



# Brandes believes:

## An Introduction to Value Investing

In the book *Security Analysis*, Benjamin Graham urged investors to search for opportunities among out-of-favor stocks. Seven decades later, the philosophy espoused by Graham is widely known as value investing, and the track records of some of the world's most successful investors point to the power of its principles. But what is value investing all about?

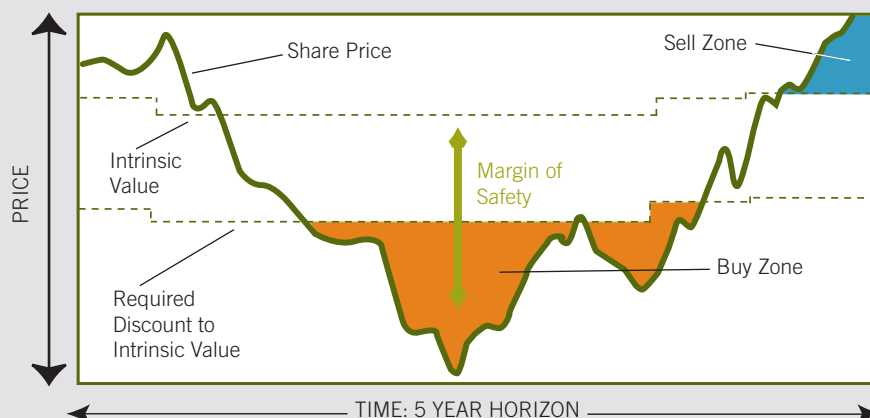
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Value investors believe **irrationality in the stock market** can lift share prices to dangerously lofty heights and can drag prices for select stocks to bargain levels. Brandes targets the latter situation, seeking to purchase out-of-favor stocks that are trading at discounts to their estimated fair or “intrinsic” values, and then hold these stocks until the market recognizes their inherent worth.

Value investors adopt the **perspective of a business owner** when evaluating a stock's value. This means passing on top-down forecasting and market timing and focusing instead on bottom-up, company-by-company analysis. This analysis typically includes an in-depth evaluation of a company's financial strength. From there, value investors usually calculate **intrinsic value** by focusing on earnings, cash flow, and other indicators of the company's wealth-creation potential.

The **margin of safety** represents the difference between a stock's market price and its estimated intrinsic value. Value investors believe that the larger this margin, the potentially safer the investment. Some holdings will inevitably encounter the occasional stumbling block, and a margin of safety may help provide protection if the going gets tough.

## The Margin of Safety Concept



Hypothetical Illustration (assumes intrinsic value changes over time).

Value investors believe as the broader market recognizes the inherent worth of an undervalued company its share price will climb toward its intrinsic value.

Typically, Brandes expects to hold a stock for as long as **three to five years** or until the company's stock price climbs to analysts' estimate of intrinsic value.

At Brandes Investment Partners®, value investing has served as the foundation for the investment decisions made on behalf of clients since the firm's inception in 1974. For more information on the philosophy pioneered by Ben Graham, please contact us.

Cash flow is the movement of money into or out of a business, project, or financial product. It is usually measured during a specified, finite period of time. Measurement of cash flow can be used for calculating other parameters that give information on a company's value and situation.

The illustration of intrinsic value is purely hypothetical and any resemblance to any specific securities is strictly unintended. There is no guarantee or implication that any specific security will ever trade as low as the buy limit (the intrinsic value less discount) nor that it will ever trade as high as the assessed intrinsic value. Situations arise where securities, having been bought, cannot be sold at a profit. The assessed intrinsic value estimate of any security, or the discount for purchase, may be amended at any time.

**Mutual fund investing involves risk. Principal loss is possible.**

**Diversification does not assure a profit or protect against a loss in a declining market. Growth stocks typically are more volatile than value stocks; however, value stocks have a lower expected growth rate in earnings and sales.**

**Past performance is not a guarantee of future results.**

***Index performance is not indicative of fund performance. Current standardized fund performance, as of most recent quarter- and month-end may be obtained may be obtained by calling 800.395.3807, or visiting [www.brandesinstitutionalfunds.com](http://www.brandesinstitutionalfunds.com). Read carefully before investing***

***A mutual fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectuses contain this and other important information about the investment company, and may be obtained by calling 1.800.395.3807 or visiting [www.brandesinstitutionalfunds.com](http://www.brandesinstitutionalfunds.com). Read carefully before investing.***

One cannot invest directly in an index.

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