

A Conversation with Benjamin Graham

Financial Analysts Journal - 1976

In the light of your 60-odd years of experience in Wall Street what is your overall view of common stocks?

Common stocks have one important characteristics and one important speculative characteristic. Their investment value and average market price tend to increase irregularly but persistently over the decades, as their net worth builds up through the reinvestment of undistributed earnings--incidentally, with no clear-cut plus or minus response to inflation. However, most of the time common stocks are subject to irrational and excessive price fluctuations in both directions, as the consequence of the ingrained tendency of most people to speculate or gamble--i.e., to give way to hope, fear and greed.

What is your view of Wall Street as a financial institution?

A highly unfavorable--even a cynical--one. The Stock Exchanges appear to me chiefly as a John Bunyan type of Vanity Fair, or a Falstaffian joke, that frequently degenerates into a madhouse--"a tale full of sound and fury, signifying nothing." The stock market resembles a huge laundry in which institutions take in large blocks of each other's washing--nowadays to the tune of 30 million shares a day--without true rhyme or reason. But technologically it is remarkably well-organized.

What is your view of the financial community as a whole?

Most of the stockbrokers, financial analysts, investment advisers, etc., are above average in intelligence, business honesty and sincerity. But they lack adequate experience with all types of security markets and an overall understanding of common stocks--of what I call "the nature of the beast." They tend to take the market and themselves too seriously. They spend a large part of their time trying, valiantly and ineffectively, to do things they can't do well.

What sort of things, for example?

To forecast short- and long-term changes in the economy, and in the price level of common stocks, to select the most promising industry groups and individual issues--generally for the near-term future.

Can the average manager of institutional funds obtain better results than the Dow Jones Industrial Average or the Standard & Poor's Index over the years?

No. In effect, that would mean that the stock market experts as a whole could beat themselves--a logical contradiction.

Do you think, therefore, that the average institutional client should be content with the

DJIA results or the equivalent?

Yes. Not only that, but I think they should require approximately such results over, say, a moving five-year average period as a condition for paying standard management fees to advisors and the like.

What about the objection made against so-called index funds that different investors have different requirements?

At bottom that is only a convenient cliché or alibi to justify the mediocre record of the past. All investors want good results from their investments, and are entitled to them to the extent that they are actually obtainable. I see no reason why they should be content with results inferior to those of an indexed fund or pay standard fees for such inferior results.

Turning now to individual investors, do you think that they are at a disadvantage compared with the institutions, because of the latter's huge resources, superior facilities for obtaining information, etc.?

On the contrary, the typical investor has a great advantage over the large institutions.

Why?

Chiefly because these institutions have a relatively small field of common stocks to choose from--say 300 to 400 huge corporations--and they are constrained more or less to concentrate their research and decisions on this much over-analyzed group. By contrast, most individuals can choose at any time among some 3000 issues listed in the Standard & Poor's Monthly Stock Guide. Following a wide variety of approaches and preferences, the individual investor should at all times be able to locate at least one per cent of the total list--say, 30 issues or more--that offer attractive buying opportunities.

What general rules would you offer the individual investor for his investment policy over the years?

Let me suggest three such rules: (1) The individual investor should act consistently as an investor and not as a speculator. This means, in sum, that he should be able to justify every purchase he makes and each price he pays by impersonal, objective reasoning that satisfies him that he is getting more than his money's worth for his purchase--in other words, that he has a margin of safety, in value terms, to protect his commitment. (2) The investor should have a definite selling policy for all his common stock commitments, corresponding to his buying techniques. Typically, he should set a reasonable profit objective on each purchase--say 50 to 100 per cent--and a maximum holding period for this objective to be realized--say, two to three years. Purchases not realizing the gain objective at the end of the holding period should be sold out at the market. (3) Finally, the investor should always have a minimum percentage of his total portfolio in common

stocks and a minimum percentage in bond equivalents. I recommend at least 25 per cent of the total at all times in each category. A good case can be made for a consistent 50-50 division here, with adjustments for changes in the market level. This means the investor would switch some of his stocks into bonds on significant rises of the market level, and vice-versa when the market declines. I would suggest, in general, an average seven- or eight-year maturity for his bond holdings.

In selecting the common stock portfolio, do you advise careful study of and selectivity among different issues?

In general, no. I am no longer an advocate of elaborate techniques of security analysis in order to find superior value opportunities. This was a rewarding activity, say, 40 years ago, when our textbook "Graham and Dodd" was first published; but the situation has changed a great deal since then. In the old days any well-trained security analyst could do a good professional job of selecting undervalued issues through detailed studies; but in the light of the enormous amount of research now being carried on, I doubt whether in most cases such extensive efforts will generate sufficiently superior selections to justify their cost. To that very limited extent I'm on the side of the "efficient market" school of thought now generally accepted by the professors.

What general approach to portfolio formation do you advocate?

Essentially, a highly simplified one that applies a single criteria or perhaps two criteria to the price to assure that full value is present and that relies for its results on the performance of the portfolio as a whole--i.e., on the group results--rather than on the expectations for individual issues.

Can you indicate concretely how an individual investor should create and maintain his common stock portfolio?

I can give two examples of my suggested approach to this problem. One appears severely limited in its application, but we found it almost unfailingly dependable and satisfactory in 30-odd years of managing moderate-sized investment funds. The second represents a great deal of new thinking and research on our part in recent years. It is much wider in its application than the first one, but it combines the three virtues of sound logic, simplicity of application, and an extraordinarily good performance record, assuming--contrary to fact--that it had actually been followed as now formulated over the past 50 years--from 1925 to 1975.

Some details, please, on your two recommended approaches.

My first, more limited, technique confines itself to the purchase of common stocks at less than their working-capital value, or net-current-asset value, giving no weight to the plant and other fixed assets, and deducting all liabilities in full from the current assets. We used this approach extensively in managing investment funds, and over a 30-odd year period

we must have earned an average of some 20 per cent per year from this source. For a while, however, after the mid-1950's, this brand of buying opportunity became very scarce because of the pervasive bull market. But it has returned in quantity since the 1973-74 decline. In January 1976 we counted over 300 such issues in the Standard & Poor's Stock Guide--about 10 per cent of the total. I consider it a foolproof method of systematic investment--once again, not on the basis of individual results but in terms of the expectable group outcome.

Finally, what is your other approach?

This is similar to the first in its underlying philosophy. It consists of buying groups of stocks at less than their current or intrinsic value as indicated by one or more simple criteria. The criterion I prefer is seven times the reported earnings for the past 12 months. You can use others--such as a current dividend return above seven per cent or book value more than 120 percent of price, etc. We are just finishing a performance study of these approaches over the past half-century--1925-1975. They consistently show results of 15 per cent or better per annum, or twice the record of the DJIA for this long period. I have every confidence in the threefold merit of this general method based on (a) sound logic, (b) simplicity of application, and (c) an excellent supporting record. At bottom it is a technique by which true investors can exploit the recurrent excessive optimism and excessive apprehension of the speculative public.

AN HOUR WITH MR. GRAHAM

by Hartman L. Butler, Jr., C.F.A.

La Jolla, California

March 6, 1976

HB: Mr. Graham, I do appreciate so much being able to come and visit with you this afternoon. When Bob Milne learned that Mrs. Butler and I would be in La Jolla, he suggested that I not only visit with you but also bring along my cassette tape recorder. We have much I would like to cover. First, could we start with a topical question—Government Employees Insurance Company—with GEICO being very much in the headlines.

Graham: Yes, what happened was the team came into our office and after some negotiating, we bought half the company for \$720,000. It turned out later that we were worth—the whole company—over a billion dollars in the stock market. This was a very extraordinary thing. But we were forced by the SEC to distribute the stock among our stockholders because, according to a technicality in the law, an investment fund was not allowed more than 10 percent of an insurance company. Jerry Newman and I became active in the conduct of GEICO, although we both retired a number of years ago. I am glad I am not connected with it now because of the terrific losses.

HB: Do you think GEICO will survive?

Graham: Yes, I think it will survive. There is no basic reason why it won't survive, but naturally I ask myself whether the company did expand much too fast without taking into account the possibilities of these big losses. It makes me shudder to think of the amounts of money they were able to lose in one year. Incredible! It is surprising how many of the large companies have managed to turn in losses of \$50 million or \$100 million in one year, in these last few years. Something unheard of in the old days. You have to be a genius to lose that much money.

HB: Looking back at your own life in the investment field, what are some of the key developments or key happenings, would you say? You went to Wall Street in 1914?

Graham: Well, the first thing that happened was typical. As a special favor, I was paid \$12 a week instead of \$10 to begin. The next thing that happened was World War I broke out two months later and the stock exchange was closed. My salary was reduced to \$10—that is one of the things more or less typical of any young man's beginnings. The next thing that was really important to me—outside of having made a rather continuous success for 15 years—was the market crash of 1929.

HB: Did you see that coming at all—were you scared?

Graham: No. All I knew was that prices were too high. I stayed away from the speculative favorites. I felt I had good investments. But I owed money, which was a mistake, and I had to sweat through the period 1929-1932. I didn't repeat that error after that.

HB: Did anybody really see this coming—the crash of 1929?

Graham: Babson did, but he started selling five years earlier.

HB: Then in 1932, you began to come back?

Graham: Well, we sweated through that period. By 1937, we had restored our financial position as it was in 1929. From then on, we went along pretty smoothly.

HB: The 1937-1938 decline, were you better prepared for that?

Graham: Well, that led us to make some changes in our procedures that one of our directors had suggested to us, which was sound, and we followed his advice. We gave up certain things we had been trying to do and concentrated more on others that had been more consistently successful. We went along fine. In 1948, we made our GEICO investment and from then on, we seemed to be very brilliant people.

HB: What happened in the only other interim bear market—1940-1941?

Graham: Oh, that was only a typical setback period. We earned money in those years.

HB: You earned money after World War II broke out?

Graham: Yes, we did. We had no real problems in running our business. That's why I kind of lost interest. We were no longer very challenged after 1950. About 1956, I decided to quit and to come out here to California to live.

I felt that I had established a way of doing business to a point where it no longer presented any basic problems to be solved. We were going along on what I thought was a satisfactory basis, and the things that presented themselves were typically repetitions of old problems which I found no special interest in solving.

About six years later, we decided to liquidate Graham-Newman Corporation—to end it primarily because the succession of management had not been satisfactorily established. We felt we had nothing special to look forward to that interested us. We could have built up an enormous business had we wanted to, but we limited ourselves to a maximum of \$15 million of capital—only a drop in the bucket these days. The question of whether we could earn the maximum percentage per year was what interested us. It was not the question of total sums, but annual rates of return that we were able to accomplish.

HB: When did you decide to write your classic text, *Security Analysis*?

Graham: What happened was that in about 1925, I thought that I knew enough about Wall Street after 11 years to write a book about it. But fortunately, I had the inspiration instead to learn more on the subject before I wrote the book, so I decided I would start teaching if I could. I became a Lecturer at the Columbia School of Business for the extension courses. In 1928, we had a course in security analysis and finance—I think it was called Investments—and I had 150 students. That was the time Wall Street was really booming.

The result was it took until 1934 before I actually wrote the book with Dave Dodd. He was a student of mine in the first year. Dave was then Assistant Professor at Columbia and was anxious to learn more. Naturally, he was indispensable to me in writing the book. The First Edition appeared in 1934. Actually, it came out the same time as a play of mine which was produced on Broadway and lasted only one week.

HB: You had a play on Broadway?

Graham: Yes. "Baby Pompadour" or "True to the Marines." It was produced twice under two titles. It was not successful. Fortunately, *Security Analysis* was much more successful.

HB: That was *the* book, wasn't it?

Graham: They called it the "Bible of Graham and Dodd." Yes, well now I have lost most of the interest I had in the details of security analysis which I devoted myself to so strenuously for many years. I feel that they are relatively unimportant, which, in a sense, has put me opposed to developments in the whole profession. I think we can do it successfully with a few techniques and simple principles. The main point is to have the right general principles and the character to stick to them.

HB: My own experience is that you have to be a student of industries to realize the great differences in managements. I think that this is one thing an analyst can bring to the solution.

Graham: Well, I would not deny that. But I have a considerable amount of doubt on the question of how successful analysts can be overall when applying these selectivity approaches. The thing that I have been emphasizing in my own work for the last few years has been the group approach. To try to buy groups of stocks that meet some simple criterion for being undervalued—regardless of the industry and with very little attention to the individual company. My recent article on three simple methods applied to common stocks was published in one of your Seminar Proceedings.

I am just finishing a 50-year study—the application of these simple methods to groups of stocks, actually, to all the stocks

in the Moody's Industrial Stock Group. I found the results were very good for 50 years. They certainly did twice as well as the Dow Jones. And so my enthusiasm has been transferred from the selective to the group approach. What I want is an earnings ratio twice as good as the bond interest ratio typically for most years. One can also apply a dividend criterion or an asset value criterion and get good results. My research indicates the best results come from simple earnings criterions.

HB: I have always thought it was too bad that we use the price/earnings ratio rather than the earnings yield measurement. It would be so much easier to realize that a stock is selling at a 2.5 percent earnings yield rather than 40 times earnings.

Graham: Yes. The earnings yield would be more scientific and a more logical approach.

HB: Then with roughly a 50 percent dividend payout, you can take half of the earnings yield to estimate a sustainable dividend yield.

Graham: Yes. Basically, I want to double the interest rate in terms of earnings return. However, in most years the interest rate was less than five percent on AAA bonds. Consequently, I have set two limits. A maximum multiple of 10 even when interest rates are under five percent, and a maximum multiple of 7 times even when interest rates are above seven percent as they are now. So typically my buying point would be double the current AAA interest rate with a maximum multiplier between 10 and 7. My research has been based on that.

I received in Chicago last year the Molodovsky Award.

HB: I understand that you have about completed this research.

Graham: Imagine—there seems to be practically a foolproof way of getting good results out of common stock investment with a minimum of work. It seems too good to be true. But all I can tell you after 60 years of experience, it seems to stand up under any of the tests that I would make up. I would try to get other people to criticize it.

- HB: By some coincidence as you were becoming less active as a writer, a number of professors started to work on the random walk. What do you think about this?
- Graham: Well, I am sure they are all very hardworking and serious. It's hard for me to find a good connection between what they do and practical investment results. In fact, they say that the market is efficient in the sense that there is no particular point in getting more information than people already have. That might be true, but the idea of saying that the fact that the information is so widely spread that the resulting prices are logical prices—that is all wrong. I don't see how you can say that the prices made in Wall Street are the right prices in any intelligent definition of what right prices would be.
- HB: It is too bad there have not been more contributions from practicing analysts to provide some balance to the brilliant work of the academic community.
- Graham: Well, when we talk about buying stocks, as I do, I am talking very practically in terms of dollars and cents, profits and losses, mainly profits. I would say that if a stock with \$50 working capital sells at \$32, that would be an interesting stock. If you buy 30 companies of that sort, you're bound to make money. You can't lose when you do that. There are two questions about this approach. One is, am I right in saying if you buy stocks at two-thirds of the working capital value, you have a dependable indication of group undervaluation? That's what our own business experience proved to us. The second question, are there other ways of doing this?
- HB: Are there any other ways?
- Graham: Well, naturally, the thing that I have been talking about so much this afternoon is applying a simple criterion of the value of a security. But what everybody else is trying to do pretty much is pick out the "Xerox" companies, the "3M's", because of their long-term futures or to decide that next year the semiconductor industry would be a good industry. These don't seem to be dependable ways to do it. There are certainly a lot of ways to keep busy.

HB: Would you have said that 30 years ago?

Graham: Well, no, I would not have taken as negative an attitude 30 years ago. But my positive attitude would have been to say, rather, that you could have found sufficient examples of individual companies that were undervalued.

HB: The efficient market people have kind of muddied the waters, haven't they, in a way?

Graham: Well, they would claim that if they are correct in their basic contentions about the efficient market, the thing for people to do is to try to study the behavior of stock prices and try to profit from these interpretations. To me, that is not a very encouraging conclusion because if I have noticed anything over these 60 years on Wall Street, it is that people do not succeed in forecasting what's going to happen to the stock market.

HB: That is certainly true.

Graham: And all you have to do is to listen to "Wall Street Week" and you can see that none of them has any particular claim to authority or opinions as to what will happen in the stock market. They, and economists, all have opinions and they are willing to express them if you ask them. But I don't think they insist that their opinions are correct, though.

HB: What thoughts do you have on index funds?

Graham: I have very definite views on that. I have a feeling that the way in which institutional funds should be managed, at least a number of them, would be to start with the index concept—the equivalent of index results, say 100 or 150 stocks out of the *Standard & Poor's 500*. Then turn over to managers the privilege of making a variation, provided they would accept personal responsibility for the success of the variation that they introduced. I assume that basically the compensation ought to be measured by the results either in terms of equaling the index, say Standard & Poor's results, or to the extent by which you improve it. Now in the group discussions of this thing, the typical money managers don't accept the idea and the reason for non-acceptance is chiefly

that they say—not that it isn't practical—but that it isn't sound because different investors have different requirements. They have never been able to convince me that that's true in any significant degree—that different investors have different requirements. All investments require satisfactory results, and I think satisfactory results are pretty much the same for everybody. So I think any experience of the last 20 years, let's say, would indicate that one could have done as well with Standard & Poor's than with a great deal of work, intelligence, and talk.

HB: Mr. Graham, what advice would you have to a young man or woman coming along now who wants to be a security analyst and a Chartered Financial Analyst?

Graham: I would tell them to study the past record of the stock market, study their own capabilities, and find out whether they can identify an approach to investment they feel would be satisfactory in their own case. And if they have done that, pursue that without any reference to what other people do or think or say. Stick to their own methods. That's what we did with our own business. We never followed the crowd, and I think that's favorable for the young analyst. If he or she reads *The Intelligent Investor*—which I feel would be more useful than *Security Analysis* of the two books—and selects from what we say some approach which one thinks would be profitable, then I say that one should do this and stick to it. I had a nephew who started in Wall Street a number of years ago and came to me for some advice. I said to him, "Dick, I have some practical advice to give you which is this. You can buy closed-end investment companies at 15 percent discounts on an average. Get your friends to put "x" amount of dollars a month in these closed-end companies at discounts and you will start ahead of the game and you will make out all right." Well, he did do that—he had no great difficulty in starting his business on that basis. It did work out all right and then the big bull market came along and, of course, he moved over to other fields and did an enormous amount of speculative business later. But at least he started, I think, on a sound basis. And if you start on a sound basis, you are half-way along.

- HB: Do you think that Wall Street or the typical analyst or portfolio managers have learned their lessons of the “Go-Go” funds, the growth cult, the one-decision stocks, the two-tier market, and all?
- Graham: No. They used to say about the Bourbons that they forgot nothing and they learned nothing, and I’ll say about the Wall Street people, typically, is that they learn nothing, and they forget everything. I have no confidence whatever in the future behavior of the Wall Street people. I think this business of greed—the excessive hopes and fears and so on—will be with us as long as there will be people. There is a famous passage in Bagehot, the English economist, in which he describes how panics come about. Typically, if people have money, it is available to be lost and they speculate with it and they lose it—that’s how panics are done. I am very cynical about Wall Street.
- HB: But there are independent thinkers on Wall Street and throughout the country who do well, aren’t there?
- Graham: Yes. There are two requirements for success in Wall Street. One, you have to think correctly; and secondly, you have to think independently.
- HB: Yes, correctly and independently. The sun is trying to come out now, literally, here in La Jolla. What do you see of the sunshine on Wall Street?
- Graham: Well, there has been plenty of sunshine since the middle of 1974 when the bottom of the market was reached. And my guess is that Wall Street hasn’t changed at all. The present optimism is going to be overdone, and the next pessimism will be overdone, and you are back on the Ferris Wheel—whatever you want to call it—Seesaw, Merry-Go-Round. You will be back on that. Right now, stocks as a whole are not overvalued, in my opinion. But nobody seems concerned with what are the possibilities that 1970 and 1973-1974 will be duplicated in the next five years. Apparently, nobody has given any thought to that question. But that such experiences will be duplicated in the next five years or so, you can bet your Dow Jones Average on that.
- HB: This has been a most pleasant and stimulative visit. We will look forward to receiving in Charlottesville your memoirs manuscript. Thank you so much, Mr. Graham!

Benjamin Graham was one of Wall Street's great innovators. Beginning his career in 1914, he was a master at using a company's detailed—and often overlooked—financial information when determining the value of its common stock. In the process he invented the field of security analysis and became a millionaire before he was thirty-five. In 1934 he co-authored the book Security Analysis: Principles and Techniques, which quickly became the bible of the investment community and is still the standard text at many business schools and universities.

After retiring in the late 1950s, Graham wrote an autobiography, tentatively titled "Things I Remember," but



others that generally do not accompany the theoretical bent: first, a good instinct for what was important in a problem or a situation and the ability to avoid wasting time on inessentials; and second, a drive toward the practical, toward getting things done, toward finding solutions, and especially toward devising new approaches and techniques.

If I was fortunate in the assortment of talents I brought to financial analysis, I was equally fortunate in the epoch in which I entered Wall Street. When I started, investment was limited almost entirely to bonds. Common stocks, with relatively few exceptions, were viewed primarily as vehicles for speculation.

A Prophet on Wall Street

failed to publish it before his death in 1976, at the age of eighty-two. His family recently released the manuscript, and McGraw-Hill will publish it this fall as Benjamin Graham: The Memoirs of the Dean of Wall Street, from which this article is excerpted.

I WAS DESTINED TO SPEND FORTY-TWO years—my entire business life—on Wall Street, beginning as a brokerage-house runner and ending as one of the heads of a substantial investment fund and chairman of two major business enterprises. Over the years I learned a lot from the teaching and example of others, though what I learned never prevented me from making my own blunders, large and small, nor did it contribute very much to whatever success I have achieved. (This judgment probably reflects the unconscious vanity that makes even a veracious and reasonably modest autobiographer conveniently forget what he owes to others.)

What I brought into Wall Street was an academic viewpoint that was self-adjusting to practical considerations. My school training had made me searching, reflective, and critical. I was able to add to these qualities two

When Benjamin Graham entered the New York financial world just before World War I, he recognized a vast potential for profits in undervalued securities.

In this excerpt from his memoirs, he tells how he taught American investors new tricks.

BY BENJAMIN GRAHAM

Nonetheless, a considerable amount of window-dressing began to be arrayed around common stocks, to impart some aura of respectability to what was previously considered a near-relative of the gambling casino. Detailed information on operations and finances was beginning to be supplied by corporations, either voluntarily or to conform with stock-exchange requirements. The financial services had begun to present this material in convenient forms in their manuals and publications. In addition, regulatory bodies, such as the Interstate Commerce Commission (ICC) and various state public-utility commissions, were gathering enormous quantities of data regarding the railroads and gas and electric companies, all of which were open for inspection and study.

But in 1914 this mass of financial information was largely going to waste in the area of common-stock analysis. The figures were not ignored, but they were studied superficially and with little interest. What counted most was inside information of various kinds, some of it relating to business operations, new orders, anticipated profits, and the like, but most of it to the cur-

The expanded New York Stock Exchange building, here in 1922, was a testament to the prosperity of the great bull market, where Benjamin Graham, opposite in 1951, first made his mark.



rent activities and plans of the market manipulators—the famous “they” who were held responsible for all the significant moves, up and down, of every important stock. To old Wall Street hands, it seemed silly to pore over dry statistics when the determiners of price change were thought to be an entirely different set of factors, all of them very human.

But for a variety of reasons—not the least being the improvement in the

between what was important and unimportant, dependable and undependable, even what was honest and dishonest, with a clearer eye and better judgment than many of my seniors, whose intelligence had been corrupted by their experience. To a large degree, therefore, I found Wall Street virgin territory for examination by a genuine, penetrating analysis of security values. With my double good fortune—of internal equipment and a favorable tide

—I could hardly miss being successful. Nevertheless, my career has had more than one setback.

The real beginning of my career as a distinctive type of Wall Street operator dates back to 1915, with the dissolution plan of the Guggenheim Exploration Company. This concern held large interests in several important copper mines—namely, Nevada, Chino, Ray Consolidated, and Utah—all of which were actively traded on the New York Stock Exchange. When Guggenheim proposed to dissolve and distribute its various holdings pro rata to its shareholders, I calculated that the current market value of the various pieces together would be appreciably higher than the price of Guggenheim shares. Thus there was practically assured arbitrage profit to be had by

simultaneously buying shares of Guggenheim and selling shares of Chino, Nevada, Ray, and Utah. The possible risks lay in (1) failure of the stockholders to approve the dissolution, (2) litigation or other trouble occasioning a protracted delay, and (3) difficulty in maintaining a short position in the shares sold until they were actually distributed to the Guggenheim stockholders.

None of these risks appeared substantial to me. I recommended the operation to the firm, which arbitrated a

fair number of shares. I also recommended it to others in the office. I recall that Harold Rouse [one of Graham’s superiors in the bond department] proposed that I handle the entire operation for him in return for a 20 percent share of the profits. In that way I effected my first arbitrage, an operation that was to prove one of my special fields of study and action. The dissolution plan went through without a hitch, the profit was realized exactly as calculated, and everyone was happy, not the least myself.

At the beginning of 1920 I was made a junior partner in the firm of Newberger, Henderson, & Loeb, members of the New York Stock Exchange, and my appointment was duly announced in newspaper advertisements. In addition to my salary the new arrangement gave me an interest of 2.5 percent in the annual profits, without liability for any losses. My share in the profits came to about \$5,000 per annum during the four years that I enjoyed it.

On January 1, 1926, I transferred my services and my own funds to establish the Benjamin Graham Joint Account. Most of the capital was contributed by old friends, including Fred Greenman [a high school classmate] and many others. The financial arrangements were exactly what I had proposed to an earlier group: I was to be paid no salary but would receive a share of the profits, on a sliding scale up to 50 percent. (Little did I think, in my egregious self-confidence, that six years later I should have to ask that a provision of the original Graham Corporation be revised to pay me a modest salary in difficult times.) The participants were to receive quarterly payments at the annual rate of 5 percent, chargeable against their capital or profits.

The Benjamin Graham Joint Account started with \$400,000. Three years later our capital was around \$2.5 million, most of it addition from profits. A good deal of it belonged to me as the reinvestment of most of my ample compensation plus the earnings on my



A dapper Graham in the early 1910s, before the start of his career.

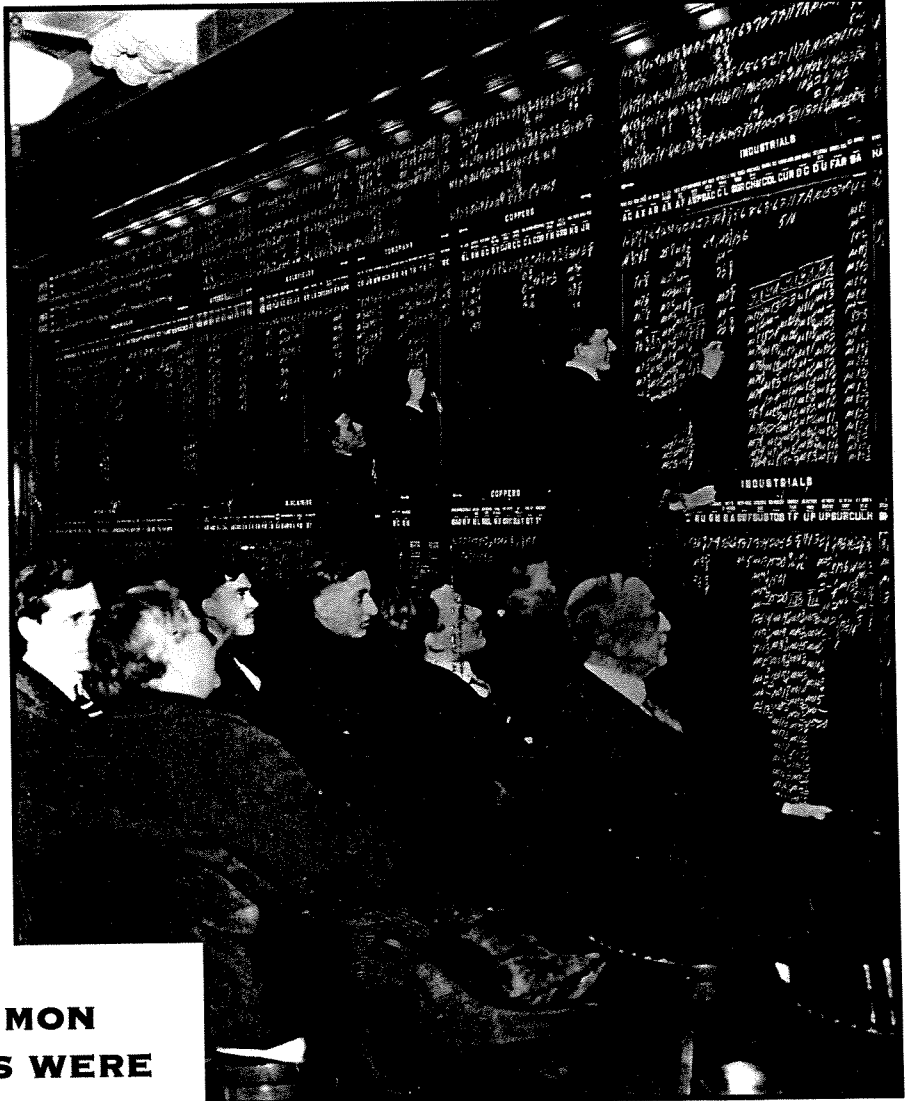
financial strength of large industrial companies that resulted from World War I—intrinsic value and investment merit were destined to assume increasing importance in common-stock analysis after 1914. As a newcomer, uninfluenced by the distorting traditions of the old regime, I could respond readily to the forces that were beginning to enter the financial scene. I learned to distinguish

growing capital. Each year new friends were eager to place funds in the account, the fame of which was spreading by word of mouth. I made no effort to attract additional investors; in fact, I refused to accept money from people whom I did not know personally. But the number of my acquaintances kept growing.

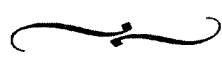
Of the many transactions carried out by the account, one is especially memorable. When the Standard Oil monopoly was broken up in 1911 by order of the U.S. Supreme Court, eight of the thirty-one companies emerging from the giant combine were rather small operators of the pipelines, carrying crude oil from various fields to refineries. Little was known about the finances of these concerns. They published only a one-line "income account," which stated net profits for the year, and a balance sheet in the most abbreviated form possible. Only two Wall Street houses specialized in the markets for all the Standard Oil subsidiaries. The firms published a monthly bulletin containing news items and figures regarding each subsidiary but nothing about the companies' finances other than their highly inadequate income and balance sheets.

One day I was looking through the ICC's annual report for certain data regarding railroad companies. At the end of the volume I came across some statistics concern-

ing the pipeline companies that the tables said were "from their annual report to the Commission." It occurred to me that those reports might contain information not sent to the stockholders, and that such information might be interesting and valuable. I wrote the ICC and requested a blank copy of the



COMMON STOCKS WERE VIEWED AS VEHICLES FOR SPECULATION, RELATIVES OF THE GAMBLING CASINO.



required the companies to set forth a list of their investments at cost and market value. All the pipeline companies had listed a large number of investments in their annual statements, but since no details were given it was impossible to know what those investments consisted of.

report filed by the pipeline companies. A bulky envelope came back containing a form of some fifty pages, replete with tables covering every detail of operations and financial condition. I was especially interested in a table that re-

The next day I took a train to Washington, hied me to the ICC building, entered the record room, and asked to see the annual reports for 1925 of all eight pipeline companies. The reports were duly brought to me, and I soon found that I had a treasure in my hands. To my amazement I discovered that all the companies owned huge amounts of the finest railroad bonds; in some cases the value of these bonds alone exceeded the entire price at which the pipeline shares were selling in the market! I found besides that the pipeline companies were doing a comparatively small gross business with a large profit margin, and that they carried no inventory and therefore had no need what-

Brokers study the boards for the curb exchange in 1919.



The vaunted Standard Oil building looms over Broadway in 1926.

ever for these bond investments. Here was Northern Pipe Line, selling at only \$65 a share and paying a \$6 dividend—while holding some \$95 in cash assets for each share, nearly all of which it could distribute to its stockholders without the slightest inconvenience to its operations. Talk about a bargain security!

Here I was, a stout Cortez-Balboa, discovering a new Pacific with my

eagle eye. Imagine! Carl Pforzheimer & Company and other brokerage firms had given years to the study of these Standard Oil companies, and apparently they didn't know what I knew now, for they surely would not have left the shares to sell at such low levels had they seen the bond portfolios. (After all these years, I'm still amazed

that no one in the brokerage business thought of looking at the ICC data.) Not even counting its hoard of cash and bond assets, how could Northern Pipe Line be selling at 65 if it paid a \$6 dividend and continued to turn a profit? The answer was that the pipeline stocks were completely out of favor. They had previously earned much greater profits and paid much larger dividends; but the new tankers had taken away much of their business. Wall Street, with its usual disregard of details and concentration on the trend, seemed convinced that these companies had only a dismal future. The high dividend yield—more than 9 percent for Northern Pipe Line—was taken as a warning of trouble ahead rather than as a reason for buying.

I had copies made of the ICC reports for several years back and returned to New York in high excitement. I concentrated on acquiring Northern Pipe Line shares, since this company possessed the largest amount of bond investment in relation to its own market price. By careful but persistent buying I acquired 2,000 shares out of the total small capitalization of 40,000 shares. This made me the largest stockholder of record

**NORTHERN
PIPE LINE WAS
HOLDING \$95
IN CASH ASSETS
FOR EACH
SHARE. TALK
ABOUT A
BARGAIN
SECURITY!**



after the Rockefeller Foundation, which owned about 23 percent of all these companies. It now seemed time to persuade Northern Pipe Line management to do the right and obvious thing: return a good part of the unneeded capital to the owners, the stockholders. Naively, I thought that should be rather easy to accomplish.

I made an appointment to see D. S. Bushnell, the president of the company, at his office in the impressive Standard Oil building at 26 Broadway. It

was the first time I had ever entered those legendary quarters. Two old men, looking suspiciously alike, were waiting to see me. One was Bushnell, and the other was his brother, general counsel to the company. (It is the custom in all areas of high finance to have more than one company official present at such interviews, in case testimony as to what was said might later be needed.)

I spoke my piece and made my case. I pointed out that the company was doing only about \$300,000 in gross business, hence it was absurd for it to be carrying \$3.6 million in bond investments that had no relationship to its financial needs. I showed that this \$95 per share in surplus cash assets could not be properly reflected in the stock market, which had long been valuing Northern Pipe Line as a declining business, not as a repository of railroad bonds whose existence it did not even suspect. Clearly, the stockholders' interest was that this property be distributed to them so it could have full value in their direct possession instead of having less than half its value while confounded with the other pipeline assets.

"That's impossible," said the Bushnells promptly.

"Why?"

"Because we haven't any surplus to speak of, so we can't pay out any more than our earnings. Actually, our distributions are very liberal."

"Oh," I said confidently. "That's easy to arrange. All you have to do is reduce the par value of the stock from 100 to, say, 50 or 25 per share, and then you can pay out the difference or pay out 50 or 75 as a return of capital."

A new tack was taken by the Bushnells. (They proved much more resourceful in finding reasons to hang on to the stockholders' pile of gold than in finding ways to increase profit.) "The company can't afford to do that. It needs all its capital."

"But why? It can't need millions of dollars of capital, practically all in cash assets, to do \$300,000 of business."

Analysis of the income account however, would have revealed the following division of the sources of income:¹

Income	1923		1924		1925	
	Total	Per share	Total	Per share	Total	Per share
Earned from:						
Pipe-line operations	\$179,000	\$4.48	\$ 69,000	\$1.71	\$103,000	\$2.57
Interest and rents..	184,000	4.10	159,000	3.99	170,000	4.25
Nonrecurrent items	dr. 35,000	dr. 0.88	dr. 14,000	0.35	cr. 38,000	cr. 0.95
	\$308,000	\$7.70	\$214,000	\$5.35	\$311,000	\$7.77

This income account is exceptional in that the greater part of the profits were derived from sources other than the pipe-line

1. *Northern Pipe Line Company.*—For the years 1923–1925 the Northern Pipe Line Company reported earnings and dividends as follows:

Year	Net earnings	Earned per share*	Dividend paid
1923	\$308,000	\$7.70	\$10, plus \$15 extra
1924	214,000	5.35	8
1925	311,000	7.77	6

* Capitalisation, 40,000 shares of common stock.

In 1924 the shares sold as low as 72; in 1925 as low as 67½; and in 1926 as low as 64. These prices were on the whole some-

"The bonds represent our depreciation reserve. They must be retained for the ultimate replacement of our pipeline."

"When would that be needed, approximately?"

"We can't tell exactly." (The Bushnells wouldn't even try to guess at a possible year. The fact is that those underground pipelines last practically forever.)

"But you don't mean to tell me that you would actually use the \$3.6 million of the stockholders' money to replace a pipeline that was doing only \$300,000 of gross business. That would be crazy." (The Bushnells winced whenever I mentioned their volume of business, which they had so carefully kept from the stockholders' knowledge.)

Still another tack was taken by my hosts, reminding me of the fable of the wolf and the lamb: They couldn't eat me, but they were determined

to send me away empty-handed. "We might decide to build an addition to our lines. There are a number of possibilities, and we must be prepared for any of them."

"But Mr. Bushnell, you have only a little trunk-line segment, running from the Indiana border across the corner of Pennsylvania to the New York border. You are a small part of the old Standard Oil main line. How could you possibly extend your plant in any logical way?"

It was time for the coup de grace and my congé. The Bushnells were running out of arguments. So: "Look, Mr. Graham, we have been very patient with you and given you more of our time than we could spare. Running a pipeline is a complex and special-

Two tables from the 1934 edition of Security Analysis reveal Northern Pipe Line's 1920s financial status.

Running a pipeline is a complex and special-

ized business, about which you can know very little, but which we have done for a lifetime. You must give us credit for knowing better than you what is best for the company and its stockholders. If you don't approve of our policies, may we suggest that you do what sound investors do under such circum-

stances and sell your shares?" There it was, the complete story. I was to hear it again, with only minor variations, countless times in my business career. There was a reason why this happened to me so often. My operations consisted largely of buying common stocks that were selling well below their true value as determined by dependable analysis. The most reliable indication of a substantial undervaluation occurs precisely in the Northern Pipe Line kind of situation, in which there were large realizable assets employed at small profit and withheld from the stockholders. It was my policy

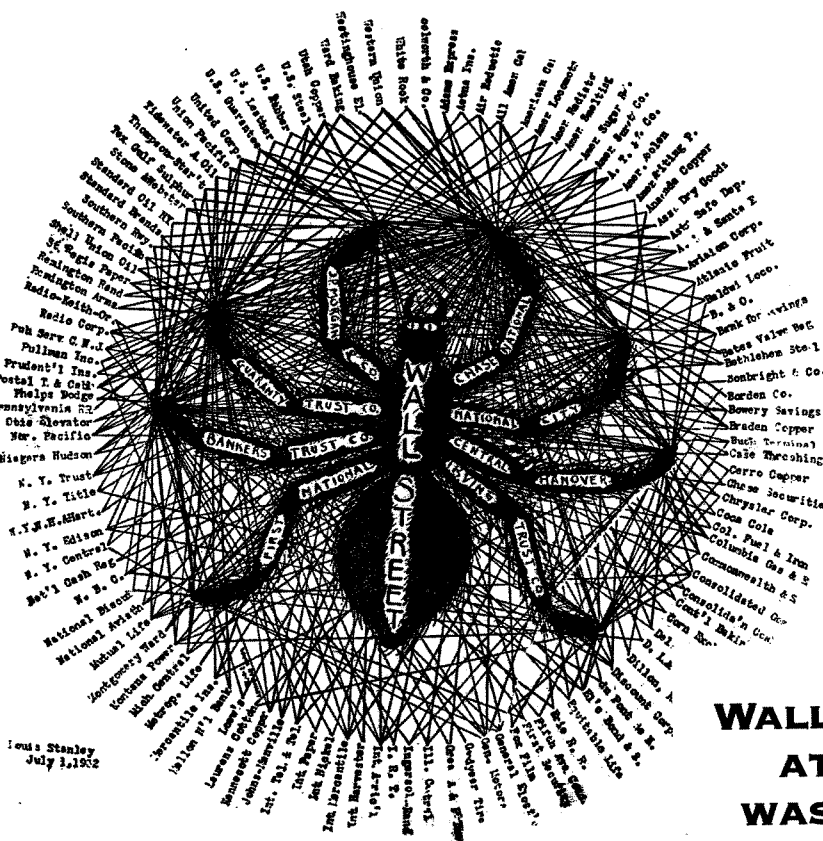
first to acquire a substantial interest in such a company and then to endeavor by one means or another to bring about the appropriate change in its capitalization or operating policies. Almost invariably management resisted my endeavors, utilizing the same arguments as the Bushnells'. The favorite weapon

corporate policy from the outside, especially not in the stronghold of Standard Oil. "If you don't like the management or what it's doing, sell your stock" had long been the beginning and end of Wall Street's wisdom in this domain, and it is still the predominant doctrine. More than that, an outsider who tried to change anything was deemed either crazy or suspect. Many years before, a crafty character named Clarence Venner had made a lot of money and an unenviable reputation by bringing many suits against managements for alleged financial misdeeds of various kinds, some entirely technical. So now if you just asked politely for something to be done, you were rebuffed more or less courteously, but if you persisted and indicated an intention to institute a legal action or ask for stockholders' proxies, your motives were immediately impugned, with broad intimations that the company was being victimized by a "holdup artist, another Venner."

In most of these cases the stockholder pressing for relief had not owned his shares for a long term. The reason for this is simple. If he had bought them in the old days when the price of the stock was high, he would be neither knowledgeable nor vigorous enough to see what needed to be done and to work for it. The only people who were likely to carry the ball for themselves and the other stockholders were knowledgeable professionals who had bought

at low prices—i.e., fairly recently—and were aiming at what they considered a legitimate profit in return for their efforts.

Managements rarely failed to emphasize this fact of recent acquisition, suggesting that the troublemaker was a Johnny-come-lately and therefore a



Louis Stanley
July 1, 1932

A 1932 chart suggests how tightly bound American banks and corporations were.

When, in all innocence, I made my first effort as a stockholder in 1926 to persuade a management to do something other than it was doing, old Wall Street hands regarded me as a crack-brained Don Quixote tilting at a giant windmill. No experienced person would waste his time trying to change any

WALL STREET'S ATTITUDE WAS: "IF YOU DON'T LIKE WHAT MANAGEMENT IS DOING, SELL YOUR STOCK."



mere self-seeker. I have never had any question or qualms about the ethics of my endeavors. What I accomplished benefited not only my own people but all the other stockholders, old and new, who were thereby getting only what they were entitled to as owners of the business.

In the early days the business of Wall Street was largely a gentleman's game, played by an elaborate set of rules. A basic rule was "no poaching

on the other man's preserves." This meant that no one who was "in"—a member of what we would now call the Establishment—would think of making any move contrary to any other similarly situated person's vested interests. Banks and brokers always automatically turned over their annual-meeting proxies to management. A corporation or a banking group would never think of making a merger or a purchase offer to the stockholders

or some concern without first having worked out the deal with management and having made ample provision to "take care" of same. Since investment bankers wanted to stay in the good graces of corporate managements generally, none could afford to get a reputation for not playing the game. In parallel fashion corporate officials never supported any move that would threaten the jobs or perquisites of the officers of another company, for they

The Shareholders' Advocate

In 1932 Benjamin Graham found himself in an economic climate that was very different from the one in which he had pulled off his Northern Pipe Line coup five years earlier, but he still concerned himself with the "inflated treasuries" of America's corporations. That spring he wrote a series of articles on the topic for FORBES magazine, which called it "one of the most amazing, far-reaching and important situations which business and financial America has ever witnessed." These passages appeared in the June 15 issue, under the title "Should Rich Corporations Return Stockholders' Cash?"

"The total sale of corporate securities to the public [between 1926 and 1930] exceeded twenty-nine billion [dollars], of which a small part perhaps was turned over to private individuals, but the major portion was paid into the businesses, and either expended in plant additions or added to working capital.

"It must not be forgotten that other enormous sums have also been accumulated in the form of undistributed earnings. After this tremendous influx of cash it is no wonder that corporate treasuries are still bulging, despite all the money that has been spent, or lost, or paid in dividends.

"But what of the people who supplied the bulk of this money; the investor who bought new offerings; the stockholder who subscribed to additional shares? They are not rolling in wealth to-day, nor burdened with a plethora of idle funds. They stripped themselves of cash to enrich their corporations' treasuries; they borrowed heavily in order that these corporations might be able to pay off their debts.

"The grotesque result is that the people who own

these rich American businesses are themselves poor, that the typical stockholder is weighed down by financial problems while his corporation wallows in cash. *Treasurers are sleeping soundly these nights, while their stockholders walk the floor in worried desperation.*

"True, the public has more stock certificates to represent the new shares which it paid for, and each certificate carries ownership in the cash held by the company. But somehow this doesn't help the stockholder very

much. He can't borrow from the bank, or margin his existing loans, on the basis of the cash behind his shares. If he wants to sell he must accept the verdict of the ticker. If he should appeal to the officers of the company for a little of his own cash, they would probably wave him away with a pitying smile. Or perhaps they may be charitable enough to buy his stock back at the current market price—which means a small fraction of its fair value. . . .

"Let corporations return to their stockholders the surplus cash holdings not needed for the normal conduct of their business.

"The immediate result of such a movement would be to benefit the individual stockholder, by placing funds in his hands to meet his urgent needs or to use as he sees fit. The secondary result would be to improve the price of the shares affected and the stock market generally, as the public is made aware in this forceful fashion of the enormous cash values behind American business to-day. The third result would be to improve the balance of our banking structure, making for a larger proportion of sound commercial loans (especially when business again expands) and permitting the repayment of a certain quantity of frozen security loans."



expected the same courtesies to be extended to them by all the other club members. It was like the preferred treatment always accorded to officers taken prisoners of war. Their officer-captors made them quite comfortable because they expected the same amenities for any of their own officers who might be taken prisoner by the other side.

Before I left the Bushnells' office, disappointed and exasperated, I told the brothers that I would like to come to the next annual meeting to express my views in an oral memorandum to the other stockholders and for the record. They seemed surprised at this suggestion but soon answered that of course I would be welcome to come to the meeting. With that I said good day and left.

The annual meeting was held in early January 1927 in Oil City, Pennsylvania, a town truly in the sticks. One had to take the train to Pittsburgh and then make a

rather poor connection for Oil City. I made the overnight journey alone, first in a Pullman berth and then in a rickety local train, on a bitterly cold and snowy day. The company's offices in Oil City were meager but large enough to hold the assembly, five employees and me. I looked in vain for outside stockholders.

In the meantime Bushnell's minions scrutinized me as if I were some curiosity from another planet, which I practically was. After some formalities, an employee read a prewritten slip that moved for the adoption and approval of the annual report for 1926. Another employee immediately seconded the motion. I rose and was recognized.

"Please, Mr. Chairman, where is the annual report?"

"We are sorry, Mr. Graham, but the report won't be ready for several weeks."

"But Mr. Bushnell," I asked in bewilderment, "how is it possible to approve a report that isn't ready and available?"

A whispered conference with the other Bushnell.

"But as you are well aware, I made the long trip here just to put this memorandum in the record. You encouraged me, Mr. Bushnell. I think you owe me the courtesy of seeing that my motion is seconded and carried."

Another brief conference, and then: "I'm very sorry, but no one seems will-



**THE BUSHNELL
MINIONS
SCRUTINIZED ME
AS IF I WERE
SOME CURIOSITY
FROM ANOTHER
PLANET, WHICH
I PRACTICALLY
WAS.**



"As we agreed in New York, I should like to read for the record a memorandum relating to the company's financial position." Another brief conference.

"Mr. Graham, will you please put your request in the form of a motion?" I did so.

"Is there any second to this motion?" A pause of a few moments. Silence. I had not thought of this, and had failed to bring anyone with me from New York to back me up.

"We have always handled the matter in this way. Those in favor say 'aye.'"

All the proxies except mine were voted for the motion. After a few more formalities the chairman said that a motion of adjournment was in order. I rose again hurriedly.

ing to second your motion. Do I hear a motion to adjourn?"

In a moment the meeting was over.

With ill-concealed snickers, the Bushnells' minions filed out.

I felt humiliated at being made a fool of, ashamed of my own incompetence, angry at the treatment given me. I was able to control my feelings just enough to say quietly to the president that I felt he had made a great mistake in not permitting me to have my say, for I would now come back the next year. Then I would have a second with me, and more.

I amply justified and fulfilled my threat. Actually, what I took to be a dismal personal failure in January 1927 turned out to be a great piece of financial luck. For now I had a whole year to prepare a plan and enlarge my financial stake. With increased capital available I

The Oil City train station in 1926, just before Graham made his first visit.

bought more shares of Northern Pipe Line. I committed as much of the partnership's funds as I could risk. I engaged Fred Greenman's highly regarded corporate law firm, Cook, Nathan, & Lehman, as counsel. The senior partner was Alfred A. Cook, a man of great ability and prominence but, I must add, of even greater pompousness and vanity.

In my financial reading I had come across a fact that was little known at the time. I discovered that a number of states had passed laws requiring corporations to elect directors by cumulative voting. By casting all proxy votes for one director, a shareholder with

Alfred Cook asked for a list of stockholders, and we were allowed to make our own copy from the company's records. Evidently the Bushnells thought we had no chance of accomplishing anything; otherwise they might have made us fight a costly legal battle to obtain the list. We prepared a letter setting forth our case. Cook, Greenman, and I worked hard over it, and I must say it was pretty good.

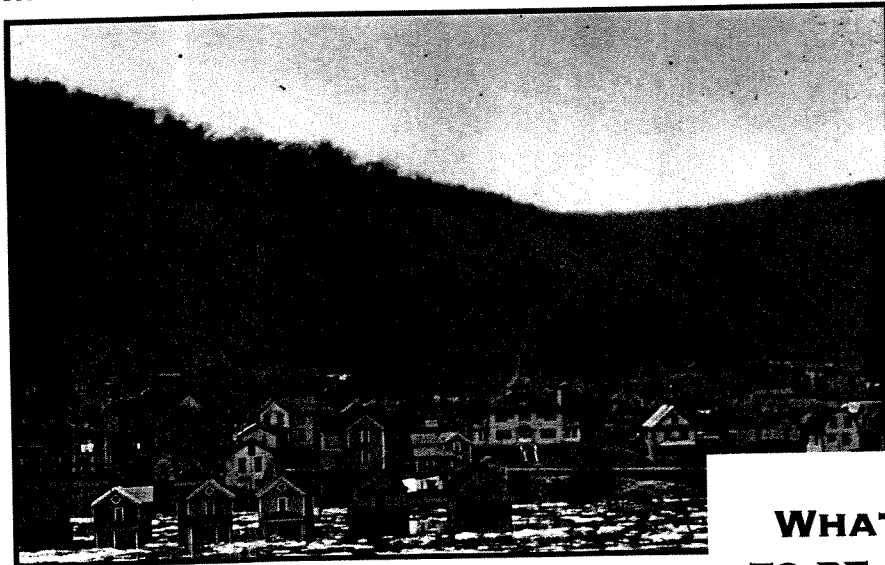
The company replied in its usual lordly way, dodging all the real issues, asserting its superior competence to decide what was best for it and ergo its stockholders, and impugning the motives of us interlopers with not-so-

cent of the total. I was able to arrange an interview with Bertram Cutler, financial adviser to the foundation. He listened courteously but said rather decisively that the foundation never interfered in the operations of any of the companies in which it had investments. (This statement as well I was to hear too often in my later career from investment managers who should have taken their true responsibilities more seriously.) I tried to establish that the question at issue had really nothing to do with the *operations* of the Northern Pipe Line; it was simply a decision to be made by stockholders relating to the use of their surplus capital. But I returned empty-handed.

Greenman and I met Cook at the Recess Club to discuss strategy, particularly in relation to the Rockefeller Foundation's proxy. By chance we espied John D. Jr. sitting at the very next table, having lunch with a youngish man in a sport coat. (He turned out to be Andrew Mellon, Jr., son of the multimillionaire financial magnate, art collector, and U.S. Secretary of the Treasury.) We were so struck by this happenstance that for a minute Alfred Cook seriously considered approaching Rockefeller and asking him to discuss our proxy fight and solicit his foundation's support. But we soon dismissed the idea as ill-advised.

Nonetheless, we did surprisingly well in garnering our other proxies. In retrospect I am amazed at our suc-

cess, for further experience was to teach me that a strong, logical case does not go very far when one is appealing to the mass of feckless stockholders over the heads of and in opposition to a company's entrenched management.



A river view of Oil City, a town "truly in the sticks," in 1926.

only minority support could insure his own election. Pennsylvania was one of these states, and Northern Pipe Line Company was incorporated in Pennsylvania. Given its small board of five directors, it took the proxies of only one-sixth of the shares to elect one director, and of only one-third to elect two.

I canvassed the stockholders and asked for their proxies in favor of a resolution to reduce the capital and for the election of two of the directors to represent the rank and file of the owners. We did not propose to elect a majority of the board, for that would have given us responsibility for operating the company, and we knew we had no right to assume that.

subtle innuendo.

There were not many large shareholders, and we arranged to visit personally all who owned more than a hundred shares. Northern Pipe Line made similar efforts through its employees and the Bushnells. (This was before the days of the large organizations now used by many companies to solicit proxies, even when there is no contest.)

Our most important objective was the proxy of the Rockefeller Foundation, owner of 9,200 shares, or 23 per-

WHAT I TOOK TO BE A DISMAL PERSONAL FAILURE TURNED OUT TO BE A GREAT PIECE OF FINANCIAL LUCK.



The day of the annual meeting arrived in January 1928. I went again to Oil City, but this time not alone. I had with me three lawyers from Cook's outfit, including the redoubtable Alfred himself, and also Henry Schnader, a partner in a prominent Philadelphia firm, our Pennsylvania counsel. (Schnader was soon to be elected attorney general of his state.) We also had a goodly store of proxies, enough to give us what we wanted. To be sure that nothing misfired we arrived in Oil City a day in advance and installed ourselves in the best (or perhaps only) hotel. A pourparler with the Bushnells resulted in an agreement to go over the proxies that evening, to save time at the meeting.

The management group was surprised and discomfited to see how many of their own proxies had been superseded by later-dated ones given to us. After all this time I still remember old Bushnell's involuntary exclamation of pain when we established our right to one particular proxy for three hundred shares. "He's an old friend," he gasped, "and I bought him lunch when he gave me his proxy."

Before the meeting started the next morning, the management asked for a conference. We had proxies for more than 15,000 shares, enough to entitle us to two directors. (Thus we had obtained about half the votes other than those belonging to the Rockefeller Foundation, which we hoped might at least be withheld from the management.) Bushnell was now very suave. He saw no reason for an open contest, with its accompanying embarrassments to everyone, at the meeting. He would be very happy to accept the nomination by our side of two directors and to put them on the company's slate, thus making the elections unanimous.

Alfred Cook proposed Schnader and me as directors. Bushnell made some effort to have Cook himself—or almost anybody—substituted for me, for whom he evidently didn't care much. Without consulting me, Cook answered with a flat no. This had been my battle, he said, and I was entitled to the vic-

tory. The Bushnells gave in; the single slate was duly nominated and elected, and the whole meeting went off quite smoothly.

I was now the first person not directly affiliated with the Standard Oil system to be elected a director of one of

from 100 to 10; to give \$50 in cash and three new shares in exchange for each old share, and to carry the balance of \$20 per old share to capital surplus. Bushnell added that some additional distribution might be made later out of that capital surplus. But



its affiliates. Even though Northern Pipe Line was tiny compared to most of the others, I was mighty proud of my exploit.

During that truce conference in Oil City, Bushnell offered the conciliatory remark that it ought to be possible, at an appropriate time, for us all to reach an accord on the company's financial setup. We thought then that this was a little soft soap, with no real significance. However, a few weeks later he invited me to his office for a discussion. In dulcet tones the old hypocrite said, "You know, Mr. Graham, we were never really opposed to your ideas about returning capital to the stockholders; we merely felt that the time was not appropriate. As matters now stand we are ready to present a plan that we think will meet with your complete approval."

The plan was to reduce the par value

first some proper provision must be made for pensions for the faithful employees. In fact, the full \$70 per share were eventually distributed, and the aggregate value of the new Northern Pipe Line stock plus the cash returned ultimately reached an aggregate of more than \$110 per old share.

We wondered what had brought about this sudden change of heart in our formerly obstinate opponents. Alfred Cook later learned that the Rockefeller Foundation, through its proxies made out to management, had indicated that it would favor distribution of as much capital as the business could spare. (They could find good philanthropic uses for the money.) This explanation is most likely true, because virtually all the pipelines later followed Northern's example and made corresponding distributions to their stockholders. ★

Benjamin Graham, enjoying the fruits of retirement, in 1957.