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First Half Performance

During the first half of 1968, the Dow-Jones Industrial Average declined fractionally from 905 to 898. Ownership of the Dow would also have produced dividends of about $15 during the half, resulting in an overall gain of 0.9% for that Average. The Dow, once again, was an anemic competitor for most investment managers, although it was not surpassed by anything like the margins of 1967.

Our own performance was unusually good during the first half, with an overall gain of 16% excluding any change in valuation for controlled companies (which represented slightly over one-third of net assets at the beginning of the year). However, any release of adrenalin is unwarranted. Our marketable security investments are heavily concentrated in a few situations, making relative performance potentially more volatile than in widely diversified investment vehicles. Our long term performance goals are as stated in the revised "Ground Rules" and I will be quite happy if we achieve those limited objectives over a period of years. The following table summarizes performance to date on the usual basis:

Year	Overall Results From Dow (1)	Partnership Results (2)	Limited Partners' Results (3)
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
First Half 1968	+ 0.9	+16.0	+13.5
Cumulative Results	+167.7	+1880.0	+1072.0
Annual Compounded Rate	8.9	29.6	23.8

(1) Based on yearly changes in the value of the Dow plus dividends that would have been received through ownership of the Dow during that year. The table includes all complete years of partnership activity.

(2) For 1957-61 consists of combined results of all predecessor limited partnerships operating throughout the entire year after all expenses but before distributions to partners or allocations to the general partner.

(3) For 1957-61 computed on the basis of the preceding column of partnership results allowing for allocation to the general partner based upon the present partnership agreement, but before monthly withdrawals by limited partners.

Although we revise valuations of our controlled companies only at yearend, it presently appears that our share of their 1968 earnings will be something over $3 million. Those with primary responsibility for their operations, Ken Chace at Berkshire Hathaway, Louis Kohn at Hochschild Kohn, Jack Ringwalt at National Indemnity and Ben Rosner at Associated Cotton Shops, continue to meld effort and ability into results.

This year, Diversified Retailing Company (owner of Hochschild Kohn and Associated Cotton Shops) issued its first published annual report. This was occasioned by the public sale of debentures to approximately 1,000 investors last December. Thus, DRC is in the rather unusual position of being a public company from a creditors' viewpoint, but a private one (there are three stockholders - BPL owns 80%) for ownership purposes. I am enclosing the DRC report with this letter (except where duplicates go to one household) and plan to continue to send them along with future mid-year letters.

As I have mentioned before, we cannot make the same sort of money out of permanent ownership of controlled businesses that can be made from buying and re-selling such businesses, or from skilled investment in marketable securities. Nevertheless, they offer a pleasant long term form of activity (when conducted in conjunction with high grade, able people) at satisfactory rates of return.

<u>Investment Companies</u>

On the following page is the form sheet on the usual investment companies:

Year	Mass Inv. Trust (1)	Investors Stock (1)	Lehman (2)	Tri-Cont. (2)	Dow	Limite Partner
1957	-11.4%	-12.4%	-11.4%	- 2.4%	- 8.4%	+ 9.
1958	+42.7	+47.5	+40.8	+33.2	+38.5	+32.
1959	+ 9.0	+10.3	+ 8.1	+ 8.4	+20.0	+20.
1960	- 1.0	- 0.6	+ 2.5	+ 2.8	- 6.2	+18.
1961	+25.6	+24.9	+23.6	+22.5	+22.4	+35.
1962	- 9.8	-13.4	-14.4	-10.0	- 7.6	+11.
1963	+20.0	+16.5	+23.7	+18.7	+20.6	+30.
1964	+15.9	+14.3	+14.0	+13.6	+18.7	+22.
1965	+10.2	+ 9.8	+19.0	+11.1	+14.2	+36.
1966	- 7.7	-10.0	- 2.5	- 6.2	-15.6	+16.
1967	+20.0	+22.8	+27.6	+25.2	+19.0	+28.
First Half 1968	+ 5.1	+ 2.8	+ 4.4	+ 2.0	+ 0.9	+13.
Cumulative results	+175.7	+154.5	+218.6	+186.7	+167.7	+1072.
Annual compounded rate	9.2	8.5	10.6	9.6	8.9	23.

(1) Computed from changes in asset value plus any distributions to holders of record during year.

(2) From 1968 Moody's Bank & Finance Manual for 1957 - 1967. Estimated for first half of 1968.

Due to a sluggish performance by the Dow in the last few years, the four big funds now have, on average, about a one-half point per annum advantage over the Dow for the full period.

The Present Environment

I make no effort to predict the course of general business or the stock market. Period. However, currently there are practices snow-balling in the security markets and business world which, while devoid of short term predictive value, bother me as to possible long term consequences.

I know that some of you are not particularly interested (and shouldn't be) in what is taking place on the financial stage. For those who are, I am enclosing a reprint of an unusually clear and simple article which lays bare just.

what is occurring on a mushrooming scale. Spectacular amounts of money are being made by those participating (whether as originators, top employees, professional advisors, investment bankers, stock speculators, etc.) in the chain-letter type stock-promotion vogue. The game is being played by the gullible, the self-hypnotized, and the cynical. To create the proper illusions, it frequently requires accounting distortions (one particularly progressive entrepreneur told me he believed in "bold, imaginative accounting"), tricks of capitalization and camouflage of the true nature of the operating businesses involved. The end product is popular, respectable and immensely profitable (I'll let the philosophers figure in which order those adjectives should be placed).

Quite candidly, our own performance has been substantially improved on an indirect basis because of the fall-out from such activities. To create an ever-widening circle of chain letters requires increasing amounts of corporate raw material and this has caused many intrinsically cheap (and not so cheap) stocks to come to life. When we have been the owners of such stocks, we have reaped market rewards much more promptly than might otherwise have been the case. The appetite for such companies, however, tends to substantially diminish the number of fundamentally attractive investments which remain.

I believe the odds are good that, when the stock market and business history of this period is being written, the phenomenon described in Mr. May's article will be regarded as of major importance, and perhaps characterized as a mania. You should realize, however, that his "The Emperor Has No Clothes" approach is at odds (or dismissed with a "So What?" or an "Enjoy, Enjoy!") with the views of most investment banking houses and currently successful investment managers. We live in an investment world, populated not by those who must be logically persuaded to believe, but by the hopeful, credulous and greedy, grasping for an excuse to believe.

Finally, for a magnificent account of the current financial scene, you should hurry out and get a copy of "The Money Game" by Adam Smith. It is loaded with insights and supreme wit. (Note: Despite my current "Support Your Local Postmaster" drive, I am <u>not</u> enclosing the book with this letter - it retails for $6.95.)

<u>Taxes</u>

Several unusual factors make the tax figure even more difficult than usual to estimate this year. We will undoubtedly have an above average amount of ordinary income. The picture on short term and long term capital gain is subject to unusually substantial variance. At the beginning of the year, I suggested that you use an 8% ordinary income factor (it won't come in this manner but this figure embodies an adjustment for long term capital gain) applied to your BPL capital account on an interim basis to compute quarterly tax estimates. If a figure different from 8% seems more appropriate for your September 15th quarterly estimate, I will let you know by September 5th. If no change is necessary, you will next hear from me on November 1st with the Commitment Letter for 1969.

Cordially,

Warren E. Buffett

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