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Why the First Book on Investing You Read This Year Should Be an Old One

By Patrick Carroll

Simplicity is king. For nearly 75 years, [*The Intelligent Investor*](#) has remained dominant among investment books because it rejects the idea that investing is complicated. [The book is mainly](#) seen as a [bible for the stock market](#). But I think Benjamin Graham's pragmatic wisdom is invaluable for people like me who invest in property — and whether you're into real estate or not, it could be helpful for you, too.

I first read Graham's magnus opus when I was starting out. For years the strategies he lays out have shaped my business philosophy. The recent spate of global financial instability has me thinking again about his sage advice and thumbing through his magnificent book. Which is why it feels like the right time to put it back on investors' radars.



Benjamin Graham

"Investing isn't about beating others at their game. It's about controlling yourself at your own game," writes Graham. All financial markets are chaotic. And chaos makes us reactive. We can't control markets, but we can master the self-discipline we need to ground our behavior in logic instead of emotion.

The time is ripe for self-control. [Inflation is predicted to recede in 2023, yet interest rates are expected to continue to rise.](#) Panic is creeping in. But as interest rates go up, fewer people want to buy real estate, and the resulting glut drives down values. So what's the next move? For me, it's "buy," with Graham's evergreen advice in mind: "Buy not on optimism, but on arithmetic."

Here's how I look at the arithmetic, starting with that glut of inventory. [Inventories are up all over because buyers can't afford the current high mortgage rates.](#) The glut will probably get worse, too, because big home builders have to get inventory off their books. It will drive down prices and, of course, lead to a lot of dreary talk.

Sounds like great arithmetic to me. I like lower prices. And I've learned to ignore dreary talk. Especially when [rents are stable and even rising](#) — as they have been in the past year.

This is what Graham is talking about when he says, "Courage

becomes the supreme virtue after adequate knowledge and a tested judgment are at hand." In 21st-century English, first you learn and gain experience, and then you have to get brave. Based on the inventory conditions described above, I'm confident that it's time to be courageous.

The Intelligent Investor has a crucial subtitle: *The Definitive Book on Value Investing*. Value investing entails disregarding a company's market price and figuring out its intrinsic value through other means. Warren Buffett's definition of "[intrinsic value](#)" is "the discounted value of the cash that can be taken out of a business during its remaining life." At its core, value investing is about knowing the product thoroughly enough to be confident that it is both solid and undervalued.

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Once you know the difference between your definition of a security's intrinsic value and the market's valuation, you have what Graham and David Dodd, value investing's co-creator, call a "margin of safety." "The function of the margin of safety is, in essence, that of rendering unnecessary an accurate estimate

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Right now, there are good properties with bad financial structures in cities such as Phoenix and Miami. In this case, there are two factors that could be advantageous to investors: First, many borrowers won't be able to pay the adjustable-rate loans coming due (and refinancing won't be an option because credit markets are frozen). Second, currently overvalued properties will come down in price as markets correct. What will remain constant is the intrinsic value of the properties. This is a perfect example of value investing at play in the world of real estate.

There's more good news from the pages of *The Intelligent Investor* for those who are anxious about a decline, whether in housing or any other sector:

The true investor scarcely ever is forced to sell his shares, and at all other times he is free to disregard the current price quotation. He need pay attention to it and act upon it only to the extent that it suits his book, and no more. Thus the investor who permits himself to be stampeded or unduly worried by unjustified market declines in his holdings is perversely transforming his basic advantage into a basic disadvantage.

To this I would add that your fellow humans are by nature herd animals. Resist the urge to surrender your autonomy to the herd. Resist the urge to join the stampede.

If something is consequential, we want it to be complex. Few things are more consequential than finance. As *The Intelligent Investor* demonstrates, however, no matter what kind of investor you are, the soundest advice is the most straightforward.

But hey, surely some of you have read this book.

- So what's your take?
- What was your favorite chapter?
- Your favorite quote?
- And do you disagree with me?

Drop a comment below and tell me what you think, what I missed, and whether you'd recommend the book to others. I want to hear from you.

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