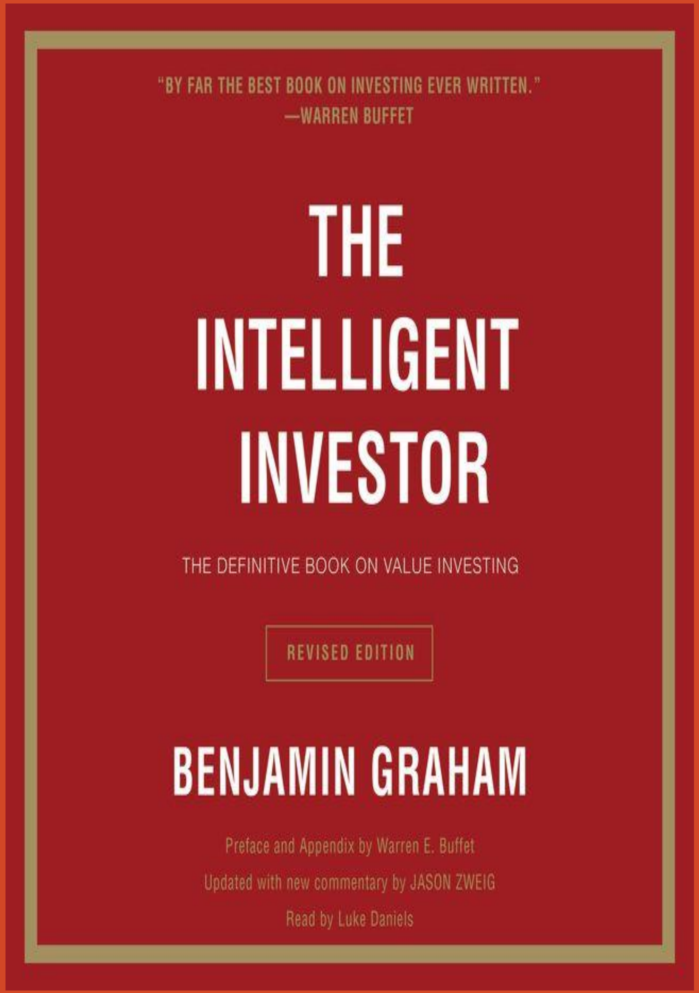


منتدى الثلاثاء الثقافي

مراجعة كتاب

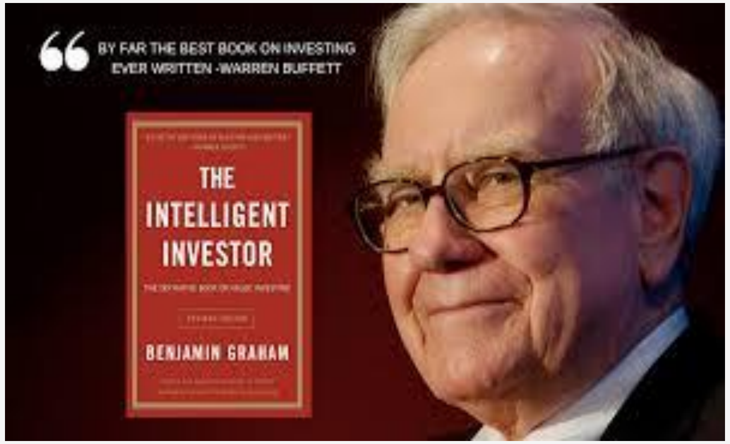
The Intelligent Investor

by

Benjamin Graham

The Practical Approach to Successful Investing

Contents



Warren Buffett describes The Intelligent Investor (1949) as "the best book about investing ever written”.

Benjamin Graham

- 1894 – 1976 British-born American Economist
- “Father of Value Investing"“
- Graduating from Columbia University at age 20
- Started his career on Wall Street, eventually founding the Graham-Newman Partnership
- After employing his former student Warren Buffett, he took up teaching positions, and later at UCLA Anderson School of Management at the University of California, Los Angeles.
- His investment philosophy stressed investor psychology, minimal debt, buy-and-hold investing, fundamental analysis, concentrated diversification, buying within the margin of safety.

Books:

- Security Analysis (1934) with David Dodd
- The Intelligent Investor (1949)

Investment at Retirement

Why we invest?

You are fighting rising prices when you are planning to retire. Put differently, if you do not invest your cash to outpace rising prices, it won't be worth as much in the time to come.

1.The more years there are between now and your retirement, the more years your cash must develop.
2. The older you are once you begin, the more risk contrary you will have to be.
3. The sooner you set about learning about investing, the simpler it will be to pick it up.

Successful investing does not require stratospheric IQ, insider information, or luck for that matter. Instead, what's needed is a sound intellectual framework for making decisions, combined with an ability to keep emotions form ruining it.

Definitions #1

Bonds are a fixed income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental). A bond could be thought of as a document that acknowledges a debt owed between the lender and borrower that includes the details of the loan and its payments. Bonds are used by companies, municipalities, states, and sovereign governments to finance projects and operations.

Stocks are A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets an earnings. Common Stock (usually entitles the owner to vote at shareholders' meetings and to receive dividends). Preferred (generally does not have voting rights but has a higher claim on assets and earnings than the common shares).**Stock is not just a ticket symbol combined with a price tag, it's an ownership in a business.**

Dividends. Distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders.

Growth Stock: A stock that experiences a continued period of growth exceeding that of the economy. Generally, the duration is over a year in length.

Income Stock: A stock that has a high, consistent, dividend paid annually.

Definitions #2

The Bull market is when everything in the economy is great, people are finding jobs, gross domestic product (GDP) is growing, and stocks are rising.

Bear Markets characterize the attitude of investors who believes that a particular security or market is headed downward.

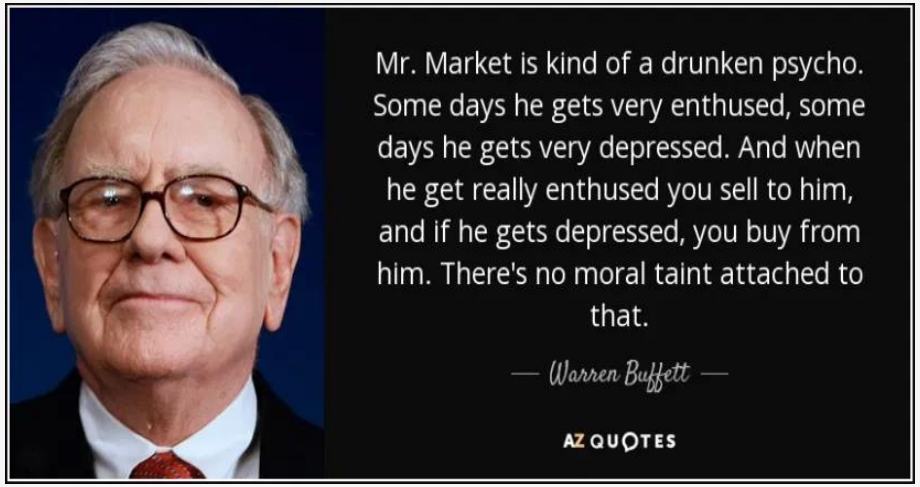
Indexes S&P 500 (Standard & Poor's Composite Index) is a stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the United States. It is one of the most followed equity indices.

Dow Jones Industrial Average (DJIA) is a stock market index that tracks 30 large, publicly-owned blue-chip companies trading on the New York Stock Exchange and the NASDAQ. The Dow Jones is named after Charles Dow, who created the index in 1896 along with his business partner Edward Jones.

Mr. Market

Mr. Market appears daily and names a price at which he will either buy your house (interest) or sell you his. Even though the business that the two of you own may have economic characteristics that are stable, Mr. Market’s quotations will be anything but stable. He is a very salesman who does not really knows what the goods are worth.

For, it is sad to say, Mr. Market is a fellow who has incurable emotional problems. At times he falls euphoric and can see only the favorable factors effecting the business. When in that mood, he names a very high buy-sell price because he fears that you will snap up his interest and rob him of imminent gains. At other times he is depressed and can see nothing but trouble ahead for both the business and the world. On these occasions he will name a very low price, since he is terrified that you will unload your interest on him.



Making Investment Portfolio

The portfolio should be a representation of your risk tolerance:

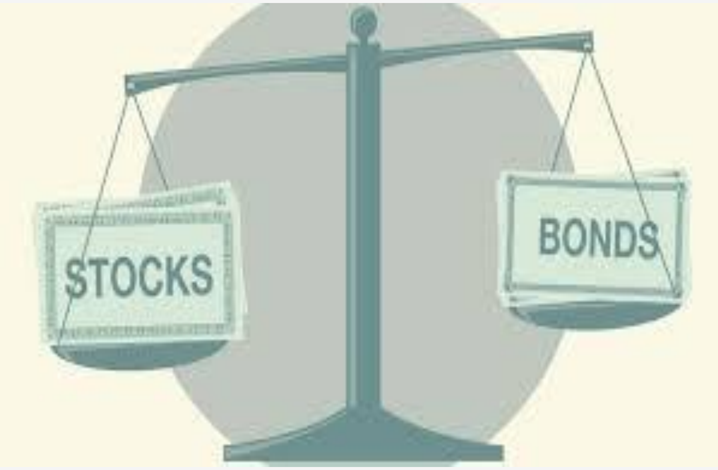
Are you young or old? Is there is people depending on you? Can you wait for 10 years to if a recession hits stocks when you're close to retirement?

Graham recommendation for portfolios:

- Keep the maximum split between bonds and stocks at 75/25
- More weighted in stocks if you're able to have a higher tolerance for risk.
- Start shifting to a higher weight in bonds as time goes on in your life.

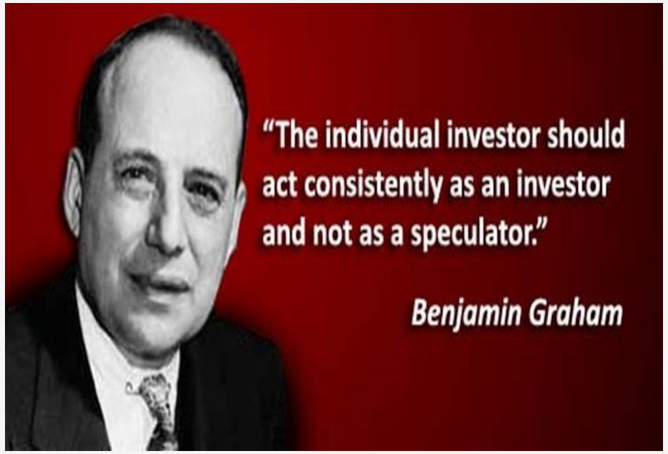
Reasons for the split:

- like to invest when things looks good
- People are scared when things looks bad
- The split will keep asset allocation out of this



Lesson #1: Investing > Speculation

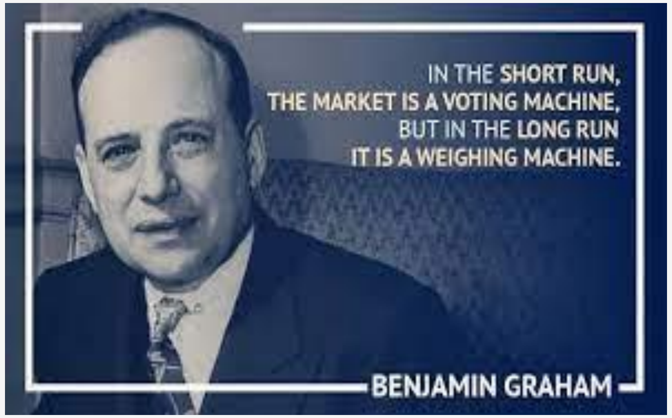
•**Investment:** "an operation which, upon thorough analysis promises the safety of principal and an adequate return."



•**Speculation:** "anything which does not meet the criteria for an investment operation."

What does this mean for modern-day investors? Simple: investors do their homework on each stock they are considering deploying capital into. So, to ensure that their entry point provides solid value and an adequate return.

Speculators, on the other hand, invest because everyone else is investing, or invest because they think that the stock is going to go up to a certain level. Speculators do not focus so much on value as they do on growth; they would rather see monstrous returns than solid and safe gains.



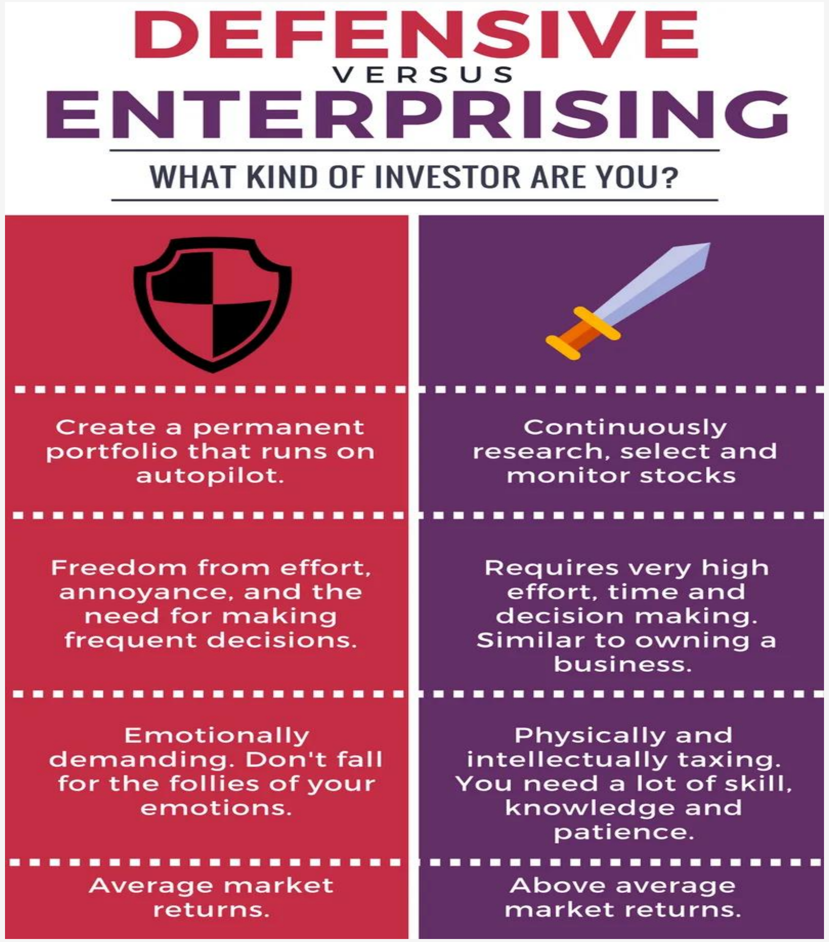
The Intelligent Investor is to know whether or not the strategy is an investment operation, speculation, or a combination of the two.

Lesson #2: Are You an Active/Enterprising or Passive/Defensive Investor?

Enterprising/Aggressive/Active Investors: This type of investor is willing to put in extra, active work into identifying stocks that are ripe for investment. They are more likely to trade in the market on future earnings potential and general market trends. Here the intelligent enterprising investor has two main goals for success:

- To engage in strategies that are sound and promising.
- Deploy capital into industries and stocks that are not popular on Wall Street.

The above points seem self-evident enough, though they are challenging in actuality. Active investors are not only charged with finding financially sound investment opportunities with good growth outcomes, but they need to identify industries and companies that are not popular on Wall Street.



Lesson #3: The Intelligent Investor Views Stocks as Ownership

Warren Buffet often says:

"Buy your stocks as if the market will shut down tomorrow with no set date for reopening."

In other words, so long as we're buying in at great price points, the best strategy for investors is to buy and hold for the long-term.

Instead of trying to time the market by predicting trends, we own the stocks as mini-owners that share in the gains and progress the company makes moving forward.

Lesson #4: The Value of an Investment is in the Price You Pay

Graham is adamant about the idea that while stocks can be bought for any price, that doesn’t mean an investor is always obtaining a good value for doing so.

Stocks are no different. The challenging part for most investors is understanding when stocks are expensive vs. when they are cheap.

To develop these metrics and analysis process can take many years to hone and develop, but the principle holds the same; stocks can be overvalued from time-to-time, and it takes a solid investment process to understand when one is paying too much for a holding.

Stock Intrinsic value is 50% of the stock value. The high-quality buying time is when the stock is below 66% of the stock value for larger safety of investment.

Lesson #5: Markets Will Fluctuate (aka Mr. Market)

Nothing is truer. It was Benjamin Graham who made up the character, “Mr. Market” to describe the erratic and often wild market swings that are presented in the everyday markets.

One day a stock will be up, the next day it will be down, sometimes based on very little rationale at all.

The most important thing for intelligent investors is to realize that these fluctuations will occur. So long as the investor is buying in companies at solid price points, these day-to-day fluctuations can largely be ignored in favor of longer-term trends.

In fact, the beautiful part about a dividend investing strategy. By focusing on buying great companies at great prices and reinvesting the dividends received in accumulating more shares, investors can largely ignore day-to-day and year-to-year market fluctuations.

The investor’s main focus becomes continuing to buy solid companies and at solid prices and monitoring current positions for a material decrease in valuation.

Lesson #6: You Cannot Time the Market, but You Can Buy Values

Investors cannot know when the overall market will go up or when it will go down, as it is often based on events outside of the investor's control.

Someone looking to time the market attempts to deploy capital in anticipation of the market going up and down. The hope is that they are investing at the right point to take advantage of certain facets of the current market conditions. This is sometimes referred to as momentum trading.

If one wants to take the position to buy-in or short-sell a stock anticipating market movement, they are more than free to do so. But they should understand they are speculating and know the risks of doing so before investing.

Lesson #7: Past Performance is Not Indicative of Future Gains

If the equity markets become to overvalues, he argues, then it is time for the investor to sell assets and deploy into bonds.

When the markets become ‘right-sided’ and equities become well-valued again, it is then time to sell bonds and buy equities.

In either case, he makes the ultimate point that, even though stocks have performed well over the long-haul, it is not a sure-fire indicator that they will continue to do so.

Lesson #8: Margin of Safety

- If you drive a 5000 KG car you do not went to cross a bridge designed for 5000 KG.
- Graham hates losing money because he is a great investor.
- When buying stocks, it’s good to have a margin of safety on both ends:
  - ✓ Accounting margins foe safety. Do the company have cushion if earning drops for whatever reason.
  - ✓ Investing margin of safety. Shoot for low risk and high return.
- The secret to your financial success is inside yourself. If you become a critical thinker who takes no Wall Street “fact” on faith, and you invest with patient confidence, you can take steady advantage of even the worst bear markets. By developing your discipline and courage, you can refuse to let other people’s mood swings govern your financial destiny. In the end, how your investments behave is much less important than how you behave

Investment Trending – Timing and Pricing

1- Timing of the Market: Even the expert can’t define the market trend weather it will be bull or bear market.

2- Pricing the market

When you buy a car the list criteria you look for safety, MPG, extra features and space

Price should be 50 – 67 for margins of safety.

Graham’s Fundamental Investment Rules – Quantitative

•**Adequate Size of the Enterprise** - Our idea is to exclude small companies which may be subject to more than average vicissitudes, especially in the industrial field. (There are often good possibilities in such enterprises, but we do not consider them suited to the needs of the defensive investor.) Let us use round amounts: not less than $100 million (1B inflation-adjusted) of annual sales for an industrial company and, not less than $50 million of total assets for a public utility.

•**A Sufficiently Strong Financial Condition** - For industrial companies, current assets should be at least twice current liabilities—a so-called two-to-one current ratio. Also, long-term debt should not exceed the net current assets (or “working capital”). For public utilities the debt should not exceed twice the stock equity (at book value).

•**Earnings Stability** - Some earnings for the common stock in each of the past ten years.

•**Dividend Record** - Uninterrupted payments for at least the past 20 years.

•**Earnings Growth** - A minimum increase of at least one-third in per-share earnings in the past ten years using three-year averages at the beginning and end.

Graham's Fundamental Investment Rules – Defensive vs Enterprise

1. **Diversity of stock** : select 10 – 30 stocks. Using Index or ETF fund is good for diversification for specific industry,.

2. **Adequate Size**: 100M in 1949 . Now not least 1B now in a year.

3. **Sufficient Strong Financial Condition**: Current Ratio= Current Assets / Current Liabilities should be not less than 2.

4. **Earnings Stability** (10 years without Issue)

5. **Dividend Record**: Paid dividends for at least 20 years.

6. **Earnings Growth** with at least 3% growth yearly

7. **Moderate Price/Earnings Ratio**: Cheap P/E ratio should be below 15.

8. **Moderate Ratio of Price to Assets**: Market Cap < [Asset – Liabilities] * 1.5

Enterprise

(some)

(No limiting Size)

1.5

5 years

(currently Paying)

0.0

(You decide what is cheep)

*2

Investment Funds

Three questions to ask yourself.

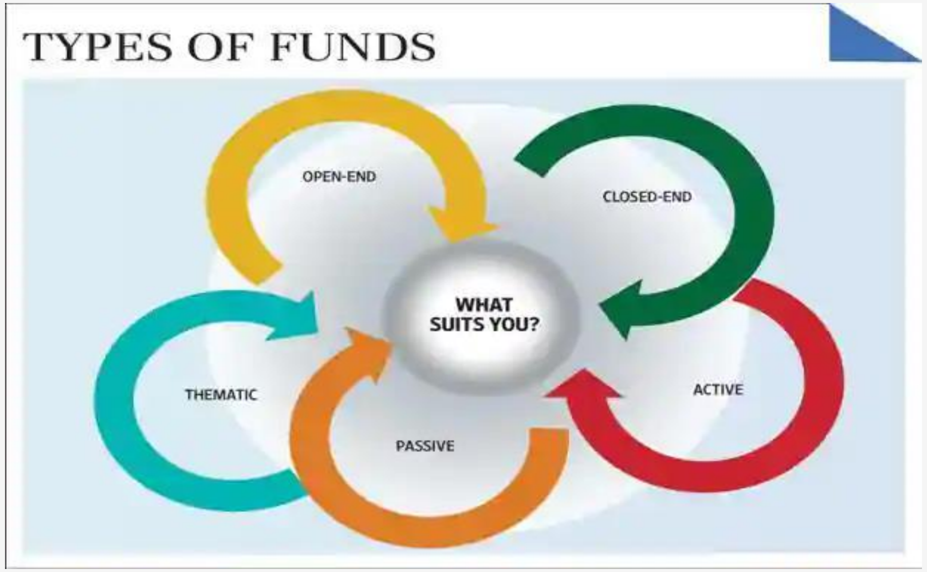
1) Do you have a reasonable confidence that you can outperform the market by yourself? If yes investment funds are not for you.
2) If answer is no, then how you avoid funds that do worse than the market.
3) Can you make intelligent choice between all the different type of funds available to you?

Choices:

- Closed funds or open funds
- Passive or active funds
- Broad or narrow funds.

Options:

- Mutual funds
- Hedge Funds
- Index funds
- Exchange Traded Funds (ETF)



Investment Funds #2

Mutual Funds: A mutual fund is a type of financial vehicle made up of a pool of money collected from many investors to invest in securities like stocks, bonds, money market instruments, and other assets. Mutual funds are operated by professional money managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus. Individuals invest in mutual funds for four fundamental reasons: professional management, diversification, convenience, and marketability.

Advantages:

- Most attractive when capital markets are remarkably volatile.
- Professional Management.
- Diversification: Dispersing the risk Convenience Marketability.

Disadvantage:

- COST: pay money when they lose your money. Large percentage taken when doing well.
- Not all managers are highly skilled with multiple years of experience.

Investment Funds #3

Hedge funds are alternative investments using pooled funds that employ different strategies to earn active returns, or alpha, for their investors.

Advantages:

- Potentially Incredible returns
- hands-off-investing with disadvantages of gigantic fees.

Disadvantages:

- Gigantic fees (experts who are making a lot of risky moves)
- Open only to select few wealthy people that can handle risk of loosing large sum of money.
- Not liquid that requires you to hold money for at least a year.

One aspect that has set the hedge fund industry apart is the fact that hedge funds face less regulation than mutual funds and other investment vehicles.

Investment Funds #4

Index funds is a type of mutual fund with a portfolio constructed to match or track the components of a financial market index, such as the S&P 500. These funds follow their benchmark index regardless of the state of the markets. Index funds are generally considered ideal core portfolio holdings for retirement accounts, such as individual retirement accounts (RRSP).

Advantages: Provide broad market exposure. Low operating expenses, and low portfolio turnover.

Disadvantages: No possibility to beat the market. You are investing in the whole market.

ETF Exchange Traded Funds An asset that tracks a particular set of equities, similar to an index. It trades just as a normal stock would on an exchange, but unlike a mutual fund, prices adjust throughout the day rather than at market close. These ETFs can track stocks in a single industry, such as energy, or an entire index of equities like the S&P 500.

Advantages: Can be actively traded on the market with typically low fees and diversification in an industry.

Disadvantage: Some can be heavily leveraged like those in hot industries. You are buying big losers as well big winners.

شكرا لكم على حسن الاستماع

Warren Buffets Rules of Investing

Rule 1 Don't Lose Money
Rule 2 Don't Forget Rule 1
(Margin of Safety – Chapter 20)

Risk and reward are not necessarily corelated.