**Magic Formula - Method by Joel Greenblatt**

Figuring out what a business is worth involves guessing how much the business will earn in the future. The earnings from your share of the profits must give you more money than you would receive when placing the same amount of money in a risk free government bond

Stock prices move around wildly over very short periods of time. This does not mean that the values of the underlying companies have changed very much during that same period. It’s a good idea to buy shares of a company at a big discount to your estimated value of those shares. Buying shares at a large discount to value will provide you with a MARGIN OF SAFETY and lead to safe and consistently profitable investments.

Buy stocks of a company with a relative high earnings yield (Gewinn pro Aktie/Kurs, you can use P/E ratio under 15).

Purchase a business that can invest it’s own money in high rates of return (Return on Asset, should be higher than 25%) rather than purchasing a business that can only invest at lower ones 🡪 go for relative high return on asset.

The Magic Formula works only well with a group of stocks (about 30) and long-term. Companies should be bigger than $50 Mio. Marketcap. The Magic Formula doesn’t work with utility and finance companies.

Additional books and links: The little book that beats the market, Joel Greenblatt, https://www.magicformulainvesting.com/