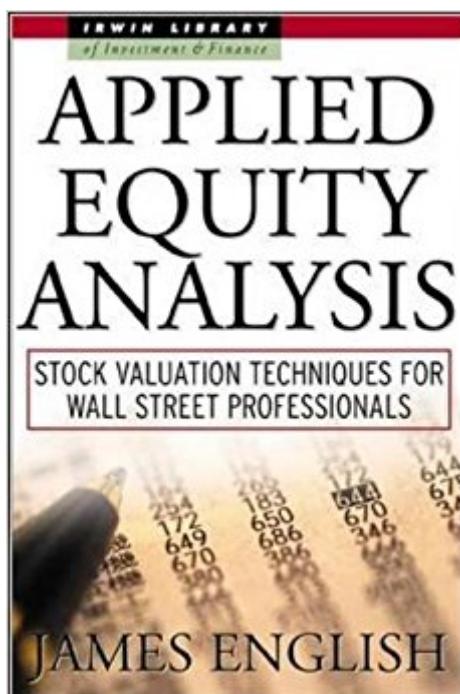


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# Applied Equity Analysis: Stock Valuation Techniques For Wall Street Professionals



## Synopsis

Applied Equity Analysis treats stock valuation as a practical, hands-on tool rather than a vague, theoretical exercise—and covers the entire valuation process from financial statement analysis through the final investment recommendation. Its integrated approach to valuation builds viable connections between a firm's competitive situation and the ultimate behavior of its common stock. Techniques explained include EVA, newer hybrid valuation techniques, and relative multiple analysis.

## Book Information

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## Customer Reviews

Today's Most Comprehensive Practitioner's Guide to Modern Equity Analysis Professional equity analysts must contend with a number of strong forces, each pulling in separate but equally relentless directions. Applied Equity Analysis ties these disparate elements into a seamless whole, and presents a clear, complete equity analysis picture. Written from the working analyst's point of view, in a singularly candid style that is both thought provoking and illuminating, Applied Equity Analysis covers: How to think, speak, and develop investment recommendations in the language of Wall Street How competitive forces directly impact financial results and, in the process, drive stock valuation How to use valuation methodologies designed to quantify the growth and earnings assumptions inherent in speculative stock prices Applied Equity Analysis emphasizes techniques that work on a day-to-day basis, rather than traditional but often impractical academic approaches. By combining a solid discussion of finance and investment theory with techniques popular among

today's buy- and sell-side analysts, it presents a picture of stock investment analysis that is analytically rigorous, aggressively uncompromising, and based on earnings—the true driving force of Wall Street. "The equity analyst's job is to present a position, supported by financial and non-financial evidence. Data unnecessary to the argument are, in a word, unnecessary. However, the analyst must understand all the data, relevant or not. The ultimate goal of the equity analyst is the exploitation of any difference between a stock's price and its value." From Chapter 1 Applied Equity Analysis is about understanding all the data. Written by former JP Morgan managing director James English—an adjunct professor of finance at the Columbia University School of Business, honored by The Wall Street Journal for his stock analysis skills—this innovative book treats valuation as a practical tool rather than a theoretical exercise. Its integrated approach shows you how to build straight-line connections between a firm's fundamental competitive situation and its stock performance, by combining an understanding of a firm's competitive strengths and weaknesses with accurate financial statement analysis—to build a more complete model of a firm's future stock market performance. Combining a solid discussion of finance and investment theory with techniques frequently used by working buy- and sell-side analysts, Applied Equity Analysis discusses: Specific valuation techniques for identifying stocks that are undervalued relative to their peers Quantitative techniques to link a firm's projected future financial performance to its potential future valuation—based upon the current trading patterns of comparable stocks A hybrid valuation technique to mathematically calculate a stock's inherent growth expectations A proven strategy for formulating and successfully presenting an investment recommendation An entire chapter on the Stern Stewart EVATM system as an alternative—and potentially useful—way of decoding financial statement information Relative and hybrid earnings-based valuation techniques that are more practical than cash-flow methods—and frequently far superior On today's Wall Street, equity analysts must focus on a firm's ability to produce returns that exceed capital costs, and then estimate the firm's future power to maintain and increase those returns. Let Applied Equity Analysis supply you with in-depth examples and explanations of Wall Street's most important equity analysis tools—and give you a hands-on, real-world handbook for equity analysis in today's complex financial marketplace.

James English is currently an adjunct assistant professor of finance at Columbia University School of Business. He spent twenty years with JP Morgan serving in many positions, including managing director of JP Morgan Capital, the firm's venture capital unit. In his over quarter-century career in

finance, English practiced and become proficient in virtually every one of the field's subspecialties: commercial banking and credit analysis, corporate treasury and foreign exchange, capital markets, mergers & acquisitions, venture capital, and sell-side equity analysis.

Some of the disparaging comments by others prompts me to offer a comment. I believe those who have criticized this book have done so unfairly and out of ignorance. Unfairly because they complain about what is not included. The author accomplished what he set out to do. Out of ignorance because one reviewer quit after 50 pages, he said, so he didn't even read the rest of the book to know what it contains. In other cases, it seems to me that some of the material may be too complex for the average reader to follow, but after all this is a very complex subject. I think the author has done an excellent job of gathering information from a variety of respected authorities, and has summarized the information quite well. This book contains a treasure of insights and practical formulae all in one place. I can see why it is useful as a desktop reference. My copy is so marked up that I just ordered another copy to use in teaching my children these valuable lessons. I wish that I had access to the author's online resources because spreadsheet formats would be very helpful. I would be grateful if anyone can help with this.

This book is great if you're in the field of finance. This is not for the average consumer looking for investment advice. I've been in corporate financial planning and analysis for the past five years and always wondered how equity analysts built their models. This book will give you insight into their thinking and also give enough detail to build your own models. I would have rated it five stars if the book included a CD with his examples in Excel. The author does have a website where you can download sample models.

I found this book haphazard and badly written. I learned almost nothing from it. The writing is very vague and confusing. The following stock valuation books are far better: 1. "Stock Valuation" by Scott F. Fosberg. 2. "Fire Your Stock Analyst: Analyzing Stocks On Your Own" by Harry Domash.

I bought this book based on the strong reviews as a complement to Damodaran's classic on valuation, but felt disappointed. To qualify my comments: First, I am not a sell-side analyst, and secondly, I haven't finished the book. After about 50 pages, I threw in the towel. My first stylistic objection to the book is its low content density. There is tremendous repetition and examples are trotted out in excruciating detail, even where the conclusions are fairly obvious. For example, on p.

34: "At competitive equilibrium, the firm can identify no incremental investment opportunities likely to generate returns in excess of capital costs. Competitive equilibrium is often defined as a condition in which investment opportunities generate returns equal to capital costs, but existing investments continue to earn abnormal rates." To me these two sentences are already redundant. But in case you still didn't get it, further DOWN on the SAME PAGE: "...This situation is called economic equilibrium, or economic parity. What does equilibrium mean? When returns are forced down to capital costs, then economic rents and/or abnormal earnings disappear and no further incentive to enter the business exists". But the most frequently repeated point of the first two chapters, is best summed up on p. 19: "As I say many times in the coming pages [and he's not kidding, there], equity analysis is not prophecy; it's opinion. It was never meant to be objective description, but it is strong advocacy." If you're the sell-side analyst, having to "dress up a pig" to help your firm gain some banking business, this book might offer some ideas. But where does this leave the consumer of such analysis? "It's the investor's job to 'diversify' by considering a variety of analysts' positions." (p.9) I think better advice for the investor might be to learn how to perform sound analysis themselves. For that, I recommend Damodaran's book. I lost my faith in this book's intent to provide balanced (let alone predictive) analysis.

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