

LAWRENCE A. CUNNINGHAM Q&A  
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Introduction:

Mr. Cunningham has very graciously allowed me to reformat a brief presentation he wrote into a question and answer format. The information he provided has not been altered in any way but the format was changed into the Question & Answer format you will see below.

Career Biography:

Lawrence A. Cunningham is Director of The Samuel and Ronnie Heyman Center on Corporate Governance and Professor of Law and Business at Cardozo Law School, where he has taught since 1992. From 1988-1992, he was an Associate with Cravath, Swaine & Moore where he practiced in the finance, corporate and M&A areas.

Professor Cunningham has taught and lectured widely. He has held appointments in the US at Boston College, Columbia University, George Washington University, Fordham University and St. John's University and abroad at Central European University (Budapest), Hebrew University (Jerusalem) and Oxford University.

His other speaking engagements have included talks at the Universities of Cincinnati and Iowa, Cornell and Fordham Universities, Boston College and City College (City University of New York); lectures to investor groups in London, New York, Toronto, Washington DC, and throughout the US; and presentations for organizations including Morgan Stanley Dean Witter, the Institute for International Research, and the State of Wisconsin Investment Board.

Professor Cunningham has served as a consultant to corporate boards of directors, law and accounting firms, and regulatory and standard-setting bodies and has given expert witness testimony in matters concerning corporate governance and finance issues. He has served as Director of the Independence Standards Board's Task Force on Alternative Practice Structures of Auditors and as a Member of the Securities Regulation Committee of the Association of the Bar of the City of New York.

## Question and Answer

Question: What Investment Rules (or philosophy) do you believe in?

Answer: Warren Buffett's Rules (As Informed by Benjamin Graham)

Question: Could you expound upon these rules?

Answer:

- A. Don't be the patsy. If you cannot invest intelligently, the best way to own common stocks is through an index fund that charges minimal fees. Those doing so will beat the net results (after fees and expense) enjoyed by the great majority of investment professionals. As they say in poker, 'If you've been in the game 30 minutes and you don't know who the patsy is, *you're* the patsy'.
- B. Operate as a business analyst. Do not pay attention to market action, macroeconomic action, or even securities action. Concentrate on evaluating businesses.
- C. Look for a big moat. Look for businesses with favorable long term prospects, whose earnings are virtually certain to be materially higher 5, 10, 20 years from now.
- D. Exploit Mr. Market. Market prices gyrate around business value, much as a moody manic depressive swings from euphoria to gloom when things are neither that good nor that bad. The market gives you a price, which is what you pay, while the business gives you value and that is what you own. Take advantage of these market mis-pricings, but don't let them take advantage of you.
- E. Insist on a margin of safety. The difference between the price you pay and the value you get is the margin of safety. The thicker, the better. Berkshire's purchases of the Washington Post Company in 1973-74 offered a very thick margin of safety (price about 1/5 of value).
- F. Buy at a reasonable price. Bargain hunting can lead to purchases that don't give long-lasting value; buying at frenzied prices will lead to purchases that give very little value at all. Still it is better to buy a great business at fair price than a fair business at great price.
- G. Know your limits. Avoid investment targets that are outside your circle of competence. You don't have to be an expert on every company or even many—only those within

your circle of competence. The size of the circle is not very important; knowing its boundaries, however, is vital.

- H. Invest with “sons-in-law.” Invest only with people you like trust and admire—people you’d be happy to have your daughter marry.
- I. Only a few will meet these standards. When you see one, buy a meaningful amount of its stock. Don’t worry so much about whether you end up diversified or not. If you get the one big thing, that is better than a dozen mediocre things.
- J. Avoid gin rummy behavior. This is the opposite of is possibly the most foolish of the Wall Street maxims: “You can’t go broke taking a profit”. Imagine as a stockholder you own the business and hold it the way you would if you owned and ran the whole thing. If you aren’t willing to own a stock for 10 years, don’t even think about owning it for 10 minutes.

Question: What Investors do you admire?

Answer: Benjamin Graham, stuck to his knitting despite the fashions of theoretical finance that swept away his colleagues and contemporaries.

Warren Buffett, a terrific guy, popularized Graham, straight shooter.

John Maynard Keynes, an academic who made tons of money.

John Bogle, another terrific guy, invented the index fund, straight shooter.

Question: Could you provide us with a short list of the investment book you like?

Answer:

John C. Bogle, [Common Sense on Mutual Funds](#) (John Wiley & Sons 1999)

Philip L. Carret, [The Art of Speculation](#) (1<sup>st</sup> ed. 1930; rev. ed. Fraser, 1984)

Philip A. Fisher, [Common Stocks and Uncommon Profits](#) (1<sup>st</sup> ed. 1958; rev. ed. John Wiley & Sons, 1996)

Benjamin Graham, [The Intelligent Investor](#) (1<sup>st</sup> ed. 1949; 4<sup>th</sup> rev. ed. Harper & Row, 1973)

Edwin LeFèvre, [Reminiscences of a Stock Operator](#) (1<sup>st</sup> ed. 1923; rev. ed. John Wiley & Sons, 1994)

Gerald M. Loeb, [The Battle for Investment Survival](#) (1<sup>st</sup> ed. 1935; rev. ed. John Wiley & Sons, 1996)

Fred Schwed, Jr., [Where Are the Customers' Yachts?](#) (1<sup>st</sup> ed. 1940; rev. ed. John Wiley & Sons, 1995)

Laurence H. Sloan, [Everyman and His Common Stocks](#) (1<sup>st</sup> ed. 1931; rev. ed. McGraw Hill)

Joseph de la Vega, [Confusión de Confusiones](#) (1<sup>st</sup> ed. 1688; rev. ed. John Wiley & Sons 1996)

Question: What has been your best investment to date?

Answer: General Electric

Question: What has been your worst investment to date?

Answer: Amazon.com

Question: Do you have any regrets about a stock that was purchased or not purchased?

Answer: No regrets (no investor should have regrets).

Mr. Cunningham has edited and authored the following books (all of them are well worth reading closely):

1. [How to Think Like Benjamin Graham and Invest Like Warren Buffett](#)
2. [The Essays of Warren Buffett: Lessons for Corporate America](#)
  - Editor and supplied the introduction, 1997
  - A second edition with a revised introduction was published in 2001
3. Introductory Accounting and Finance for Lawyers
  - First edition published in 1997 by West Group
  - 2<sup>nd</sup> edition was published in 1999

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