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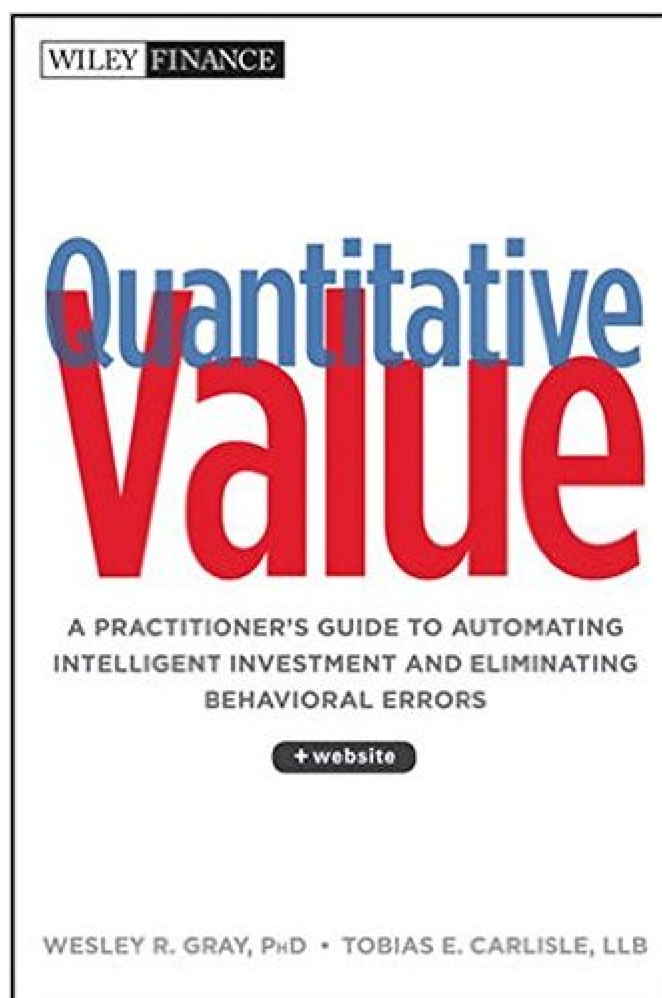
Quantitative Value, + Web Site: A Practitioner's Guide To Automating Intelligent Investment And Eliminating Behavioral Errors



Synopsis

A must-read book on the quantitative value investment strategyLegendary investment gurus Warren Buffett and Ed Thorp represent different ends of the investing spectrum: one a value investor, the other a quant. While Buffett and Thorp have conflicting philosophical approaches, they agree that the market is beatable. InÂ Quantitative Value,Â Wesley Gray and Tobias Carlisle take the best aspects from the disciplines of value investing and quantitative investing and apply them to a completely unique and winning approach to stock selection. As the authors explain, the quantitative value strategy offers a superior way to invest: capture the benefits of a value investing philosophy without the behavioral errors associated with "stock picking." To demystify their innovative approach, Gray and Carlisle outline the framework for quantitative value investing, including the four key elements the investment process:Â Â 1)Â How to avoid stocks that can cause a permanent loss of capital:Â Learn how to uncover financial statement manipulation, fraud, and financial distress.Â 2)Â How to find stocks with the highest quality:Â Learn how to find strong economic franchises, and robust financial strength. Gray and Carlisle look at long term returns on capital and assets, free cash flow, and a variety of metrics related to margins and general financial strength.Â 3)Â The secret to finding deeply undervalued stocks:Â Does the price-to-earnings ratio find undervalued stocks better than free cash flow? Gray and Carlisle examine the historical data on over 50 valuation ratios, including some unusual metrics, rare multi-year averages, and uncommon combinations.Â 4)Â The five signals sent by smart money:Â The book uncovers the signals sent by insiders, short sellers, shareholder activists and institutional investment managers.Â After detailing the quantitative value investment process, Gray and Carlisle conduct a historical test of the resulting quantitative value model. Their conclusions are surprising and counter-intuitive.Â Â The book includes a companion website that offers a monthly-updated screening tool to find stocks using the model outlined in the book, an updated back-testing tool, and a blog about recent developments in quantitative value investing. For any investor who wants to make the most of their time in today’s complex marketplace, they should look no further thanÂ Quantitative Value.

Book Information

Hardcover: 288 pages

Publisher: Wiley; 1 edition (December 26, 2012)

Language: English

ISBN-10: 1118328078

ISBN-13: 978-1118328071

Product Dimensions: 6.4 x 1 x 9.3 inches

Shipping Weight: 1.1 pounds (View shipping rates and policies)

Average Customer Review: 4.6 out of 5 starsÂ Â See all reviewsÂ (88 customer reviews)

Best Sellers Rank: #45,764 in Books (See Top 100 in Books)   #79 inÂ Books > Business & Money > Investing > Stocks   #273 inÂ Books > Business & Money > Finance

Customer Reviews

As far as I know, the only investing books to mesh quantitative investing and value investing have been "What Works on Wall Street," "The Little Book That Still Beats the Market," and "Ben Graham Was A Quant." "Quantitative Value" shares a lot in common with "What Works on Wall Street," and improves on "The Little Book." In fact, this was probably one of the best investing books I’ve ever read, combining the tried-and-true approach of value investing, behavioral finance, and quantitative methods to produce one very interesting piece. I really, really, REALLY wanted to give this five stars, as it is exceptional, but there were several major issues with their methodology and logic. But first, the positives.PROs:- Explains basic cognitive biases typically affecting investing and how behavioral finance can help improve results by methodically sticking with the Quantitative Value program.- Completely dissects Greenblatt’s "Magic Formula" (From "The Little Book That Still Beats the Market"), demonstrating which of the two formulas has contributed more to the returns, how to possibly improve on the formula, and using it as a benchmark to which the authors compare their Quantitative Value approach.- Tests a composite price metric of EBIT/EV, EBITDA/EV, E/P, B/P, Gross Profit/EV, and FCF/EV. Interestingly, the composite score doesn’t outperform the best performing single metric (EBIT/EV), which is at odds with the composite score findings in "What Works on Wall Street," which consisted of P/S, P/E, P/B, EBITDA/EV, and P/FCF. Can draw your own conclusions, but I suspect the divergence is due to O’Shaughnessy included P/S and P/FCF, rather than FCF/EV (a flawed metric discussed below) and GP/EV.

Please note, I received a copy of this book for review from the publisher, Wiley Finance, on a complimentary basis.The root of all investors’ problemsIn 2005, renowned value investing guru Joel Greenblatt published a book that explained his Magic Formula stock investing program-- rank the universe of stocks by price and quality, then buy a basket of companies that performed best according to the equally-weighted measures. The Magic Formula promised big profits with minimal effort and even less brain damage.But few individual investors were able to replicate Greenblatt’s success when applying the formula themselves. Why?By now it’s an old story to anyone in the

value community, but the lesson learned is that the formula provided a ceiling to potential performance and attempts by individual investors to improve upon the model's picks actually ended up detracting from that performance, not adding to it. There was nothing wrong with the model, but there was a lot wrong with the people using it because they were humans prone to behavioral errors caused by their individual psychological profiles.Or so Greenblatt said.Building from a strong foundation, but writing another chapterOn its face, "Quantitative Value" by Gray and Carlisle is simply building off the work of Greenblatt. But Greenblatt was building off of Buffett, and Buffett and Greenblatt were building off of Graham. Along with integral concepts like margin of safety, intrinsic value and the Mr.

This informative and exceptionally well-researched book wove together many strands of investing and finance for me. Almost everyone knows who Warren Buffett is, and many are familiar with Ben Graham, the father of value investing. If you've read a number of investing (or gambling) books, you may even be familiar with Ed Thorp, who pioneered the application of statistics to making money on Wall Street. Or perhaps you've heard of Nassim Taleb's "The Black Swan," or Daniel Kahneman, who won a Nobel Prize for his work in behavioral psychology.It takes a powerful unifying theme to demonstrate how the specialties of these diverse financial thinkers can be integrated into a single approach to investing. Wesley Gray, a finance professor with an MBA/PhD from the University of Chicago, and Tobias Carlisle, an M&A lawyer with a Wall Street background, combine a compelling history with voluminous academic research to demonstrate how these different spheres are in reality closely related and complementary.The authors describe how our innate behavioral and cognitive biases cause us to make poor investing decisions, and how we can avoid such outcomes by adhering to a systematic value investing process, based on techniques used by fundamental investors, that maximizes the statistical likelihood of investment success. Based on wide-ranging and amply documented academic research, the approach uses computers to search the universe of stocks and identify those that meet its robust stock selection criteria.This is a comprehensive, soup-to-nuts investment process. First, the authors council us to control risk by eliminating stocks that pose a risk of a permanent loss of capital due to fraud, earnings manipulation or financial distress. Next, they tackle value.

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