

BENJAMIN GRAHAM

updated with new commentary by **JASON ZWEIG**

Preface and Appendix by **WARREN E. BUFFETT**

**THE
INTELLIGENT
INVESTOR**

"By far the best book on investing
ever written." – Warren E. Buffett

**REVISED
EDITION**

**THE DEFINITIVE BOOK
ON VALUE INVESTING**

HarperBusiness Essentials

THE INTELLIGENT INVESTOR

A BOOK OF PRACTICAL COUNSEL

REVISED EDITION

BENJAMIN GRAHAM

Updated with New Commentary by Jason Zweig

To E.M.G.

Through chances various, through all
vicissitudes, we make our way. . . .

Aeneid

Contents

Epigraph	iii
Preface to the Fourth Edition, by Warren E. Buffett	viii
A Note About Benjamin Graham, by Jason Zweig	x
Introduction: What This Book Expects to Accomplish	1
COMMENTARY ON THE INTRODUCTION	12
1. Investment versus Speculation: Results to Be Expected by the Intelligent Investor	18
COMMENTARY ON CHAPTER 1	35
2. The Investor and Inflation	47
COMMENTARY ON CHAPTER 2	58
3. A Century of Stock-Market History: The Level of Stock Prices in Early 1972	65
COMMENTARY ON CHAPTER 3	80
4. General Portfolio Policy: The Defensive Investor	88
COMMENTARY ON CHAPTER 4	101
5. The Defensive Investor and Common Stocks	112
COMMENTARY ON CHAPTER 5	124
6. Portfolio Policy for the Enterprising Investor: Negative Approach	133
COMMENTARY ON CHAPTER 6	145
7. Portfolio Policy for the Enterprising Investor: The Positive Side	155
COMMENTARY ON CHAPTER 7	179
8. The Investor and Market Fluctuations	188

COMMENTARY ON CHAPTER 8	213
9. Investing in Investment Funds	226
COMMENTARY ON CHAPTER 9	242
10. The Investor and His Advisers	257
COMMENTARY ON CHAPTER 10	272
11. Security Analysis for the Lay Investor: General Approach	280
COMMENTARY ON CHAPTER 11	302
12. Things to Consider About Per-Share Earnings	310
COMMENTARY ON CHAPTER 12	322
13. A Comparison of Four Listed Companies	330
COMMENTARY ON CHAPTER 13	339
14. Stock Selection for the Defensive Investor	347
COMMENTARY ON CHAPTER 14	367
15. Stock Selection for the Enterprising Investor	376
COMMENTARY ON CHAPTER 15	396
16. Convertible Issues and Warrants	403
COMMENTARY ON CHAPTER 16	418
17. Four Extremely Instructive Case Histories	422
COMMENTARY ON CHAPTER 17	438
18. A Comparison of Eight Pairs of Companies	446
COMMENTARY ON CHAPTER 18	473
19. Shareholders and Managements: Dividend Policy	487
COMMENTARY ON CHAPTER 19	497
20. "Margin of Safety" as the Central Concept of Investment	512
COMMENTARY ON CHAPTER 20	525
Postscript	532
COMMENTARY ON POSTSCRIPT	535
Appendixes	
1. The Superinvestors of Graham-and-Doddsville	537

2. Important Rules Concerning Taxability of Investment Income and Security Transactions (in 1972)	561
3. The Basics of Investment Taxation (Updated as of 2003)	562
4. The New Speculation in Common Stocks	563
5. A Case History: Aetna Maintenance Co.	575
6. Tax Accounting for NVF's Acquisition of Sharon Steel Shares	576
7. Technological Companies as Investments	578
Endnotes	579
Acknowledgments from Jason Zweig	589
Index	591
About the Authors	
Credits	
Front Cover	
Copyright	
About the Publisher	

The text reproduced here is the Fourth Revised Edition, updated by Graham in 1971–1972 and initially published in 1973. Please be advised that the text of Graham's original footnotes (designated in his chapters with superscript numerals) can be found in the Endnotes section beginning on p. 579. The new footnotes that Jason Zweig has introduced appear at the bottom of Graham's pages (and, in the typeface used here, as occasional additions to Graham's endnotes).

Preface to the Fourth Edition,
by Warren E. Buffett

I read the first edition of this book early in 1950, when I was nineteen. I thought then that it was by far the best book about investing ever written. I still think it is.

To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights, or inside information. What's needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework. This book precisely and clearly prescribes the proper framework. You must supply the emotional discipline.

If you follow the behavioral and business principles that Graham advocates—and if you pay special attention to the invaluable advice in Chapters 8 and 20—you will not get a poor result from your investments. (That represents more of an accomplishment than you might think.) Whether you achieve outstanding results will depend on the effort and intellect you apply to your investments, as well as on the amplitudes of stock-market folly that prevail during your investing career. The sillier the market's behavior, the greater the opportunity for the business-like investor. Follow Graham and you will profit from folly rather than participate in it.

To me, Ben Graham was far more than an author or a teacher. More than any other man except my father, he influenced my life. Shortly after Ben's death in 1976, I wrote the following short remembrance about him in the *Financial Analysts Journal*. As you read the book, I believe you'll perceive some of the qualities I mentioned in this tribute.

BENJAMIN GRAHAM
1894–1976

Several years ago Ben Graham, then almost eighty, expressed to a friend the thought that he hoped every day to do “something foolish, something creative and something generous.”

The inclusion of that first whimsical goal reflected his knack for packaging ideas in a form that avoided any overtones of sermonizing or self-importance. Although his ideas were powerful, their delivery was unflinchingly gentle.

Readers of this magazine need no elaboration of his achievements as measured by the standard of creativity. It is rare that the founder of a discipline does not find his work eclipsed in rather short order by successors. But over forty years after publication of the book that brought structure and logic to a disorderly and confused activity, it is difficult to think of possible candidates for even the runner-up position in the field of security analysis. In an area where much looks foolish within weeks or months after publication, Ben’s principles have remained sound—their value often enhanced and better understood in the wake of financial storms that demolished flimsier intellectual structures. His counsel of soundness brought unflinching rewards to his followers—even to those with natural abilities inferior to more gifted practitioners who stumbled while following counsels of brilliance or fashion.

A remarkable aspect of Ben’s dominance of his professional field was that he achieved it without that narrowness of mental activity that concentrates all effort on a single end. It was, rather, the incidental by-product of an intellect whose breadth almost exceeded definition. Certainly I have never met anyone with a mind of similar scope. Virtually total recall, unending fascination with new knowledge, and an ability to recast it in a form applicable to seemingly unrelated problems made exposure to his thinking in any field a delight.

But his third imperative—generosity—was where he succeeded beyond all others. I knew Ben as my teacher, my employer, and my friend. In each relationship—just as with all his students, employees, and friends—there was an absolutely open-ended, no-scores-kept generosity of ideas, time, and spirit. If clarity of thinking was required, there was no better place to go. And if encouragement or counsel was needed, Ben was there.

Walter Lippmann spoke of men who plant trees that other men will sit under. Ben Graham was such a man.