

# BUFFETT PARTNERSHIP, LTD.

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WILLIAM SCOTT

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### A Reminder:-

It is most important to me that you fully understand my reasoning in this regard and agree with me not only in your cerebral regions, but also down in the pit of your stomach.

For the reasons outlined in my method of operation, our best years relative to the Dow are likely to be in declining or static markets. Therefore, the advantage we seek will probably come in sharply varying amounts. There are bound to be years when we are surpassed by the Dow, but if over a long period we can average ten percentage points per year better than it, I will feel the results have been satisfactory.

Specifically, if the market should be down 35% or 40% in a year (and I feel this has a high probability of occurring one year in the next ten--no one knows which one), we should be down only 15% or 20%. If it is more or less unchanged during the year, we would hope to be up about ten percentage points. If it is up 20% or more, we would struggle to be up as much. The consequence of performance such as this over a period of years would mean that if the Dow produces a 5% to 7% per year over-all gain compounded, I would hope our results might be 15% to 17% per year.

The above expectations may sound somewhat rash, and there is no question but that they may appear very much so when viewed from the vantage point of 1965 or 1970. It may turn out that I am completely wrong. However, I feel the partners are certainly

results, during the first half of 1962 we had one of the best periods in our history, achieving a minus 7.5% result before payments to partners, compared to the minus 21.7% over-all result on the Dow. This 14.2 percentage points advantage can be expected to widen during the second half if the decline in the general market continues, but will probably narrow should the market turn upward. Please keep in mind my continuing admonition that six-months' or even one-year's results are not to be taken too seriously. Short periods of measurement exaggerate chance fluctuations in performance. While circumstances contributed to an unusually good first half, there are bound to be periods when we do relatively poorly. The figures for our performance involve no change in the valuation of our controlling interest in Dempster Mill Manufacturing Company, although developments in recent months point toward a probable higher realization.

## Investment Companies During the First Half:

Past letters have stressed our belief that the Dow is no pushover as a yardstick for investment performance. To the extent that funds are invested in common stocks, whether the manner of investment be through investment companies, investment counselors, bank trust departments, or do-it-yourself, our belief is that the overwhelming majority will achieve results roughly comparable to the Dow. Our opinion is that the deviations from the Dow are much more likely to be toward a poorer performance than a superior one.

To illustrate this point, we have continually measured the Dow and limited partners' results against the two largest open-end investment companies (mutual funds) following a program of common stock investment and the two largest closed-end investment companies. The tabulation in Appendix C shows the five-years' results, and you will note the figures are extraordinarily close to those of the Dow. These companies have total assets of about \$3.5 billion.

In the interest of getting this letter out promptly, we are mailing it before the two

an over-all minus 32.3% for the first half. It is only fair to point out that because of their excellent records in 1959-61, their over-all performance to date is still better than average, as it may well be in the future. Ironically, however, this earlier superior performance had caused such a rush of new investors to come to them that the poor performance this year was experienced by very many more holders than enjoyed the excellent performance of earlier years. This experience tends to confirm my hypothesis that investment performance must be judged over a period of time with such a period including both advancing and declining markets. There will continue to be both; a point perhaps better understood now than six months ago.

...using the facilities of investment companies, I do so not because we

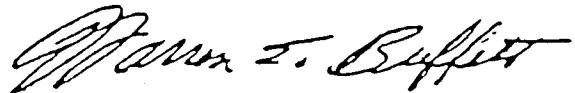
Year-end Amendments:

All partners have the right to withdraw or add any amount (rounded to even \$100's) at yearend. This year we hope to get this tended to earlier with the material sent out in October with the right of amendment of intentions any time up to December 31st. This should minimize the December paper flurry.

Our attorneys have advised us to admit no more than a dozen new partners (several of whom have already expressed their desire) and accordingly, we have increased the minimum amount for new names to \$100,000. This is a necessary step to avoid a more cumbersome method of operation.

I will close with my usual request that should anything at all in this letter not be clear to you, please be sure to let me hear from you. During July and August I expect to be in the metropolitan New York area except for a trip or two back to Omaha. Therefore, you can get in touch with me either through our office in the Kiewit Plaza, or more directly, in care of Tweedy, Browne & Reilly, 52 Wall Street, New York 5, N. Y.

Cordially,



Warren E. Buffett

WEB:bh

Enc. - Appendix A, B, and C

APPENDIX A

DOW-JONES INDUSTRIAL AVERAGE

<u>Year</u>	<u>Closing Dow</u>	<u>Change for Year</u>	<u>Dow Dividend</u>	<u>Over-all Result from Dow</u>	<u>Per-centge Result</u>
1956	499.47	--	--	--	--
1957	435.69	- 63.78	21.61	- 42.17	- 8.4%
1958	583.65	+147.96	20.00	+167.96	+38.5
1959	679.36	+ 95.71	20.74	+116.45	+20.0
1960	615.89	- 63.47	21.36	- 42.11	- 6.2
1961	731.14	+115.25	22.61	+137.86	+22.4
6/30/62	561.28	-169.86	11.00 Est.	-158.86	-21.7

APPENDIX B

PARTNERSHIP PERFORMANCE

<u>Year</u>	<u>Partnership Results (1)</u>	<u>Limited Partners' Results (2)</u>
1957	+10.4%	+ 9.3%
1958	+40.9	+32.2
1959	+25.9	+20.9
1960	+22.8	+18.6
1961	+45.9	+35.9
6/30/62	- 7.5	- 7.5

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

(2) For 1957-61 computed on basis of preceding column of partnership results allowing for allocation to general partner based upon present partnership agreement.

APPENDIX C

YEARLY RESULTS

<u>Year</u>	<u>Mass. Inv. Trust (1)</u>	<u>Investors Stock (1)</u>	<u>Lehman (2)</u>	<u>Tri-Cont. (2)</u>
1957	-11.4%	-12.4%	-11.4%	- 2.4%
1958	+42.7	+47.5	+40.8	+33.2
1959	+ 9.0	+10.3	+ 8.1	+ 8.4
1960	- 1.0	- 0.6	+ 2.5	+ 2.8
1961	+25.6	+24.9	+23.6	+22.5
6/30/62	-23.0	-25.4	N. A.	N. A.

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

(2) From Moody's Bank & Finance Manual - 1962.

CUMULATIVE RESULTS

<u>Years</u>	<u>Mass. Inv. Trust</u>	<u>Investors Stock</u>	<u>Lehman</u>	<u>Tri-Cont.</u>	<u>Dow</u>	<u>Limited Partners</u>
1957	-11.4%	-12.4%	-11.4%	- 2.4%	- 8.4%	+ 9.3%
1957-8	+26.4	+29.2	+24.7	+30.0	+26.9	+44.5
1957-9	+37.8	+42.5	+34.8	+40.9	+52.3	+74.7
1957-60	+36.4	+41.6	+38.2	+44.8	+42.9	+107.2
1957-61	+71.3	+76.9	+70.8	+77.4	+74.9	+181.6
1957- 6/30/62	+31.9	+32.0	N. A.	N. A.	+37.0	+160.5