

The price is not the value – Mr. Market and the margin of safety

Upcoming episode

The book Warren Buffett calls the best on investing, from 1949. A walk through the ideas in The Intelligent Investor – Mr. Market, the margin of safety, the difference between price and value – and what is worth carrying forward today.

THE BOOK THIS EPISODE IS ABOUT

The Intelligent Investor – Benjamin Graham

1949

MAIN TOPICS

- The line between investing and speculating
- Mr. Market as an image of how the market behaves
- Margin of safety – paying less than something is worth
- Price versus value, and why they are not the same thing
- The defensive and the enterprising investor
- Diversification and fixed, regular purchases
- Why Graham himself ended up recommending index funds for most people

QUESTIONS THIS EPISODE ANSWERS

- What is the difference between investing and speculating?
- What is a margin of safety in investing?
- Who is Mr. Market?
- What is the difference between the price and the value of a share?
- Should I pick shares myself or buy index funds?
- What is a defensive investor?
- Why is it dangerous to pay too much for growth?

KEY POINTS

- Investing requires thorough analysis and protection of the principal. Everything else is speculation.
- The market gives you a price every day. It is an offer, not a verdict on the value.
- The margin of safety is the gap between what you pay and what you believe something is worth.
- Most people are defensive investors, and should arrange things accordingly.
- Graham himself concluded that index funds suit most people best.

SOURCES AND REFERENCES

- Benjamin Graham – The Intelligent Investor (1949, revised 1973)

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