



A Discussion of Dr. George Athanassakos with Mr. Walter Schloss

New York, NY, May 8, 2008, 6:00 pm – 8:00 pm

In his efforts to preserve the ideas, philosophies and style of investing of legendary value investors, Dr. Athanassakos met with Mr. Walter Schloss in New York on May 8, 2008. They met for dinner at a small Greek restaurant, called the 3 guys, on Madison Avenue between 75th and 76th streets. Over the restaurant's famous stuffed turkey dinner, Dr. Athanassakos and the man that Mr. Buffett refers to as "the super-investor" discussed a number of issues related to Mr. Schloss' successful career that spanned 45 years from 1956 to 2000 and over which period Mr. Schloss beat the market by 4% after expenses and lost money only in two years – higher return with lower risk!

Walter's great grandfather immigrated to the US from Germany in the late 1800's. The advice he had gotten from his own father was "work hard and trust in god, but if this does not work then look up your cousin in New York", which he did. This is how the Schloss family came to be in the US. Walter's character of frugality, controlling expenses and disdain for "losing money" was instilled in him by seeing the calamity and adverse effect that his grandfather's bankruptcy had on his family. He saw his grandfather go bankrupt and his father struggle through life. His father died relatively poor at 104. Walter now 92 seems to have inherited good genes.

Schloss started his limited partnership in the middle of 1955. In 1963, he earned the Chartered Financial Analyst designation. Walter's son Edwin joined the partnership in 1973 and the fund changed its name to Walter & Edwin Schloss Associates. Over the period 1956 to 2000, Mr. Schloss and his son Edwin provided investors a compounded return of 15.3% compared with the S&P 500's annual compounded return on 11.5%.

Mr. Schloss learned his trade starting in 1935 from the Dean of Value Investing Mr. Ben Graham at Columbia University, when he took Graham's course on Security Analysis. The course impressed on him the ability to identify undervalued stocks through the many real life examples Graham brought to class, at the time including Coca Cola and Colgate-Palmolive. Responding to a question Mr. Schloss explained that while some talent is

needed, value investing can be taught by courses such as the one developed by Dr. Athanassakos at the Richard Ivey School of Business.

Over the years, Mr. Schloss tested himself to see if he could control his emotions by waiting for a stock to fall further before buying it even though he liked the stock in the first place and when it was at a higher price. Through the years Schloss developed a keen discipline and patience, but also the human qualities of compassion for his fellow citizen. He never had an interest in accumulating a large position in any company to threaten taking the company private and/or force a merger as he has always felt that such actions led to many people losing their jobs, something that he did not like to be the cause of.

He avoids making mistakes by not talking to managers who may affect one's decisions while he finds the process time consuming and confusing. He prefers to look at companies that have reached new lows, but he does not necessarily feel that they are necessarily undervalued. His next step is to check value line, who controls what within the company, the company's history and its management and the amount of debt a company carries.

On the other hand, his mistakes include not buying companies for their business like Buffett does and not talking to management and visiting plants. He has always liked to look at balance sheets, book value relative to market value, companies with low debt and the history of a company.

He finds it more difficult to sell than buy. But he believes that when a stock rises significantly it is more vulnerable to a decline.

He attributes his success to hard work, controlling costs, luck and knowing his territory. The biggest lesson he learned as an investor is "Do not lose money".

He has confidence in the US economy and he expects it to come out of the current malaise with many opportunities arising for investments. On the other hand, he does not trust the governments of China and other popular emerging economies and he prefers to invest in the US. As he said, never short the US.

After Mr. Schloss had finished his ice cream, dinner was over. We paid and we were on our way. We said our goodbyes and Schloss crossed Madison Avenue on his way to his condo around the corner.

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."