Foreword

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Some ideas are so powerful, and yet so obvious, that when you hear them or read about them for the first time, your inclination is to whack your head and ask yourself why you did not think of them first. That was my reaction when I first read *Expectations Investing*, almost twenty years ago. I was familiar with the authors, having read Al's writings on shareholder value, bridging accounting and value, as well as Michael's research reports that blended psychology, statistics, and common sense to deliver new insights.

As someone who has worked in the valuation trenches for a long time, the book reframed the question of what a company is worth, from estimating value, given fundamentals, to backing out the fundamentals that are embedded in the market price. While there may be little difference mathematically between the two approaches, that reframing accomplishes two missions. The first is that it cements the link between fundamentals and value by linking what the market is paying for a company to what has to happen, in terms of operating success, for that price to be justified, and makes it easier to act on those assessments. The second is that it forces valuation down to the basics, since as Al and Michael show with their parsimonious models, there are only a few levers that drive value.

As I read the new edition of the book, it is clear that Al and Michael are writing a book for the times that we are in, with much more attention paid to disruption, and the value it creates and destroys, and user/subscriber platforms, which can be exploited for gain and thus provide optionality. The section that goes beyond discounted cash flow valuation to look at real options is a must-read for investors and analysts, since it provides not only a tool that can be used to augment intrinsic value but also practical ways of using it. While the Domino's Pizza example is an excellent illustration of the power of expectations investing in traditional value frameworks, the Shopify case study in the real options chapter can be a game changer if you are wondering how you should be valuing technology companies.

I noticed that the foreword to the first edition of this book was written by Peter Bernstein, a man who represented the very best of investment thinking and writing for many decades. I am no Peter Bernstein, but I believe that if he were still alive, he would be writing an even more enthusiastic foreword than he wrote then.