

## Warren Buffett Wisdom

1957 Letter – Harish Kawalkar [www.harishkawalkar.com](http://www.harishkawalkar.com)

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As Buffett starts this letter by his last years view on market that it is priced above the intrinsic value.

With this view there is a possibility of decline in all securities both undervalued and overvalued.

If market become cheap or undervalued Buffett going to employ all his capital or perhaps some borrowed money would be used. So if market is undervalued you must go invest all your capital.

If this not happens Buffett going to reduce his portfolio and get profit from his Portfolio.

The past year witnessed a moderate decline in stock prices. I stress the word "moderate" since casual reading of the press or conversing with those who have had only recent experience with stocks would tend to create an impression of a much greater decline.

Buffett also clarify that the above conclusion of market analysis is not the prime criteria for investment decision but finding undervalued securities is primary agenda.

Which also remind that market analysis and individual security analysis is both important in creating view on general market.

Buffett, separating his real view, from casual NEWS, by using "moderate" word. In day today activity there is unnecessary importance of news and almost all investor are unable to separate his own view from general News.

Here is a wisdom, Separate your view from general News, be realistic.

The decline in stock prices is less than the decline in corporate earning power; this means public is still bullish. Here Buffett clarify that this is not attempt to forecast market or earning power, in today's

market everybody is attempting to forecast market or earnings and the height is analyst are forecasting the Stock Price.

How? I don't know, but the investing is not forecasting, you must have your view on market and earning but not forecast, Buffett intelligently separate it.

A work-out is an investment which is dependent on a specific corporate action for its profit rather than a general advance in the price of the stock as in the case of undervalued situations. Work-outs come about through: sales, mergers, liquidations, tenders, etc.

Buffett explains “Work-Outs” which is dependent on a specific corporate action for its profit rather than price movement.

Here is a wisdom Buffett separating investment and Speculation, if anybody looking for stock price in such case it's a speculation, but Buffett separates it for long term profit.

In Result Section:

Dow Jones loss 42 point which is 8.470% after receiving 22 points dividend.

Buffett has three partnership which gain 6.2%, 7.8% and 25% on year end 1956 net worth.

The difference in result is due to money available at varying times and varying levels, otherwise all partnership invested in the same securities and in same percentage.

Wisdom: Buffett not looking for extraordinary gains, he just wants 10% per year better than the average market, which is quite satisfied. But in today's market conditions everybody is looking for multibaggers within months.

I can definitely say that our portfolio represents better value at the end of 1957 than it did at the end of 1956. This is due to both generally lower prices and the fact that we have had more time to acquire the more substantially undervalued securities which can only be acquired with patience.

Wisdom: Buffett is confident on the better results because he had more time to buy undervalued stocks, possible only due to patience.

Confidence and patience are the main ingredients in the successful value investing.

Obviously during any acquisition period, our primary interest is to have the stock do nothing or decline rather than advance. Therefore, at any given time, a fair proportion of our portfolio may be in the sterile stage. This policy, while requiring patience, should maximize long term profits.

Buffett explains his policy or rather I would say strategy. When he buys his primary interest is to have the stock do nothing or decline further rather than advance. Which is a great wisdom but to be successful in this, you have to have a patience which maximizes the profit over long term.

In short 1957 letter Buffett explains great points.

- ✓ **In undervalued market invest fully.**
- ✓ **Market analysis is not the prime criteria for investment.**
- ✓ **Separate real views from general news, be realistic.**
- ✓ **Don't attempt market forecasts.**
- ✓ **Must have views, on market and earnings but not forecast at all.**
- ✓ **Separate investment and speculation, "work-out" for long term profit not for price movement.**
- ✓ **The importance of patience and confidence.**
- ✓ **Expect decline or no movement when you buy stock.**