



# SANDY GOTTESMAN

## A Whale of a Value Investor and Philanthropist

By James Russell Kelly

DAVID SANFORD GOTTESMAN, best known as Sandy, has been acclaimed for his success as an investor and philanthropist, but much less is known about him as a person. He was very private and kept a low public profile. In a rare interview with *The New York Times*, he famously said, “The only time a whale gets harpooned is when he surfaces.”

### Early Years

Sandy Gottesman was born April 26, 1926 and grew up in New Rochelle, New York, a suburban community in Westchester County about 25 miles northeast of Manhattan. He attended New Rochelle public schools through high school. “I was not a good student, more interested in making money,” he recalled. He was very entrepreneurial, peddling *Collier’s* magazines and a variety of other items door to door, hiring neighborhood children to help.

David “Sandy” Gottesman, founder of First Manhattan.

When he finished high school in 1943, World War II was raging. Prior to enlisting in the Army, he briefly studied engineering at Carnegie Tech to qualify for a good assignment. The Army sent him to Princeton University to further his studies. He was first deployed to Sabu Island in the South Pacific and was later sent to occupied Japan after the war ended in 1945. After two and a half years of service, he was honorably discharged in 1946 and enrolled in Trinity College, where he completed three years of study in two years.

### Harvard Business School: Class of 1950

Gottesman enrolled in Harvard Business School in 1948, even before receiving his bachelor’s degree. He became lifelong friends with many classmates, including Rick Cunniff, co-founder of Ruane, Cunniff & Stires; Ray Goldberg, who became a distinguished professor at Harvard Business School and created and directed the Agribusiness program; and Roger Strong, an investment executive associated with American Express, Fourteen Research and Cannell & Co. Strong remembers

Gottesman as “one of the toughest and nicest friends I ever had. He was very decisive but also very appreciative of our friendship.” Goldberg remembers that “the best thing Sandy ever did for me was to introduce me to my wife, Thelma... He was one of my best friends. I respected his judgment in all aspects... He was the salt of the earth.”

When he graduated from Harvard Business School, Gottesman joined Hallgarten & Co., an old-line investment bank that was part of the circle of prominent Jewish firms known as “Our Crowd.”

### Meeting Warren Buffett

In a rare public interview for the HBO documentary *Becoming Warren Buffett*, Gottesman recalled:

I started to hear about Warren. And Bill Ruane was in the class before me [HBS 1949] and was a very good friend of Rick Cunniff, who was in my class [HBS 1950] and a good friend of mine. So, we had lunch and it was probably in the early ‘60s and Bill said to me, ‘You know, you buy the same stocks as a friend of mine, Warren Buffett, who I met at Columbia. You gotta meet him.’ So, Bill arranged lunch with Warren and that was my first exposure. And then, coincidentally, a client of mine [David Strassler] who was working with Warren on the sale of Dempster, said to me, ‘This guy is coming up, and he’s the brightest guy we’ve met, and let’s all play golf together.’ So I went up and I played golf in Westport with Warren. From then on it was a complete bromance.

In an interview for this article, Buffett added color to this story. He said he was driving up to play golf with Strassler and Gottesman when he stopped to refuel his car and wrenched his back. He thought about canceling the event but decided to keep going to honor his commitment. “When I met Sandy, we hit it off instantly,” he recalled.

And their relationship continued to grow over time. Gottesman stated in an interview for *Becoming Warren Buffett* that “every Sunday night after I worked like hell during the week, I would call Warren with all my best ideas... Every idea I batted up to Warren. It was like getting the *Good Housekeeping* seal of approval, particularly

if he was going to buy some.”

His weekly telephone calls became regular weekend flights to Omaha to share ideas and potential deals. Buffett recalled that on one weekend trip, “Sandy arrived about 4 P.M. at my office and we talked nonstop together until 2 A.M. When we finally decided to leave, we discovered that we were locked in the building by a gate. We had to call security, who eventually came and let us out.”

### Diversified Retailing

In his interview for the HBO documentary, Gottesman stated that “in the late '60s, Warren was not so interested in stocks anymore. I called him up and suggested he buy something that belonged to my wife’s family, and it was a department store in Baltimore [Hochschild Kohn]. Warren and Charlie [Munger] flew in, because this was a fairly big deal at the time, and it was the number one department store in Baltimore. Within 24 hours he made up his mind that the price was right, and he would buy.”

Buffett created a new company, Diversified Retailing, owned 80% by the Buffett Partnership, 10% by First Manhattan (Gottesman’s company) and 10% by Wheeler Munger (Munger’s fund). They met with the loan officer of First National Bank of Maryland to request a \$6 million loan for Diversified to finance the purchase of Hochschild Klein. Buffett recalled that the loan officer was very reluctant to make the loan, so he told him they would just get it from another bank. The loan officer changed his mind and made the loan.

A year later, Buffett had second thoughts. The retail business was very competitive, and even though the department store was profitable, it kept expanding and putting money back into new branches. According to Gottesman, Buffett told him, “I like businesses that throw off cash. I don’t like businesses that eat a lot of cash. Why don’t you think about selling it?” And he did. Buffett said, “Sandy bailed us out of a losing proposition.” There were four department stores, including Hochschild Kohn, in the center of Baltimore. The profitability of all these stores deteriorated over time.

Instead of closing Diversified Retailing, Buffett used the cash from the sale of Hochschild Kohn to invest in other businesses, including Columbia Insurance, Associated Retail Stores, Reinsurance Corp

of Nebraska, Blue Chip Stamps (controlled by Munger) and Berkshire Hathaway, in a complicated maze of crossholdings. Eventually, in 1977, Buffett merged Diversified Retailing into Berkshire Hathaway in a stock swap. That is how Gottesman became a shareholder of Berkshire Hathaway. He held on to his holdings and added more, letting the shares compound exponentially over time into billions. By March 2021, Gottesman had a monetary interest in 6,402 class A voting shares worth \$2.4 billion.

Buffett recently wrote a dedication to Gottesman in Larry Cunningham’s eighth edition of *The Essays of Warren Buffett*. Referring to the Diversified Retailing era, he wrote, “Sandy, Charlie Munger and I became financial partners in 1966... During the next 56 years we remained partners in various ways.” He and Gottesman “never had an argument of any sort between the two of us. Even more remarkable, Sandy never privately said anything to me about Charlie [Munger] that was negative and the same is true with Charlie when he talked with me about Sandy. It’s difficult to think of a marriage about which a similar statement could be made, as well as most business relationships.”

At the 1994 Berkshire Hathaway annual

meeting, Gottesman took the microphone during the Q&A session and shared a touching tribute on behalf of Berkshire shareholders worldwide. He made the following points:

- Berkshire stands unique in American business as a company whose name has become synonymous with management excellence.
- Unlike many American corporations, we, as stockholders, don’t have to worry about reorganizations, large write-offs, massive restructurings, overstated earnings and overpaid executives with strategic visions.
- Instead, year in and year out, we enjoy the benefits of the common sense and brilliance of Charlie and Warren.
- It’s easy to take such consistently outstanding results for granted, but we in this room are the direct beneficiaries of their efforts. By our presence here today, we show our appreciation to them for their exceptional performance.

This was one of the few public statements Gottesman made during his career. Buffett then quipped: “Thank you. That was Sandy Gottesman. We’ve worked



The Buffett Group in 1969. Sandy Gottesman is standing to the right of Benjamin Graham and Warren Buffett, and to the left of Charlie Munger.

Edwin Schloss



together for 30-odd years—and he’s finally got that down.” Gottesman was elected to the Berkshire Hathaway Board of Directors in 2004 and served until 2021.

### First Manhattan

By 1964, after 14 years at Hallgarten, Gottesman decided he wanted to set up his own company. As quoted in *First Manhattan Co.: A Personal History*:

I had become disenchanted with the way things were going at Hallgarten... Frits Markus had a small clearing firm and was interested in bringing in some new blood. Frits had spoken with my friend, Richard Abrons, who was then at Loeb Rhoades. Richard and I discussed the possibility of joining Frits, and these discussions led to a formal agreement.

We agreed that Frits and I would be co-managing partners. Other partners included Abrons, Herman Stone, Hugo Van Itallie, and John Wallace. After much thought, we selected the name First Manhattan. Our reason was that we wanted the partners to bring in most of the business and, therefore, did not want to slight anyone. Prior to moving ahead with actual steps to form a firm, I gave much thought to my goals and the steps needed to reach them. To help clarify my thinking, I wrote them down:

- Provide a good living in a collegial atmosphere.
- Start with a high-quality commission business generating enough income to cover costs and provide for future growth.
- Create a strong research department capable of identifying profitable situations in which to invest our own and client funds.
- Avoid undue risks.
- Build a strong organization.
- Earn a reputation for excellence.

First Manhattan originally sought out companies that were good investments for a three-to-five-year period, though Gottesman noted that “some of my better research ideas, including Berkshire Hathaway, have been held for much longer. Clients, of course, have profited immensely through

the compounding of their accounts on a tax-free basis over a long period.”

Gottesman recalled one humorous example of venturing outside of basic research:

In 1968, we retained Arthur Burns, a distinguished economist, who had been on President Eisenhower’s Council of Economic Advisors... To take advantage of his wisdom and global contacts, we embarked on a series of monthly meetings, to which we invited a select group of clients. One such gathering was unforgettable. On a Friday afternoon, Dr. Burns had just returned from a trip to London, where he had interviewed the head of the Bank of England and various other notable banking officials charged with setting Britain’s economic policy. In reporting to us, Dr. Burns said that he studied the situation and was confident there would be no devaluation for at least another year. On Monday morning, the Bank of England announced that it was devaluing the pound. We learned from that experience that even a well-informed economist with good connections is sometimes right and sometimes wrong... The best approach to investing, we have found, is a careful hands-on look at one company at a time and thorough knowledge of its fundamentals.

First Manhattan initially operated as a broker and underwriter serving institutional clients, but it transitioned into an investment manager operating with the same philosophy as Buffett. Gottesman affirmed that, “Looking back on 40 years of operation, I am grateful that through a combination of foresight and good fortune we achieved our original objectives.” To this day, First Manhattan research remains fundamental, avoids fashions and is long term-oriented and risk averse.

In 1969, Buffett decided to liquidate the Buffett Partnership. The Dow Jones Industrial Average was trading at an all-time high of 1,000, and there were no bargains to be found. He advised his clients to invest the proceeds of their holdings in either First Manhattan or Ruane, Cunniff and Stires. In an interview for Alice Schroeder’s book, *The Snowball*, he recalled, “I recommended two people to the partners whom I knew were exceptionally good and exceptionally honest: Sandy Gottesman and Bill

Ruane... I not only know their results, but I know how they’d accomplished their results, which was terribly important.”

Many of the big partners chose to go to Gottesman at First Manhattan. Buffett formally recommended Ruane in his 1969 partnership letter. Ruane was leaving Kidder, Peabody to set up his own investment advisory firm (Ruane, Cunniff and Stires) with two partners—Rick Cunniff, Sandy’s classmate at HBS, and Sidney Stires. Ruane would go on to create the Sequoia Fund to serve many of Buffett’s smaller partners.

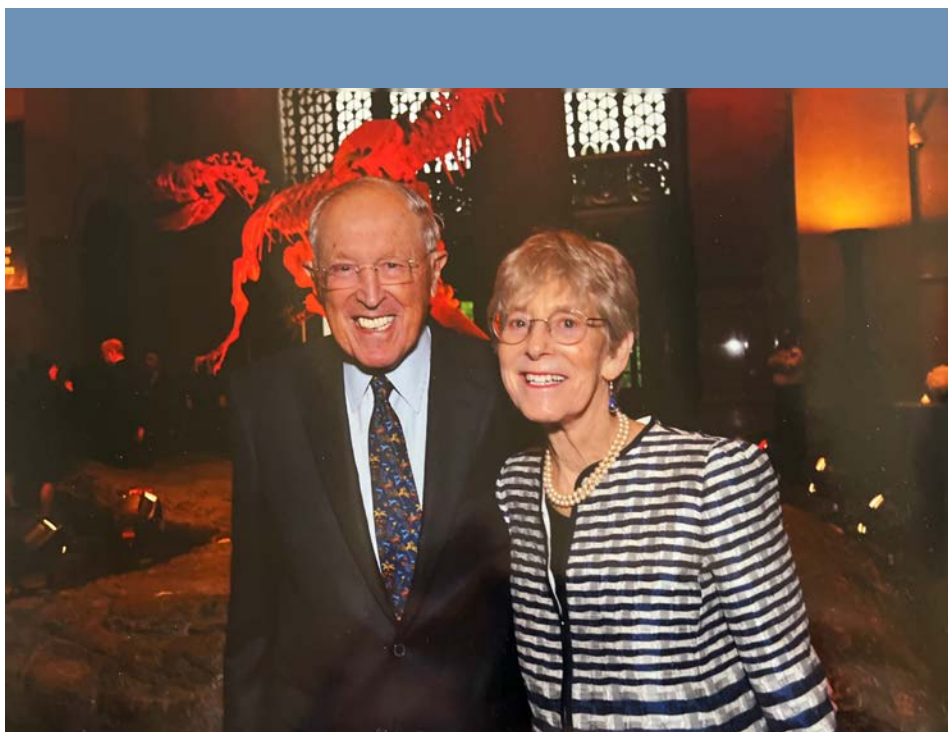
Both Gottesman and Ruane produced stellar returns for Buffett’s partners. Ruane’s Sequoia Fund became the top-performing mutual fund, earning 17% per year over the next 31 years. (First Manhattan’s client assets were held in individual accounts rather than commingled in a mutual fund, so there is no comparable public record available.) The investment returns of both First Manhattan and the Sequoia Fund were significantly boosted by their large holdings of Berkshire Hathaway stock over the ensuing decades. Berkshire Hathaway’s stock price has grown at a compounded annual growth rate of 19.7% per year for 57 years.

Tom Russo, the founder of Gardner, Russo & Quinn, remembers that when he was an analyst at Ruane, Cunniff & Stires in the 1980s, the portfolio managers and analysts maintained a very cordial relationship with their counterparts at First Manhattan, sharing conversations about the market on an informal basis. He also remembers that Gottesman assembled an eclectic group of opinionated specialists in a variety of sectors and disciplines, including arbitrage, who managed client portfolios and advised on investing the firm’s capital. Russo also remembers Gottesman as being very frugal, taking the bus from Wall Street to his apartment uptown. “Sandy was an inspiration, always operating his company quietly, and with great patience in holding investments.”

As of March 31, 2023, First Manhattan managed \$26 billion. The largest investments were Berkshire Hathaway, Microsoft and Apple. The top 10 holdings accounted for 59% of total assets.

### Ruth Gottesman

Ruth Levy was born in 1930 and grew up in Baltimore. Her father, Lester Levy, was vice president of M.S. Levy & Sons, a manufacturer of men’s hats. His grandfather



Sandy and Ruth Gottesman

had founded the company in 1874. The family of Ruth's mother, Eleanor Kohn, owned the Hochschild Kohn department store mentioned earlier.

Ruth and Sandy met the summer before she was to start at Mount Holyoke College, as he was entering Harvard Business School. They married in 1950, after Sandy graduated. She completed her college education at Barnard College of Columbia University. The couple moved to Scarsdale, New York, where their three children—Robert, Alice and William—could attend public schools. Sandy went to work on Wall Street at Hallgarten & Co. and Ruth enrolled at Teachers College of Columbia University. She earned her master's degree and then her doctoral degree in educational psychology. She later served on the Board of Trustees of Teachers College from 1989 to 2018.

In 1968, Ruth joined the Children's Evaluation and Rehabilitation Center (CERC) at the Albert Einstein College of Medicine, where she built a program to help children with learning disabilities. Ruth worked as a clinician, as well as an educator, developing training programs for health professionals, educators and physicians who work with children with learning disabilities. In 1992, she became director of the Fisher Landau Center, which, according to their website, "coordinates all CERC activities in the treatment of learning disabilities in

children, adolescents and adults."

Ruth served on the faculty of the Albert Einstein Medical School for 32 years and now holds the title of clinical professor of pediatrics *emerita*. In 2002, she was elected to the Albert Einstein College of Medicine's Board of Trustees, served as chair from 2007 to 2014 and was re-elected chair in 2021. She recalls that on the day when she was awarded her EdD degree from Teachers College, Sandy answered a phone call at home asking for Dr. Gottesman. He replied that Dr. Gottesman was busy washing the dishes.

After Sandy met Warren Buffett, he introduced Ruth to Warren's wife, Susie. Sandy remembered, "One of the reasons we became close friends at the time was that Susie met my wife and she loved my wife, and [Ruth] loved Susie." Ruth played the piano and Susie was an accomplished singer; over the years, Ruth wrote many songs for Susie to sing at parties for the Buffetts' large group of friends, known as the Buffett Group. Ruth remembers, "Susie was a healer... She reached out to everyone she met to try to help them... She was the closest thing to being a saint—a happy saint."

### Travels with Buffett

The Buffett Group of friends got together every two years at a different resort. Ruth remembers that during a meeting in Sun

Valley, Sandy received a call from his office that one of his employees had misled their client about the value of their portfolio in order to avoid showing a loss. Sandy fired him on the spot. "He was straight as an arrow and knew right from wrong," Ruth told me.

Each year, after the Berkshire Hathaway annual meeting, Susie and Warren Buffett would travel to New York to reconnect with their friends there. In welcome, Sandy and Ruth Gottesman would host a traditional dinner party at their home every year until Susie passed away in 2004. Buffett recalls that on these trips to New York, he and Susie would stay at the Plaza Hotel for a few days and then visit the Gottesmans at their home in Rye, New York. He recalls they had an extension on their home which became known as "Buffett's Hut."

Sandy's favorite sport was swimming. In fact, he had a large swimming pool at his home. One of his partners jested that whenever Sandy jumped into a pool, he would come out with two new clients. This would not be surprising for a whale of a value investor.

Sandy also enjoyed playing golf with Warren. "We had a group of eight of us that would go out to the West Coast and play golf at Pebble Beach and three other courses over a four-day period," Sandy remembered. "One thing that Warren does is he brings everybody together and he shares everybody. He doesn't keep anyone to himself. So, all of Warren's friends, I got to meet early in the game. Murphy [Tom Murphy, Cap Cities ABC], Burke [Jim Burke, Johnson & Johnson]...the Loomises [Carol Loomis and her husband John]—all came out of being involved with Warren. It's been a wonderful experience."

### Philanthropy

The Gottesman family has a long tradition of philanthropy. It began with Sandy's grandfather, Mendel, and continued with his parents, Benjamin and Esther, who supported Jewish educational institutions in the United States and Israel and also Hadassah, the Women's Zionist Organization. Building on this family tradition, in 1965 Sandy and his brother Milton created the Gottesman Fund. During his life, Sandy was a generous donor to many Jewish and secular institutions. His most noteworthy philanthropic gifts focus on



Ruth Gottesman

Left to Right: Debbie Bosanek (assistant to Warren Buffett), Sandy Gottesman, Warren Buffett and Ruth Gottesman.

civic improvement projects, education and health, both in the United States and Israel. Among them are the following:

- The Gottesman Family Israel Aquarium in Jerusalem. This is Israel's first aquarium and focuses on the preservation of aquatic habitats and the environment in Israel.
- The American Museum of Natural History. Sandy was a trustee for 30 years and a major benefactor. The Hall of Planet Earth and the Research Library and Learning Center both bear the names David S. and Ruth L. Gottesman.
- The National Library of Israel. Sandy enthusiastically joined the government of Israel and the Rothschild family through their Yad Hanadiv Foundation to help build the new home of the National Library of Israel, that, in his words, "would allow the National Library to take its place among the great libraries of the world."
- The Gottesman Pool and Rink, part of the Harlem Meer Center Restoration. This is the most significant and complex project ever undertaken by the Central Park Conservancy; it will transform the Rink and Pool site at the north end of

Central Park as a vital resource for the surrounding community.

- Mount Sinai Hospital. Sandy was a loyal trustee and benefactor for more than 30 years, supporting a host of projects. The most recent gift was to establish the David S. and Ruth L. Gottesman Center for Headache Treatment and Translational Research.
- Albert Einstein College of Medicine. The Ruth L. and David S. Gottesman Institute for Stem Cell Biology and Regenerative Medicine is one of the many gifts he and Ruth made to the medical college.

It is interesting to note that Buffett said he first learned about Gottesman's philanthropy in Israel during a 2005 trip there to explore investment opportunities with him and Munger. "I had no idea...Sandy never mentioned it," he said. The whale was hiding below the surface.

### Legacy

Upon Gottesman's death in 2022, First Manhattan. posted this testimonial, "Remembering Our Founder," on its website:

It is with heavy hearts that we share the news of the passing of our founder David Sanford 'Sandy' Gottesman on September 28, 2022, at age 96. He made an immeasurable and lasting impact as a husband, father, businessman, investor, mentor and philanthropist.

Sandy was the visionary behind First Manhattan and an extraordinary leader of the firm. Beyond his investing acumen, Sandy was known for his integrity, intellectual curiosity and his extensive philanthropy. His ability to mentor those around him to professional and personal excellence and his commitment to the highest ethical standards forged the culture on which First Manhattan prides itself today. 💰

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