

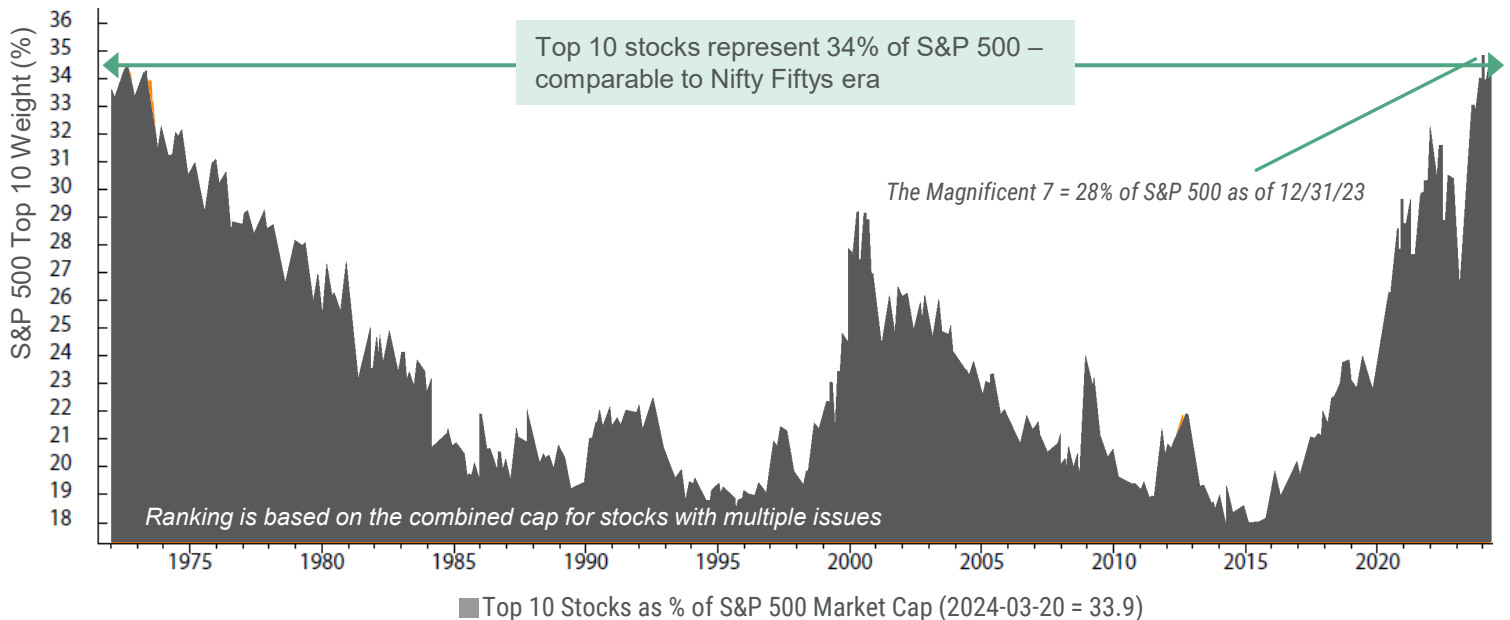
Fifty Years of Value Investing, Benjamin Graham, and the Future of Common Stocks

This year marks the 50th anniversary of Brandes Investment Partners. The milestone invites us to reminisce, reflect, and delve into the rich history of our firm and the marketplace. Among the memorabilia we came across was a 1974 *Financial Analysts Journal* article by Benjamin Graham titled “The Future of Common Stocks.” For those familiar with the history of Brandes, it is probably no surprise that this article stood out to us. That was the year of our founding as an investment firm based on the value principles and philosophies of Benjamin Graham, with whom Charles Brandes had the honor to develop a relationship.

In going through the article, we noticed how its content revealed striking parallels to today’s market environment. Graham wrote, “The distinction I have just made is clearly relevant to the present situation because of the recent advent of the ‘two-tiered market,’ resulting from the massive preference of institutions for large, high-growth companies. This in turn has brought about disparities in the P/E ratios for issues of investment character—differences as high as ten to one—that have been unexampled in all my experience, except perhaps at the height of the 1929 madness with its celebrated ‘blue-chip’ issues.”¹ Are we sure Graham isn’t describing the current market environment? As this chart highlights, concentration in the S&P 500 Index has returned to levels last seen when Graham penned this article in 1974.

Nifty Fifty Revisited?

S&P 500 Has Become More Concentrated



JANUARY 20, 1972 TO MARCH 20, 2024. Source: Ned Davis Research, FactSet, Brandes. Chart used with permission from NDR, Inc. Further distribution prohibited without prior permission. See NDR Disclaimer at <https://www.ndr.com/terms-of-service>. It is not possible to invest directly in an index.

The concentration extends beyond holdings composition to market performance as well. For the six months ended June 30, 2024, approximately 60% of MSCI ACWI’s return was driven by just 10 companies, eight of which are based in the United States. Similarly, over 70% of the S&P 500’s performance was attributed to 10 companies,

nearly all of which could be categorized as high growth, technology-related, or AI (artificial intelligence) trend beneficiaries.

This raises the question: How does Brandes approach these high-growth companies? Graham noted, “But the first-tier, high-growth issues present a real challenge to past experience. Obviously, they would be wonderful private or market-type investments if obtainable at book value or even twice that figure. The trouble is, of course, that most of them sell at more than five times book value—and some more than ten times. Last year the ratios were a good deal higher than that. At these levels, they take on a *speculative character* which is due entirely to their price level, and in no sense to any weakness of the companies themselves.”²

A couple of points stood out to us:

1. Growth and quality: Graham emphasized investing in “first-tier, high-growth issues,” not just the deeper-value bargain issues for which he is better known.
2. Price matters!

Following Graham’s approach to investing, Brandes is a fundamental, price-sensitive value investment firm. While we do consider—and appreciate—companies with high-growth and high-quality attributes in our search for value potential, we will only invest at what we consider the *right price* (and we do think there is a right price for almost everything!) We believe this approach is advantageous in today’s investing landscape as it helps us avoid businesses that are likely overvalued and identify those that are potentially undervalued.

So, what are the prospects for value in a market environment that bears a lot of similarities to the one from 1974? Graham said it well when he concluded the article with this quote from Virgil, his favorite poet: “O fortunati nimium ... (etc.) Agricola!”

Graham noted, “Virgil addressed this apostrophe to the Roman farmers of his day, but I shall direct it at the common-stock buyers of this and future years: O enviably fortunate Investors, if only you realized your current advantages!”³

^{1,2,3} Graham, B. (1974). The Future of Common Stocks. *Financial Analysts Journal*, 30(5), 20–30. <https://doi.org/10.2469/faj.v30.n5.20>

Book value: Assets minus liabilities. Also known as shareholders’ equity.

Magnificent 7: Nickname for mega-cap tech companies Microsoft, Amazon, Meta, Apple, Alphabet, Nvidia, and Tesla.

Nifty Fifty: A popular name in the 1960s and 70s for a group of the largest U.S. companies.

Price/earnings (P/E): Price per share divided by earnings per share.

The S&P 500 Index measures equity performance of 500 of the top companies in leading industries of the U.S. economy.

The MSCI ACWI with net dividends captures large and mid cap representation of developed and emerging markets.

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