Forbes
NOVEMBER 1, 1969

How Omaha Beats Wall Street

FORBES DISCOVERED WARREN BUFFETT IN 1969, AND THIS EARLY INTERVIEW INTRODUCED THE ICONIC INVESTOR TO A WIDE AUDIENCE FOR THE FIRST TIME.

Warren Buffett has lived in Washington and New York and studied at Columbia University Business School, but he has never stayed in these places very long. He has always returned to his home town, Omaha, Nebr. If he were a doctor or lawyer or ordinary businessman, this might not be surprising. But Buffett is what is usually called a Wall Streeter, a Money Man. For the last 12 years he has been running one of the most spectacular investment portfolios in the country.

Since adjectives like "spectacular" don't prove much, we'll tell you exactly how spectacular Buffett has been: $10,000 invested in his Buffett Partnership in 1957 is now worth $260,000. The partnership, recently at $100 million, has grown at an annual compounded rate of 31%. Over that 12-year period it hasn't had one year in which it lost money. It gained 13% in 1962 and 20% in 1966, years when the Dow average fell 7% and 15%, respectively. It hasn't lost money this year, either.

"Oh," you say, "a hot stock man." Not at all.

Buffett has accomplished this through consistently following fundamentalist investment principles. A lot of young money men who now are turning in miserable performances began with the same investment ideas in the early Sixties but then forgot them in the Great Chase of the Hot Stock. Buffett, however, stayed with his principles. He doesn't talk about concept companies or story stocks. He has never traded for a fast turn on an earnings report or bought little unknown companies, as Fred Carr does. He doesn't hedge (i.e., go short) like A. W. Jones, who devised the hedge fund. Buffett is not a simple person, but he has simple tastes. He buys a stock for simple, basic reasons, not tortuous or sophisticated ones. His stocks, you might say, are sort of like Omaha.

His big successes over the years have been in the stocks of ordinary companies: American Express, not Control Data; Cleveland Worsted Mills, not Xerox; Walt Disney, not Kentucky Fried Chicken; Studebaker, not Teledyne. He won't buy a conglomerate: They don't make sense to him. Ditto technological companies: "I can't understand them. They're not my style."

Buffett tells a story on himself: "William Morris of Control Data is a relative through marriage, and I could have bought it at 16 cents a share [now $150], but I asked: 'Who needs another computer company?'"

Besides having no use for glamour stocks or conglomerates, Buffett scorns what might be called the numerology approach to the stock market—charting, resistance points, trend lines and what have you. He's a fundamentalist. "I'm 15% Phil Fisher," he says, "and 85% Benjamin Graham."

For the benefit of those not familiar with stock market literature we had better explain. Fisher and Graham are two of the great stock market fundamentalists. Fisher is what might be called a real-world fundamentalist. That is, he is primarily interested in a company's products, its people, its relationships with dealers. Graham, the now retired coauthor of the textbook *Security Analysis* and the more readable *The Intelligent Investor*, could be called a statistical fundamentalist. That is, he analyzes the basic underlying statistics, assets, sales, capitalization and their relationship to the market price. Obviously neither method is much help in picking hot new stocks because hot new stocks, by definition, don't have any fundamentals, statistical or otherwise.

Buffett studied under Graham at Columbia, later worked for him at Graham Newman Corp. But let's start from the beginning.

Born in Omaha in 1929, Buffett was taken to Washington in 1942 after his father, now deceased, was elected to the House of Representatives as a Republican. He lived there most of the time until his father retired permanently from politics in 1952. Back home in Nebraska, he studied at the University of Nebraska and pondered the stock market. "I'd been interested in the stock market from the time I was 11, when I marked the board here at Harris Upham where my father was a broker. I ran the gamut, stock tips, the Magee charting stuff, everything. Then I picked up Graham's *Security Analysis*. Reading it was like seeing the light." The light led Buffett back East where he studied under the Master at Columbia Business School. Then back to Omaha and selling securities for two years. In 1954, when he was 25, he started Buffett Partnership, Ltd. with $100,000 and seven limited partners (he is the only general partner). The arrangement, still in effect, provided for Buffett to get 25% of the annual profits after each partner got 6% on his money. In 12 years this arrangement made Buffett a very rich man indeed. (He made us promise not to use a number, but figure out for yourself what would happen to even a small sum compounded for 13 years at 31%!)

Buffett has applied Graham's principles quite systematically. Says Graham in *The Intelligent Investor*: "Investment is most intelligent when it is most business-like"—in other words, not swayed by emotions, hopes, fads. This is Buffett's most important tenet. "When I buy a stock," Buffett says, "I think of it in terms of buying a whole company just as if I were buying the store down the street. If I were buying the store, I'd want to know all about it. I mean, look at what Walt Disney was worth on the stock market in the first half of 1966. The price per share was $53, and this didn't look especially cheap, but on that basis you could buy the whole company for $80 million when *Snow White*, *Swiss Family Robinson* and some other cartoons, which had been written off the books, were worth that much. And then you had Disneyland and Walt Disney, a genius, as a partner."

TEACHER GRAHAM: … to distill the secret of sound investment into three words, we venture the motto: Margin of Safety.

PUPIL BUFFETT: I try to buy a dollar for 60 cents, and if I think I can get that, then I don't worry too much about when. A perfect example of this is British Columbia Power. In 1962, when it was being nationalized, everyone knew that the provincial government was going to pay at least X dollars and yon could buy it for X minus, say, 5. As it turned out, the government paid a lot more.

GRAHAM: The investor with a portfolio of sound stocks … should neither be concerned by sizable declines nor become excited by sizable advances.

BUFFETT: Imagine if you owned grocery store and you had a manic-depressive partner who one day would offer to sell you his share of the business for a dollar. Then the next day because the sun was shining or for no reason at all wouldn't sell for any price. That's what the market is like and why you can't buy and sell on its terms. You have to buy and sell when you want to.

Almost any of Buffett's investments fall into this category, since he buys them when the price is going down and sells when they're going up. Unlike Phil Fisher but like Ben Graham, Buffett doesn't talk about evaluating management except in the very basic terms of whether it is trustworthy or not. His American Express investment is a perfect example of how his mind works. Buffett bought American Express after the salad oil scandal but not before doing some fast research on his own, which among other things included talking to the company's competitors and going over restaurant receipts in an Omaha steak house. All of this convinced Buffett that American Express had an unassailable position in travelers' checks and was fast developing the same sort of position in credit cards.

"Look," says Buffett, "the name American Express is one of the greatest franchises in the world. Even with terrible management it was bound to make money. American Express was last in the traveler's check market and had to compete with the two largest banks in the country. Yet after a short time it had over 80% of the business, and no one has been able to shake this position."

Not for Warren Buffett are computers or a vast staff and impressive offices. Until recently, even when he was managing $20 million, Warren Buffett was the entire staff of Buffett Partnership, Ltd. Even today the staff consists of four housed in three small rooms in Omaha's Kiewit Plaza. He gets some of his best ideas thumbing through Moody's investment manuals, financial and general publications like the *Wall Street Journal*, *New York Times* and the *American Banker*, and industry journals when a specific industry interests him. This is the way he bought Western Insurance at $16 when it was earning $16 a share, and National American Insurance at one times earnings in the 1950s. Then in 1962 he found Gurdon Wattles' American Manufacturing selling at a 40% discount from net worth. "If you went to Wattles of American Manufacturing or Howard Ahmanson of National American Insurance and asked them to be partners, you could never get in at one times earnings," says Buffett.

When the reading puts him on to something, he'll do some informal field research. In one case in 1965 Buffett says he spent the better part of a month counting tank cars in a Kansas City railroad yard. He was not, however, considering buying railroad stocks. He was interested in the old Studebaker Corp. because of STP, a highly successful gasoline additive. The company wouldn't tell him how the product was doing. But he knew that the basic ingredient came from Union Carbide, and he knew how much it took to produce one can of STP. Hence the tank-car counting. When shipments rose, he bought Studebaker stock, which subsequently went from 18 to 30.

Buffett is one of those disciplined types who is perfectly willing to sell too soon. As Buffett puts it, he tries to buy $1 worth of stock for 60 cents, and when it goes to $1, he sells it, even if it looks like it is going higher. With that kind of investing, he doesn't have to worry too much about dips in the market. Nor about "stories" or "concepts": "If the stock doesn't work out in the context I picked it for, it probably will in another," he says. Example: He bought his Disney stock with his eye on basic value, but it first went up when Disney died and has continued to rise because of the leisure boom. Says Buffet: "With value like that I know I'm not going to get stuck with a Kentucky Fried Computer when it goes out of fashion."

As his fund got bigger and bigger, Buffett began taking bigger and bigger positions, because his basic policy was to hold only nine or ten stocks. At one point, before selling the stock in May 1964, Buffett Partnership owned 5% of American Express. Inevitably, this led him to some control situations. For example, he and his friends own 70% of the stock of Berkshire Hathaway, a New England textile manufacturer that Buffett originally got into because the company had working capital of $11 a share versus a stock price of $7. They also own several small businesses.

AND SO, GOOD-BYE ...

Alas, good reader, if all this appeals to you, forget about having Warren Buffett handle your money. From now on he's not going to be handling anybody's except his own. After this coming January Buffett is closing up shop and dissolving the partnership. He has no desire to be a Getty or a Rockefeller. Besides, he's getting stale. "My idea quota used to be like Niagara Falls—I'd have many more than I could use. Now it's as if someone had dammed up the water and was letting it flow with an eyedropper." He attributes his problem to a market that no longer lends itself to his kind of analysis, where real values are hard to find. He blames some of it on the Performance Game; so many people are playing it now that, by definition, few will be able to get above-average results. Also, conglomerates and tender offers have picked off many of the bargains. But this may be—and probably is—mere rationalization. The motives behind Buffett's quitting are probably much simpler. He has made a fortune and is no longer motivated to count boxcars and read statistical manuals. He comes close to the truth when he says: "You shouldn't be doing at 60 what you did at 20." He plans putting most of his money into municipal bonds, for income, and he'll continue to hold companies where he has a controlling interest: Berkshire-Hathaway, the Illinois National Bank in Rockford, Ill. and a small Omaha weekly newspaper. He is interested in public affairs, but he plans to back various projects from offstage. What else? "I don't believe in making life plans," is all he will say.

Buffett plans to continue living in the rambling old Omaha house, typically suburban, where he has lived since his marriage in 1952; whenever he has needed more space he simply tacked on another room, including an indoor handball court, which keeps him lean. Here the pace isn't frantic and his three children can have a healthy upbringing. Of course, everybody knows the smart boys gravitate to Wall Street. Only the sluggards stay home. **F**

WE HAVE EMBRACED THE 21ST CENTURY BY ENTERING SUCH CUTTING-EDGE INDUSTRIES AS BRICK, CARPET, INSULATION AND PAINT. TRY TO CONTROL YOUR EXCITEMENT. —WARREN BUFFETT

Forbes

NOVEMBER 1, 1974

How do you contemplate the current stock market, we asked Warren Buffett, the sage of Omaha, Nebr. “Like an oversexed guy in a harem,” he shot back. “This is the time to start investing.”

The Dow was below 600 when he said that. Before we could get Buffett’s words in print, it was up almost 15% in one of the fastest rallies ever.

We called him back and asked if he found the market as sexy at 660 as he did at 580. “I don’t know what the averages are going to do next,” he replied, “but there are still plenty of bargains around.” He remarked that the situation reminded him of the early Fifties.

Warren Buffett doesn’t talk much, but when he does he’s well worth listening to. His sense of timing has been remarkable. Five years ago, late in 1969, when he was 39, he called it quits on the market. He liquidated his money management pool, Buffett Partnership, Ltd., and gave his clients their money back. Before that, in good years and bad, he had been beating the averages, making the partnership grow at a compounded annual rate of 30% before fees between 1957 and 1969. (That works out to a $10,000 investment growing to $300,000 and change.) He quit essentially because he found the game no longer worth playing. Multiples on good stocks were sky-high, the go-go boys were “performing” and the list was so picked over that the land of solid bargains that Buffett likes were not to be had. He told his clients that they might do better in tax-exempt bonds than in playing the market. “When I got started,” he says, “the bargains were flowing like the Johnstown flood; by 1969 it was like a leaky toilet in Altoona.” Pretty cagey, this Buffett. When all the sharp M.B.A.s were crowding into the investment business, Buffett was quietly walking away.

Buffett settled back to manage the business interests he had acquired, including Diversified Retailing, a chain of women’s apparel stores; Blue Chip Stamps, a western states trading stamp operation; and Berkshire Hathaway, a diversified banking and insurance company that owned, among other things, a weekly newspaper, *The Omaha Sun*. The busi-

The Money Men

LOOK AT ALL THOSE BEAUTIFUL, SCANTILY CLAD WOMEN OUT THERE!