Benjamin Graham, the man who inspired Warren Buffet, is the father of value investment. Graham was an academician as well as an investor. He wrote several books about stock markets. In his books, he also used back-testing models to prove his points. He is known to be a defensive investor, but he also has suggestions for the enterprising investors. One thing for sure, he is looking for margin of safety in the stocks. In his books Graham suggests looking for undervalued stocks with the highest margin of safety. Warren Buffet, who became a billionaire following Graham's advice,explains margin of safety as buying a stock for a minimum of 30% discount to its intrinsic value. Here is how Graham values a stock:

Long-Term Valuation (LTV) = Earnings Per Share x (8.5 + 2 x Estimated Long-Term Earnings Growth) x (4.4 / Corporate Bond Yield)

This is a dynamic target price for a stock. I think the number 4.4 was the standard corporate bond yield at that time. I think this is a genious formula which shows the relationship between interest rates and stock markets. If a company has a lower-grade bond yield (a higher interest on liabilities) its' valuation would be lower. Based on this model, for a no-growth stock with a corporate bond yield of 4.4%, a P/E ratio of 8.5 is justified. If you are dealing with blue-chips, you probably want to use the AAA Corporate Bond Yield. However, for smaller companies using different bond yields might be a better idea. Note that LTV is a dynamic long-term price target which needs to be continuously updated.

Based on this valuation, margin of safety is calculated as follows:

Margin of Safety = (LTV - Price) / LTV