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## BOOK REVIEW

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Mark Kritzman, Senior Editor

**BOOK OF VALUE: THE  
FINE ART OF INVESTING  
WISELY 2016**

*Anurag Sharma*

*Columbia Business School  
Publishing*

*(Reviewed by  
Bruce Grantier, CFA.<sup>1</sup>)*

I am pleased to do this review on “*The Fine Art of Value Investing*”, as value investing has no doubt been a great part of our investment careers, plus US value returns have outperformed US growth returns, not every year, but over the long term, for 90 years going back to 1926. Comments below include five sections of the book’s themes on the history of value investing.

First, is a long term review of the history of value investing. Second, there is a discussion on asset prices, values, yield, and risk, which have a bearing on value investing. Third, there

are several great chapters with a number of very good charts on world value investing. Fourth there is a very good chapter on Warren Buffett. And fifth, there are very good references to the great work of Benjamin Graham.

The author Anurag Sharma is a professor at the Eugene W. Isenberg School of Management, University of Massachusetts at Amherst. He is well qualified to present such a wide-ranging discussion on value investing. His insights on value investing show how to apply tools of business analysis to sort through many variations in financial markets. The book teaches novices that investing is not a game of luck, but a skill, and it provides emotional and analytical tools necessary to play well in investing. The book concludes that investors should learn to be mindful

of their psychological biases—especially in the field of value investing—in carrying out their investment program.

On the first topic, we begin by commenting on the great history of investing, including the most significant authors of this theme, going back a very long way. Today’s US stock investments total about \$2 trillion, the greatest amount compared with the world’s other countries. The ancient foundations of investing go back to about 400 BC with Plato contemplating such things. The middle years go back to late Roman times just under 1000 AD, and the current US value investment phenomenon began in the late 1800s. Given the background for value investment growth, those investors who portrayed this consisted of Aristotle around 0 BC, an English polymath expert by the name of Francis Bacon around 1620,

and then followed by an Austrian by the name of Karl Popper living in the UK in the early 1900s.

Sharma moves on to discuss the book's chapters on prices, values, yield, and risk, which are all quite good with respect to value investing. He begins by pointing out how a stock's value is somewhat elusive and unstable over time. He then goes on to discuss valuation, with notes on price to book values, multiples, cash flow, and the simple math behind valuation. He finally goes on to discuss how stability of value stocks can vary, presenting great opportunities at times.

Then, Sharma very effectively reviews a number of very good charts on value investing. There is an outline on "capital efficiency" which outlines the various measures: Return on Equity (ROE), Return on Assets, (ROA), Return on Capital (ROC), and Return on Sales (ROS). These chapters are great value discussions.

Near the end, the book provides a very good chapter on "The Buffett Portfolio" which shows the top ten stocks of Berkshire Hathaway's portfolio (i.e., the BRK portfolio) which represent almost 95% of the portfolio, and of that the

top five stocks represent about 75% of the portfolio. Those top five are: Coca-Cola, Wells Fargo, American Express, and Proctor and Gamble. This discussion goes on to review the value of all these holdings, including the formerly noted measures of ROA, ROE, and ROC. This section concludes the great value investments of the BRK portfolio and how they have performed very well over time. I might note that I have attended several of the BRK Annual Meetings plus read Warren Buffett's investment commentaries, and I would highly recommend to others to attend and or read Warren Buffett's very good investment commentaries. By the way, his return history for 50 plus years shows how BRK has outperformed the S&P 500 by 10% per annum over that period—a fantastic performance of value investing, well worth its inclusion in this section of Sharma's book.

Finally, the author makes great references to Benjamin Graham, the most famous value investor and author, along with David Dodd, of "Security Analysis" in 1934. The book discusses the psychological problems of investment analysis plus problems that become daunting due to the churn of markets plus the noisy coverage

of media. Sharma notes Graham and Dodd's great influence on Harry Markowitz back in the '50s when Harry Markowitz read their work and concluded risk is a function of volatility. Sharma goes on to discuss Benjamin Graham's formula for estimating intrinsic value, which he concludes is based on: price earnings ratios, earnings per share, and expected growth rates—all great influences on value investing.

In summary, the book *Value Investing* is a valuable contribution to investors' understanding of today's markets. The book is very well-researched and well-written, in addition to being extremely enjoyable to read. Anurag Sharma sums his book's message in his final comments: "The traits that make up a complete value investor are a tall order of most of us humans. The ideal temperament and its supporting traits are something to strive for, not only so we may become better investors but so that we may continue striving to become better people who make good choices."

#### Note

- <sup>1</sup> Bruce Grantier, CFA, is a Toronto CFA Society Board Member plus author of the website: [InvestorLiterature.com](http://InvestorLiterature.com)