Three Buffett sayings that will make you money

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Without doubt, Warren Buffett, the boss of Berkshire Hathaway has said some very wise things – which, when you think about it, isn't surprising.

Buffett wouldn't have made so much money in the first place if he weren't smart, and - let's face it – he's happy to share his thoughts with those investors who have put their money into shares in his company.

At this year's 'Woodstock for Capitalists' in Omaha, for instance, Buffett and his vice-Chairman Charlie Munger once again held the stage for several hours, fielding questions from all and sundry.

The trouble is that when it comes to the answers, many of us have selective hearing. One result of this is that some of his best-known quotes are only partly reproduced.

Take, for instance, Buffett's famous remark that "our favourite holding period is forever." What it doesn't mean is to cling like a dog with a bone to the rubbish in your portfolio - because Buffett can, and does, sell.

The full quote is this: "When we own portions of outstanding businesses with outstanding managements, our favourite holding period is forever."

That, I think you'll agree, is a rather different proposition.

Another problem is wishful thinking. Personally, I think this famous quote is one of his least useful for investors, devoid as it is of anything that an investor can actually do: "Rule No. 1: Never lose money. Rule No. 2: Don't forget rule No. 1."

What does it mean? What are you actually supposed to take away from it? It might be a worthy aspiration, but it certainly isn't actionable advice.

Cometh the hour

But, interestingly, it turns out that three of his less well-known quotes are loaded with actionable advice - and advice that plays perfectly into today's stormy and nervous markets.

And without further ado, here they are:

"The best thing that happens to us is when a great company gets into temporary trouble. ... We want to buy them when they're on the operating table."

"The most common cause of low prices is pessimism - sometimes pervasive, sometimes specific to a company or industry. We want to do business in such an environment, not because we like pessimism, but because we like the prices it produces."

"The stock market is a no-called strike game. You don't have to swing at everything – you can wait for your pitch. The problem when you're a money manager is that your fans keep yelling, 'Swing, you bum!'"

That latter quote also sums up our internal processes. Many of us put the desire for action in front of the need for a cooler head.

The common refrain running through all three? It's perhaps best summarised by yet another Buffett quote: *"You pay a high price for a cheery consensus."*

In short, you'll make the most money by sitting on your hands in the good times, and then buying good businesses in the bad times. And if that doesn't sound like a recipe for success in today's turbulent times, I don't know what does.

Foolish take-away

Human nature being what it is, many investors do the exact opposite. When they're feeling buoyant and bullish, they pile into the stock market. Look no further than 1996 to 1999, for instance, or 2005 to 2006.

Then, when markets crater, they sell - as they did in 2008 and 2009. And they certainly don't buy when the market is at rock bottom, which led to an awful lot of investors getting caught out by the strong recovery of the S&P / ASX 200 in the months that followed March 2009.

Hopefully, you'll already have your eyes on stocks priced at bargain levels.