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# Buffett's Early Investments

A New Investigation Into the  
Decades When Warren Buffett  
Earned His Best Returns

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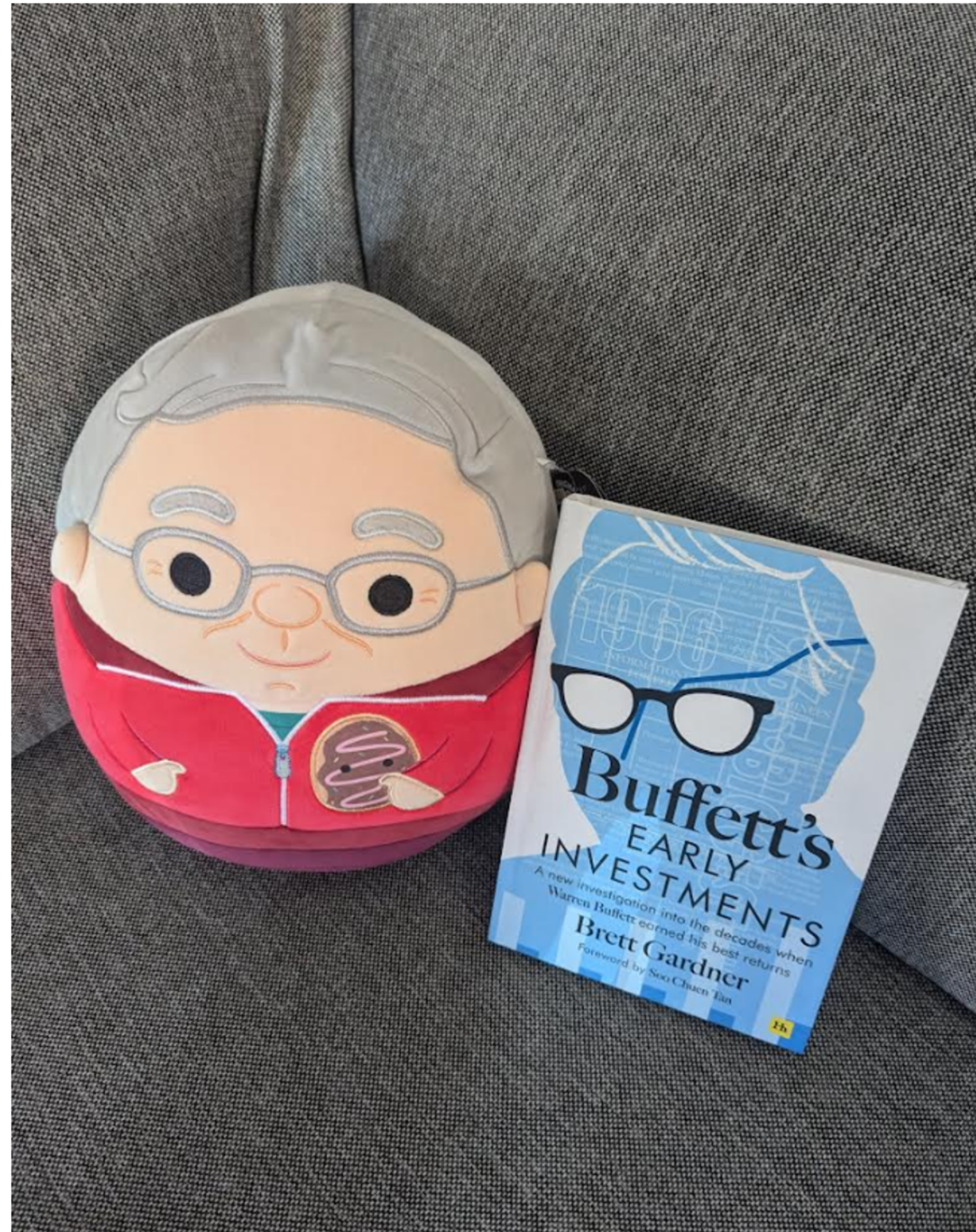




## I. BOOK OVERVIEW



# BUFFETT'S EARLY INVESTMENTS





# TABLE OF CONTENTS

## Contents

Foreword	viii
Preface	xii
<b>The Pre-Partnership Years</b>	<b>1</b>
Marshall-Wells: 1950	5
The Greif Bros. Cooperage Corporation: 1951	18
Cleveland Worsted Mills: 1952	28
Union Street Railway: 1954	37
Philadelphia and Reading: 1954	46
<b>The Partnership Years</b>	<b>59</b>
British Columbia Power: 1962	63
American Express: 1964	73
Studebaker: 1965	103
Hochschild, Kohn & Co.: 1966	112
Walt Disney Productions: 1966	128
Conclusion	152
Acknowledgments	160
Notes	162
About the Author	182



## BOOK OVERVIEW

- Book split into two parts: Pre-Partnership and Partnership Years
  - Pre-partnership includes when Warren Buffett was a student at Columbia, working at his father's stock brokerage firm Buffett-Falk, and working at Graham-Newman
  - Partnership includes 1956-1969 (Partnership liquidated in 1970 but no new investments)



# BUFFETT PARTNERSHIP VS. DOW

Year	Overall Results From Dow	Partnership Results	Limited Partners Results'
1957	-8.4%	10.4%	9.3%
1958	38.5%	40.9%	32.2%
1959	20.0%	25.9%	20.9%
1960	-6.2%	22.8%	18.6%
1961	22.4%	45.9%	35.9%
1962	-7.6%	13.9%	11.9%
1963	20.6%	38.7%	30.5%
1964	18.7%	27.8%	22.3%
1965	14.2%	47.2%	36.9%
1966	-15.6%	20.4%	16.8%
1967	19.0%	35.9%	28.4%
1968	7.7%	58.8%	45.6%
1969	-11.6%	6.8%	6.6%

On a cumulative or compounded basis:

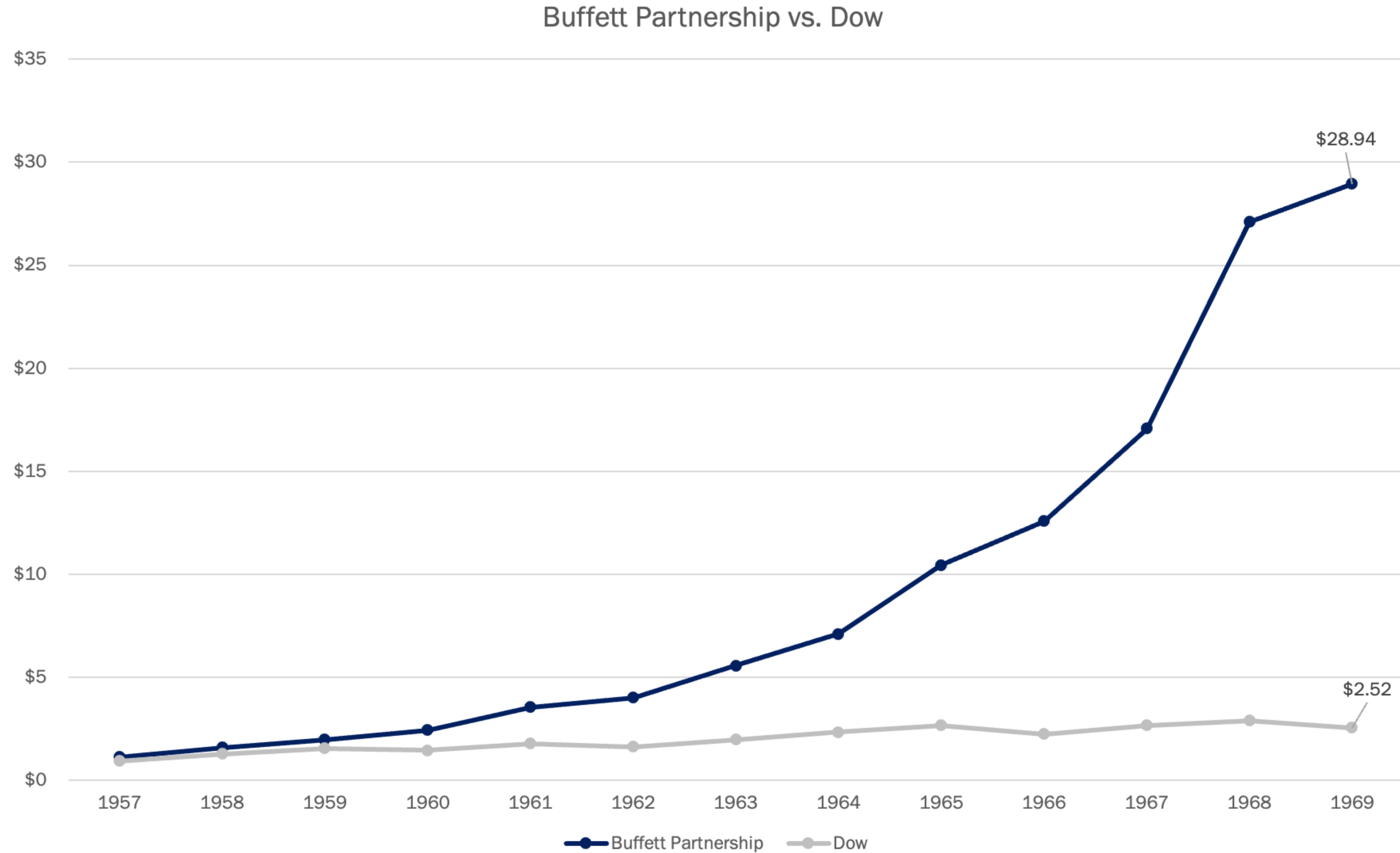
Year	Overall Results From Dow	Partnership Results	Limited Partners' Results
1957	-8.4%	10.4%	9.3%
1957-58	26.9%	55.6%	44.5%
1957-59	52.3%	95.9%	74.7%
1957-60	42.9%	140.6%	107.2%
1957-61	74.9%	251.0%	181.6%
1957-62	61.6%	299.8%	215.1%
1957-63	94.9%	454.5%	311.2%
1957-64	131.3%	608.7%	402.9%
1957-65	164.1%	943.2%	588.5%
1957-66	122.9%	1156.0%	704.2%
1957-67	165.3%	1606.9%	932.6%
1957-68	185.7%	2610.6%	1403.5%
1957-69	152.6%	2794.9%	1502.7%
Annual Compounded Rate	7.4%	29.5%	23.8%

Source: Warren Buffett, "The Superinvestors of Graham and Doddsville," *Hermes* (Fall 1984)."

- ii 1957-1961 combines the results of all predecessor limited partnerships operating throughout the entire year.



# BUFFETT PARTNERSHIP VS. DOW







## II. PHILADELPHIA AND READING



## ANTHRACITE COAL





# ANTHRACITE COAL 1954

Figure 1: Production (net tons)



Source: *Minerals Yearbook 1953*, published by the United States Bureau of Mines.

Figure 2: Value of production (in thousands of dollars)



Source: *Minerals Yearbook 1953*, published by the United States Bureau of Mines.



# PHILADELPHIA AND READING BALANCE SHEET

Table 2: P&R summary 1953 balance sheet

	Value	% of assets
Cash and cash equivalents	1,591	3.1%
Notes and accounts receivable	8,167	15.8%
Inventories	10,623	20.6%
Current assets	\$20,381	39.5%
Long-term notes and accounts receivable	316	0.6%
Other long-term investments	400	0.8%
Special deposits	894	1.7%
Property, plant, and equipment	17,600	34.1%
Deferred charges	12,043	23.3%
Total assets	\$51,634	100.0%
Total liabilities	7,480	
		Per Share
Tangible book	\$44,154	\$31.33
Net current asset value	\$12,901	\$9.16

Source: Philadelphia and Reading 1953 annual report. Dollar figures in thousands other than per share numbers.



## MICKY NEWMAN AND THE ACQUISITION SPREE



Howard Newman, the president of Philadelphia & Reading

Tommy Weber



FRUIT<sup>®</sup> OF THE LOOM<sup>®</sup>





# PHILADELPHIA AND READING FINANCIALS

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	CAGR 1953-1967
Sales	57,134	46,457	47,677	79,154	80,446	76,279	139,101	147,378	153,795	189,014	177,775	221,225	285,549	327,824	311,325	12.9%
Earnings before extraordinary items	100	(2,807)	(1,387)	4,948	6,625	7,256	8,724	7,385	8,956	6,310	7,762	9,901	14,013	19,125	23,905	47.8%
<b>Per common share (after preferred dividends)</b>	<b>0.07</b>	<b>(1.99)</b>	<b>(1.02)</b>	<b>4.04</b>	<b>5.71</b>	<b>6.19</b>	<b>6.27</b>	<b>5.32</b>	<b>6.47</b>	<b>4.55</b>	<b>5.63</b>	<b>7.35</b>	<b>10.38</b>	<b>13.36</b>	<b>16.56</b>	
Cash dividends on common stock	845	-	-	-	-	1,871	2,653	2,836	2,883	2,941	2,996	3,150	3,571	3,592	4,514	12.7%
<b>Per share</b>	<b>0.60</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.60</b>	<b>1.92</b>	<b>2.03</b>	<b>2.08</b>	<b>2.12</b>	<b>2.16</b>	<b>2.32</b>	<b>2.65</b>	<b>2.65</b>	<b>3.31</b>	
Working Capital	15,203	15,576	21,895	26,001	28,406	32,388	44,137	52,823	45,486	61,796	81,849	84,011	156,228	137,580	152,427	17.9%
Total Assets	51,634	42,828	51,821	58,175	64,330	68,104	89,452	95,649	121,756	151,255	151,167	145,049	336,163	298,592	318,612	13.9%
Common Stockholders' equity	44,154	36,830	33,066	38,898	43,696	49,305	66,593	66,176	72,296	75,585	85,283	89,824	100,479	105,406	123,951	7.7%
<b>Per Share</b>	<b>31.33</b>	<b>26.14</b>	<b>24.25</b>	<b>31.74</b>	<b>37.64</b>	<b>42.05</b>	<b>47.85</b>	<b>47.78</b>	<b>52.22</b>	<b>54.61</b>	<b>61.87</b>	<b>66.64</b>	<b>74.42</b>	<b>77.66</b>	<b>90.53</b>	
Stock Price - High	18.75	14.00	19.00	29.38	31.50	72.00	114.75	99.96	175.83	171.92	90.38	89.43	127.25	160.37	219.71	19.2%
Stock Price - Low	8.88	7.50	12.25	17.00	21.50	27.13	80.58	53.04	69.97	56.24	71.71	66.24	71.21	75.35	86.67	17.7%
P/B - High	0.60x	0.54x	0.78x	0.93x	0.84x	1.71x	2.40x	2.09x	3.37x	3.15x	1.46x	1.34x	1.71x	2.06x	2.43x	
P/B - Low	0.28x	0.29x	0.51x	0.54x	0.57x	0.65x	1.68x	1.11x	1.34x	1.03x	1.16x	0.99x	0.96x	0.97x	0.96x	
P/E - High	263.14x	n/m	n/m	7.27x	5.52x	11.63x	18.30x	18.78x	27.18x	37.79x	16.05x	12.16x	12.26x	12.00x	13.27x	
P/E - Low	124.55x	n/m	n/m	4.21x	3.77x	4.38x	12.85x	9.97x	10.81x	12.36x	12.74x	9.01x	6.86x	5.64x	5.23x	

Note: Per share figures, including share prices, are in 1954 share counts equivalents; the data is adjusted for stock splits and stock dividends to reflect the value of one share purchased in 1954. Earnings are adjusted to exclude special items.



## PARALLELS BETWEEN P&R AND BERKSHIRE HATHAWAY

Theme	Philadelphia and Reading	Berkshire Hathaway
Industrial beginnings	19 <sup>th</sup> -century coal company	19 <sup>th</sup> -century textiles
Secular decline	Anthracite coal decline	New England textile decline
Initial valuation	Below tangible book value	Below net current asset value
Deal structuring	Creative financing and sourcing	Creative financing and sourcing
Executive compensation	Aligned management incentives	Aligned management incentives
Integrity	Trusted leadership	Buffett/Munger reputation
Performance	20%+ CAGR over 15 years	~20% CAGR over 50 years



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