

Intrinsic Value

Introduction to Investments
Prof S G Badrinath
Discounted Cash Flow Valuation

- Intrinsic value is the **true value** of a company/stock/asset obtained using fundamental analysis, i.e., using all the aspects of business.
- Intrinsic value is different from Market Value.
- Intrinsic value > Market value => Buy

Intrinsic Value Vs Market Price

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- How do prices adjust to intrinsic value?
- We saw one way with the risk-premium example and the CAPM
- **Key things to stress**
 - Valuations are a long-term idea
 - There are as many models as there are analysts
 - Serious errors in valuation are driven more by the character of market data rather than accounting data
 - They serve as due diligence (homework)
 - Are more appropriate when large pools of capital are deployed
 - Bias of models (Spring 2009 was a major buy signal)

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