[A caution related to classic investment books](#)

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A caution related to classic investment books

Summary: Individual investors should exercise caution when applying the tactics of older, classic investment books to current markets. The more handcrafted, seat-of-the-pants, and individual actor approach to the securities markets in the pre-computer, pre-networking era has given way to different practices. Therefore, it is important not to confuse valid investment principles with the tactics that were used to implement them in the past. Some important aspects of the securities markets and the financial services industry have changed dramatically in the past several decades. The markets and the industry have been transformed by increased professionalism, an influx of technocrats, huge trading volume, pervasive computer and networking infrastructure, proliferation of investment vehicles, extremely rapid information dispersion, sophisticated risk modeling, invention of derivative securities, automated market data analysis, and real-time global trading. Moreover, these are only some the ways that modern securities markets differ from the markets of the past. Many classic investment books from the more distant past have been republished and some have retained a significant following. Classic books, such as “Common Stocks and Uncommon Profits” by Philip A. Fisher and “Securities Analysis: Principles and Techniques” by Benjamin Graham and David L. Dodd, to list just two, remain interesting and instructive. However, these authors were writing in a time when the markets were quite different. For example, the value-based investment focus of Graham and Dodd remains valid in modern securities markets. Statistical analysis indicates that on average over time the markets do seem to provide better returns to a value-based approach. Furthermore, the importance of value-based investing has been incorporated into investment theory. For example, the multi-factor market return benchmarks of scientific investing now incorporate a value-versus-growth factor. While there is truth behind Graham and Dodd’s value-based approach, it is doubtful whether individual investors on their own can now profitably implement tactics that might have worked in the past. It is doubtful, whether an individual who diligently analyzes stocks and self-manages his portfolio will obtain superior returns over the long run, when compared to a passive index strategy with a skew toward value that is implemented through funds. When lack of diversification, investment expenses, and the opportunity cost of one’s time are taken into consideration, current market tactics strongly favor investments through low cost mutual funds or exchange-traded funds, rather than through direct investments in individual stocks. ____

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