Video of 92-Year Old Walter Schloss Discussing his Investment Philosophy

By John Huber On March 13, 2013 • Add Comment

I was listening to a video on Walter Schloss last night. It was a Q&A with Schloss himself at the Ben Graham Centre for Value Investing at the University of Western Ontario. As some readers have probably noticed, I'm a big fan of Walter Schloss, who's one of the greatest investors of all time. Schloss passed away last year at the age of 96, and this video was taken 5 years ago when Schloss was 92. Schloss comes off as a simple man with a simple investing strategy. He used Value Lines and annual reports, never owning a computer, and he was able to produce 21% gross annual returns over nearly 5 decades. Here are a few points I took away from the video, along with a few quotes:

- He likes evaluating a company's asset values. He likes to buy stocks at around book value. He finds stocks at that level tend to do well over time.
- He likes cheap stocks, always looking for undervalued stocks to invest in.
- His investment process was basically reading Value Line to find ideas, and then doing further research by reading annual reports. It was really as simple as that.
- Buy understandable businesses
- He's diversified—he often owned 100 stocks in his portfolio
- Buy stocks a low prices relative to their assets and book values
- Look for stocks that have little to no debt
- Look for stocks that are at new lows (preferably 2-3 year lows)
- Don't lose money

Here are a few of Schloss’ responses to questions from the students:

On basic investment philosophy:

“Tlike to buy stocks selling below book value. It gives me a certain amount of protection. I also like stocks that don’t have a lot of debt. That gives me a certain amount of protection.”

On investment process and minimizing losses:

“I don’t like to lose money. And therefore I try to buy stocks that are protected on the downside, and then the upside sort of takes care of itself. The main thing is to look for companies that don’t have a lot of debt. And I like to get (the company’s) annual reports. You can see how much the directors own, and you can see the history of the company. I don’t like companies with a large amount of debt. I look for companies selling at new lows. Well, when you buy a stock at new lows, it usually has problems... so I don’t like a lot of debt. The idea is I don’t like to lose money.”
He mentions over and over in this video that he doesn't like debt. That seems to be a major way of managing risk at the individual stock positions. He likes to buy cheap stocks without a lot of debt. And he does this by looking at Value Line and the annual reports.

**Would you rather buy outstanding companies at fair prices, or fair companies at outstanding prices?**

"That's a good question. I don't think I'd like to buy good companies at what I think they're worth. I have not problem buying a good company, but I want to buy it at a discount. I'm looking to make a profit, and I don't want to lose money. You can, at times (when) people get very nervous, buy a good company at a fair price. I can't generalize because each company is different. But if you want to make a profit, you really want to buy a stock at a price where you feel the stock will go up 50%. Now it may take several years, and you have to be patient."

That's a classic question that value investors are always thinking about. Most value investors these days try to emulate Warren Buffett's idea that it's better to own a wonderful business at a fair price. But Schloss thinks the opposite. He was not comfortable with his own ability to judge management and other qualitative factors, so he chose to just stick to the numbers. And it worked well for him.

**On recessions and economic predictions:**

"You're guess is as good as mine. I don't know if we're going to have a recession. I find that I like to buy stocks on the basis of what they're worth, and not try to figure out what's going to happen in business. It saves me a lot of grief."

The Schloss style of investing requires no predictions, no assumptions, and not even a whole lot of insight. It's just a simple process of searching for undervalued stocks, owning them, and selling them at profits to reinvest in more undervalued stocks.

**Are recessions a better times to find cheap stocks?**

"You may have opportunities to find cheap stocks. And you may take advantage of that. But I find that not trying to guess what the market's going to do, or what's going to happen in the future... I think it's better if you just buy the companies that have good value, and maybe you have to wait a little longer... but it solves a lot of problems for me. Don't try to figure out what's going to happen in securities markets or the economic situation."

**On portfolio management and asset allocation... how does he allocate between stocks and bonds?**

"I feel more comfortable owning stocks. There is growth in America. I like stocks better. The most can do (with bonds) is get interest and get your money back. You can't 'make it' by owning bonds. You can 'make it' by owning stocks."
To sum it Up:

"Remember this: I don't like to lose money."

Walter Schloss' investment style can certainly be emulated by most investors. **It's a simple strategy. Buy cheap stocks relative to book value that don't have a lot of debt. Do this by reading Value Line for ideas and then reading the annual reports.** That's all Schloss did for 47 years while he ran his partnership from $100,000 to 9 figures by averaging 21% per year.

The hardest part in executing a style like this in managing emotions. It's difficult to buy stocks at new lows, and it's difficult to buy cheap stocks, as they usually have some sort of short term problem. Focus on protecting the downside by avoiding debt, and let the upside take care of itself. Manage your emotions, stay consistent, and execute a proven strategy and things might work out well.