

**Neely, J. Lukas – Value Investing: A Value Investor's Journey Through the Unknown**

*EndlessRiseInvestor.com*, 2015, [*Equity Investing*] Grade ★★★★★

In *Value Investing* the author, an investment advisor and former hedge fund manager, shares his method for investing in stocks. The stated aim is to provide a process for investment success. The emphasis is on process as investors without one are prone to let psychology determine their investment decisions - a practice that inevitably leads to ill-timed transactions. The author writes both for the less seasoned private investor and the professional value investor. This is often a tough balancing act but Lukas Neely pulls it off with a contagious enthusiasm for coaching his reader and by his obvious liking of the subject itself.

There are five parts to the book that in combination describe the mindset, philosophy and process that the author advocates. They cover an understanding of how the market works, what is a suitable psychological setup for a value investor, what type of building blocks that go into a value investing investment philosophy, how to analyze companies and finally the practice of using a margin of safety when investing. The bulk of the book's text is section four – Neely's analytical framework named MECOM; Moats, Earnings, Catalysts, Obligations and Management.

This review will sound more critical than it actually is. This is mainly because the author brings up many interesting subjects on which you can have different opinions. The investing knowledge of any investor will always be a mix of second hand understandings that he has read or been told and of first hand experiences from managing money. The risk with a book from a relatively young writer is that he will stack the usual bricks of the value investing gospel on top of each other and present them as something new, simply because they are novel to him. Neely does all this - and sprinkles the book with the standard value investing quotations - but still pulls it off by his relentless will to explain and educate. The author is having fun and it shows in the writing. You can also tell that the method has seen its share of live action in the market.

I'll start with an actual negative; it's a rather ugly book. Yes, it's self-published, but still. The print looks cheap, page numbers in the index are wrong, some of the longest MECOM-chapters need structuring to help the reader follow the story line and considering this, it doesn't help the reading with headlines printed in such light gray that you risk missing them altogether.

Moving on, the section called *Market Mastery: Do You Know Your Competition?* gives a general understanding of financial markets. I have no factual objections and it is obviously vital knowledge but it would have been interesting if the author also had dedicated more effort to thinking about the competition. In every transaction I do there are persons who think it's better to do the opposite – who are they and why should I have the edge over them in this transaction?

Neely invests in two types of cases, franchise stocks and turn-around cases. To me it feels like his MECOM-process mostly leans towards franchise stocks. However, catalysts (the "C") more commonly associate with the second type of investments. Also, when diving into the text on catalysts I would argue that only three of the five listed ones are real catalysts. The other two more relate to the continued long-term growth of companies and sectors – perhaps more important for the avoidance of reversal to the more mediocre mean of presently high quality franchise stocks.

Linked to the growth issue, I liked the discussion on moats, ROIC and reinvestment opportunities. I'm also intrigued by the author's learning concept that could have been covered more fully and the writing on whether to find moats through looking at historic returns or by searching for situations that should give rise to moats, but not necessarily have done so yet, is important.

Neely has written a spirited and honest text on his investment process – and it's always a privilege to be allowed to understand an investor's full method.

Mats Larsson, July 22, 2016