DOWNLOAD PDF VALUATION OF INDUSTRIAL SECURITIES

Chapter 1 : Security (finance) - Wikipedia

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New capital[edit] Securities are the traditional way that commercial enterprises raise new capital. These may be an attractive alternative to bank loans depending on their pricing and market demand for particular characteristics. Another disadvantage of bank loans as a source of financing is that the bank may seek a measure of protection against default by the borrower via extensive financial covenants. Through securities, capital is provided by investors who purchase the securities upon their initial issuance. In a similar way, a government may issue securities too when it needs to increase government debt. Type of holder[edit] Investors in securities may be retail , i. The greatest part of investment, in terms of volume, is wholesale , i. Important institutional investors include investment banks , insurance companies, pension funds and other managed funds. Investment[edit] The traditional economic function of the purchase of securities is investment, with the view to receiving income or achieving capital gain. Debt securities generally offer a higher rate of interest than bank deposits, and equities may offer the prospect of capital growth. Equity investment may also offer control of the business of the issuer. In these cases, if interest payments are missed, the creditors may take control of the company and liquidate it to recover some of their investment. Collateral[edit] The last decade has seen an enormous growth in the use of securities as collateral. Purchasing securities with borrowed money secured by other securities or cash itself is called " buying on margin ". Where A is owed a debt or other obligation by B, A may require B to deliver property rights in securities to A, either at inception transfer of title or only in default non-transfer-of-title institutional. For institutional loans, property rights are not transferred but nevertheless enable A to satisfy its claims in the event that B fails to make good on its obligations to A or otherwise becomes insolvent. Collateral arrangements are divided into two broad categories, namely security interests and outright collateral transfers. Commonly, commercial banks, investment banks, government agencies and other institutional investors such as mutual funds are significant collateral takers as well as providers. In addition, private parties may utilize stocks or other securities as collateral for portfolio loans in securities lending scenarios. On the consumer level, loans against securities have grown into three distinct groups over the last decade: Of the three, transfer-of-title loans have fallen into the very high-risk category as the number of providers has dwindled as regulators have launched an industry-wide crackdown on transfer-of-title structures where the private lender may sell or sell short the securities to fund the loan. Institutionally managed consumer securities-based loans, on the other hand, draw loan funds from the financial resources of the lending institution, not from the sale of the securities. Collateral and sources of collateral are changing, in gold became a more acceptable form of collateral. The problem, until now, for collateral managers has been deciphering the bad eggs from the good, which proves to be a time consuming and inefficient task. Debt and equity[edit] Debt[edit] Debt securities may be called debentures , bonds , deposits , notes or commercial paper depending on their maturity, collateral and other characteristics. The holder of a debt security is typically entitled to the payment of principal and interest, together with other contractual rights under the terms of the issue, such as the right to receive certain information. Debt securities are generally issued for a fixed term and redeemable by the issuer at the end of that term. Debt securities may be protected by collateral or may be unsecured, and, if they are unsecured, may be contractually "senior" to other unsecured debt meaning their holders would have a priority in a bankruptcy of the issuer. Debt that is not senior is "subordinated". Corporate bonds represent the debt of commercial or industrial entities. Debentures have a long maturity, typically at least ten years, whereas notes have a shorter maturity. Commercial paper is a simple form of debt security that essentially represents a post-dated cheque with a maturity of not more than days. Money market instruments are short term debt instruments that may have characteristics of deposit accounts, such as certificates of deposit , Accelerated Return Notes ARN , and certain bills of exchange. They are highly liquid and are sometimes referred to as "near cash". Commercial paper is also often highly liquid.

They include eurobonds and euronotes. Eurobonds are characteristically underwritten, and not secured, and interest is paid gross. A euronote may take the form of euro-commercial paper ECP or euro-certificates of deposit. Government bonds are medium or long term debt securities issued by sovereign governments or their agencies. Typically they carry a lower rate of interest than corporate bonds, and serve as a source of finance for governments. Because of their liquidity and perceived low risk, treasuries are used to manage the money supply in the open market operations of non-US central banks. Sub-sovereign government bonds, known in the U. Equity[edit] An equity security is a share of equity interest in an entity such as the capital stock of a company, trust or partnership. The most common form of equity interest is common stock, although preferred equity is also a form of capital stock. The holder of an equity is a shareholder, owning a share, or fractional part of the issuer. Unlike debt securities, which typically require regular payments interest to the holder, equity securities are not entitled to any payment. In bankruptcy, they share only in the residual interest of the issuer after all obligations have been paid out to creditors. However, equity generally entitles the holder to a pro rata portion of control of the company, meaning that a holder of a majority of the equity is usually entitled to control the issuer. Equity also enjoys the right to profits and capital gain , whereas holders of debt securities receive only interest and repayment of principal regardless of how well the issuer performs financially. Furthermore, debt securities do not have voting rights outside of bankruptcy. In other words, equity holders are entitled to the "upside" of the business and to control the business. Hybrid[edit] Hybrid securities combine some of the characteristics of both debt and equity securities. Preference shares form an intermediate class of security between equities and debt. If the issuer is liquidated, they carry the right to receive interest or a return of capital in priority to ordinary shareholders. However, from a legal perspective, they are capital stock and therefore may entitle holders to some degree of control depending on whether they contain voting rights. Convertibles are bonds or preferred stock that can be converted, at the election of the holder of the convertibles, into the common stock of the issuing company. The convertibility, however, may be forced if the convertible is a callable bond , and the issuer calls the bond. The bondholder has about 1 month to convert it, or the company will call the bond by giving the holder the call price, which may be less than the value of the converted stock. This is referred to as a forced conversion. Equity warrants are options issued by the company that allow the holder of the warrant to purchase a specific number of shares at a specified price within a specified time. They are often issued together with bonds or existing equities, and are, sometimes, detachable from them and separately tradeable. When the holder of the warrant exercises it, he pays the money directly to the company, and the company issues new shares to the holder. Warrants, like other convertible securities, increases the number of shares outstanding, and are always accounted for in financial reports as fully diluted earnings per share, which assumes that all warrants and convertibles will be exercised. Markets[edit] Primary and secondary market[edit] Public securities markets are either primary or secondary markets. In the primary market, the money for the securities is received by the issuer of the securities from investors, typically in an initial public offering IPO. In the secondary market, the securities are simply assets held by one investor selling them to another investor, with the money going from one investor to the other. An initial public offering is when a company issues public stock newly to investors, called an "IPO" for short. A company can later issue more new shares, or issue shares that have been previously registered in a shelf registration. These later new issues are also sold in the primary market, but they are not considered to be an IPO but are often called a "secondary offering". Issuers usually retain investment banks to assist them in administering the IPO, obtaining SEC or other regulatory body approval of the offering filing, and selling the new issue. When the investment bank buys the entire new issue from the issuer at a discount to resell it at a markup, it is called a firm commitment underwriting. However, if the investment bank considers the risk too great for an underwriting, it may only assent to a best effort agreement , where the investment bank will simply do its best to sell the new issue. For the primary market to thrive, there must be a secondary market , or aftermarket that provides liquidity for the investment securityâ€”where holders of securities can sell them to other investors for cash. Otherwise, few people would purchase primary issues, and, thus, companies and governments would be restricted in raising equity capital money for their operations. Organized exchanges constitute the main secondary markets. Many smaller issues and most debt securities trade in the decentralized, dealer-based over-the-counter markets. In Europe, the principal trade organization for securities dealers is the International Capital Market Association. Public offer and private placement[edit] In the primary markets, securities may be offered to the public in a public offer. Alternatively, they may be offered privately to a limited number of qualified persons in a private placement. Sometimes a combination of the two is used. The distinction between the two is important to securities regulation and company law. Privately placed securities are not publicly tradable and may only be bought and sold by sophisticated qualified investors. As a result, the secondary market is not nearly as liquid as it is for public registered securities. Another category, sovereign bonds , is generally sold by auction to a specialized class of dealers. Listing and over-the-counter dealing[edit] Securities are often listed in a stock exchange , an organized and officially recognized market on which securities can be bought and sold. Issuers may seek listings for their securities to attract investors, by ensuring there is a liquid and regulated market that investors can buy and sell securities in. Growth in informal electronic trading systems has challenged the traditional business of stock exchanges. Large volumes of securities are also bought and sold "over the counter" OTC. OTC dealing involves buyers and sellers dealing with each other by telephone or electronically on the basis of prices that are displayed electronically, usually by financial data vendors such as SuperDerivatives, Reuters , Investing. There are also eurosecurities, which are securities that are issued outside their domestic market into more than one jurisdiction. They are generally listed on the Luxembourg Stock Exchange or admitted to listing in London. The reasons for listing eurobonds include regulatory and tax considerations, as well as the investment restrictions. Market[edit] London is the centre of the eurosecurities markets. There was a huge rise in the eurosecurities market in London in the early s. There are ramp up market in Emergent countries, but it is growing slowly. Certificated securities[edit] Securities that are represented in paper physical form are called certificated securities. They may be bearer or registered. Shares held in un-certificated book-entry form have the same rights and privileges as shares held in certificated form. They are transferred by delivering the instrument from person to person.

Chapter 2 : An Introduction to Valuation

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A weekly update on issues important to the Asset Management industry The Valuation of Asset Management Firms August 31, Asset Management To many people, asset management is the business model dreams are made of. A few skilled people in one office can make millions providing a sophisticated and straightforward service. Billing simply requires deducting fees from client accounts, and the upward drift of the markets propels revenue growth. Looked at from the inside-out, however, it is a fiercely competitive industry in which one is judged unforgivingly by the numbers, and depending entirely on relationships between owners, employees, and clients. Profit margins can be huge, but can evaporate in two quarters of a bear market. On one level, all RIAs registered investment advisors are alike, as there are significant similarities between development of fee income and the composition of the expense base to support the revenue that generates and sustains profitability. Nonetheless, recognizing the distinct characteristics of a given investment management firm is necessary to understanding its value in the marketplace. The table below depicts events ranging from voluntary transfers such as gifts to family members or an outright sale to a third party to involuntary transfers such as those precipitated by death or divorce. An understanding of the context of valuing your business is an important component in preparing for any of these eventualities. The financial advisory business model transformed from large wire house shops, and cold calling staffs paid by transaction-based commissions, to credentialed professionals paid on the basis of assets under management, or AUM. The popularity of RIAs centered on the fiduciary responsibility associated with such practices, as well as the greater degree of accessibility and high touch nature of their business operations. Additionally, the smaller size of independent advisors allowed for greater innovation and more specialized services. The number of total investment advisors registered with the SEC has increased four-fold from approximately 6, in to over 30, today excluding all investment advisors only required to register with their respective states. Parallel to the proliferation of RIAs is the rise of state-regulated independent trust banks in the wake of mega-bank mergers and bailouts following the financial crisis of While there has been some consolidation of firms, the rate of acquisition in the industry has been far outpaced by startup formation. In spite of all the changes taking place in recent years, there remains some debate regarding whether the asset management industry is mature or evolving. If anything, it is continuing to niche into more discrete asset classes, investment styles, and client focus. Understanding why such rules-of-thumb exist is a good way to avoid being blindly dependent on them. As with other businesses, the revenue of asset management firms is a function of price and quantity. In this case, price represents the rate charged for assets under management, and quantity reflects the asset base or AUM for RIAs. Value, however, is related to profits, which can only be derived after realizing the costs associated with delivering asset management services. High priced services are typically more costly to deliver, so margins may fall within an expected range regardless of the nature of the particular firm. Still, larger asset managers generally realize better margins, so size tends to have a compounding effect on value. In the alternative case, some companies achieve sustainably higher than normal margins, which justify correspondingly higher valuations. However, the higher levels of profitability must be evaluated relative to the risk that these margins may not be sustainable. Whatever the particulars, our experience indicates that valuation is primarily a function of expected profitability and is only indirectly related to level of business activity. Rules- of-thumb, if used at all, should be employed with an appropriate level of discretion. As an example of this, industry participants might consider RIAs as being worth some percentage of assets under management. The example below demonstrates the problematic nature of this particular rule of thumb for two RIAs of similar size, but widely divergent fee structures and profit margins. Firm A charges a higher average fee and is significantly more profitable than Firm B despite having identical AUM balances. Because of these discrepancies, Firm A is able to generate over six times the profitability of its counterpart. It is our experience that money managers with higher asset balances, fee structures, and profit margins typically attract higher AUM multiples in the marketplace. In the case of RIAs with performance fee components to their revenue stream, the math gets a bit more interesting. Many business owners are surprised to learn that there is not a single value for their business or a portion of their business. Numerous legal factors play important roles in defining value based upon the circumstances related to the transfer of equity ownership. While there are significant nuances to each of the following topics, our main goal is to help you combine the economics of valuation with the legal framework of a transfer whether voluntary or involuntary. The date may be set by legal requirements related to a certain event, such as death or divorce, or may be implicit, such as the closing date of a transaction. Purpose The purpose of the valuation is significant to how the valuation is performed. A valuation prepared for one purpose is not necessarily transferable to another. There are many standards of value, the most common being fair market value, which is typically used in tax matters. Other typical standards include investment value purchase and sale transactions , statutory fair value corporate reorganizations , and intrinsic value public securities analysis. Using the proper standard of value is part of obtaining an accurate determination of value. Level of Value When business owners think about the value of their business, the value considered commonly relates to the business in its entirety. From this perspective, the value of a single share is the value of the whole divided by the number of outstanding shares. In the world of valuation, however, this approach may not be appropriate if the aggregate block of stock does not have control of the enterprise; in some cases, the value of a single share will be less than the whole divided by the number of shares. The determination of whether the valuation should be on a controlling interest or minority interest basis can be a complex process, and it is also essential. A minority interest value often includes discounts for a lack of control and marketability; therefore, it is quite possible for a share of stock valued as a minority interest to be worth far less than a share valued as part of a control block. Grasping the basic knowledge related to these issues can help you understand the context from which the value of a business interest is developed. Typical Approaches to Valuation Within the common valuation lexicon, there are three approaches to valuing a business: The balance sheet can be significant regarding the presence of non-operating assets and liabilities or excessive levels of working capital, but the value of any professional services firm, including asset managers, is usually better expressed via the income and market approaches. The Income Approach The income approach usually follows one of two methodologies, a discounted cash flow method or a single period capitalization method. In either case, the income approach requires a thorough analysis of the risks and opportunities attendant. In the case of valuing asset managers, the income approach can be a useful arena to delineate issues unique to the industry and the particular company. Within the spectrum of asset managers, entities styled as family office operations may exhibit lower growth which, all else equal, would suggest lower valuations , but also more stable client bases with higher probability of recurring revenue, which tends to raise valuations. On the other end of the spectrum, valuing a hedge fund manager might require balancing the potential for supernormal earnings growth with supernormal earnings volatility. A wealth manager or independent trust company might fall somewhere in between these two extremes. These RIAs tend to enjoy a loyal sticky customer base, but often at the price of lower margins expected in a multi-discipline, high-touch business where client expectations for technical expertise and customer service compound staffing costs. There are similar opportunities for earnings leverage as with any asset manager, but these can be tempered by the nature of services that these asset managers provide. The market approach can be accomplished in a number of ways: While the market approach may be the most useful way to value assets managers, it is often the most misused. It is possible to find transactions involving investment management companies or publicly traded trust banks and RIAs that are similar to a given RIA, but it is also important to understand and isolate what is different about the subject company that can affect value. Market data also has its drawbacks. Transactions data may offer limited information about multiples paid for various measures of profitability, and there may be no real way to isolate potential synergies reflected in the transaction pricing that might have been unique to the buyer and seller. Publicly traded investment management firms offer more thorough and consistent data, but they tend to be much larger and more diversified than closely-held RIAs. The potential differences in margin and product line have already been discussed in this article, but smaller asset management firms may have other limitations that are a product of scale. These issues include greater dependence on certain managers or clients, the loss of which could be difficult to replace without a detrimental impact on the financial returns of the business. Narrow product offerings or problems in the economic area served by the RIA could also constrain growth opportunities. In any event, the valuation multiples implied by transaction activity or public asset managers may and often do require some adjustment for various factors before application to the subject RIA. Putting It All Together Valuation analysis is not complete if it is left untested. In the valuation of RIAs, whatever methodologies are employed should ultimately reconcile to a conclusion of value that is reasonable given expectations for the company relative to industry pricing. This might ultimately fit within some kind of rule of thumb, but only by coincidence. Experience has taught us that in the asset management industry, as elsewhere, maximizing opportunity and minimizing risk usually enhances value.

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Chapter 3 : The Valuation of Asset Management Firms - Mercer Capital

Market multiple valuation of Industrial Securities Co., Ltd. (| CHN) The most common multiple used in the valuation of stocks is the P/Earnings NTM multiple (Price to Earnings). P/E relates the current share price with the market expectations in terms of Earnings Per Share.

Regions may be defined geographically e. The concept may be extended well beyond an exchange. The Wilshire Index, the original total market index, represents the stocks of nearly every publicly traded company in the United States , including all U. Other indices may track companies of a certain size, a certain type of management, or even more specialized criteria â€" one index published by Linux Weekly News tracks stocks of companies that sell products and services based on the Linux operating environment. The difference between the full capitalization, float-adjusted, and equal weight versions is in how index components are weighted. Thus, price movement of even a single security will heavily influence the value of the index even though the dollar shift is less significant in a relatively highly valued issue, and moreover ignoring the relative size of the company as a whole. Thus, a relatively small shift in the price of a large company will heavily influence the value of the index. Traditionally, capitalization- or share-weighted indices all had a full weighting, i. Recently, many of them have changed to a float -adjusted weighting which helps indexing. An equal-weighted index is one in which all components are assigned the same value. It is similar to a capitalization weighting with one main difference: For these two indexes, a score is calculated for every stock, be it their growth score or the value score a stock cannot be both and accordingly they are weighted for the index. This then gives the average return for all investors; if some investors do worse, other investors must do better excluding costs. This considers risk and return and does not consider weights relative to the entire market. This may result in overweighting assets such as value or small-cap stocks, if they are believed to have a better return for risk profile. These investors believe that they can get a better result because other investors are not very good. The capital asset pricing model says that all investors are highly intelligent, and it is impossible to do better than the market portfolio, the capitalization-weighted portfolio of all assets. However, empirical tests conclude that market indices are not efficient. The practical conclusion is that using capitalization-weighted portfolios is not necessarily the optimal method. As a consequence, capitalization-weighting has been subject to severe criticism see e. Haugen and Baker , Amenc, Goltz, and Le Sourd , or Hsu , pointing out that the mechanics of capitalization-weighting lead to trend-following strategies that provide an inefficient risk-return trade-off. Also, while capitalization-weighting is the standard in equity index construction, different weighting schemes exist. Scorecard," which measures the performance of indices versus actively managed mutual funds, finds the vast majority of actively managed mutual funds underperform their benchmarks. Indices are also a common basis for a related type of investment, the exchange-traded fund or ETF. Unlike an index fund, which is priced daily, an ETF is priced continuously, is optionable, and can be sold short. Ethical stock market indices[edit] A notable specialized index type is those for ethical investing indices that include only those companies satisfying ecological or social criteria, e. Ethical indices have a particular interest in mechanical criteria, seeking to avoid accusations of ideological bias in selection, and have pioneered techniques for inclusion and exclusion of stocks based on complex criteria. Another means of mechanical selection is mark-to-future methods that exploit scenarios produced by multiple analysts weighted according to probability, to determine which stocks have become too risky to hold in the index of concern. Critics of such initiatives argue that many firms satisfy mechanical "ethical criteria", e. Indeed, the seeming "seal of approval" of an ethical index may put investors more at ease, enabling scams. One response to these criticisms is that trust in the corporate management, index criteria, fund or index manager, and securities regulator, can never be replaced by mechanical means, so " market transparency " and " disclosure " are the only long-term-effective paths to fair markets. From a financial perspective, it is not obvious whether ethical indices or ethical funds will out-perform their more conventional counterparts. Theory might suggest that returns would be lower since the investible universe is artificially reduced and with it portfolio efficiency. On the other hand, companies with good social performances might be better run, have more committed workers and customers, and be less likely to suffer reputational damage from incidents oil spillages, industrial tribunals, etc. Sharpe Indexing Achievement Awards are presented annually in order to recognize the most important contributions to the indexing industry over the preceding year.

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Chapter 4 : Margin Of Safety

The Industrial Development Bank of India (IDBI) issued such DDBs for the first time in the Indian capital market at a price of Rs. against the nominal value of Rs. 1,00, payable after 25 years.

Valuation of Securities With Formula Article shared by: After reading this article you will learn about the Valuation of Securities: A bond is an instrument of debt issued by a business house or a government unit. The bonds may be issued at par, premium or discount. The par value is the amount stated on the face of the bond. It states the amount the firm borrows and promises to repay at the time of maturity. The bonds carry a fixed rate of interest payable at fixed intervals of time. The interest is calculated by multiplying the value of bonds with the rate of interest. Bond valuation is, generally, called debt valuation because the features that distinguish bonds from other debts are primarily non-financial in nature. Since bonds have a promised payment stream, they are less risky as compared to the shares. But it does not mean that they are totally risk free. The value of the bond depends upon the discount rate. It will decrease with every increase in the discount rate. For the purpose of valuation, bonds may be classified into two categories: When the bonds have a definite maturity period, its valuation is determined by considering the annual interest payments plus its maturity value. The following formula can be used to determine the value of a bond: What should he be willing to pay now to purchase the bond? Bonds Redeemable in Installments: A company may issue a bond or debenture to be redeemed periodically. In such a case, principal amount is repaid partially each period instead of a lump sum at maturity and hence cash outflows each period include interest and principal. The value of such a bond can be calculated as below: A company is proposing to issue a 5 year debenture of? What should he be willing to pay now to purchase the debenture? Perpetuity bonds are the bonds which never mature or have infinitive maturity period. Value of such bonds is simply the discounted value of infinite streams of interest cash flows. A has a perpetual bond of the face value of Rs. He receives an interest of Rs.

Chapter 5 : Value Line - The Most Trusted Name in Investment Research

By H. C. Hirschboeck, Published on 01/01/

Knowing what an asset is worth and what determines that value is a pre-requisite for intelligent decision making -- in choosing investments for a portfolio, in deciding on the appropriate price to pay or receive in a takeover and in making investment, financing and dividend choices when running a business. The premise of valuation is that we can make reasonable estimates of value for most assets, and that the same fundamental principles determine the values of all types of assets, real as well as financial. Some assets are easier to value than others, the details of valuation vary from asset to asset, and the uncertainty associated with value estimates is different for different assets, but the core principles remain the same. This introduction lays out some general insights about the valuation process and outlines the role that valuation plays in portfolio management, acquisition analysis and in corporate finance. It also examines the three basic approaches that can be used to value an asset. A philosophical basis for valuation A postulate of sound investing is that an investor does not pay more for an asset than it is worth. This statement may seem logical and obvious, but it is forgotten and rediscovered at some time in every generation and in every market. There are those who are disingenuous enough to argue that value is in the eyes of the beholder, and that any price can be justified if there are other investors willing to pay that price. That is patently absurd. Perceptions may be all that matter when the asset is a painting or a sculpture, but we do not and should not buy most assets for aesthetic or emotional reasons; we buy financial assets for the cashflows we expect to receive from them. Consequently, perceptions of value have to be backed up by reality, which implies that the price we pay for any asset should reflect the cashflows it is expected to generate. Valuation models attempt to relate value to the level of, uncertainty about and expected growth in these cashflows. There are many aspects of valuation where we can agree to disagree, including estimates of true value and how long it will take for prices to adjust to that true value. But there is one point on which there can be no disagreement. Asset prices cannot be justified by merely using the argument that there will be other investors around who will pay a higher price in the future. That is the equivalent of playing a very expensive game of musical chairs, where every investor has to answer the question, "Where will I be when the music stops? The problem with investing with the expectation that there will be a bigger fool around to sell an asset to, when the time comes, is that you might end up being the biggest fool of all. Inside the Valuation Process There are two extreme views of the valuation process. At one end are those who believe that valuation, done right, is a hard science, where there is little room for analyst views or human error. At the other are those who feel that valuation is more of an art, where savvy analysts can manipulate the numbers to generate whatever result they want. The truth does lies somewhere in the middle and we will use this section to consider three components of the valuation process that do not get the attention they deserve â€” the bias that analysts bring to the process, the uncertainty that they have to grapple with and the complexity that modern technology and easy access to information have introduced into valuation. Value first, Valuation to follow: Bias in Valuation We almost never start valuing a company with a blank slate. All too often, our views on a company are formed before we start inputting the numbers into the models that we use and not surprisingly, our conclusions tend to reflect our biases. We will begin by considering the sources of bias in valuation and then move on to evaluate how bias manifests itself in most valuations. We will close with a discussion of how best to minimize or at least deal with bias in valuations. Sources of Bias The bias in valuation starts with the companies we choose to value. These choices are almost never random, and how we make them can start laying the foundation for bias. It may be that we have read something in the press good or bad about the company or heard from an expert that it was under or over valued. Thus, we already begin with a perception about the company that we are about to value. We add to the bias when we collect the information we need to value the firm. The annual report and other financial statements include not only the accounting numbers but also management discussions of performance, often putting the best possible spin on the numbers. With many larger companies, it is easy to access what other analysts following the stock think about these companies. Valuations that stray too far from this number make analysts uncomfortable, since they may reflect large valuation errors rather than market mistakes. In many valuations, there are institutional factors that add to this already substantial bias. For instance, it is an acknowledged fact that equity research analysts are more likely to issue buy rather than sell recommendations, i. The reward and punishment structure associated with finding companies to be under and over valued is also a contributor to bias. An analyst whose compensation is dependent upon whether she finds a firm is under or over valued will be biased in her conclusions. This should explain why acquisition valuations are so often biased upwards. One is to find that the deal is seriously over priced and recommend rejection, in which case the analyst receives the eternal gratitude of the stockholders of the acquiring firm but little else. The other is to find that the deal makes sense no matter what the price and to reap the ample financial windfall from getting the deal done. Manifestations of Bias There are three ways in which our views on a company and the biases we have can manifest themselves in value. The first is in the inputs that we use in the valuation. When we value companies, we constantly come to forks in the road where we have to make assumptions to move on. These assumptions can be optimistic or pessimistic. For a company with high operating margins now, we can either assume that competition will drive the margins down to industry averages very quickly pessimistic or that the company will be able to maintain its margins for an extended period optimistic. The path we choose will reflect our prior biases. It should come as no surprise then that the end value that we arrive at is reflective of the optimistic or pessimistic choices we made along the way. The second is in what we will call post-valuation tinkering, where analysts revisit assumptions after a valuation in an attempt to get a value closer to what they had expected to obtain starting off. The third is to leave the value as is but attribute the difference between the value we estimate and the value we think is the right one to a qualitative factor such as synergy or strategic considerations. This is a common device in acquisition valuation where analysts are often called upon to justify the unjustifiable. In fact, the use of premiums and discounts, where we augment or reduce estimated value, provides a window on the bias in the process. The use of premiums â€" control and synergy are good examples â€" is commonplace in acquisition valuations, where the bias is towards pushing value upwards to justify high acquisition prices. The use of discounts â€" illiquidity and minority discounts, for instance â€" are more typical in private company valuations for tax and divorce court, where the objective is often to report as low a value as possible for a company. What to do about bias Bias cannot be regulated or legislated out of existence. Analysts are human and bring their biases to the table. However, there are ways in which we can mitigate the effects of bias on valuation: As we noted earlier, a significant portion of bias can be attributed to institutional factors. Equity research analysts in the s, for instance, in addition to dealing with all of the standard sources of bias had to grapple with the demand from their employers that they bring in investment banking business. Institutions that want honest sell-side equity research should protect their equity research analysts who issue sell recommendations on companies, not only from irate companies but also from their own sales people and portfolio managers. Any valuation process where the reward or punishment is conditioned on the outcome of the valuation will result in biased valuations. In other words, if we want acquisition valuations to be unbiased, we have to separate the deal analysis from the deal making to reduce bias. Decision makers should avoid taking strong public positions on the value of a firm before the valuation is complete. In far too many cases, the decision on whether a firm is under or over valued precedes the actual valuation, leading to seriously biased analyses. The best antidote to bias is awareness. In Bayesian statistics, analysts are required to reveal their priors biases before they present their results from an analysis. Thus, an environmentalist will have to reveal that he or she strongly believes that there is a hole in the ozone layer before presenting empirical evidence to that effect. The person reviewing the study can then factor that bias in while looking at the conclusions. Valuations would be much more useful if analysts revealed their biases up front. While we cannot eliminate bias in valuations, we can try to minimize its impact by designing valuation processes that are more protected from overt outside influences and by report our biases with our estimated values. It is only an estimate: Imprecision and Uncertainty in Valuation Starting early in life, we are taught that if we do things right, we will get the right answers. In other words, the precision of the answer is used as a measure of the quality of the process that yielded the answer. While this may be appropriate in mathematics or physics, it is a poor measure of quality in valuation. Barring a very small subset of assets, there will always be uncertainty associated with valuations, and even the best valuations come with a substantial margin for error. In this section, we examine the sources of uncertainty and the consequences for valuation. Sources of Uncertainty Uncertainty is part and parcel of the valuation process, both at the point in time that we value a business and in how that value evolves over time as we get new information that impacts the valuation. That information can be specific to the firm being valued, more generally about the sector in which the firm operates or even be general market information about interest rates and the economy. When valuing an asset at any point in time, we make forecasts for the future. Since none of us possess crystal balls, we have to make our best estimates, given the information that we have at the time of the valuation. Our estimates of value can be wrong for a number of reasons, and we can categorize these reasons into three groups. Even if our information sources are impeccable, we have to convert raw information into inputs and use these inputs in models. Any mistakes or mis-assessments that we make at either stage of this process will cause estimation error. The path that we envision for a firm can prove to be hopelessly wrong. The firm may do much better or much worse than we expected it to perform, and the resulting earnings and cash flows will be very different from our estimates. Even if a firm evolves exactly the way we expected it to, the macro economic environment can change in unpredictable ways. Interest rates can go up or down and the economy can do much better or worse than expected. These macro economic changes will affect value. The contribution of each type of uncertainty to the overall uncertainty associated with a valuation can vary across companies. When valuing a mature cyclical or commodity company, it may be macroeconomic uncertainty that is the biggest factor causing actual numbers to deviate from expectations. Valuing a young technology company can expose analysts to far more estimation and firm-specific uncertainty. Note that the only source of uncertainty that can be clearly laid at the feet of the analyst is estimation uncertainty. Given the constant flow of information into financial markets, a valuation done on a firm ages quickly, and has to be updated to reflect current information. Thus, technology companies that were valued highly in late , on the assumption that the high growth from the nineties would continue into the future, would have been valued much less in early , as the prospects of future growth dimmed. With the benefit of hindsight, the valuations of these companies and the analyst recommendations made in can be criticized, but they may well have been reasonable, given the information available at that time. Responses of Uncertainty Analysts who value companies confront uncertainty at every turn in a valuation and they respond to it in both healthy and unhealthy ways. Among the healthy responses are the following: Building better valuation models that use more of the information that is available at the time of the valuation is one way of attacking the uncertainty problem. It should be noted, though, that even the best-constructed models may reduce estimation uncertainty but they cannot reduce or eliminate the very real uncertainties associated with the future Valuation Ranges:

Chapter 6 : "Valuation of Industrial Securities" by H. C. Hirschboeck

A very nice book-well taken care of. Only the spine shows some wear and denting. All pages clean and clear and a tight book. Earning capacity, appraisals, valuation, bonds. pages.

Chapter 7 : Valuation Definition | Investopedia

Securities Valuation means determining the market value of equity instruments (viz. common stock and preferred stock), debt instruments (viz. bonds and bills of exchange), derivatives (viz. options and futures) issued by government agencies, financial institutions and corporate organizations.

Chapter 8 : calendrierdelascience.com | Old Stock and Bond Certificates

Standard Instructions for Valuation Reports of Office, Industrial & Retail Investment Property A&NZ Valuation and Property Standards Page 7 of 12 Australia and New Zealand Valuation and Practice Standards manual.

Chapter 9 : Stock market index - Wikipedia

A valuation is the process of determining the current worth of an asset or company.