

In 1999 Buffett admitted he had no insight into tech, and stayed out

Published by OneRightAI · 5 min read

Maxim: *Know your circle of competence, and stick within it. The size of that circle is not very important; knowing its boundaries, however, is vital.* — Warren Buffett

Every investor knows some things well and most things poorly. The danger is not the size of what you know. It is not knowing where it ends.

The most expensive investing mistakes are usually made just outside the edge of what the investor understands.

In 1999, the technology boom was at full speed, and Warren Buffett was having the worst year of his career. Berkshire Hathaway's per-share book value rose just 0.5%, and Buffett called it "the worst relative performance" of his tenure in his [1999 letter](#) to shareholders. He owned no technology companies in a year when the market seemed to reward little else.

Buffett did not apologise for that. He explained it. He and Charlie Munger, he wrote, "have no insights into which participants in the tech field possess a truly durable competitive advantage." Then, plainly: "This explains, by the way, why we don't own stocks of tech companies." And: "Our lack of tech insights, we should add, does not distress us."

Within months the dotcom bubble burst, and many of the companies that had made 1999 look so easy for others disappeared. Buffett's discipline was not a forecast that technology would crash. It was a refusal to bet on businesses whose future he could not judge.

What the circle is, and is not

Buffett had set out the idea three years earlier, in his 1996 letter. "What an investor needs is the ability to correctly evaluate selected businesses," he wrote, as [Wikipedia's entry on the concept](#) quotes it. "Note that word 'selected': You don't have to be an expert on every company, or even many. You only have to be able to evaluate companies within your circle of competence." His shorter version: the size of the circle is not very important; knowing its boundaries is vital.

The circle is not a list of things you have heard of, or a sector you follow on television. It is the set of businesses whose economics you can explain: how they make money, what could stop them, and roughly what they might earn in ten years. Most people's circle is small. That is fine. A small circle with clear edges beats a large one with blurred edges every time.

The circle can also grow, but only slowly and only through work. A doctor who reads hospital and pharmaceutical annual reports for years may come to understand those businesses better than most analysts. An engineer may understand capital goods or software. What does not enlarge the circle is excitement, a friend's tip or a month of watching a share price rise. Those make the edge feel further away than it is, which is exactly when investors step over it without noticing.

The Indian version: India's largest IPO

On 18 November 2021, One97 Communications, the company behind Paytm, listed on the stock exchanges after raising ₹18,300 crore, at the time the country's largest IPO. Close to a million retail investors had applied. The shares, issued at ₹2,150, closed their first day at ₹1,564, down 27%, wiping out nearly ₹38,000 crore of investor wealth, [Business Standard reported](#).

Paytm was a brand nearly every Indian with a smartphone knew. That familiarity is precisely the trap. Using an app every day is not the same as understanding a payments and lending business: how much each transaction earns, what regulation might change, when the business could turn a profit. Many of those million applicants were inside the circle of customers, not the circle of competence. The same confusion catches investors in every boom, from the IT stocks of 2000 to the thematic funds of recent years.

Drawing your own boundary

Ask these questions before any investment you choose yourself.

1. **Can I explain how it makes money in two sentences?** If not, you are outside the circle.
2. **Do I know what could make it fail?** Every business has two or three serious risks. If you cannot name them, you do not know it well enough.
3. **Would I understand the next annual report?** Not every note, but the main numbers and why they moved.
4. **Is my confidence coming from the business or from the price?** A rising share price feels like understanding. It is not.
5. **What would I do if it fell 40%?** Inside the circle, you can judge whether to hold or buy more. Outside it, a fall only produces fear.

The decision rule: invest directly only in businesses that pass these questions, and use diversified funds for everything else. Admitting that something is outside your circle is not a weakness. It is the reason you will still have capital when something inside it becomes a bargain.

Buffett's worst relative year came from refusing to pretend. He gave up the easy gains of 1999 because he could not judge the businesses producing them, and he said so in writing to his shareholders. Few investors would have had the nerve. Fewer still regretted it a few years later.

Your circle will never be as large as you would like. It does not need to be. It needs to be honest, and you need to stay inside it.

Sources

- [Berkshire Hathaway: Chairman's letter to shareholders, 1999](#)
- [Berkshire Hathaway: Chairman's letter to shareholders, 1996](#)
- [Wikipedia: Circle of competence](#)
- [Business Standard: Paytm wipes out Rs 38,000 crore in investor wealth on market debut \(18 November 2021\)](#)

The Virtual AI Author is an AI writer for OneRightAI.

Disclaimer

This article is published by OneRightAI for general information and investor education only. It was written by an AI author and may contain errors or omissions, and facts may have changed since publication. It is not investment, tax or legal advice, and it is not a recommendation or solicitation to buy, sell or hold any security, mutual fund, bond or commodity. Companies, funds and indices are mentioned only to illustrate concepts. OneRightAI is not registered with the Securities and Exchange Board of India (Sebi) as an investment adviser or research analyst. Investments in securities markets are subject to market risks; read all related documents carefully before investing. Past performance does not guarantee future returns. Consult a Sebi-registered investment adviser and a qualified tax professional before making any investment decision. OneRightAI and its authors accept no liability for any loss arising from the use of this information.

Credits and rights

Maxims and quotations are attributed to their original authors and are used for commentary and investor education; their use does not imply any affiliation with, or endorsement by, those authors or their publishers. Facts and data from third-party sources are summarised in our own words and credited with links; all copyrights and trademarks remain with their respective owners. OneRightAI is not responsible for the content of external websites.