

Exclusive Outlook

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— Inspirational Figures —

Bernard Baruch

Disciplined Opportunist, Pragmatic Idealist

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“Never pay the slightest attention to what a company president ever says about his stock.” So said Bernard Mannes Baruch, one of the greatest investors in history. A man of uncommon common sense, Baruch understood that even the best-intentioned company president lacks objectivity. After all, not many racehorse owners would tell you, “I think my horse is going to lose today!”

Baruch’s plainspoken common sense contrasts sharply with his legendary status on Wall Street. People expect magical pronouncements, but when asked his opinion of the stock market, Baruch replied, “It fluctuates.” True, but not very entertaining.

Baruch’s vanity and his publicists’ skill overbuilt his reputation; his success seemed to result from magical powers, and there’s nothing to be learned from someone who succeeds through unnatural talent. However, biographer James Grant, seeking to puncture the myths surrounding Baruch, came away even more impressed: “...the success that the mortal Baruch enjoyed through trial and error was harder won than any that the legendary Baruch might have achieved through pure clairvoyance.”

FICKLE FAME, ENDURING WISDOM

Despite his reputation as one of the most powerful men of the early 20th century, most people under 60 only recognize the name Bernard Baruch as a frequent source of quotations in financial or political literature.

Born in 1870 and living to the ripe old age of 94, Baruch’s lifetime spanned the industrial revolution, two world wars, the stock market crash and depression, and the assassinations of Presidents Garfield, McKinley and Kennedy.

An astute self-promoter, Baruch garnered much of his fame as an economic advisor to politicians and Presidents for over forty years, from Wilson to Kennedy. He garnered his fortune as a dispassionate speculator in the stock market. Highly controversial in both endeavors, Baruch stands as an icon of individualism, intelligence, and perhaps above all, the discipline to see facts clearly, and to act on those facts rather than on his feelings.

Success leaves clues, and Bernard Baruch was an extremely successful investor. His life story and many of his most famous quotations describe an investment philosophy with lessons for all of us.

“NEVER FOLLOW THE CROWD”

Born in South Carolina, where his father had emigrated from Germany in 1855, Baruch moved with his family to New York City in 1881. In 1889, nineteen-year-old Bernard graduated from college and soon took his first job as an “office boy,” earning \$3.00 a week. In 1891 he took a similar job on Wall Street, but quickly rose through the ranks.

As a broker and later a partner at A. Housman and Company, Baruch saved his money and bought his own seat on the New York Stock Exchange in 1897. Over the next few years he made



a fortune, usually through outright speculation and shorting of stocks (“shorting” refers to selling a stock one does not yet own, with the belief that the share price will go down and the stock can be purchased back for less than its original selling price).

An example of Baruch’s pragmatic approach to the market came with the assassination of President McKinley. According to one story, while other high profile financiers like J.P. Morgan mused to reporters that the assassination might be bad for the stock market, Baruch acted, shorting copper stocks and quickly earning the equivalent of \$15 million in today’s dollars. While others worried, Baruch acted on the facts before him.

Short-sellers are not well loved in the investment world, because their positions can cause a stock’s price to tumble, and because, as in the example above, they seem cold-bloodedly opportunistic. But Baruch’s job was to make money for his clients (and himself), so he was bullish (expecting the market to rise) or bearish (expecting the market to fall) as he felt the facts dictated.

In 1903 Baruch launched his own brokerage house, and by 1910 his reputation as a Wall Street powerhouse was secure. Although known for his fierce independence, he owed much of his success to the relationships he built among the most influential people of the day. At one time or another, Baruch partnered with nearly all the famous names of early Wall Street, including

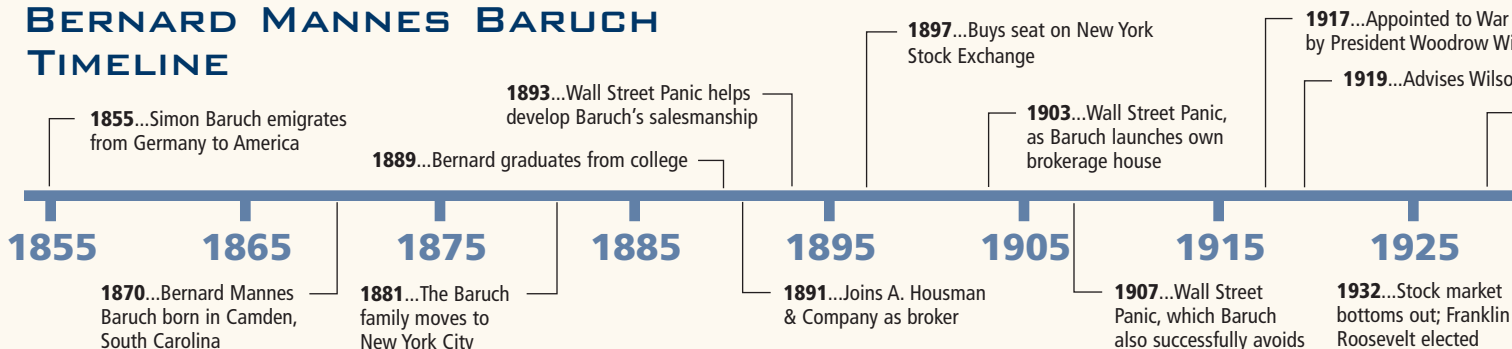
office of Treasury Secretary during WWII, and served on the United Nations Atomic Energy Commission for President Truman. He appeared on the cover of Time Magazine in 1924, 1928, and 1943. For nearly his entire adult life, Presidents, Senators, bankers, and investors sought Baruch’s advice.

A lifelong idealist, Baruch became close friends with President Woodrow Wilson and a supporter of his League of Nations initiative. Baruch joined Wilson’s team at the Versailles peace conference, and lobbied hard for less draconian economic punishments for the German people. He lost this battle, and by nearly all accounts, the seeds for the Second World War were sown. For the rest of his life, Baruch spent much of his political capital looking for ways to “take the profit out of war.” He believed that wars would happen less often and end sooner if the flames were not fanned by profiteers. Unfortunately, this idea still has not caught on.

Late in life he was called the “Park Bench Statesman,” because he was known to do his best thinking in Washington D.C.’s Lafayette Park and in New York City’s Central Park. Some claimed his office was a park bench near the White House.

Baruch’s listeners didn’t always agree with his point of view, but all except the most extreme seemed to appreciate his candor (Fringe groups have branded Baruch’s recommendations for

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the Guggenheim family, J.P. Morgan, and railroad magnate Edward H. Harriman. Baruch was bright, friendly, handsome and active; people enjoyed his company, and he made friends easily. Friends offered inside information and he profited from it (There was no Securities and Exchange Commission at the time - what we now call “insider information” was then considered research).

He tried many types of investments, but specialized in mining. According to biographer James Grant, “It was Baruch’s settled opinion that nobody could know all investments thoroughly and that it was best to stick to what one knew best.” This is what contemporary investing legend Warren Buffett refers to as “circle of competence.”

Famous for his intelligence, wealth and connections, Baruch chaired the War Industries Board during WWI, advised Franklin D. Roosevelt on the economics of the “New Deal,” declined the

international control of nuclear technology and weapons as a Zionist plot for world domination).

Although his political adventures occupied most of his long life, we are grateful for the lessons of his Wall Street years. Following are some quotations from Bernard Baruch, and our comments on the meaning for investors of today.

ON “THE FACTS”

- If you get all the facts, your judgment can be right; if you don’t get all the facts, it can’t be right.
- Approach each new problem not with a view of finding what you hope will be there, but to get the truth, the realities that must be grappled with. You may not like what you find. In that case you are entitled to try to change it. But do not deceive yourself as to what you do find to be the facts of the situation.



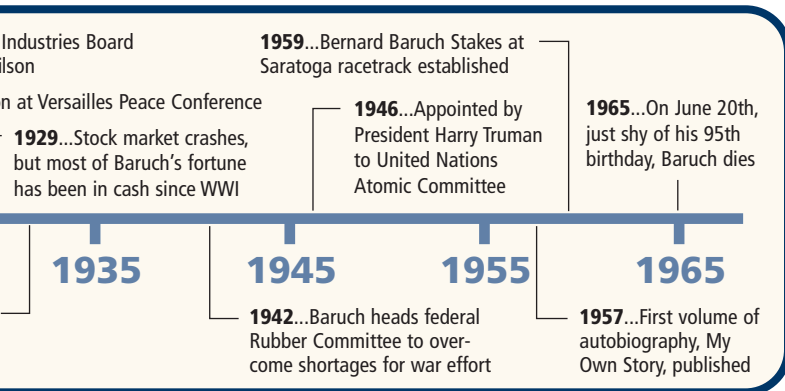
- Every man has a right to his opinion, but no man has a right to be wrong in his facts.
- Know your own failings, passions, and prejudices so you can separate them from what you see.

Although he left the detailed work of deal making to trusted lawyers and more capable friends, Baruch believed in hands-on research. He traveled all over the world to meet personally with mine owners, smelter operators, and others who had first-hand knowledge of companies in which he might invest. He wanted to see operations for himself, and he wanted to look the people in the eye.

More importantly, he worked to see the facts clearly, and not be swayed by emotion or opinion. Most people lack the discipline to do this, but as we said before, his job was to make money, and acting on facts rather than feelings helped him do so. His comment about separating one's prejudices and passions from that which you see echoes our own frequent comment: your eyes believe what they see; your ears believe others.

ON DISCIPLINE

- The greatest blessing of our democracy is freedom. But in the last analysis, our only freedom is the freedom to discipline ourselves.



- Two things are bad for the heart - running up stairs and running down people.

An omnipresent theme in Baruch's philosophy, discipline is the foundation for a well-ordered life and good decisions. For investors, the discipline to be ruled by one's intelligence is the

discipline to separate facts from feelings, and the discipline to maintain relationships through thick and thin. Baruch was not perfect on either front, but worked at both. As a result, his triumphs were not always as great as some thought they should have been, but his failures were also less costly. Ultimately, he sought the discipline to follow his own advice; he was quite comfortable in his own skin, as the saying goes.

ON THE STOCK MARKET

- Don't try to buy at the bottom and sell at the top. It can't be done except by liars.
- I made my money by selling too soon.
- I never lost money by turning a profit.
- If a speculator is correct half of the time, he is hitting a good average. Even being right 3 or 4 times out of 10 should yield a person a fortune if he has the sense to cut his losses quickly on the ventures where he is wrong.
- The main purpose of the stock market is to make fools of as many men as possible.
- When good news about the market hits the front page of the New York Times, sell.

These six statements present a gold mine of good advice for investors; many sound familiar because they are so often quoted or paraphrased by investing greats such as Warren Buffett and Peter Lynch. Our favorite, which captures Baruch's wry sense of humor, is the sentiment that he never lost money by turning a profit. Like the first two quotations, Baruch here makes the point that the goal of investing is not the achievement of some academic perfection, but the accumulation of capital.

Too many amateur investors worry about what they have missed rather than setting specific goals and showing the discipline to act on them. Baruch took profits that were acceptable to him. Some people chided him when the stocks continued to rise, but no one laughed at the fact that Baruch escaped three major Wall Street panics (including the crash of 1929) with his fortune intact. He preferred the consequences of getting out too soon to the consequences of staying in too late.

There's an old saying on Wall Street that the bulls can win, and the bears can win, but the pigs always lose. Bernard Baruch was sometimes a bull and sometimes a bear, but not a pig. He was a disciplined opportunist who did his homework, took chances, appreciated his successes and learned from his mistakes. ▲

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