



Book Benjamin Graham

The Memoirs of the Dean of Wall Street

Benjamin Graham
McGraw-Hill, 1996

Recommendation

The Dean of Wall Street confesses. That would be a great lead, except that Benjamin Graham has little to confess. Rather, Graham, considered the father of modern security analysis, tells us about his life, career, and his intellectual passions. He shares his thoughts about a range of issues, and about his experiences. For instance, did you know that he valued his intellectual pursuits more than making money? Or that he was a Broadway playwright? These memoirs are more concerned with Graham’s story than with his investment techniques. *BooksInShort* recommends this book to those who want to learn more about Ben Graham, the man. It is not for those who want to learn more about Ben Graham, the founder of value investing.

Take-Aways

- Benjamin Graham was born Benjamin Grossbaum, in London, England, 1894.
- His family name was changed to Graham at Ellis Island.
- Graham’s efforts in high school earned a scholarship to Columbia University.
- The dean of Columbia’s business school steered Graham into work on Wall Street.
- Graham’s first job on Wall Street paid \$12 per week.
- By age 25, he was a junior partner at a Wall Street firm.
- Graham became one of Wall Street’s first security analysts, and was a pioneer in using public records to uncover corporate value.
- Graham never studied economics, but his book, Security Analysis, became the industry’s standard text, and his Commodity Reserve Plan won acclaim from economists.
- He wrote numerous books and articles on security investing, but also wrote three plays.
- Graham died in 1976.

Summary

My Life: The Early Years

I was born in London, England, in 1894, the youngest of three boys: Leon, Victor, and Benjamin Grossbaum. My childhood memories are unclear, particularly recollections of events before my father's death, so I rely in part on others' accounts.

When I was not even a year old, my family moved to New York City. I do not know if my father intended us to stay only a short period of time or to become permanent citizens of the United States. I do know he was very proud of his British heritage, which he retained to his death. At Ellis Island, our name was changed to Graham. This was a common event for that time. I have a photo of my brother and myself from those early years. We are wearing white sailor suits with black scarves, white socks, straw hats, and - to my horror - short skirts. It was not uncommon in those days for very young boys to be dressed in skirts to make it easier for the nursemaid to change them. Still, even though I was only two years old in the photograph, it is an emotionally unsettling picture.

“The peculiarities of one's memory reveal the peculiarities of one's character.”

As a young boy, I do remember being a fiercely patriotic Englishman who believed in the superiority of everything English. This got me in trouble with other lads on numerous occasions. However, I don't remember very much about my father, by all accounts a great man. The family told me that he had a big heart, took care of his parents, and provided financial assistance to ten brothers and sisters. Father was quite a businessman. We lived very well while he was alive. During the last years of his life, his British business suffered setbacks, which forced him to increase his U.S. business and to travel a great deal. I believe this heavy travelling led to his early death.

Grape-Nuts

We took a family trip to Hot Springs, Virginia, to help father recuperate from an illness. One morning, my mother had permitted me to go down to the restaurant alone and eat breakfast. When I saw Grape-Nuts on the menu, I decided to order them even though I had no idea what they were or tasted like. The waiter had doubts and asked me if I had eaten them before. I said no, and he told me I wouldn't like them. At that moment, a stubborn streak in my personality was born. I refused to back down and insisted that the waiter bring me a large bowl of Grape-Nuts, which I proceeded to eat completely even though they tasted like gravel. When he asked, I said I liked them, but it was years before I ordered them again.

“At least half of all the pleasures that I have enjoyed in life have come from the world of the mind, from things of beauty and culture, especially literature and art.”

My father died soon after this trip. His business, which was run by two of his brothers, floundered after his death. The effect on our family was almost immediate. For the next several years, we lived off family savings, stocks and possessions. Our material standard of living declined each year. My mother tried to make our house a boardinghouse and she also tried stock speculation (buying U.S. Steel on margin). Both efforts failed, but I remember her dignity. She was small, less than five feet tall, but she taught us to hold firmly to our beliefs. Although she never made reference to any wifely devotion or fidelity to the memory of my father, she never remarried. When she died at 75, she still lived alone in her own apartment.

“I was destined to spend 42 years - my entire business life - in Wall Street, beginning as a brokerage-house runner and ending as one of the heads of a substantial investment fund and chairman of two major business enterprises.”

My schooling started in earnest at age five. A good scholar, I moved progressively up the ranks of the New York City school system. I earned a scholarship to Columbia University, but an administrative mistake delayed my entrance for a year. My scholarship was given to another student. When the school became aware of the problem, they awarded me an Alumni Scholar position for the next entering class. I studied English, French, History, and German literature, but majored in math. My scholarship did not cover all my expenses and I worked a number of jobs while earning my degree. I made no close friends at college, even declining an invitation to join Zeta Beta Tau, the leading Jewish fraternity.

I worked for an express carrier called U.S. Express Company, where we used a Hollerith, a card-tabulating machine supplied by

Computer-Tabulating-Recording Corporation. This was my first experience with technology. I thought highly of the company that supplied the machine, which a bit later changed its name to IBM.

I met my wife Hazel in 1914, right around graduation. Even though we were in love and I had a job on Wall Street paying ten dollars a week, we waited to announce our engagement until late 1916. Hazel was afraid that her mother and her strong-willed uncle would disapprove of her marrying someone who was just starting out. When I finally asked for Hazel's hand, her mother admitted that she had expected this request for quite a while. We were married the next June, and went on to have five children.

Wall Street: Getting Started

A few days before I was to graduate, Dean Keppel called me into his office and told me that "Wall Street presented fine opportunities for college men." He said he had recommended me to the Wall Street firm, Newburger, Henderson, and Loeb. The next day I met with Mr. Newburger, who offered me a position at \$12 a week. "I would spend a few weeks in the back office as runner and general helper, to learn the business from the bottom up. After that I would move to the bond department and learn how to sell bonds." Before I left, he offered me one last admonition; he told me to remember that speculators always lose money.

After about four weeks as a runner I moved into the bond department. I had two objectives, to learn as much as I could about bonds and to make myself useful. I learned and performed one task well, writing the daily market letter to inform our Philadelphia clients about the market. I thought it was silly because our resident expert, me, was giving advice after only six weeks of employment. Eventually, I was promoted to bond sales. I wrote an analysis of the Missouri Pacific Railroad from published materials and railroad reports. When my analysis was shown to a partner at J.S. Bache and Co., they offered me a job as a statistician. I told Mr. Newburger, and instead he said it was high time for his firm to have a statistical department. He offered \$15, and then later \$18, weekly, so that I would feel no loss from staying with the firm. My career path was set: I was a security analyst.

I spent the next 42 years, my entire career, working on Wall Street. When I started in the business, inside information, not research, drove investment decisions. After World War I, intrinsic value and investment merit became increasingly important in common-stock analysis. Fortunately, I was not tainted by the prior experience of inside information trading that corrupted many of my seniors. I spent my early years learning the investment discipline I used throughout my career - search for value in stock investments. Several people approached me to invest for them in return for a share of the profits. I also developed my voice in the print media, publishing my views in several industry and popular magazines.

Wall Street: Real Success

Wall Street in the 1920s was marked by rapid upward progression. So too was my career. At the beginning of 1920, I was made junior partner at Newburger, Henderson, and Loeb. I was in charge of the statistical department and earned a salary and 2.5% of annual profits, with no liability for any losses. I established a relationship with Japanese bond buyers, which became a lucrative part of the firm's business. I wrote a series of three pamphlets entitled, Lessons for the Small Investor, on behalf of the firm. I also handled all the firm's personal accounts. My operations were nearly all arbitrage and hedging, affording limited but satisfactory profits, and protecting me against serious loss. I was all of 25 years old.

By 1923, I was ready to go out on my own. A wealthy family offered me the opportunity to manage a large account for them on a salary and profit-sharing basis. My old firm released me from any obligations and I started the Graham Corporation, which ran profitably for two and one-half years, and was dissolved after we could not reach a new compensation plan. In 1926, I started the Benjamin Graham Joint Account with \$400,000 and rode the bull market to success. By 1929, the capital was worth \$2.5 million. Within the original group of investors was Douglas Newman, whose younger brother Jerome would eventually become my longtime business partner. My greatest investment success at this time was Northern Pipeline, which was special because I was the first to use public records to determine that the Standard Oil railroad companies' portfolio held bonds that had extreme stockholder value. Through my efforts, the railroads were forced to return this value to shareholders.

Like most investment firms, we suffered through the depression, though our losses were not as great as others experienced. In 1936, we changed from The Benjamin Graham Joint Account to the Graham-Newman Corporation. My 1934 book, Security Analysis, quickly became the accepted conservative investment view. I was working as an expert witness in valuation cases, teaching at Columbia, and writing for Forbes magazine. My "Commodity Reserve Plan" (CRP) received great recognition from scholars and

politicians. This was my attempt to stabilize the value of the dollar against several core commodities by establishing two-way convertibility. The CRP was presented in 1937, in my book *Storage and Stability*. I was told that the White House had considered my ideas but choose not to implement them for political reasons. This ended my first and only attempt to influence national economic policy.

Benjamin Graham: The Writer

I also had a brief career as a playwright. I wrote one one-act and three full-length plays. One play, *Baby Pompadour*, was produced on Broadway at the Vanderbilt Theatre. I must admit, however, that it lasted only one week. Thereafter, I continued my interest in the theater, but not as a participant. As a writer I would leave you with the words of another writer:

"Come, my friends, 'tis not too late to seek

The sounding furrows; for my purpose holds

Of all the western stars, until I die.

It may be we shall touch the Happy Isles,

Though much is taken, much abides; and though

Moved earth and heaven; that which we are, we are;

Made weak by time and fate, but strong in will

A newer world. Push off, and sitting in order, smite To sail beyond the sunset and the baths It may be that the gulfs will wash us down:
And see the great Achilles, whom we knew. We are not now that strength which in old days One equal temper of heroic hearts, To
strive, to seek, to find, and not to yield.

About the Author

Benjamin Graham (1894-1976) was a seminal figure on Wall Street. Among his many books were *Security Analysis* (co-authored with David Dodd in 1934 and now in its Fifth Edition from McGraw-Hill) and *The Intelligent Investor*. As the founder of the value school of investing, Graham influenced such subsequent legends as Warren Buffett, Mario Gabelli, John Neff, Michael Price, and John Bogle. Benjamin Graham graduated from Columbia University, where the Graduate School of Business has honored him in perpetuity with a professorship known as the Graham/Dodd Chair.
