

The Stock Market, Bull, Bear Or A Number Of Independent Companies

We often talk about markets as if they had a life of their own. Truly, it often seems as if they do. When you watch your investments grow during a bull market, or lose value during a bear, it seems as if these are what determined the value of our investments.

Of course, we know different. While in the short run these market trends can influence our investments, in the long run it is the real value of the underlying security that sets the price. Actually, when you think about it, the market is just the overall effect of a number of transactions for a number of securities. Each one influenced to some extent by what the overall market is doing, but ultimately, each transaction is a result of a single negotiation for a single security.

As long as there is a seller who believes that the price is high enough, and a buyer who believes that the price is low enough, you can have a transaction. If you base your value on the market, in the long run, you are at a disadvantage, because you are buying a trend, rather than a real underlying value. Alternatively, if you base your value on a sound analysis of the underlying security, you have an advantage over those who do not, because you know what the security is really worth to you.

This is why many of the most successful investors use a value approach to investing. They want to be buying quality and to get their moneys worth. So they value a security and continually reevaluate it. When the market price is good, based on their valuation, they purchase it. Then they hold on to it, until they find a better bargain for a security that they want more. The same also goes for some of the best growth investors. They value the security too, but they concentrate more on shares that they believe have good growth potential, and they consider that growth potential in their valuation.

So enjoy the bull market, but remember that it does not really have a life of its own, and in the long run the quality of the securities you choose will have the most impact on your investment returns.