AN INTRODUCTION TO VALUATION
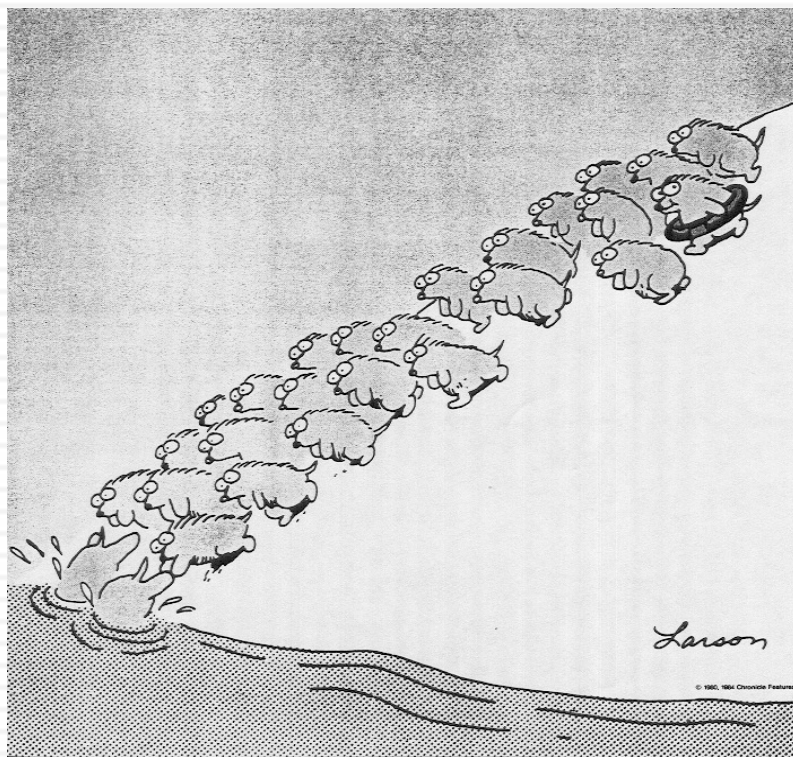
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Valuation won't make you rational. You are a human being with lemmingitis!

- " One hundred thousand lemmings cannot be wrong"
  Graffiti

We thought we were in the top of the eighth inning, when we were in the bottom of the ninth..

Stanley Druckenmiller

Aswath Damodaran

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Misconceptions about Valuation

- Myth 1: A valuation is an objective search for "true" value
  - Truth 1.1: All valuations are biased. The only questions are "how much" and in which direction.
  - Truth 1.2: The direction and magnitude of the bias in your valuation is directly proportional to who pays you and how much you are paid.
- Myth 2.: A good valuation provides a precise estimate of value
  - Truth 2.1: There are no precise valuations.
  - Truth 2.2: The payoff to valuation is greatest when valuation is least precise.
- Myth 3: . The more quantitative a model, the better the valuation
  - Truth 3.1: One's understanding of a valuation model is inversely proportional to the number of inputs required for the model.
  - Truth 3.2: Simpler valuation models do much better than complex ones.

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