Twitter Thread by Dividend Growth Investor

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Ben Graham managed to compound money at 20%/year for 20 years at his partnership following a value investing strategy

In 1948 he acquired 50% stake in GEICO. It had to be distributed to his investors

They almost didn't make the investment due to some accounting questions 1/

We know very well two partners who spent a good part of their lives handling their own and other people's funds in Wall Street. Some hard experiences taught them it was better to be safe and careful rather than to try to make all the money in the world. They established a rather unique approach to security operations, which combined good profit possibilities with sound values. They avoided anything that appeared overpriced and were rather too quick to dispose of issues that had advanced to levels they deemed no longer attractive. Their portfolio was always well diversified, with more than a hundred different issues represented. In this way they did quite well through many years of ups and downs in the general market; they averaged about 20% per annum on the several millions of capital they had accepted for management, and their clients were well pleased with the results.

In the year in which the first edition of this book appeared an opportunity was offered to the partners' fund to purchase a half-interest in a growing enterprise. For some reason the industry did not have Wall Street appeal at the time and the deal had been turned down by quite a few important houses. But the pair was impressed by the company's possibilities; what was decisive for them was that the price was moderate in relation to current earnings and asset value. The partners went ahead with the acquisition, amounting in dollars to about one-fifth of their fund. They became closely identified with the new business interest, which prospered.

In fact it did so well that the price of its shares advanced to two hundred times or more than the price of the half-interest. The advance far outstripped the actual growth in profits, and almost from the start the quotation appeared much too high in terms of the partners' own investment standards. But since they regarded the company as a sort of "family business," they continued to maintain a substantial ownership of the shares despite the spectacular price rise. A large number of participants in their funds did the same, and they became millionaires through their holding in this one enterprise, plus later-organized affiliates.

Ironically enough, the aggregate of profits accruing from this single investment-decision far exceeded the sum of all the others realized through 20 years of wide-ranging operations in the partners' specialized fields, involving much investigation, endless pondering, and countless individual decisions.

Are there morals to this story of value to the intelligent investor? An obvious one is that there are several different ways to make and keep money on Wall Street. Another, not so obvious, is that one lucky break, or one supremely shrewd decision – can we tell them apart? - may count for more than a lifetime of journeyman efforts. * But behind the luck, or the crucial decision, there must usually exist a background of preparation and disciplines capacity. One needs to be sufficiently established and recognized so that these opportunities will knock at his particular door. One must have the means, the judgment, and the courage to take advantage of them.

Of course, we cannot promise a like spectacular experience to all intelligent investors who remain both prudent and alert through the years. We are not going to end with J. J. Raskob's slogan that we made fun of at the beginning: "Everybody can be rich." But interesting possibilities abound on the financial scene, and the intelligent and enterprising investor should be able to find both enjoyment and profit in this three-ring circus. Excitement is guaranteed.

*Veracity requires the admission that the deal almost fell through because the partners wanted assurance that the purchase would be 100% covered by asset value. A future $300 million or more in market gain turned on, say $50,000 of accounting items. By dumb luck they got what they insisted on.

Ben Graham paid $712,500 for 50% of GEICO in 1948. He put 25% of his investment assets in GEICO.

This investment did so well that the price of its shares advanced to two hundred times or more than the price of the half-interest by 1971/1972 2/

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Source: The Intelligent Investor

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