

## Warren Buffett Wisdom

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Warren Buffett start this letter with general market commentary on 1959 and 1960. As in 1960 the Industrial Average declined from 679 to 616 or 9.3% if dividend calculated the loss will be 6.3%, as per the Buffett guess the 90% of

companies outperform the Industrial average. While on New York stock exchange 653 stocks losses and 404 showed the gain.

*“My continual objective in managing partnership funds is to achieve a long-term performance record superior to that of the Industrial Average. I believe this Average, over a period of years, will more or less parallel the results of leading investment companies. Unless we do achieve this superior performance there is no reason for existence of the partnerships.”*

This is typical Buffet, the complete rational mind, if we can't achieve long-term performance record superior to that of Industrial Average, over a period of years, unless we do achieve this, there is no reason for existence of the partnership.

In today's Investment world nobody can dare to say this, because they have their commission and salary attached to this, if mutual fund not performing, no mutual fund in today's scenario have courage to say this, no matter how the performance is, they will receive their annual expense ratio ranging from 1% to 3% (Approximately) there is no linkage in between performance and fee structure, but Buffet Partnership have that linkage.

Buffett wrote, if superior performance accomplished should not be expected to be constant advantage in performance compare to average,

Stay your expectation low or average, while achieving superior performance year on year,

*“It will be through better-than-average performance in stable or declining markets, and average, or perhaps even poorer- than-average performance in rising markets.”*

Buffett expect the better than average performance in stable or declining market and average or poorer performance in rising market,

That reminds me, Protect the downside with average performance and with poorer performance in rising market, because market is not at all rational it might be irrational lot of time, and Buffett want to be rational and not want to participate into the Overvalued market rally.

*“I would consider a year in which we declined 15% and the Average 30% to be much superior to a year when both we and the Average advanced 20%. Over a period of time there are going to be good and bad years; **there is nothing to be gained by getting enthused or depressed about the sequence in which they occur. The important thing is to be beating par; a four on a par three hole is not as good as a five on a par five hole** and it is unrealistic to assume we are not going to have our share of both par three's and par five's.”*

*“The above dose of philosophy is being dispensed since we have a number of new partners this year and I want to make sure they understand my objectives, my measure of attainment of these objectives, and some of my known limitations.”*

Buffett explains the philosophy here, don't be enthused or depressed about good year or bad year, the important thing is to beating it par,

As earlier said, Industrial Average lost 6.3%, and Buffett gain was 22.8% for the partnership,

Let's check Buffett Results till 1960

Year	Partnership operating entire year	Partnership Gain	Dow-Jones Gain
1957	3	10.40%	-8.40%
1958	5	40.90%	38.50%
1959	6	25.90%	19.90%
1960	7	22.80%	-6.30%

The above are the net result of the partnership (As per the partnership agreement)

On a compounded basis, the cumulative results have been:		
Year	Partnership Gain	Dow-Jones Gain
1957	10.40%	-8.40%
1958	55.60%	26.90%
1959	95.90%	52.20%
1960	140.60%	42.60%

The cumulative results as above, and as per Buffett the four year is too short period of time, the result should be relatively better in declining and static market, it indicates that Buffett portfolio is more conservative

The partnership were grows in years, that's why Buffett want to merge it, there is no superior or inferior results in partnership gains, but there has been some variance each year, this variance could be eliminated by combing the partnerships. Buffett was hopeful to do something on it in coming years, but not without the consent of partners.

### **Sanborn Map**

In 1959 Buffett invested almost 35% of Partnership assets in Sanborn Map,

*Sanborn Map Co. is engaged in the publication and continuous revision of extremely detailed maps of all cities of the United States. For example, the volumes mapping Omaha would weigh perhaps fifty pounds and provide minute details on each structure. The map would be revised by the paste-over method showing new construction, changed occupancy, new fire protection facilities, changed structural materials, etc. These revisions would be done approximately annually and a new map would*

*be published every twenty or thirty years when further pasteovers became impractical. The cost of keeping the map revised to an Omaha customer would run around \$100 per year. This detailed information showing diameter of water mains underlying streets, location of fire hydrants, composition of roof, etc.,*

The users of maps are Insurance companies, of underwritings departments,

*The bulk of Sanborn's business was done with about thirty insurance companies although maps were also sold to customers outside the insurance industry such as public utilities, mortgage companies, and taxing authorities.*

*For seventy-five years the business operated in a more or less monopolistic manner, with profits realized in every year accompanied by almost complete immunity to recession and lack of need for any sales effort. In the earlier years of the business, the insurance industry became fearful that Sanborn's profits would become too great and placed a number of prominent insurance men on Sanborn's board of directors to act in a watch-dog capacity.*

Sanborn Map		
	1930	1958/1959
Profit after Tax	\$500,000	\$100,000

From 1930 Sanborn had begun to accumulate an Investment portfolio, because there is no requirement of capital to run the existing business. Around \$2.5 Billion are invested in Investment portfolio half in stocks and half in bonds. In the last decade the Investment portfolio blossomed and map business wilted.

The picture of the sanborn business as follows,

	1938	1958
Dow Jones	100-120	550
SanBorn / Share	\$110	\$45
SanBorn Investment/Share	\$20	\$65
Valuation	\$90	\$-20
	(\$110 less the \$20)	(\$45 less \$65)

*The very fact that the investment portfolio had done so well served to minimize in the eyes of most directors the need for rejuvenation of the map business. Sanborn had a sales volume of about \$2 million per year and owned about \$7 million worth of marketable securities. The income from the investment portfolio was substantial, the business had no possible financial worries, the insurance companies were satisfied with the price paid for maps, and the stockholders still received dividends. However, these dividends were cut five times in eight years although I could never find any record of suggestions pertaining to cutting salaries or director's and committee fees.*

The majority on boards from the Insurance Industry, Buffett increase his partnership stake from 24000 shares to 46000 shares, Buffett hope to separate the two businesses, realize the true value of investment business and re-establish the earning power of the map business,

*There appeared to be a real opportunity to multiply map profits through utilization of Sanborn's wealth of raw material in conjunction with electronic means of converting this data to the most usable form for the customer.*

*There was considerable opposition on the Board to change of any type, particularly when initiated by an outsider, although management was in complete accord with our plan and a similar plan had been recommended by Booz, Allen & Hamilton (Management Experts). To avoid a proxy fight (which very probably would not have been forthcoming and which we would have been certain of winning) and to avoid time delay with a large portion of Sanborn's money tied up in blue-chip stocks which I didn't care for at current prices, a plan was evolved taking out all stockholders at fair value who wanted out. The SEC ruled favorably on the fairness of the plan. About 72% of the Sanborn stock, involving 50% of the 1,600 stockholders, was exchanged for portfolio securities at fair value. The map business was left with over \$1.25 million in government and municipal bonds as a reserve fund, and a potential corporate capital gains tax of over \$1 million was eliminated. The remaining stockholders were left with a slightly improved asset value, substantially higher earnings per share, and an increased dividend rate.*

Such example of operation not fulfil in one year, might take much more years, that's the classic example of Buffett's General converts

into control situation. Such condiation occurs very rarely as Buffetts write our bread and butter business is buying undervalued securities and selling when the undervaluation is corrected.

*(It's a first part of 1960 Letter, Second part in next post)*

In 1960 letter Buffett explains great points.

- ✓ **Be rational while analysing the performance**
- ✓ **Stay your expectation low or average, while achieving superior performance**
- ✓ **Protect downside with average performance**
- ✓ **Don't be enthused or depressed about good or bad year, the important thing is to beating it par**

(Disclaimer: All figures and data used from Buffett Partnership Letter 1960, I am not genius or clever to understand all things, I may be wrong in interpreting the data and letter, take your decision on your own)

**To Your Success with Lot of Love!**

**Harish S Kawalkar**

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