Intelligent investor benjamin graham online

9Kas6HygC5071 - Read and download Benjamin Graham's book Intelligent Investor, Reverend Ed's PDF, EPub, Mobi, Kindle online. Free book Intelligent Investor, The Rev. Ed Benjamin Graham.The Intelligent Investor, The Rev. Edby Benjamin GrahamSynopsis: The Greatest Investment Advisor of the Twentieth Century, Benjamin Graham has taught and inspired people all over the world. Graham's philosophy of value investing, which protects investors from significant mistakes and teaches them to develop long-term strategies, has made Intelligent Investor a stock market bible since its initial publication in 1949.Over the years, market events have proven the wisdom of Graham's strategies. Keeping the integrity of Graham's original text, this revised edition includes an updated commentary by noted financial journalist Jason zweig, whose perspective includes the realities of the modern market, draws parallels between Graham's examples and today's financial headlines, and gives readers a deeper understanding of how to apply Graham's principles. Vital and irreplaceable, Intelligent Investor is the most important book you have ever read about how to achieve your financial goals. Benjamin Graham, the greatest investment consultant of the twentieth century, has taught and inspired people all over the world. Graham's philosophy of value investing, which protects investors from significant mistakes and teaches them to develop long-term strategies, has made Intelligent Investor a stock market bible since its initial publication in 1949.Over the years, market events have proven the wisdom of Graham's strategies. 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Technology companies like Investment Endnotes Confessions from Jason zweig's Index of Authors Credits Copyright About Publisher Text is reproduced here for the fourth revised edition, updated by Graham in 1971-1972 and originally published in 1973. The moderate chapter notes originally to Graham-bolded text in these notes by Jason zweig. Jason zweig's new notes in Graham's chapters are marked with an asterisk or a cross. Foreword to the fourth edition, Warren E. Buffett I read the first edition of this book in early 1950, when I was nineteen. I thought then that this was by far the best book about investing ever written. I still think that's the case. Successful investment throughout your life does not require stratospheric intelligence, unusual business ideas or inside information. We need a good intellectual basis for decision-making and the ability to prevent emotions from corrifying this framework. This book accurately and clearly prescribes the proper framework. You have to provide emotional discipline. If you follow the behavioral and business principles that Graham advocates, and if you pay special attention to priceless tips in chapters 8 and 20, you won't get a bad result from your investment. (It represents more accomplishments than you think.) If you achieve outstanding results will depend on the effort and intelligence you apply to your investments as well as on the amplitude of the stock market folly that prevail during your investment The stupider market is the the more opportunities for the business investor. Follow Graham and you'll profit from stupidity rather than participate in it. For me Ben Graham was much more than an author or a teacher. More than any other person except my father, he has influenced my life. Shortly after Ben's death in 1976, I wrote the next short memory of him in the Journal of Financial Analysts. As you read the book, I believe you will perceive some of the qualities that I mentioned in this tribute. Benjamin Graham 1894-1976 A few years ago Ben Graham, then almost eighty, expressed to a friend the idea that he hoped to do something stupid, something creative and something generous every day. The inclusion of this first whimsical purpose reflects his ability to package ideas in a form that has avoided any subtext of preaching or self-importance. Although his ideas were powerful, their delivery was invariably gentle. Readers of this magazine do not need to work out his achievements, as measured by the standard of creativity. Rarely does the founder of discipline consider his work overshadowed in a fairly short time successors. But more than forty years after the publication of a book that has led structure and logic to messy and confusing activities, it's hard to think of any possible candidates even in second place in security analysis. In an area where much looks silly in the weeks or months after publication, Ben's principles have remained valid - their value is often enhanced and better understood as a result of financial storms that have destroyed flimsier intellectual structures. His advice of sanity has brought unchanging rewards to his followers, even those with natural abilities inferior to the more gifted practitioners who stumbled, following the advice of brilliance or fashion. A remarkable aspect of Ben's dominance in his professional field was that he achieved it without this narrow mental activity that concentrates all efforts at one end. It was rather a random-by-product of intelligence, the width of which almost exceeded the definition. Of course, I've never met anyone wisely of a similar scale. Almost complete feedback, an endless fascination with new knowledge and the ability to remake it in a form applicable to seemingly unrelated problems, have made the impact of his thinking in any area of enjoyment. But his third imperative, generosity, was where he excelled above all others. I knew Ben as my teacher, my employer, and my friend. In every relationship, as with all his students, co-workers and friends, there was a completely open, non-evaluation-preserved generosity of ideas, time and spirit. If clarity of thought is required, there is no better place to do so. And if you needed support or advice, Ben was there. Walter Lippmann was talking about men planting trees under which other men would sit. Ben Graham was that kind of person. Reprinted from Financial Analysts, November/December 1976. about Benjamin Graham on by Who was Benjamin Graham, and why should you listen to him? Graham was not only one of the best investors who ever lived; he was also the greatest practical investment thinker of all time. Before Graham, money managers behaved in the same way as the medieval guild, guided mainly by superstitions, guesses and secret rituals. Graham's safety analysis was a textbook that turned this musty circle into a modern profession. 1 And Intelligent Investor is the first book ever to describe, for individual investors, the emotional framework and analytical tools that are essential to financial success. It remains the only best investment book ever written for the public. The Intellectual Investor was the first book I read when I joined Forbes magazine as a reporter for The Cubs in 1987, and I was struck by Graham's confidence that sooner or later all bull markets should end badly. In October of that year, American stocks suffered the worst one-day collapse in history, and I was recruited. (Today, after a wild bull market of the late 1990s and a brutal bear market that began in early 2000, the Intelligent Investor reads more prophetically than ever.) Graham came up with his ideas the hard way: feeling first-hand the suffering of financial losses and studying for decades the history and psychology of markets. Born 9 May 1894 in London; His father was a porcelain and figurine merchant.2 The family moved to New York when Ben was a year old. At first they lived a good life - with a maid, a cook and a French governess - on upper Fifth Avenue. But Ben's father died in 1903, the porcelain business faltered, and the family slid into poverty. Ben's mother turned their house into a boarding house; Then, borrowing money to trade shares on margins, it was destroyed in the collapse of 1907. For the rest of his life, Ben recalled the humiliation of cashing a check for his mother and heard a bank employee ask, Is Dorothy Grossbaum good for five dollars? Fortunately, Graham received a scholarship to Colombia, where his brilliance burst into full flower. He graduated in 1914, second in his class. Before the end of the last semester, Graham's three departments - English, philosophical and math - asked him to enter the faculty. He was only 20 years old. Instead of an academy, Graham decided to give Wall Street a shot. He started out as a clerk at a bond trading firm, soon became an analyst, then a partner, and soon began his own investment partnership. An internet boom and bust wouldn't surprise Graham. In April 1919, he earned 250% of his profit on the first day of trading for Savold Tire, a new offering in the booming automotive industry; By October, the company had been exposed as a fraud and the shares were worthless. Graham became a master at researching the reserves of microscopic, almost molecular parts. In 1925, plowing obscure filed by oil pipelines to the U.S. Interstate Trade Commission, he learned, learned Northern Pipe Line Co., which was trading at $65 per share at the time, held at least $80 per share in high-quality bonds. (He bought shares, pestered his managers in raising dividends, and walked away with $110 per share three years later.) Despite the excruciating loss of nearly 70% during the Great Catastrophe of 1929-1932, Graham survived and prospered after that, making deals with the wreckage of the bull market. There is no accurate record of Graham's earliest returns, but from 1936 until he retired in 1956, his Graham-Newman Corp. received at least 14.7% a year, compared to 12.2% for the stock market as a whole - one of the best long-term track record on Wall Street history.3 How does Graham do that? Combining his extraordinary intellectual abilities with deep common sense and vast experience, Graham has developed his basic principles, which are at least as relevant today as they were in his lifetime: promotions are not just a ticker symbol or an electronic splash; it is a share of ownership in a real business, with a base value that does not depend on the price of its shares. The market is a pendulum that forever oscillates between unsustainable optimism (which makes stocks too expensive) and unjustified pessimism (which makes them too cheap). An intelligent investor is a realist who sells to optimists and buys from pessimists. The future value of each investment is a function of its current price. The higher the price you pay, the lower your return will be. No matter how careful you are, one risk no investor can ever eliminate is the risk of being wrong. Just insisting on what Graham called a margin of safety- never overpaying, no matter how exciting the investment, it seems you can minimize your chances of making a mistake. The secret to your financial success is within you. If you become a critical thinker who doesn't accept Wall Street's fact about faith, and you invest with patient confidence, you can take advantage of the steady advantage of even the worst bear markets. By developing your discipline and courage, you can refuse to let other people's mood swings manage your financial destiny. After all, how your investments behave is much less important than how you behave. The purpose of this revised edition of Intelligent Investor is to apply Graham's ideas to today's financial markets, leaving his text completely intact (except for footnotes for clarification).[4] After each of Graham's chapters you will find a new comment. In these readerships, I have given recent examples that should show you how relevant and liberating Graham's principles remain today. I envy you the excitement and enlightenment of reading Graham's masterpiece for the first time, or even the third or fourth time. Like all classics, it changes our understanding of the world and renews us, teaching us. And what you read it, the better it gets. With Graham as your guide, you are guaranteed to become a much more intelligent investor. Introduction: What this book expects to achieve the goal this book should put, in a form suitable for lay people, guidance in the adoption and implementation of investment policy. Relatively little can be said here about the technique of securities analysis; focus will be on investment principles and investor relations. However, we will provide a number of condensed comparisons of specific securities, mainly in pairs appearing side by side on the New York Stock Exchange's list, in order to specifically bring home important elements involved in a particular choice of common stock. But much of our space will be devoted to historical models of financial markets, in some cases running back for decades. For a reasonable investment in securities it is necessary to have sufficient knowledge of how different types of bonds and shares actually behaved under different conditions, some of which at least one is likely to meet again in their own experience. No statement is more true and better applied to Wall Street than Santayana's famous warning: Those who don't remember the past are doomed to repeat it. Our text is aimed at investors as different from speculators, and our first task will be to clarify and emphasize this now all but forgotten differences. We can say from the beginning that this is not how to make a million books. There are no sure and easy paths to wealth on Wall Street or anywhere else. It may be good to point out that we just told a bit of a financial story, especially since there is more than one moral one can extract from it. In the climax of 1929, John J. Rascob, the most important figure nationally as well as on Wall Street, extolled the blessings of capitalism in an article in the Ladies' Home Journal entitled All Ought To Be Rich.His thesis is that savings of just $15 a month are invested in good common stock - with dividends reinvested -will produce property of $80,000 in twenty years versus a total contribution of only $3,600. If the General Motors tycoon was right, it was a really easy path to wealth. How right was he? Our approximate calculations, based on the estimated investment of 30 shares, which is the Dow Jones Industrial Average (DJIA), indicate that if Rascoba's recipe had followed during 1929-1948, the investor's stock would have been worth about $8,500 in early 1949. It's a far cry from the great man's promise of $80,000, and it shows how little can be relied upon for such optimistic forecasts and reassurances. But as an aside, we

should note that the return to actually realized the 20-year operation would have been better than the 8% compounded annually, and this is despite the fact that the investor would have started their purchases with DJIA at 300 and ended with an estimate based on the 1948 closing level of 177. This entry can be seen as a persuasive argument for the principle of regular monthly purchases of strong shares through thick and thin-program-thin-programs as an average dollar value. Since our book is not addressed to speculators, it is not intended for those who trade in the market. Most of these people are guided by charts or other largely mechanical means of determining the right moments to buy and sell. One principle that applies to almost all of these so-called technical approaches is that you have to buy because stocks or the market has grown and you have to sell because it's down. This is the exact opposite of common sense business worldwide, and it is unlikely that this could lead to lasting success on Wall Street. In our own stock market experience and observations stretching for more than 50 years, we have not known a single person who has consistently or firmly made money in this way after the market. We do not hesitate to state that this approach is as erroneous as it is popular. We illustrate what we just said, although of course this should not be seen as evidence - a later brief discussion of the Dow's famous theory for stock trading. When updating the current version we will have to deal with a number of new developments since the 1965 edition was written. These include: an unprecedented increase in the interest rate on high-quality bonds. The fall in the prices of leading common shares, which ended in May 1970, amounted to about 35%. That was the highest percentage decline in about 30 years. (Countless lower quality issues had a much larger shrinkage.) Steady inflation of wholesale and consumer prices, which gained momentum even in the conditions of the decline of the general business in 1970. The rapid development of conglomerate companies, franchising operations and other relative innovations in business and finance. (These include a number of complex devices such as postal stocks, 1 distribution of stock order options, misleading names, use of foreign banks, and others.) † the bankruptcy of our largest railroad, the excessive short-term and long-term debt of many previously entrenched companies, and even the alarming problem of solvency among Wall Street homes. These phenomena will be carefully considered, and some of them will require changes in conclusions and accents from our previous edition. The fundamental principles of investment should not change from decade to decade, but the application of these principles must be adapted to significant changes in financial mechanisms and climate. The last application was put to the test during the writing of this publication, the first draft of which was completed in January 1971. At that time DJIA was in a strong recovery from its 1970 low of 632 and was moving towards a 1971 high of 951, with accompanying general optimism. Since the last project was In November 1971 the market was in the throes of a new recession, bringing it up to 797 with a new general concern about its future. We have not allowed these fluctuations to affect our general attitude towards sound investment policy, which has remained virtually unchanged since the first publication of this book in 1949. The scale of the market decline in 1969-1970 should have dispelled the illusion that had been gaining momentum over the past two decades. It was that leading ordinary shares could be bought at any time and at any cost, with a guarantee not only of the final profit, but also that any interim losses would soon be repaid by resuming market promotion to new high levels. It was too good to be true. Finally, the stock market is back to normal, in the sense that both speculators and stock investors should again be ready to experience a significant and possibly protracted fall, as well as the rise in the value of their shares. In the area of many secondary and third lines of common stock, especially recently floated businesses, the chaos caused by the last break in the market was catastrophic. This is nothing new in itself - it happened to a similar extent in 1961-1962, but there is now a new element in the fact that some investment funds have large obligations on very speculative and clearly inflated issues of this kind. Obviously, it's not just tyros that should be warned that while enthusiasm may be needed for great achievements elsewhere, on Wall Street it almost always leads to disaster. The main issue we will have to deal with is the huge increase in the interest rate on first quality bonds. Since the end of 1967, the investor has been able to receive more than twice as much income from such bonds as he could from dividends on representative common shares. At the beginning of 1972, the yield on the highest-end bonds was 7.19% against just 2.76% for industrial shares. (This compares with 4.40% and 2.92% respectively at the end of 1964.) It is hard to understand that when we first wrote this book in 1949 the figures were almost exactly the opposite: bonds returned only 2.66%, and the shares gave 6.82%.2 In previous editions we consistently called for at least 25% of the conservative investor portfolio to be held in general shares, and we spoke in a whole 50-50 split between the two media. Now we must consider whether the current big advantage of bond yields over equity yields will justify all bond policy until a more reasonable relationship returns as we expect it to be. Naturally, the question of continued inflation will be of great importance for our decision here. In the past, we have made a major distinction between the two types of investors to whom this book was addressed - defensive and Defensive (or passive) investor will make his main focus on avoiding serious serious Or loss. Its second goal will be freedom from effort, irritation and the need to make frequent decisions. The defining feature of an enterprising (or active or aggressive) investor is his willingness to devote time and care to the choice of securities that are both sound and more attractive than average. For many decades, an enterprising investor of this kind could expect a decent reward for his additional skills and efforts, in the form of a better average profit than realized by a passive investor. We have some doubts that in today's conditions an active investor is promised a truly substantial additional compensation. But next year or after many years may well be different. We will therefore continue to pay attention to the possibilities of enterprising investments, as they existed in the previous periods and may return. It has long been believed that the art of successful investment lies primarily in selecting those industries that are likely to grow in the future, and then in identifying the most promising companies in these industries. For example, smart investors or their smart advisers would long ago recognize the great growth opportunities of the computer industry in general and international business machines in particular. Similarly for a number of other growth industries and growth companies. But it's not as easy as it always looks in retrospect. To bring this point home on the outset let's add here is a paragraph that we included first in this book's 1949 version. Such an investor may, for example, be a buyer of air travel stocks, because he believes that their future is even brighter than the trend that the market already reflects. For this class of investors, the value of our book will lie more in its warnings against the pitfalls lurking in this beloved investment approach than in any positive technique that will help it get in his way. Of course, it is easy to predict that the volume of air travel will grow over the years. Because of this factor, their shares have become a favorite choice of investment funds. But despite the increase in revenues - at a rate even more significant than in the computer industry - a combination of technological problems and over-expansion of capacity associated with fluctuations and even catastrophic profit margins. In 1970, despite a new high level of traffic, airlines suffered losses of about $200 million for their shareholders. (They also showed losses in 1945 and 1961.) Shares of these companies once again showed a greater decline in 1969-70 than in the general market. The record shows that even high-paying full-time mutual fund experts were completely wrong about the rather short-term future of the large and non-natural industry. On the other hand, while investment funds have had significant investments and significant its clearly high price and inability to be sure of their growth rates prevented them from having more than, say, 3% of their funds in this wonderful performer. Therefore, the impact of this excellent choice on their overall results has by no means been decisive. Also, many if not most of their investments in computer companies other than IBM seem to have been unprofitable. From these two common examples, we draw two morals to our readers: The obvious prospects for physical growth in business do not lead to obvious returns for investors. Experts do not have reliable ways of selecting and concentrating on the most promising companies in the most promising industries. The author had not followed this approach in his financial career as a fund manager, and he could not offer a specific lawyer or much encouragement to those who might wish to try it. What, then, will we strive to achieve in this book? Our main goal will be to guide the reader on areas of possible significant error and to develop policies with which he will be comfortable. Let's talk a little bit about investor psychology. Indeed, the main problem of the investor and even his worst enemy, most likely, will be himself. (The wines, the dear investor, are not in our stars, and not in our shares, but in ourselves....) This has proven more true in recent decades as it has become more necessary for conservative investors to acquire common stock and thus expose themselves, in all its nature, to the excitement and temptations of the stock market. Arguments, examples and exhortations, we hope to help our readers establish a proper mental and emotional attitude to their investment decisions. We saw far more money made and saved by ordinary people who were temperamentally well suited to the investment process than those who did not have this quality, even if they had extensive knowledge of finance, accounting and stock market knowledge. In addition, we hope to implant in the reader a tendency to measure or quantify. For 99 issues out of 100 we can say that at some price they are cheap enough to buy, and at some other price they will be so expensive that they need to be sold. The habit of being paid for what is offered is an invaluable feature of investment. In an article in a women's magazine many years ago we advised readers to buy their stock as they bought their products, not how they bought their perfume. The really horrific losses over the last few years (and in many similar cases before) have been realized in those common questions when the buyer forgot to ask how much? In June 1970 the question is how much? the magic figure of 9.40% - the yield received on new offers of high-quality government utility bonds - can be answered. It's now down to about 7.3%, but even this is a return ask us, why give any other answer? But there are other possible answers, and they need to be carefully considered. Considered. which, we repeat, that both we and our readers should be prepared in advance for perhaps very different conditions, say, 1973-1977. Therefore, we present in detail a positive program for investments in ordinary shares, some of which are within the competence of both investor classes and partly intended mainly for the enterprising group. Oddly enough, we will offer as one of our main requirements here that our readers limit themselves to selling issues not far above their material-asset value. Experience has taught us that while there are many good growth companies worth several times net assets, the buyer of such shares will be too dependent on the vagaries and fluctuations of the stock market. In contrast, an investor in stocks of, say, public utility companies around their net asset value can always consider themselves the owner of an interest in sound and expanding a business purchased at a rational price, no matter what the stock market might say otherwise. The end result of such a conservative policy is likely to work better than exciting adventures in glamorous and dangerous areas of expected growth. The art of investing has one characteristic that is not usually valued. Credit, if unimpressive, result can be achieved by a non-specialized investor with minimal effort and opportunities; but improving this easily achievable standard requires a lot of application and more than a trace of wisdom. If you are just trying to bring just a little extra knowledge and intelligence to bear on your investment program, instead of implementing a little better than normal results, you may well find that you have done worse. Since anyone simply buying and holding a representative list can be equal to the market average, it seems relatively easy to exceed averages; but actually the proportion of smart people who try this and not surprisingly great. Even most investment funds, with all their experienced staff, have not been as good over the years as the overall market. In alliance with the foregoing is a record of published stock market forecasts of brokerage houses, for there is strong evidence that their calculated forecasts were somewhat less reliable than a simple coin toss. When writing this book, we have tried to keep this basic investment trap in mind. The advantages of a simple portfolio policy - the purchase of high-quality bonds plus a diversified list of leading common shares, which any investor can hold with a little expert assistance - were emphasized. The adventure outside this safe and secure territory has been presented as fraught with complex difficulties, especially in the field of temperament. Before trying such a venture should feel confident in himself and his advisers, particularly about being a clear picture of the differences between investment and speculation, as well as between market price and base value. A decisive approach to investment, firmly based on the principle of safety margin, can bring beautiful rewards. However, the decision to try to obtain these rewards, rather than the guaranteed fruits of defensive investment, should not be taken without much self-examination. A final retrospective thought. When the young author entered Wall Street in June 1914, no one had any hint that the next half-century was in store. (The stock market doesn't even know that the world war was going to break out in two months, and close the New York Stock Exchange.) Now, in 1972, we find ourselves the richest and most powerful country on earth, but we face all sorts of serious problems and are more afraid than we are sure of the future. Nevertheless, if we limit our attention to the American investment experience, there is some consolation to be drawn from the last 57 years. In all their vicissitudes and sacrifices as earth-shaking as they were unforeseen, it remained true that the sound of investment principles produced generally good results. We must act on the basis that they will continue to do so. Note to the reader: This book is not aimed at the overall financial policy of savers and investors; it deals only with the portion of their funds that they are willing to place in market (or redeemable) securities, i.e. in bonds and stocks. Consequently, we do not discuss such important media as savings and time deposits, savings and credit association accounts, life insurance, annuities, and real estate mortgages or equity property. The reader should keep in mind that when he finds a word now, or equivalent, in a text, it refers to the end of 1971 or early 1972. Comment to Enter If you built locks in the air, your work should not be lost; that's where they should be. Now put the basics under them. -Henry David Thoreau, Walden Notice that Graham announces from the beginning that this book won't tell you how to beat the market. No true book can. Instead, this book will teach you three powerful lessons: how you can minimize the chances of suffering irreversible losses; How you can maximize the chances of achieving sustainable benefits; how you can control self-defeating behavior that deters most investors from reaching their full potential. Back in the boom years of the late 1990s, when technology stocks seemed to be doubling in value every day, the notion that you could lose almost all your money seemed absurd. But, by the end of 2002, many of the dot-com and telecom stocks had lost 95% of their value or more. Once you lose 95% of your money, you have to get 1900% just to get back to where you are 1 Taking a stupid risk can put you so deep in the hole that it is almost impossible to get out. That's why Graham constantly emphasizes the importance of avoiding losses, not just in chapters 6, 14 and 20, 20, in the streams of warning that it is woven throughout his text. But no matter how careful you are, the price of your investment will go down from time to time. While no one can eliminate this risk, Graham will show you how to manage it, and how to get your fears under control. Are you an intelligent investor? Now let's answer a vital question. What exactly does Graham mean under a reasonable investor? Back in the first edition of this book, Graham defines the term, and he makes it clear that this kind of intelligence has nothing to do with IR or SAT scores. It just means being patient, disciplined and wanting to learn; You should also be able to use your emotions and think for yourself. This kind of intelligence, Graham explains, is a trait more character than brain.2 There is evidence that high levels of intelligence and higher education are not enough to make an investor smart. In 1998, Long-Term Capital Management L.P., a hedge fund run by a battalion of mathematicians, computer scientists and two Nobel Prize-winning economists, lost more than $2 billion in a matter of weeks on a huge bet that the bond market would return to normal. But the bond market continued to become more and more abnormal, and LTCM took so much money that its collapse nearly overturned the global financial system. 3 And in the spring of 1720, Sir Isaac Newton owned shares in the South Sea Company, which is the hottest shareholder in England. Sensing that the market was getting out of control, the great physicist muttered that he could calculate the movements of celestial bodies, but not the madness of humans. Newton dumped his shares in the South Sea, pocketing a 100% profit totalling 7,000 pounds. But just a few months later, swept up in the wild enthusiasm of the market, Newton jumped back in at a much higher price, and lost 20,000 pounds (or more than $3 million in today's money). For the rest of his life, he forbade anyone to say the words South Sea in his presence. [4] Sir Isaac Newton was one of the smartest people who ever lived, as most of us would define intelligence. But, from Graham's point of view, Newton was far from a reasonable investor. By allowing the roar of the crowd to override his own judgment, the world's greatest scientist acted like a fool. In short, if you haven't been able to invest so far, it's not because you're stupid. This is because, like Sir Isaac Newton, you have not developed the emotional discipline that successful investing requires. In Chapter 8, Graham describes how to boost your intelligence by using your emotions and refusing to sink to a level of market irrationality. There you can master his lesson that being a smart investor is more of a character issue than a brain. Chronicle of the disaster Now let's take a moment to look at some of the major financial developments of the last few years: the worst market crash since the Great Depression, with American stocks 50.2% of their value, or $7.4 trillion - between March 2000 and October October Much deeper fall in share prices of the hottest companies of the 1990s, including AOL, Cisco, JDS Uniphase, Lucent and qualcomm, as well as the total destruction of hundreds of internet shares. Accusations of massive financial fraud at some of the largest and most respected corporations in America, including Enron, Tyco, and Xerox. Bankruptcies of once brilliant companies such as Conseco, Global Crossing and WorldCom. Allegations that accounting firms prepared books and even destroyed records to help their clients mislead the investment community. Accusations that top executives of leading companies have siphoned off hundreds of millions of dollars for their own personal gain. Proof that wall street security analysts praised the stock publicly but acknowledged privately that they were rubbish. The stock market, which, even after its blood loss, seems to be overvalued by historical measures, suggesting that many experts that stocks have not yet fallen. The relentless decline in interest rates, which left investors without an attractive alternative to equities. An investment environment bristling with the unpredictable threat of global terrorism and war in the Middle East. Much of this damage could have been (and was!) avoided by investors who learned and lived by Graham's principles. According to Graham, while enthusiasm may be needed for great achievements elsewhere, on Wall Street it almost always leads to disaster. Allowing themselves to get carried away - on online equities, on big stocks rising, on stocks in general - many people made the same stupid mistakes as Sir Isaac Newton. They allow the judgments of other investors to determine their own. They ignored Graham's warning that a really horrific loss always occurs after the buyer forgot to ask: How much? Most painfully, losing self-control only when they needed it most, these people proved Graham's assertion that the main problem of the investor and even his worst enemy is likely to be himself. Of course, not many of these people got particularly carried away by technology and internet promotions, Assuming that the high-tech advertising that this industry will keep outsting every second for years, if not forever: In mid-1999, earning 117.3% of profits in just the first five months of this year, Monument Internet Fund portfolio manager Alexander Cheng predicted that his fund would receive 50% per year over the next three to five years and an average annual average of 35% over the next 20 years.[5] As his Amerindo Technology Fund grew an incredible 248.9% in 1999, portfolio manager Alberto Vilar ridiculed anyone who dared to doubt that the Internet was an eternal money machine: If you're from this sector, you're not going to be efficient enough. You're in a horse and a stroller, and I'm in a Porsche. Don't you like tenfold growth opportunities? Then go with someone [6] in February year hedge fund manager James Kramer proclaimed that internet companies are the only ones worth owning Nwo. These victors of the new world, as he called them, are the only ones that go above consistently in good days and bad. Kramer even took a potshot at Graham: You have to throw away all the matrix and formulas and texts that existed before the Internet.... If we were to use what Graham and Dodd are teaching us, we wouldn't have a penny under management.[7] All these so-called experts ignored Graham's sober words of warning: Obvious prospects for physical growth in business do not lead to obvious returns for investors. While it seems easy to anticipate which industry will grow faster, that foresight has no real value if most other investors already expect the same. By the time everyone decides that the industry is obviously the best to invest in, the price of its stock has been betting so high that its future earnings have nowhere to go but down. At this point, at least no one has the audacity to try claiming that technology will continue to be the greatest growth industry in the world. But make sure you remember this: people who now claim that the next sure thing will be health care, or energy, or real estate, or gold, are no more likely to be right in the end than high tech hypesters turned out to be. Silver Lining If the price did not seem too high for stocks in the 1990s, in 2003 we reached a point where no price seems to be quite low. The pendulum swung, as Graham knew, he always did, from irrational exuberance to undue pessimism. In 2002, investors pulled $27 billion from mutual funds, and a study by the Securities Industry Association found that one in 10 investors cut shares by at least 25%. The same people who wanted to buy shares in the late 1990s when they were going in price and therefore becoming expensive-sold shares as they went down in price and, by definition, became cheaper. As Graham shows so brilliantly in Chapter 8, that's definitely backwards. The intelligent investor understands that stocks become riskier, not less, as their prices rise, and less risky, no more as their prices fall. The intelligent investor is afraid of the bull market, as it makes the shares more expensive to buy. Conversely (as long as you keep enough cash on hand to meet your spending needs), you should welcome a bear market, as it puts the stock back on sale. [8] So Take a Heart: Death of the Bull Market is not bad news everyone thinks it will be. Thanks to lower stock prices, it is now a much safer and crazier time to create wealth. Read on and let Graham show you how. Chapter 1 Investments Vs. Speculation: The results to be expected from an intelligent investor This chapter will outline the perspective that will be outlined in the rest of the book. In the we want to develop our concept of appropriate portfolio policy for an individual, non-professional investor from the very beginning. Investments vs. Speculation What Do We Mean by Investor? Current The term book will be used in contraindication to the speculator. Back in 1934, in our textbook Security Analysis1, we tried to pinpoint the difference between them: an investment operation is an operation that, with careful analysis, promises the safety of basic and adequate returns. Non-compliant operations are speculative. While we stubbornly clung to this definition for the next 38 years, it is worth noting the radical changes that occurred in the use of the term investor during this period. After the big market crash of 1929-1932, all ordinary shares were widely regarded as speculative in nature. (The lead body flatly stated that only bonds could be bought for investment.2) So we had to then protect our definition from the charge that it gave too much scope for the concept of investment. Now our concern has the opposite look. We need to prevent our readers from adopting the common jargon that applies the term investor to each and every one in the stock market. In our last edition, we quoted the following headline on the front page of our leading financial magazine in June 1962: SMALL INVESTORS BEARISH, THEY ARE SELLING ODD-LOTS SHORT In October 1970 in the same magazine there was an editorial critique of what he called reckless investors who this time rushed on the buying side. These quotes well illustrate the confusion that has been dominating for years in the use of the words of investment and speculation. Think of our proposed definition of the investment given above and compare it to the sale of several shares to an inexperienced member of the public who does not even own what he sells, and has some largely emotional belief that he will be able to buy them back at a much lower price. (It doesn't matter to note that when the 1962 article appeared on the market had already experienced a decline in large sizes, and was now preparing for an even bigger upturn. More generally, later phrases by reckless investors can be seen as a ludicrous contradiction in terms - something like spending money mise-en-scene - if this abuse of language is not so mischievous. The newspaper used the word investor in these cases because, in the simple language of Wall Street, everyone who buys or sells security has become an investor, no matter what he buys, or for what purpose, or at what price, or for cash or margin. Compare this with the public's attitude to ordinary shares in 1948, when more than 90% of those surveyed spoke out in contrast to buying ordinary shares.3 About half gave as a reason unsafe, gambling, and about half, a reason not familiar with. the most attractive foundation, and soon to begin their greatest promotion in history; conversely, the mere fact that they have advanced to what is undoubtedly dangerous levels, as judged by past experience later turned them into investments, and the entire stock buying public into investors. The distinction between investment and speculation in ordinary stocks has always been useful, and its disappearance is a cause for concern. We have often said that Wall Street as an institution would be well advised to re-establish this distinction and emphasize it in all its dealings with the public. Otherwise, stock exchanges may someday be blamed for heavy speculative losses that those affected by them have not been properly warned against. Ironically, once again, much of the recent financial embarrassment some exchange-traded firms seem to have come from incorporating speculative common stock into their own capital funds. We hope that the reader of this book will get a fairly clear idea of the risks inherent in the liabilities of the general fund - risks that are inseparable from the profit opportunities they offer, and both of which should be allowed in the calculations of the investor. What we just said indicates that there can no longer be such a thing as a Simon-net investment policy consisting of representative common shares - in the sense that you can always wait to buy them at a price that does not involve any market risk or quote losses large enough to be bothered. In most periods, the investor must recognize the presence of a speculative factor in their ordinary reserves. Its task is to keep this component to a minor extent and to be prepared financially and psychologically for adverse outcomes that may be short or long. Two paragraphs should be added on stock speculation per se, which is different from the speculative component currently in common with most representative common stocks. Outspoken speculation is neither illegal, immoral, nor (for most people) fattening in a wallet. Moreover, some speculation is necessary and inevitable, because in many situations with an ordinary action there are significant opportunities for both profit and loss, and the risks in this must be accepted by someone. But there are many ways in which speculation can be unreasonable. Of these in the first place are: (1) speculation when you think you are investing; (2) Speculation is serious, not as a pastime when you lack the proper knowledge and skills for it; and (3) risking more money in speculation than you can afford to lose. In our conservative opinion, every layman who works on a margin † must admit that he has ipso facto speculation and it is his broker's duty to advise him. And everyone who so-called hot ordinary issue of shares, or makes the purchase in any way similar to this, either speculates or gambles. Speculation is always fascinating, and that's it Be a lot of fun while you're ahead of the game. If you want to try your luck, set aside some - the less, the better - of your capital into a separate fund for this purpose. Never add more money to this account just because the market has grown and profits are rolling in (it's time to think about taking money out of your speculative fund.) Never mix your speculative and investment transactions on one account, nor in any part of your thinking. The results to be expected from the defensive investor we have already identified as a defensive investor as one interested mainly in security plus freedom from bother. In general, what course should it follow and what impact can it expect under normal conditions, if such conditions do exist? To answer these questions, we will first consider what we wrote on this issue seven years ago, further, what significant changes have occurred since then in the underlying factors regulating the expected yield of the investor, and finally what he should do and what he should expect in the current (early 1972) terms. 1. What we said six years ago, we recommended that the investor divide their holdings between high-quality bonds and leading common stock; that the share, which has at least 25% or more of 75% in bonds, is necessarily true for the common stock component; that its easiest choice would be to maintain a 50-50 share between them, with adjustments to restore equality when market development has broken it as much as, say, 5%. As an alternative policy, he can reduce his common stock component to 25% if he believes the market was dangerously high, and vice versa, to push it to a maximum of 75% if he believes that lower stock prices makes them all the more attractive. In 1965, the investor could receive about 41/2% on high-quality taxable bonds and 31/4% on good tax-free bonds. The dividend yield on leading common shares (from DJIA to 892) was only about 3.2%. This fact, like others, offered caution. We implied that at normal market levels, the investor should be able to receive an initial dividend yield of 31/2% to 41/2% of their stock purchases, to which a sustained increase in the underlying value (and at the normal market price) of the representative stock list should be approximately the same amount, which gives a dividend yield and a combined increase of about 71/2% per year. A half-and-half separation between bonds and shares would yield about 6% before income tax. We added that the share component should have a fair degree of protection against loss of purchasing power caused by large-scale inflation. It should be noted that the aforementioned arithmetic indicates a much lower rate of promotion in the stock market than was realized between 1949 and 1964. This on average is much better than 10% for listed shares as a whole, and this is generally seen as a kind of guarantee that satisfactory results could be expected in the future. Few were willing to seriously consider the possibility that the high rate of promotion in the past meant that stock prices are now too high, and therefore that remarkable results from 1949 would mean not very good but bad results for the future. [4] 2. What has happened since 1964 has been an increase in first-class bond interest rates to record highs, although there has since been a significant recovery from the lowest prices of 1970. Profits on good corporate issues are now about 71/2% and even more against 41/2% in 1964. At the same time, the dividend yield of djIA-type shares had fair progress during the fall of the market of 1969-70, but as we write (with the Dow at 900) it is less than 3.5% against 3.2% at the end of 1964. Changes in interest rates gave the maximum reduction of the market price of medium-term (say, 20-year) bonds during this period by about 38%. These events have a paradoxical dimension. In 1964, we discussed in detail the possibility that the share price might be too high and ultimately subject to a serious decline; but we do not take into account specifically the possibility that the same thing could happen with the price of high-quality bonds. (Neither anyone else that we know.) We warned (on page 90) that long-term bonds could vary greatly in price in response to interest rate changes. In light of what has happened since then, we believe that this warning, in the case of some of this, has not been sufficiently stressed. The fact is that if the investor had a DJIA amount at a closing price of 874 in 1964, he would have had a small profit at the end of 1971; even at its lowest level (631) in 1970, its said loss would have been less than a good long-term bond. On the other hand, if he had limited his investment in U.S.-type U.S. savings bonds, short-term corporate issues or savings accounts, he would not have lost the market value of his principal during that period and would have had a higher yield than good stocks. Thus, it turned out that the true cash equivalents turned out to be better investments in 1964 than ordinary stocks, despite the experience of inflation, which theoretically should have favored stocks rather than cash. The decline in the quoted principal value of good long-term bonds was due to changes in the money market, an abmal area that usually has no significant bearing on individual investment policies. There were a few exceptions to that rule, and the post-1964 period was one of them. We are there is something to be said about the change in bond prices in a later chapter. 3. Expectations and policies in late 1971 and early 1972, by the end of 1971, 8 per cent of taxable interest on good medium-term corporate bonds and 5.7 per cent of tax-free good public or municipal securities could be obtained. In the short term, the investor can implement about 6% of the U.S. government's issues, which should be submitted within five years. In the latter case, the buyer does not need to worry about a possible loss of market value, as he is confident of full repayment, including a return of 6% interest, at the end of a relatively short period of holding time. DJIA at its recurrent price level of 900 in 1971 yields only 3.5%. Let's assume that now, as in the past, the main policy decision to be made is how to divide the fund between high-quality bonds (or other so-called cash equivalents) and leading shares like DJIA. What rate should the investor follow in the current conditions if we have no good reason to predict either a significant upward or significant downward movement for some time in the future? First, if there are no major adverse changes, the defense investor should be able to count on the current dividend yield of 3.5% of its shares, as well as the average annual increase of about 4%. As we will explain later, this estimate is based mainly on the reinvestment by various companies of the corresponding amount annually from undistributed profits. On a pre-tax basis, the total yield of its shares then averages, say, 7 [5].5%, slightly less than its interest on high-grade bonds. These expectations are far less favorable for stocks against bonds than they were in our 1964 analysis. (This conclusion inevitably stems from the basic fact that bond yields have risen much more than share yields since 1964.) We should never lose sight of the fact that interest and principal payouts on good bonds are much better protected and therefore more confident than dividends and rising stock prices. We are therefore forced to conclude that, by the end of 1971, investment in bonds seems to be clearly preferable to investment in equities. If we could be sure that this conclusion is correct, we would have to advise the defensive investor to put all his money into bonds and none in the common stock until the current yield ratio is significantly changing in favor of the shares. But of course we can't be sure that bonds will perform better than stocks from today's levels. The reader will immediately think of the inflation factor as a powerful reason on the other hand. In the next chapter we will argue that our considerable experience with inflation in the United States during this century will not support stocks vs. bonds are now the differences in yield. But there is the possibility - although we consider it remote - to accelerate inflation, which in one way or another would be preferable to equities, preferable to bonds paid in fixed amount of dollars. Finally, there is a more familiar possibility that we will see another large speculative growth in the stock market without a real justification for the underlying values. Any of these reasons, and perhaps others we haven't thought about, could lead to an investor regretting 100% bond concentration even at their more favorable yield level. So, after this foreshortened discussion of the main considerations, we we the intelligent investor by benjamin graham online. the intelligent investor by benjamin graham buy online

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