

# ThecaseSolutions.com

# JPMorgan Chase & the CLO Losses



**DCF: The Steps**

- use discounted cash flow valuation we need
- to estimate the life of the asset
- to estimate the future earnings or cash flows during the life of the asset
- to estimate the discount rate to apply to those cash flows to get present value
- choose the right DCF model for the asset and value it

ThecaseSolutions.com

**Intrinsic Value ??**

• Intrinsic value is the value of an asset to its owners independent of market prices

- 1) Its capacity to generate cash flow
- 2) Risk of the cash flow
- 3) Growth of the cash flow

ThecaseSolutions.com

**Valuation is All About Judgement!!**

Valuation techniques such as DCF are of questionable merit. Valuation is a subjective matter.

ThecaseSolutions.com

**WHY DCF?**

- Profit can be influenced by accounting assumptions but not cash
- Cash generated in the business cannot be taken nor it can be taken by accounting gimmicks

Charles G. KING

Business is rarely, if ever, as clearly cash as healthy - Warren Buffett

Our Bull for the Bull Market 2007  
Should the Glass Be Half Empty or Half Full?

**DCF:**

The DCF calculation takes all cash flows projected into the future (indefinitely) and discounts it back to present value. Represents a company's "intrinsic" value.

ThecaseSolutions.com



So Coming to the Million \$ Question??

- What is Valuation?
- What is Discounted Cash Flow?

ThecaseSolutions.com

**Limitations & Assumptions of DCF**

DCF is more suitable than other valuation methods because it is more flexible for the entrepreneur. Some drawbacks are as follows:

- More sensitive to cash flows
- Higher or variable interest rates by financial institutions
- Lack of market liquidity on both the bond and stock markets
- Market liquidity and interest rates can both vary widely over time
- Inflation can be unpredictable by the market. The market can be unpredictable in the short term. The market can be unpredictable in the long term.

**DCF Works Best when:**

- The rate of change in the interest rate is relatively low
- The market is liquid and the price is relatively stable
- The market is liquid and the price is relatively stable
- The market is liquid and the price is relatively stable

**Seems so easy, ain't it??**

But why DCF is not used by every company for valuation

# Thecasesolutions.com

## JPMorgan Chase & the CIO Losses



Thecasesolutions.com  
Fancy a Price?

**DCF: The Steps**

- use discounted cash flow valuation to measure the value of an asset
- to estimate the value of an asset, you need to estimate the future cash flows that the asset will generate
- to estimate the present value of the asset, you need to discount the future cash flows back to the present

Thecasesolutions.com

**Intrinsic Value 71**

intrinsic value is the value of an asset in its current state, based on its expected future cash flows. It is the value of an asset based on its expected future cash flows.

Thecasesolutions.com

**Valuation is All About Judgments!**

Valuation involves both art and science. It is a judgment call.

Thecasesolutions.com

**WHY DCF?**

- DCF can be influenced by accounting assumptions
- Cash generated in the future cannot be hidden
- DCF can be influenced by accounting assumptions

THE KING

**DCF:**

The DCF valuation takes all cash flows projected over the future (infinite) and discounts it back to present value. Represents a company's "intrinsic" value.

Thecasesolutions.com



**No Candy for the Millionaire & Quasi-millionaire!**

- What is Valuation
- What is Discounted Cash Flow

Thecasesolutions.com

**DCF Works Best When:**

- The company has a long history of stable earnings
- The company has a clear competitive advantage
- The company has a predictable future cash flow



ThecaseSolutions.com  
Fancy a Price?

- P
- b
- Ca
- no



# Valuation!!

Firefox Thomas Prescher Tourbillon Triple Axis ...

www.amazon.com/Thomas-Prescher-Tourbillon-Regulator-Mechanical/dp/B009I3TG2/ref=sr\_1\_3?s=watches&ie=UTF8&qid=1352662534&sr=1-3&keywords=watches

Member: Faiaz Rahman

**Thomas Prescher**  
Thomas Prescher Tourbillon Triple Axis Regulator Sport Mechanical Grey Dial Men's Watch #TP-TTA04

★★★★☆ (2 customer reviews)

Price: **\$359,500.00**

Usually ships within 3 to 5 weeks.  
Ships from and sold by **BlountJewels**.

- Blount Jewels Watch Collector Program: Receive up to \$1000 credit at BlountJewels.com towards your next purchase with each purchase of a fine timepiece from Blount Jewels.
- Triple Axis
- 18k white gold 43 mm diameter case

Show More

Visit the Men's Watch Store at Amazon  
Explore watches from Casio, Citizen, Omega, Stuhrling, TAG Heuer, and more in the [Amazon Men's Watch Store](#). [Learn more.](#)

Quantity: 1  
**\$359,500.00** + Free Shipping  
Usually ships in 3 to 5 weeks. Sold by BlountJewels

Add to Cart

or


Sign in to turn on 1-Click ordering.

Add to Wish List

More Buying Choices

Have one to sell? [Sell on Amazon](#)

Share



Share your own customer images

**Product Specifications**

**Watch Information**

Brand, Seller, or Collection Name: Thomas Prescher

Thecasesolutions.com

So Coming to the Million \$ Questions???

- What Is Valuation?
- What is Discounted Cash Flow??

[Thecasesolutions.com](http://Thecasesolutions.com)

# Valuation is All About Judgement!!!

Valuation Techniques (such as DCF) are all Quantitative. Hence Valuation is a subjective matter

[Thecasesolutions.com](http://Thecasesolutions.com)

# DCF:

The DCF calculation Takes all cash flows projected into the future (infinitely) and discounts it back to present value

Represents a company's "intrinsic" value

[ThecaseSolutions.com](http://ThecaseSolutions.com)

# Intrinsic Value ??




Intrinsic valuation, relates the value of an asset to its intrinsic characteristics such as:

- 1) Its capacity to generate cash flows
- 2) Risk in the cash flows.
- 3) Growth of the Project's cash flows

**Thecasesolutions.com**





# DCF: The Steps

To use discounted cash flow valuation, we need

- to estimate the life of the asset
- to estimate the future earnings or cash flows during the life of the asset
- to estimate the discount rate to apply to these cash flows to get present value
- Choose the right DCF model for this asset and value it.

[TheCaseSolutions.com](http://TheCaseSolutions.com)