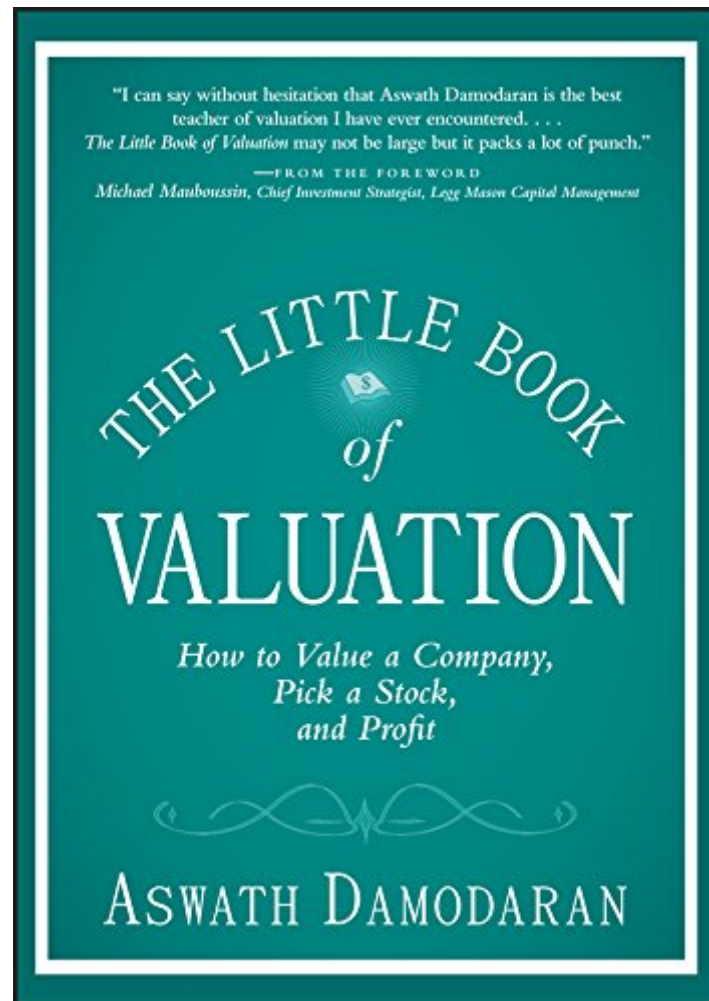


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# The Little Book Of Valuation: How To Value A Company, Pick A Stock And Profit (Little Books. Big Profits)



## 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. 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

This book echoes some of the author's earlier works but whereas his other books are largely geared

towards professional practitioners, *The Little Book of Valuation* is targeted at individual investors. In my opinion, Damodaran has carved a unique niche among authors of this genre. As a professor at a respected university, his books always draw on a solid theoretical foundation. A lot of other authors do the same. Where I think he distinguishes himself is the ability to bring pragmatic, real world slant to these topics. I have found his publications to be very readable yet hardly "dumbed down". In fact, I think this particular volume would make a great introduction on valuation for aspiring MBAs and finance students. *The Little Book of Valuation* starts by explaining the nuts and bolts of finance including topics such as time value of money and the concept of risk. A short explanation of financial statements is also included. Damodaran then goes on to describe intrinsic valuations including the subtle differences between cash flows to equity holders versus cash flow to the firm. Along with that the appropriate discount rates that apply to each are also explained. The book then quickly compares intrinsic valuation to relative valuation methodologies, stressing along the way the merits and disadvantages of each. When using multiples (price/earnings, price/book, price/sales) to do comparative valuations, he points out which financial metrics are the underlying drivers for each multiple. From there, the book delves further into subtopics such as valuing companies at different stages in their life cycles: early stage companies, mature companies and declining companies.

This is not a romance novel. You read *The Little Book of Valuation* in order to gain valuable skill sets and methodologies for making money in the stock market. Professor Damodaran is a full professor at the New York University Stern School of Business. He is deemed to be the expert on valuation in this country, certainly on an academic level. There are real world experts in Wall Street and in corporate consulting firms like McKinsey & Company, but none have had the academic impact that this man has. What Damodaran brings to the table is unique. He is the first person that I have encountered who has been able to distill what many people consider to be a very difficult topic down to a simplistic discussion. After you read this book, you will understand valuation, which seems to be difficult even for those with decades of experience on Wall Street. There are 11 chapters spread out over 225 pages, every one of which proved to be interesting, and highly readable. I found three chapters to be particularly worthwhile. They were Chapter 2 Power Tools of the Trade, Chapter 4 It's All Relative, and Chapter 11 Invisible Value. The professor uses a series of companies to explore different valuation techniques. They include Under Armor, Hormel Foods, Exxon Mobil, Wells Fargo, and Amgen. He explores intrinsic value and relative value techniques and tells the reader when to use which, and more importantly how to uniquely blend the techniques to obtain an even more meaningful valuation. It is obvious that aside from being a master of

valuation Damodaran has intellectually thought about his topic for many years.

The author is a noted valuation author with several other books, much more indepth than this one. As an introduction to security valuation, it's good enough to get the job done, but I take issue with some of his methods. Pros:- Explains with clarity the different types of discounted cash flows (annuities, perpetuity, etc).- Gives good explanation as to the significant metrics behind valuation multiples (ROE in PE, etc, Net PM in P/S, etc).- Details why you should use historical averages, and not simply the most recently available metric for these calculations.- Financial institutions are notoriously hard to value, and his method here is probably the best I've come across. Cons:- My biggest complaint is his over-reliance on CAPM beta as a risk-metric. Numerous studies have shown that stocks with low betas routinely out-perform those with high betas, which is the exact opposite of what's supposed to happen, according to financial theory. In fact, the author even briefly glosses over why beta may not be a great metric to use, but then continues to do so through out the entire book. As Buffett says, any time you see finance use a Greek symbol, they're substituting theory for experience.- Doesn't give any alternatives to beta (WACC is no better, as it also includes beta) towards measuring risk. Should ignore beta completely and simply use the average market return over the past 200 or so years of 8 - 10% (I typically use 9).- The regression analysis part seems completely out of place in a book like this.- Likewise, his over-reliance on DCF is borderline absurd.

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