BUFFETT PARTNERSHIP, LTD.
810 KIEWIT PLAZA
OMAHA 31, NEBRASKA

July 6, 1962

A Reminder:

In my letter of January 24, 1962 reporting on 1961, I inserted a section entitled. "And a Prediction." While I have no desire to inflict cruel and unusual punishment upon my readers, nevertheless, a reprinting of that section, in its entirety, may be worthwhile:

And a Prediction

Regular readers (I may be flattering myself) will feel I have left the tracks when I start talking about predictions. This is one thing from which I have always shied away and I still do in the normal sense. I am certainly not going to predict what general business or the stock market are going to do in the next year or two since I don't have the faintest idea.

I think you can be quite sure that over the next ten years there are going to be a few years when the general market is plus 20% or 25%, a few when it is minus on the same order, and a majority when it is in between. I haven't any notion as to the sequence in which these will occur, nor do I think it is of any great importance for the long-term investor.

Over any long period of years, I think it likely that the Dow will probably produce something like 5% to 7% per year compounded from a combination of dividends and market value gain. Despite the experience of recent years, anyone expecting substantially better than that from the general market probably faces disappointment.

Our job is to pile up yearly advantages over the performance of the Dow without worrying too much about whether the absolute results in a given year are a plus or a minus. I would consider a year in which we were down 15% and the Dow declined 25% to be much superior to a year when both the partnership and the Dow advanced 20%. I have stressed this point in talking with partners and have watched them nod their heads with varying degrees of enthusiasm.

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 entitled to know what I am thinking in this regard even though the nature of the business is such as to introduce a high probability of error in such expectations. In anyone year, the variations may be quite substantial. This happened in 1961, but fortunately the variation was on the pleasant side. They won't all be!

The First Half of 1962:

Between yearend 1961 and June 30, 1962 the Dow declined from 731.14 to 561.28. If one had owned the Dow during this period, dividends of approximately $11.00 would have been received so that overall a loss of 21.7% would have been the result of investing in the Dow. For the statistical minded, Appendix A gives the results of the Dow by years since formation of the predecessor partnerships.

As stated above, a declining Dow gives us our chance to shine and pile up the percentage advantages which, coupled with only an average performance during advancing markets, will give us quite satisfactory long-term results. Our target is an approximately 1/2% decline for each 1% decline in the Dow and if achieved, means we have a considerably more conservative vehicle for investment in stocks than practically any alternative.

As outlined in Appendix B, showing combined predecessor partnership 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% overall 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 results are available for the closed-end companies. However, the two mutual funds both did poorer than the Dow, with Massachusetts Investors Trust having a minus 23% overall performance, and Investors Stock Fund realizing a minus 25.4%. This is not unusual as witness the lead article in the WALL STREET JOURNAL of June 13, 1962 headed "Funds vs. Market.” Of the 17 large common stock funds studied, everyone had a record poorer than the Dow from the peak on the Dow of 734, to the date of the article, although in some cases the margin of inferiority was minor.

Particularly hard hit in the first half were the so-called “growth” funds which, almost without exception, were down considerably more than the Dow. The three large "growth" (the quotation marks are more applicable now) funds with the best record in the preceding few years, Fidelity Capital Fund, Putnam Growth Fund, and Wellington Equity Fund averaged an overall minus 32.3% for the first half. It is only fair to point out that because of their excellent records in 1959-61, their overall 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.

In outlining the results of investment companies, I do so not because we operate in a manner comparable to them or because our investments are similar to theirs. It is done because such funds represent a public batting average of professional, highly-paid investment management handling a very significant $20 billion of securities. Such management, I believe, is typical of

management handling even larger sums. As an alternative to an interest in the partnership, I believe it reasonable to assume that many partners would have investments managed similarly.

Asset Values:

The above calculations of results are before allocation to the General Partner and monthly payments to partners. Of course, whenever the overall results for the year are not plus 6% on a market value basis (with deficiencies carried forward) there is no allocation to the General Partner. Therefore, non-withdrawing partners have had a decrease in their market value equity during the first six months of 7.5% and partners who have withdrawn at the rate of 6% per annum have had a decrease in their market value equity during the first half of 10.5%. Should our results for the year be less than plus 6% (and unless there should be a material advance in the Dow, this is very probable) partners receiving monthly payments will have a decrease in their market value equity at December 31, 1962.

This means that monthly payments at 6% on this new market equity next year will be on a proportionately reduced basis. For example, if our results were an overall minus 7% for the year, a partner receiving monthly payments who had a market value interest of $100,000 on January 1, 1962 would have an equity at December 31, 1962 of $87,000. This reduction would arise from the minus 7% result, or $7, 000 plus monthly payments of $500 for an additional $6,000. Thus, with $87,000 of market equity on January 1, 1963, monthly payments next year would be $435.00.

None of the above, of course, has any applicability to advance payments received during 1962 which do not participate in profits or losses, but earn a straight 6%.

APPENDIX A

DOW-JONES INDUSTRIAL AVERAGE

Year	Closing Dow	Change for Year	Dow Dividend	Overall Result from Dow	Percentage Result
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

Year	Partnership Result (1)	Limited Partners' Results (2)
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 allocations 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

Year	Mass. Inv. Trust (1)	Investors Stock (1)	Lehman (2)	Tri-Cont. (2)
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%
6/30/92	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

Years	Mass. Inv. Trust	Investors Stock	Lehman	Tri-Cont.	Dow	Limited Partners
1957	-11.4%	-12.4%	-11.4%	-2.4%	-8.4%	9.3%
1957-58	26.4%	29.2%	24.7%	30.0%	26.9%	44.5%
1957-59	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	71.4%	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%