



On The Cover/Top Stories

Experience

Bernard Condon 02.11.08, 12:00 AM ET

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 moneylosing 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, 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		P/E	PRICE/ BOOK	COMMENT
	RECENT	52-WEEK HIGH			
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 Schlosses 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 cuts 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.

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