



Woodstock for Capitalists

A **STUDYGUIDE** BY **MARGUERITE O'HARA**



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'RULE #1: NEVER LOSE MONEY. RULE #2: NEVER FORGET RULE #1' (WARREN BUFFETT)

Introduction

WARREN BUFFETT is the second richest man in the world, believed to be personally worth about US\$40 billion. (Bill Gates, the founder and director of Microsoft is thought to be worth more than US\$40 billion). Buffett is now seventy-five and still managing his investment company and diversified conglomerate, Berkshire Hathaway. Shares in Berkshire Hathaway have grown at an average rate of about twenty-one per cent a year, making a US\$10,000 investment in 1965 worth US\$50 million today. Shares today trade at about US\$90,000 each, with relatively little turnover, as most shareholders don't sell. Annual dividends are not paid, unlike the practice of many companies, as Buffett chooses to re-invest earnings into new investments.

Synopsis

This documentary, *Woodstock for Capitalists*, directed and produced by Ian Darling at the end of the 'dot-com' boom, provides an introduction to the investment world of Warren Buffett. The film takes us through a journey made by Darling, a Sydney investment manager, and his business partner, Mark Nelson, to the annual shareholders' meeting of Berkshire Hathaway in Omaha, Nebraska, Buffett's hometown and headquarters. It includes interviews with both Buffett and his long time business partner, Charlie Munger. Darling cheerfully admits to being a big fan of Buffett and his investment strategy and the film is largely a tribute to the man many in the world of investment see as a guru, 'the Oracle of Omaha'. Known as the 'good guy' of Wall Street, to many, Buffett is the hero of capitalism and the world of business.

Each year the faithful make a pilgrimage to Omaha. Some 20,000 people descend on this small Midwestern town, anxious to hear the wisdom of their humble, unassuming guru. It is an event surrounded by ritual, adulation and a fair amount of cult worship. But this is not a gathering of a religious sect; it is a shareholders' meeting. It's a millionaires' convention

– probably the largest gathering of private wealth anywhere in the world.

The film leads us through the three-day festival asking the questions we ourselves want the answers to. Everyone soon discovers that the weekend is about a lot more than money. The Berkshire Hathaway shareholders are a global tribe, brought together by a shared set of values and a strong sense of family. Ordinary men and women come to see Warren Buffett, the man who has changed their lives so drastically.

This film has won several awards in the USA and the United Kingdom.

Curriculum Links Using *Woodstock for Capitalists* in the classroom

The themes, issues and activities in this documentary will be of interest to middle and senior secondary students studying:

- Accounting
- Business Management
- Business Maths
- Commerce 7-10
- Economics
- Industry and Enterprise
- Media Studies
- SOSE (HSIE)

Through developing an insight into the world of Warren Buffett students can develop an understanding of the basic principles of investing in the stock market, as well as an insight into one of the world's richest, most private and least flamboyant men.



PICTURED ABOVE: WARREN BUFFETT, THE SECOND RICHEST MAN IN THE WORLD

Before watching the film

1. What do you know about either the personal or business life of Warren Buffett? Why do you think he is relatively unknown?
2. Do you or anyone you know invest money in the share market?
3. Approximately what percentage of Australians now holds shares in the stock market?
4. What would a continuing stream of money from dividends through investments mean to you?

Glossary

- o **Berkshire Hathaway** – Company headed by Buffett.
- o **Shares** – financial ownership in a percentage of publicly listed companies on the stock exchange.
- o **Stock exchange** – Central place where shares are bought and sold. In USA the Dow Jones is the main index of shares, in Britain the FTSE and in Australia the All Ordinaries.
- o **Blue chips** – shares in companies perceived to be well regarded businesses and steady performers. Examples in Australia include major banks, Woolworths, Westfield Holdings, Telstra and BHP.
- o **Dividend** – the portion of a company's profits paid to shareholders as the return for their investment; usually paid twice a year.
- o **Listed company** – a company which has agreed to abide by ASX Listing Rules so that its shares can be bought and sold on the ASX.
- o **AGM** – Annual General Meeting
- o **Woodstock** – The title of the documentary is a reference to the 3-day 1969 festival of 'music, peace and love' held in White Lake/Bethel, New York, USA.

This was a massive gathering of mostly young people who came together to celebrate, listen to music and identify with a youth culture based on freedom in music and life. The title of this documentary suggests that the Berkshire Hathaway AGM is a bit like the famous 1960s music festival, but for capitalists.

A searchable index of terms relating to shares and trading can be accessed at this ASX (Australian Stock Exchange) site: <http://www.asx.com.au/webmcq/servlet/com.webmcq.glossary.Glossary?cid=0&alt=1>

5. How much skill do you believe is involved in becoming a successful investor?
6. How much luck do you think is involved?
7. Who would you turn to for advice on starting a share portfolio?
8. Apart from their labour, how else can people generate personal wealth in a capitalist society?

shares that will return steady dividends and show continuing capital growth. There is always a degree of risk involved in investing, whether it is in property or shares.

Who is Warren Buffett and why do so many people admire him?

Warren Buffett is considered by many people to be a guru in the investment world and operates his business by following a number of basic principles. He has an enormous world wide following, partly because his investment strategies sound like common sense, yet deliver an impressive annual average return of around 21%. He was a student of Benjamin Graham, regarded by many as the father of financial analysis. One of Graham's principles was to avoid speculative investment and always conduct a thorough analysis of a company's performance.

Some of Buffett's basic principles for investing in a business are:

1. Do I understand the business? Do I know what it produces or provides? (This partly explains why Buffett has not invested in internet companies claiming to

develop revolutionary technologies because as he says, he couldn't predict their future earnings or understand their business model.)

2. Is the business run by people I admire and trust?
3. Does it have a sustainable competitive advantage?
4. Is the price right?
5. If yes to the above, then buy.¹

Money, money, money! What are investments?

While most people need to work for a living to pay for their basic needs, many people like to supplement their basic income through investments, usually in property or in businesses through buying and selling stocks and shares in companies. A large percentage of Australians today buy and sell shares to make money and in many cases to provide an income for their retirement.

Share ownership has increased significantly in Australia, with a compulsory 9% superannuation levy granted to all employees in Australia. The percentage of Australians who own shares (directly or through managed superannuation funds) is now at record levels.

Everyone wants to make good investments that will maximize profits but not everyone is successful in achieving this. The financial industry employs many people as investment advisors whose job is to guide people into buying and selling



BUFFETTISMS

‘We look for businesses we understand that are well managed.’

‘We enjoy the process far more than the proceeds.’

‘Buy a wonderful company at a fair price rather than a ‘fair’ company at a wonderful price.’

‘Someone is sitting in the shade today because someone planted a tree a long time ago.’

‘You’re lucky in life if you pick the right heroes.’

‘It’s about just being as good as you could be and having fun doing it.’

‘They come because we make them feel like owners.’

‘I have no idea about how to beat the market this year; it’s about doing sensible things over the long term.’

‘Some teacher that really moulds how thousands of people behave over their lifetime is far more important ... than someone who runs a great hedge fund.’

‘I am wired in such a way that I get paid an incredible amount on the market system for allocating capital.’

Buffett’s business results are achieved within what many people would consider to be a very ‘ordinary’ lifestyle. Not for Buffett the glitzy public trappings of a Donald Trump. Buffett rejects personal ostentation, having lived in the same modest house for more than fifty years, dining at the same local steakhouse, driving an old Lincoln town car, only using a computer to play Bridge, and having a very small group of trusted employees at the headquarters of his Berkshire Hathaway company. It is claimed that he works on ‘gut instincts’ when making investments and purchasing companies, however in reality he can calculate complex equations and ratios in his head, and has analysed thousands of companies over his investment lifetime. There are certain basic principles that have guided his strategy when buying into companies like Coca-Cola, Dairy Queen, Wells Fargo, American Express, Gillette, and The Washington Post Company, amongst others. All these companies sell a successful brand name product. (Buffett himself favours Cherry Coke as his drink). He prefers to allow managers to run their companies without interference. Berkshire Hathaway has about 180,000 employees, though only seventeen at his Omaha headquarters and has no Public Relations, Human Resources or Investor Relations departments.

Some of Buffett’s other tips for better investing include:

1. Only invest long-term in companies whose future earnings can be predicted.
2. Stick to investments for the long haul, at least ten years.
3. Borrowed money is the most common way that smart guys go broke.

4. Look at stocks as parts of businesses. Ask yourself, ‘How would I feel if the Stock Exchange was closing tomorrow for the next three years?’ If I am happy owning the stock under that circumstance, I am happy with the business.

5. You can’t know precisely what a stock is worth, so leave yourself a margin of safety. Only go into things where you could be wrong to some extent and come out OK.

6. The stock doesn’t know you own it. People shouldn’t get emotionally involved with their stocks.

7. Choose companies with an identifiable consumer dominance, either a brand name product or a key service that people or businesses are dependent on.

These basic principles all seem very sensible, but there are more complex factors at work to explain Buffett’s extraordinary success as an investor.

His investment purchases are based on sets of detailed mathematical calculations about each company’s past, present and likely future financial position within the market. While these are not detailed in this documentary, they are explained in the texts referred to at the end of this guide.

THE MAIN PLAYERS

WARREN BUFFETT – 76, Chairman and CEO of Berkshire Hathaway, a conglomerate investment company.

CHARLIE MUNGER – 83, year-old Vice-Chairman of Berkshire Hathaway, Buffett’s long-term business partner.

IAN DARLING AND MARK NELSON – Sydney-based investors, who make the trip from Sydney to the annual general meeting of Berkshire Hathaway, in Omaha, Nebraska, USA.

FOLLOWING THE FILM

1. How do we know Ian Darling is a big fan of Warren Buffett from the opening sequence of this documentary? Why is Buffett his hero?
2. What are some of the apparent indicators of Buffett's down to earth, folksy style in his home town of Omaha, Nebraska?
3. How does he seem to be regarded within his community?
4. What are the two first principles of Buffett's investment strategy?
5. Which particular type of investments does he steer clear of?
6. How many shareholders attend the Annual General Meeting of Berkshire Hathaway in Omaha?
7. What is a share in the company worth today?
8. Name five of the big companies in which Berkshire Hathaway is a major shareholder.
9. What is the annual average return that Buffett generates for his shareholders?
10. Who are the members of the *Omaha Lounge Society*?
11. Who are *The Yellow BRKers*?
12. What does the behaviour of these groups suggest about the loyalty and devotion of Buffett followers?
13. Describe three incidents in this documentary that show Buffett as part of his Omaha community.
14. What does this film have to say about Buffett's support of charitable foundations?
15. How is his approach different to that of Bill Gates?
16. What will happen to Buffett's personal wealth when he dies?
17. Why is Warren Buffett critical of general business practices in the US today? Why is he so different?



Many weekend newspapers publish a 'shares race' game in the Business section of the newspaper. Ten 'investors' begin with \$100,000, choose their ten hottest stocks, buy approximately \$10,000 worth of shares in each one and then see how much they can each make through buying and selling over a four-week period. Competitors often include an astrologer, a student, the dartboard, a banker, together with professional financial analysts and investors and media personalities. While this short term approach is not the Buffett style of investing, the results make interesting reading and may surprise you. Sometimes the 'dartboard' comes out as the most successful investor!²

The ASX (*The Australian Stock Exchange*) has an online share market game where people can practice at investing in listed companies to test their skills at picking growth stocks. This site is referenced in the list at the end of this guide.

The ASX also run investment games for school students to practice their skills and learn about investing without losing any real money.

This year more than 80,000 students from Australian secondary schools took up the challenge. They formed syndicates to play the sharemarket over a twelve-week period. Here is what one group of state winners said in 2004,

The ASX game allowed us to gain a more in depth understanding of the workings of the stock market. We learnt how to buy and sell shares and

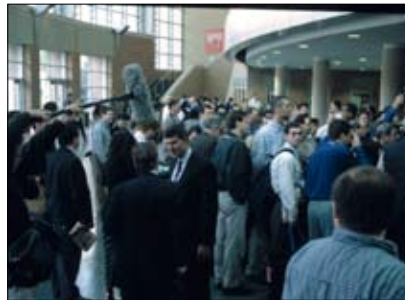
were able to use our knowledge of economics to analyse future changes. We looked at the previous production information of companies to establish which shares would be the best to purchase. This included the interpretation of economic data and company performance charts. Our secret was to study the Stock Exchange Market Watch and to review the background information about companies. We started off well, moving up to third place in the state; however, about halfway through the competition our stocks began to fall, and we dropped to twenty-fifth in Queensland. We did not panic as we had faith in our stocks, and over the last fortnight our stocks bounced back, whilst the other competitors' shares fell. We really enjoyed being involved in this competition.

YOU AS AN INVESTOR – PICKING THE GOOD ONES

Selecting and buying shares in listed companies can be a risky business.

Student Activity 2

STYLE AND CONTENT



1. How does Ian Darling, the writer, director and producer of this documentary, select images and scenes that show his admiration for Warren Buffett?
2. The song *Going up the Country* frames the documentary. What mood does it establish and re-enforce about Buffett's style and values?
3. What constraints do you think Darling faced in making this film?
4. What were some of the memorable images in the film?
5. Is the message simple and effective, like the message of Buffett's meetings?

Student Activity 3

EXTENSION ACTIVITIES

Select one or more of the following questions and investigate it in small groups, then report back to your class.

1 Berkshire Hathaway is very much the product of Buffett's investment philosophy, developed over fifty years. How do you believe such a successful company might continue to operate profitably after Buffett dies?

2 Does this film provide useful insights into Buffett's investment strategies, either through what he and Charlie Munger say, or what his followers say about his methods? What are these insights and how helpful do you think they are to an investor?

3 Do you believe 'making money' for yourself and others through investing in property or businesses to be an admirable career choice? Is there a different attitude towards financial success in the USA in comparison to Australia.

4 What is 'insider trading' and why is it regarded as wrong in the world of business? Research a recent case of 'insider trading' in Australia.

5 What is 'ethical investing'? Would you describe Buffett as an "ethical" investor. Would you be comfortable holding shares in tobacco companies, gambling/poker machine businesses and/or timber companies whose business practices may have damaging effects on people and the environment? Explain your response to this issue.

6 What global and local factors have an effect on the performance of stock markets and individual companies? e.g., why have Telstra and James Hardie shares fluctuated so much in value over the past few years?

7 Early in this documentary, Ian Darling says, 'We all need a hero in life'. Which of your living 'heroes' would you like to make a film about? (Decide first of all what you mean by 'a hero' and whether it is something more than being good at what you do.) What approach would you take to showing their qualities? Would you focus on only their admirable qualities or offer a 'warts and all' picture? Prepare a brief running sheet for your documentary, showing how you might avoid a 'talking heads' picture.



8 *His simple, old-fashioned values of trust, loyalty and decency weren't only a guide to good investing. They were also a model on how to conduct yourself through life. Buffett has shown you can do the right thing by your employees, your shareholders and the community and at the end of the day still have the best investment record around. Heroes hold so much of what we believe in and I reckon it's important to have faith in something greater than yourself.*

(Ian Darling)

Is this the message you take from this documentary?



References

Books

The rights to publish Buffett's authorized biography, due for release in 2008, have attracted bids of US\$7 million dollars in advance from publishers.

A complete list of Warren Buffett's letters to shareholders can be found at: www.berkshirehathaway.com

A list of recommended books about Warren Buffett include the following:

The Essays of Warren Buffett: Lessons For Corporate America – Essays by Warren E. Buffett. Selected, Arranged and Introduced by Laurence A. Cunningham.

The Warren Buffett Way – Investment Strategies Of The World's Greatest Investor – by Robert G Hagstrom Jr.

The Warren Buffett Portfolio – by Robert G Hagstrom Jr.

Of Permanent Value, The Story of Warren Buffett – by Andrew Kilpatrick.

The World's Greatest Investment: 101 Reasons To Own Berkshire Hathaway – by Robert P. Miles

The Warren Buffett CEO – by Robert P. Miles

How to Think Like Benjamin Graham and Invest Like Warren Buffett – by Laurence A. Cunningham

The Making Of An American Capitalist – by Roger Lowenstein.

The Midas Touch – by John Train.

Warren Buffett Speaks: The Wit And Wisdom From The Worlds Greatest Investor – by Janet C Lowe.

Film

The Corporation – a film by Mark Achbar, Jennifer Abbott and Joel Bakan (2004). Available on DVD and video. A

look at how corporations have developed and behaved around the world.

Enron – The Smartest Guys in the Room – A film by Mark Gibney (2005). Available on DVD & video. The story behind the infamous Enron scandal detailing the company's downfall. An interesting contrast to the ethics of the Warren Buffett story, and a good lesson in how not to do business.

Internet

<http://www.google.com> There are over 2 million articles relating to Warren Buffett on the web – simply type in 'Warren Buffett'.

<https://www9.asx.com.au/Smg/CharityResources> (Accessed 16 November 2005) Australian Stock Exchange (ASX) site offering information on how to become a competent investor.

<http://www.salon.com/people/bc/1999/08/31/buffett/> (Accessed 17 November 2005) Very readable account of Buffett's background and investment principles.

<http://beginnersinvest.about.com/cs/warrenbuffett/l/blwarrenbuffett.htm> (Accessed 17 November 2005) Basic information about Buffett's strategies with links to a range of Buffett sites.

http://www.businessweek.com/1999/99_27/b3636001.htm (Accessed 17 November 2005) *The Warren Buffett You Don't Know*. This is a fascinating account of how Buffett operates, more complex and less adulatory than many others.

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Endnotes

¹ Adapted from David Koch in *The Age* Investor section, 13 November 2005

² *Sunday Age*, 20 December 2005, Business News, p.15.



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