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The Best Investor You’ve Never Heard Of

For this month’s newsletter, I am reposting a Money Magazine article, originally published in 2000 written by Jason Zweig. The subject, Joseph Rosenfield passed away shortly after the article was written. Mr. Rosenfield was the chairman of the investment committee of Grinnell College and a hero to many great investors, including his friend and admirer Warren Buffett.

This article was written seventeen years ago in 2000. There are certain funds/securities mentioned throughout the article and are not intended to be, nor should they be taken as recommendations on those securities.

The Best Investor You’ve Never Heard Of

By Jason Zweig, Money Magazine, June 2000

From a nondescript apartment in Des Moines, Joseph Rosenfield – a longtime pal of Warren Buffett – has turned \$11 million into \$1 billion. Who is he, and how did he do it?

This spring, in a modest apartment in Des Moines, Joseph Frankel Rosenfield quietly marks his 96th birthday. Rosenfield has far more to celebrate than living all the way from Theodore Roosevelt’s first presidential term to Bill Clinton’s second. If he were not a profoundly modest man, his mailbox would burst with birthday cards inscribed, “To one of the greatest investors in the world.”

You’ve probably never heard of Joe Rosenfield, but trust me: You can learn a lot from him. Rosenfield is renowned among a small circle of elite money managers — including Warren Buffett, who has been one of his closest friends since the 1960s.

How does Buffett sum up this master investor? “Joe,” says Buffett, “is a triumph of rationality over convention.”

By ignoring the conventional wisdom about investing, Rosenfield has made money grow faster and longer than almost anyone else alive. Since 1968, he's turned \$11 million into more than \$1 billion. He has heaped up those gains not with hundreds of rapid-fire trades but by buying and holding — often for decades. In 30 years, he's made fewer than a half-dozen major investments and has sold even more rarely. "If you like a stock," says Rosenfield, "you've got to be prepared to hold it and do nothing."

From the mid-'60s through the mid-'90s, Rosenfield was the key member of the investment committee at his alma mater, Grinnell College in Grinnell, Iowa. It is for Grinnell, not for himself, that Rosenfield has worked most of his investing magic.

By 1999, little Grinnell — with its 1,300 students and its 108-acre campus — had the largest endowment per student of any private liberal arts college in the country. Its total endowment, at \$1.02 billion, dwarfed those not only of top liberal arts schools like Amherst and Vassar but also of giants like Carnegie Mellon and Georgetown.

Allow me to introduce you to the man who turned one of the finest small colleges in the country into the richest. Lanky, with long hands and keen green eyes, Rosenfield spends most of his time in a wheelchair since undergoing knee surgery last year. Full of charisma, wisdom and wisecracks, he retains a mind as sharp as a razor. He decks himself out in dress slacks and a Chicago Cubs shirt. For decades, Rosenfield personally owned 3% of the team, and in his seventies he vowed to stay alive until the Cubs win a World Series — which may explain the air of immortality that surrounds him.

Rosenfield graduated from Grinnell with a B.A. in political science in 1925, one year ahead of Frank "Cowboy" Cooper, who later became famous as actor Gary Cooper. In 1948, after practicing law for more than 20 years, Rosenfield became chairman of Younkers, a growing retailing chain that had bought out his family's department store in Des Moines.

In the 1960s, however, as he neared Younkers' retirement age of 65, Rosenfield began to devote more time to Grinnell, whose board he'd joined in 1941. Says trustee Gardiner Dutton, "The day I joined the board in 1970, Joe said to me, 'Our job is to make this institution financially impregnable.' Those were his exact words."

Joltin' Joe

Rosenfield can still recall the first stocks he bought for his own account — right after the crash of 1929. “In the early days I was doing too much short-term investing,” he says. “I’d buy and sell stocks in 30, 60, 90 days: Studebaker, Dodge, Nash Motors. I thought I could make real money doing that, but I was wrong. I didn’t go broke, but I got badly bent. Buying for a short period is always going to hurt you in the end.”

That’s a lesson he’s never wavered from — and one that has defined his strategy for Grinnell from the very start. “I figured government bonds wouldn’t get the college anyplace,” says Rosenfield. So he started looking for “good common stocks we could own for the long term.”

Before long he had help. In 1967, some friends introduced him to Warren Buffett. In those days, Buffett’s private partnerships, which had beaten the market by a vast margin for 10 years, totaled less than \$75 million. Virtually no one outside of Omaha had ever heard of him — but, recalls Rosenfield, “I could see what a fine mind he had, and I was immediately attracted to him.”

The two men bonded at a speech the Rev. Martin Luther King Jr. gave at Grinnell. “We hit it off immediately,” confirms Buffett. “Joe is an extraordinarily generous and smart man. I’d never have wanted to replace my real father — but if after my dad’s death I could have adopted Joe as my father, I would have.” Rosenfield promptly invested in his new buddy’s company, buying 300 shares of Berkshire Hathaway for Grinnell for \$5,252. In 1968, Buffett joined Grinnell’s board.

That was the same year that another Grinnell trustee, Robert Noyce, called Rosenfield to tell him about a new company he was starting. Noyce had been kicked out of Grinnell in his junior year for stealing a 25-pound pig from a nearby farm and roasting it at a campus luau; his physics professor, who felt Noyce was his best student ever, got the expulsion reduced to a one-semester suspension. Noyce had never forgotten the favor, which was why he was offering the college a stake in his start-up, NM Electronics.

Was Rosenfield interested? “The college wants to buy all the stock that you’re willing to let us have,” he told Noyce instantly.

Grinnell’s endowment put up \$100,000, while Rosenfield and another trustee each kicked in \$100,000 more, enabling the school to supply 10% of the \$3 million in venture capital that

Noyce and his sidekicks, Gordon Moore and Andrew Grove, raised for the company that they soon renamed Intel.

By 1974, three years after Intel went public, Grinnell's endowment had more than doubled to \$27 million — even as the stock market lost 40% of its value.

Meanwhile, Rosenfield was keeping his eyes, and his mind, wide open. In 1976, Rosenfield heard from Buffett that a TV station, WDTN of Dayton, was for sale. Endowments rarely control private companies, but Rosenfield thinks like a businessman, not a bureaucrat. He grabbed WDTN for Grinnell at just \$12.9 million, or a mere 2 1/2 times revenues at a time when TV stations were selling for three to four times revenues.

Next, from 1978 through 1981, on Buffett's suggestion, Rosenfield put \$10 million, or a third of the entire endowment, into the Sequoia Fund. And in 1989, Rosenfield bought a \$25 million stake in Freddie Mac, the Federal Home Loan Mortgage Corporation. Today, nearly two-thirds of Grinnell's endowment — more than \$600 million — is in Sequoia. That's one of the largest investments ever amassed in any mutual fund by a single shareholder.

Between 1977 and 1997, Sequoia outperformed 94% of all diversified U.S. stock funds and beat the S&P 500 by 2.7 percentage points annually. Meanwhile, Freddie Mac boomed through the 1990s. Though Rosenfield has sold much of Grinnell's stake, the school has made roughly \$130 million on it.

Sell Is a Four-Letter Word

Rosenfield has broken rules right and left. First of all, he's never had any use for a committee to make investment decisions. For most endowment funds, a stake in an untested technology company and the private purchase of a TV station 600 miles off-campus would have had to go before a committee, which, after tedious debate, would probably have nixed such risky propositions. "I just bulled things through," says Rosenfield, squaring his shoulders.

And instead of spreading his bets, Rosenfield doubled down. Grinnell's endowment holds a total of fewer than 20 different stocks and mutual funds (and that's counting each of the 10 stocks in the Sequoia Fund separately). Many colleges have more investment managers than Grinnell has investments. Outside consultants typically slice and dice assets — putting, say, 3.5% in midcap growth stocks, 1% in small Japanese stocks, 2% in emerging markets bonds and so on. Each sliver has at least one manager, who in turn owns dozens, even hundreds, of investments. The

result of spreading so many bets so thinly, and paying high fees on every layer, is sheer mediocrity: Over the 10 years through 1999, the average endowment earned 13% annually, while Grinnell's grew at 15.6%.

Finally, Rosenfield did as little as possible, seldom buying and almost never selling. In fact, he considers selling to be indistinguishable from error. Who can blame him? After Intel went public in 1971, Grinnell found itself sitting on a gold mine — but Bob Noyce treated it like a powder keg. Tormented by the fear that his fledgling company might financially cripple the college that had given him a second chance, Noyce began pestering Rosenfield to sell. “Bob was trembling about it,” recalls Rosenfield. “He'd say, ‘I don't want the college to lose any money on account of me.’ But I'd say, ‘We'll worry about that, Bob. We'll take that risk.’”

Finally, however, Noyce wore Rosenfield down, and between 1974 and 1980 the college sold its Intel stake for \$14 million, a 4,583% profit.

“I wish we'd kept it,” Rosenfield says. “That was the biggest mistake we ever made. Selling must have cost us \$50 million, maybe more.”

Then Rosenfield locks eyes with me and asks, “What do you think?”

Hmm, I mutter, it might have cost a little more than \$50 million; I don't have the heart to tell a 96-year-old man that the shares he sold would today be worth several billion dollars.

Grinnell sold its TV station, WDTN, only because its value rose so fast that Rosenfield could no longer justify keeping so much of the endowment in a private, illiquid investment. The Hearst Corp. bought it from Grinnell in 1981 for \$49 million, a 281% profit over a period when the stock market went up about 90%.

Rosenfield sold Grinnell's stake in Berkshire Hathaway for \$3.7 million between 1989 and 1993 — for reasons that must have been compelling at the time but that neither Rosenfield, nor Buffett, nor anyone at Grinnell can now recall.

What about Sequoia Fund and Freddie Mac? These investments leave Grinnell heavily exposed to the financial stocks that have been the skunks of the market for the past couple of years. In 1999, Sequoia lost 16.5%, while Freddie Mac dropped in value by 27%.

Many investors would long since have bailed out, so I ask Rosenfield if he's worried about these bad short-term returns. His entire face turns into a befuddled question mark. "Why should I worry?" he asks. "There are too many people who are nervous Nellies and panic when a stock goes down a few percent. That's what stocks do! I think that [Sequoia and Freddie Mac] are eventually going to make the college a lot of money.

"There's all kinds of propaganda making people believe that impatience will pay off," he continues, "but impatience is a sure way to lose money. I've always taken the long view." He adds with a grin: "I've got nothing but time."

In the Long, Long Run

What has Rosenfield meant to Grinnell? The massive endowment, says school president Russell Osgood, has enabled Grinnell to survive even as other small schools have shut down. Nor has Grinnell spent its war chest on extravagances. (The campus' tallest building is still shorter than the Golden Sun feed silo on the outskirts of town.) Instead, the money has gone into keeping tuition about 14% lower than at similar schools, providing aid to 91% of students and sustaining an incredibly intimate educational experience. The average class size is 16. Says Ellen Wolter, an English major from Bismarck, N.D.: "It's almost not like school; it's like an intense book club."

In my two days at Grinnell, it seemed to me that something was amiss, but I couldn't quite put my finger on it. Then it hit me: Of the 57 buildings on Grinnell's campus, not one is named after Rosenfield, and many of the students don't even recognize the name of their college's biggest benefactor.

That's true modesty, the kind that accompanies true investing genius. You'll never find Rosenfield hyping his philosophy on CNBC — but that's precisely why it should command your full attention. Consider these lessons.

- **Do a few things well.** Rosenfield built a billion-dollar portfolio not by putting a little bit of money into everything that looked good but by putting lots of money into a few things that looked great. Likewise, if you find a few investments you understand truly well, buy them by the bucketful. However, I think Rosenfield is a rare exception. Without his kind of superior knowledge, skill and connections, most of us mere mortals need to diversify broadly across cash, bonds, and U.S. and foreign stocks.

- **Sit still.** If you find investments that you clearly understand, hold on. Since it was their long-term potential that made you buy them in the first place, you should never let a short-term disappointment spook you into selling. Patience — measured not just in years but in decades — is an investor’s single most powerful weapon. Witness Rosenfield’s fortitude: In 1990, right after he bought Freddie Mac, the stock dropped 27% — and Grinnell’s total endowment shriveled by almost a third. And although Sequoia crushed the S&P 500 cumulatively from 1979 through 1998, the fund underperformed the index in eight of those years, or 40% of the time. Unlike the typical mutual fund investor, who holds on to his shares for an average of just three years, Rosenfield never panicked. Instead, he just waited. “Joe invests without emotion,” says Buffett, “and with analysis.”
- **Invest for a reason.** Rosenfield is a living reminder that wealth is a means to an end, not an end in itself. His only child died in 1962, and his wife died in 1977. He has given much of his life and all of his fortune to Grinnell College. “I just wanted to do some good with the money,” he says. That’s a lesson for all of us. Instead of blindly striving to make our money grow — or measuring our worth by our possessions — each of us should pause and ask: What good is my money if I never do some good with it? Is there a way to make my wealth live on and do honor to my name?

Rosenfield is still intent on increasing his own stake for those very reasons. “I just bought some Berkshire Hathaway B,” he says, “but I know I have to keep it a while for it to perform.”

He leans forward, eyes twinkling, and asks, “So what if I’m getting old?”

Source: Money Magazine, June 2000

Sincerely,

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