

The Intelligent Investor by Benjamin Graham

The secret to financial success is within everyone. It is based on critical thinking and the ability to take no Wall Street “fact” on faith. History shows a picture of titan companies that went bankrupt despite seeming invulnerable just months prior. It can be frustrating to buy a well-undervalued company whose price simply will not rise to fair value since perceptions have not yet changed. In the early 1900s, it was somewhat common for stocks to carry a lower share price than that of even their net current assets. However, it is important to commit to holding these shares until their fair values since overtrading will eventually lead to unhappiness.

The best advice for being profitable in the markets includes thoroughly analyzing the soundness of an underlying business, protecting yourself from serious losses, and aspiring to adequate, not extraordinary, performance by taking it a day at a time. It is more important to use intelligent, safe tactics rather than to always be right or even be right in the short-term.

In previous times, bond yields were a reliable indicator of market expansions and expected contractions, but these are almost completely unreliable indicators today. Then the duration chosen by investors is exclusively a matter of preference. Higher yield, longer term bonds will fluctuate more than lower yield, shorter term bonds.

You must remember that inflation erodes the value of a currency. Real Estate is often a shelter from inflation-induced dollar erosion. However, for those that do not want to invest in real property there is the option of REITs (Real Estate Investment Trusts.) There is also a more direct financial product for inflation protection called TIPS (Treasury Inflation-Protected Securities) which are treasury bonds that automatically adjust for inflation and can be bought at www.publicdebt.treas.gov/of/ofinlin.htm.

The publications surrounding Wall Street become irrational during extreme bubbles and times of hyperinflated stock prices. In the early 2000s during the dot com bubble, the Wall Street Journal printed a quote from Kemper Funds saying “It’s a new world order. We see people discard all the right companies with all the right people with all the right vision because their stock price is too high” and Business Week printed a quote from Lehman Brothers saying “Is the stock market riskier today than two years ago simply because prices are higher? The answer is no.” The market collapsed months after these lies were published.

The stock market is like a bipolar person called Mr. Market alternating between Dr. Jekyll on its reasonable days and Mr. Hyde on its irrational days. The intelligent investor must have the temperament to deal with these fluctuations in trusting that an investment in the broader markets will eventually attain its fair value. It is preposterous to allow the current state of the market to affect your worldview on a regular basis. Investing isn’t about beating anyone else in the market, but about controlling your own game.

The already larger capitalized companies within the stock market grow in capitalization faster than their smaller-cap counterparts, because pension, mutual, and sovereign wealth funds are charged with investing large chunks of capital into familiar, stable companies. However, most companies in the publicly-traded markets are all a bit over capitalized due to the very nature of their investment accessibility.

Investment professionals should only be used if they have a fiduciary responsibility to act in the best interest of their clients. The intelligent investor should have at least a rough financial plan, investment policy, and asset allocation metrics to guide them throughout their investing journey. It is more important to protect against serious losses than to strive for extreme gains.