

The Collector

Investor Who Piled Up \$100 Million in the '60s Piles Up Firms Today

Warren Buffett Considers His New Life More Fun; The Country-Club Caper

From Stamps to Newspapers

By JONATHAN R LAING

Staff Reporter of THE WALL STREET JOURNAL

OMAHA, Neb — The soaring stock markets of the 1960s created many a star among professional portfolio managers, but few shone as brightly as Warren Buffett.

Operating quietly from his home town of Omaha, Mr. Buffett parlayed a \$100,000 investment partnership into \$100 million in just 13 years. Then, displaying a judicious sense of timing, he closed down the fund and distributed the gains among more than 100 partners in 1969, just before the market suffered the first of its periodic tumbles of the 1970s.

These days the 46-year-old Mr. Buffett is again attracting attention, but for a different reason. Pyramiding the \$25 million that he himself made from the fund, he has bought control of a conglomeration of businesses—ranging from financial institutions and insurance companies to newspapers and candy stores—whose assets total more than \$1 billion. Most recently, a company controlled by Mr. Buffett acquired the Buffalo Evening News, the largest newspaper in upstate New York, for \$33 million.

Indeed, a major cause of Mr. Buffett's visibility lately has been his growing prominence in the newspaper field.

"A Tremendous Relief"

"I'm having a lot of fun because I'm only going into businesses that I find interesting and where I like the people running them, and their products," Mr. Buffett says. "It's a tremendous relief being out of money management. I'm not constantly thinking about business anymore. During the partnership my ego was on the line, and I was trying to lead the league in hitting every year."

Mr. Buffett, a bespectacled man of medium height and medium build whose hairline is receding, is a curious mixture of the sophisticated and homespun. He dresses conservatively and drinks nothing harder than Pepsi-Cola. His talk is larded with sports imagery and Main Street colloquialisms, yet he frequently quotes Bertrand Russell. An editor at the Washington Post, where Mr. Buffett has considerable influence these days, says:

"There's a lot more to Warren than just his business ability and 'aw shucks' manner. He understands the First Amendment along with profit-and-loss statements."

The keystone of the Buffett empire is Berkshire Hathaway Inc., a once-rundown New England textile concern that the Buffett partnership bought control of in the mid-1960s after the company's stock had sunk below its liquidating value. Since then, Mr. Buffett, who is Berkshire Hathaway's chairman and controls 53% of its stock, has revived the company by using its excess cash to diversify into the auto and casualty insurance field and acquire Illinois National Bank & Trust Co. of Rockford, Ill., a highly profitable regional bank. In 1976, Berkshire Hathaway had operating earnings of \$16.1 million on revenues of \$139 million.

Stamps and Candy

Mr. Buffett also controls some 61% of the stock of Blue Chip Stamps, a Western trading-stamp concern that posted 1976 earnings of \$11.7 million on revenues of \$88 million. Blue Chip, in turn, owns 99% of See's Candy Shops Inc., a West Coast chocolate maker and retailer; 80% of Wesco Financial Corp. of Pasadena, Calif., a savings-and-loan association; and now the Buffalo Evening News. Finally, Mr. Buffett has a controlling interest in Diversified Retailing Co., operator of a discount women's-apparel chain of about 80 stores.

But his influence extends beyond the companies he controls: These companies, in turn, have large stockholdings, totaling \$100 million, in a number of others. Among the holdings are a 10% interest in Washington Post Co.—owner of the Post, Newsweek magazine, the Trenton (N.J.) Times and five television and radio stations—25% of Pinkerton's Inc., the security concern, and a 15% slice of Government Employees Insurance Co.

These holdings also include substantial investment positions in Affiliated Publications Inc., publisher of the Boston Globe; Munsingwear Inc., the clothing manufacturer; and two advertising concerns; Ogilvy & Mather and Interpublic Group, the holding company for McCann-Erickson.

Mr. Buffett's management style is low-key. He rarely makes changes in management personnel and he takes little part in day-to-day operating decisions, preferring to concentrate on acquisitions and the management of his companies' assets.

"I Like Guys Who Forget"

"I usually don't need to get involved because I'm careful to buy well-run companies from owners who built the enterprises and stay on to run them," he says. "I like guys who forget that they sold the business to me and run the show like proprietors. When I marry the daughter, she continues to live with her parents."

Mr. Buffett's office reflects his unassuming attitude. Shoehorned into three rooms of a new office building overlooking Omaha are Mr. Buffett; J. Verne McKenzie, secretary-treasurer of Berkshire Hathaway; William Scott, a former investor in and assistant manager of the Buffett partnership, and two secretaries. Mr. Scott works only a five-hour day managing the \$140 million municipal-bond portfolio of Berkshire Hathaway's insurance and bank subsidiaries.

"Most companies would have at least half a dozen full-time people running a bond fund of that size," Mr. Buffett observes, "but Bill illustrates the fact that money management doesn't take a lot of feverish effort. He spends most of his day playing handball and rehearsing his polka band. I

Please Turn to Page 27, Column 1

The Collector: Man Who Piled Up Millions Piles Up Companies Today

Continued From First Page

like to call him the world's richest polka player next to Lawrence Welk."

Wall Street sources close to Mr. Buffett say that his stock investments in the past few years have been largely dictated by his concern over inflation. David Gottesman, senior partner of the New York investment concern First Manhattan Corp., says:

"Warren has been largely restricting himself to companies which he feels offer some protection against inflation in that they have a unique product, low capital needs and the ability to generate cash. For example, Warren likens owning a monopoly or market-dominant newspaper to owning an unregulated toll bridge. You have relative freedom to increase rates when and as much as you want."

Such considerations prompted Mr. Buffett last summer to persuade fellow trustees of Grinnell College in Iowa to spend \$13 million to buy the NBC television affiliate in Dayton, Ohio, for the school's endowment fund. "It seemed to me," he says, "that the station's profits would keep pace with the college's costs better than traditional investments. After all, the advertising budgets from which broadcasters derive most of their revenues tend to reflect current dollars and rise with the gross national product."

Mr. Buffett has taken some lumps several years ago, for example, Berkshire Hathaway lost half of a \$8 million investment in Vornado Inc., a discount retailing concern based in New Jersey. "The stock looked undervalued when I bought it, but I proved to be incredibly wrong about the discount department-store business," Mr. Buffett says. "It turned out that the industry was over-stored, and Vornado and the rest of the discounters were getting killed by competition from K mart stores."

Also, Mr. Buffett's forays into the trading-stamp business have been less than signal successes. He took a substantial loss on a stock investment in Sperry & Hutchinson Co., in 1974, and his Blue Chip Stamps stockholding, acquired mainly in 1969 and 1970, has been a lackluster performer.

His First Newspapers

Mr. Buffett made his first newspaper acquisition in 1969 when Berkshire Hathaway bought the Sun Newspapers, neighborhood weeklies in Omaha. Two years later, Blue Chip tried to buy the Cincinnati Enquirer but was outbid. Since then, in addition to the Washington Post and Buffalo Evening News transactions, Buffett companies have made profitable investments in Booth Newspapers Inc. of Michigan (the position now has been acquired by S. I. Newhouse, who has taken over Booth) and the Texas-based Harte-Hanks Newspapers Inc., which runs 25 dailies and 46 other papers around the country. Mr. Buffett describes his Harte-Hanks interest as well under 1%.

His interest in newspapers is more than just financial, Mr. Buffett says. "Let's face it," he says, "newspapers are a hell of a lot more interesting a business than, say, making couplers for rail cars. While I don't get involved in the editorial operations of the papers I own, I really enjoy being part of institutions that help shape society."

Despite his protestations to the contrary, Mr. Buffett has sometimes been more than a mere absentee owner. Five years ago he played a crucial role in an expose of the inordinate wealth of Omaha's fabled Boys Town, an expose that earned the Sun Newspapers a Pulitzer Prize. Mr. Buffett recalls:

"I knew of an IRS regulation that required charitable foundations to publicly disclose their assets for the first time, so I told

our editor to get a copy of the Boys Town filing. I'd heard a lot of rumors during my fund days about Boys Town's large stockholdings, but even I was staggered when we found out that the home, which was constantly pleading poverty and caring for less than 700 kids, had accumulated assets of more than \$200 million."

Role at the Post

According to insiders, Mr. Buffett has become increasingly influential at the Washington Post Co., which is headed and controlled by 59-year-old Katharine Graham. Mr. Buffett has been a director of the company since 1974 (a year after he bought his 10% nonvoting interest), and more recently he was named chairman of its finance committee. He has come to function as an unpaid executive, traveling to Washington at least once a month, often staying at Mrs. Graham's Georgetown home.

"Buffett has become Kay's financial guru and also acts as mentor for her son Donald, who is being groomed to take over eventually," says a former Post executive. "He started out by helping improve Post Co.'s image on Wall Street and revamping its pension plan. Now she consults him on every important decision."

"Of course I talk to him about potential acquisitions and other important matters," Mrs. Graham says. "I'd be silly not to, considering his superlative business acumen and analytical ability."

A Wall Street source close to Mr. Buffett

says that his newspaper investments don't arise out of any desire to be a newspaper mogul. "Warren likes lively, interesting people, and he loves moving in the circle of politicians and other luminaries that Kay Graham has introduced him to," the source says. "He plays tennis with Ben Bradlee (the Post's executive editor). He gets to sit in the VIP area at the political conventions and presidential debates. He really revels in the whole scene."

Part of Mr. Buffett's fascination with newspapers arises from his intense interest in public affairs. Although his father, who served in the U.S. House of Representatives, was a conservative Republican, Mr. Buffett considers himself a Democrat and has given financial support to a number of liberal Democratic politicians.

An Early Interest

Mr. Buffett recalls being intrigued with the world of finance even as a youth. He soaked up much market lore from his father, who ran a small brokerage house in Omaha before winning his House seat when Warren was 12. After graduating from high school in Washington, Mr. Buffett sailed through college in three years. It was at the University of Nebraska that he chanced upon "The Intelligent Investor," a book by Benjamin Graham that Mr. Buffett says was at the root of his later investment success. In the book, Mr. Graham, no relation to Katharine Graham, preached a defensive, statistical approach to stock investment, based on companies' "intrinsic value"—what a private owner would be willing to pay for a business based on its net worth or, better yet, on only its cash and other current assets after deducting all liabilities.

Upon graduation from college in 1950, Mr. Buffett enrolled in Columbia University's

graduate school of business, where Mr. Graham was teaching a course on finance. The two men became friends, and in 1954 Mr. Buffett, after three years as a stockbroker in Omaha, went to work for Graham-Newman Corp., a New York investment fund headed by Mr. Graham.

Two years later Mr. Buffett and his wife, Susan, whom he had married in Omaha in 1952, returned to Omaha; Mr. Graham had retired from Graham-Newman. Mr. Buffett started his investment partnership shortly thereafter with four relatives and three friends. The lion's share of its trading profits came from investments in stocks that were undervalued according to Mr. Graham's criteria.

One of the partnership's outstanding successes was an investment in American Express Co. that more than tripled in value in two years, yielding the fund a \$20 million trading gain. Mr. Buffett bought the stock in late 1963 following the shares' collapse in the wake of the company's involvement in a salad-oil scandal. Many bank trust departments and other institutions were selling the stock because they thought the scandal would shake public confidence in the company's traveler's checks.

Convinced by Talks

But Mr. Buffett's talks with a number of banks, restaurants, travel agencies and others convinced him otherwise. He found that use of American Express traveler's checks hadn't dropped; what's more, the company was fast developing a dominant share of the travel and entertainment credit-card market.

In 1969, Mr. Buffett sensed a change in the investment climate, so he folded the fund. The bargain issues were all but gone, casualties of the long bull market and the conglomerate acquisition boom. Anyway,

Mr. Buffett was tired of the pressure to perform.

These days Mr. and Mrs. Buffett divide their time between their home in Omaha—a rambling house with an attached racketball court—and a ranch house in Laguna Beach, Calif. With two of their three children grown and the third at Stanford University, Mrs. Buffett has found time to pursue a singing career in several Omaha nightclubs.

Mr. and Mrs. Buffett have been involved in a number of civil-rights efforts. They were among the first gentiles to join an all-Jewish country club in Omaha in an attempt to force all-gentile clubs to admit Jews. "It was silly that many Jewish families that had been in Omaha for years and are important to the city were barred from some of our clubs," Mr. Buffett says. "Besides, the food was better at the Jewish club."