

Disclaimer

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VALUE INVESTING FUNDAMENTALS

MODULE 1: VALUE INVESTING IN A NUTSHELL
LEARNING NOTES FOR MODULE 1

What is Value Investing?



Value Investing

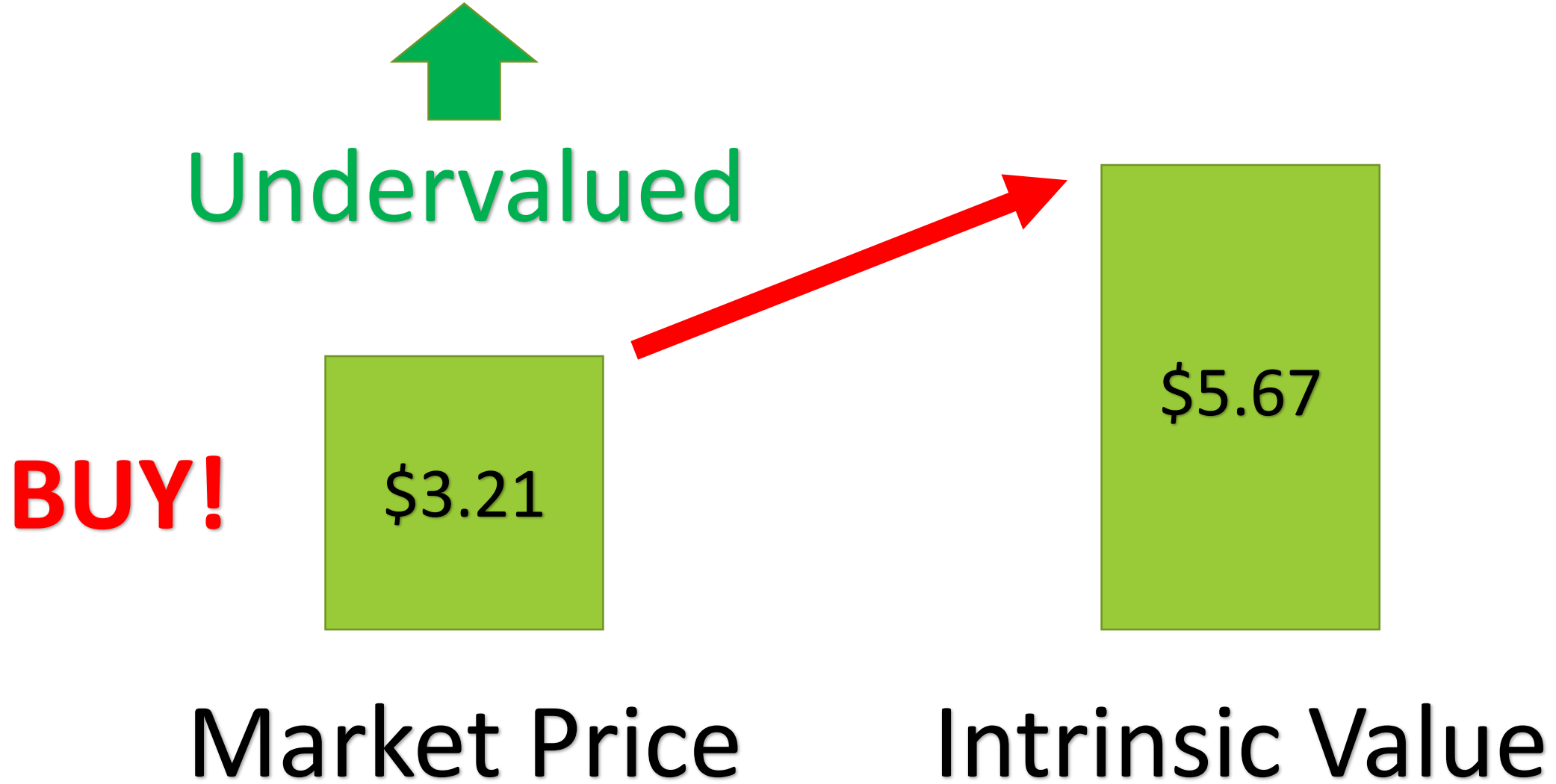


Invest in Undervalued Stocks

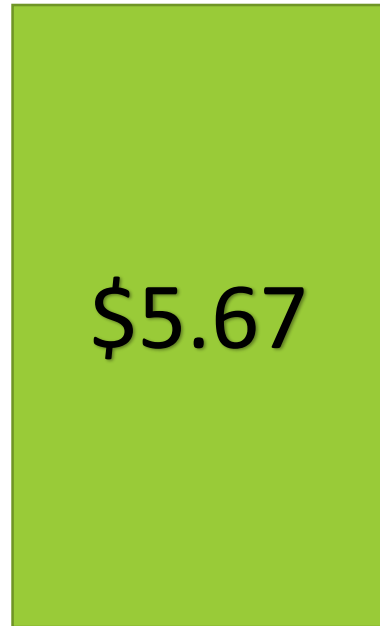
Market Price



Intrinsic Value

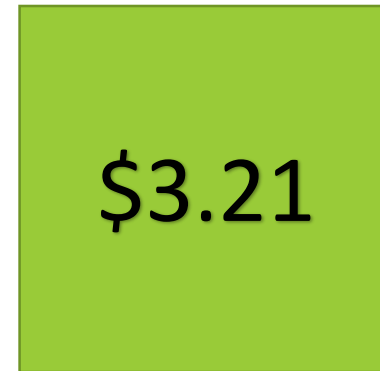
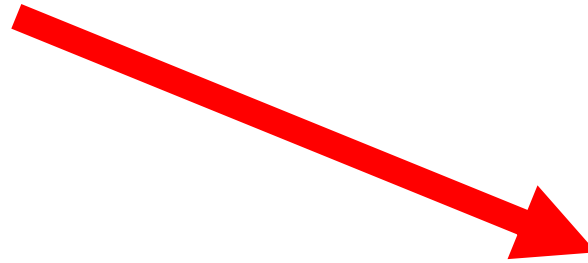
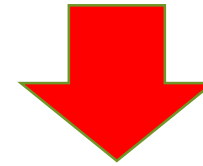


SELL!



Market Price

Overtvalued



Intrinsic Value

1. Buy on Bad News

⇒ Price Drops

⇒ **Undervalued**



2. Sell on Good News

⇒ Price Rises

⇒ **Overvalued**



“If an undervalued company is financially strong, with a solid profit history and promising future earnings, its market price is very likely to rebound after a temporary downswing caused by investor fear or disfavor.”



Find a
Fundamentally
Strong
Business

Buy When It's
Undervalued

Sell When It's
Overvalued

Step 1: Look for Fundamentally Strong Businesses



- Consistent growth in earnings, dividends, and cash flows
- Sustainable competitive advantages
- Low debt
- Strong management team

Step 2: Buy Stocks When They Are Undervalued



- Internal scandals
- Negative news reports
- Economy downturn or recession
- Significant change in a company's business environment

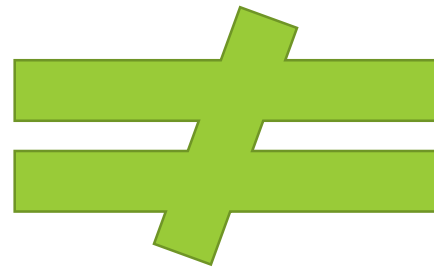
Step 3: Sell Stocks When They Become Overvalued



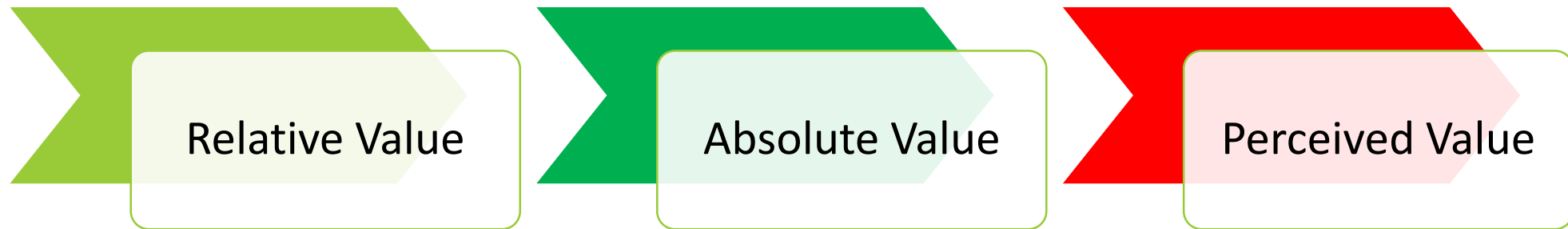
- Good news reports
- Share buybacks
- Stock splits
- Economic upturn
- Mergers and acquisitions

**“Price is what you pay, value is what you get”
-- Warren Buffett**

Price



Value



1. Relative Value



- Compare companies within the same industry
- Compare one company with the industry average
- **The difference = Relative Value**



Financial Ratio Analysis

2. Absolute Value



- Find a company's intrinsic value
- Compare the intrinsic value with the market value
- **Undervalued = Cheap**
- **Overvalued = Expensive**



Valuation Methods

3. Perceived Value



- The price that people are willing to pay for a product or service
- Perceived Value \neq Absolute Value
- The stock price of a company **reflects perception**



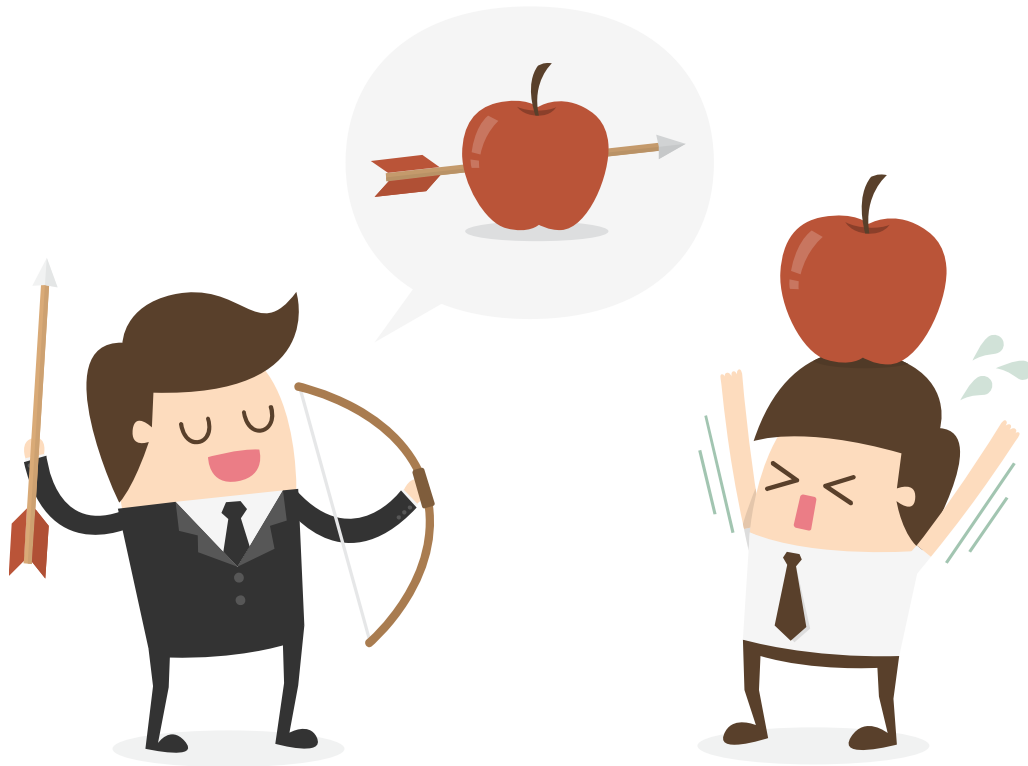
Qualitative Research

What is Margin of Safety (MOS)?



- The difference between a stock's price and its intrinsic value
- The greater the margin of safety, the lower risk you'll take
- Use MOS to correct your mistakes

How Much Margin of Safety is Acceptable?



- What is your risk tolerance?
- How much money can you afford to lose?
- The higher the margin, the better
- Safe MOS should be at least 25%

THANK YOU FOR READING!

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