SUMMARY

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THE INTELLIGENT INVESTOR

BY BENJAMIN GRAHAM WITH COMMENTS BY JASON ZWEIG

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Summary of The Intelligent Investor by Benjamin Graham with comments by Jason Zweig

Written by Alyssa Burnette

Words of wisdom from the investors' Bible.

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Introduction

Money: we all know it's important. But it's not necessarily something we all know a lot about. For example, we might know that it's important to manage our finances wisely, to budget, to save, to stay out of debt, but we might not be able to identify concrete action steps that will help us do that. It can be even tougher when you feel like the financial deck is stacked against you, and unfortunately, that's the future that many people face. But those struggles don't have to write a future of financial despair. Over the course of this summary, we're going to unpack some hard truths about money management and learn how you can achieve financial success. By exploring some of the author's theories on personal finance, you can discover the key to successful budgeting, saving, and making valuable investments. So, let's dive in! Your financial future can only get better from here!

Why You Should Invest in the Stock Market

Books about financial success are as popular as any other genre in the self-help industry. And every single one of those myriad options recommends a different strategy for getting rich quick. Some, for example, will highlight very specific stories like those of Warren Buffett or Donald Trump, who made their fortunes through investments. And while their stories may offer some beneficial lessons in investing, the truth is most often that these success stories are highly specific to individual people and the condition of the stock market at the time. After all, if it was that easy to duplicate their success, everybody would be Warren Buffett or Donald Trump and their stories would lose their allure.

So, for the purposes of this book, we're going to abandon the idea that you should follow someone else's pattern of success. Instead, we're going to focus on rock-solid science and learn how you can make the statistics of the stock market work for you. The author begins by observing that the only way to really make money through investing is to be smart about it. And learning how to manage risk is the most important lesson for any smart investor.

Everybody knows the stock market is unstable; change is its only constant. Therefore, if you want to succeed at the stock market, you have to know how to roll with the punches and make the best decision for your investments. Many people fall into the trap of assuming that you have to act very quickly if you want to profit from the stock market. And it's easy to see why someone would arrive at that conclusion; when the stock market can plummet at the drop of a hat, it's understandable that one might feel the need to monitor it at all times. This is the logic that motivates people to buy and trade stocks at a frenetic pace in the hopes of beating the stock market and reaping a significant reward from their investments. In fact, for quite a while, this has been the widely accepted standard for using the stock market. But smart investors know that this strategy isn't quite as effective as everyone else believes.

Instead of rushing, the smart investor conducts a careful analysis to evaluate a stock's potential. And if their analysis reveals that a stock's price is below its intrinsic value, then a smart investor makes the decision to buy that stock. It's important to buy when a stock's price is below its intrinsic value because this means it has room to grow in relation to the company's worth. When a company is just starting out, their stock might not be very popular yet. But if you have reason to believe that that company will be the next big thing and that the value of their stock will soon skyrocket, then it's a good idea to get in on the ground floor.

To put this into context, just imagine investing in Facebook before it was Facebook. Today, the social media network is an international sensation. But before it became the Facebook we know and love today, it was a little social media platform started in one guy's college dorm. When it first started out, Facebook might not have looked like a very big deal to prospective investors. But the investors who bought shares in Facebook at that stage were later rewarded by its spectacular growth. And the same could be true for you if you invest in an undervalued business! This might mean that you're playing the long game with your investments, but the intelligent investor understands that the long game is highly profitable. The intelligent investor knows that you should stop worrying about when your stocks will become profitable. Avoid making rushed decisions or focusing on when your stocks' value will rise. Instead, know your stocks, know your market, and wait. Trust that the market will do what you know it should do and then wait for it to do its thing.

In short, the key lesson from this chapter is to assess your stock for its pricing and potential and only buy if you're certain that your assessment will pay off. This path might be slow and it might be boring, but it will ultimately be very profitable. And, let's be honest, would you rather have a million dollars or a brief flash of excitement?

A Defensive Investor is A Smart Investor

The author's experience has taught him that there are two main types of investors: the defensive investor and the enterprising investor. The defensive investor opts for safety and risk management above all else while the enterprising investor is willing to take more of a risk. Both strategies are valid and both can be profitable, but at the end of the day, it's more likely that slow and steady wins the race. The defensive investor puts this strategy into practice by diversifying her portfolio. If you're not familiar with this term, financial analyst Troy Segal provides a quick and accessible definition. Put simply, Segal asserts that:

"Diversification is a risk management strategy that mixes a wide variety of investments within a portfolio. A diversified portfolio contains a mix of distinct asset types and investment vehicles in an attempt at limiting exposure to any single asset or risk. The rationale behind this technique is that a portfolio constructed of different kinds of assets will, on average, yield higher long-term returns and lower the risk of any individual holding or security. Diversification strives to smooth out unsystematic risk events in a portfolio, so the positive performance of some investments neutralizes the negative performance of others. The benefits of diversification hold only if the securities in the portfolio are not perfectly correlated—that is, they respond differently, often in opposing ways, to market influences. Studies and mathematical models have shown that maintaining a well-diversified portfolio of 25 to 30 stocks yields the most cost-effective level of risk reduction. The investing in more securities generates further diversification benefits, albeit at a drastically smaller rate."

In practice, this means that a defensive investor should invest in a mix of common stocks and government bonds. And lastly, the author also advises that a defensive investor should attempt to invest in at least 10 different companies, preferably those with an established reputation and a long-standing history of success. This will provide additional stability and decrease risks while maximizing the potential reward. Enterprising investors, by contrast, start off in a similar fashion and then follow their own, somewhat riskier path. Enterprising investors are therefore more likely to take risks on new companies and invest in more common stocks. As previously mentioned, both types of investors are equally valid and both strategies can be equally profitable. At the end of the day, it all comes down to identifying the investment strategy that most closely aligns with your goals and personality.

Don’t Listen to Mr. Market

This is possibly the most helpful chapter in this book because it invites us to reconfigure our conceptualization of the stock market. The author observes that investors often tend to glorify the stock market as if it is some sort of all-knowing god. They cheerfully sacrifice their lives, their wallets, and their happiness in pursuit of this god, even when it ends in disaster. But if you want to be an intelligent investor, the author asserts that you have to cultivate a different mindset. Instead of thinking of the stock market as a great and glorious deity, think about it as a person. We can call him Mr. Market. Thinking about him this way helps to demystify him because, as it turns out, Mr. Market is actually a very unpleasant person.

He’s moody. He’s selfish. He can never make up his mind. And when he’s in a good mood, he dazzles you with an array of empty promises that he quickly abandons when his mood turns again. In fact, if Mr. Market were a person, he almost certainly would have no friends. So far from finding him glamorous and powerful, you would probably cut him out of your life and refuse to even have him over for dinner! And the author observes that this is just how it should be. An intelligent investor benefits from thinking of Mr. Market as a miserly, mean, rich relative who might leave you some money when he dies. It pays off to be nice to him, but you wouldn’t get very close to him or put a lot of stock in anything he says. If this is your perspective of the stock market, you can keep a level head. So, when everyone else is freaking out and buying and selling their stocks based on Mr. Market’s whim, you can stay calm and ask yourself what the data says instead.

For example, if we return to our earlier analogy about Facebook, let’s say that you see potential in a company that no one else is enamored with yet. Initially, that company’s stock might be very low because Mr. Market assumes it is devoid of potential. But if your analysis says that this company is likely to be the next Facebook, you’ll have the last laugh when your stocks become extremely profitable and everyone else misses out. However, there is also a flip side to this equation. Let’s say you’ve invested in a luxury automobile company like Maserati. They've just released a new design and people all over the world are going crazy to buy it. Mr. Market likes all the attention, so he gets excited and tells everyone that Maserati stock is the next big thing. But what if their newest product isn't so great after all?

If the new car is quickly revealed to be a total flop, Mr. Market's mood will swing again, taking everyone else's mood and money along with him. Gone are all his bright, shiny promises-- with no hope of restoration-- and you've lost more money than you bargained for. This example just goes to show why you can't listen to Mr. Market and you can't follow the whims of the crowd either. Both are extremely capricious and unstable and you'll be disappointed if you put your trust in them. So, that's why you want to be the clever investor who thinks critically about each and every one of their investments. You want to be the one who always looks before she leaps. Learn to examine a company's financial history before you invest any of your money in their stock. Consider the long-term value of a stock and don't be swayed by its status as the latest trend. And don't be fooled by the company's short-term earnings either. Even if they look successful on the surface right now, it's possible that they might have an unstable foundation or shaky business principles that will cost you money down the line.

So, don't be fooled by Mr. Market, and don't put too much stock in the mindless opinions of the crowd. (Get it? A stock pun? Okay, that might be a little too cheesy). In short, the key lesson from this chapter is to think for yourself and keep the stock market in a very realistic perspective.

Final Summary

The world is teeming with an abundance of financial advice for hopeful new investors. Everyone is clamoring for their voice to be heard above the fray and everyone wants you to believe that their advice is right. But not all of these sources are reliable. The author's advice, however, has stood the test of time. These are the investment strategies that sustained him through the Wall Street Crash of 1929. These are the strategies that he passed down to generations of successful investors who came after him. And these are the same strategies that you can rely on in 2021.

Although this advice might have profound impacts in practical application, it isn't complicated. To be an intelligent investor, you simply have to learn to think for yourself. Remember that Mr. Market is just a very unpleasant and unstable person; he isn't a god and his word isn't gospel. Passing investment trends are equally unreliable, so don't let your good sense get lost in the crowd. And lastly, remember that slow and steady investing may be boring but it is always the most profitable because it is well thought- out.