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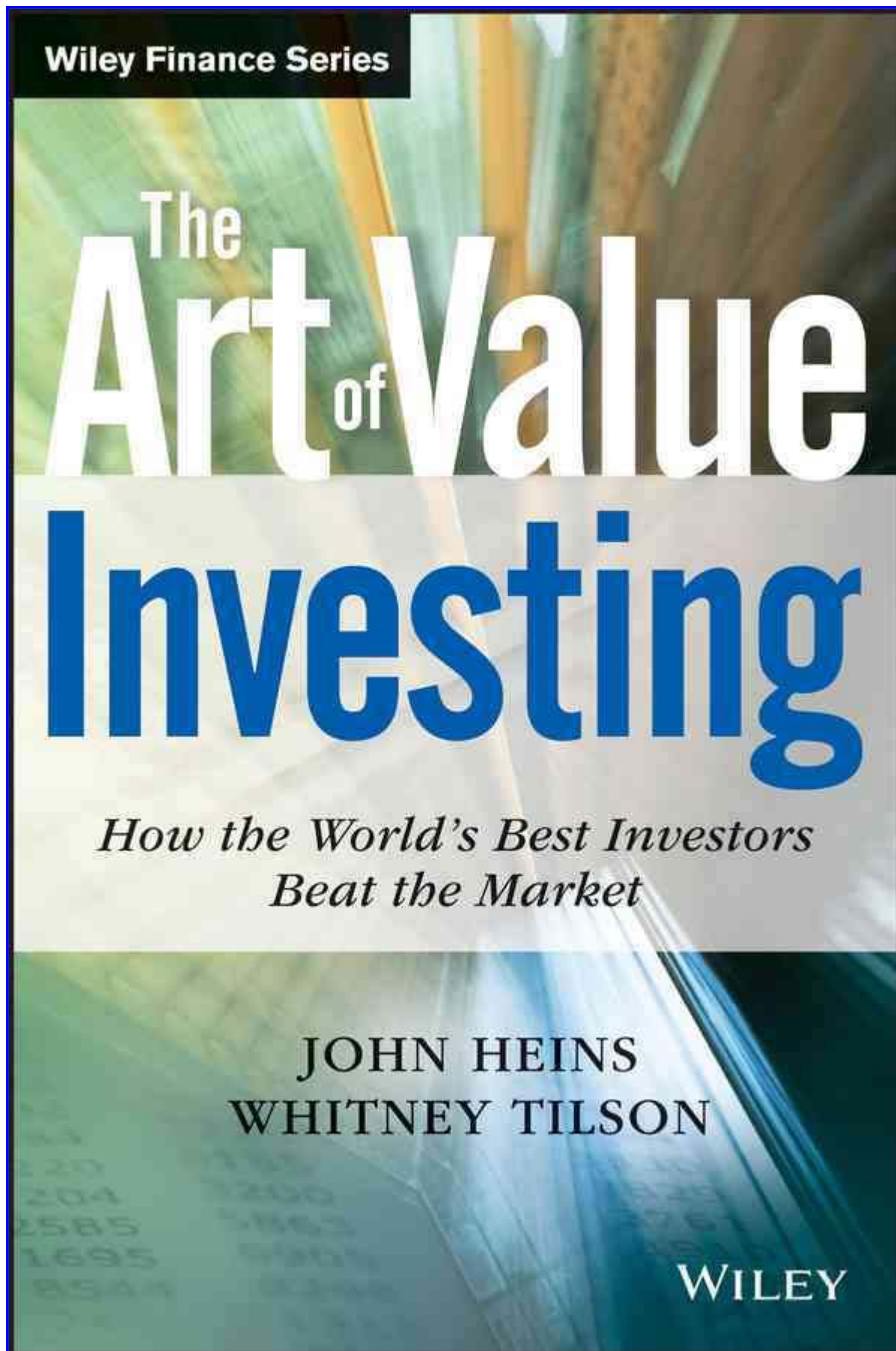
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Book Review: The Art of Value Investing



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Note to readers: I plan on doing a series of book reviews over the next few weeks. I may do more than a dozen. I hope you enjoy them.

I am a value investor. That's what I do for a living, and I do it well. One month ago, I wrote a piece called "[Value Investing Flavors](#)." In it, I took a broad view of value investing, because there are

many common principles to value investing employed by all, but many variations on implementation. [Note to those reading at Amazon; they don't me post links, but if you Google "Aleph Art of Value Investing" you will find it.

The Art of Value Investing takes a similarly broad view, quoting well over 100 value investors (I lost count) on topics where professional value investors agree & disagree. The authors have interviewed the grand majority of those cited, and have useful historical quotes from well-known figures familiar with the subject. Better known and more accomplished value investors tend to get more play in the book — I think the authors chose well.

The book is organized by topic. It covers these questions:

The importance of a margin of safety

Buy high margin quality businesses, or cheap low margin businesses?

What attention should be paid to growth opportunities? (Controversial)

What is your circle of competence? (I.e. what opportunities do you rule out because you don't get how to value them?)

How small of a company would you consider buying?

How much do you incorporate top-down macroeconomic considerations?

What countries would you not consider buying a company within?

The advantage of being able to buy and hold for years.

How careful research often conquers uncertainty.

Do you buy turnarounds or not? (Controversial)

How do you generate good buy ideas?

How do you create a firm that ignores the conventional perspective, and generates correct ideas that few know?

How do you analyze what could go wrong with a company?

Do you look for catalysts to unlock value or not? (Controversial)

Do you analyze value through one framework or many? Cheap going concern or transformation of underused assets? Both?

Do you manage for absolute value or relative value? I.e., what is the value of safe assets, or even gold?

When do you establish an position? How do you size it?

How diversified do you want to be? How do you weight positions?

How much do you care about stocks being correlated within the portfolio?

How long are you willing to wait to see if an idea works? When do you admit that you are wrong?

Are you willing to advise management? Are you willing to fight management? When does it make sense?

Do you short bad stocks or not?

When do you sell? Do you do it never, gradually or rapidly?

How do you maintain a sound mind and humility amid all of the clamor of the markets?

How do you admit mistakes, so as to avoid them in the future, and show humility to your clients?

If you want to understand the nuances of how a firm doing value investing works, I can't think of a better book, because this book implicitly goes over all of the choices that a value investor has to make. What factors will I focus on, and what will I ignore? How detailed will my analysis be? How much will I diversify? How will I make choices among so many stocks vying for my attention amid all of the news noise?

I have strong views on value investing myself, but I questioned my own ideas as I read the replies of those more successful than me.

Quibbles

Initially, as I read the book, I wondered if a better book could be made by organizing by each firm, rather than topic. By the end of the book, I realized I was wrong. Not all firms have opinions on many questions, and doing the book by topic highlights the variation in opinions across a wide spectrum of organizations.

Who would benefit from this book: Amateur and professional value investors will benefit from this book; if the reader does not want to put the effort into learning value investing, this book will be of no use to him. If you want to, you can buy it here: [The Art of Value Investing: How the World's Best Investors Beat the Market](http://alephblog.com/2013/06/06/book-review-the-art-of-value-investing/).

Full disclosure: I received a free copy from the publisher. I personally know a few of the value investors cited. I would like to meet more of them.

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