



Wealthy Education
Learn More, Live Better!

VALUE INVESTING

THE ADVANCED VALUE INVESTING COURSE

MODULE 1: THE ESSENTIAL OF VALUE INVESTING
LEARNING MATERIAL – TAKEAWAY NOTE

DISCLAIMER

LEGALLY REQUIRED DISCLAIMER – THIS COURSE CONTAINS THE PERSONAL IDEAS AND OPINIONS OF THE COURSE PROVIDERS. THE INFORMATION CONTAINED IN THIS COURSE IS FOR EDUCATIONAL PURPOSES ONLY. THERE IS NO RECOMMENDATION OR ADVICE ON MAKING ANY INVESTMENT DECISIONS, BUYING OR SELLING ANY TYPES OF STOCKS, SECURITIES OR INVESTMENTS DISCUSSED IN THIS COURSE. THE COURSE PROVIDERS ARE NEITHER STOCK BROKERS NOR REGISTERED INVESTMENT ADVISORS. WE DO NOT RECOMMEND MAKING ANY INVESTMENT DECISIONS PROPOSED IN THIS COURSE. INDIVIDUALS SHOULD FIND REGISTERED INVESTMENT ADVISORS TO HELP THEM MAKE INVESTMENT DECISIONS. ALTHOUGH THE COURSE PROVIDERS HAVE STRIVED FOR PROVIDING THE MOST ACCURATE INFORMATION, THERE IS NO GUARANTEE OR WARRANTY CONCERNING THE RELIABILITY, ACCURACY AND COMPLETENESS OF THE PROVIDED INFORMATION. INDIVIDUALS SHOULD BE CAUTIOUS ABOUT MAKING THEIR OWN INVESTMENT DECISIONS. INDIVIDUALS ARE SOLELY RESPONSIBLE FOR THEIR INVESTMENT DECISIONS. THE COURSE PROVIDERS ARE NOT RESPONSIBLE FOR ANY LIABILITIES AND LOSSES, WHICH MAY ARISE FROM THE USE AND APPLICATION OF THE INFORMATION AND STRATEGIES PROPOSED IN THIS COURSE.

THANK YOU!

Hello friends,

Congratulations! You've completed the Module 1 – The Essential of Value Investing. This is a learning note that we've prepared for you. It includes all key information in the lectures. You can take it away and revise the course from anywhere, on any device and at anytime you want.

If you have any concern about the lectures, feel free to send us a message, we are always here to help you!

Best regards,

Wealthy Education Team.

THE ESSENTIAL OF VALUE INVESTING

Worth \$2

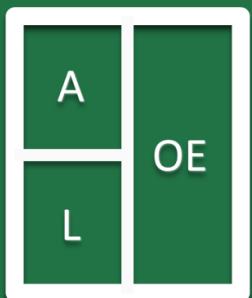


Value Investing

= Buying something for less than it's actually worth

THE LANGUAGE OF THE BUSINESS

- Accounting is considered the language of the business
- Learning about Accounting is very important because that will help you make a better investment decision
- However, you do not need to learn everything about Accounting stuff
- You only need to learn things that can help you make your investment decisions
- There are three important financial statements that you must get familiar with:



Balance Sheet

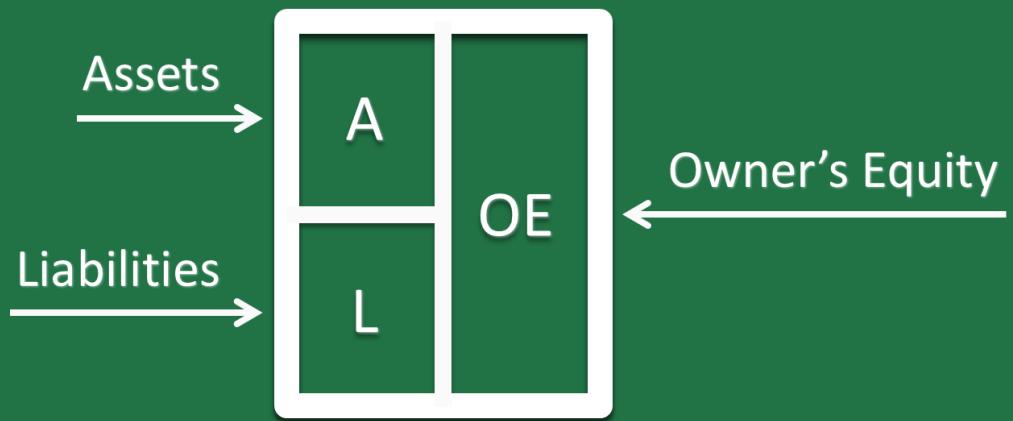


Cash Flow Statement



Income Statement

BALANCE SHEET



- When talking about the balance sheet, you should never forget the accounting equation



ACCOUNTING EQUATION



- Assets are what the company owns
- Liabilities are what the company owes
- Shareholder's Equity is simply the capital from the company's investors



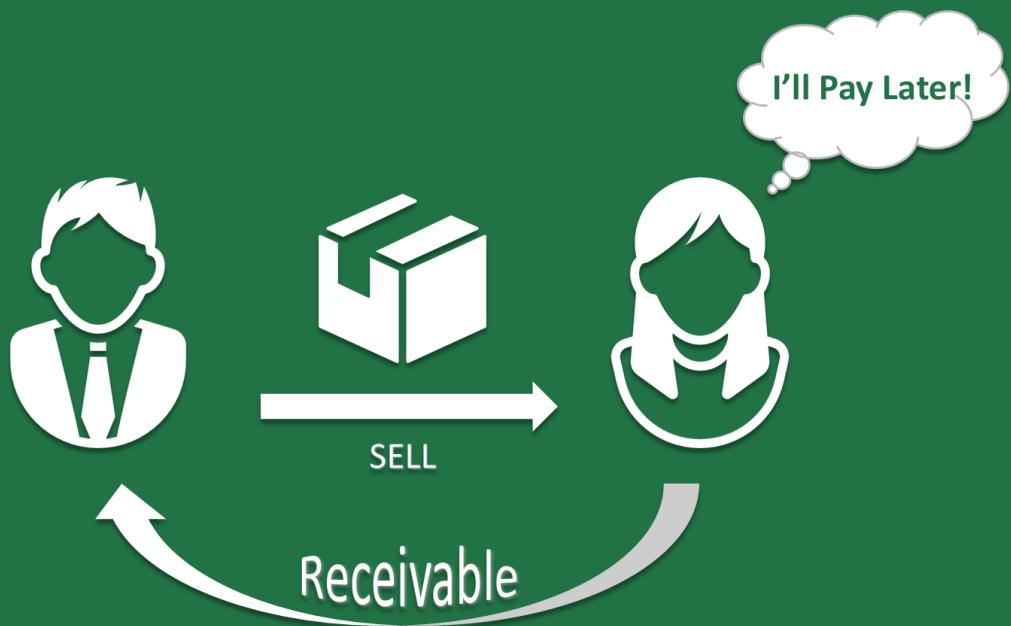
BALANCE SHEET EXAMPLE

BALANCE SHEET EXAMPLE			
ASSETS	LIABILITIES		
Current Assets		Current Liabilities	
Cash or Cash Equivalents	7,100	Short-term Debts	10,300
Accounts Receivable	21,050	Accounts Payable	7,875
Inventories	16,100	Other Current Liabilities	18,975
Other Current Assets	8,200		
Total Current Assets	\$ 52,450	Long-term Liabilities	
		Long-term Debts	17,825
		Other Liabilities	23,325
Long-term Assets		Total Liabilities	\$ 78,300
Property, Plant & Equipment (PPE)	46,850		
Long-term Investments	15,825	OWNER'S EQUITY	\$
Intangible Assets	4,225	Equity / Common Stock	2,475
Other Long-term Assets	10,375	Retained Earnings	48,950
Total Long-term Assets	\$ 77,275	Total Owner's Equity	\$ 51,425
Total Assets	\$ 129,725	Total Liabilities + Total Owner's Equity	\$ 129,725



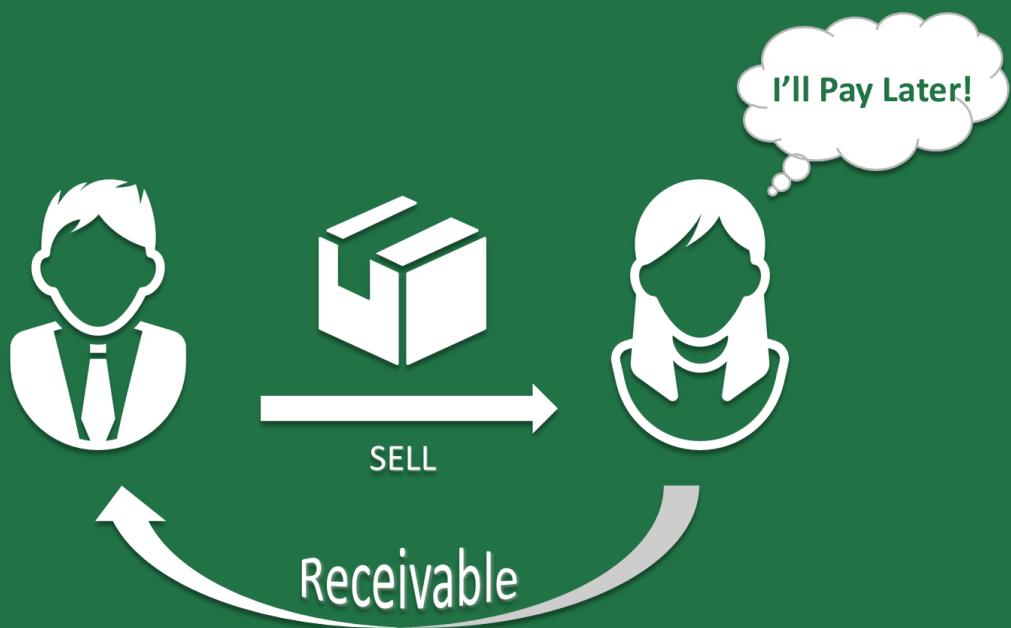
$$A = L + OE$$

ACCOUNTS RECEIVABLE



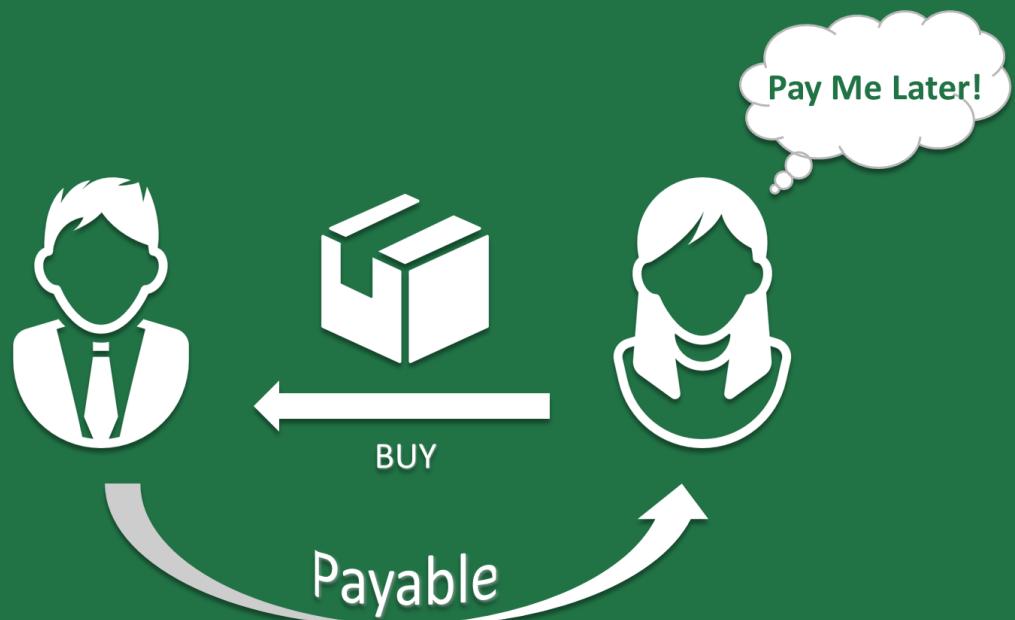
- Accounts Receivable are recorded on your company's balance sheet when you sell a product to your customers and they have not paid for that product yet
- The amount that your customers owe you is the Account Receivable

ACCOUNTS RECEIVABLE



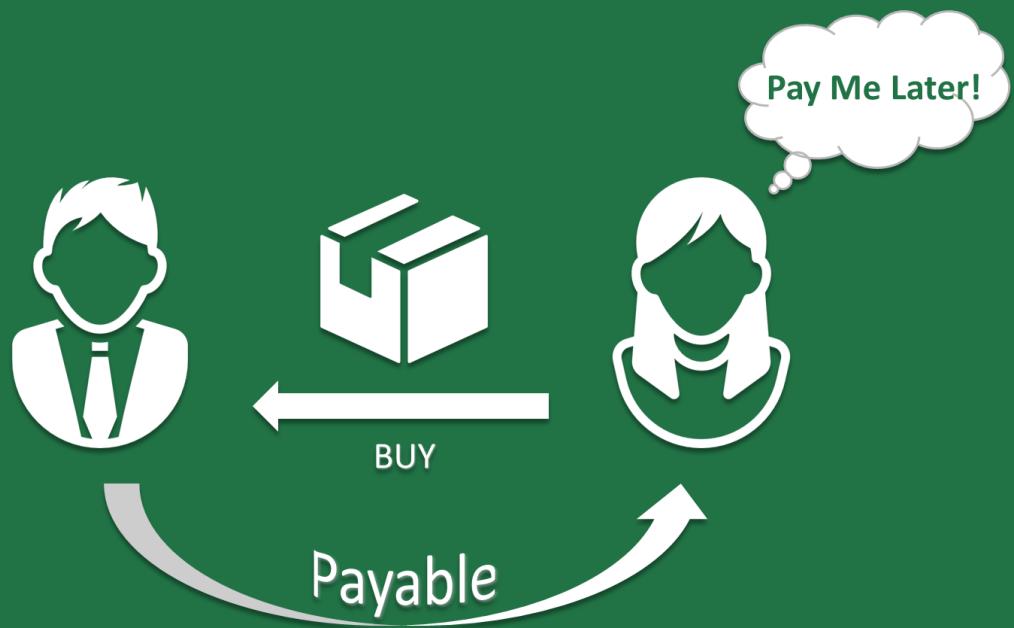
- **Potential Problems:**
 - If the Accounts Receivable are High or Too Big
 - Increase much Faster than the sales
 - ➔ Be careful – This is NOT a good sign!
 - ➔ Problems when collecting money from customers
 - ➔ Potentially turn into Bad Debts

ACCOUNTS PAYABLE



- Accounts Payable are recorded on your company's balance sheet when you buy a product from your customers and you have not paid for that product yet
- The amount that you owe your customers is the Account Payable

ACCOUNTS PAYABLE



- **Potential Problems:**
 - If the Accounts Payable are High or Too Big
 - ➔ Be careful – This is NOT a good sign!
 - ➔ Problems when paying short-term debts
 - ➔ Stuck with financial problems
 - ➔ Potentially become bankrupt

CASH ACCOUNT

- **Potential Problems:**

- Cash balance is Too Low
- Cash balance is Too High
- ➔ Be careful – This is NOT a good sign!
- ➔ Too Low balance – Potentially stuck with financial problem
- ➔ Too High balance – Problems with the management

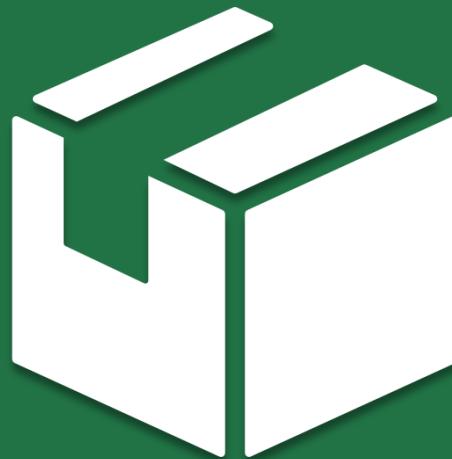


Cash is the most LIQUID asset!

INVENTORIES ACCOUNT

- **Potential Problems:**

- If the Inventory figure is High or Too Big
 - Be careful – This is NOT a good sign!
 - More Inventories = More Costs => Less Profits
 - Problems when selling its products
 - Losses caused by obsolete or damaged products



More Inventories = More Holding Costs!

INTANGIBLE ASSETS

- Assets that we cannot see, touch and sense
- Important factor that will help us evaluate the company's competitive advantage
- Good businesses often have a high balance in Intangible Assets (for example, Adidas, Nike, etc.)
- Examples of Intangible Assets:



Copyrights

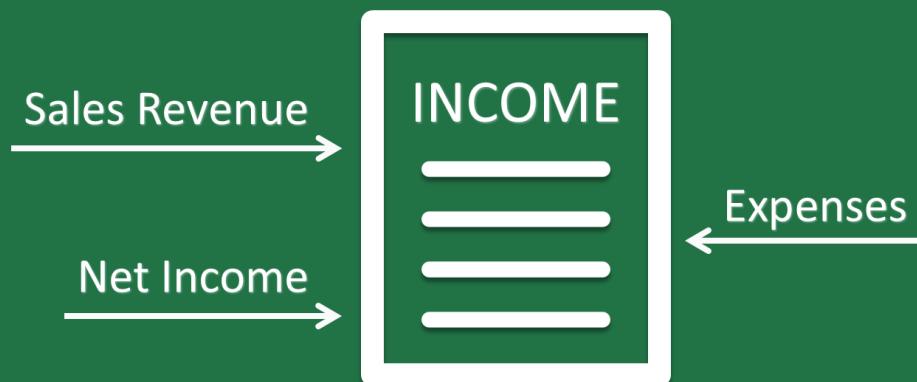


Patents



Logo

INCOME STATEMENT



- Only need to remember the Income Statement Formula

Income Statement Formula

Sales Revenue

– Cost of Goods Sold (COGS)

= **Gross Profit**

– Operating Expenses

– Interest Expense

– Income Taxes

= **Net Income (after taxes)**

EARNINGS PER SHARE



Earnings Per Share



$$\frac{\text{Net Income after Taxes}}{\text{Number of Shares Outstanding}}$$

- The amount that you will earn for every share that you are currently holding

INCOME STATEMENT EXAMPLE

INCOME STATEMENT EXAMPLE	
Sales Revenue	136,100
Cost of Goods Sold (COGS)	(70,800)
Gross Profit	65,300
Operating Expenses	
Sales & Marketing Expenses	(25,000)
Administrative Expenses	(6,000)
Research & Development Expenses	(7,500)
Other Operating Expenses	(1,425)
Total Operating Expenses	(39,925)
Interest Expense	(350)
Income Taxes	(8,050)
Net Income (after taxes)	\$16,975
Earnings Per Share (EPS)	\$0.136
Number of Shares Outstanding	125,000

$$\frac{\text{Net Income after Taxes}}{\text{Number of Shares Outstanding}} = \frac{\$16,975}{125,000 \text{ shares}} = \$0.136$$

CASH FLOW STATEMENT



- There are three main components which are presented on the Cash Flow Statement:
 - Cash Flow from Operating Activities
 - Cash Flow from Investing Activities
 - Cash Flow from Financing Activities
- Note the Free Cash Flow figure
- $FCF = \text{Operating Cash Flow} - \text{Capital Expenditure}$

CASH FLOW STATEMENT EXAMPLE

CASH FLOW STATEMENT EXAMPLE			
CASH FLOW FROM OPERATING ACTIVITIES		CASH FLOW FROM FINANCING ACTIVITIES	
Net Income (after taxes)	12,450	Sale or Purchase of Stocks	(3,500)
Depreciation and Amortization	5,700	Dividends Paid to Shareholders	(8,075)
Deferred Taxes	2,575	Other Financing Cash Flow	3,400
Changes in Assets and Liabilities		Net Cash from Financing Activities [c]	(8,175)
Accounts Receivable	(375)		
Inventories	1,725	Net Change in Cash and Cash Equivalents	\$2,375
Accounts Payable	4,500	(Net Change = [a] + [b] + [c])	
Total Changes in Assets and Liabilities	5,850	Cash at beginning of period	\$5,000
Net Cash from Operating Activities [a]	26,575	Cash at end of period	\$7,375
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisitions	(10,475)		
Capital Expenditures (CAPEX)	(6,350)		
Other Investing Cash Flow	800		
Net Cash from Investing Activities [b]	(16,025)		

Free Cash Flow = Net Cash from Operating Activities



– Capital Expenditures

$$= 26,575 - 6,350$$

$$= \$20,225$$

PEG RATIO

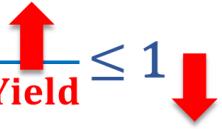
- ❖ PEG stands for Price/Earnings to Growth
- ❖ **PEG ratio** is the enhanced version of PE ratio
- ❖ For valuation:
 - PEG ratio > 1.0 – Your stock is ***currently*** expensive
 - PEG ratio = 1.0 – Your stock is ***currently*** fairly priced
 - PEG ratio < 1.0 – Your stock is ***currently*** cheap

→ Why should we enhance this criterion?

- PEG ratio contains no element that represents a company dividend payout

PEGY RATIO

- ❖ PEGY stands for Price/Earnings to Growth and Dividend Yield
- ❖ **PEGY ratio** is the enhanced version of the PEG ratio

$$\text{PEGY Ratio} = \frac{\text{P/E Ratio}}{\text{EPS Growth Rate} + \text{Dividend Yield}} \leq 1$$


- ❖ **Limitation:** Do not rely totally on this ratio if you evaluate a stock with a high dividend yield (more than 8%)

POTENTIAL VALUATION PROBLEMS

- ❖ Problems with business valuation:
 - We value a business based on its **book value**
 - Financial information is sufficient but **not provided in real time**
 - Potential **problems with our valuation process**
 - Your company's **intrinsic value never remains the same**
 - ➔ **Potential bias in our valuation results**
 - ➔ We will need to use a Margin of Safety

MARGIN OF SAFETY

- ❖ You should only buy a stock when its current market price is *significantly* below its intrinsic value
- ❖ Margin of safety = the difference between your stock's current market price and its intrinsic value
- ❖ Margin of safety allows us to make mistakes in our valuation process, and helps us correct these mistakes.

$$\text{Margin of Safety (\%)} = 1 - \frac{\text{Current Share Price}}{\text{Intrinsic Value}}$$

MARGIN OF SAFETY CRITERION

- ❖ Set your Margin of Safety of **at least 25%**
- ➔ You will only buy a stock when its intrinsic value is 25% greater than the current share price

How to Use the Margin of Safety

- ❖ **Step 1:** Calculate the intrinsic value
- ❖ **Step 2:** Multiply the intrinsic value with Margin of Safety factor
- ❖ **Step 3:** Compare the adjusted value with the current share price
 - ➔ If the adjusted value > share price => **BUY**
 - ➔ If the adjusted value = share price => **HOLD**
 - ➔ If the adjusted value < share price => **SELL**



Wealthy Education
Learn More, Live Better!

THANK YOU!

FOR MORE INFORMATION:

VISIT: WWW.WEALTHYEDUCATION.COM