



Our Learning from Warren Buffett

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We always measure the Scarsdale investment strategy around bonds against the best strategies that we can find. These strategies must be available to individual investors to carry out for their own account or with the advice and help of an advisor such as Scarsdale. The strategies must be transparent and the client must be able to fully understand the goals of the strategy and the risks that are entailed in carrying out the strategy.

Jason Zweig, one of our favorite financial writers, wrote “Lessons From 50 Years of Buffett”,¹ in which he described Warren Buffett’s investment principles. In this article we measure the Scarsdale investment strategy against those principles.

1. “Invest sensibly without obsessing about what other investors are doing.”

Scarsdale strategy: Our sole focus is on investing in the highest quality individual bonds to create predictable cash flows. We create customized bond ladders to advance the objectives of each individual client and their family. We pay no attention to the daily movements of interest rates and bond prices about which the media obsesses. We buy bonds to hold to maturity.

2. “Don’t worry about other people making money and you sitting by.”

Scarsdale Strategy: We do not invest in equities or other risk assets even when others are making gains. We do not reach for yield if it adds significant risks. This strategy is not for impatient clients who are seeking quick or outsized gains. With an individual bond strategy, there is predictable growth. The reinvestment of interest payments that are received precisely on schedule, bond calls and redemptions results in growth. Rising interest rates enables you to reinvest at higher yields. That is growth.

3. “Only invest within your sphere.”

Scarsdale strategy: We are considered national experts in bonds and have written the first book on bond investing in muni bonds for individual investors and have followed this up by four more books on bond investing including the classic *Bonds: The Unbeaten Path to Secure Investment Growth*, Bloomberg Press, 2nd ed., 2011. We don't profess to be expert in any other area than individual bonds. Our clients often chose non-bond investments themselves or hire other advisors to manage their risk assets. Our philosophy around the All Bond Portfolio is well known, but not a requirement for our clients. Our first financial planning investment principle for our clients is for them to make an allocation between high quality individual bonds and risk assets. This enables clients to create a paycheck from bond interest and also allocate to equities or other investments as they see fit.

4. "Figure out who you are and what you stand for as an investor."

Scarsdale strategy: We invest in the highest quality individual bonds. We also focus on being tax efficient. This strategy has been in place for more than 25 years. It has worked in all markets including the crashes of 2000 and 2008. We stand for the generation of tax-free or tax-deferred cash flow from the highest quality individual bonds. To date, we are proud of never having had a bond default in one of our portfolios. We cannot be of service to all investors. We can only help those individual investors who wish to follow our strategy around individual bonds with respect to some, or all of their money.

5. "Figure out who you are."

Scarsdale Strategy: Imagine yourself when you were ten years old. What made you happy at that time? We like to think that receiving a known cash flow may enable you to capture that happiness again because it will alleviate financial concern and worry. That is what we do for ourselves and for our clients.

6. "Know what you know and what you don't."

Scarsdale Strategy: We know that our lives are finite and that during the course of our lives we may incur specific obligations. These may include college planning for our children and funding our retirement. By creating a cash flow from high quality individual bonds, we know that we will have a paycheck of our own creation. We do not have to worry if cash will be available for us to withdraw. Market volatility and market timing will not be an issue.

7. "Be inflexible on these principles."

Scarsdale strategy: We follow the above principles exclusively and with gusto because we really know what we know. What we don't know is how buffeting by information

cross winds might affect the outcome, if we stray from what we know. The media reports of double digit gains projected ad infinitum into the future can be compared to the Sirens, the beautiful sea nymphs in the Greek tale of Odysseus (Ulysses) and the Trojan Wars. During his voyage, he had his soldiers fill their ears with beeswax and tie him to the mast so that he would not jump to his death into the sea to follow their beautiful song. In part, good investing is refusing to be tempted.

8. "Change, learn and grow relentlessly as you put these principles into practice."

Scarsdale strategy: As our practice and business has grown to almost \$300 million under advisement and 15 broker-dealers, we have become more competent and efficient in finding the highest quality bonds in both the new issue market and the secondary market. Our custody agreement with Fidelity Investments and our wide range of bond brokers give us wide access to new and secondary market bond issues. This has enabled us to grow more efficient, while keeping our costs and our fees to what we believe are the lowest among fee-only financial advisors. This enables us to better serve you.

In sum, Jason Zweig states:

To learn from Buffett, concentrate your energies on figuring out what you stand for as an investor, what are your goals, know who you are, what you know and what you don't. Be inflexible on those principles. Then change and learn and grow relentlessly as you put these principles into practice.

ⁱ Jason Zweig, Lessons From 50 Years of Buffett, *Wall Street Journal*. May 2-3 2015, B9.