Journal Of Investment Management, Vol. 20, No. 4, (2022), pp. 105–106

www.joim.com

BOOK REVIEW

Mark Kritzman, Senior Editor

BOOK REVIEW: WHERE THE MONEY IS: VALUE INVESTING IN THE DIGITAL AGE

Adam Seessel
(*Reviewed by Anitya Gupta*)

The pursuit of a successful investment strategy is never-ending. However, the oldest and most debated one is value investing. Benjamin Graham, the father of value investing, introduced and conceptualized it in his book "Security Analysis" in 1934. It quickly gained popularity because of its due diligence in stock selection which yielded phenomenal returns. But, in recent decades, value has underperformed the market. The rise of the internet has transformed the world economy and brought down century-old enterprises. The world's eight out of ten most valuable publicly traded companies are now from the technology sector. Roughly half of the US market's gains since 2011 and two thirds of the market's gains since 2016 were from technology and related sectors. Does that mean that value is dead? Seessel, in his book "Where the money is: Value Investing in the Digital Age," claims that technology stocks are indeed value stocks, and the old methods have failed to capture the technology sector's enormous value creations.

In the book's first part, Seessel discusses Ben Graham's value investing framework, which he calls value 1.0. Value 1.0 estimates the true intrinsic value of the underlying asset. Given time, the intrinsic value and market value would converge. The author argues that value 1.0 was well suited for its time because stocks were usually used for speculation and traded at a discount. Secondly, it is a time-intensive short-term strategy and will be taxed at a higher rate in the current world, hence taking away most of the profits.

Seessel refers to value 2.0 as a framework based on Warren Buffett's investment principles. A value 2.0 company has brand value, competitive advantage, sizeable market share, and customers unwilling to switch to other brands at any price. The author argues that these mature firms have no room for expansion; hence investing in these stocks could underperform the market. He is also skeptical about how long mature industries like TV, or the processed food industry will last with tech-savvy and health-conscious Gen-Z and millennials.

Seessel then introduces the value 3.0 or BMP framework for the digital age. BMP stands for Business, Management, and

Price. A value 3.0 business has both competitive advantage and exponential growth opportunity. Management knows what drives the business value and has an owner's mindset. Price is the least important in value 3.0 but decides entry-exit points. Seessel contends that applying the BMP methodology to a technology stock will fail at the price factor because of its high Price-to-Earning and Price-to-Book ratios. Seessel advises against using these raw ratios based on outdated accounting rules. He pleads that if an industrial firm can depreciate its assets over 20 to 30 years, why can't a digital firm depreciate its R&D and marketing costs? He notes that a digital firm can increase its production manifolds simply by extending its reach with minimal cost, without new production units. Hence, one should adjust the financial statements for comparison or decision-making. The author reassures us that value 3.0 is not just for digital but for all types of firms from any sector. However, the only caveat is that the product or service offered by the business be tech-proof.

Those new to investing will undoubtedly benefit from this book, but so will industry experts. The author provides a new outlook for value investing and in-depth analysis that would be hard to find anywhere else. The book is also an excellent investing guide for those not from a finance background and will help young readers understand the importance of investing. The book offers guidance about how to make money in the digital age by focusing not only on the theoretical investment framework but by finding 3.0 value firms using common sense and observations in day-to-day life.