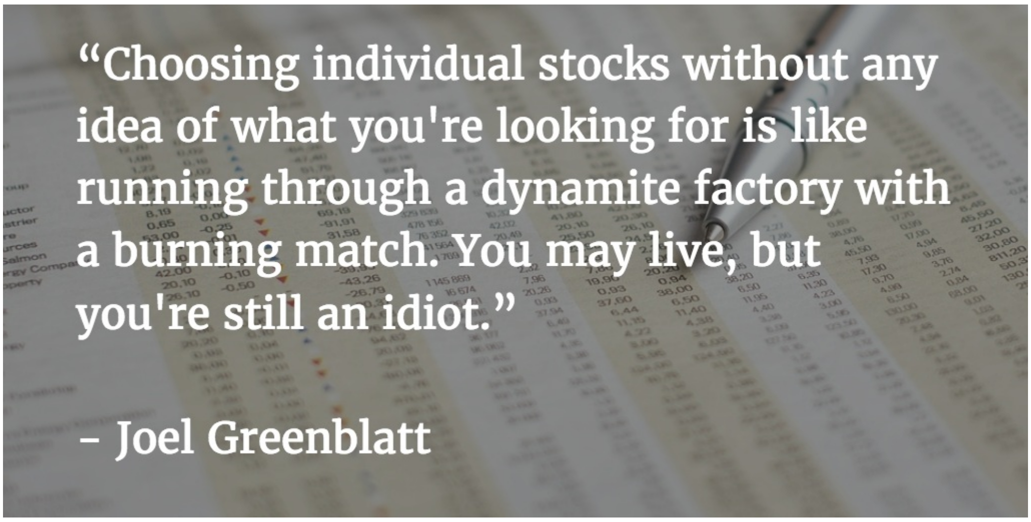
The Little Book That Still Beats The Market Summary

fourminutebooks.com/the-little-book-that-still-beats-the-market-summary/

1-Sentence-Summary: *The Little Book That Still Beats The Market is a step-by-step, plain-words guide to value investing, which gives you an exact, almost magic, formula approach to investing, which is guaranteed to make profits in the long run.*

Read in: 4 minutes

Favorite quote from the author:



Joel Greenblatt is a legend. His investment company Gotham Capital boasted over 40% in annual returns over a period of 20 years, from 1986 to 2006. Joel follows in Benjamin Graham's footsteps of value investing, which means buying undervalued companies with long-term growth potential at good prices, and then sit back as the world slowly catches up with what you already know.

In 2005, Joel thought about what gift he could give to his five children, that would keep on giving for years to come. Teaching them how to make money for themselves seemed like a good idea, and since his children were between six and 15 years old at the time, he'd have to keep it so simple anyone could understand.

The Little Book That Beats The Market was the result, and became an instant bestseller, since the simple formula telling you where to put your money spoke to a few more people than just his kids. In 2010 it was updated and expanded, hence the term "still" in the title now.

Here are 3 lessons to help you get the gist of Joel Greenblatt's magic formula for investing:

1. Look at earnings yield and return on capital to evaluate stocks.
2. Rank and combine these two factors to find winning companies.
3. Be patient, it's what makes this formula unpopular, but effective.

Ready for a proven stock market blueprint you can follow? Let's do this!

Lesson 1: Evaluate stocks based on earnings yield and return on capital.

Joel's magic formula is based entirely on two typical numbers used to judge the quality of a stock, combined with a few rules and guidelines.

The first is *earnings yield.* This number tells you **how many dollars you can expect to make, per year, for each dollar you invest in a stock**.

You need last year's earnings per share (how much money the company earned, divided by the total number of shares available), and the current stock price to figure it out. Dividing the two leaves you with a number in the format earnings per dollar, or, simply, your expected return in percent. For example, if last year, the company earned $0.85 per share, and now the stock price is $17, you divide 0.85 by 17, which leaves you with an earnings yield of 0.05. That's an expected return of 5% for your money, or 5 cents for every dollar you invest.

The second number is *return on capital (=ROC)*. This is calculated by dividing the net, after-tax profit the company made last year, by the book value (the number on their official balance sheet) of invested capital. This tells you **how much of your investment the company turns into an actual profit**. For example, if a $500,000 investment into a new steel production plant has yielded a $200,000 profit in its first year, that gives you an ROC of 40%, which is really good. Joel says anything above 25% is solid.

Lesson 2: Pick winning companies by combining these two factors and ranking them.

Okay, now what do you do with those numbers? You calculate them. For every single company available on a major US stock exchange, like the 3,500 you can find on either the New York Stock Exchange or the Nasdaq.

Then, you make two lists. On the first one, you rank all of the companies, starting with the one with the highest earnings yield. The second list you order by highest ROC. Now, **you combine both rankings into one**.

For example, if the company, which ranks first for earnings yield, ranks 153 for ROC, you add both numbers together, giving it a total ranking of 154.

In the end, this leaves you with **a single, ordered list, telling you which companies perform best for both factors combined**. Joel suggests you then invest into the 20-30 top companies on that list, and hold each stock for a year. After a year, sell winners and losers and repeat the process.

Note: Of course you don't have to do all of this by hand. Joel's come up witha nifty little tool to automatically calculate the list for you.

Lesson 3: Be patient, it's what makes this formula unpopular, but effective.

How did Carl Richards say in *The One-Page Financial Plan*? The toughest thing about investing is that you have to be lazy, behave, and keep yourself out of new trouble, once you've set a good plan.

If you invested $10,000 in the US, based on Joel's magic formula, in 1988, you would've turned those $10k into $1,000,000 by 2009 (yes, including the financial crisis). Fantastic results, right?

So why the hell doesn't everyone do it already?

Because consistency is boring. If you follow this formula, you can't tell your friends about "that new investing strategy you found" every 3 months. You can't brag at all for a year, because only then do you find that year's winners and losers. What's more, this strategy actually might perform worse than the market at times (it usually does for one of every four years). Sometimes even two years in a row.

But if you rigorously stick to it, you are guaranteed to win. The sticking is the hard part.

That's why money managers and financial advisors can't use it. Their clients expect profits. Not just in the long-run, but *every year*. That's nonsense, of course, but it forces analysts to resort to short-term strategies, just so they can keep their clients satisfied all year round.

You know better now. Don't be greedy. Don't be in it for the short term. Have some discipline. You could be a millionaire in 20 years.

My personal take-aways

This was great! So simple! Whether the returns are as great as proclaimed or not, I'm super intrigued to try this now. Might ask my Dad if he wants to split an investment. Once a year you put in a day of work and then not even look at your portfolio for 12 months. That's my kind of investing.

Highly recommended set of blinks, it details everything you need to know. However, the book itself is dead simple as well, and it's only 200 pages, so two big thumbs up for *The Little Book That Still Beats The Market*.

Read full summary on Blinkist

Get the book on Amazon

Learn more about the author

What else can you learn from the blinks?

- Why most stockbrokers aren't interested in helping you make money
- The only way to hand off your money that might actually generate profits
- Why stock prices vary so drastically in the short term
- How much Joel's magic formula portfolio returns per year, on average
- Two rules to reduce your investing risk with this formula

- How to save serious money on taxes when selling your stocks each year

Who would I recommend The Little Book That Still Beats The Market summary to?

The 15 year old, who wants to learn how to make money, the 41 year old, who’s been dabbling in investments all his life, but keeps jumping from strategy to strategy, without seeing significant results, and anyone who wants a way of investing their money that runs (almost) on autopilot.