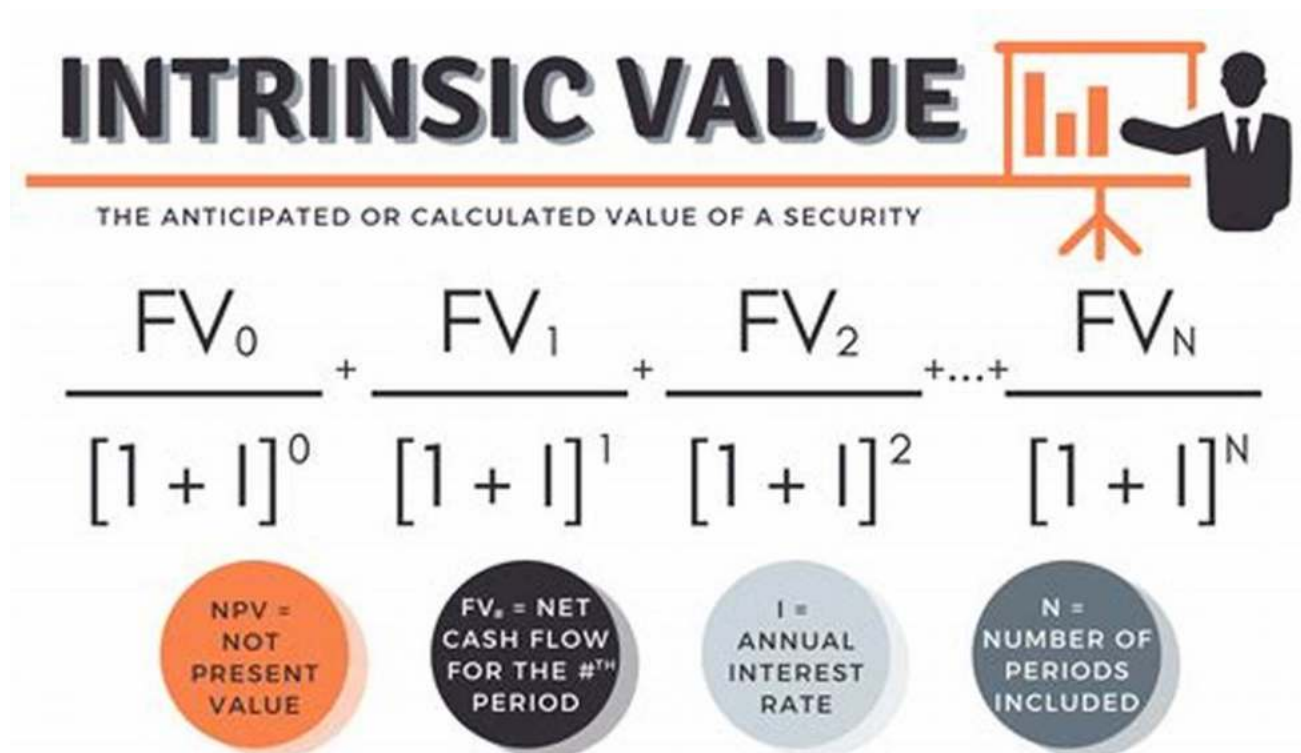


Simple Intrinsic Value Calculation For The Everyday Value Investor

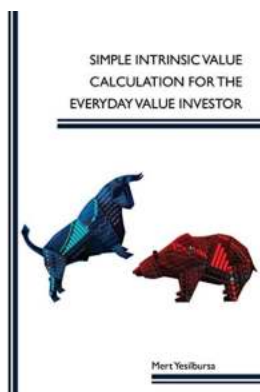


For every value investor out there, understanding the intrinsic value of a company is crucial. It helps in determining whether a stock is overvalued, undervalued, or trading at fair value, enabling investors to make informed decisions. In this article, we will delve into the simple yet effective method of calculating intrinsic value for the everyday value investor.

What is Intrinsic Value?

Intrinsic value refers to the true value of an investment, independent of market fluctuations and emotions. It represents the estimated worth of a company based on its fundamental factors such as cash flow, earnings potential, growth prospects, and risk assessments. By calculating intrinsic value, investors can

determine if a stock is worth investing in or if it is currently overpriced or undervalued.



Simple Intrinsic Value Calculation for the Everyday Value Investor by Joosr ([Print Replica] Kindle Edition)

★★★★☆ 4 out of 5

Language : English
File size : 949 KB
Print length : 22 pages
Lending : Enabled
Screen Reader : Supported



The Formula

The most common and straightforward formula used to determine intrinsic value is the discounted cash flow (DCF) analysis. It takes into account the expected future cash flows of a company and discounts them to present value, providing a realistic estimation of the company's worth.

$$DCF = \sum (CF_t / (1+r)^t)$$

Where:

CF_t = Cash flow in year t

r = Discount rate (usually the investor's required rate of return)

t = Year

Gathering the Data

To perform a DCF analysis, you will need to collect certain financial data about the company. This includes historical cash flows, earnings growth rates, and the

discount rate that reflects your desired rate of return. This information can be found in the company's financial statements and other relevant sources such as market research reports or industry analysis.

Estimating Cash Flows

The first step is to estimate the future cash flows of the company. Typically, you will need to determine cash flows for the next 5-10 years, as well as a terminal value representing the company's value beyond that period. These estimates should be realistic and based on thorough analysis of the company's historical performance, industry trends, and market conditions.

Discounting Cash Flows

Once you have estimated the cash flows, you need to discount them to present value. The discount rate is crucial in this step. It should reflect the risk associated with the investment and your required rate of return. Remember that a higher discount rate will result in a lower intrinsic value, while a lower discount rate will yield a higher intrinsic value.

Calculating Terminal Value

Determining the terminal value involves estimating the value of the company beyond the forecasted period. This can be done using various methods such as the perpetuity growth model, where you assume a stable growth rate and calculate the present value of the perpetuity. Other methods include the exit multiple approach or the liquidation value approach depending on the nature of the business.

The Final Step

Once you have calculated the present value of the estimated cash flows and the terminal value, simply sum them up to obtain the intrinsic value of the company.

This value will provide guidance on whether the stock is undervalued or overvalued, helping you make better investment decisions.

Understanding the intrinsic value of a company is essential for value investors. By calculating it through the discounted cash flow analysis, investors can gain valuable insights into the worth of an investment. However, remember that this is just one method of valuation, and it is important to consider other factors and conduct thorough research before making investment decisions.



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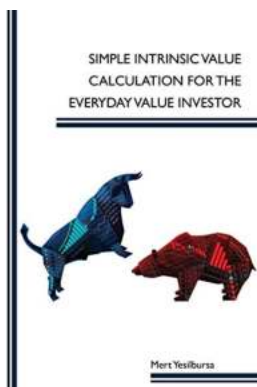
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To grow your money in the stock market, you neither have to have a PhD in Finance nor outsmart the gurus of investing. Instead, what you need is to have some kind of a compass that allows you to identify if a stock is under- or overvalued. Then, you can buy when the price of the stock is lower than its intrinsic (or fair) value and sell when it is higher. This proven methodology of money-making is called value investing.

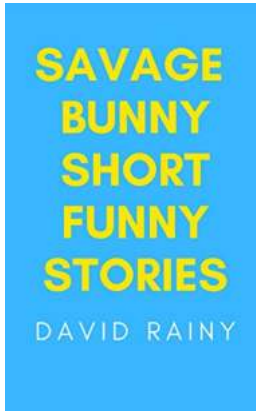
In this book, I attempt to present the widely-used valuation methods with example stock valuations and enrich the methods with a guideline on what to look for. The valuation methods are based on the fundamentals of companies and are covered in a way that is relevant for the everyday value investor. The everyday value investor includes every one of us whose expertise does not necessarily lie in the fields of investing and stock markets, but who wants to make informed decisions with their hard-earned money.

Do not take this book as the ultimate guide to value investing as it is not that. Instead, I intend merely to make the subject matter more digestible and make it easier for us investors to acquire what I see as the right approach to investing: a rational value investing approach with a long-term mindset.



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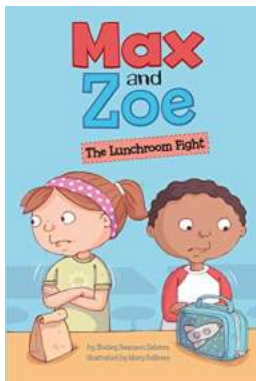
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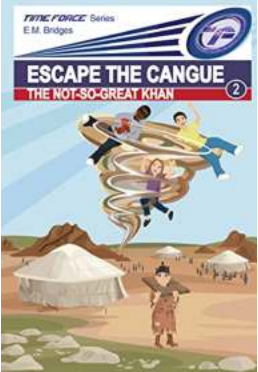
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