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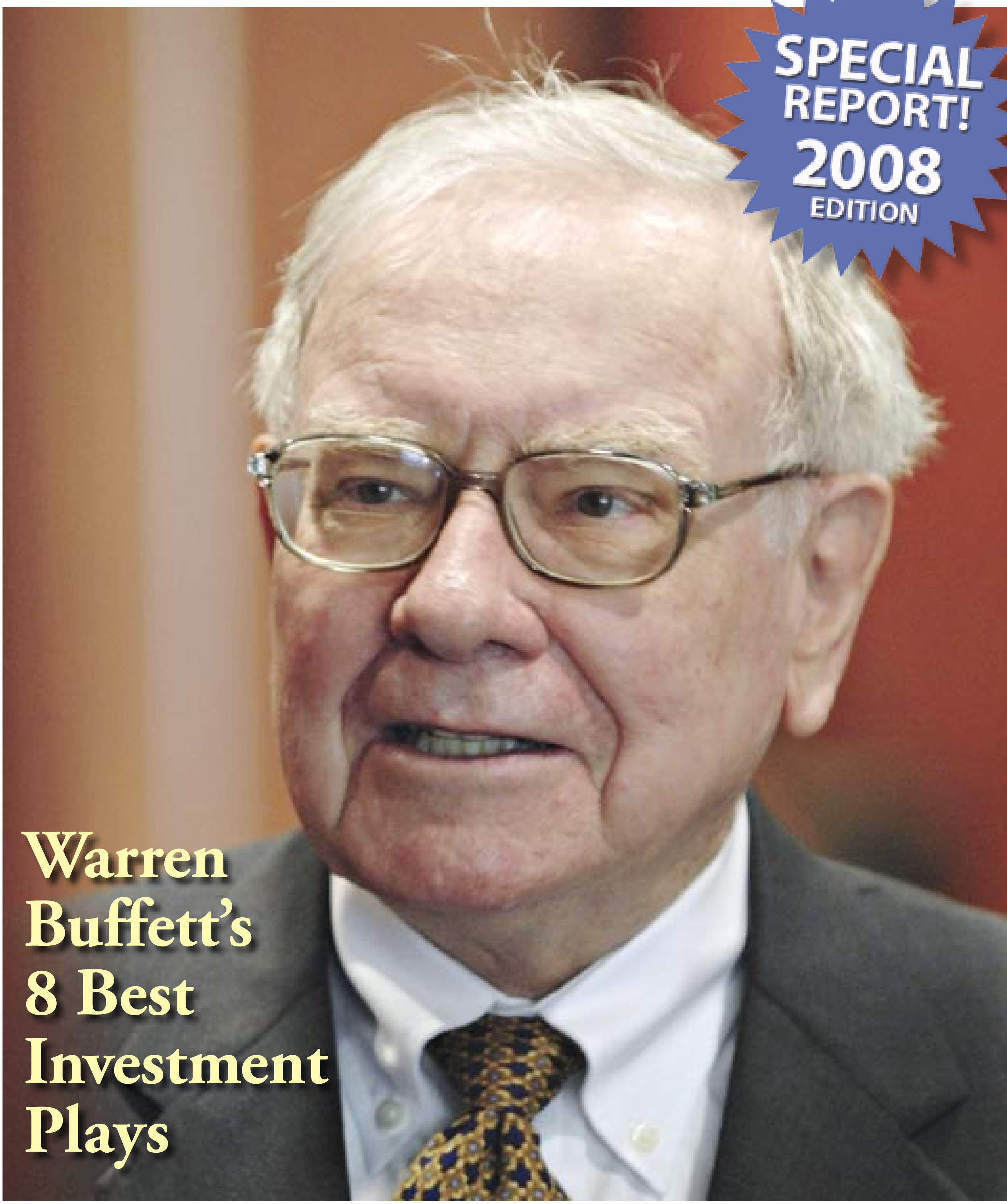

Warren Buffett's 8 Best Investment Plays

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Readers of ***Financial Intelligence Report*** and Moneynews.com know how much stock we put in the financial musings of Warren Buffett, the Oracle of Omaha.

We're continually searching for the secrets to Warren Buffett's investment success. But by and large, we've found that the secret, according to Buffett, is that there is no secret.

"All there is to investing," he says, "is picking good stocks at good times and staying with them as long as they remain good companies."

Buffett has done that in spades over the past 42 years at the helm of Berkshire Hathaway, one of the most successful investment companies in the history of Wall Street. The $211 billion holding company is like a block of granite in an otherwise fragile investment environment.

Buffett-isms . . .

"Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years."

Astute investments in brand-name value plays like Coca-Cola, H&R Block, American Express and Comcast have fueled Berkshire Hathaway's rise to the top of the global investment pyramid. Buffett only picks solid, no-nonsense companies that offer investors the three things that he prizes in his investment picks: steady growth, good management and no surprises.

Buffett's results speak for themselves. A $10,000 investment in Berkshire Hathaway in 1988 — when its shares first began trading on the NYSE — would have been worth more than $1.2 million by the end of 2007. In contrast, $10,000 invested in the S&P 500 would have risen to just $54,173.

Call it the "Buffett Way" — as many — people do.

In this day and age, when traditional investments like stocks and bonds ebb and flow along with the economic tides, seemingly tethered to nothing, there is comfort in the knowledge that a visionary like Warren Buffett exists.

His company, Berkshire Hathaway, is one of the most successful businesses in American history, if not the most successful. Berkshire Hathaway's stock recently surpassed the $150,000 a share mark, the only stock in the history of the New York Stock Exchange to accomplish such a feat.

The man himself has a personal net wealth of more than $52 billion, making him the second-wealthiest individual in the world behind Microsoft founder Bill Gates, to whom Buffett recently promised 85 percent of his fortune, which is to be put toward charitable causes.

But it wasn't so long ago that the so-called "experts" on Wall Street were laughing at Buffett, mocking his cautious, carefully measured method of investing in the financial markets.

To the self-proclaimed gurus, Buffett's take seemed out of tune. They all said that the rules of the game had changed, and that he just didn't get it.

Of course, Buffett's contrarian "buy and hold" strategy is a real threat to Wall Street investment bankers whose bread and butter is from active trading.

"Warren Buffett should say: 'I'm sorry,'" fumed Harry Newton, publisher of Technology Investor Magazine, at the heart of the dot-com craze in early 2000.

"How did he miss the silicon, wireless, DSL, cable, and biotech revolutions?" That was a year when AOL stock rose sixfold and Amazon.com rocketed by 1,000 percent in a year, while shares in Berkshire Hathaway, the investment company Buffett had virtually built from scratch, climbed a meager 11 percent.

But, as history has proved, the Buffett Way won out in the end, as the dot-com bubble exploded, leaving millions of Americans with huge holes in their investment portfolios and more than a few "experts" with egg on their faces.

Back then, wise old Warren ("a life long technophobe," as he confesses on the Berkshire Hathaway Web site) stuck with boring blue-chips like Gillette, Coca-Cola and American Express, saying he couldn't understand these newfangled companies.

But what did Buffett know that the dot-com geniuses didn't?

Buffett and his partner, Charles Munger, had looked closely at dot-com company valuation sheets and came away convinced that there was more folly than fortune in all of those celebrated "new economy" companies.

Instead, they returned to the grounds they had tilled before and knew so well — value stocks. (Buffett personally studied under Benjamin Graham, the father of value investing, at Columbia University.) They invested in companies like Procter & Gamble — ones that made products people actually used.

It is hardly necessary to point out that all of this occurred during the age of "irrational exuberance," when the Nasdaq was flying and Berkshire's stock was flopping. While the experts considered Buffett's fixation on value (and values, too) old hat, in the end, The Oracle proved them all wrong.

Of course, now lots of people want to try on that old hat to see if it still fits.

An American Icon — and a Role Model for Investors

Warren Buffett's story is quintessentially American.

With a fortune estimated by Forbes Magazine to be more than $52 billion, he is the only American billionaire to have made his money entirely through investing.

And today, along with Alan Greenspan and Paul Volcker, two former chairmen of the Federal Reserve, Buffett is arguably the most respected voice of financial America.

His natural habitat is neither Wall Street nor Washington, but the unpretentious Midwest heartlands. Buffett's moniker, "The Oracle of Omaha," refers to the pleasant but largely unremarkable Nebraska city on the banks of the Missouri River — the place he was born and raised. It is where he made his fortune and where he lives to this day, in the same gray stucco house he bought for $31,500 back in 1958.

Buffett is perhaps the best-known Nebraskan on earth — a gray-haired, no-nonsense man of the Heartland who has been triumphantly vindicated by financial market events, time and time again.

He is not so much a financial institution as a national institution, the object of a cult-like following that attracts tens of thousands to Omaha every May for Berkshire Hathaway's annual meeting. Buffett himself has called the occasion the "Woodstock of capitalism."

Some people buy a share in Berkshire Hathaway just to attend. But that is not as small a matter as it sounds — old-fashioned Warren has never been one for fancy devices like stock splits — a single share of Berkshire Hathaway stock has traded as high as $150,000.

Buffett-isms . . .

"In the business world, the rearview mirror is always clearer than the windshield ..."

Berkshire Hathaway annual meetings are almost mythical events, with a small army of Berkshire investors — and Buffett zealots — hanging on his every word. And he always delivers.

In the wee hours prior to Berkshire Hathaway's hours-long annual meeting, investors line up for seats. In an atmosphere that's more family picnic than stuffy business dinner, attendees are never disappointed. That's because Buffett and longtime business partner Charlie Munger take hours on end to personally answer shareholder questions and to explain why, among other trends, Berkshire Hathaway has invested in Asia of late, and how Berkshire expects to make money even if credit markets tighten further.

The Berkshire road show is a staple for company investors and is rapidly becoming a part of American business folklore. Berkshire investors still talk about 2002, when they watched a film featuring company chief Buffett playing a ukulele and singing: "When the Nasdaq's down, you'll never frown, Berkshire's here to stay."

In typical fashion, that year the folksy Buffett later led a visit to the local Dairy Queen down the street, which, by the way, he owns. Berkshire Hathaway bought Dairy Queen in 1998.

Still All About Value

As anyone familiar with Buffett and Wall Street knows, the Buffett legend is about a lot more than ukuleles and ice cream. That's as true today as it was 42 years ago.

First, year in and year out, Buffett continues to favor companies that display solid financial performance and are managed by seasoned and savvy executives. He also prefers companies with histories of above-average earnings growth. His holdings in American Express and Coca-Cola are good examples of that.

And, despite some critical media reports, Buffett still makes money — lots of money.

Berkshire's net income averaged more than $30 million a day in 2006, and its shareholders did just fine as well. Since 1965, this lucky group of investors' stock has appreciated an average 21.4 percent each year — twice as much as the benchmark S&P 500's average growth of 10.4 percent annually during the same period.

Berkshire's net worth rose by $16.9 billion in 2006, while its per share book value jumped 18.4 percent.

"We believe that $16.9 billion is a record for a one-year gain in net worth — more than has ever been booked by any American business, leaving aside boosts that have occurred because of mergers (e.g., AOL's purchase of Time Warner)," Buffett told shareholders in his annual letter. "Of course, Exxon Mobil and other companies earn far more than Berkshire, but their earnings largely go to dividends and/or repurchases, rather than to building net worth."

Buffett-isms . . .

"We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."

So, what's on Buffett's mind these days? In this ***Financial Intelligence Report*** report, **"Warren Buffett's 8 Best Investment Plays,"** we'll lay it out for you.

From why housing is going bust to why, thanks to rampant American consumerism, the U.S. dollar is in great peril, we'll show you what Wall Street's greatest living legend considers to be the biggest economic and investment plays left on the world stage. Eight of them, in fact, all culled from the laser-sharp mind of The Sage of Omaha.

Warren Buffett's 8 Top Investment Plays

So here we are.

Now, thanks to our ***Financial Intelligence Report*** special report **"Warren Buffett's 8 Best Investment Plays"** you know what Warren Buffett looks for in picking great companies and great investment plays.

It's a combination of tried-and-true value selections and some contrarian bets on higher-risk investment vehicles like derivatives and global currencies.

Let's take a look at some fairly recent additions to the Buffett portfolio — and see if they don't make sense for you:

1. Stay in for Good Times and Bad. Buffett's Berkshire Hathaway owns dozens of companies and is busy acquiring others. Berkshire owns several brand names like NetJets, Pampered Chef, Dairy Queen, GEICO, Fruit of the Loom, and Benjamin Moore paint. It also owns lesser known but equally compelling regional companies, like utility MidAmerican Energy, jeweler Helzberg Diamonds, metalworker Precision Steel Warehouse, and homebuilder Clayton Homes.

But Buffett's bread and butter has always been insurance. In addition to GEICO, Berkshire owns reinsurer General Re, Applied Underwriters, Central States Indemnity, National Indemnity, and United States Liability Insurance Group.

After suffering a rough couple of years with hurricanes, Berkshire's insurance businesses began to deliver again in 2006. As Buffett put it to shareholders, "Our most important business, insurance, benefited from a large dose of luck: Mother Nature, bless her heart, went on vacation. After hammering us with hurricanes in 2004 and 2005 — storms that caused us to lose a bundle on super-cat insurance — she just vanished. Last year, the red ink from this activity turned black — very black."

He especially congratulated the CEO of car insurer GEICO, Tony Nicely, who joined the company at barely 18 years of age and became the boss in 1992. "Tony has delivered staggering productivity gains in recent years."

These productivity gains — an amazing 47 percent — allowed GEICO to ramp up spending on advertising in 2006 while still posting big gains to the bottom line.

Most owners faced with tough times, would slash ad spending. Buffett took the polar opposite view: Stay in, invest and, like Nicely, think about the long haul, about the value, as Buffett says, of putting one foot in front of the other. "Last year I told you that if you had a new son or grandson to be sure to name him Tony," Buffett joked to investors.

But a Berkshire director, Don Keough, told Buffett this: "Forget births. Tell the shareholders to immediately change the names of their present children to Tony or Antoinette."

Keough signed his letter "Tony."

2. Too Much Cash? Try a Utility Play. As a multi-billion dollar company, one of Berkshire's main problems is that sometimes there's just too much of that pesky cash coming in, and it's Buffett's job to get it out the door and invested wisely. In an effort to find opportunities to invest big money at reasonable terms, Buffett turned his attention to utility investments.

But in true Buffett style, he's not seeking "any bonanza profits" off of his energy investments. Buffett tells investors that he's not investing in energy because he thinks the returns on equity in the energy sector are going to go up, but rather because it's a reasonable place to put money.

"I mean, the electric utility business," says Buffett, "it's not a place to get rich, but it's a place to stay rich and that's the way we look at it. And yes, I like to stay rich."

True to his word, in 2007, Buffett plunked down $2.1 billion on a Texas utility's junk bonds. TXU was bought up by KKR and Texas Pacific Group earlier in the year for $32 billion.

The purchase was made via two issues: One for $1.1 billion, of 10.25 percent bonds, for which Buffett paid 95 cents on the dollar. The yield on that bond is 11.2 percent. The second was for $1 billion of what are known as "payment in kind," or PIK-toggle bonds, at 93 cents on the dollar. In short, PIK bonds can pay out in cash or in still more bonds. The yield on these bonds is 11.8 percent. Not a bad day's pay.

Buffett stops way short of endorsing junk for junk's sake, however. Even when he bought in, he cautioned investors to avoid some of the other high-yield offerings on the market at the time. "Some of these new issues give new meaning to the word junk," Buffett said.

Yet, Buffett said, he was comfortable investing in the energy company precisely because he understands the utilities business. Berkshire Hathaway also holds, for instance, a majority stake in MidAmerican Energy Holdings, which has power investments in the U.S. and the U.K. TXU, now called Energy Future Holdings, provides electricity to 2.5 million people worldwide.

3. Foreign Companies as a Hedge Against a Weak Dollar. Buffett's conviction that the U.S. dollar is in the midst of a long-term decline prompted him to make his first overseas acquisition in 2006. Since then, he's become almost addicted to foreign plays, flying off to Asia and investing, reportedly, in Brazil. "I would buy businesses with lots of earnings abroad, because that's a better way, in my view, to play a bearishness on the dollar," Buffett says.

In July, Buffett finished his first big purchase abroad, Israel's Iscar Metalworking. Iscar's clients are mainly outside of the U.S., offering Buffett nice diversity against a shaky U.S. dollar. Look for Buffett to buy more companies abroad, or simply to invest more in shares of foreign-based companies that do not rely on U.S. companies as their main business partners. For instance, he recently spent $441 million to purchase the reinsurance unit of Dutch bank ING.

What's more, Buffett also got in and later completely sold out of Berkshire's position in top Chinese petroleum company PetroChina; although he later said he probably sold too soon because shares of PetroChina rose after the sales began. Berkshire once owned more than 11 percent of the Chinese oil company's publicly floated shares, a stake valued in excess of $3 billion. Reports of Berkshire's selling first surfaced in July 2007.

One week after Berkshire Hathaway chairman Warren Buffett sold the company's entire stake in PetroChina, the billionaire investor set his investment sights on buying shares in South Korea and other Asian countries. Traveling in Daegu, South Korea near Seoul to tour toolmaker TaeguTec, a subsidiary of Berkshire, Buffett told a South Korean news source that he doesn't "think there's a bubble in South Korean stocks."

Buffett said Berkshire had bought shares in some undervalued South Korean companies, such as steel company Posco, Kia Motors, Hyundai Steel, and Shinyoung Securities. Buffett said then that he was "still negative" on the U.S. dollar and expected it to continue to weaken.

Also, Buffett said that he had bought some Brazilian reals, but he emphasized that he was not recommending that "the average person" do the same. "In the last five years, the Brazilian currency in terms of the American currency has doubled in value. The real has doubled against the U.S. currency and the more interesting point is that during much of that time, the Brazilian government, in effect, has been supporting the U.S. dollar," Buffett said at the time.

The Berkshire chairman now says he might be cashing out of reals and buying Brazilian bonds. He expects to make $100 million on the investment. However, he cautioned, his recent interest in currencies is taking a decided back seat to his traditional view on making money abroad — simply buying companies.

4. Watch the Dollar, not the Fed. When asked about pending rate cut decisions by the Federal Reserve, Buffett responds with a characteristically simple — yet profound — example from real life.

"If you were going to buy a farm today, or you were going to buy an apartment house today and you looked at it as a good investment, you would not sit around on pins and needs waiting to see what the Fed did," Buffett said. "We bought the Washington Post stock in 1973 and it's worked out over 100 per one and I don't know what the Fed was doing then. It's not a factor in our thinking on investment decisions," he said.

That's because the Fed also doesn't really have much control over the dollar, Buffett said. Falling rates will hurt a weak dollar, pulling it down more, he said. But the real determining factor is the lopsided U.S. trade balance, not interest rates, he said.

"Over time, if you keep shipping $2 billion a day out of the country, as we do, of assets, you put pressure on the dollar, and that's what's happening," Buffett said.

Buffett remains concerned about what he believes is an inevitable consequence of current U.S. trade practices — if the U.S. is going to consume more than it produces, he says, we have to expect to give away a little bit of the country.

"As our U.S. trade problems worsen, the probability that the dollar will weaken over time continues to be high," Buffett told his shareholders recently.

Running a huge trade deficit is costing us money, sooner or later. "Already the prediction I made last year about one fall-out from our spending binge has come true: The 'investment income' account of our country — positive in every previous year since 1915 — turned negative in 2006. Foreigners now earn more on their U.S. investments than we do on our investments abroad.

"In effect, we've used up our bank account and turned to our credit card. And, like everyone who gets in hock, the U.S. will now experience 'reverse compounding' as we pay ever-increasing amounts of interest on interest."

This thinking explains Buffett's current position on the dollar. He admits that he doesn't know whether the dollar will be up or down in the short run, but he says that if there's no change in U.S. trade practices, the dollar will continue to weaken significantly.

5. Swim Against the Tide. Always on the prowl for bargains and undervalued equities, Buffett recently exercised call options to buy shares in Burlington Northern Santa Fe railroad. It's now among his top holdings; owning 17.2 percent of the outstanding shares in the firm, it's a stake he is likely to increase.

Railroads comprise a big chunk of Berkshire's total portfolio. Buffett also owns significant portions of Union Pacific and Norfolk Southern, while others might be skeptical. Railroads are hyper-sensitive to cyclical economic fluctuations, reacting quickly and decisively to upturns and downturns. They are among the first of major industries to feel the pinch of a stumbling or declining economy.

But, often the contrarian in his stock picks and economic outlook, Buffett has been quoted as saying, "We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."

So, while analysts predict further slowdowns, or a recession of varying degrees of severity and duration, Buffett is swimming against the tide — once again.

Contrarian principles, exhaustive research, and strict criteria for stock selection may have dissuaded Buffett from buying Countrywide Financial when it was hot and being touted by some analysts. Countrywide later posted billions in losses, becoming one of the biggest subprime losers.

Yet, despite Countrywide's decidedly red ink, Buffett is still buying in the lending sector, with recent purchases of Wells Fargo and US Bancorp. Although both firms took subprime hits like Countrywide, these value plays have strong fundamentals and smart, conservative management that foretell future growth — factors Buffett is always on the lookout for.

Buffett believes there are always opportunities for the conservative investor. Taking a page from the Oracle of Omaha himself, targeting specific stocks, rather than timing the market, may be the way to go in an uncertain economic environment. "Wide diversification is only required when investors do not understand what they are doing. You do things when the opportunities come along."

And according to Buffett, the opportunities are always there, waiting to be discovered.

6. Get in While the Getting's Good. As stocks staggered at the end of 2007 and early into 2008, Buffett got into his classic deal-making stance. He was ready to buy — and buy big.

"I just sit around here hoping the phone will ring, and that there will be a good idea at the other end," Buffett said then. "We're ready to move anytime, and then it just has to be the right thing."

You might think, with financial markets imploding left and right that now would be a horrible time to invest in the markets. And you would lose money on that thinking.

Buffett is optimistic. He sees opportunity in economic chaos. "You get more excited when there's a lot going on, you can't help it. And frankly, it will probably present more opportunity to us because when dislocations occur, things get more mispriced and that sort of thing…"

Nothing is guaranteed, of course. Declining markets are not great news. But the resulting disorder does lead, often, to a chance to pick up good companies at value prices that are unfairly being snubbed by investors, Buffett says. "It won't be for sure, but generally speaking, when there's a certain amount of chaos in certain sections, the fallout — and it's unpredictable where the fallout will be — the fallout sometimes offers some real opportunities."

Of course, Buffett is not one to simply buy "cheap" bank stocks, unless he sees long-term value. Yet, he does know exactly how to get into the right business at or near the bottom. During the blackest moment of the mortgage mess, he got into municipal bond insurance.

As competitors Ambac and MBIA reeled, Berkshire stepped in to guarantee bonds for cities, counties and even states — a $2.5 trillion market. In early January 2007, Berkshire's new Berkshire Hathaway Assurance Corp. unit made its first deal, guaranteeing $10 million of existing New York City debt. The company is also applying for licenses to do the same in Puerto Rico, California and elsewhere.

According to reports, Berkshire was able to command a premium of 26 basis points on the deal, well over double the 12 points its rivals charge. Such is the demand for the quality that a rock solid force like Berkshire can provide in such a torn and tattered industry.

7. Back to Basics, with a Twist. Warren Buffett's Berkshire Hathaway recently paid $4.5 billion for 60 percent of the Pritzker family holding company, Marmon Group. Marmon makes boring stuff, and lots of it. Among its 125 different operating lines are companies that make wire and cable, railroad cars, flow control devices for plumbing systems, and metal fasteners — truly Buffett-type investments.

It also provides services to nearly every sector of the transportation and construction industries. The company employs 21,000 people across more than 250 divisions in North America, Europe, and China. Buffett once again gets to diversify away from the U.S. dollar — but still while buying U.S. investments. This is increasingly true of his major holdings, like Coca-Cola, Procter & Gamble and Johnson & Johnson, all of which are now global providers of consumer products.

Marmon also makes lots of money, more than $800 million on revenue of $7 billion in 2006. "Marmon is our kind of company," said Buffett. "It's in some very basic businesses, but good businesses. It has terrific management. It is a chance to do a very big transaction."

In a recent address to Berkshire Hathaway shareholders, Buffett explained why his portfolio exposure to bonds is minimal — and why his exposure to stocks is maximized.

"If you had to make a choice between long-term bonds at around 4.5 percent and equities for the next 20 years, I would certainly prefer equities," he told an audience of 22,000 shareholders. "But if people think they can earn more than 6 to 7 percent a year, they're making a big mistake. I don't think we're in bubble-type valuations in equities — or anywhere close to bargain valuations.

"If you told me I had to go away for 20 years, I would rather take an index fund over long-term bonds. You'll get a chance to do something extremely intelligent with your money in the next few years. But right now there doesn't seem to be a clear enough direction to conclude anything dramatic."

8. Be Ready to Invest — That Means Cash. Longtime "Buffettologists" love to trade their favorite Buffett aphorisms; his short pithy observations that can open the mind to sometimes complex financial ideas.

For instance, in 1969, as a bull market peaked, Buffett exited stocks altogether. By 1973 and 1974, the market had changed course. Stocks were again a relative bargain.

Buffett bought in — big. He later said the experience was like that of being "a sex-starved man in the middle of a harem filled with beautiful women."

Another classic Buffett quote sums it up nicely: "I buy stocks when the lemmings are headed the other way." Some of his biggest buys ever — Disney, GE, The Washington Post, and Coke, among others — were done during bear markets.

Cash is the key. To invest big when the moment comes, one needs plenty of cash. Investors who get in too late and ride stocks down tend not to have the money they need to buy in big later, Buffett points out.

In fact, Buffett and his longtime business partner, Charlie Munger, often talk about the need to find much bigger deals, something worth acquiring that would cost tens of billions, not just hundreds of millions.

After wrapping up a discussion of some smaller but interesting investments, Buffett told investors in a recent shareholder letter that the small investments, which he called "mice," were great but were a lot of work for the return. No, Buffett said, he and Charlie want great and big, together.

"We continue, however, to need 'elephants' in order for us to use Berkshire's flood of incoming cash. Charlie and I must therefore ignore the pursuit of mice and focus our acquisition efforts on much bigger game."

Buffett has talked of wanting to make a $40 billion to $60 billion acquisition. Berkshire's most recent cash position was a staggering $47 billion.

"The entire world is definitely on our radar screen, and we hope to be on its. We have plenty of things to sell if we needed to, but the cash is coming in faster than the ideas," Buffett said.

Omaha's Woodstock

While the Berkshire portfolio changed its spots somewhat in 2006, some things never change. At the May 2006 Berkshire shareholder meeting (which drew 24,000 investors to Buffett's native Omaha), Buffett explained how he and his partner Charles Munger still evaluate investment opportunities.

He told the audience that the pair relies on three metaphorical boxes: an "In", an "Out"and a "Too Hard" box. Options for the latter are dismissed by Buffett and Munger as not worth the effort. Meanwhile the "Ins" are evaluated thoroughly and, if they pass serious examination, they are pursued, purchased and moved into the "Out" box.

"We zero in on things we know, like whether people will be buying more candy in five year's time," Buffett told the audience. "We don't play 'big trends.' They just don't mean that much. There is too much money to be made year-to-year rather than waiting for the big trends to expose themselves."

One major trend that we at ***Financial Intelligence Report*** have covered extensively in the past year is a trend toward commodities, especially gold and silver buys.

But Buffett and Munger will have none of it, even if precious metals did post huge gains in the last few years. "We have failed to profit from one of the biggest commodity booms in history and will probably continue to fail in that way," said Munger.

Buffett agreed, saying that sooner or later, their patience will pay off.

"Being contrarian has no special value over being a trend follower. You are correct because the facts are right. In focusing on business and investment decisions, look for things that are important and knowable."

"(Remember) the market is there to serve us, not instruct us. It just tells us prices. If something is out of line, then you can do something about it — the critical part is how you handle that piece of information, how you play out your hand. Let the market serve you rather than instruct you, and you can't miss."

Buffett-isms . . .

"In the business world, the rearview mirror is always clearer than the windshield …"

Buffett's Keys to Profitable Investing

Which strategies does Buffett employ when picking stocks? Each and every year, it hardly changes.

Here's a list of additional attributes that Buffett looks for when buying stocks . . .

Simple Businesses

Buffett likes to keep things simple — and he likes his companies to do the same.

Again and again, Buffett has railed against the kinds of companies that seem too complicated or are too difficult to valuate. His avoidance of Internet and technology companies during the dot-com bubble is the most famous manifestation of Buffett's "keep it simple" dictum.

Buffett jokingly calls himself a technophobe, but in reality he shies away from technology and telecom stocks.

He likes to base his stock picks on, among other things, what a company will look like 10 years down the road.

Technology companies, he says, are much too volatile and risky for that kind of analysis. The 10-year rule also applies inversely: Buffett will only consider companies with a good 10-year track record. Most technology companies haven't been around that long and, due to their lack of seasoning and earnings history, they tend to fall off of Buffett's radar.

Return on Equity

Another key criterion for Buffett is a company's return on equity (ROE). Again, he favors a 10-year plan through which he can predict ROE a decade out. Companies that can't be accurately gauged don't make it into the Buffett portfolio. He also favors companies that don't need much capital. He has said that such companies generate significantly higher returns on equity.

Cash on the Barrel

The Buffett Way is long on companies that have deep pockets. Companies that possess what Buffett refers to as ample cash flow are firms that have plenty of financial resources both to pay their bills and keep growing.

Low Debt

Companies that can limit and manage their debt are high on Warren Buffett's priority list. Insurance companies (he owns both Geico and General Re) are particular favorites in this regard. With the Buffett Way, low debt equals significant room for growth. His emphasis on low debt is grounded in reality. With limited debt, earnings growth is based on shareholder's equity, as opposed to borrowed money.

Emphasis on Value

Historically, Buffett targets investments in undervalued companies with good long-term growth potential. Identifying such companies isn't easy, but Buffett has mastered the technique.

In a nutshell he favors stocks that are unjustifiably low, based on their intrinsic worth.

He calculates intrinsic worth by analyzing a company's fundamentals.

As with most bargain hunters, Buffett targets companies that are good revenue producers and are capably managed — though underpriced. Buffett is also famous for his aversion to reading stock market tea leaves.

That's not what he is about. Quite simply, he selects stocks solely on the basis of their overall potential as a company. Once added to his portfolio, Buffett will hang on to such stocks for years — even decades.

Buffett has no interest in whether other investors ever get around to recognizing the stock market's value. His only concern is that his companies earn money — and lots of it.

The "Big Six"

There are other highly visible cues to take from The Oracle on his investing philosophy.

In fact, Buffett's investing criteria are outlined in his yearly reports to shareholders.

They are:

1. Large purchases (at least $50 million of before-tax earnings)
2. Companies with demonstrated, consistent earning power (future projections are of no interest to him, nor are "turnaround" situations)
3. Businesses that earn good returns on equity while employing little or no debt
4. Companies with management in place (he can't supply it)
5. Simple businesses (if there's lots of technology, he won't understand it)
6. Companies that list an offering price (he doesn't want to waste his time or the seller's by talking, even preliminarily, about a transaction when the price is unknown)

(Source: Berkshire Hathaway Annual Report)

Buffett has said candidly that, if a company falls within these criteria, don't call him an investment banker — call him.

For Buffett, It's All About Businesses . . . Not Stocks

Buffett can be a bit of a contrarian, sliding away from his own investment philosophy from time to time. Some Buffett-watchers are surprised by his modest investments in sometimes struggling companies.

Buffett is known for preferring old-economy companies and firms that are already in the black. He doesn't like tech companies, because he says that he doesn't understand technology. Buffett invests in companies like Gillette because he loves the fact that millions of men grow whiskers every night. But the investments were not a complete surprise to true Buffett aficionados. He said that if the markets fell significantly, he would use it as a buying opportunity — and he did.

In the end, Buffett's investment philosophy is also attractively simple.

He believes that investors should be buying a business, not simply a stock. Buffett's annual report is nothing if not readable — quite famously so — perhaps the best window into the way the man's mind works.

One such report contained what is probably as clear a one-paragraph summary of Buffett's investment philosophy as can ever be stated: "Whenever we buy common stocks...we approach the transaction as if we were buying into a private business. We look at the economic prospects of the business, the people in charge of running it, and the price we must pay. We do not have in mind any time or price for sale. Indeed, we are willing to hold a stock indefinitely so long as we expect the business to increase in intrinsic value at a satisfactory rate. When investing, we view ourselves as business analysts — not as market analysts, not as macroeconomic analysts and not even as security analysts."

The Buffett Paradox

On the one hand, this paragraph is so steeped in old-fashioned values — largely vanished from trading-obsessed Wall Street — that one can immediately understand why Buffett has followers. On the other hand, it's clear that his investing style just isn't that difficult to understand. It's nothing more than a balanced four-legged stool: Buffett cares about the future prospects of the business. He wants to know that management has both integrity and drive. He doesn't want to overpay for a company's stock. And whether the shares go up or down, he won't sell, so long as the fundamentals remain the same. It's pretty simple, right?

So is it a bit over the top to call Warren Buffett a modern-day miracle worker? Probably not.

It's not as if he is parting the Red Sea, though his investment record — which boasts an average annual gain of over 21.4 percent in book value since 1965 — is not too far off. He is certainly a living, breathing antithesis of the "random walk" theory beloved by economists who try to rationalize market behavior.

As the experts like to tout, the random walk theory espouses that stock movement is random because all information about the future prospects of a company is already built into its share price. They try to explain away Buffett's unusual successes by pointing out that in any game of chance, someone has to come out on top — and they say it just happens to be him.

But of course everyone knows that's not true.

It's sort of the equivalent of saying that Tiger Woods' golf ball finds the bottom of the cup more often because of luck and not skill. No, like Woods, Buffett has something we mere mortals have no real hope of emulating.

It is something that leads to the real Buffett paradox, a phenomenon that is quite the opposite of the supposed "random walk" theory. Just as Tiger Woods is far more likely to ascribe his success to hard work than to his supernatural talent, so too does the greatest investor of our time make investing seem easier than it actually is.

Listening to him speak, reading his many writings on investing, absorbing his messages, and watching his investment moves over the years, an investor is more likely to gain hope than to lose it.

How difficult can it be, after all, to buy Coca-Cola and hold it forever — a practice at the core of Buffett's investment methodology?

It should make the average investor feel a lot more confident to know that Buffett firmly rejects all the fancy-pants trading techniques so beloved by modern Wall Street — the tenets that make it seem as though the big boys have an insurmountable advantage over the rest of the hoi polloi.

Simplicity is the key.

Buffettology Redux

So why doesn't everyone invest like Buffett?

For one thing, very few people can stomach the ups and downs of the market without wanting to jump on and off. For most investors, it is difficult not to panic when the market tanks, and it can be tricky to resist jumping on a really hot stock.

This sort of even-keeled thinking necessary to be a great investor is an extremely rare thing. But that is Buffett in a nutshell. He is happy when markets tank — because it means he can buy stocks he wants at a cheaper price.

For instance, one study found that, if you followed Buffett's lead and bought the same stocks he bought, you would have beat the Standard & Poor's 500 Index by 100 percent over the past three decades. The S&P 500 rose 12.8 percent a year in the same 30-year period.

Researchers Gerald Martin of American University in Washington and John Puthenpurackal of the University of Nevada, Las Vegas, even found that, historically, investors could have reaped a 24.6 percent annual return by simply buying Buffett's stock picks after he disclosed his holdings in SEC regulatory filings.

Buffett's stock picks were so good, the study found, that investors could have followed Buffett's lead as long as four months later and still made the big returns.

Among Buffett's biggest successes over the long term, his $11 million investment in Washington Post Co. in 1973 was worth $1.3 billion at the end of last year.

The advantage of taking a cue from Buffett in selecting stocks appears to be well known to a significant number of investors. After Buffett revealed in April that he bought a $3 billion stake in Burlington Northern Santa Fe, the railroad company, its shares soared to record highs.

When the stock then dropped sharply after the company said second-quarter earnings missed analyst estimates, Buffett simply bought more. "We don't go in and out of the market," Buffett later said. "I simply look at individual businesses and try to figure out where they're likely to be in five or 10 or 20 years from now."

The second reason most people don't invest like Buffett is that his methods are a lot more complicated than they appear. When Buffett talks about the "economic prospects" of a potential investment, he's talking about the position of the business 10 years down the road. So, if he can see the business remaining dominant for the next decade, he'll consider buying the stock. Buffett and Munger have an uncanny ability to predict very accurately which companies will be dominant players in ten years — a gift not many investors can claim.

This acumen may be partly based on Buffett's genius when it comes to numbers.

"Accounting," he likes to say, "is the language of business." It is a language in which his own fluency is unsurpassed, giving him an enormous competitive advantage. Usually, all he needs is a quick glance at a balance sheet to know whether he's interested in buying a company or not — because he finds meaning in numbers that most investors are not capable of understanding.

Many students of "Buffettology" have struggled to get their heads around accounting ideas that are second nature to him.

A classic example is "intrinsic value," which is Buffett's way of evaluating the true worth of a company. He describes it as "the only logical approach to evaluating the relative attractiveness of investments and businesses." He has said that "intrinsic value can be defined simply: It is the discounted value of the cash that can be taken out of a business during its remaining life."

This definition may be simple for Buffett, but it's clearly not that easy for the rest of the investment community, as they bang their heads against the wall trying to play catch-up with his successes.

So what does the future hold, according to this great investment visionary?

Buffett is concerned about the nearly $60 billion U.S. trade deficit and the decline of the value of the U.S. dollar. In a recent interview, he said, as, "strong as this country is, well, something will have to happen that will change that. Most economists will still say some kind of soft landing is possible. I don't know what a soft landing is exactly, in how the numbers come down softly from levels like these."

On risky trading, Buffett is very clear: Minimize risk.

"There are more people [like hedge-fund managers] that go to bed at night with a hair trigger than ever before," he says. "It's an electronic herd, they can give vent to decisions that move billions and billions of dollars with the click of a key. There will be some kind of stampede by that herd. When you have far greater sums than ever before, in one asset class after another, that are held by people who operate on a hair-trigger mechanism, then they lend themselves to more explosive outcomes. People with very short time horizons with huge sums of money — they can all try to head for the exits at the same time. The only way you can leave your seat in burning financial markets is to find someone else to take your seat, and that is not always easy."

The Buffett Bio
Warren Edward Buffett (1930-Pres.)

American financial executive, b. Omaha, Nebr., studied at Wharton School of Finance (1947-49), grad. Univ. of Nebraska (B.S., 1950), Columbia Univ. (M.S., 1951). After working as an investment salesman and securities analyst, he was partner (1956-69) in the investment firm Buffett Partnership, Ltd. In 1965, he acquired the textile manufacturer Berkshire Hathaway and became (1970) chairman and CEO. Through judicious investments and acquisitions of insurance companies and manufacturing and service firms, Buffett has transformed Berkshire Hathaway into a large conglomerate; in 1999, its assets were $124 billion. His investments have also made him one of the wealthiest people in the world. He has co-authored Warren Buffett Speaks (with J. C. Lowe, 1997) and Thoughts of Chairman Buffett (with S. Reynolds, 1998). His father, Howard Homan Buffett, (1903-64), an investment banker, was a U.S. congressman from Nebraska (1943-49, 1951-53).

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