

# LeadershipReview

Robert Heller's  
Masterclasses

## Warren Buffett 3 Using Reason



# Using Reason

*The person who always acts impetuously, illogically, unfairly, and obstinately is most unlikely to succeed in any activity. Assess how rational you are and take action to let your head rule your decisions and their implementation.*

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## HOW RATIONAL ARE YOU?

The most important word in Buffett's vocabulary is "why". He always strives to discover the reason "why" things happen, "why" he should do some things, and not others, "why" one approach is better than another. Can you live up to his standards of rationality? Look at the following seven statements. Give yourself a score on a scale of zero to 10. You score zero for "I never think before acting", 5 for "I sometimes think", and 10 for "I always do".

- I think before acting.
- I have a logical justification for my actions and beliefs.
- I do not stop my enquiries until I am as certain as possible that I know the truth.
- I understand my emotions, but never allow them to determine my behaviour.
- I strive to be fair in my dealings with others.
- I change my mind if other people, or new facts, show that I am wrong.
- I set out my arguments clearly and logically, so that others can follow them.

## USING A CHECKLIST

Write down these seven statements on a card, and refer to them when working on anything to see if you are leaving the road of reason. Ask yourself every evening what you have done to harness the power of reason, and (using Buffett's metaphor) to get maximum output from your motor.

### ANALYSIS

- A score between 25 and 45 shows that you are a reasonable person but that some of the time you act unreasonably.
- Follow a rational course of action and improve on that unsatisfactory performance.
- Concentrate on the points of major weakness and find one simple way of correcting each fault.

# 1. Breaking The Habit

*Buffett believes that bad habits, such as irrational behaviour, are not inborn but are developed at a young age, and become harder to dislodge with advancing years.*

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## **STUCK IN THEIR WAYS**

Middle-aged managers are frequently guilty of stubbornly refusing to make changes that would provide great benefits and even avert disaster. They become stuck in a mental habit or "mind-set". These fixed attitudes are often revealed in ritual phrases, such as:

- "That's not the way we do things around here."
- "If that is such a good idea, why isn't anybody else doing it?"
- "That's been tried before, and it didn't work."

Reject such statements as denials of rationality. They prevent serious, rational investigation that might lead to change for people who irrationally prefer an unsatisfactory status quo.

## **DEVELOP YOUR STRENGTHS**

Whatever your age, welcome positive change and use Buffett's "role model" plan to align your performance to that of your hero. There is no reason why even the old dogs cannot learn new tricks.

## **ROLE MODEL PLAN**

- Choose the person you most admire.
- Write down why you admire them.
- Choose the person you most dislike.
- Write down why you dislike them.
- Imitate the qualities of the role model.
- Never imitate the qualities of your anti-hero.

Role models are useful for everybody, but always remember that you have innate and unique strengths and weaknesses; only an identical twin has the same genes. Your genetic inheritance determines your personality as well as your physique. You can improve both with practice and techniques as long as you are honest with yourself about your qualities. Try to be objective and seek to build on your strengths and minimize your weaknesses.

### **ASSESS YOUR QUALITIES**

Which qualities do you admire in yourself?

Which qualities do you dislike most?

How can you strengthen the qualities you admire?

How can you reform the ones you dislike?

### **BE POSITIVE**

Being completely honest about yourself is not always easy, especially when it comes to acknowledging your weaknesses. But do not turn inherited difficulties into impossibilities. It is all too tempting to allow what you consider a flaw in your personality or a weakness in your intellect to prevent you from achieving a desired goal.

Remember that:

- The fact that you find learning foreign languages difficult does not mean that you cannot learn one.
- The fact that financial figuring comes hard does not mean that you cannot master accounts, budgets and balance sheets.
- The fact that you often act impulsively and emotionally does not mean that you cannot learn to act rationally at all, or at least most times.

### **OVERCOMING YOUR WEAKNESSES**

Slow learners need more time but if allowed they can learn well enough to excel. Taking your weak areas as opportunities can turn them into strengths.

The owner-manager of a company wanted to hand over management to his top-performing sales director who was "figure-blind". So, the boss made the director draw up budgets and management accounts, even though this resulted in lost sales revenue while the man wrestled with the figures. But he learnt, and made a fortune for his old boss as a manager whose grasp of accounts became one of his key strengths.

## 2. Mastering Emotions

*You may feel that rationality cannot extend to the emotions. You cannot control your feelings: for example, you either like somebody or you do not; something either makes you angry or it does not. But you can learn to control the expression of that feeling.*

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### **PLACING EMOTION UNDER CONTROL**

Buffett will work only with people he likes, but he makes sure that his liking does not prevent objective judgement of those people, or objective action if they let him down. No doubt, Buffett is sometimes angry. But does he allow anger to influence his decisions or his behaviour? People often place their anger under control. For example, if another driver cuts you up in traffic, you will react angrily to a stranger, but very differently if the driver is your boss.

### **DEALING WITH ANGER**

If you are angry, ask: "What purpose will my anger serve?" Usually, anger arises because somebody else is not behaving in the way that you want. Will your anger help to change their behaviour? Probably not. You may think that "letting off steam" is good for you, but, in reality, it is an unpleasant condition that any rational person would try to avoid, far better not to get angry in the first place, but, if you do, subdue it swiftly by applying the four-point anger analysis plan:

#### **FOUR-POINT ANGER ANALYSIS PLAN**

- 1 What has caused my anger?
- 2 What is the objective I wish to achieve?
- 3 Is anger the best means to the end?
- 4 If not, what is the best alternative?

The cause of anger is often a fait accompli: a mistake has been made, say, and cannot be undone. The uncontrolled emotion therefore serves no useful purpose. Equally, if you made the mistake yourself, the emotion of guilt is also useless, as it will neither correct the error nor help you to avoid making the same mistake in future.

# 3. Learning from mistakes

*Buffett's attitude to error is among the most important aspects of his teaching. Expect to make mistakes sometimes and, if they occur, analyze the reason for them. Use the analysis to avoid the worse mistake: doing it again.*

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## **ACCEPTING ERROR**

True rationality accepts that mistakes will happen, and it is deeply irrational to suppose that you have been, ever will be, or ever can be without fault. Every time you buy a share, for example, you make a mistake; there is always another investment that will perform better than your choice. Buffett's avoidance of high technology stocks, for instance, sounds reasonable because it is rational to invest only in businesses that you understand. But, ironically, Berkshire Hathaway's amazing record would actually have been better if Buffet had invested in Microsoft, and nothing else.

## **ANALYZING YOUR MISTAKES**

The irrational response to error is to try to rewrite history; "if only I had..." is a familiar cry - instead of being defeatist, analyze your mistakes. Once you have established the reasons why something has gone wrong, it is relatively easy to make sure you do not repeat the mistakes. Ask yourself the following seven questions:

- Did I lack adequate information about the present?
- Did I make an inaccurate prediction?
- Is this a mistake I have made before?
- Did I ignore logical lessons that I already knew?
- Does what happened teach me a new lesson?
- Did I do the wrong thing?
- Did I do the right thing in the wrong way?

Buffett's mistaken sale of shares in McDonald's in 1998, for example, was based on an inaccurate reading of the company's poor US sales figures, from which he predicted, possibly incorrectly, that its growth prospects had fallen below his requirements. Such mistakes have been rare in Berkshire's history because of Buffett's logical insistence on keeping shares indefinitely, knowing that bad short-term patches do not invalidate good long-term analysis.

## **STICK TO YOUR PRINCIPLES**

In other words, Buffett ignored his own teaching. The advice given by Polonius to Laertes in Hamlet is particularly sound: "To thine own self be true."

Many mistakes flow from aberrations that override this principle. The aberrations often stem from following conventional wisdom rather than your own (or, indeed, Buffett's). As

an investor, have the courage to obey at all times the five rational principles expounded by Buffett:

#### **FIVE RATIONAL PRINCIPLES**

- 1 Focus on a few things, not many things.
- 2 Ignore short-term fluctuations, unless they invalidate your long-term expectations.
- 3 Do not believe that booms will continue for ever, or that slumps will never end.
- 4 If you have done your homework thoroughly, have the courage of your convictions.
- 5 Be as ruthless when analyzing your success as you are when analyzing failure.

#### **ANALYZING YOUR SUCCESSES**

You can learn from your successes as well as your failures. Subject them to the same scrutiny as your mistakes, and learn from them. People tend to pride themselves on their success and take it as proof of their brilliance. But success is often accompanied by serious mistakes that might have proved fatal. Ask yourself:

- Did you succeed in spite of your ignorance about the present and the future?
- Did success flow from repeating previous experience, or breaking into new ground?
- Did you do the right thing in the wrong way, but succeed because the thing was so right that your mistakes did not affect the outcome?

Reason is a hard master, but one whose lessons, like Buffett's, always repay intelligent obedience.

## 4. Business Masterclasses

*Robert Heller has studied the work of eight of the world's most successful business gurus and condensed their genius to 16 practical Business Masterclasses. See them all at:*

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