ROGER F. MURRAY

The Bridge between Benjamin Graham and Modern Value Investing

By James Russell Kelly

Almost everyone knows of Benjamin Graham, the founder of fundamental security analysis, known today as value investing. But very few people know of Roger F. Murray, the Columbia Business School professor who took up the academic torch of security analysis at Columbia when Graham retired. Murray taught an entire generation of students from 1956 to 1978, including many highly successful investors, such as Mario Gabelli, Leon Cooperman, Chuck Royce, Art Samberg and Glenn Greenberg.

I took his Security Analysis course in 1968, during the peak of the Vietnam anti-war protests at Columbia University. More than 50 years have passed, but Professor Murray and his course are still vividly in my mind. Great teachers make those kinds of impressions.

Murray was 5′10″, very thin, and always formally dressed in a vested dark suit, white shirt and tie with his Phi Beta Kappa key proudly displayed. His teaching style was also formal, which was the standard at that time. In contrast to his lecturing style, he was a friendly, welcoming mentor: I met with him several times after class as well as after graduation to seek his advice.

He was a tough grader, however. Leon Cooperman recalls a paper he wrote comparing financial ratios over 20 years for Burlington Industries and J.P. Stevens. Murray carefully checked each ratio and spotted only one transposition, which he highlighted for correction.

His lectures emphasized comprehensive analysis of financial statements starting with the balance sheet, primarily using ratio analysis. The objective was very basic—to determine a company's intrinsic value, which he defined as "the true underlying central tendency in the valuation of an enterprise." A margin of safety exists if the intrinsic value materially exceeds the market price. Pure Benjamin Graham!

Roger Murray (right) with Mario Gabelli.

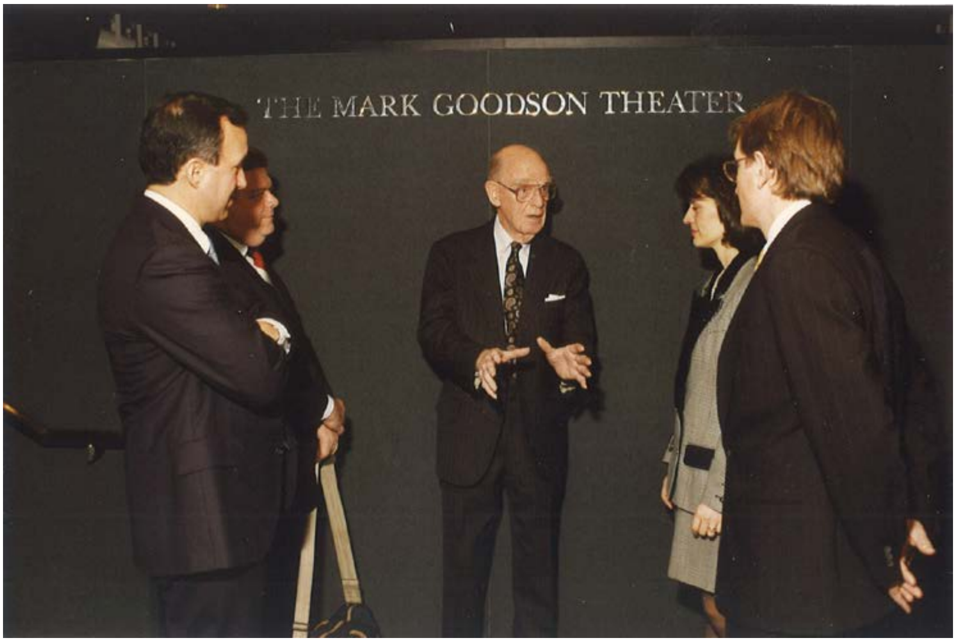
A major recurring theme in his lectures was the rapidly growing importance of pensions in society. To a group of youthful students, retirement was not exactly a captivating topic. Little did we know about Murray's prominent role in the development of pension fund investing at the College Retirement Equities Fund (CREF), or in the passage of the Keogh Plan and Individual Retirement Account.

Personal History

Roger F. Murray II was born on October 11, 1911, the son of Walter Fletcher Murray (1874–1947) and Mary Campbell van Horne (1883–1960). The Murray family lived one mile south of Columbia University, at 316 West 95th Street, between Riverside Drive and West End Avenue on the Upper West Side of Manhattan.

Murray's father, Walter, was a successful insurance broker who co-founded a company with his brother, Roger F. Murray I. RF Murray & Bro. Insurance was located at 8 Broadway in the Financial District of Lower Manhattan. The company specialized in fire, marine, life, accident and other lines of insurance. This may explain Murray's interest in pension funds throughout his career.

He had two older sisters, Grace (1906-1992) and Mary (1910-2000). Grace Murray Hopper, a Ph.D. graduate in math at Yale University, was a pioneer in the field of computer science and programming. She helped to develop MARK-1, the first electro-mechanical computer in the United States; UNIVAC, the first



Roger Murray speaks with attendees at his 1993 lecture series.

commercial computer; FLOW-MATIC, the first language-based programming language; and COBOL, the most extensively used computer language in the world. She was a long-serving officer in the US Navy, who rose to the position of Rear Admiral. The Navy destroyer, *USS Hopper*, was named in her honor in 1997. She was the recipient of more than 40 honorary degrees. After her death, she posthumously received the Presidential Medal of Freedom for her "lifelong leadership role in the field of computer science."

Roger attended Phillips Andover Academy and Yale, graduating Phi Beta Kappa in 1932. After graduation, he joined the Bankers Trust Company as one of only three new associates hired in 1932, at the depth of the Great Depression. He attended New York University at night to earn his MBA and Ph.D. degrees. His dissertation, entitled "Preferred Stocks of Industrial Companies," was published in 1942.

In 1934, he married Agnes McDede (1908–2001). They lived at 230 Riverside Drive, at the corner of W. 95th Street, where he lived as a child.

In 1944, he enlisted in the Army Air Force and served as a captain during the war until his discharge in December 1945. He rejoined Bankers Trust as an investment manager, chief economist and vice president until his retirement from banking in 1955.

Academic Career (1956–1978)

In 1956, Benjamin Graham retired from teaching security analysis at Columbia University and moved to Beverly Hills. Dean Courtney Brown was looking for administrative assistance and for a successor to follow Graham. He approached Roger Murray, whom he had known for years, to join the faculty as associate dean and to coordinate with Benjamin Graham and David Dodd to continue their teachings. In 1958, Murray was appointed as the first S. Sloan Colt Professor of Banking, a chair he held until 1965. In addition to Graham and Dodd's security analysis, he taught courses on capital markets and portfolio management.

From 1965 to 1970, Murray continued to teach as an adjunct professor while working full time on his passion of promoting equity investment to the pension fund community at the College Retirement Equity Fund.

In 1970, Murray rejoined Columbia Business School full time as the S. Sloan Colt Professor of Banking and Finance. He continued to teach and publish academic research until his retirement in 1978.

From 1952 to 1984, he published many articles on pensions, capital markets and macro issues in the *Journal of Finance*, the *Financial Analysts Journal*, the *Journal of Risk and Insurance* and several other prestigious journals. Interestingly, the majority of his articles were published in the *Financial Analysts Journal* of the CFA Institute, which had been founded by Benjamin Graham in 1937, then called the New York Society of Security Analysts.

Academic Honors

In 1964, Murray was elected president of the American Finance Association, the premier academic organization devoted to the study and promotion of knowledge about financial economics. It is also the publisher of the *Journal of Finance*.

In 1974, he was appointed to the New York State Council of Economic Advisors by then-governor Nelson Rockefeller. In 1993, Murray received the CFA Institute's prestigious Nicholas Molodovsky Award for his outstanding contribution to investment research. Benjamin Graham received this award in 1975.

College Retirement Equity Fund (1965–1970)

Professor Murray joined the College Retirement Equity Fund (CREF), an affiliate of the Teachers Insurance Annuity Association (TIAA), in 1965 as vice president and economist to develop its investment operation. In 1967, he was elected chairman of the CREF Finance Committee.

At that time, pension funds invested primarily in bonds. Stocks were regarded as a high-risk, volatile asset class and, therefore, not appropriate for conservative pension funds. CREF challenged that view, citing long-term superior returns of equities over bonds even though the short-term volatility was higher. The long-term investment horizon of pension funds made short-term volatility irrelevant. In fact, at times highly volatile securities can be viewed as an opportunity, *not* a risk, which is a core tenet of Benjamin Graham's teachings.

Roger Murray's achievements at CREF are recounted in *It's My Retirement Money—Take Good Care of It: The TIAA-CREF Story*, by William C. Greenough, president of TIAA-CREF from 1957 until his retirement in 1979. The following is a summary of Greenough's recollections of Murray's contribution to the development of CREF.

Dr. Roger Murray joined CREF on February 1, 1965, as vice president and economist, to head the CREF investment operation…He was elected chairman of the CREF finance committee and executive vice president of CREF in 1967 and served in those capacities until 1970. He had already served on the CREF board for nine years and on the finance committee for five years before joining the staff full time.

Under Dr. Murray's leadership, CREF's investment staff developed a deep knowledge of the literature on risk management, modern portfolio theory, and actual portfolio management. He established an extensive research program using both inside talent and university research facilities. In 1970, Dr. Murray asked to be relieved of his duties as CREF investment head after the new team was in place so he could return to Columbia Business School. During his tenure, CREF's assets grew from $500 million in 1965 to $1.5 billion in 1970.

His tenure at CREF was also marked by his social consciousness and activism. *Institutional Investor* magazine published an insightful cover story article in 1968 entitled, "Roger Murray: Portrait of the Professor as a Fund Manager." The author, Penelope Orth, observed that in an age when many institutional investors are passive stockholders, CREF was both active and articulate.

Murray attended the 1967 shareholder meeting of Eastman Kodak which had been picketed by the civil rights group FIGHT to expand their training programs and hiring policies among black residents of Rochester. CREF owned 181,500 shares of Kodak when Murray addressed the shareholders: "The 225,000 educators who are policy holders of CREF have great confidence in what education can do and great confidence in what Kodak could do to bring the hard core unemployed into an employable position." The crowd roared in approval.

In his interview for the article, Murray stated, "We are sensitive to the employment practices of companies in which we invest. We do not knowingly have our money in a company that practices discrimination of any kind."

The assets under management of CREF have grown from $500 million in 1965 to $234 billion in December 2019. The total assets under management of TIAA, which includes both CREF and Nuveen Asset Management, is $1.1 trillion. It is one of the world's largest asset managers.

The Common Fund (1969–1981)

After two years of preparation, The Common Fund was launched in 1971 by a grant of $2.8 million from the Ford Foundation as a non-profit organization to manage university endowment assets. It was a natural extension of CREF's success in managing the retirement assets of university teachers. Roger Murray was a founding trustee of the Common Fund from 1969 to 1981 and Chairman of the Board from 1977 until 1980, after he retired from Columbia Business School.

In 1974, at the bottom of a bear market when colleges were withdrawing funds from the Common Fund equity portfolio, he wrote a paper for the annual report in defense of equity investment. In it, he stated, "My position was that this was an opportunity of a lifetime to buy equities." Again, pure Benjamin Graham.

In 1986, Murray wrote the article "The Formative Years: A Founder Reflects" to celebrate the 25th anniversary of the Common Fund. He recounted the legal obstacles faced by trustees in overspending dividend income of equities in their operating budgets, and in commingling assets of beneficiaries in a common pool of investments. These issues led the way to the founding of the Common Fund. Since its inception, the organization has grown from $63 million in 1971 to $25.2 billion today.

Keogh Plan and Individual Retirement Account (IRA)

Professor Murray was highly influential in the passage of these landmark laws. In his interview with Peter Tanous in *Investment Gurus*, Murray recounts his experience. He states that Gene Keogh was a member of the House Ways and Means Committee who sponsored legislation to allow self-employed individuals to set up pension retirement accounts. Murray was the expert witness who testified to Congress each year over 10 years that the Treasury's estimates of revenue loss were much too high. Thanks largely to Murray's persistent advocacy, the Keogh Plan legislation was finally passed in 1962.

As a Board Member of CREF, Murray was also thinking about creating pension benefits that were completely portable for persons not covered by a pension plan—an "individual retirement account."

As part of the Hunt Commission's study of US financial institutions, Murray was invited to write a position paper addressing fiduciary standards for the protection of pensions. Murray's paper mentioned the gap in pension plan availability for individuals who are not part of a significant group. He proposed an individual retirement account as a potential remedy.

The Hunt Commission report led to the Employment Retirement Income Security Act (ERISA) in 1974, which contained a tax benefit for the self-employed, the deductibility of contributions to an IRA.

Relationship with Warren Buffett

Murray told Tanous that Warren Buffett "had come and gone before I got there [Columbia]. I did not meet up with him until later. One of the good sessions he and I had was when we were both on the SEC Advisory Committee on Corporate Disclosure, which was a fun enterprise. David Dodd originally introduced me to Buffett, but on our committee, we had the opportunity to sit around the table and really discuss things at length... He comes back to Columbia on occasion. When I taught the class in value analysis…he was one of our guest speakers."

The bridge from Benjamin Graham to modern value investing as personified by Warren Buffet was under construction.

Retirement

Murray retired from Columbia Business School in 1978 and moved to the family's country home in Wolfeboro, New Hampshire, on the shore of Lake Wentworth, which is adjacent to Lake Winnipesaukee. His definition of retirement was not conventional, however. It included membership on the local school board, selectman of the Town of Wolfeboro and a member of the boards of Andover, Smith College and Douglass College.

In addition, he served on the board of directors of the Common Fund and several companies, » *continued on page 39*

Continued from page 27

most notably including Gould's Pumps, the world's leading industrial pump manufacturer. This was also a great investment. In fact, members of the Murray family could be seen wearing Gould's Pumps caps when boating on Lake Wentworth. ITT purchased Gould's Pumps in 1997.

After his retirement, the value investing academic program at Columbia was unfortunately suspended. In 1984, Buffett gave his famous lecture on "The Super Investors of Graham and Doddsville" at a Columbia Business School seminar. It was an attempt to renew interest in value investing by directly challenging the efficient market hypothesis, which had become conventional wisdom at the time. In 1988, Murray co-authored the fifth edition of Graham and Dodd's *Security Analysis* with Sidney Cottle and Frank E. Block.

The Bridge to the Modern Era of Value Investing

In 1993, Mario Gabelli and GAMCO Investors sponsored the Roger F. Murray Lecture Series. As described in *Columbia Business School—A Century of Ideas*, "Gabelli wanted to archive Murray's insights, in part to create a living legend. The lectures were delivered at the Museum of Television and Radio over a four-week period in January and February of that year. On an unseasonably warm but rainy day, the first lecture was standing room only. Although Murray was 81 at the time, he delivered each 90-minute lecture without using a single note."

In the first lecture, Murray defined private market value, a concept championed by Mario Gabelli. "If I say to myself, how would I define private market value, I would say it is likely to be intrinsic value plus, potentially, a control premium...and there may be patience factor… The greatest deficiency in the market's pricing of corporate America is its lack of patience. So maybe if we have it private, we have a better ability to exercise patience. But there is one negative…lack of access to the public markets."

One of the attendees at these lectures was Bruce Greenwald, the newly appointed Heilbrunn Professor of Asset Management and Finance. In his book, *Value Investing: From Graham to Buffett and Beyond*, Greenwald recounts his experience. "I attended those lectures out of curiosity. Like generations of investors who preceded me, I was struck by the compelling logic of Graham's approach. As a consequence, in 1993 I dragooned Roger Murray into joining me in offering a revived and revised version of the value course." Murray co-taught the value course with Greenwald before finally retiring. Greenwald carried the academic torch of value investing to a new generation of students from 1993 until his retirement in 2018. He became the personification of Benjamin Graham and Roger Murray in the modern era.

In 2013, Mario Gabelli and GAMCO Investors sponsored a 20th Anniversary Celebration of the Roger Murray Lectures. It was fittingly held at the Paley Center for Media, where the lectures originally took place. Tano Santos, Greenwald's co-director of the Heilbrunn Center at Columbia Business School, gave the keynote address.

The Gabelli Center for Global Security Analysis at Fordham University was launched as part of this event. Its mission is to support and promote security analysis in the tradition of Graham, Dodd, Murray and Greenwald.

Roger Murray passed away in 1998, but his influence is alive and well at Columbia Business School and Fordham University. The torch of value investing is still burning brightly. $

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