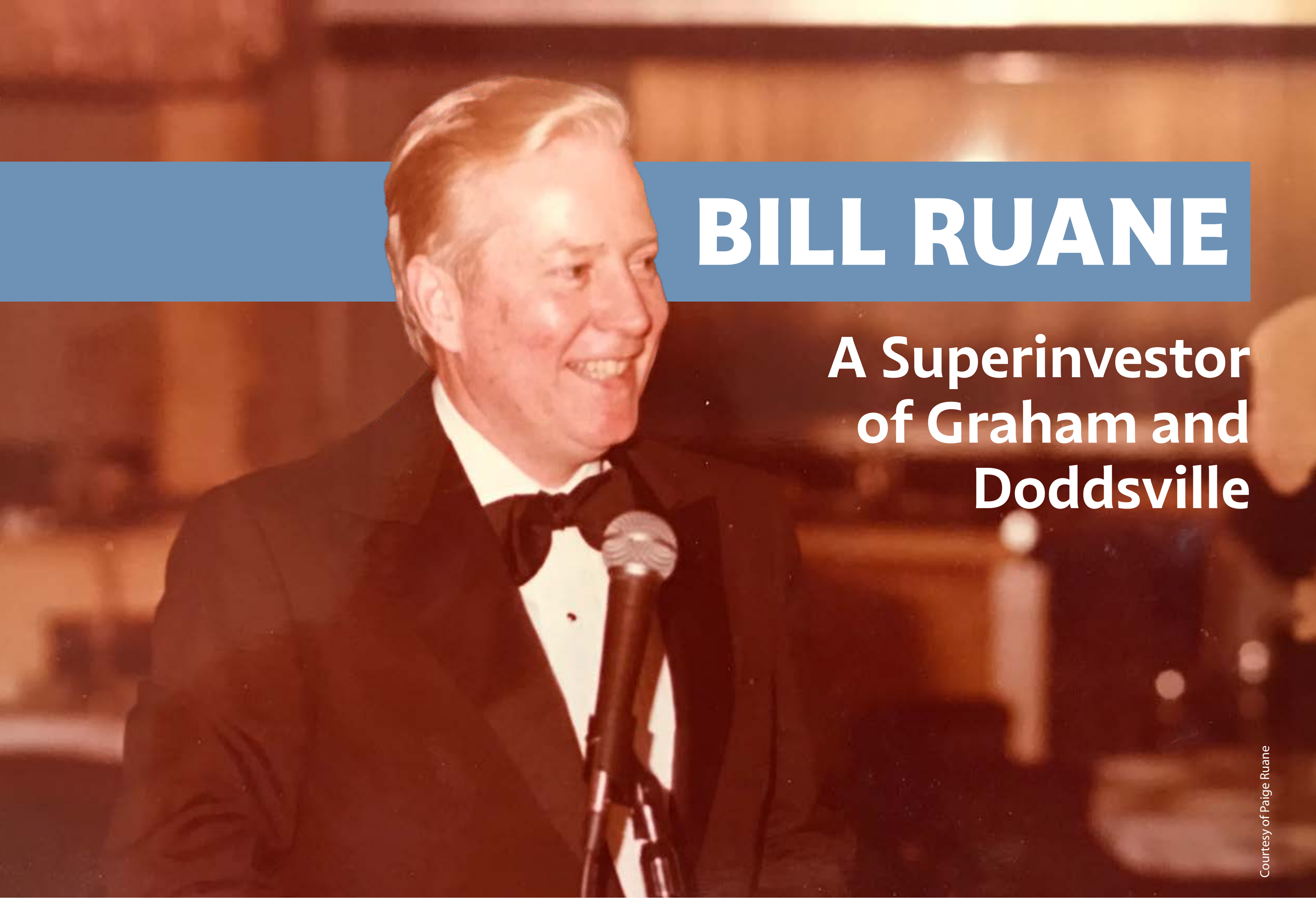

BILL RUANE

A Superinvestor of Graham and Doddsville

Courtesy of Paige Ruane

By James Russell Kelly

In his 1984 address commemorating the 50th anniversary of *Security Analysis* by Benjamin Graham and David Dodd, Warren Buffett cited the performance records of seven extraordinary value investors. One of them was Bill Ruane, the founder of the Sequoia Fund. Buffett commented:

> After getting out of Harvard Business School, [Ruane] went to Wall Street. Then he realized that he needed to get a real business education, so he came up to take Ben's course at Columbia, where we met in 1951. Bill's record from 1951 to 1970, working with relatively small sums, was far better than average. When I wound up the Buffett partnership, I asked Bill if he would set up a fund to handle all our partners, so he set up the Sequoia Fund. He set it up at a terrible time, just when I was quitting. He went right into the two-tier market and all the difficulties that made for comparative performance for value investors. I am happy to say that my partners, to an amazing degree, not only stayed with him but added money, with the happy result shown here. (1970–1984 compound annual return: Sequoia Fund +17.2%, S&P500 Index +10%)

Ruane's success in managing the Sequoia Fund over many decades is legendary, but it is only a part of his life story.

Bill Ruane speaking to members of the Buffett Group on the *Queen Elizabeth 2* cruise ship, 1983.

Personal History

William J. Ruane was born on October 24, 1925 in Chicago and grew up in Oak Park, Illinois, a middle-class suburb just west of the city. His father, Thomas, and his mother, Martha Kraemer, were first-generation Americans. Their own parents had immigrated from Ireland and Germany, respectively. Thomas was very good at math. He was a highly productive banker at a local bank, but his advancement was blocked due to his Catholic faith. He quit and established a small express delivery company with three trucks serving local businesses on the south side of Chicago.

Bill's younger sister, Pat, born in 1930, remembers that their parents never argued with each other or scolded them, providing a very stable family environment. "Bill was very close to his father, who always emphasized the importance of honesty."

After graduating from St. Mel's, a Christian Brothers high school in Chicago, Ruane enrolled in the University of Minnesota and graduated *cum laude* in 1945 with a degree in electrical engineering. He joined the US Navy and was deployed to Hawaii to participate in Operation Downfall, the planned invasion of Japan, which was cancelled when Japan surrendered in September 1945. He remained on active duty until he was discharged in 1947 as a Lieutenant, JG. Ruane then joined the training program at General Electric but quickly realized that he did not enjoy working as an engineer. He shifted direction and enrolled in Harvard Business School, with tuition paid by the GI Bill.

Harvard Business School (1947–49)

The Harvard Business School graduating class of 1949 was renowned for the number of business leaders it produced. In 1999, *Forbes* commemorated the 50th anniversary of the class; in addition to Ruane, it included:

- Jim Burke, who built Johnson & Johnson into a corporate empire with bold new marketing strategies;
- Tom Murphy, founder of Capital Cities Broadcasting, who took a small, failing TV station in Albany and grew it into ABC/Cap Cities, which was later bought by Disney;
- Marvin Traub, who developed Bloomingdale's into a nationwide chain of 14 stores: "We developed the store as a cool place to be, somewhere to cruise on Saturday;" and
- Peter McCullough, who took a small and struggling company named Haloid and turned it into the legendary Xerox Corporation.

Networking was an important element of their success. After graduation, they hung together. "Five of us rented an apartment," Ruane recalled for *Forbes* in 1999, "a brownstone right off Fifth Avenue, $300 a month. Many of the hundred or so '49ers in New York would come over on Saturday night with their girlfriends." Over time, many of them married and lifelong friendships ensued.

Bill married Elizabeth (Libba) Greiner in 1956. They had two children, William, Jr. and Elizabeth (Lili). Their marriage ended in divorce in 1967. Two years later, he married Joyce (Joy) Merbach. They had two children, Paige and Thomas. The family lived in Manhattan and spent weekends at their farm in rural Connecticut.


Courtesy of Paige Ruane

Bill Ruane with his daughter, Paige, in 1976.

Kidder, Peabody & Co. (1950–69)

After graduation from Harvard Business School, Ruane joined Kidder, Peabody & Co., led by Albert Gordon, a legendary investment banker and fellow Harvard graduate who, after the Crash of 1929, rebuilt the firm into a powerful investment bank.

In his early days at Kidder, Peabody, Ruane met Rick Cunniff, with whom he would eventually co-found the Ruane, Cunniff & Stires investment firm. He also met Jim Kelly, the author's father, who was Kidder, Peabody's industrial stock trader. They collaborated on a regular basis over 19 years in the execution of trading orders for Ruane's clients, and Kelly praised him as a great guy and a role model worthy of emulation.

In 1951, Ruane met Buffett when they were both enrolled in Graham's security analysis course at Columbia. In an interview for this article, Buffett remembers that Ruane was originally a proponent of Philip Fisher's growth stock philosophy, but embraced Graham's value ideology when he faced adversity in the stock market. Buffett noted that Ruane worked with Ned Goodnow, another brilliant investor and decorated WWII and Korean war veteran, who founded his own investment fund, Goodnow, Gray & Co. in 1969.

Ruane and Buffett became lifelong friends. Buffett recalls, "He was my buddy." Ruane's daughter, Lili, recollects that "he spoke on the phone with Warren Buffett every day." Paige remembers being a child at home listening to her father's high-spirited laughter on the phone whenever he spoke with him. They also met for combined business/vacation trips at different locations each year, along with other friends who comprised the Buffett Group.

Over his 19 years at Kidder, Peabody, Ruane built up a very successful business advising clients and managing funds on their behalf. In recommending him to manage the Buffett Partnership clients' money, Buffett noted, "I have had considerable opportunity to observe his qualities of character, temperament and intellect… and I consider Bill to be an exceptionally high probability decision on character and a high probability one on investment performance."

Ruane, Cunniff & Stires

Ruane had been thinking about starting his own firm as his success grew over time. By 1969, he was ready to act, encouraged by the prospect of attracting many of the Buffett Partnership's members as customers. Cunniff was also enthusiastic about the idea. He had also built an excellent track record managing money and was ready for a new challenge. They formed Ruane, Cunniff & Stires, Inc. and purchased a seat on the New York Stock Exchange for the highest price to date, just as the stock market was peaking and Buffett was exiting.

Cunniff was an ideal partner for Ruane. On the one hand, they shared a similar background. Cunniff also served as a US Navy officer during WWII and attended Harvard Business School funded by the GI Bill. He enrolled at Colgate University in 1941, just as the United States entered WWII. The Navy dramatically increased its presence at Colgate and other universities to train new officers to join the war effort. He was commissioned as an ensign and stationed in the Pacific theater. He fought in some of the most intense naval battles of the war, including Leyte Gulf in 1944, as well as Lingayen Gulf and Okinawa in 1945. His *New York Times* obituary states that "in later years Rick would occasionally remark that no stock market disturbance could compare to being 21 years old on the deck as commander of a small boat (Landing Craft 451) surrounded by enemy ships and kamikaze planes, taking fire."

Cunniff was also an ideal partner for Ruane because he was very different. He was reserved, analytical, politically conservative and a lifelong student of history and business. Ruane, on the other hand, was very gregarious and liberal in his political views. The best partnerships are often based on different, but complementary perspectives.

Another member of the Cunniff family became a very influential partner in later years. Rick's eldest daughter, Carley, joined the firm in 1983, after having graduated from Harvard Business School and working in several investment banks. According to Paul Lountzis, her friend and colleague at the firm, "Carley was a brilliant financial analyst who was the heart and soul of the firm, yet never sought the limelight… She combined her financial prowess with deeply understanding all aspects of a business and she did it with humor and her special wit that made it so fun to learn from her and be with her." Carley served as executive vice president and director of both the firm and the Sequoia Fund. She passed away prematurely in 2005, the same year as did Bill Ruane.

Sidney Stires, another Harvard graduate who worked at Kidder, Peabody with Ruane as a research analyst, was also a partner. He was a gifted musician whose grandparents were composer Sidney Homer and his wife, contralto Louise Homer. In 2004, Robert Goldfarb, a long-time senior analyst and portfolio manager at the firm, became president and the name of the company was changed to Ruane, Cunniff & Goldfarb.

Sequoia Fund

In 1970, Ruane and Cunniff set up the Sequoia Fund to manage the money received from Buffett's partners. The fund struggled to survive in its early years, underperforming for the first three years as investors embraced a "Nifty Fifty" group of growth stocks such as Polaroid, Eastman Kodak and Avon. The fund then lost 24% in 1973 and another 16% in 1974 during a vicious bear market.

This was a very challenging time for Ruane. He had invested all his capital in the firm. "We were flat broke with maybe a thousand dollars," recalls his daughter, Lili. He was forced to sell off some of the hundred acres of farmland he owned in Connecticut to provide for his family and to keep the company going. Ruane wrote to his shareholders, "It is entirely possible that you have the dubious distinction of being a stockholder in a fund which has the lowest average price-earnings ratio in the country."

By the end of 1974, the "Nifty Fifty" bubble collapsed and the stock market started to recover. The Sequoia Fund's portfolio of extremely cheap value stocks soared 60% in 1975 and another 72% in 1976. It never looked back after that, outperforming the market over the next 25 years. From 1970 through 2001, the fund was the best-performing mutual fund, appreciating 17% on an annual basis.

This extraordinary performance can be explained by several factors. First, both Ruane and Cunniff adhered to Graham's principles of investment:

- A stockholder is a **partial owner** of a business
- Each business has an **intrinsic value** which can be estimated by disciplined financial analysis
- Invest only with a **margin of safety** relative to the intrinsic value

Second, Ruane's method of investing was another factor in the firm's success. Tom Russo, founder of Gardner, Russo & Quinn and an analyst at Ruane Cunniff from 1984–88, recalls that Ruane always invested in a highly concentrated portfolio of approximately 10 stocks and held for the long term. One example was Buffett's Berkshire Hathaway, which appreciated over time to represent 30% of the fund's portfolio. Ruane also focused on the unit economics of a business: for example, the profit per Duracell battery.

Third, Ruane's leadership style spelled success. Terence Pare, an analyst at Ruane, Cunniff for 20 years until his recent retirement, remembers Ruane's charismatic personality: "Whenever he walked into the room, everyone perked up." He also liked to interact with friends and colleagues in a playful way, including pranks. Russo recalls that in 1986, Bob Malott, a shareholder of the Sequoia Fund and chairman of FMC Corporation, delivered a bogus subpoena to Ruane, Cunniff & Co, Inc. and its management, citing, "Defendants are guilty of wasting corporate assets, through acts which include but are not limited to yacht outings by Board Members and assorted female companions, and lavish parties at corporate headquarters involving alcoholic beverages, gourmet fare and high price professional singing talent (paid full union scale)."

He treated all his employees with respect and rewarded them generously for good performance. In summary, he created a wonderful culture of teamwork, akin to that of a large family. The fund's performance speaks for itself.

Other Remembrances

Buffett recalls that "Bill was a remarkable investor and a remarkable human being. He introduced me to Tom Murphy, the founder of Capital Cities/ABC. I knew them both extremely well and never saw either do an unkind thing to anyone." He remembers a playful episode during a Buffett Group trip on the *Queen Elizabeth II*. "The deck was crowded with people when this disheveled man with a mustache pushed his way through our group. He bumped into me and then suddenly pulled off his fake mustache—it was Bill Ruane." Buffett also recalls that when he was chairman of the board of Data Documents, a small company based in Omaha,

Courtesy of James Russell Kelly

In 1992, Bill Ruane and his colleagues at the Carmel Hill Fund identified the Dunlevy Milbank Center of the Children's Aid Society, located on West 118th Street in Harlem, as their project partner in the "Adopt a Block" program.

"Bill was a member of the board and traveled from New York for each meeting. We held the board meetings in my home in Omaha informally discussing all sorts of issues long into the night. It was the most enjoyable board experience I have ever had."

Don Graham, chairman of the Graham Holdings Company, previously of the *Washington Post*, recalls in an interview Ruane's contributions as a member of the board of directors of the *Washington Post*. "Bill was very slow and analytical. He explained issues step by step in long conversations, always making a firm recommendation. He demonstrated the highest levels of character, integrity and judgment."

As an example, Graham cited the company's involvement in bidding for speculative cell phone licenses in 1981. "We won the license for Miami and shared the license in Washington, DC and Detroit. In Washington, DC, we were approached by our co-winner to manage the license on our behalf. I consulted with Bill Ruane, who, after considerable research, recommended turning the offer down, saying that it could result in significant damage to the company. Very few directors would give such candid advice."

Greg Steinmetz, an author and former journalist, is a 20-year veteran of the firm. He remembers that Ruane liked to do his research in a quiet environment away from the distractions at the firm's office. He maintained a separate office in the Sherry-Netherland Hotel, located on 59th Street across from the firm's office at the GM Building, in New York City.

Lili Ruane recalls that her father was very health-conscious, always walking back and forth to work each day from the family's apartment at Fifth Avenue and 94th Street to his office at the GM building, across from the Plaza Hotel on 59th Street. She also recalls that he was very disciplined in his diet. His only indulgence was Rheingold beer, a popular brand of that era.

The Carmel Hill Project

Ruane's commitment to philanthropy became evident during the later years of his life. He was determined to address the problem of racial inequality boldly. Nicholas Lehman's best-selling book, *The Promised Land: The Great Black Migration and How It Changed America* (1991), had a profound impact on him. "As a teenager, he visited his cousin in Baton Rouge, Louisiana each summer where he witnessed several lynchings," recalls his daughter, Paige. During his college years, he had worked as a mentor in an East Harlem Boy's Club. He created the Carmel Hill Fund in 1986 to address economic inequality and racial injustice. It provided educational, mental health and social service efforts to directly assist low-income families in Harlem.

In Terry Quinn's *Renewing a Block in Harlem*, Ruane states that "my idea was simple…it wasn't to throw a lot of money at a complex problem…it involved a low-cost leveraging of resources—medical, housing, social service that have been out there for years. The idea was, basically, find a concentration of families in need, stabilize the block by connecting clients and available services. Then, if the model worked, we'd replicate it." In other words, adopt a block.

In 1992, Ruane and his colleagues identified the Dunlevy Milbank Center of the Children's Aid Society, located on West 118th Street, as their partner in this project. The facility had a 75-yard swimming pool, two immense playgrounds, computer classrooms, daycare facilities and a mental health services department. Ruane declared, "This is what I want for the rest of the block starting with apartment buildings 27 and 29. I want to make this block shine."

These two city-owned brownstones were directly across the street and housed many senior citizens and families in disadvantaged circumstances. The goal of the Carmel Hill Project was to address the needs of the occupants of these buildings through casework, training in self-sufficiency skills, advocacy with city agencies and formation of tenant's groups and a block association. The next step was to expand the project to other buildings on the block starting with building 69. In 1995, the city's Housing Preservation and Development Department (HPD) announced a new Neighborhood Entrepreneurs Program and selected the three Carmel Hill buildings for a complete reconstruction of each apartment.

The essential element in the plan's success was hiring Ann Hamm, a social worker at the Children's Aid Society. She worked tirelessly with the residents, advocating for them with the HPD and other agencies. She accomplished all of Carmel Hill's goals for the residents of these buildings within the first four years. In the following two years, the project's social services were extended to the residents of 8 West 118th St., a 146-unit high rise across the street.

The final element in Ruane's plan was to address the educational needs of the children on the block. He selected St. Paul's School, a private Catholic school which offered a higher quality education compared to the local public schools in the area. Carmel Hill offered scholarships for 30 children on the block. The school has since developed into the Academy of St. Paul and St. Ann. In a recent interview, John Paul Barnaba, the academy's principal, explained Carmel Hill's ongoing support:

- Funding the Renaissance Accelerated Reading program. All students are required to attend each day from 3–4 pm;
- Payment of an extra 15% of teacher's salaries to compensate them for the extra workload;
- Full scholarships, including uniforms, for up to 30 students;
- A new library and a basketball court next to the school;
- A full-time social worker to assist scholarship students and their families.

Hamm (the full-time social worker) collaborated very closely with Ruane from the first days of the Carmel Hill Project. She remembers him as "a tough task master and very passionate about the success of the project. He was deeply involved." He visited with tenants in the three buildings on the block including "Uncle Jessy," an elderly superintendent who lived in a dilapidated apartment where the toilet had fallen through the floor. Ruane arranged for his medical treatment. When Jessy passed away from cancer, there were no family members to make funeral arrangements. Hamm made the arrangements and Ruane attended the funeral along with many other residents of the block. He also assisted other residents in obtaining medical help.

Ruane took great pride in the academic achievements of the students at St. Paul's School, celebrating with them as their standardized test scores improved from the lowest quartile to above average. He expanded the scholarship program for graduates to attend Catholic high schools and eventually colleges. Hamm supervised this expansion. She proudly remembers one student who completed high school and attended Wesley College in Delaware on a Carmel Hill scholarship. She became a nurse. Another student earned her master's degree at the State University of New York (SUNY) Buffalo and now works as a teacher.


Courtesy of Paige Ruane

Ann Hamm (left) and Bill Ruane (right) receive the "Fulfilling the Dream" award in recognition of the Carmel Hill Project, 1998.

In 1998, the Carmel Hill Project received a "Fulfilling the Dream" award, named in honor of Martin Luther King. Ruane and Hamm were praised for their "Adopt a Block" program. In 2004, the Carmel Hill Fund Education Program was created to support education initiatives in New York, Colorado and Louisiana. In New York, the program supports students by providing books and training for teachers.

Epilogue

Ruane passed away on October 4, 2005. One week later, the Sequoia Fund issued its quarterly report in the form of a eulogy signed by his successors, Richard Cunniff, Robert Goldfarb and David Poppe:

> Yeats wrote of the choice between perfection of the work or of the life. Bill was the rare man who never had to make that choice. He was exuberant, an optimist, and happy in the way that only a truly good man can be. He built a firm that was more like a second family, which grew over the years… He respected every employee, rewarded hard work handsomely and endeavored always to strengthen the fabric of the firm. He was without guile, with no trace of meanness in him. He insisted that there be nothing mean in the way the firm did business… He leaves us a precious legacy, which we treasure: a commitment to do right by clients, by employees and by our own best selves. $

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