

Institute of Futurology

knowing our future

ProgBlog

2012, No 3

“Why Warren Buffett thinks like a futurist”

By Michael Lee

“I look for businesses in which I think I can predict what they’re going to look like in ten to fifteen years’ time...A long-term or durable competitive advantage in a stable industry is what we seek in a business.”

Warren Buffett

Warren Buffett did not become one of the most successful investors of all time by being a bad futurist.

Most people in the business community would accept the view that he is an investment genius. And one of the main reasons he became the third richest man on earth is that he has consistently applied principles of futuristic thinking in his investment strategies. He has always taken the long view when deciding what stocks to buy. He understands time, and how businesses, economies and stock markets behave in a cyclical fashion over time, better than most financial observers.

This blog shares some similarities between futurology and what has become known as Buffettology.

Buffett views the future plainly and pragmatically. He is neither pessimistic nor optimistic. But he is admirably proactive. He looks ahead in a calm, rational manner to the long-term future, measured in decades rather than in years. He tries to envisage how a business, and its surrounding economic conditions, will look in the future. He is looking for long-term “twenty-to-forty-year investments”.¹ His largest stockholding is with Coca Cola because he thinks people will still be drinking Coke a hundred years from now.

Instead of seeing the future as the territory for exotic visions, whether those of Nostradamus, Karl Marx or even the school of thought predicting a technological singularity in the 21st century,² he scans the future in a very focused and practical way, while using the past as a guide. He is geared to the waves of long-term economics.

¹ Buffett, M & Clark, D. 2011. *The Warren Buffett Stock Portfolio*. 2.

² See http://en.wikipedia.org/wiki/Technological_singularity

At the time of the Great Depression, the Dow Jones Industrial Average lost about 88% of its value and it apparently took twenty-four years to regain that lost value.³ During that time of economic destruction, it was the most durable businesses that regained value quickest as demand for their products and services recovered. Today we are at the bottom of the Great Recession and most indicators are flat-lining, except for the most durable and sustainable businesses, that is. Buffett has demonstrated through his consistent successes that the stock market is not for the short-term thinker who does not understand cycles.

Crucially, Buffett sees the future largely, but not exclusively, as an extension of the past. He is a consummate “a student of financial history”.⁴ This approach is in keeping with the nature of time as a continuous process with no sharp dividing line between past, present and future. Some futurists, for example, refer to the two hundred year present which is, in my view, a powerful concept. What the past enables the futurist to do is to make predictions. That is how the scientific method builds predictive power – by observing the regularities in nature and society over time which give rise to laws of behaviour.

Buffett looks for stable industries in which it is easier to predict performance. Predictability arises from the track record of the business, explaining why Buffett likes the companies he buys to be old and established. For this great investor, predictable products, developed over decades, can produce predictable profits. In the long-run, he sees the value of Coca-Cola’s stock growing over time while Ford Motor company, by contrast, is likely to suffer loss of value over time due to the problems of global oil supplies and the rising costs of producing petroleum, now an endemic issue following global Peak Oil. The automobile industry will be forced to live through a period of Schumpeterian creative destruction as technologies dependent upon petroleum are gradually replaced by those based on more economically sustainable energy sources. And yet it is only just over a hundred years since the first Model T Fords were being mass produced and Ford himself was one of the undisputed kings of industry! Economics is not for the short-term thinker.

Buffettology relies on precise and systematic calculations of the future value of stocks. There’s even a Future Value Calculator <http://www.investopedia.com/calculator/FVCal.aspx> which works out the projected value of an asset or cash at a specified date in the future, factoring in expected interest rates.

³ Buffett, M & Clark, D. 2011. *The Warren Buffett Stock Portfolio*. 4.

⁴ Buffett, M & Clark, D. 2011. *The Warren Buffett Stock Portfolio*. 7.

Another reason why I believe Buffett thinks like a futurist is that he is very aware of the links between the physical world in which we live and the economy and its financial markets. He seems to take a very “physical” approach to investments, linking them to behaviour in the real world. For example, his stock portfolio contains shares in several businesses in food, beverages, household consumer goods, pharmaceuticals and health care. One could say his investments are rooted firmly in the real world in which universal human needs, wants and desires play a vital role in determining the success of many businesses.

I am reminded here of Dr. Michio Kaku’s Cave Man principle. This well-known physicist and futurist does not believe human nature has changed much in the last 100,000 years. Even in our high tech society of today, we are all still looking for “high touch” human experiences. Buffett factors in these unchanging human needs when looking for businesses that will last far into the future. This kind of holistic approach to investing is consistent with what physics has shown about the nature of time – that it is not separate from space. On the contrary, time is united in one space-time continuum (see ProgBlog No 1 “The Promise of Foreknowledge” at www.futurology.co.za/ProgBlog). This fact of physics allows us to demystify time. Buffett’s portfolio shows he is very aware of the physical world in which time plays out.

Another way of saying this is that he is an astute observer of patterns of time. He “plays” the stock market cycles, buying up in times of economic bust when stock prices are low, then selling off average businesses to build up cash reserves as the economy improves. Then when the market reaches its peak his cash reserves are boosted by dividends and sales of average stocks he does not rate as highly as his most durable businesses. This game of patience during the stock market cycles puts him in a good position to buy shares on a large scale at bargain basement prices when the markets take a turn for the worse. Futurists must read the cycles of history in a dispassionate manner in order to get a proper sense of the trajectories of the future. That is exactly how Buffettology works. His portfolio is rooted in the economic, business and stock market cycles he understands so well. Sometimes, the more things change, the more they stay the same.

In short, Buffett has successfully adopted a scientific approach towards the future and towards investments.

I believe it is time to apply a science of the future to solve the world's economic woes. Buffett's success encourages me as a futurist to persist with the view that long-term thinking will always produce better results than the chronic short-termism we see in global politics and finances today. Is this not evidence that the future itself is highly undervalued as an asset, both in the investment world and beyond? If so, I believe Buffett would conclude that this means its stock is bound to rise.

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