



The Rational Walk @rationalwalk

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In 1956, Warren Buffett started buying shares of Dempster Mill, a windmill manufacturer located in nearby Beatrice, Nebraska. It was an investment that would change the course of his career.

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Dempster was a classic “cigar butt” and was selling for \$18 per share at a time when book value was \$72 per share. What's not to like about that kind of deal?

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The Buffett Partnership slowly accumulated shares of Dempster until Mr. Buffett controlled more than 70 percent of the outstanding shares by the middle of 1961. The stake accounted for a fifth of the partnership’s total assets.

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But Dempster was struggling to earn an acceptable rate on invested capital. It appeared to be a liquidation candidate and a decision had to be made.

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Charlie Munger enters the scene. Warren asks him if he knows an operating manager who could turn around Dempster. Charlie knows a guy who fits the role perfectly. Harry Bottle.

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So Harry Bottle goes to Beatrice and fixes Dempster, but he had to lay off a large number of employees in a small town. Buffett was not a popular guy in Beatrice at this point...

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In 1963, Dempster's operating business was sold, and excess cash and securities not required to run the business were distributed to shareholders. Ultimately, the Buffett Partnership nearly tripled its investment and netted a \$2.3 million profit.

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But this came at a high emotional cost for Warren Buffett. He had to fire the CEO before bringing in Harry Bottle. The ex-CEO's WIFE accused Warren of being "abrupt and unethical" and ruining her husband's self-confidence. Brutal stuff...

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Buffett COULD have liquidated the company but he chose to try to fix it. Yes, employees were laid off but if the company had been liquidated, ALL jobs would have been lost. Still, he was no hero in Beatrice. He took this personally.

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Warren Buffett learned that his temperament was not suited to activism. He learned that it was better to buy businesses that were sound with good management in place. He learned that life was better, for him, with less confrontation.

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Although Warren Buffett has dealt with unpleasantness since 1963, he has changed his approach to minimize situations that are not congruent with his personality. It's not that activism is bad, it's that it is bad for Buffett.

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This provides an important lesson: one should have an investment style congruent with one's temperament. There are many ways to win. No reason to be miserable while playing this game.

For more on Dempster, read this article I just posted:

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Dempster Mill Manufacturing Company

One of Warren Buffett's early investments profoundly influenced his approach to turnaround situations

<https://rationalreflections.substack.com/p/dempster-mill-manufacturing-company>

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