

WARREN BUFFETT'S GROUND RULES

**Words of Wisdom from the Partnership
Letters of the World's Greatest Investor**

JEREMY C. MILLER

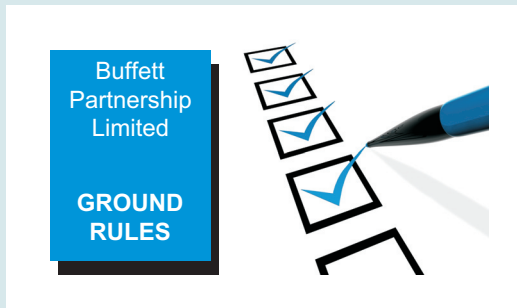
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MAIN IDEA

At the age of 26, Warren Buffett returned from Columbia Business School (where he had studied with value-investing guru Benjamin Graham) and founded Buffett Partnership Limited, his first professional investing partnership. That partnership would operate for fourteen years from 1956 to 1970 during which time Warren Buffett achieved an incredible record of investing success. In 1968 alone, he beat the Dow by more than 50 percent.

In order to make sure his partners understood his investment methodology and thought processes, Warren Buffett wrote up seven ground rules for his new partnership. He also wrote semi-annual letters (33 in all) to his small group of partners to explain how he was applying those ground rules on an ongoing basis.



What's interesting about these ground rules is when Warren Buffett liquidated Buffett Partnership Ltd. and moved on to becoming chairman of Berkshire Hathaway, he continued to apply the same ground rules albeit to a much larger pool of capital. They have been described as Warren Buffett's take on Investing 101.

These ground rules are still the guidelines he uses as the world's most successful investor. They are the bedrock of his success and are the rules every investor needs today. Warren Buffett's ground rules epitomize the mindset every aspiring investor should have.

1. Introduction to the partnership Page 2

When Warren Buffett set up his first partnership, he was very clear and up-front about what he planned to do. When it comes to investing, it pays to know and clarify exactly what you're trying to achieve.

2. Foundation rules Pages 3 - 4

Warren Buffett's original ground rules articulated five general or foundation rules around which the partnership would operate:

Buffett Partnership Limited GROUND RULES	1	Mr. Market and short-term stock prices
	2	The miracle of compounding
	3	Do nothing -- Market indexing
	4	Active investing vs. Passive investing
	5	The power of incentives

3. General operating rules Pages 5 - 6

The partnership's ground rules also included some great commonsense operating rules:

Buffett Partnership Limited GROUND RULES	6	Invest in generally undervalued stocks
	7	Invest in merger arbitrages
	8	Invest in the business, not in its stock
	9	Look for wide margins of profit

4. Financial rules Pages 7 - 8

The original ground rules also contained guidelines on how to avoid the common problems which come up in investing as a long-term business activity, namely:

Buffett Partnership Limited GROUND RULES	10	Be willing to go against the crowd
	11	Don't prioritize tax considerations
	12	Always rightsize your investments
	13	Don't go for fashionable investments
	14	Tidy your practices, don't burn bridges

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