

Market Timing

Remember Investor Sentiment rules the day

We would like to take this opportunity to thank you for your positive feedback and referral business. When you send someone to us that you think we can help, it is the ultimate compliment. Thank You.

Over the next few newsletters we wish to help you develop the behavioural muscles required for investment success. We will look at a bit of history and price activity so that you can appreciate the significance of investor's behaviour. It is Investor behaviour and sentiment that is the only common thread that runs through all market periods. While companies and economies change and evolve, investors always have the same emotional tools to contend with these experiences. That is why investor reaction to the bombing of Pearl Harbour differed very little from the investor reaction to 911. Fear, disbelief and despondency were exactly the same.

Let's start with what the market really is. The securities market on the surface looks complex and chaotic, however it is nothing more than a glorified auction house. Buyers and sellers come together to deal or barter in anticipation of future profits or losses on the underlying companies their shares represent.

Most interesting about market activity is the wide swings in the perception of value that investors have. These swings in value are exacerbated because companies traded in the markets release their earnings retrospectively in three-month increments. This leaves investors always guesstimating as to the value of their shares. They are left to their own devices to fill-in the value gap. This leaves us increasingly susceptible to talking heads or media stories with little fact and lots of spin. If investors were more rational beings, the markets would be less volatile, but would afford less growth. It is the wide swings that present us market timers with opportunity.

Any news stories that compliment or detract from a company's value are quick to receive a dose of mental or theory based accounting. As such share prices will find a new "fair value" based on this subjective foundation. The subjective value implied for anything traded in the market is a moving target and always changing with the expectations and sentiment of the market participants.

The sooner an investor realizes that company shares rarely trade at their enterprise value the sooner they come to realize the importance of capturing and monitoring the largest single influence in securities markets. SENTIMENT.

p.s we enclose a copy of a recent editorial that appeared on us in Good Life Magazine, just in case you missed it.

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