

**Heins, John & Tilson, Whitney – The Art of Value Investing***John Wiley & Sons, 2013, [Equity Investing] Grade ★★★★★*

When I opened up this book my initial reaction was disappointment. It almost exclusively consists of a collection of quotations from the monthly magazine *Value Investors Insight*. The obvious risk with a “cut-and-paste-set up” like this is that, however excellent the magazine is, it will not give you the needed coherence for a book. John Heins and Whitney Tilson are the cofounders of *Value Investors Insight*, where the former is the Editor-in-Chief. Tilson is also as most would know, a well-known value investor in his own right. The concept is simple; line up the questions that should be answered in order to create a well thought out investment philosophy and an effective investment process. Then let a number of investors give their answers. This means that each question gets several and often contradictory answers. The reader gets to benefit from insight from superstars like Seth Klarman, Howard Marks, David Einhorn, Jim Chanos and many others. As the book is sorted by topic and not by investor one shouldn't expect to get a comprehensive picture of the process of any one of those individual investors. However, the reader gets to survey a ton of the hard won insights various seasoned investors have made over their careers.

So does this book give you the distilled collective wisdom of successful practitioners or is it just sketchy snippets without context? Is it a multiple choice menu that allows you to compose your own perfect meal or a recipe for confusion? As so many times before I have to side with James Montier, who in the endorsements of the book states that “*I often judge a book by how many times I get my highlighter out and dog-ear pages. On that metric, this book is wonderful*”. My marker pen did some ridiculously heavy work while I was reading this text. Halfway through the book my initial skepticism had been converted into a feeling of having found a goldmine. It's a lively debate between many of the persons we should all listen to when it comes to improving our investing practice. At times, when several persons give roughly the same answer to a

question, it gets slightly repetitive, but at the same time this tells you something. At other times the answers differ and the reader is given great granularity on how that particular topic can be handled.

The topics are presented in an order that is well suited for the formulation and execution of an investment process. It's logically consistent and it's all very relevant. The book goes through how to position yourself within value investing with various degrees of focus on quality, growth or just on plain cheap stocks; where to compete with consideration to the skills you got and with the areas and strategies to match; how to search for investment ideas; thoughts on how to do research with all its nuances and choices; and it gives a detailed run through of how to build a portfolio, i.e. position sizing, risk management etc. The chapter that really spoke to me was “*Why to sell*”. The quotation on the introduction page to the chapter reads “*Standard descriptions of the selling discipline typically include: (1) We sell when our thesis for the stock has been realized; (2) We sell when the fundamentals significantly change; and (3) We sell opportunistically when we identify better uses of our capital. These are fine reasons for selling a stock, but they don't particularly suggest strategic thinking.*” Well, in slightly different words, that's the three bullet points we use to explain when we sell stocks! In reality the process for selling winners should differ from selling losers, the process of selling a franchise type stock should be different from selling a cigar but-type stock and there should also be a finely tuned balance between swapping out portfolio holdings for stocks with better prospects and the benefit of holding on to cases that you really know (and minimize trading costs).

*The Art of Value Investing* is packed with insights. The reader gets the “greatest hits” from 8 years or so of reading *Value Investing Insight*, and this roughly for the price of one month's subscription. Clearly something for the value investor!

Mats Larsson, July 15 2013