The concept of Value Investment.

Perhaps you know the concept of value betting when you are gambling. Now betting is just a kind of investment, so the concept of value betting should be appropriate for all kinds of investment. According to my opinion it doesn’t matter whether you invest your money in shares, currencies, betting or something else. At all places you make an investment and hope to make a profit.

I’m a great fan of value betting because the concept is rather easy to understand and it brings you money and profit if it is managed the right way. So I think the concept in general should be applied within any kind of investment. The concept only deals with two factors and you don’t need big computers to do comprehensive analysis with tons of data to manage the concept. Instead you can rely on your own interpretation and feeling for the situation. And here you can become almost equal to the investment gurus. Just bear in mind that before the worldwide financial crisis all the big investment houses around the world put their faith in these big complex analysis. And what did they get? A crisis and a downturn.

I don’t argue that the concept of value betting could have prevented the crisis, but I put questions to the relevance of these comprehensive analyses. I don’t think you shall increase the complexity of an analysis if it doesn’t bring you substantially better result. In this perspective it is better to keep to the simple - for instance work with the concept of value betting.

In the following I prefer the term value investment instead of just value betting. We are talking about investment in general and not just betting.

When making investments you only have two options – with or without risk. When doing without risk your risk turn from being a positive factor to be a negative one. A negative risk factor is the same as a sure profit and that’s why risk free investments are called arbitrage. It is a situation which suddenly occurs, so you are definitely sure to get more money back than you put in the single investment. You almost get your own money machine.

When your risk factor is positive you can’t be sure to get more money back than you put in the single investment. In situations like this you might profit sometimes and lose the other times. This rule goes for all investors – big or small – professional or amateur.

It is here the concept of value investment comes into action. If you make a loss in single investment you must try to overcome this through winnings in the subsequent investments. This sounds like fair talk because it is the same that counts for every kind of business. Your winnings or revenues must exceed you losses or costs. That is the basic recipe for a surplus.

The key aspect is that a surplus first comes after a longer period of many single investments. When making arbitrage you get a profit in each and every single investment because your risk factor is negative every time, but if it is positive you will experience losses in between.

Making arbitrage with a negative risk factor requires one approach to investment, while value investment with a positive risk factor requires a totally different approach. Arbitrage is just a matter of allocating your total amount, while making value investment you are working with your Strike Rate and Bottomreturn.

Actually you are working with a value function which sounds like this:

$$\text{Value} = \text{Strike Rate} \times \text{Bottomreturn}.$$

Let me explain the meanings of these expressions.

Strike Rate: This expression refers to the number of times you success when making a longer row of investments. If you make 100 single investments you might success - i.e. make a profit - in 60 of them while you make a loss in the rest i.e. 40 of them. Then your Strike Rate is 60 or more generally – the Strike Rate is the percentage of times you make a profit.

Bottomreturn: This expression refers to the forecasted return you might get in every investment. If you make a number of single investments the return varies up and down from time to time. Some returns are in the low area, some in the middle and some in the upper area.
You have to make a cut and decide a minimum level for the returns and only accept investments with a return above this level. This minimum level is the bottomreturn.

You need to express the bottomreturn in the right format. It is very important for the managing of the value function. The format to use is the same as the decimal odds within betting. The decimal odds expresses the gross return you get on your investment i.e. the return within your own investment amount. This decimal odds is simply calculated by dividing the gross return with the amount invested.

If you invest $ 100 and get let's say $ 220 back within your own $ 100 then the decimal odds is

$$220 / 100 = 2.2$$

If you invest $ 437 and get $ 927 back your decimal odds is

$$927 / 437 = 2.12$$

It is important that you make the calculations with the gross return and not only the net profit.

With these things in mind you now calculate your value and start to use the concept in your investment. If you have a Strike Rate of 60 and a Bottomreturn of 1.9 then your value is calculated as

$$\text{Value} = 60 \times 1.9 = 114$$

It is no task to calculate the value when the Strike Rate and the Bottomreturn are concrete. This is just a multiplication of the two factors. And the interpretation of the value is also rather straight.

If the value calculated is above 100 you are making a profit for all your investments.

If the value is below 100 you are making a deficit.

And if it is 100 you are break-even and you end up with a zero for your investments.

The calculated value tells you how much you get back every time you invest 100 of your currency. So if the value is 114 you get 114 back for 100 invested or 14 % more in return than you invested. The 14 % is your net profit.
If your value is 125 you get 125 back for 100 invested or 25 % in net profit.
And if it is 95 you only get 95 back for 100 invested and make a deficit in the long run. You get poorer day by day. So of course you go for a value above 100 and thus a profit.

As such the concept of value is easy understand. Just get a value bigger than 100 and you will make a profit in the long run. But on the other hand it is very difficult to manage in reality. The difficulties are with the Strike Rate. How do you manage it for all your future investments?
You can calculate your Strike Rate on basis of the last 100 investments. Let us say it is 60. But will this be your Strike Rate for next 100 investments? This is hard to say but you need a percentage for the Strike Rate to work with in the future in terms to forecast your value.

If you decide the decimal odds for your Bottomreturn to be 2.0 and you go for a Value of 120 then your Strike Rate must 120 / 2.0 = 60 for you to reach your value of 120. But you can’t be sure to success 60 % of the times for all your subsequent investments. If it is only 45 and your Bottomreturn is 2.0 then your value will only be 90 (= 45 x 2.0) and you make a deficit.

The central aspect is here that your Strike Rate will vary up and down for one period to another. You make a budget for your investment and from this budget you determine your Strike Rate in terms to meet the budget. But what if the Strike Rate is somewhat lower and you get troubles in meeting the budget?

This is a central problem in every kind of business. The budgets are too optimistic but nevertheless you need some figures for your management of the business. You need to have a target even though it is too optimistic. That is because the alternative is no budget or no target and thus no management – a scenario basically inconsistent with the concept of value investment where you go for a very concrete target.

It is easy to lose money but much harder to profit and it is easy to get a low Strike Rate but much harder to get a high one. So you can’t leave the decisions to make the single investments to a computer. Instead you must do the hard work and rely on your own interpretation and evaluation of each and every single investment. You must be disciplined, serious and patient in your choice of investments. You must get to know yourself in the role as investor.

In my e-book about professional gambling I have wrote a lot about the personal skills for successful investment. Please go and read my free e-book at www.investgambling.dk. In my book you can also read more about the concept value investment used within gambling and betting.

I think the concept of value investment is one of best concepts to use, when investment, making money and profit are on the agenda. It is simple with only few factors to handle so here you don’t need a big computer to analyze tons of data. And you will definitely profit if you follow the concept i.e. go for a value above 100.
So just keep to value investment.