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Skip to headerSkip to main contentSkip to footerA walk down any supermarket aisle makes it clear we live in a world of increasing product specialization. To break into a new market or grab more of an existing one, companies launch a dizzying array of new products in ever-more-specific categories. Want your soda with more caffeine or less? You've got it. More sugar? Less sugar? Six ounces, 10 ounces, 20 ounces? Whatever you like.This trend has not been lost on marketers of investments. Specialized mutual funds and exchange-traded funds cover almost every imaginable combination of manager style, geographic reach, capitalization size and sector expertise. If you're looking for a mid-cap growth fund focused on the so-called BRIC countries (Brazil, Russia, India and China), you'll surely find it.We understand the marketing reality of specialization, but we'd argue that the most important factor in judging an investor's prospective gains or losses is the person's underlying philosophy. As you might guess from the name of this column, we're dyed-in-the-wool value investors, and we agree 100% with Berkshire Hathaway's vice-chairman, Charlie Munger, that "all sensible investing is value investing."What does that mean? After all, value investors pursue a wide variety of strategies: Some invest primarily in small companies, while others like large ones. Some go mostly overseas while others stick to the U.S. Some run concentrated portfolios, and others don't. Some are activists; others aren't. But although specific strategies vary, the fundamental characteristics that unite value investors are many. We've come up with an even dozen:1. We tend to buy what's out-of-favor rather than what's popular.2. We focus on intrinsic company value -- what it's really worth -- and buy only when we're convinced we have a substantial margin of safety rather than try to guess where the herd will go next.3. We understand and profit from reversion to the mean rather than project the immediate past indefinitely into the future.4. We understand that beating the market requires a portfolio that looks quite different from the market, and we recognize that truly great investment ideas are rare. So we invest heavily in our handful of best ideas rather than hide behind the safety of closet indexing.5. We focus on avoiding permanent losses and on absolute returns rather than on outperforming a benchmark and on relative returns.6. We typically invest with a multiyear time horizon rather than focus on the month or quarter ahead.7. We pride ourselves on conducting in-depth and proprietary analysis in search of what hedge-fund legend Michael Steinhardt calls "variant perceptions" rather than acting on tips or relying on Wall Street analysts.8. We spend much of our time reading -- business publications, annual reports and the like -- rather than staring at the ticker or watching television shows about the market.9. We spend time analyzing and understanding "micro" factors, such as a company's competitive advantages and growth prospects, instead of trying to predict the direction of interest rates, oil prices and the economy.10. We cast a wide net, seeking mispriced securities across industries and across types and sizes of companies rather than accepting artificial style-box limitations on market capitalization and other criteria.11. We make our own decisions and are willing to be held accountable for them rather than seek safety in whatever everyone else is buying or in decision-making by committee. 12. We admit our mistakes and seek to learn from them rather than take credit only for successes and attribute failures to bad luck.If that all sounds perfectly sensible, you might wonder, as we sometimes do, why everyone isn't a value investor. A simple explanation is that you must be able to estimate the value of a business, which requires a great deal of skill and experience to do with reasonable accuracy. There are other explanations as well. James Montier, equity strategist at France's Société Générale, has studied the subject and finds the reasons are deeply rooted in human nature -- and, therefore, unlikely to ever change.The first reason he cites is aversion to loss. Research shows that people perceive the pain of a loss about twice as strongly as the pleasure of a comparable gain. With its decidedly contrarian bent, value investing can sometimes fail to work for long periods of time, causing plenty of pain. To avoid such an outcome, investors get drawn into a sucker's game of rapidly trading their portfolios rather than waiting out the inevitable periods when they don't perform well.A second reason investors don't embrace value investing is that it's a get-rich-slowly approach. We are all hard-wired to pursue actions that offer immediate gratification. But stocks that are cheap often offer the greatest long-term rewards precisely because they have no short-term catalyst. A final reason for the dearth of value investors is the human desire to be part of the crowd. If you didn't own Internet stocks during the late 1990s, not only did you suffer lousy returns, but you also felt excluded. As Montier points out, "Contrarian strategies are the investment equivalent of seeking out social pain." That's not easy to do.Value investors typically scour deeply out-of-favor sectors for opportunities, looking for the proverbial babies thrown out with the bath water. Last month, we wrote about two attractive opportunities, Target and Borders Group, in one of today's more reviled sectors -- retail. To that we'll add another: Barnes & Noble.Although it's in the same business as Borders, as an investment Barnes & Noble (symbol BKS) has more in common with Target. Both are well-run, market-leading companies with strong balance sheets, trading at low multiples of earnings and buying back stock at a healthy rate.You might ask why own a stock like this -- or any retailer -- given the environment we're in. Why not wait until the consumer outlook shows sure signs of getting better?The simple answer is share price. At \$30, Barnes & Noble has a market capitalization of \$1.8 billion and -- after deducting year-end cash of \$361 million -- an enterprise value (minus cash and plus debt) of \$1.5 billion. Last year, Barnes & Noble had earnings before interest, taxes, depreciation and amortization (EBITDA) of \$380 million and free cash flow (after all capital expenditures) of \$238 million. Thus, the stock is trading at 3.8 times EBITDA on an enterprise-value basis and 6.1 times free cash flow, for a cash-flow yield (the return shareholders would get if all free cash flow were paid out as dividends) of 16.3%. When things start to get better, this current valuation will be long gone. A private buyer would likely pay double those multiples for such a high-quality business -- especially one with a respected, conservative, entrepreneurial management team led by Len Riggio, who almost single-handedly invented the book-superstore business.The biggest risk, of course, is continuing competitive pressure from big-box booksellers, such as Wal-Mart and Costco, and online alternatives, such as Amazon. But Barnes & Noble offers an in-store experience that's attractive and sufficiently distinct from competing options to give the company an excellent chance of growing at a low- to mid-single-digit rate for many years. Given today's share price, such growth would be icing on the cake and not at all necessary for B&N to turn out to be a successful investment.There's one more reason that value investors probably aren't at risk of being overrun by too many like-minded competitors: Value investing lacks drama. Poring over numbers and digging for deeper insight into a company or industry isn't exactly the adrenaline rush sought by the Jim Cramer, Mad Money crowd. To that, we'd suggest an alternative view of excitement: Sleeping well at night and compounding your money safely and at a decent clip over time seems like fun to us. Columnists Whitney Tilson and John Heins co-edit ValueInvestor Insight and SuperInvestor Insight. Mutual funds or hedge funds co-managed by Tilson own shares in Target, Borders and Barnes & Noble.Your Guide to Roth ConversionsSpecial ReportTax BreaksA Kiplinger Special ReportFebruary 25, 2021Stock Market Holidays in 2021MarketsIs the stock market open today? Take a look at which days the NYSE, Nasdaq and bond markets take off in 2021.June 17, 20215 Best Mutual Funds to Fight Inflationmutual fundsThese five mutual funds cover a wide variety of asset classes, but they share a similar trait: They're effective hedges against inflation.June 18, 2021Is the Stock Market Closed for the Fourth of July in 2021?MarketsIndependence Day falls on a Sunday in 2021, so the bond and stock markets will enjoy a long holiday weekend. Here's a look at the markets' holiday hou...July 3, 20217 Materials Stocks Analysts Love the Moststocksthe materials sector tends to shine in the early stages of economic expansion. Here's a list of the best materials stocks as we enter the second half...July 2, 20217 Sizzling Semiconductor Stocks to Buystocks to buyDemand for chips is growing by leaps and bounds -- especially amid a global shortage. Here are the best semiconductor stocks to take advantage.July 2, 20215 Five-Star Mutual Funds for Any Investormutual fundsThese five mutual funds, spanning five different categories, get five stars from CFRA based on their potential to outperform over the next 12 months.July 1, 2021 Knowing the real value of your car will be important as it affects the real cost of ownership. While the technical terms that dealers and car insurers use can get really complicated, the underlying concepts are not that hard to understand. A central concept is that of the 'book value' of a car. To understand the book value and how to calculate it, consider the following example. Suppose you buy a truck today for \$35,000. When you go to insure the truck, the insurer will assess its value at, or near, \$35,000. The insurance premiums you pay will be designed to replace a \$35,000 truck in case it is completely wrecked in a collision.Suppose, however, that you bought the car used, five years since the car was brand new. Your purchasing price was \$20,000. When you go to insure the car, would you be happy paying insurance premiums for a \$35,000 car? No, you would be looking to pay lower premiums, in line with the lower resale value of the used truck. This example illustrates that the book value of the truck has fallen in the intervening five years, and so, you naturally expect to pay lower premiums.The book value of a car is simply its current price in the market, that is, the original price, less depreciation. While the definition of book value is a general concept with a broadly accepted meaning, specific formulas do exist. In the car business, pointedly, various definitions of vehicle book value compete side by side. The most well-known ones are the Kelley Blue Book Value and the Edmunds Book Value. Understanding these benchmark book values will help you determine what your truck or other vehicle is worth. The Kelley Blue Book Value is widely accepted by banks and insurance companies as a measure of a car's actual worth. It is available in three variants: Trade-in value Private party value Certified pre-owned value In contrast, the Edmunds Book Value aims to be more comprehensive than the Kelley Blue Book Value. It includes more vehicle conditions, and looks at a greater variety of data points, including: private transactions depreciation curves for different vehicle types Value from dealership sales Different buyers will tend to value vehicles differently. For example, selling a vehicle to a private individual will, on average, yield a higher price than selling to a dealer. This is because a dealer will have to sell the vehicle onwards to a final buyer. The dealer, therefore, does not pay the full value of the vehicle. Rather, the dealer makes money from the spread between the price they buy at, and the final price they sell for in the market. Finding book values for a truck is as simple as visiting book value calculation sites to fetch the Kelley Blue Book Value or Edmunds Book Value. For a business with a fleet of trucks, book values are an important accounting consideration. This is because, according to accounting principles, records must indicate the actual worth of assets. As an example, suppose a new fleet of vehicles has been purchased, and the business estimates the useful life of the vehicles at eight years. To calculate the commercial truck book value of the fleet, the business must amortize the value of the fleet each year. Over eight years, an eighth of the fleet book value is written off each year. At the end of eight years, the book value of the fleet is zero.The advantage of this sort of calculation is that it makes it easy to forecast when the business will need to shell out money to buy a new fleet of vehicles. By writing down the commercial value of its assets in this way, the business gives a more accurate picture of its true financial situation. Book values can be calculated not just for trucks, but for a variety of vehicles as well. Mobile homes, RVs, yachts, boats and planes, are some of the vehicles for which book value can be assessed. Mobile homes have book values ranging from just a few hundred dollars to well over a quarter of a million. Becoming familiar with book values is essential for sound financial knowledge. You can apply this knowledge in any of the following scenarios Calculating your net worth Applying for a vehicle loan from a bank Negotiating the price of a used vehicle Applying for and paying insurance on a vehicle Photo Courtesy: skynesher/E+/Getty Images Even if you consider most shopping to be a chore, shopping for a new car just might fill you with a sense of excitement instead of dread. These days, new cars -- and even recent models of used cars -- often come with some impressive bells and whistles, such as automatic braking, lane departure alerts and blind spot alerts. It can be quite a thrill to upgrade from an older car with more limited features to a shiny new model that practically drives itself (at least it feels that way). However, an unexpectedly poor trade-in value on your existing vehicle can ruin the excitement very quickly. First, an unscrupulous dealership could offer you less for your vehicle than it's actually worth to increase its own profit. Second, your car could legitimately be worth much less than you expected for any number of reasons. To avoid shock and disappointment, you need to make sure you know your car's value before you try to trade it or sell it privately. If you're not sure how to find that information, here's a quick look at some tips for calculating the value of your car. When it comes to buying and selling cars, the information out there consists of both fact and fiction. If you've heard that a brand new vehicle loses thousands of dollars in value as soon as you drive it off the lot, it's a partial truth. Once a car is registered to a new owner, it's no longer considered "new" and must be sold as a used car, no matter how few miles it was driven. This generally causes the value to drop around 10% shortly after the purchase. However, most states have buyer's remorse periods that allow new car sales to be canceled within a short period -- usually a few days -- which means the downgrade to "used" doesn't occur the minute you leave the lot. Photo Courtesy: Lane Oatey/Blue Jean Images/Getty Images According to U.S. News & World Report, depreciation for most vehicles averages about 15% to 25% per year for the first five years. Most vehicles in good condition are worth around one-third of their original purchase price at the end of the five years, but many variables can affect the value calculation for a specific car. The value of your car depends on much more than the make, model and age. The age-old claim that certain car models retain their values better than others has some truth to it. For example, in 2019, Kelley Blue Book -- a trusted auto industry resource for determining value -- reported that Toyota and Porsche were two brands that traditionally retained a high percentage of their original value for a longer period. This is partially due to higher demand for some vehicles as well as the reliability and longevity of engine parts and components. Photo Courtesy: Westend61/Getty Images Beyond market demand and the age and starting price of your vehicle, factors like mileage, condition and specific options can have a significant impact on the resale value. Make sure you know all the details about your car's exact model, including engine specs, transmission type, drivetrain, exterior trim (bumpers, headlights, wheels, etc.) and interior trim (leather, navigation, backup camera, warning and alert systems, etc.), as these features play a role in the vehicle's value. Interestingly, the role of features isn't usually to boost the value, as you might imagine. Instead, the premium features that you paid a pretty penny for when you purchased your car might do very little to improve your car's resale value. In most cases, fully-loaded vehicles with all the manufacturer's top features lose their value much more quickly than base model cars. After all, the used car market essentially dictates the value, and used car buyers are often much more focused on value and great deals than premium features. Amenities that don't hold their purchase value very well include sunroofs, premium wheels, premium seats, and turbo or supercharged engines. Photo Courtesy: Kathleen Finlay/Image Source/Getty Images The overall condition of a vehicle carries a lot of weight when it comes to determining the value. A vehicle's condition includes details about mechanical defects as well as its exterior and interior appearance. If you don't consult with a professional mechanic, determining the condition of your vehicle can be very subjective. Without knowledge of exactly what's going on under the hood or inside the vehicle's computer, many people end up believing their vehicles are in better condition than they actually are, which leads to overestimating values. Photo Courtesy: Dan LaMee/Moment/Getty Images It's much easier to account for cosmetic issues caused by dents, scratches, tears and stains. Be sure to go over your vehicle in detail and accurately note every flaw as well as anything that looks as good as new. Additionally, the odometer reading provides an instant, accurate reading for the number of miles driven, which is another important detail that influences a car's value. In general, vehicles with lower mileage have less wear and tear on their components and command higher prices than the same models with higher mileage -- assuming no other factors are dramatically different. Once you've gathered the information you need about your vehicle, you can use several online vehicle valuation tools to obtain estimates of your car's value. Many of these tools will also ask you about the location of the vehicle, as market pricing trends can vary somewhat in different parts of the country. Besides the previously mentioned Kelley Blue Book, Edmunds, NADA (National Automobile Dealers Association) and Consumer Reports have strong reputations for providing reliable pricing estimates free of charge. Photo Courtesy: Milos Batavejlic/E+/Getty Images Additionally, some large online car buying sites, like Carvana, Auto Trader and CarGurus, offer tools to help consumers determine vehicle values. However, these sites should be used with more caution, as their goal is to financially benefit by selling you a car (or buying yours) after providing the free information. One key detail that often has a huge impact on the value of your vehicle is the method you choose for selling it. Trading your used vehicle to a dealership to reduce the price of your new vehicle is easy and convenient, but it isn't usually the smartest financial choice. If you have time and another vehicle to drive before making your purchase, you can often sell your used vehicle to a private party for a higher price. Photo Courtesy: Eric Audras/PhotoAlto Agency RF Collections/Getty Images The logic is simple: A dealership can't afford to pay you the full value of the vehicle and still make a profit when they sell it as a used car. A private party, on the other hand, may be willing to pay you exactly what the vehicle is worth -- after doing their own due diligence, of course. However, if you're like many people, you prefer the minimal effort that goes into trading your used vehicle when you're ready to purchase a new one. There's nothing wrong with that as long as you don't walk onto the lot unprepared. If you want the best deal, be sure to show up armed with solid research about your car's value.

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