Missive

APRIL 30, 2024

1968-1969: Buffett and Price Agreed

Dear fellow investors,

We've recently been making the case that the current circumstances in the stock market are most like the late 1960s and 1970s. Euphoric enthusiasm for the most aggressive stocks and an economic/national security spending explosion are held in common. However, the most interesting thing about 1968-1969 was the agreement about the stock market future between the greatest growth investor at that time, T. Rowe Price, and the greatest value investor of all time, Warren Buffett.

Let's start with what T. Rowe Price said and did back then:

> *"Given the unpopular, increasingly expensive, out-of-control war in Vietnam, the huge costs of the Great Society program, and the large ensuing budget deficits, Mr. Price's sensitive antennae were up. His concerns began to increase about the country's future and the outlook for the stock market. He believed that economic history continually repeated itself because it was driven by human nature. As he had written in the 1937 pamphlet Change: The Investor's Only Certainty: "The basic social, economic, and political currents flow as long as human beings remain in control."*

Price reacted by adding oil and gas stocks to his T. Rowe Price Growth Fund and started a brand-new fund called the T. Rowe Price New Era Fund. He loaded it with oil and gas shares, gold and other inflation-beneficiary stocks. Both of these funds are in operation today, and the firm T. Rowe Price has been one of the most successful firms in the mutual fund industry.

Here is what Warren Buffett said on October 9, 1967, in a letter to partners:

> *Such statistical bargains have tended to disappear over the years. This may be due to the constant combing and recombing of investments that has occurred during the past twenty years, without an economic convulsion such as that of the '30s to create a negative bias toward equities and spawn hundreds of new bargain securities. It may be due to the new growing social acceptance, and therefore usage (or maybe it's vice versa - I'll let the behaviorists figure it out) of takeover bids which have a natural tendency to focus on bargain issues. It may be due to the exploding ranks of security analysts bringing forth an intensified scrutiny of issues far beyond what existed some years ago. Whatever the cause, the result has been the virtual disappearance of the bargain issue as determined quantitatively - and thereby of our bread and butter. There still may be a few from time to time. There will also be the occasional security where I am really competent to make an important qualitative judgment. This will offer our best chance for large profits. Such instances will. however, be rare. Much of our good performance during the past three years has been due to a single idea of this sort.*

At the 2023 Berkshire Hathaway Annual Meeting, Buffett said nearly the same thing:

> *There remain only a handful of companies in this country capable of truly moving the needle at Berkshire, and they have been endlessly picked over by us and by others. Some we can value; some we can't. And, if we can, they have to be attractively priced. Outside the U.S., there are essentially no candidates that are meaningful options for capital deployment at Berkshire. All in all, we have no possibility of eye-popping performance.*

Buffett then continued his thoughts in his early 1969 partnership letter:

> *Some of the so-called "go-go" funds have recently been re-christened "no-go" funds. For example, Gerald Tsai's Manhattan Fund, perhaps the world's best-known aggressive investment vehicle, came in at minus 6.9% for 1968. Many smaller investment entities continued to substantially outperform the general market in 1968, but in nothing like the quantities of 1966 and 1967. The investment management business, which I used to severely chastise in this section for excessive lethargy, has now swung in many quarters to acute hypertension. One investment manager, representing an organization (with an old established name you would recognize) handling mutual funds aggregating well over $1 billion, said upon launching a new advisory service in 1968:*
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> *"The complexities of national and international economics make money management a full-time job. A good money manager cannot maintain a study of securities on a week-by-week or even a day-by-day basis. Securities must be studied in a minute-by-minute program." Wow!*

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What is not said here is that Buffett closed the partnerships by sending everything out to the partners in cash that wasn't invested in Berkshire Hathaway shares. One of history's biggest spendthrifts gave up the right to make 25% of everything over a 6% gain in his partnerships, the very thing that turned him into a wealthy man.

This financial euphoria episode, marked by the most popular growth stocks being "endlessly picked over," coincides with a much larger amount of monetized U.S. government debt in relation to GDP. This explosion of debt used to fight the COVID-19 pandemic War is analogous to the Vietnam War spending explosion. Today's toxic combination, while similar to the 1960s and 1970s, is at a magnitude of participation by the investing public virtually never seen before. The Federal Reserve Z-1 report shows that Americans have 40% of their household assets in common stock ownership.

In conclusion, we are busy doing our best to posture as Price and Buffett did back in the late 1960s toward what we believe will be prosperous segments outside of the recent euphoria.

Fear Stock Market Failure,

Bill Smead
Chief Investment Officer

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