

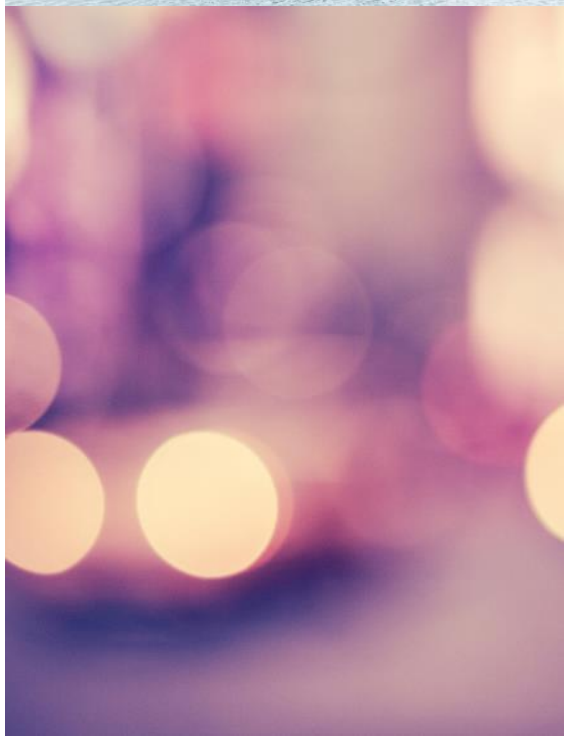
Why Value Always Comes Before Price

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Contents

1. Price vs Value
2. Why Valuation Is Always a Range
3. How Valuation Drives Your Investment Return





1. Why Value Always Comes Before Price

🎬 Introduction

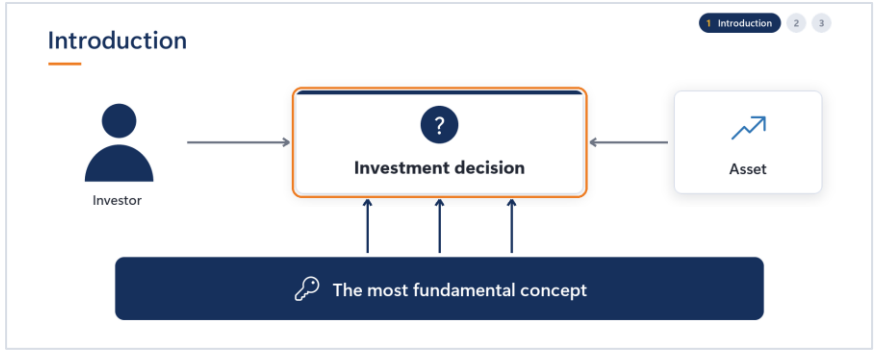
- Value versus price is the most fundamental concept behind every investment decision.
- Professional investors separate value from price before they commit capital.
- This distinction shapes whether Wall Street analysts buy, hold, or sell.

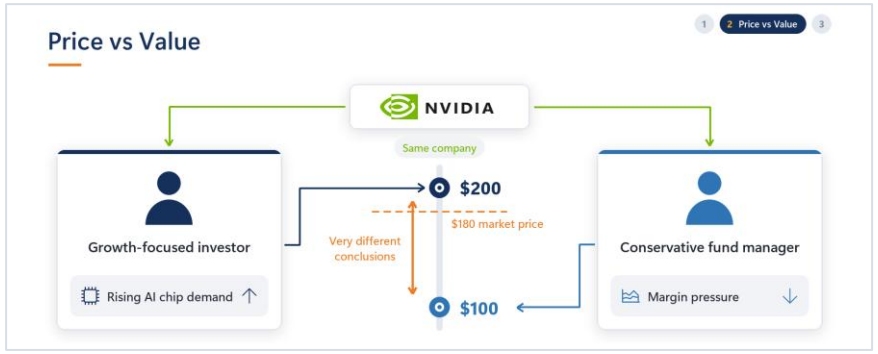
⚖️ Price vs Value

- Price is the amount buyers and sellers agree to exchange in the market.
- Supply and demand at a specific moment determine where the price settles.
- NVIDIA trading at $180 per share is simply today's agreed market price.
- Value is the economic benefit an asset delivers to its owner over time.
- Each investor estimates value differently, based on their own analysis and assumptions.
- A growth-focused investor might value NVIDIA at $200 on rising AI chip demand.
- A conservative fund manager worried about margin pressure might value it near $100.
- Both examine the same company but reach very different conclusions about its worth.

📈 Why Markets Actually Move

- If every investor believed NVIDIA is worth exactly $200, the price chart would be flat.
- That never happens, because investors disagree about value every single day.
- Those who believe value exceeds $200 buy at that price; those below $200 sell.
- Every market transaction reflects two opposing views about value.



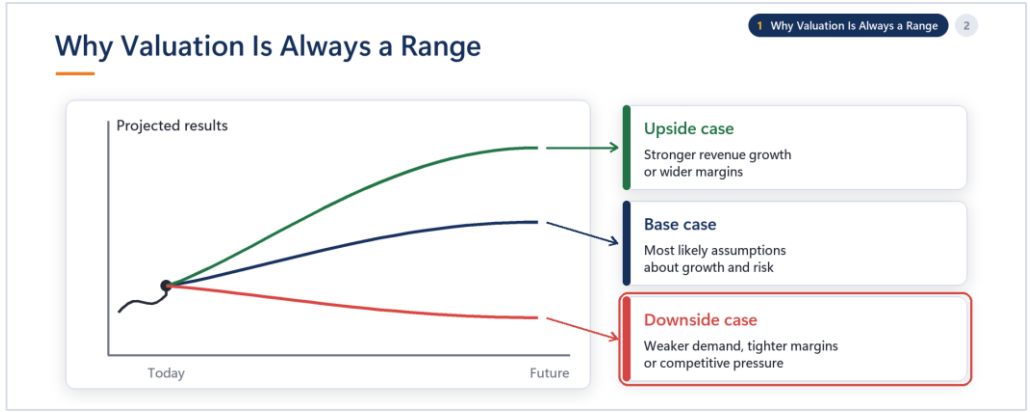




1. Why Value Always Comes Before Price (Part 2)

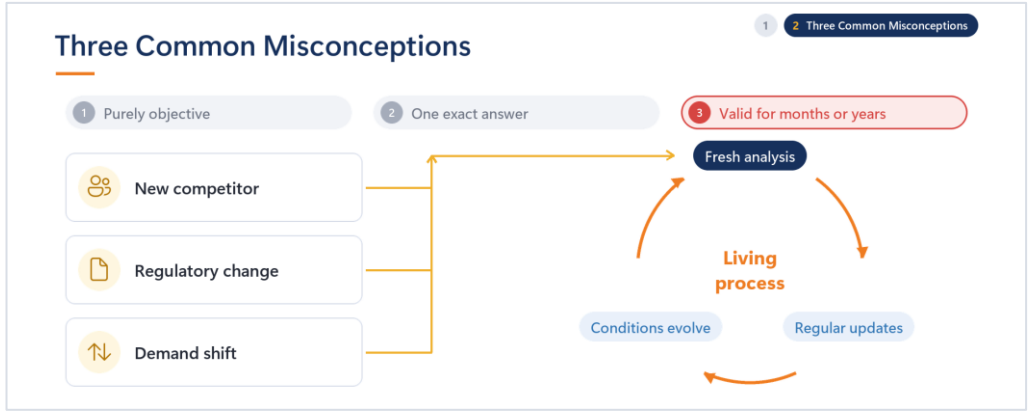
🔢 Why Valuation Is Always a Range

- Every valuation requires assumptions about the future, and those involve judgment.
- You must estimate future earnings growth; actual results could be higher or lower.
- You must select a discount rate, and reasonable analysts can disagree on its level.
- In relative valuation, different analysts select different peer groups of comparable companies.
- These judgment calls produce a range of outcomes rather than one fixed number.
- Practitioners may build three scenarios to cover the full spectrum of possible results.
- Base case: the most likely assumptions about growth and risk.
- Upside case: stronger revenue growth or wider margins; downside: weaker demand, tighter margins or competition.
- The final valuation output becomes a band, such as $120 to $150 per share.



⚠️ Three Common Misconceptions

- Myth 1: valuation is purely objective - in reality it blends quantitative methods with qualitative judgment.
- Myth 2: a well-done valuation produces one exact answer - the output is a range.
- Nobody can predict the future with complete precision.
- Myth 3: a valuation stays valid for months or years - any shift in the earnings outlook outdates it.
- A new competitor, a regulatory change or a demand shift can trigger fresh analysis.
- Valuation is a living process that needs regular updates as business conditions evolve.



1. Why Value Always Comes Before Price (Part 3)

📈 How Valuation Drives Your Investment Return

- The simplest return assumes you buy and sell with no cash received in between.
- Y = Pt / P0 - 1: Y is the return over the holding period.
- P0 is the price you pay when you buy; Pt is the price you receive when you sell.
- Example: buy at $80, sell two years later at $100: 100 / 80 - 1 = 25%.
- Valuation shapes both sides: is $80 a reasonable price before you commit capital?
- It also helps you estimate a realistic exit price and decide when to sell.
- Overpaying at P0 compresses your return no matter how well the company performs.



💰 Adding Cash Flows in Between

- Most investments generate cash flows during the holding period.
- For stocks, these cash flows are dividends the company pays to its shareholders.
- Total return then has three parts: pay P0, receive dividends, receive Pt.
- Example: buy at $80, collect $5 in dividends each year for two years, sell at $100.
- Total cash received is $110: $100 sale price plus $10 in dividends.
- Return = 110 / 80 - 1 = 37.5%.

