# NYSSA Honors Walter Schloss

The Value Investing Committee paid homage to preeminent value investor Walter J. Schloss, CFA, with a dinner on October 11, 2006, at the Harvard Club. Over 100 of Schloss' friends and partners came to celebrate his 90th birthday and share remembrances. Carol Loomis, editor-at-large of Fortune magazine, moderated the discussion. Proceeds from the event will go toward NYSSA's Value Investing Archive, which is planned to be both a digital and print resource.

Committee chair Christopher M. Kehoe, CFA, gave the introductory remarks. "I personally found great inspiration in his example," he said. "At the age of 40, when many had become firmly ensconced in their careers, Walter had the fortitude to strike out on his own. For this his partners are eternally grateful." During its 47-year lifetime, Walter J. Schloss Associates generated in excess of 20% gross annualized returns and netted to its partners more than 15% per year, while the S&P 500 gained slightly more than 10%. An investor with $100,000 in the S&P 500 from January 1, 1956, to December 31, 2002, would have made $9.3 million. That same $100,000 invested in the Schloss partnership would have generated over $78 million.

"I worked for Benjamin Graham for 9 1/2 years, and Ben said he was going to retire and move to California," began Schloss. "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.

"Since I only liked to buy stocks that were undervalued from a statistical point of view, they were not necessarily great companies. There was no particular point in hanging on to them indefinitely. We were buying companies on the way down and selling them on the way up. Not every company worked out, but enough of them did, so we had a pretty good record.

"There was 15% per year for the partners, and we got 5%. When you start with $100,000 dollars and you make 20%, that isn't a great deal of money. What you really had to do was to increase the amount of money invested. Most people that had invested were not wealthy people. They would use their money to put their kids through college or for living expenses rather than investing it. We had a few wealthy partners, and those were the partners that did the best because they kept on reinvesting the money, and when we finished we had about $130 million in the fund.

"We didn't disclose any of our holdings. We found that if we bought a stock and everybody knew about it, we'd get competition. The other thing was that if you owned 10 stocks, and 2 of them went down and 8 of them went up, almost all clients would focus on the stocks they were losing money on.

"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.

"The average of our holdings was 4 years, which meant it was a long-term capital gain. Now every once in a while you hit a good one, and it shot up quickly, and then you asked, do you want to sell it? If I had 9 months to go I would sell it. If I had 3 months to go, I wouldn't. You find that you sell too soon quite often because you got what you were looking for, but you didn't realize that there was a big potential after you sold. So you made mistakes on the upside.

"Sometimes companies do stupid things. There's not much you can do about that except decide that you want to sell it because you've made a mistake or they're making a mistake, or you say that they know more about the business than you do, so maybe they're right. Each one is different. You have to decide what you want to do. But I will say this: I do not like a lot of debt. Debt creates problems for the company, and many of these people who run big business want to get bigger.

"We didn't get involved in many companies that turned crooked. I know there were a few people that had poor reputations and their stocks were low, and when we did buy some of those we were sorry afterwards because they figured out a way of taking advantage of you, and you were always worried that they'd do something that you didn't like.

"The value investors I know are honest people. Value investing seems to be made up of people who are willing to look at the facts and make judgments on them, and not willing to take advantage of others."

Some of Schloss' long-time friends and business associates gave tributes. "Walter's goal is the right one for a value investor: Go your own way," stated Paul J. Isaac, CIO of Cadogan Management. "Don't chase or envy other investors. Recognize that time is on your side, but don't treat time as a necessary evil for a patient investor. Enjoy life while it's occurring. Value invest to enrich your life, and don't subordinate your life to your portfolio. These are precepts every investor, and not just every value investor, can live by. Having held to them is the reason why Walter may not be the richest man in the illustrious professional circles in which he travels, but by any objective analysis he's always among the most successful."

David Gottesman, senior managing director of First Manhattan Co., noted, "One of the qualities that has made Walter a very successful man is his optimism, and if you buy deep value and combine that with optimism, I think you have a winning combination."

Robert W. Bruce III commented, "Although he is an intensely private man, he is a very generous, giving person whom I had the good fortune to meet a long time ago, and I benefited from his advice and his knowledge. Warren Buffett's words that you couldn't have a better friend than Walter were very profound, and I could not say it better myself."

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