found and paradoxical observation: The more money a company makes, the more likely it is to face new competition, since its high returns signal so clearly that easy money is to be had. The new competition, in turn, will lead to lower prices and smaller profits. This crucial point was overlooked by overenthusiastic Internet stock buyers, who believed that early winners would sustain their advantage indefinitely.

Chapter 19. Shareholders and Managements: Dividend Policy

1. Analytical studies have shown that in the typical case a dollar paid out in dividends had as much as four times the positive effect on market price as had a dollar of undistributed earnings. This point was well illustrated by the public-utility group for a number of years before 1950. The low-payout issues sold at low multipliers of earnings, and proved to be especially attractive buys because their dividends were later advanced. Since 1950 payout rates have been much more uniform for the industry.

Chapter 20. "Margin of Safety" as the Central Concept of Investment

1. This argument is supported by Paul Hallingby, Jr., "Speculative Opportunities in Stock-Purchase Warrants," *Analysts' Journal,* third quarter 1947.

Postscript

1. Veracity requires the admission that the deal almost fell through because the partners wanted assurance that the purchase price would be 100% covered by asset value. A future $300 million or more in market gain turned on, say, $50,000 of accounting items. By dumb luck they got what they insisted on.

Appendixes

1. Address of Benjamin Graham before the annual Convention of the National Federation of Financial Analysts Societies, May 1958.

Acknowledgments from Jason Zweig

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