THE 10 BEST INVESTORS IN THE WORLD

Value Spreadsheet

Mildred Othmer died in 1998. Her husband, Donald Othmer, a professor of chemical engineering in Brooklyn, died three years earlier. Both were in their nineties. They lived quiet, unpretentious lives -- which is why it came as a shock to their friends to learn that their combined estates were worth $800 million and that they had given nearly everything to charity.

How did the Othmers get so rich? Well, in the early 1960s, they each turned $25,000 over to Warren Buffett, an old family friend from their hometown of Omaha, Nebraska…

Source: http://reason.com/archives/1998/07/14/the-othmers-story

Introduction

"We want the business to be one (a) that we understand; (b) with favorable long-term prospects; (c) operated by honest and competent people; (d) available at a very attractive price."

Warren Buffett, sometimes called *The Oracle of Omaha*, is the most successful investor the world has ever seen. He amassed a fortune of no less than 64 billion USD, making him one of the richest persons on earth. Buffett, who started with just $100, earned his fortune not through amazing inventions, or by starting his own successful business. Instead, he earned billions by simply investing in "wonderful companies" at "bargain prices". Sounds easy, huh? Maybe even too easy… But time and time again research finds that the majority of individual investors, as well as many professional fund managers, consistently underperform benchmarks like the S&P500, while Buffett handsomely beat every single benchmark available.

During his time at Columbia Business School, Buffett studied under the legendary Benjamin Graham. Buffett learned from Graham to reduce a business to a set of numbers. These numbers could then be used to assess the so called *intrinsic value* of a company. Buying stocks of a company when they are trading way below this intrinsic value has been the cornerstone of his investment strategy ever since. And judging from his impressive "compounded return" of 19,7% per year since 1965, this strategy paid off big time! If you had invested $10.000 in Buffett's investment vehicle Berkshire Hathaway in 1965, you would today be the proud owner of more than 55 *million* dollar! That same amount invested in the S&P500 would today be worth just over half a million.

It is interesting to note that many of the best investors in the world share an investment strategy similar to that of Buffett; a strategy called *Value Investing*. In this eBook I will introduce you to some of the world's best investors of all time! You'll learn who they are, why they are in this list, and what the focus of their investment strategies are.

Enjoy!

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Warren Buffett (1930)

"Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down."

Warren Buffett, born on August 30, 1930 in Omaha, Nebraska, is known as the world's best investor of all time. He is among the top three richest people in the world for several years in a row now, thanks to the consistent, mind-boggling returns he managed to earn with his investment vehicle Berkshire Hathaway. The funny thing is that Buffett does not even care that much about money. Investing is simply something he enjoys doing. Buffett still owns the same house he bought back in 1958, hates expensive suits, and still drives his secondhand car.

Investment philosophy:

- Focuses on individual companies, rather than macro-economic factors
- Invests in companies with sustainable competitive advantages
- Prefers becoming an expert on a few companies over major diversification
- Does not believe in technical analysis
- Bases his investment decisions on the operational performance of the underlying businesses
- Holds on to stocks for an extremely long period, some stocks he never sells
- Uses price fluctuations to his advantage by buying when undervalued and selling when overvalued with respect to intrinsic value
- Puts much emphasis on the importance of shareholder friendly, capable management
- Believes margin of safety are the three most important words in investing

Charlie Munger (1924)

"All intelligent investing is value investing — acquiring more than you are paying for."

Charlie Munger is vice-chairman of Berkshire Hathaway, Warren Buffett's investment vehicle. Even though Buffett and Munger were born in Omaha, Nebraska, they did not meet until 1959. After graduating from Harvard Law School, Munger started a successful law firm which still exists today. In 1965 he started his own investment partnership, which returned 24.3% annually between 1965 and 1975, while the Dow Jones only returned 6.4% during the same period. In 1975 he joined forces with Warren Buffett, and ever since that moment Charlie Munger has played a massive role in the success of Berkshire Hathaway. While Buffett is extroverted and a pure investor, Munger is more introverted and a generalist with a broad range of interests. The fact that they differ so much from each other is probably why they complement each other so well.

Investment philosophy:

- Convinced Buffett that stocks trading at prices *above* their book value can still be interesting, as long as they trade *below* their intrinsic value
- Has a multidisciplinary approach to investing which he also applies to other parts of his life ("Know a little about a lot")
- Reads books continuously about varied topics like math, history, biology, physics, economy, psychology, you name it!
- Focuses on the strength and sustainability of competitive advantages
- Sticks to what he knows, in other words, companies within his "circle of competence"
- Believes it is better to hold on to cash than to invest it in mediocre opportunities
- Says it is better to be roughly right than precisely wrong with your predictions

Joel Greenblatt (1957)

"Choosing individual stocks without any idea of what you're looking for is like running through a dynamite factory with a burning match. You may live, but you're still an idiot."

Joel Greenblatt *definitely* knows how to invest. In 1985 he started his investment fund Gotham Capital, and ten years later, in 1995, he had earned an incredible average return of 50% per year for his investors! He decided to pay his investors their money back and continued investing purely with his own capital. Many people know Joel Greenblatt for his investment classic *The Little Book That Beats The Market** and his website magicformulainvesting.com. Greenblatt is also an adjunct-professor at the Columbia Business School.

Investment philosophy:

- Buys good stocks when they are on sale
- Prefers highly profitable companies
- Uses the Normalized Earnings Yield to assess whether a company is cheap
- Believes thorough research does more to reduce risk than excessive diversification (he often has no more than 8 companies in his portfolio)
- Largely ignores macro-economical developments and short term price movements

**For your convenience I inserted Amazon links to the investment books mentioned in this document. Just to be transparent: these are affiliate links. So if you decide to purchase the book through that link, I'll receive a small commission. The price for you remains exactly the same. So if you click on any of 'em, thank you!*

John Templeton (1912 -2008)

"If you want to have a better performance than the crowd, you must do things differently from the crowd."

The late billionaire and legendary investor, John Templeton, was born in 1912 as a member of a poor family in a small village in Tennessee. He was the first of his village to attend University, and he made them proud by finishing economics at Yale and later a law degree at Oxford. Just before WWII, Templeton was working at the predecessor of the now infamous Merrill Lynch investment bank. While everyone was highly pessimistic during these times, Templeton was one of the few who foresaw that the war would give an impulse to the economy, rather than grind it to a halt. He borrowed $10.000 from his boss and invested this money in each of the 104 companies on the US stock market which traded at a price below $1. Four years later he had an average return of 400%! In 1937, in times of the Great Depression, Templeton started his own investment fund and several decades later he managed the funds of over a million people. In 2000 he shorted 84 technology companies for $200.000, he called it his "easiest profit ever". The beauty is that despite all his wealth, John Templeton had an extremely modest lifestyle and gave much of it away to charitable causes.

Investment philosophy:

- Contrarian, always going against the crowd and buying at the point of maximum pessimism
- Has a global investment approach and looks for interesting stocks in every country, but preferably countries with limited inflation, high economical growth, and a movement toward liberalization and privatization
- Has a long term approach, he holds on to stocks for 6 to 7 years on average
- Focuses on extremely cheap stocks, not necessarily on "good" stocks with a sustainable competitive advantage, like Warren Buffett
- Believes in patience, an open-mind, and a skeptical attitude towards conventional wisdom
- Warns investors about popular stocks everyone is buying
- Focuses on absolute performance rather than relative performance
- A strong believer in the wealth creating power of the free market economy

Benjamin Graham (1894 - 1976)

"Price is what you pay, value is what you get."

Columbia Business School professor Benjamin Graham is often called "The Father of Value Investing". He was also Warren Buffett's mentor and wrote the highly influential book *The Intelligent Investor*, which Buffett once described as the best book on investing ever written. Graham was born in England in 1894, but he and his family moved to the United States just one year later. His official name was Grossbaum, but the family decided to change this German sounding name to Graham during the time of the First World War. Graham was a brilliant student and was offered several teaching jobs at the University, but instead he decided to work for a trading firm and would later start his own investment fund. Due to the use of leverage, his fund lost a whopping 75% of its value between 1929 and 1932, but Graham managed to turn things around and managed to earn a 17% annualized return for the next 30 years. This was way higher than the average stock market return during that same period. In total, Graham taught economics for 28 years at Columbia Business School.

Investment philosophy:

- Focuses more on quantitative, rather than qualitative data
- First step is to look for stocks trading below 2/3rd of net current asset value (NCAV)*
- Prefers companies which pay dividends
- Looks for companies with a consistently profitable history
- Companies should not have too much long term debt
- Earnings should be growing
- Is willing to pay no more than 15 times the average earnings over the past three years
- Diversifies to spread the risk of individual positions
- Emphasizes the importance of a significant Margin of Safety
- Profits from irrational behavior caused by the manic-depressive "Mr. Market"
- Warns that emotions like fear and greed should play no role in your investment decisions

**NCAV = current assets - total liabilities*

Philip Fisher (1907 - 2004)

"I don't want a lot of good investments; I want a few outstanding ones."

Philip Fisher became famous for successfully investing in growth stocks. After studying economics at Stanford University, Fisher worked as an investment analyst before starting his own firm, Fisher & Co. This was in 1931, during the times of the Great Depression. Fisher's insights have had a significant influence on both Warren Buffett and Charlie Munger. Philip Fisher is also author of the powerful investment book *Common Stocks and Uncommon Profits*, which has a quote from Buffett on its cover which reads: "I am an eager reader of whatever Phil has to say, and I recommend him to you."

Investment philosophy:

- Dislikes technical analysis
- Does not believe in "market timing"
- Prefers a concentrated portfolio with around 10 to 12 stocks
- Emphasizes the importance of honest and able management
- Believes you should only invest in companies you can understand
- Warns that you should not follow the masses, but instead have patience and think for yourself
- Companies should have a strong business model, be innovative, highly profitable, and preferably a market leader
- Has a focus on growth potential of both companies and industries
- Buys companies at "reasonable prices" but does not specify what "reasonable" is to him
- A true "buy & hold" investor who often holds on to stocks for decades
- Believes great companies purchased at reasonable prices and held for a long time are better investments than reasonable companies bought at great prices
- Has a "scuttlebutt" approach to doing research by asking questions to customers, employees, competitors, analysts, suppliers, and management to find out more about the competitive position of a company and its management
- Only sells when a company starts experiencing issues with its business model, competitive positioning, or management

Mohnish Pabrai (1964)

"Heads, I win; tails, I don't lose much. "

Mohnish Pabrai has once been heralded as "the new Warren Buffett" by the prestigious American business magazine Forbes. While this seems like big words, you might start to understand why Forbes wrote this when you look at the performance of Pabrai's hedge funds, Pabrai Investment Funds, which have outperformed all of the major indices and 99% of managed funds. At least, that was before his funds suffered significant losses during the recent financial crisis because of their exposure to financial institutions and construction companies. Still, there is much we can learn from his low-risk, high-reward approach to investing, which he describes in his brilliant book *The Dhandho Investor: The Low-Risk Value Method to High Returns*.

Investment philosophy:

- Points out that there is a big difference between risk and uncertainty
- Looks for low-risk, high-uncertainty opportunities with a significant upside potential
- Only practices minor diversification and usually has around 10 stocks in his portfolio
- Believes stock prices are merely "noise"
- Used to buy reasonable companies at great prices, but now wants to focus more on quality companies with a sustainable competitive advantage and shareholder friendly management

Walter Schloss (1916 - 2012)

"If a stock is cheap, I start buying."

While Walter Schloss might not be the most well-known investor of all time, he was definitely one of the best investors of all time. Just like Buffett, Walter Schloss was a student of Benjamin Graham. Schloss is also mentioned as one of the "Super Investors" by Buffett in his must-read essay *The Super Investors of Graham-And-Doddsville*. An interesting fact about Walter Schloss is that he never went to college. Instead, he took classes taught by Benjamin Graham after which he started working for the Graham-Newton Partnership. In 1955 Schloss started his own value investing fund, which he ran until 2000. During his 45 years managing the fund, Schloss earned an impressive 15.3% return versus a return of 10% for the S&P500 during that same period. Just like Warren Buffett and John Templeton, Walter Schloss was known to be frugal. Schloss died of leukemia in 2012 at age 95.

Investment philosophy:

- Practiced the pure Benjamin Graham style of value investing based on purchasing companies below NCAV
- Generally buys "cigar-butt" companies, or in other words companies in distress which are therefore trading at bargain prices
- Regularly used the Value Line Investment Survey to find attractive stocks
- Minimizes risk by requiring a significant Margin of Safety before investing
- Focuses on cheap stocks, rather than on the performance of the underlying business
- Diversified significantly and has owned around 100 stocks at a time
- Keeps an open mind and even sometimes shorts stocks, like he did with Yahoo and Amazon just before the Dot-Com crash
- Likes stocks which have a high percentage of insider ownership and which pay a dividend
- Is not afraid to hold cash
- Prefers companies which have tangible assets and little or no long-term debt

Peter Lynch (1944)

"Everyone has the brain power to make money in stocks. Not everyone has the stomach."

Peter Lynch holds a degree in Finance as well as in Business Administration. After University, Lynch started working for Fidelity Investments as an investment analyst, where he eventually got promoted to director of research. In 1977, Peter Lynch was appointed as manager of the Magellan Fund, where he earned fabled returns until his retirement in 1990. Just before his retirement he published the bestseller *One Up On Wall Street: How To Use What You Already Know To Make Money In The Market*. Just as many of the other great investors mentioned in this document, Lynch took up philanthropy after he amassed his fortune.

Investment philosophy:

- You need to keep an open mind at all times, be willing to adapt, and learn from mistakes
- Leaves no stone unturned when it comes to doing due diligence and stock research
- Only invests in companies he understands
- Focuses on a company's fundamentals and pays little attention to market noise
- Has a long-term orientation
- Believes it is futile to predict interest rates and where the economy is heading
- Warns that you should avoid long shots
- Sees patience as a virtue when it comes to investing
- Emphasizes the importance of first-grade management
- Always formulates exactly *why* he wants to buy something before he actually buys something

Seth Klarman (1957)

"Once you adopt a value-investment strategy, any other investment behavior starts to seem like gambling."

Billionaire investor and founder of the Baupost Group partnership, Seth Klarman, grew up in Baltimore and graduated from both Cornell University (economics) and the Harvard Business School (MBA). In 2014 Forbes mentioned Seth Klarman as one of the 25 Highest-Earning hedge fund managers of 2013, a year in which he generated a whopping $350 million return. Klarman generally keeps a low profile, but in 1991 he wrote the wrote a book *Margin of Safety: Risk Averse Investing Strategies for the Thoughtful Investor*, which became an instant value investing classic. This book is now out of print, which has pushed the price up to over $1500 for a copy!

- Is extremely risk-averse and focuses primarily on minimizing downside risk
- Does not just look for cheap stocks, but looks for the cheap*est* stocks of great companies
- Writes that conservative estimates, a significant margin of safety, and minor diversification allow investors to minimize risk despite imperfect information
- Warns that Wall Street, brokers, analysts, advisors, and even investment funds are not necessarily there to make *you* rich, but first and foremost to make themselves rich
- Often invests in "special situations", like stocks who filed for bankruptcy or risk-arbitrage situations
- Suggests to use several valuation methods simultaneously, since no method is perfect and it is impossible to precisely calculate the intrinsic value of a company
- Is known for holding a big part of his portfolio in cash when no opportunities exist
- Believes investors should focus on absolute performance, rather than relative performance
- Emphasizes that you should find out not only *if* an asset is undervalued, but also *why* it is undervalued
- Is not afraid to bet against the crowd and oppose the prevailing investment winds
- Discourages investors to use stop-loss orders, because that way they can't buy more of a great thing when the price declines

Final words

I hope you enjoyed reading how some the best investors in the world think about investing. You might have noticed some common themes, like buying companies for less than they are worth. And while all investors discussed in this eBook practice this *value investing* approach, there are also notable differences between the strategies of these masters of investing.

Where Warren Buffett runs a concentrated portfolio and focuses on "good" companies with a sustainable competitive advantage, which is the strategy I mainly focus on in my Value Investing Bootcamp video course, Walter Schloss managed to earn impressive returns by simply buying a diverse set of extremely cheap companies.

As Bruce Lee once said:

"Adapt what is useful, reject what is useless, and add what is specifically your own."

Good luck!

About the author

Nick Kraakman is a value investing expert, serial entrepreneur, educator, blogger and public speaker who helps other investors to consistently grow their wealth using a simple, low-risk, time-tested value investing strategy.