

Value investing textbook aiming to correct academic misunderstandings: author

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Gideon Scanlon

A new textbook on value investing is aiming to combat the academic community's premature dismissal of the subject, says author George Athanassakos, professor of finance and the Ben Graham chair in value investing at Western University's Ivey School of Business.

"There are plenty of books on value investing — but not academic books. I decided to write the book to inform about what value investing's all about and to serve as the steppingstone to encourage more academics to teach value investing across the globe."

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Based on the ideas laid out by Benjamin Graham and David Dodd in the 1930s, value investing seeks to capitalize on disjunctions between the apparent and real value of stocks. Rather than favouring well-diversified portfolios, value investors tend to focus on a smaller range of stocks which, when analyzed, can be shown to be underpriced.

"It seems like everyone has been saying, 'Value [investing's] dead,' because, over the last 10 years, low [price-to-earnings] stocks have underperformed high P/E stocks. But that isn't value investing. . . . Just because a stock has low P/E doesn't mean that it's undervalued — it's potentially undervalued. A value investor's job, then, is to determine whether or not the stock is truly undervalued by estimating the stock's intrinsic value and comparing the stock price to its intrinsic value and factoring in a margin of safety."

While high P/E stocks have had the edge in performance over the past decade, Athanassakos points out that low P/E stocks have outperformed for most of the past century. In fact, outside of an eight-year window during the 1960s and 1970s, low P/E stocks have traditionally granted higher returns.

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“What has hurt low P/E stocks in the past 10 years is low inflation and, by extension, low interest rates. An environment of low interest rates has benefitted growth stocks the most. Growth stocks have high future growth opportunities. When you discount these high growth opportunities at almost zero interest rates, you get huge present values. But what happens when interest rates go up? If periods of low inflation and low interest rates hurt low P/E stocks, [they] must do well in periods when interest rates and inflation are on the upswing — which seems to be what may be the case going forward.”

According to Athanassakos, universities are doing a disservice to students by dismissing value investing on the basis of a cursory understanding of what it involves. “Why don’t more universities teach value investing? Students love to learn about it — it makes sense to them. The problem is with academics not taking it seriously or not fully understanding what value investing is all about.”

In his review of the world’s few academic courses on value investing, Athanassakos discovered that the majority of courses were being taught by professional investors rather than faculty members.

“To older academics, who believe that markets are efficient, value investing looks like witchcraft. Younger ones — who haven’t been taught about it — don’t get into it because, not only do they not understand value investing, but also because they are afraid it will hurt their career.”

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