Session 24: Post Class tests

1. Intrinsic and relative valuations, done right, should deliver the same value for an asset.
    a. True
    b. False
2. You are a better candidate for using discounted cash flow valuation, if you are a long-term investor who believes that markets make mistakes in pricing individual companies and that these mistakes get corrected over time.
    a. True
    b. False
3. You are a better candidate for using relative valuation, if you are a portfolio manager with clients with short time horizons and you are judged on a relative basis (against other portfolio managers).
    a. True
    b. False
4. If you are valuing fine art, the best approach to valuing a piece of fine art is to use:
    a. Discounted Cash Flow Valuation
    b. Relative Valuation
    c. Sum of the parts valuation
    d. Historical Cost
    e. None of the above
5. If you use relative valuation in investing, which of the following assumptions are you making about markets?
    a. Markets never make mistakes
    b. Markets are right on average but that they are wrong in pricing individual assets
    c. Markets are wrong on average and they are wrong in pricing individual assets
6.

Session 20: Post class test solutions

1. **b. False**. Intrinsic and relative valuations, even if done right, may not deliver the same value for an asset, because the market may be mispricing an entire group of assets or sector (thus skewing the relative valuation).
2. **a. True.** For intrinsic valuation to have any chance of delivering returns, markets have to make mistakes and correct them over time, and having a longer time horizon improves your odds.
3. **a. True.** If your clients don't have the patience or time horizons needed for markets to correct their intrinsic value mistakes, you are better off using relative valuation. If you are judged on a relative basis, it becomes even more appropriate to use relative valuation.
4. **b. Relative Valuation**. You cannot estimate cash flows (ruling out discounted cash flow valuation), slice it up into pieces (removing sum of the parts valuation from the mix) and the historical cost is meaningless.
5. **b. Markets are right on average but they are wrong on pricing individual assets.** Since you are getting your estimates of value by looking at how the market is pricing similar assets, markets have to be right on average.