to evaluate the conversativeness of past policies is to study performance in declining markets. We have only three years of declining markets in our table and unfortunately (for purposes of this test only) they were all moderate declines. In all three of these years we achieved appreciably better investment results than any of the more conventional portfolios.

Specifically, if those three years had occurred in sequence, the cumulative results would have been:

Tri-Continental Corp.	- 9.7%
Dow	-20.6
Mass. Investors Trust	-20.9
Lehman Corp.	-22.3
Investors Stock Fund	-24.6
Limited Partners	+45.0

We don't think this comparison is all important, but we do think it has some relevance. We certainly think it makes more sense than saying "We own (regardless of price) A.T. & T., General Electric, IBM and General Motors and are therefore conservative." In any event, evaluation of the conservatism of any investment program or management (including self-management) should be based upon rational objective standards, and I suggest performance in declining markets to be at least one meaningful test.

## The Joys of Compounding

Readers of our early annual letters registered discontent at a mere recital of contemporary investment experience, but instead hungered for the intellectual stimulation that only could be provided by a depth study of investment strategy spanning the centuries. Hence, this section.

Our last two excursions into the mythology of financial expertise have revealed that purportedly shrewd investments by Isabella (backing the voyage of Columbus) and Francis I (original purchase of Mona Lisa) bordered on fiscal lunacy. Apologists for these parties have presented an array of sentimental trivia. Through it all, our compounding tables have not been dented by attack.

Nevertheless, one criticism has stung a bit. The charge has been made that this column has acquired a negative tone with only the financial incompetents of history receiving comment. We have been challenged to record on these pages a story of financial perspicacity which will be a bench mark of brilliance down through the ages.

One story stands out. This, of course, is the saga of trading acumen etched into history by the Manhattan Indians when they unloaded their island to that notorious spendthrift, Peter Minuit in 1626. My understanding is that they

received \$24 net. For this, Minuit received 22.3 square miles which works out to about 621,688,320 square feet. While on the basis of comparable sales, it is difficult to arrive at a precise appraisal, a \$20 per square foot estimate seems reasonable giving a current land value for the island of \$12,433,766,400 (\$12 1/2 billion). To the novice, perhaps this sounds like a decent deal. However, the Indians have only had to achieve a 61/2% return (The tribal mutual fund representative would have promised them this.) to obtain the last laugh on Minuit. At 61/2%, \$24 becomes \$42,105,772,800 (\$42 billion) in 338 years, and if they just managed to squeeze out an extra half point to get to 7%, the present value becomes \$205 billion.

So much for that.

Some of you may view your investment policies on a shorter term basis. For your convenience, we include our usual table indicating the gains from compounding \$100,000 at various rates:

	4%	8%	12%	16%
10 years	\$ 48,024	\$115,892	\$ 210,584	\$ 341,143
20 years	119,111	366,094	864,627	1,846,060
30 years	224,337	906,260	2,895,970	8,484,940

This table indicates the financial advantages of:

- (1) A long life (in the erudite vocabulary of the financial sophisticate this is referred to as the Methusalah Technique)
- (2) A high compound rate
- (3) A combination of both (especially recommended by this author)

To be observed are the enormous benefits produced by relatively small gains in the annual earnings rate. This explains our attitude which, while hopeful of achieving a striking margin of superiority over average investment results, nevertheless, regards every percentage point of investment return above average as having real meaning.

## Our Goal

You will note that there are no columns in the preceding table for the 27.7% average of the Partnership during its eight-year lifespan or the 22.3% average of the limited partners. Such figures are nonsensical for the long term for several reasons: (Don't worry about me "holding back" to substantiate this prophecy.)

(1) Any significant sums compounded at such rates take on national debt proportions at alarming speed.