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The Six Greatest Value Investors on How to Do It: John Dorfman

March 11 (Bloomberg) -- He loved skiing, tennis and dancing, could translate Portuguese, Greek and Latin, was married three times and died in the company of his French mistress.

He's Benjamin Graham and if he were alive today, he would be in my lineup of speakers if I had to organize an all-time, all- star conference on value investing.

He would be joined by the late Phil Carret, as well as John Templeton and John Neff, who are retired, and David Dreman and Warren Buffett, who continue to practice their craft.

Are these the six greatest value investors ever? They get my vote.

Graham and `Foolish'

Considered the father of value investing, Graham ran a New York hedge fund and taught at Columbia University. His books ``Security Analysis" (with David Dodd) and ``The Intelligent Investor" are the old and new testaments for value investors.

He once said his goal was to do ``something foolish, something creative and something generous" every day.

On market timing: ``There is no reason for any typical investor to believe that he can get more dependable guidance here than the countless speculators who are chasing the same will-o'- the-wisp."

On chart reading: ``There is no generally known method of chart reading that has been continuously successful for a long period of time. If it were known, it would be speedily adopted by numberless traders. This very following would bring its usefulness to an end."

Carret and `Sitting'

Phil Carret founded the Pioneer Fund, one of the earliest and most successful mutual funds. A World War I pilot, he lived to be 101, and traveled all over the world to view solar eclipses.

I met Carret when he was in his late 90's, still vigorous and sharp. One comment he made that struck me was that you should never buy a stock unless you expect it to double.

From the book ``Classic Carret," here are a few more observations:

``More fortunes are made by sitting on good securities for years at a time than by active trading."

``I'm a coward and I don't have sense enough to figure out when to go into cash, so we're always fully invested."

``Be quick to take losses, reluctant to take profits."

Templeton and `Pessimism'

Born in Tennessee, John Templeton now lives in the Bahamas and is a knighted British citizen. In the 1950s through 1980s, he ran some of the most successful mutual funds in history, including the Templeton Growth Fund.

In 1939, with Nazi forces gaining in Europe, Templeton borrowed \$10,000 and bought 100 shares of every stock trading below \$1 a share on the New York and American stock exchanges. He quadrupled his money in four years.

Templeton's concept was to combine bargain hunting (stocks with low price-earnings ratios) with worldwide research. By searching in many countries instead of just one, he said he was more likely to find bargains.

``Invest at the point of maximum pessimism," Templeton liked to say. When other people thought a certain country or stock was hopeless, he was just getting interested.

Neff and `Backdoor Access'

In three decades at the helm of the Vanguard Windsor and Gemini funds, John Neff posted a 5600 percent return.

In his book ``John Neff on Investing," Neff outlined several of his strategies.

One was buying on bad news after a stock has taken a substantial plunge. ``Windsor collected handsome profits by taking issue time and time again with prevailing opinion," he wrote. For example, he bought insurers such as Cigna Corp. when Wall Street was sure they faced doom from liability for environmental and toxic-waste cleanups.

``Backdoor access" was another Neff motto. He liked indirect paths to investing in popular industries where most stocks were too pricey for him. When oil-service stocks were hot, he bought Northwest Industries, a conglomerate that got about half its earnings from making drill pipe.

Dreman and `Earnings Surprise'

David Dreman, my mentor in the securities business, runs Dreman Value Management in Jersey City, New Jersey. He writes an investment column for Forbes magazine and has written several books including ``Contrarian Investment Strategies, the Next Generation."

One study Dreman directed shows that value stocks react more favorably to earnings surprises than growth stocks do. They decline less on bad news, and rise more sharply on good news. This ``differential reaction to earnings surprise" matters a lot because earnings surprises are extremely common, Dreman's research shows.

From 1970 through 1996, another Dreman study showed, stocks with price-earnings ratios in the bottom quintile (fifth) returned 19 percent per year, while those in the highest quintile returned only 12.3 percent.

Buffett and `Good Results'

The ``sage of Omaha," Warren Buffett started as a hedge fund manager and then switched to running Berkshire Hathaway Inc., a clothing maker that he morphed into an insurance company with an outsized investment portfolio.

Widely considered the best investor of modern times, Buffett has compounded his investors' money at about a 30 percent annual rate. The country's second-richest man (after his friend Bill Gates), Buffett lived for many years in a modest house in Omaha (now he has a larger one in California) and is devoted to such delicacies as cheeseburgers and cherry Coke.

On his ownership of Coca-Cola stock: ``The ultimate case of putting your money where your mouth is."

In 1974, following a severe bear market: ``Now is the time to get rich."

On bargain hunting: ``Never count on making a good sale. Have the purchase price be so attractive that even a mediocre sale gives good results."

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