

# Warren Buffett Wisdom

1958 Letter – Harish Kawalkar [www.harishkawalkar.com](http://www.harishkawalkar.com)

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Buffett starts his 1958 letter by writing his friends view on American people. “The Mercurial temperament” The behaviour of American Investor which affect the market.

“I think this summarizes the change in Psychology dominating the stock market in 1958 at both the amateur and professional levels. During the past year almost any reason has been seized upon to justify “Investing” in the market. There are undoubtedly more mercurially-tempered people in the stock market now than for a good many

Years and the duration of their stay will be limited to how long they think profits can be made quickly and effortlessly.”

The psychology of market and psychology of amateur and professional investor dominate the stock market that might lead to price fluctuations and market might be overvalued or undervalued if psychology changes. The change of behaviour and mood is unpredictable which is happening very quickly this psychology justifying the investment in every reason possible. This kind of investor only looking for short term profit.

I do believe that widespread public belief in the inevitability of profits from investment in stocks will lead to eventual trouble. Should this occur, prices, but not intrinsic values in my opinion, of even undervalued securities can be expected to be substantially affected

Buffett not going to forecast the market as his view in 1957 not changes.

Buffett strongly believe that the madness of crowd leads to trouble in market. But the intrinsic value and undervalued stocks not substantially affect.

Wisdom: The determination of Buffett, which is an important role in investing. Leads to success in value investing, he knows very clearly what affect and what not. This differentiates Buffett from other investor. He never changes decision because he is very clever in his determination.

Once again in 1958 Buffett forecast worked out, and once again he beats the Dow-Jones, which gain an 38.5% return while Buffett partners gains 36.7% to 46.2% . Buffett knows that his results will be above average in a declining market.

Buffett describe the special situation in his own language the “work Out” of Commonwealth trust company. When he started purchasing it the intrinsic value was \$125 per share, and available at \$50 per share, the earning is substantial and selling at the discount to its intrinsic value, management wad friendly and good. The loss is minimal and gain is high. Commonwealth was 25.5% owned by a larger bank, which had a desire to merge with this bank. This merger prevented by personal reason.

So Buffett describe it's a ideal situation of Work Outs

1. Very strong defensive characteristics;
2. Good solid value building up at a satisfactory pace and;
3. Evidence to the effect that eventually this value would be unlocked although it might be one year or ten years. If the latter were true, the value would presumably have been built up to a considerably larger figure, say, \$250 per share.

Buffett describe the combination of ideal work outs. The Buffett view is not for one year or two, he was looking for ten years view when he buys commonwealth.

But commonwealth is an illiquid stock and might cause price fluctuation if order is high. Very small buying or selling orders can create price changes; finally Buffett sold stock at \$80 per share.

To the extent possible, therefore, I am attempting to create my own work-outs by acquiring large positions in several undervalued securities. Such a policy should lead to the fulfillment of my earlier forecast – an above average performance in a bear market. It is on this basis that I hope to be judged.

The higher market conditions, Buffett faces difficulty of finding undervalued securities.

So Buffett changes his focus on attempting to create his own work-outs by acquiring large position in several undervalued securities. These strategies worked and give above average performance in bear market.

Wisdom: So, if bear market is in place this strategy worked out as per Buffett.

In 1958 letter Buffett explains great points.

- ✓ **The effect of psychology of general market and temperament**
- ✓ **The psychology of market player affect the prices**
- ✓ **The madness of crowd affect on the price but not on the intrinsic value of stock**
- ✓ **In Work-outs Buffett worked on all parameter like management, earning power and finally the margin of safety when buying.**
- ✓ **Don't invest in illiquid stocks.**
- ✓ **Buffett changes his focus on attempting to create his own work-outs by acquiring large position in several undervalued securities. These strategies worked and give above average performance in bear market.**
- ✓ **Wisdom: So, if bear market is in place this strategy worked out as per Buffett.**