



On January 19, 2007 I flew to Omaha, Nebraska to hand deliver a written question to Warren Buffett. A copy of the letter included as Appendix I.

The letter essentially addressed Mr. Buffett's early investments and asked:

*If you were today 20-something years old, again looking to allocate less than \$10 million, and free to allocate capital into well over 8,000 opportunities (before even considering anything overseas), would your Latticework of Mental Models primarily be searching for:*

- a) Situations reminiscent of 1957 – akin to Daehan Flour Mills,  
or*
- b) Situations reminiscent of 1987 – akin to Moody's Corporation?*

In response to my 1,091 word question, Mr. Buffett handwrote a response of eight words. See Appendix II.

Respectfully,

Shai Dardashti

## Appendix I: Text of Letter to Warren Buffett

January 19, 2007

Warren Buffett  
1440 Kiewit Plaza  
Omaha, Nebraska 68131

Dear Warren:

Like the thousands of other young people who try to contact you, I've always been the kid in school who used to read the business section of the paper rather than the sports section while in high school and would check "yahoo finance" rather than "yahoo sports" while in college.

I first read The Warren Buffett Way when I was 13 and I walked into the local library looking for a book about investing. I first wrote to you when I was 17 when I figured I actually had a reason to make a plea for your attention. I first had the privilege to shake your hand at age 21 when I organized a student trip from University of Maryland.

I just traveled 1,000 miles on 48 hours of notice to shake your hand for a second time. And to hand deliver this letter to you.

My father escaped from Iran in 1967 – as a 12 year old, leaving his parents behind and surviving on his own in Philadelphia with an aunt. My mother is from a small town in Pennsylvania – many in her family were victims of the Holocaust. If you are actually reading this message, I am indeed one of the luckier people in the world.

I consider the luck to be able to deliver this communication to you on par with that of a philosophy student conversing with Plato; the odds for "time, technology, and temperament" to all align is a statistical anomaly. I could not have been handed a better ticket in the Ovarian Lottery.

I've read your Partnership Letters, the Letters to Berkshire Shareholders, and my fair share of articles that you have written and books that have been written about you - *yet still have a single looming question.*

Any guidance would be deeply appreciated.

My sincerest thanks,

Shai Dardashti (signed)

**Mr. Buffett, on June 23, 1999 you shared with Business Week:**

*If I was running \$1 million today, or \$10 million for that matter, I'd be fully invested. Anyone who says that size does not hurt investment performance is selling. **The highest rates of return I've ever achieved were in the 1950s.** I killed the Dow. You ought to see the numbers. But I was investing peanuts then. It's a huge structural advantage not to have a lot of money. I think I could make you 50% a year on \$1 million. No, I know I could. I guarantee that.*

**More recently, Morningstar reported:**

*Munger also recalled a comment made by Buffett at the Berkshire annual meeting concerning how cheap Korean stocks had become during that country's financial meltdown in 2002: "There were flour mills trading at two times earnings. **Warren thought he was young again.**"*

As I understand things, I recognize two “mental models” from your investment patterns over the years:

**The “1957” Graham Approach**

At a talk to Columbia students in 1993 you shared:

*When I got out of Columbia the first place I went to work was a five-person brokerage firm with operations in Omaha. It subscribed to Moody's industrial manual, banks and finance manual and public utilities manual. I went through all those page by page.*

*I found a little company called **Genesee Valley Gas** near Rochester . It had 22,000 shares out. It was a public utility that was earning about \$5 per share, and the nice thing about it was you could buy it at \$5 per share.<sup>1</sup>*

*I found **Western Insurance** in Fort Scott, Kansas. The price range in Moody's financial manual...was \$12-\$20. Earnings were \$16 a share. I ran an ad in the Fort Scott paper to buy that stock.*

*I found **the Union Street Railway**, in New Bedford, a bus company. At that time it was selling at about \$45 and, as I remember, had \$120 a share in cash and no liabilities.*

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<sup>1</sup> Even adjusting for inflation, 22K shares at \$5 each implies a market cap well below \$1 million.

Along similar lines, in late 2005 I understand you explained to a group of Harvard students the following:

*Citicorp sent a manual on Korean stocks. Within 5 or 6 hours, twenty stocks selling at 2 or 3x earnings with strong balance sheets were identified. Korea rebuilt itself in a big way post 1998. Companies overbuilt their balance sheets – including Daehan Flour Mill with 15,000 won/year earning power and selling at “2 and change” times earnings. The strategy was to buy the securities of twenty companies thereby spreading the risk that some of the companies will be run by crooks. \$100 million was quickly put to work.*

### **The “1987” Fisher Approach**

The following excerpts from an article written by Carol Loomis published on April 11, 1988 in Fortune provide interesting clarity on the modus-operandi of Berkshire circa 1987:

Unusual Profitability (High ROE with Low Debt; i.e. high ROIC)

*...But in his 1987 annual report, Buffett the businessman comes out of the closet to point out just how good these enterprises and their managers are. Had the Sainted Seven operated as a single business in 1987, he says, they would have employed \$175 million in equity capital, paid only a net \$2 million in interest, and earned, after taxes, \$100 million. That's a return on equity of 57%, and it is exceptional. As Buffett says, "You'll seldom see such a percentage anywhere, let alone at large, diversified companies with nominal leverage."*

Unusual Growth (Opportunities for Reinvestment of Retained Earnings)

*...Some folks of the right sort, by the name of Heldman, read that ad and brought him their uniform business, Fechheimer, in 1986. The business had only about \$6 million in profits, which is an operation smaller than Buffett thinks ideal.*

*...A few hundred miles away at Fechheimer (...1987 sales: \$75 million)*

Paying for Quality

*...By 1972, Blue Chip Stamps, a Berkshire affiliate that has since been merged into the parent, was paying three times book value to buy See's Candies, and the good-business era was launched. "I have been shaped tremendously by Charlie," says Buffett. "Boy, if I had listened only to Ben, would I ever be a lot poorer.*

Appendix II: Warren Buffett's Eight Word Response  
(Handwritten on final page of original letter)

At the Q&A I arranged you told me that today (May 23, 2005) you were "85% Graham and 15% Fisher."

If you were today 20-something years old, again looking to allocate less than \$10 million, and free to allocate capital into well over 8,000 opportunities (before even considering anything overseas), would your Latticework of Mental Models primarily be searching for:

- a) Situations reminiscent of 1957 - akin to Daehan Flour Mills, or
- b) Situations reminiscent of 1987 - akin to Moody's Corporation?

*Either is fine*

*Better for small sums  
" " large "*  
*WB*

*Better for small sums.  
" " large "*

*Either is fine.*