

VENTURA COUNTY

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Investor's success left clues for today's world

From time to time, we enjoy pausing from our investment commentary to pay tribute to those who have made a significant impact on business and the economy. These historical figure profiles are meant to serve as educational and interesting examples for readers of all ages.

As proponents of financial education for youth, we encourage parents to share these historical trials and tribulations in business with their children.

"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 plain-spoken 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.



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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."

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

Baruch was born in 1870 and lived to the ripe old age of 94; his lifetime spanned the industrial revolution, two world wars, the stock market crash and Great Depression, and the assassinations of Presidents James Garfield, William McKinley and John F. Kennedy.

An astute self-promoter, Baruch garnered much of his fame as an economic adviser to politicians and presidents for more than 40 years. 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.

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, 19-year-old Bernard graduated from college and soon took his first job as an "office boy," earning \$3 a week. In

1891, he took a similar job on Wall Street and quickly rose through the ranks.

As a broker and later a partner at A. Housman and Co., 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

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Investor known for pragmatic approach

ORFALEA-HELPERT

From D1

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. Seven years later, 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 the Guggenheim family, J.P. Morgan, and railroad magnate Edward H. Harriman. Baruch was bright, friendly, handsome and active; people enjoyed his company. 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 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 World War I, advised Franklin D. Roosevelt on the economics of the "New Deal," declined the office of Treasury secretary during World War II, and served on the United Nations Atomic Energy Commission for President Harry S. 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 Lafayette Park in Washington, D.C., and Central Park in New York City. 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.

Although his political adventures occupied most of his long life, we are grateful for the lessons of his Wall Street years.

— Lance Helfert and Kinko's Inc. founder Paul Orfalea are the co-founders of West Coast Asset Management Inc., a private independent money manager in Ventura. Orfalea sold his interest in Kinko's two years ago. Vice President Atticus Loue contributed to this column. Please e-mail questions to info@wcam.com. The principals of the firm or their clients may own shares in the companies they write about.

