# Warren Buffett on Betting Against America – Don't Do It!

Given the recent turbulence in the markets, I thought this was a good a time as any to remind people to stay calm. As I peck away at the keyboard the DJIA is down 2,523 points (24,446 on 10/29) from its all-time high of 26,966 set on 10/3/18 (that's about a 9.4% sell-off that has taken place over the last four weeks). Let me present a few additional points for proper context:

> (1) **It's normal for the market to go up and down**. This is the normal ebb and flow of market movements. You know that 8% return you expect? Well, that doesn't come without a bit of volatility.
>
> (2) This could be the start of the next recession but no one will know for sure until we are six months or so in. The bull market is about 9.5 years old but that doesn't mean it can't go longer. We just need to accept that at some point we will have another recession. ***Time in the market*** **should be your goal over** ***timing the market*****. Timing the market is a fool's errand.**
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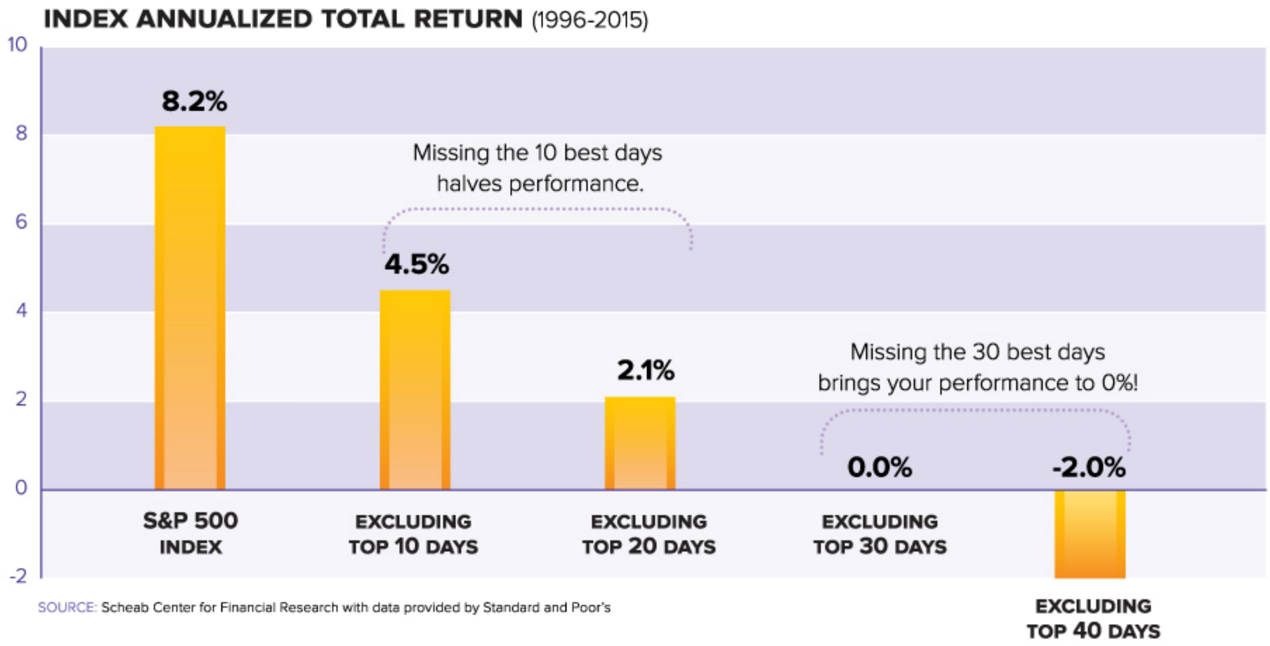
> Below is a chart I borrowed from [an infographic published by Visual Capitalist](#).




(3) This recent sell-off is less than the 3,596 point decline (a 13.5% correction) we experienced from 1/29/18 to 2/6/18, **from which the market eventually recovered all the losses and went on to make another all-time-high** (26,966 on 10/3 mentioned above).

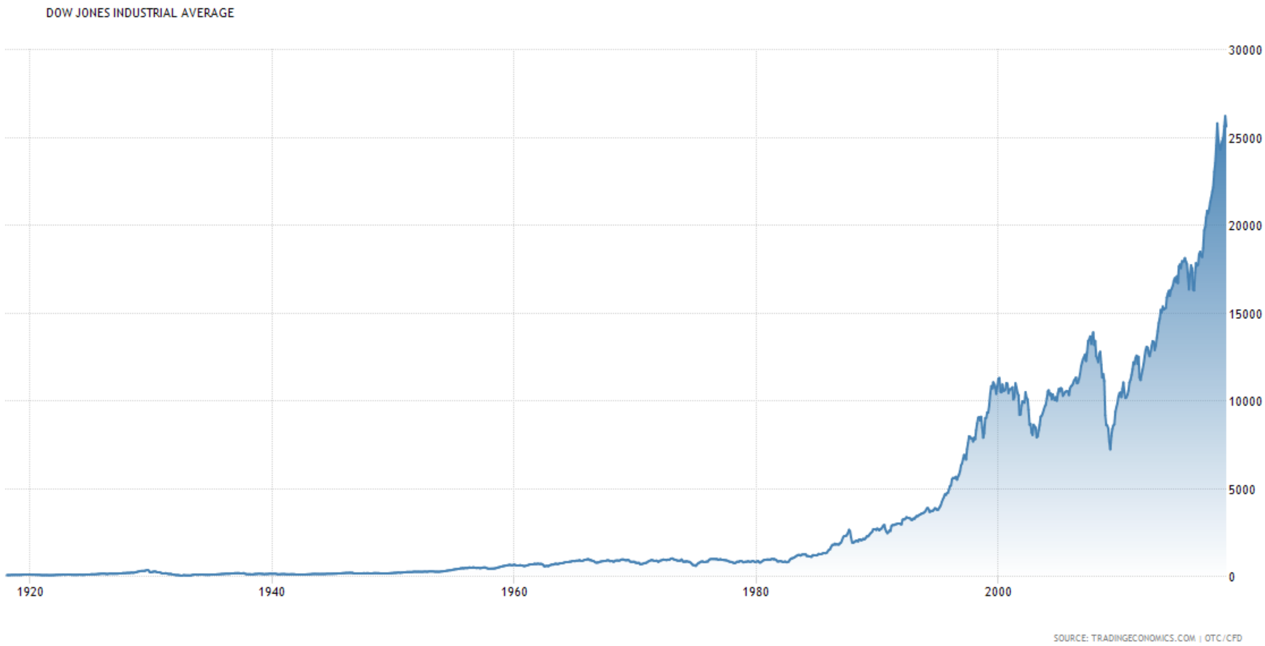
(4) The DJIA is still 17,986 points above its March 2009 low of 6,460 – **yeah, that's 3.8X the March low!**

(5) **Every time the market sells off you get to buy stocks at discounted prices.** Most of you reading this have decades of investing ahead of you! Below is a chart I pulled from the book, Wealth by Virtue, which does an extensive study from 1928 to 2016 on rolling returns (he provides 1Yr, 5Yr, 10Yr, 15Yr, 20Yr, and 30Yr charts like below). I've pulled the 10Yr chart to punctuate the importance of not only staying invested during a downturn but to continue buying if you have the free capital (see Ten-Year Summary in image below).


(6) This reminds us of **the importance of diversification through asset allocation**. The point here is that you don't have to and *shouldn't have* all of your money tied up in a single asset class (i.e., stocks).

(7) This also reminds us that **we shouldn't be investing money in volatile assets that we need in the short term (it's a recipe for disaster – don't do that to yourself).** If you will need the money in the short term, as in the next five years, you are better off throwing it in a high yield savings account (CIT offers one with 2.15% interest).

(8) Investing is a long game. Over the long term **stocks ALWAYS GO UP! (see chart below)**




source: tradingeconomics.com

*Note: I used the DJIA as a proxy for the market because it is the index we have the most historical data for. I could have used the S&P 500 to make the same points but chose the DJIA so that I could show the chart above with a longer history to punctuate my point.*

I wasn't able to convince you? Maybe the Oracle of Omaha can. Let's dive into the wisdom of Warren Buffett to give us all the peace of mind we need to remain calm and invested during the ups and the downs. Two of Buffett's biggest strengths are (1) his lack of emotion involved in his investing process, paired with (2) his long-term view.

Here is Part Four in this Warren Buffett series (part one, part two, part three), covering a few of the sections I have pulled out from the last 50 years of Berkshire Hathaway Letters to Shareholders, which I finished reading in October of 2017. Although the entire 50-year series was filled with a ton of business and investment wisdom, all the pieces that I pulled are from the past seven years. I admit a probable recency bias, whereby after reading almost 700 pages, I remember more of the recent letters than the older ones. Needless to say, you bet I will be reading through *all* those letters again in the future.

For the selections of this post, I pulled Buffett's insights and comments that most resonated with me. I have **BOLDED** my emphasis and put my thoughts in blue. At the end, I close with my concluding thoughts and takeaways. See what you think…

This fourth piece includes snippets from the 2014 & 2015 shareholder letters.

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## From 2014 Shareholder Letter

Late in 2009, amidst the gloom of the Great Recession, we agreed to buy BNSF, the largest purchase in Berkshire's history. At the time, I called the transaction an "all-in wager on the economic future of the United States."

That kind of commitment was nothing new for us. We've been making similar wagers ever since Buffett Partnership Ltd. acquired control of Berkshire in 1965. For good reason, too: **Charlie and I have always considered a "bet" on ever-rising U.S. prosperity to be very close to a sure thing.**

> The optimism that Charlie Munger and Warren Buffett exude is intoxicating. It makes me think of the Bob Marley song "Don't worry about a thing, 'Cause every little thing gonna be all right." It's hard to argue with the WB/CM track record. I believe that two of the critical ingredients to investment success are patience and optimism, something this duo exemplifies. Of course that's not all you need; you still need to invest your money wisely and stay away from those deals that seem too good to be true.

Indeed, who has ever benefited during the past 238 years by betting against America? If you compare our country's present condition to that existing in 1776, you have to rub your eyes in wonder. In my lifetime alone, real per-capita U.S. output has sextupled. My parents could not have dreamed in 1930 of the world their son would see. Though the preachers of pessimism prattle endlessly about America's problems, I've never seen one who wishes to emigrate (though I can think of a few for whom I would happily buy a one-way ticket).

**The dynamism embedded in our market economy will continue to work its magic. Gains won't come in a smooth or uninterrupted manner; they never have. And we will regularly grumble about our government. But, most assuredly, America's best days lie ahead.**

We do have a pretty magical market economy. That's not to say everything is rainbows and butterflies but it's pretty damn good if you ask me. There will always be room for improvement but that's true in everything. Warren is giving it to us straight when he warns that "gains won't come in a smooth or uninterrupted manner: they never have." He and Charlie have never been shy in expressing their preference for a lumpy 15-20% gain to that of a smooth 8%. Need proof? Look at the Berkshire stock price: they have compounded it at 20.9% from 1965 through 2017.

With this tailwind working for us, Charlie and I hope to build Berkshire's per-share intrinsic value by (1) constantly improving the basic earning power of our many subsidiaries; (2) further increasing their earnings through bolt-on acquisitions; (3) benefiting from the growth of our investees; (4) repurchasing Berkshire shares when they are available at a meaningful discount from intrinsic value; and (5) making an occasional large acquisition. We will also try to maximize results for you by rarely, if ever, issuing Berkshire shares.

**Those building blocks rest on a rock-solid foundation. A century hence, BNSF and Berkshire Hathaway Energy will still be playing vital roles in our economy. Homes and autos will remain central to the lives of most families. Insurance will continue to be essential for both businesses and individuals. Looking ahead, Charlie and I see a world made to order for Berkshire. We feel fortunate to be entrusted with its management.**

They remain steadfast and committed to their investment thesis. They invest in things that they believe have longevity far beyond their own investing lives. They are literally thinking 100 years into the future. This also reiterates advice that Warren has repeated over the years to invest within your circle of competence – don't invest in things you don't understand and can't reasonably forecast into the future.

**From 2015 Shareholder Letter**

It's an election year, and candidates can't stop speaking about our country's problems (which, of course, only they can solve). As a result of this negative drumbeat, **many Americans now believe that their children will not live as well as they themselves do**.

Who are these people and where do they hang out? I continue to believe that we live in the best time in history. Yes, maybe there is a rough patch here and there but in order to fully grasp the progress we have made, one has to open up the aperture on the lens through which they view the world (see Warren's discussion on standard of living below).

That view is dead wrong: The babies being born in America today are the luckiest crop in history.

American GDP per capita is now about $56,000. As I mentioned last year that – in real terms – is a staggering six times the amount in 1930, the year I was born, a leap far beyond the wildest dreams of my parents or their contemporaries. U.S. citizens are not intrinsically more intelligent today, nor do they work harder than did Americans in 1930. Rather, they work far more efficiently and thereby produce far more. This all-powerful trend is certain to continue: America's economic magic remains alive and well.

Some commentators bemoan our current 2% per year growth in real GDP – and, yes, we would all like to see a higher rate. But let's do some simple math using the much-lamented 2% figure. That rate, we will see, delivers astounding gains.

America's population is growing about .8% per year (.5% from births minus deaths and .3% from net migration). Thus 2% of overall growth produces about 1.2% of per capita growth. That may not sound impressive. But in a single generation of, say, 25 years, that rate of growth leads to a gain of 34.4% in real GDP per capita. (Compounding's effects produce the excess over the percentage that would result by simply multiplying 25 x 1.2%.) In turn, that 34.4% gain will produce a staggering $19,000 increase in real GDP per capita for the next generation. Were that to be distributed equally, the gain would be $76,000 annually for a family of four. Today's politicians need not shed tears for tomorrow's children.

Indeed, most of today's children are doing well. **All families in my upper middle-class neighborhood regularly enjoy a living standard better than that achieved by John D. Rockefeller Sr. at the time of my birth. His unparalleled fortune couldn't buy what we now take for granted, whether the field is – to name just a few – transportation, entertainment, communication or medical services. Rockefeller certainly had power and fame; he could not, however, live as well as my neighbors now do.**

One of the wealthiest men in the world couldn't even enjoy the things we take for granted. A big one for me is air conditioning. Even the poorest in this country have access to air conditioning, TV, plumbing that brings water directly into the home, etc.

Though the pie to be shared by the next generation will be far larger than today's, how it will be divided will remain fiercely contentious. Just as is now the case, there will be struggles for the increased output of goods and services between those people in their productive years and retirees, between the healthy and the infirm, between the inheritors and the Horatio Algers, between investors and workers and, in particular, between those with talents that are valued highly by the marketplace and the equally decent hard-working Americans who lack the skills the market prizes. Clashes of that sort have forever been with us – and will forever continue. Congress will be the battlefield; money and votes will be the weapons. Lobbying will remain a growth industry.

**The good news, however, is that even members of the "losing" sides will almost certainly enjoy – as they should – far more goods and services in the future than they have in the past.** The quality of their increased bounty will also dramatically improve. Nothing rivals the market system in producing what people want – nor, even more so, in delivering what people don't yet know they want. My parents, when young, could not envision a television set, nor did I, in my 50s, think I needed a personal computer. Both products, once people saw what they could do, quickly revolutionized their lives. I now spend ten hours a week playing bridge online. And, as I write this letter, "search" is invaluable to me. (I'm not ready for Tinder, however.)

**For 240 years it's been a terrible mistake to bet against America, and now is no time to start. America's golden goose of commerce and innovation will continue to lay more and larger eggs. America's social security promises will be honored and perhaps made more generous. And, yes, America's kids will live far better than their parents did.**

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## Concluding GYFG Thoughts

You are going to experience many market sell-offs in your investing lifetime. The media is going to make it feel worse than it is. The talking heads are going to convince you that this time is different and that the market is never going to recover. They do this every time and believe the case for the market going to zero is most compelling in the middle of a deep correction. I encourage you to **fight the innate emotional urge to panic** and sell out of investments because you're afraid. Remember: panic sells newspapers, keeps people tuned into the news, and makes click-bait writers rich. But you have a plan, so you do not need to panic. Turn off your TV.

Instead, head the wisdom from the Oracle himself. Don't bet against America! That's been a terrible mistake for the past 240 years, so don't start now. Cultivate an inpenetrable optimism that allows you to realize that there will be up years and down years, there will be scary volatility, but know that in the end stocks always go up given enough time. Pair that optimism with steadfast patience and wise investments and you will be positioned to take advantage of the best days that still lie ahead.

Who knows, by the time this gets published we may have recovered all the losses in this October correction, but these words will still ring true for decades to come. Save them for easy reference for the inevitable volatility we will see in the years to come.

– Gen Y Finance Guy

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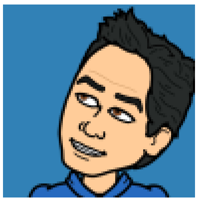

## Gen Y Finance Guy

**Hey, I'm Dom** - the man behind the cartoon. You'll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own financial stats. I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! Read More