



AN EXECUTIVE SUMMARY OF

# **BUFFETT: THE MAKING OF AN AMERICAN CAPITALIST** by Roger Lowenstein

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## **Who is Roger Lowenstein**

Roger Lowenstein, a writer and an American journalist, was born in 1954. After graduating from the Cornell University, he worked for the Wall Street Journal. He has also contributed his work to The New Republic and The New York Times. Apart from this book about Buffet, Lowenstein has gained international recognition for his book “When Genius Failed”. Read how Lowenstein tries to unravel how Warren Buffett leads his life in this book: **Buffett: The Making of an American Capitalist**.

## **Preston and Stig’s General Thoughts on the Book**

If you are a huge Warren Buffett fan like me, this book is perfect for you. Together with the “Snowball” this is the most comprehensive biography ever written about Warren Buffett.

From his very early years when he was delivering newspapers to his experiences as a billionaire owner of Coca-Cola and Wells Fargo, the reader learns how Buffett climbed to the top ranks of Forbes. However, the book is not so much a business book, as much as it is an inspirational read. Warren Buffett looks at his work as a blank canvass. Every morning he gets to paint whatever and whenever he wants, and that is what is making him happy. Nothing more –nothing less...

## **Chapter 1: Omaha**

In this chapter, Lowenstein talks about Buffett’s early age where he possessed an impeccable memory. His love for numbers was obvious to his friend, Bob Russel, who grew up with him Omaha. At a very tender age, Buffett believed in working hard and embraced every business opportunity that came his way. Interestingly, he’d get ticker tapes from his father – who was a stock broker – and try to understand the symbols using Standard & Poor’s manual. Understandably, Buffett found it extremely fascinating to make money and then watch it grow and proclaimed that he would be a millionaire by the age of 30. After his father was elected as the Congressman, Buffet began working at the Family’s grocery store.

## **Chapter 2: Runaway**

Once the Buffett family moved to Washington, Warren Buffett worked as a newspaper carrier, and although he was only 13, he had the unusual habit (for kids his age) of maintaining a record of what he earned. Not only did he immerse himself in business books, but he also made a bit of money by selling magazine subscriptions. Needless to say, he also filed a tax return and refused his dad’s help. However, Buffett was unhappy and ran away from his home. His parents were quite shocked, but didn’t rebuke him after he returned home. Buffett enrolled at the Wharton, and later, he graduated from the prestigious University of Nebraska. He also enrolled at the Columbia Business School.

### **Chapter 3: Graham**

As Buffett was already smitten with the stock market, Benjamin Graham just gave him the push he needed and opened a wide new world to the stock market. Although he was already trading and studying the stocks, he hadn't made a lot of progress, but Graham changed it all. He offered several tools that helped Buffett explore several opportunities in the market and also helped him adapt to an approach that suited his demeanor. After honing his natural talent under Graham's tutelage, Buffett went back to Omaha and married a woman named Susie in 1952. At this point, Buffett had also begun investing in companies. Later, he began working for Graham-Newman that was located on Wall Street.

### **Chapter 4: Beginnings**

By 1957, Buffett was already managing about \$300,000 for his friends and family. He had no track record but even when he got a call from Edwin Davis, a reputed neurologist in Omaha, he stuck to his own terms. He made his message clear that he would be open to conduct business only one day in the year and that they wouldn't even know where he would invest their money. Of course, getting a deal with Davis would assure that he could make an entry as a professional, but Buffett stuck to his terms. He also followed the same principles with other clients, and although they couldn't question him about the whereabouts of the money, they still made profits.

### **Chapter 5: Partners**

Slowly, Buffett began investing by buying small stakes. By 1962, Buffett partnership bought a small stake at Newford that was priced at \$7.60 per share. As a manufacturer of suit liners, it seemed like Berkshire was a great bargain since it had \$16.50 per share with a working capital that was at least two times the share price. Warren Buffett followed Graham's principles, but he also developed some of his own. He didn't look at stocks like mere assets, but they were live businesses with amazing potential for him. Although American Express was involved in the fraud regarding Salad Oil, he bought stocks in the company and also invested in Disney. By now, Buffett was a multi-millionaire, but he didn't change his lifestyle.

### **Chapter 6: Go-Go**

Gradually, new stocks including electronics were being traded. Although they needed people to be trustful and invest in it, people still did it and stocks went up. This didn't bother Buffett much when his fund was still very small, but as the capital grew, he began to get antsy. Fewer bargains made him feel trapped and after a lot of forethought, he stopped accepting any new partners in the year 1966. Since he was unable to find stocks that agreed with his principles, he had to lower his own goals. He also met Graham and his other disciples and finally decided to dissolve the partnership.

### **Chapter 7: Berkshire Hathaway**

In this chapter, Lowenstein discusses the history of the famous Berkshire Hathaway and how Buffett took charge of it. Berkshire and Hathaway merged together in 1955 and was named Berkshire Hathaway Inc. The company didn't seem to do too well, and although Buffett had bought stocks in it, he didn't have any intentions of taking over the company. However, he did take charge later with Ken Chace to manage the company. Through Berkshire, Buffett also bought the National Indemnity Company and several other properties. By 1970, he was made the chairman of Berkshire.

### **Chapter 8: Return of the Native**

Since the partnership had dissolved, Buffett had a lot of time on his hands. Of course, he did oversee Ken Chace's work and the Hathaway mill, but it still gave him time to do other things. He also declared that he was declining requests

since he was no longer involved in the investment business. At this point, Buffett took his time and got busy with other projects. Among other things, one can't ignore the philanthropist in him. As his wife Susie was already involved, she also encouraged him to take a step ahead. As a result, he helped provide scholarships to about 50 black students. However, he couldn't keep away from the investment business and was back in action when he bought stocks in 1972 for the insurance company that belonged to Berkshire.

## **Chapter 9: Alter Ego**

The friendship and camaraderie between Charlie Munger and Buffett is described in this chapter. There were known as two people who resembled each other to a great extent. Both of them invested and bought stocks separately. Within no time, Buffett was the largest shareholder and Munger was a close second in a company called Blue Chip Stamps. There was an opportunity to make loads of money, but somewhere along the way, the game became dangerous since Buffett was now investing and working on behalf of Blue Chip, Diversified and Berkshire. Lowenstein has also shown a chart for the reader to understand how Buffett managed it all. Later, the SEC kick-started an investigation that continued until 1976, but Buffett was just slapped on his wrist.

## **Chapter 10: Washington Redux**

In this section, Lowenstein talks about how Buffett became an advisor to Katherine Graham who managed the Washington Post. When Buffett met her, Katherine, who was working as a reporter initially, had no expectations that she would be running the company. It was a rough phase for her, but Buffett changed that. By 1974, he became a board member. He was 57 years old and also became her friend and adviser. In his tutelage, the Washington Post made a few other investments. Incredibly, the return on the equity was doubled and as time passed by, it simply kept increasing.

## **Chapter 11: Press Lord**

In this section, Lowenstein talks about Buffett's experiences with the Evening News, a newspaper in Buffalo. Buffett was mainly interested in it because of the stable population. Despite its negatives, including the fact that the newspaper didn't publish on Sunday, Buffett even wanted Graham to know that he was interested in acquiring it. Buffett's wish was not to become an advisor to a newspaper company, but he wanted to own one. In 1974, Buffett and Munger bought the Evening News. Their plans to publish a Sunday edition was met with some protest and they also were embroiled in an anti-trust suit from the rival company. Due to an injunction, the paper began to suffer with losses, but it was reversed after two years.

## **Chapter 12: Partners, Redux**

This chapter talks about how Buffett and his wife were living separate lives. Buffett was completely involved in his businesses, but Susie was beginning to get more interested in her career. She wanted to become a singer and was also auditioning at the time. The couple began to grow separate from each other as they had completely opposite interests. As Susie turned 45, she performed at the Orpheum, but separated from Buffett the same day. She also stated that she wasn't doing it legally, but just wanted to live alone. For Buffett, it felt like the support he had received to continue with his work without worrying about emotional matters was suddenly gone. He was stunned. However, he had Astrid Menks move in to his house after a year. Buffet began buying more stocks by the late 1970s again.

## **Chapter 13: The Carpet Woman**

This section is about Mrs. B, aka Rose Blumkin, a woman who sold her business to Buffett for \$60 M. When appraising a business, Buffett always thought about how he'd feel if he had to compete against it. When he watched Mrs. B, he

felt that she was someone who was born out of the letters he wrote. She was tenacious, hardworking and strong. One by one, she made her competitors go out of business and that's exactly what Buffett admired in her the most. She worked until the age of 103, and this simply proves that it's not age, but it's the will that matters when in business.

### **Chapter 14: The Eighties**

The 1980s was more like an era where there were too many mergers and acquisitions to be seen. The mergers were hostile and there were too many dramatic changes taking place. Everything was taking place at a furious pace, and Wall Street had made about \$12 billion through a few deals. It shot up to \$122 billion by 1984 and this made others resent the investment bankers. After a long time, Wall Street was seen to be taking initiatives. At this juncture, Buffett acquired many media companies and Cap Cities that later merged with ABC. However, he seldom participated in hostile mergers.

### **Chapter 15: Public and Private**

This section describes Buffett's public and private life in more detail. One would expect a billionaire to lead a lavish life, but Buffett didn't believe in that. Although he was in the public spotlight, thanks to the millions he'd made in the USA, he rarely behaved like a billionaire. He had too many people asking him to help them make money. The media was understandably every interested in his private and public life and this raised a lot of speculation. Susie lived separately, but she always accompanied him in public, but his private life had Astrid Menks give him company. Long story short, Buffett wasn't like the average CEO who has no time for other things in life. Warren Buffett, a billionaire, had only 11 people in the corporate headquarters.

### **Chapter 16: Crash**

Buffett was also involved in businesses that revolved around the insurance market. At the time, every other company had their own strategy. In other words, while the other businesses cut back their prices to cling to the market shares, Buffett steadfastly refused to give in because he felt that he would be betting against odds. He perceived the insurance business as playing poker and his mathematical calculations helped him to make profit no matter what business he invested in. He also made it clear that he would wait for the prices to rise once the businesses pulled back. The market experienced heavy losses in 1985. However, Berkshire made profits. Later, Buffett sold all of his stocks, except GEICO, Washington Post and Cap Cities.

### **Chapter 17: A Brief Introduction to Darts**

In this chapter, it's obvious to understand Buffett's dislike for the Efficient Market Theory. After the crash, Buffett had expressed his displeasure that people were bothered about efficient markets, rather than worrying about the value and price. Basically, the theory stated that the price of a stock reflected all the information of any company that was publicly available. Whenever stocks became public, traders sold or bought until the price was stable. This gave birth to the assumption that since the price displayed all the information required, it was futile to delve into security analysis.

### **Chapter 18: Secrets of the Temple**

This chapter talks about how Buffett became the biggest shareholder for Coca-Cola in 1988. Lowenstein also shares the principles of Buffett, when it comes to determining the 'value' of stocks. Simply put, Buffett primarily tries to pick stocks when the value is significantly more than the price. The rules can be quickly summarized as follows:

- Don't pay any attention to forecasts and trends, but pay close attention to the value of the business in the long term.

- It's best to stick to stocks within your area of competence because if you can't understand the business, there's no point in investing in it.
- Pick managers that treat the shareholder or investor's money as their own

## **Chapter 19: Howie Buffett's Corn**

This chapter describes Buffett's relationship with his children and how his views about sharing his fortune with his children were beginning to change. As mentioned earlier, Buffett rarely threw his weight around as a billionaire. He also criticized wealthy people when they left behind their fortunes to the respective heirs. Buffett rarely coached his family and friends about their financial matters because he felt that their relationship would be cleaner if money wasn't involved. Although his attitude stunned his friends, Buffett cut his children from financial support since he didn't want to spoil them.

## **Chapter 20: Rhinophobia**

After Black Monday, people witnessed the stocks soaring high. During late 1980s, greed had overshadowed fear and this also gave Munger and Buffett the opportunity to make more profits. Teamed with each other, both Munger and Buffett were known to question companies and tear presentations apart. In the meanwhile, Buffett also purchased RJR Nabisco and also arbitrated on different types of stocks. Interestingly, he bought companies to prevent them from being acquired and was also criticized for it. While some deals were good, others weren't so profitable.

## **Chapter 21: The King**

This chapter describes the history between John Gutfreund and Salomon. Buffett admired Gutfreund since he played a major role in helping GEICO becoming stable, but even Buffett was appalled at the problems that went on in Salomon's firm. He rarely interfered in the company's problems but he stepped in and asked them to cut back. However, it seemed to be too late as the Justice Department and SEC had already begun an investigation. Gutfreund had to resign and Buffett was made the CEO.

## **Chapter 22: Salomon's Court**

This chapter is a continuation of the previous chapter where the problems encountered in Salomon's firm are briefly described. As the investigation continued, Buffett met the top officials in the firm to assess and salvage what was left of the situation. He also selected Deryck Maughan to manage the firm. Needless to say, Buffett cooperated with the Justice Department during the investigation and made several changes in the management. Eventually, the cases were settled, and with time, the firm that was struggling, made record profits.

## **Chapter 23: Buffett's Trolley**

This chapter takes a look at Buffett's holdings in early 1990s. Lowenstein talks about how Buffett increased the stakes in Wells Fargo. While the banks recovered after a bad recession, Buffett's earnings increased considerably. By 1994, Buffett had amassed about \$9.7 billion and continued to dazzle people with his personality and intuitive nature. Even today, Buffett searches for stocks that hold intrinsic value and doesn't intend to change his methods.

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