

DAVID L. DODD

Out of Ben Graham's Shadow



Courtesy of David Anderson

By James Russell Kelly

THE SEPTEMBER/OCTOBER 1984 edition of the *Financial Analysts Journal* featured a cover story celebrating the 50th anniversary of Graham & Dodd's *Security Analysis*. The lead article was entitled "Graham and Dodd: A Durable Discipline," and was written by Roger F. Murray, their successor at Columbia. The cover page featured images of the two men, with Graham in the foreground. In the March/April 1985 edition, David Dodd responded in a letter to the editor:

The front cover of the September/October issue of *Financial Analysts Journal* very properly shows me in Ben Graham's shadow. Ben was my mentor in our profession from the time in September 1928 when I joined him as a junior colleague in what proved to be a very popular late afternoon course in security analysis offered by Columbia's School of Business... Most of what I know about our profession I got from him firsthand... My debt to him is very great indeed.

When, in 1984, I was awarded an honorary degree by Columbia University for my part in the preparation of *Security Analysis*, I had moments of sadness that it was I, rather than Ben, who was being so honored. (Graham passed away in September 1976.)

This article aspires to bring David Dodd out of Ben Graham's shadow by shining a bright light on Dodd and his accomplishments.

David L. Dodd, circa 1960.

Personal History

David LeFevre Dodd was born on August 23, 1895 in Martinsburg, WV, a small town in the northeast panhandle of the state. He was the second of four children of David H. Dodd (1855–1953) and Mary V. Shaffer (1857–1944). His father was a stern, demanding teacher and long-term principal of High Street High School in Martinsburg, where young David graduated. This may explain his son's life-long interest in teaching.

Dodd enrolled in the University of Pennsylvania to study economics, but his education was interrupted by World War I. In June 1917, he joined the US Navy and served in Florida for a year as chief yeoman and boatswain, before being transferred to the US Naval Academy, Annapolis, for a three-month intensive officer training

program. In September 1918, he was commissioned an ensign and assigned to the *USS Harrisburg*, a troop transport ship that brought US troops home from France after the armistice in November 1918. He served on active duty until July 1919, when he resumed his university studies.

He received a Bachelor of Science in economics in February 1920. The *Pennsylvania Gazette* noted that his degree, along with those of 43 other economics graduates, was retroactive "as the class of 1918," indirectly acknowledging their time served in the military.

Columbia University (1920–1961)

Dodd wasted no time after graduation in pursuing an academic career in economics. He moved to New York and enrolled in Columbia University's master's degree

program in economics in 1920 and received his degree the following year. Upon graduation, he worked briefly as a research assistant in economics at the National Bank of Commerce in New York. In 1922, he returned to Columbia University as an instructor in economics.

Dodd married Elsie Marguerite Firor from Washington, DC in 1924. The couple lived initially at 540 W. 123rd Street, and for many years later at 39 Claremont Avenue, both near the Columbia University campus in Morningside Heights. Their daughter, Barbara, was born in 1932.

Dodd's focus evolved from economics to finance in 1925, when he became an instructor in finance at Columbia Business School. It was in this capacity that he met Benjamin Graham and began a lifelong partnership. Graham recalls their early collaboration in his memoirs:



Dodd family circa 1928–1930. David L. Dodd, top row, third from right with his two brothers, Earle and Donald on each side. Elsie M. Dodd (wife), middle row, left. David H. Dodd (father), bottom row.

Courtesy of David Anderson

One of the students in the fall of 1927 was David L. Dodd, then an assistant professor in the School of Business at Columbia. He was to become my co-adjutor in teaching, the co-author of our “Bible of Wall Street,” *Security Analysis*, an associate in important financial ventures, and an unfailingly loyal friend.

PhD Dissertation (1930)

During the late 1920s, Dodd continued to teach and study at Columbia, in collaboration with Ben Graham. In 1930, he was awarded his PhD degree. His dissertation, entitled “Stock Watering: The Judicial Valuation of Property for Stock-Issue Purposes,” was published as a 330-page book by Columbia University Press. He defined stock watering “as the issuance of nominally fully paid stock in an amount exceeding the value of the assets against which the stock has been issued.” His dissertation seeks to “answer the question as to what the courts mean by ‘value’ when they interpret the laws which require that stock must be issued for property or services at a fair valuation.” The issue was complicated by the existence of both historical par value and newly popular non-par value shares issued by different companies.

Dodd’s conclusion for non-par value shares was to propose a series of minimum requirements for companies issuing stock. These included an independent audit, a balance sheet valuation, an annual balance sheet, annual profit and loss statements and a prospectus. Upon completion of his dissertation and publication of his book, Dodd was promoted to assistant professor.

Security Analysis (1934)

Ben Graham reflects in his memoirs that in the “trying times of 1930–32, I kept busy with many activities... I continued to give my course at Columbia, though to much smaller classes, and in 1932 I set definitely to work on the textbook that I had first projected in the lush times of 1927.” He continues:

I asked Dave Dodd to collaborate with me on the book. We agreed that I would be the senior author and write the entire text in my style. He would aid with suggestions and criticisms,

would check the numerous facts and references, and work up the tables. We prepared a table of contents and a sample first chapter, and submitted them to McGraw-Hill & Company through Hugh Kelly, a bright young employee who had been one of our students. (He later became McGraw’s vice president.) McGraw submitted our material to their reader, a Harvard professor of finance. As an exception to the rule, we were shown his report, which was very favorable—his only doubt being whether we would have the stamina to carry the ambitious work to a conclusion. McGraw-Hill was so impressed with his recommendation that they offered us a straight 15% royalty, instead of the sliding scale that usually started at 10%. Dodd and I agreed to divide the royalties three-fifths to me and two-fifths to him. The contract was signed at the end of 1932, but it was to take a year and a half before the first edition of *Security Analysis* made its appearance.

Roger F. Murray, Ben Graham and David Dodd’s successor at Columbia, has a slightly different recollection of their relationship. In an interview with Peter Tanous, in his book *Investment Gurus*, Murray looked back to the period of 1956–61, when he and Dodd were both professors at Columbia Business School. He describes the textbook as an “interesting joint product,” admitting that “Ben Graham was not addicted to writing a serious text. He was full of ideas, loved to chat, loved to think out loud. David Dodd sat in on Ben’s classes and took copious notes. Then Dave would go dig out and verify the examples that Ben had used. That’s how the first edition of *Security Analysis* came about in 1934.”

Graham and Dodd: A True Partnership

In addition to describing their working dynamic to Tanous, in the same interview Murray remembers Graham and Dodd’s complementary personalities:

[Ben Graham was] just exactly the way he was pictured—a man who read for background, a fine classical scholar, a man with an idea a minute. He had a wonderfully agile mind. Dave Dodd was a wonderful gentleman. He was one of the finest people

I have ever met anywhere. He could listen to Ben all day long, but retained a healthy skepticism, and when Ben would launch into one of his ideas, which came along about every thirty seconds, Dave would quietly just sit down and say, that’s an interesting idea, Ben. However, do you believe that the facts really support that strong a conclusion? Then, he’d get to work on the serious analysis.

As demonstrated in the recollections by both Graham and Murray, Graham and Dodd were true partners. This partnership was evident not only in their academic collaboration, but also in their business ventures: Graham-Newman Corporation and GEICO. Their relationship extended until Graham’s passing in 1976.

Graham-Newman Corporation (1936–1957)

The Graham-Newman Corporation was an investment company originally founded in 1926 as the Benjamin Graham Joint Account, with a capital base of \$400,000. Jerry Newman, an acquaintance who graduated from Columbia College and Law School, joined him as a partner in the first year. Graham recalls that Newman was invaluable. “He was much better than I at the details of a commercial operation. He was shrewd and effective at negotiating deals of all sorts and was completely honest and dependable—qualities essential for lasting success in Wall Street. However, he was not a theoretician nor especially inventive in the field of finance.”

Three years later, the capital had increased to \$2,500,000 mostly from profits. In 1936, its legal form was changed from a “quasi-partnership” to a corporation, the Graham-Newman Corporation, in order to comply with IRS tax regulations. Dodd became a director of the corporation in 1944, a post he held until the liquidation of the fund in 1957.

By 1946, after 10 years of operation, the net asset value of the fund increased to \$4,172,000. This represented a 17.6% net annual return after fees and expenses, as compared to 10.1% for the S&P Index.

In 1951, Dodd and his wife held 90 shares of stock in the corporation. Each share was worth \$1,232 for a total of \$110,880. Graham and his wife owned 252 shares for a total of \$310,464. In addition, Graham and

Newman each received salary and incentive compensation of \$80,214. The net assets in the fund had grown to \$6,162,000. In 1953, net assets peaked at \$7,267,000. The fund was liquidated in 1957 after Graham's retirement to California.

In addition to their joint holdings in the Graham-Newman Corporation, both Graham and Dodd were partners in Newman and Graham, a private hedge fund, which carried on the arbitrage strategies of the Benjamin Graham Joint Account.

They were also partners in a controlling investment in Government Employees Insurance Company (GEICO). Graham was chairman of the board and Dodd was an investor and member of the board of directors of GEICO and related companies. He was vice chairman of the profit-sharing plan of all the companies from 1960–63. Graham-Newman's investment of \$712,000 in GEICO in 1948 eventually resulted in a position worth \$400 million by 1972.

Relationship with Warren Buffett (1950–1988)

By 1950, Dodd had ascended the academic ladder to become a full professor and Associate Dean for Admissions. According to *Columbia Business School: A Century of Ideas*, in August of that year he was contacted by a young graduate of the University of Nebraska named Warren Buffett who was investigating graduate schools to attend. The normal application deadline for the fall term had passed, but Dodd agreed to admit him, perhaps because of Buffett's familiarity with *Security Analysis* and *The Intelligent Investor*, which had been published the year before. According to *Columbia Business School: A Century of Ideas*:

Although only at the school for one year, Buffett took a well-attended investment course, Finance 111–112 Investment Management and Security Analysis, from Dodd in the fall of 1950 and a much smaller seminar class with Graham in the spring of 1951. Dodd taught his class using the 1940 edition of *Security Analysis*. Graham taught mostly by presenting then-current investment cases.

In these classes, a young Buffett "learned the details of reading a financial statement from Dodd, and Graham taught him how to use a company's published financial statements to estimate the fair value for



David Dodd's guest cabin on Chebeague Island, Maine, which he used as a summer retreat for writing.

Courtesy of David Anderson

its securities." Indeed, Graham and Dodd "gave Buffett the tools to begin mastering the art of investing." Graham famously awarded him the only A+ grade in his 21 years of teaching and hired him as an analyst at Graham-Newman. According to his grandson, David Anderson, Dodd was disappointed that Buffett decided to leave after one year. He was looking forward to mentoring him again for another year.

When Buffett founded the Buffett Partnership in 1956, Dodd invested as an expression of support, without any particular expectation of a huge return. Dodd followed up by investing in Berkshire Hathaway after the Buffett Partnership was liquidated at the top of the market in 1969. He bought the Berkshire Hathaway shares in the name of his daughter, Barbara Dodd Anderson.

Later Years at Columbia (1951–61)

One of Dodd's students in the spring semester of 1957 was Judy Stein, one of only six women at Columbia Business

School at that time. She was an economics major from Mount Holyoke College, and only a few years younger than Dodd's daughter Barbara. Stein remembers Dodd's style of teaching as being a combination of lecture and discussion. He was low-key and conversational, but also required that students speak up in class. He used the third edition (1951) of *Security Analysis* as his textbook.

Dodd was very supportive of Stein in her career and wrote letters of recommendation for her to both George Weiss, a senior partner of Bache & Co., and Henry Loeb, a senior partner of Loeb Rhoades & Co., a research-oriented stock brokerage firm. Loeb hired her as an analyst, making her one of only four women security analysts on Wall Street during the 1950s.

Retirement Years (1961–1988)

Dodd continued to teach security analysis at Columbia until 1961, when he retired. He passed the mantle to Roger F. Murray, who educated the next generation



Barbara Dodd Anderson cutting ribbon on the new George School library in 1997 with her granddaughter, Mollie Dodd Anderson, as Warren Buffett looks on.

of students in the tradition of Graham & Dodd until 1978. After retirement he continued to live with his wife, Elsie, in their apartment at 39 Claremont Avenue.

He did some consulting and worked extensively on both the 1962 and 1988 editions of *Security Analysis*. He also was instrumental in helping GEICO survive a huge \$126,500,000 loss caused by over-expansion during the 1973–75 recession.

David Anderson, Dodd's grandson, has many fond recollections of his grandfather in retirement. Each summer, the whole family spent two months in their family cottage on Chebeague Island, off the coast of Maine. He affectionately called his grandfather "Pop" and remembers spending a lot of quality time with him over many years, including fishing on the local pier. He remembers him as "a wonderful grandfather." He also describes him as being highly respected by everyone who knew him.

In January 1981, Dodd's wife, Elsie, passed away. He maintained his New York apartment but lived at Chebeague Island from late spring through the fall. He later married Lilian Brown, who also had a summer cottage on the island. When they married, they purchased a winter house in

Falmouth Foreside, on the coast of Maine, just west of the island, and lived there until Dodd's death in 1988.

50 Years of *Security Analysis* (1984)

1984 was a great year in the history of value investing. In May, Michael Sovern, president of Columbia University, awarded Dodd an honorary doctorate of letters. Sovern told Dodd: "You have applied your financial theories with brilliant results in the highly competitive world of investments."

Also in May, Buffett gave a now-famous speech at Columbia Business School, entitled "The Super Investors of Graham and Doddsville" which he delivered at a seminar marking the 50th anniversary of *Security Analysis*. These investors included himself; Walter Schloss; Tom Knapp of Tweedy, Browne; Bill Ruane of the Sequoia Fund; Charlie Munger and others.

Buffett's speech challenged the prevailing conventional wisdom that stocks are efficiently priced by detailing the performance of eight disciples of Graham and Dodd, including himself. According to Buffett, these disciples all shared a "common intellectual theme... They search



David Dodd and his wife, Elsie, at a 1972 Columbia Business School award ceremony.

for discrepancies between the value of the business and the price of small pieces of that business in the market... Our Graham and Dodd investors, needless to say, do not discuss beta, the capital asset pricing model, or covariance in returns among securities... The investors simply focus on two variables: price and value."

The third event of 1984 was Murray's profile of "Graham and Dodd: A Durable Discipline," in the *Financial Analysts Journal's* 50th anniversary edition of the publication of their book. Murray, Graham and Dodd's successor at Columbia, wrote that their "disciplined approach to financial analysis represents a permanent enhancement of the quality of decision-making in finance and a lasting contribution to the increased efficiency of markets in the allocation of resources." He noted their influence on developing the "concept of earning power, as distinct from reported earnings... [which] led directly to the valuation of companies, instead of stock certificates." Murray continued:

But Graham and Dodd's contribution did not stop with the publication of *Security Analysis*. The authors were inveterate teachers, whether in

the classroom, the boardroom, or the pages of the test; their students took to their decision-making tasks a new perception of the analytical process. It is these many thousands who have given *Security Analysis* so much meaning in financial markets. What could satisfy a teacher more?

Dodd acknowledged Murray's own contribution to security analysis in his 1985 letter to the editor referenced at the beginning of this article, thanking the editor for including Murray's piece, and writing, "As our successor at Columbia for over 20 years, no other whom you might have chosen could have done a better job than Roger."

Out of the Shadow

David L. Dodd passed away in 1988 at age 93 at Maine Medical Center in Portland and rests in peace on Chebeague Island. He left a legacy that shines brightly—out of the shadow at last.

Coda I (2007)

Barbara Dodd (1932–2010) grew up with her parents in New York. She attended George School, an elite Quaker prep school near Newtown in Bucks County, PA, from 1946–1950. She went on to attend St. Lawrence University and then earned an MA from Columbia Teachers College. She married John S. Anderson, a founder of Associated Brass, which made model railroading products under the Cal-Scale brand name. He was a master die maker. They settled in Fresno, CA.

Her father acquired Berkshire Hathaway shares in Barbara's name after Buffett took control in 1969. Barbara admired Buffett and never sold any of the shares to fund personal needs during the ensuing decades. She only sold some shares to fund educational trusts and gifts, according to her son, David Anderson. "She never sold stock on the rare instances when it lost value. She always had faith that Mr. Buffett would bounce back—and he always did."

She became very active in philanthropy, especially with Columbia Business School and George School. At Columbia, she endowed the David L. and Elsie M. Dodd Chair in Finance, which is presently held by Tano Santos. In 2007, she donated \$128,500,000 to the George School. It is

believed to be one of the largest single gifts to a secondary school. She said that her father's long-time friend, Buffett, who announced in June 2006 that he would bequeath the bulk of his fortune to the Bill and Melinda Gates Foundation, was her inspiration.

Buffett attended the gift ceremony at the George School. "As both a teacher and a friend, I revered Dave," Buffett said in a statement from the school. "I am delighted that his decision to invest in Berkshire has enabled Barbara to honor both her father and George School through this wonderful gift."

Coda II (2009)

In the forward to the sixth edition of *Security Analysis*, published in 2009, Buffett wrote, "There are four books in my overflowing library that I particularly treasure, each of them written more than 50 years ago." He continued:

Two of those books are first editions of *The Wealth of Nations* (1776) by Adam Smith, and *The Intelligent Investor* (1949) by Benjamin Graham. The third is an original copy of the book you hold in your hands, Graham and Dodd's *Security Analysis*. I studied *Security Analysis* while I was at Columbia University in 1950 and 1951, when I had the extraordinarily good luck to have Ben Graham and Dave Dodd as teachers. Together, the book and the men changed my life... Beyond the ideas Ben and Dave gave me, they showered me with friendship, encouragement, and trust. They cared not a whit for reciprocation—toward a young student, they simply wanted to extend a one-way street of helpfulness. In the end, that's probably what I admire most about the two men. It was ordained at birth that they would be brilliant; they elected to be generous and kind.

But let's go to the fourth book I mentioned, which is even more precious. In 2000, Barbara Dodd Anderson, Dave's only child, gave me her father's copy of the 1934 edition of *Security Analysis*, inscribed with hundreds of marginal notes. These were inked by Dave as he prepared for the publication of the 1940 revised edition. No gift has meant more to me. \$

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