



## The Myth of the Stock Market Genius

In the first half of the 20<sup>th</sup> century B.B. – Before Buffett – the sage of the stock market was Bernard Baruch. He was an extraordinary investor, making millions by the age of 35, and he became a trusted advisor to presidents and other world leaders.

One of the rules Mr. Baruch offered investors is especially helpful today: “Don’t try to buy at the bottom and sell at the top. This can’t be done – except by liars.”

When stocks seem to be falling day after day, it’s tempting to put off buying even bargain issues. A cheap stock may get cheaper, and no one really likes the ego-deflating prospect of paying even a dollar more than what the ultimate low price proves to be.

But, as Mr. Baruch said, we *can’t know* what the lowest price will be. Fear and greed often get the upper hand of rationality, and there’s no way to predict the impact of these emotions on prices. If we become so afraid of paying “too much” for a stock, we’ll fail to buy real bargains when the market offers them, and our in-

vestment results will be much lower over time than they should have been.

The caricature of the stock market genius who knows when to get in and out does have its appeal. If we had such talent, we’d know the exact time to pick up bargains and could ride these to fortune. We could then spend our free time at the country club, alternately regaling an appreciative crowd with our latest coup and laughing at the poor schlubs who don’t have our knack for finance.

We even imagine, mistakenly, that some people really *do* have a gift for market timing. After all, when there’s a bear market, the media are full of stories featuring bearish experts, most of whom, we guess, were smart enough to sell at the market top. And when there’s a bull market, the

media are full of stories with experts who seem to have been fully invested when the market rose.

How is it that these people seem to know just what to do when we – or our investment manager (“*What am I paying him for, anyway?*”) – don’t know?

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This can’t be done – except by liars.”

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Well, here's the secret: These quoted experts can't really time the market with any consistency either.

The fellow who seemed an expert last year because he did so well in a bull market is not the same one now lauded for having seen a downturn coming. Yesterday's Master of the Universe hedge fund manager is today being forced to close his doors because of steep client losses. (So don't look for new forecasts from him until investors' memories of his real record have dimmed a bit.)

The myth of the stock market genius can be found even in the case of Mr. Baruch himself. In his day, he was thought to have predicted the Great Crash of '29, yet the record shows that he, too, lost a small fortune.

It's best to acknowledge in a forthright way, as Mr. Baruch did, what can and can't be done. We can't know what the highest or lowest price will be for the market or for a stock, but we *can* see when a stock is trading at a sizable discount or premium to a cool-headed appraisal of business value. We *can* buy bargain issues when a bear market offers them, and we *can* expect to generate good returns over time by doing so.

A downturn in the stock market is unsettling, but investors who act in a disciplined way can be well rewarded for the volatility they accept. Indeed, it's the very willingness to accept uncertainty that gives stock market investors the prospect of achieving higher long-run returns than they can expect from Treasury bills or certificates of deposit.

--Barry

