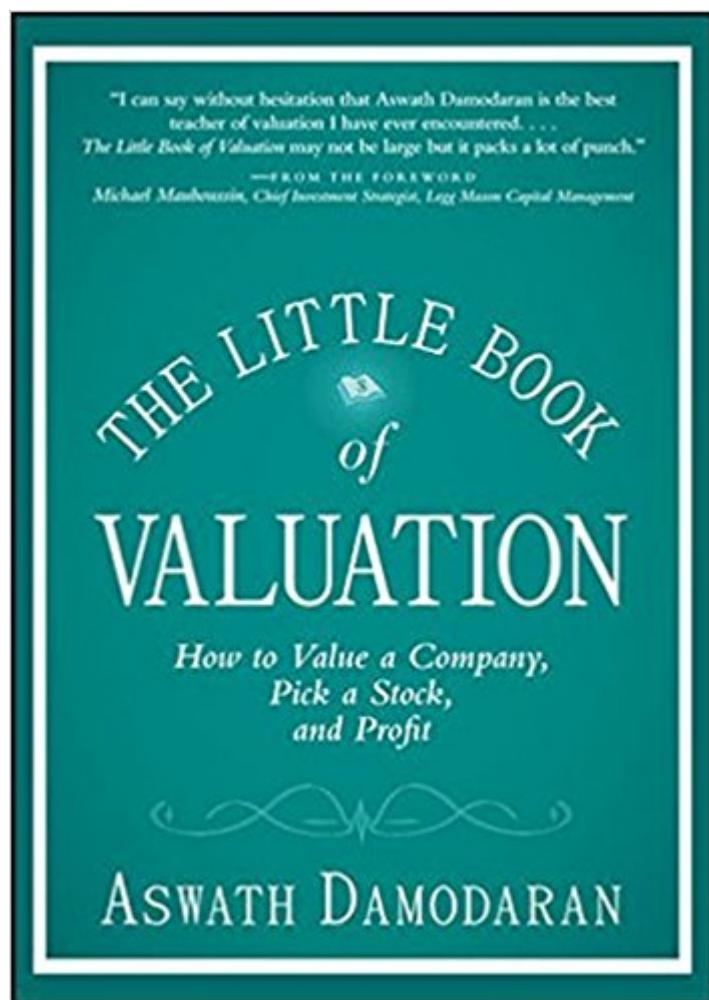


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# The Little Book Of Valuation: How To Value A Company, Pick A Stock And Profit



## Synopsis

An accessible, and intuitive, guide to stock valuation. Valuation is at the heart of any investment decision, whether that decision is to buy, sell, or hold. In *The Little Book of Valuation*, expert Aswath Damodaran explains the techniques in language that any investors can understand, so you can make better investment decisions when reviewing stock research reports and engaging in independent efforts to value and pick stocks. Page by page, Damodaran distills the fundamentals of valuation, without glossing over or ignoring key concepts, and develops models that you can easily understand and use. Along the way, he covers various valuation approaches from intrinsic or discounted cash flow valuation and multiples or relative valuation to some elements of real option valuation. Includes case studies and examples that will help build your valuation skills. Written by Aswath Damodaran, one of today's most respected valuation experts. Includes an accompanying iPhone application (iVal) that makes the lessons of the book immediately useable. Written with the individual investor in mind, this reliable guide will not only help you value a company quickly, but will also help you make sense of valuations done by others or found in comprehensive equity research reports.

## Book Information

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## Customer Reviews

You buy financial assets for the cash flows you expect to gain. The price of a stock cannot be justified by assuming there will be other investors around who will pay a higher price in the future. That is the equivalent of playing an expensive game of musical chairs. As a prudent investor, you need to value the investment you are considering before buying it. Valuation is at the heart of any

investment decision, whether that decision is to buy, sell, or hold. In *The Little Book of Valuation*, financial expert Aswath Damodaran explains valuation techniques in everyday language so that even those new to investing can understand. Using this important resource, you can make better investment decisions when reviewing stock research reports and engaging in independent efforts to value and select stocks for your portfolio. Page by page, Damodaran distills the fundamentals of valuation, without glossing over or ignoring key concepts, and develops models that you can easily understand and implement. He also makes the case that the two popular, and often divergent, approaches (intrinsic and relative) to valuation can be used in tandem. Damodaran discusses how both of these approaches can significantly improve your odds by helping you select stocks that are undervalued not only on an intrinsic level but also on a relative basis. Once you become familiar with the techniques outlined in this book, you will be able to value a company with confidence. In addition, *The Little Book of Valuation*: Includes illustrative case studies and examples that will help develop your valuation skills Puts you in a better position to determine which investments are on track to add real value to your portfolio Offers valuable valuation insights from one of the foremost experts in this field Written with the individual investor in mind, this reliable guide will not only allow you to value a company quickly, but will also help you make sense of valuations done by others or found in comprehensive equity research reports.

LITTLE BOOK BIG PROFITS® Praise for *THE LITTLE BOOK OF VALUATION* "There is nothing 'little' about Damodaran's *The Little Book of Valuation*. The whole gamut of ideas that form the basis for all business valuations—covered in his many multi-hundred page classics—are all here, with the same rigor, clarity, pointedness, and wit." —Professor Anant K. Sundaram Tuck School of Business, Dartmouth College "The Little Book of Valuation is a great book that I will recommend to my students and friends. This book is an impressive synthesis of sound theory and best practice. It is completely accessible to the novice. It is also an important addition to the professional library of the finance specialist. Acquire it without hesitation." —Pablo Fernandez, Professor of Finance IESE Business School, Spain "Damodaran's fast read book offers valuable insights for both institutional and sophisticated individual investors. Within the confines of 'intrinsic' (income approach) and 'relative' (market approach) analysis, he identifies the 'value drivers' in several broad categories of stocks and the most important factors to look for, and how to treat them in valuation for each category." —Shannon Pratt Chairman and CEO, Shannon Pratt Valuations

If you want a short and lightweight introduction to the subject and have basic compound interest and financial statement analysis this book is useful. If you are looking for more than an introduction/overview then the book lacks some depth. It is short, clearly written, and covers the ground with minimal mathematics. I do recommend it as an introduction and overview of the subject area. However, if you can't do basic compound interest or have not looked at basic financial statement analysis it would be helpful to brush up on these topics before using this book to get into valuation. For knowledgeable readers the book is less useful. To much time is spent presenting an answer on the mechanics of valuing a company and not enough time is spent on the nuances, tradeoffs, and implications of various valuation assumptions. The mechanics are important, but the book does not really grapple adequately with some of the big difficulties in valuation, which include the selection of discount rates and estimation of terminal value. For example, there is no discussion on merits or otherwise of using the average weighted cost of capital (AWCC) for discounting or presenting any alternatives. I don't claim that the approach is wrong just that it carries certain implications that deserve discussion. Risk is dealt with simplistically through the discount rate, which is not inherently bad, but alternative actuarial approaches exist that I personally think deserve discussion, if only to inform the reader of the scope of the subject matter. Finally, success is as much about managing risk as it is about placing a value on a business. I feel that this most important point is lost. Is the book worth reading? Absolutely. However, if you are hoping for a tool kit that will provide you with crystal ball to gaze on the future then you are surely going to be disappointed, because none exists.

The author's problem seems to be that he can't say much in 200 pages (his textbooks are several times as long) so he just discusses discounted cash flow methods (intrinsic valuation) and the usual comparative valuation ratios (PE,...). It is all based on the income and cash flow statements, there is nothing at all about using the balance sheet or trying to estimate asset values, even when writing about oil companies. The difficulty with DCF is that one has to estimate cash flows for 5 to 10 years, when predicting the future is difficult. His DCF methods are also based on the CAPM theory which doesn't really have much to do with reality (volatility and risk are two different things for example). He doesn't have much to say about the problems of relying on valuations; mention of Graham's Margin of Safety ideas would have been appropriate. All in all there isn't a lot here for experienced investors, and beginners would be better to start somewhere else.

It seems like it should be a simple little book, but it actually packs quite a wallop. Aswath gives

helpful and specific advice on how different approaches work best in specific situations when valuing companies. For example, the considerations in valuing a growth company are different from those when valuing a company that seems to be winding down. His writing is easy to follow and well explained without the pedantic academic rhetoric you would probably find in a text book. If you want to go further, he generously links to a lot more material on his university website. There is also a Youtube series of 15 minute videos that follows the content somewhat closely. Tremendous value and great instruction from a good teacher. This Little Book series of finance books is really excellent, with great writers and high quality content, and if the publishers should ever see my review, I hope they might consider adding a book on stock screening with an assessment of the metrics commonly available. Or is that already "What Works On Wall Street"?

Of all the books on value investing I have read, this one has moved to the top. Not only are the formulas included but he explains why he is using certain measures instead of others. He also explains very well the difference between valuing the business or valuing the equity in the business.

Excellent

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