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Book Review
Investonomy – The Stock Market Guide That Makes You Rich

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1. Introduction

This is an attempt to review the best-seller book 'Investonomy – The stock market guide that makes you rich' by Pranjal Kamra. The book presents a panoramic view of stock market investment with a special focus on fundamental investing. The book is full of words of wisdom in its 28 different chapters and enlightens the path of investors who dream of making it big in the stock market. The idea is to empower retail investors to have a sanguine journey of investment in the stock market. People are aware today that they must not rely only on a single source of income and must invest, as it is indispensable to make their money work for them to generate a passive source of income. The author instils confidence among retail investors by endorsing the fact that there is hardly anyone who has never lost money in the markets and with the right knowledge and approach anyone can earn in the markets as it is not rocket science.

The very first chapter of the book explains how the stock market has the potential to turn your biggest dreams into reality. The author pinpoints stock markets as a gateway to investing in various businesses that allow investors' money to grow manifolds. He dwells on the idea that it is the only medium where one can own a business without having to run it, invest one's time into it or add funds to it. In Chapter 2 author unfurls that stock markets are among the finest routes to financial freedom. The author maintains that stock markets tend to generate more than average returns aiding investors to accumulate wealth by investing for a long period of time. Chapter 3 disentangles the basics of investing in the stock market. The author throws light on the meaning of share, the stock market, the difference between investing and speculating, the importance of investing in the stock market and finally how one makes money in the stock market.

The next chapter uncovers if stock markets are risky enough to unnerve oneself. The author brings forth the idea that investing in stock markets is not that strenuous and it doesn't require you to be a business analyst or a statistician for that matter. Had it been like this, bigwigs of the stock market like Warren Buffet would not have been successful at creating history in the stock market. Furthermore, in the present times where markets are streamlined and well regulated by SEBI the biggest risk that could chop an investor in the market is a lack of knowledge which one can overcome by learning how to invest in stock markets. Chapter 5 pinpoints the major factors that influence the stock market. The author enlists economic factors, geopolitical factors, foreign institutional investors, inflation, foreign exchange rates, demand and supply, investors' sentiments, interest rates and trade balance as the major factors impacting stock markets.

Chapter 6 unwraps the impact of currency fluctuations on the economy of a country. The author shares that an increase in exports is healthy for the currency of the country. The author also highlights that devaluation of currency is a blessing in disguise as it pushes the government to increase exports. Chapter 7 compares investing in stocks to investing in other vying avenues like debentures, property and gold. The author maintains an investment in equity as the best to the other forms of investment owing to its superior returns, liquidity and accessibility provided the investment is done prudently. The author also exchanges views about compounding which is often referred to as the eighth wonder of the world by the investment fraternity. Further, the Author highlights the importance of consistency in the stock markets to derive superior returns. One must stay in the markets during dips and be emotionally balanced to forego the temptation of booking extra profits every time to build wealth. In Chapter 8 author unveils that investment in stock markets is both an art as well a science. One needs to have a blend of knowledge and experience to have a successful investment journey. Chapter 9 shares that the simplest strategy to invest money in the stock market is to choose a business that even an idiot can run and something that will survive even after the harbinger of that business is no more.

The next Chapter evinces the ins and outs of value investing. The author shares how value investing has aided the ace investors like Benjamin Graham, Warren Buffett and Peter Lynch etc. build an enviable fortune through this. Chapter 11 shares that the success mantra in the markets is to invest intelligently considering one as the owner of the business rather than the investor and then stay as long as the prospects of the business are bright to let compounding do the magic. Chapter 12 reveals the two popular approaches to investing namely the Top-Down Approach and the Bottom-Up Approach. The former approach stresses choosing the sector first and then the company and the latter approach is centred on choosing the stock based on its value irrespective of the sector to which it belongs. Both approaches to investment are successful in stock markets.

Chapter 13 imparts readers with the methodology to analyze stocks which help to find diamonds in the dust. It encompasses analysis of the industry, business, management, behaviour and valuation to reach an effective conclusion. These are discussed comprehensively in the following chapters. The following chapter explains the analysis of the industry with the help of Porter's Five Forces Framework. Porter enlists high entry barriers, poor bargaining power of suppliers, low bargaining power of buyers, no threat of substitutes and low industry rivalry as the five major factors that can contribute to the success of any business. In Chapter 15 author divulges that the best way to choose a business to invest in is to ask yourself if the business enjoys the 'Moat' or has a competitive advantage. Is it producing something that the consumers will always like to buy and stick to it? If the answer is yes, you have nailed a good company for investment. In Chapter 16 author reiterates that it is imperative to analyze management before investing in any company. It is worth investing in a company if its management is strong with clear short-term and long-term vision, reinvests its profits prudently, is transparent, against bureaucratic culture and is less flamboyant with the media.

Chapter 17 exposes the intricacies of gauging the Annual Reports. Investors should not get allured by the fancy annual report that could supersede the importance of its content. The author specifically highlights the importance of noticing EPS, management remuneration and the promoter's shareholding in an Annual Report before investing in any company. The next chapter uncorks the analysis of major Financial Statements i.e., Balance Sheet, Profit and Loss Statement and Cash Flow Statement. These statements help in calculating various ratios that are essential to gauge the status of the company under major heads of profitability, efficiency, solvency and liquidity. Chapter 19 bolsters the importance of the valuation of a company as eventually stock prices reflect the company's fair value. The author says that there is no sure-shot formula to evaluate a company and it always involves the investor's discretion. The author comprehends Discounting Cash Flows, Sum of the Parts Valuation and Relative Valuation Method in the chapter.

Chapter 20 throws light on various behavioural biases that have the power to shadow rationality in decision-making and how one needs to confront them. Author shares that Familiarity Bias, Representativeness, Anchoring, Overconfidence Bias, Excessive Trading, Under-Diversification, Herd Mentality Bias, Commitment Bias, Confirmation Bias, Hindsight Bias, Gambler's Fallacy, Disposition Effect and Availability Bias can hinder prudent buying in the stock market. The author says that investors must read to lead their journey in markets. Chapter 21 explains stock investment from the viewpoint of legendary stock market investor Ben Graham who was a pioneer in value investing. The author explains the golden concepts of the Margin of Safety, Mr Market and the Cigar Butt Approach in this chapter which are believed to enhance the returns of stock market investors. The margin of Safety is the tendency to buy the stock when it is noticeably below its intrinsic value to give enough room for human error. Mr Market's approach encourages investors to take due advantage of the roller coaster ride of the market which is inherently volatile selling overpriced stocks when markets are performing at their best and buying quality stocks when markets are beaten up. The cigar Butt Approach pushes investors to get into the stocks of the companies that are not performing lately and have lost the market's attention but do have considerable value to make them a worthy buy.

Chapter 22 explains key rules to invest in stocks as per Peter Lynch. Companies whose business is simple and easy to understand by an investor, are not in the limelight and belong to boring but prospering industries are fortified to be the ideal candidates for investment. These companies are slowly changing, and growing, belong to a particular niche, are ethical, run by strong management and are less pompous. The author highlights the power of patience, adequate research and compounding in the market. The author warns investors to blindly rely on the quarterly reports and anything that they read while investing. Getting over-excited about stock splits, mergers or acquisitions without digging deeper into the story can also put investors into troubled waters.

Next Chapter shares that the only guide that you have in the stock market is yourself. You must invest in your knowledge as it is bound to give you long-lasting results in the market. The advice of Brokers, Credit Rating Agencies, Mutual Fund Distributors, Relationship Managers in Banks, and Advisors all have ulterior motives and they are market cowboys who only wish well for themselves. Chapter 24 explains the Fallacian Trap which makes brokers target innocent investors to get tempted by the fancy schemes and rob them of their money. Chapter 25 discusses the ideal number of stocks that one should have in one's portfolio. Although there is no consensus on this it is always advised to adequately diversify your portfolio especially when you are new to investment. Further, stocks chosen must be well researched and from five to thirty in number as per the majority of market wizards.

Chapter 26 unveils the route to bag multi-bagger stocks. The author says that multi-bagger stocks belong to companies that enjoy huge profit margins and high sales volume. These companies are often backed by strong and ethical management, are performing and have a bright future as well. Furthermore their competitive advantage and evergreen business always give them the edge in the market. Usually, stocks of small-cap companies are believed to give superior returns but at the same time are considered to be very risky as well.

In the next chapter, the author emphasizes the importance of cost-benefit analysis before investing in anything. Finally, Chapter 28 uncovers the essential checklist for stock investment proposed by the seasoned investor Munger. He says one must invest only if one understands the business of the company if the industry to which it belongs has a bright future and if the company it intends to invest in is financially upbeat. One must not follow the crowd and invest independently taking calculated risks. One must be an analytical, perennial learner, humble and realistic while making investment decisions. Patience and prudence in allocating capital are a must in this journey. Further, one must be flexible and focused in this dynamic world of investment to reap long-lasting benefits.

Overall, author has used simple language for the convenience of readers. With the rising awareness about the benefits of investment in the stock market, the book will certainly serve good to the readers. The book encompasses all the lessons that are a must to invest in the markets. Not only does the author discusses quantitative factors but various qualitative factors which make the book a holistic guide for investors. The author comprehends the ideologies of ace investors like Benjamin Graham, Warren Buffett, Peter Lynch etc. to share their best practices with the readers to instil confidence in them to have a prolific investment journey.

2. References

Kamra, P. (2022). Investonomy - The Stock Market Guide that makes you Rich. Penguin Books. ISBN 9780143455042.