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By Geoff Gannon

The Best Investing Books for a Budding Value Investor to Read

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Value and Opportunity just reviewed a book "100 Baggers" that I've read (and didn't particularly like) which is basically an update of another book I own called "100 to 1 In the Stock Market" (which is outdated, not available on Kindle, but I probably like better). The fact that I've read both these books reminded me that I actually do read a lot of investing books and yet I don't write much about books on this blog.

There's a reason for that.

I get a lot of questions about what investing books people should read. My advice to most is to stop reading books and start doing the practical work of slogging your way through 10-Ks, annual reports, etc. There seems to be a tremendous appetite for passive reading among those who email me and no appetite for active research. It's better to read a 10-K a day than an investing book a day.

But, there are good investing books out there. And, yes, I read a lot of books. Still, I'm going to give you a simple test to apply to yourself: if you're reading more investing books than 10-Ks, you're doing something wrong.

Assume you're reading your fair share of 10-Ks. Then you can read some investing books on the side. Which should you read?

Practical ones.

How to Read a Book

A book is only as good as what you get out of it. And there's no rule that says you have to get out of a book what the author intended. The best investing books give you plenty of case studies, examples, histories, and above all else – names of public companies. While you read a book, highlight company names, names of other investors, and the dates of any case studies. You can look into these more on your own later. Also, always read the "works cited" or "bibliography" at the back of any book you read. This will give you a list of related books you can read next. Since I was a teen, I've always read the works cited or bibliography to come up with a list of related titles. And I've realized talking to other people as an adult, that most people ignore those pages. They're very useful. Read them.

My Personal Favorite: "You Can Be a Stock Market Genius"

If you follow my Twitter, you know I re-tweeted a picture of "You Can Be a Stock Market Genius" that my website co-founder, Andrew Kuhn, posted. It's one of his favorite books. And it's my favorite. If you're only going to read one book on investing – read "You Can Be a Stock Market Genius". The subject is special situations. So, spin-offs, stub stocks, rights offering, companies coming out of bankruptcy, merger arbitrage (as a warning), warrants, corporate restructurings, etc. The real appeal of this book is the case studies. It's a book that tells you to look where others aren't looking and to do your own work. It's maybe the most practical book on investing I've ever read.

My Partial Favorite: "The Snowball" – The 1950 through 1970 Chapters

I said "You Can Be a Stock Market Genius" was my favorite book. If we're counting books in their entirety, that's true. I like "You Can Be a Stock Market Genius" better than the Warren Buffet biography "The Snowball". However, I might actually like some chapters of "The Snowball" more than

any other investing book out there. The key period is from the time Warren Buffett reads "The Intelligent Investor" till the time he closes down his partnership. So, this period covers Buffett's time in Ben Graham's class at Columbia, his time investing his personal money while a stockbroker in Omaha, his time working as an analyst at Graham-Newman, and then his time running the Buffett Partnership. These chapters give you more detailed insights into the actual process through which he researched companies, tracked down shares, etc. than you normally find in case studies. That's because this is a biography. The whole book is good. But, I'd say if you had to choose: just re-read these chapters 5 times instead of reading the whole book once. Following Buffett's behavior from the time he read The Intelligent Investor till the time he took over Berkshire Hathaway is an amazing education for an individual investor to have.

Often Overlooked: John Neff on Investing

I'm going to mention this book because it's a solid example of the kind of investing book people should be reading. And yet, I don't see it mentioned as much as other books. John Neff ran a mutual fund for over 3 decades and outperformed the market by over 3 percent a year. That's a good record. And this book is mostly an investment diary of sorts. You're given the names of companies he bought, the year he bought them, the price he bought them at (and the P/E, because Neff was a low P/E investor), and then when he sold and for what gain. This kind of book can be tedious to some. But, it's the kind of book that offers variable returns for its readers. Passive readers will get next to nothing out of it. But, active readers who are really thinking about what each situation looked like, what they might have done in that situation, what the market might have been thinking valuing a stock like that, what analogs they can see between that stock then and some stock today, etc. can get a ton out of a book like this. Remember: highlight the names of companies, the years Neff bought and sold them, and the P/E or price he bought and sold at. You can find stock charts at Google Finance that go back to the 1980s. You can find Wikipedia pages on these companies and their histories. A book like this can be a launching point into market history.

A More Modern Example: Investing Against the Tide (Anthony Bolton)

There are fewer examples in Bolton's book than in Neff's book. But, when I read Bolton's book, it reminded me of Neff's. A lot of Neff's examples are a little older. Younger value investors will read some of the P/E ratios and dividend yields Neff gives in his 1970s and 1980s examples and say "Not fair. I'll never get a chance to buy bargains like that." As an example, Neff had a chance to buy TV networks and ad agencies at a P/E of 5, 6, or 7 more than once. They were probably somewhat better businesses 30-40 years ago and yet their P/Es are a lot higher today than they were back then. Bolton's book is more recent. You get more talk of the 1990s and early 2000s in it. So, it might be more palatable than Neff's book. But, this is another example of the kind of book I recommend.

Best Title: There's Always Something to Do (Peter Cundill)

This is one of two books about Peter Cundill that are based on the journals he wrote during his life. The other book is "Routines and Orgies". That book is about Cundill's personal life much more so than his investing life. This book ("There's Always Something to Do") is the one that will appeal to value investors. It's literally an investment diary in sections, because the author quotes Cundill's journal directly where possible. Neff was an earnings based investor (low P/E). Cundill was an assets based investor (low P/B). He was also very international in his approach. This is one of my favorites. But, again, it's a book you should read actively. When you come across the name of a public company, another investor, etc. note that in some way and look into the ones that interest you. Use each book you read as a node in a web that you can spin out from along different strands to different books, case studies, famous investors, periods of market history, etc.

You're Never Too Advanced for Peter Lynch: One Up On Wall Street and Beating the Street

Peter Lynch had a great track record as a fund manager. And he worked harder than just about anyone else. He also retired sooner. Those two facts might be related. But if the two themes I keep harping on are finding stocks other people aren't looking at and doing your own work – how can I not recommend Peter Lynch. He's all about turning over more rocks than the other guy. And he's all about visiting the companies, calling people up on the phone, hoping for a scoop Wall Street doesn't have yet. The odd thing about Peter Lynch's books is that most people I talk to think these books are too basic for their needs. Whenever I re-read Lynch's books, I'm surprised at how much practical advice is in there for even really advanced stock pickers. These are not personal finance books. These are books written by a stock picker for other stock pickers. The categories he breaks investment opportunities into, the little earnings vs. price graphs he uses, and the stories he tells are all practical, useful stuff that isn't below anyone's expertise levels. These books try to be simple and accessible. They aren't academic in the way something like "Value Investing from Graham to Buffett and Beyond" is. But, even for the most advanced investor, I would definitely recommend Peter Lynch's books over Bruce Greenwald's books.

An Investing Book That's Not an Investing Book: Hidden Champions of the 21st Century

I'm going to recommend this book for the simple reason that the two sort of categories I've read about in books that have actually helped me as an investor are "special situations" (from "You Can Be a Stock Market Genius") and "Hidden Champions" (from "Hidden Champions of the 21st Century"). It's rare for a book to put a name to a category and then for me to find that category out there in my own investing and find it a useful tool for categorization. But, that's true for hidden champions. There are tons of books that use great, big blue-chip stocks as their examples for "wonderful companies" of the kind Buffett likes. This book uses examples of "wonderful companies" you haven't heard of. In the stock market, it's the wonderful

companies you haven't heard of that make you money. Not because they're better than the wonderful companies you have heard of. But, because they are sometimes available at a bargain price. As an example, Corticeira Amorim (Amorim Cork) was available at 1.50 Euros just 5 years ago (in 2012). That was 3 years after this second edition of the book was published. Amorim is now at 11.50 Euros. So, it's a "seven-bagger" in 5 years. More importantly, if you go back to look at Amorim's price about 5 years ago versus things like earnings, book value, dividend yield, etc. – it was truly cheap. And yet it was a global leader in cork wine stoppers. Amorim is not as great a business as Coca-Cola. It doesn't earn amazing returns on equity. But, it's a decent enough business with a strong competitive position. And it was being valued like a buggy whip business. That's why learning about "hidden champions" and thinking in terms of "hidden champions" can be so useful. There are stocks out there that are leaders in their little niches and yet sometimes get priced like laggards. As an investor, those are the kinds of companies you want to have listed on a yellow pad on your desk.

The Canon: Security Analysis (1940) and The Intelligent Investor (1949)

Do you have to read Ben Graham's books? No. If you're reading this blog, visiting value investing forums, etc. you're sick and tired of hearing about Mr. Market and margin of safety. Those concepts were original and useful when Ben Graham coined them. I've read all the editions of these books. People always ask me my favorite. So, for the record: I like the 1940 edition of Security Analysis best and the 1949 edition of The Intelligent Investor. I recommend reading Graham's other work as well. Fewer people have read "The Interpretation of Financial Statements" and collections of Graham's journal articles that can be found in titles like "Benjamin Graham on Investing: Enduring Lessons from the Father of Value Investing". Don't read any books about Ben Graham but not written by him. Instead look for any collections of his writing on any topics you can find. He was a very good teacher. I especially like his side-by-side comparative technique of presenting one stock not in isolation but compared to another stock which is either a peer, a stock trading at the same price, or even something taken

simply because it is alphabetically next in line. It's a beautiful way of teaching about "Mr. Market's" moods.

Out of Print: Ben Graham's Memoirs, "Distant Force" (A Book About Teledyne), and 100 to 1

I own all these books and like all these books. Do I recommend them? Not really. You have to buy them in print. The price on some of them (even heavily used) is not cheap. And they aren't as good as the books I've mentioned above which you can get cheaper (and on your Kindle).

Still, if you don't own these books, you're probably wondering: what am I missing?

Well…

You can replace 100 to 1 with "100 Baggers". That's probably why "100 Baggers" was published in the first place.

Ben Graham's memoirs include only a few discussions of investing limited to a couple chapters. I found them interesting, especially when I combined the information Graham gives in his memoirs with historical newspaper articles I dug up. Some of the main stories he tells relate to operations he did in: 1) the Missouri, Kansas, and Texas railroad, 2) Guggenheim Exploration, 3) DuPont / General Motors, and 4) Northern Pipeline. The Northern Pipeline story has been told elsewhere. In some cases, I've seen borderline plagiarizing of Graham's account in his memoirs. But, if you've ever read a detailed description of Graham's proxy battle at Northern Pipeline, it was probably lifted from this book.

What about "Distant Force"? Some people find this book extraordinarily boring. I found it interesting more as a "source" for putting together a picture of how Teledyne worked rather than just a book to be read in isolation. There are old business magazine articles you can find on Teledyne and there's a chapter length description of Teledyne in "The Outsiders".

Although I'm not going to recommend you dig up expensive, out of print, used, and often boring books – I am going to warn you about the "copy of a copy of a copy" syndrome. A lot of value investors will cite something about habits, or checklists, or Ben Graham, or Teledyne that is from a more popular / more recent book. That book is "popularizing" a primary (or in some cases actually a secondary) source. Like popular science, the author is making certain tweaks to the presentation of the idea to better fit the concept their book is about and to simplify the ideas they present. Some authors do this in a way that shows they probably understand the original material really well but are just presenting it simplified for your benefit. Other authors give some hints that they may not really understand the primary source that well. Something like "The Snowball" simplifies certain ideas because it's not an investing book. It's a biography. However, the simplification in that book is done really well. Sure, I'd love to have more detail. Alice Schroeder gave a talk about Mid-Continent Tab Card Company that would've been a great addition to the book. But, I'm not worried that Alice Schroeder is really garbling what she's reporting even when she's presenting it for a general audience whose main interest might not even be value investing.

I'm not going to name names. But, there are value investing books out there that aren't as good. Wherever possible, try to read the primary sources.

If you find a book with good concepts in it, but find the detail lacking – read through the works cited for the sources that book is using.

And if you really want to know what Ben Graham thought, read the 1940 edition of Security Analysis and the 1949 Edition of The Intelligent Investor. Don't read a modern book that just has Ben Graham's name in the title.