Perspective Hall of Fame – Benjamin Graham – 1894-1976

Perspectives: April 9th, 2024

From the 1800's to the 1920's, stock markets were mostly tipster's markets, perfectly suited for all manners of speculators –legal and illegal. The record shows there was one person, and one person only, that can be credited with the invention of a sensible framework to invest as opposed to speculating in the public stock markets. That person was Benjamin Graham .

Not only did he invent something unique that stood the test of time, but he also published this invention in two books – Security Analysis , in 1934, and The Intelligent Investor , in 1949.

It is only when one pauses for a moment to consider what it must have taken to invent something new in the complete absence thereof that this remarkable person, invention, and the courage to stick his neck out and publish his life's work, takes on deep meaning. History shows clear evidence of some ground breakers being treated rather unkindly; perhaps none more infamously so than Galileo Galilei, who was found "*vehemently suspect of heresy, namely of having held the opinions that the Sun lies motionless at the centre of the universe, and that the Earth is not at its centre and moves.*"

As I am writing this tribute in the here and now of April 2024, I reflect on two specific observations: The misunderstanding that I have noticed about Graham's teachings and methods, and its possible relevance today in the context of where leading stock market indices are priced combined with clearly visible signs of rampant speculation, short-termism, and herd-like behaviours by many market participants.

Ask just about any individual or professional market participant about Graham's works, and you would most likely find him being associated with so-called 'value-investing', and more specifically, 'cigar-butt' investing [*finding a cigar-butt that might just be worth one last puff*].

However, a carefully and more holistically considered evaluation of not only his books but also his investment record points to something quite different. Clear clues can be found from page 523 in The Intelligent Investor.

"***Investment is most intelligent when it is most businesslike***. *It is amazing to see how many capable businesspeople try to operate in Wall Street with complete disregard of all the sound principles through which they have gained success in their own undertakings*"
"*The first and most obvious of these principles is…to know your business*"
"*A second…do not let anyone run your business unless…you have unusually strong reasons for placing implicit confidence in their integrity and ability*"
"*A third…**keep away from ventures in which you have little to gain and much to lose***"
"*A fourth…have the courage of your knowledge and experience. If you have formed a conclusion from the facts and if you know your judgment is sound, act on it – even though others may hesitate or differ*"

That does NOT sound like cigar-butt investing to me. It is not even close.

Remarkably, even though it is clearly spelled out in the postscript of The Intelligent Investor from page 532, most people do not seem to know that Graham's spectacular investment record is entirely due to one single key investment decision - in a long-term **growth** stock, bought cheaply, being GEICO. In his own words: "*…in fact it did so well that the price…advanced to two hundred times or more the price paid…but since we regarded the company as a sort of 'family business', we continued…a substantial ownership of the shares despite the spectacular price rise. Ironically enough, **the aggregate profits accruing from this single investment decision far exceeded the sum of all the others realized through 20 years** of wide-ranging operations…behind the luck, or crucial decision, there must usually exist a background of preparation and disciplined capacity*"

One of Graham's greatest insights was what he called the "Margin of safety", which involves recognizing firstly that a stock price and the real-world value of its underlying business is not the same thing, and secondly to only invest when the price is at a sufficiently large discount to said value. Another great insight was the concept of "Mr Market", being a reference to the volatile manic-depressive psychological disposition of all market participants taken as a collective.

It is therefore fitting to compare Graham to Galileo, in the sense that it is vital to see and understand how and why stock prices (planets) rotate around business values (the sun). Thankfully, Graham did not suffer the indignity of a public inquisition, being falsely accused of heresy, imprisonment, being forced to publicly recant his findings, serving penance, or of his books being banned. Phew!

Our work continues...

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