Profit from Inefficient Markets

When the stock market corrects as it has recently there are often profitable stocks to buy. When bad news hits the markets there is a tendency for all stocks to fall, even when the news may actually be good for a few. Here is where a wise investor can profit from inefficient markets. The efficient market hypothesis is that all stocks are fairly priced because the market has all relevant information. Our belief is that you can profit from inefficient markets because all too often the market as a whole needs time to catch up and misses valuable details. Investors who are successful over many years insist on understanding just what a company does to make money and what factors are in place to protect their investment in bad times. Knowing these things you can **invest your money** with a reasonable expectation of gaining a profit.

Fundaments versus Market Sentiment

The basics are what drive stock prices in the long run. But, investors and stock traders are constantly analyzing and buying or selling. This collection of effort serves to drive prices up and down as it approximates the fundamental value of a given stock or market index. The plain fact of the matter is that investors and traders get greedy and get spooked depending on whether the market is rising or falling. Those who seek to stand aside from the hype and psychology of the market are often referred to as contrarians. They are not being contrary to the basics of investing but they are often being contrary to prevailing market sentiment. By using careful technical and**fundamental analysis** these individuals profit from inefficient markets.

Investing versus Playing the Market

In the heady days of the stock market running up to the 1929 crash and subsequent Great Depression it was common to say that one was playing the market. The idea was that stock investing was like a trip to the casino and when the market was going up it was like you were on a roll and could never lose. When the market fell and kept felling many lost everything. Those, however, who understood that fundamental analysis was the basis of profits in the market got out before the crash and came back in to buy stocks at discounted prices. These folks were able to **make money investing** even during the worst days of the Great Depression. Subsequent to the market crash that led to the Great Depression Benjamin Graham introduced the concept of intrinsic stock value. Using the Graham formula for calculating the intrinsic value of stocks investors could readily profit from inefficient markets. The Graham formula basically tells us how rationally priced a stock is. When the intrinsic value of a stock is lower than its market value one buys and when its intrinsic value is higher than the market value one sells. The point is that the return on investment of a stock is tied to its intrinsic value. One can profit from inefficient markets by using the intrinsic value formula as the eventual stock price will gravitate to the intrinsic value.

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