

The Little Book That Beats the Market

Joel Greenblatt



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John Wiley & Sons, Inc.

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To my wonderful wife, Julie,
and our five magnificent spin-offs

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Foreword

The best thing about this book—from which I intend to steal liberally for the next edition of *The Only Investment Guide You'll Ever Need*—is that most people won't believe it. Or, believing it, won't have the patience to follow its advice. That's good, because the more people who know about a good thing, the more expensive that thing ordinarily becomes . . . bye-bye bargain.

Yet unlike most “systems” meant to exploit anomalies in the market, Joel Greenblatt's simple notion will likely retain at least a good deal of its validity even if it becomes widely followed.

I don't want to spoil the surprise—the book is short enough as it is. My role here is simply to introduce you to the author, so you have some sense of just how far you can trust him.

I've known Joel for decades. He is really smart, really modest, really well intentioned and—here is the unusual part—really successful. (I mean: *really* successful.)

More to the point, his success has come from shrewd investing (not from selling books).

He is also funny. I read the first couple of chapters of this book to my 11-year-old nephew, Timmy, and we both enjoyed it. Timmy, with no investable funds that I know of, then fell asleep as I raced to the end, mentally rejiggering my retirement plan.

Let me tell you this much: In the beginning, there were mutual funds, and that was good. But their sales fees and expenses were way too high. Then came no-load funds, which were better. They eliminated the sales fee, but were still burdened with management fees and with the tax and transactional burden that comes from active management. Then came “index funds,” which cut fees, taxes, and transaction costs to the bone. Very, very good.

What Joel would have you consider, in effect, is an index-fund-plus, where the “plus” comes from including in *your* basket of stocks only good businesses selling at low valuations. And he has an easy way for you to find them.

Not everyone can beat the averages, of course—by definition. But my guess is that patient people who follow Joel's advice will beat them over time. And that if millions of people *should* adopt this strategy (Vanguard: please

hurry up and offer a low-priced fund like this), two things will happen. First, the advantage of investing this way will diminish but not disappear. Second, stock market valuations will become ever so slightly more rational, making our capital allocation process ever so slightly more efficient.

Not bad work for a skinny little book.

Now, gather ye what 11-year-olds ye may, and dive in.

—Andrew Tobias, author of

The Only Investment Guide You'll Ever Need

