The Intelligent Investor Summary

By **Benjamin Graham**

What if you were told that intelligent and successful financial investing isn't dependent on having high levels of intelligence, the right contacts and networks, or just good old-fashioned luck?

The Intelligent Investor has gained worldwide recognition, for being a go-to text on understanding the seemingly complex and inaccessible world of financial markets. Written in 1949, it has influenced some of the greatest minds, perhaps most notably Warren Buffett.

Buffett admits that he's had some lucky days, but one of the most fortunate was when he was 19 years old, and got a copy of *The Intelligent Investor*. He says that 'not only did it change his investment philosophy, but it changed his whole life.' Buffett ended up working for Benjamin Graham, and was hugely inspired by his business philosophies and values. Benjamin Graham is renowned for being one of the leading figures in finance and investment, and his ideas have had a lasting impact on the financial landscape and security analysis.

Graham was hugely affected by the Great Depression, and within the context of losing most of his money in the stock market crash of 1929, he started keenly evaluating stocks and markets. What he learned had a significant impact on his life, and his findings have had a profound influence on investors and economists ever since.

We'll briefly look at some of the book's key concepts, including the idea of "value investing." We'll also look at some of the character traits needed

to be an intelligent investor, including patience, discipline, control, and a keen pursuit of knowledge. Graham argues that it all comes down to character, and his rational and dispassionate manual on successful investing remains one of the most fundamental and pioneering books on the subject.

Two Types of Investors

There are two types of investors, active and passive. Most of us fall into the passive category because we have limited time in the day to concentrate on stocks and markets. This book offers sage advice on how to strategically operate most effectively under each designated category. It's important to note, that being an intelligent investor isn't about living a high octane life; it's about being critical and methodical. So while it may not reflect what you see on television, and this type of investing might come across as "boring," if you follow the guidelines, you'll make a profit.

So on this note let's look at market perception.

This Little Allegory Went to Market

Sometimes things are not as complicated as they seem, and a lot of what we're presented with is designed to fuel an emotional response. Graham uses the allegorical figure of Mr. Market to explain that many of our perceptions about the stock market have been over-complicated by emotional triggers.

Every day, a market rep enters our office, and offers us precisely the same product for a different price. Mr. Market offers to sell or buy shares at differing prices, and this fluctuation comes with high levels of

emotional manipulation. On some days, the price seems fair, and on other days it makes no sense at all.

Learning to say no to Mr. Market can be challenging, because he's persuasive, and brings a lot of sentiment to the conversation. At this point it may be difficult to remain objective because Mr. Market is bound to emotions, and Graham says that to be a good investor, you need to ignore sentiment and stick to facts and analysis. Nowadays, it's even more tricky to ignore Mr. Market because we have 24-hour access to market information, and we're constantly bombarded by news and alerts.

However, to bastardize Rudyard Kipling, 'If you can keep your head when all about you are losing theirs,' you're a step closer to being an intelligent investor.

How To Value

A stock is an ownership interest in a business, so when one looks at "value investing," it's crucial to be able to understand intrinsic value. Often stock prices are overinflated and don't match up to the actual value of the company.

If we go back to Simon Sinek's book *Start With Why*, he talks about the Golden Circle of a business. The "what" is the product or service a company sells. The "how" incorporates differentiation and competitive advantage, and the all-important "why" focuses on "buy-in." The why is all about intrinsic value, and creating customer loyalty. Sinek uses the example of Apple to show that despite having an exceptional and elegant product, Apple is successful because of it's "why." Customers are loyal and will queue for days just to get the latest product, which is part of

Apple's intrinsic value.

But there's more to intrinsic value than this. Understanding trading is all about understanding value and price.

The first thing we all need to do is avoid the temptation of looking at the market price. As potential investors, we need to look at assets, dividend payouts, earnings, innovations, and so forth. These are the things that add value to stock, and indicate an upward trend. If the intrinsic value matches the stock price, then it's a sound investment, if it doesn't, then it's a no-go. The best scenario is when the intrinsic value is higher than the stock price, in which case investing is an excellent strategy because you're getting a discount. The idea is to sell as soon as the market prices matches the intrinsic value. By doing this, you're not taking huge risks, but you will see a significant reward.

We're often told that you have to "spend big to make big." Graham strongly disagrees with this sentiment. He suggests that risk and reward are not directly proportional, and that you can take a low risk, and reap a really high reward. The key is to shop around for sound investments, and that a lot of this comes down to being intelligent and skillful when it comes to researching potential opportunities.

Graham also recommends investing in big companies with a strong sales record. He argues that small companies don't have the buffers that more prominent companies have, and therefore can't snap back from economic losses as quickly as bigger companies. He also advises investing in what he calls "net-nets." These are companies that have a sum of assets that are more valuable than their long-term debt, i.e., they have good liquidity.

To Err Is Human

Investing isn't akin to gambling, and Graham advises that we cultivate a good security net when entering new markets. There are a few ways to invest sensibly, and the first is to purchase undervalued stocks. The other key factor is diversity. Human error is bound to happen, so having a diverse portfolio of stocks is a wise option, and for the passive investor, Graham recommends balancing 50% stocks and 50% bonds. He also advises looking for high-dividend yields, and companies that have solid cash flow. The idea is to plan for the worst-case scenario and ensure that you're covered if a company goes bankrupt.

Whatever type of investor you are, having a "margin of safety" is imperative. A margin of safety is defined as purchasing stocks that are inexpensive in relation to their intrinsic value. So the idea is that you either have a little to lose, or a lot to gain. Even the most bruised and battered companies can have intrinsic value when you weigh up their assets against their liabilities.

Formulas and Principles

Although there's no perfect formula for success, Graham has provided a working model for calculating intrinsic value. It's by no means an exact science, and the original formula has been tweaked and critiqued. While the formula is only a guideline, it is nonetheless a valuable way to analyze intrinsic value as a sum of its parts. It looks at earnings per share, price-earnings ratio, growth rate, and yield.

One of our author's top tips is to Invest regularly. Follow the principle of

"dollar-cost averaging," which is when you allow for a fair price of stocks and bonds. It also means you aren't tempted by buying according to the market noise.

If you're an enterprising or active investor, the first rule is to abandon the myth that you can "beat the market." When it comes to being a savvy investor, just because you're putting in more time, doesn't mean you're going to be more successful. While taking time to research is essential, it's not just about putting in more time than your competitors.

That's not to say that putting in the time isn't important. Being a savvy investor is absolutely about putting in the time, but it's also about discipline, patience, and a thirst for knowledge and information.

When stock markets fluctuate, as they will always do, we need to keep calm and not fall into the trap of playing the market. While it may be tempting to "get in on the action," or sell when things get rocky, you have to trust your research and understanding of value. This takes a lot of patience and discipline. The advice is to keep asking yourself key questions about the businesses and companies that you've invested in, in order to monitor whether their value has increased or decreased.

One of the most critical lessons from the book is a simple one, but it's one that we often take for granted. We need to remember that profits are finite, and therefore prices should be finite too. So don't be tempted to look at future earnings, look at what a company is currently valued at. If you stick to this logic, and abandon all of the noise and hyperbole, you're a step closer to being an intelligent investor.

In Conclusion

The Intelligent Investor shows us how important it is to go through businesses and companies with a fine-tooth comb. Graham's precise and accurate analysis shows us how to make money without taking enormous risks. There's a misapprehension that trading and investing should be risky, and that you have to be over-confident and bolshy about how you invest, but Graham asserts that this isn't the case. Being an intelligent investor is about being calculated and informed, and insisting on having a margin of safety.

When it comes to investing, there's no quick fix, and the more research we do, the better. The advice is always to look for low-risk opportunities that will yield a high return. If you're a passive investor, be on the lookout for diversity, whereas active investors should hunt out value and lower prices in order to have a greater return on investment. The idea here is to look for "net-net" companies that are trading below their net capital.

However, keeping a cool head can be difficult when faced with so much market noise. Although it's difficult we need to learn to ignore the noise and the "buzz" around certain stocks. The market is very much seen in terms of binaries where it's either very optimistic or very pessimistic. This binary opposition should be a warning because, as we know, things are never black and white. Furthermore, while it may be tempting to opt for fashionable and "sexy" stocks, avoid this temptation unless the intrinsic value of these stocks follows the golden rule. Price and value are not the same things.

Remember that it's not about feeling or sentiment; it's about performance

evaluation. The intrinsic value of this book is that it's been followed by individuals who have genuinely benefitted from the advice. Buffett, for example, has always followed the principles of value investing, and margins of safety.

So while there's no such thing as "easy money," if you scrutinize performance, debt, profit margins, cash flow, and liquidity, you can invest in value. And value makes money.