Market Dynamics

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Performance Management System

A Voting Machine

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

Ignat's Law

"In the short run, the stock market is a voting machine but in the long run it is a weighing machine.

Benjamin Graham

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It is useful to consider what the father of security analysis actually meant when he said, " In the short run the stock market is a voting machine…"

Investors in a stock are casting votes with their dollars for and against the stock every time a trade takes place in the stock market. The desire and urgency to vote one way or the other produces changes in the price of a stock. Over time this voting process may produce a trend in the price of the stock. If the voting process is evenly balanced, there may be no trend in the price of the stock. The trends in stock prices are a very important source of information about the expectations of investors in that stock.

Some would say that the outcome of this voting process is meaningless and tracking the voting process with a chart of the stock price is a waste of time. I think Graham would disagree with that conclusion.

Ben Graham also said that, "...in the long-run it is a weighing process." The accumulated result of the short-term voting process will eventually come to the correct answer about the true value of the stock and price it correctly.

It is extremely important for investors to be aware of the voting process and how it is evolving. New information entering the market can change investor's expectations and affect the way they are willing to vote. In some cases, the new information may make the majority of investors unwilling to vote at all. The accumulated trend of the stock price shows how investors are voting. The investor may not know about the details of the new information but he knows how it is affecting the voting process and how expectations are changing.

The minor squiggles produced by the short-term voting process are not nearly as important as the result of the weighing process. The long-term trend shows the outcome of the weighing process and this is what investors need to know. This is best revealed by a long-term chart of the stock price. The long-tern data used to produce a price chart can be converted to a long-term chart of relative strength to achieve an even more effective insight into the weighing process.

Experience shows that business conditions and the stock market are constantly changing so investors should not expect the outcome of the weighing process to produce a constant output. The weighing process itself is constantly changing so the result is never static. Long-term trends are constantly moving up and down to reflect this changing process.

The long-term investor should concern himself with the output of the weighing process. This will allow the portfolio to constantly adapt to changing conditions and keep the portfolio fresh. The investor should always be willing to modify his expectations about a stock as the results of the weighing process dictate. A short-term speculator can concentrate his attention on the short-term voting process but long-term investors must be more concerned about the outcome of the weighing process and how it is changing. Experience shows that the weighing process is always dynamic and the long-term charts provide the critical insight into how the outcome of that process is changing.

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