

# Book Review: Common Stocks And Common Sense

<http://www.investing.com/analysis/wachenheim,-common-stocks-and-common-sense-200136797>

*Common Stocks and Common Sense: The Strategies, Analyses, Decisions, and Emotions of a Particularly Successful Value Investor* (Wiley, 2016) by Edgar Wachenheim III, chairman and chief portfolio manager of Greenhaven Associates, is a delightful book. Part memoir, part case study, part advice, it sheds light on a stellar investing career. Over the past 25 years Greenhaven, which currently has about \$5.5 billion in assets under management, has achieved average annual returns of nearly 19 percent.

Eleven case studies-IBM (NYSE: **IBM**), Interstate Bakeries, U.S. Home Corporation, Centex, Union Pacific (NYSE: **UNP**), American International Group (NYSE: **AIG**), Lowe's (NYSE: **LOW**), Whirlpool (NYSE: **WHR**), Boeing (NYSE: **BA**), Southwest Airlines (NYSE: **LUV**), and Goldman Sachs (NYSE: **GS**)-form the core of the book, some wildly successful investments, others less so. Wachenheim tersely describes the fate of one of his disasters (AIG): "I went to bed with Miss America and woke up with a witch."

Although Wachenheim is a value investor, and as such necessarily a number cruncher, he doesn't dwell unduly on valuation. For instance, in assessing a potential investment in Whirlpool, he decided that it "would be an exciting investment regardless of whether [the shares] were worth 15 times earnings or 12 times earnings or even 10 times earnings. ... When you think you are hitting a home run, you need not dwell on whether the ball is likely to end up in the lower deck, the upper deck, or out of the ball park."

In connection with Greenhaven's Whirlpool investment, Wachenheim continues: *"If one in five of our holdings triples in value over a three-year period, then the other four holdings only have to achieve 12 percent average annual returns in order for our entire portfolio to achieve its stretch goal of 20 percent. For this reason, Greenhaven works extra hard trying to identify potential multibaggers."*

The book closes with a letter to a younger investment manager who had asked for advice. It includes such wonderful lines as this one, which invokes Samuel Johnson: "Be wary of stock recommendations made by others, especially by those in the media who may sound articulate and authoritative, but who lack the resources to be

successful professional investors. A horse that can count to 10 is a wonderful horse, but not a wonderful mathematician."

Wachenheim might write that "all [his] life, he struggled with verbal skills," but you wouldn't know it from this book. It's a page turner.