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Our Performance in 1964

Although we had an overall gain of $4,846,312.37 in 1964, it was not one of our better years as judged by our fundamental yardstick, the Dow-Jones Industrial Average (hereinafter called the "Dow"). The overall result for BPL was plus 27.8% compared to an overall plus 18.7% for the Dow. The overall result for limited partners was plus 22.3%. Both the advantage of 9.1 percentage points on a partnership basis and 3.6 points by the limited partners were the poorest since 1959, which was a year of roughly comparable gains for the Dow.

Nevertheless, I am not depressed. It was a strong year for the general market, and it is always tougher for us to outshine the Dow in such a year. We are certain to have years when the Dow gives us a drubbing and, in some respects, I feel rather fortunate that 1964 wasn't the year. Because of the problems that galloping markets pose for us, a Dow repeat in 1965 of 1964 results would make it most difficult for us to match its performance, let alone surpass it by a decent margin.

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 partner's 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
1964	+18.7	+27.8	+22.3

(1) Based on yearly chang[illegible]n th[illegible] value of the Dow plus dividends that would have been received [illegible]gh [illegible]rship of the Dow during that year. The table includes all c[illegible]plet[illegible]ars of partnership activity.

(2) For 1957-61 consists [illegible]combined results of all predecessor limited partnerships operating th[illegible]ho[illegible]t 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.

On a cumulative or compounded basis, the results are:

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	+ 94.9	+454.5	+311.2
1957-64	+131.3	+608.7	+402.9
Annual Compounded Rate	11.1	27.7	22.3

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 stock, and the two largest diversified closed-end investment companies. These four companies, Massachusetts Investors Trust, Investors Stock Fund, Tri-Continental Corporation, and Lehman Corporation, manage about \$4 1/2 billion, are owned by about 550,000 shareholders, and are probably typical of most of the \$30 billion investment company industry. My opinion is that their results roughly parallel those of the overwhelming 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 \$8 million, and this represents a very small fraction of the professional investment management industry. The public batting average of this highly-paid and widely respected talent indicates performance a shade below that of the Dow, an unmanaged index.

YEARLY RESULTS

Year	Mass. Inv. Trust (1)	Investors Stock (1)	Lehman (2)	Tri-Cont. (2)	Dow	Limi Parti
1957	-11.4%	-12.4%	-11.4%	- 2.4%	- 8.4%	+
1958	+42.7	+47.5	+40.8	+33.2	+38.5	+3
1959	+ 9.0	+10.3	+ 8.1	+ 8.4	+20.0	+2
1960	- 1.0	- 0.6	+ 2.5	+ 2.8	- 6.2	+1
1961	+25.6	+24.9	+23.6	+22.5	+22.4	+3
1962	- 9.8	-13.4	-14.4	-10.0	- 7.6	+1
1963	+20.0	+16.5	+23.7	+18.3	+20.6	+3
1964	+15.9	+14.3	+13.6	+12.6	+18.7	+2

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

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

COMPOUNDED

Year	Mass. Inv. Trust	Investors Stock	Lehman	Tri-Cont.	Dow	Li Pa
1957	- 11.4%	- 12.4%	- 11.4%	- 2.4%	- 8.4%	[illegible]
1957-8	+ 26.4	+ 29.2	+ 24.7	+ 30.0	+ 26.9	[illegible]
1957-9	+ 37.8	+ 42.5	+ 34.8	+ 40.9	+ 52.3	[illegible]
1957-60	+ 36.4	+ 41.6	+ 38.2	+ 44.8	+ 42.9	[illegible]
1957-61	+ 71.3	+ 76.9	+ 70.8	+ 77.4	+ 74.9	[illegible]
1957-62	+ 54.5	+ 53.2	+ 46.2	+ 59.7	+ 61.6	
1957-63	+ 85.4	+ 78.5	+ 80.8	+ 88.9	+ 94.9	
1957-64	+114.9	+104.0	+105.4	+112.7	+131.3	
Annual Compounded Rate	10.0	9.3	9.4	9.9	11.1	

The repetition of these tables has caused partners to ask: "Why in the w does this happen to very intelligent managements working with (1) bright energetic staff people, (2) virtually unlimited resources, (3) the most ex sive business contacts, and (4) literally centuries of aggregate investme experience ?" (The latter qualification brings to mind the fellow who ap for a job and stated he had twenty years of experience — which was cor by the former employer to read "one year's experience —twenty times.

Curiously enough, there is practically nothing in the literature of Wall Stre attacking this problem, and discussion of it is virtually absent at security analyst society meetings, conventions, seminars, etc. My opinion is that the first job of any investment management organization is to analyze its ow techniques and results before pronouncing judgment on the managerial abili ties and performance of the major corporate entities of the United States.

In the great majority of cases the lack of performance exceeding or even matching an unmanaged index in no way reflects lack of either intellectual capacity or integrity. I think it is much more the product of: (1) group decisions — my perhaps jaundiced view is that it is close to impossible for outstanding investment management to come from a group of any size with all parties really participating in decisions; (2) a desire to conform to the policies and (to an extent) the portfolios of other large well-regarded organ zations; (3) an institutional framework whereby average is "safe" and the personal rewards for independent action are in no way commensurate with the general risk attached to such action; (4) an adherence to certain diver- sification practices which are irrational; and finally and importantly, (5) inertia.

Perhaps the above comments are unjust. Perhaps even our statistical com parisons are unjust. Both our portfolio and method of operation differ sub- stantially from the investment companies in the table. However, I believe both our partners and their stockholders feel their managements are seekin the same goal — the maximum long-term average return on capital obtain- able with the minimum risk of permanent loss consistent with a program of continuous investment in equities. Since we should have common goals, an most partners, as an alternative to their interest in BPL, would probably have their funds invested in media producing results comparable with these investment companies, I feel their performance record is meaningful in judging our own results.

There is no question that an important service is provided to investors by investment companies, investment advisors, trust departments, etc. This service revolves around the attainment of adequate diversification, the preservation of a long-term outlook, the ease of handling investment de- cisions and mechanics, and most importantly, the avoidance of the patently inferior investment techniques which seem to entice some individuals. All but a few of the organizations do not specifically promise to deliver superio investment performance although it is perhaps not unreasonable for the public to draw such an inference from their advertised emphasis on profes- sional management,

One thing I pledge to you as partners — just as I consider the previously stated performance comparison to be meaningful now, so will I in future years, no matter what tale unfolds. Correspondingly, I ask that you, if ...u do not feel such a standard ...

now and suggest other standards which can be applied prospectively rather than retrospectively.

One additional thought — I have not included a column in my table for the most widely-used investment advisor in the world — self management. People who watch their weight, golf scores, and fuel bills seem to shun quantitative evaluation of their investment management skills although it involves the most important client in the world — themselves. While it may be of academic interest to evaluate the management accomplishments of Massachusetts Investors Trust or Lehman Corporation, it is of enormous dollars-and-cents importance to evaluate objectively the accomplishments of the fellow who is actually handling your money — even if it's you.

The Question of Conservatism

In looking at the table of investment company performance, the question might be asked: "Yes, but aren't those companies run more conservatively than the Partnership?" If you asked that question of the investment company managements, they, in absolute honesty, would say they were more conservative. If you asked the first hundred security analysts you met, I am sure that a very large majority of them also would answer for the investment companies. I would disagree. I have over 90% of my net worth in BPL, and most of my family have percentages in that area, but of course, that only demonstrates the sincerity of my view — not the validity of it.

It is unquestionably true that the investment companies have their money more conventionally invested than we do. To many people conventionality is indistinguishable from conservatism. In my view, this represents erroneous thinking. Neither a conventional nor an unconventional approach, per se, is conservative.

Truly conservative actions arise from intelligent hypotheses, correct facts and sound reasoning. These qualities may lead to conventional acts, but there have been many times when they have led to unorthodoxy. In some corner of the world they are probably still holding regular meetings of the Flat Earth Society.

We derive no comfort because important people, vocal people, or great numbers of people agree with us. Nor do we derive comfort if they don't. A public opinion poll is no substitute for thought. When we really sit back with a smile on our face is when we run into a situation we can understand, where the facts are ascertainable and clear, and the course of action obvious. In that case — whether conventional or unconventional — whether others agree or disagree — we feel we are progressing in a conservative manner.

The above may seem highly subjective. It is. You should prefer an objective approach to the question. I do. My suggestion as to one rational way received $24 net. For this, Minuit received 22.3 square miles which work 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 6 1/2% return (The tribal mutual fund representative would have promised them this.) to obtain the last laugh on Minuit. At 6 1/2%, $24 becomes $42,105,772,[illegible] ($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	$ 341,1[illegible]
20 years	119,111	366,094	864,627	1,846,0[illegible]
30 years	224,337	906,260	2,895,970	[illegible]

This table indicates the financial advantages of:

(1) A long life (in the erudite vocabulary of the financial sophisticat[illegible] 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 ga[illegible] in the annual earnings rate. This explains our attitude which, while hopef[illegible] of achieving a striking margin of [illegible]

(2) During our eight-year history a general revaluation of securities has produced average annual rates of overall gain from the whole common stock field which I believe unattainable in future decades. Over a span of 20 or 30 years, I would expect something more like 6% - 7% overall annual gain from the Dow instead of the 11.1% during our brief history. This factor alone would tend to knock 4 points or so off of our annual compounding rate. It would only take a minus 20.5% year in 1965 for the Dow to bring it down to a 7% average figure for the nine years. Such years (or worse) should definitely be expected from time to time by those holding equity investments. If a 20% or 30% drop in the market value of your equity holdings (such as BPL) is going to produce emotional or financial distress, you should simply avoid common stock type investments. In the words of the poet — Harry Truman — "If you can't stand the heat, stay out of the kitchen." It is preferable, of course, to consider the problem before you enter the "kitchen."

(3) We do not consider it possible on an extended basis to maintain the 16.6 percentage point advantage over the Dow of the Partnership or the 11.2 percentage point edge enjoyed by the limited partners. We have had eight consecutive years in which our pool of money has out-performed the Dow, although the profit allocation arrangement left the limited partners short of Dow results in one of those years. We are certain to have years (note the plural) when the Partnership results fall short of the Dow despite considerable gnashing of teeth by the general partner (I hope not too much by the limited partners). When that happens our average margin of superiority will drop sharply. I might say that I also think we will continue to have some years of very decent margins in our favor. However, to date we have benefited by the fact that we have not had a really mediocre (or worse) year included in our average, and this obviously cannot be expected to be a permanent experience.

So what can we expect to achieve? Of course, anything I might say is largely guesswork, and my own investment philosophy has developed around the theory that prophecy reveals far more of the frailties of the prophet than it reveals of the future.

Nevertheless, you, as partners, are entitled to know my expectations, even as they may be. I am hopeful that our longer term experience will unfold along the following basis:

(1) An overall gain from the Dow (including dividends, of course) averaging in the area of 7% per annum, exhibiting customarily wide amplitudes in achieving this average -- say, on the order of minus 40% to plus 50% at the extremes with the majority

of years in the minus 10% to plus 20% range;

(2) An average advantage of ten percentage points per annum for BPL before allocation to the general partner — again with large amplitudes in the margin from perhaps 10 percentage points worse than the Dow in a bad year to 25 percentage points better when everything clicks; and

(3) The product of these two assumptions gives an average of 17% to BPL or about 14% to limited partners. This figure would vary enormously from year to year; the final amplitudes, of course, depending on the interplay of the extremes hypothesized in (1) and (2).

I would like to emphasize that the above is conjecture, perhaps heavily influenced by self-interest, ego, etc. Anyone with a sense of financial history knows this sort of guesswork is subject to enormous error. It might better be left out of this letter, but it is a question frequently and legitimately asked by partners. Long-range expectable return is the primary consideration of all of us belonging to BPL, and it is reasonable that I should be put on record, foolish as that may later make me appear. My rather puritanical view is that any investment manager, whether operating as broker, investment counselor, trust department, investment company, etc., should be willing to state unequivocally what he is going to attempt to accomplish and how he proposes to measure the extent to which he gets the job done.

Our Method of Operation

1/18/65

In past annual letters I have always utilized three categories to describe investment operations we conduct. I now feel that a four-category division is more appropriate. Partially, the addition of a new section — "Generals - Relatively Undervalued" — reflects my further consideration of essential differences that have always existed to a small extent with our "Generals" group. Partially, it reflects the growing importance of what once was a very small sub-category but is now a much more significant part of our total portfolio. This increasing importance has been accompanied by excellent results to date justifying significant time and effort devoted to finding additional opportunities in this area. Finally, it partially reflects the development and implementation of a new and somewhat unique investment technique designed to improve the expectancy and consistency of operations in this category. Therefore, our four present categories are:

1. "Generals - Private Owner Basis" — a category of generally undervalued stocks, determined 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 of 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.

Many times in this category we have the desirable "two strings to our bow" situation where we should either achieve appreciation of market prices from external factors or from the acquisition of a controlling position in a business at a bargain price. While the former happens in the overwhelming majority of cases, the latter represents an insurance policy most investment operations don't have. We have continued to enlarge the positions in the three companies described in our 1964 midyear report where we are the largest stockholder. All three companies are increasing their fundamental value at a very satisfactory rate, and we are completely passive in two situations and active only on a very minor scale in the third. It is unlikely that we will ever take a really active part in policy-making in any of these three companies, but we stand ready if needed.

2. "Generals - Relatively Undervalued" — this category consists of securities selling at prices relatively cheap compared to securities of the same general quality. We demand substantial discrepancies from current valuation standards, but (usually because of large size) do not feel value to a private owner to be a meaningful concept. It is important in this category, of course, that apples be compared to apples — and not to oranges, and we work hard at achieving that end. In the great majority of cases we simply do not know enough about the industry or company to come to sensible judgments — in that situation we pass.

As mentioned earlier, this new category has been growing and has produced very satisfactory results. We have recently begun to implement a technique which gives promise of very substantially reducing the risk from an overall change in valuation standards; e.g., we buy something at 12 times earnings when comparable or poorer quality companies sell at 20 times earnings, but then a major revaluation takes place so the latter only sell at 10 times. This risk has always bothered us enormously because of the helpless position in which we could be left compared to the "Generals - Private Owner" or "Workouts" types. With this risk diminished, we think this category has a promising future.

3. "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. It's a little like looking for parking meters with some time left on them. However, the predictability coupled with a short holding period produces quite decent average annual rates of return after allowance for the occasional substantial loss. This category produces more steady absolute profits from year to year than generals do. In years of market decline it should usually pile up a big edge for us; during bull markets it will probably be a drag on performance. On a long-term basis, I expect the workouts to achieve the same sort of margin over the Dow attained by generals.

4. "<u>Controls</u>" — 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 – private owner category. They result from situations where a cheap security does nothing pricewise for such an extended period of time that we are able to buy a significant percentage of the company's stock. At that point we are probably in a position to assume a 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.

We do not want to get active merely for the sake of being active. Everything [illegible]

[illegible]

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.

You might be interested to know that the buyers of our former control situation, Dempster Mill Manufacturing, seem to be doing very well with it. This fulfills our expectation and is a source of satisfaction. An investment operation that depends on the ultimate buyer making a bum deal (in Wall Street they call this the "Bigger Fool Theory") is tenuous indeed. How much more satisfactory it is to buy at really bargain prices so that only an average disposition brings pleasant results.

As I have mentioned in the past, the division of our portfolio among categories is largely determined by the accident of availability. Therefore, in any given year the mix between generals, workouts, or controls is largely a matter of chance, and this fickle factor 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.

To give an example of just how important the accident of division between these categories is, let me cite the example of the past three years. Using an entirely different method of calculation than that used to measure the performance of BPL in entirety, whereby the average monthly investment at market value by category is utilized, borrowed money and office operating expenses excluded, etc., (this gives the most accurate basis for inter-group comparisons but does not reflect overall BPL results) the generals (both present categories combined), workouts, and the Dow, shape up as follows:

Year	Generals	Workouts	Dow
1962	- 1.0%	+14.6%	- 8.6%
1963	+20.5	+30.6	+18.4
1964	+27.8	+10.3	+16.7

Obviously the workouts (along with controls) saved the day in 1962, and if we had been light in this category that year, our final result would have been much poorer, although still quite respectable considering market conditions during the year. We could just as well have had a much smaller percentage of our portfolio in workouts that year; availability decided it, not any notion on my part as to what the market was going to do. Therefore, it is important to realize that in 1962 we were just plain lucky regarding mix of categories.

In 1963 we had one sensational workout which greatly influenced results, and generals gave a good account of themselves, resulting in a banner year. If workouts had been normal, (say, more like 1962) we would have looked much poorer compared to the Dow. Here it wasn't our mix that did much for us, but rather excellent situations.

Finally, in 1964 workouts were a big drag on performance. This would be normal in any event during a big plus year for the Dow such as 1964, but they were even a greater drag than expected because of mediocre experience. In retrospect it would have been pleasant to have been entirely in generals, but we don't play the game in retrospect.

I hope the preceding table drives home the point that results in a given year are subject to many variables — some regarding which we have little control or insight. We consider all categories to be good businesses and we are very happy we have several to rely on rather than just one. It makes for more discrimination within each category and reduces the chance we will be put completely out of operation by the elimination of opportunities in a single category.

Taxes

We have had a chorus of groans this year regarding partners' tax liabilities. Of course, we also might have had a few if the tax sheet had gone out blank.

More investment sins are probably committed by otherwise quite intelligent people because of "tax considerations" than from any other cause. One of my friends — a noted West Coast philosopher — maintains that a majority of life's errors are caused by forgetting what one is really trying to do. This is certainly the case when an emotionally supercharged element like taxes enters the picture (I have another friend — a noted East Coast philosopher who says it isn't the lack of representation he minds — it's the taxation).

Let's get back to the West Coast. What is one really trying to do in the investment world? Not pay the least taxes, although that may be a factor to be considered in achieving the end. Means and end should not be confused, however, and the end is to come away with the largest after-tax rate of compound. Quite obviously if two courses of action promise equal rates of pre-tax compound

If gains are involved, changing portfolios involves paying taxes. Except in very unusual cases (I will readily admit there are some cases), the amount of the tax is of minor importance if the difference in expectable performance is significant. I have never been able to understand why the tax comes as such a body blow to many people since the rate on long-term capital gain is lower than on most lines of endeavor (tax policy indicates digging ditches is regarded as socially less desirable than shuffling stock certificates).

I have a large percentage of pragmatists in the audience so I had better get off that idealistic kick. There are only three ways to avoid ultimately paying the tax: (1) die with the asset — and that's a little too ultimate for me — even the zealots would have to view this "cure" with mixed emotions; (2) give the asset away — you certainly don't pay any taxes this way, but of course you don't pay for any groceries, rent, etc., either; and (3) lose back the gain — if your mouth waters at this tax-saver, I have to admire you — you certainly have the courage of your convictions.

So it is going to continue to be the policy of BPL to try to maximize investment gains, not minimize taxes. We will do our level best to create the maximum revenue for the Treasury — at the lowest rates the rules will allow.

An interesting sidelight on this whole business of taxes, vis-a-vis investment management, has appeared in the last few years. This has arisen through the creation of so-called "swap funds" which are investment companies created by the exchange of the investment company's shares for general market securities held by potential investors. The dominant sales argument has been the deferment (deferment, when pronounced by an enthusiastic salesman, sometimes comes very close phonetically to elimination) of capital gains taxes while trading a single security for a diversified portfolio. The tax will only finally be paid when the swap fund's shares are redeemed. For the lucky ones, it will be avoided entirely when any of those delightful alternatives mentioned two paragraphs earlier eventuates.

The reasoning implicit in the swapee's action is rather interesting. He obviously doesn't really want to hold what he is holding or he wouldn't jump at the chance to swap it (and pay a fairly healthy commission — usually 4% up to $100,000) for a grab-bag of similar hot potatoes held by other tax-numbed investors. In all fairness, I should point out that after all offerees have submitted their securities for exchange and had a chance to review the proposed portfolio, they have a chance to back out, but I understand a relatively small proportion do so.

There have been twelve such funds (that I know of) established since origination of the idea in 1960, and several more are currently in the works. The idea is not without appeal since sales totaled well over $600 million. All of the funds retain an investment ma[illegible]ger to whom they usually pay 1/2 of 1% of asset value. This investment [illegible]anager faces an interesting problem; he is paid to manage the fund intellig[illegible]y (in each of the five largest funds this fee currently ranges from $250,00[illegible] $700,000 per year), but because of the low tax basis inherited from the [illegible]tributors of securities, virtually his every move creates capital gains tax liabilities. And, of course, he knows that if he incurs such liabilities, he is doing so for people who are probably quite sensitive to taxes or they wouldn't own shares in the swap fund in the first place.

I am putting all of this a bit strongly, and I am sure there are some cases where a swap fund may be the best answer to an individual's combined tax and investment problems. Nevertheless, I feel they offer a very interesting test-tube to measure the ability of some of the most respected investment advisors when they are trying to manage money without paying (significant) taxes.

The three largest swap funds were all organized in 1961, and combined have assets now of about $300 million. One of these, Diversification Fund, reports on a fiscal year basis which makes extraction of relevant data quite difficult for calendar year comparisons. The other two, Federal Street Fund and Westminster Fund (respectively first and third largest in the group) are managed by investment advisors who oversee at least $2 billion of institutional money.

Here's how they shape up for all full years of existence:

Year	Federal Street	Westminster	Dow
1962	-19.0%	-22.5%	- 7.6%
1963	+17.0	+18.7	+20.6
1964	+13.8	+12.3	+18.7
Annual compounded rate	2.6	1.1	9.8

This is strictly the management record. No allowance has been made for the commission in entering and any taxes paid by the fund on behalf of the shareholders have been added back to performance.

Anyone for taxes?

Miscellaneous

In the December 21st issue of AUTOMOTIVE NEWS it was reported that Ford Motor Co. plans to spend $700 million in 1965 to add 6,742,000 square feet to its facilities throughout the world. Buffett Partnership, Ltd., never far behind, plans to add 227 1/4 square feet to its facilities in the spring of 1965.

Our growth in net assets from $105,100 (there's no prize for guessing who put in the $100) on May 5, 1956, when the first predecessor limited partnership (Buffett Associates, Ltd.) was organized, to $26,074,000 on 1/1/65 creates the need for an occasional reorganization in internal routine. Therefore, roughly contemporaneously with the bold move from 682 to 909 1/4