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BUFFETT PARTNERSHIP, LTD.
810 KIEWIT PLAZA
OMAHA, NEBRASKA 68131
TELEPHONE 048-4110

WARREN E. BUFFETT, GENERAL PARTNER
WILLIAM SCOTT

July 8, 1964

April 3, 2022

First Half Performance

The whole family is leaving for California on June 23rd so I am fudging a bit on this report and writing it June 18th. However, for those of you who set your watches by the receipt of our letters, I will maintain our usual chronological symmetry in reporting, leaving a few blanks which Bill will fill in after the final June 30th figures are available.

gaining edge on Dow is more difficult in advancing markets

During the first half of 1964 the Dow-Jones Industrial Average (hereinafter called the "Dow") advanced from 762.95 to 831.50. If one had owned the Dow during this period, dividends of approximately 14.40 would have been received, bringing the overall return from the Dow during the first half to plus 10.9%. As I write this on June 18th, it appears that our results will differ only insignificantly from those of the Dow. I would feel much better reporting to you that the Dow had broken even, and we had been plus 5%, or better still, that the Dow had been minus 10%, and we had broken even. I have always pointed out, however, that gaining an edge on the Dow is more difficult for us in advancing markets than in static or declining ones.

To bring the record up to date, the following summarizes the performance of the Dow, the performance of the Partnership before allocation to the general partner and the limited partners' results:

Year	Overall Results From Dow (1)	Partnership Results (2)	Limited Partners' Results (3)
1957	- 8.4%	+10.4%	+ 9.3%
1958	+38.5	+40.9	+32.2
1959	+20.0	+25.9	+20.9
1960	- 6.2	+22.8	+18.6
1961	+22.4	+45.9	+35.9
1962	- 7.6	+13.9	+11.9
1963	+20.6	+38.7	+30.5
1st half 1964	+10.9	+12.0	+10.5
Cumulative results	+116.1	+521.0	+354.4
Annual compounded rate	10.8	27.6	22.2

(See next page for footnotes to table.)

Footnotes to preceding table:

(1) Based on yearly changes in the value of the Dow plus dividends that would have been received through ownership of the Dow during that year. The table includes all complete years of partnership activity.

(2) For 1957-61 consists of combined results of all predecessor limited partnerships operating throughout the entire year after all expenses but before distributions to partners or allocations to the general partner.

(3) For 1957-61 computed on the basis of the preceding column of partnership results allowing for allocation to the general partner based upon the present partnership agreement, but before monthly withdrawals by limited partners.

Generals → 3 co. → BPL is largest S/H

Buying activities during the first half were quite satisfactory. This is of particular satisfaction to me since I consider the buying end to be about 90% of this business. Our General category now includes three companies where B.P.L. is the largest single stockholder. These stocks have been bought and are continuing to be bought at prices considerably below their value to a private owner. We have been buying one of these situations for approximately eighteen months and both of the others for about a year. It would not surprise me if we continue to do nothing but patiently buy these securities week after week for at least another year, and perhaps even two years or more.

patiently buying over course of 1 yr!

What we really like to see in situations like the three mentioned above is a condition where the company is making substantial progress in terms of improving earnings, increasing asset values, etc., but where the market price of the stock is doing very little while we continue to acquire it. This doesn't do much for our short-term performance, particularly relative to a rising market, but it is a comfortable and logical producer of longer-term profits. Such activity should usually result in either appreciation of market prices from external factors or the acquisition by us of a controlling position in a business at a bargain price. Either alternative suits me.

① ↑ earnings
② ↑ asset values
③ price is unchanged
④ LT profits

(A) Market revaluates or (b) total control

It is important to realize, however, that most of our holdings in the General category continue to be securities which we believe to be considerably undervalued, but where there is not the slightest possibility that we could have a controlling position. We expect the market to justify our analyses of such situations in a reasonable period of time, but we do not have the two strings to our bow mentioned in the above paragraph working for us in these securities.

Investment Companies

representative results

We regularly compare our results with the two largest open-end investment companies (mutual funds) that follow a policy of being, typically, 95-100% invested in common stocks, and the two largest diversified closed-end investment companies. These four companies, Massachusetts Investors Trust, Investors Stock Fund, Tri-Continental Corp., and Lehman Corp., manage over $4 billion and are probably typical of most of the $28 billion investment company industry. Their results are shown below. My opinion is that this performance roughly parallels that of the overwhelming majority of other investment advisory organizations which handle, in aggregate, vastly greater sums.

Year	Mass. Inv. Trust (1)	Investors Stock (1)	Lehman (2)	Tri-Cont. (2)	Dow	Limit Partn
1957	-11.4%	-12.4%	-11.4%	- 2.4%	- 8.4%	+ 9.
1958	+42.7	+47.5	+40.8	+33.2	+38.5	+32.
1959	+ 9.0	+10.3	+ 8.1	+ 8.4	+20.0	+20.
1960	- 1.0	- 0.6	+ 2.5	+ 2.8	- 6.2	+18.
1961	+25.6	+24.9	+23.6	+22.5	+22.4	+35.
1962	- 9.8	-13.4	-14.4	-10.0	- 7.6	+11
1963	+20.0	+16.5	+23.7	+18.3	+20.6	+30
1st half 1964	+11.0	+ 9.5	+ 9.6	+ 8.6	+10.9	+10
Cumulative results	+105.8	+95.5	+98.2	+105.1	+116.1	+354
Annual compounded rate	10.1	9.4	9.6	10.1	10.8	22

(1) Computed from changes in asset value plus any distributions to holder record during year.

(2) From 1964 Moody's Bank & Finance Manual for 1957-63. Estimated for first half 1964.

highly paid managers aren't outperforming unmanaged Dow

These figures continue to show that the most highly paid and respected investment management has difficulty matching the performance of an unmanaged index of blue chip stocks. The results of these companies in some ways resemble the activity of a duck sitting on a pond. When the water (the market) rises, the duck rises; when it falls, back goes the duc SPCA or no SPCA, I think the duck can only take the credit (or blame) for his own activities. The rise and fall of the lake is hardly something for him to quack about. The water level has been of great importance to B.P.L's. performance as the table on page one indicates. However, we have also occasionally flapped our wings.

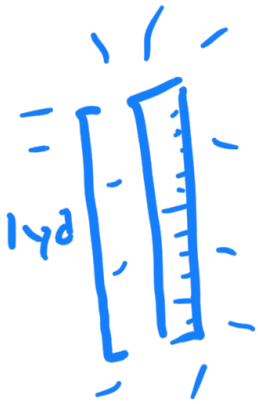
Quack! quack!

All mgmt should be subjected to objective tests, stds selected a priori!

I would like to emphasize that I am not saying that the Dow is the only way of measuring investment performance in common stocks. However, I do say that all investment managements (including self-management) should be subjected to objective tests, and that the standards should be selected a priori rather than conveniently chosen retrospectively.

The management of money is big business. Investment managers place great stress on evaluating company managements in the auto industry, steel industry, chemical industry, etc. These evaluations take enormous amounts of work, are usually delivered with great solemnity, and are devoted to finding out which companies are well managed and which compani have management weaknesses. After devoting strenuous efforts to objectively measuring the managements of portfolio companies, it seems stran indeed that similar examination is not applied to the portfolio managers themselves. We feel it is essential that investors and investment manage ments establish standards of performance and, regularly and objectively, study their own results just as carefully as they study their investments.

You should rate your performance.



We will regularly follow this policy wherever it may lead. It is perhaps too obvious to say that our policy of measuring performance in no way guarantees good results--it merely guarantees objective evaluation. I want to stress the points mentioned in the "Ground Rules" regarding application of the standard--namely that it should be applied on at least a three-year basis because of the nature of our operation and also that dur ing a speculative boom we may lag the field. However, one thing I can promise you. We started out with a 36-inch yardstick and we'll keep it that way. If we don't measure up, we won't change yardsticks. In my opinion, the entire field of investment management, involving hundreds of billions of dollars, would be more satisfactorily conducted if everyone had a good yardstick for measurement of ability and sensibly applied it. This is regularly done by most people in the conduct of their own busines when evaluating markets, people, machines, methods, etc., and money management is the largest business in the world.

Taxes

Long term capital gains (unrealized)

We entered 1964 with net unrealized gains of $2,991,090 which is all at tributable to partners belonging during 1963. Through June 30th we hav realized capital gains of $2,826,248.76 (of which 96% are long term) so it appears very likely that at least all the unrealized appreciation attrib utable to your interest and reported to you in our letter of January 25, 1964, (item 3) will be realized this year. I again want to emphasize tha this has nothing to do with how we are doing. It is possible that I could have made the above statement, and the market value of your B.P.L. i terest could have shrunk substantially since January 1st, so the fact tha

we have large realized gains is no cause for exultation. Similarly when our realized gains are very small there is not necessarily any reason to be discouraged. We do not play any games to either accelerate or defer taxes. We make investment decisions based on our evaluation of the most profitable combination of probabilities. If this means paying taxes--fine--I'm glad the rates on long-term capital gains are as low as they are.

As previously stated in our most recent tax letter of April 1, 1964, the safe course to follow on interim estimates is to pay the same estimated tax for 1964 as your actual tax was for 1963. There can be no penalties if you follow this procedure.

The tax liability for partners who entered January 1st will, of course, be quite moderate, as it always is in the first year for any partner. This occurs because realized capital gains are first attributed to old partners having an interest in unrealized appreciation. This, again, of course, has nothing to do with economic performance. All limited partners, new and old, (except for Bill Scott, Ruth Scott and Susan Buffett per paragraph five of the Partnership Agreement) end up with exactly the same results. As usual, net ordinary income for all partners is nominal to date.

As in past years, we will have a letter out about November 1st (to partners and those who have indicated an interest to us by that time in becoming partners) with the amendment to the Partnership Agreement, Commitment Letter for 1965, estimate of the 1964 tax situation, etc. In the meantime, keep Bill busy this summer clearing up anything in this letter that comes out fuzzy.

Cordially,

Warren E. Buffett

WEB:bf

Jamie Retherford