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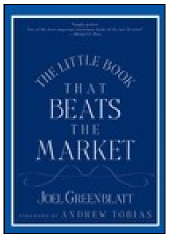
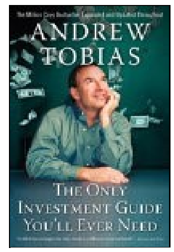


Book Review

The Little Book That Beats the Market

by Joel Greenblatt

Reviewer: Geoff Wisner, Staff Reviewer
Posted: December 2, 2005



The Only Investment Guide You'll Ever Need by Andrew Tobias

What should you think of a book that's written simply enough for children, that offers an investment strategy you can sum up in a few words, and that promises this strategy will beat the pants off the results achieved by the vast majority of highly paid investment professionals?

Too good to be true, right? But what if the book is written by the manager of a highly successful hedge fund? What if it gets a rave review in the Wall Street Journal and a blurb from Michael F. Price, a value investor who is one of the 400 richest people in America? What if it is introduced by Andrew Tobias, author of *The Only Investment Guide You'll Ever Need?*

The last point is the one that made me sit up and take notice. I have believed for years that Andrew Tobias' investment guide is the best, most practical, and funniest book of its kind on the market. In his daily online column at www.andrewtobias.com (one of the earliest blogs, though he doesn't call it that), Tobias recommends what for most people is excellent investment advice: put together a diversified portfolio of low-cost index funds, then leave it alone.

If Tobias thinks there may be something to Joel Greenblatt's scheme to double the investment return of the S&P; 500, then I'm listening.

Greenblatt's method is a variant of traditional value investing. Value investors buy low-priced stocks: that is, stocks that have a low ratio of price to earnings, or P/E. Greenblatt's "magic formula" identifies stocks that combine low P/E (or high earnings yield, as he puts it) with a high return on capital. This information is freely available, and to make it even easier, Greenblatt has a free website where you can apply the screens yourself and find out exactly what stocks meet his criteria.

That's all there is to it. But questions remain.

Why buy the book if you've just told me the secret? Because unless you understand the rationale behind the magic formula — and believe in it enough to try it, and stick with it until you see the results — you will not benefit.

How do I know it works? According to the data in the book, the magic formula usually (though not always) beats the market averages, often by a wide margin. Even better, the formula rarely produces a loss, even in years when the S&P; 500 takes a big hit.

If it's so simple, why doesn't everyone do it? Because, Greenblatt argues, investors and money managers are short-term thinkers. They usually lack the patience to try a method for several years, long enough to give it a fair test. In the meantime, money managers who trail the market averages are likely to be fired. Therefore, though they claim — and are paid for — their financial expertise, they often manage portfolios so they stay close to the averages.

Should I buy this book and try Greenblatt's method? I think so. Because even if the magic formula doesn't produce the eye-popping results he promises, it will cause you to invest in a portfolio of profitable, low-priced companies — nearly always a recipe for success.

About the Reviewer
Geoff Wisner is a freelance writer and staff member of Indigocafe.com. He is the author of A Basket of Leaves: 99 Books That Capture the Spirit of Africa. Visit his website at www.geoffwisner.com.