Buffett +

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January 18, 1964

Our Performance in 1963

1963 was a good year. It was not a good year because we had an overall gain of $3,637,167 or 38.7% on our beginning net assets, pleasant as that experience may be to the pragmatists in our group. Rather it was a good year because our performance was substantially better than that of our fundamental yardstick -- the Dow-Jones Industrial Average (hereinafter called the "Dow"). If we had been down 20% and the Dow had been down 30%, this letter would still have begun "1963 was a good year." Regardless of whether we are plus or minus in a particular year, if we can maintain a satisfactory edge on the Dow over an extended period of time, our long term results will be satisfactory -- financially as well as philosophically.

To bring the record up to date, the following summarizes the year-by-year performance of the Dow, the performance of the Partnership before allocation to the general partner, and the limited partners' results for all full years of BPL's and predecessor partnerships' activities:

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	+20.7	+38.7	+30.5

(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.

(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.

One wag among the limited partners has suggested I add a fourth column showing the results of the general partner -- let's just say he, too, has an edge on the Dow.

The following table shows the cumulative or compounded results based on the preceding table:

Year	Overall Results From Dow	Partnership Results	Limited Partners' Results
1957	- 8.4%	+ 10.4%	+ 9.3%
1957-8	+ 26.9	+ 55.6	+ 44.5
1957-9	+ 52.3	+ 95.9	+ 74.7
1957-60	+ 42.9	+140.6	+107.2
1957-61	+ 74.9	+251.0	+181.6
1957-62	+ 61.6	+299.8	+215.1
1957-63	+ 95.1	+454.5	+311.2
Annual Compounded Rate	10.0	27.7	22.3

It appears that we have completed seven fat years. With apologies to Joseph we shall attempt to ignore the biblical script. (I've never gone overboard for Noah's ideas on diversification either.)

In a more serious vein, I would like to emphasize that, in my judgment, our 17.7 margin over the Dow shown above is unattainable over any long period of time. A ten percentage point advantage would be a very satisfactory accomplishment and even a much more modest edge would produce impressive gains as will be touched upon later. This view (and it has to be guesswork -- informed or otherwise) carries with it the corollary that we must expect prolonged periods of much narrower margins over the Dow as well as at least occasional years when our record will be inferior (perhaps substantially so) to the Dow.

Much of the above sermon is reflected in "The Ground Rules" sent to every one in November, but it can stand repetition.

Investment Companies

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 about $4 billion and are probably typical of most of the $25 billion investment company industry. My opinion is that their results

roughly parallel those of the vast majority of other investment advisory organizations which handle, in aggregate, vastly greater sums.

The purpose of this tabulation, which is shown below, is to illustrate that the Dow is no pushover as an index of investment achievement. The advisory talent managing just the four companies shown commands annual fees of over $7 million, and this represents a very small fraction of the industry. The public batting average of this highly-paid talent indicates they achieved results slightly less favorable than the Dow.

Both our portfolio and method of operation differ substantially from the investment companies in the table. However, most partners, as an alternative to their interest in the Partnership would probably have their funds invested in media producing results comparable with investment companies, and I, therefore, feel they offer a meaningful standard of performance.

YEARLY RESULTS

Year	Mass. Inv. Trust (1)	Investors Stock (1)	Lehman (2)	Tri-Cont. (2)	Dow	Limited Partners
1957	-11.4%	-12.4%	-11.4%	- 2.4%	- 8.4%	+ 9.3%
1958	+42.7	+47.5	+40.8	+33.2	+38.5	+32.2
1959	+ 9.0	+10.3	+ 8.1	+ 8.4	+20.0	+20.9
1960	- 1.0	- 0.6	+ 2.5	+ 2.8	- 6.2	+18.6
1961	+25.6	+24.9	+23.6	+22.5	+22.4	+35.9
1962	- 9.8	-13.4	-14.4	-10.0	- 7.6	+11.9
1963	+20.0	+16.5	+23.8	+19.5	+20.7	+30.5

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

(2) From 1963 Moody's Bank & Finance Manual for 1957-62. Estimated for 1963.

COMPOUNDED

Year	Mass. Inv. Trust	Investors Stock	Lehman	Tri-Cont.	Dow	Limited Partners
1957	-11.4%	-12.4%	-11.4%	- 2.4%	- 8.4%	+ 9.
1957-8	+26.4	+29.2	+24.7	+30.0	+26.9	+ 44.
1957-9	+37.8	+42.5	+34.8	+40.9	+52.3	+ 74.
1957-60	+36.4	+41.6	+38.2	+44.8	+42.9	+107.
1957-61	+71.3	+76.9	+70.8	+77.4	+74.9	+181.
1957-62	+54.5	+53.2	+46.2	+59.7	+61.6	+215.
1957-63	+85.4	+78.5	+81.0	+90.8	+95.1	+311.
Annual Compounded Rate	9.2	8.6	8.8	9.7	10.0	22.

The Dow, of course, is an unmanaged index, and it may seem strange to the reader to contemplate the high priests of Wall Street striving vainly to surpass or even equal it. However, this is demonstrably the case. Moreover, such a failure cannot be rationalized by the assumption that the investment companies et al are handling themselves in a more conservative manner than the Dow. As the table above indicates, and as more extensive studies bear out, the behavior of common stock portfolios managed by this group, on average, have declined in concert with the Dow. By such a test of behavior in declining markets, our own methods of operation have proven to be considerably more conservative than the common stock component of the investment company or investment advisor group. While this has been true in the past, there obviously can be no guarantees about the future.

The above may seem like rather strong medicine, but it is offered as a factual presentation and in no way as criticism. Within their institutional framework and handling the many billions of dollars involved, the results achieved are the only ones attainable. To behave unconventionally within this framework is extremely difficult. Therefore, the collective record of such investment media is necessarily tied to the record of corporate America. Their merits, except in the unusual case, do not lie in superior results or greater resistance to decline in value. Rather, I feel they earn their keep by the ease of handling, the freedom from decision making and the automatic diversification they provide, plus, perhaps most important, the insulation afforded from temptation to practice patently inferior techniques which seem to entice so many would-be investors.

The Joys of Compounding

Now to the pulse-quickening portion of our essay. Last year, in order to drive home the point on compounding, I took a pot shot at Queen Isabella and her financial advisors. You will remember they were euchred into such an obviously low-compound situation as the discovery of a new hemisphere.

Since the whole subject of compounding has such a crass ring to it, I will attempt to introduce a little class into this discussion by turning to the art world. Francis I of France paid 4,000 ecus in 1540 for Leonardo da Vinci's Mona Lisa. On the off chance that a few of you have not kept track of the fluctuations of the ecu, 4,000 converted out to about $20,000.

If Francis had kept his feet on the ground and he (and his trustees) had been able to find a 6% after-tax investment, the estate now would be worth something over $1,000,000,000,000,000.00. That's $1 quadrillion or over 3,000 times the present national debt, all from 6%. I trust this will end all discussion in our household about any purchase of paintings qualifying as an investment.

However, as I pointed out last year, there are other morals to be drawn here. One is the wisdom of living a long time. The other impressive factor is the swing produced by relatively small changes in the rate of compound.

Below are shown the gains from $100,000 compounded at various rates:

	4%	8%	12%	16%
10 years	$ 48,024	$115,892	$ 210,584	$ 341,14
20 years	119,111	366,094	864,627	1,846,06
30 years	224,337	906,260	2,895,970	8,484,94

It is obvious that a variation of merely a few percentage points has an enormous effect on the success of a compounding (investment) program. It is also obvious that this effect mushrooms as the period lengthens. If, over a meaningful period of time, Buffett Partnership can achieve an edge of even a modest number of percentage points over the major investment media, its function will be fulfilled.

Some of you may be downcast because I have not included in the above tabl the rate of 22.3% mentioned on page 3. This rate, of course, is before income taxes which are paid directly by you -- not the Partnership. Even excluding this factor, such a calculation would only prove the absurdity of the idea of compounding at very high rates -- even with initially modest sums. My opinion is that the Dow is quite unlikely to compound for any important length of time at the rate it has during the past seven years and, as mentioned earlier, I believe our margin over the Dow cannot be maintained at its level to date. The product of these assumptions would be a materially lower average rate of compound for BPL in the future than the rate achieved to date. Injecting a minus 30% year (which is going to happen from time to time) into our tabulation of actual results to date, with, say, a corresponding minus 40% for the Dow brings both the figures on the Dow and BPL more in line with longer range possibilities. As the compounding table above suggests, such a lowered rate can still provide highly satisfactory long term investment results.

Our Method of Operation

At this point I always develop "literary schizophrenia." On the one hand, I know that we have in the audience a number of partners to whom details of our business are interesting. We also have a number to whom this whole thing is Greek and who undoubtedly wish I would quit writing and get back to work.

To placate both camps, I am just going to sketch briefly our three categories at this point and those who are interested in getting their doctorat

can refer to the appendix for extended treatment of examples.

Our three investment categories are not differentiated by their expected profitability over an extended period of time. We are hopeful that they will each, over a ten or fifteen year period, produce something like the ten percentage point margin over the Dow that is our goal. However, in a given year they will have violently different behavior characteristics, depending primarily on the type of year it turns out to be for the stock market generally. Briefly this is how they shape up:

"Generals" - A category of generally undervalued stocks, determined primarily by quantitative standards, but with considerable attention also paid to the qualitative factor. There is often little or nothing to indicate immediate market improvement. The issues lack glamour or market sponsorship. Their main qualification is a bargain price; that is, an overall valuation on the enterprise substantially below what careful analysis indicates its value to a private owner to be. Again let me emphasize that while the quantitative comes first and is essential, the qualitative is important. We like good management — we like a decent industry — we like a certain amount of "ferment" in a previously dormant management or stockholder group. But we demand value. The general groupbehaves very much in sympathy with the Dow and will turn in a big minus result during a year of substantial decline by the Dow. Contrarywise, it should be the star performer in a strongly advancing market. Over the years we expect it, of course, to achieve a satisfactory margin over the Dow.

"Workouts" - These are the securities with a timetable. They arise from corporate activity — sell-outs, mergers, reorganizations, spin-offs, etc. In this category we are not talking about rumors or "inside information" pertaining to such developments, but to publicly announced activities of this sort. We wait until we can read it in the paper. The risk pertains not primarily to general market behavior (although that is sometimes tied in to a degree), but instead to something upsetting the applecart so that the expected development does not materialize. Such killjoys could include anti-trust or other negative government action, stockholder disapproval, withholding of tax rulings, etc. The gross profits in many workouts appear quite small. A friend refers to this as getting the last nickel after the other fellow has made the first ninety-five cents. However, the predictability coupled with a short holding period produces quite decent annual rates of return. This category produces more steady absolute profits from year to year than generals do. In years of market decline, it piles up a big edge for us; during bull makets, it is a drag on performance. On a long term basis, I expect it to achieve the same sort of margin over the Dow attained by generals.

"Controls" - These are rarities, but when they occur they are likely to be of significant size. Unless we start off with the purchase of a sizable block of stock, controls develop from the general category. They result from situations where a cheap security does nothing price-wise for such an extended period of time that we are able to buy a significent percentage of the company's stock. At that point we are probably in a position to assume some degree of, or perhaps complete, control of the company's activities. Whether we become active or remain relatively passive at this point depends upon our assessment of the company's future and the management's capabilities. The general we have been buying the most aggressively in recent months possesses excellent management following policies that appear to make very good sense to us. If our continued buying puts us in a controlling position at some point in the future, we will probably remain very passive regarding the operation of this business.

We do not want to get active merely for the sake of being active. Everything else being equal I would much rather let others do the work. However, when an active role is necessary to optimize the employment of capital, you can be sure we will not be standing in the wings.

Active or passive, in a control situation there should be a built-in profit. The sine qua non of this operation is an attractive purchase price. Once control is achieved, the value of our investment is determined by the value of the enterprise, not the oftentimes irrationalities of the marketplace.

Our willingness and financial ability to assume a controlling position gives us two-way stretch on many purchases in our group of generals. If the market changes its opinion for the better, the security will advance in price. If it doesn't, we will continue to acquire stock until we can look to the business itself rather than the market for vindication of our judgment.

Investment results in the control category have to be measured on the basis of at least several years. Proper buying takes time. If needed, strengthening management, re-directing the utilization of capital, perhaps effecting a satisfactory sale or merger, etc., are also all factors that make this a business to be measured in years rather than months. For this reason, in controls, we are looking for wide margins of profit—if it looks at all close, we pass.

Controls in the buying stage move largely in sympathy with the Dow. In the later stages their behavior is geared more to that of workouts.

As I have mentioned in the past, the division of our portfolio among the

three categories is largely determined by the accident of availability. Therefore, in a minus year for the Dow, whether we are primarily in generals or workouts is largely a matter of luck, but it will have a great deal to do with our performance relative to the Dow. This is one of many reasons why a single year's performance is of minor importance and, good or bad, should never be taken too seriously.

If there is any trend as our assets grow, I would expect it to be toward controls which heretofore have been our smallest category. I may be wrong in this expectation — a great deal depends, of course, on the future behavior of the market on which your guess is as good as mine (I have none). At this writing, we have a majority of our capital in generals, workouts rank second, and controls are third.

Miscellaneous

We are starting off the year with net assets of $17,454,900. Our rapid increase in assets always raises the question of whether this will result in a dilution of future performance. To date, there is more of a positive than inverse correlation between size of the Partnership and its margin over the Dow. This should not be taken seriously however. Larger sums may be an advantage at some times and a disadvantage at others. My opinion is that our present portfolio could not be improved if our assets were $1 million or $5 million. Our idea inventory has always seemed to be 10% ahead of our bank account. If that should change, you can count on hearing from me.

Susie and I have an investment of $2,392,900 in the Partnership. For the first time, I had to withdraw funds in addition to my monthly payments, but it was a choice of this or disappointing the Internal Revenue Service. Susie and I have a few non-marketable (less than 300 holders) securities of nominal size left over from earlier years which in aggregate are worth perhaps 1% of our partnership interest. In addition, we have one non-marketable holding of more material size of a local company purchased in 1960 which we expect to hold indefinitely. Aside fro[m] this, all our eggs are in the BPL basket, and they will continue to be. I can't promise results, but I can promise a common destiny. In addition, that endless stream of relatives of mine, consisting of my three children, mother, father, two sisters, two brothers-in-law, father-in-law, four aunts, four cousins and five nieces and nephews, have interests in BPL directly or indirectly totalling $1,247,900.

Bill Scott is also in with both feet, having an interest along with his wi[fe] of $237,400, the large majority of their net worth. Bill has done an ex[-] cellent job and on several of our more interesting situations going into 1964, he has done the majority of the contact work. I have also shove[d]

off on him as much as possible of the administrative work so if you need anything done or have any questions, don't hesitate to ask for Bill if I'm not around.

Beth and Donna have kept an increasing work load flowing in an excellent manner. During December and January, I am sure they wish they had found employment elsewhere, but they always manage to keep a mountain of work ship-shape.

Peat, Marwick, Mitchell has done their usual excellent job of meeting a tough timetable. We have instructed them to conduct two surprise checks a year (rather than one as in past years) on our securities, cash, etc., in the future. These are relatively inexpensive, and I think make a good deal of sense in any financial organization.

Within the next week you will receive:

(1) A tax letter giving you all BPL information needed for your 1963 federal income tax return. This letter is the only item that counts for tax purposes.

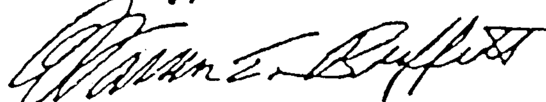
(2) An audit from Peat, Marwick, Mitchell & Co. for 1963, setting forth the operations and financial position of BPL as well as your own capital account.

(3) A letter signed by me setting forth the status of your BPL interest on 1/1/64. This is identical with the figure developed in the audit.

(4) Schedule "A" to the partnership agreement listing all partners.

Let me know if anything needs clarifying. As we grow, there is more chance of missent letters, a name skipped over, a figure transposition, etc., so speak up if it appears we might have erred. Our next letter will be about July 15th summarizing the first half.

Cordially,



Warren E. Buffett

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Enc.

APPENDIX

TEXAS NATIONAL PETROLEUM

This situation was a run-of-the-mill workout arising from the number one source of workouts in recent years--the sellouts of oil and gas producing companies.

TNP was a relatively small producer with which I had been vaguely familiar for years.

Early in 1962 I heard rumors regarding a sellout to Union Oil of California. I never act on such information, but in this case it was correct and substantially more money would have been made if we had gone in at the rumor stage rather than the announced stage. However, that's somebody else's business, not mine.

In early April, 1962, the general terms of the deal were announced. TNP had three classes of securities outstanding:

(1) 6 1/2% debentures callable at 104 1/4 which would bear interest until the sale transpired and at that time would be called. There were $6.5 million outstanding of which we purchased $264,000 principal amount before the sale closed.

(2) About 3.7 million shares of common stock of which the officers and directors owned about 40%. The proxy statement estimated the proceeds from the liquidation would produce $7.42 per share. We purchased 64,035 shares during the six months or so between announcement and closing.

(3) 650,000 warrants to purchase common stock at $3.50 per share. Using the proxy statement estimate of $7.42 for the workout on the common resulted in $3.92 as a workout on the warrants. We were able to buy 83,200 warrants or about 13% of the entire issue in six months.

The risk of stockholder disapproval was nil. The deal was negotiated by the controlling stockholders, and the price was a good one. Any transaction such as this is subject to title searches, legal opinions, etc., but this risk could also be appraised at virtually nil. There were no anti-trust problems. This absence of legal or anti-trust problems is not always the case, by any means.

The only fly in the ointment was the obtaining of the necessary tax ruling. Union Oil was using a standard ABC production payment method of financing. The University of Southern California was the production payment holder and there was some delay because of their eleemosynary status.

This posed a new problem for the Internal Revenue Service, but we understood USC was willing to waive this status which still left them with a satisfactory profit after they borrowed all the money from a bank. While getting this ironed out created delay, it did not threaten the deal.

When we talked with the company on April 23rd and 24th, their estimate was that the closing would take place in August or September. The proxy material was mailed May 9th and stated the sale "will be consummated during the summer of 1962 and that within a few months thereafter the greater part of the proceeds will be distributed to stockholders in liquidation." As mentioned earlier, the estimate was $7.42 per share.

Bill Scott attended the stockholders meeting in Houston on May 29th where it was stated they still expected to close on September 1st.

The following are excerpts from some of the telephone conversations we had with company officials in ensuing months:

> On June 18th the secretary stated, "Union has been told a favorable IRS ruling has been formulated but must be passed on by additional IRS people. Still hoping for ruling in July."
>
> On July 24th the president said that he expected the IRS ruling "early next week."
>
> On August 13th the treasurer informed us that the TNP, Union Oil, and USC people were all in Washington attempting to thrash out a ruling.
>
> On September 18th the treasurer informed us "No news, although the IRS says the ruling could be ready by next week."

The estimate on payout was still $7.42.

The ruling was received in late September, and the sale closed October 31st. Our bonds were called November 13th. We converted our warrants to common stock shortly thereafter and received payments on the common of $3.50 December 14, 1962, $3.90 February 4, 1963, and 15¢ on April 24, 1963. We will probably get another 4¢ in a year or two. On 147,235 shares (after exercise of warrants) even 4¢ per share is meaningful.

This illustrates the usual pattern: (1) the deals take longer than originall projected; and (2) the payouts tend to average a little better than estimate With TNP it took a couple of extra months, and we received a couple of extra percent.

The financial results of TNP were as follows:

(1) On the bonds we invested $260,773 and had an average holding period of slightly under five months. We received 6 1/2% interest on our money and realized a capital gain of $14,446. This works out to an overall rate of return of approximately 20% per annum.

(2) On the stock and warrants we have realized capital gain of $89,304, and we have stubs presently valued at $2,946. From an investment of $146,000 in April, our holdings ran to $731,000 in October. Based on the time the money was employed, the rate of return was about 22% per annum.

In both cases, the return is computed on an all equity investment. I definitely feel some borrowed money is warranted against a portfolio of workouts, but feel it is a very dangerous practice against generals.

We are not presenting TNP as any earth-shaking triumph. We have had workouts which were much better and some which were poorer. It is typical of our bread-and-butter type of operation. We attempt to obtain all facts possible, continue to keep abreast of developments and evaluate all of this in terms of our experience. We certainly don't go into all the deals that come along--there is considerable variation in their attractiveness. When a workout falls through, the resulting market value shrink is substantial. Therefore, you cannot afford many errors, although we fully realize we are going to have them occasionally.

DEMPSTER MILL MFG.

This situation started as a general in 1956. At that time the stock was selling at $18 with about $72 in book value of which $50 per share was in current assets (cash, receivables and inventory) less all liabilities. Dempster had earned good money in the past, but was only breaking even currently.

The qualitative situation was on the negative side (a fairly tough industry and unimpressive management), but the figures were extremely attractive. Experience shows you can buy 100 situations like this and have perhaps 70 or 80 work out to reasonable profits in one to three years. Just why any particular one should do so is hard to say at the time of purchase, but the group expectancy is favorable, whether the impetus is from an improved industry situation, a takeover offer, a change in investor psychology, etc.

We continued to buy the stock in small quantities for five years. During most of this period I was a director and was becoming consistently less

impressed with the earnings prospects under existing management. However, I also became more familiar with the assets and operations and my evaluation of the quantitative factors remained very favorable.

By mid-1961 we owned about 30% of Dempster (we had made several tender offers with poor results), but in August and September 1961 made several large purchases at $30.25 per share, which coupled with a subsequent tender offer at the same price, brought our holding to over 70%. Our purchases over the previous five years had been in the $16--$25 range.

On assuming control, we elevated the executive vice president to president to see what he would do unfettered by the previous policies. The results were unsatisfactory, and on April 23, 1962 we hired Harry Bottle as president.

Harry was the perfect man for the job. I have recited his triumphs before and the accompanying comparative balance sheets speak louder than any words in demonstrating the re-employment of capital.

	11/30/61	7/31/63 Unaudited
Cash	$ 166,000	$ 89,000
U. S. Gov't. Securities - at cost	-	298,000
Other marketable securities - at market (which exceeds cost)	-	2,049,000
Total cash and securities	166,000	2,436,000
Accounts receivable (net)	1,040,000	864,000
Inventory	4,203,000	890,000
Prepaid expenses, etc.	82,000	12,000
Current assets	5,491,000	4,202,000
Other assets	45,000	62,000
Net plant and equipment	1,383,000	862,000
Total assets	$6,919,000	$5,126,000
Notes payable	$1,230,000	$ -
Other liabilities	1,088,000	274,000
Total liabilities	2,318,000	274,000
Net worth 60,146 shs. 11/30/61 62,146 shs. 7/31/63	4,601,000	4,852,000
Total liabilities and net worth	$6,919,000	$5,126,000

Harry (1) took the inventory from over $4 million (much of it slow moving) to under $1 million reducing carrying costs and obsolescense risks tremendously;

(2) correspondingly freed up capital for marketable security purchases from which we gained over $400,000;

(3) cut administration and selling expense from $150,000 to $75,000 per month;

(4) cut factory overhead burden from $6 to $4.50 per direct labor hour;

(5) closed the five branches operating unprofitably (leaving us with three good ones) and replaced them with more productive distributors;

(6) cleaned up a headache at an auxiliary factory operation at Columbus, Nebraska;

(7) eliminated jobbed lines tying up considerable money (which could be used profitably in securities) while producing no profits;

(8) adjusted prices of repair parts, thereby producing an estimated $200,000 additional profit with virtually no loss of volume; and most important

(9) through these and many other steps, restored the earning capacity to a level commensurate with the capital employed.

In 1963, the heavy corporate taxes we were facing (Harry surprised me by the speed with which he had earned up our tax loss carry-forward) coupled with excess liquid funds within the corporation compelled us to either in some way de-incorporate or to sell the business.

We set out to do either one or the other before the end of 1963. De-incorporating had many problems but would have, in effect, doubled earnings for our partners and also eliminated the problem of corporate capital gain tax on Dempster securities.

At virtually the last minute, after several earlier deals had fallen through at reasonably advanced stages, a sale of assets was made. Although there were a good many wrinkles to the sale, the net effect was to bring approximately book value. This, coupled with the gain we have in our portfolio of marketable securities, gives us a realization of about $80 per share. Dempster (now named First Beatrice Corp. —we sold the name to the new

is down to almost entirely cash and marketable securities now. On BPL's yearend audit, our First Beatrice holdings were valued at net asset value (with securities at market) less a $200,000 reserve for various contingencies.

I might mention that we think the buyers will do very well with Dempster. They impress us as people of ability and they have sound plans to expand the business and its profitability. We would have been quite happy to operate Dempster on an unincorporated basis, but we are also quite happy to sell it for a reasonable price. Our business is making excellent purchases--not making extraordinary sales.

Harry works the same way I do -- he likes big carrots. He is presently a limited partner of BPL, and the next belt-tightening operation we have, he's our man.

The Dempster saga points up several morals:

(1) Our business is one requiring patience. It has little in common with a portfolio of high-flying glamour stocks and during periods of popularity for the latter, we may appear quite stodgy.

It is to our advantage to have securities do nothing price-wise for months, or perhaps years, while we are buying them. This points up the need to measure our results over an adequate period of time. We suggest three years as a minimum.

(2) We cannot talk about our current investment operations. Such an "open-mouth" policy could never improve our results and in some situations could seriously hurt us. For this reason, should anyone, including partners, ask us whether we are interested in any security, we must plead the "5th Amendment."