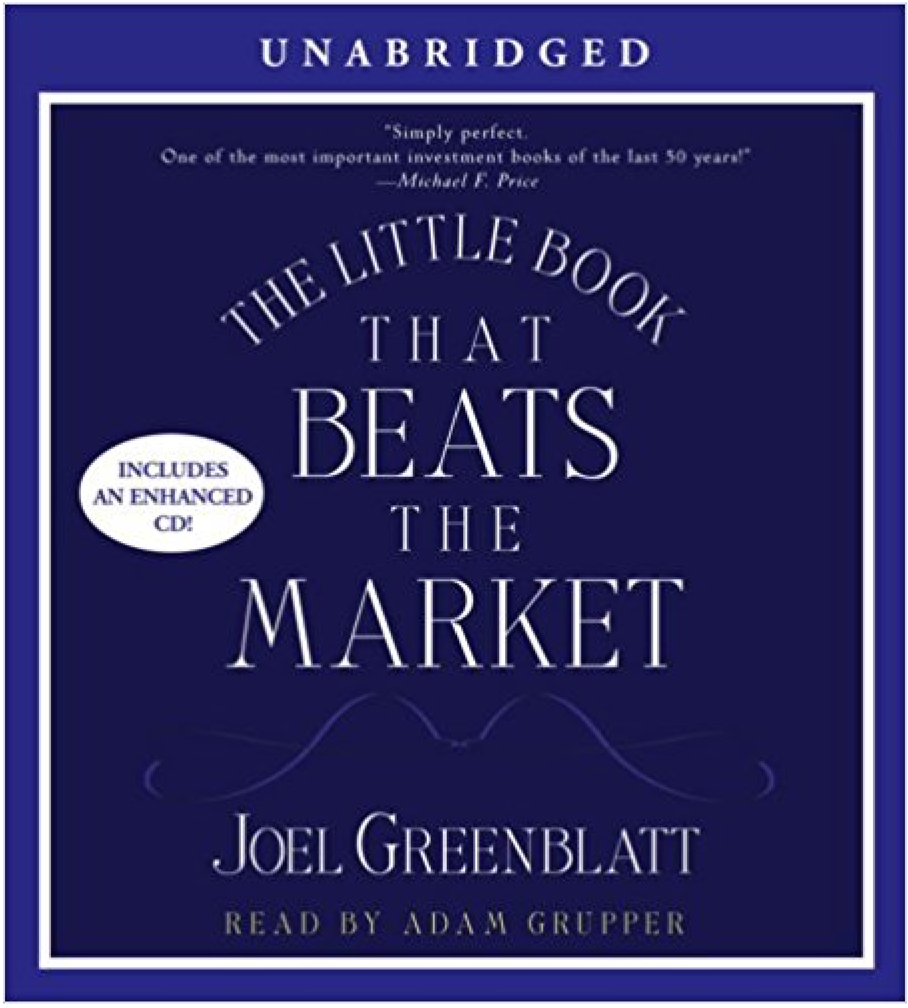
The Little Book That Beats The Market



Synopsis

Can you spare three hours to learn how to beat the market? As unlikely as it may seem, hedge fund manager and professor Joel Greenblatt, whose investment firm has averaged 40% annual returns for over twenty years, can teach you how. You can achieve investment returns that beat the pants off even the best investment professionals and the top academics. In fact, you can learn how it's possible to more than double the annual returns of the stock market averages.   But there's more. You can do it all by yourself. You can do it with low risk. You can do it without making any predictions, and you can do it by following, step by step, a time-tested, proven "magic formula" that uses only common sense and two simple concepts. Best of all, once you are convinced that it really works you can choose to do it for the rest of your life.   A runaway bestseller even before it was published, The Little Book That Beats the Market shows how successful investing can be made easy for investors of any age. It's never too early or too late to start investing, and with Greenblatt as your guide you'll know exactly where to go and what to do. By following the clearly outlined simple steps and magic formula, you can achieve extraordinary long-term investment results with a very low level of risk.

Book Information

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Customer Reviews

An Exclusive Q&A with Author Joel Greenblatt   It's been five years since you first published The Little Book That Beats the Market. Have your thoughts changed at all about the effectiveness of value investing? In my mind, the principles of value investing have not changed. As we've learned yet again, markets can be volatile and emotional. They often go to extremes of pessimism and optimism, and prices can and often do fluctuate wildly and significantly over short periods of time. As a result, Mr. Market can provide some excellent opportunities to purchase bargain priced stocks when people are unduly pessimistic. This is where value investing comes in. Buying companies below their true value is the road to being a successful investor. The magic formula found in the Little Book seeks to buy a group of above average companies but only when they are available at below average prices. Because it is a formula, it seeks to do this in an unemotional way that can take advantage of the market's mood swings. Ben Graham taught us these lessons in the 1930s and the principles still hold as well today as when he first wrote them down more than 70 years ago. Do you think individual investors should re-think their investment strategy as a result of the recent market crash and recession? I think the best lesson that can be learned from the recent price drop and partial recovery is that stocks are volatile. For most people, stocks should represent a portion of their investment portfolio because I still believe that over the long term they will provide superior returns relative to most alternative investments. However, whether that portion of an investment portfolio devoted to stock investments should be 40% of an investor's portfolio or 80% is a very individual decision. How much are you willing (or able) to lose before you panic out? There's no sense investing such a large portion of your assets in a long-term strategy if you can't take the pain when your chosen strategy doesn't work out for a period of years. The "magic formula" found in the book can underperform the market for years. It can also lose money if the market goes down. But it is also a strategy that makes a lot of sense and that should work well for investors over the long term. Can you explain the Magic Formula's basic strategy in one sentence? The Magic Formula strategy is a long-term investment strategy designed to help investors buy a group of above-average companies but only when they are available at below-average prices. You make reference in the new afterword to receiving a number of emails from readers after the The Little Book That Beats the Market was published. Could you share with us some of the comments you received? I received many emails after the first edition of the book was published. Some suggested that the strategy was working great for them while others reported that they had waited over a year and the strategy was underperforming. These results and emails are consistent with the message of the book. Over the five years since the book was published, the strategy earned very nice returns for investors, but the ride was bumpy. Not only did the formula underperform for a period of time, in 2008 it lost money along with the market. Overall, the formula performed quite well but only for those who maintained a true long-term perspective. This is easier said than done. In the new afterword, I try to give more facts, color and information about the strategy that I hope will help investors be successful in taking full advantage of the magic formula over the long term. Of course, I also got plenty of emails where investors just asked us to do it all for them. Other emails asked us to apply the formula internationally. As a result, we have worked on both of these projects over the last several years. In the new afterword, you write "Beating the market isn't the same thing as making money." Can you elaborate on this and why it's a difficult concept to swallow at times? Since the strategy involves buying a portfolio that is 100% long the stock market, if the stock market goes down, our portfolio may well go down, too. If the market drops 40% and we beat the market by losing only 38%, this is small consolation. As I say in the afterword, while I firmly believe that for most people an investment in the stock market should represent a substantial portion of your investment portfolio, how big that portion should be can vary widely. For some it can be well over half of assets, for others well less than half might be appropriate. The magic formula strategy is a wonderful strategy for that portion of your portfolio that you choose to invest in the stock market. In fact, I truly believe that the magic formula remains one of your best options. How much to invest in the stock market, however, is a very personal decision that should be partially based on your ability to withstand short-term negative price movements. One encouraging fact, though, discussed in the afterword is the performance of our large cap portfolio over the last decade. Over that period, the market as measured by the S&P 500 was actually down, yet our backtests showed that following the formula over those same ten years would have resulted in a more than tripling of your money. Unfortunately, those great long-term returns came with plenty of bumps, including some not so short periods of losses and underperformance. But once again, if the formula worked every day, every month and every year, everyone would follow it and it would be ruined. Fortunately, it's not so great, and as a result I strongly believe that long-term investors should continue to benefit from the magic formula for many years to come. --This text refers to an out of print or unavailable edition of this title.

Contrary to efficient-market naysayers, this engaging investment primer contends that ordinary stock-market investors can indeed get better-than-market returns over the long haul. Greenblatt (You Can Be a Stock Market Genius), a Columbia Business School adjunct professor, touts a "value-oriented" approach that looks for bargain stocks whose share price is cheap relative to the company's profitability. His version is a "magic formula" that ranks stocks on the basis of two variablesâ ”the earnings yield and the business's return on capital. His Web site, magicformulainvesting.com, virtually automates the procedure for novices. Greenblatt offers lots of statistical proof of the formula's success, but emphasizes the importance of faith in seeing the investor through inevitable short-term downturns: "It will be your belief in the overwhelming logic of the magic formula that will make the formula work for you in the long run." He conveys his ideas through a lucid if rudimentary and rather corny explanation of basic investment concepts about risk, return, interest and business valuation. Although the fabulous returns he touts seem too good to be true, Greenblatt's formula is a reasonable variant of mainstream value-investing methods. Investors seeking a little more hands-on excitement than the average mutual fund offers won't go too far wrong following his advice. (Jan.) --This text refers to an out of print or unavailable edition of this title.

The reviews on this book range all over the place, which is understandable. Making and losing money is very emotional and people get pretty worked up about it. Furthermore, Greenblatt sets out in this book to boil a successful stock investment strategy down to something simple enough and short enough to be read by a child. It's a recipe that invites criticism from people of varied investment skill levels.First off, there is merit to any criticism of a math-driven investment strategy that is derived by determing that it would have worked well had it been applied in the past. Second, the point that this strategy actually is quite difficult to implement yon your own without Greenblatt's website (which may or may not remain free or in existence in the future) is also true.That said, this book trancends those very real problems in its accomplshment of its stated goal. To begin with, this book can be read and understood by fairly young kids, which is impressive (you try explaining the absract world of investments to young folks, trust me, it's hard). More than that, however, the investment strategy Greenblatt lays out in this book is fundamentally sound. Furthermore, Greenblatt's convincing argument around the idea that you need to stick with this strategy (or any other for that matter) through good times and bad is an important idea lost on most investors these days.The flaws keep this book from being five stars, but its good attributes weigh far more heavily. Recommended reading.

the magic is at the end of the book with only couple of pages to read. the other read is all about how the formula will work and why u need patience for this. but all this could be written in a concise manner as author goes round and round to prove a point in some cases.the vision of making the book is very useful.

This is an excellent book to share with younger investors, or for newbies that want to understand how stock shares are priced. The examples are excellent, albeit simplistic...but that's exactly the point. For those of you who have more experience, you'll see that this book represents the classic "value" investment strategy as opposed to "growth".The nice part about the book is that, having followed the explanation and wanting to try it out, one quickly realizes that the ranking process takes a LOT of work. The good news is the author runs a website, accessible to bona fide purchasers of his book at no cost, that provides the rankings. It couldn't be easier.The bad news is that the results are only so-so. I'm sure the author has GIPS data to back up his claims of beating the market, and perhaps he cherry picks the data to support his thesis, but the American Association of Individual Investors, which runs 75 stock screens which are updated monthly using real market data, find his Magic Formula stock screen to have yielded a mere 0.7% return over ten years. Several other "value" screens have yielded well above 10% over the same time frame.So, enjoy the book but consider other, more reliable, stock screens if you're a value investor. (And, if you want better returns, stick to growth investing.)

Simple and - apparently - effective. Worth reading.

Mr. Greenblatt has done the individual investor a great service by writing this book and maintaining a free website that provides the necessary information to implement it. He outlines a common sense, value investing strategy that has produced hard-to-argue-with results over the last 20 years. I strongly disagree with those reviewers who claim the book isn't necessary -- just follow the strategy. As Mr. Greenblatt emphasizes repeatedly, the strategy can only work if you stick with it for a minimum of three years, and few will actually do that if they don't understand the logic behiind it or appreciate it's track record. Read the book. The cost is a pittance relative to the gains one might expect, it's short, it's clear, and (unlike most investing books) it's actually an enjoyable read.

As someone who is not in the real savy in business and has little to no financial advisory background- this book is right up your alley if you just don't understand the complexity of the stock market but are still interested in investing.My brother is a financial analyst for a fortune 500 company and could not get me to understand the stock market and mutual funds etc- for the life of him! He read this book and then forced me to read it as well. I am glad I did because it was easy to follow and made me excited about investing my money into avenues that will provide much higher yields that 5 to 8% a year.The author wrote this book for his middle school children to help them understand investing in the adult world so to speak- Well he did a phenomenal job and published it for the rest of us-A good pick for beginner investors or people who would like to invest their money in stocks and funds with little background in the field. This would also be a good "starter" book for someone who wants to get into the stock market.

Simple, clear, and entertaining explanation of the key points of value investing. Mr. Greenblatt provides a "magic formula" that helps the reader develop a portfolio of stocks that produces "very satisfactory returns" with a small investment of time, as long as you can develop the intuition behind the formula.This is a perfect book of someone new to investing or someone who wants a simple but powerful way to manager their own money.This book is not for day traders and those looking to make a fast profits, but rather the vast majority of people who want to make smart choices with their resources and have a longer term view, 3 or more years.