The Intelligent Investor

The Classic Text on Value Investing

BENJAMIN GRAHAM

BENJAMIN GRAHAM (1894–1976) is widely regarded as the father of value investing. He was born in London and his family migrated to America when he was very young. Graham graduated from Columbia University and took a job as a chalker for a Wall Street investment partnership. Before long, he was doing financial research for the firm and was made a full partner. At age 25, he was earning more than $500,000 a year. The Crash of 1929 meant Graham lost all of the wealth he had built up but he stayed in the investment business. In 1934, Benjamin Graham and David Dodd (another Columbia academic) coauthored *Security Analysis* which popularized the concept of intrinsic value. In 1949, Graham published *The Intelligent Investor* to encapsulate his thinking on how to be a successful investor. At the time of his death in 1976, Graham was still active in the investment community. He also taught at Columbia University for thirty years with one of his better known students being Warren Buffett.

MAIN IDEA

An intelligent investor is "businesslike" – he or she approaches investing in just the same way as if one were to look at buying a business or a partnership in one. The sounder the investment principles you use, the better the results will be of your investment strategy. If you aspire to generate sizable returns by investing in the stock market or in other securities, run your activities in accordance with sound and sensible business principles.

The six key principles of intelligent investing are:

The guiding principles of intelligent investing

1. Know the business you're investing in.
2. Know who runs the business.
3. Invest for profits over time, not for quick buy-and-sell transactions.
4. Have confidence in your own reasoning.
5. Choose investments for their fundamental value, not for their popularity.
6. Always invest with a margin of safety.

"Successful investment may become substantially a matter of techniques and criteria that are learnable, rather than the product of unique and incommunicable mental powers. In 1900 none of us had any inkling of what the next fifty years were to do to the world. Through all its vicissitudes and casualties, as earth-shaking as they were unforeseen, it remained true that sound investment principles produced generally sound results. We must act on the assumption that they will continue to do so."

– Benjamin Graham

Principle #1 – Know the business you're investing in . . . . Page 2

Before you even consider investing in a business, get to know what it sells, how it operates and what it does to make money. Until you have a good feel for a firm's competitive environment, its challenges and opportunities and its strengths and weaknesses, you don't really know enough to be investing in that business. Get up to speed before you invest, not after.

Principle #2 – Know who runs the business. . . . . Page 3

You won't be able to operate the business yourself, so you need a manager who will run the business and hopefully make money for you. Look for companies that are being managed competently, efficiently and honestly. Find managers who will do those things which are in the best interests of shareholders. Never invest in anything until you have first looked very carefully at the strengths and competencies of the management team.

Principle #3 – Invest for profits over time, not for quick buy-and-sell transactions. . . . . Page 4

Buy stock in companies which you believe will generate wealth over time through their ongoing business operations. Never buy shares in anticipation of being able to sell them for more at a later stage – that's just attempting to make money off other stockholders.

Principle #4 – Have confidence in your own reasoning. . . . . Page 5

When you've done your homework, act on it. Don't worry about what others are saying about your investment – you can never tell whether they've done their own analysis or are just repeating what they heard someone else say. As long as your data and your reasoning is sound, it doesn't matter in the slightest whether the crowd agrees with you or disagrees. Don't expect the marketplace to do your investment thinking for you.

Principle #5 – Choose investments for their fundamental value, not for their popularity. . . . . Page 6

Always remind yourself general market sentiment is driven more by mood swings and less by rational thought. Therefore, for most of the time, view the market fluctuations solely as indicators something may be going wrong or something may be going right with your investment. If prices fall sharply, this may be a great opportunity to buy more. And conversely, if the prices advance a great deal, this may be an opportune moment to sell wisely.

Principle #6 – Always invest with a margin-of-safety. . . . . Pages 7 - 8

When investing, your margin of safety is built around the price at which you can buy a stock with minimal downside risk. Often, this will be below a company's intrinsic value because you've got to allow for the impact of unanticipated external events. Always build a margin of safety into the price you're willing to pay when buying stock in a company and then diversify over 20 or more different companies to generate satisfactory results over time.

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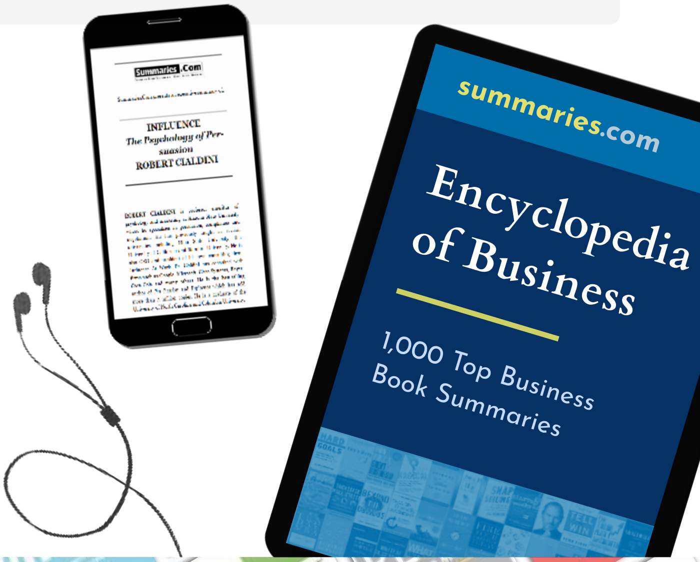

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