But this is not an issue of free speech. I wholly acknowledge that Mr. De Genova has a right to
of the moment. They are not authorized or officially sanctioned classroom experiences.” This distinction is made because if Mr. DeGenova’s comments were

Going Out on Top: Walter & Edwin Schloss

By Eli Rabinowich

Welcome to “Profiles in Investing”, brought to you by The Bottom Line and The Heilbrunn Center for Graham & Dodd Investing. Every week we will profile a leading investor and get an inside look into their investment philosophy.

Up next, Walter and Edwin Schloss.

For sheer uninterrupted excellence few investors can match Walter Schloss. For 45 years, from 1955 through 2000, Walter Schloss has managed the same investment partnership. The compound rate of return for his Limited Partners was 721.5x or 15.7% per year compared to a gain for the S&P Industrial Average of 117.5x or 11.2% per year.

In 1973, Walter’s son, Edwin, joined the partnership and the fund became known as Walter & Edwin Schloss Associates. In 2001, Walter and Edwin decided to close up shop and liquidate the fund. I sat down with Walter and Edwin and asked them about their careers, why they decided to shut down, and what the future has in store for them.

ER: How did you first get started in research?

WS: In the 1930’s my mother had a good friend who was married to a member of the New York Stock Exchange. I used to visit them and I liked the lifestyle, they had a kind of joie de vivre about the way they lived. He was a specialist on the Exchange, but I didn’t like the speculative nature of the work. I could see instinctively what I liked – I like numbers. So after high school, in 1934, I went to work at Loeb Rhoades, then called Carl M. Loeb & Co. I started working in the cage, doing clerical work, recording trades for customers. A year after I arrived, I went to speak to one of the partners about getting into the statistical department, but he said he couldn’t do it. He suggested I read Ben Graham’s book, Security Analysis, which had just been published and said ‘if you read that book and know everything in it, you won’t need anything else.’ Ben Graham was a custom growth company. I remember he took Colgate-Palmolive, a value company, and Coca-Cola, a growth company, and compared them. He also compared Dow chemicals (growth) and Distiller Seagram (value.)

ES: How do you compare two different companies in dif-

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joie de vivre about the way they lived. He was a specialist on the Exchange, but I didn’t like the speculative nature of the work. I could see instinctively what I liked – I like numbers. So after high school, in 1934, I went to work at Loeb Rhoades, then called Carl M. Loeb & Co. I started working in the cage, doing clerical work, recording trades for customers. A year after I arrived, I went to speak to one of the partners about getting courses at night. So I took two of his courses – I think ‘36 and ‘39 – at the New York Institute of Finance, which was then called the New York Stock Exchange Institute. I took Graham’s course and I just fell in love with the approach – it made sense. He liked to take companies listed near each other on the exchange and to compare them. One would represent a value stock and another different industries?

ER: What was the first great stock call you ever made?

WS: Well you have to understand that I had no money, but the first stock I remember buying was ten shares of Standard Gas and Electric, $7 prefered stock for $15 a share. I ended up buying and selling the stock a couple of times and made some money, with the stock eventually working out at over $200. The thing about Ber

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for $15 a share. I ended up buying and selling the stock a couple of times and made some money, with the stock eventually working out at over $200. The thing about Ben Graham's approach is that you made money but not a great a deal of money. You would double your money and then get out of the stock. His focus was on doubling your money and that's it.

ER: Does this philosophy impact your portfolio construction?

WS: One of the things we've done — Edwin and I — is hold over a hundred companies in our portfolio. Now Warren Buffett has said to me that, that is a defense against stupidity. And my argument was, and I made it to Warren, we can't project the earnings of these companies, they're secondary companies, but somewhere along the line some of them will work. Now I can't tell you which ones, so I buy a hundred of them. Of course, it doesn't mean you own the same amount of each stock. If we like a stock we put more money in it; positions we are less sure about we put less in. The important part is to have some money in the stock. If you don't have any money in a stock you tend to forget about it. We then buy the stock on the way down and try to sell it on the way up.

ER: You have an unusual fee structure. Tell me about it.

WS: I wanted to put myself on the same side of the table as my investors. Most funds are set up for managers to get 1% of the assets and 20% of the profits. I wanted to be in the same position as my partners. If they didn't make money I didn't make money. If they made money I wanted to be part of it. So I got 25% of the realized profits, but that's it. If the market went down we would have to make up the loss until my partners were whole.

ER: So few investors have been able to beat the market for an extended period of time — What's your secret for controlling the fear and greed that has affected so many investors?

WS: We don't like to be greedy. I think greed is one of the reasons people stayed in this market when they had no reason to be in the market. When Edwin said to me in 2001 that he couldn't find any cheap stocks — and that was a great call — it was a great excuse for us to quit.

ES: I have a list of stocks that could be on our buy list and I find that invariably when it gets down to less than five stocks the market's too high and when it gets down to two or three it's a danger signal.

ER: ...and that's why you decided to get out?

WS: Yes. Stocks are no longer that cheap. If you look at the book value of value stocks, you'll see a book of six and the stock is selling at 20, down from 50. Well its still 20, and on a statistical basis it is still not that cheap. You have to realize that there are over 50,000 Chartered Financial Analysts which you didn't have 35 years ago.

ER: So, what's next for you?

WS: My wife died about three years ago, after she had been sick for a long time. About sixth months after she died I went with the Museum of Natural History to South Western France. On the trip were six couples, nine single women and myself. I met one of the women, we got along nicely and I've been seeing her ever since. If all goes well, we will get married.

ER: Right now I have quite a full plate, but I like working with people. I think I may eventually teach. I am also interested in short story writing and playwriting. I started out in the arts, not in business. In a way I feel like it is my turn to do certain things that I wasn't able to pursue.

ER: What's the best piece of business advice you ever received?

WS: Probably when the partner told me about Ben Graham's book, Security Analysis, and said if I learned everything in that book I wouldn't have to do anything else.

ES: From Walter I learned the most important thing is price. You have to be careful not to overpay. It may be a very good company, but it's not a good buy if it's selling at a steep premium.

ER: What would you advise newly minted MBAs?

WS: A number of things. Be honest with yourself. Don't let your emotions affect your judgment and get an idea of what you want to get out of life itself. If you really don't like Wall Street, you shouldn't go in just because it is a place to make money. You should really like what you're doing. Also, try to deal with honorable and good people.

ER: I think it is important to build on your strengths and not on your weaknesses. It's important to have other interests besides work. And finally, it's good to learn to play bridge.

ER: Gentlemen, it was an honor and a pleasure.

Please email comments and suggestion to ERabinowich04@gsb.columbia.edu

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