

Sharma, Anurag – Book of Value: The Fine Art of Investing Wisely

Columbia Business School Publishing, 2016, [Equity Investing] Grade ★★★★★

The background here is that a business professor, the author Anurag Sharma, grows increasingly puzzled over the discrepancy between the teachings on finance he meets in his academic environment and the investment customs he witnesses among successful practitioners. After reading up on the subject he rejects his fellow scholars, starts a class in value investing and later writes *Book of Value*, a book along the lines of Ben Graham's *The Intelligent Investor*. Sharma's thesis is that wise investing comes from making good choices and that investors can learn and internalize the practice of making these. Thus, the aim of the book is to present a framework that helps investors to make better choices.

There are five parts to the book that build up the author's combined narrative. After the introduction has given the reader a glimpse of academic so-called modern portfolio theory the author in the first part presents a different take on the story, i.e. the behavioral biases witnessed in real life investing, the tendencies of market participants to herd and by the subsequent correlation of faulty opinions create market mispricings. Further, Sharma shows how psychologically shrewd operators – noise producers, fraudsters etc. - can induce behavior that benefit them at the expense of the financial health of investors. In part two a case is made for using the scientific method of falsification in investing. The investor should come up with investment ideas and then have a process to try to shoot them down using logic and data. If they cannot be falsified through a sound process they may constitute an investable idea. The author's reasoning ends up in a similar place as Charlie Ellis' views in his classic book *The Loser's Game*. In my view Sharma's text here benefits from systematic thinking of an academic mind but, not being a seasoned practitioner, the examples feel a bit theoretical and the writing in these segments lacks some nerve.

The next two parts of the book bring forward the author's suggested framework for falsifying an

investment idea. First he takes a more quantitative approach in trying to ensure that a company has a satisfactorily strong business and financial standing and that the price of the stock is sufficiently low compared to its value. Then there is a qualitative follow-through of the same areas. The financial strength is checked by controlling the quality of assets and liabilities, reviewing operating leases, pension obligations, off-balance sheet items, lawsuits etc. Business strength is evaluated by Du-Pont analysis, assessment of the business model and the quality of management. Although the writing at times is very basic – in discussing valuation for example – the combined effort of an investor going through all the steps discussed will result in a quite comprehensive picture of the company analyzed. The author is clearly on his home turf discussing business models and management but also in my view shows some good understanding of investment psychology.

In the fifth part of the *Book of Value* Sharma shows how to assemble a portfolio of stocks that have survived the process of trying to discard them. Essentially a focused portfolio of stocks, each with an asymmetric risk-reward potential and where the investment cases for the stocks depend on a diversified set of drivers, is advocated. After exemplifying this type of portfolio with Berkshire Hathaway's portfolio of publicly listed stocks the author's reasoning on how to become a wise investor is summarized in a conclusion with five well-argued main points.

So does Sharma's sketched framework have the potential to facilitate better investment choices? Yes, clearly. Even if not all details are explicit, it provides the basis for a workflow that will help the investor narrowing down the investment universe, form an opinion on relevant investment considerations and shield him from at least some of the psychological traps of the stock market. Even though nothing new is presented and some text is even a bit basic, in combination I think the author delivers on what he promised.

Mats Larsson, September 04, 2017