, Lawrence A. III. Title.

HG4061.B8372 2001  
(OCoLC) 38497313

Originally published as part of the *Cardozo Law Review*'s special issue on *The Essays of Warren Buffett Symposium*. Copyright © Lawrence A. Cunningham, 1995, 1997, 2001, 2008, 2013, 2015, and 2019. Includes previously copyrighted materials, © Warren E. Buffett, reprinted with permission. All rights reserved. Printed in the United States of America.

ISBN: 978-1-5310-1750-7  
eISBN 978-1-5310-1751-4  
LCCN 2019945967

**Copies of this collection are available in larger quantities at special discounts to use for teaching, training, promotions, premiums or other purposes. For more information, please contact the editor and publisher, Lawrence A. Cunningham, at [lacunningham@law.gwu.edu](mailto:lacunningham@law.gwu.edu).**

*“The speech I love is a simple, natural speech,  
the same on paper as in the mouth;  
a speech succulent and sinewy, brief and compressed,  
not so much dainty and well-combed as vehement and brusque.”*

**Michel de Montaigne**  
***The Essays of Montaigne (1580)***

*“The sincerity and marrow of the man reaches to his sentences.  
I know not anywhere a book that seems less written.  
Cut these words and they would bleed; they are vascular and alive.”*

**Ralph Waldo Emerson**  
***Representative Man (1850)***  
**(Referring to Montaigne and his *Essays*)**

*“Some books should be tasted, some devoured,  
but only a few should be chewed and digested thoroughly.”*

**Francis Bacon**  
***The Essays of Francis Bacon (1696)***





## TABLE OF CONTENTS

EDITOR'S NOTE .....	1
INTRODUCTION.....	3
PROLOGUE: OWNER-RELATED BUSINESS PRINCIPLES .....	29
<b>I. GOVERNANCE .....</b>	<b>39</b>
A. <i>Full and Fair Disclosure</i> .....	39
B. <i>Boards and Managers</i> .....	43
C. <i>The Anxieties of Business Change</i> .....	54
D. <i>Social Compacts</i> .....	60
E. <i>An Owner-Based Approach to Corporate Charity</i> .	62
F. <i>A Principled Approach to Executive Pay</i> .....	69
G. <i>Risk, Reputation and Climate Change</i> .....	78
H. <i>Corporate Culture</i> .....	82
<b>II. INVESTING .....</b>	<b>83</b>
A. <i>Farms, Real Estate and Stock</i> .....	83
B. <i>Mr. Market</i> .....	87
C. <i>Arbitrage</i> .....	91
D. <i>Debunking Standard Dogma</i> .....	97
E. <i>“Value” Investing: A Redundancy</i> .....	106
F. <i>Intelligent Investing</i> .....	112
G. <i>Cigar Butts and the Institutional Imperative</i> .....	119
H. <i>Life, Debt and Swoons</i> .....	122
<b>III. ALTERNATIVES .....</b>	<b>127</b>
A. <i>Surveying the Field</i> .....	127
B. <i>Junk Bonds and the Dagger Thesis</i> .....	131
C. <i>Zero-Coupon Bonds and Ski Masks</i> .....	138
D. <i>Preferred Stock</i> .....	144
E. <i>Derivatives</i> .....	154
F. <i>Foreign Currencies and Equities</i> .....	163
G. <i>Home Ownership: Practice and Policy</i> .....	169
H. <i>Business Partnerships</i> .....	172
<b>IV. COMMON STOCK.....</b>	<b>177</b>
A. <i>Beating Costs with Indexing</i> .....	177
B. <i>Attracting Quality Shareholders</i> .....	185
C. <i>Stock Splits and the Invisible Foot</i> .....	188
D. <i>Berkshire's Dual Class: Thwarting Clones</i> .....	192
E. <i>Buybacks and Rationality</i> .....	197
F. <i>Dividends and Capital Allocation</i> .....	203

V.	<b>ACQUISITIONS</b> .....	213
	A. <i>Bad Motives and High Prices</i> .....	213
	B. <i>Sensible Share Repurchases Versus Greenmail</i> ....	224
	C. <i>Leveraged Buyouts</i> .....	224
	D. <i>Sound Acquisition Policies</i> .....	227
	E. <i>On Selling One’s Business</i> .....	230
	F. <i>The Buyer of Choice</i> .....	234
VI.	<b>VALUATION</b> .....	237
	A. <i>Aesop and Inefficient Bush Theory</i> .....	237
	B. <i>Intrinsic Value, Book Value, and Market Price</i> ....	240
	C. <i>Look-Through Earnings</i> .....	247
	D. <i>Economic versus Accounting Goodwill</i> .....	252
	E. <i>Owner Earnings and the Cash Flow Fallacy</i> .....	262
	F. <i>Option Valuation</i> .....	269
VII.	<b>ACCOUNTING</b> .....	273
	A. <i>Satire</i> .....	274
	B. <i>Standard Setting</i> .....	280
	C. <i>Audit Committees</i> .....	281
	D. <i>“Adjusted Earnings”</i> .....	283
	E. <i>Pension Estimates and Retiree Benefits</i> .....	290
	F. <i>Realization Events</i> .....	293
	G. <i>Investments</i> .....	294
VIII.	<b>TAXATION</b> .....	297
	A. <i>Distribution of the Corporate Tax Burden</i> .....	298
	B. <i>Taxation and Investment Philosophy</i> .....	300
IX.	<b>HISTORY</b> .....	305
	A. <i>The American Miracle</i> .....	305
	B. <i>Productivity Growth</i> .....	307
	C. <i>Tailwinds</i> .....	312
X.	<b>CODA</b> .....	315
	A. <i>Buffett on Berkshire Culture</i> .....	315
	B. <i>Munger on “The Berkshire System”</i> .....	327
	C. <i>Methuselah’s Estate</i> .....	332
	INDEX .....	335
	CONCEPT GLOSSARY .....	340
	DISPOSITION SUMMARY .....	341

## EDITOR'S NOTE

The original edition of *The Essays of Warren Buffett: Lessons for Corporate America* was the centerpiece of a 1996 symposium I organized as Director of the Heyman Center on Corporate Governance. This gathering brought hundreds of students together for a two-day dissection of all the ideas in the compilation, featuring a series of vibrant debates among some 30 distinguished scholars, investors, and managers, with Warren E. Buffett and Charles T. Munger, participating throughout from their seats in the front row.

In the decades since initial publication, I have often taught *The Essays*, as this book has come to be known, in my classes and seminars at four different universities. The book is adopted by scores of professors at other schools for classes such as investment, finance and accounting. Investment firms have distributed copies to their professional employees and clients as part of training programs.

As in previous editions of *The Essays*, this one retains the architecture and philosophy of the original edition but adds selections from Warren's most recent annual shareholder letters. All the letters are woven together into a fabric that reads as a complete and coherent narrative of a sound business and investment philosophy. As an aid to all readers, and to enable readers of the previous editions to see what is new in this one, a disposition table at the end of the book shows the various places in this collection where selections from each year's letter appear. Footnotes throughout indicate the year of the annual report from which essays are taken. To avoid interrupting the narrative flow, omissions of text within excerpts are not indicated by ellipses or other punctuation.

The new edition is called for not because anything has changed about the fundamentals of Warren's sound business and investment philosophy but because articulation of that philosophy is always delivered in the context of contemporary events and business conditions. So periodic updating is warranted to maintain its currency.

In preparing the previous editions, I was aided by numerous people, to whom I expressed gratitude in those editions, and I want to thank them again. Among those, I especially thank Warren Buffett. His generosity not only made the symposium possible but his participation enriched it manifold; his willingness to entrust the re-arrangement and ongoing republication of his letters to me is a great honor. I thank the many thousands of devoted fans, follow-

ers, and friends who have been avid readers of *The Essays* over the past 25 years and look forward to continuing our journey.

*Lawrence A. Cunningham*  
*New York City*  
*October 1, 2019*