

VALUE INVESTING

DR.M. SHARMEEN FAROOQ¹ & DR. VENU THYAGARAJAN²

¹Senior Assistant Professor, Ethiraj College for Women, Chennai, India

²Associate Professor, Pachaiyappas College, Chennai, India

ABSTRACT

Value creation is the ultimate measure of performance. Companies exist to create economic value for their shareholders. The measurement of value is complex which deals with company's historical financial results and also its ability to create value in the future. Intrinsic value is a vital measure derived when the entire value of the firm is expressed on per share basis. The intrinsic value is the actual value of a security and the strength of a stock and greater this value, the more it is a safe bet from the point of view of investment. The current paper intends to verify whether the intrinsically stronger stocks provide higher abnormal returns to the shareholders with the use of three select methods of valuation Free Cash Flow to the Firm, Economic Value Added and Relative Valuation. The study motivates the prospective investor to prefer intrinsic value as a basis for investment and select the appropriate method of valuation for analyzing the stock.

KEYWORDS: Free Cash Flow to the Firm, Economic Value Added, Relative Valuation and Intrinsic Value