## The Survivors

IN A 1984 SPEECH AT COLUMBIA Business School, Warren Buffett called Walter Schloss a "superinvestor" with a singular knack for finding undervalued stocks. That's high praise from one of the most celebrated investors ever. The root of Buffett's admiration may seem clear enough: You could point to the fact that Schloss, like Kahn, started his career working for Ben Graham. Or you could note Schloss's record-an average annual return of nearly 16 percent over 47 years, more than five percentage points ahead of the S&P 500. (He ran his eponymous, hedge-fund-like portfolio out of a small office at Tweedy, Browne & Co.) But really, the avuncular 92-year-old with the big smile came to appreciate the merits of a well-chosen stock much earlier; it was a dividend stock that helped ease the strains of the Depression.

All it took was the 100 shares in American Telephone & Telegraph that his grandmother owned to improve his family's experience of the 1930s. Schloss's parents, brother, sister and grandmother all shared a three-bedroom apartment on the Upper West Side of Manhattan, where horse-drawn wagons still delivered milk and the ice truck came by weekly. AT&T's annual dividend of $9 a share went a long way at a time when median rents in that neighborhood were $32 a month. Back then, Schloss says, a dividend was the primary reason "regular" folks invested in the stock market.

Schloss always had an affinity for numbers, though he didn't dedicate himself to Wall Street immediately. He enlisted in the army right after Pearl Harbor and was tasked with decoding messages. The born-and-raised New Yorker was stationed in Iran, where he worked in a factory assembling the Studebaker trucks that were key to the Russian victory in Stalingrad. (Schloss received a belated letter of thanks from the Russian government in the 1990s.) It wasn't until he returned to New York in 1946 that he took a job as a stock analyst. He and his son, Edwin, who joined the business during the 1970s bear market, folded up the fund in 2002. But Schloss still keeps his head in the game by managing his own personal multimillion-dollar portfolio.

Schloss remembers the Depression well: Bank chiefs were getting hauled before Congress, the president of the New York Stock Exchange stood accused of defrauding investors, and regulators were contemplating a ban on short selling. Sound familiar? The only difference, Schloss says, is that these weren't the headlines cried on the street corner. With just 10 percent of the population invested in stocks (in other words, just the wealthy), market news wasn't yet mainstream and rarely made it to the front page.

Economic similarities aside, Schloss won't succumb to deja vu; instead he sits in his cramped home office poring over financial statements. No meetings with management, no relying on computers for data gathering -- Schloss has always dug into the numbers himself. "I can sleep at night when I know their assets and can see their worth," he says.

While he understands investors' hesitation today, Schloss doesn't think our current situation compares with the Depression. Back then, he says, the economy was dependent on only a handful of businesses, like banks, railroads, utilities and oil companies. Today economic growth comes from a much broader array of industries, many of them fueled by the huge gains in technological development we've seen over the past eight decades -- including communications, biotechnology and the Internet. Sure, General Electric is still a powerhouse, but so are Google and Amgen. That means a much wider array of job possibilities -- and more engines of growth for our economy. If investors today "were a little less emotional, they would see that this could be a good opportunity, so long as they move carefully and keep an eye on balance sheets," he says.

Moving carefully has paid off handsomely over Schloss's long investing career, but while you may think that means an all-bond portfolio, you'd be wrong. A 1 percent return, as is the case with government bonds now, "is no way to live," he says. So Schloss, who has about half his portfolio in stocks, is still keeping an eye out for companies like International Paper, which he bought because it was trading at a fraction of recent highs, paid a dividend and had little debt. "Debt bothers me," he says. "The companies in trouble are usually the ones that owe a lot of money."