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Quarterly Update
CWS Capital Partners LLC

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CWS

CALENDAR OF EVENTS

May 2010
Semi Annual Conference Call

May 31, 2010
CWS Office Closed for Memorial Day

July 5, 2010
CWS Office Closed for Independence Day

July 15, 2010
2nd Quarter 2010 Estimated Tax Payment Due

July 30, 2010
2nd Quarter 2010 Quarterly Packages Mailed

September 6, 2010
CWS Office Closed for Labor Day

September 15, 2010
3rd Quarter 2010 Estimated Tax Payment Due

October 29, 2010
3rd Quarter 2010 Quarterly Packages Mailed

November 2010
Semi-Annual Conference Call

November 25th and 26th
CWS Office Closed for Thanksgiving Holiday

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Thank You Benjamin Roth

By Gary Carmell

This quarter was particularly challenging to find a relevant and interesting topic for my article. I feel like I have said what needs to be said over and over about our business (apartments are well positioned for a recovery) and the economy (it is recovering and I am optimistic that it can be sustainable without a double dip recession). One of my favorite lines in a song is from the Talking Heads where David Byrne sings, "Say something once, why say it again?" There is an exception to this, however, which I will identify shortly.

In thinking about an appropriate topic I started categorizing past articles. The general categories have been as follows: the apartment industry, CWS, the economy, interest rates, investing, and the occasional odd ball piece. Often times I will go back in history and find some interesting story, article, or series of events to help gain insight about today and where we may be headed. I am usually more interested in reading about and studying the past, particularly via real time information like newspaper articles, than I am about what

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most modern day prognosticators think. I find this more valuable because most predictions are usually wrong and by going back in time we can see who had unusual foresight. By reading real time articles it is the closest to what investors face everyday. We have imperfect information coming to us in a swirl of emotion, bias, group think, and general lack of economic and business literacy. In short, there is a lot of noise and very little signal. By going back in time and knowing the outcome but also being aware of the eddy of information and opinions people were contending with, occasionally we can find those people who had a unique ability to separate the signal from the noise and offer us timeless wisdom. It is with such individuals that I make an exception to the Talking Heads request not to repeat ourselves. Some things need to be reinforced over and over because they are so valuable.

Benjamin Roth is an unlikely source of timeless wisdom. He was an attorney in Youngstown, Ohio during the Great Depression who happened also to have a fascination with investing and financial history. He was a great student of the markets and was always trying to learn and improve upon his actionable knowledge. He did what so few investors do but I think is immensely valuable. He kept a diary during the depression, but from the perspective of an investor who is chronicling key events as they unfold in real time while also putting his predictions on paper. This would obviously allow him to be able to go back and assess how they turned out. I have great admiration for what he did because I too feel that successful investing requires synthesizing an in-depth understanding of the diverse disciplines of accounting, politics, economics, history, psychology, human nature, demographic trends, and technical analysis of securities prices. With such vast subject matters to work with, learning must never stop if we are to improve our performance and to avoid falling victim to our emotional swings of fear and greed.

Roth read a book published in 1922 called The Art of Investment by Morrell Walker Gaines. He found this book to be a very valuable resource and cited from it regularly. I was intrigued enough to look it up on Google Books. I read the preface and realize this is an important read. Gaines starts off with the following which I think is relevant to the multi-disciplined approach to investing that I believe is so critical to successful investing:

> **" The solid fortunes have been amassed through investment and not made by speculation. They have been built up by men who have developed character and will-power, who have created depth and breadth of mind through concentration and experience, rather than by men of exceptional native brilliancy."**

As the recitation of Gaines' preface indicates, not all of Roth's investment cardinals were his own. He was an avid reader and he would summarize some of the salient points from what he would read. While

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I usually like to synthesize my own hypotheses from diverse inputs, in this case some of what he wrote is so valuable and timeless that I thought I would spend most of the rest of the article quoting liberally from his diary.

As an aside, for students of Warren Buffett, the investment philosophy and lessons learned are remarkably similar to Roth's. The major difference is that Buffett has been able to put them into action with unfathomable success while Roth never had the money at a time when bargains could be had. Buffett has always had money during these times as this has been the goal of his entire investment career, to have money when others did not and to have enough independent thought and courage to take action that others could not or would not be able to take. He has always been greedy when others have been fearful and fearful when others have been greedy.

The following are some of the most valuable excerpts from his diary. I hope you find it valuable and worthy enough to study if you are young or if you are older, to share it with the next generation.

Confusion and Pessimism Provide the Greatest Opportunities for those with Independent Thought, Capital, and Courage
April 14, 1932

Talked to W.W. Zimmerman today. He said, "This is the most puzzling period of my life. I can't understand things. Everything that I thought was right is now proving to be wrong." And the same thought is in the minds of other thinking people. All sense of value, optimism and initiative seems to have disappeared. That is why the depression period presents so many opportunities to the man who has the nerve to buy stocks and real estate and businesses when the outlook is the blackest.

Investing and Diversification versus Speculation
November 26, 1937

The more I see of the recent stock market slump the more I am impressed with the fact that the American people look upon the stock market as a place to gamble and not to invest. In times of rising market the average American becomes over-optimistic: he invests his whole capital in common stocks of the most speculative variety; often extends himself on margin. Then when a slump comes he finds himself over-extended; no cash reserve to fall back upon; he becomes unduly pessimistic and sells at a loss. The European investor takes his capital – no matter how small – half he invests in government bonds – 25% in high-grade dividend paying stocks – and the remaining 25% he will use to gamble on speculative stocks offering possibility of large gains. In the long run he comes out best. His possibility of loss is limited and in an abnormally low market like in 1932 he has capital for unusual bargains. What the American needs is not only stock exchange regulations but also an education on the investment possibilities of the stock market.

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Real Estate Investors versus Stock Market Investors
November 26, 1937

The average man who buys real estate for investment makes a careful study of the property, the location, the income, etc. and hires a lawyer to examine the title. He then expends a lot of time and energy to collect rents, make repairs, etc. At the end of 10 years if he can say that his investment shows an annual return of 6% and then a reasonable capital profit when he sells, then he will consider that investment a success. That same man when he buys stocks either will not investigate because he does not know how or because he is lazy. He bets his money as in a horse race and does not feel his venture a success unless his money is doubled in a very short time.

Similarities to Today
November 22, 1937

There is growing belief among economists that the present recession is not an ordinary one; that the upturn since 1932 was false, based on government spending, monetary manipulation; that this recession is a liquidation of this false prosperity and that it will develop into a major depression or inflation unless the government balances the budget etc…If the government continues its spending etc. it means ultimate inflation and crash. If the government stops spending, balances the budget, it means bad business during the period of adjustment but ultimately a sound recovery. Either way the outlook is not promising.

Focus on Dividends to Help Lower Odds of Loss of Capital
December 23, 1937

As far as possible deal only in income bearing securities that can be held through a slump. Then if you don't sell out in time, even tho[ugh] you may see low prices, you may get a reasonable return on your investment and will probably come out in the end.

There is a proper security for each phase of the business cycle – and each security – whether bonds or stocks – should bear dividends. The dividend return may vary but should be unbroken. The profit from sale of securities will be irregular and at long intervals. As the cycle changes the security should be changed. It is hard to always judge the exact place in a cycle but it is fairly easy to know whether we are in a period of great prosperity and speculation or in a period of blackness and despair. It is most difficult to know when the turn comes. It is best not to wait for the turn but to follow the simple theory of buying when a security is selling below value and to sell when above value. You will probably lose some profits but this is better than waiting too long. A conservative investor will be satisfied to increase principal to an extent that will double the dividend return. This may not sound like much but if the increase is consecutive and none of the principal lost, it will mount rapidly.

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Summary
December 23, 1937

1. Depression is time of greatest profit. The investor who has liquid funds and the courage to act can lay the basis for great profits. The speculator is usually broke or tied up with high-priced stocks.
2. A period of railroad reorganization offers great opportunities in the stocks and bonds of the reorganized companies. If drastically reorganized, the companies will be stronger than ever. Prosperous years are ahead and the new stocks will sell below value.
3. Not too much of your capital should be risked on one particular theory. You may be wrong. You must judge the risk as well as the profit and the latter should outweigh the former.
4. Business will always come back. It will remain neither depressed nor exalted.
5. The market forecasts business in only a limited way. The beginning of a stock market movement usually is caused by the trend of business but in the end the movement is carried too high or too low – by the extreme optimism or despair of human nature.
6. As a general rule only strong companies are worth investing in. After a severe depression this may be broadened to include 2nd grade companies which have survived the panic in good shape and have prosperous years ahead. At such times the risk is less. The risk is greatest at the top of a boom.
7. A certain amount of cash, bonds or other liquid securities should always be set aside for protection or to seize unexpected opportunities.
8. A major risk should not be taken for a minor profit. Real skill appears in appraising the risk. If it can be discovered where risks have been exaggerated by the public in lowness of price, the profit naturally follows.
9. The investor has this great advantage over the merchant or speculator – his assets are always liquid. He can switch from the treas[ury] bonds to short or long-term bonds or to stocks with great rapidity – and he can still maintain steady dividends even tho[ugh] they are lower. The investor should consider his work as a business or profession – his capital is most precious and must not be lost or tied up. He must be more interested in broad economic movements than in day by day fluctuations of the stock market. He must not let his long viewpoint be disturbed by too close contact with the stock market. He is not interested in tips. The investor must be hot in action – cold in thought.
10. Information and statistics are so voluminous that each investor must develop some simple method to make use of them. Most of the information deals with the daily ups and downs of the market – the waves and not the tides. These things are not important. The investor is interested only in that information which affects the long-time trend. To give meaning to stock prices and values he must learn to make simple

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> comparisons between similar things….The investor must organize all the material around him so he can use it in a simple way. He must disregard the non-essential. He must discipline himself and realize that the investment of surplus funds is all-important and requires work and diligence.

All I can say is (again), "Thank you Benjamin Roth." This is truly timeless wisdom and will still be relevant and applicable 100 years from now. If I had to choose between business school and really knowing and understanding the final section of this article in conjunction with reading all of Warren Buffett's (and his partner Charlie Munger) writings, then I would select the latter. I look forward to sitting down with my children one day and sharing this with them.