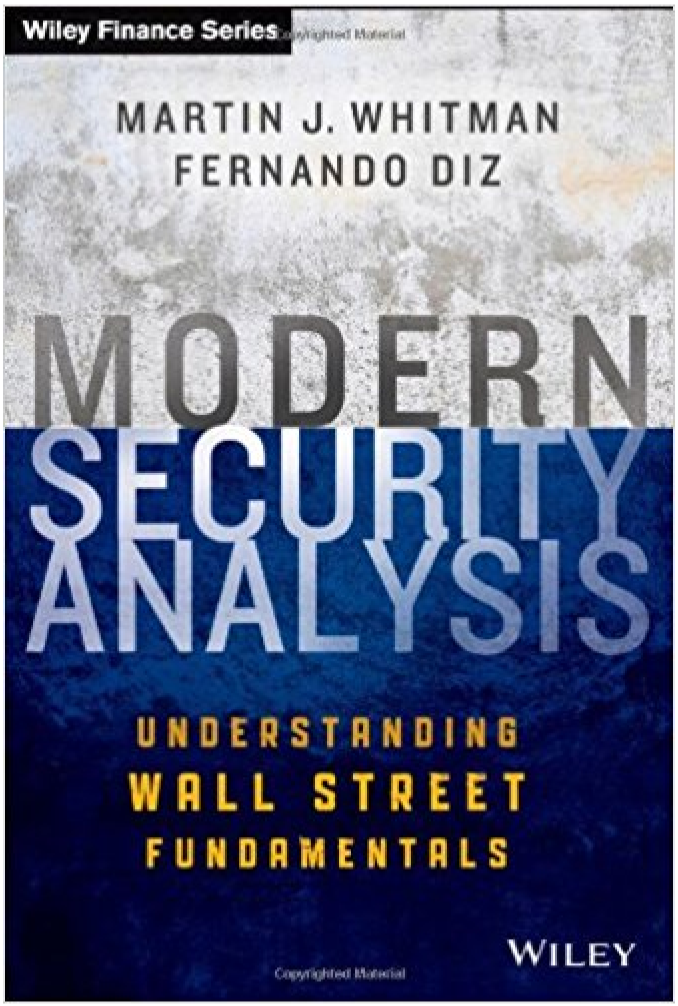
Modern Security Analysis: Understanding Wall Street Fundamentals



Synopsis

A legendary value investor on security analysis for a modern era This book outlines Whitman's approach to business and security analysis that departs from most conventional security analysts. This approach has more in common with corporate finance than it does with the conventional approach. The key factors in appraising a company and its securities: 1) Credit worthiness, 2) Flowsâ "both cash and earnings, 3) Long-term outlook, 4) Salable assets which can be disposed of without compromising the going concern, dynamics, 5) Resource conversions such as changes in control, mergers and acquisitions, going private, and major changes in assets or in liabilities, and 6) Access to capital. Offers the security analysis value approach Martin Whitman has used successfully since 1986 Details Whitman's unconventional approach to security analysis and offers information on the six key factors for appraising a company Contains the three most overemphasized factors used in conventional securities investing Written by Martin J. Whitman and Fernando Diz, Modern Security Analysis meets the challenge of today's marketplace by taking into account changes to regulation, market structures, instruments, and the speed and volume of trading.

Book Information

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Customer Reviews

â œModern Security Analysis is full of useful discussions of such standard topics as creditworthiness, market efficiency, diversification, and financial accounting. But it also includes descriptions of more controversial ideas about the overriding importance of tangible net asset value, the shortcomings of the Grahamâ "Dodd approach to value investing, and the irrelevance of both modern capital theory and broker/dealer research.â • â ”CFA Institute Book Review

With the crash of 2008 still ringing in the market's collective ears, the value investing philosophy has never seemed more relevant or sound. But in the eighty years since Benjamin Graham and David Dodd's Security Analysis took the investing world by storm, much has changed in the investing environment. Working from the simple guiding principle that "safe and cheap" is the most reliable way to minimize investment risk while maximizing long-term returns, Whitman, over the course of his more than fifty years as an investor and fund manager, has developed an investing approach that has made fortunes for his many clients—and himself—in all economic climates. A book that is sure to become an investing classic, Modern Security Analysis reveals the details of Whitman's approach to analyzing businesses and the securities they issue. While conventional approaches to investing, including Graham and Dodd fundamentalism and academic finance, take a top-down approach to analyzing securities and businesses, the bottom-up approach you'll discover here looks at companies not merely as aggregates of operational cash flows and earnings—their pure going concern attributes—but also as entities actively involved in wealth-creating "resource conversion" activities. In essence, that entails identifying a company's potential for generating wealth in many different ways, in addition to flows from operations, including mergers and acquisitions, spinoffs, recapitalizations, liquidations, changes of control, having attractive access to capital markets, and more. Clearly accessible with the help of numerous examples and several case studies, Martin Whitman and co-author Professor Fernando Diz describe proven methods for: Developing a thorough understanding of many companies' business and wealth generating attributes Appraising business managers not only as operators but also as dealmakers, investors, and financiers Understanding the importance of credit worthiness for any economic entity Understanding the important differences between control and passive investing Appraising and avoiding investment risk Choosing the right amount of diversification or the level of portfolio concentration Buying growth without paying for it Avoiding the many pitfalls of following conventional wisdom Understanding the significance of resource conversion activities in the generation of business value Understanding what value investing is relative to other forms of investing Offering a unique opportunity to learn a proven, time-tested alternative to conventional security analysis from an investing legend, this book is must-reading for finance professionals, including security analysts, money managers, institutional investors, finance academics, and economists as well as anyone seeking to invest with a large margin of safety.

I’ve previously read the author’s 2008 book "Distressed Investing." Being aware of Mr. Whitman’s reputation for said type of investing, and the title of the book, I was expecting a book that discussed the various metrics and measurements that he employs in those types of situations. Instead of his interpretation of how to deconstruct financial statements, what’s presented is an overview of the paradigm the author uses for investments.PROs:- His criticisms on the EMH, MCT and MPT are spot on.- Rather than simply taking the perspective of an investor buying investments on the open market (Outside Passive Minority Investors, or OPMI), the authors present the points of view from several other security owners, such as senior secured creditors and subordinate debenture holders.- Uses Net Asset Value (Book value, more or less) and its growth as a measurement of value, which most authors of late seem to overlook.- A good amount of time is spent on distressed investing.- Details why (numerous times) diversification is simply a ("poor") substitute for knowledge, judgment, and analysis. For the active investor, they successfully explain why a concentrated portfolio is much better than an diversified one. Basically, if you’re going to be "diversified" in your stock selection (More than 15-20 individual equities), you’re better off buying a low-cost index fund.CONs:- My biggest problem with the book is that it’s simply too repetitive. I don’t mean from materials previously published in the authors other books, but identical paragraphs found in one chapter after another in this book. For instance, the EXACT SAME half-page example for Society Corp. and how it worked out as a "resource conversion" is presented in THREE different chapters!- Having read both Graham and Dodd’s "Security Analysis" recently, and the "Intelligent Investor" twice, I’m not sure that the authors and I were reading the same books. He accuses G&D of having a short-term outlook for market prices, and being unconcerned with management. While Graham’s recommended holding period of 2 years is arguably shorter than the authors, the accusation of G&D being more concerned with short-term price fluctuations than long-term outlook is baffling.- The authors restate many times how they prefer a bottom-up approach (focusing on the individual company, indifferent to macroeconomic conditions) to investing rather than a top-down (using macroeconomic conditions to aid in deciding which investments to buy), which is fine. However, in spite of this point being repeatedly made, there’s a whole chapter on how modern macroeconomists (Keynes, Hayek, and Friedman) have gotten it wrong. It’s not that I agree or disagree with their points, but if we’re supposed to ignore the macroeconomic conditions, why bother with discussing why economists are right or wrong?- This is perhaps what annoyed me the most about the book: Besides the recommendation of buying stocks at least a 20% discount to their NAV, and to ensure that they can grow their NAV by at least 10% compounded annually for the intended holding period, that have a "strong financial position," there is almost NO discussion on quantitative factors of what makes up a "strong financial position." Considering the authors are noted for distressed investing, why not mention what indicates a troublesome coverage ratio (EBIT/Interest expense)? What is an usually large amount of total debt-to-EBITDA? Complete letdown.- Building on that, on the topic of distressed credit instruments, the authors use vague phrases like "we figured there would be a 75% chance that the debt holders wouldn’t want to participate in Chapter 11." Thanks, but without knowing HOW you came to conclude there was a 75% chance, the statement adds nothing of value. Also, when discussing how creditors can profit from Chapter 11 by exchanging debt for new equity, there’s no material on how the authors determine whether or not the value of the new equity will be greater or less than in relation to the price of the current debt.- Despite being "Modern" security analysis, many of the examples the authors give are from the 1960s and 1970s. I know that finance hasn’t changed much since then, but some more recent case studies would’ve been more helpful.In short, the book’s title of "Modern Security Analysis" is misleading. Rather, it should be "Modern Business Perspectives." If you’re looking for a solid operating paradigm for investing in distressed securities, this is the book for you. If you’re interested in specific numbers on what to look for and what to avoid when engaging in this type of investing, look elsewhere.

This is Whitman’s magnum opus. It summarizes, updates, and expands Whitman’s thought that he has been developing for years (decades?). This book is probably over the head of a beginner so if you are trying to get your fellow home-gamer to break into investing do not gift this book to him or her. If you are already a sophisticated investor you will still need the patience of Job to trudge your way through this tome. In short this is not light reading. Most of the propositions are debatable and my hunch is Whitman likes it that way. For instance the distinction he makes between an investment and a speculation is really stretching it but every person who has made this attempt has failed so I will not cast the first stone at Whitman either. Although I think that Carret, in his book on speculation, makes the distinction better you can sure tell that Whitman does not treat the distinction in a thoughtless manner. No Whitman is a deep thinker no doubt about it. For those of us who are students of investing much of this stuff is obvious. And yet... Whitman’s take on the obvious is so original, deep, and thoughtful that he makes the obvious unique and wonderful. Note the tribute to Benjamin Graham in the title but even if you are not a Graham or Dodd value investor this book is great food for thought. Traders, momentum players, and trend followers might get bored and find their eyes glazing over but it is good to know thy enemy so they should read it anyway. Think of it as trader medicine: it might taste like crap but it is good for you. Bicker your way through this book if you must but you will find it rewarding especially if you are a fundamentalist.Dr. Victor Lee Burke

Ph.D.Economic and Investing Sociologist: Yep there really are such people hey look at the founder of the hedge fund.

This book arrived in prestine condition. It is different version of Security Analysis, from Graham & Dodd and Cottle.

I was so looking forward to reading this book, which unfortunately turned out to be one of the biggest dissapointments that I have experienced in a long time. This book does a lot of dancing in cirles, re-lables/re-names so many topics and concepts offered and discribed by many others (in better and more importantly simpler ways) and provides a lot more additional information, which is unfortunately very little useful knowledge. It appeared to me that the authors of this book were trying to "reinvent the wheel", rewrite the "Ten Commandments" (and add a few of their own), but unfortunately reading this book turned to be nothing more than mouth diarrherea. I am happy however for all those who found it helpful. As for me, I had to stop reading it, it became too painful. Thank God for Benjamin Graham and Warren Buffett....they make investing "simple, but not easy"......My advise to anyone is to study Ben Graham and Warren Buffett and it will all make sense. As for Warren Buffett, even though he began with Ben Graham who provided him with the framework and foundation, his investing philosophy and style have been for many years quite a bit different from Graham as Buffett has evolved and changed (partly because of Charlie Munger, but mostly because of his own genius). It took me a while to learn this, but that was the fun part.......money making is just a side show. Good luck and happy value investing to all.

AAA

bought the book but it awaits reading.

not a fun read, but a good foundation

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