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## BOOK REVIEW

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Mark Kritzman, Senior Editor

### **THE MOST IMPORTANT THING—UNCOMMON SENSE FOR THE THOUGHTFUL INVESTOR**

*By Howard Marks,  
Columbia University Press,  
2011, Hardcover  
(Reviewed by Javier Estrada,  
IESE Business School,  
Barcelona, Spain)*

“This is that rarity, a useful book.” These words written on the cover of any book would probably call your attention. These words written by Warren Buffett *should* call your attention. Well, this is exactly what Buffett wrote on the cover of Howard Marks’ fantastic book, *The Most Important Thing*.

It is indeed both a rare and a useful book. It is also thought provoking. No formulas, no graphs, and yet it makes you think and reevaluate your core

financial beliefs. It looks like the type of book you can read on the beach, and yet it is the type of book that leaves you thinking about it long after you are done reading it.

I run an executive education program on portfolio management for individual investors, and in the very first session of the two-day program I tell participants that we will not discuss anything they will not be able to understand, but we will discuss many things they will find hard *to accept and implement*. This is more or less what you can expect from this book.

Incidentally, do not read this book by expecting to find *one* important thing, as the title suggests. Marks explains that in meetings with clients he often found himself saying “the most important thing is X,” and minutes later saying “the most important thing is Y,” and so

forth. This book is built around those “most important things”.

Marks starts off by making a distinction between first-level thinking, which is “simplistic and superficial,” and second-level thinking, which is “complex and convoluted.” To illustrate, first-level thinkers may argue that with an outlook of low growth and rising inflation you should dump stocks; second-level thinkers would argue that if the outlook is bad and everybody is selling you may want to buy stocks. Needless to say, Marks argues that only second-level thinkers can hope to obtain above-average returns.

Marks clearly reveals himself as a value investor. He argues that “of all the possible routes to investment profit, buying cheap is clearly the most reliable.” He also argues that “trying to buy below value isn’t infallible, but

it's the best chance we have" to earn above-average returns. The views expressed throughout the book are clearly consistent with those of Buffett's, which may explain his endorsement of the book.

Particularly illuminating is the discussion of the critical issue of risk, to which Marks allocates three chapters: one on "understanding" risk, another on "recognizing" risk, and another on "controlling" risk. Interestingly, although the prevailing view in academia is that value investing (buying cheap and underrated stocks) is riskier than growth investing (buying expensive and glamor stocks), Marks begs to disagree; he argues that the opposite is pretty much the case.

In fact, he argues that "most investors think quality, as opposed to price, is the determinant of whether something's risky. But high quality assets can be risky, and low quality assets can be safe. It's just

a matter of the price paid for them... Elevated popular opinion, then, isn't just the source of low return potential, but also of high risk." He also argues that when "greed goes to excess, security prices tend to be too high. That makes prospective return low and risk high. The assets in question represent mistakes waiting to produce a loss..."

The book has 20 chapters, each discussing one "most important thing." For the purposes of this review it suffices to say that besides allocating, as already mentioned, a chapter to the distinction between first-level and second-level thinking and three chapters to discuss risk, Marks also discusses a wide variety of issues including market efficiency and its limitations; the relationship between price and value; the role of luck in financial markets; contrarianism; and many others. The last chapter ("The Most Important Thing Is... Pulling

It All Together") is a fantastic summary of both the book and Marks' views on investing.

If the previous paragraphs have not convinced you that you should read this book, here comes the clinching argument: The back cover of the book has endorsements from Warren Buffett ("When I see memos from Howard Marks in my mail, they're the first thing I open and read. I always learn something, and that goes double for his book."), John Bogle ("If you seek to avoid the pitfalls of investing, you must read this book!"), and Joel Greenblatt ("*The Most Important Thing* is destined to become an investment classic."), among others.

In short, *The Most Important Thing* is a thought provoking, must read book not just for value investors but for investors at large. I highly recommend that you read it, *and* that you think long and hard about Marks' most important things.