

VALUE INVESTING BOOK REVIEWS

Book review:

Financial Statement Analysis for Value Investing

Authors: **Stephen Penman & Peter Pope**
 Reviewed by: **Javier López Bernardo, CFA**
 Publisher: **Columbia University Press (2025)**

Summary: In today's world where traditional value investing is under pressure, this book revives the Graham-Dodd legacy with a sharper lens on modern accounting and valuation practice. The authors challenge conventional valuation methods like DCF and multiples by promoting the residual income model – a framework built on accounting fundamentals, not speculative cash flow forecasts.

What Makes It Stand Out

- 1 **Residual Income as a Core Framework**
 The model values equity based on book value plus discounted residual (economic) earnings – a method ideal when dividends or stable free cash flows are unavailable.
- 2 **Accrual Accounting as a Valuation Strength**
 Contrary to popular belief, accrual-based earnings reveal value sooner than cash flows. The book defends accruals as essential for realistic valuation, especially under uncertainty.
- 3 **Beyond Beta and Intrinsic Value Myths**
 The authors argue that "intrinsic value" is often too abstract and favor a valuation approach that confidently challenges market prices rather than attempts to define an elusive constant.

4 **Critique of Fair Value Accounting**

The book critiques fair value methods for adding speculative bias – instead reinforcing the discipline of realized earnings and balance sheet integrity.

5 **Residual Operating Income for Operational Focus**

To address leverage-driven distortions, the authors introduce an enterprise-value-based model using operating metrics – refocusing analysis on the business, not capital structure.

Practical Relevance for Valuers

Use residual models for early-stage, non-dividend, or high-reinvestment companies.

Prioritize ROE, accrual quality, and capital allocation in your models.

Be skeptical of market-driven multiples – a strong analytical foundation can surface mispricings.

Avoid binary "value vs. growth" thinking; focus on accounting drivers of returns.

<https://blogs.cfainstitute.org/investor/2025/06/11/book-review-financial-statement-analysis-for-value-investing/>



Book review:

The Case for Long-Term Value Investing

Authors: **Jim Cullen**

Reviewed by: **Janet J. Mangano**

Publisher: **Harriman House (2022)**

Summary: Jim Cullen, a veteran with 60+ years of investment experience, makes a compelling case for a disciplined, long-term value investing strategy. At a time when growth stocks and short-term gains dominate headlines, Cullen reaffirms the timeless relevance of value investing rooted in fundamental metrics and patient capital.

Core Themes

- 1 Time Horizon**
Long-term means at least five years. Cullen emphasizes the rolling five-year period to reduce noise and improve decision-making, contrasting the short-term melt-ups that often obscure value strategies.
- 2 Three Disciplines of Value**
 - 1 Lowest P/E ratios (bottom 20%)**
 - 2 Highest dividend yields (top 20%)**
 - 3 Lowest price-to-book ratios**

These metrics have historically outperformed when viewed over decades rather than months.
- 3 Inflection Point Awareness**
Cullen cautions investors to remain vigilant about market cycles, debt levels, interest rate movements, and consumer confidence. These macro indicators often signal when to lean into or away from value strategies.

4 The Danger of Market Timing

Strategic shifts to cash can be disastrous. Missing even short periods of market rebound significantly hampers long-term returns.

Practical Insights

Applicable Across Markets

Value investing works across market caps and geographies — including small caps and emerging markets — especially where takeovers are frequent.

Covered Call Strategy

For tax-exempt accounts, Cullen outlines how covered calls can enhance income in low-yield bond environments.

For New Investors

His section for beginners is a standout, emphasizing the power of compound interest, saving habits, and even recommending contributions up to age 80 to build long-term wealth.

Link:

<https://blogs.cfainstitute.org/investor/2022/08/26/book-review-the-case-for-long-term-value-investing/>