

Arnold Van Den Berg, Chief Executive Officer and Co-Chief Investment Officer of Century Management, joined the MOI Global community at Latticework New York 2019, held at the Yale Club in September.

In a session led by William Green, author of [The Great Minds of Investing](#), Arnold reflected on his path in life and investing, including growing up under Nazi persecution in occupied Holland during World War II.

The following transcript has been edited for space and clarity.

William Green: I'm a great fan of the Latticework events, and I feel privileged to be here with such a well-informed and sophisticated audience. It's a pleasure to be here with Arnold Van Den Berg. Some of you know him from past MOI interviews. Arnold Van Den Berg is a remarkable man, as I profiled in the last book I wrote, *The Great Minds of Investing*.

Over the last 25 years or so, I've interviewed many famous investors including Sir John Templeton, Peter Lynch, Charlie Munger, Michael Price, and many others. I got to know Arnold when I worked on that book and then on the book I'm working on now. He's had the single most interesting background of any investor I've ever met. When you think about a lot of the famous investors, they were born about three feet from the goal line. They went to Harvard Business School, Wharton, or whatever. Many of them were handed their success on a plate, but Arnold was dealt about the worst hand you can imagine from the beginning of his life.

Arnold has become an important role model for me both as an investor and in life. He's such an extraordinary example of how to win a losing hand and how to construct a life that's not just financially successful with a successful business and great returns over a long period. He also built a successful family, a successful marriage, and successful relationships. He's been a great philanthropist.

We're here today to talk to Arnold about what we can learn from him over his 50 years as an investor and what we can learn from him about life.

Arnold, can you tell us a bit about this unusual background? It certainly didn't start with a Harvard Business School education. Where were you born and when? Tell us about the remarkable first few years of your life.

Arnold Van Den Berg: I was born in Amsterdam, Holland. My mom was born in Poland and my dad was born in Germany. They fled the Nazis by going to Holland. We lived on a street called Prinsengracht, which was, and still is, a famous street in Holland. It's the same street Anne Frank lived on. If any of you have heard the story of Anne Frank, we lived right down the street from her family. She lived at 267 and we lived at 823, so we weren't too far apart.

Like Anne Frank's family, we went into hiding in the attic. However, I was only 2.5 years old and my brother was five. It was difficult to keep my brother and me quiet! If the Germans

came looking for Jews, they would have heard us.

Our lives paralleled Anne Frank's except for one important decision my mom and dad made. My dad explains it this way: When you're in a real tough situation, rather than do nothing, you must take a gamble as wild and as ridiculous as it may be. I have studied this principle.

My parents' important decision - their gamble - involved a 19-year-old girl from the Dutch underground who volunteered to smuggle me through German lines to an orphanage. It was a high-risk operation because of the many checkpoints where the Germans checked passports. My parents used a fake passport because we didn't have papers, and there was a good chance the Germans would discover it was a fake. They put us on the train, and they put a Dutch underground man in front of us. When the guard came to check our passport, the Dutch underground man kept them busy talking and asking questions. He hoped the whistle would blow, forcing him to get off the train and avoid the passport check. He kept them busy. That plan worked. We sat on the train with this young girl and arrived at the orphanage a while later.

The Germans eventually caught my parents when they attempted to call on the phone to find out if my brother, Sid, and I arrived at the orphanage. They didn't have a phone in the house, so my mom insisted, "We must go call to see if Arnold and Sid got to their destination." My dad objected. He said, "You can't take the chance because we'll get caught." Finally, she said, "If you don't go with me, I'll go by myself." My dad said, "What could I say? I had to go. I had a bad feeling." After the Germans caught them, they shipped my parents to Auschwitz. Both survived.

After the war, my parents picked me up at the orphanage. The orphanage had many problems. It had a lot of physical deprivation. Often, we ran out of food and had no water. I almost died from malnutrition. If my folks had come six months later, I probably wouldn't have even been alive. Most of the kids there didn't live long.

In 1949, we came to the United States and settled in a low-income neighborhood in Los Angeles.

Green: I remember you once said you tried to figure out why that girl saved your life. You wondered why she took that risk. I was always fascinated and moved by your struggle to figure out why someone you didn't know would risk her life to save yours. I was fascinated by the impact that had on your life.

Van Den Berg: That was a profound thing. I struggled with that for many years. Why would this girl who never even met me risk her life to save me? More importantly, how could her dad send her on almost a suicide mission? If she had been caught, she'd have been shipped to Auschwitz, too. I struggled with that for many years, and I wondered what would make people do that.

After I graduated from high school, I went through a severe depression that lasted for years. I went to a psychiatrist and the first thing I asked him was, "Can you explain to me why this girl would risk her life for us?" He said, "Oh, that's simple." I said, "I've struggled with it my

whole life.”

He said, “If your principles are more important than your life, you sacrifice your life. If your life is more important than your principles, you sacrifice your principles.”

That is a profound thought, and it influenced me the rest of my life. I thought about how many times in business and in life you get into a situation requiring a serious decision. If you have the right philosophy, you’ll make the right decision. I determined I would develop the principles that would guide my life so that, god forbid, if I ever got into a position where I had to make that decision, I would choose to live up to the principles.

Green: When you got to Los Angeles, you lived in a poor neighborhood. You were malnourished, weak, and damaged from the experience you had endured. How did you get your life together? How did you get over the anger, the hatred, the resentment, and your sense of your own weakness and victimization so you could begin to construct a successful career as an investor?

Van Den Berg: I lived in a neighborhood where the culture was fighting. It was a tough neighborhood. If you were a good fighter and you were tough, everything was great. If you weren’t, you were in trouble. I was in trouble. Everybody wanted to fight me. I got into a lot of fights, but I also avoided fights like the plague. Anytime somebody wanted to fight, I didn’t want to fight. Once we were taking pictures and somebody pushed me into another kid. He was one of the tough kids in school, and he pushed me and said, “Okay, today in the bicycle yard, we’ll have it out.” The bicycle yard was the place where you settled your scores, the Supreme Court.

I was terrified. I didn’t want to do it. The first day, I chickened out. I didn’t show up. I hoped he’d go away, but he didn’t. The next day, I decided I’d have to go to the bicycle yard. I can’t stand living with the fact of chickening out even though I know I’ll get slaughtered. I didn’t invite my friends because I knew it would be embarrassing.

Anyway, we met at the bicycle yard. He hit me, knocked me down on the ground, put his knees on my chest, and beat me until he got tired of hitting me. I was terrified and so beat up they all laughed at me. Then they all left, and I went home. My face was all bloody and I had been kicked all over the place. I snuck in the back so my mom wouldn’t see me. I washed my face and combed my hair. I looked up to see my face in the mirror. I looked okay. Then I thought, my god, this wasn’t all that bad. This was the thing I feared the most, and here, I’d had the worst beating, and it wasn’t all that bad. I felt my ribs. They were a little sore, but they were okay.

Then I thought, what if I had hit back? He wouldn’t have hurt me as much, and I might have done some damage to him. I got excited. I was excited because I had overcome my fear!

It is fear that keeps all of us behind.

I went into the coach. I had been working on my strength, and he helped me learn how to fight. My buddies also taught me how to fight. I thought the next time I got into a fight, I

would hit hard, and we'd see what happens next.

It didn't take long before I got into another fight. It was behind the gym and I stood there ready to go. I had one more lesson I had failed to learn: You must throw the first punch. This guy hit me first. I went down. He hit me three times before I even got in a punch.

Here I was, almost out of breath, and I was ready to go down. I grabbed on to him real tight thinking if I could just hang on to him to get my breath back, at least then I could get a punch in. I can't go out of this fight without a punch. I grabbed him so tight he started to squeeze a little. I thought, my god, if I could do that again and push him down, he'd end up face down and I'd go on top of him. That's the ideal situation. I took a deep breath, I pushed him down and fell on top of him. I knew I had to take this guy out because if he got up, he'd kill me. He lay face down on the asphalt. Every time I hit him, it scraped his face. By the time he got up, his face was all bloody and he gave up. The next day at school, they said to him, "Man, what happened to you?" He said, "I got in a fight with Van Den Berg." I gained my confidence and got a little reputation.

During that time, I wanted to overcome my physical handicap. Once I walked into the gymnastic club and saw guys with big builds. They did spectacular things. I thought if I could do this, it would be great. I told the coach, "I'd like to become a gymnast." He looked at me and said, "Then you climb this rope." Rope climbing was a gymnastics event.

Green: Amazingly, rope climbing was once an Olympic event.

Van Den Berg: Yes, they discontinued it 30 years ago. Anyway, I started climbing the rope. I climbed it for two years. I would climb until my hands bled.

Somebody once walked off the gym and asked, "What do you do?" I said, "We have races up the rope." He said, "I want to have a race." Okay, and I thought I'd beat him. He beat me. I went home one night, and I planned to quit. I thought, if I can't even beat a guy that's never climbed a rope, how will I ever compete? When I got home, a thought flashed through my mind. It asked why I would give up. My thought reminded me I was getting stronger. I convinced myself not to quit. Two years later, I set the school rope climbing record. I won the league three years in a row. As a high school climber, I climbed in the National AAU, which was the national gymnastics champion, small college senior. Only three high school kids qualified, and I was one of them. I placed ninth in the nation. I ended up climbing a 20-foot rope. It's about from here to there in 3.5 seconds. I overcame my physical handicap.

Green: You said when you left the orphanage, you couldn't walk. You mostly crawled on your knees. Later you had been a victim, beaten up. How did you get from that place to becoming a money manager? What was the process? You didn't learn it at Yale Business School. Nobody taught you what's important as an investor. What did you do to teach yourself about how to invest? And what did you discover mattered most in terms of becoming a winning investor?

Van Den Berg: I did well in gymnastics, but I did terribly in academics. One of the most important lessons I learned from my parents, my psychiatrist, and in gymnastics concerned

the subconscious mind. I learned how to use the subconscious mind; I learned by accident in gymnastics. I didn't even know what a subconscious mind was. But I had done all the right things, accidentally. I became a champion by using this technique to use my subconscious mind.

When I visited the psychiatrist, I told him I wanted to become a money manager. I told him about my rope climbing technique. I would get in front of a mirror and visualize my moves. I repeated to myself that I would be a great champion. I was obsessed with it. It became a subconscious program. Even in a meet, I would get the feeling I would win. It just came to me. The psychiatrist said, "What you did in gymnastics is what we teach in sports psychology. We teach the repetition, the visualization, the setting of goals, and sticking to it no matter what." He said, "If you do the same thing in your business, the same thing will happen."

As he said that, I got chills on my right arm. Whenever I hear a truth, my right arm gets chills, and I knew it was right. I went home that day. I lived in a studio apartment. I cleared out my studio apartment, put a desk in the middle of the room, and decided I would start my company. However, I had no education, no money, and no clients. It's a tough way to get the business going, certainly not a start enabling a five-year cash flow projection!

One day after high school, my mom gave me a great thought. I was a little depressed because I wasn't sure what I would do. I worked in a gas station for \$1.15 an hour. There wasn't much of a future there. My mom said, "Arnold, you look a little depressed. What's the matter?" I said, "Mom, I'm trying to figure out what I'll do for a living. The gas station doesn't give much opportunity." She said, "There are only two kinds of people. There is a businessman and a yekke." I said, "What's a yekke?" She said, "A yekke is a guy like your dad. Ask him any question about any subject - music, mathematics, philosophy, history - and he can give an answer. Can he make money? Nothing." Then she said, "Ask your mother. Does she know about music or mathematics? No. Does she care? No. Can she make money? I can make money. It's easy. You become either a yekke or a businessman. Yekkes can be happy even though they don't make money. They can get one degree after another. If you want to make money, the solution is easy: Become a businessman."

I worked in different jobs. I got a job at a printshop and I became a supervisor. One day, I saw an ad about owning your own business. I thought that's it. I'll check that ad out. It was an insurance sales program. I had no knowledge of finance. The insurance guy showed me a policy where it's just 2% a year. After 40 years, you have all this money. Since I didn't know anything about it, it looked like I could earn a lot of money. I started selling insurance part-time, and after six months I converted to full-time. I did well at first. Before long I was at the top of the market. That was 1968 and the insurance companies decided to go into mutual funds. I started reading about mutual funds. I attended a meeting and was overwhelmed. In my insurance jobs I looked at 2% returns, but mutual funds offered returns of 10% to 15% at the top of the market. I decided I had found my life's calling. I got my mutual fund license near the top of the market six months before it peaked. Then it went into a sickening slide for six years.

Green: You set up your business in 1974 just as the market was about to crash. Many of us

here have not endured many tumultuous times. Are there things you learned early in your investing career that enabled you to survive and thrive for 45 years in the business? Longevity is unbelievably important, and you've managed that.

Van Den Berg: I sold mutual funds all the way down in the market for six years. The market had peaked in 1969. It declined for 1.5 years, rose for 1.5 years, then it went straight down for two more years. Here's a six-year cycle, and now I'm getting nearer the bottom of the market. But during that time, I tried to figure out why these mutual funds didn't do well. I went to the meetings. These guys were geniuses, and I was in awe of them. I enthusiastically sold all of their funds to my best friends from high school, and they all lost money. It was agonizing for years. I decided to study the market myself. I ran across articles about Benjamin Graham. I read everything I could get my hands on during that six-year period. That was my education. During the down market, I studied the market.

I gained confidence from my folks' experience in the concentration camp, from what the psychiatrist told me, and from my gymnastics experience. I started studying the subconscious mind. The psychiatrist told me all the wonderful things the subconscious mind could do. I said if it could do all these things, I would spend the rest of my life studying, and I have. I have 45 years of notes on the subconscious mind and how it works. That has been my guiding principle.

I can say to everyone in this audience you can gain in your life - whether it's investing, in marriage, in family, in friends - by studying the subconscious mind. Carl Jung said if you don't understand your subconscious mind, your life will end up a certain way. You'll think it's fate, but it's not fate. It's what you programmed in your subconscious mind. The subconscious mind does not think, it acts. It's just like typing into a computer. We have 15,000 to 17,000 thoughts per day. Can you imagine if we had a sheet here, and every time you had a negative thought, you'd get a black dot? If you had a positive thought, you'd get an orange dot? What would that sheet look like at the end of the day? From 65% to 70% of our thoughts are negative. These thoughts create neural pathways in your mind either on a negative or positive thing.

I've learned three important truths from my studies. Number one, you must be totally honest to get the most out of your subconscious mind.

You cannot deceive yourself. Imagine part of your computer programs you to do one thing, and the other part of the computer programs you to do the other thing. Your life gets messed up and confused. But if you have a truth, if you always stick to the same principle and you work that principle repetitiously in your mind, your subconscious mind will program you into the type of person you want to be. The most important key is repetition. Always repeat the things you want to become, the things you believe in. That's what I did during my whole career. I programmed my subconscious that I would become successful and have a great family. I had everything mapped out. They all seemed impossible, but they all came true because of that realization.

Here's another principle you'll learn from the subconscious mind: You cannot do good and not get paid.

Whatever you do right, you will be paid. That's how the universe works. I have done consulting and helped people in financial situations that prevented them from paying me. I can't believe how I got paid! I recently got an inheritance from a client whose mother I helped. It was a huge sum of money plus a brand-new Cadillac and all kinds of other things. This was 20 years after I helped her. People said, "You did all this work, but you didn't get paid." I said, "I did get paid!" So, you get paid. The other thing is if you do wrong, you'll start to feel guilty and your subconscious mind will do things that work against you.

The important thing is to have the goal, the vision. The next thing is belief. We find through studying the subconscious mind that belief is so powerful, it can influence your genes and DNA. Belief is the single most important thing in life.

What should you do if you don't have a lot of faith? How do you develop the faith?
Repetition.

Use repetition for whatever you want to do. Even if you don't believe it at the time, if you repeat it often enough, the subconscious will believe and then it will start acting on what you want to do. You develop faith in yourself. You develop faith in other people. You develop faith in life. You believe things will work out well no matter what you do.

I have a saying I always tell people. When you must make a decision that's not necessarily good for you but it's the right thing to do, you'll never go wrong doing the right thing. If you do the right thing, things will work out better even if you don't think so at the time. That's what guided me, and that's what still motivates me today.

Green: When I was a young man, I discussed a great deal with John Templeton about how to gain control of one's thoughts and mind. I totally dismissed those ideas and, in retrospect, realized I had been wrong. In practical terms, if there were one or two things you could do to harness the power of visualization or the power of repetition, what would they be?

Van Den Berg: I'll give you my answer, but there's a good book called Think and Grow Rich. Many of you have probably heard about it. Many of you have probably read it. You don't read it once. You read it 30 times because Andrew Carnegie laid out truths in that book. This is how he built his fortune. I read that book. It was one of my organized books, and I've read that and studied it. Of course, I have a whole library on it now.

Here's the simple principle: First I roll out a goal about how much money you want to make. I did this, then visualized that goal and repeated it over and over.

I remember when I was married with two kids. The business was not doing well. It was hard for me to get clients, and this continued for about seven or eight years. I struggled with this. My wife was doing the books one night and she got tears in her eyes. She said, "Arnold, I see you working day and night and we're getting into more debt. I'd like to get a job so I can help you until the business turns." I said, "No. I just got through with the shrink and he told me how important parents are. We can't have the parents working and not have the kids. I'll be sending that money to pay for a shrink for my kids. You stay with the kids." Then I said, "Give me one of your checks." She was writing out the bills. I wrote out a check to Eileen

Van Den Berg for \$250,000 for “something you might like.” This was 40 years ago, so it’s worth about \$1.5 million now. I said, “Don’t cash it this week, but one of these days, you’ll be able to cash it.”

About five years ago she said, “Can you transfer some money into my account? I’m running low.” I said, “You mean to tell me you spent all that money I gave you?” Then she said, “Oh, I saved the check.” I have the check now, but I believed that no matter what happened, it would work out. The worse it got, the more I believed it. You develop a strength within you that says you know it’s going to happen even though you don’t know how. You keep going. The more you keep going, the more you develop that strength.

After struggling for about seven or eight years, I finally got enough clients to pay the bills and everything else. There was one stock I liked, Masland Carpets. I remember the details even today. The stock price had risen \$22 in one day. It finally rose to a level that both got to the point where not only could I make money for my clients but had a few bucks so I could invest myself. I had started my own portfolio, and I bought some there and a broker called me up and said, “Arnie, Masland Carpet is up \$22.” It was great, and I was thrilled to hear the stock rose so much. Then I remembered I had some shares myself, and I was even more excited. Then I realized I made a mistake in my portfolio. I had bought twice as much as I should have. In one day, I made \$16,000. This was 35 years ago. That was a lot of money then. I called my wife and said, “I want you to come down for lunch. I have something to tell you. We’re going to celebrate.”

I could see the turning point now. I was starting to make some money, and I was making money on my portfolio, and things started moving along.

Green: You went through some difficult periods over the years. The first was probably 1974 and the six-year period. Then 1987 when everyone was bullish before the market crashed and you had 50% in cash. Then again in 1999 and 2000 when you were out of step; while everyone else was buying tech you underperformed massively. Mohnish Pabrai once gave me this great phrase when he said the thing about great investors is their ability to endure pain.

Will you talk about how you coped with the pressure from your clients saying, “You’re a schmuck. Just buy tech,” or, “You’re a schmuck. Just take your money out of cash and pour it into the market.” How did you deal with the sheer intensity of criticism and the sense of loneliness you had when you were out of step?

Van Den Berg: You’ve often said I was not dealt a good hand of cards. The older I get and the more I think about it, in some ways I was dealt a good hand. I learned as a kid from what my parents suffered in the concentration camp. They lost 39 members of our family. My mom and dad were the only survivors out of a big family. I learned you must learn to deal with the pain. As you work through the pain, you gain insights you could otherwise never have seen. I would never want to relive it, but I’m grateful because I learned things you could not learn in a college or in a book. You must experience it.

I learned to commit to learning the business. I had a whole bookshelf of books I set out to

read. I read every day. I read for three hours at night and studied and worked on it. You develop conviction within yourself, and there's something inside of you that tells you that. For example, I was studying the earthquake in California 30 years ago. I tried to figure out how I would protect my clients from the earthquake because many had real estate. I studied the earthquake and finally decided not to learn geology to predict the quake. Instead, I would hire an expert. I hired a guy from Caltech to draw the fault line on a freeway map so I could show a client and say, "Look, William, your home is three miles from the fault line. You must be at least 20 miles away or you'll have a problem." The more I studied it, the more I realized this quake will be so catastrophic, maybe I should have an office outside the city - at that time, we didn't have cellphones - so if there's an earthquake, I'll be able to trade stocks during the quake. Then, instead, I decided to have the main office outside and have a little office in LA. That is how I have it now.

Anyway, I thought I was getting carried away with this feeling about it. My wife is intuitive. She's got radar. I thought I'd take her to meet with the seismologist and see what she thinks because I didn't want her to think I was going nuts by moving the family and business out of the city. She was quiet during the whole thing, like she usually is. On the way back, I asked, "What's your thinking?" She said, "Arnold, I think we ought to take the whole family and move out of state." I looked at her and said, "That's exactly what I'm thinking, but I didn't want you to think I was going nuts." She said, "No, you're doing the right thing. We should move."

I called the kids. Scott, my son, is back there. He was working in a real estate operation right on the beach, looking out at the beautiful girls on the beach there. He said to me, "You want to move out of state? Have you been to my office and looked out the window?" He was a single guy and all these beautiful girls, and I said, "No, I haven't." He giggled. He said, "Where did you want to meet, Albuquerque, New Mexico?" Nobody wanted to move. We thought, if the kids won't move, we won't move. We stayed, and one day Scott called me and said, "Hey, Dad, are you still thinking about moving?" I said, "I'd move tomorrow." Anyway, he got the whole family together. We moved to Austin, Texas. He did the research. We looked for six of the best cities and Austin was our choice. Four months later a devastating earthquake hit our neighborhood. I returned to our neighborhood and saw homes off the blocks, and 22 people died in an apartment building a block away. The building caved in. I had this feeling by studying it, but it was my subconscious directing me. Once you get that conviction, you act on it even though it doesn't seem to be the right thing.

Green: I remember talking to Howard Marks about this and saying, "You're one of the most rational men I've ever met. Where does intuition come into this?" He said he thinks most of his decisions are intuitive, not rational. It's an extraordinary contradiction or paradox. He also said he thinks most of Buffett's decisions are ultimately intuitive, too, though they are based on enormous research and knowledge.

Van Den Berg: Let me tell you the difference between intuition and fear, because they seem to be the same. I had a client, a woman who grew up the hard way. She learned to live by her wits. She was a smart woman married to a successful attorney. Whenever the market went down, she called me panicked saying, "My gut tells me that this will be bad. All my life,

I've relied upon my gut, my intuition." Her intuition worked well with people and where she had experience. But in the market, she had no experience. I told her she was not experiencing intuition. She was experiencing fear, and they feel the same way. Fear comes about when you don't know, and you don't have any experience. Then you get this feeling. But when you understand the situation and it gives you that intuition, it is confirmation your subconscious mind directs it. But when your subconscious mind works from fear, then you make the wrong decision. You must distinguish guidance from your subconscious based on fear from guidance based on knowledge and experience.

Green: You are, once again, out of step with the market in many ways. Everyone has decided inflation is dead. Therefore, people don't want to invest in commodities. Yet you have taken another contrarian view. Will you please explain what you're doing and what you regard as an historic opportunity based on your half century of knowledge of the market.

Van Den Berg: When you get a consensus of contrary opinion by the media, the analysts, even the people in the business, then you have a true contrary opinion. That means an industry or certain stocks get beaten to a level that you cannot imagine. You could only go to 1975, 1987, or 2009 to compare it. I started in the business a few months before the bottom. At the time, there was an article titled, "The Death of Equities." The article showed there was no way stocks could go up. But I had a strong feeling based on my studies of Benjamin Graham. When stocks sold at 5x earnings, paid 7% dividend yields, and traded at 75% to 50% of book even during the Depression, Benjamin Graham managed money. That impressed me. He said that is the buy zone no matter how bad it looked. When this article came out and I attended social gatherings, people asked what I do for a living. When I said I was an investment counselor, they acted like I had bad breath! People had lost money for seven years. They didn't want to be talking stocks. But I had the feeling they were wrong. I told my wife, "The world will either end, in which case it doesn't matter, or we will make a lot of money." The people who tell you the world will end are the ones who die off while the world keeps going.

A recent Business Week lead story was titled, "Is Inflation Dead?" You should all take notice. Mine is the ultimate contrary opinion. I suggest, based on my studies (and I've been wrong for the last few years) there's a good possibility we will have inflation. But even if we don't, commodity stock prices, commodity prices across the board, even agricultural prices are down so much because everybody believes the big problem in the world is an impending recession. We will not have a recession - that's only my personal belief. Please don't go buy it. I believe we will have inflation.

Let me give you some numbers. In 1972, the inflation rate was 2.7%. In 1973, in one year, it went from 2.7% to 6%. Then it went from 6% to almost 11%. In two years, it went from 2.7% to 11%. You know what happened to gold? It went from \$44 to \$183 in those two years. After that, gold rose to \$600 in 1980. Oil went from \$1.82 to \$11. Meanwhile the market was going down an average 75%. Look what happens to a multiple. If you've got an 18 or 19 multiple at 2.5% to 3% inflation, by the time you get to 4%, that multiple is down to 12%. By the time you get to 10% or 11%, you have an 8% to 10% multiple, which is what happened in 1974. I'm not predicting we will have that inflation level. I'm suggesting you watch the

inflation rate once it gets past 3.5% to 4%. Once it does, make sure you adjust your multiples down. When you look at your four or five-year projection of where this stock will go and you're using a 17 or 18 multiple when it's going to be 8, you're going to be somewhat off in your calculation. I am trying to say we don't make predictions. We just look at probability.

Let me give you a statistic. The Goldman Sachs Index, which is 35% energy and all commodities, and you divide it by the S&P today, the commodities are the cheapest in 50 years. That gets my attention. What will it take to make these commodity prices go up? Not much because if you have 3% or 4% inflation, that'll get it going. Then money will come out of the stock market and go into commodities. One of the great opportunities today is in the energy market, which has been a disaster. But energy stocks are selling as cheap as when I started Century Management in 1974. I had no idea the market would go up, but I knew they were cheap. I have no idea what will happen to the price of oil, but a 150-year relationship exists between oil and gold. If you take the price of gold and divide it by 15, that's usually average price, which would put it at \$80 to \$90. Some of these oil stocks would go up 200% if the price of oil just went to \$65 or \$70. I recommend you look at it. Don't necessarily invest unless it tells you. You look at that because good companies sell with 5% to 6% dividends that are well protected. Some of them are selling at 3x cash flow.

You don't need a lot of increase in the price to make that justification. That \$65 to \$70 is a conservative number. We've studied everything we can get our hands on. Look at Value Line and go to the energy section. You'll see a projection of about \$65 to \$70. We think it will go much higher. But let's assume \$65. They project these stocks can go up 100%, 150%, 200%. That's not my opinion. That's Value Line. If you go to Morningstar, you'll see the same thing. At Bloomberg, 40 analysts follow the stock, and they project the same thing. My point: We are value investors. We are contrarian investors. It is lonely and painful. It is tough to have somebody call you an idiot, but that's all part of the price.

When I was in high school, I had such a low image of myself one of my best friends wrote in my annual, "Arnold, you're a cool guy. I hope we'll always be buddies. You're dumb, but you're still cool." That's the way I saw myself. That's the way other people saw me. Program the mind, read everything you can, believe you will be successful irrespective of what happens, and you'll get there.

Q&A session:

Latticework Participant: Arnold, in the 1970s commodities were a major input into inflation. Oil was a major expense for Americans. Today, commodities play a smaller role in the average American budget, but wages have not grown as quickly as economic theories suggest they should have over the last 10 years or so. Would your inflation expectation relate to faster growth in real wages in America?

Van Den Berg: Negative yields in other countries have pushed up the value of the dollar. If you're a European earning negative yields, you'll buy a Treasury bill even if it only pays 1% or 2%. The money flows into this country and pushes up the dollar. At some point, that will reverse just by market forces. When the dollar starts falling, the prices of commodities will

rise. I have not done a lot of investing in emerging markets, and I'm not sure I will. But I see opportunities in emerging markets because as the dollar comes down, those commodity-based countries will benefit. Countries producing copper or gold, like South Africa, and agriculture-based economies will prosper as their commodity prices rise. They will prosper because of the fall in the dollar, not because of anything they do. Their stock markets will also rise.

Remember one thing: When you see a lead story in a magazine like *Business Week*, it might take a couple of years before it starts to happen, but it's an early warning sign. If you disagree with me, just watch for it and watch your P/E multiples. The first indicator of future inflation, with all due respect to all the economists and the Federal Reserve, is the price of gold. In 1971, the price of gold went up a year before the inflation hit. If you look back to any inflationary period, you'll see the price of gold sniffs it out, so you have an early warning signal to start thinking.

Here's the beauty: No matter what happens, if you program yourself to win, you'll choose those things that will be compatible with your subconscious mind.

Latticework Participant: I'm curious about how you think about the changes that happened over your investing career. You are saying little has changed regarding the commodity markets, and you forecast it will recover. In all your investments, did you notice some change over time? And if yes, how did you navigate those changes?

Green: What's changed? In some ways, you have a classic, timeless way of investing. But what's changed and what's different now that makes it, in some ways, more challenging?

Van Den Berg: Do you mean the investment environment?

Green: Yes, it's different in many ways, right? The indexes have become unbelievably difficult. We don't know whether some paradigm has shifted in terms of inflation. How do you know you're not wrong and the things you've been using are still relevant?

Van Den Berg: That's a thing we live with as investment counselors. We're often wrong. The most important thing is over the long run it all works out. Let me give you one thing you can back up statistically. The biggest change has been passive investment. There's no point in picking stocks. You just buy the index, a mutual fund, or an ETF. Those are valid principles, and I support them. But if you look at value investment since 1938 or at a rolling 10 years, there have been 84 of them. In all but 11, value has outperformed everything over a 10-year period. Value has underperformed recently. It's the second 10-year period that's the worst since 1938. Even good value investors have been hurt badly. It's because their style is not in line.

I've learned when something else is hot, like FANG stocks, who wants to buy a cheap value stock? If these things are going up, you'll have low returns on value, and people will match the index. But a time will come when things move the other way. This tidal wave of money in the passive investments will come into the value investors. Then value investors, over the next 10 years, will have a chance to shine. You stick with something that has proven over a

long period of time.

Value investing is a way of life. I apply it to everything I do. It's not just stock markets. I don't drink wine. Why don't I drink wine? It's the worst investment you can make. What could be worth \$30, \$40, and \$50 for a bottle of wine that's worth, sour grapes, \$2 or \$3. It's not because I can't afford it. It's because it's not part of the principle. I don't even understand why people live in New York at these prices as a value investor, but that's another story. My point is the more consistent you are in what you believe, the more of a neural pathway you make in your subconscious mind, then the more you become that person you envision. This is critical.

Latticework Participant: Do you have any books to recommend? What do you read on a regular basis?

Van Den Berg: The hardest thing in the world is to come up with a book list because I have a library spanning three or four walls. I even have people I pay to read books for me to get a lot of recommendations. I don't have time to read them all. I pay them \$15 an hour to read the book and make me a CliffsNotes version. Then before I go to sleep, I read these book reports. I might not have to read the book, but if there's a good chapter, I might read the chapter.

Start with *Think and Grow Rich*. I believe the greatest gift I can give any human being is a good thought. You have 15,000 to 17,000 thoughts every day, and a lot of them are no good. You have some books here. You can get some good thoughts from them, and they can enhance your life.

If you are interested in learning the subconscious mind, you should study hypnosis, and the best book to learn hypnosis is *Self-Hypnosis* by Leslie Le Cron. He was a great teacher. I use hypnosis in many different areas. I've used it to coach my son in athletics and helped a lot of people with different problems. If any of you have a back problem, let me see your hands. Your back problems can be solved through the mind. The subconscious mind uses the back whenever you get stressed and overwhelmed. It works as a circuit breaker. If you program your subconscious mind, you can get rid of your back problems. Dr. Sarno, a back surgeon, developed a technique. He rarely does any surgeries anymore. Only 2% of his practice is surgery for people in serious accidents because he cures them through the mind. I had a friend with serious back problems from the time he was a kid. We solved it in one week. If you would like to send me your contact information, I will send you a specific list of books with their authors. I'll even send you the books. It would be my pleasure.

Green: Thank you to all of you for listening and to Arnold for sharing wisdom. I'll leave you with one thought, which is one of the best things Arnold ever said to me. He said, "If I had no money at all, I would still have abundance because I have a mindset of abundance and I feel that prosperity." One of the great things I learned from Arnold is that however much money we make, however successful we are, if you don't have that internal life that gives you a sense of equanimity and control over your circumstances, it's hard to have true prosperity. Arnold has been a great role model for me, and I'm glad you've had a chance to hear some of his thoughts and insights.