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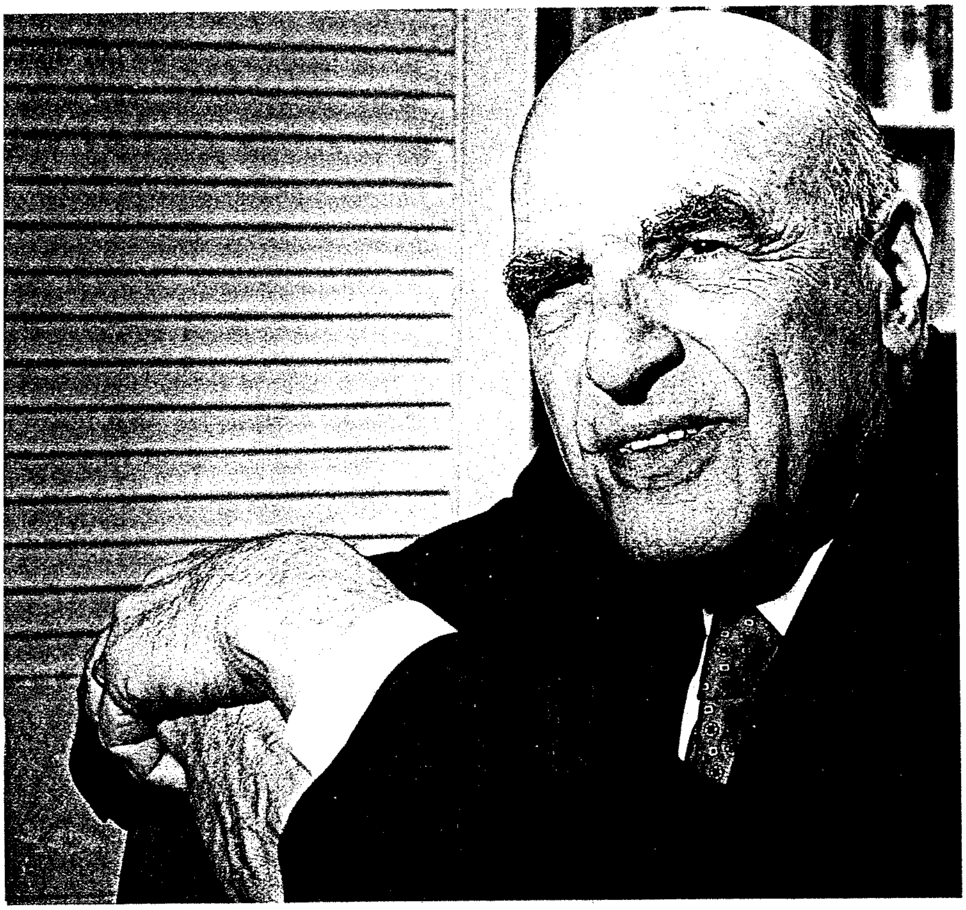

MARK FERRI

Walter J. Schloss: *Searching for Value*

At 72, Walter J. Schloss has been around Wall Street for more than four decades. He spent 10 years working for the late Benjamin Graham, author of *The Intelligent Investor*, whose name is synonymous with conservative—and successful—investing. In 1955, Schloss founded Walter J. Schloss Associates, a private investment partnership that currently holds about $70 million. His spare time is spent as trustee and treasurer of Freedom House, an organization that monitors the state of liberty around the world.

A value-minded investor, Schloss views his business as rational—finding securities that are objectively undervalued compared to their ability to generate earnings. "But it's an irrational world, so you can't always do things logically," he adds. "Before World War II, the stock market acted *terribly*, because everyone was emotional—'What's Hitler going to do, the world's coming apart.' They would say, 'Keep your money in cash, you can't buy stocks.' They wanted to be safe."

Schloss suggests that separating emotions from investing is often impossible. "What an investor does to some extent is based on his background. It's very difficult to tell somebody who is fearful of stocks, 'Yeah, you should put your money in the stock market.' If your father lost his money in the Depression, you'll see things differently."

Narrowing the point, he observes: "I owned some bankrupt bonds in the Pennsylvania Railroad. That would drive most people up the wall—never mind that it worked out beautifully. But people don't want to buy bankrupt bonds."

And most people wouldn't know how to judge the values that might remain in a bankruptcy. To know exactly what you're doing is crucial, Schloss says, regardless of the investment. He recalls a guy "who bought Seaboard Airline in 1929 because he thought it was an airline. It was a railroad."

What should an average investor look for? Schloss responds: "One thing might be to buy companies that don't have very much debt, when the stock is selling at a reasonable price in relation to its assets, earnings, and dividends. So you could sleep at night even if it went down. The problem is, if it *does* go down, most investors will say, 'Oh, God—now what do I do?' There's no safety in stocks. It's a business. I suppose the answer is, let Michael Price or John Neff or John Templeton [all value-hunting money managers who've produced superior, long-term results] invest for you."

What about Walter Schloss? "Well, I'm a private guy, and I don't have a fund that's open." Over the years, Schloss has stuck with the one partnership. "I didn't want to start another. I didn't want to complicate my life too much. If you have two partnerships—sort of like Pioneer Fund, Pioneer II, Pioneer III—you always have to decide what to put in each one. I just didn't want it. Life's too short." ■

John C. Boland is a contributing editor of this magazine and author of the book Wall Street's Insiders *(Morrow).*