

Montier, James - Value Investing

John Wiley & Sons, 2009, [Behavioural Finance] Grade



James Montier is a former sellside strategist, author of several books, currently working at GMO, a privately held investment management firm. He still writes insightful material under GMO Insights, together with other very readable persons like Edward Chancellor and Jeremy Grantham. The book comes with recommendations from people like Seth Klarman and Michael Maboussin and the foreword is written by Bruce Greenwald. I don't think many books have more high profile recommendations than this.

The book is a collection of short pieces written by Montier in between 2006 and 2009 organized in 6 parts with some added comments. Part 1 "why everything you learned in business school is wrong", is something for every student and believer in the efficient market/CAPM to read. Personally, I am not a believer, so if you are like me, you could skip this. Part 2 is about behavioural investing, which I think is a good introduction if you haven't read anything about it. However it's a big topic, and I suggest you buy either his book *The Little Book of Behavioral Investing: How not to be your own worst enemy* or if you are very serious about learning this then buy *A Practitioners Guide to Applying Behavioral Finance*, which is a very well written full account of the subject. The best part of this book is his summary of what value investing is all about, which starts at Part 3, the philosophy of value investing. I recommend this to be read together with chapter 14, and part 6, real time value investing. Part 4 and 5 of the book are less interesting but have some interesting comments.

From my point of view the key negative with this book, is that it consists mostly of a collection of the regular research pieces Montier previously

wrote when working at Societe General and Dresdner Kleinwort, of which I had read most before. This makes it a bit less fluent and fresh than it could have been. On the other hand, it's very easy to just look at the content of the book and cherry pick whatever you find most interesting for the moment and find some really good reads. Some are short enough to read just before you go to sleep, or at the beach...

This is a book for someone who has been working in the financial markets for some time or at the minimum has been investing his or her money actively for a while. It is a very easy and pleasurable read. Since it's written against a background of the events that have taken place over the last few years it's easy to relate to, especially if you yourself have been investing and/or following the events from when the global financial crisis started. Do you recall that US house prices peaked in 2006, and using the Case-Shiller index the peak was at 206? Do you know where they are now? Answer at the bottom of the page.

Part 3, The philosophy of value investing and part 5, real time value investing, are among the best from a moneymaking perspective. Compared to a Graham/Greenwald or any other value book, this is a more practical approach. James Montier's book not just takes into account what is value, but also the behavioural problems when valuations are low. I think it's especially helpful to do it through the lens of the last big financial crisis.

"History doesn't repeat itself, but it does rhyme." This is a quote often used when you are doing financial analysis and I expect that to be true many more times in the future as well.

Bo Börtemark, May 3, 2012

ANSWER: US house prices according to Case-Shiller are now, 6 years after the peak, at 136, down 35% from the peak, which is a new low, even lower than in 2009. This also happens to be same amount on average after a financial crisis, see *This Time Is Different*, Rogoff & Reinhart. Have we reached a US housing trough?