

## Rotchild, John – The Davis Dynasty

Wiley & Sons, 2001, [Equity Investing] Grade ★★ ★

What's the difference between Warren Buffett and The Davis family? The former's compounding at 23 percent annually for over 50 years has brought him the kingdom and the princess many times over, while the latter's equivalent number – spread over 60 years and three generations – merely makes them heroes of Stockpickerville. Admittedly Buffett has “done more” with his 23 percent annual clip, but as far as long duration stock picking goes, the feats are equally impressive.

*“Throughout the market saga and the family saga, Davis's stock-picking techniques have produced many happy returns...”*. The quote from Peter Lynch, writer of the foreword and a Davis-investing devotee, aptly catches the gist of this 2001 book by John Rotchild. *The Davis Dynasty* is as much a family chronicle as it is a 60-year investment journey. As a fellow investor, I find the fact that there is a “Davis dynasty” absolutely fascinating in the first place; the stock picking ability did not rest in one person for a very long time but in three generations for an extraordinarily long time. It is without precedent, even though the third generation has fully to prove themselves over a long-enough time-period.

For the majority of us who are familiar with the Davis family, two words immediately come to mind: insurance companies. Shelby Davis started post WWII with \$50,000 from his wife's family and ended up with a total estate worth \$900mn in 1994, largely via buying and holding well-run insurance companies. The dig-where-you-stand method of investing later popularized by Lynch, has its true father in Davis. The life-long love affair with insurance stocks emanated from his five year experience as a functionary in the NY State insurance department. A “Sliding Door” observation: would the “Davis Dynasty” have happened had Shelby accepted the offer to work for the utility department in 1942? Only very late in his investment career did he branch out of insurance stocks. Up to this day, his son, also named Shelby, and the two grandsons now running

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the Davis Funds, have not strayed far away, mainly owning financial stocks and adjacent businesses.

John Rotchild's novelist-type writing style – which is on full display in *One Up On Wall Street* which he co-authored with Peter Lynch – can also be seen here. Not many books within the business book space can be described as page-turners, but this one is. Accolades must also be handed out to Rotchild et al. for the amount of research work going into this book. Considering that Shelby Davis Sr. left no investment diaries, records or notes of any kind, countless hours must have been spent digging up numbers and events.

The weak spots in the book have more to do with the lack of detail around the handcraft and the smallish space devoted to the second generation. A substantial portion of the \$900mn was gained in the latter part of Davis's life, when he finally had handed over most investments to his son. To some extent, these two areas go hand in hand, and are only slightly improved by the last two chapters covering some of the principles behind the Davis investment philosophy. For somebody with an appetite for the Davis family's stock picking techniques, I highly recommend visiting the Davis Fund's own [website](#).

For a contemporary set of circumstances, the read about the mid-40s “*balm and sweet simplicity of no percentage interest rates*” (J.M. Keynes) is very enlightening, perhaps also a ghost's whisper of what's to come in the 2010s. War bonds had created “a sea of money” which lenders would soon realize logically required them to demand higher interest rates, not lower. The following bond malaise is well chronicled. The challenge today as an equity investor, foreseeing a similar large scale rotation into equities? In 1946 at the trough of long term interest rates, the equity market served up 9 times earnings, 1 time BV and 5 percent dividend yield. Not exactly the valuation menu on offer today with the Dow Jones at all-time highs.