



## The Little Book That Still Beats the Market

*Joel Greenblatt*

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## **The Little Book That Still Beats the Market** Joel Greenblatt

In 2005, Joel Greenblatt published a book that is already considered one of the classics of finance literature. In *The Little Book that Beats the Market*—a *New York Times* bestseller with 300,000 copies in print—Greenblatt explained how investors can outperform the popular market averages by simply and systematically applying a formula that seeks out good businesses when they are available at bargain prices. Now, with a new Introduction and Afterword for 2010, *The Little Book that Still Beats the Market* updates and expands upon the research findings from the original book. Included are data and analysis covering the recent financial crisis and model performance through the end of 2009. In a straightforward and accessible style, the book explores the basic principles of successful stock market investing and then reveals the author's time-tested formula that makes buying above average companies at below average prices automatic. Though the formula has been extensively tested and is a breakthrough in the academic and professional world, Greenblatt explains it using 6th grade math, plain language and humor. He shows how to use his method to beat both the market and professional managers by a wide margin. You'll also learn why success eludes almost all individual and professional investors, and why the formula will continue to work even after everyone “knows” it.

While the formula may be simple, understanding why the formula works is the true key to success for investors. The book will take readers on a step-by-step journey so that they can learn the principles of value investing in a way that will provide them with a long term strategy that they can understand and stick with through both good and bad periods for the stock market.

As the *Wall Street Journal* stated about the original edition, “Mr. Greenblatt...says his goal was to provide advice that, while sophisticated, could be understood and followed by his five children, ages 6 to 15. They are in luck. His ‘Little Book’ is one of the best, clearest guides to value investing out there.”

## **The Little Book That Still Beats the Market Details**

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## From Reader Review The Little Book That Still Beats the Market for online ebook

### Fred Forbes says

Want my attention? Free books will usually do it! Picked this up at a recent trade show for investment professionals as I like to review what is available in the popular press so I can field questions and comments from clients. (Explains why I subscribe to a lot of "financial pornography" like "Money", "Kiplingers" and "Consumer Reports".) At any rate, this simplistic, repetitive and slender volume still contains some worthy ideas. The "magic formula" emphasizes investments in companies that combine low valuations as expressed by earnings yield - EBIT/Enterprise value (similar to the P/E ratio but containing debt in addition to market capitalization divided into earnings before Interest and taxes) and return on capital - EBIT/net working capital + net fixed assets. Take these two factors which equate to buying "good businesses cheaply", pick about 30 of the larger ones and go for the long haul to produce market beating returns. (They have a website that will run the numbers and rankings for you.)

Normally when an investment technique is found to be successful, many folks jump on the bandwagon and the technique rapidly loses its advantage. Why does this continue to work? Simply because it does not always work. Sometimes over shorter periods of time growth stocks will beat this value approach, other times certain segments may fall out of favor and under-perform. As has been noted, in the short term "Mr. Market" can be an idiot; in the long term he tends to get it right and that is when this approach is most powerful. So, if you are going to put it to work, approach it with discipline and patience and it should reward your efforts. But, as they say, past performance is no guarantee of future results!

While it is an entertaining and informative read, many important areas are glossed over such as taxes, asset allocation in general, the integration of investing with other financial planning issues and the development of alternate investment vehicles. But, if those were added I don't think it would be the "little book" anymore, would it?

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### David says

I'm far from a financial expert (don't ask me about my own portfolio... I tend to leave money in CDs and mutual funds and forget about it). However, I have done a bit of reading, and know enough to smell BS or something that has the ring of truth.

Greenblatt's book is aimed at the very naive (in the sense of not knowing much, not in the sense of being stupid or gullible) investor. That is, the average American who thinks s/he can use "common sense" and a few hot tips or some "expert opinions" on TV to pick good stocks. The early chapters are a very, very simple explanation of how the stock market works. Simple enough for a ten-year-old. Then he goes on to explain his "magic formula," which might sound like hucksterism, but basically it's a highly simplified version of Benjamin Graham's "value investing" strategy. (Graham was the guy who taught Warren Buffet.) The idea is basically: Buy high-value companies that are currently priced too low, do this consistently, and most importantly (and the reason why everyone isn't doing it): **hang on** for years. Greenblatt spends a lot of time emphasizing this: the market goes up and down, and you will see your portfolio go down, sometimes for years consecutively. The only reason following his or any strategy makes sense is if you believe that *over the long run*, it will perform well with the peaks outweighing the valleys. Most people will be enamored of a

strategy until they've been watching all their stocks go down, down, down for two years straight (which is bound to happen now and then) and then they panic, sell, and move to some more promising strategy.

Greenblatt shows pretty compelling evidence that value investing does work, and consistently beats the market over a time frame of 5, 10 or 30 years, even with periodic dips and recessions. And he gives step by step instructions on how to pursue this strategy. But the main thing is you have to believe in it enough to stick with it, even during temporary periods where even the market average is beating your results.

Also, important caveat: he uses historical information and he explains the principles behind the strategy (i.e., which underly Graham's value investment model) in a simple and clear way, so they really do make sense. But, the stock market is a capricious beast: no one can be sure that for the next thirty years it won't suddenly start behaving in a wildly different manner. So, no guarantees, no matter how much sense anyone's advice seems to make.

Greenblatt also glosses over a few things, like fees (even for intermittent stock purchases, the fees can add up), and he barely touches on taxes, which can also take a bite out of your investment. He does mention IRAs, but does not explain them. That's understandable; this is a slim book and going into taxes and retirement funds and exactly *where* and *how* to buy stocks would bloat it quickly. But while I think his advice is sound, this book alone doesn't quite give you enough information to run out and start investing. But it will certainly give you a good start. Most importantly, if you take his advice, even if you don't follow his strategy precisely, you'll know better than to try day-trading or other short-term strategies (he tells the reader outright that unless you're a professional business analyst and probably not even then, you **should not try to stock-pick on your own**), and you'll be ready to commit to investing for the long term.

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### **Wigger Tolsma says**

I read this book after reading 'the intelligent investor', and had to get used to the simplicity in which this book is told. At first I liked it, because it is almost straight forward what he is telling, but it gets kind of annoying at the second half of the book.

Too repetitive, and he's promoting his so-called 'magic formula' too much. Still a nice read if you're into investing though! Not the only book you'll only need to read on investing as mentioned.

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### **Syed Ashrafulla says**

This is a valuable book that you might detest. The reading is that the author takes a sales tone to describe the value investing strategy. There are a lot of anecdotes and italics and exclamation points. These will put you on the defensive. You will ask yourself what scheme the author is selling.

It's not a scheme though. Taking out the entertainment, it is principled value investing. The difference between the author's advice for you and fundamental stock investors is that those investors will complicate the model with more research and more factors. The underlying pillar is the same: find companies earning a lot on their capital at a low price. That is why I can't dismiss the book. It is a proper model for long term investing.

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I didn't give it a fifth star because I couldn't handle the tone. However if you need a layman explanation of value investing and how the numbers match the intuition, this is a good book to start.

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### **Sheffy says**

You can almost judge this book from its title (and it beats "Investing for Dummies" although it meets the same goal). While author Greenblatt is a professor at a business school, it is less a primer about stock investments (although it does serve as a 101, for illiterate investors such as myself), but more to push his "Magic Formula" for investing, which is actually quite simple, backed by years of his research that shows it beats the market, and can be applied with the help of his free website. Essentially, you want to buy good companies, at low prices, which you can do if you find companies that have high return on capital, but low price to earnings ratios. Two big caveats--since the formula doesn't always work, particularly in the short term, you need to plan to stick to the formula for the long term and buy 20-50 stocks, because it requires the rule of averages. Even if you don't plan to use his formula (although I must say I was convinced he will make me rich, if I ever get around to following his advice), the book is a very entertaining read (I would characterize his writing as Yiddish-style humor) written with the goal of explaining the market to a middle schooler. Also, as the book title implies, it's a little book, so the time you need to read it won't be so much of an, ahem, investment.

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### **Frederic Kerr says**

The value oriented principles described here make a lot of sense. I used the book and Greenblatt's website as a source of ideas on which to do further research. Readers should consider other books like Peter Lynch's "One Up on Wall Street", which is more of a growth investing approach, or Benjamin Graham's classic and much more detailed "The Intelligent Investor", the bible of value investing, to supplement this book. I like the version edited by Jason Zweig.

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Author Joel Greenblatt deserves a lot of credit for telling a readable and entertaining story. For more advanced concepts, see also his "You can be a stock market Genius", which despite the corny title is a useful introduction to investing in special situations like spinoffs and restructurings.

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### **Karan Goel says**

This is a fantastic read. It's short and succinct. I like that Joel uses humorous writing to make something accounting less boring.

In a nutshell, he is promoting a strategy he calls "Magic Formula Investing". Building on the time-tested strategies of Ben Graham and Warren Buffett, Joel tells us to invest in companies that return very high return on capital AND high profit per share.

He also sets the right expectations, by providing enough data to prove that it works (mostly), and that it works if you have patience. He also wants us to know that investing in individual stocks is not for everyone (surprise. Graham and Buffett have said the same).

After some digging, I found that Joel has his own mutual fund with holdings chosen using the Magic Formula: <https://www.google.com/finance?q=MUTF...>

The fund has returns 18%+ over 3-year period, beating the market.

Formula:

1. Return on Capital = EBIT / (Net working capital + net fixed asset)
2. Earning yield = EBIT / Enterprise Value

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### **Robert Vlach says**

*Malá kniha, která (stále) poráží trh.* Tak n?jak by zn?l ?eský p?eklad 2. rozší?eného vydání knížky, která rozví?ila vody hodnotového investování více než jakýkoli jiný titul posledních let. Autorem je legendární investor Joel Greenblatt, který ji podle svých slov napsal tak jednoduše, aby z ní mohly t?žit (a bohatnout) i jeho d?ti. Text je skute?n? nevídán? srozumitelný a stru?ný, což rozhodn? není u toho druhu literatury zvykem. D?ležitý je ale obsah. Greenblatt nabízí až absurdn? jednoduchý „magický vzorec“ hodnotového investování sestávající z pouhých dvou screeningových veli?in. Detailn? popisuje celou investi?ní strategii a na historických datech dokazuje pozoruhodn? vysoký výnos oproti tržnímu pr?m?ru. Všechno má ale sv?j há?ek, a tím je v tomto p?ípad? nevyrovnaný výnos v ?ase. Minimální návratový horizont je 3 roky, optimáln? však 5-10 let, a vyžaduje zna?nou disciplínu navzdory táhlým pád?m. Tedy nic pro slabé povahy! V investorských a finan?ních kruzích byl ovšem Greenblatt?v spisek p?ijat velice kladn?. Stal se nejen best-sellerem, ale také okamžitou klasikou, pro?ež došlo i na toto dopln?né vydání. P?estože záb?r knihy je velmi omezený, jde prakticky o povinnou ?etbu, a? už se rozhodnete Joelovými radami ?ít? i nikoliv. P?inejmenším to m?žete brát jako vzrušující mentální experiment a potrápit vlastní kritické myšlení i mozkové závity. Skv?lej chlápek!

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### **Alec says**

In many ways, I would equate The Little Book That Still Beats The Market to P90x. I've always respected the P90x fitness plan because it basically says "Hey, if you want to get in shape, work your ass off and don't eat very much. It's going to really suck," which is the most honest approach to a weight loss program I have ever heard. Joel Greenblatt takes a similar approach in this book, as he basically says if you buy above average companies at below average prices, and remain disciplined in doing so over the long term, you will find value and make money. There are no shortcuts. Basically, it's going to suck. In a world that always promises rewards sans work, I respect these tough truths.

The "Little" in the title of this book is no joke and I'd say the investment strategies, historical data, wisdom and even a little humor more than merit the three hours this will take to read.

I'll see you all in Millionaire Acres...though actually, with its ample land and poor publicity, Poor Farm might be the savvier move.

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## **Dilip Patharachalam says**

I reread this book after 5 years after liking it the first time. Now, I completely disagree with Joel's formula. Holding stocks for just a little over a year and frequent trading are not ideal for everyone, let alone people not actively tracking their investments.

Disclaimer: I currently work for a robo advisor

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## **Steve Bradshaw says**

Wish I hadn't wasted any money on this one. Although I am a big proponent of value investing and wanted to give Greenblatt a chance, this book is far too simple to be useful to anyone with a more than a passing interest in the stock market. Return on Capital and Earnings Yield are not terrible filters to start off with, but I do believe there is more to successful value investing than applying a simple formula.

Greenblatt is spot on when he says most people end up losing money because of impatience and lack of discipline in following a consistent strategy. However, his formula will be too opaque for non-financially literate investors and too over-simplified for seasoned investors to trust and stick with over the long run - undoubtedly one of the key success factors to value investing... If one does favor this type of formula investing, then I think the best option is a Dimensional Fund Advisors (DFA) low-fee index enhanced fund which rebalances a broad portfolio of stocks every so often based on value factors similar to those proposed by Greenblatt (and has a long track record of above average performance). For me the biggest issue to this type of investing is that it doesn't avoid large bubbles that periodically form in the market. If you are always fully invested even in the height of an unfettered, over-confident bull market then you miss a central Graham tenet on how to deal with Mr. Market - i.e. sell when he is unrealistically confident. I believe pulling back from frothy markets played a large role in the success of both Buffet and Graham.

To conclude, this book is written for complete novices to the stock market and contains very little red meat for more serious investors. The only pro was not wasting too much time as it's an extremely quick read. This will be the last Greenblatt book I ever read.

If you want a better alternative pick up The Intelligent Investor by Ben Graham or for a simpler but still credible alternative pick up The Little Book on Value Investing by Christopher Browne. Both are excellent reads that will unquestionably help you invest sensibly over the long term.

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## **Mikedariano says**

When people say, "that book should have been a blog post" this is what they mean.

Usually, I like the "Little Books" series but this one was no good for me. I do like Greenblatt though, I strongly suggest you read You Can Be a Stock Market Genius instead.

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## **Suhrob says**

Ok, so what you get is a very succinct, down-to-earth explanation of a tiny (but fundamental) part of business valuation + a "simple" investing strategy. "Simple" because it has about 1 year lead time and requires buying about ~30 stocks, re-balancing 1x a year, in two batches, fully disciplined adherence to the rule set.

So it is not gauge-theory inspired high-frequency trading strategy for theoretical physics PhDs, but also it is not quite as simple as indexing (or ignoring investing altogether). A further caveat - it seems that nobody can actually reproduce the profits in backtests like Greenblatt claims... (that is - the strategy does work, but the returns seem to be lower than those in the book - even in backtest).

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## **Alessandro says**

Really straight forward and simple. Great advice that is common sense but overlooked many times due to the role of emotions in the market.

I really wish he didn't baby the reader along the entire way. I understand that the book was written for all audiences that want to begin investing but as a 23 year old, I felt like I could have found the book in the children's section of the library.

Regardless, still well said and the author gives you all of the tools you need to execute everything he says in the book. I think it's a necessary read for all new or novice investors.

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## **Jonathan Perez says**

A few weeks ago I read another book from Joel Greenblatt called "the big secret for the small investor". At the time I felt disappointed by the level of simplicity but still wanted to continue to learn from the author. I understand now that back then I missed the point. The principles of value investing are meant to be that way: good businesses at bargain prices, and Joel Greenblatt masters the art of telling this story. Yet 30 holdings to rebalance on a yearly basis seems a lot. I can't help but thinking that Warren Buffet too has a point with his "20 punch card" concept. Now, just like John Mihaljevic in the Manual of Ideas, I wonder if any further filtering can be added to narrow down the list of holdings a bit. Anyway overall I enjoyed this little book and particularly loved the down to earth funny stories at the beginning of each chapter. I understand now why Bruce Greenwald recommended it "It should be mandatory reading for all serious investors from 4th grade on up" link.

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