GOLDEN WEST FINANCIAL CORPORATION (GDW)

The Sandlers are our silver honorees for these reasons:

Year after year, **Golden West** has turned in a remarkably consistent and superior performance, an achievement which has won for this institution the respect and confidence of its peers and the investment community. Essentially, the Sandlers have commited to a specific strategic course, carefully defining long-term goals. This institution's cost structure and portfolio quality are impeccable -- expenses are the lowest in the industry; underwriting standards are meticulous. Profitability as opposed to growth, obviously, is management's primary objective.

To one Wall Streeter, **Golden West** is the hallmark of excellence in this business, "**Golden West** is in a class by itself. Of the large institutions, they are and always have been ahead of everybody else. They've done the smartest things that could have been done over the past few years and that's to keep operating expenses low, because it's a very competitive business. It's the low cost producers that survive, and they know that better than anbody else, without exception. Then, they realized before most that asset growth and leverage was no longer as profitable as it used to be. If you look at their numbers you'll see their equity ratio skyrocketing. And they just haven't been growing; they've just been salting the money away, as well. That was a prudent strategy. The real strength is cost control, and a vision of how they stand and where the industry stands."

Total attention to the bottom line has made the difference here, asserts a pro, "They, in terms of consistency over the years, deserve all the credit. It's crucial that they're very focused on profitability and are not afraid to not grow. I see so many companies have focused just on growth and not on profitability, this team has avoided that pitfall."

A source close to this company explains, "I see here a consistent management style, emphasizing the simple and basic fundamentals. Those are low expenses, adherence to a philosophy of generating quality assets, and most important, self-generating equity through retained earnings, which has bolstered net worth to above-average industry levels. I'd say these strengths are beginning to be recognized in improved debt ratings, and continue to be reflected in an above-average valuation for the stock."

An institutional source simply states, "They keep their eye on the ball. They're really very focused on what they try to do, expense control is good. They have a very good sense of where they're going and which businesses they want to be in."

This management's judgment is the key, according to another; "They just stick to their knitting. They run a savings and loan rather than trying to get in a lot of other businesses in which they lack expertise. They're very conservative, maintaining the best control of expenses of any savings and loan. Their expense ratios are the lowest in the industry, and they have a very cautious expansion strategy. They have consciously tried to stabilize margins by offering variable rate loans and trying to immunize themselves from change in interest rates. Of course, all savings and loans have been doing that, but they've been very successful. And, that's really the issue."

GDW's track record says it all to one investment advisor, "Anyone looking at the results can see they've been the most consistent and best run thrifts over a long period of time. In the case of **Golden West**, they've controlled expenses well, and have always been very profit conscious. **Great West** early on moved into variable rate mortgages and has been the model as far as protecting the balance sheet from interest rate risk."

Meticulous cost analysis is the deciding factor, asserts an analyst, "They have the best long-term record in terms of return on shareholder's equity, in terms of earnings growth, in terms of asset quality, in terms of expense control. It's very hard to fault them. They started with nothing there and have built an enormous amount of value. I see here an analytical disciplined approach. They don't take a lot of credit risk. They do manage interest rate risk. They understand that's what they get paid for. They don't get into a new arena unless it makes sense on a cost basis. Thus, they've avoided the pitfalls.

"Now, over the last couple of years they're moving data processing in house. It's a four-year project and has escalated expenses a mite which, for them, is unusual but they're still way below the industry average. They were not as aggressive in lending in '86 as were some of the others, so they didn't get quite the network of overhead established that others are carrying into a slower period. That is a real good position to be in, although, when volume was really strong, they were criticized. Others would criticize them for not initiating technology sooner, but it didn't make sense. They couldn't cost-justify that. I'm not going to criticize them for that. I think they pay attention to shareholders' equity and returns and I think what they did made sense."

Succession and growth momentum are potential considerations to a buy sider. However, this pro reminds us that this management has taken very few, if any, missteps yet. "They managed a very successful company through all different cycles of the business. They've been in the business the longest, and have consistently done very well, producing exceptional performance. You can't fault that.

"To me, the serious weakness is that they've run a very entrepreneurial firm, and it's not clear who's going to continue after they leave. So management succession is a possible issue. The other possible problem is that their relatively simple growth is all behind them. They've been growing much more slowly over the last few years, and may not be able to regenerate the growth of the last 25 years because they're not doing anything unusual. However, in a relative sense these issues are far outweighed by the positives here. They have not pursued very aggressive asset growth, which means they've got high quality assets on their books. They haven't reached for low quality assets. Then, as the interest rate environment has been pretty volatile, they have not taken any interest rate risk. They've combined low interest rate risk with low credit risk."

Summing up, a specialist stresses the unique insight this team demonstrates, "I think the key is that the Sandlers are significant shareholders in this company and both were financial analysts early in their careers. They accomplished most growth, at least until five years ago, internally. They really have a fundamental grasp of what it takes to succeed in this particular segment of the financial services business, and that is to keep the costs down, to try within the constraints of the business to match assets and liabilities, to move volume through the branches and to try to keep the risks modulated. They earn consistently, much higher returns than most other S&Ls, and certainly stand out among the large ones. It's a very tough business, and they seem to do a very good job across the board.

"Now, one thing that I think raises concerns is that their changeable net worth as a percentage of assets is not as strong as it could be. However, I think because these people are big owners of the company, they've come to the strategic decision to generate the capital internally, rather than going to the market and selling stock. That does two things for a respective investor in a company. First of all, you're not going to have dilution from added shares. Secondly, when you grow internally, it puts a lot more discipline on the institution. Thus, the assets that you put on the books you at least believe are going to be fairly profitable and sufficient to generate new capital. Often, when we see banks or S&Ls sell stock, this accelerates their natural asset and earnings growth for a temporary period of time. Often, in retrospect, they turn out to have made bad investment decisions in terms of what assets they put on the books. So, over the years I have been very impressed with these people, and when you have a group that's under the market pressure this one has been, it usually gives you an opportunity to get a premier player in that particular group, and probably a fairly discounted price."