

#8 The market isn't always right

By Anton Tagliaferro | 05 October 2018



It
pays
to

challenge commonly held perceptions

At times when investing, one has to be cautious not to blindly follow the crowd. Commonly held perceptions can at times overwhelm common sense. The constant huge amounts of information that investors are now bombarded with every day – as discussed in [Lesson 3 which discussed information vs knowledge](#) – can often create the perception of what is worth investing in or selling – as opposed to the reality of how things actually are or will pan out.

One of the most extremes where this was the case in the last 20 years of when perception completely overtook reality was in the Technology, Media, Telecommunications (TMT) boom of 1999-2001. At the time the media and many broker reports were full of wondrous stories about how 'new economy' tech stocks such as Ecorp, Davnet, Solution 6, Sausage Software,

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Voicenet and One Tel were going to dominate in their respective sectors and create untold riches for investors. The same sources also belittled stalwarts in the market which at the time were classified as 'old economy'. Stocks like Brambles, Woolworths and Amcor. Investors at the time were led to believe that these well-established companies did not have much of a future and that they would be made irrelevant by the 'new economy' companies of the upcoming digital age.

Of course as we all know, the tech sector fell very heavily in 2001 with many of the above named companies – such as Ecorp and Onetel – ending up virtually worthless while real companies like Woolworths, Amcor and Brambles continued to remain very profitable companies and grow into much larger companies today than they were back in 2001.

In 2010 and 2011, during the Euro crisis caused by the default of Greek bonds we saw many global stockmarkets fall heavily as investors sold their shares on the perception that a default by Greece – a relatively small economy – would cause the Euro area to break apart and this would cause a world recession. At the time companies like Woolworths and Bunnings Warehouse Trust were also being sold down heavily in the rush by many investors to sell out of stockmarkets – but in reality what does Woolworths or Bunnings Warehouse Trust really have to do with the crisis in Greece?

The truth is the perception of a global crisis created a buying opportunity in companies far removed from the reality of the event.

Chart: Bunnings Warehouse Trust – down 20% during the European debt crisis but now barely a blip



Source: Morningstar Direct Date: 4 January 2010 – 31 December 2011

Only two years ago when the oil price plummeted to around US 30 dollars a



#6 Always look to invest in companies with a strong competitive advantage



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barrel, many commentators in the market were saying that the new shale oil discoveries in the US as well as the advent of the electric vehicle meant that the oil price would never again see prices of over US 50 dollars a barrel. Amidst all these gloomy predictions, most commentators at the time seemed to forget or ignore the well-known, strong growth in demand for oil from countries like China and India whose car and air fleets continued to grow pushing global demand towards 100 million barrels of oil a day. Many also seemed to forget at the time that while electric cars are a reality, they will in fact take many years, if not decades, to have any material impact on the global demand for oil.

Another similar period from the past where reality diverged significantly from commonly held perceptions was the 1980's. Entrepreneurs like Alan Bond and Chris Skase who acquired businesses mainly through debt funded binges were being heralded as new business leaders. The media proclaimed that many of these characters represented the 'new way' of doing business. Again a theme quite commonly accepted by many investors. The 1987 crash brought back a dose of reality.

Currently we are seeing many companies like start up techs, lithium stocks and milk companies perform extremely well in the Australian sharemarket as many chase and punt on the dream of never ending riches from these companies. In reality many of these companies are very risky ventures or often unproven concepts.

At these times, irrational exuberance often means that perception can take over from reality in markets. Often many long-term value investors – such as IML – who stick to fundamentals and only buy established companies that have real earnings, can struggle to keep pace with many high-flying sectors.

So the lesson for the long term investor is to ***always maintain a level head. Use common sense and balance and do not be afraid to question some of the commonly held perceptions in the market.*** This is particularly relevant in exuberant or in extreme moves in markets.

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