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Some recurring valuation mistakes related to financial modeling

1. Making assumptions in financial models that business entities earning a rate of return substantially higher than their cost of capital and growing quickly can continue this financial performance for a long time even when they do not have some kind of sustained competitive advantage.
2. Entering projected prices in financial models that remain above the long-run cost of production even when capacity is increasing in an industry.
3. Using information in financial models that relies on so-called independent experts, whether these people or institutions are credit rating agencies, large and reputable corporations, consulting companies that create very fancy models, experts speaking on CNBC or Bloomberg, famous finance professors, or former politicians.
4. Trusting financial model results where increasing returns are projected by management, but not recognizing that the projected returns come about only because the company is taking on increased risks.
5. Ignoring shifts in the cost structure and demand changes that can quickly render existing assets obsolete when developing risk analysis using financial models.
6. Putting faith in fancy, complicated, and innovative new financial paradigms when creating financial models.
7. Having confidence in contracts that may be well drafted by sophisticated lawyers but that do not make economic sense, and incorporating those contracts into financial models.
8. Inputting symmetrical upside case and downside assumptions into models when developing risk analysis without adequately considering differences in upward limits and downward exposures that create skewed returns.
9. Ignoring long-term trends in historic data and not understanding the value of long-term historic returns when evaluating financial projections.

SUBCONTRACTS INDIA – RAISING PROJECT FINANCE

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