PART ONE
Introduction To The Master Of Deep Value

Just like Seth Klarman, Walter Schloss’ success is virtually unknown outside of value circles. However, just like Klarman, Schloss’ returns over the past few decades were nothing short of impressive.

Unfortunately, Schloss passed away during 2012 at the age of 95 but his legacy lives on and today’s investors can learn from his disciplined approach to value investing.

From 1955 to 2002, by Schloss’ estimate, his investments returned 16% per annum on average after fees, compared with 10% for the S&P 500 over the period -- these figures do vary marginally depending upon the source -- Schloss’ returns up to the year 2000 compared to the S&P 500 can be seen in the chart below.

Schloss never went to college. He learned his trade as a runner on Wall Street while working at Carl M. Loeb & Co. And while at Carl M. Loeb & Co, Schloss was encouraged to read Benjamin Graham’s “Security Analysis”, after which he enrolled on two courses taught by Graham himself. Eventually, Schloss went to work for the Graham-Newman Partnership before forming his own value fund during 1955:
“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.” - Walter Schloss

Walter Schloss - Investment philosophy

Schloss was an old school value investor. He looked for bargains on a price-to-book basis, preferring stocks that were trading at 52-weeks lows over other opportunities. And there were three broad bands into which Schloss separated potential bargains.

Firstly, the companies that were ‘on sale’; undervalued by the market. Secondly, a company could be trading at a 52-week low because of temporary problems. And thirdly, management could be eroding shareholder value by making poor decisions. If Schloss believed that management was behind the company’s stock decline, he would avoid the stock.

But aside from categorizing stocks into these three profiles, the rest of Schloss’ approach was similar to that of Graham himself. For example, stocks only attracted Schloss’ attention if they were:

- Trading at a discount to book
- Trading at a low P/E multiple
- Been around for more than ten years
- Had no long-term debt
- Trading at or near its 52-week low
- Had a high insider ownership
- Had a good dividend yield.

What’s more, Schloss always ensured that he had a well-diversified portfolio with up to 100 stocks. Each stock never accounted for more than 20% of his overall portfolio. Each holding was weighted in Schloss’ portfolio according to its perceived value. In other words, Schloss was overweight the stocks he really knew and understood, while being underweight stocks that he was unsure about, even though they met all of his criteria.

“...[Schloss took] no real risk, defined as permanent loss of capital [and invested] in about 1,000 securities, mostly of a lackluster type. A few big winners did not account for his success...” - Warren Buffett

When it came to selling, Schloss would wait for the stock to rise by 50% before jumping out. This simple rule was implemented to keep his emotions out of the picture.

Walter Schloss - Cigar-butt

Schloss liked his “cigar-butt” companies and sought to acquire as many companies trading at 1/3 net working capital as possible.
And Schloss trusted his instincts, as noted within the book “Value Investing: From Graham to Buffett and Beyond”:

“...The Schlosses would rather trust their own analysis and their longstanding commitment to buying cheap stocks...This approach...leads them to focus almost exclusively on the published financial statements that public firms must produce each quarter. They start by looking at the balance sheet. Can they buy the company for less than the value of the assets, net of all debt? If so, the stock is a candidate for purchase...”

However, it wasn't just cigar-butts that attracted Schloss’ attention. He had a talent for making money in different ways. Indeed, Schloss shorted Yahoo! Inc. (NASDAQ:YHOO) and Amazon.com, Inc. (NASDAQ:AMZN) before the dot-com crash, which proved to be a lucrative bet.

**Walter Schloss - Friends in high places**

Warren Buffett was a great friend of Walter Schloss and spoke highly of him. Schloss was included in Buffett's essay, The Super Investors of Graham-And-Doddsville and Schloss featured several times within Buffett’s letters to Berkshire’s shareholders over the years. The Oracle of Omaha clearly held Schloss in high regard and penned the following statement after Schloss’ death during 2012:

“Walter Schloss was a very close friend for 61 years...He had an extraordinary investment record, but even more important, he set an example for integrity in investment management. Walter never made a dime off of his investors unless they themselves made significant money. He charged no fixed fee at all and merely shared in their profits. His fiduciary sense was every bit the equal of his investment skills.”

Here’s an excerpt from Buffett’s essay, The Super Investors of Graham-And-Doddsville:

“...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.”
PART TWO
Discipline and Consistency

“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... 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... 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... 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... Instead, the faculties of the schools went merrily on their way presenting EMT as having the certainty of scripture... Tens of thousands of students were therefore sent out into life believing that on every day the price of every stock was “right”... and that attempts to evaluate businesses – that is, stocks – were useless. Walter meanwhile went on over performing, his job made easier by the misguided instructions that had been given to those young minds... Maybe it was a good thing for his investors that Walter didn’t go to college.” - Warren Buffett, annual letter to Berkshire Hathaway shareholders 2006.

In part one of this series, I looked at Walter Schloss’ method of investing. In this part I’m going to take a look at Schloss’ discipline and consistency, two of Schloss’ most commendable traits.

Walter Schloss - Teaching value

Schloss believed that while some talent is needed, value investing can be taught, the only skill that is required is discipline. Schloss liked to test himself, controlling his emotions and waiting for a stock to fall further before buying, even though he liked the stock in the first place when it was at a higher price. This discipline and patience can be linked to his success; waiting for the perfect opportunity can be the key to successful value investing.

And when it came to selling, as I covered in part one, Schloss would sell a stock after a 50% profit, no matter what -- a disciplined approach which sometimes cost Schloss in lost profit, although this approach removed any emotion from the ‘when to sell’ dilemma.

What’s more, Schloss liked to stay away from company managers. Like many other institutional investors, he feared that getting to know management would distort his view on the company as management often present the best picture possible in an attempt to draw attention away from the negative factors. Ben Graham didn’t visit management and neither would Schloss. Schloss was also concerned that having to visit all the management teams of the companies he owned, would wear him out and put him in an early grave.

Using the same kind of methodology, Schloss never bought stocks for their underlying businesses. This meant that Schloss was not constrained. If the company’s balance sheet was sound and the
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stock appeared to be undervalued, then it earned a place within Schloss’ portfolio.

**Walter Schloss - Don't lose money**

Back to the ‘when to sell’ dilemma. Schloss noted, while giving a lecture to students at the Columbia Business School, that he always viewed stocks with the idea of not losing money, a trait he claims to have inherited from Graham’s teachings. Schloss noted that a major downfall of having this view was not over confidence, but the fact that you don’t emphasize the profit potential enough; you sell at a 50% profit margin because you want to get out quick and take the cash.

Schloss only invested according to his strengths and weaknesses. He understood balance sheets and how to look for value, so this is the approach he used. Schloss knew, and frequently stated that his approach was never going to yield outstanding returns in any one year. However, the power of compounding would, over time, yield the desired results:

“...Peter Lynch visited literally thousands of companies and did a superb job in his picking. I never felt that we could do this kind of work...therefore, went with a more passive approach to investing which may not be as profitable but if practised long enough would allow the compounding to offset the fellow who was running around visiting managements...I also liked the idea of owning a number of stocks. Warren Buffett is happy with owning a few stocks and he is right if he’s Warren but when you aren’t, you have to do it the way that’s comfortable for you and I like to sleep nights…”

**Walter Schloss and Ben Graham**

As I’ve mentioned, Schloss was taught how to invest by Benjamin Graham.

Schloss’ classes with Graham cost his employer $10 or $20 per semester and according to Schloss, within his lectures, Graham liked to take companies that appeared close in the alphabet and compare them statistically. One lesson Schloss remembered specifically was the comparison between Coca-Cola and Colgate Colgate-Palmolive Company (NYSE:CL). At the time Coke was much cheaper.

Additionally, Graham made no mention of franchise value or managements. He believed that the value of the management team and of the franchise, showed up in the stock price. Simply put, Graham believed that if the management team was good, the stock sold at a higher P/E. And it seems that part of Graham’s love of value stocks was born out of his poor experience during the depression. Graham was wiped out during the market crash of the late 20s and when Schloss began to take lessons with him in 1938 to 1940, Graham was looking to protect his wealth, looking for a low risk approach to investing.
PART THREE
The Magic Of Compounding

Part three of this series starts with a letter, typed on February 3rd 1976, from an investor whose reputation had grown to the point where a rumor that he was buying a stock, was enough to shoot its price up 10%. This investor was called Warren E. Buffett and what follows is a letter he wrote to members of the “Buffett Group” before its Hilton Head conference in 1976:

Warren E. Buffett
1440 Kiewit Plaza
Omaha, Nebraska 68131
February 3rd, 1976

To the Hilton Head Group

Dear Gang,

Normally, when you get a letter from the wife, partner or secretary of Joe Glutz saying, “Of course, Joe is too modest to tell you about this himself, but I know you want to hear that...”, it means that Joe is standing over the writer with a gun at his head, telling him not to look up from the Xerox Corp (NYSE:XRX) machine until the mailing has been completed.

This one is for real.

Today I received the 1975 annual letter of Walter J. Schloss Associates, which included a 20-year compilation of Walter’s record since he left Graham-Newman. You may remember I went to work for Graham-Newman in 1954.

Walter left in 1955. And ... Graham-Newman closed up in 1956. I would prefer not to dwell on the implications of this sequence.

In any event, armed only with a monthly stock guide, a sophisticated style acquired largely from association with me, a sub-lease on a portion of a closet at Tweedy, Browne and a group of partners whose names were straight from a roll call at Ellis Island, Walter strode forth to do battle with the S&P.

On the following page is a re-cap of his yearly performance and calculations I have made regarding compounded results. The difference between the gross results and the limited partners’ results is accounted for by the fact that, as General Partner, he takes 25% of the profits - a quaint, easy-to-calculate method of tribute not entirely foreign to many of you.

Walter Schloss has had five down years compared to seven for the S&P. His superi-
ority in such down years would indicate that not only is he a man for all seasons, but that he has special strength when facing a head wind. Maybe all of you had better watch Ben Graham on Wall Street Week this Friday.

As for me, I’m going right out and buy some Hudson Pulp & Paper.

Best,

/s/ Warren

The above letter was not the only time Buffett wrote to his partners commending Walter Schloss’ skill. The Oracle of Omaha penned another note nearly two decades later. A copy of both letters, including Schloss’ annual returns can be found here.

It’s clear from Buffett’s correspondence that he had a huge respect for Walter. Both of the legendary investors spent time learning their trade with Benjamin Graham and both understood the true meaning of deep-value investing.

Indeed, both Buffett and Walter Schloss were cast from the same deep-value Benjamin Graham mold, but by the late 70s, early 80s the two investors were moving in different directions. Buffett for example was looking for quality at a reasonable price, buying Coke and Gillette, while Schloss stuck to his deep-value principles.

The Power of Compounding

For the 33 years ended 12/31/88, Walter J. Schloss Associates earned a compound annual return of 21.6% per year on equity capital vs. 9.8% per year for the S&P 500 during the same period. Buffett in comparison returned 23% per annum for the 24 years to 1988. As covered in part two, Schloss was under no illusion, he was not Buffett, and surprisingly, even though his returns were only 1.4% per annum lower than those of Buffett over two decades, Walter Schloss didn’t try to mimic Buffett, change his strategy, or really do anything out of the ordinary.

In fact, Schloss made it clear to investors that he wasn’t Buffett. Instead, as I covered in part two of this series, Walter Schloss made it clear that over time, while his returns may not be earth shattering, the power of compounding would accelerate returns over the long-term.

“…Peter Lynch visited literally thousands of companies and did a superb job in his picking. I never felt that we could do this kind of work…therefore, went with a more passive approach to investing which may not be as profitable but if practiced long enough would allow the compounding to offset the fellow who was running around visiting managements…”

And when you compare the returns of Walter Schloss, Buffett and Munger over the period 1962, to 1975, you can see that even though Schloss’ returns were erratic, (significantly more so than Buffett) the power of compounding over the period was the driving force behind Walter Schloss’ performance. Thanks to ValueInvestingWorld and this ValueWalk author for the chart below.
And here are Walter Schloss’ returns vs the S&P 500 from inception through to 2000. Another scenario where compounding shines through.
However, Schloss’ returns were not powered by compounding in the traditional sense. Indeed, Schloss’ fund actually returned a huge amount of cash to investors every year, [screenshot showing the distributions made throughout the life of the Schloss partnership] unlike Buffett and these distributions had not been made, it’s likely that Schloss’ returns would have been even greater than those reported above.

Still, even though Schloss’ returns were not driven by compounding in the traditional sense, his outperformance over the years is down to the fact that he knew steady growth over time and not losing money, were the two keys to long-term success. As quoted above, Schloss called this the compounding effect.

**It’s No Secret**

The power of compounding is no secret. Indeed, the power of compounding was said to be deemed the eighth wonder of the world but there are still plenty of investors, both institutional and private that fail to make use of this carefree method of wealth creation. Indeed, respected value investors such as Seth Klarman and Charles Brandes have recently noted that the market is now focused on short-term performance only, failing to recognize the long-term benefits of compounding or growth.

Hedge Funds, mutual funds and private investors still try and outperform the market on a quarter-by-quarter basis
and this is where many investors could learn from Schloss. Walter Schloss understood that he would never be the world’s best investor; he would never be able to consistently outperform the market. Therefore, Schloss stuck to what he knew and understood, only buying stocks, which conformed to deep-value criteria. The rest he left to the power of compounding.
PART FOUR
16 Factors Needed to Make Money in the Market

The first few articles of this series have been devoted to Walter Schloss’ style of investing. It’s clear that Schloss was never looking to be the next Buffett but when it came to investments, he always knew where to look for the next bargain.

Indeed, Schloss stuck to a strict set of rules when he was making his trades, and as I’ve covered before, Walter Schloss invested purely on balance sheet analysis and valuation metrics that he knew and understood. Walter Schloss never visited the management teams of the companies he invested in and if he couldn’t understand something, he would stay away.

Of course, Walter Schloss’ experience came from decades of market analysis and a well-developed understanding of how the market worked; traits that can only be taught by experience. But to help new investors, Walter Schloss put together a list of 16 principles for becoming a better investor. These principles were published by Schloss on a one-page note to investors dated March 10, 1994.

The original note can be found here and there’s a screenshot of the note below.

Walter Schloss: 16 Factors Needed to Make Money in the Market

“Price is the most important factor to use in relation to value.”

Factor number one is fairly self explanatory. In the words of Warren Buffett: “price is what you pay, value is what you get.” Getting the right price is essential to unlocking value.

“Try to establish the value of the company. Remember that a share of stock represents a part of a business and is not just a piece of paper.”

This is an important factor in setting your frame of mind for investing. As taught by Benjamin Graham, every investor needs to understand that under every stock, there’s a business. Just because the stocks falling, it doesn’t meant the company’s in trouble.

“Use book value as a starting point to try and establish the value of the enterprise. Be sure that debt does not equal 100% of the equity. (Capital and surplus for the common stock).”

Fairly self explanatory. Buying below book is key for value investors and high levels of debt can strangle business growth.

“Have patience. Stocks don’t go up immediately.”

Don’t rush things. It could take years for value to be realized. Remember for every stock there’s an underlying business and businesses don’t double profits overnight.

“Don’t buy on tips or for a quick move. Let the professionals do that, if they can. Don’t sell on bad news.”

Buying on tips, or for a quick move, is speculating as you are betting that the price of the stock will rise. Invest in a series of cash flows, don’t speculate on a higher price.
“Don’t be afraid to be a loner but be sure that you are correct in your judgment. You can’t be 100% certain but try to look for weaknesses in your thinking. Buy on a scale and sell on a scale up.”

Look for weaknesses in your thinking. As Warren Buffett’s partner, Charlie Munger says, “invert, always invert.” Examine the variant perception and the bear case if you’re long a company. The best investors focus on the downside even more-so than the upside. What’s the risk of the company going out of business?

“Have the courage of your convictions once you have made a decision.”

Don’t falter in your decisions, don’t flip-flop from company to company buying and selling according to hunches. Stick with your decision and run with it.

“Have a philosophy of investment and try to follow it. The above is a way that I’ve found successful.”

“Don’t be in too much of a hurry to sell. If the stock reaches a price that you think is a fair one, then you can sell but often because a stock goes up say 50%, people say sell it and button up your profit. Before selling try to reevaluate the company again and see where the stock sells in relation to its book value. Be aware of the level of the stock market. Are yields low and P-E ratios high. If the stock market historically high. Are people very optimistic etc?”

Walter Schloss always sold after a 50% profit to lock in gains. Peter Cundill, another famous value investor, decided that his fund would automatically sell half of its holding in any one security after it had doubled.

“When buying a stock, I find it helpful to buy near the low of the past few years. A stock may go as high as 125 and then decline to 60 and you think it attractive. 3 years before the stock sold at 20 which shows that there is some vulnerability in it.”

How much lower can the stock go?

“Try to buy assets at a discount than to buy earnings. Earnings can change dramatically in a short time. Usually assets change slowly. One has to know how much more about a company if one buys earnings.”

This is especially true in cyclical sectors, the oil industry is a great example right now.

“Listen to suggestions from people you respect. This doesn’t mean you have to accept them. Remember it’s your money and generally it is harder to keep money than to make it. Once you lose a lot of money it is hard to make it back.”

Listen to other opinions, always have an open mind.

“Try not to let your emotions affect your judgment. Fear and greed are probably the worst emotions to have in connection with the purchase and sale of stocks.”

“Remember the word compounding. For example, if you can make 12% a year and reinvest the money back, you will double your money in 6 yrs, taxes excluded. Remember the rule of 72. Your rate of return into 72 will tell you the number of years to double your money.”
Explored further in part three of this series.

“Prefer stocks over bonds. Bonds will limit your gains and inflation will reduce your purchasing power.”

During the ten years ended on September 30, 2014, the S&P 500 – a measure of performance for large U.S. companies – registered an average annual total return of 8.11%. In comparison, the domestic bond market, as gauged by the Barclays PLC (NYSE:BCS) (LON:BARC) Aggregate U.S. Bond Index, had an average annual return of 4.62%. Source.

Be careful of leverage. It can go against you.”

“When leverage works, it magnifies your gains. Your spouse thinks you’re clever, and your neighbors get envious...But leverage is addictive. Once having profited from its wonders, very few people retreat to more conservative practices. And as we all learned in third grade — and some relearned in 2008 — any series of positive numbers, however impressive the numbers may be, evaporates when multiplied by a single zero. History tells us that leverage all too often produces zeroes, even when it is employed by very smart people.” - Warren Buffett

So those are Walter Schloss’ 16 factors needed to make money in the stock market. A copy of the original document is pictured below. Stay tuned for part five!
Walter & Edwin Schloss Associates, L.P.

Factors needed to make money in the stock market

1. Price is the most important factor to use in relation to value.

2. Try to establish the value of the company. Remember that a share of stock represents a part of a business and is not just a piece of paper.

3. Use book value as a starting point to try and establish the value of the enterprise. Be sure that debt does not equal 100% of the equity. (Capital and surplus for the common stock).

4. Have patience. Stocks don't go up immediately.

5. Don't buy on tips or for a quick move. Let the professionals do that, if they can. Don't sell on bad news.

6. Don't be afraid to be a loner but be sure that you are correct in your judgment. You can't be 100% certain but try to look for weaknesses in your thinking. Buy on a scale and sell on a scale up.

7. Have the courage of your convictions once you have made a decision.

8. Have a philosophy of investment and try to follow it. The above is a way that I've found successful.

9. Don't be in too much of a hurry to sell. If the stock reaches a price that you think is a fair one, then you can sell but often because a stock goes up say 50%, people say sell it and button up your profit. Before selling try to reevaluate the company again and see where the stock sells in relation to its book value. Be aware of the level of the stock market. Are yields low and P/E ratios high. If the stock market historically high. Are people very optimistic etc?

10. When buying a stock, I find it helpful to buy near the low of the past few years. A stock may go as high as 125 and then decline to 60 and you think it attractive. 3 years before the stock sold at 20 which shows that there is some vulnerability in it.

11. Try to buy assets at a discount than to buy earnings. Earnings can change dramatically in a short time. Usually assets change slowly. One has to know much more about a company if one buys earnings.

12. Listen to suggestions from people you respect. This doesn't mean you have to accept them. Remember it's your money and generally it is harder to keep money than to make it. Once you lose a lost of money it is hard to make it back.

13. Try not to let your emotions affect your judgment. Fear and greed are probably the worst emotions to have in connection with the purchase and sale of stocks.

14. Remember the work compounding. For example, if you can make 12% a year and reinvest the money you will double your money in 6 yrs, taxes excluded. Remember the rule of 72. Your rate of return into 72 will tell you the number of years to double your money.

15. Prefer stocks over bonds. Bonds will limit your gains and inflation will reduce your purchasing power.

16. Be careful of leverage. It can go against you.
PART FIVE
Making Money Out of Junk

The first few parts of this series on Walter Schloss, have looked at the legendary investor’s background, how he got into deep value investing and how he went about finding suitable investments.

However, as of yet, I’ve not looked into any case studies, or investments Walter Schloss made, the reasons why and what results they yielded for his portfolio. And with over 100 stocks in his portfolio at any one time, there are certainly plenty of examples to pick from over Walter Schloss’ six decades of deep-value history.

Luckily, Walter Schloss wasn’t shy. He gave plenty of interviews and lectures over his career. One such interview, entitled Making Money Out of Junk, was published in the August 15 1973 issue of Forbes magazine and it gives us a real insight into Walter Schloss’ deep-value philosophy.

Charlie Munger – Poor Charlie’s Checklist

Book value per share and the price to book, or P/B ratio are two of the most important financial metrics in the deep-value investors’ arsenal. Walter Schloss begins his interview with Forbes by talking about the importance of these figures, but more importantly Walter Schloss comments on the reliability of these figures and they can often understate the replacement cost of assets.

The example Walter Schloss gave in this case was Republic Steel, which merged with LTV Corp.’s Jones & Laughlin division to form LTV Steel during 1984:

“...Republic Steel for example, has a book value of $65 per share. I don’t think you could replace it at $130 per share. No one is going into the steel business in the U.S. today except the Japanese with a scrap plant. Or take cement. A new company can’t go into business unless someone comes up with a revolutionary new process...these companies and industries get into disrepute and nobody wants them, partly because they don’t make much money...if you buy companies that are depressed because people don’t like them...things turn a little in your favor, you get a good deal of leverage.”

Following this example, Walter Schloss moved on Marquette Cement, which at the time was trading at $6 ¾, although book value was $28. The company was not making any money at the time as overcapacity was plaguing the industry. Even a small profit, or positive return on assets would have sent the stock higher.

Marquette eventually evolved into Lone Star Industries and was acquired by Dyckerhoff, Germany’s No. 2 cement producer for $50 per share during 1999.

“Would you rather own a 71/2% bond that guarantees you 71/2% until it matures, or a stock that yields 5% and, with a break could end up selling at $35 instead of $14?...Historically, many companies that have had terrible times have come back, or many of them do. A decline doesn’t mean its the end...”
Rising From the Ashes

One of Walter Schloss’ greatest investments was Boston & Providence Railroad. Like all railroads at the time, the market was undervaluing the company’s land, which was its key asset.

Walter Schloss started buying B&P’s guaranteed stock in the early 60s for $96 per share, buying all the way up to $240. To cut a long story short, by the time the interview was given, a portion of B&P’s real estate had been sold for $110 a share to the Penn Central Railroad, another portion of property was sold for $277 per share and there was still some Rhode Island property to be sold off.

Moving on, in part three of this series, I copied a letter from Warren Buffett to members of the “Buffett Group” before its Hilton Head conference in 1976. Buffett finished the letter by saying:

> As for me, I’m going right out and buy some Hudson Pulp & Paper.

> Best,

> /s/ Warren

Hudson Pulp had also caught Walter Schloss’ attention during 1973. He describes why within the Forbes interview:

> “I’ll give you an example of the kind of stock I would own. Hudson Pulp has a very small floating supply, but among other things it owns over 300,000 acres of Florida timberland worth $250 an acre-$60 a share on stock that sells for around $25. Yet its earnings have not been very good, and the company really hasn’t done a darn thing for 20 years. So you hope maybe the fellow who run it will decide someone else could do a better job.”

Hudson Pulp was acquired for around $39 per share (the acquisition terms were complex) by Georgia-Pacific Corp during 1978. Pittsburgh Post-Gazette - Jun 9, 1978.

Signing Off

I’m going to finish this article in the same way Walter Schloss finished his interview with Forbes in 1973. This final paragraph really sums up Walter Schloss’ philosophy

> “Take Lowenstein. This year it sold at $16 a share, paid a 90-cent dividend...It had a book value of $43. Or National Detroit Corp., which owns the National Bank of Detroit. It has a book value of close to $60 a share and sold at $41 this year. It’s a good company, maybe better than some of the ones I have.”

> “The thing about my companies is that they are all depressed, they all have problems and there’s no guarantee that any one will be a winner. But if you buy 15 or 20 of them...”
PART SIX
The Right Stuff

In parts five and six of this series, I’m taking a look at some of Walter Schloss’ deep-value investments that he made over his six-decade long career on Wall Street.

These examples have been taken from interviews with Schloss, conducted over the years by financial publications, and there’s plenty to choose from. Schloss was more than happy to talk about his investments and where he was directing his partners’ money.

One such interview, published within Barron’s magazine during February 1985, Schloss talked about the importance of letting profits run. While this advice does run contrary to Walter Schloss’ previous advice, he advocated taking profits after a 50% gain to minimize and emotional bias towards stock) there’s a message in this sudden change of tone:

“There’s a tendency, I think, to say, “oh the thing is up 50% lets take our profit...But if you’ve been with a stock for five years- I would say our average holding period is four years- and things have been developing nicely, it may change your benchmark.”

If your information and the market changes, your price target should change. Walter Schloss gave an example:

“We have a stock I bought a long-time, 14 years-ago, called Western Pacific Industries. They were having a lot of trouble: they had railroads and so forth…”

Quality and growth

When Schloss first took a position in Western, the company was trading at around $6 per share, a wide discount to book as much of the market was avoiding the company. Then, during 1972 Western Pacific Railroad Co. merged with Western Pacific Industries by way of a bankruptcy reorganization. However, in 1974 Western brought a company called Veeder-Root, which changed Western’s fortunes. Between 1974 and 1985 the stock moved from $6 to $112 ½ and paid out a cash dividend of $23 per share during 1979, an impressive return of capital. The railroad section was sold to Union Pacific during 1980. Walter Schloss was still holding the stock in 1985 when he gave the interview to Barron’s. Western became a high-quality, growth stock and Walter Schloss was more than happy to let his profits run.

Nevertheless, with an average holding period of only four to five years for the Walter Schloss partnership, longer term holdings were rare, and for the most part, Walter Schloss stuck to his principle of selling after a 50% profit.

One situation that didn’t get enough time to work itself out was Stauffer Chemical, a company that held a place within Walter Schloss’ portfolio during 1985:

“When I bought it several months ago, somebody said, “Oh how can you get involved in that kind of company? The agricultural chemical business is bad - “And I said, “Yeah but they’ve had a good record over the years. They’ve got problems now but…”

Then:

“...suddenly they announced that they were selling out at 28. Now, was the stock worth 21, or was it worth 28?...The market was saying it was only worth 21, be-
cause their earnings weren’t that good. It paid a good dividend. But it was obviously worth more...the fact that control was in the market made it more vulnerable...Stauffer was a really good company, and in a few years, it would have worked out…”

Walter Schloss’ average all in cost for Stauffer was around $19 per share.

**Basket of holdings**

Barron’s published a table of Walter Schloss’ top stock recommendations alongside the interview:

There are a couple of great value examples here. Firstly, oil company Texaco, which during February 1985 was trading at a price of around $35 per share. At the end of 1985 Texaco’s reported reserves totaled 3.3 billion barrels of oil, with 8.8 trillion cubic feet of natural gas. Revenues for 1985 totaled $32.6 billion, making the company the second largest publicly traded oil group in the world behind Exxon. Texaco reported earnings per share of $3.01 for 1986, so it was trading at a forward P/E of around 11.6 during 1985. But the market was placing a discount on the stock as the year before, Texaco had acquired Getty Oil Co. for $10.1 billion and immediately fell into a legal battle with Pennzoil Co., which was claiming that Texaco interfered with a proposed Pennzoil-Getty merger.

The suit cost Texaco $11 billion and by April 1987, Texaco had filed for bankruptcy protection. The settlement was reduced to $3 billion, although Texaco then ran into trouble with the IRS and Carl Icahn. To cut a long story short, in February 1985 Texaco had a market cap. of around $10 billion but in 2000 Chevron Corporation (NYSE:CVX)
paid $35.3 billion for the stock portion of Texaco. Despite the company’s troubles, Texaco’s market value had jumped 250% over 15 years, around 9% per annum excluding dividends. Walter Schloss understood that a company of Texaco’s size could not disappear overnight and over the long-term the group’s fortunes would turn around. He was right.

**Hostile takeover**

Potlatch was another of Walter Schloss’ top picks. As noted in the table above, Potlatch, a diversified forest products company, was trading below the value of its inventory and land. In Feb 1985 Potlatch’s stock was trading at $33 ($14 split adjusted) and the company offered a per share quarterly dividend of $0.39, $1.56 annualized.

Potlatch’s profits were falling when the company appeared on Walter Schloss’ radar. For the first six months of 1985 Potlatch’s profits fell 23%. Then in November 1985, First City Financial Corp. of Vancouver, launched a takeover, offering $45 per Potlatch share. The low-ball offer was immediately rejected by Potlatch’s management, and within the same announcement, Potlatch announced that it was buying back up to 20% of its own stock to reduce the risk of further low-ball takeover offers. By the end of 1986 Potlatch’s stock had risen to a split-adjusted $25 per share, a return of around 80% within the space of two years.
PART SEVEN
Learning from the Master

As I’ve covered before, Walter Schloss never went to college. At 18, he started working as a runner on Wall Street at Carl M. Loeb & Co. After a year at the firm, Walter Schloss met with Armand Erpf, a partner of Loeb & Co, who was also in charge of the statistical department. Walter Schloss wanted a job in the statistical department but Armand turned him down. Instead he advised Schloss to read a newly published book entitled “Security Analysis” written by Benjamin Graham and David Dodd.

After reading the book, and looking to further his career, Schloss enrolled on a series of courses conducted by the New York Stock Exchange, prerequisites for classes with Graham. After these primers, Walter Schloss was allowed to take a course in “Security Analysis” as taught by Graham.

Articles seven and eight of this series on Walter Schloss are based on what Schloss learned from Graham during his time with the Godfather of deep-value.

Figures only

Most of the following text is taken from a lecture Walter Schloss gave at Columbia Business School during November 1993. The full text can be found here.

“...Ben would like to take companies that appeared close in the alphabet and compare them statistically. I remember specifically Coca-Cola and Colgate Colgate-Palmolive Company (NYSE:CL) where he showed statistically how much cheaper Colgate was than Coke and he compared Dow Chemical to Distiller Seagram (now Seagrams) in which Seagrams was much cheaper…”

These four companies Graham compared are from different industries, with different backgrounds and outlooks. This made no difference to Graham. Walter Schloss explained why in an interview he gave with his son, Edwin Schloss:

“ES [Edwin Schloss]: How do you compare two different companies in different industries?

WS: He was using the statistics. He wasn’t using industry analysis. He was using the value of the company. He was looking at relative value to see if the company was relatively cheap to book value.”

In fact, Graham paid little attention to company specific factors:

“Ben didn’t look for franchise value or managements. He felt that management showed up in the price of stock. If management was good the stock sold at a higher P-E because its management was better. Basically Ben didn’t want to lose money. He had a rough time during the depression and in 1938 to 1940 [Graham was reportedly wiped out by the market crash, although he preserved his investors’ cash] when I took his courses, he was looking for protection on the downside...I guess I still look at stocks with the idea of not losing money...if you don’t like to lose money and it affects your judgement, don’t buy things that can go down a great deal...Ben Graham didn’t visit managements because he thought the figures told the story…”
To understand this statement you have to do some digging. Graham was quite literally an intelligent investor, and other investors came to realize this. However, Graham needed to prove his skill on Wall Street and to do this he took on a level of risk.

**Wiped out**

When Graham started managing money in the 20s, in order to attract capital and gain the trust of his investors, Graham made an agreement with his partners whereby he would take 50% of partnership profits, but also 50% of any losses at the fund. In the words of Walter Schloss:

“...And that worked great until 1929 when the market went down and obviously his stocks were affected, too, and he was not only affected by that, but many of these people then pulled out because they needed money for their own purposes or they had lost money in other places.”

“So he figured out how he could possibly never have this happen to him again. He was very upset about losing money. A lot of us are. So he worked on a number of ways of doing this and one of them was buying companies below working capital...then in 1936 he formed a company called Graham-Newman, which was, I'd say an open and closed end company...he'd sell stock with the rights to buy new stock below asset value. That is, if you didn’t exercise your option you were able to sell the rights for money.”

Jumping back to the Columbia Business School lecture:

“When Ben was operating in the 1930s and 1940s, there were a lot of companies selling below their net working capital (NET NET). Ben liked these stocks because they were obviously selling for less than they were worth but in most cases, one couldn't get control of them and so, since they weren't very profitable, no one wanted them. Most of these companies were controlled by the founder or their relative and since the 30s was a poor period for business, the stocks remained depressed. What would bring about change?”

As it turned out World War Two was the catalyst needed to unlock value for many of Graham’s net-nets opportunities. To find out why, stay tuned for part eight of this series where I’m going to take a look at Walter Schloss’ time at the Graham-Newman partnership.
PART EIGHT
Graham-Newman

Upon leaving the army in 1946, Benjamin Graham, who was Walter Schloss’ former tutor, approached Walter and asked him to come and work at the Graham-Newman partnership. Schloss quickly decided to take the opportunity and began working for Graham during 1946.

Schloss’ first job at the partnership was to prepare the group’s annual report for its tenth year in business, an important job for a newcomer and one that helped him quickly understand the firm. At the time, the partnership had $4.1 million under management, ($50 million today’s adjusted for inflation), a sizable sum for 1946.

Of this $4.1 million, only $1.1 million was common stock. The rest was made up of bankrupt bonds and convertible preferred stock. There were just over 30 common stock holdings in the Graham-Newman portfolio at the time.

Schloss talked fondly of his time at Graham-Newman and reading through Walter Schloss’ notes and lectures, you really get a good idea of how Graham worked. Continued from part seven:

“When Ben was operating in the 1930s and 1940s, there were a lot of companies selling below their net working capital (NET NET). Ben liked these stocks because they were obviously selling for less than they were worth but in most cases, one couldn’t get control of them and so, since they weren’t very profitable, no one wanted them. Most of these companies were controlled by the founder or their relative and since the 30s was a poor period for business, the stocks remained depressed. What would bring about change?

If the largest Controlling stockholder died, the Estate may want to sell control.

If business got better, then the company would make money.

I remember going to Chicago when I worked for Ben in the late 40s and talked to Mr. Bush the President of Diamon T Motors. A Mr. Tilt owned 50.1% of the stock and wouldn’t sell. The stock sold for $10 and had working capital of $20...when Mr. Tilt finally died at the age of 90...the stock was sold at a premium over $20...

WW2 was a good example of this. The large asset base let many secondary companies earn good money in the war years, the excess profits tax didn’t apply to them and stocks did well. Graham-Newman didn’t do too well after the war in that type of security but their stockholders got rich when G-N distributed GEICO stock to the stockholders in 1949 and GEICO became a growth stock.”

Columbia Business School lecture

Graham had a strict set of value criteria and principles, principles he would stick with no matter how lucrative the opportunity. It seems as if this stubbornness was driven by his desire to avoid losses similar to those he had to deal with during the depression.

Walter Schloss gave a great example of Graham’s stubbornness at Grant’s Interest Rate Observer Fall Investment Conference.
“...he [Ben Graham] had very strict rules. He wasn’t going to deviate. I had a fellow came to me from Adams & Peck...an old line railroad brokerage company...This fellow came to me, a nice guy, and he said “The Battelle Institute has done a study for the Haloid Company”...a small company that made photographic paper for, I think Eastman Kodak Company (OTCMKTS:EKDKQ). Haloid had the rights to a new process and he wanted us to buy the stock. Haloid sold at between $13 and $17 a share during the depression and it was selling at $21 [1947-48]...I thought it was kind of interesting. You’re paying $4 for this possibility of a copying machine which could do this. Battelle though it was OK. I went into Graham and said, “you know, you were only paying a $4 premium for a company that has a possibility of a good gain,” and he said, “no Walter. It’s not our kind of stock.”

Unfortunately, the company Graham could have acquired for a $4 premium later turned into Xerox Corp (NYSE:XRX). But despite the company’s prospects and low price, Graham refused to get involved, the value wasn’t there.

Side note

As a side note, although this piece is about Walter Schloss and his relationship with Graham, while researching the article, I came across the following statement from Schloss regarding Buffett and his use of Berkshire:

“By setting up Berkshire Hathaway Inc. (NYSE:BRK.A) (NYSE:BRK.B), Warren has done everything very rationally.

By having insurance companies, he is able to use stocks as well as bonds as reserves. By having large reserves he doesn’t have to pay dividend[s]. If Berkshire was only a very profitable manufacturing company with no insurance companies it would have to pay out some dividends.

By keeping all the earnings, Berkshire can keep reinvesting their profits and compound their results. By owning a growth stock, he is able to increase the value of the company... Since it is [Berkshire] in effect a closed-end investment company, Warren doesn’t have to worry about investors redeeming their shares…”

Buffett’s use of an investment vehicle like Berkshire is often overlooked and the above statement from Walter Schloss really sums up the key advantages. Without the Berkshire vehicle, it’s highly likely that Buffett’s returns over the years would have been much lower. There would have been pressure to pay dividends, the ability to reinvest profits would have been much reduced and Buffett would have been unable to effectively use compounding to leverage results over time.

Of course, Buffett’s unrivalled success as a stock picker has been the main factor behind his success over the years. But Walter Schloss doesn’t believe that this was his only commendable trait. From the Grant’s Interest Rate Observer Fall Investment Conference:
QUESTION: There were a group of you that all learned under Ben Graham and you all seem to be incredibly successful investors. What do you think is the common thread amongst all of you?

SCHLOSS: I think number one none of us smoked. I think if I had to say it, I think we were all rational. I don't think that we got emotional when things went against us and of course Warren is the extreme example of that. I think we were all nice guys and I think we were honest. I don't think we had -- you know, there are people who've made a lot of money who I wouldn't want to invest with because they just aren't trustworthy and you probably know who they are and some of those stocks sell at low prices because other people feel the same way. And I would say that this was a good group of people and Warren was very nice about inviting us every two years, we'd have a meeting somewhere.

Grant's Interest Rate Observer Fall Investment Conference 6

The first meeting we had was back, and you saw it in "Forbes" magazine, back in 1968. Warren asked me, "would you like to go out to speak with Ben Graham." It was the only time we ever met with Ben Graham. And Warren said, "how about going to Las Vegas first?" I said, "fine, it's all right with me." And of course, in Las Vegas, the hotel rooms are very cheap. I don't think we gambled more than 20 bucks. Then we went to San Diego and I brought my camera with me. It was a little one. At one point I said to everybody that was there, "I'll take a picture of you."

I made the picture and sent it to everybody and when they had this thing in "Forbes", a few weeks ago, they said "picture courtesy of Warren Buffett." So that's the way it goes.
PART NINE
The First Ten Years

Experience counts for a lot in investing but it is difficult to tell how much experience is enough. However, Walter Schloss was able to put an exact figure on how much experience is enough; around ten years.

Walter Schloss made this quite clear in an interview with the Outstanding Investor Digest, given in 1989 with his son, Edwin Schloss when the father-son duo were managing Walter J. Associates.

“OID: As I mentioned to you in a prior conversation, Templeton’s worst ten years investment-wise were his first ten years. And you told me that the same was true for you.

Walter Schloss: Yes, that’s right. I think the first ten years you get kind of acquainted with what you’re doing.”

Walter makes a great point here. All investors need experience and most are bound to incur hefty losses in the first few years of trading/investing. These are words of wisdom for all new investors, even if you get things wrong, it took Walter Schloss, undoubtedly one of the world’s greatest investors, a decade to feel comfortable investing. Don’t rush things, it’ll come, you need to get acquainted with what you are doing. The interview continues:

“...people have to be very humble about money if they want to keep it. They have to work at it. It doesn’t just happen. And different children have to be treated differently. Some people are even afraid of money. My mother, for example, would have been one of the worst investors and my father was a terrible investor. And it’s because they lived through fear - through the Depression. As a result, they allowed fear to make their judgments…”

Deep-value investing is, by its very nature a risky business, especially for investors like Walter Schloss, who brought as many securities as he could, even though he knew some would eventually go out of business. Deep-value investing requires patience, ability to ride out volatility, and above all, a strong conviction as well as a belief in your own abilities.

“...In the last 15 years [1974 to 1989], it’s been a remarkable stock market. But people forget what things were like during the 1930s. I think Graham - because he lived through that period - remembered it, was scared it would happen again and did everything he could to avoid it. But in the process of avoiding it, he missed a lot of opportunities...One of the problems of a lot of the people who went through the Depression - Ben Graham, Jerry Newman and others - is that they keep on thinking that things will always be like that...People who did missed this tremendous market. Some people can do it. Most people can’t and I don’t think they should try.”

Walter Schloss’ example is as relevant today as it has ever been. After a bear market and losses, investors simply lose faith in their own ability, often missing the market recovery, or worse, changing strategy and making poorly researched trades in an attempt to make back money lost.

The one true trait of a devoted value investor is the ability to ride out bear markets, and there will be plenty of them.

For example, last year I wrote about the investment philosophy of Seth Klarman and the performance of his hedge fund, Baupost over the last two decades. Virtually unknown outside value circles, Klarman is, in my opinion, one of
the most influential value investors living today. His strategy has adapted with the changing market and as deep-value opportunities have disappeared, Klarman has continued to find value in distressed debt and special situations. And investors can learn a lot by studying Klarman’s performance throughout the dot-com bubble.

From 1997 through to the beginning of 2000, Klarman's Baupost significantly underperformed the S&P 500. The following is taken from a previous ValueWalk article.

“1997 was an odd year for Baupost...Baupost's financial year ended on October 31 and for the twelve months to this date, the fund returned 27%, despite holding around 20% of assets in cash. For the twelve months ending October 31, the S&P 500 returned 32.1%.

From January 1 1998, through April 30, 1998 the S&P 500 Index rose by 15.1% and from November (1997) to April (1998) the index gained 22.5%. Over the same four and six month periods, Baupost only returned 7.4% and 11.3% respectively.

Full-year 1998 was a terrible year for Baupost. For the year, the Fund posted a market value decline of 16.3%, once again a terrible performance considering wider market gains.

Once again, Baupost's relative poor performance continued into 1999. To October 31 1999 the group returned 8.3%, while over the same period the S&P 500 returned around 23.8%.

As 2000 began and the dot-com bubble reached its peak, Baupost was falling behind but Seth Klarman kept buying U.S. equities, spending almost all of Baupost’s cash cushion. Baupost’s cash weighting had dropped to 4.6% of AUM by April 2000. 61.9% of Baupost’s assets were invested in U.S. stocks.

For the financial year ending October 27 2000, Baupost posted a return of 22.4%. The S&P 500 peaked during September and by the time Klarman wrote his letter to investors during December, the market had fallen more than 13% from its peak…”

These are some of the investments Klarman was buying over this period.

It’s important to remember that value investors don’t necessarily outperform in a bull market:

“… I must remind you that value investing is not designed to outperform in a bull market. In a bull market, anyone…can do well, often better than value investors. It is only in a bear market that the value investing discipline becomes especially important…it helps you find your bearings when reassuring landmarks are no longer visible …” – Seth Klarman

**Conclusion**

The key theme of this article is patience. Walter Schloss and Seth Klarman was/is two value investors who have been able to achieve outperformance through a long-term, patient investing strategy. It's a strategy that takes time to develop understand and become accustomed to, but after the first ten years, it should be easy.

Stay tuned for the tenth and final part of this series -- coming soon.
PART TEN
Value Investing Today

Is value investing, in its traditional form, still relevant in today’s market? This is a question many market commentators have asked over the years, although there's no straight answer to this question. Granted, today’s market is unrecognizable compared to the market Benjamin Graham had to contend with when he first set out but value investors have also adapted to the market environment.

Walter Schloss started his investing career as a deep-value, net-nets investor. Many other legendary value investors also starting investing using this strategy and most of these investors were disciples of Graham. Buffett, Tom Knapp and Ed Anderson, Bill Ruane, Charlie Munger etc…

Still, over time the strategies of all of Graham’s disciples have changed.

For example, for the last three decades or so of Walter Schloss’ career, he started to take into account not only the value of the company’s assets but also the value of the brand, something Graham never did. (Buffett and Munger both made this change as well.)

From part six of this series:

“Ben didn't look for franchise value or managements. He felt that management showed up in the price of stock. If management was good the stock sold at a higher P-E because its management was better.” -- Walter Schloss

However, Walter Schloss’ own opinion had changed by March 6 1989, when he gave an interview with the Outstanding Investor Digest:


OID: Of course, compared to Kraft, almost anything would seem like a good deal.

Walter Schloss: I remember we owned stock in Schenley back in 1960 or so when it was selling below working capital. I went to talk to their treasurer. At that time, their stock was selling at $20 and they had $33 of working capital, including a huge inventory. I was asking how good their inventory was. In the course of our conversation, he said, “We've spent $100 per share on advertising.” That advertising was on the books for nothing. And that's also true for Kraft. You have Philadelphia Cream Cheese and Miracle Whip. You couldn't replace those for almost any price. They've got a niche. If somebody said, “Gee, I want to be in the businesses that Kraft is in now,” it'd be a very difficult thing to do. So even if book is only $20 and Philip Morris paid $106 a share for it, their book value and assets are only part of it. The rest is in the goodwill, the name - the franchise, if you will, as Warren Buffett would describe it…People just weren’t willing to pay those prices for great franchises in the past.”
This is not the only example Schloss gave. In part six of this series, I looked at Walter Schloss’ thesis for building a position in oil giant Texaco. The company was in trouble, falling earnings, a $10 billion legal battle and unpaid taxes had all pushed the group into bankruptcy. But Walter Schloss understood that a company of Texaco’s size could not disappear overnight and over the long-term the group’s fortunes would turn around. It would almost impossible for a new company to build itself up to Texaco’s size. Schloss was of course right.

And as mentioned above, Walter Schloss was not the only Graham disciple to change his value criteria from a deep-value, net nets style, towards a quality slant. It seems that most well-known value investors made this change during the last thirty to forty years, a point Charles Brandes makes in his book, Brandes on Value: The Independent Investor.

Brandes goes on to give Microsoft Corporation (NASDAQ:MSFT) as a great example of a value-quality investment. Until 2014 Microsoft was out of favor, the company was being overtaken by up-and-coming peers and was considered by many to be past its prime. Nevertheless, for the astute value investor, the company’s high return on capital, strong cash balance and leading market position in many different tech spaces all equated to long-term success, with a reduced level of risk.

Seth Klarman too, now looks for quality as well as value. Klarman has made clear before that the Graham-Dodd way of thinking is still relevant in today’s market, although investors need to take into account the different market environment. In other words, Klarman now seeks out undervalued quality.

Other traditional deep-value investors who have now changed the approach include Buffett, The Sequoia Fund, Tweedy, Browne, (previously run by students of Graham), Charlie Munger and others, have all adapted to a quality-value approach. Market leading brands, a margin of safety, well run businesses, high returns on capital and room for growth are all traits that have become synonymous with value investing over the past few decades.

However, while value investing has changed, from a deep-value approach to a quality-at-a-reasonable price orientation, the teachings of Graham-and-Dodd are still as relevant today as they have been in the past. In the words of Seth Klarman:

“… The world is different now than it was in the era of Graham and Dodd. The business climate is more volatile now…When I think of Graham Dodd, however, it’s not just in terms of investing but also in terms of thinking about investing. In my mind, their work helps create a template for how to approach markets, how to think about volatility in markets as being in your favor rather than as a problem, and how to think about bargains and where they come from…The work of Graham and Dodd has really helped us think about the sourcing of opportunity as a major part of what we do—identifying where we are likely to find bargains…”

More market volatility gives modern day value investors a chance to buy undervalued, quality companies with less risk of loss of capital. All in all, value investing is still alive and well today. The strategy has changed with the market and will continue to be relevant for a long time to come.

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