Selecting a Valuation Method to Determine a Stock’s Worth

Investing is about earning a financial return. Valuation is at the heart of investing—you need to find a stock selling at an attractive price relative to its intrinsic or underlying value, otherwise your prospects for a financial return are poor.

Wait, you say, that sounds like value investing and I am a growth investor. We feel this dichotomy is unnecessary. All investing is about identifying companies for which we expect to earn a handsome financial return. Why would we want to buy companies selling above their intrinsic value? We might be willing to buy them if the current price is equal to the intrinsic value, as a fair financial return would be expected. However, ideally we would prefer to find companies where the current price is well below intrinsic value. Whether you are a value investor or a growth investor, you are likely concerned about the price you are paying relative to intrinsic value (including the company’s growth prospects). All investors should therefore assess the value of the company using some valuation method and compare that value to the current market price. Doing otherwise is to speculate, not invest.

All valuation methodologies are not created equal and no single method applies to all companies or works in all market conditions. Some valuation methodologies are more appropriate in certain circumstances and not in others. In this article, we examine different valuation methodologies and provide guidance for selecting the method most appropriate in particular circumstances.

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