

# The Choice of Valuation Techniques in Practice: Nature vs. Nurture

Lilia Mukhlynina  
University of Zurich

Kjell G. Nyborg  
University of Zurich,  
Swiss Finance Institute,  
and CEPR

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## Abstract

“There seem to be lots of academics asking how analysts in the real world use CAPM or calculate the cost of capital. The answer is, people don’t waste time on this. No one ever lost/made money because they calculated the WACC better than consensus. You academic [sic] guys are wasting your time.”

-A consultant

We use a survey approach to comment on three aspects of valuation professionals’ choice of valuation techniques. First, what are the most popular methods and how are they implemented? Second, what affects the choice of method? In particular, what is the impact of valuation experts’ profession (nurture) vs. their education level (nature)? Third, what are common mistakes? We find that valuation professionals use both multiples and discounted cash flows, with the details of the valuation approach differing across professions, but much less so across education levels. Furthermore, while there are systematic differences across professions with respect to valuation purposes, the purpose itself has only a marginal effect on the choice of valuation method. These findings suggest that there are cultural differences across subgroups of finance professionals that affect how they value firms and projects. The importance of the professional affiliation relative to the education level may also help explain why professionals implement particular methods incorrectly.