THE BASICS OF FINANCIAL MODELING

Jack Avon

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The Apress Business Team

This book is dedicated to the people through my life who have given me the insight and courage to persist with using computer technology and inspired me to reach for the skies. I would particularly like to thank my original mentor, the late Hugh Blake, who gave me so much of his time to show me where my future, and to Bill Gates, who has been an inspirational human being for most of life.

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About the Author

Jack Avon is the director and principal consultant at Isys Systems (Ringwood) Ltd., a financial modeling and analysis company in the United Kingdom. He has broad industry experience with integrating in-house systems with Microsoft Excel and Access and developing custom models and management information systems. Mr. Avon has consulted in financial modeling since 1997 and has worked with clients in banking, media, telecommunications, transportation, construction, oil, gas, and the public sector. He is the founder of the Association of Financial Modelers, has a background in finance and IT, and is an avid photographer. Mr. Avon lives in Surrey with his wife and three children.

Acknowledgments

I have been very fortunate to have worked and to continue to work with people from all walks of life and at every level of business; and, no matter where I go, I have found that financial modeling has emerged as a key business tool and that good financial modelers are increasingly being sought after.

Over the years I have made it my mission to get an understanding of the public perceptions surrounding financial modeling and of how people feel modeling can help them. The lasting impression I am getting from this mission is that much of modeling lies in the people. Whichever way one looks at modeling, it's all about the individuals within business. So much about what I know has come from individuals who have given me insights and information, warnings and help, without which my ability to model across several industries would not have been possible.

These people deserve my acknowledgement. Many won't know who they are, but I would specifically like to mention Rob Cotteril, Karen Faulkner, Colin Scragg, and Charles Scragg—all of whom hold a key to why I am here doing what I am doing.

I would like to thank the Apress team including Jeff Olson, Rita Fernando, Stephanie Carino, and Robert Hutchinson for all that they have done with and for me.

I want to thank my wife Jennifer, who continues to put up with my ranting about all things modeling with rapt interest; my eldest son, Luke, who did consider a career in modeling mostly to please his dad but has pursued a career that is more his nature; and my youngest children, Thandiwe and Nathaniel, who are still young enough to believe that financial modeling means their dad is the fastest man in world.

Introduction

This book is written from the perspective of a financial modeler and, even though the concepts may seem rather basic to the seasoned modeler, most of these concepts are the building foundations for any financial modeler.

It has been becoming increasingly evident in recent years that the demands—and therefore the requirements—of the financial modeler have been greatly expanded from the typical spreadsheet jockeys of yesteryear. The playing field has changed, and modelers are now seasoned professionals in their own right and come from areas such as accounting, engineering, and legal.

Modelers are expected to be commercially savvy as well as analytical. In addition, while modeling requires a certain amount of hands-on development, the modern-day financial modeler should also be comfortable with presenting and communicating to all levels of business. Your typical modeler today is not just someone who has a strong command of IT but also has other skills such as project management, change control, financial and commercial acumen, stakeholder management, and communication skills.

Finally, there is a presumption that modelers are highly skilled with Excel (and to some extent Microsoft Access, particularly for data analytics). Though touted as a spreadsheet application, Microsoft Excel is so much more. In the right hands, it's a serious development tool with very powerful analysis features. As the versions of Excel have improved since Excel 2000, it has become a respected development platform in its own right. Applications written using Excel are now often found alongside those written using Visual Basic for Applications (VBA) code, C++, .NET, and so on, as part of many corporations' core suite of business-critical applications. Indeed, Excel is sometimes used for the client end of web-based applications, made particularly easy with Excel XML import/export features.

If I had to select just one key takeaway to impart to financial modelers for your futures, it would be the indispensability of your acquiring the ability to work with and understand your co-workers and the wider public. There is a shift happening such that pure modeling is no longer enough. With all the information you gain from this book, you must realize that all your technical skill will mean very little unless you can combine it with engaging people. Do that and your career in modeling will take you to the higher echelons in a relatively short time.

My hope for you as you read this book is that you acquire an inside understanding of some of the aspects of modeling that will make you come back for more. I also hope that you become more aware of the numerous possibilities of how to model and don't feel restricted to following one methodology. Maybe along the way, as you read this book, you will begin to feel comfortable with starting to call yourself a financial modeler.