

Setting some themes

[Business](#)



The theory of intrinsic value is significantly important, as it shows the relative attractiveness of investments and businesses, not just simple stock (Carbon, 1999). The estimation of intrinsic value based on the two elements, which are the future performance (represented by flows- Of-cash) and the discount factor (Buffet uses the rate of return on the long-term U.

S reassure bond due to his investing attitude is an avoidance of risk) (Carbon, 1999). Rhea conventional model of the estimation was the capital asset pricing model (CAMP). E alternative to intrinsic value (future output) is book value (historical input) or accounting profit. That is meaningless as indicators of intrinsic value because of the fluctuation between book value and intrinsic value. Buffet rejects these alternatives due to “ economic reality, not accounting reality’ (Burner et al.

, 2010). If the business performs well in the future, the intrinsic value will far exceed its book value. In other scenario, the business is downward due to unexpected obstacles; the book value will exceed its intrinsic value.

Throughout Buffet’s investment philosophy: The first 5 elements mainly described the economic reality and how to evaluate the intrinsic value. The 6th element recommended investors on diversification of portfolio, investors should typically purchased far too many stocks rather than waiting for one exceptional company. The 7th element essentially noticed investors to be driven by information, analysis and self-discipline, not by emotion or hunch.

Lastly, the 8th element was about an alignment of agents and owners.

The diversification of portfolio does not mean researches of entire businesses at control prices that ignore long-term economic consequences to the shareholders. Fund managers must act with shareholders' money as acting with their own (Burner et al. , 2010). The increase in the stock price of Scottish Power (Pacifier's parent) by 6. 28% and Berkshire Hathaway by 2. 4% indicates a market approval for the acquisition and created benefit for investors in 2005. However, there is one thing need to be considered which was the merger and acquisition against law or a variety regulations no matter this investment is risky or not.

The Pacifier deal was expected to close after the federal and state regulatory reviews were completed, sometime in the next 12 to 18 months. CASE 2 Bill Miller and Value Trust Over 15 years, Value Trust had had an average annual total return of 14. 6%, Inch was greatly exceeded the S&P 500 by 3. 67% per year.

Value Trust grew from \$750 million in 1990 to more than \$20 billion in 2006. An investment of \$10, 000 in alee Trust in 1982 would have grown to more than \$330, 000 in 2005 (Burner et al. , 2010). In making that assessment, the benchmark was used as annual total return,

Inch indicates the performance of a mutual fund, measured as following:

Annual total return = (Change in net asset value *Dividends+Capital-gain distributions)/(Net asset value (at the beginning of the year)) Where: Net

asset value = (Market value of fund assets-Liabilities)/(Fund shares

outstanding) Irish measurement was then compared with the performance of a benchmark portfolio such as the Russell 2000 Index or the S&P 500

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Composite Index. If it was greater than the benchmark portfolios, it means good performance and vice versa.

The two most common indicators to measure the fund's performance were (1) the regenerate of annual growth rate of net asset value (NAVA) assuming reinvestment the total return on investment) and (2) the absolute dollar today of an investment made at some time in the past (Burner et al. , 2010). Moreover, to effectively estimate the performance of fund, investors frequently adjust for the relative risk of mutual funds (known as the standard deviation of returns). Thus the relationship between risk and return was reliable both on average and over time.

The investment strategy is highly recommended the deep research on particular industries which the Investment got involved, this statement was correct both in cases of Buffet and Miller, Miller's approach was research-intensive and extremely concentrated. Nearly 50% of Value Trust's assets were invested in just 10 large-capitalization companies prune et al. , 2010).

Portfolio managers play roles as the leader of a team of analysts and researchers, ultimately responsible for making initial investment decisions for a fund.

They constantly stay on top of current financial market events in efforts of generating adequate acts to protect the investment. Most mutual-fund managers relied on some variation of the two classic school of analysis: Technical analysis: achievement of investment opportunities based on trends in stock prices, volume, market sentiment, Fibonacci numbers, etc (Burner et

al. , 2010). Fundamental analysis: research and development of economic fundamentals of each particular company as well as its specific industry such as supply and demand, growth prospects, etc (Burner et al. 2010).

Mutual funds generally perform better than market in few single years but over long-term period, it is hard to predict except mom superstar money managers - like Bill Miller (over 14 years, greatly outperformed the market). These performances was much like participating in a coin- tossing contest, it means at great number of trials, the probability will be 50% for flip head - winners, 50% for flip tail - losers (Burner et al. , 2010).

Capital-market efficiency: capital markets incorporated all the relevant information into existing securities' prices, and all current prices reflected the true value of the underlying assets, then possibly it would be impossible to beat the market with period skill or intellect (Burner et al. , 2010). In general, investors can use both technical and fundamental analysis as implications to research and development tools to generate the best performance.

If the market exhibits characteristic to weak efficiency, it means that all past prices of stocks were impounded with past pattern. In this form, fund managers will not be able to use technical analysis to consistently produce excess returns, though some forms of fundamental analysis may still useful. Semi-strong efficiency held that today's prices reflected not only all past prices, but also all publicly available information. Fund manager can use both technical and fundamental analysis as tools to achieve abnormal returns.

Strong efficiency held that current stock prices reflected all the information that could be acquired through close analysis of the company and the economy.

In this case, no one can earn excess returns over long period of time (Burner et al. , 2010). The success of Value Trust under Miller's operation has been proven for 14 years, according to Mornings, Miller's fund lagged behind the S in 32 12-months erodes out of total of 152 12-months periods, from the beginning of the streak through July 2004, which was impressive outcome (Burner et al. 2010). At 55-year-old, Bill Miller was hardly considered old if compared with Buffet was 74. If he keeps Morning for Value Trust as long as Buffet does, investors can believe in his management and therefore, invest their money in Value Trust instead of putting in the bank.

However, according to statement above, investment in mutual fund is like participating in a coin-tossing contest with 50-50 probabilities to beat the market.