Market Dynamics

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Performance Management System

The Stock Market Is Efficient And Only The Fundamentals Determine Stock Prices

Portfolios heavy with under-performing stocks almost never outperform the market.

Ignat's Law

"Stocks are manipulated to the highest point possible and then sold to the public on the way down."

Reminiscences of a Stock Operator." By Edwin Lefevre

About Jesse Livermore

A collection of recent newsletters is available on the web site.

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The popular notion that the stock market is efficient and only changes in a company's fundamentals will affect the stock price seems like a academic pipe dream. The experience of the past three years seems to totally debunk this academic fantasy. When looked at carefully, it becomes clear that many factors can affect stock prices besides the fundamentals.

First of all, the fluctuations of the overall market can cause stock prices to swing back and forth, sometimes dramatically as in 1987 and late 2008. These fluctuations may have nothing to do with the fundamentals of the individual company. Most stocks went down because all the other stocks were going down. A stock market panic is not driven by the fundamentals of an individual company and it is more a response to mass psychology.

In times past, manipulation was a technique to drive stocks prices up and down. Those techniques are still well understood and probably used much more than the average investor would suspect. Planted news stories and rumors are still a factor in stock price movements. The modern financial media is not that concerned with the authenticity of the stories they report, they are more concerned with getting the story out first.

In today's market structure, it seems clear the Wall Street analysts have joined forces with their firm's trading desk and the big institutional brokers to stimulate activity in a stock. They intend to profit from the stock's rise or fall and they want their big institutional clients to profit as well. The recent stories in the financial media confirm the truth of this assertion. Just review the coverage of the Goldman Sachs "huddles" between analysts, the trading desk and the big institutional brokers. It should be understood that this is nothing new, it has been going on for years.

Stock prices are often driven by opinions and hopes. These are very subjective human reactions to events and to the market. Who knows why an analyst changes his opinion about a stock? Many times the best answer is that the analyst is responding to "social proof" and just following the crowd. The image of the disciplined and reflective Wall Street analyst breaks down just at the wrong time.

The record is replete with examples of big players taking a position and then promoting the stock to any and all who would listen. If you study the activities of big promoters and hedge funds you will see what I mean.

What is the investor to do? The long-term trend of relative performance usually renders a truthful indication of what is truly going on with the stock. Manipulators can stimulate an up trend in a stock but they can't hide the fact that the trend has turned down when the manipulation has been completed. This was true in the 1920's and it is true today. The manipulators hope to dupe the public into buying over-priced stocks. When the trend turns down, that is enough to tell the investor to end his involvement with the stock. It seems that there are very few investors today who fully understand how manipulation really works.

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