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October 9th, 1969

To My Partners:

Here is my present estimate of the BPL calendar for the months to come:

(1) This letter - to tell you something of Bill Ruane, the money manager within my knowledge who ranks the highest when combining the factors of integrity, ability and continued availability to all partners. I also want to comment upon the present range of expectations involved in deciding on a bond-stock mix.

(2) Late November - the required thirty days formal notice of my intent to retire from the Partnership at the end of the year.

(3) Early December - a package of publicly available material, as well as some general comments by me relating to our controlled companies. Berkshire Hathaway Inc. (owning the textile business, Illinois National Bank and Trust Company of Rockford, Illinois, National Indemnity Company and National Fire and Marine Insurance Company and Sun Newspapers) and Diversified Retailing Company (owning Hochschild, Kohn & Co. and Associated Cotton Shops). I want you to have ample time to study the material relating to such companies before you make any decision to hold, sell or buy such securities after distribution to you in early January. I will solicit written questions from partners (I don't want to talk to you individually about such companies, as I want all partners to obtain exactly the same information) and then have a further mailing late in December, giving all questions received relating to these companies along with my answers, if possible. I still anticipate having a plan enabling partners to promptly convert such controlled company holdings to cash, if they wish.

(4) About January 5th - (a) a cash distribution amounting to at least 56% (probably more - depending upon what percentage of our remaining holdings are sold before yearend) of your January 1, 1969 capital, less any distributions (the regular monthly payments many of you receive) or borrowings by you during 1969, (b) your proportional share of our holdings in Diversified Retailing Company Inc. and Berkshire Hathaway Inc. I which, if you dispose of them, will bring 30% - 35% (my estimate of value will be made at yearend) of your January 1, 1969 capital.

We may make substantial additional sales before yearend - if so, the early January cash distribution will be somewhat larger than the 56% mentioned above. If we don't, such sales will be made during the first half of 1970 and an interim distribution made.

Residual assets will be sold at appropriate times and I believe not more than 10% of our present asset value will remain after June 30th, 1970 pending a final distribution when all assets and liabilities have been cleaned up.

Unless there is a further substantial decline in the market. I still expect about a breakeven performance before any monthly payments for 1969. We were lucky - if we had not been in liquidation this year, our results would have been significantly worse. Ideas that looked potentially interesting on a "continuing" basis have on balance performed poorly to date. We have only two items of real size left - one we are selling as I write this and the other is a holding of limited marketability representing about 7-1/2% of the outstanding stock of Blue Chip Stamps which we may sell via a registered public offering around yearend, depending upon market conditions and other factors.

(5) March 1st. 1970 - John Harding expects to leave Buffett Partnership. Ltd. and open a branch office in Omaha for Ruane, Cunniff & Stires. Bill Scott and I will be available at BPL offices to help any partners who are desirous of purchasing bonds, tax-free or taxable. We will set aside the month of March to make our services available without cost to those who want to acquire bonds. Because of some experience we have in analysis and purchasing, as well as the access we have to wholesale markets. I think it is likely we can save material elements of cost as well as help select better relative values for those of you who wish to invest in bonds. After April 1st, however, we want to be out of any form of personal advisory activity.

(6) After March, 1970 - Bill and I will continue to office in Kiewit Plaza, spending a very minor portion of our time completing the wind-up of BPL. This will mean filing tax returns for 1970 and probably 1971 resolving minor assets and liabilities etc.

Now, to Bill Ruane - we met in Ben Graham's class at Columbia University in 1951 and I have had considerable opportunity to observe his qualities of character, temperament and intellect since that time. If Susie and I were to die while our children are minors, he is one of three trustees who have carte blanche on investment matters - the other two are not available for continuous investment management for all partners, large or small.

There is no way to eliminate the possibility of error when judging humans particularly in regard to future behavior in an unknown environment. However, decisions have to be made - whether actively or passively - and I consider Bill to be an exceptionally high probability decision on character and a high probability one on investment performance. I also consider it likely that Bill will continue as a money manager for many years to come.

Bill has recently formed a New York Stock Exchange firm, Ruane, Cunniff & Stires, Inc., 85 Broad Street, New York, N.Y. 10004, telephone number (212) 344-6700. John Harding presently plans to establish an office for the firm in Omaha about March 1st, 1970. Bill manages accounts individually on a fee basis and also executes brokerage for the accounts - presently with some portion of the brokerage commissions used to offset a portion of the investment advisory fee. His method of operation allows monthly withdrawals on a basis similar to BPL - as a percentage

of capital and unrelated to realized or unrealized gain or loss. It is possible he may form some sort of pooled account but such determinations will be made between him and those of you who elect to go with him. I, of course, will not be involved with his operation. I am making my list of partners available to him and he will be writing you fairly soon regarding a trip he plans to make before yearend to Omaha, Los Angeles and Chicago, so that those of you who wish to meet him may do so. Any of you who are going to be in New York during the next few months can contact him directly.

Bill's overall record has been very good-averaging fairly close to BPL's, but with considerably greater variation. From 1956-1961 and from 1964-1968, a composite of his individual accounts averaged over 40% per annum. However, in 1962, undoubtedly somewhat as a product of the euphoric experience of the earlier years, he was down about 50%. As he re-oriented his thinking, 1963 was about breakeven.

While two years may sound like a short time when included in a table of performance, it may feel like a long time when your net worth is down 50%. I think you run this sort of short-term risk with virtually any money manager operating in stocks and it is a factor to consider in deciding the portion of your capital to commit to equities. To date in 1969, Bill is down about 15%, which I believe to be fairly typical of most money managers. Bill, of course, has not been in control situations or workouts, which have usually tended to moderate the swings in BPL year-to-year performance. Even excluding these factors, I believe his performance would have been somewhat more volatile (but not necessarily poorer by any means) than mine - his style is different, and while his typical portfolio (under most conditions) would tend to have a mild overlap with mine, there would always be very significant differences.

Bill has achieved his results working with an average of $5 to $10 million. I consider the three most likely negative factors in his future to be: (1) the probability of managing significantly larger sums - this is a problem you are going to have rather quickly with any successful money manager, and it will tend to moderate performance; I believe Bill's firm is now managing $20 -$30 million and, of course, they will continue to add accounts; (2) the possibility of Bill's becoming too involved in the detail of his operation rather than spending all of his time simply thinking about money management. The problems of being the principal factor in a NYSE firm as well as handling many individual accounts can mean that he, like most investment advisors, will be subject to pressures to spend much of his time in activities that do nothing to lead to superior investment performance. In this connection, I have asked Bill to make his services available to all BPL partners - large or small and he will, but I have also told him he is completely a free agent if he finds particular clients diverting him from his main job; (3) the high probability that even excellent investment management during the next decade will only produce limited advantages over passive management. I will comment on this below.

The final point regarding the negatives listed above is that they are not the sort of drawbacks leading to horrible performance, but more likely the sort of things that lead to average performance. I think this is the main risk you run with Bill - and average performance is just not that terrible a risk.

In recommending Bill, I am engaging in the sort of activity I have tried to avoid in BPL portfolio activities - a decision where there is nothing to gain (personally) and considerable to lose. Some of my friends who are not in the Partnership have suggested that I make no recommendation since, if results were excellent it would do me no good and, if something went wrong, I might well get a portion of the blame. If you and I had just had a normal commercial relationship, such reasoning might be sound. However, the degree of trust partners have extended to me and the cooperation manifested in various ways precludes such a "hands off" policy. Many of you are professional investors or close thereto and need no advice from me on managers - you may well do better yourself. For those partners who are financially inexperienced. I feel it would be totally unfair for me to assume a passive position and deliver you to the most persuasive salesman who happened to contact you early in 1970.

Finally, a word about expectations. A decade or so ago was quite willing to set a target of ten percentage points per annum better than the Dow, with the expectation that the Dow would average about 7%. This meant an expectancy for us of around 17%, with wide variations and no guarantees, of course - but, nevertheless, an expectancy. Tax-free bonds at the time yielded about 3%. While stocks had the disadvantage of irregular performance, overall they seemed much the more desirable option. I also stressed this preference for stocks in teaching classes, participating in panel discussions, etc…

For the first time in my investment lifetime. I now believe there is little choice for the average investor between professionally managed money in stocks and passive investment in bonds. If correct. this view has important implications. Let me briefly (and in somewhat oversimplified form) set out the situation as I see it:

(1) I am talking about the situation for, say, a taxpayer in a 40% Federal Income Tax bracket who also has some State Income Tax to pay. Various changes are being proposed in the tax laws, which may adversely affect net results from presently tax-exempt income, capital gains, and perhaps other types of investment income. More proposals will probably come in the future. Overall, I feel such changes over the years will not negate my relative expectations about after-tax income from presently tax-free bonds versus common stocks, and may well even mildly reinforce them.

(2) I am talking about expectations over the next ten years - not the next weeks or months. I find it much easier to think about what should develop over a relatively long period of time than what is likely in any short period. As Ben Graham said: “In the long run, the market is a weighing machine - in the short run, a voting machine.” I have always found it easier to evaluate weights dictated by fundamentals than votes dictated by psychology.

(3) Purely passive investment in tax-free bonds will now bring about 6-1/2%. This yield can be achieved with excellent quality and locked up for just about any period for which the investor wishes to contract. Such conditions may not exist in March when Bill and I will be available to assist you in bond purchases, but they exist today.

(4) The ten year expectation for corporate stocks as a group is probably not better than 9% overall. say 3% dividends and 6% gain in value. I would doubt that Gross National Product grows more than 6% per annum - I don't believe corporate profits are likely to grow significantly as a percentage of GNP - and if earnings multipliers don't change (and with these assumptions and present interest rates they shouldn't) the aggregate valuation of American corporate enterprise should not grow at a long-term compounded rate above 6% per annum. This typical experience in stocks might produce (for the taxpayer described earlier) 1-3/4% after tax from dividends and 4-3/4% after tax from capital gain, for a total after-tax return of about 6-1/2%. The pre-tax mix between dividends and capital gains might be more like 4% and 5%, giving a slightly lower aftertax result. This is not far from historical experience and overall, I believe future tax rules on capital gains are likely to be stiffer than in the past.

(5) Finally, probably half the money invested in stocks over the next decade will be professionally managed. Thus, by definition virtually, the total investor experience with professionally managed money will be average results (or 6-1/2% after tax if my assumptions above are correct).

My judgment would be that less than 10% of professionally managed money (which might imply an average of $40 billion just for this superior segment) handled consistently for the decade would average 2 points per annum over group expectancy. So-called "aggressively run" money is unlikely to do significantly better than the general run of professionally managed money. There is probably $50 billion in various gradations of this "aggressive" category now - maybe 100 times that of a decade ago - and $50 billion just can't "perform".

If you are extremely fortunate and select advisors who achieve results in the top 1% to 2% of the country (but who will be working with material sums of money because they are that good), I think it is unlikely you will do much more than 4 points per annum better than the group expectancy. I think the odds are good that Bill Ruane is in this select category. My estimate . therefore, is that over the next decade the results of really excellent management for our "typical taxpayer" after tax might be 1-3/4% from dividends and 7-3/4% from capital gain. or 9 –1.2% overall.

(6) The rather startling conclusion is that under today's historically unusual conditions, passive investment in tax-free bonds is likely to be fully the equivalent of expectations from professionally managed money in stocks, and only modestly inferior to extremely well-managed equity money.

(7) A word about inflation - it has very little to do with the above calculation except that it enters into the 6% assumed growth rate in GNP and contributes to the causes producing 6-1/2% on tax-free bonds. If stocks should produce 8% after tax and bonds 4%, stocks are better to own than bonds, regardless of whether prices go up, down or sidewise. The converse is true if bonds produce 6-1/2% after tax. and stocks 6%. The simple truth, of course, is that the best

expectable after-tax rate of return makes the most sense - given a rising, declining or stable dollar.

All of the above should be viewed with all the suspicion properly accorded to assessments of the future. It does seem to me to be the most realistic evaluation of what is always an uncertain future - I present it with no great feeling regarding its approximate accuracy, but only so you will know what I think at this time.

You will have to make your own decision as between bonds and stocks and, if the latter, who advises you on such stocks. In many cases, I think the decision should largely reflect your tangible and intangible (temperamental) needs for regularity of income and absence of large principal fluctuation, perhaps balanced against psychic needs for some excitement and the fun associated with contemplating and perhaps enjoying really juicy results. If you would like to talk over the problem with me, I will be very happy to help.

Sincerely,
Warren E. Buffett