Voting Machines and Weighing Machines

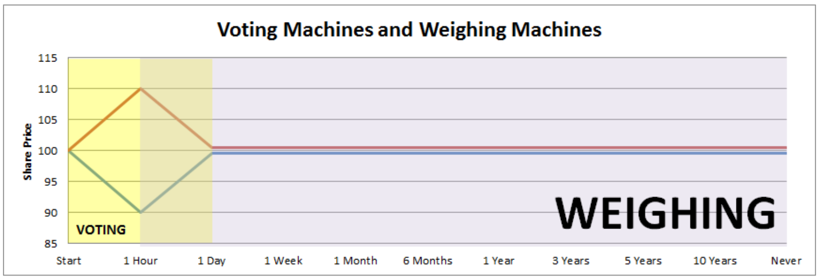
Ben Graham is famously attributed[1] for stating that the market was a voting machine in the short term, but a weighing machine in the long term. By that, I believe he may have meant that psychology and emotion can sometimes cause Mr. Market to overreact or underreact to fundamental (or other) information, thus affecting a share price, but that eventually, the fundamentals win out.[2]

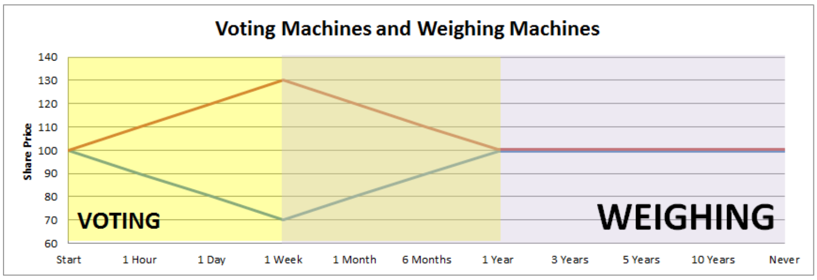
We 100% agree with this, but admit there is a wonderful debate to be had about when "eventually" arrives.

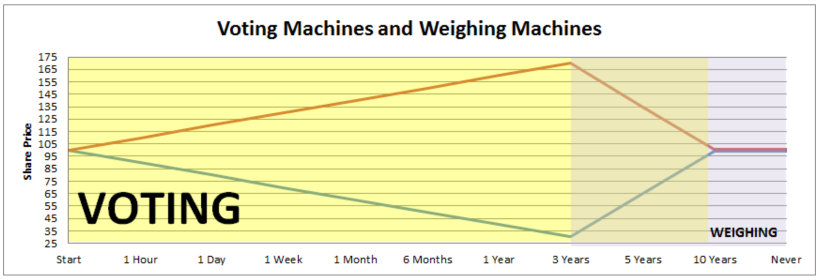
Our guess is that "eventually" varies over time. In some market regimes, "eventually" is just a few days after the market overreacts to something, whereupon the stock regains its fair equilibrium. In others, narrative(s) can dominate a story for much longer. Might it take a week for Mr. Market to make things "efficient" again? Or maybe a year? Longer?[3]

I was lucky enough to study under Merton Miller before he died (yes I am old). Mert would accept there was a voting machine for about five minutes, and even then it was a big "maybe". He called it "price pressure". On the other end of the spectrum, I have a very smart friend (hi Ben) who thinks reconciliation of fundamentals to price never happens. He thinks the market is a voting machine, forever.

While I disagree, but will concede that it can take a lot longer than I originally thought. Yet I also believe that the answer can change. So it is up to us as investors to figure out which regime we are in.







[1] *Graham never actually wrote this, however, in either Security Analysis or The Intelligent Investor. He only refers to voting machines, in fact he states (twice!) that the market **is not a weighing machine**. However Warren Buffett says that Graham believed it eventually was a weighing machine, and Jason Zweig states that Buffett said that Graham used to often given the "voting vs. weighing" comparison in class.*

[2] *Graham said a lot of other great things about psychology, emotion, and behavioural investing, too: https://www.albertbridgecapital.com/drew-views/2018/9/3/the-grandfather-of-behavioural-investing*

[3] *Yes we are aware of the typical one month and three year overreaction windows in behavioral finance, as well as the intermediate term 12 month underreaction windows. That isn't what we are talking about here, or at least it isn't precisely. Here we are talking about (let's call them) "equilibrium regimes" where the disconnect between fundamentals and valuation are reconnected, sometimes sooner, sometimes later.*

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