Walter Schloss Resource Page

**Biography of Walter Schloss**

While Walter Schloss is not nearly as well known as other investors such as Warren Buffett, Schloss was undoubtedly one of the best investors ever.

Like Buffett, Schloss was a direct student of Benjamin Graham, and is one of the "Super Investors" mentioned by Warren Buffett in his famous essay *The Super Investors of Graham-And-Doddsville* (required reading for all ValueWalk readers). It is free and can be found on the link above).

Schloss was born in 1916 (and is still living alive and well today). At 18 years old he worked as a runner for on Wall Street. Schloss never went to college (Buffett commented that this was a good thing), and instead enrolled in several classes given by legendary investor Graham. Schloss eventually went to work for the Graham-Newton Partnership. In 1955 Schloss launched his own value fund.

He ran the fund until 2000. He also spent four years during his long career serving in the U.S. army fighting in WWII.

Schloss was known for being very frugal. His total office expense was an estimated $11,000 while his partnership generated a net profit of $19,000,000.

Schloss stopped actively managing other people's money in 2003. He currently is a treasurer for the Freedom House, a non-profit group devoted to furthering democracy and human rights.

**Walter Schloss's Investment Record**

For the 45 years Schloss managed his fund, he crushed the S&P 500 by producing returns of 15.3 percent versus 10 percent for the S&P 500. A $10,000 initial investment in Schloss's fund would have produced $12,344,268, compared to an initial investment of $10,000 in the S&P 500 which would have resulted in only $1,173,909.
He took no fees unless the fund achieved a certain hurdle rate. Once the fund hit a certain Hurdle rate Schloss took 25 percent of the profit. Schloss's fund was set up very similar to Buffett's original partnership.

Below is a chart of returns from Schloss's fund (unfortunately it only goes up until 1984 and does not cover 1984-2000).
### Table 1 · Walter J. Schloss

<table>
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<tr>
<th>Year</th>
<th>S&amp;P Overall Gain, Including Dividends (%)</th>
<th>WJS Ltd Partners Overall Gain per year (%)</th>
<th>WJS Partnership Overall Gain per year (%)</th>
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**Investment Philosophy of Walter Schloss**
While not much has been written about Walter Schloss’s investment philosophy here are some facts I was able to gather. Schloss stayed devoted to Graham’s “pure” style of value investing and did not evolve into more of a qualitative investor like Buffett.

Schloss bought many companies that Buffett would have described as “cigar-butt” companies. Similar to Graham, Schloss sought to acquire as many companies trading at a 1/3 net working capital as possible.

Schloss relied mostly on the Value Line Investment Survey for finding attractive stocks.

Here are some more value characteristics Schloss used:

- Companies with real assets with little or no debt, providing a margin of safety in case the company liquidates.
- 20% or more discount to book value. He calculated book value based on cash, fixed assets, and other tangibles.
- A good dividend yield.
- Managements that own a lot of stock.
- Honest management that does not overpay itself.
- Do not be afraid to hold cash.
- Buying after a dividend cut. Investors usually overreact to dividend cuts which provides a golden opportunity to invest.

Schloss had a talent for making money in different ways. According to Fortune magazine, Schloss shorted Yahoo and Amazon before the dot-com crash which made him massive amounts of money.

Buffett has widely praised Schloss. Below is what Buffett wrote about Schloss in his essay "The Super Investors of Graham-And-Doddsville."

_He has no connections or access to useful information. Practically no one in Wall Street knows him and he is not fed any ideas. He looks up the numbers in the manuals and sends for the annual reports, and that’s about it._

_In introducing me to (Schloss) Warren had also, to my mind, described himself. “He never forgets that he is handling other people’s money, and this reinforces his normal strong aversion to loss.” He has total integrity and a realistic picture of himself. Money is real to him and stocks are real -- and from this flows an attraction to the "margin of safety" principle._

_Walter has diversified enormously, owning well over 100 stocks currently. He knows how to identify securities that sell at considerably less than their value to a private owner. And that’s all he does. He doesn’t worry about whether it’s January, he doesn’t worry about whether it’s Monday, he doesn’t worry about whether it’s an election year. He simply says, if a business is worth a dollar and I can buy it for 40 cents, something good may happen to me. And he does it over and over and over again. He owns many more stocks than I do -- and is far less interested in the underlying nature of the business; I don’t seem to have very much influence on Walter._
That's one of his strengths; no one has much influence on him."

Buffett in his 2006 Berkshire Hathaway Annual Letter had more to say about Schloss. Below is the excerpt:

Let me end this section by telling you about one of the good guys of Wall Street, my long-time friend Walter Schloss, who last year turned 90. From 1956 to 2002, Walter managed a remarkably successful investment partnership, from which he took not a dime unless his investors made money. My admiration for Walter, it should be noted, is not based on hindsight. A full fifty years ago, Walter was my sole recommendation to a St. Louis family who wanted an honest and able investment manager.

Walter did not go to business school, or for that matter, college.

His office contained one file cabinet in 1956; the number mushroomed to four by 2002. Walter worked without a secretary, clerk or bookkeeper, his only associate being his son, Edwin, a graduate of the North Carolina School of the Arts. Walter and Edwin never came within a mile of inside information. Indeed, they used “outside” information only sparingly, generally selecting securities by certain simple statistical methods Walter learned while working for Ben Graham. When Walter and Edwin were asked in 1989 by Outstanding Investors Digest, “How would you summarize your approach?” Edwin replied, “We try to buy stocks cheap.” So much for Modern Portfolio Theory, technical analysis, macroeconomic thoughts and complex algorithms.

Following a strategy that involved no real risk – defined as permanent loss of capital – Walter produced results over his 47 partnership years that dramatically surpassed those of the S&P 500. It’s particularly noteworthy that he built this record by investing in about 1,000 securities, mostly of a lackluster type. A few big winners did not account for his success. It’s safe to say that had millions of investment managers made trades by a) drawing stock names from a hat; b) purchasing these stocks in comparable amounts when Walter made a purchase; and then c) selling when Walter sold his pick, the luckiest of them would not have come close to equaling his record. There is simply no possibility that what Walter achieved over 47 years was due to chance.

I first publicly discussed Walter’s remarkable record in 1984. At that time “efficient market theory” (EMT) was the centerpiece of investment instruction at most major business schools. This theory, as then most commonly taught, held that the price of any stock at any moment is not demonstrably mispriced, which means that no investor can be expected to overperform the stock market averages using only publicly-available information (though some will do so by luck). When I talked about Walter 23 years ago, his record forcefully contradicted this dogma.

And what did members of the academic community do when they were exposed to this new and important evidence? Unfortunately, they reacted in all-too-human fashion: Rather than opening their minds, they closed their eyes. To my knowledge no business school teaching EMT made any attempt to study Walter’s performance and what it meant for the school’s cherished theory.

Instead, the faculties of the schools went merrily on their way presenting EMT as having the
certainty of scripture. Typically, a finance instructor who had the nerve to question EMT had about as much chance of major promotion as Galileo had of being named Pope.

Tens of thousands of students were therefore sent out into life believing that on every day the price of every stock was “right” (or, more accurately, not demonstrably wrong) and that attempts to evaluate businesses – that is, stocks – were useless. Walter meanwhile went on overperforming, his job made easier by the misguided instructions that had been given to those young minds. After all, if you are in the shipping business, it’s helpful to have all of your potential competitors be taught that the earth is flat.

Maybe it was a good thing for his investors that Walter didn’t go to college.

Quotes from Walter Schloss

"You never really know a stock until you own it."

“I worked for Benjamin Graham for 9 1/2 years, and Ben said he was going to retire and move to California,” “I had to get another job, so one of the people who was a stockholder of Graham Newman came to me and said, ‘Walter, if you start a fund, I will put some money in it.’ We ended up with $100,000. The structure was that I would not get paid unless we realized gains. The kind of stocks I bought were not growth stocks. Graham was really value-oriented. In those days he would buy stocks that were selling below working capital. There were less of them, but they were still around.”

“I’m not very good at judging people. So I found that it was much better to look at the figures rather than people. I didn’t go to many meetings unless they were relatively nearby. I like the idea of company-paid dividends, because I think it makes management a little more aware of stockholders, but we didn’t really talk about it, because we were small. I think if you were big, if you were a Fidelity, you wanted to go out and talk to management. They’d listen to you. I think it’s really easier to use numbers when you’re small.”

Warren Buffett on Walter Schloss: “He knows how to identify securities that sell at considerably less than their value to a private owner: And that’s all he does. He owns many more stocks than I do and is far less interested in the underlying nature of the business; I don’t seem to have very much influence on Walter. That is one of his strengths; no one has much influence on him.”

Books About Walter Schloss

Value Investing: From Graham to Buffett and Beyond

By Bruce Greenwald

The Memoirs of Walter J. Schloss: A Personal and Family History

Walter Schloss
A Modern Approach to Graham and Dodd Investing (Wiley Finance)
By Thomas P. Au

News about Walter Schloss

Articles by and About Walter Schloss:

The Superinvestors of Graham and Doddsville by Warren Buffett
Schloss_May_8_2008
schloss_lecture
Profit Guru Walter Schloss Interview
graham_reminiscence
14136584-walter-schloss-barrons-19851
16 Investing Rules from Walter Schloss
Walter Schloss – OID Interview

Walter Schloss Lecture: http://youtu.be/v-7e_97icWY

Factors to Make Money in Stocks (1994)
Criteria for Liquidations Where Money is Held by Company
Seminar in Value Investing (1993)
Benjamin Graham and Security Analysis: A Reminiscence (1999)
“Profiles in Investing: Walter and Edwin Schloss”
“Sixty-Five Years on Wall Street”
Columbia Business School Upper Level Seminar in Value Investing”
“Factors Needed to Make Money in the Stock Market”
“The Right Stuff – Why Walter Schloss is Such A Great Investor”
INVESTING YES, YOU CAN BEAT THE MARKET WITH VALUE

Depression Survivors Weigh In

At 91, the man Warren Buffett famously dubbed a "superinvestor" is still picking unloved stocks.

Videos of Walter Schloss

No embed code but a great lecture by Schloss given in 2008, lots of good Q and A. This is the only known video that exists on the internet. The video is slightly over an hour. It is 100% worth the watch. Here is the link: Walter Schloss Speaking at Ben Graham Centre for Value Investing.