



DCF VALUATION III



Commodity companies

Commodity companies have earnings that move up and down with commodity prices. Given that fact, what would you expect the PE ratios for commodity companies to do over a commodity price cycle?

- a. Stay constant
- b. Increase (decrease) as commodity prices increase (decrease)
- c. Increase (decrease) as commodity prices decrease (increase)

Financial Service companies



You are valuing a bank that is conservatively capitalized, with a regulatory capital ratio that is well above the regulatory minimum. How would you expect to see this reflected in the company's fundamentals?

- a. High return on equity, low risk
- b. Low return on equity, low risk
- c. High return on equity, high risk
- d. Low return on equity, high risk

Price and value

□ If you feel certain about your estimate of the value of a company, and it is higher than the stock price, you should be willing to put all of your money in that stock.

a. True

b. False

Explain.