Value Trap

Theory of Universal Valuation

by Brian M. Nelson, CFA

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Author Bio

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Before founding Valuentum in early 2011, Brian worked as a Director at Morningstar, where he was responsible for methodology development within the firm's stock and credit research department. Prior to that position, he served as a senior industrials securities analyst covering aerospace, airlines, construction, and environmental services companies. Before joining Morningstar in February 2006, Mr. Nelson worked for a small capitalization fund covering a variety of sectors for an aggressive growth investment management firm in Chicago. He holds a Bachelor's degree in finance (minor in mathematics), magna cum laude, from Benedictine University. Mr. Nelson has an MBA from the University of Chicago Booth School of Business and also holds the Chartered Financial Analyst (CFA) designation.

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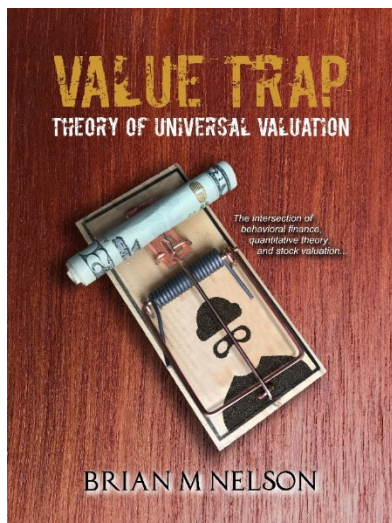
Book Summary

Wall Street doesn't know it has a problem. Index and quantitative investors have been free-riding on the backs of active managers for years, but growth in price-agnostic trading may finally have reached the tipping point.

The book is a response to many worrisome trends and processes in the investment management business today. The book strives to answer the question: what is the appropriate empirical evidence in evidence-based finance? Surely, not just any empirical evidence will do. The book is not meant to be controversial, but a discussion of the great contradiction of "explaining" stock return behavior between factor-based investing (which is based mostly on ambiguous, realized data within in-sample sets) and the efficient markets hypothesis (which is based on expectations of future data, realized or not) may make it so.

The book is heavy in behavioral thinking and puts forth enterprise valuation as a behavioral framework in which to view stock prices and their movements. This book also shows how enterprise valuation is much more than a simple stock valuation tool, but rather that enterprise valuation is truly universal valuation, resting at the intersection of behavioral economics, quantitative theory, equity valuation, and therefore finance, itself.

350 pages, including Preface, Notes, Bibliography, and Index.