BUFFETT PARTNERSHIP. LTD.
610 KIEWIT PLAZA
OMAHA, NEBRASKA 68131
TELEPHONE 042-4110

July 12, 1967

First Half Performance

Again, this is being ,written in late June prior to the family's trip to California. To maintain the usual chronological symmetry (I try to sublimate my aesthetic urges when it comes to creating symmetry in the profit and loss statement), I will leave a few blanks and trust that the conclusions look appropriate when the figures are entered.

We began 1967 on a traumatic note with January turning out to be one of the worst months we have experienced with a plus 3.3% for BPL versus a plus 8.5% for the Dow. Despite this sour start, we finished the half about plus 21% for an edge of 9.6 percentage points over the Dow. Again, as throughout 1966, the Dow was a relatively easy competitor (it won't be every year, prevailing thinking to the contrary notwithstanding) and a large majority of investment managers outdid this yardstick. The following table summarizes performance to date on the usual basis:

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%
1965	14.2%	47.2%	36.9%
1966	-15.6%	20.4%	16.8%
First half 1967	11.4%	21.0%	17.3%
Cumulative Results	**148.3%**	**1419.8%**	**843.3%**
Annual Compounded Rate	**9.1%**	**29.6%**	**23.8%**

(1) Based on yearly changes in the value of the Dow plus dividends that would have been received through ownership of the Dow during that year. The table includes all complete years of partnership activity.

(2) For 1957-61 consists of combined results of all predecessor limited partnerships operating throughout 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.

BPL's performance during the first hall reflects no change in valuation of our controlled companies and was thus achieved solely by the 63.3% of our net assets invested in marketable securities at the beginning of the year.

Any revaluation of Diversified Retailing Company (DRC) and Berkshire Hathaway Inc. (B-H) will be made in December prior to the time the commitment letters become final and will be based upon all relevant criteria (including current operating. market and credit conditions) at that time.

Both DRC and B-H made important acquisitions during the first half. The overall progress of DRC (80% owned) and both of its subsidiaries (Hochschild Kohn and Associated Cotton Shops) is highly satisfactory. However, B-H is experiencing and faces real difficulties in the textile business, while I don't presently foresee any loss in underlying values. I similarly see no prospect of a good return on the assets employed in the textile business. Therefore, this segment of our portfolio will be a substantial drag on our relative performance (as it has been during the first half) if the Dow continues to advance. Such relative performance with controlled companies is expected in a strongly advancing market, but is accentuated when the business is making no progress. As a friend of mine says. “Experience is what you find when you're looking for something else.”

Investment Companies

The usual comparison follows showing the results of the two largest open-end and two largest closed-end investment companies which pursue a policy of 95-100% investment in common stocks.

Year	Mass. Inv. Trust (1)	Investors Stock (1)	Lehman (2)	Tri-Cont (2)	Dow	Limited Partners
1957	-11.4%	-12.4%	-11.4%	-2.4%	-8.4%	9.3%
1958	42.7%	47.5%	40.8%	33.2%	38.5%	32.2%
1959	9.0%	10.3%	8.1%	8.4%	20.0%	20.9%
1960	-1.0%	-0.6%	2.5%	2.8%	-6.2%	18.6%
1961	25.6%	24.9%	23.6%	22.5%	22.4%	35.9%
1962	-9.8%	-13.4%	-14.4%	-10.0%	-7.6%	11.9%
1963	20.0%	16.5%	23.7%	18.3%	20.6%	30.5%
1964	15.9%	14.3%	13.6%	12.6%	18.7%	22.3%
1965	10.2%	9.8%	19.0%	10.7%	14.2%	36.9%
1966	-7.7%	-10.0%	-2.6%	-6.9%	-15.6%	16.8%
First half 1967	11.3%	12.3%	19.3%	14.4%	11.4%	17.3%
Cumulative Results	**143.3%**	**126.4%**	**185.4%**	**156.8%**	**148.3%**	**843.3%**
Annual Compounded Rate	**8.9%**	**8.1%**	**10.5%**	**9.4%**	**9.1%**	**23.8%**

(1) Computed from changes in asset value plus any distributions to holders of record during year.
(2) From 1967 Moody's Bank & Finance Manual for 1957-1966. Estimated for first half of 1967.

The tide continues to be far more important than the swimmers.

Taxes

We entered 1967 with unrealized gains of $16,361,974. Through June 30 we have realized net capital gains of $7,084,104 so it appears likely that we will realize in 1967 a fairly substantial portion of the unrealized gain attributable to your interest at the beginning of the year. This amount was reported to you as Item 3 of our February 2, 1967 letter. A copy of that letter, along with a tax letter, will be mailed to you in November giving a rough idea of the tax situation at that time.

As I regularly suggest, the safe course to follow on interim estimates is to pay the same estimated tax for 1967 as your actual tax was for 1966. There can be no penalties if you follow this procedure.

Whatever our final figure, it looks now as if it will be very largely long term capital gain with only minor amounts, if any, of short term gain and ordinary income. (I consider the whole Income-Principal Myth fair game for one of my soft-spoken gently worded critiques. As I told Susie in the early days of our marriage, “Don't worry about the income; just the outcome.”)

Miscellaneous

During the first half, Stan Perimeter resigned from the Dissolution Committee because of his present full-time involvement in investment management. Fred Stanback, Jr., a long time partner and experienced investor, was elected by the remaining members to fill the vacancy.

As in past years, we will have a report out about November 11 along with the Commitment Letter, and the rough estimate of the 1967 tax situation, etc.

However, there will be a special letter (to focus your attention upon it) in October. The subject matter will not relate to change in the Partnership Agreement, but will involve some evolutionary changes in several "Ground Rules" which I want you to have ample time to contemplate before making your plans for 1968. Whereas the Partnership Agreement represents the legal understanding among us, the "Ground Rules" represent the personal understanding and in some ways is the more important document. I consider it essential that any changes be clearly set forth and explained prior to their effect on partnership activity or performance – hence, the October letter.

Cordially,
Warren E. Buffett