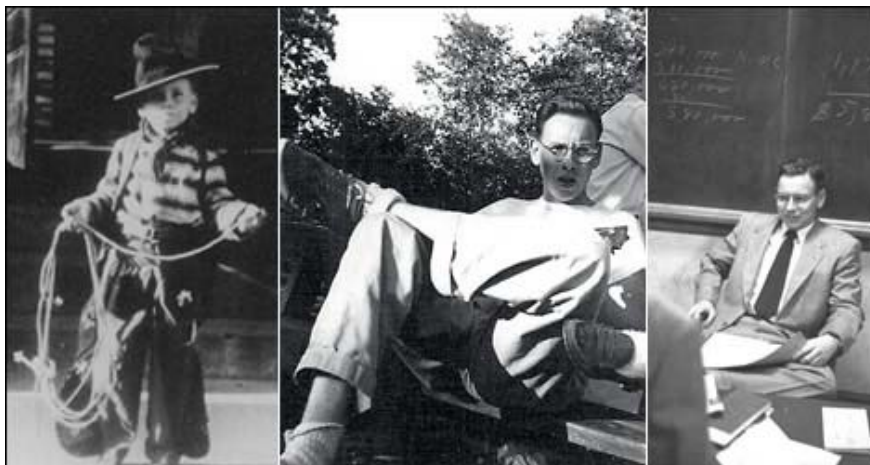


## FT Series Part 1: Warren Buffett

Print

By Alice Schroeder

Published: September 26 2008 19:23 | Last updated: September 26 2008 20:03



In fancy dress; a young Warren playing the ukelele in the late 1940s; and teaching a class in investing at Omaha university in the 1950s

The first few cents Warren Buffett ever earned came from selling packs of chewing gum. And from the day he started selling – at six years of age – he showed an unyielding attitude toward his customers that revealed much about his later style.

“I had this little green tray, which had five different areas in it. I’m pretty sure my aunt Edie gave me that. It had containers for five different brands of gum, Juicy Fruit, Spearmint, Doublemint, and so on. I would buy packs of gum from my grandfather and go around door to door in the neighborhood selling this stuff. I used to do that in the evening, largely.

“I remember a woman named Virginia Macoubrie saying, ‘I’ll take one stick of Juicy Fruit.’ I said, ‘We don’t break up packs of gum’ – I mean, I’ve got my principles. I still, to this day, remember Mrs Macoubrie saying she wanted one stick. No, they were sold only in five-stick packs. They were a nickel, and she wanted to spend a penny with me.”

### [The Snowball: Warren Buffett and the Business of Life](#)

Read the FT’s review of the investor’s biography

Making a sale was tempting, but not tempting enough to change his mind. If he sold one stick to Virginia Macoubrie, he would have four sticks left to sell to somebody else, not worth the work or the risk. From each whole pack, he made two cents profit. He could hold those pennies, weighty and solid, in his palm. They became the first few snowflakes in a snowball of money to come.

What Warren was willing to break up were red cartons of Coca-Cola, which he sold door to door on summer nights. He carried on selling them during family vacations, approaching sunbathers around the shores of Lake Okoboji in Iowa. Soda pop was more profitable than chewing gum: he netted a nickel for every six bottles, and stuffed these coins proudly into the ball-park-style nickel-plated money changer on his belt. He also wore it when he went door to door selling copies of the Saturday Evening Post and Liberty magazines.



Warren, aged six, with his sisters Doris and Bertie in 1937. Warren holds his favourite toy, a nickel-plated money changer

The money changer made him feel professional. It symbolised the part of selling that Warren most enjoyed: collecting. Although he now collected bottle caps, coins and stamps, mainly he collected cash. He kept his coins at home in a drawer, sometimes adding to the \$20 his father had given him when he turned six, all recorded in a little maroon passbook - his first bank account.

By the time he was nine or 10, he and his friend Stu Erickson were selling used golf balls at Elmwood Park golf course – until somebody reported them and they got kicked out by the cops. When the police talked to Warren's parents, however, Howard and Leila weren't concerned. They just considered their son ambitious. As the Buffetts' only – and precocious – son, Warren had a sort of "halo", according to his sisters Roberta (Bertie) and Doris, and got away with a hell of a lot.

At 10, he got a job selling peanuts and popcorn at University of Omaha football games. He walked through the stands yelling, "Peanuts, popcorn, five cents, a nickel, half dime, fifth of a quarter, get your peanuts and popcorn here!" The 1940 presidential election campaign was under way, and he had collected dozens of different badges for the Republican candidates Wendell Willkie and Charles McNary, which he wore on his shirt. His favorite read: "Washington Wouldn't, Cleveland Couldn't, Roosevelt Shouldn't," which referred to FDR's outrageous – to the Buffetts – decision to run for a third term. While the US had no constitutional term limit, the country had – so far – rebuffed the idea of an "imperial President". Howard felt that FDR was a despot who had grandstanded his way to popularity. The idea of four more years of FDR nearly choked him.

Though he found Willkie too liberal for his personal tastes, Howard felt "anyone to get rid of Roosevelt". Warren, who followed along with his father's political views, enjoyed showing off his Willkie-McNary badges at the stadium. Then his manager called him into the office and said: "Take those off. You'll get a reaction from the Roosevelt people."

Warren put the buttons in his apron, where some of the dimes and nickels got wedged in the backs of the badges. When he reported in after the game, his manager told him to dump out the contents of the pocket, badges and all. Then he swept them off the counter and took them away. "That was my introduction to Business 101," Buffett says. "I was pretty sad." And when Roosevelt won an unprecedented third term, the Buffetts were sadder still.

But while politics was Howard's main interest and money a sideline, for his son, those interests were reversed.

Warren hung around his father's office at the grand old Omaha National Bank building every chance he got, reading "The Trader" column in Barron's and the books on his father's bookshelf. He planted himself in the customers' room of Harris Upham & Co. At this regional stockbroking firm, down two flights of stairs from Howard's office, he found it the height of glamour to be allowed to "mark the board," chalking stock prices on a slow Depression-era Saturday morning.

The market still traded for a two-hour session on weekends. Root-bound men with nothing better to do filled the semicircle of chairs in the customers' room, listlessly watching numbers crawl by on the Trans-Lux, an electronic display of prices of major stocks. Occasionally somebody would jump up and rip a handful of tape off the lazily clicking ticker machine. Warren arrived with his paternal great-uncle Frank Buffett – the family misanthrope who had been brokenhearted over losing Henrietta, now long dead, to his brother Ernest – and his maternal great-uncle John Barber. Each man was enslaved by his longstanding habit of thinking in only one direction.



Warren's parents, Howard and Leila Buffett, in 1925

"Uncle Frank was a total bear on the world, and Uncle John was a total bull. I would sit between the two of them, and they'd sort of vie for my attention and try to sell me that they were right. They didn't like each other, so they wouldn't talk to each other, but they would talk to me in between. My great-uncle Frank thought everything in the world was going to go broke. And when somebody'd go up there to the counter behind the chairs and say, 'I want to buy a hundred shares of US Steel at 23,' my uncle Frank would always boom out and say, 'US STEEL? IT'S GOING TO ZERO!'" That was not good for business. "They couldn't throw him out, but they hated him around this place. It was not an office designed for short-sellers."

"I remember a woman named Virginia Macoubrie saying, 'I'll take one stick of Juicy Fruit.' I said, 'We don't break up packs of gum' – I mean, I've got my principles. I still, to this day, remember Mrs Macoubrie saying she wanted one stick. No, they were sold only in five-stick packs. They were a nickel, and she wanted to spend a penny with me."

#### FT Series Part 2: Warren Buffett

This final extract from his authorised biography recounts how the famous investor faced a

Snug between his two great-uncles, Warren stared at the numbers, which were fuzzy. His trouble reading the Trans-Lux led to his family's discovery that he was nearsighted. After being fitted for glasses, Warren noticed that the numbers seemed to change according to some immutable law of their own. Although his great-uncles were both eager to sway him to their respective – and extreme – points of view, Warren noticed that their opinions appeared to have no connection whatsoever to the numbers passing overhead on the Trans-Lux. He was determined to figure out the pattern, but as yet did not know how.

market meltdown in 1991 due to the near-collapse of Salomon Brothers, the bank where he was a large shareholder

“My uncle Frank and my uncle John would vie for who would take me to lunch, because that was sort of beating the other guy. With my uncle Frank, we'd go down to the old Paxton Hotel, where we could buy day-old food for a quarter.” Warren, who enjoyed spending time with adults, relished being vied over by his uncles. Actually, he enjoyed being vied over by anyone. He craved attention from his other relatives and his parents' friends, but especially from his father.



Family portrait with sisters and mother, around 1937

Howard gave each of his children an east coast trip at age 10, an important event in their lives. Warren knew exactly what he wanted to do: “I told my dad I wanted to see three things. I wanted to see the Scott Stamp and Coin Company. I wanted to see the Lionel Train Company. I wanted to see the New York Stock Exchange. Scott Stamp and Coin was at 47th Street, Lionel was down around 27th, and the Stock Exchange was all the way downtown.”

Wall Street in 1940 had begun to revive from the crash, yet remained a chastened place. The men of Wall Street were like a band of hardy mercenaries fighting on after most of their comrades had been felled in war. The way they made a living seemed vaguely disreputable with memories of the 1929 crash so fresh in people's minds.

Yet even though they did not brag about it outside the bunker walls, some of these mercenaries were doing very well indeed. Howard Buffett took his son down to lower Manhattan and dropped in on the

top man at one of the largest brokerage firms. Little Warren Buffett was getting a peek inside the bunker's gold-plated doors.

“That's when I met Sidney Weinberg, who was the most famous man on Wall Street. My dad had never met him. He had this little tiny firm out here in Omaha. But Mr Weinberg let us in, maybe because a little kid was along or something. We talked for about 30 minutes.”

As the senior partner of the investment bank Goldman Sachs, Weinberg had spent a decade painstakingly repairing the firm's reputation after its disgrace for misleading investors with a notorious pyramid scheme in the market crash of 1929. Warren knew nothing about that, nor that Weinberg had grown up an immigrant's child and started as a porter's assistant at Goldman, emptying cuspidors and brushing the partners' silk hats. But he certainly understood that he was in the presence of a big shot once he found himself in Sidney Weinberg's walnut-panelled office, its walls hung with original letters, documents, and portraits of Abraham Lincoln. And what Weinberg did at the end of their visit made a huge impression on him. “As I went out, he put his arm around me and he said, ‘What stock do you like, Warren?’”

“He'd forgotten it all the next day, but I remembered it forever.” Buffett would never forget that Weinberg, a big shot on Wall Street, had paid such attention to him and seemed to care about his opinion.

From Goldman Sachs, Howard took Warren over to Broad Street and through a set of enormous Corinthian columns into the New York Stock Exchange. Here, in the temple of money, men in brightly coloured jackets shouted and scribbled, standing around wrought-iron trading posts while clerks darted back and forth, strewing the floor with paper scraps. Yet it was a scene from the Stock Exchange dining room that captured Warren's imagination. “We had lunch at the Exchange with a fellow named At Mol, a Dutchman, a member of the Stock Exchange and a very impressive-looking man. After lunch, a guy came along with a tray that had all these different kinds of tobacco leaves on it. He made up a cigar for Mr Mol, who picked out the leaves that he wanted. And I thought, This is it. It doesn't get any better than this. A custom-made cigar.”

A custom-made cigar. The visions that cigar evoked in Warren's mathematical mind! He had zero interest in smoking a cigar. But working backward, he saw what hiring a man for such a frivolous purpose implied. To justify the expense must mean that, even while most of the country was still mired in the Depression, the cigar man's employer was making a great deal of money. He grasped it right away. The Stock Exchange must pour forth streams of money: rivers, fountains, cascades, torrents of money, enough to hire a man for the pure frippery of rolling cigars.

That day, as he beheld the cigar man, a vision of his future was planted. He kept that vision when he went back to Omaha, old enough now to organise his quest and pursue it all the more systematically. Even as he followed the pastimes of an ordinary boy, playing basketball and ping-pong and collecting coins and stamps, he worked with a passion for the future he saw ahead of him, right there in sight. He wanted money.

"It could make me independent. Then I could do what I wanted to do with my life. And the biggest thing I wanted to do was work for myself. I didn't want other people directing me. The idea of doing what I wanted to do every day was important to me."

A tool that would help him soon fell into his hands. One day, down at the Benson Library, a book beckoned from the shelves. Its shiny silver cover gleamed like a heap of coins, hinting at the value of its contents. Captivated by the title, he opened it and was immediately hooked. *One Thousand Ways to Make \$1,000*, it was called. A million dollars, in other words.

Inside the cover, in a photograph, a tiny man gazed up at an enormous pile of coins.

"Opportunity Knocks," read the first page of the text. "Never in the history of the United States has the time been so favorable for a man with small capital to start his own business as it is today." What a message! "We have all heard a great deal about the opportunities of bygone years ... Why, the opportunities of yesterday are as nothing compared with the opportunities that await the courageous, resourceful man of today! There are fortunes to be made that will make those of Astor and Rockefeller seem picayune." These words rose like sweet visions of heaven to Warren Buffett's eyes. He turned the pages faster.

"But," the book cautioned, "you cannot possibly succeed until you start. The way to begin making money is to begin ... Hundreds of thousands of people in this country who would like to make a lot of money are not making it because they are waiting for this, that, or the other to happen." Begin it! the book admonished, and explained how. Crammed with practical business advice and ideas for making money, *One Thousand Ways to Make \$1,000* started with "the story of money" and was written in a straightforward, friendly style, like someone sitting on the front stoop talking to a friend. Some of its ideas were limited – goat-dairying and running doll hospitals – but many were more practical. The idea that captivated Warren was pennyweight scales. If he had a weighing machine, he would weigh himself 50 times a day. He was sure that other people would pay money to do that too.

"The weighing machine was easy to understand. I'd buy a weighing machine and use the profits to buy more weighing machines. Pretty soon I'd have twenty weighing machines, and everybody would weigh themselves 50 times a day. I thought – that's where the money is. The compounding of it – what could be better than that?"

This concept – compounding – struck him as critically important. The book said he could make a thousand dollars. If he started with a thousand dollars and grew it 10 per cent a year, it said: "In five years, \$1,000 became more than \$1,600; in 10 years ... almost \$2,600; in 25 years ... more than \$10,800." The way that numbers exploded as they grew at a constant rate over time was how a small sum could turn into a fortune. He could picture the numbers compounding as vividly as the way a snowball grew when he rolled it across the lawn. Warren began to think about time in a different way. Compounding married the present to the future. If a dollar today was going to be worth 10 some years from now, then in his mind the two were the same.

Sitting on the stoop at his friend Stu Erickson's, Warren announced he would be a millionaire by the time he was 35. That was an audacious, almost silly-sounding statement for a child to make in the depressed world of 1941. But his calculations – and the book – said it was possible. He had 25 years, and needed more money, but was sure he could do it. The more money he collected early on, the longer the money could compound, and the better his chances of achieving his goal.

A year later, he brought forth the kernel of his reality. To his family's amusement and surprise, by the spring of 1942, his hoard totalled \$120. Enlisting his sister Doris as a partner, he bought three shares of a stock for each of them, costing him \$114.75 for his three shares of Cities Service Preferred. "I didn't understand that stock very well when I bought it," he says; he knew only that it was a favourite stock that his father had sold to his customers for years.

The market hit a low that June, and Cities Service Preferred plunged from \$38.25 to \$27 a share. Doris, he says, "reminded" him every day on the way to school that her stock was going down. Warren says he felt terribly responsible. So when the stock finally recovered, he sold at \$40, netting a \$5 profit for the two of them. "That's when I knew that he knew what he was doing," Doris recalls. But Cities Service quickly soared to \$202 a share. Warren learned three lessons and would call this episode one of the most important of his life. One lesson was not to fixate on what he had paid for a stock. The second was not to rush unthinkingly to grab a small profit. He learned these two lessons by brooding over the \$492 he would have made had he been more patient. It had taken five years of work, since he was six years old, to save the \$120 to buy this stock. Based on how much he currently made from selling golf balls or peddling popcorn and peanuts at the ballpark, he realised that it could take years to earn back the profit he had "lost." He would never forget this mistake.

And there was a third lesson, which was about investing other people's money. If he made a mistake, it might get somebody upset at him. So he didn't want to have responsibility for anyone else's money unless he was sure he could succeed.

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**True crime stories**

In January 1943, following his father Howard Buffett's election to Congress as a Republican representing Nebraska, the Buffetts moved to Virginia. The 12-year-old Warren had to change schools. Uprooted and unhappy, his grades suffered and his behaviour took a rapid turn for the worse.

"I had all these things I was doing in Omaha. I had a nice niche there. When we moved to Washington, the ping-pong table disappeared. It was like my cornet. And the Boy Scouts. I was doing all these different things, but they all ended when we moved. So I was mad. But I didn't know exactly how to direct that. I just knew I was having a whole lot less fun than I was having before my dad got elected."

Bad grades were the least of Warren's troubles in junior high. His parents didn't know it, but their son had turned to a life of crime.

"Well, I was antisocial, in eighth and ninth grade, after I moved there. I fell in with bad people and did things I shouldn't have. I was just rebelling. I was unhappy."

He started with minor schoolboy pranks. "I loved print shop. I used to make calculations in print shop class of the frequency of letters and numbers. That was something I could do by myself. I could set type, you know, and that sort of thing. I enjoyed printing up all kinds of things.

"I made up a letterhead from the American Temperance Union, Reverend A. W. Paul, President. I'd write letters to people on that letterhead saying that for years I'd lectured around the country on the evils of drink, and in these travels my appearances were always accompanied by my young apprentice, Harold. Harold was an example of what drink could do to men. He'd stand there on the stage with a pint, drooling, unable to comprehend what was going on around him, pathetic. Then I said that, unfortunately, young Harold died last week, and a mutual friend had suggested that you might be a replacement for him."

The people with whom Warren felt most comfortable encouraged his antisocial impulses. He and his new friends, Don Danly and Charlie Tron, took to hanging out at the new Sears store. Near Tenley Circle where Nebraska and Wisconsin Avenues intersected, the store was an eye-opening swoop of modern design dropped into the middle of Tenleytown, the second-oldest neighborhood in Washington. Letters the height of a man spelled out "Sears" on a curved metal deck several stories above the sidewalk. On the roof behind the sign was hidden a great novelty, an open-air parking garage, which became popular with high school kids as a place to park and neck. The store had become the hangout for all the junior high kids too. Warren and his friends rode the H2 bus there at lunchtime or on Saturdays.

Most of the kids liked the dark little lunch counter Sears had installed in the basement, with its mesmerising conveyor belt that spit out doughnuts all day long. But Warren, Don and Charlie preferred Woolworth's across the street, even though the police station was on the opposite corner. Woolworth's sat on the corner diagonally opposite Sears. They could eat lunch and case the joint through the windows. After their hamburgers, the boys would stroll down the stairs into Sears's lower level, bypassing the lunch counter and going straight to the sporting goods section.

"We'd just steal the place blind. We'd steal stuff for which we had no use. We'd steal golf bags and golf clubs. I walked out of the lower level where the sporting goods were, up the stairway to the street, carrying a golf bag and golf clubs, and the clubs were stolen, and so was the bag. I stole hundreds of golf balls." They referred to their theft as "hooking".

"I don't know how we didn't get caught. We couldn't have looked innocent. A teenager who's doing something wrong does not look innocent.

"I took the golf balls and filled up these orange sacks in my closet. As fast as Sears put them out, I was hooking them. I had no use for them, really. I wasn't selling them then. It's hard to think of a reason why you had this multiplying group of golf balls in the closet, this orange sack that's just getting bigger all the time. I should have diversified my theft. Instead, I made up this crazy story for my parents – and I know they didn't believe me, but – I told them I had this friend, and his father had died. He kept finding more of these golf balls that his father had bought. Who knows what my parents talked about at night."

The Buffetts were aghast. Warren was their gifted child, but by the end of 1944, had become the school delinquent. "My grades were a quantification of my unhappiness. Math – Cs. English – C, D, D. Everything Xs for self-reliance, industry, courtesy. The less I interacted with teachers, the better it was. They actually put me in a room by myself there for a while where they would kind of shove my lessons under the door like Hannibal Lecter." When graduation day came and the students were told to show up in a suit and tie, Warren refused. With that his principal, Bertie Backus, had had enough. "They wouldn't let me graduate with the class at Alice Deal, because I was so disruptive and I wouldn't wear clothes that were appropriate. It was major. It was



Warren sang and played the ukelele at the daily staff 'pep rally' at JC Penney's department store, where he sold menswear and furnishings, 1949

unpleasant. I was really rebelling. Some of the teachers predicted that I was going to be a disastrous failure. I set the record for checks on deficiencies in deportment and all that.

“But my dad never gave up on me. And my mother didn’t either, actually. Neither one. It’s great to have parents that believe in you.”

Yet by the spring of 1945, as Warren was starting high school, the Buffetts had had enough too. By now, it was no great mystery how to motivate Warren. Howard threatened to take away the source of his money, the newspaper delivery routes he had taken on in Washington that had rapidly augmented his savings. “My dad, who was always supportive of me, said, ‘I know what you’re capable of. And I’m not asking you to perform 100 per cent, but you can either keep behaving this way or you can do something in relation to your potential. But if you don’t do it, you have to give up the paper routes.’ And that hit me. My dad was low-key, just sort of letting me know he was disappointed with me. And that killed me probably a lot more than his telling me I couldn’t do this or that, you know.”

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## The interview

In the spring of 1950, Warren was close to finishing college. After three years of study, he only needed to take a few classes at summer school to graduate. And then he made a decision that completely reversed his path to date. After high school he had felt fully qualified to achieve his goal of becoming a millionaire by 35 with no further education. But now that he was close to graduating, at the point when most people are done studying and ready to go to work, Warren prepared to put work aside. He had fixed his ambitions on attending Harvard Business School. Throughout his entire educational history he had shown little interest in formal schooling – as opposed to learning – and considered himself largely self-taught. Harvard, however, offered him two important things: prestige and a network of future connections. He had just seen his father thrown out of Congress and his career as a stockbroker crushed, in part because he had tended to isolate himself by sacrificing relationships for the sake of rigid ideals. So perhaps it was not surprising that Warren chose Harvard.

He was so certain that Harvard would choose him that he was already urging his friend “Big Jerry” Orans to “Join me at Harvard.” Furthermore, he wasn’t even going to have to pay for all of his tuition.

“One day I read in the Daily Nebraskan a little item that said, ‘The John E. Miller Scholarship will be awarded today. Applicants should go to Room 300 at the Business Administration building.’ And it provided \$500 to go to the accredited school of your choice. I went to Room 300, and I was the only guy who showed up. The three professors there kept wanting to wait. I said, ‘No, no. It was three o’clock.’ So I won the scholarship without doing anything.”

Enriched with this nugget mined from the college newspaper, Warren rose in the middle of the night to catch the train to Chicago, where his Harvard interview would take place. He was 19, two years younger than the average college graduate, and younger still than the average business school student. His grades were good but not stellar. Despite being the son of a US Congressman, he was using no connections to try to get into Harvard. Since Howard Buffett scratched no backs, his own back went unscratched, and his son’s as well.

Warren was relying on his knowledge of stocks to make a good impression in the interview. So far his experience had been that whenever he started talking about stocks, people could not help but listen. His relatives, his teachers, his parents’ friends, his fellow students – all wanted to hear him discourse on this subject.

But he had misunderstood Harvard’s mission, which was to turn out leaders. When he arrived in Chicago and introduced himself to the interviewer, the man saw past his confidence as a prodigy in a single subject straight through to his self-consciousness, his shaky inner core.

“I looked about sixteen and emotionally was about nine. I spent 10 minutes with the Harvard alumnus who was doing the interview, and he assessed my capabilities and turned me down.”

Warren never got the chance to show off his knowledge of stocks. The man from Harvard told him gently that he would have a better chance in a few years.

Warren was naive; it did not quite sink in what this meant. When the letter arrived from Harvard refusing him admission, he was shocked. His first thought, he says, was, “What am I going to tell my dad?”

Awkward and stiff-necked he might be, but Howard was undemanding of his children. The Harvard dream was Warren’s, not his father’s. Howard was accustomed to failure and resolute in defeat. The real question must have been: What am I going to tell my mom?

These conversations took place, but their memory has drained away. And yet Warren would later come to consider his rejection by Harvard the pivotal episode of his life.



Warren's investment guru Benjamin Graham (right) with Graham's business partner Jerome Newman

Almost immediately, he started investigating other graduate schools. While leafing through the Columbia catalogue one day, he came across two names that were familiar to him: Benjamin Graham and David Dodd.

"These were big names to me. I'd just read Graham's book, but I had no idea he was teaching at Columbia."

Graham's book was *The Intelligent Investor*, published in 1949. This book of "practical counsel" for all types of investors – the cautious (or "defensive") and speculative (or "enterprising") – blew apart the conventions of Wall Street. It explained for the first time in a way that ordinary people could understand that the stock market does not operate through black magic. Through examples of real stocks such as the Northern Pacific Railway and the American-Hawaiian Steamship

Company, Graham illustrated a rational, mathematical approach to valuing stocks. Investing, he said, should be systematic.

The book had mesmerised Warren. For years, he had been going downtown to the library and checking out every book available on stocks and investing. Many of the books dealt with stock-picking systems based on models and patterns; Warren wanted a system, something that would work reliably. He had been fascinated by numerical patterns – technical analysis.

"I read all of them over and over. The book that probably had the most influence on me was Garfield Drew, who wrote an important book about odd-lot stock trading. I read that about three times. I read Edwards and McGee, which is the bible of technical analysis. I would go down to the library and just clean them out." But when he found *The Intelligent Investor*, he read and reread it. "It was almost like he found a god," said Truman Wood, his housemate.

According to the catalogue Warren had now picked up, the man who had become his favorite author, Ben Graham, was lecturing in finance at Columbia University. And David Dodd was there too. Dodd was associate dean of the Graduate School of Business, and head of the department of finance.

In 1934 Graham and Dodd had co-authored the seminal text on investing, *Security Analysis*. *The Intelligent Investor* was the layman's version of *Security Analysis*. Enrolling at Columbia would mean he could study in New York with Graham and Dodd. And as Columbia's catalogue pointed out: "No other city in the world offers as many opportunities to become acquainted at firsthand with the actual conduct of business. Here a student may come into personal contact with the outstanding leaders of American business, many of whom give generously of their time to take part in seminars, institutes, and conferences ... Business establishments of the city cheerfully welcome groups of students as visitors." Even Harvard could not offer this.

Warren now determined that he would go to Columbia. But it was almost too late.

"I wrote in August, about a month before school started, way past when you were supposed to do it. Who knows what I wrote? I probably wrote that I just found this catalogue at the University of Omaha, and it said that you and Ben Graham taught, whereas I thought you guys were on Mount Olympus someplace just smiling down on the rest of us. And if I can get in, I'd love to come. I'm sure it was not a very conventional application. It was probably fairly personal."

But in a written application, however unconventional, Warren could shape the impression he made more successfully than in a personal interview. The application wound up on the desk of David Dodd, who as associate dean was in charge of admissions. By 1950, after teaching at Columbia for 27 years, Dodd had effectively become the junior partner of the famous Benjamin Graham.

A thin, frail, balding man who cared for a disabled wife at home, Dodd was the son of a Presbyterian minister and eight years older than Warren's father. While Dodd may have been touched in some way by the personal nature of the application, it was also true that at Columbia, he and Graham were more interested in their students' aptitude for business and investing than their emotional maturity. Graham and Dodd were not trying to create leaders. They taught a specialised craft.

Whatever the reason, after the deadline, and without an interview, Warren was accepted by Columbia.

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## FT Series Part 2: Warren Buffett

Print

By Alice Schroeder

Published: September 27 2008 04:03 | Last updated: September 27 2008 04:03

*By August 1991, Warren Buffett's investment company, Berkshire Hathaway, had held a large stake in Wall Street investment bank Salomon Brothers for about four years – he had helped to rescue Salomon from the attentions of the corporate raider Ronald Perelman in 1987 by investing \$700m. The deal made Buffett a leading figure on Wall Street, whose excess and supposed corruption he abhorred.*

*On August 8, Buffett was informed of a potentially ruinous scandal at Salomon, in which Paul Mozer, who headed the government bond department, had secretly manipulated US Treasury bond auctions. Salomon – with \$4bn of equity supporting \$146bn of debt – faced possible indictment and sanctions from financial regulators that would almost certainly lead to a run on the bank. Buffett helped to orchestrate a change in management and agreed to take over as interim chairman to try to steer Salomon through the crisis*

### FT Series Part 1: Warren Buffett

The world's most famous investor earned his first pennies by selling chewing gum at the age of six. The first extract from his authorised biography tells of his early interest and aptitude for business

Early on the morning of Sunday August 18, 1991, Warren Buffett met John Gutfreund, Salomon's outgoing chief executive, and Tom Strauss, shortly to stand down as its president, in one of the many conference rooms on the 45th floor of Salomon's office downtown, just before the meeting at which the board would ratify Buffett's appointment as interim chairman. This was to be announced later that day. The board gathered outside. Suddenly, a lawyer appeared in the conference room where Buffett was meeting Gutfreund and Strauss, waving a message from the US Treasury Department. It was going to announce in a few minutes that Salomon was barred from bidding at Treasury bond auctions, both for customers and for its own account. All of them understood that in minutes Salomon would be shot in the head.

"We immediately saw that this would put us out of business – not because of the economic loss, but because the message that would go out to the rest of the world in headlines in the papers on Monday would be 'Treasury to Salomon: Drop Dead.' In effect, the response to installation of new management and banishment of the old would be an extraordinary censure delivered at an equally extraordinary time exactly coincident with the first actions of the new management."

Buffett went off to another conference room to call the Treasury, seeking a stay of execution. The phone was busy. He got the phone company to agree to interrupt the call. They called back and said it was not a working phone. After many minutes of confusion, problems and delays, Buffett finally spoke to someone in the Treasury Department. It was too late, he was told; the announcement had already gone out. The world now knew that Salomon was banned from doing business with the government.

Many of the board members were seeing their net worth evaporate in front of their eyes. Another slew of lawsuits, on top of those they already anticipated, would arrive on Salomon's doorstep. Buffett appeared calm but determined. He had come to a realization. Gutfreund was being drummed out for having created a nightmare. Now he, Warren Buffett, was actually on the brink – not of overseeing the salvation of a business but of steering a zombie Salomon through the night of the living dead. Buffett balked.

He said to the board that he was going to tell Treasury Secretary Nicholas Brady he would not serve as interim chairman; he had come to save the firm, not to oversee its dismemberment. His reputation would be shot either way, he thought, and the fallout from resigning would be less than the grief from staying on. The board understood and agreed. It was the only card that Buffett had to play with Brady. Meanwhile, the board decided to pursue two other courses simultaneously. Buffett turned to Marty Lipton, Salomon's external counsel. "Do you know a bankruptcy lawyer?" he asked. Everyone sat frozen for a split second. Then Don Feuerstein, head of Salomon's legal department, and Lipton went off and began to set in motion the wheels of filing for bankruptcy. If necessary, the firm would fail in an orderly manner, rather than a rout.

### 'He's a great teacher and we couldn't stop talking'

Warren Buffett and Bill Gates met for the first time over the Fourth of July holiday in 1991, when Katharine Graham, chairman of the Washington Post, and her editorial page

Four-and-a-half hours remained to try to reverse the Treasury's decision before a press conference that Salomon had already called for 2.30pm to announce that Buffett would officially become interim chairman. Less than seven hours remained until the Japanese markets would open for the week's business, and London seven hours after that. When Tokyo opened, the landslide would begin. Lenders would start pulling their credits immediately. To plead for clemency had become immeasurably harder. They had not only to change the Treasury's mind but to convince it to reverse itself in public.

editor and friend Meg Greenfield had dragged Buffett to Greenfield's house on Bainbridge Island for a long holiday weekend. To Buffett, a weekend on an island a half-hour ferry ride from Seattle that could be escaped only by boat, seaplane, or hitching a ride over the bridge by car was an "anything for Kay" event. Greenfield had also recruited him for an all-day visit at the nearby four-house compound on the Hood Canal that Bill Gates had built for his family. Gates, 25 years Buffett's junior, was appealing to Buffett mainly because he was known to be brilliant and because the two of them were neck-and-neck in the Forbes rich-list. But computers looked like Brussels sprouts to Buffett; no, he did not want to try them this once. Greenfield, however, had assured him that he would like Gates's parents, Bill Sr and Mary, and that other interesting people would be there. With some reluctance, Buffett had agreed to go.

On the morning of Friday, July 5, Buffett pulled on a cardigan and arranged his wayward hair into a neat, gray comb-over. Greenfield crammed five of them into her little car for the 90-minute drive to the Gates compound. "While we're driving down there, I said, 'What the hell are we going to spend all day doing with these people? How long do we have to stay to be polite?'"

Gates had similar feelings. "I had a constant dialogue with my mom," he says, "which was, 'Why don't you come to the family dinner?' 'No, Mom, I'm too busy, I'm working.' So she told me Katharine Graham was coming, and Warren Buffett." He was interested in meeting Graham, now a 74-year-old legend who had softened into an older but still patrician figure, like a witty version of Queen Elizabeth, but, "I told my mom, 'I don't know about a guy who just invests money and picks stocks. I don't have many good questions for him; that's not my thing, Mom.' But she insisted." Gates flew in on a helicopter so he could make a quick getaway. When a tiny car pulled up, he was surprised to see a group of famous people – Greenfield and her guests – pop out like a gang of circus clowns.

Graham was taken over to meet Gates, who looked like a recent college graduate, in a red sweatshirt over a golf

John Macfarlane, Salomon's treasurer, came in wearing a warm-up suit, directly from competing in a triathlon. He talked to the board about what the Treasury's action meant to the firm. Banks had already started notifying Salomon they were pulling its commercial paper lines. Solly was careering towards what would almost certainly be the largest failure of a financial firm in history. If the government withdrew its endorsement and Salomon lost its funding, it would have to liquidate assets at fire-sale prices. That would be followed by severe consequences in the world markets as some of Salomon's creditors and counterparties, themselves unpaid, also began to fail. It was all going down the tubes. Buffett feared the regulators were going to regret their uncompromising stance.

"If I'd been free to act and wanted to maximize my gain in the ensuing week, not only would I have shorted any Salomon security that I could have in Tokyo that afternoon and in London late that night, but I would have also shorted equities everywhere."

"We were going to find a judge someplace in Manhattan, walk in on him while he's watching baseball probably and eating popcorn at two in the afternoon, and tell him, we're handing you the keys. You're running the place now. By the way, what do you know about Japanese law, because we owe ten or twelve billion dollars in Japan? We owe ten or twelve billion in Europe. London will open at two in the morning. And as of this very moment, you're running the place." Jerry Corrigan, president of the New York branch of the Federal Reserve, was hard to reach. Asking to speak directly to Brady at the Treasury, Buffett found that he was not available either.

Brady was the patrician former CEO of brokerage firm Dillon, Read & Co, and Malcolm Chace Jr's nephew — a member of the family that had sold Berkshire Fine Spinning to Hathaway Manufacturing, thereby forming Berkshire Hathaway, the textiles firm Buffett had bought in 1965 and that had become the listed holding company for his many investments. It was Brady who had written his college thesis on Berkshire, which depressed him so much that he had decided to sell his stock. The two weren't close friends, but they had a "fine feeling about each other", Buffett says. There was no particular reason, however, why the blue-blooded Brady would have a fine feeling about a social parvenu like John Gutfreund — or a fine feeling about an arrogant upstart firm like Salomon.

Nonetheless, Brady called Buffett back. He expressed empathy but made it clear that reversing the decision was an enormous problem.

"They were going to look silly. And I felt they looked silly too, but they would look a whole lot sillier a few days later when financial carnage was spread from this act."

Brady said he thought Buffett was overreacting but agreed to call back again. He needed to consult with Richard Breeden, chairman of the stock exchange regulator, the Securities and Exchange Commission, with Corrigan, and with Federal Reserve Chairman Alan Greenspan.

Buffett sat and waited for Brady's call. He couldn't call Brady. He didn't know that Brady was sitting on Ogden Phipps's porch in Saratoga Springs, at the horse races. It was Brady's prerogative to call him – or not.

The phone system on the conference floor didn't ring on Sundays. To keep from missing an incoming call, someone had to stare continually at the phone to see whether a little green light lit up. For a while, Buffett stared at the phone, "as depressed as I have ever been". Finally, someone enlisted a hastily-called-in secretary to stare at the light.

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Behind the scenes, the regulators were talking. Corrigan had contacted Paul Volcker, former chairman of the Federal Reserve Board and now chairman at a prestigious investment banking firm. Volcker, like Breeden, was incensed at Salomon. None of the regulators believed that Buffett would walk; they felt he had too much money and reputation at stake. They knew the decision would have an adverse impact on Salomon and they thought that was appropriate. They didn't believe that Salomon would fail even if the Treasury pulled its imprimatur. The markets had so much confidence in Buffett that the regulators assumed that simply by standing over Salomon holding his umbrella, he could save the firm. But they could not be certain of that. They considered whether the financial markets could survive a meltdown of one of its largest firms. The Federal Reserve would have to

shirt, his collar turned up in a little saucer around his neck. While Gates was arranging for Graham to take a seaplane ride, Buffett was introduced to Bill Gates Sr and his wife, Mary. Then Bill Gates III, known as Trey, was brought round to meet Buffett.

Observers kept a weather eye on this introduction. Gates was well-known for unleashing his impatience on things that didn't interest him. Buffett no longer walked off to read a book when he was bored but had a way of disentangling himself quickly from conversations he wanted to exit.

Buffett skipped the small talk; he immediately asked Gates whether IBM was going to do well in the future and whether it was a competitor of Microsoft. Computer companies seemed to come and go, and why was that? Gates started explaining. He told Buffett to buy two stocks, Intel and Microsoft. Then he asked Buffett about the economics of newspapers, and Buffett told him that they had got worse, because of other media. Within minutes the two were immersed in conversation.

"We talked and talked and talked and talked and paid no attention to anybody else. I started asking him a whole bunch of questions about his business, not expecting to understand any of it. He's a great teacher, and we couldn't stop talking." They were starting to attract attention. "We were sort of ignoring all these important people, and Bill's father finally said, gently, that he'd prefer that we join in a little more.

"Bill started trying to convince me to get a computer. I said I don't know what it's going to do for me. I don't care how my stock portfolio is doing every five minutes. And I can do my income taxes in my head. Gates said he would pick out the best-looking gal at Microsoft and send her to teach me how to use the computer. He would make it totally painless and pleasant. I told him, 'You've made me an offer I almost can't refuse, but I will refuse it.' "

At sunset the helicopter had to leave. Gates did not go with it.

"Then at dinner, Bill Gates Sr posed the question to the table: What factor did people feel was the most important in getting to where they'd gotten in life? And I said, 'Focus.' And Bill said the same thing."

pump huge sums of money into the market to keep other banks afloat after Salomon failed to pay them. No rescue on this order of magnitude had ever been attempted. They were well aware of the likely second-order effects. The global financial market could potentially collapse. Did they think the Federal Reserve could handle it? "I was always an optimist," Corrigan says. "I always said to myself, 'You do what you have to do.' "

Hours passed while Buffett waited for the phone to ring. Alan Greenspan called once, saying, no matter what, he wanted Buffett to stay. "It was a plea to just sort of stand there at the bridge regardless of what happened."

Little by little, the trading floor began to fill with people, as if summoned by some invisible jungle drum. They lit their cigarettes and their cigars, sat around The Room, and waited. Nobody knew what was going on upstairs. Slowly, the clock ticked toward the hour when trading would begin in Tokyo, sounding the firm's death knell.

Upstairs, the board milled around uselessly, waiting while the regulators talked. Brady called Buffett back periodically but had nothing meaningful to say. Several times Buffett repeated his case in the gravelly voice that always betrayed him when under stress. He told Brady that Salomon's attorneys were working on a bankruptcy filing. He invoked Salomon's importance to the markets. He told Brady of the domino effect the firm's failure could cause.

"I said to Nick, I'd talked to Jerry Corrigan. This thing was going to implode. Tokyo was going to open, and we weren't going to buy back our paper. It was over. Hour after hour, from ten o'clock, I kept telling the consequences of all these things, and it didn't mean anything to him."

Brady went back to his fellow regulators and talked. Most of them felt that this was special pleading. Buffett was asking for some kind of gold-star treatment for Salomon, and the firm did not deserve it. Salomon's board couldn't understand why Buffett's arguments weren't getting through to the regulators. They ran the financial markets. Why wasn't it obvious to them that Salomon was going down?

As the afternoon wore on, Buffett's logic failed, on this most critical occasion, to win over a key ally. He had only one choice left. Of all avenues open to him, of all resources on which he could draw, this one was the most precious, the huge pool of crystal essence that he was most reluctant to tap. Buffett would undertake almost any item from his short list of most-loathed tasks – get into an angry, critical confrontation; fire someone; cut off a long friendship carefully cultivated; eat Japanese food; give away a vast sum of money; almost anything – than make a withdrawal from the Bank of Reputation. For all these many decades, he had brooded over, nurtured, cultivated, and stored that priceless commodity in its vault. Never had he drawn down so much as a drop on behalf of himself or anyone else, except when the odds hugely favoured getting back even more in return.

Now the debacle at Salomon had exposed him utterly, putting the entirety at stake. And the only remaining hope was to ask, to literally beg as a personal favour, drawn purely on his own credibility, for help.

He would be putting himself eternally in Brady's debt. He was staking his entire reputation – the reputation that takes a lifetime to build and five minutes to lose – on whatever happened afterward. He had to summon more courage than he knew he had.

Buffett's voice cracked. "Nick," he said, anguished, "this is the most important day of my life."

Brady had his own problems to deal with. He didn't think Buffett's arguments were any good. But he heard the feelings behind the words. He could hear in Buffett's voice that the man thought Salomon had thrown him over Niagara Falls in a barrel.

"Don't worry, Warren," Brady finally said. "We'll get through this." He hung up the phone and went off to consult.

But as the clock crawled toward 2.30pm, when the press conference was scheduled to begin, Brady had not called back.

Buffett decided to play the one card he could use with Corrigan. He picked up a phone. "Jerry," he said, "I haven't taken the job yet as interim chairman. We did not hold our meeting this morning because of what the Treasury did. So I am not the chairman of Salomon now. I could become the chairman in thirty seconds, but I am not going to spend the rest of my life shepherding the greatest financial disaster in history. I'm going to get sued either way by fifty people, but I don't want to spend my life trying to mop up a total disaster on Wall Street. However, I don't mind spending some of my life trying to save this damned place."

Buffett's partner, Charlie Munger, was telling him not to do it under any circumstances. "Forget it," he said. "Some sort of surprise could happen the first day and you won't be able to extricate yourself and will spend the next 20 years of your life in court."

Corrigan took Buffett's threat to leave more seriously than the other regulators had, however. "I'll call you back," he said.

Buffett sat and waited, envisioning his next move. He pictured himself getting on an elevator, riding down six floors, walking on to the stage at the press conference all alone, and opening with the words: "We've just declared bankruptcy."

Downstairs, in the August heat, more than a hundred reporters and photographers who had been pulled away unexpectedly from their baseball games and swimming pools and family picnics swarmed into Salomon's auditorium for the press conference. The only thing they had to fill their interrupted Sunday afternoon was the sight of Salomon's blood-drenched gladiators, gutted before their eyes on the sand of the Colosseum.

"This crowd was sitting there expecting big news. And I was thinking about the old story about the reporter sent to file a story on a wedding, and he went back and told the editor, 'Well, there wasn't any story, because the groom didn't show up.' That was the mood those reporters were in."

As the minutes passed, a white and shaken John Meriwether, head of Salomon's notorious arbitrage desk, arrived. He had gone, as instructed, to see Breeden at the SEC, asking for help. Meriwether reported that Breeden had turned them down flat. Twice in the conversation, Breeden had said Salomon was "rotten to the core".

"Rotten to the core," Meriwether repeated in shock, "rotten to the core." All of them suddenly realized that the Treasury's move had been a joint decision with the Federal Reserve and the SEC, their condemnation a sudden reversal of the world's opinion of Salomon, a dramatic payback for years of pride and arrogance.

The hour of the press conference came and went, while the reporters fidgeted and grew more irritable downstairs. Brady did not call. The phone sat unblinking.

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Finally, Jerome Powell, assistant secretary of the Treasury, called. The Treasury would not fully reverse itself, he said. Salomon could not bid in Treasury auctions for customers. Yet it would compromise on Salomon's most important point: the firm could bid for its own accounts.

"Will that do?" Powell asked.

"I think it will," Buffett said.

He loped back into the boardroom and told them. The room erupted with relief and joy. As rapidly as he could talk, Buffett oversaw the election of himself as interim chairman and Deryck Maughan as director and operating head of Salomon Brothers. At about a quarter to three, he walked outside and had somebody call downstairs to the trading floor.

Maughan, the English head of Salomon's Asian operation, was sitting with the traders, watching the clock. At a nearby desk, John Macfarlane's team was working on a contingency plan to dump the firm's assets in Japan as fast as they could. Somebody called from upstairs and told Maughan to meet Buffett at the elevator bank for a talk. Maughan was uncertain whether he was about to be made the boss – or told he had a new one. He walked over to the elevator. The door opened, and he saw Buffett standing inside. "You've been tagged," Buffett said, and motioned for Maughan to get in. Instead of riding back up to the boardroom, they descended two more floors into the jaws of the waiting press.

"The press was unruly. They were like animals. Every question was a trick question. It was a big story, and they wouldn't have minded if it had gotten bigger. It was their chance to shine. The TV people were particularly obnoxious. They wanted us to hurry up for the five o'clock news, or the six o'clock news, and I wouldn't co-operate with them. And I could just feel it. I could just tell it. I had to fall on my face. I had to be found a phony. They wanted it to develop that way. There were all kinds of book contracts floating around that room, but only if somehow Salomon failed."

Sitting on the dais, Buffett crossed his arms; he looked weary. Maughan, his light brown hair brushed into a neat

bouffant, stared wide-eyed at the crowd like the proverbial deer caught in the headlights. Both were clad in navy suits, white shirts, and funereal ties. "I had no preparation, zero," Maughan says. "'You're tagged' was my complete set of instructions." He did not know a single detail that had transpired upstairs. They began.

What happened, the reporters wanted to know.

Buffett, suit jacket bunched up around his ears, explained: "The failure to report [the original attempt to manipulate the bond auction] is, in my view, inexplicable and inexcusable. I have seen similar dumb things happen in other operations that I am more intimately involved in but not with such consequences."

Had the culture contributed to the scandal? "I don't think the same thing would have happened in a monastery," Buffett said. Somebody asked him what he would get paid. "I'm going to do this for a dollar," he said. The board, sitting in the audience, was dumbfounded. This was the first they had heard of it.

The reporters declined to be soothed. Were records altered? Who altered them? Was there a cover-up? Who participated in the cover-up?

Yes, some records had been altered. There had been something resembling a cover-up. At that, the pack grew excited, throwing questions hard and fast. Alas, the trail grew cold when the cover-up included no one significant beyond those already sacked.

Someone came out to the stage and told Buffett he had a phone call from the Treasury. He hurried from the dais, leaving Maughan, astonished, twisting in the wind alone. Nevertheless, Maughan managed to answer some questions in the perfectly articulated monotones of a BBC announcer narrating a documentary about the mating habits of the wildebeest.

Buffett returned with a press release from the Treasury Department, announcing that Salomon had part of its credibility back. The journalists were not mollified. They pressed on.

Did the ex-executives really resign or had they left through arm-twisting? Buffett assured them repeatedly that Gutfreund, Strauss and Meriwether had resigned voluntarily. Were the ex-executives getting special compensation? Was Salomon paying their legal fees? How much money did illegal actions earn the firm?

After well over an hour, one of the directors who was sitting next to Buffett's business partner, Charlie Munger, nudged him and said, "Isn't Warren ever going to end this thing?"

"Maybe he doesn't really want to," Munger said. "Warren knows what he's doing."

How much did the phony trades cost the government? How many customers had told Salomon they wouldn't do business with the firm? What severance would be paid to the ex-executives? What were the details of the strange fraudulent trade the investigators had discovered, the one referred to in the press release as the "billion-dollar practical joke"?

"It is not a joke. I suppose if you had to characterize it in some way ..." began Buffett. "Those were your words in the release," retorted the reporter, sharply.

"Those were not my words. It was in the release. My name is not on the bottom of the release. You can characterize it as a bizarre incident. My definition of a practical joke is one you can laugh at after hearing it. I don't see it as the least bit funny."

The reporters waited for an explanation. Salomon, they knew, was famous for its "goofs". Traders were constantly stealing the clothes out of each other's suitcases and replacing them with wet paper towels or lacy pink panties. The most famous goof at Salomon concerned the game of liar's poker itself, which Gutfreund once allegedly offered to play with Meriwether for a million dollars on a single bet, no tears. Meriwether supposedly countered with ten million, causing Gutfreund to stand down. While even this story was thought to be a sort of goof, containing apocryphal elements, until now ten million dollars was the limit that anyone had ever imagined for a Salomon goof. But for a billion dollars, you could fill New York Harbour with rubber chickens as high as the Statue of Liberty's thighs. What, then, could have been the "billion-dollar practical joke"?

"Apparently a woman was leaving the department after many, many years – retiring, I guess," Buffett said. "An order was worked out with somebody, to give her a very large order. A billion dollars. A billion-dollar order on a new offering of 30-year Treasury bonds. Then – and this gets vague – I guess the plan was to maybe convince her somehow that the order was not submitted and have the client question the fact that it was not submitted. It was to try to scare the hell out of her or something. I don't know."

"The bid actually did get submitted."

A hundred and fifty reporters sat in silence. Salomon had bought a billion dollars' worth of bonds in a practical joke gone wrong. Buffett was not kidding that the culture of Salomon would have to change.

"It should have been crossed out. My guess is that whoever did it did intend to cross it out. It has to be the dumbest joke ever attempted to be perpetrated."

No one said a word.

Maughan: "Any more questions?"

The hot air had been let out of the room. After this bit of truth-telling, what could anyone ask? Only a few more mild questions followed.

The press conference ended. Buffett looked at his watch as they walked off the stage. "I've got to get back to Omaha," he said.

"Warren, what's happening here?" asked Maughan. He had never spoken to any of the angry government officials, had never attended a Salomon board meeting, and the ship was sinking. "Do you have any views on who should form the management? Is there any direction you want to give me as a strategy?"

"If you have to ask me questions like that, I picked the wrong guy," Buffett said. He walked away without another word, leaving his \$700m and his reputation in the hands of a man he had met 30 hours before. "And then, when it was over, they were swinging cameras in our faces and banging us. It was a mob scene. I went out and got in a cab. And one or two reporters noticed that, which they felt was the new Salomon. Instead of a string of black cars waiting for us out there."

On Monday morning, Maughan went out to The Room to shore up the staff's devastated morale. He took off his jacket and rolled up his sleeves. The firm, he said, had faced three tests. The first was character. By firing Mozer and his number two, Thomas Murphy, and accepting the others' resignations, the firm had passed that test.

The second was confidence. By regaining at least partially the Treasury Department's good graces, Salomon had passed that test.

The third was will. "This is not the same firm," said Maughan, "but we must keep aspects of the old culture while we bring in a new one."

Some of the traders stirred uneasily. What did that mean, a new culture?

But at least Salomon had received one lucky break. Overnight, news had flashed over the wire that Soviet Premier Mikhail Gorbachev had been ousted in a coup. The market immediately dropped 107 points. Business coverage, which had been drilling on Salomon all day Friday, suddenly shifted focus as the world turned its attention to Gorbachev, held under house arrest by eight of his own military and state officials. With tanks rolling into Moscow and Russians demonstrating in parliament and protesting in Leningrad, customers got on the phones and the bond desk did brisk business.

"There are lots of ways of getting off the front page," said a salesman, "but sending in the Red Army has got to be the most creative."

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## Postscript

Seventeen years later, in the weeks after the US investment bank Bear Stearns had to be rescued, Buffett reflected on his own close encounter with a meltdown on Wall Street: "The speed with which fear can spread – nobody has to have an account at Bear Stearns, nobody has to lend them money. It's a version of what I went through at Salomon, where you were just inches away all the time from, in effect, an electronic run on the bank. Banks can't stand runs."

"The Federal Reserve hasn't bailed out investment banks before, and that was what I was sort of pleading back there in 1991 with Salomon. If Salomon went, who knows what kind of dominoes would set off. I don't have good answers to what the Fed should do. Some parts of the market are pretty close to paralysed. They don't want contagion to spread to what they would regard as otherwise sound institutions: if Bear fails and two minutes later, people worry that Lehman fails, and two minutes after that they worry that Merrill will fail, and it spreads from there."

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