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Introducing Mr. Market

The height of folly was reached in the spring of 2000 when the NASDAQ Index climbed past 5000. Numerous experts predicted ever-higher highs. Their optimism was on par with that of Buzz Lightyear in the movie *Toy Story* – "To infinity and beyond!"

With these recent market fluctuations in mind, it is timely to re-tell a story by Benjamin Graham. Graham is considered to be one of the greatest investment thinkers of all time. He was also a great investor. Graham introduced the "Mr. Market" parable in *The Intelligent Investor,* first published in 1949. Some things in life, fear and greed being two, seem forever relevant.

> Imagine that in some private business you own a small share that cost you $1,000. One of your partners, named Mr. Market, is very obliging indeed. Every day he tells you what he thinks your interest is worth and furthermore offers either to buy you out or to sell you an additional interest on that basis. Sometimes his idea of value appears plausible and justified by business developments and prospects as you know them. Often, on the other hand, Mr. Market lets his enthusiasm or his fears run away with him, and the value he proposes seems to you a little short of silly.
>
> If you are a prudent investor or a sensible businessman, will you let Mr. Market's daily communication determine your view of the value of a $1,000 interest in the enterprise? Only in case you agree with him, or in case you want to trade with him. You may be happy to sell out to him when he quotes you a ridiculously high price, and equally happy to buy from him when his price is low. But the rest of the time you will be wiser to form your own ideas of the value of your holdings, based on full reports from the company about its operations and financial position.

Graham's story teaches us how to look at the stock market. The stock market is like a fickle partner who, at times, is emotionally unstable and inadequate at placing reasonable values on stocks. The intelligent investor knows this and takes advantage of the stock market rather than allowing the stock market to take advantage of him.

The difficulty is that Mr. Market determines stock prices. As long as the majority of investors decide to place irrationally high or low prices on certain stocks, prices will remain irrationally high or low. Therefore, the prudent *investor* must remain patient. He must stick with his calculation of a company's value based on its "operations and financial position," knowing that Mr. Market does not stay overly happy or depressed forever.

The *speculator*, on the other hand, attempts to read Mr. Market's mood swings. He sells when he thinks Mr. Market is about to swing from extreme optimism to pessimism, or vice versa. We do not

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take this approach at Alpine since we have no idea when Mr. Market's mood will change. By the same token, we have nothing against speculating, as long as it is done knowingly.

The problem with the recent speculation is that many investors, professional and amateur alike, didn't know they were speculating – they were buying high-priced stocks without understanding the risks. Their surprise at the recent decline was telling. *The real shock was how high stock prices had risen, not how far they have since declined.*

These unwitting speculators thought they were *investing*. The rationale was enticing: the New Economy, unlimited market potential, untold efficiencies and profits . . . the stuff of Mr. Market's dreams.

If the professional investment community had espoused the principles established by Benjamin Graham, more investors would be sleeping as soundly tonight as they were last spring.

Nick Tompras
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