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The Intelligent Investor Notes

A Note About Benjamin Graham

- Graham's core principles:
    - A stock is not just a ticker symbol or an electronic blip; it is an ownership interest in an actual business, with an underlying value that does not depend on its share price.
    - The market is a pendulum that forever swings between unsustainable optimism (which makes stocks too expensive) and unjustified pessimism (which makes them too cheap). The intelligent investor is a realist who sells to optimists and buys from pessimists.
    - The future value of every investment is a function of its present price. The higher the price you pay, the lower your return will be.
    - No matter how careful you are, the one risk no investor can ever eliminate is the risk of being wrong. Only by insisting on what Graham called the "margin of safety"—never overpaying, no matter how exciting an investment seems to be—can you minimize your odds of error.
    - 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.

Introduction

- Dow Jones Industrial Average (DJIA)
    - A stock market index that tracks 30 large, publicly-owned blue chip companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The DJIA was designed to serve as a proxy for the health of the broader U.S. economy.
    - A blue chip refers to an established, stable, and well-recognized corporation. Blue-chip stocks are seen as relatively safer investments, with a proven track record of success and stable growth. Blue-chip stocks are still nonetheless subject to

volatility and failure, such as with the collapse of Lehman Brothers or the impact of the financial crisis on General Motors.

- Standard & Poor's 500 index (the S&P) focuses on 500 large, well known companies that make up roughly 70% of the total value of the U.S. equity market.
- Dollar-cost averaging:
  - an investment strategy in which an investor divides up the total amount to be invested across periodic purchases of a target asset in an effort to reduce the impact of volatility on the overall purchase. The purchases occur regardless of the asset's price and at regular intervals; in effect, this strategy removes much of the detailed work of attempting to time the market in order to make purchases of equities at the best prices.
- Bond Market vs Stock Market
  - A stock market is a place where investors go to trade equity securities (i.e. shares) issued by corporations.
  - Buying equity securities, or stocks, means you are buying a very small ownership stake in a company.
  - The bond market is where investors go to buy and sell debt securities issued by corporations or governments.
  - By buying a bond, credit, or debt security, you are lending money for a set period and charging interest—the same way a bank does to its debtors.
- Obvious prospects for physical growth in a business do not translate into obvious profits for investors
  - While it seems easy to foresee which industry will grow the fastest, that foresight has no value if most other investors are already expecting the same thing.
  - By the time everyone decides that a given industry is "obviously" the best one to invest in, the prices of its stocks have been bid up so high that its future returns have nowhere to go but down
- The experts do not have dependable ways of selecting and concentrating on the most promising companies in the most promising industries
- The investor's chief problem—and even his worst enemy—is likely to be himself.

- Being an "intelligent investor" simply means being patient, disciplined, and eager to learn; you must also be able to harness your emotions and think for yourself

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Chapter 1 Investment vs Speculation

- "An investment operation is one which, upon thorough analysis promises safety of principal and an adequate return. Operations not meeting these requirements are speculative."
    - You must thoroughly analyze a company, and the soundness of its underlying businesses, before you buy its stock;
    - You must deliberately protect yourself against serious losses;
    - You must aspire to "adequate," not extraordinary, performance.
- Graham urges you to invest only if you would be comfortable owning a stock even if you had no way of knowing its daily share price.
- The future of security prices is never predictable. Since you cannot predict the behaviour of the markets, you must learn how to predict and control your own behaviour
- The investor cannot hope for better than average results by buying new offerings, or "hot" issues of any sort, meaning thereby those recommended for a quick profit. The defensive investor must confine himself to the shares of important companies with a long record of profitable operations and in strong financial conditions.
- Three supplementary concepts or practices for the defensive investor.
    - The purchase of the shares of well-established investment funds as an alternative to creating his own common-stock portfolio.
    - He might also utilize one of the "common trust funds," or "commingled funds," operated by trust companies and banks in many states; or, if his funds are substantial, use the services of a recognized investment-counsel firm. This will give him professional administration of his investment program along standard lines.
    - The third is the device of "dollar-cost averaging," which means simply that the practitioner invests in common stocks the same number of dollars each month or each quarter. In this way he buys more shares when the market is low than when it

is high, and he is likely to end up with a satisfactory overall price for all his holdings.

- Stocks do well or poorly in the future because the businesses behind them do well or poorly – nothing more, and nothing less.

Chapter 2 The Investor and Inflation

- Bolster your defences against inflation
  - REITs. Real Estate Investment Trusts, or REITs (pronounced “reets”), are companies that own and collect rent from commercial and residential properties.10 Bundled into real-estate mutual funds, REITs do a decent job of combating inflation. The best choice is Vanguard REIT Index Fund; other relatively low-cost choices include Cohen & Steers Realty Shares, Columbia Real Estate Equity Fund, and Fidelity Real Estate Investment Fund.11 While a REIT fund is unlikely to be a foolproof inflation-fighter, in the long run it should give you some defense against the erosion of purchasing power without hampering your overall returns.