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**Warren Buffett's long term investment returns**[^ TOP](#)

Warren Buffett's wealth has slowly crept up over the years as he compounded the book value of Berkshire Hathaway "his" insurance and investment company at 21,1% for 43 years. It's that wealth generation for him and his fellow shareholders that now puts him at the top of the list of wealthiest people in the world, surpassing his friend Bill Gates for the first time.

Comparing the annual returns of Berkshire's per share book value with the annual percentage change in the US's S&P500 index, including dividends makes for some interesting observations.

Over the 43 years, the book value per share grew from \$19 to \$78008, a compounded 21,1%. The pre tax annual compounded return for the S&P500 over the same period was 10,3%. The annual compounded 10,8% alpha that Buffett added is summed in one word – MASSIVE.

It turns a starting value of \$1000 into \$3,76 million, while an investor in the market would be worth \$67 000.

It is worth noting that the comparison is not of Berkshire's share price against the market, but the book value of the company's assets. The book value of an investment company generally tends to be less volatile than share prices, which can often move far ahead and below intrinsic value based not only on underlying value, but driven by positive and negative sentiment.

This was very apparent in 1999 when technology drove prices far ahead of intrinsic values. At this time Buffett refused to participate in buying expensive technology shares that were running away. In that year his book value gained just 0,5%, but the market gained 21%.

His relative under performance was a massive 20,5%

But he more than made it up in the next 3 years, gaining alpha of 15,6%, 5,7% and 32,1%.

He did concede some years back that given the very high prices running up to 2000, that he should have sold some of share portfolio holdings, such as Coke that got to expensive levels.

Then Buffett also managed to avoid large losses and this greatly contributed to the more alpha generated. In the 1969 decline he managed to avoid losses. The S&P 500 gave up 8,4%, but Berkshire gained 16,2% in its net book value.

By not participating in companies whose prices are just too expensive, he has always tried to put himself in a position where he does not permanently lose capital. I don't think that it's his intention to annually beat the S&P500, but he knows that if he does what he does on a consistent basis, then over time, the results will come through.

He also knows that returns can and will be lumpy, but rather more volatile earnings, with a greater probability of out performance after many years, than steadier returns with lower long run results.

Active managers that follow a value driven investment strategy aim to produce similar results. We look out for managers that constrain their potential returns by sticking too close to the benchmark.

Don't hesitate to contact me if you would like to discuss your long term investment and retirement planning requirements.

Sincerely

Ian de Lange

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