

OPINIONS

Read Between the Lines: A Brief Response to Last Week's Article "Look Beyond the Words"

By Rob Tarulli

Andrea Alban-Davies wrote a very interesting article last week asking for the student body to write to President Bollinger and ask "that he uphold arguably the most important right given to us by our constitution – the right to freedom of speech. Ask him to respect Professor DeGenova's right that he exercised when making his comments; ask him to encourage each member of our community to speak his or her mind without fear of any repercussions".

Mr. De Genova, like all Americans, has the right to exercise freedom of speech. However, Mr. De Genova, like all Americans, does not have the right to hold a prestigious position as a professor at Columbia University. I can offer you numerous examples of individuals who have worked for private, public, and academic institutions who have lost their jobs based on comments or actions that exhibited extremely poor judgment and have seriously offended the organization's stakeholders. Some recent examples are Trent Lott and Peter Arnett. More notable is University of New Mexico history professor Richard Berthold who on September 11 became infamous for telling a class that "anyone who can blow up the Pentagon has my vote." The University issued Mr. Berthold a letter of reprimand and he voluntarily retired a year later because it became evident the University's administration was making life difficult for him.

But this is not an issue of free speech. I wholly acknowledge that Mr. De Genova has a right to

express his beliefs, however abhorrent and hateful they may be. I also believe that we, the students, employees, alumni, and trustees of the University, must do everything we can to disassociate ourselves from him and from the repulsive actions he promotes. Mr. De Genova has unveiled a venomous disgust for many of his fellow Columbians and has sought to incite violence against them. There are upwards of 50 students on campus who still have active commitments to the military and are therefore targets of Mr. De Genova's tirade. This is both inappropriate and completely unacceptable. This is not about Mr. DeGenova's freedom to speech, it is about the University providing an environment that is conducive to learning and ensures the safety of its students. I strongly feel that if his comments were made against any other student group (ethnic, social, religious, etc . . .), the university would have formulated a much stronger response to ensure the safety of the students on campus.

President Bollinger explains his actions (or rather inaction) by proclaiming that Mr. DeGenova was speaking as an individual, not as a Columbia University Professor. President Bollinger states in his press-release, "His comments were not made in a classroom, but rather at a teach-in, an informal gathering where faculty and students come together to discuss and debate the pressing and important issues of the moment. They are not authorized or officially sanctioned classroom experiences." This distinction is made because if Mr. DeGenova's comments were

made during 'officially sanctioned classroom experiences' (i.e. class), disciplinary action may have been inevitable. My argument has been that these statements were indeed made by a Columbia Professor speaking at an event organized by other Columbia Professors on Columbia's campus and therefore the professor/individual distinction cannot be made; that because of the nature of the event and its organizers, Mr. DeGenova was speaking as a Professor. This does not depend on what the definition of 'is' is.

It is evident to those of us who follow the news that there has been some backlash towards the University on this matter. When I first called the University to make a complaint, I was informed that they were receiving thousands of calls a day on this issue alone. I am quite confident in saying the vast majority of these calls were not congratulatory in nature. Recently, 104 members of the U.S. Congress House of Representatives co-signed a letter to President Bollinger urging that Mr. DeGenova be fired.

When Mr. DeGenova made those comments at Columbia University on March 26, he seriously tarnished the University's reputation and brand. It is on these grounds, along with his calls for violence against certain students on campus, which I believe disciplinary action is called for. If you agree with me, I urge you to make your voice heard - stop by my folder on the second floor of Uris and sign my petition. If you don't agree with me, I still urge you to make your voice heard - I think Andrea has a petition for you in her folder.

Going Out on Top: Walter & Edwin Schloss

By Eli Rabinowich

Welcome to "Profiles in Investing", brought to you by *The Bottom Line* and The Heilbrunn Center for Graham & Dodd Investing. Every week we will profile a leading investor and get an inside look into their investment philosophy.

Up next, Walter and Edwin Schloss.

For sheer uninterrupted excellence few investors can match Walter Schloss. For 45 years, from 1955 through 2000, Walter Schloss has managed the same investment partnership. The compound rate of return for his Limited Partners was 721.5x or 15.7% per year compared to a gain for the S&P Industrial Average of 117.5x or 11.2% per year. In 1973, Walter's son, Edwin, joined the partnership and the fund became known as Walter & Edwin Schloss Associates. In 2001, Walter and Edwin decided to close up shop and liquidate the fund. I sat down with Walter and Edwin and asked them about their careers, why they decided to shut down, and what the future has in store

for them.

ER: How did you first get started in research?

WS: In the 1930's my mother had a good friend who was married to a member of the New York Stock Exchange. I used to visit them and I liked the lifestyle, they had a kind of

ting into the statistical department, but he said he couldn't do it. He suggested I read Ben Graham's book, *Security Analysis*, which had just been published and said 'if you read that book and know everything in it, you won't need anything else.' Ben Graham was a cus-

a growth company. I remember he took Colgate-Palmolive, a value company, and Coca-Cola, a growth company, and compared them. He also compared Dow chemicals (growth) and Distiller Seagram (value.)

ES: How do you compare two different companies in dif-

ferent industries? WS: That's right. They like growth. A lot of people are more interested in a company doing better next year than this year. Now what we do in our business is try to relate the market price of the stock to what we think it is worth. When we buy a stock we don't try to project what the future is going to be, we're not able to do that particularly well. To do it well, you need to know a lot about the company, you need to talk to their competitors, suppliers – we don't want to do that. We're a small little office here. So we look at the numbers rather than run around the country, like Peter Lynch used to do.

ER: What was the first great stock call you ever made?

WS: Well you have to understand that I had no money, but the first stock I remember buying was ten shares of Standard Gas and Electric, \$7 preferred stock for \$15 a share. I ended up buying and selling the stock a couple of times and made some money, with the stock eventually working out at over \$200. The thing about Ben

joie de vivre about the way they lived. He was a specialist on the Exchange, but I didn't like the speculative nature of the work. I could see instinctively what I liked – I like numbers. So after high school, in 1934, I went to work at Loeb Rhoades, then called Carl M. Loeb & Co. I started working in the cage, doing clerical work, recording trades for customers. A year after I arrived, I went to speak to one of the partners about get-

tomers of Loeb and was teaching courses at night. So I took two of his courses – I think '36 and '39 – at the New York Institute of Finance, which was then called the New York Stock Exchange Institute. I took Graham's course and I just fell in love with the approach – it made sense. He liked to take companies listed near each other on the exchange and to compare them. One would represent a value stock and another

ferent industries?

WS: He was using the statistics. He wasn't using industry analysis. He was using the value of the company. He was looking at relative value to see if the company was relatively cheap to book value.

ES: You've always said some people latch on to the value approach, they really fall in love with it and other people don't have any affinity for value...

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Graham's approach is that you made money but not a great deal of money. You would double your money and then get out of the stock. His focus was on doubling your money and that's it.

ER: Does this philosophy impact your portfolio construction?

WS: One of the things we've done – Edwin and I – is hold over a hundred companies in our portfolio. Now Warren [Buffet] has said to me that, that is a defense against stupidity. And my argument was, and I made it to Warren, we can't project the earnings of these companies, they're secondary companies, but somewhere along the line some of them will work. Now I can't tell you which ones, so I buy a hundred of them. Of course, it doesn't mean you own the same amount of each stock. If we like a stock we put more money in it; positions we are less sure about we put less in.

The important part is to have some money in the stock. If you don't have any money in a stock you tend to forget about it. We then buy the stock on the way down and try to sell it on the way up.

ER: You have an unusual fee structure. Tell me about it.

WS: I wanted to put myself on the same side of the table as my investors. Most funds are set up for managers to get 1% of the assets and 20% of the profits. I wanted to be in the same position as my partners. If they didn't make money I didn't make money. If they made money I wanted to be part of it. So I got 25% of the realized profits, but that's it. If the market went down we would have to make up the loss until my partners were whole.

ER: So few investors have been able to beat the market for an extended period of time – What's your secret for controlling the fear and greed that has affected so many investors?

WS: We don't like to be greedy. I think greed is one

of the reasons people stayed in this market when they had no reason to be in the market. When Edwin said to me in 2001 that he couldn't find any cheap stocks – and that was a great call – it was a great excuse for us to quit.

ES: I have a list of stocks that could be on our buy list and I find that invariably when it gets down to less than five stocks the market's too high and when it gets down to two or three it's a danger signal

ER: ..and that's why you decided to get out?

WS: Yes. Stocks are no longer that cheap. If you look at the book value of value stocks, you'll see a book of six and the stock is selling at 20, down from 50. Well its still 20, and on a statistical basis it is still not that cheap. You have to realize that there are over 50,000 Chartered Financial Analysts which you didn't have 35 years ago.

ER: So, what's next for you?

WS: My wife died about three years ago, after she had

been sick for a long time. About sixth months after she died I went with the Museum of Natural History to South Western France. On the trip were six couples, nine single women and myself. I met one of the women, we got along nicely and I've been seeing her ever since. If all goes well, we will get married.

ES: Right now I have quite a full plate, but I like working with people. I think I may eventually teach. I am also interested in short story writing and playwriting. I started out in the arts, not in business. In a way I feel like it is my turn to do certain things that I wasn't able to pursue.

ER: What's the best piece of business advice you ever received?

WS: Probably when the partner told me about Ben Graham's book, *Security Analysis*, and said if I learned everything in that book I wouldn't have to do anything else.

ES: From Walter I learned

the most important thing is price. You have to be careful not to overpay. It may be a very good company, but it's not a good buy if it's selling at a steep premium.

ER: What would you advise newly minted MBAs?

WS: A number of things. Be honest with yourself. Don't let your emotions affect your judgment and get an idea of what you want to get out of life itself. If you really don't like Wall Street, you shouldn't go in just because it is a place to make money. You should really like what you're doing. Also, try to deal with honorable and good people.

ES: I think it is important to build on you strengths and not on your weaknesses. It's important to have other interests besides work. And finally, it's good to learn to play bridge.

ER: Gentlemen, it was an honor and a pleasure.

Please email comments and suggestion to ERabinowich04@gsb.columbia.edu

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