- o Might be a temporary difference between what the company values them ag and what investors are willing to pay
- Markets have trends that escalate for a while before fundamentals reassert themselves
- Thus a combination of good timing and a sound understanding of fundamentals is required to maximise investor returns
- NOTE: Market is generally regarded as being fairly efficient at portraying a balance of all views in the market

Company Share price and value

- Is a company's share price important?
    - o Yes as it reflects the company's current value and hence future value and shareholder returns
- Does a Statement of Financial Position reflect the value of a company
    - o No.
    - o It only reflects its carrying value/historic value of its assets and liabilities
- Can a Company's Statement of Financial Position and Ratio Analysis predict the future value of a company?
    - o Only to be used to project the future value from a trend of historic data
- How might Shareholders predict future share values?
    - o Share forecasting methods/models
    - o Expected future returns (profits/earnings/dividends)
    - o Publically available information from company reports and media
        - ▪ Major plans for acquisition, takeover, demerger, restructure etc…
        - ▪ Government changes
            - • Economic
            - • Legal
            - • Political
        - ▪ International Factors like world recession and world shortages
        - ▪ Industry specific factors such as a retail slump or a mining boom

Making Decisions to buy shares

- Best way is to forecast the price of a share in the future compared to now.
    - o Based on expected dividends
        - ▪ Future cash flows (dividends) should be estimated using historical forecasts using a time series of accounting data from financial statements complemented by other data sources
    - o Constant growth rate model
        - ▪ In this, shares are held permanently with equity growing at a constant rate. This rate is influenced only by profit/loss and dividends paid
    - o Present Value Model
        - ▪ $Present\ value\ of\ Equity\ = \frac{(ROE-g)*E}{re-g}$
            - • ROE = forecast value of Returns on Equity
            - • g = forecast value of growth rate of equity
            - • E = value of equity at present rate
            - • re = Required rate of return
        - ▪ This model:
            - • Discounts future cash flows from returns on equity by using required rate of return

- higher g = higher forecast share price
  - growth rate found by:
    - looking at change in Gross Domestic Product for the country (GDP)
    - looking at the change in Net Profit After Tax and change in Operators' Equity
  - $Forecast\ Share\ Price = \dfrac{Present\ Value\ of\ Equity}{No.of\ Shares\ Outsanding\ (ordinary\ Shares)}$
- Where can you get the information from??
  - DatAnalysis
    - Online database accessed through the UQ library
      - Financial Data
      - Use NPAT after abnormal and Total Equity
    - No. of Shares can be retrieved from the latest financial statement
      - Balance Sheet
    - Total Equity is retrieved from the Statement of Financial Position for the year you want to make the prediction from
    - Growth (g) can be retrieved from:
      - www.abs.gov.au
        - All Statistics → Statistics → GDP → post and future… → Australian National Accounts: National income, expenditure and product June 2012 → percentage change June Quarter 2011 – June Quarter 2012
      - You want Trend Only
        - Top right hand quarter figure
    - Actual Share Price
      - DatAnalysis → Price History → Monthly → select month and year and unadjusted prices → run query

Capital Investment Decisions

- Nature of Investment Decisions
  - The Time factor
    - Any outlay of cash is expected to yield economic benefits to an investor at some point in the future
  - Investor decisions are of crucial importance
    - Large volumes of money involved so mistakes often have catastrophic effects
    - Often difficult and expensive to *bail out* of an investment
- Capital Investment Types
  - New Investments
  - New Technologies
  - Replacement of old assets
- Approval process
  - Large organisations often have a formal approval process for capital investments
  - An example might be:
    - Project generation guidelines and/or policies
    - Process of approval (decision support tools and benchmarks)
    - Collection of data for each project and analyse data and apply decision rules