# Comparision and contrast of dcf and capm essay

The Comparison and Contrast of DCF and CAPM. The definition of Discount Cash Flow is uses of future free cash flow projections and discounts them (most often using the weighted average cost of capital) to arrive at a present value, which is used to evaluate the potential for investment. If the value arrived at through DCF analysis is higher than the current cost of the investment, the opportunity may be a good one.

The Discount Cash Flow shows that changes in long-term growth rates have the greatest impact on share valuation. The interest rate changes also make a big difference. . The Discount Cash Flow analysis is more flexible than any other individual ratio it also allows the investor the opportunity to look at the ability of the company to grow.

The Capital Asset Model is an economic model for valuing stocks, bonds, and other assets and relating the risk with the expected return. The Capital Asset Model is based on the premise of the investor will demand risk premium which is simply what they expect to get back, for the additional risk taken. The Capital Asset Model uses a system that divides the portfolio’s risk into systematic and specific risk. Systematic risk is the risk of holding the market portfolio. As the market moves, each individual asset is more or less affected. Specific risk is the risk which is unique to an individual asset.

It represents the asset returns with general market moves. References: www. encycogov. com Valued based management.

net Chapter 11 – Block, Hirt. (2005). Foundations of financial management (11th ed. ).

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