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Outstanding Investor Digest

PERSPECTIVES AND ACTIVITIES OF THE NATION'S MOST SUCCESSFUL MONEY MANAGERS.

Volume V Number 9 December 5, 1990

Investors featured in this Issue:

Other Investors in this Issue:

Companies & Investments in this Issue:

AN OPINION SAMPLER FROM OID'S MAILBAG: ENGEMANN, SOUTHEASTERN, TEMPLETON ET AL. "THE MOST PESSIMISM I'VE SEEN IN 50 YEARS — AND THE ULTIMATE BASICS: BUY LOW, SELL HIGH."

It's often said that, "Everybody wants to go to heaven, but nobody wants to die." Today's stock market equivalent of that saying may be the old truism, "Buy low, sell high." Everyone knows it. Many quote it. Yet, human nature being what it is, there's always a reason not to do it — usually fear.

In a recent letter to clients of Pecaut and Company, Pecaut Partners' Dan Pecaut makes a very persuasive case

(continued on page 2)

AN OID INTERVIEW WITH BRANDES INVESTMENT MGM'T'S CHARLES BRANDES "BARGAINS SO COMPELLING THAT WE HAVE TO BUY THEM. THE TRAIN'S LEAVING SOON. WE DON'T PLAN TO MISS IT."

Brandes Investment Management's Charles Brandes has underperformed the capitalization-weighted indexes in 1989 and, thus far, in 1990 despite being nearly 50% in cash when Hussein's tanks rolled into Kuwait.

For the 12-3/4 years ended 9/30/90, however, it's a very different story. Despite often holding substantial cash, Brandes has earned 18.1% per year after fees vs. 14.5% per

(continued on page 7)

PART II OF OID'S INTERVIEW WITH TWEEDY, BROWNE'S CHRIS BROWNE, WILL BROWNE, JIM CLARK & JOHN SPEARS "THERE'S NO REASON YOU CAN'T SLEEP WELL & EAT WELL."

As we reported last issue, Tweedy, Browne's track record is one of the best and most consistent around. For example, during the 22 years that they've managed outside money alongside their own, TBK Partners has achieved a compound annual return of 18.9% vs. 10.6% for the S&P 500.

To understand just how consistent they've been, consider that their compound annual returns over 14 years and 31 years have been 21.9% and 20.9%, respectively.

(continued on page 19)

REICH & TANG EQUITY FUND'S ROBERT F. HOERLE LETTER TO SHAREHOLDERS — THIRD QUARTER 1990 "COMPELLING BARGAINS IN SOME VERY GOOD COMPANIES MAKE ME FEEL LIKE A KID IN A CANDY STORE."

Like many value investors, Reich & Tang's equity returns have lagged those of the S&P 500 during 1989 and 1990.

Long-term, however, it's a different story. Under the direction of Robert Hoerle, Reich & Tang ranked 4th among the 70 advisors monitored by *CDA* for the 10 years ended December 31, 1989, earning an estimated 20.7% per year on its equity investments vs. 17.5% per year for the S&P 500.

(continued on page 30)

TWEEDY, BROWNE'S CHRIS BROWNE,
WILL BROWNE, JIM CLARK & JOHN SPEARS
(cont'd from page 1)

Here are TBK's year-by-year performance figures for the overall partnership, net returns to the limited partners and those of the S&P 500. (Performance figures provided by Tweedy, Browne.)

Year*	TBK Overall Return	TBK Limited Partners	S&P 500 Total Return
1959	+26.1%		+12.0%
1960	+19.8%		+0.5%
1961	+31.3%		+26.9%
1962	-1.9%		-8.7%
1963	+23.4%		+22.8%
1964	+28.3%		+16.5%
1965	+25.5%		+12.5%
1966	+28.9%		-10.1%
1967	+61.1%		+24.0%
1968	+27.6%	+22.1%	+8.8%
1969	+12.7%	+10.2%	-6.2%
1970	-1.3%	-1.3%	-6.1%
1971	+20.9%	+16.7%	+20.4%
1972	+14.6%	+11.8%	+15.5%
1973	+8.3%	+7.5%	+1.0%
1974	+1.5%	+1.5%	-38.1%
1975	+28.8%	+23.0%	+37.8%
1976	+40.2%	+32.2%	+30.1%
1977	+23.4%	+18.7%	-4.0%
1978	+40.6%	+32.5%	+11.9%
1979	+25.6%	+20.5%	+12.7%
1980	+21.4%	+17.3%	+21.1%
1981	+14.4%	+11.6%	-2.7%
1982	+10.2%	+8.2%	+10.1%
1983	+35.0%	+28.2%	+44.3%
1984	+18.2%	+14.7%	+4.8%
1985	+24.8%	+20.1%	+14.6%
1986	+14.0%	+11.3%	+31.8%
1987	+30.2%	+24.4%	+43.5%
1988	+0.5%	+0.4%	-9.7%
1989	+15.4%	+12.3%	+31.5%
1959-89	+20.9%	N.A.	+10.4%
1968-89	+18.9%	+15.3%	+10.6%
1976-89	+21.9%	+17.7%	+16.0%

*The 1968 figures are for the nine months ended September 30, 1968. The figures for 1969-87 are for the 12 months ended September 30 of each year. The 1988 figures are for the 15 months ended December 31.

Last issue, we brought you Part I of our interview with Tweedy, Browne's Chris Browne, John Spears, Jim Clark and Will Browne, wherein we learned about the firm's rich and colorful heritage, their investment philosophy, their current perspectives and some favorite bargains today.

In Part II of our feature, the firm's principals very candidly discuss their investment approach, additional bargains and their biggest mistakes. We hope you enjoy it as much as we enjoyed preparing it for you.

OID: Some say that joint decisions are not great generally, especially in the investment field. But you obviously find that it works.

Will Browne: The reason it works for us is simply that we're all using the same process and the same tools. When we have disagreements, they tend to be at the margin: How much we're going to pay, for example. And we may have questions. We all enter into the dialogue.

But we're all essentially using the same philosophical approach, the same tools and have the same view of the world. So we think it's a strength.

If you have a money management firm, like you do in many cases, where you have a bunch of individual stars who have to go in and convince every other star stock picker who's got a different way of skinning the cat that this one ought to be bought, yeah, I think you'd get nowhere.

Chris Browne: Among our peers, I believe that the fact that we're four distinguishes us. The vast majority of other firms operate as one-man shows.

Tweedy, Browne is now in its second generation. And the second generation is thought of well enough by the first generation to have all of its money here — one of whom even had us contractually agree that as long as we managed money, we'd agree to manage his. I presume that some day there'll be a third generation.

So from a client's perspective, they have a lot of time to get to know us. I've been here 20 years. John [Spears] has been here 17 years. Clients all know us very well at this point. And they all know that we did a long philosophical apprenticeship, that we think the same way and that analysts here now are in the same apprenticeship, hopefully sharpening their skills as they go along.

If something happened to Warren Buffett tomorrow, I don't know precisely what would happen to the price of Berkshire Hathaway, but it probably wouldn't go up.

OID: No matter what Buffett may say.

Chris Browne: But if, God forbid, something happens to one of us, probably one guy will stay in the office and the other two will go to the funeral. The day after, we'll be back to business as usual. It won't have that much of an impact.

From the perspective of diversification and feeling comfortable about where your money is, I think it's a distinct advantage to know that there are four intellectually and philosophically co-equal people making the decisions. And from my own personal perspective, I want to go on vacation once in a while. And I don't want to have to call the office every other hour when I do it.

OID: Or have to explain why to your spouse.

Chris Browne: And anybody can get depressed. For some reason, we never get depressed at the same time. We're like a bunch of little sheep dogs pushing one another to do things exactly the way we always have.

Finally, there's the intellectual stimulus. It's fun to sit around and discuss businesses and valuations with your intellectual peers. If you're a star and all you've got are analysts with three years of experience, you may not have that same stimulation.

Spears: Also, more people means more information tentacles to help us understand the nature of a business, its earning power and its qualitative aspects. Contacts that we share help us in our thinking and our analysis.

(continued on next page)

TWEEDY, BROWNE'S CHRIS BROWNE, WILL BROWNE, JIM CLARK & JOHN SPEARS
(cont'd from preceding page)

OID: Do each of you sort of have distinctive strengths and weaknesses such that you come to specialize?

Chris Browne: Sometimes.

Spears: But it's not that pronounced. There may be a little bit of that just by personal interest or something may get dumped in your lap because you've looked at one before. But none of us have a monopoly on understanding, perception or wisdom.

Will Browne: I'm the best looking one in the group. Other than that, nobody has a monopoly on anything.

OID: What differentiates you from most money managers?

Spears: In terms of biases, we tend to favor less leveraged companies. It doesn't mean we've never owned a leveraged company. But, on balance, we'd rather have a stock where a friendly banker would lend the company an amount of money equal to the current stock price because it's completely unleveraged.

We've often found our businesses selling at less than the underlying financing capacity of the business. Graham talked about that kind of thing in *The Intelligent Investor.* And it's a theoretical insight into valuation. But it's another thing that helps you sleep well at night.

OID: Which probably explains our insomnia.

Will Browne: Another distinction is that we want the current math of an investment to make sense to us. We can look at a newspaper business and understand its financial characteristics. We look at transactions. And we can understand that they make financial and economic sense right now. That gives us a lot of comfort.

An example where we don't develop the same level of comfort might be in the cellular business. It may prove to be a wonderful investment. But when we look at the business, prices are based on what people think will unfold. And they're not monopolies. They're duopolies. Competition could change the entire business dynamics.

So we tend not to invest in those areas. The math just isn't there to support our whole process.

Spears: The last transaction for a cellular telephone system may have been $350 per pop. But $350 a pop may equate to a valuation of 200 times operating income and 9 times sales. There are just so many variables that have to work in order to make that valuation make economic sense — to produce a yield of 10% or more on invested capital.

OID: It may but you don't want to count on it.

Spears: Exactly. We have seen price competition in the cellular telephone business. And we don't know that

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everyone will pay $100 a month for cellular telephone service when the average phone bill is $20 a month.

Chris Browne: There's a danger in using price per pop valuations. It's like taking *Blue Irises* at $40 or $50 million, figuring out the price per square inch of canvas and relating that to other paintings. It doesn't work that way. Maybe somebody overpaid — because there's no economic yield underlying that value.

OID: At least no cash flow. Robert Noel refers to it as venture capital.

Spears: Exactly. No cash flow to support valuations. And it's a long way down the road before you get the cash.

Chris Browne: I guess if we have a weakness, we're not great visionaries.

OID: In Charlie Munger's words, you don't try to do the impossible.

Spears: And take trophy property valuations, please. Big money has changed hands in assets like the Bel-air Hotel — which I think was purchased at $1 million a room. But the economic yield on $1 million a room is just so far from competitive returns on Treasury bills, for example, that it's just a great leap of faith.

Will Browne: We strive for financial common sense.

Clark: Buy the what "is", not the what "if".

Spears: Which is not to say that we're uninterested in the growth of intrinsic value. Some people who think of growth and value think of value-oriented managers as being interested in sort of a pile of coal.

Will Browne: Buying a lump of inert assets that earns nothing. That's as far from the truth as you can get. We're trying to buy businesses — and generally better businesses.

Chris Browne: Not steel mills at half of book because they're cheap based on the numbers.

OID: And yet, that's probably what most people think of when they think of Tweedy, Browne.

Spears: But it's a misperception. We believe that the best mathematics occur when you buy a $100 bill for $50 — and then one year later that $100 is worth $110 and compounds at 10% to 20% a year.

OID: Paying attention to return on capital and/or what Buffett calls franchise — not purely book value or assets.

Spears: Exactly. The mathematics are much better that way. When you buy $100 for $50, the $100 may still be worth $100 ten years later. That's the value sink.

Clark: Which is why some of the newspaper and media companies are unusually attractive now. You're paying half of intrinsic value. And maybe that intrinsic value will only increase 10% a year instead of the 15% or 20% rate, which it has historically. But on our cost basis, it's still increasing 20% a year.

Chris Browne: The interesting thing that occurs to me — and you commented on it as we were looking at retailing — we know it's going to be a lousy Christmas, but so what? When we're buying a company, we're looking beyond that. A lot of Wall Street research focuses on the next quarter, on doing quarter-to-quarter comparisons and seeing the growth in operating income and sales.

You see it in the money management business, as well.

(continued on next page)

TWEEDY, BROWNE'S CHRIS BROWNE,
WILL BROWNE, JIM CLARK & JOHN SPEARS
(cont'd from preceding page)

Pension funds often look at their managers on a quarter-by-quarter basis compared to the S&P. In effect, all they're doing is getting even with all the analysts on Wall Street who are demanding the same sort of discipline out of them.

We don't have that quarter-to-quarter thing. We don't call up Gannett and scream at them because earnings were off 5% in the quarter and they failed to tell us. We just look at the basic intrinsic value of the business. We realize that every road has a few turns in it, but that it ultimately gets to the destination.

Our clients, to a great extent, have the same mentality when they look at us — that it's not so much the quarter-to-quarter comparison that really matters.

OID: Good for them — and their ultimate net worth.

Chris Browne: They know that they're still on the same road, that they're going to get there — but that sometimes they'll go 60 miles an hour and sometimes they'll go 10 miles an hour.

OID: And occasionally in reverse.

Chris Browne: The speed limit's 30. Will we ultimately do better at 30 miles an hour? We think we will.

Spears: We feel very comfortable talking to our clients about their property — about the property we're managing on their behalf. We can't guarantee that we'll beat their favorite index next year. We have no idea how that's going to turn out. But we're quite at ease talking about what they really own inherently.

OID: Besides the areas we talked about last issue, what areas are you looking at for bargains?

Clark: Any stock that's declined to two thirds of book value or less.

OID: Besides what we've bought, are there any others?

Chris Browne: Take the recent news on Travelers. Travelers sank dramatically — as it should — following a $650 million write-off because of deterioration in the value of its mortgage portfolio.

Clark: And they cut the dividend by a third.

Chris Browne: The market says, "Oops! Travelers. Well, that must mean Aetna, Cigna and all the others must have the same sort of problems. So how could you ever explain to clients why you wanted to own a property/casualty company? Clean 'em out."

So the questions for us become, "Who doesn't have the big mortgage portfolio? Who still has decent earnings? Whose book value is solid?"

Instead of exiting a stock, investors will exit an industry. So we'll look in that industry for companies that have been unfairly tainted.

OID: Follow the fear and the disgust.

Spears: They'll show up in the screens and the lists.

Chris Browne: We've run the screens pretty often these days because the prices keep changing.

Will Browne: The other important thing to watch out for is financial leverage. If you combine financial leverage with operating leverage — and most businesses have operating leverage — you get devastating results, especially if the economy softens. So we'd just as soon avoid it.

And even if it's not there yet, you can look at a business that's financially leveraged and at its operating characteristics and see that a 3% or 4% drop in revenues can result in an 80% or 90% drop in earnings or even more. We try to stay very aware of those and steer clear of them.

Spears: Most of our investments are in businesses that by their very nature have more stable income streams. We're generally not appraising copper companies that may be selling in the stock market at 5 times earnings because copper is at a new high price. We just pass those by.

On the other hand, if we can buy the low-cost copper producer at 5 times earnings when the price of copper is at an historical low, we'll be interested. But that typically isn't the case.

OID: Picky, picky, picky.

We see that you've been a buyer of Gannett. Do you consider it to be a bargain today?

Spears: Yes, indeed.

Chris Browne: That's about as excited as John gets.

Spears: Gannett's at $33 a share. There are 160 million shares outstanding. They appear to be earning $2.80 to $3.10 per share — adding back 35¢ a share of goodwill amortization.

Gannett owns newspapers in small to medium-sized towns throughout the U.S., television broadcasters and outdoor advertising businesses. The company earns 54% pre-tax on its required operating capital.

OID: We could live with that. But what makes you believe it's a terrific bargain?

Spears: There seems to be a fairly active market for newspapers, television stations and outdoor advertising businesses. And when we value their newspapers at 11 times pre-tax, pre-depreciation and pre-interest operating cash flow, their outdoor advertising and broadcasting businesses at 10 times pre-tax cash flow, add in their cash and deduct their debt, we arrive at a value of $68 a share.

OID: Or a little over double their current stock price.

Spears: That's right. We come up with a range of $68 to $83 for Gannett, depending on the multiples we use. And Gannett recently offered Gannett Foundation $33-7/8 per share for the 16 million shares it owns and was turned down. The Foundation's response was that the bid didn't reflect the underlying value of the shares.

Will Browne: The highly desirable business and financial characteristics of monopoly newspapers and broadcast properties are no longer a secret. However, the fact that ad revenues are soft right now probably accounts for a lot of the decline in the prices of these stocks into ranges where they've become values again.

I don't think anyone's suggesting that newspapers and television stations all of a sudden won't be good businesses. We certainly don't believe that. Investors just conclude from time to time that certain industries aren't the place to have their money. And we believe therein lies opportunity.

OID: And your multiples of 10 to 11 are on the low side of those we've heard.

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TWEEDY, BROWNE'S CHRIS BROWNE,
WILL BROWNE, JIM CLARK & JOHN SPEARS
(cont'd from preceding page)

Spears: That's right. We've heard 13 times operating cash flow for newspapers. And we've observed transactions at higher multiples. But we think that the multiples we've used are more likely to be sustainable.

Clark: Using those same sustainable multiples, Knight-Ridder and Multimedia — both of which we own — are selling at significantly less than their transaction values.

OID: Some suggest a long-term trend of advertisers away from newspapers to cable. And some point to the possibility of tobacco and alcohol advertising being eliminated by legislation. Do you buy any of that?

Clark: I think there's some merit to those arguments. They were among the best businesses in the country in the '60s and '70s and maybe half of the '80s. My guess is that they'll still be among the better businesses going forward, but maybe not quite as good as in the past. But they'll still be way, way, way above average.

OID: You certainly don't have to worry too much about competition.

Spears: That's the key.

Clark: Particularly in the newspaper area. People don't give enough credit to potential circulation revenues. You buy the *Wall Street Journal* for 50¢ or you buy your local newspaper for a quarter. I just think that there's considerable pricing flexibility for most monopoly newspapers — even if prices were doubled....

OID: What Buffett calls pricing power.

Spears: And in instances where there's no local competition, there's a great deal of pricing flexibility in classified advertising. If you want to advertise a weekend rummage sale, you don't care if you spend $25 instead of $15. It's a great value.

OID: Especially if you don't have any alternatives.

Spears: That's right.

Clark: There are alternatives. Some cable companies are running classified ads. But if you've ever tried to get information from a cable classified ad, you realize pretty quickly the advantage the newspaper has.

Chris Browne: If a cable classified ad sticks in your mind and you want to go back and see it, you can't because it's off the air. That's one reason why the local advertiser really needs the newspaper.

When business is soft, people will advertise less. But it doesn't mean that they won't continue to advertise — especially under normal conditions. They have no choice.

OID: And like you said, business conditions will return to normal eventually.

Spears: And Gannett is geographically diverse. They have newspapers throughout the country.

OID: Which according to your estimates is the most deeply discounted media company currently?

Clark: My own personal view is Knight-Ridder since they enjoy the opportunity for margin improvement. In my opinion, that's less so at Gannett and Multimedia.

Spears: We believe that Gannett's earnings have been pretty much optimized. It's an extremely well-run company. In the case of Knight-Ridder, there's much more room for margin improvement.

OID: Could you run us through Knight-Ridder's fundamentals?

Clark: We estimate Knight-Ridder's value at about $112 per share versus a stock price of only $39-7/8 today.

And it's probably one of the few newspaper companies that will show higher reported earnings in 1990 — primarily because of the joint operating agreement in Detroit.

OID: Southeastern's Mason Hawkins walked us through Knight-Ridder earlier this year.

Clark: As I recall, he came up with a value of $130. But it's difficult when you get down to the very fine points — like whether you value monopoly newspapers at 12 times operating cash profit before depreciation — in other words, operating cash flow — or 13 times. We used 12 times.

OID: Could you briefly walk us through their numbers?

Clark: We took their newspaper operating cash profit, added back depreciation and assumed that their loss of about $23 million a year in Detroit would be erased.

OID: As a result of their joint operating agreement?

Clark: Correct. So you get operating profit before depreciation and before the loss in Detroit of almost $450 million. At 12 times operating cash flow, that gives you about $5.4 billion for the newspapers.

I valued Dialogue — an electronic publishing company that Knight-Ridder bought from Lockheed — at cost, which is about $353 million. Then, I valued their other electronic information businesses at two times revenue — or an additional $285 million.

OID: Which sounds very reasonable for electronic publishing, doesn't it?

Clark: I believe so. Then, they have some partially owned companies — a couple of newspapers in Washington state and some paper mills. I valued those at 13 times their share of after-tax earnings. That's about $280 million. Then I added their investment in Storer Cable at cost — which is about $55 million.

From that, I subtracted their negative working capital as of June 30th, 1990 and all of their long-term debt — which totals about $721 million to arrive at $5.65 billion. Dividing by 50.2 million shares outstanding then gives you about $112 a share.

But the principle value is in the newspapers.

OID: Your $112 value estimate for Knight-Ridder implies a whopping 64% discount. Why is it selling at such a large discount to value?

Clark: Media properties have traditionally traded in the public market at some discount to their intrinsic value. They almost never trade at intrinsic value.

For example, we've typically been willing to buy them at 50% to 55% of intrinsic value and sell them at 75% or 80% of value. I get real excited when we can buy them at a third of intrinsic value, hold them for a few years while

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TWEEDY, BROWNE'S CHRIS BROWNE, WILL BROWNE, JIM CLARK & JOHN SPEARS
(cont'd from preceding page)

value builds and sell them at 75% of value. In that way, we usually wind up tripling our money.

OID: Where have they tended to trade historically?

Clark: You very seldom see them trade for less than a third of intrinsic value. And you seldom see them trade at more than 80% of value.

That's not only newspapers, but also television stations and cable television. Cable, of course, is under a cloud because of concerns about regulatory action by Congress. So it's currently selling at the very low end of its value range — especially relative to the last several years.

OID: Which is what we've heard from Moran, Gabelli, Gipson, Baron and Kagan — among others.

Clark: Newspapers, too, are somewhat under a cloud because of the general softening in classified and retail advertising. And there is some concern that tobacco print advertising may be prohibited. For example, alcohol of all types has been completely banned from advertising in France.

OID: And closer to home, there's Canada...

Clark: Where tobacco print advertising's been banned. Tobacco had already been banned on television up there several years ago, as well.

OID: We'd be surprised if more advertising restrictions didn't arise.

Clark: I would too.

OID: When do you use a multiple of operating profit and when do you use a multiple of after-tax cash flow?

Clark: For newspapers and other media properties, the after-tax figure is almost never used — unless it's a minority interest. If it's 100% owned, you use either operating profit before depreciation or a multiple of revenue.

It really depends. When Gannett bought the Louisville paper from the Binghams, I'm sure that they didn't use a multiple of operating profit in their analysis. They looked at the *Courier Journal* and calculated what the newspaper could earn with them managing it, not what it would earn under the Binghams' management.

The really sophisticated buyers — the Cap Cities, the Gannetts, the Knight-Ridders — base their bids on margins that they believe they can generate. They may be able to make it earn considerably more than a family that may have run it in a way that didn't maximize profit.

But since we aren't sophisticated enough to do that on a market-by-market basis, we look at operating cash flow. Particularly with a Gannett or a Knight-Ridder, there may be some room for improvement, but not much.

OID: Which sounds like it would effectively provide you with a margin of safety since almost every winning bidder probably thinks they can run something better.

Clark: That's right. And practically speaking, if you're bidding on a newspaper like the *Courier Journal* and there are six or seven other bidders, you really have to put out your maximum bid — which is usually based on a multiple of revenue with the margins you believe that you can achieve two or three years out under your ownership.

Will Browne: The newspapers are really an excellent example of the way we approach investing. We looked at the newspapers and felt that they represented an attractive investment area.

We didn't then take the approach of trying to pick out what we thought was the stock that was the best business at the lowest price. We tried to pick several of them. At the time, the Tribune, Knight-Ridder and Gannett were the three that we focused on most heavily. There were many we could have bought, but it came down to those three.

Spears: The three, I think, tended to have a more diverse spread of assets. Affiliated had a big chunk of its value in one paper — *The Boston Globe* — and two classes of stock with different voting rights.

OID: So you passed. What would make your newspaper investments turn out to be mistakes?

Clark: I don't know. It's like network television. Many regard network television to be a dying entity. Viewership has declined the last five years as cable and other target-type video products have split the audience.

But if you're General Foods and you want to reach a huge, broad-based audience, there's really no alternative. I believe that the viewership decline that the networks have experienced is bottoming out and that they have a future as a major mass market advertising medium.

And I believe that newspapers, in particular, won't be subject to obsolescence — at least in my lifetime. Consider how difficult it is to start a newspaper in a monopoly newspaper town.

People's reading habits are very, very ingrained. They don't like to change the way they read their sports scores, their stock prices or their classified ads. They're just very much creatures of habit.

OID: A legal addiction, so to speak. And we certainly approve of those — especially reading addictions.

Clark: Including *OID*.

OID: We certainly hope it's habit forming. Speaking of which, you also own Value Line. Do you consider it to be a bargain today?

Clark: It's trading around $17. I wouldn't classify Value Line as nearly as great a bargain as Knight-Ridder. In our opinion, it's not a sale, but it isn't a buy either.

Value Line is basically two businesses. There's the *Value Line Investment Survey*. It's a wonderful business, but it's primarily an equity product. In a dropping market, their subscriptions tend to lapse and they don't get many new subscribers. When there's a bull market, they get lots of new subscribers and lots of renewals.

But it's a great cash generator and is probably worth 10 times operating profit — or average operating profit between what they'll earn in a down and an up market.

The second business they own is the management of several mutual funds. Like most money managers, it's a free cash flow business. But it's not altogether clear that a buyer of the *Value Line Investment Survey* would also want to be in the money management business.

But if they split it in two, the question is whether they

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TWEEDY, BROWNE'S CHRIS BROWNE,
WILL BROWNE, JIM CLARK & JOHN SPEARS
(cont'd from preceding page)

might suffer mutual fund redemptions — since they might no longer be tied into the *Value Line Investment Survey.*

OID: But couldn't the mutual funds retain some kind of proprietary relationship.

Clark: They might be able to do that. In any case, our best estimate is that it's worth $26 to $30 a share. We'd be buyers of Value Line at $14.

Spears: Value Line's sort of in the gray area right now. It's cheap, but sales and earnings have been declining.

Chris Browne: They're not considered to be the best managed company in the history of publishing.

OID: On the other hand, what a franchise.

Spears: They've had a decline in their subscriptions. But they seem to have hit bottom in their subscription level about two quarters ago. They've increased their level of advertising spending and they seem to be coming back.

It looks like they're earning $2 a share. It's a company that has an extremely high return on capital. So almost all of their earnings come in as cash.

OID: And their current stock price?

Spears: Their current stock price is $16.50.

Chris Browne: You know McGraw-Hill would love to buy something like that. It's got a great niche in its area and a great franchise that's been built up over many years.

It's good when management likes to run a tight ship, but in this case it may be too tight.

Spears: They're definitely not optimizing the franchise.

OID: But at 8-1/2 times earnings, it sounds like it's being discounted quite a bit.

Spears: Yes. But all things considered, we put it in our gray area.

OID: You also own CBS. That's certainly an unpopular company among many investors and employees.

Spears: Cash is unpopular? It has $100 a share in cash. And it's selling for about $170.

Will Browne: That holding goes back some time to Ted Turner's run, back when Wyman was there.

Spears: It was back when Tisch was accumulating stock. And he paid up to around $141. Our estimates for the true value of CBS were around $250 to $300.

OID: In somebody else's hands, probably.

Will Browne: If and when Tisch sells that business, he's going to get one hell of a lot of money for it.

Clark: I think the reason he doesn't sell it right now is that he can't. The logical buyer is a movie studio. And a movie studio can't buy it today.

Will Browne: Perhaps he's just waiting for the syndication rule changes.

Clark: As soon as those rules change, I think he'll have potential buyers lined up and have a bidding contest.

OID: Exactly what Noel tells us — that it will make sense for the studios and networks to be owned by the same entity and that you can almost bet the ranch that Tisch won't pay the price for a movie studio.

Will Browne: He won't pay the price — and it's not his style.

Clark: He'll keep the stations and sell the network.

OID: Tell us about United Newspapers.

Clark: United Newspapers is a U.K. newspaper chain that owns some national newspapers — the *Daily Express* and *Daily Star* among them. They're major national newspapers that are experiencing declining earnings. But they're still quite profitable.

OID: Are they experiencing declining circulation?

Clark: Slightly. They're losing ground to their competitors but they're still very profitable.

It's a very competitive market. And these are relatively downscale papers. I think circulation is subject to contests and promotions — like Wingo.

OID: How charming.

Clark: It's certainly not like *The Times* in London or the *Daily Telegraph.* But it's selling for about 40% of value. And that's using an 8 to 10 multiple of operating cash flow — i.e., operating income plus depreciation.

OID: You've adjusted the multiple downward because of the competitiveness?

Clark: That's right. If they were monopoly papers, it would be more like Knight-Ridder's multiple — 12 or 13.

> PORTFOLIO REPORTS estimates the following were Tweedy Browne's largest equity purchases during the quarter ended 9/30/90:
>
> 1. AMERICAN CYANAMID
> 2. WOOLWORTH CORP
> 3. MULTIMEDIA INC
> 4. PHH CORP
> 5. US LIFE CORP
> 6. K MART CORP
> 7. MELVILLE CORP
> 8. GANNETT CO INC
> 9. WHITMAN CORP
> 10. MANUFACTURERS NATL CORP
> 11. AMERICAN EXPRESS CO
> 12. MCGRAW HILL

Spears: Using a multiple of 10 times operating cash flow — and transactions have occurred in the U.K. at that kind of valuation — we estimated United Newspaper's value to be about £8.00. The stock is priced at around £3.40.

It's earning about 39 pence. So it's selling for less than 9 times earnings.

Clark: It's selling at about 8-1/2 times reported earnings and a dividend yield of about 6.8%.

OID: And even better, aren't those earnings depressed?

Clark: Yes, they are.

OID: Why so cheap?

Spears: About 25% of their pre-tax income comes

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TWEEDY, BROWNE'S CHRIS BROWNE, WILL BROWNE, JIM CLARK & JOHN SPEARS
(cont'd from preceding page)

from the national newspapers that they own in London, *The Daily Express* and *The Sunday Express*. And the London newspaper market is very competitive. There are, I think, five national newspapers. It's even more competitive than New York because you have competitors in the same demographic niches.

Then they own a number of regional newspapers, which are better businesses than the national newspapers, because their markets are less competitive.

They also own the *IDD Information Service* in the U.S., which publishes information concerning merger and acquisition transactions, and the *Investors Dealer Digest*. They own the U.K. equivalent of Standard & Poors — *Extel*.

They also own a number of advertising supported periodicals — both in England and in the U.S. And again, those are better businesses than the national newspaper.

OID: What sort of businesses are they?

Clark: Because I'm a classical record person, I read one of their publications — *Hi-Fi News and Record Review* — which is a distinguished English periodical in that field. They also own *Motor Caravan Magazine, Luxury Yacht, Film Review, Do It Yourself, Custom Car, Classic Replicas, Classic Boats, Auto Express* and *Traditional Woodworking*. It goes on and on — a bunch of niche consumer magazines.

And they also publish probably 50 business magazines and newsletters, such as *Chemist and Druggist, Farming News, Home Furnishings, LP Gas Review* and *Preservation International*.

OID: Aren't those generally considered to be terrific businesses because of relatively price insensitive buyers who need the information for their business or profession?

Clark: Exactly. And they also publish a number of business directories, such as *International Leather Guide, Engineer's Buying Guide* and *Printing Trades Directories*.

OID: They sound like highly desirable businesses. What sort of multiple did you use on those?

Clark: We used a multiple of 10 times on those. Those are UK-oriented. They also own about 25 American business magazines and newsletters, such as *Corporate Travel, Health Care Systems, Optometric Management, Ophthalmology Management, Pulp and Paper Week*, a few business directories, a mutual fund directory and a mortgage backed securities directory.

OID: What a combination. They sound great.

Clark: They are. And they represent a great deal more of United Newspapers' value than their national newspapers — which represent only 150 of the 750 pence total value that we estimate.

OID: Thankfully.

Will Browne: And they've invested a tremendous amount of money in the last three or four years in order to achieve some efficiencies.

Chris Browne: And the guy who runs it, David Stevens, is smart. He's an entrepreneur.

Clark: His objective is to build shareholder value. And he's done a pretty good job of doing it.

OID: Is he a shareholder, as well?

Clark: Yes, he is. He owns about 175,000 shares and has options on another 265,000 shares. That's about $1 million dollars in stock and options on another $1.5 million.

OID: What is his distinctive competence?

Clark: He seems to be a shrewd capital allocator — figuring out where to spend the company's money.

OID: Speaking of capital allocation, has he been repurchasing shares?

Clark: No, he hasn't. He's more anxious to pay down debt at the moment.

Spears: But it's a company like Gannett that earns a very high return on its operating capital.

OID: And all of that at 8-1/2 times earnings.

Clark: And a fellow by the name of Conrad Black has accumulated over 5% of the stock. I don't have any idea what he's doing. But he's one of the largest newspaper publishers in Canada and a knowledgeable buyer.

Spears: And Conrad Black accumulated most of his shares, we believe, between £4 and £4.40.

OID: Well above the current stock price.

Spears: And it's the kind of company where a takeover could occur. The officers and directors own less than 5% of the shares.

OID: A strong case, indeed. But since the U.S. dollar is so cheap on an intrinsic value or purchasing power parity basis, isn't that an incredible disadvantage when you try to find stocks outside the U.S? Aren't you paying with cheap money and watching your companies compete on a disadvantaged basis?

Will Browne: When we look at a foreign security, we look at it within the context of the market where its business is conducted. To some extent, stock prices relate to capital. So when we look at non-U.S. securities, we look at them in relation to the environment in which the business is conducted.

There was a period of time where everybody would say that the U.K. stock market is very cheap because it's selling at 9 or 10 times earnings and that the U.S. market is more expensive because it's at 14 times earnings. But U.K. short-term money was 15% or 16%.

Also, there are many non-U.S. companies which are really no different from many U.S. companies to the extent that they're simply worldwide, multinational companies. They happen to do their accounting in a different currency. You can look at the German chemical companies in relation to U.S. chemical companies or British chemical companies and evaluate them on a worldwide basis.

OID: Exactly what Tiger's Julian Robertson tells us.

Chris Browne: If you were to take Coca-Cola, reincorporate it in Japan and have the primary listing on the Tokyo Stock Exchange, the stock would triple.

(continued on next page)

TWEEDY, BROWNE'S CHRIS BROWNE, WILL BROWNE, JIM CLARK & JOHN SPEARS
(cont'd from preceding page)

Clark: They earn more in Japan than any other single country.

Chris Browne: It's a multinational company. It's no different than a lot of other Japanese companies except that it happens to be incorporated in Atlanta instead of Tokyo.

In the past, we've picked away at foreign stocks. But recently, we've put together a system of databases in order to be able to look at foreign stocks the same way that we look at U.S. stocks — screen them using our criteria so we can get a short list of stocks that we want to focus on.

Rather than calling a few brokers and getting some annual reports, we'd rather get an overview of the market and try to pick out for ourselves which ones look cheapest and analyze those.

So we've stepped back, looked at it and tried to put the systems together ourselves. We've spent a couple of years in the process. It's been very difficult to get it structured. But I think we're finally there.

Will Browne: It's a learning process. And there's a lot to learn. Not that we'll ever know it all, but we have to understand subtle and not-so-subtle differences in accounting practices, what it is that motivates financial practices and the different characteristics of a business in each country.

For example, advertising is regulated in certain European countries. That makes for a very different kind of business. You could simply say, "Well, this is an advertising company in Belgium. And look how cheap it is". But the fact is that it may well be a regulated business.

There are many, many things that you have to develop an understanding of to move up the learning curve. We've been doing that for a number of years. And we believe that today, we're at the point where we can begin to manage money internationally using the same value-oriented approach on a security-by-security basis.

We'll do it in a separate pooled account. Initially, it will be limited to ERISA clients. Eventually, we hope to have a different entity which will allow non-ERISA clients.

Chris Browne: There's a lot of change going on in the international markets — especially in the European markets. And while the accounting is more difficult, the accounting tricks they play are generally aimed at understating rather than overstating the earnings.

OID: How refreshing.

Chris Browne: With the development of the EC in 1992, any change will be to deregulate those markets — which has to be positive for businesses.

OID: Maybe standardize accounting.

Chris Browne: Standardize accounting — which is going to make it easier for investors in other countries to understand what's going on and possibly even promote the concept of unfriendly takeovers. So all of those are positives for those markets.

The European market is almost as big as the U.S. market and is going to get much more like the U.S. market. Businesses in developing countries are starting to look like businesses all over the world. They're not so enormously different in the way they operate — price their product, market it and construct it. If labor costs are too high in Mannheim, they'll go build the factory in Madrid or in the United States or someplace else — the same thing U.S. companies are doing.

It really expands our universe of places to look for cheap stocks. That's the reason we're focusing on it.

OID: Legg Mason's Bill Miller and Templeton Funds' John Templeton and Mark Mobius have pointed to the advantage of less efficient markets in certain countries.

Chris Browne: Which can be a positive and a negative. You can get some real down drafts over there. Those markets can be quite illiquid sometimes.

OID: What other international bargains are out there that fit your criteria today?

Spears: In 1983, we began buying shares of foreign companies that met our investment criteria. One that we've bought recently is Netherlands-based Akzo. The stock price is 78 gilders. It's earning about 20 gilders, so the P/E ratio is 3.9 times. They've been paying 8 gilders per share in dividends, so their dividend yield is 10.3%.

OID: So far, so good.

Spears: And there's more. AKZO's stated book value is 104 gilders per share. So it's selling at 75% of stated book value. But it's a very conservatively stated book value because when they buy a company, they write off the acquisition goodwill. And they've made some acquisitions.

When we appraise each of their segments individually based on sales prices and valuations of similar businesses, we come up with an estimated breakup value of 281 gilders per share.

OID: Or 3-1/2 times their current stock price.
How have they managed to increase earnings so nicely over the past 10 years? It looks like earnings are up 18% or 19% per year for 5 and 10 years.

Clark: The chemical business has been a pretty good business for the last few years.

Spears: There's been a margin turnaround in part of their business. Plus they've gone from being considered a commodity chemical company to a conglomerate in pharmaceuticals and specialty chemicals.

They also have the largest salt business in Europe. And even though salt is a commodity, it's somewhat similar to the aggregates or rock business in the U.S. — it's sort of a regional monopoly business. The transportation costs are high. You'll often have a territory with very little competition. So the return on capital employed in the salt business is surprisingly high.

Chris Browne: Salt is the largest volume item per dollar that you can buy in the grocery store.

Clark: They primarily sell chemical processing salt, not salt for food.

Spears: But they do sell Diamond Crystal Salt here in the United States.

Chris Browne: The only kind of salt I buy. And Channel 7 is the only channel I watch.

OID: Like any good Cap Cities/ABC shareholder.

(continued on next page)

TWEEDY, BROWNE'S CHRIS BROWNE,
WILL BROWNE, JIM CLARK & JOHN SPEARS
(cont'd from preceding page)

Speaking of which, is Cap Cities a bargain today?

Clarke: For accounts of ours that didn't own it, we might nibble at it between \$430 and \$450. I wouldn't be surprised if they're not buying a lot of stock in right now. Through the third quarter of this year, for example, Cap Cities repurchased over 900,000 shares at an average price of \$460.

OID: Going from the sublime to the ridiculous, what's the biggest mistake that you've made?

Chris Browne: Not putting the whole kit and caboodle in Berkshire Hathaway in 1969 and retiring. We could have gotten rich without working.

Spears: That's right. Another painful mistake was giving Berkshire to charity — the gift that keeps hurting.

OID: You gave your Berkshire stock to charity?

Spears: We all did — because of its low basis.

Will Browne: The worst stock we ever gave away.

Spears: The gift that always smarts. We'd all like to be Indian givers in that instance.

OID: Any less tragic mistakes?

Chris Browne: The biggest mistake we've made — and it's an ongoing problem in value investing — is that we've always bought too soon. It's not as though every stock has a floor of 50% of intrinsic value and once it hits that level, that it will never go lower. When you start buying a stock, you don't know where the floor's going to be.

OID: And you look dumber and dumber as you're really being smarter and smarter.

Chris Browne: Exactly. And there's no way to overcome that phenomenon because we have no way of knowing where that floor's going to be. Ultimately, we know that it will usually sell for more than we paid. But in the meantime, it sells for less.

And if something's declining like that, there's some reason someone doesn't like it. And there may be more selling pressure to come. For us to try to time the bottom of every undervalued security would require a hotline to God.

OID: A novel idea.

Spears: You can have air pockets. Some days, there's a very aggressive seller out there and there just doesn't

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happen to be a very accommodating buyer. And if there's a foolish seller and a non-accommodating buyer or very few buyers, then transactions amounting to 1% or so of a company's outstanding shares can knock the price down 10% or 20%. We've often seen that kind of thing.

And while those transactions are not of great inherent significance, they may get a client upset.

OID: Usually a sign that you're doing something right.

Chris Browne: We don't mind air pockets so long as we can avoid wind shear.

Spears: But it's almost like someone buying a few square feet of your front yard. It doesn't really determine the value of your lot.

OID: As Buffett has said, using stop loss orders is like buying a house and then authorizing your broker to sell it the first time he gets an offer for 10% less.

Will Browne: We can't say it any better.

OID: Nor can we. What else can you tell us about Tweedy, Browne?

Spears: One thing we haven't touched on is the fact that we're an absolute value manager, not a relative value manager. In other words, we're not interested in being fully invested so long as we're in the cheapest sector of the market. We're only interested in buying a stock when we can buy it at a substantial discount to what we feel is intrinsic or underlying value.

I think that is not necessarily true with a lot of people who operate under the value banner.

Chris Browne: The value banner got pretty wide in the early '80s.

OID: Extremely wide. Many otherwise rational people accused us of being value investors.

Chris Browne: I said pretty wide, not all-inclusive. Today, the ranks are thinning. But then again, who ever admitted they bought an overvalued stock?

OID: Good point.

Chris Browne: You asked about our worst mistakes earlier. Saatchi would be right up there. Saatchi had a program to sell off some of their businesses. And it was part of their valuation. As the earnings of some of those extraneous businesses evaporated and their values declined along with them, it wound up being a double whammy. Even worse, Saatchi was highly leveraged.

The basic advertising agency is a decent business. It now has the problem, however, of being saddled with the debt for the acquisitions that were made that didn't work out and that have been sold off. And it's now a question of whether or not the advertising agency in and of itself is enough to carry that debt load. Unfortunately, it became apparent after we bought it.

Spears: Quickly afterwards. And we sold it.

Chris Browne: That's the reason we like to diversify.

Spears: They also kept coming up with liabilities that weren't disclosed in their annual report. It appears that management — which after all was new — didn't even know about them.

Clark: Saatchi's very highly regarded CEO, R. Louis-Dreyfus, told us that he didn't realize when he went to start

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TWEEDY, BROWNE'S CHRIS BROWNE,
WILL BROWNE, JIM CLARK & JOHN SPEARS
(cont'd from preceding page)

selling some of those businesses that managements in effect had the right to veto a buyer.

If you try to sell a service business where the people involved have a right to veto, they can just keep saying no.

Spears: In effect, no one else can buy it, but if you'd like to sell it, we'll do a management buyout and here's our price. You take back the entire purchase price in notes.

OID: What some might term blackmail. But it sounds like Saatchi blew it when they made the acquisitions by giving managements of the acquired companies a right to veto any future sale.

Chris Browne: Yes, they were stupidly crafted deals. And we took a beating in Saatchi.

OID: Let he who has not taken a beating cast the first stone. Any other memorable blunders?

Clark: We also took a beating in Resorts International. Trump paid $135 per share for 11% of their common stock. He bought the super-voting Class B shares, which gave him 88% of the votes.

We paid about one third of Trump's price for Resorts' Class A shares — which had identical ownership rights to Trump's shares, but only 1/100th of a vote per share.

Chris Browne: We focused too much on the fact that it made no sense for Trump to own 11% of the equity, albeit most of the votes, and manage it for everybody else. So — our logic went — there'd have to be a reasonable offer for the rest of us.

Little did we know that first of all, he wasn't the most shareholder-oriented individual...

OID: Very diplomatically put.

Chris Browne: And that the total value wasn't what he paid. In any case, within six months of paying $135 per share for the high voting Class B shares, Trump had a management contract with Resorts which we estimated would have paid out about one third to one half of Resorts' cash flow to a Trump-controlled entity.

Within several weeks after his management contract was in place, Trump bid $15 per share for the Class A shares representing 88% of Resorts' stock and subsequently raised the bid to $22. We still thought it was way too low.

Spears: Again, he'd paid $135 per share, but those shares happened to have almost all of the votes.

OID: How convenient.

Clark: The management stock may have been worth a little premium, but not that much.

OID: And while all of this was happening — and subsequently, Trump was the toast of the media as legendary financier and statesman.

Spears: And potential Presidential candidate.

Browne: At least, we were instrumental in getting the price up to $36 by creating an incentive for Merv Griffin to do what he did.

OID: For which he's no doubt forever in your debt. Could you tell us the story?

Clark: We got a phone call asking if we'd be interested in optioning some of our stock to entice another bidder to come in. We said we'd certainly listen.

Dale Scutti walked in our front door. We'd never laid eyes on him or heard of him before. And he said, "If you'll contribute a certain number of your shares" — and I can't recall the exact number — "I'll contribute a certain number of my shares and I believe that we can induce Merv Griffin to make a bid. But we have to do it real fast."

We said we'd participate, wrote an option agreement and signed it. A couple of days later, Griffin announced his bid at $36.

Chris Browne: And it was only fair. Our option was helping to cover Griffin's expenses in case he got topped.

Will Browne: Once the bid was made, everybody sued everybody else. Trump sued Griffin for $250 million. And Griffin sued Trump for $400 million.

Chris Browne: The lesson may be that just because somebody who's perceived to be smart has paid a much higher price isn't necessarily any indication of value. You should independently be able to see the values.

OID: Absolutely. Incidentally, what was the value?

Chris Browne: We still don't know. And both of the people who wound up with it suffered.

It also goes back to John's point about why we like to stay away from leveraged companies. In both cases, Saatchi and Resorts, a relatively small change in the value of the asset had a huge impact on the equity value.

Chris Browne: It also brings back that old adage that if you sleep with dogs, you wake up with fleas. We slept with a dog.

Will Browne: I take great umbrage with that. My dogs often jump in my bed. And I've never gotten any fleas.

OID: An insult to man's best friend if we've ever heard one.

Trump aside, what level of insider ownership do you like to see in your companies?

Chris Browne: The ideal situation is one where the insiders own enough stock that the value of their stock is more important to them than their paycheck, but not enough stock that if somebody wanted to give shareholders the right price, they could block it. On that basis, 15% inside ownership is a great number.

Spears: It's nice to have takeover probability working every day — to have the possibility of a transaction that isn't initiated by the operating management.

OID: Most value investors have suffered a multi-year period of underperformance. In the past, such periods have been followed by periods of above average returns. Does that bode well for your prospects going forward?

Jim Clark: We're very enthusiastic about certain issues at current prices. Unfortunately, we can't find enough bargains yet to become fully invested.

Chris Browne: The fact that we're finally seeing a decent number of stocks selling at single digit P/E ratios is certainly a positive. But we don't wake up each morning thinking about *how* to beat the S&P or *when* we'll beat it. We wake up thinking about where we want to put our money — where we can minimize our risk and enhance our

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TWEEDY, BROWNE'S CHRIS BROWNE, WILL BROWNE, JIM CLARK & JOHN SPEARS
(cont'd from preceding page)

reward potential.

Over long periods, the averages have produced a 10% compounded rate of return. That's because they reflect capital returns in American industry and normal growth and inflation rates. We instinctively know that if we stick to these principles, we'll beat the averages over the long-term. We always have.

It would be great from the point of view of a client who focuses on the S&P to tell him that we'll beat it like gangbusters during the 1990s. But I simply don't know that we will.

Spears: We don't own the S&P. We own what makes sense to us.

Chris Browne: The S&P 500, I think, compounded at 7% or 8% in the 1970s. But again, investing in stocks is not a savings account.

Over 20 years, the S&P 500 produced a 10% or 11% rate of return. Unfortunately, it was lousy the first 10 years and great in the second 10.

Does that mean that it will be lousy in the next 10? Logic would seem to support that conclusion. But it's not our main area of concern.

OID: Sequoia Fund's Bill Ruane and Gintel Funds' Bob Gintel suggest that one of the most dangerous things a manager can do is to get caught up in short-term performance comparisons.

Clark: Absolutely. If you look at the records of the investors Warren Buffett talked about on the anniversary of the publication of *Security Analysis*, you'll notice that all of them did significantly better than the unmanaged averages over longer time periods. However, each — with the exception of Warren himself — underperformed the averages 30%-40% of the time.

Spears: With varying sequences of underperformance. Rick Guerin underperformed six years in a row and yet, next to Warren [Buffett], he had the best record over the entire period.

Chris Browne: But you'd expect more volatility from Guerin because he might put 80% of his assets in one stock and be 150% invested from time to time.

Clark: For the last five years, the S&P 500 has compounded at 20.4% — or 18.6% for the last seven years. It's clear that there's no way it can continue at that rate.

Spears: During the last seven years, the Value Line index compounded at about 7% per year before dividends. We estimated that dividends averaged about 4% per year. So during the last seven years, while the S&P compounded at 18% per year, the unweighted Value Line compounded at about 11%.

Chris Browne: We have realistic expectations about how rapidly our money can compound. Most of our clients share those realistic expectations about how rapidly their money can compound. To assume that your money can compound at 30% a year is *not* a reasonable assumption.

OID: What is reasonable?

Chris Browne: If you look at the Graham and Doddsville article, you see that somewhere in the high teens to low twenties is a number you can achieve by adhering to these principles. Some have done better than that, but they've generally been willing to be more concentrated.

Spears: And they've been willing to assume leverage.

OID: In contrast, you're obviously very diversified. What's your rationale for not putting more than 3% or 4% at cost into any single holding?

Chris Browne: We're not as smart as Warren [Buffett]. We can't determine if any one of our stocks will be the next golden company of the world. So we buy a little bit of each.

Spears: We know that a certain percentage of our investments will turn out to be mistakes. And we diversify in order to allow for mistakes that we could never see in the analysis. The diversification is very forgiving.

Will Browne: We believe that this approach will generate above average returns for us with much less risk. We're always thinking about risk.

We might have picked four great stocks, but some will turn out to be mistakes. We know that we're not perfect. We think we'll get better returns with 25 or more stocks.

Chris Browne: And we'll sleep better, too. If you've got 25% of your money in one stock and you see its name come across the tape, your heart starts pounding, your blood pressure rises and you hope it's good news. But if you have 2% of your assets in it, you look at it with an element of intellectual curiosity. It's not life-threatening.

OID: And Peter Lynch says that nine times out of ten when he bought his favorite stock in an industry, it wasn't the one he should have bought. He found he was just better off to buy them all.

Chris Browne: Peter Lynch's statement is perfectly true because the one he should have bought was probably the one that got taken over. But that's like saying I should have bought the ticket that won the Florida lottery.

OID: Like Will Rogers' advice on how to buy stocks. As I recall, "Buy stocks that go up. If they don't go up, don't buy them."

Chris Browne: Exactly.

Will Browne: The other quote which is sometimes bandied about here also is that before I worry about the return *on* my money, I worry about the return *of* my money.

OID: Certain to enhance long-term returns. Thank you, gentlemen.

—OID

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