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There are only a handful of investors with high-teen performance over decades.

Walter Schloss is one of them.

He achieved a 20% annualized return over 47 years.

\$10,000 would've turned into over \$50 million.

Here's how he did that



^{1.} Little Background

Walter Schloss learned investing from Benjamin Graham, just like Buffett.

Buffett also mentioned Schloss in many letters and in his article on the Superinvestors of Graham and Doddsville.

Accordingly, Schloss followed a value investing philosophy.

However, like every great investor, he also did things differently than Buffett or other peers.

Today, we will analyze the most critical points and the things that differentiate Schloss.

In the end, there'll also be an Investing Checklist by him and his son.

2. Correctness of Judgement

More important than the predictions of analysts or experts is your own judgment.

And it's your responsibility to make sure it's correct.

Most people fail to test their judgment and decisions regularly.

How you approach upcoming news on your investments is critical for a correct judgment.

Being skeptical is much more helpful than trying to fit news into your thesis.

You shouldn't need to convince yourself of an investment.

It should be convincing because of the facts.

3. Talking to Management

This is a controversial topic for investors.

Many swear on talking to management to get an idea of how they think and behave.

Schloss rarely talked to management.

He didn't trust his ability to judge character and therefore avoided these talks.

4. Focus on Numbers

Because he didn't talk to management and invested in very cheap stocks, he focused on numbers.

His favorite metric was book value.

"Asset values fluctuate more slowly than earnings do."

He preferably bought at 1/2 or 2/3 of book value.

5. Diversification

Buffett and Munger think that diversification is a way to protect against ignorance.

And while many successful investors do have concentrated portfolios, there are exceptions.

Schloss is one of these exceptions.

Because he didn't dig too deep into the companies, he had to diversify to guard against mistakes.

Peter Lynch did something similar, although he held a lot more stocks.

Schloss kept it in a range of 60-100 stocks.

And he never had positions higher than 10% of the portfolio.

The idea was that the losers get balanced out by the winners.

This worked because he focused on high probability bets with limited downside.

6. Averaging In

Schloss also believed you could not know an investment if you're watching from the sidelines.

That's why he established many small positions to observe them.

Over time, he averaged into these positions and built them up.

Besides gaining a feeling for the stock movements, he could also cost average into falling stocks this way.

Once again, this is especially important when investing in unpopular businesses.

7. Math of Investing

Through his investment strategy, he benefited from two simple principles.

1. Losses weigh more than gains.

If you lose 30%, you need to gain more than 30% to get back to zero.

Solution: Focus on the Downside

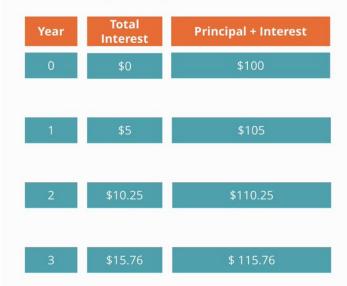
2. Compound Interest Frequency

By buying and selling undervalued companies, he compounded faster than he would by buying great companies.

Of course, it's more work to find many undervalued companies, but the higher frequency is very profitable.

Buffett used to do the same.

Annual Compounding



Semi-annual Compounding

Year	Total Interest	Principal + Interest
0	\$0	\$100
0.5	\$2.5	\$102.5
1	\$5.06	\$105.06
1.5	\$7.69	\$107.69
2	\$10.38	\$110.38
2.5	\$13.14	\$113.14
3	\$15.97	\$115.97

Here's the promised checklist published in 1994:

On common stocks March 10, 1994

Walter & Edwin Schloss Associates, L.P.___

Factors needed to make money in the stock market (212) 370-1844

- 1. Price is the most important factor to use in relation to value.
- 2. Try to establish the value of the company. Remember that a share of stock represents a part of a business and is not just a piece of pape
- 3. Use book value as a starting point to try and establish the value of the enterprise. Be sure that debt does not equal 100% of the equity. (Capital and surplus for the common stock).
- 4. Have patience. Stocks don't go up immediately.
- 5. Don't buy on tips or for a quick move. Let the professionals do that, if they can. Don't sell on bad news.
- 6. Don't be afraid to be a loner but be sure that you are correct in your judgment. You can't be 100% certain but try to look for wak weaknesses in your thinking. Buy on a scale and sell on a scale up.
- 7. Have the courage of your convictions once you have made a decision.
- 8. Have a philosophy of investment and try to follow it. The above is a way that I've found successful.
- 9. Don't be in too much of a hurry to sell. If the stock reaches a price th you think is a fair one, then you can sell but often because a stock goes up say 50%, people say sell it and button up your profit. Before selling try to reevaluate the company again and see where the stock sells in relation to its book value. Be aware of the level of the stock market. Are yiflds low and P-E ratios high. If the stock market historically high. Are people very optimistic etc?
- 10 When buying a stock, I find it helpful to buy near the low of the past few years. A stock may go as igh as 125 and then decline to 60 and you think it attractive. 3 years before the stock sold at 20 which shows that there is some vulnerability in it.
- 11. Try to buy assets at a discount than to buy earnings. Earnings can change dramatically in a short time. Usually assets change slowly. One has to know much more about a company if one buys earnings.
- 12.Listen to suggestions from peole you respect. This doesn't mean you have to accept them. Remember it's your money and generally it is harder to keep money than to make it. Once you lose a lost of money it is hard to make it back.
- 13. Try not to let your emotions affect your judgment. "ear and greed are probably the worst emotions to have in connection with the purchase and sale of stocks.
- 14. Remember the work compounding. For example, if you can make 12% , year and reinvest the moneyback, you will double your money in 6 yrs, taxes excluded. Kemember the rule of 72. Your rate of return into 72 will tell you the number of years to double your money.
- you the number of years to double your money. 15. Prefer stocks over bonds. Bonds will limit your gains and inflation Will reduce your purchasing power.

WJS

16. Be careful of leverage. It can go against you.