

# Fundamental Analysis

Introduction to Investments

Prof S G Badrinath

Introduction to Fundamental Analysis – Notions of Value

**So, in addition to (or instead of) studying such charts, why not examine accounting data?**

- **Notions of Book Value, Liquidation Value, Replacement Value**
  - Book value is a historical cost, accounting notion.
  - Liquidation value is like a market price that can be received for dumping assets.
  - Replacement value is a market price at which roughly similar assets can be acquired. For a car rental company whose assets are largely a fleet of used cars, easily available market prices for second-hand vehicles makes the notion of replacement value easy to obtain. What about an oil rig?
- **Comparables (relative) Valuation vs Absolute Valuation**

# Shiller PE Ratio

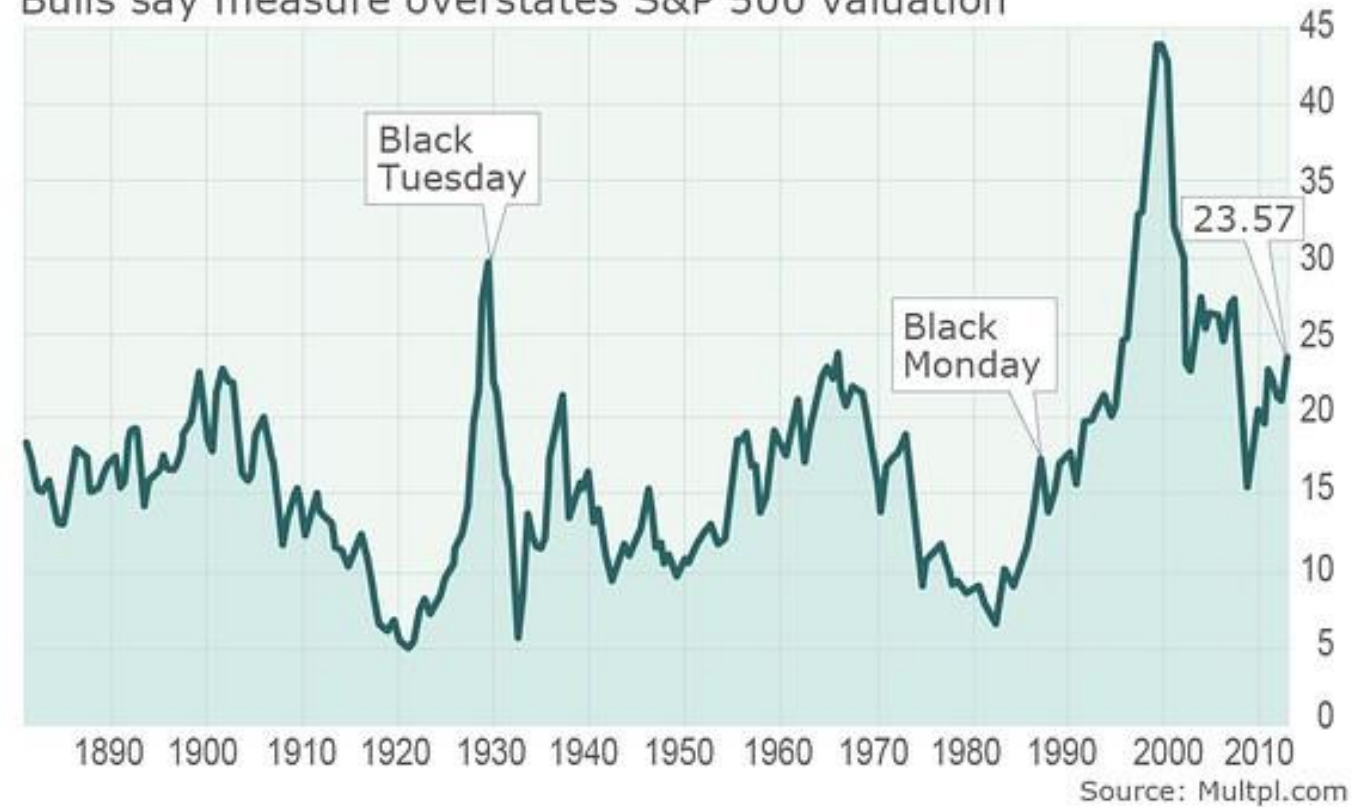
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## Shiller P/E ratio

Bulls say measure overstates S&P 500 valuation



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