



Montier has two solutions. The first is global. Between 1985 and 2007, there were plenty of international networks to choose from, many in Japan. The second solution should appeal to UK private investors, and it focuses on companies that are not only cheap, but doing the right thing.

Shortly before his death, Graham devised new criteria for value investment, which he would use when networks were scarce. He recommended companies that were cheap, returning cash to their shareholders and not laden with debt.

The precise criteria were: an earnings yield of more than twice the composite AAA corporate bond yield (currently about 5 per cent); a dividend yield of at least 2/3 the AAA bond yield, and total debt of less than 2/3 of tangible book value (the value of the physical assets of the company minus its liabilities).

Montier adds a fourth criteria, a long-term Graham and Dodd P/E of less than 16, to produce a list of current bargains in the FTSE-All Share (see table below).

The list includes blue chips such as BP and Shell, as well as recent investor favourites Hornby, the model company, and soap manufacturer PZ Cussons.

The chances are many of these shares are bargains. But, is it wise to

Find out more about Graham's strategy

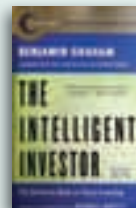
Security Analysis, by Benjamin Graham and David Dodd

The sixth edition of *Security Analysis* was published last October. It's based on the second (1940) edition with essays from leading modern-day value investors. Fans dispute which is the best edition of the book, but Montier says he now prefers the new one: 'is kind of like finding a new version of the Bible with a set of chapters written by Jesus!'



The Intelligent Investor, by Benjamin Graham

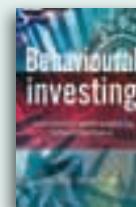
Graham wrote *The Intelligent Investor* for private investors. After he retired, he grew weary of the detail of investment analysis saying investors can succeed as long as they stick to a few techniques and principles, such as intrinsic value and margin of safety.



ideas, and the history of finance from the 1930s to the 1970s.

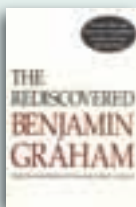
Behavioural Investing, by James Montier

Montier uses quantitative analysis on a scale that would have amazed Graham in this collection of articles that prove that psychology affects prices. Montier validates Graham's methods, and others, and shows why they remain, and may well always remain, effective.



The Rediscovered Benjamin Graham, by Janet Lowe

A collection of lectures and essays by Benjamin Graham providing insight into the development of his



buy them in a recession, when shares are so cheap, because their immediate prospects are bleak?

Behavioural investing

Psychologists in the relatively new field of behavioural finance are beginning to explain how investors trick themselves, seeing patterns in random information, placing too much confidence in their judgements, and focusing on price and not what it is they're buying.

When investors base their judgements on speculation, shares rise to irrational highs and fall to irrational lows.


Their theories vindicate Graham who said, in *Security Analysis*, an investor should pay less than 'intrinsic value' – the value justified by the assets, earnings, dividends and the definite prospects of a company – '...as distinct, let us say, from market quotations established by artificial manipulation or distorted by psychological excesses'.

Unlike speculators, who lose confidence when prices fall, value investors grow more confident.

Montier, an advocate of behavioural investing, has never been more bullish. Stock markets, he says, are 'offering... bargain

prices for those with the fortitude to shut their eyes, or at least switch off their screens and buy'.

Although there's a danger of buying too early, he says: '...If I can find assets with attractive returns and I have a long time horizon I would be mad to turn them down'.

As value investors start to put their money back into shares, Graham would probably agree. 

"[There are] bargain prices for those with the fortitude to shut their eyes"

James Montier

CLASSIC VALUE SHARES ON THE MARKET TODAY					
Epic code	Company	Sub sector	Earnings yield %	Dividend yield %	Graham & Dodd PE
JD	JD Sports Fashion	Apparel Retailers	20.9	3.6	12.7
TBK	Ted Baker	Apparel Retailers	12.3	5.6	13.1
SIV	St. Ives	Business Support Services	22.3	24.2	3.2
CCC	Computacenter	Computer Services	23.7	10.3	3.3
TOMK	Tomkins	Diversified Industrials	21.9	14.7	5.1
AGA	AGA Rangemaster	Durable Household Products	28.5	16.9	3.6
DNO	Domino Printing Services	Electronic Equipment	12.5	6.1	12.9
GRC	Greggs	Food Retailers & Wholesalers	11.2	4.6	14.0
HEAD	Headlam	Furnishings	19.5	12.2	10.7
AAL	Anglo American	General Mining	19.1	5.4	8.3
ANTO	Antofagasta	General Mining	21.9	6.9	12.7
APF	Anglo Pacific	General Mining	27.9	7.1	13.6
BLT	BHP Billiton	General Mining	18.2	4.9	14.5
CTO	T. Clarke	Heavy Construction	12.7	10.6	7.0
KIE	Kier	Heavy Construction	17.1	4.8	9.1
MGNS	Morgan Sindall	Heavy Construction	20.1	8.2	10.1
BVS	Bovis Homes	Home Construction	24.0	11.6	5.0
PSN	Persimmon	Home Construction	61.0	22.7	2.9
MLC	Millennium & Copthorne Hotels	Hotels	29.0	7.2	7.0
CGS	Castings	Industrial Machinery	17.3	6.3	9.0
CHTR	Charter International	Industrial Machinery	36.4	5.3	7.3
DPLM	Diploma	Industrial Suppliers	10.5	6.7	12.1
BP	BP	Integrated Oil & Gas	11.7	4.9	13.4
RDSB	Royal Dutch Shell	Integrated Oil & Gas	16.8	4.8	11.5
PZC	PZ Cussons	Personal Products	10.9	4.6	14.3
HRN	Hornby	Toys	15.2	8.0	11.0
BMS	Braemar Shipping Services	Transportation Services	19.6	9.2	11.5

Source: SG, 25 November 2008

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