

Cheaper by the Dozen: 12 Wall Street Classics for 2008

By John E. Deysher

As the portfolio manager for a publicly traded mutual fund, I'm often asked to recommend a good investment book. One shareholder even asked me to write one.

While I'm not ready to make that type of commitment, I thought about the most worthwhile books I've read over the years and put a list together.

There will undoubtedly be titles you feel should be on the list. Fortunately, the ones that made it are still in print and most are available in paperback. They cover a variety of investment topics—some are easy reads, some require more time and concentration.

One thing's for sure, you'll learn something from each. So here they are, organized by topic.



investor and include topics like financial statement analysis, per share earnings and assessing management.

Lots of examples are used, and while some may be a bit dated, the key points are driven home. Warren Buffett calls it one of the best investment books ever written.

“One Up on Wall Street,” and **“Beating the Street,”** both by Peter Lynch (Simon & Schuster, 2000 and 1994, respectively)

These gems by Peter Lynch, former manager of Fidelity's Magellan Fund, remain best sellers.

It's easy to see why.

Well-known for his commonsense approach to investing, Lynch believes you don't have to be a professional securities analyst to do well in the marketplace. The key is to focus on what you know. Instead of investing in the latest Wall Street fad, look around you. Is there a new restaurant chain that's doing well? Is there a firm building a new plant or warehouse in your area? Being alert for tip-offs like these can lead to “ten-baggers,” stocks that appreciate 10 times.

Once you've found an idea, Lynch shows you how to research it. Know what you own—you should be able to explain a company's prospects to a 12-year-old in less than two minutes. Also, be patient: The big moves in a stock normally come in years three to five.

An excellent read.

“Common Stocks and Uncommon Profits,” by Philip Fisher (Wiley, 2003)

Fisher's qualitative focus complements nicely the quantitative focus of Benjamin Graham (mentioned previously).

Stock Strategies and Analysis

“The Intelligent Investor,” by Benjamin Graham (Collins, 2005)

First published in 1949, this investment classic has sold millions of copies and is the bible for many value investors.

A quantitative investor at heart, Graham believed that all the qualitative aspects of a company would manifest themselves in the financial statements. By understanding the statements and trends therein, Graham could correctly assess a company's prospects.

The first 10 chapters cover investment basics like investing vs. speculation, stocks vs. bonds, inflation, advisors, “defensive” vs. “enterprising” investing and margin of safety.

The last 10 chapters focus on securities analysis for the lay

You really need both.

One of the original growth stock investors, Fisher's thesis for accumulating great stock market wealth is to invest in a small portfolio of companies that can grow sales and earnings over many years. If the investment is carefully chosen, you might hold it indefinitely, earning multiples on your investment.

But how does one find such gems?

Fisher provides the answer by listing 15 qualities a firm should have to be considered a superior investment. For example: How big is the addressable market, and does the firm have the products and infrastructure to capture a reasonable market share? How much does a company spend on research & development as a means of creating new demand once the current product line matures?

Fisher is well known for his "scuttlebutt" approach to answering these questions. This involves speaking with employees (or better yet ex-employees), customers, vendors and competitors to obtain inside knowledge of a company's prospects. He teaches us the right questions to ask.

Fisher also provides a list of "10 Don'ts for Investors," which includes such nuggets as: "Don't buy promotional companies" and "Don't follow the crowd."

A worthwhile read.

"The Five Rules for Successful Stock Market Investing," by Pat Dorsey (Wiley, 2004)

Written by Morningstar's director of stock analysis, Pat Dorsey, this is an excellent book for novice and seasoned investors alike.

The Five Rules are:

- 1) Do your homework,
- 2) Find companies with strong competitive advantages (or economic moats),
- 3) Have a margin of safety,
- 4) Hold for the long term, and
- 5) Know when to sell.

The first half of the book is dedicated to analyzing companies (qualitative and quantitative) and determining their intrinsic values, from which you can

determine whether the stock is over, under or fairly valued.

In the second half of the book, each chapter is devoted to overviews of 13 industries, including media, consumer goods, industrial materials, banks and software. Each chapter has an "Investor's Checklist" for that industry to help identify key factors in picking a stock.

A delightful book with something for just about everyone.

"Competitive Strategy," by Michael Porter (Free Press, 2004)

Those interested in learning about how to assess companies and industries and the factors impacting the profitability of each should read this book.

A Harvard Business School professor, Porter identifies two key sources of competitive advantage as cost leadership (economies of scale, proprietary technology, etc.) and product differentiation (focus on product attributes the buyer sees as most important).

Porter also examines key factors like bargaining power of suppliers, bargaining power of customers, competitive landscape, threat of substitute products/imports, barriers to entry and corporate culture.

Porter's book provides a solid foundation for understanding why some companies create value and do well, while others destroy it and fare poorly. It's chock full of real-life examples that relate theory to real-life situations. Since initial publication in 1980, Porter's book is used by managers and business students worldwide to help understand the forces behind competition and profitability.

Books on Buffett

"Essays of Warren Buffett, Lessons for Corporate America," by Warren Buffett, compiled by Lawrence Cunningham (The Cunningham Group, 2001)

Since Buffett never wrote a book, this collection of excerpts from past Berkshire Hathaway annual reports offers a glimpse of what one of the world's

best investors thinks about investments, businesses, ethics and managers.

Organized by subject matter, Cunningham has culled out the detailed financial discussions typically found in each Berkshire annual report to get to the gems of wisdom we can all learn from. His collection is well chosen and organized into topics such as management accountability, capital structures, valuations, accounting issues and others.

If you want to learn about Buffett's life, read the Lowenstein book (below).

If you want to learn how he thinks, read this one.

"Buffett: The Making of an American Capitalist," by Roger Lowenstein (Main Street Books, 1996)

Over 10 years old, this book is still the best biography on Warren Buffett, one of the all-time great investors. Wall Street Journal reporter Roger Lowenstein provides a richly detailed portrayal of the legendary investor in a lively and amusing style that keeps the pages turning.

Lowenstein diligently traces the master's life from the early Omaha days to his highly successful partnership to his more recent forays into American Express, GEICO, Cap Cities, Salomon Brothers and others. The man that emerges is smart, ethical, hands on and has a sense of humor—all qualities Buffett looks for in his own managers.

This is the best type of biography. Lowenstein had no access to Buffett in writing it. The author overcomes this hurdle with exhaustive research, including interviews with many Buffett friends, family members and business associates. To his credit, Lowenstein then distills this into a thoughtful, well-written and thorough portrayal of a remarkable man.

This is not a 'how to become a better investor like Warren Buffett' book and readers looking for this will be disappointed. However, the book offers glimpses of Buffett's secrets (e.g., be fearful when others are greedy and greedy when others are fearful) and should be a worthwhile read for novices

and experienced investors alike.

The Markets

“The Money Game,” by Adam Smith, aka George W. Goodman (Vintage, 1976)

First published in 1967, Smith’s classic is another that has withstood the test of time. Set in the late 1960s, Smith portrays an era that’s darn close to today’s marketplace—markets at all-time highs, gunslinger portfolio managers and a cavalier attitude toward risk. It’s fast, funny and very entertaining.

Smith covers such topics as mass psychology, fundamental analysis, technical analysis, equity valuations, mutual funds and more.

In Smith’s game, money is how you keep score and if you’re making money, you’re winning the game. History is a great teacher and Smith’s book provides many lessons that can be applied by each new generation of investors.

Smith’s follow-up books, “Super Money” and “Paper Money,” are also very good and spent many months on the best-seller lists.

“Reminiscences of a Stock Operator,” by Edwin Lefèvre (Wiley, 2006)

For pure entertainment, this book is hard to beat. First published in 1923 as a novel, Lefèvre follows the life and times of Larry Livingston a fictitious name for Jesse Livermore, one of Wall Street’s shrewdest traders.

Hugely entertaining, this is an insider’s view of the stock market in the wild, unregulated days of the late 1800s and early 1900s. Livermore was a speculator who made and lost several fortunes. He never considered himself an investor and didn’t mind being long or short, so long as he was right. Correctly assessing that he would never catch the top or bottom, he would wait for a trend to develop and then jump

in. In today’s market he’d be called a momentum investor.

What keeps this book so popular after 84 years?

Livermore’s advice on exploiting fear, greed and the herd mentality are just as relevant today as they were then.

Market Masters

“Money Masters of Our Time,” by John Train (Collins, 2003)

In the only compilation book on the list, financial writer Train profiles several notable investors: Warren Buffett, Paul Cabot, Phil Caret, Ben Graham, Mark Lightbrown, Peter Lynch, John Neff, Richard Rainwater, Jimmy Rogers, Julian Robertson, George Soros, Michael Steinhart, John Templeton, Ralph Wanger, and Robert Wilson.

Among this list you’ll find growth investors, value investors, short sellers, commodity experts and international players. You’ll gain solid insights and knowledge from the experience of each and learn what makes them tick.

If you wish to learn more, most have been written about in other works—some included on this list. Train also provides a nice summary of common practices among the group, which is very useful.

The Bond Markets

“Strategic Bond Investor,” by Anthony Crescenzi (McGraw-Hill, 2002)

Crescenzi, a frequent media commentator, has written a fixed-income bible that merits a place on any serious investor’s bookshelf. He really understands the bond market and in plain language provides illuminating explanations of different types of bonds and how they perform in different types of markets.

Crescenzi demystifies yield curves and other indicators that can be used to predict the direction of the economy.

Economic reports are examined, including how they can influence bond prices and profit opportunities. Important topics like risks, credit ratings, liquidity and pricing are also covered.

The book makes liberal use of charts, tables and diagrams and provides investors with the tools they need to participate in today’s bond markets. Very well organized, the book correctly conveys that bonds can be every bit as exciting as stocks these days.

“Distressed Debt: Strategies for Speculative Investors,” by Stephen Moyer (J. Ross Publishing, 2004)

Stephen Moyer is a managing director for a major Los Angeles firm specializing in distressed debt investing. The basic premise is: ‘Heads we win and get our money back (plus interest), or tails we win and end up owning the company.’

The owner of distressed debt/bonds trading at a sizeable discount to par value is often made whole because of actions that cause the bonds to recover to par or has the bonds converted to equity in a bankruptcy reorganization. The new equity often does quite well once the debt is eliminated through the reorganization process.

Sounds simple, doesn’t it?

It isn’t.

Fortunately, Moyer’s book demystifies the slew of issues surrounding a distressed company, such as: how a company becomes distressed and what happens once it reaches that point, including internal and external forces that can shape its ultimate destiny; and how bankruptcy law, capital structure, risk assessment and industry/company due diligence play important roles in the restructuring/reorganization process. The book is loaded with real-life examples to drive home important points.

This is high-risk, high-reward investing but if you’re interested in learning from a pro, this book’s for you. ▲

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