

IRR or Internal Rate of Return

Summary “Cheat Sheet” by MBAbullshit.com

- Rate of return is “how fast” you can get back your money after you invest it. It’s expressed as a percentage per year, forever.
- For example, if you invest \$100 and get back \$3 per year (forever), then your rate of return is 3% (Because \$3 = 3% of \$100)
- Internal rate of return is the same as rate of return, except it’s not so easy to figure out like in the \$3 example above. What if you get back \$3 on the first year, but another amount in other years? And what if it’s not forever?
- In this case, we figure out this “mystery” rate of return (a.k.a. internal rate of return) using the IRR or Internal Rate of Return Formula:

$$0 = CF_1(1+irr)^{-1} + \dots + CF_n(1+irr)^{-n}$$

DON'T panic! It's much EASIER than it looks. Watch tutorial video for free right now and download my free eBook at <http://www.mbabullshit.com> or [click here](#).)

- IRR is used to gauge how “profitable” a business is, taking into account the amount invested in a company or a specific project
- IRR can be compared to cost of borrowing money for capital (or other sources of capital). For example: if your company’s capital comes from borrowing money from the bank at 5% interest rate, then your IRR should be higher than 5%... if your IRR is only 3%, then you are losing 2% (because 3% IRR less 5% bank interest will leave you with negative -2%)
- IRR can also be compared to your alternative investment choices. Why will you do a business project and earn only 3% IRR... if you can instead invest your money in a bank’s fixed term deposit which earns 4%? You are missing an opportunity to earn an extra 1%.
- To learn IRR better, you’re welcome to watch our FREE video and download my FREE eBook at MBAbullshit.com
- See Infographic on next page:

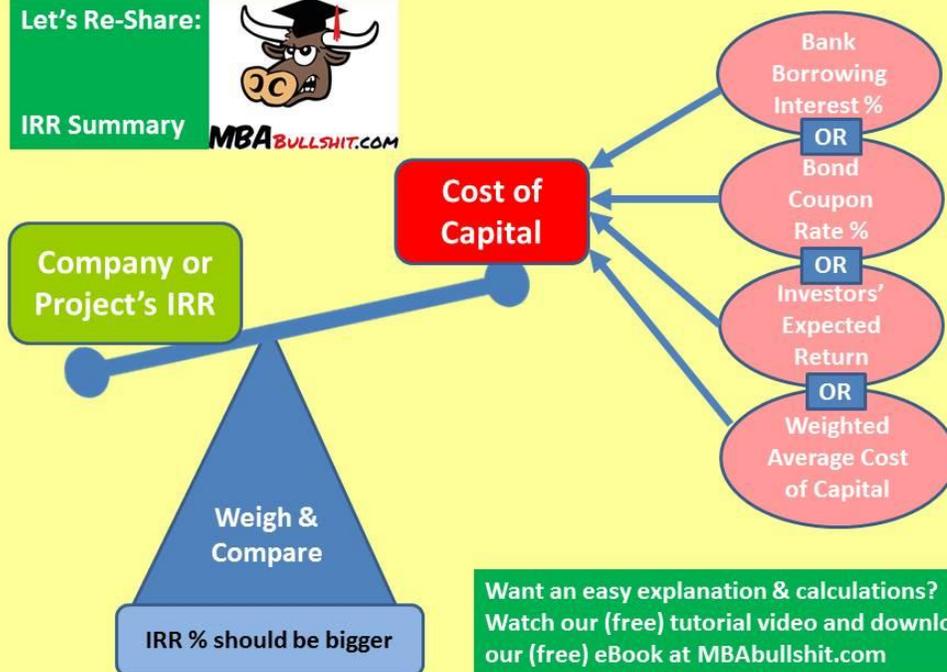
Internal Rate of Return vs. Cost of Capital

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IRR Summary

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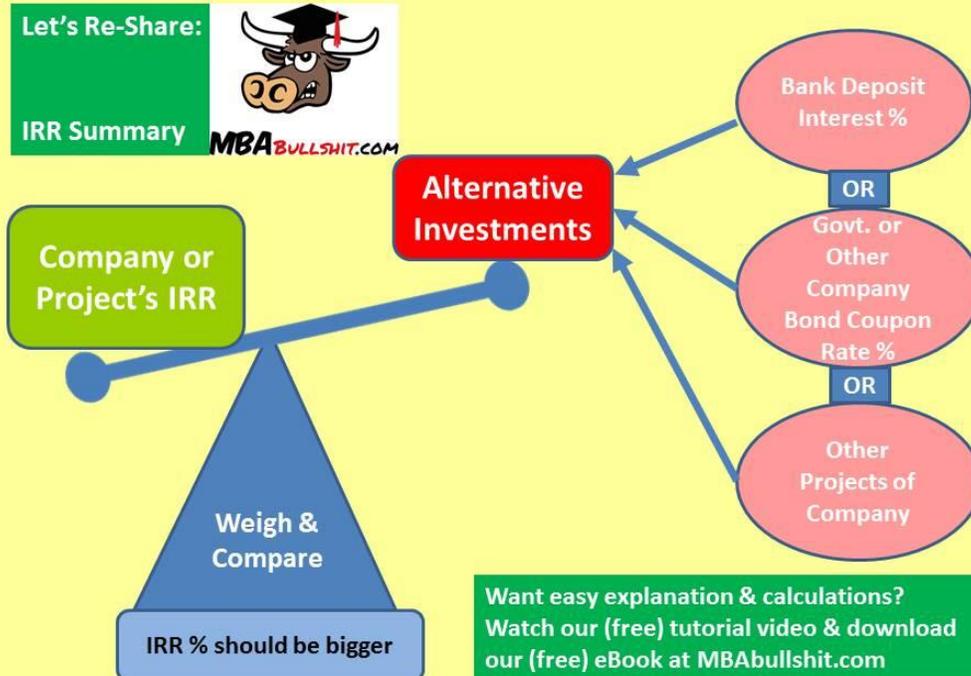
IRR Internal Rate of Return vs. Alternative Investments

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