MINORITY SHAREHOLDERS WATCH GROUP
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MINORITY SHAREHOLDERS

BUFFETT'S SIMPLE INVESTING ADVICE

DEVANESAN EVANSON

IMAGINE paying US$19 million for lunch. And someone paid that amount to have lunch with Warren Buffett.

He is the legendary 91-year-old highly successful fundamental investor of our time. He is chairman and chief executive officer of Berkshire Hathaway Inc.

Such lunches have been an annual feature in Buffett's diary, except for 2020 and last year due to the Covid-19 pandemic.

The previous amount paid for lunch with Buffett was US$4.57 million in 2019. These annual pleasures to have lunch with Buffett are bid for and the proceeds go to charity.

There have been 20 such lunches to date and this year will be the 21st and final one, hence the record-breaking offer.

This year's winner will dine with seven other guests at a steakhouse in Manhattan. It will be a sit-down lunch as guests try to glean words of wisdom and thoughts from Buffett.

The Oracle of Omaha's eating habits have been the subject of many Internet articles, and for a good reason.

Buffett famously loves junk food, preferring hamburgers, hot dogs, Cherry Coke and McDonald's to high-end cuisine.

He has a treasure-trove of wisdom and guidance for stock market investors.

There have been several books written about him and his investment philosophies, methodologies and approach that any fundamental investor will find useful.

Five points of the simple advice given by Buffett should find their way into the thought process of minority shareholders.

First, do not invest in something that you do not understand. The business model must be clear. How the company operates must be clear. What exactly a company does and how it does it must be clear. How the process translates to money must be clear.

It is all about clarity of the business. If you are not clear about these things, then you have no right investing in it.

It is best to avoid making the investment. There is a sound basis for this advice; why invest in something that you do not know?

As part owner of the company, why own something that you do not understand?

Such investing is something that Buffett cannot comprehend. And neither should we invest in something that we cannot comprehend.

Second, do not deal with someone you do not trust. As stated earlier, a shareholder is part owner of the company. The shareholder has delegated his interests and financial wellbeing to the board and management of the company.

The shareholder must ask the pertinent question: do I trust the board and management of the company? You should not entrust your hard-earned money with those you do not trust — simple logic.

The trust question needs to be asked and answered before making an investment.

Throughout the tenure of your investment, you need to consistently ask the same questions as material events unfold. It is inherent and perfectly normal to trust but do validate by asking the pertinent question every now and then.

Thirdly, do not buy a stock unless you think it is undervalued — the so-called margin of safety.

The difference between the market price and your idea of what the stock is worth (your intrinsic value of the stock) gives the margin of safety.

The greater the market offers a discount to your intrinsic value, the greater the screaming buy. Malaysians should be reasonably good at this as we love a good bargain and are always in search of such.

But the challenge is in arriving at the intrinsic value. To do this, we must have a robust methodology of valuing the future price of a stock. And there is no one fool-proof methodology out there.

But methodologies do share some common features. Even then things can go wrong. Welcome to the world of market risk. The world of uncertainty. More of this later.

Fourth, a drop in share price may be an opportunity to buy. But again, this must be done in reference to the intrinsic value. Past share prices per se are history. We invest based on prospective prices. Markets do not remember history.

They only react to current events and on what they anticipate future events to be like. For the fundamental investor, past highs and lows of share prices are generally meaningless.

Focus on what the intrinsic future value of the share price will be like. A fundamental but irrelevant fixation of minority shareholders is the price paid for the share.

The price paid becomes meaningless as soon as we have paid for it.

From then on, the market will determine the share price based on the company's performance, prospects and external events. These are the things that will determine the intrinsic value.

And lastly, the future is filled with uncertainty. The future is never clear.

The best-laid plans can turn awry. There is a Yiddish expression that states, "man plans and God laughs".

As we plan our days and lives and our investments, we realise that God or the universe or whatever we call the higher power has another plan for us.

In the stock market, this omnipresent element of uncertainty must be acknowledged as a necessary backdrop against which investors invest.

Again, we should be mindful of the truism that the greater the risk, the greater the return.

The writer is chief executive officer of Minority Shareholders Watch Group