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"No Mas"

This feeling must be somewhat like playing against Tiger Woods in a major – you know you're going to take a beating – the only question is how bad.

How bad is bad? Try Standard and Poor's 500 down 26% from its peak last year, and the NASDAQ down and eye popping (gut wrenching) 66%.

What is happening? Where are all the raging bulls that expected stocks to keep sailing along with mid 20% annual appreciation? Those that haven't gone into hiding have fallen strangely silent. Brokerage firms that had issued strong buy recommendations when companies were at historical highs, won't touch them with a 10 foot section of fiber optic cable now.

Does this, as many have suggested, portend something extremely dire in our economy? I think not.

I just read a position paper titled "Stock Market Volatility – A Psychological Phenomenon?". The paper, written by David Barrett, was a compilation of five different studies by 4 researchers who had attempted to answer the question – why do stock prices move as dramatically as they do? The statistical Grail in this area of study is the Efficient Market Hypothesis (EMH). EMH theorizes that all known information (both public and non public) is priced into a stock at any given time. The formula computes the present value of the future earnings of the company to come up with its current fair market value. At the core of the theory is that the market is efficient and that you can't beat it in the long run.

The problem though is that stocks fluctuate in value *five to thirteen times more* than can be explained by EMH. This suggests that significant market inefficiencies do exist and are caused, more than anything else, by investor sentiment (read: emotion). Successful investors like Warren Buffet, John Templeton and Peter Lynch have always known that the time to buy (or hold for that matter) is when everyone is selling.

In the 1980's, the financial markets were dominated by professional investors (pension funds, institutional investors, investment advisors). Today the market is dominated individual investors. If you think people act irrationally with other people's money, you should see (scratch that, you have seen) what they do with their own.

The important thing to remember at times like these is that common stocks and the companies they represent are two different things. With Intel's 70% drop in stock price from it's 52 week high and Coca Cola's 33% slide, you'd think no one was ever going to drink a coke or buy a computer ever again.

The now famous phrase above was uttered by Roberto Duran in a fight against Sugar Ray Leonard. His words stopped the pain, but he'll never know how close he was to victory.