

Contents at a Glance

| | |
|--|-----|
| Introduction | 1 |
| Part 1: What's Unique about Corporate Finance | 5 |
| CHAPTER 1: The Tale of Corporate Finance | 7 |
| CHAPTER 2: Introducing Finance Land | 15 |
| CHAPTER 3: Pitching Your Story for Money | 35 |
| Part 2: Making a Statement | 45 |
| CHAPTER 4: Staying Balanced | 47 |
| CHAPTER 5: Incoming Income | 59 |
| CHAPTER 6: Going with the (Cash) Flow | 67 |
| CHAPTER 7: Mastering Metrics | 75 |
| CHAPTER 8: Calculating Capital | 97 |
| Part 3: Valuations on the Price Tags of Business | 115 |
| CHAPTER 9: Determining Present and Future Values: Time Is Money | 117 |
| CHAPTER 10: Calling in the Cavalry | 125 |
| CHAPTER 11: Bonding Over Business | 143 |
| CHAPTER 12: Savvy Stock Sales | 159 |
| CHAPTER 13: Pricing Probability from Derived Value | 173 |
| Part 4: A Wonderland of Risk Management | 183 |
| CHAPTER 14: Managing Uncertainty | 185 |
| CHAPTER 15: Thru the Looking Glass of Modern Portfolio Theory | 197 |
| CHAPTER 16: Financially Engineering Yourself Deeper Down the Rabbit Hole | 217 |
| CHAPTER 17: Weighing Capital | 233 |
| Part 5: Financial Management | 243 |
| CHAPTER 18: Assessing Financial Performance | 245 |
| CHAPTER 19: Forecasting Finances | 263 |
| CHAPTER 20: Getting the Deets on M&A | 277 |
| Part 6: The Part of Tens | 295 |
| CHAPTER 21: Ten Things You Need to Know about International Finance | 297 |
| CHAPTER 22: Ten Things You Need to Understand about Behavioral Finance | 313 |
| Index | 325 |

<http://www.pbookshop.com>

Table of Contents

| | |
|--|----|
| INTRODUCTION | 1 |
| About This Book | 1 |
| Foolish Assumptions | 2 |
| Icons Used in This Book | 3 |
| New to this Edition | 4 |
| Beyond the Book | 4 |
| Where to Go from Here | 4 |
| | |
| PART 1: WHAT'S UNIQUE ABOUT CORPORATE FINANCE | 5 |
| | |
| CHAPTER 1: The Tale of Corporate Finance | 7 |
| Telling a Story with Numbers | 7 |
| Characterizing Motivations | 10 |
| The role of financial institutions | 11 |
| Defining investing | 11 |
| Setting the Stage | 12 |
| | |
| CHAPTER 2: Introducing Finance Land | 15 |
| Visiting the Main Attractions in Finance Land | 15 |
| Corporations | 16 |
| Depository institutions | 17 |
| Insurance companies | 18 |
| Securities firms | 20 |
| Underwriters | 21 |
| Funds | 22 |
| Financing institutions | 23 |
| Exchanges | 25 |
| Regulatory bodies | 25 |
| Federal Reserve and U.S. Treasury | 26 |
| Getting a Job in Finance Land | 28 |
| Accounts payable and/or receivable | 28 |
| HR and payroll | 29 |
| Analysts | 29 |
| Auditors | 29 |
| Adjusters | 29 |
| Bookkeepers and accountants | 29 |
| Modelers and scientists | 30 |
| Economists and consultants | 30 |
| Traders | 30 |
| Treasurers | 30 |
| Bankers and more | 31 |

| | |
|---|-----------|
| Visiting the Finance Land Information Center | 31 |
| Internet sources | 31 |
| Print sources | 32 |
| Human sources | 33 |
| CHAPTER 3: Pitching Your Story for Money | 35 |
| Raising Capital | 35 |
| Diving into Debt | 36 |
| Asking the right people for money | 37 |
| Making sure the loan pays off in the long run | 38 |
| Looking at loan terms | 39 |
| Schmoozing Investors | 40 |
| Selling stock to the public | 40 |
| Looking at the different types of stock | 42 |
| Having Your Wish Granted | 43 |
| PART 2: MAKING A STATEMENT | 45 |
| CHAPTER 4: Staying Balanced | 47 |
| Introducing the Balance Sheet | 47 |
| Evaluating the Weights on the Balance Scale | 48 |
| Understanding Assets | 49 |
| Current assets | 49 |
| Long-term assets | 51 |
| Intangible assets | 53 |
| Other assets | 54 |
| Learning about Liabilities | 54 |
| Current liabilities | 54 |
| Long-term liabilities | 56 |
| Eyeing Owners' Equity | 56 |
| Preferred shares | 56 |
| Common shares | 57 |
| Treasury shares | 57 |
| Additional paid-in capital | 57 |
| Retained earnings | 58 |
| Finding Financial Zen | 58 |
| CHAPTER 5: Incoming Income | 59 |
| Adding It Up | 59 |
| Gross profit | 60 |
| Operating income | 62 |
| Earnings before interest and taxes (EBIT) | 63 |
| Net income | 64 |
| Earnings per share | 65 |
| Supplemental notes | 66 |
| Putting the Income Statement to Good Use | 66 |

| | |
|--|----|
| CHAPTER 6: Going with the (Cash) Flow | 67 |
| Moving Along Three Smooth Flows | 67 |
| Operating cash flows | 68 |
| Investing cash flows | 69 |
| Financing cash flows | 70 |
| Combining the three types of operations to get the net change in cash | 71 |
| Reaching Your Destination | 72 |
| CHAPTER 7: Mastering Metrics | 75 |
| Paying the Bills | 75 |
| Days sales in receivables | 76 |
| Accounts receivables turnover | 77 |
| Accounts receivables turnover in days | 78 |
| Days sales in inventory | 78 |
| Inventory turnover | 79 |
| Inventory turnover in days | 80 |
| Operating cycle | 80 |
| Working capital | 81 |
| Current ratio | 82 |
| Acid test ratio (aka Quick ratio) | 82 |
| Cash ratio | 83 |
| Sales to working capital | 83 |
| Operating cash flows to current maturities | 84 |
| Working Your Assets | 85 |
| Net profit margin | 85 |
| Total asset turnover | 86 |
| Return on assets | 86 |
| Operating income margin | 87 |
| Operating asset turnover | 88 |
| Return on operating assets | 88 |
| Return on total equity | 89 |
| Return on common equity | 89 |
| DuPont equation | 90 |
| Fixed asset turnover | 91 |
| Return on investment | 91 |
| Gross profit margin | 92 |
| Operating ratio | 93 |
| Percent earned on operating property | 93 |
| Operating revenue to operating property ratio | 94 |
| Long-term debt to operating property ratio | 95 |
| CHAPTER 8: Calculating Capital | 97 |
| Sizing Up Shareholders | 97 |
| Financial leverage | 98 |
| Earnings per common share | 98 |

| | |
|--------------------------------------|-----|
| Operating cash flows per share | 99 |
| Price to earnings ratio | 100 |
| Percentage of earnings retained | 101 |
| Dividend payout | 102 |
| Dividend yield | 102 |
| Book value per share | 103 |
| Cash dividend coverage ratio | 104 |
| Banking on Metrics | 104 |
| Earning assets to total assets ratio | 105 |
| Net interest margin | 105 |
| Loan loss coverage ratio | 106 |
| Equity to total assets ratio | 107 |
| Deposits times capital | 107 |
| Loans to deposits ratio | 108 |
| Keeping Debt Healthy | 109 |
| Times interest earned | 109 |
| Fixed charge coverage | 110 |
| Debt ratio | 110 |
| Debt to equity ratio | 111 |
| Debt to tangible net worth | 111 |
| Operating cash flows to total debt | 112 |
| Equity multiplier | 113 |

PART 3: VALUATIONS ON THE PRICE TAGS OF BUSINESS 115

| | |
|--|-----|
| CHAPTER 9: Determining Present and Future Values: Time Is Money | 117 |
| Losing Value over Time | 118 |
| inflation | 118 |
| Interest rates | 119 |
| Predicting Future Value | 120 |
| Simple interest | 120 |
| Compound interest | 121 |
| Calculating the Present Value | 121 |
| A closer look at earnings | 122 |
| Discounted cash flows | 123 |

| | |
|---|-----|
| CHAPTER 10: Calling in the Cavalry | 125 |
| Budgeting Capital | 126 |
| Rating Your Returns | 127 |
| Looking at costs | 128 |
| Calculating revenue | 128 |
| Calculating the accounting rate of return | 128 |
| Making the most of the internal rate of return through modification | 130 |

| | |
|--|------------|
| Netting Present Values | 132 |
| Calculating NPV over time | 132 |
| Managing the project's value | 133 |
| Paying It Back | 134 |
| Allocating Capital | 134 |
| Calculating the equivalent annual cost | 135 |
| Considering liquid assets | 136 |
| Managing Projects | 137 |
| Value schedule metrics | 137 |
| Budget metrics | 139 |
| CHAPTER 11: Bonding Over Business | 143 |
| Exploring the Different Types of Bonds | 143 |
| Considering corporate bonds | 144 |
| Gauging government bonds | 144 |
| Clipping coupon bonds | 147 |
| Backing up with assets | 147 |
| Converting bonds | 148 |
| Calling it in with callable bonds | 149 |
| Putting in the effort: puttable bonds | 149 |
| Registering the bearer | 150 |
| Counting on forgiveness with catastrophe bonds | 150 |
| Junking bad bonds | 150 |
| Reviewing Bond Rates | 151 |
| Reading Bond Information | 153 |
| Understanding Bond Valuation | 156 |
| CHAPTER 12: Savvy Stock Sales | 159 |
| Exchanging Stocks | 159 |
| Looking at the Different Types of Orders | 160 |
| Market order | 161 |
| Stop and limit orders | 161 |
| Pegged order | 162 |
| Time-contingent order | 163 |
| Comparing Long and Short Stocks | 163 |
| Buying long | 163 |
| Buying on margin | 164 |
| Selling short | 164 |
| Defining Caps and Sectors | 165 |
| Caps | 165 |
| Sectors | 166 |
| Raging Bulls and Grizzly Bears | 167 |
| Beating Stock Indices? | 168 |
| Imagining the Value of Stocks | 168 |

| | |
|--|------------|
| Surveying equity valuation models..... | 169 |
| Checking out corporate analysis..... | 170 |
| Evaluating industry performance..... | 170 |
| Factoring in stock market fluctuations..... | 171 |
| Considering macroeconomics..... | 171 |
| CHAPTER 13: Pricing Probability from Derived Value..... | 173 |
| Deriving Value..... | 173 |
| Keeping Your Options Open..... | 174 |
| Choosing between put and call..... | 175 |
| Valuing an option..... | 176 |
| Paying It Forward..... | 177 |
| Agreeing to forward..... | 177 |
| Valuing a forward..... | 178 |
| Standardizing the Future..... | 179 |
| Predicting futures..... | 179 |
| Valuing futures..... | 180 |
| Swapping Numbers..... | 180 |
| Managing risk with swaps..... | 181 |
| Generating revenue with swaps..... | 182 |
| Valuing a swap..... | 182 |
| PART 4: A WONDERLAND OF RISK MANAGEMENT..... | 183 |
| CHAPTER 14: Managing Uncertainty..... | 185 |
| Understanding that Risk Is Unavoidable..... | 185 |
| Risking Your Interest with Inflation..... | 186 |
| Minimizing Market Risk..... | 187 |
| Giving Credit Where It's Due..... | 188 |
| Getting Shady with Off-Balance-Sheet Risk..... | 190 |
| Factoring in Foreign Exchange Risk..... | 190 |
| Transaction risk..... | 191 |
| Translation risk..... | 191 |
| Other foreign exchange risk..... | 192 |
| Identifying Operating Risk..... | 193 |
| Looking at Liquidity Risk..... | 194 |
| Sorting Your Customer's Laundry..... | 195 |
| CHAPTER 15: Through the Looking Glass of Modern Portfolio Theory..... | 197 |
| Delving into Portfolio Basics..... | 198 |
| Surveying portfolio management strategies..... | 198 |
| Looking at modern portfolio theory..... | 199 |
| Understanding passive versus active management..... | 200 |

| | |
|--|-----|
| Joking about Market Efficiency | 200 |
| Risking Returns | 202 |
| Looking at the trade-off between risk and return | 202 |
| Diversifying to maximize returns and minimize risk | 203 |
| Considering risk aversion | 205 |
| Measuring risk | 208 |
| Optimizing Portfolio Risk | 212 |
| Reaching the efficient frontier | 213 |
| Innovating risk management | 214 |
| CHAPTER 16: Financially Engineering Yourself | |
| Deeper Down the Rabbit Hole | 217 |
| Making Securities Out of Anything | 218 |
| You can securitize everything | 218 |
| Slicing securities into tranches | 219 |
| Splicing Hybrids | 220 |
| The mixed-interest class of hybrids | 220 |
| Single asset class hybrids | 221 |
| Indexed-back CDs | 222 |
| Bundling Assets | 222 |
| Pass-through certificates | 223 |
| Multi-asset bundles | 223 |
| Unbundling | 224 |
| Exploring Exotics | 224 |
| Options | 225 |
| Swaps contracts | 225 |
| Loans | 226 |
| Engineering Finances | 226 |
| Moving into Computational Finance | 228 |
| Changing the face of trading | 229 |
| Banking from beyond | 230 |
| Building quantitative algorithms | 230 |
| CHAPTER 17: Weighing Capital | 233 |
| Calculating the Cost of Capital | 233 |
| Measuring cost of capital, the WACC way | 235 |
| Factoring in the cost of debt | 235 |
| Looking at the cost of equity | 236 |
| Dividend policy | 237 |
| Choosing the Proper Capital Structure | 240 |
| PART 5: FINANCIAL MANAGEMENT | 243 |
| CHAPTER 18: Assessing Financial Performance | 245 |
| Analyzing Financial Success | 245 |
| Using Common-Size Comparisons | 246 |

| | |
|---|------------|
| Vertical common-size comparisons | 247 |
| Horizontal common-size comparisons | 248 |
| Cross comparisons | 250 |
| Performing Comparatives | 252 |
| Comparison over time | 252 |
| Comparison against the industry | 254 |
| Determining the Quality of Earnings | 256 |
| Accounting concerns | 256 |
| Sources of cash flows | 258 |
| Assessing Investment Performance | 260 |
| Conventional evaluations | 260 |
| CHAPTER 19: Forecasting Finances | 263 |
| Seeing with Analytical Eyes | 264 |
| Collecting data | 264 |
| Finding an average | 266 |
| Measuring distribution | 267 |
| Calculating probability | 269 |
| Viewing the Past as New | 270 |
| Finding trends and patterns | 271 |
| Looking at regression | 272 |
| Seeing the Future Unclouded: Forecasting | 274 |
| Using statistics and probability | 274 |
| Using reference class forecasting | 276 |
| Evaluating forecast performance | 276 |
| CHAPTER 20: Getting the Deets on M&A | 277 |
| Dissecting M&A | 277 |
| Diversification | 279 |
| Geographic expansion | 280 |
| Economies of scale | 280 |
| Economies of scope | 281 |
| Vertical integration | 281 |
| Horizontal integration | 282 |
| Conglomerate integration | 282 |
| Elimination of competitors | 282 |
| Manager compensation | 283 |
| Synergistic operations | 283 |
| Moving Beyond the M and the A | 284 |
| Mergers | 284 |
| Acquisitions | 285 |
| Buyouts | 287 |
| Factoring | 287 |
| Joint ventures | 288 |

| | |
|---|-----|
| Partnerships | 288 |
| Licensing agreements | 288 |
| Hostile takeovers | 288 |
| Divesting Is Investing | 289 |
| Measuring What a Business Is Worth to You | 290 |
| Future cash flows | 291 |
| Control premiums | 291 |
| Company worth by comparison | 292 |
| Cash-flow evaluation | 292 |
| Measures of market share | 293 |
| Financing M&A | 293 |
| | |
| PART 6: THE PART OF TENS | 295 |
| | |
| CHAPTER 21: Ten Things You Need to Know about International Finance | 297 |
| There's No Such Thing as a Trade Imbalance | 298 |
| Purchasing Power and Exchange Rates Are Different Things | 300 |
| Interest Rates and Exchange Rates Have a Muddled Relationship | 300 |
| Spot Rate Isn't the Only Type of Currency Transaction | 302 |
| Diversification Can't Completely Eliminate Risk Exposure | 303 |
| Cross-Listing Allows Companies to Tap the World's Resources | 304 |
| Outsourcing Is a Taxing Issue | 306 |
| Politics Complicate Your Life | 307 |
| Cultural Understanding Is Vital | 309 |
| Cryptocurrencies Come with Risk | 310 |
| | |
| CHAPTER 22: Ten Things You Need to Understand about Behavioral Finance | 313 |
| Making Financial Decisions Is Never Rational | 314 |
| Being Irrational Can Be Entirely Rational | 315 |
| Framing Affects Your Decision-Making Prowess | 316 |
| Making Sound Financial Decisions Involves Identifying Logical Fallacies | 317 |
| Getting Emotional about Financial Decisions Can Leave You Crying | 318 |
| Financial Stampinged Can Get You Trampled | 319 |
| Letting Relationships Influence Finances Can Be Ruinous | 320 |
| Satisficing Is Good Enough | 321 |
| Prospect Theory Explains the Improbable | 322 |
| Being Biased Is Human Nature | 323 |
| | |
| INDEX | 325 |

<http://www.pbookshop.com>