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THE ESSENTIAL FINANCIAL TOOLKIT

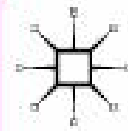
Javier Estrada

IESE  
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# THE ESSENTIAL FINANCIAL TOOLKIT

Everything You Always  
Wanted to Know About  
Finance But Were  
Afraid to Ask

Javier Estrada



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# **The Essential Financial Toolkit**

*Everything You Always Wanted To Know About Finance But Were Afraid To Ask*

**Javier Estrada, IESE Business School (Barcelona, Spain)**

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## **About the Book**

This book is designed to help executives and students get to grips with some of the basic financial tools, quickly and easily.

Whether you have never been exposed to finance at all, have learned some but not properly, or just need to refresh your memory, this engaging little book will soon have you up to speed with the fundamental concepts, enabling you to confidently apply them.

The ten, easy-to-read chapters are presented in a Question and Answer format, following the dialogue between a “Witty Professor” and an “Insightful Student.” The Student asks all the burning questions on your behalf and the friendly explanations are intended to make you feel as if you have the instructor right there in front of you.

No prior knowledge of finance is necessary in order to enjoy and benefit from this book – intuition and applications take the front seat, math and models the back seat. Essential tools such as mean returns, volatility, correlation, beta, P/Es, yields, NPV, IRR, and many others are illustrated in chapters that are short, engaging, easy to read, and illustrated with real-world examples.

## **About the Author**

Javier Estrada is Professor of Finance at IESE Business School, Spain. His areas of specialization are portfolio management, wealth management, investments, equity markets, and emerging markets. He is also a wealth management advisor at Sports Global Consulting, where he advises professional athletes on their investments.

## **PREFACE**

I have been lecturing executives in exec-ed programs for many years now. The audiences are almost always heterogeneous both in terms of age and nationality, and more importantly, in terms of background and training. Over time, I think I have learned to talk to the ‘average’ participant in a program, without boring those that know some finance, and without leaving far behind those that have little or no idea about it.

Part of the reason I have achieved this has to do with having provided participants with some background readings before the beginning of a program. The goal of the readings is to bring those without training in finance up to speed, which is valuable on at least two counts. First, those that do have some training in finance do not get bored with discussions of basic tools; and second, it liberates precious time to focus on issues more central to the program. The ten chapters of this book were born as independent notes written for these very reasons.

As it happens to many authors, after failing to find something that would fit what I needed, I decided to write it myself. And the characteristics I had in mind for the notes I was about to write were the following:

- ☞ They should be short; busy executives do not have either the time or the patience to read very many pages to prepare for an exec-ed program.
- ☞ They should be engaging and easy to read; otherwise, executives may start reading them but quit after a couple of pages.
- ☞ They should illustrate the concepts discussed with real data; most people do not find hypothetical examples very stimulating.
- ☞ They should cover just about all the essential topics; that would give me the ability to apply concepts such as mean returns, volatility, correlation, beta, P/Es, yields, NPV, IRR, and many others without having to explain them.
- ☞ They should answer many questions the execs would ask if I were discussing those basic topics with them; hence the Q&A format reflecting many of the questions I have been asked over the years when lecturing on those topics.

With these characteristics in mind I wrote a few notes and started assigning a couple before each program, and sometimes another couple during the program; and to my surprise and delight, many execs asked me for more. Many wanted similar notes discussing this or that topic not covered in the notes available, so I wrote a few more. Over time, I kept revising and hopefully improving all the notes. And finally, I thought it was about time to revise them one last time and compile them in a book, which is the one you are holding in your hands.

Many of these notes have also become useful to (and I think popular among) my MBA and executive MBA students. They find the notes short, easy to read, and instructive; and I again find them instrumental in freeing class time that can be allocated to other topics.

The chapters of this book do not assume or require any previous knowledge of finance; as long as you more or less remember your high-school math, you should be able to understand them just fine. Most of the topics discussed are basic and essential at the same time; a couple are a bit more advanced; and all of them are hopefully useful to you.

Each chapter is as self-contained as possible. The discussion in one chapter may occasionally refer to a concept introduced in a previous one, but it should be largely possible to jump into any chapter and understanding it without having read the previous ones. The appendix at the end of the book discusses some useful Excel commands, restricting the scope to those related to the financial tools and concepts covered in this book.

Writing a book may feel like an individual effort but that is never really the case. Without encouragement from audiences and potential readers; without their comments and suggestions; and without an additional pair of eyes double-checking the many numbers and calculations that go into the next ten chapters, this book would have not been possible. For these reasons, I want to thank all my MBA students, executive-MBA students, and participants in many and varied exec-ed programs. I also want to thank Gabriela Giannattasio for most efficiently checking every number, formula, calculation, and table in painstaking detail. And although this book would have not been possible without all this help and encouragement, I am obviously the only one to blame for any errors that may remain.

I both learned and had fun when writing this book. And I do hope you enjoy reading it at least as much as I enjoyed writing it. If you read this book, find it useful, and think it was worth your time, then it certainly will have also been worth mine.

Javier Estrada  
Barcelona, Spain  
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