

Book Review

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And Not to Yield*

Published with the headline **Follow the Philosophy**

The Intelligent Investor

By Benjamin Graham - 340 pages - \$59.95
Hardback – ISBN 0060155477

Just as every technical analyst should read Edwards and Magee (See February 2002 *Shares*), every investor should read *The Intelligent Investor* at least once in their life and preferably before they start investing. I have read it several times over the last 30 years and each time I am amazed at the new and currently relevant insights that I gain from it.

In the Preface to the fourth revised edition, Warren Buffett describes Graham's classic: *To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights, or inside information. What's needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework. This book precisely and clearly prescribes the proper framework.*

Now, what Warren Buffett has not said of the book written by his teacher and mentor, is that Benjamin Graham is one of the most influential investors of all time. He provided the rationale and methodology for what is now called the "value" school of investing. More than that, he founded the discipline of modern scientific security analysis. Indeed, he may be fairly described as the "father of security analysis".

Anyone who doubts the effectiveness of value investing need only look as far as the transcript of Warren Buffett's address to Columbia University in 1984 - *The Superinvestors of Graham-and-Doddsville* - which is included as an appendix in the fourth revised edition. This address details the records of a group of Graham's students, who went on to manage money professionally over many years in all market conditions and achieved truly remarkable results.

The last edition of the book was completed only a few years before Graham's death in 1976. What struck me as I read the book again recently was that it was written at a time in the markets not unlike the present. In the early 1970s, the US stock market had risen in what was then its longest bull market from 1946. The market had suffered a shakeout, but had rallied again and was overvalued in historical terms. Many of the same issues we are confronted with today are discussed, as Graham wrestled with what was the best investment policy in this market environment.

Graham intended *The Intelligent Investor* for the man-in-the-street as well as the professional reader. He intended it to be a book of sound advice distilled from a lifetime of successful investing. As I read it I was always conscious that the great man was telling me the really valuable insights that he had gained in the market. What makes it so effective is that he has constructed the book within an intellectual framework, so there are no loose ends or ambiguous gaps. It truly is a complete work on the art and science of investing.

In writing for the man-in-the-street, Graham was conscious that he should not try to teach the arcane art of security analysis, with endless detail from company accounts. Instead, he explains his concepts in words, crafted so that anyone may take them on board. When he does introduce numbers, he uses only the key figures and explains them in detail in simple terms – the legacy of a lifetime of teaching investment.

Have you ever wondered what the difference is between a speculator and an investor? Have you ever wondered about the best way to deal with unexpected fluctuations in the market? Have you ever wondered about the role of stocks in dealing with inflation? Most authors avoid these issues. Graham tackles them head on.

The later chapters are exceptionally valuable, because Graham takes the reader through several case studies that demonstrate the practical application of his investment philosophy.

In recent years, there has been a rash of books about Benjamin Graham and “value” investing as writers seek to capitalise on his most famous student, and arguably the twentieth century’s most successful investor, Warren Buffett. None of these books will bring you even close to the experience you will have from reading *The Intelligent Investor* for yourself.

Like all popular slogans “value” investing is a caricature of the richness and scope of Graham’s philosophy, best summed up in his own phrase “margin of safety”. The most important thing for you to take away from this book is the single idea that both defensive investors and enterprising investors should look always to have a margin of safety whether buying a value stock or a growth stock. This is Graham’s central concept. It is not a formula or system so much as a philosophy – for the truly “intelligent” investor.

* The last four words from Tennyson’s *Ulysses*, which appear on Graham’s Tombstone.

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