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NYSAA Value Investing Archive Dedication: Walter Schloss

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Walter Schloss is a legend in the value investing world. He went to work for Benjamin Graham at Graham-Newman in 1946. He left in 1955 to form Walter J. Schloss and Associates, which he ran from a small room inside Tweedy, Browne's offices. He compounded money at 16% per annum for the next forty nine years. His son Edwin joined him at the partnership in 1973.

"…Graham was concerned with limiting his risk and he didn't want to lose money. People don't remember what happened before and how things were. And that's one of the mistakes people make in investing as well." – Walter Schloss, March 6, 1989 , *OID*

Last November, I was fortunate to be able to attend the New York Society of Security Analysts (NYSSA) dedication of their Value Investing Archives. I would like to thank Jeffery Hamm and Shai Dardashti for inviting me to attend this wonderful event. As well, I would like to thank Chris Kehoe for hosting the event; he did an excellent job in questioning Mr. Schloss. The following is from the question and answer period as well as from the two interviews Mr. Schloss gave to *Outstanding Investors Digest* in 1989.

"I would suggest that investors be very careful what they buy. I don't like debt (emphasis added), so buy a company that has not much debt. What I usually did was get companies that were having troubles, and the stock market doesn't like trouble. Then you have to have the courage and convictions and buy enough of the stock that would make a difference to you." – Walter Schloss, November 29, 2007

Mr. Schloss had many points of wisdom to expound upon from his forty nine year professional career. His investment philosophy is straight from Benjamin Graham. He reflected on Mr. Graham comparing companies that started with the same letter in his classes. Other times Mr. Graham would compare the same company during different periods, showing the discrepancy in valuation, but not revealing to students that it was the same company to show them how differently a company can be valued in different periods. He did this several times in all four editions of Security Analysis.

"We try to buy stocks cheap." His investment philosophy is based on equities which are quantitatively cheap and he often holds over 100 securities. Although he expounds that, "Each one is different. I don't think you can generalize……But I think you just have to look at each situation on its own merits and decide whether it's worth more than its asking price." He prefers to buy assets rather than earnings. "Assets seem to change less than earnings." The volatility of assets is much lower than that of earnings providing Mr. Schloss with stability in valuation.

"We just try to buy cheap stocks. That's really all. We try to buy things that are out of favor – stocks that others don't want." – Walter Schloss, June 3, 1989, *OID*

Like Graham, he advocated that investors diversify to avoid one investment sinking a portfolio. He also disliked debt, and urged the audience to "avoid debt" at least four times. He advocated investors use a philosophy that they are comfortable with so they can sleep well at night. Also, he believes investors must be disciplined in following whatever philosophy they choose. Finally, he discussed how investors have to have self-confidence to stick with their ideas through adversity.

Mr. Schloss liked to have the background on companies in which he was investing. "You've got to get a feel of a company – their history, background, ownership, what it's done, the business they're in, dividend payments, where earnings are headed. You've just got to get a general feel of a company." Although he feels, "you never know all about a stock until you own it." He relies extensively on *Value Line*, and avoids meeting with management unless they are nearby. Walter's son Edwin said, "You can waste a whole lot of energy running all over the country checking on managements of the companies you own. We only go to annual meetings if they're within a 20-block radius of the office." He also preferred that management of the company owned a decent amount of stock.

He advocated that he simply does not want to lose money on an investment and spoke of Benjamin Graham's ability to remove emotions completely from investing. Mr. Graham simply did not care, and tried to purchase securities strictly on a quantitative basis. Mr. Schloss advocated buying decent companies with temporary problems. He stated, " Warren understands businesses – I don't. We're buying in a way that we don't have to be too smart about the business…." His average turnover is 25% implying a holding period of four years, exceedingly lower than the average mutual fund. He also averages down in his investment positions as the prices fall and when he feels the investment thesis is still valid. He remained close to fully invested throughout his career. He said, "I think I sleep better owning stocks than owning cash."

Mr. Schloss advocated being honest when running an investment partnership and that would help investment managers to do well. He mentioned that in his partnership he never disclosed his holdings and only provided investors with quarterly statements, an audit, and a letter to partners. "We work hard to find our stocks. We don't want to just give them away. It's not fair to our partners." Schloss ran his partnership with ultra low expenses. His office was often referred to as a "closet" by Warren Buffett in a 1976 letter. He also shared a single phone with his son. He now uses the *Value Line* after his son so he does not have to pay for a subscription.

Mr. Schloss told an excellent story of Warren Buffett's purchase of shares in ABC. Mr. Buffett was offered shares at 29, and Mr. Buffett refused but countered with an offer of 28. The seller declined his offer, and called back the next day to offer Buffett the shares at 28. He declined again, and offered 27. They declined his offer of 27 but called later and offered 27 and Buffett countered with an offer of 26, which they took. Mr. Schloss was depicting Buffett's discipline in purchasing securities.

It was an honor to see Walter Schloss speak, one of my finest memories. Schloss at 72 years young summed up his passion for investing, "At my age, most people want to retire to Florida and play tennis and relax. But I get a great deal of pleasure from what I do." So now he continues at age 91 to practice what he learned from Benjamin Graham, value investing.