



PRESS RELEASE 3 SEPTEMBER 2015

About Time - How Discount Rates Shape The Future

Long Finance publishes a new report titled "[Uses and Abuses of Discount Rates: A Primer for the Wary](#)" by Dr Nick Goddard. The publication seeks to provide an overview of discount rates, their use and implications over time.

Discounted cash flow (DCF) and net present value (NPV) analyses have long been part of the financial analyst's toolbox. In order to use both tools we need to decide on a discount rate and use that discount rate in some exponential equations. Exponential equations lead in turn to infinities and are thus inherently problematic in a constrained world. The use of discount rate tools leads to conflict in values over time.

The publication most notably finds that:

- DCF analysis can be a blessing when used appropriately. DCF modelling cannot make the answer anything you want it to be, but can all too often make it anything you want it to be within one or two orders of magnitude.
- Getting the wrong discount rate accidentally can have a huge impact on the outcome. Similarly, it is often possible to get a desired outcome by deliberately choosing a discount rate that supports that outcome.
- Accidental errors are more accurately a misuse of discount rates rather than an abuse. Sometimes they give an answer which is both wrong and, *ex post facto*, turns out to have been convenient for one party in a transaction. However, whenever someone starts with the answer and works backwards to find the inputs needed to support that answer, then you are always justified in suspecting abuse. Like every tool ever invented by humans, from the flint knife onwards, discount rates can be used or abused.

Alderman Professor Michael Mainelli, Executive Chairman at Z/Yen and Principal Advisor to Long Finance said: ***Under discount rate assumptions, it is easy to argue that future generations will be richer than us and can pay for more in their future, so we can spend wantonly now. Or that something horribly expensive is really quite cheap if you make a very small change in the discount rate. Dr Nick Goddard does us all a favour with his short, easy-to-read primer. By making discount rates easier to understand he shows the utility, and potential for abuse, of these ancient tools over the long term.***

About the author - Dr Nick Goddard qualified as both a scientist and an engineer followed by ten years of experience in the oil & gas, power generation, aerospace and defense industries. He has worked in the City as an investment banker specialising in corporate finance and equity capital markets transactions for small technology companies. Nick then worked as an independent consultant advising on technology

Download the report



"Uses and Abuses of Discount Rates: A Primer For The Wary" September 2015

About Long Finance research

Long Finance research seeks to advance innovative thinking on a wide range of subjects taking a long-term view. The use of measurement in finance is one such area of interest. Find out more about [Long Finance research agenda](#).

Information for Editors

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commercialisation before joining in 2013 an engineering start-up company
in the energy sector.

This press release is produced by the Long Finance team at Z/Yen Group.
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