Warren Buffet and Value Investing

Warren Buffet and Value Investing

- A course on Valuation would not be complete without a mention of Warren Buffet and value investing
- For all the theories we have discussed in this course, Buffet is the outstanding example of an investor who understands company valuation and implements what he understands

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- This also give us an opportunity to have a more practical and less theoretical discussion about Company Valuation and how to approach the topic in the real world

Warren Buffet and Value Investing

- Who is Warren Buffet?
- (Do I need to answer this question?)
- Founder of Investment Firm Berkshire Hathaway
- Most successful value investor - probably ever…

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- What do we mean by Value Investing?
- An investment strategy that seeks to invest in companies which are undervalued by the market
- Comparison of their intrinsic value to the market valuation

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- The foundations of Value Investing may be found in the Intelligent Investor written by Benjamin Graham and published in 1934
- Concept developed at Columbia business school by Graham and David Dodd

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- Investors seek to determine the intrinsic value of a stock using a combination of financial analysis as well as fundamental factors such as Brand, Business Model, Market, Management and Competitive Advantage

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- Some of the key metrics include:
  - Price to Book Ratio
  - Price to Earnings Ratio
  - Free Cash Flow
- Also includes analysis of debt, equity, revenues and revenue growth
- Is the company at an attractive price in the market compared to its intrinsic value?

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- Buffet also focuses on the “Margin of Safety” which we will discuss in this section as its an important principle in the system

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- Graham argued that you should only purchase a stock which is trading at two thirds of its Net-Net Value
- This is only take into account the Net Current Assets
- Once the stock price increases to its intrinsic value, they should sell
- This is one way to build in a Margin of Safety to your investment strategy

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- Another important principle is the idea that the markets are not efficient, over react to bad news and that investors should aim to profit from the imperfections in the market rather than just follow its trends

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- We are going to explore some of these ideas in this section and see what light this throws on the whole subject of Valuation
- I certainly hope it will make you think!

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