

Book Review

Investing Blasphemy: Don't Diversify

Klaus Kneale 01.03.08, 6:00 AM ET

The *Entrepreneurial Investor* by West Coast Asset Management (\$30, John Wiley & Sons, 2008).

Paul Orfalea is fairly well known for being the hyperactive, dyslexic mind that turned office- and print-service shop Kinko's into a worldwide chain, eventually bought by FedEx in 2004. Now much of his time is spent working as an investment adviser heading West Coast Asset Management, based in Ventura, Calif. With his three West Coast colleagues, Lance Helfert, Atticus Lowe and Dean Zatkowsky, Paul has released *The Entrepreneurial Investor*, which takes a whack at teaching investment strategy.

The Entrepreneurial Investor is simple and at times so accessible it might seem to encourage investors who belong in index funds to take on too much risk by following the authors into the realm of the highly concentrated individual stock portfolio.

How many times in the past year have we heard that an investment bank full of rocket scientists has had to declare a huge write-off due to over-exposure to the mortgage markets? If even the pros get stung by putting too much money into one idea, it seems that the retail-stock picker should spread his or her money around.

The West Coast guys suggest portfolios of 10 to 15 stocks and near-complete avoidance of major retail mutual funds (which often hold 200 to 300 stocks). They're concerned with the opposite of concentration risk--they don't want the effect of their best ideas to be trivialized. This is the book for investors who won't settle for the market's return.

Quoting super-investor Warren Buffett: "I cannot understand why an investor elects to put money into a business that is his 20th favorite rather than simply adding that money to his top choices ..."

The West Coast Strategy is typical value fare. Find a company that the market has overlooked. Don't pay too much for it. Invest a solid portion of your portfolio in that company. If you're right, just wait for the market to notice. They don't like heavily hyped stocks and they do like dividends. This is common-sense advice, and the real risk is in being wrong about any one stock. Fortunately, with chapters like "How To Be An Annual Report Detective," West Coast's team gives their most studious readers a good shot at being right.

The book is straightforward and accessible, and the investing advice makes sense. Sprinkled throughout are a number of pop culture references (*Men in Black*, *The Fugitive* and *Dirty Harry*, to name a few) that add flavor to the text. Warren Buffett is referenced nearly once a chapter--sometimes it feels like more, but no value investor can write a book without writing a paean to Buffett at this point.

The Entrepreneurial Investor resembles an investing cookbook. The recipes are clearly detailed and can be executed by even the most novice cooks. The West Coast guys know investing solo isn't for everyone. They clearly point out that if you don't have a passion for it, you don't have the time for it, or you aren't comfortable, you should get someone else to do it for you. If you have the million-dollar minimum deposit, *they'll* even do it for you. For those with the grit to take on the market, this book is a good place to start.