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THE INTELLIGENT INVESTOR

It's Time for Investors to Re-Learn the Lost Art of Reading

A young investment manager is on a quest to read the annual letters of 3,000 companies. Warren Buffett approves.



PHOTO: CHRISTOPHE VORLET



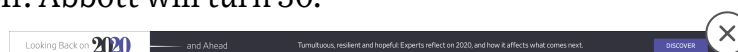
By

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Fund manager Geoffrey Abbott is extremely committed. Or maybe he needs to *be* committed.

Every day for the past seven weeks, Mr. Abbott has read an average of 39 letters that CEOs write to shareholders in their companies' annual reports. His goal is to peruse the annual report from each of the 3,000 largest companies in the U.S. This past week, Mr. Abbott, who runs a small New York investment partnership called GCA Capital, plowed through the I's and moved into the J's. That puts him on track to finish with Zumiez, Zynerva Pharmaceuticals and Zynga by the end of May, when Mr. Abbott will turn 30.



Thus, in a financial world driven largely by mathematical formulas and computers trading thousands of times a second, a young investor is searching for investments in the most old-fashioned way possible: by reading.

Warren Buffett doesn't think Mr. Abbott is crazy. The chairman of Berkshire Hathaway himself spent much of the early 1950s reading every single entry in the thousands of pages of Moody's manuals, the corporate encyclopedia of that era. He still spends most of his time reading -- including the letters to shareholders in companies' annual reports.

"Over the years, there have been multiple times" when reading the annual letter "has been a factor in my deciding to do something or not to do something," Mr. Buffett told me this past week when I mentioned Mr. Abbott's project. Reading a letter was never "the deciding or dominant factor," he said, "but it was definitely often a factor."

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Not many investors seem willing to do that sort of digging anymore. Timothy Loughran, a finance professor at the University of Notre Dame who studies corporate disclosure, has analyzed computer records for the Securities and Exchange Commission's filings website.

He says only 29 people a day download the average annual report when it comes out. Even General Electric's annual report was downloaded from GE's website only 800 times in 2013, according to the company.

Mr. Abbott hopes to discover promising companies he might not have noticed by other means. He wants to see whether the managers are focused on the long term, care about investors, and can clearly explain how the business makes money and how they measure its progress toward their goals.

Mr. Abbott has read roughly 1,500 letters so far. Only 16 jumped out as outstanding. "I've been flabbergasted at how low the average quality is," he said.

Common red flags include bragging about earnings that went up mainly because of accounting changes and blaming disappointments on outside factors like weather.

His 16 favorites so far: Activision Blizzard, Actuant, Alleghany, Amerco, Atlantic Power, AutoZone, W.R. Berkley, Capital One Financial, Cimpress, Credit Acceptance, Culp, eBay,

Everest Re Group, ExamWorks Group, Fossil Group and Hingham Institution for Savings. (He leaves Mr. Buffett out of his analysis, because "everyone" knows he writes a great letter.)

[RELATED: *Read what made Mr. Abbott nominate each company in "16 Favorite Annual Letters from an Investor Who's Read More Than 1,000."*]

"Writing an extensive letter helps me clarify our strategy and put signposts on the map of where we're trying to go in the long run," said Weston Hicks, chief executive of Alleghany Corp. "If you attract short-term shareholders, you can be forced to do things that aren't in the company's best long-term interest."

Mr. Abbott owns only one of those 16 stocks -- Credit Acceptance, which he bought years ago, before he began his reading project -- and might not invest in any of the others after he studies them more thoroughly. He sets a high bar and holds just six stocks in his fund. But the best letter writers will go on his list of companies to learn more about.

"It's my duty to provide the shareholders with an informative, accurate and transparent report," says Robert Wilmers, chief executive of M&T Bank, whose blunt and thorough annual letter isn't (yet) on Mr. Abbott's list -- but is on Mr. Buffett's. "That's what they need to make sound investment decisions."

It makes some sense to start your search for companies this way, Mr. Buffett said. "Where I'm the junior or silent partner" as a minority investor, he said, "I feel better if I'm in partnership with someone who's on the same wavelength I am and has a sense of stewardship. You can pick up some sense of that from reading the letter."

"I write it for people like my sisters," Mr. Buffett said of his own annual letter. "They're smart, they read a lot, they have a lot invested in the company. They don't know all the financial jargon, but they don't want to be treated like five year olds. I try to let them know on paper what I'd tell them about the business if we sat down for the afternoon."

More than 1,600 years ago, St. Augustine was converted to Christianity when a voice came to him chanting, "Take up and read." In a short-term world, that's righteous advice for long-term investors, too.

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