Seth Klarman is a name that is almost unknown outside the value investing community. However, Klarman is undoubtably one of the greatest investors of our time. Klarman manages Baupost Group, the 11th largest Hedge Fund in the U.S., with over $20 billion in assets.

As reported on value Walk, Warren Buffett is a big fan of Klarman. There are rumors that Buffett keeps a copy of Klarman's out of print and super expensive book Margin of Safety, by his desk.

According to a lecture given by Bruce Greenwald: "Warren Buffett says that when he retires, there are three people he would like to manage his money. First is Seth Klarman of the Baupost Group, who you will hear from later in the course. Next is Greg Alexander. Third is Li Lu."

Here is Klarman's biography from Guru Focus

Profile:

Seth Klarman is a value investor and Portfolio Manager of the investment partnership The Baupost Group. Founded in 1983, The Baupost Group now manages $7 billion, and has averaged returns of nearly 20 percent annually since their inception.

Seth Klarman is the author of the book "Margin of Safety" which sells for over $1000. Mr. Klarman attended Cornell University where he received a degree in economics, and later attended Harvard University where he earned an M.B.A.

Investing Philosophy:

Seth Klarman invests in a wide array of investments ranging from fairly traditional value stocks to more esoteric investments like distressed debt, liquidations, and foreign equities or bonds.
Klarman doesn't mind "doing nothing" on occasion. He is completely unperturbed by the idea of sitting on the sidelines holding cash whenever investment opportunities are scarce. In fact, in 2005 and 2006, nearly half of his portfolio was held in cash.

Investing, he cautions, is more than just producing absolute returns. Too often investors focus on that one easy number "return" and ignore the risks incurred to generate that number.

**Current Holdings:** (note the vast majority of Seth Klarman's holdings are not reported on Baupost's 13-F. See my article for details-[What Is Seth Klarman Hiding From Us?](http://www.valuewalk.com/what-is-seth-klarman-hiding-from-us/)

Seth Klarman Portfolio [Holdings](http://www.valuewalk.com/seth-klarman-portfolio-holdings/) and [Stock Picks](http://www.valuewalk.com/seth-klarman-stock-picks/)

I will add a bit on his investment philosophy soon.

**Shareholder Letters:**

- **Excerpts from Seth Klarman's 2010 Letter**
- **Excerpt from Baupost 2007 Year End Letter**- Financial Market Cycles
- **Excerpt from Baupost 2004 Shareholder Letter – A Paucity of Worry**
- **Baupost Shareholder Letters 1995 – 2001**

**Articles:**

Latest news:

[gnews search="Seth+Klarman"]

- [How To Ride Seth Klarman's Coattails](http://www.valuewalk.com/how-to-ride-seth-klarman-s-coattails/)
- [The Value of Seth Klarman](http://www.valuewalk.com/the-value-of-seth-klarman/) (Absolute Return) – June 2010
- [Interview with Seth Klarman](http://www.valuewalk.com/interview-with-seth-klarman/) (II Magazine – June 25, 2009) (PDF)
- [Why Most Investment Managers Have It Backwards by Seth Klarman](http://www.valuewalk.com/why-most-investment-managers-have-it-backwards-by-seth-klarman/) (AP – June 16, 2009) (PDF format)
- [Seth Klarman's Best Ideas (for Now) - Seeking Alpha](http://www.valuewalk.com/seth-klarman-s-best-ideas-for-now-seeking-alpha/)
- [Interview](http://www.valuewalk.com/interview-seth-klarman/) (OID, May 2009)
Interview with Seth Klarman (Harvard Business Review - December 2008)

Notes From Seth Klarman’s HBS Talk (HBS – December 2, 2008) Page1 & Page 2

Channeling Graham and Dodd: A Conversation with Seth Klarman (SA – October 29, 2008)

Valuing a Business – Seth Klarman’s 3 Methods (Gurufocus – October 15, 2008)

Seth Klarman Lecture Notes (CIMA Conference – October 2, 2008) (More)

Interview at Endowment Management Seminar (TIFF – July 2008)

Seth Klarman Interview (Alpha Magazine – June 25, 2008)

Seth Klarman Comments on Money Management and Baupost’s Approach (SA – June 12, 2008)


MIT Speech & Remarks (MIT – October 20, 2007) (html)

A scaredy-cat approach pays off for hedge fund (SMH – May 19, 2007)

Manager Frets Over the Market, but Still Outdoes It (NYT – May 13, 2007)

Seth Klarman on the Art of Complex Deep Value Investing (GuruFocus – September 27, 2006)

3 Lessons from Seth Klarman’s “Margin of Safety” (IU – August 8, 2006)

The $700 Used Book: Why all the buzz about Seth Klarman’s out-of-print investing classic? (BW – August 7, 2006)

Trade Like Seth Klarman (Real Money – April 19, 2006)

Seth Klarman Speech at Columbia Business School (CBS – April 20, 2006)

Psychology of Leadership – Guest Lecture at Harvard’s Psychology of Leadership Course (Harvard – May 1, 2006)

Searching for Rational Investors In a Perfect Storm (April 1, 2005) (Link 2)

Seth Klarman’s guide to finding value (Wharton J – May 12, 2005)

Portfolio Talk – A bottom-fisher reveals his catch (Fortune – June 18, 1990)

Are these New Warren Buffetts? – The dozen young investment managers you’ll meet here are
brainy, ethical, and good at making money grow consistently. (Fortune – October 30, 1989)

**selected quotes:**

"Investing in bargain-priced securities provides a "margin of safety"-room for error, imprecision, bad luck, or the vicissitudes of the economy and stock market."

“So if the entire country became security analysts, memorized Benjamin Graham’s Intelligent Investor and regularly attended Warren Buffett’s annual shareholder meetings, most people would, nevertheless, find themselves irresistibly drawn to hot initial public offerings, momentum strategies and investment fads. People would still find it tempting to day trade and perform technical analysis on stocks. A country of security analysts would still overreact. In short, even the best trained investors would make the same mistakes investors have been making forever, and for the same immutable reason – that they cannot help it.”

“In capital markets, price is set by the most panicked seller at the end of a trading day. Value, which is determined by cash flows and assets, is not. In this environment, the chaos is so extreme, the panic selling so urgent, that there is almost no possibility that sellers are acting on superior information. Indeed, in situation after situation, it seems clear that fundamentals do not factor into their decision making at all.”

“Most institutional investors feel compelled to swing at almost every pitch and forego batting selectivity for frequency.”

“Baupost build numerous new positions as the markets fell in 2008. While it is always tempting to try to time the market and wait for the bottom to be reached (as if it would be obvious when it arrived), such a strategy has proven over the years to be deeply flawed. Historically, little volume transacts at the bottom or on the way back up, and competition from other buyers will be much greater when the markets settle down and the economy begins to recover. Moreover, the price recovery from a bottom can be very swift. Therefore, an investor should put money to work amidst the throes of a bear market, appreciating that things will likely get worse before they get better.”

"Many equity investors feel compelled to remain 100% invested in equities at all times. Bond investors are often similarly constrained. We strongly believe that this mentality leads to pursuit of relative rather than absolute investment returns, a direction we certainly want to avoid...A smaller pool of funds seeking to avoid meaningful declines in market value at every point in time and seeking more aggressive return objectives cannot afford to be fully invested in the absence of attractive opportunities.”

“The overwhelming majority of people are comfortable with consensus, but successful investors tend to have a contrarian bent,” Klarman said over lunch one day in an empty Boston restaurant. “Successful investors like stocks better when they’re going down. When you go to a department store or a supermarket, you like to buy merchandise on sale, but it doesn’t work that way in the stock market. In the stock market, people panic when stocks are going down, so they like them less when they should like them more. When prices go down, you shouldn’t..."
panic, but it’s hard to control your emotions when you’re overextended, when you see your net worth drop in half and you worry that you won’t have enough money to pay for your kids’ college.”

One theme of Margin of Safety is that people like me aren’t equipped to be investors. “No one knows what he’s doing unless he’s a full-time professional,” he said. “As in many professions, full-time experts have an enormous advantage. Investing is highly sophisticated and nuanced. The average person would have an incredibly hard time competing."

“Everybody these days is a just-in-time investor. People say, ‘I’m going to leave my money in the market as long as possible, and then pull it out of the market just before I have to write the tuition check.’ But I think we’re seeing that the day you need to pull it out of the market, the market might be down 50 percent. It’s critical not to be greedy. Avoid leverage and don’t invest money that you can’t stand to lose.”

“Here’s how to know if you have the makeup to be an investor. How would you handle the following situation? Let’s say you own a Procter & Gamble in your portfolio and the stock price goes down by half. Do you like it better? If it falls in half, do you reinvest dividends? Do you take cash out of savings to buy more? If you have the confidence to do that, then you’re an investor. If you don’t, you’re not an investor, you’re a speculator, and you shouldn’t be in the stock market in the first place.”

Books:

Seth Klarman authored Margin of Safety. He also wrote commentary on the sixth edition of Security Analysis.

Klarman has recommended reading the following books:

**Benjamin Graham**’s The Intelligent Investor

: This is not surprising, as the Intelligent Investor is literally the bible of value investing

**Joel Greenblatt**’s You Can Be a Stock Market Genius: Uncover the Secret Hiding Places of Stock Market Profits

: Greenblatt’s book explains how best to invest such as spin-offs, mergers, risk arbitrage, etc. There are a lot of similarities between Greenblatt’s book and Klarman’s Margin of Safety

**Martin Whitman**’s The Aggressive Conservative Investor

: Martin Whitman is one of the greatest thinkers, and Value investors of our time. Whitman is chairman of Third Avenue Funds. The book contains a lot of value concepts, and practical applications that are vital for a value investor to be familiar with.
James Grant is the author of The Interest Rate Observer. You can add James Grant to the list of people who predicted the housing bubble. Grant was a huge critic of Greenspan’s low interest rate policy, which Grant believes caused the bubble. Klarman has recommended any book by James Grant. Below are a list of books authored by Grant:

**Mr. Market Miscalculates: The Bubble Years and Beyond**

**Money of the Mind**

**Minding Mister Market:: Ten Years on Wall Street with Grant’s Interest Rate Observer**

**John Adams: Party of One**

**The Trouble With Prosperity: The Loss of Fear, the Rise of Speculation, and the Risk to American Savings**

**The Trouble With Prosperity: A Contrarian’s Tale of Boom, Bust, and Speculation**

**Bernard M. Baruch: The Adventures of a Wall Street Legend (Trailblazers, Rediscovering the Pioneers of Business)**

Klarman has recommended any book by Roger Lowenstein. This list would include:

**Buffett: The Making of an American Capitalist**

: One of the best books about Warren Buffett.

**While America Aged**

: A great book about the big, and increasing problems of unfunded pension funds in private companies, and the public sector.
When Genius Failed: The Rise and Fall of Long-Term Capital Management

: This bestseller is the tale of the collapse of Long Term Capital Management (LTCM) in 1998. The Hedge fund management team consisted of some of the greatest minds of our time.

The End of Wall Street

: Lowenstein’s tale of the financial crisis.

Origins of the Crash: The Great Bubble and Its Undoing

: Lowenstein’s tale of the tech bubble, and the collapse of Enron, and Worldcom.

Klarman recommends any book by Michael Lewis, this list includes:

Moneyball: The Art of Winning an Unfair Game

, Liar’s Poker

, and The Big Short: Inside the Doomsday Machine

. All these books were bestsellers when they were released, and are still quite popular many years after their release. The Big Short: Inside the Doomsday Machine

is Lewis’s most recent book which discusses several, obscure individuals who shorted the housing market before its crash.

Too Big to Fail

: This phenomenal book by Andrew Ross Sorkin about the financial crisis was the #1 best seller for many weeks in a row.

VIDEOS:

http://www.bengrahaminvesting.ca/Resources/videos.htm#2009_Guest_Speakers
Seth Klarman from todd sullivan on Vimeo