



Could it be clearer? Buffett thinks so

by Deborah Bosley, Guest Columnist

When was the last time you read a corporate annual report? Or understood it?

Warren Buffett is not only America's premier investor and philanthropist, but also our strongest advocate of clarity in financial documents. His letters to shareholders and Berkshire Hathaway's annual reports are legendary because of his commitment to honesty and to writing in a manner that everyone can understand.

In his introduction to the 1998 Securities & Exchange Commission's Plain English Handbook, Buffett stated, "When writing the Berkshire Hathaway annual report, I picture my sisters, highly intelligent, but not experts in accounting or finance. They will understand plain English, but jargon may puzzle them. My goal is to give them information I would wish to receive if our positions were reversed."

I have to agree with Buffett because as a stockholder, I receive annual reports from large U.S. corporations. Despite the glossy paper, sophisticated graphs and almost artistic photographs, I have yet to read any of the reports. Why? Because I generally see thick paragraphs, technical language, visuals that befuddle me and a tone that implies everything is rosy even when news stories tell us otherwise.

Part of the problem is the regulatory language that attorneys must write and the required financial information that dominates many annual reports. Too often the reports are intended to satisfy compliance needs more than they're intended to communicate with shareholders.

Buffett promised his shareholders they would be able to understand and trust his annual reports and, at the same time, get a chuckle or two.

His humor and use of commonplace words shine in this gem from the 2005 annual report: "Unlike many business buyers, Berkshire has no 'exit strategy.' We buy to keep. If you have a business that fits [our investment philosophy], give me a call. Like a hopeful teen-age girl, I'll be waiting by the phone."

Buffett's annual reports also are lessons in clarity. He uses neither frilly language nor an over-reliance on charts. Instead, he writes in plain language. Buffett only invests in companies whose products he can understand. Imagine what would happen if investors bought stocks only from companies whose annual reports they could understand.

Buffett's writing principles are simple:

- * Make your message clear and honest
- * Avoid jargon and pomposity
- * Use a conversational tone
- * Use only very simple graphs or charts.

Now, if only we could get the rest of corporate America to follow his lead.

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