Columbia Business School

Graham & Doddsville

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Century Management—The Value of Discipline

Arnold Van Den Berg

Arnold Van Den Berg founded Century Management in 1974. He is a principal of the firm, the Chief Executive Officer, co-Chief Investment Officer, and a portfolio manager. Arnold has no formal college education but gained his market knowledge through rigorous self-study, tremendous dedication, and over 45 years of industry experience. Prior to starting Century Management, he worked as a financial advisor/consultant for Capital Securities and John Hancock Insurance.

Jim Brilliant has been with Century Management for 27 years and is a principal of the firm, the co-Chief Investment Officer, Chief Financial Officer, and a portfolio manager. Jim is a member of the Century Management Advisory Committee. Jim attended Pierce College where he studied Finance.

Jim Brilliant

Graham & Doddsville (G&D): Can you each tell us about your introduction to investing and how you first became interested?

Arnold Van Den Berg (AVDB): My introduction to investing began when I was working for a financial firm, and they were selling insurance and mutual funds. I got very excited about the mutual funds, as the market was doing really well in late '68 and early '69. I thought that after all of my travels I had finally found the field that I'd like to devote my life to. I started getting people, mostly friends of mine and friends of people I knew, involved in mutual funds.

Just about the time I got going, stocks and mutual funds went into a bear market from 1969-74. I was very, very distraught. By '72 and '73, I was doing a lot of soul searching about what was going on and what went wrong. I was reading and researching and one day something caught my eye that changed my whole way of thinking. As I was reviewing the companies and the people who did well and who did poorly in this market, I noticed that some of the better performing firms and better performing money managers all had a connection with Benjamin Graham's investment approach. I thought, "Geez, I wonder what this philosophy is all about?"
I started studying and eventually met a gentleman named Mark Franklin who became a mentor to me, and he was a big Graham fan. After I felt that I understood the philosophy, I studied everything I could get my hands on. I decided that rather than depend on mutual

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Arnold Van Den Berg & Jim Brilliant

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funds, I would start my own investment firm. That was how I got involved in the investment field and it eventually led me to start Century Management.

"One day something caught my eye that changed my whole way of thinking...the better performing firms and better performing money managers all had a connection with Benjamin Graham's investment approach."

Jim Brilliant

Jim Brilliant (JB): My first introduction to investing was when I was a teenager. Every Sunday my dad would pull the stock tables out of the newspaper, and his simple method was to chart the stock prices, tracking the trading range of that stock from high to low over time. At that time, I was shoveling snow and cutting grass and had kind of a neighborhood business where I'd saved some money. I decided, "Well, that looks pretty good. Let me try my hand at it." The first stock I ever bought was Commonwealth Edison when I was 15 years old.

I made money on it and that turned me in the direction of businesses, and understanding that my intellectual power is far more profitable than my labor power. I made more money on that stock than I did cutting grass. It certainly opened my mind to the importance of expanding the mind and using that as the way to wealth.

G&D: Can you talk a bit about the founding of Century Management and why you started it?

AVDB: I was able to get a good grasp of the value philosophy, but the problem was I didn't have any credentials or formal education. I didn't have any money either, but I did have a dream. I was sitting with one of my clients and I told him about my dream of starting my own investment company. I was working out of my studio apartment at the time, and he said, "Oh Arnie, you can't do this out of your apartment. You've got to get an office. You've got to get a business going." I said, "The problem is I don't have much money."

Anyway, a long story short, after lunch he offered to help me get my business going, rent an office and buy some furniture. It was about \$2,500 at the time; in today's money that's about \$17,000. I decided I'd go out and I'd get an office and start my business. I do not recommend that people start that way. That's the way I did it, but I didn't have much choice other than to continue selling products, and I didn't want to do that. It was many years of struggling, of building a clientele, of developing a reputation and track record. I started in September of 1974 and the market bottomed three months later, which gave me a boost with the few clients I had.

That six year bear market leading into 1974 was just torture. Every day we would come in and the market would just grind down. While the environment eventually created tremendous opportunities, the sentiment was extremely negative. You had 12-15% inflation, you had a market that dropped 45%, and you had small cap stocks that dropped 75%. Everybody was bearish. People didn't even want to talk about the stock market because they had been burned so badly. My thought was that either the world was going to end, and a lot of people thought

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it would, or I was going to make a lot of money. People are always predicting the end of the world, but the only things that end are the people; the world keeps going. That was the founding of Century Management.

G&D: How has Century evolved over time? Are there particular processes you have implemented that you think lead to better results for clients?

AVDB: I think the most important thing in the market, as in almost any endeavor, is discipline. It is one of the things I learned as an athlete when I was young, and I became very good at it. Remaining disciplined is something that we try really hard to do in this business.

One of the things we've tried hard to implement here is that when we're looking at a company, we look at the qualitative risk. How good is the business? How good is the management? Then we have a strict quantitative approach as well. The most important thing is to identify the potential pitfalls – what are the flaws? How low can this stock go if things don't work out?

G&D: Do you think discipline is teachable or is it something the people you hire inherently have?

AVDB: Oh no! I think discipline is very teachable. If you don't learn it by yourself the market will teach it to you, but you will learn it one way or another. It's kind of like what one of my favorite authors, James Allen, said, "You either learn by wisdom and knowledge, or by suffering and woe, and you continue to suffer until you learn."

"The most important thing in the market, as in almost any endeavor, is discipline."

G&D: Moving on to your investment philosophy, you mentioned Ben Graham, you just mentioned both the qualitative and quantitative aspects of companies. How would you characterize your investment philosophy?

JB: We have three primary tenets to our investment philosophy. The first one we call recognizing and capitalizing on value gaps. That's really just finding companies where the price of the stock is disconnected from the underlying value of the business. You're probably familiar with Ben Graham's quote, that in the short run the market's a voting machine and in the long run it's a weighing machine. To us, what he was really describing was how the prices of stocks often get disconnected from their underlying value due to volatility in the market. We are searching for opportunities where that price disconnect occurs.

The other part of our investment philosophy, as Arnold mentioned, is that all of our valuation is anchored on what we call a worst case analysis. The idea is that we handicap what we think the company's stock is going to sell for during times of extreme duress. The duress could be a recession, it could be an industry problem, or it could be a company problem, but focusing on that worst case analysis helps us identify what we think is the proper margin of safety. What we have found over the years by doing this is that companies and industries tend to have repeatable patterns, in terms of valuations, through a cycle. That is also one of the reasons why studying history is so important.

Arnold kind of mentioned this in terms of discipline, that expertise in any field is largely driven by a mental database of experiences and patterns that are recognized

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by having lived through different environments. To us, studying history is really important. We go back through 20 years of the company's history, or as far back as we can get the data. We look at all aspects of the business and we want to understand its drivers, what makes it tick. In particular, we break down the company to see how each segment performs during the entire business cycle and how the market will price that company during these extreme events, either during extreme downturns or extreme upturns.

At the end of all this, we put together what we call our valuation structure, where we have a worst case price based on the company being in extreme duress. Then we look at a sell point, and that is where we forecast a full cycle recovery in earnings and multiples, and derive our sales price based on that. And finally we want a margin of safety. That margin of safety is what drives our buy point. We'll buy the stock based on a margin of safety and we use a reward-to-risk ratio to determine that.

By way of example, if we have a stock that has a worst case of $8 and a sell point of $20, if it were a small cap stock, we'd want a minimum of a 5:1 reward to risk. So in that case, we can we can only pay $10 to buy the stock. If it were a big cap stock, then we're looking for a 3.5:1 reward-to-risk ratio. These can be slightly adjusted based on industry and the nature of the stock. Once we've done this, we take all of our stocks and put them into a dashboard, which is just our master Excel worksheet that has all the valuations. Then we sort by reward-to-risk, and this is what really drives the framework for our portfolio. Sorting through that reward-to-risk helps us make our buy and sell decisions and portfolio-weighting decisions.

G&D: Are there particular investors that have helped form tenets of your investing philosophy, besides Ben Graham?

AVDB: There are lots of investors like Graham and Buffett and people of that nature, most of them you've heard of. There's one that I learned a great deal from, and pardon me for mentioning his name in a value-focused newsletter, but that was T. Rowe Price. He taught me three things that are really important. He was a growth stock investor, kind of like Phil Fisher. He was big on the qualitative aspects and he really made me stop and think about the value of a business beyond the normal financial metrics. T. Rowe Price is an investor that is underappreciated in my opinion, and I think anybody who's interested in this field ought to study his life and his philosophy, because there are tremendous lessons to be learned.

The second thing I learned from him is that he really regretted selling his business. His regret influenced me to make the decision that I would never sell Century Management, because when you sell, you lose control over the way the investment philosophy and business are managed, even though your name is still associated with the business.

The third thing that I learned from him was the value of having incredible flexibility. He was a premier growth stock investor, and in 1969, he decided that his growth stocks were over-valued, as was the rest of the market. In addition, the government was printing money to provide the social programs that were established in the 1965 Great Society initiative, so he completely changed his point of view. He opened up the New Era Fund that consisted of the antithesis of the stocks he always followed. He bought gold and silver stocks, oil stocks, cyclical and basic materials stocks, and real estate, because he felt that inflation was coming. This proved to be a very good call, given the environment, and he provided a great return during difficult times.
That was a very big lesson and that really helped me during the 1970s when I got started. In my early years we bought Swiss francs and

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claims on Swiss reserves. It was illegal to own gold at the time but you could buy collectibles (which I don't normally recommend), so we bought British sovereigns as they were selling at a small premium to gold bullion. This helped us a lot during the early '70s when inflation rose.

"Expertise in any field is largely driven by a mental database of experiences and patterns that are recognized by having lived through the different environments. To us, studying history is really important."

G&D: That leads to our next question. You founded Century in 1974 and have seen multiple market cycles. Did that frame of reference help you in 2008 and 2009 and how does it frame your thinking now?

AVDB: I think the main lesson you get from being in different markets, and markets that go down quite a bit like the 1974 bear market and the 2008-9 bear market, is that when stocks go down 40% or 50%, some way or another, as a whole, stocks always come back. Everybody who starts out in this business knows that, but until you go through one of these markets and you see things fall apart and then come back, you don't have total faith when you're going through it that it will come back the next time around.

By going through these markets, it's given me complete faith in America and the American markets, because when you look at how low stocks get in these bear markets and you see how quickly they recover once things clear, you develop confidence that when you have something you believe is of value, you stick with it. You don't sell and if you have the cash, you buy more. That confidence helps you to navigate through these cycles and helps you sell stocks, like we've done this past year, and build up cash knowing that another cycle will come and you will be able to redeploy the cash when the bargains appear. Right now, out of four hundred stocks, we only have ten, maybe twelve ideas that we could buy today. We know this is not a good time to be very aggressive and we're building cash.

That kind of anchors your philosophy about what is value. I think our 5:1 reward-to-risk ratio on the small cap stocks came out of going through these cycles and realizing that our buy point probably shouldn't be much more than 15-20% above our worst case. That has worked for us for many years. During our first 30 years we only had one down year, a loss of 9%, and averaged more than 15% during that time.

G&D: Did 2008-2009 influence the way you think about your worst case analysis? It was a market that was so disruptive - did that change the way you think about worst case analysis or is it viewed as an aberration, a once in a lifetime type of market?

AVDB: No, I think that the 2009 market was very much like the 1974 market. It came a little quicker, but I think that the 1974 bear market was even worse because it lasted over six years. Just to give you an example, the 2007-09 bear market went from an 18x multiple to about a 10x multiple. The 1974 bear market went from an 18.9x multiple to an 8x multiple. The median P/E for the average stock in the Value

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Line® composite of 1,700 companies went to a 4x-6x multiple. I still consider the 1974 bear market the toughest one because it dragged out for six years. Not that a down market of a year and a half to two years is short; it is long when you're living through it, but it's not as long as six years.

"We look for things like regulatory changes, policy changes, or demographic changes … We find that often provides ripe areas for further investigation and a way to develop themes."

G&D: How do you typically look for new ideas? You mentioned earlier that you keep a spreadsheet of the companies you are tracking and their reward-to-risk. Will you also use screens and other methods of sourcing ideas?

JB: We run a lot of screens. We subscribe to Value Line®, which covers several thousand companies over the course of a year. We find that to be a great source of ideas. We certainly talk to other investors and share ideas that way. One of the areas that I find to be the most fruitful is identifying themes. That's because if you can identify a theme, you can leverage your research. Instead of one idea at a time, a theme allows you to pick up five to ten ideas.

We look for industries that are undergoing some dramatic improvements in their end markets that may not yet be realized in their price. To get to those, we look for things like regulatory changes, policy changes, or demographic changes. Probably the most prolific is technological change, and I don't mean the PC change, but changes in an industry due to different kinds of technology being used. We find that often provides ripe areas for further investigation and a way to develop themes. For example, in the energy industry, we've all heard about the well publicized fracking techniques utilized in onshore oil and gas drilling. While fracking has been around for decades, it is the combination of fracking and the relatively newer advanced drilling technologies such as long-lateral horizontal drilling, and directional drilling that has led to the tremendous increase in the amount of natural gas and oil produced in the United States.

G&D: With markets up significantly in 2013, are there specific areas you think have become overheated or still find relatively attractive? And within that are there any specific investment ideas you would be willing to share?

JB: As Arnold has mentioned, it is hard to find value in the market today. And it's hard to find cheap stocks across an entire industry, so it's more of an individual stock-picking market at this point and it's tough to find good values. We obviously keep digging for them and we try to look for those themes that we think are mispriced. In particular, some of the areas where we think there's opportunity right now are in sectors of the energy market. Basic materials names have been beaten up, so we're finding some value there and also in some areas of insurance. I think we've all heard recently about the biotech industry and how that's gone crazy. We have no circle of confidence in biotech, so that doesn't affect us.

One theme we previously mentioned is natural gas. We believe the US is developing some very significant competitive advantages in different areas, and one is the energy market. That is evident with the increased production both in oil and natural gas.

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On the natural gas side, that has a particularly positive implication for the chemical industry, because in the US, we use natural gas to produce ethylene, which is the primary/basic component for most value-added chemicals. A few years back, we saw this when we observed natural gas prices declining rapidly. One of the things we look at are structural shifts, so when a new technology comes in, we look to see if it is going to impact an industry structurally. The production of natural gas became prolific and prices fell dramatically, so we were looking at those companies that stood to benefit from cheap natural gas and, of course, those that were going to get harmed. Some getting harmed were coal companies, because natural gas became very competitive from a cost standpoint. The chemical industry is one area in particular that would benefit because of lower input costs.

We recognized that and believed there would be significant share gains by US chemical companies, which would require capital spending. Well, it's coming to fruition, as there's about $70-100 billion dollars that's going to be spent over the next five years. We bought a fair amount of these companies that we believe are going to benefit from this capital spending binge. One of my favorites in that industry is Jacobs Engineering (JEC). They're an engineering and construction firm, and in my view one of the best run companies in the business. I'm not recommending that anybody buy it right now, but we see this being a five- to seven-year cycle. The stock is around $63 now, and should it sell off into the mid-$40s, we'd certainly be buying more of it.

Another company that is somewhat related is Orion Marine (ORN). They're a marine construction company that specializes in heavy construction projects that are around water. They're very big in the Gulf Coast, the Pacific Northwest, and the Caribbean. They do marine construction and dredging. It's a heavy construction business and coming out of 2008-9, the industry was peaking from the previous construction cycle. Their revenues, backlogs, and profits were declining and competition got very difficult. Bidding became very competitive, so their earnings collapsed. It showed up for us on a tangible book value screen that we run, but it also showed up in two other ways: one was our chemical theme, and the other was our Panama Canal expansion theme. It kind of gives you an idea how we try to triangulate different things based on cheapness and themes we're looking at.

They're widening the Panama Canal, which requires deeper and wider ports in the United States to be able to accept bigger ships. The project has been somewhat delayed by government budget issues, but it looks like the Army Corps of Engineers will start to release some projects pretty soon. Additionally, most of the chemical plants around the Gulf Coast will require marine construction. Orion Marine is in the very beginning stages of this and it's starting to have a positive impact on their backlog and revenues. The stock has run lately and is at roughly $13, or about 40% above our buy point. I wouldn't buy here, but at lower prices, we'd certainly add to that position. Our target on that stock is about $20.

G&D: Any others you would be willing to discuss?

JB: As you know, over the last couple of years, gold went from roughly $700 to $1,800 and then back down to $1,200. Well, even more than the decline of gold prices, the gold miners went down dramatically. Gold went down roughly 34% and you had gold miners, depending on their market cap, down 50-85% from their recent peak. Back in December, we saw a lot of value in the gold miners so we bought a basket of miners that was diversified both geographically and by market capitalization. In our

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view, the gold miners at the end of the year were discounting roughly $700 to $800 gold. We've done what we believe is a thorough analysis on gold and gold mining companies, which Arnold summarized in two articles he and the team wrote on this subject. We sent these write-ups to our clients back in February and March but they are still available on our website at www.centman.com if you would like to read them.

We're not big buyers of gold miners right now and we're not buyers of gold itself. But we watch the companies individually because there are some that are nearing our buy points again.

G&D: Some of the ideas you mentioned play on themes that develop over multiple years. How long do you typically hold a position?

JB: Our average holding period is usually three years, but it depends on a couple of things. One is the overall market environment. Second is how quickly the theme is recognized in the stock price. As you know, stock prices discount the future, so while the theme may be a five to seven year theme, the stock may discount it three or four years out.

At the bottom of the cycle, a lot of these companies are very lumpy in terms of their business orders and backlog. Many investors want the rosy picture and the comfort of the crowd to justify that they're right. It's really the down and dirty value guys that are buying some of these stocks at the bottom. What we often find is the longer the cycle, and the more that the earnings grow throughout the cycle, the more that multiples start expanding and you begin to attract growth investors. Typically, by the time those guys are in, we're out.

G&D: How do you think about position sizing? If you have a buy target and a sell target, is the position sizing a sliding scale between those two ends?

JB: We're an all-cap manager, so we'll buy across the market cap spectrum. The smaller the company is, the more cognizant we are about our ownership percentage relative to float and the amount of average daily trading volume. So we're very aware of that when we're taking our positions. A position typically ranges between 1% and 5% of the portfolio, depending on cap size, quantitative and qualitative factors, as well as valuation.

Let's say we want ABC Company to represent 3% of the portfolio. We may start out buying an initial position of 1% or 1.5% at our buy point with the idea this will leave us room to dollar cost average into the position if the price declines and gets closer to our worst case scenario. Sometimes it gets there, sometimes it doesn't, but this has an influence on our total position size. Then as the stock appreciates, we review every company at fair value for a potential sale or trim. The things that will influence whether we're going to sell or trim is the power of the thesis, how strong the company is in its industry, and if the company is performing within our stated theme and expectations.

It will vary by company and it will vary by market cap — the smaller the market cap, the more we have to sell in advance. There are many factors that go into it, but ideally we are able to get our maximum position and then somewhere between our designated fair value and sell point, we begin to exit so that by our final sell point we're at zero.

G&D: Are there certain valuation metrics that you pay the most attention to when you're evaluating your worst case scenario and fair value scenarios?

JB: We look at enterprise value-to-sales, price-to-cash flow, price-to-book, EBITDA, and P/E ratios. We look at the entire host of standard metrics. What we find is that depending on the company or the industry, different metrics are more important than others during different times of the

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cycle. For example, at the bottom of the cycle, the more cyclical, commodity-linked and asset-driven businesses tend to be priced on asset values and so tangible book is our favorite valuation metric for these companies. However, at the top of the cycle, the same companies tend to trade based on earnings, EBITDA, and sales metrics. For less cyclical, steady cash flow generating companies, we focus on free cash flow and earnings based metrics, as book value doesn't tend to be as important.

G&D: There's no shortage of people who think the US is facing headwinds but you seem to have a pretty optimistic view. What drives your optimism and does it affect how you think about your investments?

AVDB: There are some big problems, no question about it. But, what people lose sight of is the fact that first of all, the US is a democracy. It has private ownership of assets and it has no currency restrictions. It has the highest level of technology; we're the leader in 3-D printing, hydraulic fracturing, robotics, and nanotechnology. We have the largest, most diversified and flexible capital markets in the world. You almost have to be a foreigner to appreciate what this country has over most other countries. You realize that what foreign investors are really looking for is the stability of the country and a sound political system. The political system is a bit of a problem right now, but over the long run it has a tendency to straighten out because of the rules put in place by the founding fathers and because it's a democracy.

Just to give you an example, I checked the flow of funds from the Federal Reserve and found that foreign investors probably have more money invested in America right now than at almost any time in history. What that shows you is irrespective of the problems, if you compare the US to the rest of the world, there really aren't many other places you would go to invest. There may be better pricing, there may be better opportunities, but as far as a place to invest, and a place to live, and a place to do business, even with all its apparent shortcomings, I still believe the US is the best place. You know what they say in real estate: location, location, location. Well, America is probably the greatest location. In addition, and this is very important, we have one of the best militaries. When you apply some of the technological advances our military has incorporated, I personally believe it is the best. Just two years ago they landed a plane that was piloted by a robot on an aircraft carrier. This really gives you an appreciation for our tremendous military power and capabilities.

While most people in America don't consider that a big plus, if you lived anywhere else in the world, you certainly would, especially if you were living in Ukraine or Eastern Europe right now, or if you were in the Second World War like I was. My parents had their own business. They were successful and lived in the best part of town, and then, one day, Germany invaded Holland. Germany took over the country in five days and my parents ended up in a concentration camp.

When you put all of these things together, no matter what you think about the short term problems in America, or the short-term to maybe intermediate-term problems in the market, you still get back to the fact that America is one of the greatest places in the whole world. I personally don't think there will ever be another place like this.

G&D: A lot of value investors are strictly bottom-up but after 2008-09 macro analysis has become a bit more popular in the value camp. Can you give us an overview of how you think about it? How much weight do you give to the macro environment and are there particular indicators that you think are particularly telling?

AVDB: We wrote a piece

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in December 2004, and it's on our website if anybody's interested, when we started seeing the imbalances developing in this country. We talked about the markets, we talked about the bubble in real estate, we talked about the increase in the federal debt, and not only in the federal debt but in the unfunded pension liability. Just to give you an example, at the time we wrote that piece, total government debt was $7 trillion. Today it's $17 trillion. The unfunded liabilities were $40 trillion. Today they're $90 trillion. When you have an environment like this, you obviously have to start thinking about what the end result will be.

We've always written that we believe the three most important things when it comes to investing in stocks are interest rates, inflation, and the fundamentals of the business. Understanding and applying these elements in our valuations are at the heart and soul of what we do. These are the things I pay the most attention to. When I started seeing things beginning to change in 2004, I began to realize that we might experience another period like the '70s, and, unless the Fed does the right thing soon, we could have a period of higher inflation. When you add to this the current P/E of about 18.5 or 19x (depending on which index you use), coupled with 1970s-like inflation, you could eventually end up with P/Es on large caps of 8x and on small caps of 4x to 6x. I'm not predicting this will occur, but it is a potential outcome we have to consider. It's a long way down from here.

In addition to potential inflation, over the next few years, I believe we could be facing, and again I'm not predicting this, a potential currency crisis. That's the other reason we were happy to pick up the gold stocks after they declined 50-80% from their 2011 peak, because gold is one of the investments that could hedge against a currency crisis or high inflation. As Jim mentioned earlier, we also have about 10-15% in oil-related companies. I think basic commodities, at the right price, are also a very good way to hedge against higher inflation or a currency crisis.

G&D: Switching topics now, do you have any books you would recommend to aspiring or current investors that you found especially valuable? Or books outside investing as well?

AVDB: The book that is absolutely my favorite outside of normal investment books is one I personally reprinted because the publisher tells me they only sell about 25-50 copies a year. It's called, *From Poverty to Power* by James Allen. I am happy to send it out to anybody who will read it. If any of your readers would like a copy, we'll send them a copy at no charge. It does not deal directly with money, although it does in some aspects, but the philosophy is great. I've been reading it for 32 years now. Every time I go back to it, I find some new insight.

"Look for patterns because you're going to be building this mental database, a framework of your experience that you'll be able to rely upon to help impact your decision making."

For books regarding investments and business I would recommend *Security Analysis* by Graham and Dodd; *The Intelligent Investor* by Ben Graham; *Common Stocks and Uncommon Profits*,

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Paths to Wealth through Common Stocks, *Conservative Investors Sleep Well*, and *Developing an Investment Philosophy*, all four by Philip Fisher. I'd also recommend *Margin of Safety* by Seth Klarman, *Value Investing Made Easy* by Janet Lowe, *Contrarian Investment Strategies* by David Dreman, *Be My Guest* by Conrad Hilton (especially pages 21-25), and *When Genius Failed* by Roger Lowenstein. Other philosophical books I would recommend are *As a Man Thinketh* as well as *Eight Pillars of Prosperity*, both by James Allen, *Think and Grow Rich* by Napoleon Hill, and *The Richest Man in Babylon* by George Clason.

G&D: To wrap up, what advice would you give to current students interested in a career in investing? And do you have any advice on life in general that you would be willing to share?

AVDB: I would give you one quote by Dr. Karl Jung, the famous psychologist. Dr. Jung claimed that the subconscious mind contains not only all the knowledge that is gathered during the life of the individual but, in addition, it contains all the wisdom of past ages. That by drawing upon its wisdom and power, the individual may possess any good thing in life from health and happiness to riches and success. I think that's the best quote that I can give you on the subconscious mind. As far as advice to a young person starting off in the business, I can only say that it's one of the greatest businesses in the world. I think there are as many opportunities today as when I got started. I would encourage anybody who's interested in the field and who loves it to go into it. The only advice I can give is that you make a commitment that you will stick it out no matter how long it takes, and that you have the belief that you're going to be successful, because everybody can be successful in this field if they make the commitment and develop the discipline.

JB: I would just add that that learning is a lifetime endeavor. Upon graduation, you need to keep studying and keep reading. Look for patterns because you're going to be building this mental database, a framework of your experience that you'll be able to rely upon to help guide your decision making. While all the theory and education that you get in school is very valuable, the real world is where you're going to gain that practical knowledge. While both are important, it's been my observation that those that develop the greatest practical knowledge end up accumulating the most wealth, not just in terms of monetary rewards, but wealth in terms of friendships and non-monetary pursuits. I would encourage people to look at their university graduation as the beginning of a whole other life experience that can pay dividends.

G&D: That is a great note to end on. Thank you both for your time.

Heilbrunn Center for Graham & Dodd Investing

csima

COLUMBIA STUDENT INVESTMENT MANAGEMENT ASSOCIATION

Disclosures

This interview is not financial advice or an offer or solicitation to sell any product.

Any securities discussed in this interview do not represent all of the securities purchased, sold, or recommended to Century Management ("CM") clients, past or present, and it should not be assumed that an investment in these securities has been or will be profitable or that the investment recommendations or decisions we make in the future will be profitable. CM reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs.

The performance numbers referenced in this interview are from the CM Value I (All-Cap Value) composite. This strategy is a time-weighted, total-return composite that primarily invests in stocks, bonds, and cash. The focus of this composite is to find undervalued securities that over time will produce above average returns with a lower degree of risk than that of the general market. Performance data quoted represents past performance.

Current performance may be lower or higher than the performance data quoted. Past performance of markets, strategies, composites, or any individual securities is no guarantee of future results. The performance of accounts in the composite may be materially different at any given time. Differences that may affect investment performance include but are not limited to cash flows, inception dates, historical prices, asset size, market conditions, portfolio holdings, and fees. The U.S. Dollar is the currency used to express performance. Performance figures reflect the reinvestment of dividends and other earnings. Positions within the composite may not be the same from one account to the next. Individual securities within the composite may be traded at different times as well as receive different execution prices. In addition, accounts within the composite may be pursuing similar investment strategies, but may have different investment restrictions

Investment in the CM Value I composite is subject to investment risks, including, without limitation, market risk, interest rate risk, management style risk, business risk, sector risk, small cap risk, and other risks related to equity securities CM claims compliance with the Global Investment Performance Standards ("GIPS®"), examined from the strategy's inception, September 16, 1974, through September 30, 2013. This performance was prepared by CM and presented to and examined by Ashland Partners & Company, LLP. Ashland Partners continues to verify the compliance of CM with the requirements of GIPS® on a firm-wide basis each calendar quarter. This GIPS® verification and performance examination is generally one to two quarters in arrears of the most recent performance information presented. Thus, while performance figures shown after the verification date are believed to be accurate, they are preliminary and have not yet been examined. A copy of the CM Value I GIPS performance examination is located at the end of these disclosures.

Certain statements included herein contain forward-looking statements, comments, beliefs, assumptions, and opinions that are based on CM's current expectations, estimates, projections, assumptions and beliefs. Words such as "expects," "anticipates," "believes," "estimates," and any variations of such words or other similar expressions are intended to identify such forward-looking statements.

These statements, beliefs, comments, opinions and assumptions are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in, or implied by, such forward-looking statements.

You are cautioned not to place undue reliance on these forward-looking statements, which reflect CM's judgment only as of the date hereof. CM disclaims any responsibility to update its views, as well as any of these forward-looking statements to reflect new information, future events or otherwise.

Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind, including, without limitation, no warranties regarding the accuracy or completeness of the material.

CM is an independent registered investment adviser. Employees of CM may own the securities referenced herein. If you should have any questions regarding the contents of this interview or wish to receive our form ADV Part 2 or our complete GIPS performance examination, please contact CM at its corporate office in Austin, Texas at 1-800-664-4888. We can also be reached on the web at www.centman.com or at 805 Las Cimas Parkway, Suite 430, Austin, Texas, 78746. CMIC-13-64

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Independent Accountant's Verification and Performance Examination Report

Century Management:

We have examined whether (1) Century Management (the "Firm") has complied with all the composite construction requirements of the Global Investment Performance Standards (GIPS® standards) on a firm-wide basis for the periods from September 16, 1974, to September 30, 2013, and (2) the Firm's policies and procedures are designed to calculate and present performance results in compliance with the GIPS standards as of September 30, 2013. We have also examined the accompanying performance presentation and Annual Disclosure Presentation of the Firm's **CM Value I Composite** for the periods from September 16, 1974, to September 30, 2013. The Firm's management is responsible for compliance with the GIPS standards, the design of its policies and procedures and for the Quarterly Performance and Annual Disclosure Presentations. Our responsibility is to express an opinion based on our examination.

Scope of Work
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Firm's compliance with the previously mentioned requirements; evaluating the design of the Firm's policies and procedures previously referred to; examining, on a test basis, evidence supporting the accompanying composite compliant presentation; and performing the procedures for a verification and performance examination required by the GIPS standards and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Opinion
In our opinion, in all material respects,

- the Firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis for the periods from September 16, 1974, to September 30, 2013; and
- the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards as of September 30, 2013.

Also, in our opinion, in all material respects, the Firm has

- constructed the **CM Value I Composite** and calculated the **CM Value I Composite** performance for the periods from September 16, 1974, to September 30, 2013, in compliance with the GIPS standards; and
- prepared and presented the Annual Disclosure Presentation of the Firm's **CM Value I Composite** for the periods from September 16, 1974, to September 30, 2013, in compliance with the GIPS standards.

This report does not contain an opinion on the accuracy of any composite presentation of the Firm other than the Annual Disclosure Presentation of the Firm's **CM Value I Composite** for the periods from September 16, 1974, to September 30, 2013.

Ashland Partners + Company LLP
Ashland Partners & Company LLP
February 20, 2014

CENTURY MANAGEMENT
CM VALUE I COMPOSITE
QUARTERLY PERFORMANCE PRESENTATION-1 of 3

Asset-Weighted Returns Gross and Net of Management Fees
Results have been calculated in U.S. Dollars

		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual
2013	Gross	6.72%	1.82%	5.01%		14.10%**
	Net	6.47%	1.58%	4.73%		13.27%**
2012	Gross	12.36%	(2.66%)	4.41%	2.73%	17.32%
	Net	12.11%	(2.87%)	4.16%	2.48%	16.24%
2011	Gross	4.40%	(0.96%)	(12.28%)	11.42%	1.06%
	Net	4.16%	(1.19%)	(12.49%)	11.16%	0.12%
2010	Gross	4.55%	(9.70%)	7.90%	10.85%	12.92%
	Net	4.32%	(9.90%)	7.65%	10.60%	11.91%
2009	Gross	(12.50%)	17.19%	16.91%	4.51%	25.28%
	Net	(12.70%)	16.94%	16.65%	4.27%	24.17%
2008	Gross	(7.41%)	(5.48%)	2.66%	(25.27%)	(32.86%)
	Net	(7.63%)	(5.70%)	2.42%	(25.44%)	(33.49%)
2007	Gross	(0.77%)	5.33%	(4.53%)	(4.20%)	(4.40%)
	Net	(1.02%)	5.06%	(4.81%)	(4.43%)	(5.41%)
2006	Gross	4.11%	0.02%	5.01%	5.65%	15.52%
	Net	3.85%	(0.25%)	4.73%	5.37%	14.31%
2005	Gross	1.83%	3.97%	3.93%	1.37%	11.54%
	Net	1.59%	3.72%	3.68%	1.12%	10.46%
2004	Gross	4.56%	1.25%	0.56%	3.47%	10.15%
	Net	4.30%	0.99%	0.32%	3.21%	9.07%
2003	Gross	(8.49%)	19.68%	4.08%	10.97%	26.49%
	Net	(8.70%)	19.38%	3.83%	10.71%	25.29%
2002	Gross	6.31%	0.76%	(14.56%)	9.80%	0.49%
	Net	6.09%	0.54%	(14.76%)	9.51%	(0.43%)
2001	Gross	5.13%	10.36%	(15.26%)	12.97%	11.07%
	Net	4.88%	10.09%	(15.47%)	12.70%	10.00%
2000	Gross	29.89%	0.27%	6.09%	4.98%	45.05%
	Net	29.58%	0.02%	5.83%	4.71%	43.62%
1999	Gross	(6.39%)	17.44%	2.35%	18.61%	33.47%
	Net	(6.62%)	17.13%	2.10%	18.33%	32.14%

CENTURY MANAGEMENT
CM VALUE I COMPOSITE
QUARTERLY PERFORMANCE PRESENTATION-2 of 3

Asset-Weighted Returns Gross and Net of Management Fees
Results have been calculated in U.S. Dollars

		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual
1998	Gross	8.19%	(1.11%)	(13.59%)	11.75%	3.31%
	Net	7.87%	(1.38%)	(13.83%)	11.45%	2.17%
1997	Gross	0.30%	6.69%	11.08%	0.35%	19.28%
	Net	0.03%	6.39%	10.77%	0.08%	17.97%
1996	Gross	7.59%	7.38%	2.24%	5.13%	24.18%
	Net	7.32%	7.13%	1.93%	4.84%	22.86%
1995	Gross	2.83%	6.10%	5.36%	0.38%	15.38%
	Net	2.55%	5.79%	5.10%	0.12%	14.16%
1994	Gross	0.77%	(1.08%)	4.66%	(0.41%)	3.89%
	Net	0.51%	(1.36%)	4.35%	(0.62%)	2.82%
1993	Gross	4.67%	2.61%	2.81%	1.28%	11.82%
	Net	4.39%	2.25%	2.52%	0.96%	10.48%
1992	Gross	2.18%	(0.49%)	4.12%	2.42%	8.41%
	Net	1.91%	(0.80%)	3.76%	2.11%	7.11%
1991	Gross	8.93%	1.13%	2.76%	1.82%	15.27%
	Net	8.68%	0.78%	2.51%	1.49%	13.94%
1990	Gross	(0.86%)	2.91%	(11.54%)	1.91%	(8.03%)
	Net	(1.20%)	2.63%	(11.81%)	1.56%	(9.17%)
1989	Gross	1.47%	8.70%	5.81%	(1.95%)	14.43%
	Net	1.19%	8.33%	5.52%	(2.26%)	13.06%
1988	Gross	6.74%	4.50%	3.40%	2.69%	18.44%
	Net	6.44%	4.17%	3.12%	2.38%	17.06%
1987	Gross	11.13%	1.18%	2.50%	(5.35%)	9.08%
	Net	10.82%	0.85%	2.22%	(5.68%)	7.75%

CENTURY MANAGEMENT
CM VALUE I COMPOSITE
QUARTERLY PERFORMANCE PRESENTATION-3 of 3

Asset-Weighted Returns Gross and Net of Management Fees
Results have been calculated in U.S. Dollars

		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual
1986	Gross	13.90%	11.09%	(1.92%)	5.03%	30.34%
	Net	13.53%	10.74%	(2.25%)	4.69%	28.65%
1985	Gross	9.69%	4.45%	(0.15%)	9.45%	25.20%
	Net	9.33%	4.08%	(0.47%)	9.05%	23.52%
1984	Gross	(3.88%)	(0.12%)	10.27%	2.18%	8.17%
	Net	(4.23%)	(0.50%)	9.89%	1.80%	6.60%
1983	Gross	13.37%	10.30%	4.15%	(0.61%)	29.45%
	Net	12.99%	9.92%	3.84%	(0.97%)	27.71%
1982	Gross	(4.37%)	1.13%	7.71%	16.01%	20.85%
	Net	(4.64%)	0.77%	7.42%	15.59%	19.33%
1981	Gross	10.59%	3.82%	(5.87%)	7.49%	16.18%
	Net	10.33%	3.39%	(6.17%)	7.10%	14.63%
1980	Gross	(2.64%)	13.41%	11.25%	2.58%	26.02%
	Net	(3.00%)	12.92%	10.92%	2.17%	24.12%
1979	Gross	11.12%	5.68%	8.50%	2.73%	30.89%
	Net	10.85%	5.14%	8.19%	2.15%	28.81%
1978	Gross	5.99%	13.99%	8.97%	(11.14%)	16.99%
	Net	5.66%	13.31%	8.61%	(11.83%)	14.65%
1977	Gross	5.86%	6.74%	1.59%	6.42%	22.17%
	Net	5.64%	6.13%	1.34%	5.80%	20.22%
1976	Gross	19.82%	7.83%	1.27%	9.00%	42.62%
	Net	19.55%	7.18%	1.05%	8.32%	40.24%
1975	Gross	18.63%	0.79%	(12.57%)	1.31%	5.91%
	Net	17.98%	(0.12%)	(12.98%)	0.70%	3.25%
1974	Gross			(0.02%)*	4.72%	4.69%*
	Net			(0.02%)*	4.25%	4.23%*

*** Performance represents a non-annualized partial period return beginning on September 16, 1974.**
**** Performance represents a non-annualized partial period return ending on September 30, 2013.**
Past performance is not indicative of future results. The Independent Accountant's Verification and Performance Examination Report and the Annual Disclosure Presentation are an integral part of this presentation.

CM VALUE I COMPOSITE

Annual Disclosure Presentation

Year	End of Year Assets	Percent of Firm's Total Assets	Number of Accounts	CM Value I Composite Returns Gross	CM Value I Composite Returns Net	Composite Dispersion	3 Year Composite Standard Deviation	S&P 500 ADJ Index	3 Year Benchmark Standard Deviation	Russell 3000 Value Index ADJ	3 Year Benchmark Standard Deviation
09-16-74 to 12-31-1974	$69,898	27%	2	4.69 %	4.23 %			5.15 %		– %	
1975	186,356	52%	7	5.91	3.25	11.63 %	N/A %	37.30	N/A %	–	– %
1976	475,584	66%	9	42.62	40.24	21.96	N/A	23.96	N/A	–	–
1977	547,354	69%	9	22.17	20.22	3.70	12.52	(7.43)	14.51	–	–
1978	620,270	65%	10	16.99	14.65	3.34	13.66	6.47	13.58	–	–
1979	1,226,398	67%	11	30.89	28.81	15.95	13.13	18.47	13.26	21.84	N/A
1980	2,010,252	71%	16	26.02	24.12	13.00	15.42	32.40	15.72	24.52	N/A
1981	3,776,149	74%	24	16.18	14.63	15.06	11.98	(5.01)	14.93	2.49	14.48
1982	5,388,218	75%	31	20.85	19.33	10.17	12.03	21.57	16.89	20.83	15.86
1983	8,450,244	79%	42	29.45	27.71	12.60	9.62	22.59	14.48	29.24	13.54
1984	10,723,599	74%	53	8.17	6.60	6.92	10.35	6.39	14.54	9.28	14.02
1985	14,376,166	69%	67	25.20	23.52	8.44	9.50	31.95	12.00	31.48	11.33
1986	20,317,640	63%	79	30.34	28.65	12.89	11.18	19.08	14.41	18.78	13.76
1987	23,691,457	61%	88	9.08	7.75	7.79	11.12	5.22	20.80	(0.13)	19.20
1988	29,228,501	54%	93	18.44	17.06	6.11	10.58	16.57	20.34	23.63	18.95
1989	33,791,714	51%	102	14.43	13.06	8.47	8.20	31.65	19.28	24.22	17.59
1990	25,539,922	50%	96	(8.03)	(9.17)	5.02	8.72	(3.14)	13.94	(8.85)	13.46
1991	25,089,603	54%	88	15.27	13.94	3.90	8.79	30.45	15.57	25.41	14.51
1992	23,010,365	52%	82	8.41	7.11	3.53	7.93	7.62	14.40	14.90	13.73
1993	24,016,087	50%	83	11.82	10.48	3.29	4.77	10.09	10.53	18.65	9.54
1994	25,933,654	55%	96	3.89	2.82	4.14	4.21	1.27	7.96	(1.95)	8.22
1995	30,192,105	64%	98	15.38	14.16	5.31	4.54	37.53	8.21	37.03	8.34
1996	39,409,203	66%	143	24.18	22.86	13.63	7.98	22.99	9.58	21.59	9.21
1997	52,926,015	68%	241	19.28	17.97	6.61	9.51	33.34	11.12	34.83	9.55
1998	68,990,553	70%	283	3.31	2.17	6.09	13.10	28.57	16.01	13.50	14.87
1999	82,723,028	70%	232	33.47	32.14	12.90	16.11	21.03	16.56	6.65	15.86
2000	135,447,686	65%	278	45.05	43.62	10.62	18.61	(9.15)	17.45	8.04	16.84
2001	252,340,729	55%	358	11.07	10.00	2.87	18.80	(11.92)	16.74	(4.33)	14.14
2002	395,530,804	52%	577	0.49	(0.43)	3.02	18.27	(22.14)	18.56	(15.18)	16.55
2003	732,252,292	51%	781	26.49	25.29	4.67	16.27	28.62	18.07	31.14	15.97
2004	1,173,197,360	57%	1133	10.15	9.07	2.75	13.09	10.92	14.86	16.94	14.78
2005	2,101,742,206	73%	1787	11.54	10.46	2.52	8.81	4.88	9.01	6.85	9.71
2006	3,402,671,155	86%	2594	15.52	14.31	2.39	5.01	15.80	6.80	22.34	7.01
2007	3,181,605,949	89%	2560	(4.40)	(5.41)	1.63	6.17	5.48	7.69	(1.01)	8.29
2008	1,766,116,938	83%	2090	(32.86)	(33.49)	2.60	14.44	(37.03)	15.07	(36.25)	15.53
2009	1,770,601,960	81%	1685	25.28	24.17	3.36	20.00	26.50	19.65	19.76	21.34
2010	1,509,296,876	73%	1360	12.92	11.91	1.78	22.01	14.79	21.83	16.23	23.49
2011	1,283,229,758	70%	1211	1.06	0.12	0.93	19.04	2.14	18.73	(0.10)	21.04
2012	1,302,200,019	70%	1103	17.32	16.24	1.39	14.55	15.81	15.10	17.55	15.81
2013 YTD	1,337,180,126	67%	1067	14.10	13.27	N/A	N/A	20.00	N/A	20.68	N/A
Annualized Since Inception				14.52 %	13.13 %			11.99 %		12.38 %	

Please see the composite disclosures on the next page

2013 YTD is for the period 01-01-2013 to 09-30-2013

CM VALUE I Composite primarily invests in stocks, bonds, and cash. The focus of this composite is to find undervalued securities that over time will produce above average returns with a lower degree of risk than that of the general market. Portfolios in this composite are not constrained by market capitalization (size). Therefore, a significant portion of portfolio assets may be invested in micro cap, small cap, medium cap, large cap, or mega cap companies with one market capitalization being more heavily weighted over the other at any given time. In addition, there are times where portfolios in this composite will be invested in bonds and cash. Historically, cash and cash equivalent positions have ranged from 2% to 60% of the composite for extended periods of time. However, the long term average has been approximately 21%. The CM Value I Composite was created September 16, 1974. Prior to 2004 the composite was named the CM Standard Value Composite. Prior to 2010 the composite could have accounts with up to 30% fixed income mandates.

Benchmarks are used for information purposes only, the composite portfolios are not managed to reflect the benchmark. S&P 500 ADJ Index is widely regarded as the best single gauge of the U.S. equities market as it includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Russell 3000 Value ADJ Index measures the performance of the companies in the Russell 3000 Index that exhibit value characteristics. Prior to 2011, the composite was measured against the Russell 2000 with dividend adjustment, which was changed to more accurately represent composite's all cap and value mandates. Prior to 2005, the composite was measured against the Russell 2000 without dividend adjustment, which was changed in 2005 to more accurately represent the index's return.

Century Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Century Management has been independently verified for the periods 9/16/1974 to 09/30/2013. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The CM Value I Composite has been examined for the periods 9/16/1974 to 09/30/2013. The verification and performance examination reports are available upon request.

Century Management is an independent registered investment adviser. The firm maintains a complete list and description of composites, which is available upon request.

The annual composite dispersion presented is an equal-weighted standard deviation calculated for the accounts in the composite the entire year.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Gross of fees performance returns are presented before management and custodial fees but net of all trading expenses. Net of fees performance returns are calculated using the actual management fees applied quarterly. Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

The investment management fee schedule for the composite is 1.25% on the first $2 million, 1.10% on the next $1 million, 1.00% on the next $7 million, 0.95% on the next $10 million, 0.90% on the next $15 million, and 0.85% on the remainder. A performance fee option is also available to perspective clients starting an account with at least $5 million. Actual investment advisory fees incurred by clients may vary.

Past performance is not indicative of future results.