Avoid the Horror: Stick to Your Plan

The underlying value of a company isn’t always fairly reflected in its share price. Some stocks carry stratospheric price multiples when compared to their peers. And some trade at rock-bottom discounts.

There doesn’t always seem to be a ready answer for why companies with similar assets, similar business plans and similar potential carry such varying valuations. You can rest assured however, that there is one thing driving all of these discrepancies, supply and demand.

Twenty years ago, I wrote that there are short, medium and long-term influences on share prices that have little to do with company fundamentals. But these forces do affect supply and demand. Here’s how I explained it back in 1998:

> ***More Buyers Than Sellers****. This is the basic reason that stocks go up rather than down. It is useful to gauge supply and demand, short and intermediate term, as well as long term. Short term, I like the first quarter of the year for its especially favorable supply/demand fundamentals. Every pension plan owner wants to fully fund his program in the first quarter in order to take advantage of a full year of compounding. It only makes sense to get your money working as fast as possible. Intermediate term, I like the supply/demand kicker of pre- and presidential election year politics. The pols do not want to rock the boat in the year leading up to and the year of a presidential election, and they sure as heck don’t want to ignite a recession (a killer for stocks). The old phrase, “It’s the economy, stupid!” packs a mean wallop in presidential elections. Long term, I am impressed with the power of baby boomers’ savings. I have written before about*

> *the excellent number-crunching PaineWebber's Ed Kerschner has done on this subject. It's the best I've seen. Ed expects that individual investors will continue to be big buyers of stocks. "This could represent $25 trillion incremental market value over the next 15 years, truly big bucks when you consider that the value of the equity market is about $13 trillion today." I like the long-term supply/demand picture for stocks.*

Don't allow the ups and downs of oscillating supply and demand for stocks affect your investment decisions. Stick to your plan of patient compound interest generation and you will undoubtedly avoid the horrors of trying to chase performance through short, medium, and long-term cycles.