

# Exclusive Outlook

WEST COAST ASSET MANAGEMENT, INC.

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## ❖ Inspirational Figures ❖

# Howard Hughes

*Financial Wisdom For All Ages*

## Inherited Wealth Didn't Hold Him Back

By Paul Orfalea, Lance Helfert, and Atticus Lowe

History offers many examples of heirs to large fortunes who, through laziness or incompetence or low character, managed to squander their forbears' inheritance and die penniless. Others, however, take the gifts bestowed upon them and use them to build something greater, and something of their own. Despite many obstacles and inner demons, Howard Hughes fought his way into the latter category.

Miramax Films' *The Aviator* reminds us that Howard Hughes was a national hero before his image devolved into a caricature of mental illness and eccentricity. And although Hughes was sometimes a poor businessman, his life illustrates 3 principles of value to anyone seeking his own fortune:

1. *Income from intellectual property can fuel other dreams.*
2. *Passion ignites a dream, but hard work and commitment make it real.*
3. *Money isn't everything.*

John D. Rockefeller, the richest American ever, said "Mere money-making has never been my goal; I had an ambition to build." Hughes also had ambition to build, and to create, and to achieve. We feel his life story provides valuable lessons for the youth of today, who seem addicted to instant gratification, according to noted pediatrician and author Mel Levine.

Levine's recent book, "Ready or Not, Here Life Comes" is a study of 20-somethings, whose cultural ethos seems to revolve around a "no worries" lifestyle. No worries, no plans, no responsibility, no direction. Thus, we see an epidemic of people nearing thirty but living with their parents, wondering what to do when they grow up. Hughes' story presents a stark contrast. Thrust into adulthood at the age of 18, he forged ahead, achieved great

things, and never looked back.

### GREATNESS THRUST UPON HIM

But for fate, Hughes might have taken the easy road; he was a terrible student, bouncing from private school to private school without a care in the world. But when he was just 17 his mother died from complications of minor surgery, and he lost his father to a heart attack less than two years later. Still a teenager, Hughes suddenly assumed responsibility for a great fortune and the business that created it.

Hughes' wealth sprang from his father's invention, a 166-edged rotary drill bit that made it possible to drill for oil through thick rock formations. The Hughes Tool Company leased the drill bit to oil companies, and controlled all revenues derived from the design. Just as America was becoming dependent on automobiles, America's oil industry became dependent on the Hughes drill bit. This invention financed nearly all of Hughes' many adventures in film and aviation.

By 1924, at the age of 19, Hughes acquired complete control of Hughes Tool Company, but rather than devote himself full time to the company, he chose to explore other options. In 1925, Hughes relocated to California.

### OSCAR AND HOWARD

Hughes' experience in Hollywood mirrors a frequent pattern in his life story: he took an interest in filmmaking; his interest turned to obsession, and with obsession came a desire for control. First, he financed a couple of silent comedies, one of which won an academy



award for its director, Lewis Milestone.

Encouraged, Hughes sought greater success, and began work on a film about the Royal Air Force in World War I. But the neophyte filmmaker was not content to merely finance Hell's Angels, he wrote and directed the film himself, and assembled the largest private air force in the world. Moreover, he indulged another new interest by piloting one of the planes himself, against the advice of his hired stunt pilots.

Thus, Hughes experienced the first of three major plane crashes. After a few weeks of recuperation, he was back at work. However, talking pictures had by this time asserted their dominance in Hollywood, so Hughes reshot nearly all of Hell's Angels with a new actress, blonde bombshell Jean Harlow.

Hughes perfectionism delayed release of the film for years; when it finally debuted in 1930, it was a huge success. Unfortunately, the film had cost so much to make (\$4 million) that it lost money, despite setting box office records. He continued to produce films, and eventually bought RKO Pictures, but by the early thirties his interest in aviation had eclipsed his desire to make movies.

### SETTING RECORDS, SETTING BONES

In the 1930s, Howard Hughes held nearly every important speed record for flying. First, Hughes bought and redesigned a small Army Air Corps racer. The hanger and small crew he hired to work on the plane eventually became the Hughes Aircraft Company, one of the country's largest defense contractors.

Hughes took an active role in designing and testing airplanes, and once again nearly lost his life. While testing the company's XF-11 photoreconnaissance plane in 1946, Hughes crashed and was critically injured. Nevertheless, he once again took the role of test pilot on a newer version of the same plane less than a year later. But injuries from the crash resulted in a prescription for, and eventual addiction to, codeine.

Although the XF-11 and Hughes' troop carrier plane (popularly known as the Spruce Goose) were not completed in time for

WWII, the Hughes companies did contribute many armament innovations to the war effort.

Moreover, Hughes companies played a huge role in space exploration and commerce: according to the Howard Hughes Corporation website, "The 1965 Hughes Early Bird was the first communications satellite ever launched for commercial use. And in 1966, the first soft landing on the moon was made by the Hughes Surveyor spacecraft."

More than just a filmmaker, pilot and designer, Hughes the visionary acquired controlling interests in several airlines, including Trans World Airlines (TWA), and Air West Airlines.

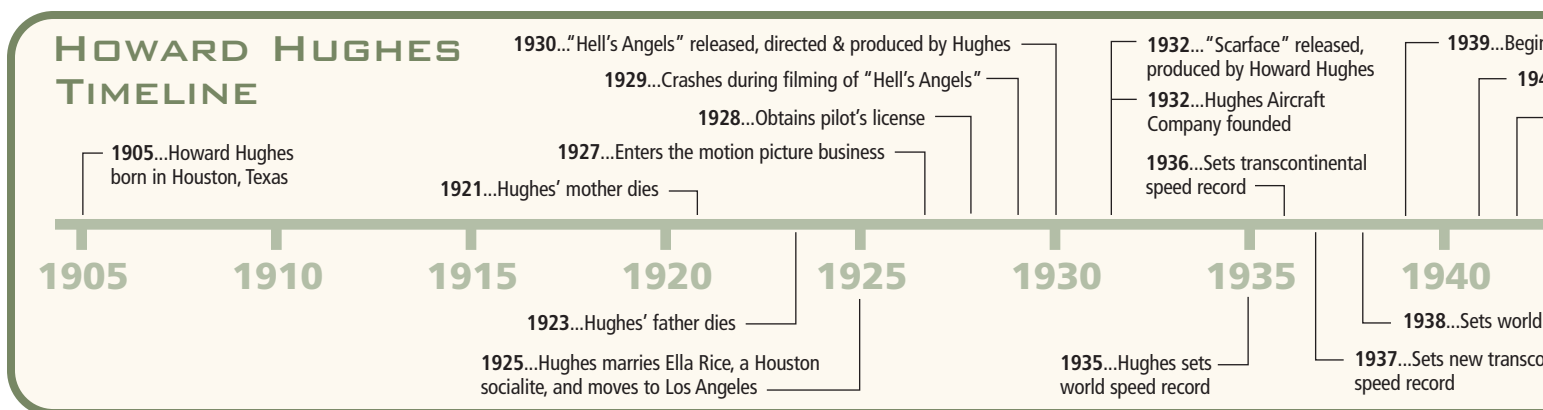
### LEGAL CHALLENGES & CASH WINDFALLS

Although known as a flamboyant millionaire and Hollywood playboy, Hughes was a very shy youngster and that description was probably closest to his true nature. The cutthroat and duplicitous realms of politics and defense contracting were a poor fit for a dreamer like Hughes, who always questioned authority and strove to set his own course.

To compete at the highest level, Hughes associated with many people of dubious character, including former spies and FBI agents, muckraking journalists, reputed mobsters, and United States Congressmen. He found himself embroiled in controversy as a Senate committee investigated Hughes for not delivering two planes contracted by the government.

Some people maintain the investigation was a smear campaign arranged by the owner of Pan American Airlines, himself a visionary businessman who practically invented the modern airline industry. Others say that Hughes was simply being held accountable for wasting \$40 million of government money. Perhaps no one will ever know all the details, but Hughes certainly sank to the level of the lowest common denominator in Washington, using cash "loans" and other incentives to influence tax policy and other legislation that might impact his business interests.

In their book "Empire: the Life, Legend and Madness of



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Howard Hughes,” Donald L. Bartlett and James B. Steele write, “In 1966 he was forced to sell his TWA shares after losing a lawsuit that charged him with illegally using the airline to finance other investments. The sale netted Hughes over half a billion dollars. To many, it seemed more like a victory than a defeat.”

Indeed, Hughes had always been willing to leverage his holdings, from the Tool Company to the studios to the airlines, to finance bigger and bolder dreams. He was a risk taker, which led to many great victories and many crushing defeats.

And although TWA executives criticized his erratic, detached and impulsive management style, the company (and the airline industry itself) fared no better after his departure. In the aftermath of the TWA sale, he found himself with half a billion dollars, few friends, and a desire to be alone.

### REAL ESTATE & REAL ENOUGH DEMONS

Increasingly dependent on drugs, disenchanted with business, politics and Hollywood, Hughes took up residence at the Desert Inn Hotel in Las Vegas. At the time, Las Vegas was in a slump. When the Desert Inn decided they could make more money renting out Hughes’ floor to tourists, they tried to evict him. He responded by buying the hotel.

Then he bought more hotels and casinos in Las Vegas, Reno, and the Bahamas. Former FBI agent Robert Maheu oversaw Hughes’ business interests in Las Vegas, and defended his employer’s approach: “When he came here, he wanted to tie up all the property on the Strip to develop it properly. He didn’t want it to be honky-tonk or Coney Island. Hughes was a catalyst in the city cleaning up its act.”

Hughes expanded his real estate holdings, bought gold and silver mines, and media outlets, establishing the Hughes Sports Network. But even as his business interests were revitalized, Hughes himself was sinking further into paranoia and drug abuse.

During the last years of his life, Hughes took up residence in the Bahamas and Mexico, presumably for easier access to Codeine.

When he died in 1976, he had not been seen publicly or photographed in 20 years.

### THE AVIATOR: REDEMPTION OF A LEGACY

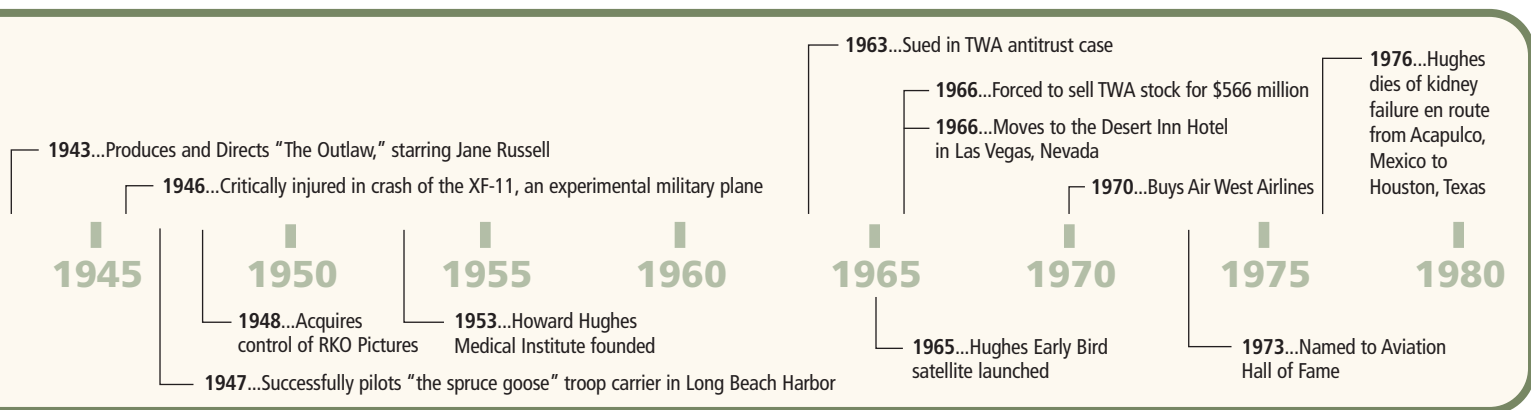
At the end, Hughes apparent mental illness and drug addiction overshadowed his lifetime of daring achievements in the public consciousness. But as we noted at the outset, he was a genuine American hero before he came to be portrayed as a lunatic. Defenders point out that his behavior did not significantly deteriorate until after his third plane crash, and surely was exacerbated by the pain medication required at that time.

To his credit, Hughes was always himself, carving his own path in life and doing things his own way. His life’s example calls to mind a great quotation of Henry David Thoreau: “...if one advances confidently in the direction of his dreams, and endeavors to live the life which he has imagined, he will meet with a success unexpected in common hours.”

Hughes had more than vision; he had commitment to his vision. Consider that World War II was over before he completed his unique wooden troop-carrying airplane, nicknamed the Spruce Goose. Nevertheless, Hughes finished the plane and flew it himself. Great respect is owed a man who finishes what he starts.

Rather than enjoy the leisure available to him as a teenager, Hughes leveraged his fortune to pursue great dreams, many of which he saw to fruition through personal sacrifice and long hours of hard work. One after another, he set goals and steadfastly achieved them, in filmmaking, aviation, and real estate, creating a legacy of businesses that fueled the southern California and Nevada economies long after his death.

The story of Howard Hughes reminds us that illness can befall anyone, and that no matter how much fortune or fame we achieve, there are far more important things in life. But his story also shows us the power of passion, about making a choice, giving it your all, and finding uncommon success. ▲



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