

Spring Training for Value Investors

The Berkshire Hathaway annual letter is a unique resource for students of value investing. However, this time of year also features annual letters from many other great value investors, providing the opportunity to learn from the market's heaviest hitters.

By [Zeke Ashton](#)

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It has become an annual rite at this time of year, like that first balmy day when pitchers and catchers report to Major League Baseball's spring training to make ready for a new season. For value investors the world over, the publication of the **Berkshire Hathaway** ([NYSE: BRK.A](#)) annual letter to shareholders has become cause for celebration, a once-a-year opportunity to savor the investing insights, homespun wisdom, and [unique sense of humor](#) of one of capitalism's heaviest hitters, Warren Buffett.

While the full collection of annual letters dating back to 1977 (available on the [Berkshire Hathaway](#) website) may be one of the most valuable resources in existence for aspiring capitalists, one feature you won't find in Buffett's annual report is a bunch of great stock ideas. While Berkshire's largest equity holdings are listed in the report for all to see, the Oracle of Omaha himself confides in his latest report that "we are neither enthusiastic nor negative about the portfolio we hold" and that, while excellent businesses all, "their current prices reflect their excellence." And you can rest assured that Buffett won't make a peep about any stocks he might find attractive, given his longstanding policy of silence on the subject (with good reason, of course).

But the Berkshire annual letter is just the start of my own "annual report spring training," during which I review the letters of money managers I admire. Like Buffett, many of these outstanding investors produce well-written and wonderfully instructive letters to their investors. Even better, unlike Buffett most of these investors run mutual funds, which means that they must disclose their entire list of portfolio holdings and can generally be counted on for some interesting discussion of their favorite stocks. What follows are a few of my favorite fund managers, along with some quick highlights of their recent letters.

James Gipson, Clipper Fund

Gipson runs the ultra-concentrated large-cap value **Clipper Fund** (CFIMX). Gipson tends to bet heavily on out-of-favor "trouble" stocks, such as **Tyco** ([NYSE: TYC](#)) and **Electronic Data Systems** ([NYSE: EDS](#)) in 2002. In 2003, his biggest holding was **Freddie Mac** ([NYSE: FRE](#)). Gipson's letters are always good for a funny line or two -- the Q4 letter's best is his observation that a fund manager's failure to track one's benchmark closely "suggests professional misconduct vaguely comparable to dealing drugs." [Clipper's](#) 2003 performance trailed the Standard & Poor's 500 benchmark slightly in 2003, but is ranked number 12 out of 525 funds in its category for five-year performance, according to Morningstar.

Longleaf Partners Fund

I've [singled out](#) Longleaf before for their admirable commitment to partnering with their fund investors, qualities which resonate now more than ever after the mutual fund scandals that came to light last year. [Longleaf's](#) annual letter helpfully lists holdings added in 2003, as well as those stocks the fund sold during the year. The fund's major additions in 2003 were **Level 3 Communications** ([Nasdaq: LVLT](#)) and **Walt Disney** ([NYSE: DIS](#)), and the Longleaf letter describes the rationale behind these and other purchase decisions.

Marty Whitman, Third Avenue Value

Marty Whitman is an old value hawk who has been investing forever with the mantra of buying stocks that are "safe and cheap." Whitman also delves into distressed bonds, preferred stocks, and various other non-stock investments where he finds value. Whitman's shareholder letters are great, utterly unique, and can be counted on to address the hot-button issues of the day with no punches pulled.

One of the best things about the Third Avenue letters is that Whitman doesn't just write one a year. He puts out a 10-pager every quarter. The collected works are available on the [Third Avenue](#) website, and are definitely worth the time for serious students of value investing. The flagship **Third Avenue Value Fund** (TAVFX) has returned an average of 13.1% annually over the 10-year period ending in 2003, versus 10.8% for the S&P 500. Recent large holdings include **Kmart** ([Nasdaq: KMRT](#)) and **Legg Mason** ([NYSE: LM](#)).

Tweedy Browne

One of the original [Graham-and-Doddsville](#) superinvestors is Tweedy, Browne & Company. The Tweedy Browne website has a ton of great resources, including several [lengthy articles](#) on value investing, including a 56-page tome entitled, appropriately enough, "What Has Worked in Investing." After 30 years of beating the indices, Tweedy Browne should know. The 2002 annual report contained 16 pages of commentary, including a short investing thesis on each of the top 10 holdings in its two funds.

Tweedy tends to be very diversified. **The Global Value Fund** (TBGVX) often holds more than 150 different stocks, while **American Value** (TWEBX) has about half that many. Tweedy Browne's fiscal year ends in March of each year, so the newest annual report should be available in the next few weeks on the fund's website. The American Value Fund lists **American Express** ([NYSE: AXP](#)), **Pfizer** ([NYSE: PFE](#)), and Freddie Mac among its top holdings.

Wally Weitz

[Wally Weitz](#) is an Omaha-based investor who has compounded money at 15.1% annually over the past 15 years in his **Weitz Value Fund** (WVALX). Weitz writes informative investor letters and holds quarterly conference calls to discuss the fund's activities. Weitz is another holder of Freddie Mac, which goes to show that even great value investors with similar styles often will come to different conclusions about individual stocks; Buffett sold Berkshire's very large position in Freddie Mac a few years ago. Weitz also owns such value investor staples as Berkshire Hathaway, **Washington Post Co.** ([NYSE: WPO](#)), and **Liberty Media** ([NYSE: L](#)). I was interested to see that Weitz added one of my favorite stocks, **LabCorp of America** ([NYSE: LH](#)), to his fund in 2003.

The fund managers listed above are only some of the outstanding value-oriented investors whose market insights (as well as portfolio holdings) are available for free to anyone who cares to take the time to visit their websites. While I would never counsel an enterprising investor to blindly follow the actions of these great investors, it can be an excellent learning experience to look at some of the holdings of the most accomplished players in the field and see what it is that they find attractive. If you are striving to learn the craft of value investing, it never hurts to learn from best.