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LETTER OF VALUE

Ruminations for investors seeking to enhance their wealth using the principles of
VALUE INVESTING

Special "Patient Reader" Issue!

Our "quarterly" newsletter has been AWOL for months, which can be attributed not so much to writers' block or busyness as world-class procrastination. In any event, we hope you find the following enlightening, as we promise to get back on schedule with thoughts on VALUE INVESTING.

The Gospel According to Ben

Graham's Security Analysis, first written in 1934, is easily the most influential financial book ever written. Its value investment philosophy and techniques are as relevant today as they were when he first started working in Wall Street nearly 100 years ago. His teachings have withstood the test of time across a wide variety of market conditions, countries, and asset classes.

In re-reading the book (now in its 6th edition, published in 2009), we're continuously amazed at how Graham's concepts can be applied to the investment markets nearly 80 years after it was first penned. We'd like to share how he and co-author David Dodd introduced the discipline of security analysis in the book's preface.

Graham begins: "This book is intended for all those who have a serious interest in security values. It deals not only with methods of analyzing individual issues, but also with the establishment of general

principles of selection and protection of security holdings. Hence much emphasis has been laid upon distinguishing the investment from the speculative approach, upon setting up sound and workable tests of safety...

"... we have stressed the technique of discovering *bargain issues* beyond its relative importance in the entire field of investment, because in this activity the talents peculiar to the securities analyst find perhaps their most fruitful expression.

"We are concerned chiefly with concepts, methods, standards, principles and, above all, with logical reasoning.

Graham concludes: "The chief problem of this work has been one of perspective – to blend the divergent experiences of the recent and remoter past into a synthesis which will stand the test of the ever enigmatic future. While we were writing, we had

to combat a widespread conviction that financial debacle was to be the permanent order; as we publish, we already see resurgent the age-old frailty of the investor – that his money burns a hole in his pocket. But it is the conservative investor who will need most of all to be reminded constantly of the lessons of 1931-33 and of previous collapses ... we have striven throughout to guard the student against overemphasis upon the superficial and the temporary. Twenty years of varied experience in Wall Street have taught the senior author that this overemphasis is at once the delusion and the nemesis of the world of finance."

How utterly prophetic! Human nature, investment psychology, and market activity have barely changed over time. There is no better roadmap for future investment management activities than what Graham laid out.

For all the tenacity of the value tradition, there are still comparatively few investors who follow it. That might be, (James) Grant suggests, because it is simply less entertaining. 'Value may not be as entertaining as some other kinds of investing. In many trading rooms, you can tell by the buzz of the room whether the market is up or down that day. In a value investing office, you can't even tell if the market is open.'

But they still deliver their returns. While Graham would have disapproved, it seems safe to forecast that publication of the new edition will be a big event.

--Financial Times, prior to release of Security Analysis, 6th Edition

Investing with a margin of safety.™

