How's the Market

Even among seasoned investors, the market is such an inclusive term it defies convenient definition. Yet it is bandied about like "the weather" which at least tells us if we need an umbrella.

Talking about the market is rarely useful. First, the term needs clarification as to a time period like this instant or the outlook for the rest of the month. It also needs to be specific about the market segment referred to, such as stocks, bonds, futures or just my investments.

Despite this vagueness, investors keep asking each other about "the market." Sometimes, it's just another way of saying "What's new?" or "How do you feel?" The reply to the question might be negative, or even unacknowledged. On the other hand, sometimes it elicits the unexpected, like a full portfolio summary.

The point is, it always bothered me when someone persisted in talking about "The Market". I sensed immediately that the likelihood of useful information being exchanged was slim. Or worse, that dangerous misinformation would soon be dispensed.

In the 1920s financier Bernie Baruch asked J.P. Morgan what the market was going to do. Morgan's unhelpful but accurate reply was that it would fluctuate. In other words, it is a mistake to think of the market as a definable entity like something that is subject to Petri dish analysis or demonstrates mechanistic predictability. The many tables and charts describing market activity in detail only sometimes indicate a probability or even a marginal likelihood. Market activity can also mislead by failing to discount a geopolitical or corporate event. At its most basic, financial markets are a partially regulated mob whose individual members are anything but singularly motivated.

Primarily, financial markets are the mob's current assessment about the future. The financial markets do not have an Adam Smith invisible hand. Future prices are determined by a continuously responding to the flow of information, opinions and feelings. Like the weather and human nature, the market evolves creatively, somewhat predictable in the very short term only. Given enough years, even some of the most fanciful market predictions may come to pass.

Along with some familiarity with investment jargon, how can the investor better spend her time preparing to invest? I have only one explicit observation: making an investment decision all by yourself is usually a mistake. Every investor needs to discuss her idea or strategy with a knowledgeable friend or investment professional. Full discussion is a must: Why are you doing this?

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What do you hope to gain? The guy who suggested that is an idiot. Do you really want to lock up that much money for ten years? Might you think about a course in option trading before you buy a straddle? My uncle works there…he told me the CEO sold all his stock.

Of course, some investment decisions will result in losses. Investment wisdom comes with experience, and experience includes the occasional dose of humiliation. But even if investing is not always rewarding, it should at least be interesting. It provides a window to business trends and the world of public policy. And it may provide a reason to buy your groceries at Metro rather than Loblaws.

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