Robert Bruce speaks before the EMBA students at Columbia Business School

February 29, 2008

Dominic Huet helped bring *Mr. Bruce* to speak to speak here.

Robert Bruce ("RB"): This is the first time I have had the opportunity to speak before EMBA students. I have been involved with the regular CBS value course since its inception. I have worked closely with *Bruce Greenwald*.

I want to tell you a little bit about my personal background and my evolution of how I got to where I am. I graduated from *Columbia Business School ("CBS")* in 1970. I went to work on Wall Street as a securities analyst. I am not too proud to say that after a few years of working on Wall Street I was walking in the wilderness. I had no idea if I knew what I was doing, but I was earning good money. I had forks in the road where I took the right fork. I read about *Walter Schloss* in Forbes Magazine and the caption in the magazine was making money out of junk. It said that this man had worked for *Benjamin Graham*, he managed a small private partnership, and he had a remarkable record for a long period of time. It was fascinating to me. It struck a cord within me because it was so far away from what I was doing at the time.

I called him on the phone, I wrote him a letter, I tracked him down and finally after a great deal of effort and time, I got to meet him and became friendly with him to this day. By the way, there is an article about him in Forbes magazine just recently. Just one or two issues ago. Sort of an update of his career (See appendix).

But through *Walter*, I met *Sandy Gottesman*, a partner at *First Manhattan* and an early investor in *Berkshire* and a friend of *Warren E. Buffett ("WEB")*. And that was the beginning of my career as a value investor, learning from the best. I started out on the conventional path and I had the good fortune to make a turn into the sunshine.

Later in my career some *Columbia MBAs* were interested in creating a value investing program at the business school. I have been involved in that program and have lectured every year since it started.

This will not be a how to lecture since I consider that a low level discourse. I try to give a how to think about things lecture or how to think generally and philosophically.

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A philosophical kind of approach.

The problem of creating the value investing program at Columbia was getting it to a high enough level of generality. Columbia is a world class university. Any graduate course should be at an appropriate level. The risk always was that the value course with outside lecturers would not rise above the level of having alumni come back and tell war stores, relate antidotes. I was very concerned that would happen.

What I think is very important with a course of this level is to elevate this course to general ideas of investment thinking because you can buy books anywhere to teach you to take apart a balance sheet the trivia of that kind of work.

It is important for value investing is that you develop a certain mindset. *WEB* said that these ideas are so simple that either a person grabs them right away or he or she never does. The ideas are elegantly simple but people can't seem to help themselves from making them more complicated than there are.

I graduated from *Columbia* in 1970 and I have been doing security analysis and portfolio management ever since then. It is a fact that I have changed a lot over the years. **I have evolved.** I am constantly thinking of what I am doing, mistakes I have made. How I can do things better? How I can become more efficient? The whole time management idea.

What I want present to you tonight is the current state of my thinking about the investment problem. I spoke to *Dominic* tonight and you will have many different speakers talk to you. They will all embody the value philosophy but the particulars of what they have to say to you should be quite different. Because there are many ways to apply the value principles.

So what I am going to talk to you tonight is <u>my</u> approach and by no means is it the only way to do things. I have a little narrow style that I try to apply and there are others who have styles that may be just as valid as mine.

What I have done is to try to <u>generalize the investment problem</u>. The risk is that speakers come to you and they talk about stocks in their portfolio: I own *Kraft, Coke* and *Comcast*. Usually they talk about successful investments. There is a *narrative* that goes with it—why I like it, management is great, but the idea about how you could find such an investment today is kind of glossed over.

Bruce Greenwald tells each class—he coaches them--to ask the speakers what their search algorithm? Business school talk. People/speakers won't give explicit answers to that question. If I were to give you detailed information of my search algorithm, you would find the exact same stocks that I already own. And you would buy them at the same prices that I determined that they were worth buying.

But I am not going to tell you my search algorithm, but that is what you should demand from the speakers who come here.

The screening/analytical part of what I do can be done by computer. This is not all that hard to do. What is necessary is to organize one's thoughts to be able to instruct the computer to do the task.

I will talk about what I do, a little <u>narrow subset of value investing</u>. I am pretty sure that everything I tell you will be generally true; it stood the test of time and my own experience--and the reading and studying that I have done. I don't think I will tell you anything that will lead you far astray.

Defining what value investing is. There is a difference between price and value. We are looking for favorable differences to pay for value and then decide if price is sufficiently less than the ascertained value to allow for a margin of safety to make an investment.

The definition of **Intrinsic Value** ("IV") is the Present Value of all distributable cash flows whether operating or non-operating over the entire life of the business. Or another way of defining IV is the price at which a buyer and seller—equally knowledgeable and neither one operating under duress—would agree to a transaction. Both of these definitions are easy to articulate, but not so easy to implement or to determine. For example, there are some businesses for which no one can ascertain their value within a tight enough <u>range</u> to be useful to make decisions.

What type of companies are those? A company where the future prospects are so uncertain both good or bad that no one knows what the long term future or cash flows will be. Then again there are businesses that we, I, or you do not have the knowledge to project the future cash flows and discount them back. That is a very important element of <u>humility</u> that you should take into this work.

Warren Buffett talks about circle of competence. Know your own special areas of expertise, competence and focus your efforts within those. Be humble, there are lots of smart people in this business. Your analytical skills are not generalizable across many industries and many asset categories. Stick to what you know.

Try to be confident that when you make an investment decision, it is in an area where you have an edge. Go where the playing field is not level. *Bruce Greenwald* talks about all the time—what is your edge? Why does this investment opportunity manifests itself to me, but other people don't see it? Who is the smart money? You have to be tough with yourself in asking that question because it is easy to delude oneself that an opportunity is as easy as picking money off of the sidewalk. Very seldom does that happen.

I think you have read the Intelligent Investor by *Ben Graham*. You have heard of the mental construct of *Mr. Market*, this moody person offering to buy or sell. You don't have to deal with him unless you want to. If he is euphoric and bids up, you can sell to him. If he is depressed and sells low, you can buy from him. But in the middle you can do nothing.

When *Ben Graham* was writing about *Mr. Market*, the market was individual investors back then. It is easier to understand people who have mood swings. The world has changed. Mr. Market still exists, but he is in an extremely different form—now it is highly institutionalized market. 75% to 85% of all equities are held by a number of giant institutions. We like to think these people are supremely professional, but they aren't. Moreover, they have institutional imperatives; they have careers within these organizations. People don't want to take chances to jeopardize their job.

They are asset gathers. They constantly want to grow assets to generate fees so it leads them to cluster in the same path. It leads them to group think. They like the same things together and hate the same things together.

I was astonished to read yesterday:

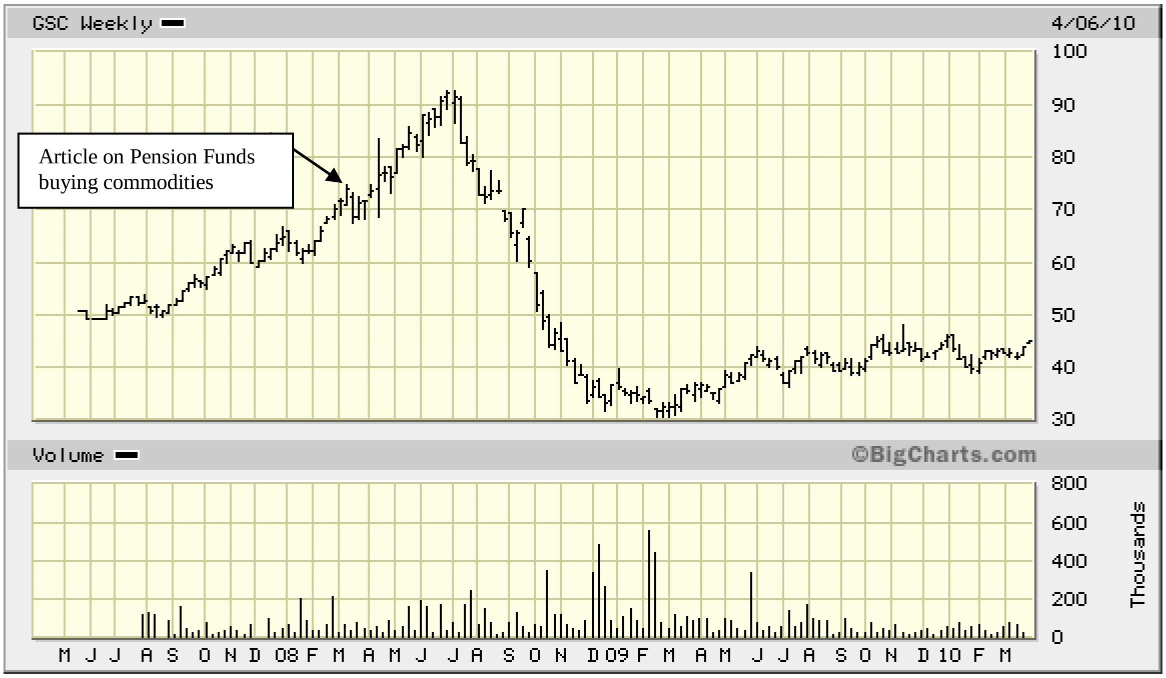
Calpers' investments in commodities to impact the U.S. economy

Posted Feb 28th 2008 3:03PM by Joseph Lazzaro
The commodities fad took a major step toward becoming an investment trend when investment giant Calpers -- the $240 billion California Public Employees' Retirement System -- announced it may increase its commodities investments 16-fold to $7.2 billion through 2010, Bloomberg News reported Thursday.

Calpers, the largest pension fund in the United States, said it would hold between 0.5% and 3% of its assets in commodities. Last year the fund invested $450 million in commodities.

Strong emerging market growth, particularly in China and in sections of Latin America, has created a bull market in oil, commodities and raw materials, and many economists say these assets are likely to outperform both inflation and selected investment classes in 2008, and possibly for a longer time period.

The Standard & Poor's GSCI index of 24 commodities is up **10% so far in 2008, following a 33% gain in 2007.** Meanwhile, the Standard & Poor's 500 Index of stocks is down 6% this year, while U.S. Treasuries have netted a 2% return.



Calpers: Twofold impact

Economist Glen Langan told BloggingStocks Thursday Calpers' decision will impact the U.S. economy twofold.

"First, there's the direct impact of Calpers moving money toward commodities, which is bullish. Second, and perhaps more significant, there's the symbolic impact of having a major buy-side institution say it's going to **commit more money to commodities**. That decision will no-doubt encourage other institutions and money managers to do the same, and put more fire under commodity prices for 2008," Langan said. "That suggests commodities will perform well in 2008, barring a major slowdown in global growth."

Still, Langan is quick to point out the downside to the United States to double-digit commodity price growth, particularly as it relates to energy and raw materials. Rising commodity prices will continue to exert inflationary pressures in the U.S. economy, raising costs for businesses and consumers. Some companies (and individuals) will benefit from the rise, as will institutions who invest in the investment class, but the net effect for the U.S. economy is decidedly negative, he said.

"The U.S. economy is just beginning to see the inflation effect of various commodity price increases, particularly oil, but also corn and wheat. That should add about 1 percentage point to retail inflation," Langan said. "If the commodity bull market continues in 2008, it could add another percentage point to retail inflation. On a practical level, are U.S. consumers' financially prepared for $5 a gallon gasoline, and businesses prepared for raw material costs that increase by, say, another 20-30%? Probably not, which is why policy makers are going to have to prepare potential solutions, should commodity prices reach unacceptable levels."

Calpers has now, now has decided to drastically increase its allocation of assets into commodities—where have they been? **This is the way big institutional investors work.** I submit to you that it is quite possible to make money off their idiosyncrasies just as it was for *Ben Graham* to take advantage of individual investors who together made up the market when he was writing. *(Editor: The Pension funds entering the commodity market after a two year rise shows the effect of the supra-marginal buyer making the top).*

So I define for you the term Intrinsic Value. Then we come to the term a **margin of safety** or how much of a discount should we expect or demand in order to make the investment attractive?

Certainly if you find something in the market worth X and it is trading in the marketplace at 95% of x, that is not a big margin of safety. Moreover, you must not kid yourself, that your appraisal of x is anything other than some central tendency within a range.

The margin of safety must be big enough to give you confidence so that even if you are off slightly of your appraised intrinsic value estimate that you are getting, you are making your investment at a discount.

So when people ask me how big a margin of safety should I aim for? I say as big as you can, but the reality is that the higher the margin of safety you demand or expect, the fewer investment opportunities you will find. If you say I will only invest in companies with a 50% margin of safety, then you might have to wait around for a long, long time—until 1932 comes along again. There is some trade-off between finding investment opportunity and demanding a very big margin of safety.

My long experience, is that I almost never have found companies trading at little as half their value. I have friends who say I have found this or that trading at half value. My experience is that when I come up with a margin of safety of 50%, I usually redo my work because usually I am wrong about the appraisal value. My experience is that rarely do you find things at a lot less than 30% of intrinsic value.

Moreover, this is where my thinking has evolved over the years. I used to be a contrarian by nature. I was what is called a deep value investor. I bought businesses way out of favor, usually cyclical, commodity businesses—buying them when they were most out of favor and depressed. Those kinds of investments you can find at deep discounts. You have to be tough to buy them; you have to be really tough to go against conventional wisdom during the time when people say these are down and they are never coming back.

But what I have found—getting back to what I call this institutional element—even though I would have many of these stocks that over time would generate 10 times, 29 times their return—I found that my investment partners could not stomach it. The investments would be so out of favor for so long. It is just the reality. That is not to say you can't do that type of investing for yourself if you are temperamentally inclined to do it.

I will tell you from personal experience that it is a tough slog to get other people to entrust their money to you when you buy such out of favor investments. Moreover, let's get to an interesting comment that *Warren Buffett* made, **"I would rather buy a great company at a good price than buy a good business at a great price."** It took me a long while to figure this one out, but when you get into this idea of margin of safety; the really great companies rarely get cheap or sell far below intrinsic value. Never do they sell far below intrinsic value. But if you take any of these companies like *Coke* or *IBM* or something like that—big, well-known, superior companies—I think it is unreasonable to expect that these companies will trade much below 20% of intrinsic value. Most of the time they are at or above intrinsic value; these are the well-loved, widely owned, security blanket element of careerism to them. Institutional investors say that if I own *Coke* and it does poorly, I probably won't lose my job over that. These are all biases that keep these stocks close to IV. Moreover, the idea--it seems reasonable to me that the bigger companies, the bigger capitalization companies, do have more research coverage and they do tend to be more efficiently priced.

What Mr. Bruce does?

Search Algorithm

I pretty restrict my search algorithm to companies that are **demonstrably superior as demonstrated by their financial characteristics**. I focus on what I call seasoned companies. These are companies that have a long enough history of 10, 15 or 20 years at least such that it is possible to examine that long-term financial record and see how that business has performed under various business conditions in times of recession, in times of inflation, cycle down turn, low and high commodity prices. You can see the company under stress and various cycles over time.

You look for a company with a significant cash generation. Those are companies with long enough track records that there is little doubt that there is something fluky or temporary about the results they have achieved. If you look at those kinds of companies or set your screenings to ROI, ROIC, ROE, profit margins, ROE you will find that if a company has a long history of those superior performance measurements and has been in business long enough to qualify as seasoned, then by that time it is usually a pretty big company. If a company has been around for 15 or 20 years generating high rates of return, it will be noticed and it will be a large company.

I don't restrict myself to certain type of investments. I don't have a label like small cap value or mid cap growth or what have you. I am looking for companies that fit this financial description and by and large they are big companies. Pretty much arbitrarily I cut them off at the bottom at $1 billion market cap. I tend to focus on companies that are much bigger than that.

These are superior businesses and by focusing my attention on them, it makes my life easier. If you would get your Value-Line out—this has 2,000 to 3,000 companies—there are no more than 60 or 80 companies that meet this criteria of consistently high profitability, consistently high excess cash generation. These are the characteristics that you would look for. These consistently high or excellent financial characteristics or performance measurements usually shows some evidence that there is some kind of moat there or franchise in the business.

I would say that if you look at a company with consistently high returns over ten years, you are safe in assuming that a moat exists because if there was not a moat (barrier to entry) the returns would be competed away within a ten year time frame.

So if you see a company with a long record of superior profits, you should assume there is a moat and then set to find out what is the moat? It usually not hard. There are common threads that run through these companies. So in these good businesses we look for high rate of return and high rate of return businesses always *(an exception being Wal-Mart, for example, in its early growth years)* generate more cash that can be reinvested in those businesses. Usually a moat around a business is finite in size. **All franchise businesses are under constant attack.** Any kind of high return business is always subject to competitive attack like innovation or substitution or competition. When you see a company that consistently maintains high returns over a long period of time, there is a moat operating. You want to see that the company is being well run so the moat is preserved.

But business with moats around them are rare. They don't have great reinvestment opportunities. A great example today would be *Microsoft*. *Microsoft* has the most profitable legal businesses in the world. They generate zillions of dollars of cash which they don't know what to do with and they have a long history of making poor investments. They lost billions in Junk bonds. Nobody missed it. In the case of Yahoo!, if it goes through, it remains to be seen whether it will work out or not. They don't have a outlet for their gusher of cash. They work very hard to protect their franchise as you would to if you owned the Windows franchise; it generate way more cash than they have use for and they have demonstrated over a long period of time that they have no idea of what to do with their cash.

These good businesses that generate cash have good choices. *Charlie Munger* says they wake up in the morning and say should we raise our dividend today, should we buy back a little more stock? They are in control of their destiny. Bad businesses—things happen to them. They don't make things happen.

Right now we are at the beginning of a serious <u>reemergence of inflation</u>. One definition of a good business is the ability to <u>raise prices</u> or float along with the inflationary tide.

So when you read on Wall Street that such and such company is being temporarily being squeezed or their raw material costs have gone up and they have not been able to pass them through—warning lights should be blinking; sirens! That is like saying we don't have a good business here. If prices go up on us, we can't raise our prices or pass them through. That means that there is no moat.

I have no idea what *Warren Buffett* is thinking about when he invests in *Burlington Northern* or *Kraft Foods*, but it appears to me that he sees in those businesses that they both have the ability to raise prices or pass through price increases. It is something he is very concerned about, so therefore, it is something that you should be concerned about.

Focus on businesses that can raise prices and preserve their margins. It is beyond the scope of this lecture, but are common stocks protection against inflation? I will relate what *Buffett* said to me many, many times. He said a well selected, well diversified portfolio of common stocks is not a perfect inflation hedge, but it is the best one he can find. It is not good; it is the <u>least bad</u>.

If you look at the businesses that he has invested in over many decades, the common thread is that they are inflation "pass-throughs". If you wanted an inflation pass through, the exception being Burlington Northern, you don't want a lot of fixed investment or a lot of bricks and mortars and factories because in time of rapid inflation, you under depreciate those assets and you wind up with overstated earnings because at the end of the day your depreciation is not enough to replace your worn out assets. You look for *WEB* businesses that are not hard asset intensive and a lot of them are financials like *American Express* (AXP) where if prices rise 3% or 4% then revenues rise 3% or 4% which is a gross oversimplification.

If you look at the *Berkshire* portfolio name by name, you will find the common thread is an inflation pass through and protection from an emergence of inflation.

<u>With regard to my style of investing:</u>

I look for superior companies as measured by financial characteristics, seasoned companies with a long term track record to be meaningful enough so you have confidence in the moat. You are not buying into these businesses when their competitive advantage is about to be lost.

So what *edge* do <u>you</u> bring to this party? If you look at these companies, what edge do you have? What do you know about *Coke* (KO) that the whole world doesn't know? I will be candid and say to you that I don't know anything about *Coke*'s operations that isn't widely known by someone who is doing a careful study of the business. Where I have chosen to focus my work in recent years is on <u>valuation.</u>

Valuation has something to do with this emerging area of **behavioral finance**. The bias that people have; the mistakes they make; the misunderstanding they have. I don't need to know what the misunderstanding is; I just need to know there is a mis-pricing. How do these mis-pricings occur? This gets back to price versus value. **We as value investors are always looking for opportunities where price is significantly less than value.** Think in a general sense, "How can such favorable gaps open up?"

With only one exception I conclude that those kind of favorable opportunities arise when a stock price is either <u>flat or down</u>. It means that the bad news is over discounted in the stock price or there is bad news that in some way is over emphasized in the price of the stock. The only exception to this is good news that is so good that the market doesn't recognize it. *Apple Computer*. When the *IPOD* came out, the stock went up but if you had been smart enough to recognize how big the *IPOD* was going to be, you would say the stock is way up but it has not begun to discount the how big and how good this will be. So a valuation gap opened up. By definition that was a value opportunity but not for me. Unless you had some profound insight, it generally was not available. *(One problem with betting on the IPOD's success would be in the longevity of the product cycle. How wide would its moat be and for what period of time?)*

The idea of finding opportunities in stocks to invest in—the punch line here is that you must be looking for stocks that are out of favor, that have not gone up, or maybe they have gone down; they have been flat for a long time. These are the preconditions for the price value disparity. The other related point, I suggest to you that you read *Robert Schiller's* book, Irrational Exuberance. It was published just before the dot-com bubble burst. The second edition came out and included a lot of references to the housing bubble. He is a very serious economist, not a sensationalist. There is a lot of history, there are a lot of behavioral ideas in the book. It is written for a general audience.

I consider it essential. I think it is a good read. In it he makes the point that share prices even the big companies are much more volatile than the underlying cash flows of those companies.

Wall Street has a hair trigger. A company will report earnings within a penny of Wall Street estimates and in response to that the company may gain or lose tens of billions of market value. Now for these big battleship companies, the intrinsic value doesn't change that much. But Wall Street in its jittery, short run obsessive ness exaggerates the significance of these short run fluctuations. It creates opportunities for value investors.

Now I will wrap up here. I have asked each one of you to avail yourself of four Value-Lines. I want to make a couple of points. First of all is *Coke*. By the way, if you are not familiar with Value-Line, you should be. It is a wonderful compendium of data.

Coke traded at 1998 at $88 per share and fell steadily until 2003 where it traded at $37. During that period of time, *Coke*'s sales and earnings went up every year. Cash flow went up every year. The stock went down, down and down. The company continued to perform, but the stock fell steadily. Now what does a value investor think about that?

My conclusion is that the market collectively was reassessing *Coke*'s future. The market came to the realization that the market got carried away in 1998/99. *Coke*'s future was not as rosy as predicted or implied by market prices. With the passage of years, there was this constant ratcheting down of expectations. Finally, at the bottom there are these articles in the *Wall Street Journal* or *Business Week* that *Coke* has lost it or *Pepsi* is killing them. This always comes late in the game after the adjustment has taken place.

Coke's performance was pretty constant through that time period, but it was investor's expectations that changed. Investors were wrong. They were wildly optimistic in 1999 as they were with a lot of companies like the high tech and Internet companies. My calculation which I can't prove to you supports this idea, if *Coke* which sold in 1999 at $88 and it had $1.69 of cash flows or 50 times CF. Earnings of $1.62 or more than 60 times earnings. Plenty of people went along.

My analysis of *Coke* was that when the stock was at $89 then $15 of that was present value and the rest ($75) was future value. By the time the stock bottomed years later at $37, I estimated that the present value was $27 or $28 per share and the future value (franchise value) was $10. So the market had reevaluated *Coke*'s future. This was roughly on 2.5 billion shares.

So the market was saying that *Coke*—if my numbers were right and I believe they are roughly right—but 75 points on 2.5 billion shares is 187 billion dollars. The market is saying that *Coke*'s franchise value is worth $187 billion. By the bottom, it was saying it was only worth $25 billion. So you see these exercises that consultants do or read articles in the general business publications where people try to assess what are the valuable franchises in the world. *Coke* is usually number #1. But no one would have said it was worth $187 billion but that is what the stock market said it was worth in 1998.

It took a long time for the market to reassess, but at the bottom, I believe, it overshot. The franchise was then only priced at $25 billion which was too little. Now there has been more of a move to within fair value ($60).

***Coke*'s 10 year chart. High in 1998 at $88 per share and low in 2003 at $37.**

Now I want to talk about *IBM*. *IBM* is almost beyond any one person to understand. Even for people who work there or run it. These multinational companies are beyond any one executive to understand.

Five-year Comparison of Selected Financial Data

International Business Machines Corporation and Subsidiary Companies

($ in millions except per share amounts)

FOR THE YEAR ENDED DECEMBER 31:	2007	2006	2005	2004	2003
Revenue	**$ 98,786**	$ 91,42	$ 91,134	$ 96,293	$ 89,131
Income from continuing operations	**$ 10,418**	$ 9,416	$ 7,994	$ 7,497	$ 6,588
Income/(loss) from discontinued operations	**(00)**	76	(24)	(18)	(30
Inc. bef. cumulative effect of change in accounting principle	**10,418**	9,492	7,970	7,479	6,558
Return on stockholders' equity	**36.6%**	30.8%	24.5%	24.4%	24.5

AT DECEMBER 31:	2007	2006	2005	2004	2003
Net investment in plant, rental machines and other property	**15,081**	14,440	13,756	15,175	14,689
Working capital	**8,867**	4,569	10,509	7,357	7,205
Total debt	**35,274**	22,682	22,641	22,927	23,632
Stockholders' equity	**28,470**	28,506	33,098	31,688	29,531

But if you look at the *financial characteristics of IBM*, they are remarkably stable. The balance sheet shows low leverage. If you view *IBM* as a battleship and say it will not change drastically in the short run. The revenues grow in some relation to global GDP (3% to 5%) and then if you take a normal margin on those revenues, you can normalize earnings and make a reasonable estimate of its long run cash generating capability. But Wall Street lets the price fluctuate widely. Again, *Value-Line* shows that *IBM* sold as low as $73 and as high as $121. So it went up 50 points in one year times 1.4 billion shares so a $70 billion fluctuation in the market value of *IBM*. I submit that it is impossible for the intrinsic value of *IBM* to move that much. Thereby an opportunity presents itself.

Last I want to talk about *Motorola* and *Nokia*. These are cell phone companies. For people who would argue for efficient markets you should look at the financial characteristics of *Nokia*. It is one of the great, great companies. It is a company that earns from 25% to 40% per year on unlevered equity. It generates huge excess cash; raises its dividend each year. Buys its shares back every year and always sells at a modest valuation.

Now *Motorola* is a perpetually troubled company with very weak financial characteristics. Always next year. From a valuation perspective, at the end of 2006, *Motorola* and *Nokia* were trading at the same dollar price. *Motorola* has activists like Carl Icahn threatening it or rattling the cage to restructure, but *Nokia* was sitting there at $20 and it turns out they earned $2 in 2007 and earned 42% on equity but this is not a surprise because this is just a conti9nuation of what *Nokia* has been doing for more than a decade.

So while the activists and Wall Street activists are agitating for *Motorola* and talking about all the potential, they say that *Nokia* is just a commodity company. There is nothing special going on. They didn't give them the *Ben*efit of the doubt after more than a decade of great performance and unbroken financial brilliance. So what happened in 2007? *Nokia* went from $20 to $40 and *Motorola* went from $20 to $10.

The idea that the market is efficient and the idea that great companies like *Nokia* that jump off the page at you can never be cheap is just not right.

***Nok* vs. *Mot* over a one-year time frame—*Nok* up 35% vs. *Motorola* down 45%!**

I want to end cold-turkey here and I hope there is enough time now to answer questions that you might have.

Q: How do you decide when to sell?

RB: That is a tough question.

The idea is that if you buy a good business at a fair price, as *Warren Buffett* has said in his shareholder letters, if you buy a *Coke* at a fair price, you will earn the return of *Coke*'s business on a one-for-one basis. Your share price will rise in line with the accretion of value in the business. If, on the other hand, you are clever enough to or lucky enough to buy it at a discount of say 20%, you will earn the accretion of value and the accretion of the discount if it goes from 0.80 to 1.00.

If you open the *Berkshire Annual Report* and look at his big holdings—he gives you his cost basis—then you can see the compounded rate of return over time that he has gained.   This is just a rough number because shares have been bought at various times. What you find out is the CAGR is 13% or 14% and what that is the accretion of value of the business plus the accretion of the discount when he bought the shares originally. He never sells. He says his favorite holding period is forever. He has a unique situation which does not hold for many individuals.

First of all he is a corporation so he faces a high tax rate on capital gains. The value of a long term tax deferral compounding over time is much more valuable to him than to us where we have in theory a 15% tax rate. The other problem that he has is a huge inflow of cash so the last thing he needs if he is holding $40 billion in cash is to sell something that is marginally overvalued, pay the tax and then just add it to his cash hoard where he is not earning very much anyway.

I would argue for individuals, people with normal tax situations, you should buy a stock well bought is half sold. If you buy a good business at a discount and hold it for some period of time, you will make both the accretion of the discount (your margin of safety) and growth in the business over time. You have earned your return as the discount is closes between price and intrinsic value. You should sell when the price reaches fair value and that is your reward for choosing well.

Many people will stand before you and say, "That is a terrible way to invest—you sell your winners, cutting the flowers to water the weeds. Generally if you stick to this method and you don't have this gusher of cash, you will do well. Remember that *Buffett*'s situation—I think he said he has a billion in cash coming in every month—is different from yours or mine.

You can't be too precise. Don't kid yourself that when *Coke* is at $58 you know what its IV is down to the penny; you don't. But you have some idea of what *Coke* is worth and if it gets to be far enough above IV, you sell it and look for another opportunity.

Q: Big companies can fundamentally change every 25 years….for example, when Gerster took over *IBM*. Do great companies persist?

RB: Big companies. The first book on this subject was written in the 1930s about the life cycle of companies from periods of rapid growth, dynamic growth, then they mature and then many of them die.

I am saying that when I look at a company like *Nokia (NOK)* and see that it earns 30% to 35% on unlevered equity (ROE) year after year on unlevered equity, I am going to presume those characteristics will persist <u>until</u> I see evidence that it is not. We are not talking about just big companies like *General Motors*; we are talking about <u>very superior companies</u>. When you look at the financial characteristics of these companies…..when you look at *IBM*, the business model changed from a mainframe manufacturer to a service company, and they also completely changed their financial structure and they have altered their cost of capital by borrowing a lot of money and buying a lot of stock.

By the way, I think that is a big <u>opportunity</u> for companies that I think are demonstrably overcapitalized. Look at a company like *Cisco* and *Intel*; they are more than 100% equity because they have big cash hoards too and you know that is a long way from an optimal capital structure.

I think in the end, these big overcapitalized companies will find someway to get their capital structure into sharper focus. I know for a fact that *Warren Buffett*, when he was on the board, agitated to have *Coke* buy back stock and lever itself. It made all the sense in the world when rates were low and *Coke*'s share price was low. Certainly, *Coke* doesn't need much capital to operate. You look at an *Intel* or a *Cisco*, these great big companies—*Nokia* for that matter—and you have 5, 10 or 20 billion dollars of cash sitting around, investment bankers know what to do.

I think *IBM* is a role model for such companies. For example, if you look at *Eddie Lampert*, the Chairman of *Sears Holding*, and you look at the common thread of all the companies he has been involved with, he agitates for drastic changes in the capital structure—borrowing money and buying back stock. *AutoZone*, *AutoNation*, *Liz Claiborne*. That is what he does, get the businesses to change to a more appropriate capital structure.

Q: Companies pass through inflation. How do you find a balance between the two--good businesses and commodity-like businesses?

RB: Well, commodity businesses have their own cycles. There are cycles of investment. The general reason we are having such a boom in Copper, Steel and Aluminum is because there were decades of <u>underinvestment</u>. And so we are in a situation where prices rise until new investment is stimulated.

In the example of a Wheat farmer, if the price rises, you can plant more and sell more after the next harvest. In the case of copper, you have to find the ore and spend a lot of money to develop so the investment cycle takes a long time.

But my message to you would be—**I think that there are smarter and better ways to invest than in deep cyclical commodity companies.** The ideas is to invest when the market price is below the cost of production.

Now you look and all the commodity prices are far, far above the cost of production which will stimulate new supply in just about everything and these are self-correcting cycles. *The doomsday scenario never happens.*

Q: What are your favorite recent picks? You look for large business that are established…

RB: The businesses don't have to be large, but they tend to be large because of their past success.

Q: At the same time in that world which is well publicized and well covered, you are able to find undervalued companies?

RB: I am using behavioral finance to discover what is discounted in the price. For example, I bought recently *Black and Decker*.

Now everyone knows about the housing slump and slowdown in homebuilding, but *BDK* has already fallen about 40% already so I would submit that the obvious news has been significantly discounted—entirely discounted? I do not know. What I have done with these behavioral models is to say it appears to me by my criteria that *Black & Decker (BDK)* is cheap as it has ever been. Does that mean it can't get cheaper? Absolutely not.

One thing to remember is that when the last big Bull market occurred in the 1960's there was a best seller called the Money Game written by *George Goodman*, ala Adam Smith. He was a brilliant man and a witty writer and I commend it to your attention for a light, fun read. **The stock does not know you own it.** People expect that when they buy a stock, it will stop going down and then go right up. You don't ever find a bottom unless you are lucky.

When you are investing, you are making a positive expected bet over a reasonable time horizon. *Ben Graham* never used the term, **Mean Reversion,** but a lot of what we are talking about here is reversion to the mean. That is the fallacy, the big flaw of Wall Street research—investment analysts are very predisposed to trend extrapolation. They don't think in terms of mean reversion. I am going to say that if *Black and Decker* is going to sell off from the high $90s to the $60s then a lot has been discounted already.

So I make some attempt even though the business has not turned south yet, the likelihood of that occurring is already reflected in the stock price. **The kind of market we are in right now is a wonderful hunting ground for value investors.** Volatility is where opportunities come from. I heard a statistic a few weeks ago so it must be more true now that 50% of the S&P is trading 50% below its 52 week high. That kind of reassessment of company prospects is going on. If you turn on CNBC today, you see everyone chewing their fingernails. What write-off is coming today? Who will miss earnings?

You are not in the game of predicting what the bank will do or what the write-off is going to be or what the bank is going to do. You are trying to find a stock with a margin of safety. The stock market will bottom out long before the economy bottoms out. I have been through many recessions in my career and throughout all of them the stock market did not go to zero. At some level they stop falling and it is always before the worst of the news is out.

Q: Do you invest in Global stocks like India, China?

BG: I don't. When I worked for *Sandy Gottesman*, the head of First Manhattan, I was a very junior, subordinate type of person while working for him. He had a rule for me: the farther the company headquarters is from 42nd and Fifth, the less interested I am. Not to diminish emerging markets or foreign economies, but we have big companies…*Coke* has stated publicly over and over again that within a few years 95% of their profits will be outside the US. So *Intel, Cisco*, big US companies, are de facto global companies. Other people know more about emerging markets than I do.

Nokia is a company I can understand. It is an international company. It happens to be stationed in Finland, but given its scope and international exposure it is unimportant to me where it is domiciled.

I read about the US becoming a less attractive place for a listing, but I don't know all the issues. There are companies outside the US that meet all the criteria that I have set out in terms of superior financial characteristics. I am not familiar with all of them. *Nokia* is one that jumps out at me.

Q: You look for seasoned companies of 10 years of more with superior characteristics. What happens next in terms of your strategic analysis? Life cycle?

RB: I don't spend a lot of time on that in depth analysis because I compensate for that by the sizing of the bet. This is a portfolio management decision which is different subject from what we are talking about tonight.

The idea of money management and sizing of the bet should have some relationship to your confidence or your knowledge. Another change that I have made is that I now manage portfolios that are much more diversified than they used to be. **Many relatively small bets, each with a positively expected value.** I like to say independent bets, but due to the market there is a correlation. There is a market influence except for Gold stocks let's say. When the market goes down 300 points like it did today, everything goes down. There is no independent bet.

In my youth I used to travel across the country and talk to managements and get to know them. It was a good thing to do then, but since with Reg. D there isn't anything managements can tell you that you would really want to know. Also with the Internet, there is the tremendous availability of the SEC filings of the press releases and company presentations. I am way in favor of Reg. D. It was called for and needed—a good idea; there is an abundance of information.

I am more interested in the bet sizing and the diversification because you don't bring any edge to the party by talking to management. Managements are human. They are not geniuses. I am against all the lionization of CEOs like *Chuck Prince, Sandy Weil*. They are here today and gone tomorrow. The business is what is important. It is not the people. **I don't focus so much on the details of the business. I believe that the numbers speak.**

There a lot of companies that are praised but when you look at the numbers you say, "What is so special? What is going on here?" There is nothing to get excited here. It is the differentiation between sizzle and steak. You get a loquasous charming manager who spins a good story.

One suggestion if you are interested in a company and you want to be amused and informed, get a stack of annual reports, the last 3 or 5 or 8 years of annual reports on that particular company and read the message to shareholders and compare them and see if there is a continuity of purpose—one refers to another. Look for managements that degrade themselves. See if management is consistent and honest. "Last year we met two of our goals but fell short of….because many are not honest. Many managements are inconsistent or they change their focus from year to year. They will say revenues went up this year, but there is not there, there. They are living day to day and these are, by the margin, not good businesses.

Q: Can you talk about a recent mistake and how it changed your philosophy?

RB: Well, the nature of what I am doing now—this idea of **mean reversion--**the studies show that in the short run there is momentum, but in the long run, there is mean reversion. Stocks that have done well one year, tend to do well the next year. This flies in the face of EMT, but there is agreement that there is some short-run momentum at work.

The mean reversion is a longer-term thing where it takes three or four years. So the idea that I made a mistake---you have to be careful about that means. *Warren Buffett* has always talked about a permanent impairment of capital. If you buy a stock and it goes down, that doesn't necessarily mean you made a mistake. He likes to point out that when he made his investment in the *Washington Post Company (WPO)*, he made his initial investment in *WPO* at 40 cents on the $1. Within a year it had fallen in half. Does that mean it was a mistake? No. It just means that it was a better opportunity. If you buy something at 40 cents on the dollar and it falls in half, you don't have to sell it. *(Focus on your investment process over the long-term, not short-term outcomes)*

The mistake you make is an <u>analytical mistake</u> when you buy a business thinking it is something that it turns out it wasn't. That is where you get the permanent impairment of capital. That is where you buy a good businesses thinking it is a good business and then it turns out to be a poor business. **Or you buy—you deviate from your discipline—a bad business because you say, "this is so cheap." It can't get any worse, but usually it does.**

Q: I have a question on implementation. *Buffett* talks about not believing in the Beta or WACC. What thumb rules do you use for a discount rate?

RB: The discount rate has to do with your required rate of return, it is a *personal* discount rate.

If you look at your dividend discount model of D/(R – G) that is where you get your inflation pass though arithmetic. The growth rate is the real growth plus inflation.Your demanded rate of return is the risk free rate plus inflation rate plus the risk premium. So if you do the subtraction, the inflation comes out so the demanded rate of return for me may be higher than yours so you will find a stock that is attractive while I will not. That is why value investors are always groaning that stocks are not cheap. They say they can't find anything.

Well the stocks are priced; they are trading, they are pricing billions of shares every day. Implicitly what is happening there? People who are buying those stocks are willing to accept a <u>lower return</u> than the people who don't find them attractive to buy. Is that a fair answer?

Q: Do you use multiple models of valuation to get some range of value?

RB: I am looking for companies….that if you look at *Coke*, it is remarkably consistent business, and you can see how much cash is generated and how much cash is needed in the business. Then what is done with the cash—what is paid out in dividends or buy backs and how much is reinvested in the business. There is a fair amount of bottlers bought in the past few years if you look in the footnotes. *Coke* is a fairly simple business to model. Start with the idea of how fast does revenue grow? Obviously with these big companies, they are linked to GDP growth and the areas in which they operate. So if this is a mature company can it grow just as fast as GDP? Is it growing faster than GDP? Then you do the discounting of that.

We value investors want to get the future cheap, preferably free. *Ben Graham* believed in that. He didn't want to buy growth stocks. He wanted the here and the now and he wanted it at a discount. When I first came to Wall Street, there was a firm called *Tweedy Browne*, they made a living as recently as 1970 where they were buying stocks at 70% of net/net working capital stocks and then sold them when the stocks went to 100% of net/net working capital. Of course, net/net working capital stocks disappeared in the late 1970s. But that is how cheap stocks used to get.

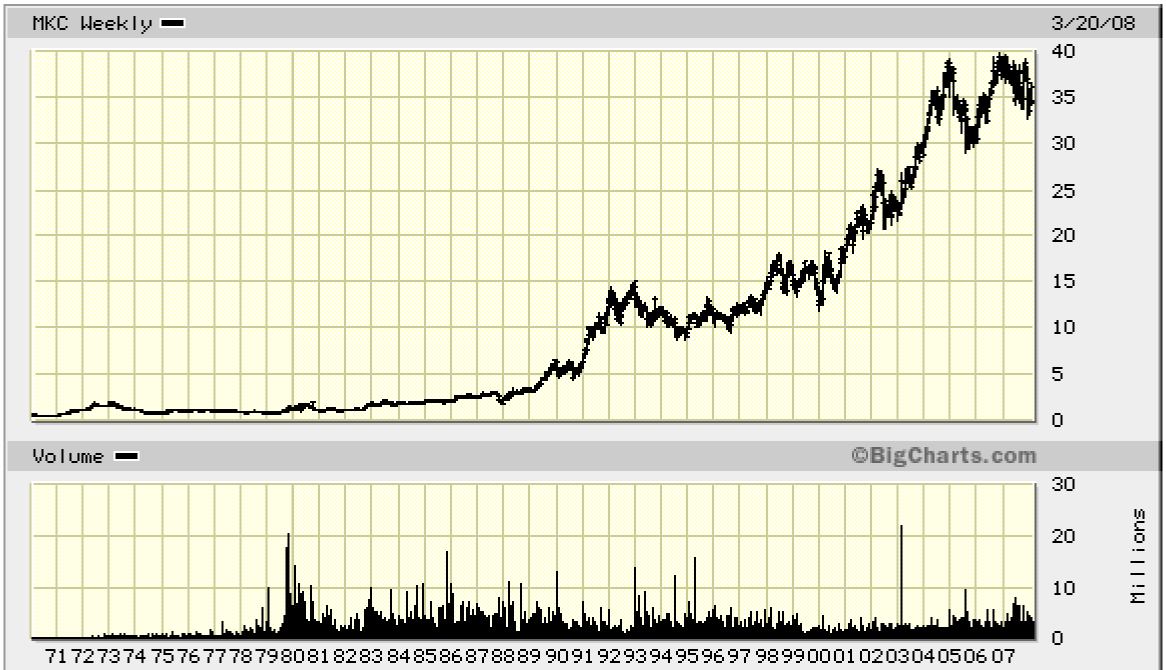
Have I exhausted you yet?

One more Question?

Q: When you separate the companies from the *Value Line*, many are trading at a premium so what type of situations or news you are looking for to make a buy?

RB: Here is the analogy I like to use. We value investors like to buy our **shoes on sale**. This one I like and if it ever goes on sale, I will buy it. If it is in my size, I will buy the shoes. But the underlying thought, you may not get the shoes; it may never gone on sale. *PATIENCE.*

I identify a subset of 50 to 75 companies or 100 companies at the most that meets the financial characteristics that I want, and I wait for them to go on sale. Sometimes they never do. A company called *McCormick (MRC)* that I would use as an example that makes the spices and it has a wonderful long term record, but it never, ever gets cheap. If you ever wanted to buy *McCormick*, you could never buy it with a margin of safety—at least by my reckoning.



The idea is to identify your candidates—these are the better companies—I would be happy to buy any of them if they got to my valuation level. You never know which company that will be. In the kind of market that we are now in, I am finding companies I never thought I would own. I bought a company recently called *Paychex (PAYX).* They are a small ADP; they are a wonderful company. It is run by *Tom Galisono*. The stock is at 20 times earnings but it has wonderful, sensational cash generating features. A price it has never really been before.

Q: What do you think about long and short strategies?

RB: I have a lot of scares from short selling and I would just say that the valuation….the valuation methodology does not lead to successful short selling. *Benjamin Graham* wrote that himself, *WEB* has said that himself. Valuation … I have never ever met any successful short sellers. When stocks are overvalued by my criterion, that doesn't mean they will go down a whole lot more.

I have an experience way back when. There was a fraud called *Baldwin United*. I perceived it as a fraud. I shorted the company at $50, it went to $100 before it went to $1. That is a real world example of a short. You can be really right on a short but if you are not right on the timing, you can get hurt badly. The margin of safety, the ways we protect ourselves now is diversification, true diversification like different industries, different sizes and through the bet size and having a reasonable time horizon (of over three (3) years or more). If you own a stock right now in the kind of market right now, you are losing money. **There is nowhere to hide.** If you are long, you are losing money. That is just the way the world works from time-to-time. The money in the equity market has to have a long term horizon.

Whatever we are living through right now in 2008, in 5 to 10 years, this will be a little blip on the price chart, just like 1987 or 9/11 that seemed to be traumatic at the time.

Q: Can you use this strategy for new, emerging companies?

RB: No, because those companies have very little present value and little future value which very few people are capable of accessing. So by my criterion of seasoning, new technologies, I want to see them over a period of time and through adversity. How does a company do through a recession and tough times?

Q: What is the Strategy to get out? What is the typical holding pattern?

RB: Given the essence of what I do is **mean reversion** and the academic studies show that mean reversions take place over three or four years so that is the reasonable time horizon. Interestingly enough when *Ben Graham* in his later years tried to find a mechanical formula for stock picking and investing, he would have a set of criteria and he would buy a stock when all of these criteria were met and then he would sell if one of two things happened either it goes up 50% or you hold it for three years. He was trying to avoid the value trap. If you buy it cheap and it stays cheap forever. I think that is still too short a time horizon, you run the risk of missing a really big move.

The kind of investing I am doing now does not lead you to make 3, 5 or 10 times your money. If you are dealing in these big companies like *Coke* at $40, it is not going to $400. **If it goes to $60, then you have made 50% and that is a generous return <u>relative</u> to the risk you have taken.**

<u>Editor</u>: Note the evolution of a very experienced professional investor(37 years plus) who moved from deep value investing in commodity-like companies to investing with diversification in stalwart, superior companies. He moved from the difficult to the less stressful, more elegant approach.
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Appendix

Experience Bernard Condon 02.11.08

At 91, the man *Warren Buffett* famously dubbed a "superinvestor" is still picking unloved stocks.

***Walter Schloss* has** lived through 17 recessions, starting with one when Woodrow Wilson was President. This old-school value investor has made money through many of them. What's ahead for the economy? He doesn't worry about it.

A onetime employee of the grand panjandrum of value, *Benjamin Graham*, and a man his pal *Warren Buffett* calls a "superinvestor," *Schloss* at 91 would rather talk about individual bargains he has spotted. Like the struggling car-wheel maker or the money losing furniture supplier.

Bushy-eyebrowed and avuncular, *Schloss* has a laid-back approach that fast-money traders couldn't comprehend. He has never owned a computer and gets his prices from the morning newspaper. A lot of his financial data come from company reports delivered to him by mail, or from hand-me-down copies of *Value-Line*, the stock information service.

He loves the game. Although he stopped running others' money in 2003--by his account, he averaged a 16% total return after fees during five decades as a stand-alone investment manager, versus 10% for the S&P 500--*Schloss* today oversees his own multimillion-dollar portfolio with the zeal of a guy a third his age. In a day of computer models that purport to quantify that hideous and mysterious force called risk, listening to *Schloss* talk of his simple, homespun investing methods is a tonic.

"Well, look at that," he says brightly, while scanning the paper. "A list of worst- performing stocks."

During his time as a solo manager after leaving *Graham*'s shop, he was a de facto hedge fund. He charged no management fee but took 25% of profits. He ran his business with no research assistants, not even a secretary. He and his son, Edwin (who joined him in 1973), worked in a single room, poring over Value Line charts and tables.

In a famous 1984 speech titled the "The Superinvestor of *Graham*-and-Doddsville," *Buffett* said *Schloss* was a flesh-and-blood refutation of the Efficient Market Theory. This hypothesis holds that no stock bargains exist, or at least ones mere mortals can pick out consistently. Asked whether he considers himself a superinvestor, *Schloss* demurs: "Well, I don't like to lose money."

He has a Depression-era thriftiness that benefited clients well. His wife, Anna, jokes that he trails her around their home turning off lights to save money. If prodded, he'll detail for visitors his technique for removing uncanceled stamps from envelopes. Those beloved Value Line sheets are from his son, 58, who has a subscription. "Why should I pay?" *Schloss* says.

Featured in Adam Smith's classic book *Supermoney* (1972), *Schloss* amazed the author by touting "cigar butt" stocks like Jeddo Highland Coal and New York Trap Rock. *Schloss*, as quoted by Smith, was the soul of self-effacement, saying, "I'm not very bright." He didn't go to college and started out as a Wall Street runner in the 1930s. Today he sits in his Manhattan apartment minding his own capital and enjoying simple pleasures. "Look at that hawk!" he erupts at the sight of one winging over Central Park.

One company he's keen on now shows the *Schloss* method. That's the wheelmaker. *Superior Industries International* gets three-quarters of sales from ailing *General Motors* and *Ford*. Earnings have been falling for five years. *Schloss* picks up a Value Line booklet from his living room table and runs his index finger across a line of numbers, spitting out the ones he likes: stock trading at 80% of book value, a 3% dividend yield, and no debt. "Most people say, 'What is it going to earn next year?' I focus on assets. If you don't have a lot of debt, it's worth something."

Schloss' Watch List

The veteran investor says buy Superior, but for now just track the other battered names. If they continue to fall, consider buying them, too.

COMPANY	PRICE RECENT	PRICE 52-WEEK HIGH	P/E	PRICE/ BOOK	COMMENT
BASSETT FURNITURE INDUSTRIES	$11.05	$16.70	NM	0.6	Consider buying if dividend is cut.
CNA FINANCIAL	31.68	51.96	8	0.9	Tisch family controls undervalued insurer.
DOW CHEMICAL	36.02	47.96	10	1.9	Accumulate if it slips further.
SUPERIOR INDUSTRIES INTERNATIONAL	16.43	24.52	NM	0.8	Car-wheel maker is worth at least book value.
TECUMSEH PRODUCTS	21.80	26.59	NM	0.6	Asian rivals hurt compressor maker for now.

Prices as of Jan. 15. NM: Not meaningful. *Source: Reuters Fundamentals via FactSet Research Systems.*

Schloss screens for companies ideally trading at **discounts to book value, with no or low debt**, and **managements that own enough company stock to make them want to do the right thing by shareholders**. If he likes what he sees, he buys a little and calls the company for financial statements and proxies. He reads these documents, paying special attention to footnotes. One question he tries to answer from the numbers: Is management honest (meaning not overly greedy)? That matters to him more than smarts. The folks running *Hollinger International* were smart but greedy--not good for investors.

Schloss doesn't profess to understand a company's operations intimately and almost never talks to management. He doesn't think much about timing--am I buying at the low? Selling at the high?--or momentum. He doesn't think about the economy. Typical work hours when he was running his fund: 9:30 a.m. to 4:30 p.m., only a half hour after the New York Stock Exchange's closing bell.

Schloss owns a prized 1934 edition of *Graham*'s *Security Analysis* he still thumbs through. Its binding is held together by three strips of Scotch tape. In the small room he invests from now, across the hall from his apartment, one wall contains a half-dozen gag pictures of

Buffett (the Omaha sage with buxom cheerleaders or with a towering stack of Berkshire Hathaway tax returns). Each has a joke scribbled at the bottom and a salutation using *Schloss*' nickname from the old days, Big Walt.

Schloss first met that more famous value hunter at the annual meeting of wholesaler Marshall Wells. The future billionaire was drawn there for the reason *Schloss* had come: The stock was trading at a discount to net working capital (cash, inventory and receivables minus current liabilities). That number was a favorite measure of value at *Graham*-Newman, the investment firm *Schloss* joined after serving in World War II. *Buffett* came to the firm after the *Marshall Wells* meeting, sharing an office with *Schloss* at New York City's Chanin Building on East 42nd Street.

Schloss left the *Graham* firm in 1955 and with $100,000 from 19 investors began buying "working capital stocks" on his own, like mattressmaker Burton-Dixie and liquor wholesaler Schenley Industries. Success drew in investors, eventually rising to 92. But *Schloss* never marketed his fund or opened a second one, and he kept money he had to invest to a manageable size by handing his investors all realized gains at year-end, unless they told him to reinvest.

In 1960 the S&P was up half a percentage point, with dividends. *Schloss* returned 7% after fees. One winner: *Fownes Brothers & Co.*, a glovemaker picked up for $2, nicely below working capital per share, and sold at $15. In the 1980s and 1990s he also saw big winners. By then, since inventory and receivables had become less important, he had shifted to stocks trading at below book value. But the tempo of trading had picked up. He often found himself buying while stocks still had a long way to fall and selling too early. He bought *Lehman Brothers* below book shortly after it went public in 1994 and made 75% on it in a few months. Then Lehman went on to triple in price.

Still, many of his calls were spot-on. He shorted *Yahoo* and *Amazon* before the markets tanked in 2000, and cleaned up. After that, unable to find many cheap stocks, he and Edwin liquidated, handing back investors $130 million. The *Schloss*es went out with flair: up 28% and 12% in 2000 and 2001 versus the S&P's --9% and --12%.

The S&P now is off 15% from its peak, yet *Schloss* says he still doesn't see many bargains. He's 30% in cash. A recession, if it comes, may not change much. "There're too many people with money running around who have read *Graham*," he says.

Nevertheless, he has found a smattering of cheap stocks he thinks are likely to rise at some point. High on his watch list *(see table)* is *CNA Financial*, trading at 10% less than book; its shares have fallen 18% in a year. The insurer has little debt, and 89% of the voting stock is owned by Loews Corp., controlled by the billionaire Tisch family. He says buy if it gets cheaper. "I can't say people will get rich on it, but I would rather be safe than sorry," he says. "If it falls more, I won't worry about it. Let the Tisches worry about it."

Schloss flips through Value Line again and stops at page 885: Bassett Furniture, battered by a lousy housing market. The chair- and tablemaker is trading at a 40% discount to book and sports an 80-cent dividend, a fat 7% yield. *Schloss* mutters something about how book value hasn't risen for years and how the dividend may be under threat.

His call: Consider buying when the company <u>cuts</u> its dividend. Then *Bassett* will be even cheaper and it eventually will recover.

If only he had waited a bit to buy wheelmaker *Superior*, too. It's been two years since he bought in, and the stock is down a third. But the superinvestor, who has seen countless such drops, is philosophical and confident this one is worth book at least. "How much can you lose?" he asks.

NOTES:____

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