

# WHATSINIT

## 4me

### VALUE Investing

■ THE value investment philosophy has been successfully captured in the Benjamin Graham and David Dodd's book "Security Analysis" published in 1934. Some of the well-known proponents of value investing include names like Warren Buffett, founder of Berkshire Hathway, John Templeton, founder of Franklin Templeton, Peter Lynch, fund manager at Fidelity.

Value investing involves buying assets, which are priced substantially below their intrinsic value. So when the asset recovers to its fair valuation or above fair valuation value investors exit with a good return. The discount to the intrinsic value called as "margin of safety" often serves as a buffer and provides protection against non-achievement of intrinsic value. Basic tenets of value investing are:

**Detailed analysis:** It involves thorough analysis of the fundamentals of investment based on its historical performance, both today's conditions as well as future prospects.

**Intrinsic value/ economic value:** This means the real value of an investment taking into account current conditions as well as future prospects. Over a long period of time, asset prices are anchored around their economic values. Prices, which are very high or very low are not sustainable and revert to their economic values sooner or later.

**Adequate return:** In its simplest form, it is defined as any return, which exceeds the long-term bond yield and annual inflation. But for an individual investor, it means a reasonable return that he is willing to accept provided he acts rationally.

**Protection of capital:** Value investing postulates that in no circumstance should an investor lose his principal. This is achieved through identification and reasonable mitigation of all the risks embedded in an investment. Very risky investments might yield very high returns but there is a great probability of erosion of capital, so, value investing focuses on ruling out such investments.

Value investors often follow configural analysis, which is rigorous as it demands a holistic understanding of a situation taking into account multitude of factors.

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