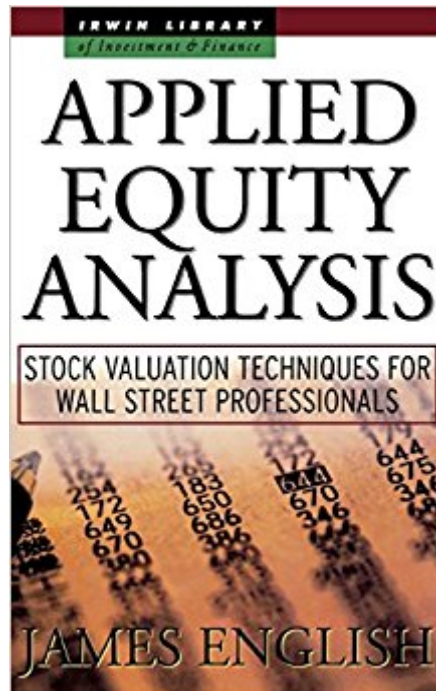


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# Applied Equity Analysis: Stock Valuation Techniques For Wall Street Professionals



## Synopsis

Applied Equity Analysis treats stock valuation as a practical, hands-on tool rather than a vague, theoretical exercise and covers the entire valuation process from financial statement analysis through the final investment recommendation. Its integrated approach to valuation builds viable connections between a firm's competitive situation and the ultimate behavior of its common stock. Techniques explained include EVA, newer hybrid valuation techniques, and relative multiple analysis.

## Book Information

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## Customer Reviews

James English's "Applied Equity Analysis" is a how-to manual on evaluating stocks based on his 20 years of experience at JP Morgan. The book is very well-written and readable since the author employs plain english (no pun intended) to make his three major points: 1) accounting numbers--while by no means perfect--are excellent tools in evaluating stocks, 2) accounting-based stock valuation is superior to (but does not necessarily supplant) cash flows, and 3) competition ensures that eye-popping financial performance doesn't last forever. Contrary to another reviewer, English employs excellent examples to clarify and explain his points. Some examples: Gateway 2000's earnings history was used to explain how to find and interpret non-recurring items (NRI) on financial statements. Ratio analysis was demonstrated by looking at the PC industry in 1998. Emerson Electric was the company chosen to show why mature companies were still good buys. Many other examples abound, and English does a successful job in tying their relevance to his

arguments. But successful use of examples is not just the only strength of the book. The author also tackles a range of topics complete with insightful and clear discussions: the flaws of the Efficient Market Hypothesis (EMH), Economic Value Added (EVA), financial statement analysis, fundamental analysis, etc. A quick glance at the table of contents below gives you an idea of the scope of English's book. I highly recommend this book to not just Wall Street analysts, anyone who is interested in finding fundamental value in evaluating stocks instead of following the crowd.

Pt. 1 Getting Started  
Ch. 1 A Day in the Life  
Ch. 2 Fundamentals of Equity Valuation  
Ch.

I bought this book based on the strong reviews as a complement to Damodaran's classic on valuation, but felt disappointed. To qualify my comments: First, I am not a sell-side analyst, and secondly, I haven't finished the book. After about 50 pages, I threw in the towel. My first stylistic objection to the book is its low content density. There is tremendous repetition and examples are trotted out in excruciating detail, even where the conclusions are fairly obvious. For example, on p. 34: "At competitive equilibrium, the firm can identify no incremental investment opportunities likely to generate returns in excess of capital costs. Competitive equilibrium is often defined as a condition in which investment opportunities generate returns equal to capital costs, but existing investments continue to earn abnormal rates." To me these two sentences are already redundant. But in case you still didn't get it, further DOWN on the SAME PAGE: "...This situation is called economic equilibrium, or economic parity. What does equilibrium mean? When returns are forced down to capital costs, then economic rents and/or abnormal earnings disappear and no further incentive to enter the business exists". But the most frequently repeated point of the first two chapters, is best summed up on p. 19: "As I say many times in the coming pages [and he's not kidding, there], equity analysis is not prophecy; it's opinion. It was never meant to be objective description, but it is strong advocacy." If you're the sell-side analyst, having to "dress up a pig" to help your firm gain some banking business, this book might offer some ideas. But where does this leave the consumer of such analysis? "It's the investor's job to 'diversify' by considering a variety of analysts' positions." (p.

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