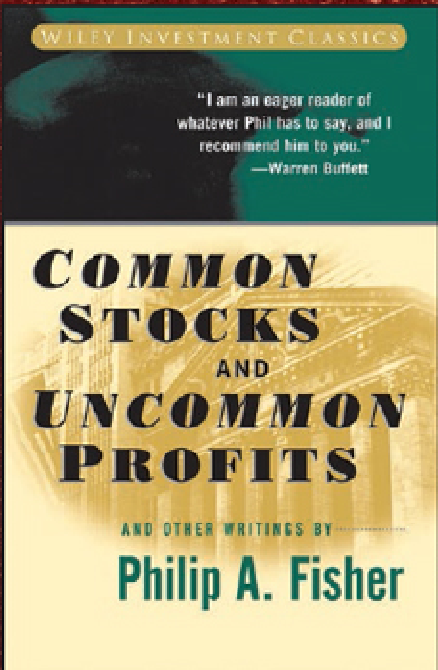
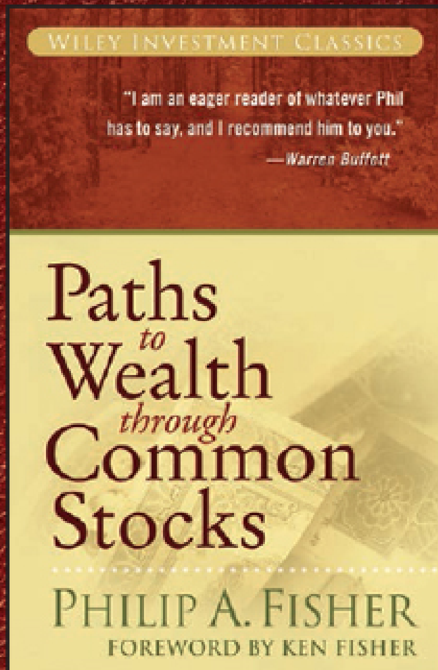
PHILIP A. FISHER

COLLECTED WORKS





Common Stocks and Uncommon Profits

Paths to Wealth through Common Stocks

Conservative Investors Sleep Well

Developing an Investment Philosophy

Foreword by KEN FISHER

Philip A. Fisher
Collected Works

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Philip A. Fisher Collected Works Foreword by Ken Fisher

Common Stocks and Uncommon Profits, Paths to Wealth through Common Stocks, Conservative Investors Sleep Well, and Developing an Investment Philosophy

Philip A. Fisher, Fisher & Co.

WILEY

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Publisher's Note

Although Philip Fisher is regarded as one of the greatest investors of all time, it's probably safe to say he doesn't receive the acclaim of some of his contemporaries. We hope the publication of all of Fisher's major published works in one digital edition will help to enhance his legacy and provide valuable and time-tested wisdom to today's investors.

History repeats itself, just not in exactly the same way. Fisher advocated buying a small number of outstanding companies with terrific growth prospects. He was an early investor in Motorola and Texas Instruments and held onto those investments for years—to the great benefit of his clients. The question facing investors today is: What are the new Motorolas and Texas Instruments? What are the great growth stocks that will provide outsized returns for the next 10 or 20 years?

We hope the publication of Fisher's collected works will help investors to answer those questions. The four publications included here provide Fisher's complete methodology for identifying great investments and, just as important, demonstrate how Fisher applied his methods in the face of economic uncertainty. His work and perspective are as relevant today as they were when first written.

Foreword

My Three Bits on My Father and His Writings

This is, finally, the complete collection of all the public writings of Philip A. Fisher in one place. As such, this has never existed before. So, what else is there new to say? When the Wiley folks asked me to write this 2012 foreword to my father's collected writings it seemed unnecessary. After all, I've written lots about him and his writings: The 2002 introduction to *Common Stocks and Uncommon Profits* basically gave you his biography, who he was, and what he was like. Then came the 2003 preface to his "other writings" that added *Developing an Investment Philosophy* and portions of *Conservative Investors Sleep Well*. And finally came my 2007 foreword to the re-introduction of *Paths to Wealth through Common Stocks*. All are included herein and need no alternation. I wrote everything I could think of.

So, again, what else is there to say? I wracked my brain after re-reading both his works and writings about them—and pondering him. Turns out there is a bit more—in three blocks: 1) a bit more about him, 2) a bit about Chapters 7–14 of *Conservative Investors Sleep Well*—which are published here for the first time in 37 years, and 3) a bit of how I, as the person who knew him best in the world business-wise, would envision how he might look at today's world were he now in his prime.

A Bit More About Phil Fisher

I remember it very well, like a lightning bolt hitting me. Just after he had died a dastardly death from dementia, on March 11, 2004, I was sitting on my back deck on a warm spring afternoon. Yet I didn't write about my insight in my 2007 foreword—I guess because that was about the book *Paths to Wealth* and wasn't really about him. But what was my insight?

Various far-flung family members had congregated at my home, as commonly happens in any family when someone dies. Warm, clear weather—beautiful views of the Pacific. Eating, drinking, chatting, remembering; a few tears and lots of laughs. Normal phenomena for the phenomena! My mother, ravaged by her own advanced dementia (she didn't pass on until 2010), was for the first time bedridden at her home (where she and my father had lived and I had been raised), having just suffered a fall and hip break—broken hips are unfortunately common among the aged and that is what had also happened to my father in 1998, launching his long trajectory toward death.

My eldest niece, Caroline, named after my father's sister (who was herself named after the matriarch of father's extended family, his aunt, Caroline Fisher—covered in my 2002 introduction to *Common Stocks and Uncommon Profits*), was there. I hadn't seen Cary in a few years. She was 36 then and a busy high-end pediatric psychiatrist based in Boston who rarely got back to the west coast and hadn't really wanted to see my parents in their demented decline for fear it would blur earlier, happy memories. I'd been bantering with various other family members about father's behavioral oddities and she blurted it out: "The only thing you really have to know about grandpa is that he was a classic textbook Asperger's case." My response was, "What's Asperger's?" And she profiled it for me. And it sounded a lot like him.

Then I remembered. I'd heard that name "Asperger's" before but never much paid attention. And I remembered some doctor had written me after reading my 2002 introduction describing my father. The doctor thought father's behavior sounded like Asperger's Syndrome. But I had paid no attention. It was just some diagnosis from some guy far away I didn't know who didn't know father directly—probably some crackpot. But Cary was and is a serious psychiatrist and had known him very well and I wasn't going to discount her pronouncement. She was and is fully capable of diagnosis. That night I read at length online about Asperger's. I cried a lot that night and in some ways knew my father for the very first time. It explained so much I otherwise hadn't been able to. It's him to a tee. It was for me the missing link in making him explicable.

If you want to know who Phil Fisher was, first read about Asperger's Syndrome on Wikipedia. Then read my 2002 introduction to *Common Stocks and Uncommon Profits*, and all his oddities tie together and make perfect sense. If you come to understand this syndrome and my description of him you will know him pretty darned well.

A Bit About Chapters 7–14 of *Conservative Investors Sleep Well*

This reintroduces those February 1975 chapters of *Conservative Investors Sleep Well* which were excluded in the 2003 version of *Common Stocks and Uncommon Profits and Other Writings*. Why were they excluded then? First, Wiley didn't want the 290-page book another 117 pages longer. Second, the excluded chapters were believed to be too focused on the 1970s and maybe redundant with parts of *Common Stocks*. I disagree. My father was fundamental in investing in all ways and also almost never wrote the same thing twice the same way. And I know that to be true with these chapters because I helped him with them.

Take Chapter 7 on dividends. He had covered dividends before—in fact, in Chapter 7 of *Common Stocks and Uncommon Profits*. In both discussions of dividends, father—as always—thought in terms of total return and regularly discounted dividends relative to total return, which is quite technically correct. His main orientation was toward capital gains and the lower stocks went the more important capital gains became. But, for a fact, for years now, after every bear market, dividend-based investing becomes overtly trendy and supported by the pseudo-intelligentsia. And so it is now, in 2012. And here in Chapter 7 of *Conservative Investors Sleep Well* he tells you—in the aftermath of another very big bear market, what was then the biggest bear market since the Great Depression—why focusing on dividends is, as he would say were he speaking and not writing, "Nuts!"

Chapters 8 and 9, while not earth-shattering, are a good recount of the history of what caused investors to go wrong in the late 1960s and early 1970s. Many of the problems he covers in Chapter 8 are still very much with us today. This chapter is good reading for investors to see how myopia continues, persistently, to engulf us.

I would rephrase his definition of conservative investing as simply, "knowing your stuff." If you know everything about what most folks think of as a risky situation, then it isn't really so risky. But you have to know your stuff. He always presumed most folks weren't even close. He regularly presumed it was easier to know what you needed to know to invest successfully, given time and patience, than most could fathom. And as he also wrote in his preface to *Common Stocks*, it is easier to know *what* will happen than exactly *when* it will happen. So, in Chapter 10 of *Conservative Investors Sleep Well* he gives you 15 fast pages on "Learning the Facts."

Chapter 11 asks (and answers) five questions that are just as valid today as when he wrote it in 1975, and the answers are exactly the same as they would be were he in his prime and contemplating all we now see around us. One of the questions is in four distinct parts. As you read Chapter 11, ask yourself what you think Warren Buffett would say in answering this question. Then read my father. While the wording is very different, the thoughts are pretty similar to Warren Buffett's position. Computers were relatively new then but becoming ever more ubiquitous. Did he think they were important then? No. Would he think they are important now? No. He would think the stock is the stock and your brain is your brain, and that's pretty much what you need to make a decision and that the computer is simply a tool and of marginal use at best. I think that's pretty much what Warren Buffett says today too.

Chapters 11–14 are truly contemporary right now in 2012, 37 years after my father wrote them. What do people fret about now? What did he write about then? A lot of the same stuff! Stocks versus inflation! Stocks versus bonds, gold, and real estate! And stocks in a political swing to the left! If you fear Barack Obama, read about stocks in the context of a political swing to the left from someone who was a professional through the FDR years. Then man up.

As these chapters came out in February, 1975—immediately after a very big bear market, the biggest since 1937— he wasn't cowed. In his conclusion he is looking toward a long-term future with optimism for the well-run company and optimism for technology. Think how right he became eventually. But he always knew it was easier to know *what* would happen than *when* it would happen—so he wasn't trying to make a specific short-term forecast. And that leads me to opine on what I think he would think now were he in his prime.

A Bit About What He Would Think Now

Imagine him today, were it possible, with all he had under his belt from 1907 on, but just now at his absolute prime, maybe the equal of a 45–50 year old. I can assure you that as a 61-year-old I know my brain isn't as facile as it was when I was 45–50. That age, at least for me, encompassed my optimum human capital combination of the benefits of education and experience with the energy of adequate youth. What would he think were he that age now with an extra dollop of experience someone that age couldn't possibly have?

There are a few things I can be sure of. He would still think fundamentally and deeply. He would, as always, emphasize the long term over the short term, thinking the short term too tricky to time. He would recall, as he wrote in several passages herein, his view that in every decade investors take on as gospel nonsense presumptions—optimistic at times and pessimistic at others, but often for a decade at a crack—that are classic herd psychology traps and totally disconnected from fundamental, deep thought. He would try to think about what those presumptions are now. He would be fixated on the pace at which technology breakthroughs keep piling up not fully morphed into products, like larva-cocoons yet to be butterflies. He would expect great things ahead and huge opportunities for those who could position themselves to take advantage of them. He would be awed by the pace of DNA sequencing and think about how it might impact the world 10–20 years from now and want to root around for possibilities now.

He would study politics for fun, endlessly, but wouldn't overly fear the left or the right, either in America or the world. He would, as always, be more conservative than liberal, but he would prefer a president who is more competent regardless of whether liberal or conservative, and he would find too little competency at all in either political side. He would go by the old 1940s and '50s line, not heard for a long time now: "I vote the man, not the party." That said, he was heavily ideological and heavily more conservative than liberal—but would still prefer a more competent liberal to a conservative he considered less competent—as he thought most politicians were largely incompetent or they wouldn't be in politics. Hence he would, in 2012, prefer President Obama over any of the four remaining Republican aspirants, as I write, because he would see Obama as more competent than they despite seeing Obama as ideologically deficient.

As to Mitt Romney, leading the run for the republican nomination as I write, he would presume him less competent, and probably not really all that good when he was in the private sector—instead mostly lucky and likely mostly a skilled corporate politician at Bain. Why would he so conclude? Because he would believe that were Romney really capable as a CEO, a manager, a business leader, and developer of leaders, that he would never have left the private sector to run for lesser office. He believed in his bones that being a super CEO was simply the cat's meow. His view now would be that were Romney really any good, he could have made a much bigger difference to the world as a game-changing CEO in the private sector than as a senator or governor, should have known that, and never strayed into his original runs for office. Rick Santorum? Newt Gingrich? Ron Paul? He would see all of them as unfit to manage anything he would think worthy of management and he would have weighted that over ideology. He would say, "Where is the management competence?" He would have said the same thing about Obama in 2008 but also about McCain then (and even moreso). In 2012 he would hold his nose tightly and vote for Obama. He thought his own way in the past and he would now.

He would look at emerging markets but he would look at them exactly as he looked at Silicon Valley long, long before it was called that when he was young in the 1930s.

Of firms with bigger market caps he would ask how deeply its roots were embedded into the economy. He believed in big companies having "big, deep roots" economically. He said that verbally a lot. I always thought it ironic. He actually knew very little of tree or plant physiology. As somewhat of an avocational tree expert with a lot of training and experience in this field, I always kept my mouth shut on this with him because I didn't want to deprive him of a fully functional analogy even though it was inaccurate in it details. Most of the world's biggest tree species have shallow root systems devoid of taproots, including California's massive redwoods. But he would think, "How big and deep are its roots?" The more turbulent the times, the more he thought that.

So he would have seen Facebook as a huge fad likely to be worth a lot less a decade or so from now and not worth his time. He would ask, "Where are the roots?" He saw a lot of things that were fads and not worth his time. What he wanted in a big cap stock were big, deep roots. Otherwise he feared it might topple. His view of Facebook would be that they don't have the potential for the "steady stream" of new products he talks about in points two and three of his 15 points in *Common Stocks and Uncommon Profits*. Hence, no roots, a toppler waiting to tip. When others now talk about what's happening here and now with Facebook he would think they were silly. Not, "nuts," one of his favorite words, but silly and pointless. He would think there is no way to know where and when Facebook will peak, hence no point in worrying about it, but that the long term for it likely is not so good. With a smaller cap stock he would want to know if it could grow big, deep roots over time. He wanted the roots to grow, essentially, as a percentage of the total. Bigger, deeper roots made a big stock, with less explosive potential upside, still more valuable, relatively, because it could endure and grow.

He would still like a stock like Texas Instruments or Intel, seeing 15 more years of Moore's Law ahead and being sure the stocks would do well. Deep roots! Strong on the 15 points. Able to take advantage of the opportunities which remain to this very day—which remain of a magnitude unfathomable to almost all investors. And able, as he wrote in *Developing An Investment Philosophy* about Raychem Corporation (now long removed from public ownership and part of Tyco International), to do difficult things others likely won't try. He liked firms that could and would do difficult but worthy things.

He would believe now in ownership of common stock as much as ever, partly because he believed that stocks, when they are unfashionable, will eventually be good investments, and they are always unfashionable for years and years after big bear markets. But even more importantly he would believe in common stocks because ownership of well managed companies, in one way or another, is the only way to harness what he always saw and would see now as the endless fruits of human ingenuity.

He would urge you toward stocks for the rest of your life thinking long-term about how to harness those fruits. And here you have all his writings to give you his thoughts on why and how to do that. So, these have been my last three bits on my father and his writings.

Have fun. Do well. And I hope you benefit from his writings as so many have over the decades and will continue to generation after generation. His wisdom is apparently timeless.

Ken Fisher
Kings Mountain, California
March, 2012

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Introduction

Kenneth L. Fisher

This is among the most beloved investment books of all times, among the bestselling of classic investment books, and now forty-five years old. My father wrote his original preface at my childhood home in September 1957. It remains herein. Forty-five years later in October 2002, in my current home, I dare write this, this book's first new preface in all those decades.

If you've read my revised preface, you might think my father is deceased. No. As I write, he is ninety-five and alive. But he is reduced by the awesome wreckage induced by late stages of aged senile dementia and probably by Alzheimer's disease (there is no right way to be sure). He is at home, in bed, about thirty feet away from where he wrote *Common Stocks and Uncommon Profits* and his other writings.

He deteriorates steadily. To those few of us taking care of him, it is startlingly quickly. By the time you read this, he may well be deceased. He will never read these words—were they read to him, he couldn't follow their meaning for more than a sentence or two before losing the thread in dangling disconnects cut by his dread disease. He was a great man but is now just a little, old man very late in life. But he is my little, old man. What this disease routinely does to people is nothing to be ashamed of; it is just a disease, not a failing. When I wrote my third book, based on one hundred cameo biographies of dead pioneers of American finance, I defined it as "dead" pioneers only on the premise that dead people don't sue, just in case I got anything wrong. But I also did so because I purposefully didn't want to cover my father in any regard. I didn't want to say anything that might hurt him if I interpreted him differently than he might have wished, which I well might have.

Now I need not worry about that because he won't know what I say here. So it is time to tell you a bit about the man who wrote one of the best beloved investment books of all time. I'm best qualified to do so because I know him better than anyone if you combine business and personal matters. Oh, certainly, in other ways my mother, his wife, knew him far better than anyone. My aunt, his sister, knew him longer than anyone. But their relationships were basically personal, not business. Yes, I have an eldest brother who worked very closely with him briefly and was temporarily my business partner and to whom I'm close. But Arthur's professional time span around Father was fairly short. He evolved to academic humanities, where he is today. Father always loved Arthur foremost of his three sons, and Arthur was more emotionally linked to Father than I was. But Arthur would be first to tell you I spent vastly more business time around Father over many more years and had a day-to-day relationship with him when Arthur couldn't, materially because Arthur lived a thousand miles away.

BEGINNINGS

My paternal ancestors were Jewish, mainly from Prague, Czechoslovakia, and Germany, all arriving in San Francisco in the early 1850's. My father's paternal grandfather was Philip Isaac Fisher and was both Levi Strauss's original accountant and the person who opened and closed Strauss's first store for him on a daily basis and served Strauss his entire career. My great-grandfather was not wealthy but at his death was financially comfortable. His wife died young, and his eldest daughter, Caroline or Cary, donned an important role caring for her siblings. My grandfather, Arthur Lawrence Fisher, the youngest of eight, adored Cary, who played partial surrogate mother. Born in 1875 in San Francisco, Arthur Lawrence Fisher grew, graduated from UC-Berkeley, and attended Johns Hopkins Medical School, graduating in 1900 and returning to San Francisco to practice medicine as a general practitioner. Later (perhaps in World War I but maybe earlier, during post-doctoral scholarship-based research at Rockefeller University), he developed a specialty in orthopedics, becoming the third orthopedic surgeon west of the Mississippi and a founding member of the Western Orthopedics Society. In 1906, Philip Isaac Fisher died, stalling briefly Arthur Fisher's marriage to Eugenia Samuels. The marriage stalled again behind the infamous

1906 fire and earthquake. Finally they married, and my father was born the next year, on September 8, 1907. He was named originally Philip Isaac Fisher, after his recently deceased grandfather.

Four years later in 1911, my father's sister, his only sibling, was born. She was named Caroline after Aunt Cary. Aunt Cary had married well, to a Levi Strauss relative named Henry Sahlein, who was introduced to Cary through her father. Aunt Cary played an important role in the lives of Fishers for two generations, those of both my grandfather and father. Aunt Cary not only secretly bankrolled my father's education (something he never, ever knew), but also secretly gave my grandfather money to buy a car for Father that became serendipitously seminal to his career evolution. And Cary provided ongoing family social structure that enriched Father's fragile emotional existence as a child—a process that continued for decades. If my parents had had a daughter, she would have been named Cary, as was their first grandchild.

Unlike many doctors, my paternal grandfather was largely uninterested in money. He did a great deal of charity work and academic medicine, but he didn't care for business or money. When his private practice patients couldn't pay, he simply cared for them anyway. When he sent out bills that went unpaid, he ignored rebilling or collection attempts. He was thought of by myriad people as saintly for his kind, warm, and generous persona. Fortunately for his immediate family, he had Aunt Cary to "secretly" bankroll him behind the scenes. Without Cary, you likely would never have gotten this book.

Father was originally privately tutored. My grandfather didn't believe in the elementary schools of the day, and Aunt Cary could afford better. Later, Father was enrolled in San Francisco's prestigious Lowell High School. He graduated at age sixteen. Smart, too young, well educated from tutoring, Father was also awkward and lacking in social skills other children normally learn in elementary school. He was frail, brittle, and uncoordinated sports-wise; and being young by comparison, he was small relative to Lowell classmates. So he felt socially insecure, which was furthered by his mother's incessantly critical and negative nature. At sixteen, Father started at UC-Berkeley; but later, with financial aide from Aunt Cary and a car paid for by her, he transferred to smaller and friendlier Stanford University. That transfer also proved fateful.

He dutifully returned to San Francisco on weekends, which began with a ritual Friday night family dinner at Aunt Cary's and Uncle Henry's. These dinners spanned almost fifty years, starting before Father's birth, and included even distant family members. The dinners were central to building Father's early social skills. (The ritual still existed briefly when I was a child.) My grandparents always attended. Father arrived directly from Berkeley or later Stanford. Cary's house, which if it existed today would be called a mansion, was built in the 1890's by Uncle Henry on Jackson Street, just off Van Ness. The multi-course feast involved much discourse and after-dinner debate that often turned various family participants combative, something my grandfather loved watching. There were lots of child-aged females; but as the only male of his generation, Father became a particular favorite of Uncle Henry, which made these events particularly memorable to father—his one chance as a young man to stand out in a crowd. After dinner, Father returned home with his parents, heading back to college Monday morning.

To Father, Stanford was spectacular. Warm, beautiful, laid-back, prestigious, he felt more comfortable at Stanford than at Cal or pretty much anywhere else. Upon graduating at twenty, and still insecure but feeling safe at Stanford, he remained in the then brand-new first class of the Stanford Graduate School of Business, again secretly underwritten by Aunt Cary. Father never knew about Cary's financial largesse on his behalf. Multiple other family members knew. Cary and my grandfather believed it was better if the beneficiary of the largesse thought it came from a father who earned his savings rather than from a rich aunt who married money.

Stanford didn't then have an investment class as it does now; but as Father has described in other writings, there was then a class that traveled to visit and analyze local businesses. Father had a car and volunteered to drive the professor, Boris Emmett; so they spent a lot of time together, which had a profound effect on Father. He felt he learned more from those car rides with Emmett than from all of his other time at Stanford combined. He described all that better than I could in his 1980 Financial Analysts Research Foundation (FAF) monograph, "Developing an Investment Philosophy," and so I won't tread there. In his original preface to *Common Stocks and Uncommon Profits*, he described his early business years, so I won't tread that turf either.

MIDDLE LIFE

As World War II evolved, Father put his business interests on ice and enlisted. Too old and too well educated for ideal cannon fodder, he got lucky. Long-time mentor Ed Heller enlisted ahead of him and pulled some strings—somehow Father was made an instant officer and hence never saw the front line. Instead, he fought the war from behind desks all over mid-America, doing accounting and finance for the Army Air Corps. On day one, he was a lieutenant, which he found awkward. On reporting for duty, in uniform, lower-ranking personnel would salute him, yet he didn't know how to respond. Senior personnel expected respect and appropriate behavior, which he also didn't know how to deliver. It took time to adjust. He hated the military, thought of it as a terrible time, despite admitting quite readily that he was treated well by it. He hated the regimentation, the lack of freedom, and being ordered about. When stationed in Little Rock, Arkansas, he met my mother, Dorothy Whyte, who was also in service there. My mother came from Camden, Arkansas, which is very close to where President Bill Clinton was later raised. Father flipped head over heels for my mother instantly and asked her to marry him only weeks into their relationship; she immediately agreed. In 1944 my eldest brother, Arthur, was born—mother having been sent ahead to San Francisco to be with my grandfather for his medical supervision prior to and after birth. She remained there until Father's discharge, whereupon he returned home and renewed his business interests as described in his monograph. Donald was born in 1947 and I in 1950. In between the birth of Donald and me, a daughter died in childbirth.

Shortly after I was born, they bought a house on the site where they now live in San Mateo, California, twenty minutes south of San Francisco. But they came to hate the house while loving the acre on which the house sat. They loved the views, the trees, and the landscape. Father ripped the house down and built the house in which I was raised and where he and my mother resided ever after. We rented a house a block away during construction. When complete, the house was big, all white, clean, and austere. In my father's house, everything must be neat to a fault. Possessions in all forms were sparse and exactly in their places or they drove him nuts. He loved the yard. Until very late in life, he spent almost a complete day each weekend in the bottom of the yard, which was almost wild but with spectacular oak trees and wildflowers. He would weed and tend to his wild-like garden and worry about all the things he fretted about, whether the stock market, politics, family matters, or whatever; and to him that time was a marvel, curative for everything annoying him. It was only as his dementia started, causing him to fall often, that he gave up the garden.

The late 1950's and the 1960's were the high point of Father's life, in my view. In 1958, *Common Stocks and Uncommon Profits* was published, making him an instant, national star. Locally, it made him sort of the dean of the San Francisco investment community. I doubt anyone had before received so much instant stature from an investment book. Certainly, tied to its era, Benjamin Graham's *Security Analysis* took much longer to become prominent. Local names that held sway in 1960 included Dean Witter, who founded and headed that great and locally-based brokerage firm. But to Dean Witter, New York was the mecca. And the public already fathomed that a broker was not a money manager. The then famous Gerald Loeb, also of San Francisco Jewish origin and also a broker, may have been bigger nationally, but he had long gone on to New York and lost the local link. Simply put, in San Francisco by 1960, there was no investment advisory name as noted as Father's. Different than today, all Northern California investing activities were geographically centralized in a few blocks around Montgomery and Bush Streets in San Francisco. In that realm Father held prestige of which he could have only fantasized in his insecure childhood.

There was a provision then in California state law, which still exists, allowing an advisor who maintained fewer than fifteen clients and did not hold himself out to the public as an investment advisor both to avoid Securities and Exchange Commission registration and to maintain contracts for compensation for a percent of profits that were otherwise made illegal in 1940, a point most investors don't appreciate today. Before then, scam artists would seek clients, tell half to do one thing, tell the other half to do the reverse, charge 20 percent of the profit on whatever happened, and pick up 10 percent of the spread no matter what happened. Hence percentage-of-profit contracts were illegal for all investment advisors for more than forty years unless the person had fewer than fifteen clients and did not advertise as an investment advisor. And it was in this way that Father structured his business on his return from military service. With the fame from *Common Stocks and Uncommon Profits*, he could easily maintain as clients a few very wealthy local families who paid him well and yet required no real organization to support him. That allowed him to feel superior to others who required a more public clientele and to remain a very private person, which fit well with his social awkwardness and insecurity. Despite his fame and notoriety, he always felt uncomfortable in the public spotlight and avoided it.

Flashback to 1945. Herbert Dougall was hired by Stanford and started the Graduate School of Business's first dedicated investment course. In all of history, only three people ever taught that course. Dougall taught it from 1946 to 1968, twenty-two years in all, except for a two-year sabbatical in 1961 and 1962 when Father taught the course on a part-time, temporary basis. Among Father's students was Jack McDonald, who was hired by Stanford in 1968 and who has taught the course ever since. When Dougall was away, it was largely on my father's reputation deriving from *Common Stocks and Uncommon Profits* and from his alumnus status that caused him to be picked. Father loved it. It revived his youthful love affair with Stanford. Had Dougall not returned, I could envision my father doing that course, part time, forever. But Dougall did return, and Jack McDonald took over in 1968. By Jack's testimony, it was Father who got him interested in markets. Before that, Jack had been a young Hewlett-Packard engineer who changed the course of his life's work at the junction when he met Father. Jack has since said that Father's major contribution, as seen through *Common Stocks and Uncommon Profits*, is to be the first person to link the models of sustainable growth with the concept of competitive advantage. Today, that is a pretty standard package, but not then. In some ways Jack sees Father more as a seminal strategist than as a stock market innovator or operator.

Anyway, for the many students and business folks who hold Stanford in awe and respect its MBAs highly and who think those who took its graduate investment course advantaged, note: For a very long time, that course was taught either by the author of the book you hold in your hand (for two years) or by his disciple, and by only one man before, ever. What a testament to *Common Stocks and Uncommon Profits*—one few readers appreciate or know. For a very long time, until after I came to temporarily own the book's rights and then, subsequently, got into a dumb fight with Jack McDonald (which was my fault), Jack always used *Common Stocks and Uncommon Profits* as a formal or informal Stanford textbook for the course. Over the years—not every year, but for many years—Father drove down to Stanford at Jack's request to deliver an annual lecture and answer questions in Jack's class. In May 2000, after many years of absence and with Father well into dementia, Jack asked him to return and lecture. I was scared to death Father would embarrass himself because I knew he wasn't at all the man he used to be. But Father rose to the occasion and had one of his best days in a long time, delivering a rousing lecture and answering all questions from all comers. The whole thing, including Jack's warm introduction of Father, was reprinted verbatim in volume XV, number 7, of the *Outstanding Investor Digest*.

As Father's dementia overtook him, he slowly lost more of the memories of past businesspeople he had known. For the most part, the earlier he knew them, the longer he remembered them, and the most recent acquaintances faded first from memory. For example, he remembered many people from the 1950's, whereas he had forgotten pretty much everyone he had known from the 1970's. Dementia is like that. But more emotional memories are embedded deeper in the mind; and Jack McDonald, whom Father met in 1961, thirty-three years into a seventy-two-year career, was one of the very last business personas to fade from his recollection, demonstrating how much McDonald meant to him.

As the 1960's passed, Father became ever less interested in his public image and more interested in being quiet. He fancied himself a great judge of businesspeople and largely was, but he knew that was a private activity. He responded to few local requests for appearances but declined ever more of them, and he wouldn't travel to appear in public ever again. In 1970, at sixty-three, he still didn't have a gray hair on his head. That same year, my oldest brother, Arthur, an ecclesiastical historian by training and a very good one, went to work to join him. Two years later, I joined. Father's vision was that we would work for a few years and then slowly take over his business. That could never happen. It took me only about a year to realize why. Father was such a stickler for detail and so focused and so socially awkward and insecure that he was absolutely incapable of delegating in any way. So, Arthur and I could never really evolve into any meaningful contributors. I was inherently high energy, rebellious, and emotionally pretty brutal to people; and as soon as I realized Father could never delegate, I knew I had to distance myself from him for both our sakes. Otherwise, there was no opportunity for me, and either he would hurt me or I would hurt him or both. It took Arthur four more years to leave, and initially he left to join me. But it is tough for an older brother to join his younger brother as a junior partner, and that wasn't meant to be. So, Arthur left the industry and I remained, but separate, interacting but distanced from Father. These years were the first real disappointments since *Common Stocks and Uncommon Profits* appeared. They included both the brutal 1973–1974 bear market and the beginning of Father's body starting to slow a bit. In 1977, he was seventy; and while he would never admit it and while still exceptionally energetic for a man that age, he wasn't as buoyant as he had been and for the first time began to show the early signs of aging. His hair was thinning and partially gray now. In the afternoon train rides down the peninsula, he started falling asleep regularly. Sometimes in the afternoon, he fell asleep at his desk. He was due, but he couldn't quit.

During these years, he determined that he would improve the quality of his holdings by weeding out the weakest among the few he owned to own even fewer of higher quality. In retrospect, and without him fathoming it, what he was doing was cutting down the universe requiring his attention to match diminishing energy. Early in his career, he might have owned thirty stocks: a few big established ones, some mid-sized ones he had bought as smaller companies and still held and would for decades, some small ones for which he had high and long hopes, and a handful of private-placement, venture cap–type holdings in tiny amounts that he thought of as icing rather than cake. In the mid-1970's, he steadily and slowly sold the ones he thought less of and concentrated on his favorite holdings, so that by about 1990 he held six stocks and by 2000 he held three. None of it went well. My advice to all investors is to stop making investment decisions of any kind when you get old, whatever "old" means to you. Stop before you get old. I've watched great investors age, and there are no old, great investors. There are old men who were great; but the process of investing is too vital to allow for old age and future greatness together, and aging becomes more powerful than the prior greatness, which eventually implodes foolishly. In medicine, "aged fragility" is a great frontier as a future, new recognized, disease but now it stops all old great investors. There simply are no great octogenarian investors. In his later years, Father could talk well and think well, but he didn't have the clarity for great decisions and his sales were poorly timed, consistently. Late in life, he would say things like he was looking for stocks he could hold for thirty years, which sounded silly for an eighty-five-year-old. People often thought it was charming, which was also pretty silly. I think a lot of other people knew he was doing this because he loved it and couldn't quit, even if it wasn't good for him financially. But he was indulged by everyone, including me. What did I care? If it made him happy, it was fine by me. But some could see that he was a bit like a man hanging around the ballpark with bat and glove when too old to play. His few late-in-life purchases were not successful. He would have been much better off financially if he had just quit doing anything at the age of eighty or even seventy. It wouldn't have mattered if he sold and went into index funds or just held what he owned until he died. As it was, his decisions detracted value steadily.

His long-held prescription for investors had been to buy great companies and pretty much hold them forever. And he had owned great companies. Had he followed his own prescription late in life and not attempted to fiddle and fix past his prime, he could have held what he owned until death and done far better than he did. I don't recall everything he ever owned, but I recall the main holdings. In 1973, at the market's peak, he owned among then-big firms in big amounts Dow Chemical, FMC Corporation, Motorola, and Texas Instruments. Among medium-sized companies in big amounts, he owned Raychem and Reynolds and Reynolds. Those six stocks then constituted two-thirds of his net worth. The biggest positions were Motorola, Texas Instruments, and Raychem; and had he held them all until now, despite the ravaging of the 2000–2002 bear market, he would have done very well. But with the exception of Motorola, they were all sold and the timing was terrible in every case, something he wouldn't have done if he was younger. Among smaller firms, he owned many, all selected between 1968 and 1973—and few did well for him after 1973. The most spectacular by far was a venture capital holding in Manufacturing Data Systems, which went public and then was acquired in the 1980's and in which he made a hundred times his money. The earliest of them, Rogers Corporation, he still owns. Motorola he still owns. Late in life, he tended to sell the ones that were long beat up, and often just before they came back to life with spectacular bounces. He did that particularly with FMC and Texas Instruments in the 1980's and Raychem in the 1990's.

Also in the 1970's something happened in his mind that I don't understand. His father had practiced medicine until very shortly before he died in 1959. In just a few years, my grandfather got what today would probably be diagnosed as Alzheimer's or some form of dementia. He quickly deteriorated, falling apart and then passing away. But Father's analysis was different. He thought his father fell apart because he stopped working; and he concluded that if he stopped working, he, too, would fall apart and die. And so he concluded he had to drive himself on. For the rest of his life, work was life itself. Slowly, he resigned himself to being able to do less, but he pushed himself to do as much as he could and did a remarkable job of it. He saw life as like a muscle—if you worked it hard, it kept working for you; but if you let it relax, it would weaken (and in his mind it would lead to decay and death). Even when, eventually, his dementia forced him to quit working completely, he resented it terribly and believed it would cause his death rather than seeing it the other way around—that his dementia was taking him down whether he worked or not. Even after the dementia was diagnosed, he kept working, with monthly visits to the neurologist to appraise the status of his condition. In 1999, with dementia impairing but not stopping him, I moved his office into his home, into my old bedroom, including everything that remained in his former office. He told his few remaining clients about his condition and they remained with him; but he could hold back the failing-memory march for only about eighteen months longer. In 2000, he gave up completely. For the next year, he talked to me steadily, asking about writing another book, how to get back into business, whether he could travel around to universities to lecture like he did to Stanford. He even made a stab at writing another book, which he envisioned as *What I've Learned in the Past Twenty-Five Years*. But he only got seven pages actually dictated. The energy was draining from him almost monthly, and his mental capability steadily diminished. As the disease will do, he talked about plans one morning and forgot them by afternoon. When his career was over after seventy-two years, he initially became tremendously depressed because his self-image was so linked to his career functioning. As my deceased mother-in-law used to say, "Old age isn't for sissies."

WHAT KIND OF MAN?

Father was sparse, Spartan, serious with a weird sense of humor linked to plays on words. He loved puns and referred to anyone else's pun as, "two-thirds of a pun, or PU!" When I was a child, my friends were all scared to death of him because he had an unintentional cold stare that pierced right through you. If you didn't know him well, he scared you to death—dark hair, dark complexion, not big (in fact, almost gaunt), but scary looking, and often dressed in dark clothes. Had he been twenty years younger and seventy-five years earlier, he would have looked a bit like the archetypal image of the thin, dark-haired, dark-dressed, bad-guy gunslinger in westerns. You could fantasize him saying, "Just one move and I'll plug you." But he didn't "plug" anyone. He wasn't mean. He just looked mean. He didn't have to say a word. Still, children tip-toed around him and scooted fast to avoid him. Again, he wasn't mean, but he wasn't warm and fuzzy either; and he never, ever praised anyone except my oldest brother, whom he adored from birth.

Fact is, I've always known my father held me in high regard, maybe higher regard than almost anyone he ever interacted with, even if he displayed it in strange ways and often not at all. Often not at all. For example, except once when I was sixteen that I recall very, very distinctly, he never, ever praised me directly about anything at all until I was well into my forties. It bothered me when I was young, but I came to accept it. That was who he was. He just wasn't the praising kind. He would tell others how proud he was of me, almost bragging, and I'd hear it from them; but he could never tell me. He later told me he regretted that but hadn't known how to deal with it. This type of communication was difficult for my father.

Let me help you put that in perspective by describing a part of his career. Decades before a world of computer screening, he had a methodology he employed for finding new ideas for new stocks. He let it be known that any young investment man could set an appointment to meet him just once and talk investments. Usually he would never see the man again. But if he thought the person unusually capable, he would see him repeatedly and offer to swap ideas over time. He let the other guy know what he was interested in and vice versa; and then over time if they saw something of interest, they would swap ideas. These folks passed on many ideas to father over the decades. Yet he was so clear in what he wanted, relative to the fifteen points, and so focused to do nothing else, that in his entire career he essentially only followed any one man into a stock once. Other ideas from that same person he brushed off because they were never quite good enough in his mind—not quite right.

He followed the thinking of two particular individuals twice. One of the two had ideas that were money losers both times. The only person he ever followed three times was me. He adopted three of my stock ideas fully across his client base and for him and my mother and made more than a thousand percent on each of them. That was the most ideas he ever adopted from any one person, ever, and he did well with all of them; mine all came in the mid-to-later-1970's, late in his career, which, as I've already told you, was a time when his successes were thinning and should have been, therefore, doubly precious.

But let me show you who he was. Of those three stock ideas, two he never acknowledged to me. The third? More than fifteen years later, in my forties, he sent me a short note to tell me I had done well with it—he owned it still then and years later. When I recalled the other two ideas to him, he acknowledged them but no further. No congratulations. No thank you. Because I was always less fearful of him than others were, I verbally kicked at him a bit at times, which I did then, asking who else had he ever gotten three successful investment ideas from. He pointed out to me that there was no one, but that wasn't so important. The key was in him, he explained, in knowing which ideas to follow and which to discard and that he hadn't followed any of my bad ideas. That annoyed me. So, I retorted that he had followed plenty of other people's bad ideas, and then he got mad at me and we didn't speak for about a month. Then he forgot he was ever mad at me, and the subject never came up again. That was who he was: cool, cold, hard, tough, disciplined, non-social, never quitting, ever confident externally but internally often scared. And amazing. I know he respected me; but to the people he respected most, he had the hardest time communicating that directly.

What was his daily grind like? In 1958, as *Common Stocks and Uncommon Profits* was published, Father arrived home from work in the late afternoon, changed clothes, ate dinner with the family formally in the dining room, and then retired to the living room, where he read, sometimes business materials but usually library murder mysteries—until bedtime. When I was a child, he would take a break at our bedtime to tell my brothers and me bedtime stories, which he lavished on us—more on me than on my brothers because I liked them better. Sometimes they were non-fiction history about heroic figures or events, like Joan of Arc, the American Revolution, Paul Revere's ride, the life of Napoleon. Others were fiction of his own creation, something he hoped eventually to turn into children's books but never did. They were all great. My brothers and I had separate bedrooms, and Father would sit on the bed's edge of whomever he was telling the story to. One or more of us would lie on the floor nearby, and when we fell asleep, he carried us to bed. He and mother went to bed about ten. In the morning, he drove us kids to school at 7:30 in a beat-up old blue Oldsmobile and drove on to a point a half mile from San Mateo's train station. He walked to the station and rode the rails into San Francisco. Early-morning San Mateo retailers came to call him "the flash" because he walked so fast, leaning forward in a world long before "power walking." He believed that if rain wasn't hard, it did no good, and that if walking wasn't fast, it was a waste of mileage. He loved the railroad train and had been riding trains since childhood. His morning train departed at 8:00. It arrived at the San Francisco depot at Third and Townsend Streets at 8:30 (a block