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Journey Into the Whirlwind: Graham-and-Doddsville Revisited

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Precis:

The mutual fund is a superb concept, a vehicle for investors to pool their savings in a diversified portfolio and thus acquire experienced management, as well as economies of scale in fees and expenses. Mutual funds offer, too, remarkable flexibility, the ability to invest and withdraw at will even modest sums, at the underlying asset value. Being a favored child of the law, investors receive detailed disclosures, a safe harbor from double taxation, and SEC oversight. Markets fluctuate, but a mutual fund's diversity and presumably skilled management allow the investor to take a longer view, freeing him from the concern that Stock A or B will report lower earnings next week. Clearly, those thrifty Scots had a brilliant idea, and equity mutual funds alone now have $4 trillion in assets, up from a mere $250 billion as recently as 1990.

What follows is a speech I gave in December 2005 before the NY Society of Security Analysts. It was billed as a celebration of Graham-and-Dodd style value investing, and indeed the invitation had been a consequence of an article I wrote earlier that year, in which I explored a dramatically successful group of patient investors. I used the occasion to look at some quite different funds, ones which play the performance game, turning over their portfolios at stunning rates and at disheartening cost. An update of my earlier data provided a useful benchmark.

NY Society of Security Analysts
University Club, New York
December 13, 2005

Graham and Doddsville Revisited
(A celebration of Irving Kahn's 100th birthday)

Lou Lowenstein[a]

Irving, happy birthday. We're here to celebrate your centennial, your contributions to value investing, and beyond that, the very concept of value investing that you epitomized. In a society where it shows a lack of testosterone not to have bought or sold stocks every day, you've been a model of wisdom and sanity. Congratulations, best wishes, and we know now that sane investing contributes to a long life.

It was suggested that I discuss my recent article, "Searching for Rational Investors in a Perfect Storm"[b] and the earlier piece by Warren Buffett, "The Superinvestors of Graham-and-Doddsville," with which it has happily been linked.

First off, I want to do a brief sketch of the mutual fund universe, the culture if you wish, in which value investors now work. It's rather different from the one in which Buffett wrote "The Superinvestors," twenty-one years ago. Today, equity mutual funds account for about $4 trillion, up from a far more modest $250 billion as recently as 1990. Quite apart from hedge funds and ETFs, those equity funds now own 28% of all common stocks, as against only 8% in 1990.[1] And they're owned, I am told, by 95 million families.[2] It's a reflection, I suspect, of a pervasive anxiety about corporate pension plans and Social Security, a sense that it could get cold out there in the so-called golden years.

Now let's take that $4 trillion in equity funds and break it down into three broad sectors: first, the great preponderance of actively managed funds; second, the various index funds, which

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[a] Simon H. Rifkind Professor Emeritus of Finance & Law, Columbia University

[b] 30 Journal of Corporation Law 1239 (2005); excerpted in *Barron's,* Oct. 11, 2004.

come now in a variety of flavors and are said to account for one-seventh of the total, or almost $600 billion; and then finally, the third and smallest sector, the assets managed by the true-blue, walk-the-walk value investors of whom Buffett and I wrote. My wise friend, the now late Bill Ruane, said years ago that value investors accounted for, perhaps, 5% of all professionally managed monies. Perhaps the proportion is lower now, but regardless, it's clear that 80% of all equity funds are managed energetically so as to keep pace with the market, wherever that happens to be.

Investing at warp speed. The average mutual fund turns over its portfolio at 100% or more a year. Let's call it "investing at warp speed." Being alien to that world, in March of this year I called Don Phillips of Morningstar, who helped me set up a baseline group of large cap growth funds, the twenty largest in assets at year-end 1997. That would, we thought, provide a representative sample. Largely due to mergers and style drift, there are now fifteen survivors ("Group of Fifteen").[3] Given the usual survivor bias, they should have performed rather well. For this gathering of dyed-in-the-wool value investors, however, the results may seem rather ghastly. On the other hand, you may enjoy eyeballing the victims, and tut-tutting that the passengers weren't wearing seat belts.

For the five years ended this past August 31, the Group of Fifteen experienced on average *negative* returns of 8.89% per year, vs. a *negative* 2.71% for the S&P 500.[4] The group of ten value funds I had studied in the "Searching for Rational Investors" article had been suggested by Bob Goldfarb of the Sequoia Fund.[5] Over those same five years, the Goldfarb Ten enjoyed *positive* average annual returns of 9.83%. This audience is no doubt quick with numbers, but let me help. Those fifteen large growth funds underperformed the Goldfarb Ten during those five years by an average of over 18 percentage points *per year.* Hey, pretty soon you have real money. Only one of the fifteen had even modestly positive returns. Now if you go back ten years, a period that includes the bubble, the Group of Fifteen did better, averaging a positive 8.13% per year. Even for that ten year period, however, they underperformed the value group, on average, by more than 5% *per year*.[6] With a good tailwind, those large cap funds were not great – underperforming the index by almost 2% per year – and in stormy weather their boats leaked badly.

For a year or two now, value fund managers have been struggling to find stocks at prices that offer a margin of safety, and half of the Goldfarb Ten are holding 1/6th or more of their assets in cash, a level of reserves matched by only one of those fifteen growth funds. Portfolio turnover for the value funds has on average been one-fourth that of the growth funds.

So much for averages. Not being an economist – a friend at Vanguard recently explained to me the meaning of an R-square rating, but I promise not to mention it again -- I find it more useful to look at individual funds one at a time, reading annual reports, bottom-up if you like.

I picked three of those fifteen funds for a closer look. The first was the Massachusetts Investors Growth Stock Fund, chosen because of its long history. Founded in 1932, as the Massachusetts Investors Second Fund, it was, like its older sibling, Massachusetts Investors Trust, truly a *mutual* fund, in the sense that it was managed internally, supplemented by an advisory board of six prominent Boston businessmen.[7] In 1969, when management was shifted to an external company, now known as MFS Investment Management, the total expense ratio was a modest 0.32%.

I am confident that the founders of the Massachusetts Investors Trust would no longer recognize their second fund, which has become a caricature of the "do something" culture. The expense ratio, though still below its peer group, has tripled. But it's the turbulent pace of trading that would have puzzled and distressed them. At year-end 1999, having turned the portfolio over 174%, the manager said they had moved away from "stable growth companies" such as supermarket and financial companies, and into tech and leisure stocks, singling out in the year-end report Cisco and Sun Microsystems – each selling at the time at about 100 X earnings – for their "reasonable stock valuation." The following year, while citing a bottom-up, "value sensitive approach," the fund's turnover soared to 261%. And in 2001, with the fund continuing to remark on its "fundamental . . .bottom-up investment process," turnover reached the stratospheric level of 305%. It is difficult to conceive how, even in 2003, well after the market as a whole had stabilized, the managers of this $10 billion portfolio had sold $28 billion of stock and then reinvested that $28 billion in other stocks.

For the five years ended in 2003, turnover in the fund averaged 250%. All that senseless trading took a toll. For the five years ended this past August, average annual returns were a *negative* 9-1/2%. Over the past ten years, which included the glory days of the New Economy, the fund did better, almost matching the index, though still trailing our value funds by 4% a year. Net assets which had been a modest $1.9 billion at Don Phillips' kickoff date in 1997, and had risen to $17 billion in 2000, are now about $8 billion.

If you're feeling some sympathy for the passengers in this financial vehicle, hold on. Investors – and I'm using the term loosely – in the Mass. Inv. Growth Stock Fund were for several years running spinning their holdings in and out of the fund at rates approximating the total assets of the fund. In 2001, for example, investors cashed out of $17-1/2 billion in Class A shares, and bought $16 billion in new shares, leaving the fund at year end with net assets of about $14 billion. Having attracted, not investors, but speculators trying to catch the next new thing, management got the shareholders they deserved.

In fact, there's a story beneath all that churning by shareholders. Early last year, MFS settled charges brought by the SEC and state authorities charging that eleven of its funds had engaged either in "directed brokerage," meaning that instead of obtaining the best execution for their portfolio transactions, the funds had rewarded brokers who helped market the fund, and/or in market timing abuses, which the funds had assured investors they would not allow. In both respects, of course, the managers were enriching themselves at shareholder expense. The settlements included a $225 million pool to compensate the affected funds; in addition, the president and chief executive officer of MFS resigned. MFS thus became one of the 23 fund managers who, within a short period, were implicated in the market-timing scandals.

With new management, one might have expected more candor. In fact, investors in the Growth Stock Fund would have had to be, well, law professors, to unearth from the annual report what had transpired. The only useful disclosure of the charges was way back, in the footnotes to the financials.[8]

To get some historical perspective, I read a speech given in 1954 by the then chairman of the Mass. Investors Trust, Dwight Robinson, reflecting on the role of its management. Dwelling on the Prudent Man Rule, he stressed the importance of investing clients' funds as men – they were of course all men – would their own funds. Full-time management, "at very low cost," “invest[ing] for the long haul without consideration of . . . fluctuations of the market.” Reflecting that same long-term perspective, turnover rates for open-end funds in the mid-‘50s were generally about five percent.[9]

Full-time management, Robinson said. Currently, the most senior portfolio manager of our Growth Fund has day-to-day management responsibilities for eight other investment companies,[10] and the eleven trustees of MFS oversee more than 65 funds.[11] But then, it would be asking too much of Sun Life Financial, the Canadian financial conglomerate that purchased MFS in 1981, to be thinking of trusteeship in the sense used by Robinson. Jack Bogle, whose new book “ *The Battle For The Soul of Capitalism*” is a must-read on the investment of America’s savings, likes to stress that of the fifty largest fund managers, over forty are either themselves publicly owned or are part of large financial conglomerates. Managers, he said, have gone from stewardship to salesmanship.[12]

Some recent shareholder reports of Sun Life send a perverse message to the MFS management. They use an ugly acronym, AUM, for what matters, meaning assets under management. Yes, for the third quarter 2005, the AUM of MFS increased by US $7 billion. As of year-end 2004, with US $75 billion under management, Sun Life noted proudly that MFS was the 11th largest retail mutual fund company. As for those highly publicized regulatory investigations, Sun Life acknowledged that they had ”hampered . . [r]etail sales of many large fund groups, including MFS.” Not a word to suggest that sales might have been hampered because investors suspected they had been cheated.

Intending to do a hands-on look at two other funds, I selected, first, Fidelity Growth Company Fund, because it was currently the largest amongst the group of fifteen, with $25 billion in assets, and second, the American group’s Amcap Fund. The Amcap fund had intrigued me because it was the one fund in the group with even modestly positive returns the past five years, but also because both its low portfolio turnover and its substantial cash holdings gave it a seeming resemblance to our value funds. In both cases, I stopped, however, as it became apparent that their respective managements are excessively focused on growing assets as distinct from performance.[c] Each of these families manages well over $700 billion in their funds. The American funds group includes three large cap growth funds; one of them, the Growth Fund of America, has grown to $117 billion in assets, and as of August still had not closed. Fidelity alone manages 20 large cap growth funds.[d] What's the point of it, except to accumulate assets, rather than focus one's best skills in a single enterprise? Stewardship vs. salesmanship: the tension between the two is palpable.

Those three large growth funds, among the Group of Fifteen, owned as of August an average of over 180 stocks. And while Longleaf Partners, First Eagle and others of the Goldfarb Ten like to talk upfront about their personal stakes in the funds they manage, not these large cap funds. Bill Ruane concluded years ago that thoughtful investing meant three things: a small portfolio (20 at most), low turnovers, and eating your own cooking, meaning that the managers invest substantial personal monies not just in the management company but in the funds themselves. The contrast is all too clear.

Investing Blind: Let's turn briefly to index funds, which account for 1/7th of all equity funds; but, wait, they come in so many different flavors. There is an emerging markets index fund and a health care index fund and many others; hey, it's like going to Ben & Jerry's. Broad market index funds, like the Vanguard 500 Index Fund, account, I am told, for about 3/4ths of all index funds, or about $400 billion in all.

The rational investor, the hypothetical sort who inhabits the academic journals, might buy the Vanguard 500 Index fund and stay put, year after year. But as the behavioral finance scholars have convincingly demonstrated, the passions of the crowd are highly contagious. As Graham and Dodd said 70 years ago, the market is not weighing machine but rather a voting machine, "the product partly of reason and partly of emotion.."[13]

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[c]. The American funds group has made aggressive use of pay-to-play, i.e., paying brokers to market their funds to investors who would otherwise believe that the "advice" they receive is unbiased. Swensen, Unconventional Success, at 275-9.

[d]. Morningstar described Fidelity as a "marketing construct," noting that its board of trustees oversees 300 funds (FDGRX stewardship report, 8/10/04).

To cut to the chase, the appeal of a buy-and-hold index strategy is the ability to minimize fees, expenses and taxes. But the strategy has several shortcomings:

First off, timing still matters, because price and value matter. In real dollars, stocks did not return to their 1966 level until 1992.[14] And as we know, the S&P 500 fell by almost half when the bubble of the '90s broke, and has still not recouped the lost ground.

Secondly, we're emotionally not capable of walking past a financial Ben & Jerry's. Buy the market index? Which market, which index? With the dollar said to be at risk, investors are currently buying global funds, or country funds, or perhaps a broader based index than the S&P 500, or tilting away from bank stocks or whatever. Truly passive investing is, well, just too passive. *"Hey honey, what did you do at the office today?" "Well dear, actually nothing." "But honey, weren't you out looking for some alpha?"*

And finally, it's not widely recognized but the S&P 500 index, for example, is a market cap weighted index, so that in the late '90s, an investor was buying more of the sky-high New Economy stocks, and conversely proportionately less of the good value stocks of the Old Economy.

In a word, while our large growth funds demonstrate that an investor can do worse than indexing, it remains true that an intelligent investor can do better. Keynes, as so often happens, said it best: "to suppose that safety-first consists in having a small gamble in a large number of different directions . . . as compared with a substantial stake in a company where one['s] information is adequate, strikes me as a travesty of investment policy."[15]

Intelligent Investing. Well, that phrase, intelligent investing is a good segue to revisiting Graham-and-Doddsville.

Scholars have written reams about investing, you know the analyses equating value investing with low P/E stocks or some other simple set of numbers that can be crunched with a computer. For example, one current paper examines Buffett's success, focusing on trivia such as how the market responds to news of a new Berkshire investment.[16] This may help someone get tenure or a Ph.D., but in real life it's not relevant.

Surprising as it seems, “The Superinvestors” and my “Searching for Rational Investors” pieces are the only attempts I know of to look directly at a group of value funds one by one, the people running them, and how they applied the basic Graham and Dodd concepts. We looked at value investors bottom up, just as they look at stocks.

Our two papers had quite different origins. Buffett was, of course, celebrating at Columbia the 50th anniversary of the 1934 1st edition of Graham and Dodd, and his nine investors, including the Buffett Partnership, were all schooled in that discipline.

The genesis of my paper was in a *Fortune* list of ten high flying stocks, only one of which had a P/E ratio under 50. My son Roger had discussed the *Fortune* list in his book, “*The Origins of the Crash*,” and in case you were wondering if I would recommend tonight only the Bogle book, think again. Roger’s book is a great read. The Fortune list, compiled at the peak of the bubble in 2000, had by year end 2002 fallen *on average* by 80% from the July 2000 prices quoted in the article. Now maybe they got the direction wrong, but you have to admit that an average loss of 80% is a heck of an accomplishment.

Given how those tech-media-telecom stocks had captured the public imagination, I had wondered whether a group of true blue, walk-the-walk value investors had escaped the ensuing debacle. Over lunch at Bill Ruane’s favorite restaurant, La Caravelle, Bob Goldfarb slowly ticked off a list of ten people whom he felt would fit the bill. It was plain, I might add, that Bob had not followed their performance all that closely. In 2004 he did not know that several years had passed since the SoGen funds had metamorphosed into what we now know as the First Eagle group.

What I’m getting at is that Buffett and I both felt under some pressure to counter the inevitable criticism that we had simply chosen, with 20/20 hindsight, some very successful managers. He spent a lot of ink explaining that he had been close to this particular group for many years prior and the likelihood of picking such outstanding managers in advance would defy the statistical odds of random chance. I used, of course, the Goldfarb list. While the markets were cheering Oracle and the like into the wild blue yonder, it turned out that these value managers had stayed far, far away from a list of stocks said by *Fortune* to be good for the decade.

And even at the time, they had explained their thinking, they had watched as their own investors fled, and still they stayed the course. The Fortune Ten, therefore, was a useful filter, to answer charges of a biased study.[e]

It didn't work, of course, just as Warren's coin-flipping exercise was amusing but futile. In academia, a hands-on study can never compete with a good computer driven model.[17] So I am announcing tonight that I have turned over a new leaf, and this is it: let efficient market theory go its own way, and henceforth I will go mine. After the World Series, a Chicago reporter said that no matter what, White Sox fans and Cub fans will never be reconciled. Here, too, why try.

Speaking of the academy, we have a guest here tonight from the University of Dublin, Ed Kelly, for whom the sky lit up when he came across value investing. But he had a problem: intending to analyze the success of Buffett and other value investors in his Ph.D. thesis, he was met with a blunt faculty response that it was not a statistically rigorous, scholarly endeavor. Looking for some comfort, he and I have been emailing back and forth. Ed is here with us tonight, having had lunch today with some value investors. Ed, stand up for a second.

Price-and-value, buying a part interest in a business instead of trading stocks, buying at a discount so as to provide a margin of safety. If the concept is so brilliantly simple, why is the execution so remarkably difficult? Start with the concept of margin of safety, the notion of buying into a company only at a substantial discount from what a willing buyer of the whole company would pay. A novice might suspect that the motive is to enhance the likelihood of gain, but the common thread is different, it's a deep, abiding, almost pathological fear of that permanent loss of capital that Ben Graham, having suffered in the Great Crash, would always retain. It runs throughout the literature.[18] Not market loss, but rather loss of intrinsic value, such that the margin of safety becomes just that. As Charlie Munger likes to say, if you're building a bridge intended for 10,000 tons, you build it to carry 30,000.

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[e]Incidentally, every one of the Group of Fifteen had owned at year-end 1999, at the peak of the bubble, one or more of those high-flying stocks, and on average they owned almost three of the ten.

Bill Nygren of Oakmark Select wrote earlier this year that he had bought Toys R Us at about $10 a share, fully expecting a turnaround at the toy stores. That failed to happen, but having focused, he said, on risk, he saw the underlying real estate as a margin of safety, and five years later sold the stock for nearly $27 a share.[19]

Most managers count whether they're winning or losing by comparing their results with the relevant index, to see if they've fallen victim to that infernal tracking error, by which the pension funds and institutions will in turn measure them. That is what they have in mind as they structure their portfolios, underweighting one sector or another, but never straying far from the herd. The focus is on safety for the manager, not safety for the investor. [repeat–title?]

What value investors fear is absolute not relative loss; the failure of a stock to move is of no concern if the business is performing well. Everything is difficult to predict . . . particularly the future. Value investors have a deep appreciation of this uncertainty, which is amorphous, unmeasurable, and hence quite unlike the quantifiable risks in, say, rolling the dice or the auto insurance business. There are so many variables– oil, interest rates, the euro, you name it. Wall Street uses CAPM and other formulae in an effort to reduce uncertainty to a quantifiable risk, but as the Nobel economist Friedrich von Hayek said, they are measuring what is measurable, not what matters.

What matters, what makes the uncertainty manageable is that margin of safety, which in turn rests on the foundation of a thorough understanding of the business. Here, of course, is where the ranks of would-be value managers quickly thin out. About 25 years ago, Bill Ruane gave me a copy of his "Memorandum of Investment Philosophy," which covered all of a page and a half, and explained in a few paragraphs what to look for when searching for investment values. Let me share them with you:

1. Buy good businesses. The single most important indicator is a superior return on capital, because it means the company enjoys a unique proprietary position.

2. Buy businesses with pricing flexibility, always true but particularly in the inflationary period in which he wrote.

3. Buy stocks at modest prices. While price risk cannot be eliminated, it can be lessened materially by avoiding high multiples.

4. Buy strong balance sheets. If this rule is violated, none of the others will matter.

5. Buy cash generating businesses, those where the earnings are truly available to create future growth or for payment to stockholders.

Easy to state, so difficult to execute.

What Bill did *not* say was almost as significant as what he did. He wasn't buying the low price-to-earnings or price-to-book value that the simplistic models have assumed. He did not say that the portfolio should be rebalanced each year to provide mid-cap stocks, or whatever, their proper weight. He did not suggest dumping stocks if the general market outlook was dim. No, just careful research to find very good companies at reasonable prices, and then buy, as he said to my students, as "large a unit as market conditions allow." No extreme diversification, no mimicking the index for him.

I had written about Bill's rules 15 years ago, in a book, *Sense and Nonsense in Corporate Finance*, that some people cherished but in fact very few noticed. If I were doing it again, I would add two other indicia, not essential but useful, of the intellectual strength of a manager. One would be a willingness at times to keep a substantial portion of the fund in cash, not because the market is high, but as a default holding when the manager simply cannot find attractive opportunities. It shows discipline. The other is a willingness to close the fund to new investors, rather than dilute the investments of those already there. Manage the most dollars or manage the dollars well; it's what separates the true fiduciaries from the MFS's of the world.

Having updated my data through August of this year, I am happy to report that the Goldfarb Ten still look true blue – actually better than at year-end 2003. The portfolio turnover rates have dropped on average to 16% – translation, an average holding period of six years. *Honey, what did you do today? Nothing, dear.* The average cash holding is 14% of the portfolio, and five of the funds are closed to new investors.[f] Currently, however, two of the still open funds, Mutual Beacon and Clipper, are losing their managers. The company managing the Clipper Fund has been sold twice over and Jim Gipson and two colleagues recently announced they're moving on. At Mutual Beacon, which is part of the Franklin Templeton family, David Winters has left to create a mutual fund, ah yes, the Wintergreen Fund. It will be interesting to see whether Mutual Beacon and Clipper will maintain their discipline.[g] Stewardship vs. salesmanship.

Speaking of discipline, you may remember that after Buffett published "The Superinvestors," someone calculated that while they were indeed superinvestors, on average they had trailed the market one year in three.[20] Tom Russo, of the Semper Vic Partners fund, took a similar look at the Goldfarb Ten and found, for example, that four of them had each underperformed the S&P 500 for four consecutive years, 1996-1999, and in some cases by huge amounts. For the full ten years, of course, that underperformance was sharply reversed, and then some. Value investing thus requires not just patient managers but also patient investors, those with the temperament as well as intelligence to feel comfortable even when sorely out of step with the crowd. If you're fretting that the CBOE Market Volatility Index may be signaling fear this week, value investing is not for you.

Better managers need better investors. In *The Superinvestors* Buffett concluded that we can preach value, but it's likely to fall on deaf ears. With an army of financial advisers now trying to justify their existence, I suspect that it's gotten even harder.

Irving, again, best wishes and good luck. And Bill, if you can hear me, thanks for the wisdom and the generosity of spirit you brought to people in all walks of life, and a sweet good night to you.

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[f]. FPA Capital, First Eagle Global, Longleaf Partners, Tweedy Browne American, and Source Capital, the latter being of course a closed-end fund. Of the funds currently open, two of them, Clipper and Oakmark Select have closed in the past.

[g]. In the case of the Clipper Fund, the board of directors has taken the unprecedented step of rejecting the manager proposed by the purchaser and making a selection of its own, one with a history much like that of Gipson and his group.

1.Bogle, The Battle, @73.

2.
Id. at 171.

3. American Century Growth Investors, Amer. Century Ultra Inv., American Funds Amcap,, Consulting Group Large Cap Growth, Fidelity Growth Company, Fidelity Advisor Equity Growth, Harbor Capital Appreciation, Janus Growth & Income, Janus Twenty, Mainstay Capital Appreciation, MFS Mass. Investors Growth Stock, RiverSource (formerly AXP) Growth, RiverSource New Dimensions A, Vanguard U.S. Growth, Vanguard Growth Index. Two funds had been merged out, two others shifted styles, and one fund being simply the twin of another was dropped.

4.All data for the periods ending Aug. 31, 2005 were obtained from Morningstar.

5. Clipper Fund, FPA Capital, First Eagle Global, Legg Mason Value, Longleaf Partners, Mutual Beacon, Oak Value, Oakmark Select, Source Capital, Tweedy Browne American.

6. Data are for the eight value funds that go back ten years; Mutual Beacon and Oakmark Select were created late 1996.

7.Weisenberger 1966??? Annual Investment Company Report

8. Calls to Stephen Pesek, the lead manager, were not returned.

9.Donald Lemay, Massachusetts Investors Trust, A Study of Performance, submitted to fulfill Master of Arts degree in Fac. Of Political Science, Columbia Univ., 1956, @ 25.

10. SAI, 4/1/05

11.Mstar Stewardship Grade, 8/10/05.

12. Bogle, supra, 167-8.

13. Graham & Dodd, Security Analysis (1st ed. 1934) 23.

14. “Searching for Rational Investors,” at n. 31.

15. 12. The Collected Writings of John Maynard Keynes 82 (Donald Moggridge ed., 1983).

16.Gerald S. Martin & John Puthenpurackal, Initiation is the Sincerest Form of Flattery: Warren Buffett and Berkshire, (avail. at gsm1739@cox-internet.com (Jerry Martin)

17. Cf. Chen, Hong, Huang, and Kubik, “Does Fund Size Erode Mutual Fund Performance?: The Role of Liquidity and Organization,” ??Amer. Econ. Rev. 1276 (2004) (authors, relying solely on vast quantities of CRSP data, not aware that fund managers, fearing impairment of investment opportunities, might close their funds).

18. Seth A. Klarman, “Margin of Safety” (19___???)

19. Oakmark Select, Semi-Annual Report, March 31, 2005, at 13.

20. Cited in Tweedy Browne Co., *10 Ways to Beat an Index* (1998), 7.