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Walter J. Schloss worked as an analyst for Graham himself, and his record is powerful evidence that value investing is a sensible strategy. Schloss has been managing money since 1955. In that span, his investments have risen 15.7 percent a year; the Standard & Poor's Industrial Average (not the 500 Index) has climbed only 11.2 percent a year.

At age 84, Schloss still comes to work every day, sharing an office with the Tweedy, Browne folks on Park Avenue in New York City. When he and Christopher Browne go out to lunch, Browne—a man in his early 50s—has to quicken his step to keep up. And in an interview with me, Schloss was full of beans, quick thinking and
contentious—for example, dismissing the naïve notion that anyone should buy and hold stocks indefinitely (I had said that ordinary investors might learn that from Buffett), denigrating index funds, and scolding me for mistakenly referring to Bill Ruane, who started the Sequoia Fund, as Charles.

Schloss is nowhere near so famous as Graham's most notable pupil, with whom Schloss shared an office when both worked for Graham back in 1957. Contented with his role in life, Schloss has never tried to make his firm especially large.

He and the Sage of Omaha remain friends. At first Schloss was dubious about letting me interview him. Then he decided, "I'll check with Warren." An hour later, he called me back: Buffett had told him that he didn't mind.

Like Graham, Schloss looks for good companies with cheap stocks, and he focuses almost exclusively on the numbers. He discouraged me from visiting him in person—he was busy, and didn't want me to make the trip—so I spoke to him on the phone.

Questions and Answers

Q. Benjamin Graham, I gather, was very much influenced by the crash of 1929 and the depression that followed.

W.S. Yes, the crash affected him a lot because he had spent a lot of money and suddenly he wasn't making any.

Q. Graham and Buffett never forgot how treacherous the stock market could be.

W.S. Yes, and Warren's father, too. His father was a stockbroker. I think he inherited that fear—a lot of us did.

Q. People don't remember much about the crash years.

W.S. They don't want to.

Q. 1929 wasn't actually that bad a year. The market was down only 17 percent.

W.S. It was if you had bought on margin, which people were doing as if they were the high-tech stocks of today. You could buy on margin with only 10 percent, so if the market went down a little bit, you could be wiped out. Stocks that might have been 90 went down to 2.

Now we have margin of 50 percent, but even with that speculators lost a lot of money with high-tech stocks. The stock market went back up at the end of 1929, then went down in March of 1930. It was a bear trap.
Q. I think Ben Graham fell into that trap.

W.S. I don't know. . . But you learn by doing.

Q. Graham's rules for investing changed over the years, didn't they?

W.S. We live in a society that changes, so you can't be too strict about the rules you had 40 or 50 years ago. You can't buy stocks on the basis you did then. We would buy companies selling for less than their working capital, but now you can't do it. Those companies would get taken over. We use book value now.

Q. And other investors discover those cheap stocks, too?

W.S. You have 40,000–50,000 Chartered Financial Analysts looking for those stocks. I have a friend who came out of the Harvard Business School in 1949, I think it was, and he said that out of the whole class only four people went down to Wall Street. In the last couple of years, 80 percent or 90 percent went down to Wall Street.

Q. Do you think book value is the single best way to estimate the intrinsic value of a company?

W.S. No, no, I don't think it's the only way. It's a factor, though. The problem is, even if there's book value, a company may not really be worth a lot—a big old plant might be hard to sell, for example. The thing I would watch for is debt. If you look at the companies in trouble, like Xerox or Chiquita Banana, these companies had a lot of debt. And then when things go bad and they need more money, the fellows who lend money get scared and say, We don't want to lend you money any more. So what are they going to do, sell their plant? So I think that debt is one of the most important things to look for.

Q. Charles Ruane [another Graham disciple] has said that return on equity may be the most important factor.

W.S. He may be right. But his name is Bill, not Charles.

Q. That's what we journalists specialize in—getting names wrong. What purchases have you made over the years that you did especially well with?

W.S. We don't discuss what we've bought. Warren has to tell the SEC what he's bought and sold every year, so he has a year to accumulate stock [before the public finds out]. But we don't talk about what we're buying or what we've bought.
Q. Do you totally ignore how good a company's managers are, or—

W.S. I can't evaluate management. Theoretically, management is in the price of a stock. If it's a good company with good management, the stock sells at a high p-e. If the management is poor and people don't like the company, it sells at a lower p-e. And sometimes it's just in a bad industry. But I can't evaluate management. The price of a company may be a reflection of the way people think about the whole company at that particular point. You can look at management and you might say it's good because the stock is doing nicely with a good profit margin. We're a small investment company; we don't have time to go around talking to the people, talking to their competitors.

Q. What's the most common mistake that ordinary investors seem to make?

W.S. I think people trade too much, looking for short-term gains. But I don't think you should hold stocks indefinitely.

Q. You told me that you sold Bethlehem Steel . . .

W.S. It was selling at $37, and I sold it to buy this Western Pacific. At the time, Bethlehem Steel was in the Dow Jones Average. I think it's at $3 now. Western Pacific went out at around $163. So you can't just say that you're going to buy the good companies and hang onto them all the time. That sounds all right, but you might as well buy Berkshire Hathaway and let Warren worry about it.

But I don't think you should even be writing about the stock market. We've had a great bull market for 18 years; you'll never see a bull market like this again.

Q. Don't you think people can learn something valuable about investing from Buffett and other value investors?

W.S. If they haven't learned by now, I don't think they'll ever learn.

Q. Why do you have doubts about investing in index funds?

W.S. Because all you're saying is that you'll do as well as the market. That's not what you're really supposed to be doing. You're giving up. You're just saying, Okay, I'll do what the market does, period. You might be right, but then you have to value the stocks in the index—if you really want to be intelligent about it. You might say, these stocks are selling at a high price in relation to what I think they're worth, and if you think they're selling at a high price, it wouldn't be a good idea to buy an index fund. You're going to have to evaluate the market yourself.
Q. But you don’t engage in any market-timing—

W.S. No, I’m not interested in timing.

Q. But if you didn’t find anything worth buying, you’d sit in cash?

W.S. Yes.

Q. Why do value and growth investing seem to take turns basking in the sun or skulking in shadows?

W.S. That’s a good question, and I don’t know, and I won’t even think about it, to tell the truth. I don’t really care. But you get trends, and people want to do things, and suddenly they get into a mania, about growth stocks or high-tech stocks, and then they go in, and they don’t work out, and then someone says, I think you should buy value stocks, and they do that for a while—I don’t know the motivation.

People are sort of influenced by, I guess, CNBC, where these guys are touting stocks. They rarely tell you to sell stocks. And I think the brokers do another thing, of course, which is human nature—they recommend stocks that are going up because if you recommended a stock that was going down, and it kept going down, the customer would be unhappy with it. But if a stock is going up, everyone is happy with it because you’re buying a stock that’s doing nicely.

Q. Your investment style is very close to Ben Graham’s, isn’t it?

W.S. I try to be close to Graham in style. Ben Graham wasn’t focused entirely on the stock market. He was a brilliant guy; he was able to translate Greek and Latin and all that. But investing was a challenge for him, and he met the challenge by writing books. And I think The Intelligent Investor is a great book, and if you were to tell people to read it, that would be a very good thing to do.

Q. Why has Warren Buffett been so successful?

W.S. Well, he’s a very good judge of businesses, particularly financial businesses. You’ll notice that a great deal of his money is in American Express, the banks, Wells Fargo, Freddie Mac. He’s got companies where he can kind of project what they will do. But with industrial companies, the kind that we invest in, particularly the cyclical companies, you can’t do that so easily. You have a good year, and then the next year is bad. Banks have been getting more and more money, and other industries have been cutting back. The textile industry has been destroyed. Coca-Cola is having a few bad years. How high is up?
I think Warren feels more comfortable owning financial companies. GEICO is another one of his financial companies. Warren is extremely good at making investments in companies where he can project what they'll do 10 years from now.

Q. Of every 10 stocks you buy, how many work out well and how many don't?

W.S. I don't know. I'd say about 80 percent work out. I don't really know.

Q. It can take four years for a company to work out?

W.S. On the average. That's not true of every company. If a company is having trouble, it may take six years to work out. And sometimes you buy a stock and it sort of catches fire, or somebody takes it over. And you didn't know that would happen. You get some lucky breaks and you get some poor breaks. Sort of a law of averages.

Q. You invest in what sized companies? Mid-caps?

W.S. Mid-caps and smaller rather than big companies. The big companies have been sort of pawed over by all the analysts. The analysts look at the 150 or 200 largest companies. If you're managing $50 billion, you can't fool around with buying a small company, where you might be able to buy only $100 million worth of stock. As for the high-tech companies, they're mostly small, but the speculation was that they had a great future. Well, maybe they do and maybe they don't, I'm not smart enough to know.

Q. Why are you in such good all-around health?

W.S. My father. My job in life is to beat my father. He was 103 when he died. Actually, I think it's just a genetic thing. I'm just very fortunate that I have some of his genes.

Q. Can you tell me more about yourself?

W.S. I like playing bridge and tennis, and I like the theater. We're New Yorkers, we were born in New York. It is a very stimulating place, it has a lot of museums. Anybody can do anything they want in New York; there are a lot of different alternatives. Some people don't like that. They like a quiet area where there isn't all that pressure. I don't mind the pressure. I kind of like it actually.

We're a low-key company; we're not a big company. I didn't want to be a big company, I didn't want to have a big staff, I didn't want the responsibility of hiring people and firing people. I wanted...
to keep my life simple. But I love working with my son, Edwin. We make a good team.

I came to Wall Street in 1934. In those years, there wasn't much going on. And then the war broke out and I spent four years in the army, and then I worked for Ben Graham for nine and a half years. So I've been around a long time, and it's been an interesting run.