



## 3 Timeless Investing Lessons From the Best Investor You've Never Heard of

### Description

"I don't seem to have very much influence on Walter. That's one of his strengths; no one has much influence on him." –Warren Buffett

From 1955 to 1995, Walter Schloss was one of the best-performing investors in North America, rivaling the great Warren Buffett in success.

Schloss left Graham-Newman, the wealth management firm ran by Benjamin Graham (the father of value investing) in 1955, to start his own firm. Forty years later, he had delivered annual returns net to his investors of 15.7% per year, handily beating the S&P 500, which returned 10.4% a year. And remember, that was after Schloss's management fee, which was 25% of the profits each year his investors made money (he didn't charge anything when his investors lost).

Schloss didn't do anything fancy to deliver these types of returns. He simply went to work every day—in an office described as a "closet" rented from investing firm Tweedy Browne—and searched for undervalued companies. He'd generate leads from looking at the Moody's Manual, sending away for annual reports of companies he liked.

If the opportunity seemed compelling, Schloss would put some money to work in the company. It was that simple.

It isn't hard for Canadian investors to copy Schloss's methods. Here are three lessons you can steal from this investing maestro.

### Cheap assets

Schloss had a singular focus. He didn't care about earnings, growth, talking to management, returns on equity, or any of the other things investors today love to obsess over.

All he cared about was buying cheap assets that weren't encumbered by a lot of debt.

One Canadian stock I think Schloss would be interested in today is **Dream Office Real Estate Investment Trst** ([TSX:D.UN](#)). Shares of the company currently trade hands at just under \$21 per share, and the company pays out a 7.2% dividend. Remember, the dividend was cut just a few months ago.

Dividend investors might be hating Dream right now, but value investors should be loving the stock. The company has a current net asset value of approximately \$32 per share, a discount of more than 34%. Essentially, investors who get in on this name today are buying a dollar for 66 cents. This is exactly what Schloss used to do.

Unlike many stocks that trade at a big discount to their true worth, Dream's management team actually has a plan to unlock value. The market is discounting the company's assets in Alberta, believing that office space in the province isn't worth much in this environment. But Dream has identified buyers who are interested in some of these buildings. When they're sold, it'll be obvious these buildings have value.

### **Diversify**

Many of today's most prominent value investors have concentrated portfolios of less than 10 positions. The logic is simple. Why pour money into your 11th-best idea when you could just put more into your best one?

Schloss didn't operate like that. His portfolio was usually quite diversified with approximately 100 different companies. Additionally, he had a rule where he wouldn't put more than 10% of his fund's assets into one stock. Think of it like fishing; the more lines you have in the water, the better chance you'll catch something.

### **Be contrarian**

If you do employ a Walter Schloss-inspired strategy, be prepared to buy the kinds of stocks other investors hate.

A great example of that is **Empire Company Limited** ([TSX:EMP.A](#)), the parent company of grocery chains Sobeys and Safeway. Empire shares are currently flirting with 52-week lows as the company deals with integrating the newly acquired Safeway chain and weakness in Alberta. Its competitors are closer to 52-week highs.

But over the long term, there's plenty to like about the company. Alberta will recover, bringing up sales with it. When looking at key metrics like price-to-sales, price-to-operating earnings, and price-to-book value ratios, Empire is considerably cheaper than its two main rivals. And like Dream, it has a potential catalyst. It can sell some of its real estate assets to its real estate subsidiary, **Crombie REIT**.

Walter Schloss destroyed the market over his career. By following his secrets, investors can boost their returns as well.

### **CATEGORY**

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:D.UN (Dream Office Real Estate Investment Trust)
2. TSX:EMP.A (Empire Company Limited)

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