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Volume I, Issue 2

Summer 2007

Global Treasure Hunter: David Winters

For the second issue of *Graham and Doddsville* we are pleased to share an interview with David Winters, Founder and Chief Investment Officer of The Wintergreen Fund. Prior to founding Wintergreen Advisors in 2005, Mr. Winters was Chief Investment Officer of Franklin Mutual Advisors and Portfolio manager of the Franklin Mutual Discovery Fund. Mr. Winters joined Mutual Series in 1987, one year before the death of legendary investor Max Heine. He would spend the next decade working side-by-side with another investing legend Michael Price.

Q: You've described yourself as being on a global treasure hunt. What's the checklist of characteristics that a situation has to have before you invest?

DW: I don't know if there's an exact checklist. There's no magic formula because every situation is a little different. But if you're talking about what my ideal investment is, first of all I want a good underlying business. A business that is, hopefully, getting better over time, so time is your friend. Then I really need to have management who are committed to doing the right thing, who I sometimes describe as being in the boat pulling the oars in



David Winters, Founder and Chief investment Officer of The Wintergreen Fund

the same direction as the rest of the shareholders. I think you want to have both those factors plus an undervalued security price. When you have those 3 things, then you have a trifecta. And you want a trifecta.

Welcome Back to Graham and Doddsville

We are pleased to present you with the second edition of *Graham and Doddsville*, Columbia Business School's student-led investment newsletter co-sponsored by the Heilbrunn Center for Graham & Dodd Investing and the Columbia Investment Management Association.

This edition's feature interview is with David Winters, who graciously sat with us

for an extended, insightful conversation describing his approach to investment management. He and his colleagues at Wintergreen Advisors have truly embarked upon, as Mr. Winters calls it, a "global treasure hunt." We hope and trust you will learn as much from reading it as we have.

Along with providing our readers with insightful and timeless contents, we also

aim to provide specific investment ideas that are relevant today. Inside are two student investment recommendations, including the first short to appear in the pages of *Graham and Doddsville*.

In April students of Professor Greenwald's Value Investing class made their annual pilgrimage to the offices of Berkshire Hathaway in

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Welcome to *Graham And Doddsville* (continued from page 1)

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Omaha Nebraska. Close to 100 students spent the better part of a day with Warren Buffett '51. In addition, three students were selected to sit down with Mr. Buffet to learn his thoughts on leadership and ethics. We are lucky to have one of those students share his experience sitting down with the Oracle of Omaha.

Please feel free to contact us if you have comments or ideas about the newsletter, as we continue to refine this publication for future editions. Enjoy!



Students at Columbia Business School have the unparalleled advantage of learning from value investing luminaries including Joel Greenblatt of Gotham Capital and Bruce Greenwald

“We’ve found over the years that in the best investment situations, the more you dig at them the more good stuff you find.”

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Q: Are there additional items that you look at when you’re investing in non-US companies? How do you assess things like how solid the currency is, or how reliable the legal systems or the accounting standards are?

DW: They’re all good questions, and there are no exact answers. Some countries have wonderful underlying currencies. For example, Norway, where you have all this oil and gas. You have 4.5 million people, and you have approximately 300 billion dollars (derived from oil taxes) sitting in a government fund for the betterment of society. So you’ve got millions of dollars in cash and securities behind every Norwegian citizen. You can see why I think the Norwegian Krona is probably one of

the great currencies of the world.

There are other currencies where it’s very hard to know. In those situations we might be inclined to hedge out the risk if it made sense. But we like the really hard currencies.

With the legal system you’ve got to figure out if the rule of law is important to the way the society is run. In a country like Switzerland or the UK, there is rule of law. That doesn’t mean there aren’t going to be legal surprises, but there are clearly long-standing legal systems to protect owner’s rights.

Q: You’ve talked about constructing a portfolio of pearls,

where the barnacles on the shells hide the underlying beauty underneath. Where does the search start for you?

DW: The new 52 week low list is a great place to look. And sometimes it isn’t just individual names, but a sector may be out of favor. Other times it’s complexity that really distorts something that’s wonderful, because most people don’t like complexity. This business is about people basically being spoon-fed, and if you have a conglomerate that requires a lot of work and more than one sector, that really turns people off.

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One on One with a Legend - A Personal Meeting with Warren Buffett

Burak Alici, MBA 2007

Marc Schaeffer, Mike Assenza and I were quite tense as we walked into 1440 Kiewit Plaza for a school interview with Warren Buffett on Leadership and Ethics. Although we had seen him at the class visit the day before, the realization hit us that we were about to sit and have a heavy conversation with the wisest man alive.

Stepping out of the elevator, we were surprised at how plain the hallway was. We actually had difficulty finding the main door, and by mistake walked in through the back door - the office almost felt vacated. Contrary to many Wall Street firms, Berkshire does not rely on a large army of professionals to operate - the 'rational' investment approach saves the hassle. We recalled Warren telling that they probably never built a spreadsheet in the history of Berkshire. The miraculous four-decades-long investment record is obvious evidence that a few 'clear' thinking individuals can be superior to hundreds that follow an 'unclear' thought process.

Margaret, Warren's personal assistant, greeted us, and thankfully chatted with us to alleviate the stress (she also showed the courtesy to drive us to the airport later on). As we sat in the office and enjoyed our ice cold Cokes, Warren soon showed up with some newspapers and a McDonalds bag in his hand. The hamburger along with a glass of Cherry Coke is part of the daily diet. When his doctor asked him to make a choice between cutting down on the burgers or having to exercise every day, Warren chose to exercise.

Let market efficiency cohorts

argue whether Berkshire is simply a statistical outlier. Columbia's value investing infused students religiously (try to) follow Warren's and his partner Charlie Munger's philosophy. Warren mentioned that what he learned from Dave Dodd and Ben Graham changed his life - and he still truly appreciates the chance he had to be their student and friend. He also stated that we at Columbia are very lucky to have access to such resources and a great investing program.



Burak Alici, Mike Assenza, Warren Buffett, Marc Schaeffer

To the statement that "we bet our careers that markets are not efficient", his response was: "Let the other guys bet their career on the other side. There's nothing like being on a bridge table when the other guy believes he shouldn't be looking at his cards."

Our conversation was focused on leadership and ethics. As every one of his sentences is worth a life lesson, I think quoting them untouched is the best way to pass on the wisdom in its purest form. The quotes under different topics are listed below.

In essence, Warren asked us to acknowledge how lucky we are in this world and to give thought on how to give back our winnings to society. Given

the tremendous resources and opportunities we've enjoyed, it's our responsibility to help others that have not had this chance. We often witness that success in the world of investing often comes with an ego attached to it and many Wall Street champions would probably have a problem acknowledging that their wealth was due to other factors rather than their own "rock star" type abilities. While this is easier said than done, I hope the successful ones among us will have the conscience to give when the time comes.

After our conversation, we were lucky enough to enjoy an office tour by Warren himself. Interestingly, the best part of the office was the hallway. The walls are full of highly interesting memorabilia including the first share registry of his early partnership, the letter sent to take over LTCM, an original American Express stock certificate signed by founders Wells and Fargo, a trading ticket at Tweedy Browne & Co of Berkshire shares (including Warren's first purchase at \$7 3/8), an exact half-scale model of the robot sent to Mars, and many more.

Warren is referred to by many as the 'Oracle of Omaha'. On the contrary, he has made his success not by predicting future events, but by benefiting from his rational thought process. Hence, the referral 'the Sage of Omaha' is probably more appropriate. As laid out in the quotes below, it's truly amazing how Warren uses his framework - not only in investing - but also in every other complex issue in life. Not every

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"(Buffett) also stated that we at Columbia are very lucky to have access to such resources and a great investing program."



Warren Buffett ('51) posed with students outside of Gorat's Steak House

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The 2007 CIMA Conference

On Friday, February 2, 2007 over 500 students, alumni, investment professionals and members of the press gathered for what has become an annual pilgrimage to Columbia's Morningside Campus for the 10th Annual Columbia Investment Management Conference. The CIMA conference, which is co-sponsored by the Heilbrunn Center for Graham and Dodd Investing, has grown over the past 10 years from an afternoon event held on the third floor of Uris Hall into being one of the most anticipated annual events for followers of the value investment philosophy. Rising to the challenge, conference co-chairs Ahmar

Ahmad ('07) and Andrew Ewert ('07) assembled a group of panelists that might be called the "Dream Team" of value investors.

If you ask 10 investors to define the term "value investing" you will probably receive 10 different answers. Each answer, however, will share one common element. They will all be based on the principles originally developed by Columbia Business School professors Benjamin Graham and David Dodd in what many consider to be the most influential book on investing: "Security Analysis". Originally published in 1934, "Security Analysis" formed the

foundation for an investment philosophy and marked the beginning of a rich tradition that sets Columbia Business School apart from its academic brethren. As Dean Glenn Hubbard noted in his opening remarks, Columbia is one of the few Business Schools that bridges theory and practice by teaching the investment principles and methodologies that have proven to work in the real world.

Columbia alumnus and Board of Overseers member, Lee Cooperman (CBS '67), Chairman and CEO of Omega Advi-

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David Winters (continued from page 2)

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We've found over the years that in the best investment situations, the more you dig at them the more good stuff you find. And in the bad investments, the more you dig the more you find additional skeletons in the closet (e.g., toxic liabilities that aren't on the balance sheet).

Often you can figure out pretty quickly if an investment is one where the assets are understated, or is it one where the liabilities are understated. You want lots of assets for free, or the potential for free.

Q: How do you evaluate downside risk in a security?

DW: The ultimate downside risk in a security is permanent

loss of your capital. In almost any business other than an asset play, risk and reward are evaluated on the basis of how much cash you can generate over time. You must be aware of Ben Graham's margin of safety and look at what the company is really worth. What is the relationship between the company's worth and its current market price? Does the company have the ability to raise prices? There are many businesses that are so brutally competitive that they don't have any ability to raise their prices. Then you have to look at what their competitive position is in the world. Do they have an edge? And are they making a product that can be easily duplicated somewhere else, in a fairly undifferentiated manner, at a much lower price.

If you're in a business like that, you've got a problem.

The other thing to consider is whether there has been a fundamental change in the underlying economics. For example, for many years the newspaper business was a virtual license to print money. If you owned the newspaper you were one of the richest people in town. Now that is no longer the case because you've got classified and display advertising going to the internet. Newspapers have lost pricing power and they're losing revenue. So I think you really have to pay attention to whether there is a game change, and that's not always apparent in the valuation or in the annual report.

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David Winters (continued from page 4)

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Q: You're a long-term investor, but when do you sell?

DW: There are a couple of reasons why you should sell. One is if you made a mistake. I think one of things we all have to do is to be intellectually honest. Were you wrong in your analysis? Did something change? Or did you learn a new piece of incremental information that changes your view? Instead of being an ostrich about investing, sticking your head in the sand and hoping things improve, often the best thing to do is to realize you've made a mistake and to sell.

The other big reason to sell is if the valuation gets out of whack. When you own something wonderful, if it approaches or becomes fully valued, it often makes sense to sell. Even when an investment is great, if it trades at full and fair value, at best it's dead money. And in all likelihood there is a better use for the money elsewhere. So you have to have the discipline to say, "The company has done its heavy lifting for me. I'll pay the tax and move on."

Q: Michael Price visited our class, and he did not have very good things to say about utilizing DCFs. Do you employ them at all?

DW: I probably inherited Michael's skepticism for DCF. I

think of DCF as garbage-in, garbage-out. Conceptually it's right, but the ability of anybody to make accurate estimates is low. During the many years I worked for him, one of the

"Even when an investment is great, if it trades at full and fair value, at best it's dead money. And in all likelihood there is a better use for the money elsewhere. So you have to have the discipline to say, "The company has done its heavy lifting for me. I'll pay the tax and move on."

lessons I learned from Michael was not to be so dependent on earnings. Wall Street is so obsessed with, "Did they beat by a penny? Did they miss by a penny?" If you're investing in securities that are so contingent on that, the possibility increases that you're going to get beat.

Our approach is to try to buy today at a discount and get

tomorrow for free. Somebody showed me a DCF model last week and I looked at it and I was pretty skeptical. They had a terminal growth rate of 2%, and I asked, "What happens if it becomes 5%?" The value went up by 100%.

So I share Michael's skepticism about DCF. I think it's an over-rated tool. Think about the bubble years, when people were extrapolating things far into the future that ended up being preposterous, while at the same time you could buy real companies like Brown-Forman, that distills Jack Daniels. At the height of the bubble Brown-Forman dropped to a valuation that was probably half of what an arm's-length transaction would take place at. People were buying DCFs because they wanted get-rich-quick schemes. Brown-Forman had no debt, net cash on the balance sheet and a LIFO reserve. And getting back to Jack Daniels...it holds a place of honor in my heart near the American flag.

Q: What was it like to be a value manager in the late 90's?

DW: There was a lot of stuff going on. Not only being a value manager, but I was promoted to running Mutual Shares, and basically I came in almost at the bottom of the whole thing.

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James Tisch at the 2005 CIMA Conference

Columbia Business School is a leading resource for investment management professionals and the only Ivy League business school in New York City. The School, where value investing originated, is consistently ranked among the top programs for finance in the world.

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David Winters (continued from page 5)



Dean Glenn Hubbard and
Mario Gabelli ('67)

There was a lady who wrote me a hand written letter complaining that I was a dinosaur, and she said that I didn't get hot investment results because I didn't own Cisco Systems.

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It was very hard because success demanded being both really disciplined and confident in your work as well as your ability. At the same time you had to realize that the world had sort of taken leave of its senses. There were relatively few of us who maintained the core belief in value investing at the bottom. There was a lady who wrote me a hand written letter complaining that I was a dinosaur, and she said that I didn't get hot investment results because I didn't own Cisco Systems. She wasn't alone in that opinion. There was tremendous pressure from multiple directions to capitulate, and I refused to capitulate. The thing that I found so amazing was that there were wonderful companies you could buy that I had drooled over for years, but could never own because they were always trading at big multiples. So we were able to buy some very compelling things. It wasn't an easy period, but I learned a lot, and it ended up being wildly profitable for our fund investors.

And there's a lesson in all of this. In February of this year, people were so concerned when we had this sell-off in China one night. "Oh no, China's coming to an end. The sky is falling and the world is coming to an end." Stock markets all round the world went down for a couple of weeks.

Everything on TV was negative. There was one day where we were buyers of almost every security we had in the portfolio. And here we are 2 months later, markets have rallied, everything on TV is positive, and nothing's really changed. I think that's really one of the big lessons of value investing, that you've got to do the work, and realize as Ben Graham wrote that Mr. Market is often irrational, and you've got to take advantage of market fluctuation rather than be a victim of it.

But it's hard. You really have to have the right temperament and discipline to do this, and I don't think most people do. It's very hard.

Q: Do you think some people are just born with the right temperament? Has your temperament evolved over time?

DW: I started the David Winters investment account when I was 5, so I definitely had some of the DNA, but I've certainly learned a lot over the years. I've been doing this a long time now, and I try to learn every-day, watching the way people participate in markets. Part of the reason we set up Wintergreen was so we could try to capitalize on all this stuff that goes on in the world, and not be part of the daily fray.

Q: Do you have any favorite measures of earnings quality?

DW: I like to dissect where a company got its earnings: Was it gains? Was it from operations? I think organic growth is a really important measure. And was organic growth achieved through sales and/or margin?

A lot of this business is based on judgment, and one of the things we've barely touched on is the importance of management. That's one lesson I've learned: the importance of the people you hand your wallet to. Obviously you want a good company you can invest in, or that has good assets, but you also really must have people who are going to make that company work for you.

It's just like if you have a great professor, and you enjoy the class, then you'll get an A.

If you have a professor you don't like, who comes to class and turns his back to the students, then you're not going to do as well.

Q: How do you figure out what makes a management team tick?

DW: The world has gotten in some respects easier and in other respects harder to decipher. You can find out a lot about people today. Not all prior management behavior is a predictor of the future, but you have to figure out if manage-

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ment is motivated to just make a bunch of money and go to the beach, or if they love the business they are in and want to achieve long term success? How do they think? Are they interested in taking short cuts, or are they more interested in taking the longer road and doing things properly?

Then you've also got to try to figure out if the management is risk-averse. We're very risk-averse here, and we want to do really well, but we don't want to take a lot of risks to get there.

You also have to try and figure out how people are wired. When you see that certain people must have all the accoutrements of success, and if that becomes an obsession on their part as opposed to living in the same house forever. That is one of the telling signs.

There's a lot you can learn. It's not an exact science, but every now and then you have what I call the "ah-ha moment." Other times you look at it, and you have an "oh-no moment." You go, "Oh-no, I don't think so. This is not going to be a situation where we're going to be comfortable." Sometimes there are managements that stay up late at night and try to figure out how they're going to benefit themselves at the expense of shareholders. Those are the folks you don't want to be involved with.

Q: Is it harder to try and wrap your arms around the shareholder orientation of non-US managements?

DW: You know I've been fortunate since I was a little kid to travel all over the world. I keep having to add pages to my passport.

People and cultures are different, and their behavior is different. One of the things that as an American you have to be very careful about is that everybody doesn't play by our rules or our expectations, nor do they necessarily respond well to some of our behavior patterns. So sometimes it is very challenging to figure out what's really going on, but again sometimes you just observe what they do, not what they say. If you see a management team behaving in a rational manner, that's a really good clue. If you see them doing really bizarre things, or things where you scratch your head and say, "why would they do this," then it doesn't matter what they say.

Then occasionally you'll find a company that is very straightforward and open about what they're trying to do, and they execute. The thing that's wild today is if you think about how many of your colleagues at Columbia are from overseas. Some large percentage of them are going go back to wherever they came from, take all the

principles they learned from Columbia, and apply them at home. A lot of those folks are going to kick some serious butt. So part of what we're finding is that the next generation of managers were educated in the US or the UK, and then they take a lot of the best of the Anglo-Saxon principles and they modify them to fit their own cultures.

I think this is an exciting time in the world, despite all the things we get could obsess about that we know aren't good. But there are more wonderful things to look at. There is tremendous wealth creation, and you have all this free movement of ideas, and free movement of people. You have all these young people who are doing all kinds of amazing thinking and work all over the planet, so while it is not easy, our view is there are good people in every culture and in every country, and the idea is to just go find those folks. And you just ask around, "Are they good, or are they not good? Are they smart? Are they hard working? Are they honest? Are they nice, or are they not nice?"

Q: How do you recognize, and avoid, value traps?

I've been involved in some value traps over the years, and I've learned a lot about their characteristics. There was one that we owned years and years

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"The thing that's wild today is if you think about how many of your colleagues at Columbia are from overseas. Some large percentage of them are going go back to wherever they came from, take all the principles they learned from Columbia, and apply them at home. A lot of those folks are going to kick some serious butt."

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David Winters (continued from page 7)



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ago where the stock price never went up, and eventually got taken out. You have to try to figure out if the business is any good, and whether the people are any good, but you know if you find something that's a value trap, time is your enemy. You really want time to be your friend. You want to go to sleep at night knowing that you're incrementally getting a little wealthier, even if the stock price or the bond price does not reflect it. You have to recognize the impact of time on your investment.

Take HSBC. Though we don't own it anymore, we loved the idea that somewhere around the world, somebody was going to an ATM, borrowing money, or making an investment. It's kind of a neat thing to own a piece of a business where 24 hours a day they're working hard for you. We love those situations.

Q: On a day-to-day basis, how do you filter out the noise?

Part of it is that we've really tried to create a very rational, fun, long-term environment. We've eliminated a lot of the distractions. We kind of operate as a think tank here. It's a fun place where there is room for both independence and collaboration of thought, and we do a tremendous amount of reading. There is so much nonsense outside of the office

that we really try to focus on the things where we actually add value by doing research.

There are a tremendous number of things that are unknowable. Think about how much time people spend obsessing about what the next move by the Fed will be. I don't know what it will be, and it really shouldn't matter if you're making good long-term investments. Unless you're doing DCFs where everything is so finely priced, a 25 basis point movement in interest rates shouldn't change your world view. We're just trying to focus on what matters, and to not pay attention to a lot of the nonsense. All we have is time, and once you spend the time it is gone, so we just really try to focus our energy on what we think can make a difference.

It's experience, too, and judgment. Judgment is such an important element in this whole business.

The beauty of the investment business actually is that it's cumulative, and oftentimes the best people in the investment business are not the 22 year-olds who are often the champions in professional sports, but the 72 year olds. As long as they keep learning and they love the business, it's all about thinking and implementing and change. That's why I think it's the greatest business in the world. You can do it forever.

One of my heroes was a guy named Phil Carret, who passed away a couple of years ago. And Phil was over 100 years old when he died, and was just incredible. He was so sharp, and over a full life I think he probably became an even better investor.

Q: We heard you in one of your interviews talk about how you're really focused on building wealth over the next 40 years.

Yeah, it's true! This is fun.

In our view the investment business has gotten bifurcated into an index-hugging model that most of the large complexes are doing. Being overweight or underweight some index by ten basis points is not investing. At the other extreme are highly leveraged compensation models. They capture a large amount of the performance fee carry as fast as possible.

The investment community offers many more choices and ways for people to participate in the market than it did twenty years ago when I was in school. One of the most common is the so-called hedge fund. These investment vehicles offer every imaginable form of diversity, risk and lock ups. With literally thousands

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David Winters (continued from page 8)

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of people operating these funds, it stands to reason that there would be a wide range of portfolio managers. I encourage you to carefully research the reputation and history of those you trust with your money or your career.

All around the world, when we study who's done really well in business, it's taken long periods of time. It most frequently has been done by ownership of pieces or all of a business that have been held for very long periods. It has not been done by hyperactive trading or deals.

And so that's what we're really trying to do, to create long-term wealth without a lot of

risk (by risk I mean permanent loss of capital, not quotation risk), and to be in a position so that when people do panic, which they seem to do once every three months or so, that we're there to pick up the pieces.

Cash is great, we love cash. And today you get paid 5% to hold onto cash while you wait for the investment you want to be available at the price you like. Cash is a beautiful thing, not only us having cash, but we love companies that have cash. Because as long as they have the right management they can be opportunistic on buying back stock, doing deals, paying dividends, etc. Increasing

amounts of free cash flow is a wonderful thing.

I have a friend of mine named Andrew, he's been a friend of mine since I've been a kid. And I started managing Andrew's money years ago, and it was a relatively small pile. It's a much bigger pile now, thankfully, and Andrew's attitude is that he looks at his statement twice a year, and generally if there's more than there was the last time he looked at the statement, he's happy. Part of the reason we did a mutual fund, even though our whole generation went in the opposite direction, is that the mutual fund business is being dominated by this index-hugging model,

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Joel Greenblatt

Members of the Applied Value Investing Program at Columbia University have had the unique opportunity of taking a semester long seminar taught by Joel Greenblatt. In addition to teaching at Columbia, Joel Greenblatt is the Founder and Managing Partner of Gotham Capital and a best selling author of *The Little Book That Beats The Market* and *You Can Be a Stock Market Genius*.

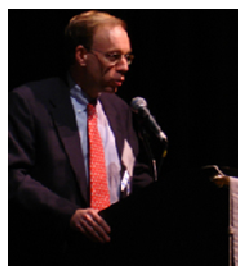
Mr. Greenblatt is not only known for his investment success but also for his philanthropic activities. This past April, Mr. Greenblatt and his partner Robert Goldstein announced the establishment of an annual \$1 million Gotham Prize for Cancer Research to encourage new and innovative approaches to cancer research and to foster collaboration among top thinkers in the field..

Tracking the Superinvestors

As the academic center for the philosophy and principles of value investing, Columbia Business School has built a strong network within the investment community. Beginning with Benjamin Graham and David Dodd, continuing with Roger Murray, and now with Bruce Greenwald continuing this tradition, Columbia Business School attracts inspiring investors who seek to learn the disciplined philosophy of Value Investing.

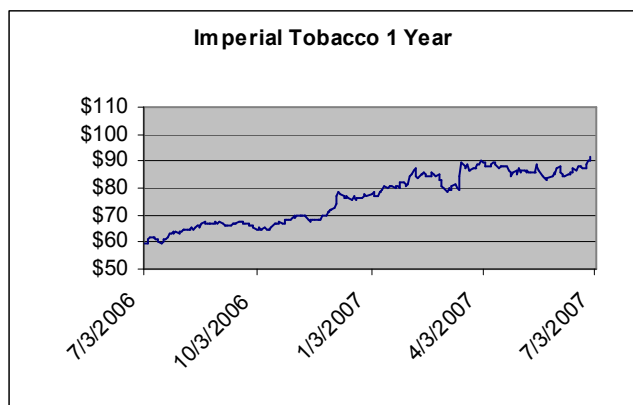
Columbia students are known for searching the universe of stocks to discover undervalued stocks. As taught by Professor Greenwald, the first step in discovering undervalued securities is to develop an appropriate search strategy. One resource that students have found to be fertile soil for ideas are the SEC Form 13Fs that are published quarterly by money managers with \$100 million or more under management.

Each issue of "Graham and Doddsville" will highlight recent investment decisions of successful alumni, professors, and other prominent investors who are admired by Columbia Students and adhere to a value-oriented philosophy. (See page 18 for the investors highlighted in this issue.) -G&Dsville



Stephen Mandel, Founder and President of Lone Pine Capital addresses CBS Students.

David Winters (continued from page 9)



Imperial Tobacco Group plc (ITY- NYSE)

Price: 91.93 (7/19/06) Market Cap: 31.01 billion

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which we don't buy into, and the public in general doesn't know what to do with its money.

And we set it up so that our money is side by side with our investors. My business partner Liz Cohermour and I started out basically with all friends and family, now it's extended friends and family, but you know whether it be my parents or my friends, many of them don't know what to do with their money, and they don't really want to obsess about it either. They want to put it somewhere, where it will be more when they need it. That's what we do, and then we try to write to everybody twice a year and explain what we're up to. In the last letter we used Mark Twain quotes to try to explain that human nature hasn't changed very much over the years.

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Q: What is the market missing on Japan Tobacco?

DW: JT is a very complicated company. It's a Japanese company and they're doing a great job. They've just closed on buying Gallaher in the UK, and we think it's a very, very smart acquisition. They had 6 billion dollars in cash, give or take, earning 1%, and by doing this deal they not only increased the size of the company, I think their cost of financing, pre-tax, is going to be 3 and a half percent. It's very lucrative.

We don't advocate smoking, but we do think the economics of the business are good.

Q: Can you talk about Imperial Tobacco, and the management there?

DW: Imperial is an amazing company. The Imperial Tobacco management, as we put in our last annual report shareholder letter, is we think one of the best managed companies in the world. They came out of Hanson. Lord White and Lord Hanson built a conglomerate in the '60s, and it was dismantled in the '90s. Hanson was always a very cost conscious, high integrity kind of a place.

Imperial comes out of that culture. They have the largest market share in the UK, and they've done a series of very smart acquisitions. They've bought back stock; they've

issued stock when they needed to. They're just great capital allocators, and they never let all of this go to their heads. They're really pretty humble people, yet they have one of the best records of any corporate management I've ever seen. We're Imperial fans.

Q: What's the best investment that you've ever made, and did you realize the upside at the time of purchase?

DW: One of the best ones has to be Berkshire Hathaway. It's just been such a great long-term investment. One of the things that's neat about Berkshire is that it has become a better company than it was.

The annual reports are great because they make you think. That's not only been an excellent financial investment, but it's been a great intellectual investment. Berkshire has provided not only direct financial benefits, but there have been ancillary benefits because studying that company has improved how I think.

Q: Almost every investor who comes to speak on campus extols the benefits of concentration. They're all very successful, though it's interesting that they define a concentrated portfolio differently. For some it's 4 or 5 stocks, for others it's 50 or 60. You have about 30

(Continued on page 11)

David Winters (continued from page 10)

(Continued from page 10)
positions. Why does that number sit right with you?

DW: We're a mutual fund, regulated by the Investment Company Act of 1940. Therefore it has to be diversified and meet certain specific diversification requirements. Most of the guys who are running 4 or 5 stocks are in a partnership format, and usually are getting annual fees of 1 or 2 percent plus 20% of the profit. We have a partnership that's got the same management fee as the mutual fund. It is more concentrated, so it will have a lumpier performance, but it is not as small as 4 securities or 5 securities.

I think that if you can find 4 or 5 great investments and ride them, it's probably going to be a lumpier way to investment nirvana, but it works. For us, we have a couple of very large positions. We call our investments the major leagues, the minor leagues, and the farm team. Some of them are on their way up, some are on their way down, and some of them you just couldn't get enough of because it was not available at the price you want to pay.

I think you want to be diversified on some level, in case a satellite hits the company, or something terrible happens that you don't expect. But the more you can have in your highest conviction ideas, as long

as you've done the work, in all likelihood you'll have better results. We don't want to run Noah's Ark (2 of everything). I've seen that, and you might as well go buy an ETF or an index fund. We're comfortable somewhere in between. We don't want to put it all on black with leverage. That's not our style.

We also want to be in a position where if there's an unexpected event, that we can react to it. I'll give you an example. In 2002 there was a series of corporate scandals. Enron, Adelphia, and all this stuff happened. There was a gap downward in the high yield market, and then there was another very sickening drop, because after the initial scandals there were a whole series of other ones. So for what now, in retrospect, looks like a very short period of time, it was almost complete disarray in the fixed income market. But if you didn't have the money, you wouldn't have been able to buy all this great debt cheaply. So we don't agree with the idea of always being fully invested, and that every great idea is always going to be apparent at that time.

One of things about this business is that sometimes you just have to be patient and wait for the fat pitch. Going back to the bubble period, the bubble went on for quite sometime, and it was really almost at the

end of the bubble where people were just capitulating for get-rich-quick schemes. They couldn't stand the fact that their neighbors were getting rich in zippidy-do-da.com, and they would sell the Brown Forman. In retrospect many people now realize they were following a fad rather than true style.

Q: What advice would you give MBA students?

DW: Just be true to yourself, and try to find something that you love. I think that so many people get obsessed with trying to do what they think will get them to a certain point, but if you enjoy the passage of time, the likelihood that you're going to be happy, healthy, and successful increases.

You've got to find something you're passionate about, that really makes you want to go the extra mile, because often times that's what differentiates success in business. Sometimes it's just luck, like the Beverly Hillbillies where you miss the turkey and you hit the oil well, but a lot of it is just that you're so excited about how you work and what you do that you can't wait to do that extra little incremental thing. That has got to come from love, not greed. Most of the people that are really, really successful, I don't think it was only money that motivated them.

Thank you Mr. Winters.



“Just be true to yourself, and try to find something that you love. I think that so many people get obsessed with trying to do what they think will get them to a certain point, but if you enjoy the passage of time, the likelihood that you’re going to be happy, healthy, and successful increases.”

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Footstar, Inc.

Jonathan Salinas
JSalinas08@gsb.columbia.edu

Buy

June 2007

Footstar, Inc.
(OTC: FTAR)

Price: \$4.56
(7/30/07)
Market Cap: \$95.97m
EV: \$4

Introduction

Under reorganization, Footstar sold 349 Footaction stores to Footlocker for \$225 million in cash. Additionally, the company sold or closed other underperforming stores and exited operations in 44 Gordman stores and 87 Federated department stores. Company facilities in California and South Carolina were also sold to raise cash. All cash proceeds were used to pay off creditors during the reorganization process. During bankruptcy, Footstar and Kmart engaged in a series of legal battles in which Kmart tried to terminate the original Master Agreement for Meldisco (originally scheduled to last until 2012.) Eventually, the parties agreed to a new deal with the following terms: Footstar gained 100% control of Meldisco (previously Footstar shared ownership 51/49 with Kmart) and agreed to pay 14.625% of monthly gross sales to Kmart. Footstar pays a "rental fee" of \$23,500 to Kmart for each store in which it operates. In turn, Kmart pays Footstar a fixed fee for each store it closes. The amended agreement is scheduled to end December 31, 2008, at which time Kmart is required to purchase Footstar's outstanding inventory at book value. Footstar, Inc. emerged from bankruptcy in February 2006 with a large cash balance and no outstanding debt, having paid its creditors in full.

Investment Thesis and Valuation Assumptions

Adjusted Present Value			
30-Sep-06			
Assets			
	Book Value	Adjustment	Liquidation
Cash And Cash Equivalents	68.2	100%	68.2
Net Receivables	10.6	85%	9.0
Inventory	109.8	100%	109.8
Deferred Tax and Other Current Assets	11.3	100%	11.3
Property Plant and Equipment	26.4	100%	26.4
Intangible Assets	7.5	0%	0.0
Deferred Long Term Asset Charges	1.8	100%	1.8
Total Assets	235.6		226.5
Liabilities			
Accounts Payable	61.7	100%	61.7
Accrued Expenses	22.5	100%	22.5
Income Taxes Payable	0.7	100%	0.7
Liabilities of Disc Operations	2.7	100%	2.7
Liabilities Subject to Compromise	4.5	100%	4.5
Mahwah Headquarters Mortgage	5.0	100%	5.0
Retirement Pension Liabilities	32.6	(25.00)	7.6
Amount due under Kmart Settlement	5.2	100%	5.2
Total Liabilities	134.9		109.9
Adjusted Book Value			116.6
Discounted @ 10% over 2 years			96.4

Adjusted Present Value

On the asset side of the balance sheet, I reduce net receivables by 15% to yield a conservative estimate given potential problems collecting on accounts during liquidation. In addition, I discount all intangible values to 0 (for actual value of brands see "Brand Value" section). I do not make any adjustment to inventory, given Kmart's agreement to purchase outstanding inventory at book value. On the liability side, I reduce the long-term pension liabilities (booked as "other long term pension liabilities") by \$25m. The company's disclosure statement from December 2005 explains that the company values liabilities at \$28m, however, if Footstar were to eliminate this benefit, its liabilities would be approximately \$3m in total. Conversations with CFO Mike Lynch confirmed that retirement liabilities can be cancelled at the company's discretion, and are valued in filings under the assumption that the company operates as a going concern. If the company is forced to liquidate, it will likely negate these obligations and not be responsible for payment of these claims. Finally, I discount adjusted book value of approximately \$117m by 10% over two years to derive \$96m present value for the net worth of the company under a liquidation scenario.

company under a liquidation scenario.

Brand Value

In my calculation of adjusted net worth, I assume that all stated intangibles are reduced to 0. However, under a liquidation scenario, Footstar can license or sell its proprietary brands and trademarks, most notably, Thom McAn. I confirmed the company's proprietary ownership of Thom McAn and also discussed estimates of brand worth with management. CFO Mike Lynch explained that the most recent estimate of brand value, derived by a third-party consulting firm, is \$15-\$30 million dollars. Approximately \$200m in sales can be attributed to Thom McAn products, and management believes such brands typically are valued based upon a 5x multiple of revenue to brand value, implying a high-end estimate of \$40m. That being said, to be conservative, I value the brand at the low-end of the range, \$15m, for my SOTP estimate.

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Earnings Estimates

For my calculation of discounted cash flow, I assume the company operates with approximately 5-6% decline in revenue for 2007 and an almost 7-8% decline in revenue in 2008. I utilize realistic worst case margins to arrive at EBITDA and EBIT, and discount EBIT at 10%.

NOL Value

Footstar presently possess net operating loss carry forwards for approximately \$150m. This NOL asset is understated on the balance sheet and offers an attractive tax shield for an acquirer. Per Rule 382, the value of an NOL to an acquirer is defined as follows:

*Fair market value of company prior to acquisition * Adjusted federal rate at time of acquisition = Amount of write-off per year*
The annual write-off amount can be used for a 20 year carry forward period. I utilize the current equity market value, the January 2007 IRC 382 Rate, and assume a 40% corporate tax rate to derive: Value of NOL = $134 * 4.15\% * 40\% = 2.2$

I discounted the 2.2 at 10% over a 20 year period and arrived at a present value of the NOL equal to ~ \$19m.

Business Description

Footstar, Inc. licenses and wholesales discounted footwear through its main subsidiary, Meldisco. Known for its Thom McAn brand, the company sells footwear in approximately 1,400 Kmart stores and 850 Rite Aid stores. Previously, the company supplied footwear to Walmart, Federated and other retailers. Walmart continues to purchase products for its Puerto Rico stores and sources FTAR footwear to sell under a proprietary brand on a case by case basis. Footstar's products are manufactured in China and logistics are handled by third-party vendors.

Catalysts

Potential catalysts include:

- **Acquisitions** – Management has made it clear to me that they are actively pursuing acquisitions or new business agreements to try to continue the business past 2008. Additionally, another discount retailer can potentially acquire Footstar for its brands and NOL at a premium to the current price.
- **Dividend or Stock Buyback** – Footstar possesses a large cash balance that should be used to buy back stock or issue a dividend (or a combination of the two). Management has intimated that it will begin to return cash to shareholders if it can not find an appropriate acquisition to continue the business.
- **New or Extended Sales Agreement** – If Footstar can extend its contract with Kmart past 2008, or develop new business relationships, there is significant upside potential for the stock. Right now, it seems the market is pricing the company for liquidation at the end of 2008, but if new agreements can extend the life of the company past 2008, then there is significant upside potential.

Risks

Footstar faces numerous potential risks including:

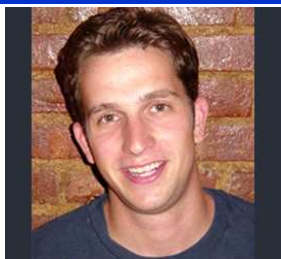
- **Possible early termination of the sales agreement with Kmart** – The current sales agreement between Footstar and Kmart can be terminated prior to December 31, 2008 if annual sales fall below \$550 million dollars. Additionally, Footstar has the right to terminate the deal if sales fall below \$450 million dollars in any four consecutive quarters.
- **Outstanding Wells notice from SEC** – The SEC has filed a Wells notice related to the accounting irregularities discovered in 2002. Possible fines related to this Wells notice could materially impact that value of Footstar.
- **Risk of damages from ongoing litigation with Adidas and NAFTA Traders** – Footstar faces ongoing litigation with Adidas related to a copyright suit. Adidas claims a four-stripe sneaker Footstar sells in Kmart locations infringes on Adidas's three-stripe patent. The suit seeks unspecified damages. Management believes the suit has no merit. Additionally, NAFTA Traders, a salvage company who did business with Footaction, is seeking damages for \$9 million dollars. The company plans to object and defend against this claim, and does not believe any loss in excess of previously recorded amounts is likely.

<u>Earnings Estimates</u>			
	2006 LTM	2007E	2008E
Revenue	684	650	600
COGS	464	442	408
Gross Profit	220	208	192
SG&A	166	163	150
EBITDA	55	45	42
Capex	9	8	8
EBIT	46	37	34
dF		91%	83%
DCF		34.1	28.1

<u>Final Valuation</u>		
	Value	Per Share
Adjusted Book Value	96.4	\$ 4.61
DCF (2007 & 2008)	62.2	\$ 2.97
Value of Thom McAnn brand	15.0	\$ 0.72
Liquidation Value	173.6	\$ 8.30
+		
Present Value of NOL to Acquirer	18.9	\$ 0.90
Acquisition Value	192.5	\$ 9.20

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Ainsworth Lumber Co. Ltd. Short (\$7.70)

Short

David Bernfeld
DBernfeld07@gsb.columbia.edu

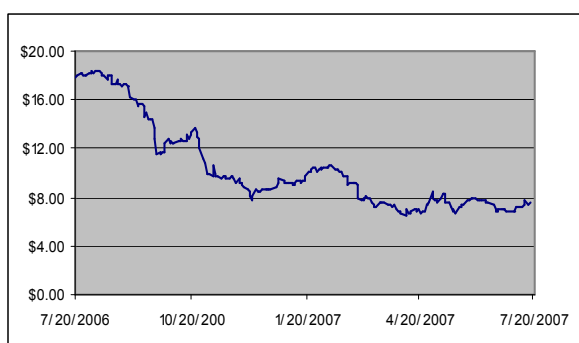
June 11, 2007

Ainsworth Lumber Co. Ltd.
(ANS - TSX)

Price: 7.50
(7/19/07)

Company Description

Ainsworth Lumber Co. Ltd. ("Ainsworth", or the "Company") is a manufacturer of oriented strand board ("OSB") and other engineered wood products with facilities in Alberta, British Columbia, Ontario, and Minnesota. The Company is the fourth-largest manufacturer of OSB in North America and sells 87% of its product into the United States, principally in the Western and Central regions. OSB is a structural panel used in building applications, primarily as residential roof, wall, and floor sheathing. Since OSB constitutes nearly 90% of Company sales, this analysis focuses on the OSB market and the Company's position within that market.



Investment Thesis

Ainsworth operates in a highly cyclical industry that faced substantial overcapacity, additional capacity coming on line, and deteriorating demand prospects. As a high-cost producer in a commodity industry, the Company suffers from competitive disadvantages. As of June 8, 2007, Ainsworth has an estimated \$1,070 mm of debt, \$159 mm of cash, and \$60 mm in availability under its credit facility. At the Company's current run rate, Ainsworth consumes \$40 to \$50 mm per quarter to fund operations and to service debt. The Company will burn through its cash and availability in approximately one and one-half years unless OSB pricing conditions dramatically improve.

Industry Overcapacity

- Total North American OSB capacity of 28.2 billion square feet ("bsf"). At Q1 07 run rate, estimated annualized industry capacity utilization is 76% and seasonally adjusted capacity utilization is 80-85% (see graph 3).
- Based on announced and funded projects, industry capacity is estimated to reach 32 bsf by end of 2008.

OSB Demand Driven by Housing Starts and Product Substitution Trend

- Single family housing starts are the largest determinant of OSB demand.
 - Single family housing starts are confronting substantial headwinds.
- Substitution trend of OSB for plywood by builders (see graph 2).
 - Trend has slowed in past five years, with OSB on the average taking less than 1% market share from plywood.

Substantial Gap between Capacity and Demand

- The home building industry would need to experience 15% demand growth/year for two years for seasonally adjusted capacity utilization to reach 90%. This unlikely scenario would require:
 - Single family housing starts to return to peak 2005 levels.
 - OSB to gain from plywood an additional 1.8%/year share of panel market for two consecutive years (i.e., 2x 5-yr avg).

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High Cost Producer

- Ainsworth manufacturing costs are 6-7% higher than Louisiana Pacific, the Company's largest competitor.
- Given low marginal cost of production and current market overcapacity, firms have incentive to sell at prices approaching marginal costs.

Ainsworth Lumber Co. Ltd. (Continued from page 14)

Cash Burn

- The Company will burn through its cash and availability in approximately one and one-half years unless OSB pricing conditions dramatically improve.

Exchange Rate

- Should the Canadian dollar remain at current high levels, the recent strength of the Canadian dollar will accelerate Ainsworth's problems.
 - Since the end of first quarter 2007, the CAD/USD exchange rate has increased by \$0.09. If the rate remains at this level, the Company's cost disadvantage will deepen, resulting in an annualized reduction of \$36 mm to EBITDA.

Competitive Outlook

Continued Downward Pressure on New Housing Starts

- Housing stock has been growing faster than population for the past six years.
- The unprecedented extension of credit to marginal borrowers from 1999 through 2005 supported the longest continuous growth in new single family housing starts since 1960 (see graph 4).
- Facilitated by arm, option arm, negative amortization and teaser rates mortgages.
- The diminished availability of credit to such borrowers has contributed to a significant reduction in demand for new housing.
- Recent high levels of sub prime mortgage defaults have led to foreclosures and reintroducing significant housing supply to the market.
 - Sub prime mortgage defaults should continue to grow as increasing numbers of five and seven year arm mortgages readjust from 2008 through 2010.
 - As expectations of home price appreciation are not realized, marginal borrowers will not be able to refinance mortgages coming off low "teaser" rates.

No Pricing Relief in Sight

- Additional capacity coming online.
- Incentive to sell below cost during times of industry overcapacity because incremental cost of production is approximately 30% lower than average cost of production.
 - Variable costs of OSB production include wood (32%), glue/wax (28%), labor (24%), supplies (10%), and energy (6%). Most labor and energy costs and some supply costs become sunk costs in the short run.

Investment Catalysts

- The Company is using excessive amounts of cash to fund operations and to service debt.
- Potential liquidity crisis leading to insolvency.
- Monthly announcement of housing start levels could provide downward pressure on Ainsworth securities if levels are below expectation.

Risks

- On May 31 2007, secured lenders issued a \$115 million term loan to the Company. These lenders would have access to material non-public information and chose to extend additional credit to the Company. This decision could suggest that results for the second may show an improvement over first quarter results.
- Lenders could extend additional credit to Ainsworth.
- Recent high plywood prices may spur increased use of OSB as substitute for plywood.
- Interest rates could return to historic lows, resulting in reduced mortgage default and increased new housing starts.
- Special Canadian insolvency law arrangements if any.
- Takeover by private equity buyer.

"Ainsworth operates in a highly cyclical industry that faced substantial overcapacity, additional capacity coming on line, and deteriorating demand prospects. As a high-cost producer in a commodity industry, the Company suffers from competitive disadvantages."

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2007 CIMA Conference (Continued from page 15)

(Continued from page 4)

sors, Inc. opened this year's conference by sharing some of the lessons he learned during his 40+ year career. Mr. Cooperman began by explaining his positive outlook for the markets in 2007 and provided insight into the research his firm performs to reach their conclusions. "Bull markets don't die from old age, they die from excess – and we don't see this type of excess at this time."

Mr. Cooperman also weighed in on the topic of the hedge fund industry, as did many panelists throughout the day. Cooperman reminded us that, by definition most investment professionals do not beat the market - so charging "2 and 20" will not be sustainable over the long term for most money managers. To underscore his point, he went into his files and pulled some figures from a 1970's article on the hedge fund industry. A majority of the largest hedge funds in December of 1968 were down well over 50% to 100% by September of 1970, and many are no longer in business. Cooperman noted that a hedge fund meltdown was possible in the current environment if competi-

tion continues to increase from the funds flow into the industry or if we were to enter a prolonged one-way bull market. Addressing current MBA students, Mr. Cooperman believes that they will benefit from the trend on Wall Street of reducing research departments, causing a need for hedge funds to hire more talented analysts.

The first panel discussion was on the topic of "Margin of Safety", one of the underlying principles defined by Graham and Dodd. Warren Buffet once commented that the three most important words of investing are "margin of safety". Before making an investment, a value investor will demand a

sufficient difference between a stock's current market price and the price that an investor believes to be its true value, or "intrinsic value". This difference provides a cushion that will minimize losses if an investment does not perform as expected and ensures that no matter how good a company looks, the stock will only be purchased when it is selling at a price lower than its true value. While this may seem like common sense, very few investors adhere to this discipline in practice. Each panelist, which included Stephen Bepko (CBS '66) (Capital Research Company), Ste-

(Continued on page 17)

Save the Date:

11th Annual Columbia Investment Management Association Conference

Columbia University Morningside Campus, Alfred Learner Hall

February 1, 2008

Past speakers have included: William Ackman, Bruce Berkowitz, Jim Chanos, Leon Cooperman, Stephen Mandel, Bill Miller, Michael Mauboussin, Thomas Russo, Marty Whitman, and David Winters

Get your tickets early! The conference has sold out for the past 3 years.

Warren Buffett (continued from page 11)

(Continued from page 3)

one of us will grow into becoming such a successful investor some day, but his advice on living a better life can be followed by everyone. He lays out his wisdom quite clearly – all we have to do is grasp it.

Career Advice & Tips for Success

"Go work for whomever you admire the most – I tried to get there very quickly. I admired my dad and Ben Graham – my first two jobs after school were with my dad and Ben Graham."

"Munger sitting with a gorgeous woman – she asked 'if you had to boil down the reason for your success into one word what would it be?', he said 'Rationality'. You should have a good reason for doing things."

"It wasn't as personally satisfying to buy and sell things all the time as I found it to be to build a business over time, and build long-term associations."

Ethics & Reputation

"We can afford to lose money – even a lot of money. We cannot afford to lose reputation – even a shred of reputation."

"We must measure every act against not only what is legal but also what we would be happy to have written about on the front page of a national newspaper in an article written by an unfriendly but intelligent reporter."

"Everyone else is doing it" – are the

(Continued on page 21)

ven Galbraith (Maverick Capital), John Gunn (Dodge & Cox) and Alexander Roepers (Atlantic Investment Management), described their individual application of the principles of value investing to determine whether a margin of safety exists. The panelists also discussed the keys to achieving long term success in the industry. Among the traits mentioned were having a narrow focus, avoiding all types of idiosyncratic risk, building a team of industry specialists, avoiding "style drift", and most of all maintaining strict discipline.

After lunch, the topic of "activist investing" was addressed. Investors have been increasingly proactive in helping, or sometimes forcing management to maximize shareholder value. While the panelists, which included James Mitarotonda (Barington Capital Group), Kevin Richardson II (Prides Capital Partners), Eric Rosenfeld (Crescender Partners), and Roy Katzovics (Pershing Square Capital), represented funds that are generally considered "activist funds", they warned not to lose sight of the fact that only a small percentage of each fund is invested in positions where an activist role is pursued. The panel was in agreement that the most important factor driving investment decisions are the principles underlying fundamental research and valuation. Activism is only used as a tool in the event that management is unwilling or unable to unlock shareholder value. Mr. Mitarotonda pointed out that the recent increase in activist investing has forced the board of directors of many public companies to reassess their roles. To illustrate his point, he asked the audience to imagine if the president, not the people, appointed the majority of congressional representatives. "It is the same thing in corporate America. The board of directors works for the owners of the company, not for

the CEO... That is not what was happening..." and the recent wave of corporate scandals was a direct result. During the Q&A the panel was asked how current activist investors differ from the corporate raiders of the 1980's. Eric Rosenfeld replied that the main difference is the raiders, for the most part, were only looking out for themselves, while current activist investors are creating value for all of the company's shareholders.

The final panel provided the audience with a firsthand look into the investment strategies of some of the world's most highly regarded investors, including Bruce Berkowitz (Fairholme Capital Management), David Greenspan (CBS '00)(Blue Ridge Capital), Bill Miller (Legg Mason), and David Winters (Wintergreen Advisors). Each member of the panel shared their outlook for the investment landscape, offered some specific stock ideas and explained the reasons behind their selections. Leading the panel was Professor Bruce Greenwald who began by asking each investor to describe their process for finding actionable investment ideas. Mr. Berkowitz immediately answered that the first thing he looks at and the "only thing you can count on at the end of the day" is cash. Mr. Greenspan described his process of searching in places where people are slow to react to current events. These are usually found by looking at industries in the midst of change. He also looks for places where hate or anger are influencing the stock price, using the example of when CNBC showed a consumer taking a chainsaw to a Dell computer. Bill Miller and his team receive daily alerts of any company that has a large one day sell-off, or shows up on the 52-week, 5-year and 20-year low list. He also stressed the importance of not treating every industry the same. As for Mr. Winters, many of his ideas are found by doing a tremendous amount of reading while viewing each situation from many different angles. Another important lesson that he

learned from Bill Miller is not to become trapped in the "traditional" value box. A common factor mentioned by each of the panelists was the importance of only investing in companies with a strong management team. When asked about past mistakes, each investor spoke of a time when they momentarily drifted away from their discipline.

Closing the conference was another Columbia alumnus, Mark Kingdon (CC '71) who is the President and Founder of Kingdon Capital Management. In a fitting change of pace, Mr. Kingdon shared with the audience his set of investment principles which focused more on managing people than on managing money. Included among these principles were the value of a strong work ethic, the importance of taking time to go to the gym, the necessity of maintaining focus within a long term context, and the priority that should be given to family. He also mentioned rules such as: "You can turn a portfolio manager into mentsch", "You can't always turn a mentsch into a good portfolio manager", and "become passionately involved in a charity."

The conference attracted a record attendance (with over 60 people unable to get off the wait-list). After spending the day learning from those who are recognized as the best at what they do, everyone walked away with valuable advice and a multitude of ideas on how to become a better investor.

[Look out for details, speakers, and ticket purchasing information for the 2008 CIMA Conference which will be held on February 1, 2008. Updates will be posted on both the CIMA and Heilbrunn Center websites, as well as in the next edition of *Graham and Doddsville*.](#)



Meryl Witmer

Witmer Asset Management

Meryl Witmer is a former vice president of Mutual Series Funds where she worked under Michael Price. In 1989 she teamed up with Donald Parker and formed Emerald Partners, a research-intensive hedge fund. Mrs. Witmer spent 2 years as an analyst with Dean Witter Realty and holds a finance degree from the University of Virginia's McIntire School of Commerce. Meryl Witmer is currently a general partner at Witmer Asset Management in New York City.

Top Buys

Company	Shares	Value
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Top Sells

Company	Shares	Value
NAVISTAR INTL CORP	885,400	\$40,507

Top Holdings

Company	Shares	Value	Change (shares)
TEXAS INDS INC COM	801,300	\$62,830	0
KAISER ALUMINUM CORP COM	759,100	\$55,323	(311,116)
WHIRLPOOL CORP COM	461,000	\$51,263	0
COMCAST CORP NEW CI A	1,382,700	\$38,660	258,600
CROWN HOLDINGS INC COM	1,261,700	\$31,505	362,900
MEDIA GEN INC CI A	887,800	\$29,537	0
USA MOBILITY INC COM	1,039,614	\$27,820	0
BERKSHIRE HATHAWAY INC DEL CI A	237	\$25,946	0
LIVE NATION INC COM	944,300	\$21,133	(75,000)
CHAPARRAL STEEL CO	11,400	\$819	(166,892)

Bruce Berkowitz

Fairholme Capital Management



Bruce R. Berkowitz is the Founder and Managing Member of Fairholme Capital Management. He was previously employed at Lehman Brothers until December 1993 and at Smith Barney Investment Advisers from December 1993 to October 1997, where he was a Managing Director of Smith Barney Inc. Mr. Berkowitz also serves as a Trustee of Winthrop Realty Trust, and is a Director of White Mountains Insurance Group, Ltd. and TAL International Group Inc. He received his Bachelor of Arts in Economics, cum laude, from the University of Massachusetts at Amherst.

Top Buys

Company	Shares	Value
AUGUSTA RES CORP COM NEW	1,147,800	\$3,329
XTO ENERGY INC COM	3,226,700	\$193,925

Top Sells

Company	Shares	Value
MERITOR SVGS BK PA COM	43,645	\$196
USA MOBILITY INC	2,374,526	\$47,324
WELLSFORD REAL PPTYS COM	10,548	\$82

Top Holdings

Company	Shares	Value	Change (shares)
CANADIAN NAT RES LTD	18,671,770	\$1,238,872	516,902
BERKSHIRE HATHAWAY INC DEL A	10,553	\$1,155,290	731
ECHOSTAR COMMUNICATIONS CORP C	12,716,422	\$551,511	(965,354)
PENN WEST ENERGY TR UNIT	11,635,430	\$388,274	(769,690)
MOHAWK INDS INC COM	3,341,368	\$336,776	(37,400)
LEUCADIA NATL CORP COM	8,886,042	\$313,233	120,430
EASTMAN CHEM CO COM	3,975,869	\$255,768	(15,999)
BERKSHIRE HATHAWAY INC DEL B	51,293	\$184,911	1,138
USG CORP NEW COM	3,670,336	\$179,993	146,100
SEARS HLDGS CORPCOM	987,589	\$167,396	(2,000)
MUELLER WTR PRODS INC COM SER	9,523,800	\$142,857	(700)
TAL INTERNATIONAL GROUP INC	2,760,997	\$82,029	0
IDT CORP CL B	6,547,200	\$67,567	0

Data obtained from SEC Form 13F filed for period ending 6/30/07

13F filings include only U.S. holdings



Chuck Akre Akre Capital Management

Chuck Akre is the founder of Akre Capital Management and Portfolio Manager of the Friedman Billings Ramsey Small Cap Fund. After graduating from American University, Mr. Akre became a stockbroker with Johnston, Lemon & Co. He eventually become Johnston, Lemon & Co.'s Director of Research and CEO of its Investment Management Division. He opened Akre Capital Management in 1989 and began managing the FBR Small Cap Fund in 1997.

Top Buys

Company	Shares	Value
Alimentation Couche-Tard SVS C	1,350,913	\$27,861
Burke & Herbert Bank/bhrb	1,744	\$2,590
Peyto Energy Trust/peyuf	900,000	\$15,407.00

Top Sells

Company	Shares	Value
Enstar Group Ltd./esgr	2,350	\$232
Global Imaging Systems/gisx	1,085,400	\$21,165

Top Holdings

Company	Shares	Value	Change (shares)
Penn National Gaming/penn	7,458,289	\$448,169	62,600
American Tower A/amt	8,255,000	\$346,710	77,480
Markel Corporation/mkl	414,034	\$200,624	2,712
CarMax Inc./kmx	4,441,071	\$113,247	32,187
99 Cent Stores/ndn	6,996,231	\$91,721	83,214
Americredit/acf	3,273,834	\$86,920	50,297
Bally Technologies/byi	2,395,432	\$63,287	22,485
Pool Corp./pool	1,597,620	\$62,355	709,913
Pinnacle Entertainment Inc./pn	2,055,825	\$57,871	11,125
O'Reilly Automotive/orly	1,352,311	\$49,427	28,782
Monarch Casinos/mcri	1,656,090	\$44,466	(140,908)
Simpson Manufacturing/ssd	1,301,929	\$43,927	(78,196)
AES Inc./aes	1,611,534	\$35,260	18,710
Isle of Capri Casinos/isle	1,132,609	\$27,137	22,998

Warren Buffett (continued from page 16)

(Continued from page 16)

most five dangerous words in business. The rationale used for an action that otherwise you'd have trouble justifying."

[To his managers] "If you see anything whose propriety or legality causes you to hesitate, be sure to give me a call. However, it's very likely that if a given course of action produces such hesitation, it's too close to the line and should be abandoned. There's plenty of money to be made in the center of the court. If it's questionable whether some action is close to the line, just assume it is outside and forget it."

"We have no directors' and officers' liability insurance – I tell them "if the ship goes down, you're going to ground".

[If an event that threatens the reputation of the organization happens] "1) Jump on it quickly, 2) Get the facts out as fast as you can and try to correct it - and of course you apologize."

"People pick up the ethics surrounding them. You will behave better if you marry a woman that's better than you are."

[Graham's market analogy of a voting/weighting machine] "applies to individuals as well as businesses. In the long-term you only have your reputation. When you get to be 75 you get the one you deserve. You can get away with things in the short-run, but life sorts you out."

Role of Luck and Success

"I won the ovarian lottery when I was born. In 1930, there was one chance in 50 roughly that I was born in the US, and the chances were much higher, by 49 times,

that I was born elsewhere. On top of that, I was wired for capital allocation in a world where capital allocation had become incredibly important. We had a market system that rewarded far out of proportion to nurses, teachers, anything else, you name it. I had two parents that educated me."

"My friend Gates says if I come up wired for capital allocation in Africa 1000 years ago, I'd be some animal's lunch. I can't run fast, I can't climb trees. I can say 'I allocate capital', and the animal would say 'those are the guys that taste the best'. It was totally just an accident."

"We are the luckiest people in the world operating in the United States in year 2007. During the 20th century, the real standard of living went up to 7 from 1 for Americans – this never happened in history of the world. There are centuries with no gain. Here we are lucky. Drop us down to Afghanistan or wherever it may be, all this wonderful talent won't accomplish anything. We are lucky enough to accumulate more than anybody else in this world to pass it on to our kids."

"What do you do with that luck – and what obligations do you have? That is a question to be answered by the government via their tax system etc."

Philanthropy

"You need a market system to keep pushing the lucky ones to help the society to help somebody who did not win the lottery."

"Why should a kid just get more because his family was rich? Society gave it to me, I lived a wonder-



Paul Sonkin '95, William von Mueffling '95, Warren Buffett '51, and Glenn Greenberg '73

ful life and it should go back to society."

[The Gates Foundation] "will measure the \$1.5 billion by 'does it improve more lives than any other course of action than they could take?' - every human life being equal"

[Idea of specialization of labor by Adam Smith] "I wouldn't cut my own hair. It also applies to philanthropy."

Corporate Governance and Board Governance

[About Board of Directors' selection] "How would you fire yourself from a \$200k per year job on a directorship - especially when you're living off a \$100k a year pension?"

[About Board of Directors' compensation] "Have them get rich if shareholders get rich, have them get poorer if shareholders get poorer."

[About Management Compensation] "We do not have a stock option plan. We have a range with numbers that relate to things under their control and relate to profitability. (An) option is like a goody – once you get it you don't like to give it back."

[About Management stock ownership through options] "I don't like it, but it's part of the game. I would be really cautious to get in with a management that overreaches."

Burak Alici graduated with an MBA from Columbia Business School in May 2007. Burak was a member of the Applied Value Investing program and was the President of CIMA for 2006 - 2007.



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