Benjamin Graham

Biography of Benjamin Graham from Buffetsecrets.com with my own notes added in

Benjamin Graham was born in London in 1894 as the son of an importer. His family migrated to America when he was very young and opened an importing business. Unfortunately, they did not do well. Graham’s father died not long after moving to America and his mother lost the family’s savings in 1907 during an economic crisis.

Graham, a star student, managed to get into Columbia University and, although offered a teaching post there after graduation, took a job as a chalker on Wall Street with Newburger, Henderson and Loeb. Before long, his natural intelligence won out when he began doing financial research for the firm; eventually becoming a partner in the firm. He was soon earning over $500,000 a year, a huge sum. Not bad for a 25 year old.

In 1926, Graham formed an investment partnership with another broker called Jerome Newman. He also started lecturing at night on finance at Columbia, a relationship that was to continue until his retirement in 1956.

The Crash of 1929 almost wiped Graham out but the partnership survived with the assistance of friends and the sale of most of the partners’ personal assets. At one point, Graham’s wife was forced to return to work as a dance teacher. Graham was soon back on his feet and he had
learned valuable lessons that were shared with investors in his books.

In 1934, Benjamin Graham together with David Dodd, another Columbia academic, published the classic _Security Analysis_ which has never been out of print. Despite the crash, the book proposed that it was possible to successfully invest in common stocks as long as sound investment principles were applied. Graham and Dodd introduced the concept of ‘intrinsic value’ and the wisdom of buying stocks at a discount to that value.

The partnership between Graham and Newman continued until 1956 and never again lost money for its investors. The firm's earnings, we understand, showed an annual return of about 20 percent per year versus 12.2 percent for the S&P 500. Graham continued as a partner, while writing and lecturing at Columbia, before retiring from that institution, also in 1956.

Warren Buffett studied under Graham at Columbia and approached him for a job in his investment firm. Graham declined but Buffett was persistent, and Graham finally yielded, giving Buffett a job in the firm. This was the start Buffett needed and he has never failed to acknowledge what he learned from Ben Graham.

It is interesting that one of the Graham Newman investments was GEICO, which, as you probably know, was an early acquisition of Berkshire Hathaway and which remains today a major investment vehicle in the Buffett Group.

Graham had originally bought GEICO in 1948. Apparently, after the partnership bought it as a private business, it was found that an investment firm could not own an insurance company and accordingly Graham and Newman converted it to a public company and distributed its shares among their investors.

In 1949, Graham wrote _The Intelligent Investor: The Definitive Book on Value Investing, A Book of Practical Counsel_, considered the Bible of value investing. That book too has never been out of print.

Benjamin Graham died in 1976, with the reputation of being the ‘Father of Security Analysis.’

**Investment Approach**

Benjamin Graham favored an investing approach with a margin of safety. This approach calls for buying a stock below its value. Since it is impossible to precisely value a stock, a margin of safety provides room for human error. In addition, if the company's conditions deteriorate, the margin of safety provides a cushion to the investor.

The most classic example of a Benjamin Graham stock is called a net net. This is a case where Ben Graham said that the company is worth literally "more dead than alive". A net net would be a case where the cash and current assets of the company would be equal to more than the company is currently trading at. If the company were to liquidate today an investor would receive more money than the stock is currently trading at. However, to provide a margin of safety Ben Graham would buy stocks selling at 2/3 of their net-net value. A basket of these
stocks have outperformed the indexes by wide margins over several different time periods.

This stocks were widely available during the Great Depression when Ben Graham was investing. However, today these stocks are nearly impossible to find. Therefore many value investors have abandoned this approach since it is so rare to find a company with these characteristics.

Benjamin Graham advocated two approaches for an investor: the defensive investor and the enterprising investor. However, he devoted most of his book the to the defensive investor. The defensive investor is someone who was interested in preserving capital while earning a satisfactory return on investment.

Benjamin Graham proposed a 50/50 stock bond portfolio. However, when the market is under or over valued the investor might decide to change the allocation to a 25/75 or 75/25 ratio. He recommended holding between 10-30 stocks. This could be a concentrated or diversified portfolio depending on which end of the spectrum the investor decided to go with.

Benjamin Graham’s investment criteria for the defensive investor are as follows:

- A non technology company. Graham hated technology companies. He was not fond of financial companies either. Graham likely would have missed the tech and housing bubbles relatively unharmed.
- Company sales of over $340 million (in today’s prices)
- A current ratio of over 2 for most companies, however since telecoms and utilities continuously finance themselves through sales of bonds and shares they can have a lower current ratio.
- Long term debt less than net current assets.
- 30% EPS growth in the past ten years
- No negative EPS in the past five years
- P/E lower than 15
- P/E times P/B less than 2.2
- Total Debt- Equity ratio less than 100% for industrial companies, and for phone companies, railroads and utilities less than 230%
- Benjamin Graham also favored companies that paid out dividends

The enterprising investor would not limit himself to companies with the above characteristics. He would be willing to buy companies that do not pay dividends or have large amounts of debt and have smaller capitalizations.

Some situations would be even more enterprising such as buying distressed securities, arbitrage situations and spin offs. The best book that covers these topics is You Can Be a Stock
Market Genius: Uncover the Secret Hiding Places of Stock Market Profits

by famed value investor Joel Greenblatt.

Benjamin Graham Stock Screener

Books Authored

The Intelligent Investor: The Definitive Book on Value Investing, A Book of Practical Counsel


The Interpretation of Financial Statements

Benjamin Graham on Investing: Enduring Lessons from the Father of Value Investing

The Rediscovered Benjamin Graham: Selected Writings of the Wall Street Legend

Benjamin Graham: The Memoirs of the Dean of Wall Street

Storage and Stability: A Modern Ever-Normal Granary (Benjamin Graham Classics)

World Commodities and World Currencies: The Original 1944 Edition

Benjamin Graham Classic Collection

Many books have been written that contain detailed information about Benjamin Graham. Here are some of the better ones:
Value Investing: From Graham to Buffett and Beyond

The Guru Investor: How to Beat the Market Using History's Best Investment Strategies

Applied Value Investing: The Practical Application of Benjamin Graham and Warren Buffett's Valuation Principles to Acquisitions, Catastrophe Pricing and Business Execution

Benjamin Graham on Value Investing: Lessons from the Dean of Wall Street


Money Masters of Our Time

How to Think Like Benjamin Graham and Invest Like Warren Buffett

Should Rich Corporations Return Stockholders’ Cash? (1932)

Should Rich But Losing Corporations be Liquidated? (1932)

Stock Dividends: An Analysis of Some Major Obstacles (1942)

World Commodities and World Currency (1944)

Lectures on Value Investing (1945)

Should analysts have a Professional Rating? (1945)
Toward a Science of Security Analysis (1945)

Special Situations (1946)

Money As Pure Commodity (1947)

Valuation Technique (1947)

How to Handle your Money (1955)

Testimony to US Congress on Security Markets (1955)

Illustrative Approaches to Formula Valuations of Common Stocks (1957)

Stock Market Warning: Danger Ahead! (1960)

The Flexible Work Year: An Answer to Unemployment (1964)

Some Observations (1968)

The Future of Common Stocks (1974)

The Renaissance of Value (1974)

A Conversation with Ben Graham (1976)

An Hour with Mr. Graham (1976)

Graham-Newman Partnership Letters
1946 Letter to Investors 1953 Letter to Investors
1947 Letter to Investors 1954 Letter to Investors
1948 Letter to Investors 1955 Letter to Investors
1949 Letter to Investors 1956 Letter to Investors
1950 Letter to Investors 1957 Letter to Investors
1951 Letter to Investors 1958 Letter to Investors
1952 Letter to Investors

Benjamin Graham Stock Calculator

Famous Quotes by Benjamin Graham

"True investment is more a hazard to be guarded against than as a source of profit through prophecy."

"Wall Street people learn nothing and forget everything."
"The individual investor should act consistently as an investor and not as a speculator. This means... that he should be able to justify every purchase he makes and each price he pays by impersonal, objective reasoning that satisfies him that he is getting more than his money's worth for his purchase."

"To achieve satisfactory investment results is easier than most people realize; to achieve superior results is harder than it looks."

"Most of the time stocks are subject to irrational and excessive price fluctuations in both directions as the consequence of the ingrained tendency of most people to speculate or gamble ... to give way to hope, fear and greed."

"Even the intelligent investor is likely to need considerable willpower to keep from following the crowd."

"It is absurd to think that the general public can ever make money out of market forecasts."

"It is rare that the founder of a discipline does not find his work eclipsed in rather short order by successors. But for over forty years after publication of the book [Security Analysis] that brought structure and logic to a disorderly and confused activity, it is difficult to think of possible candidates for even the runner-up position in the field of security analysis." (Warren Buffet, Financial Analyst Journal, November/December 1976)

"They (stockbrokers, financial analysts, investment advisers) tend to take the market and themselves too seriously. They spend a large part of their time trying, valiantly and ineffectively, to do things they can't do well."

"A typical investor has a great advantage over the large institutions."

"When somebody asserts that a stock has an earning power of so much, I am sure that the person who hears him doesn't know what he means, and there is a good chance that the man who uses it doesn't know what it means."

"The correct attitude of the security analyst toward the stock market might well be that of a man toward his wife. He shouldn't pay too much attention to what the lady says, but he can't afford to ignore it entirely. That is pretty much the position that most of us find ourselves vis-à-vis the stock market."

"The individual investor should act consistently as an investor and not as a speculator."

Videos about Benjamin Graham