



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 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 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

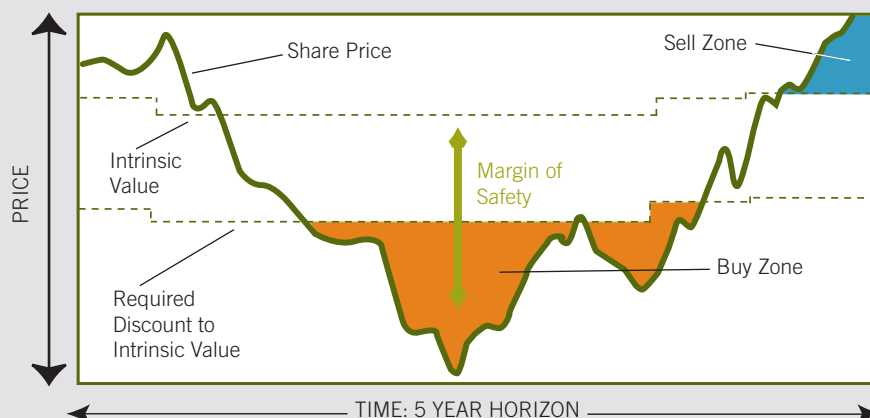


Illustration (assumes intrinsic value changes over time).

Value Investing Has Delivered Exceptional Returns

DECEMBER 31, 1926 – DECEMBER 31, 2010

	Annualized Return	Annualized Standard Deviation	Worst 12-Month Loss
Small Value	15.0%	29.0%	-70.8%
Small Growth	8.8%	27.1%	-65.2%
Large Value	11.7%	25.3%	-75.6%
Large Growth	9.3%	18.7%	-62.3%

Source: http://mba.tuck.dartmouth.edu/pages/faculty/ken_french/data_library.html and Brandes Investment Partners as of 12/31/10. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. Past performance is no guarantee of future results. Actual results will vary.

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.

Some investors think the value approach is a defensive tactic that can protect against steep losses but won't provide much in terms of long-term gains. However, historical returns for value investing often have been exceptional.

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.

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.

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Brandes Investment
Partners, L.P.
11988 El Camino Real,
Suite 500
P.O. Box 919048
San Diego, CA
92191-9048
858.755.0239

