



3. Price Analysis

“In the financial markets, a collective human bias renders a decision. This decision takes the form of price on an electronic quote machine, or at the post of a global exchange. Price influences other participants and then they make decisions according to the prevailing market trends. Price, therefore, plays a profound role in shaping the future outcome for many events (in the global stock markets).”

—*J.C. Coppola, III*

One of the most popular game shows ever to appear on daytime television was “The Price is Right.” Host Bob Barker asked contestants to guess the price of various items of merchandise. There were, of course, many opinions among the contestants of what the price ought to be. But the winner was the person who guessed closest to the actual price without going over.

Many investors view the stock market as a colossal game of “The Price is Right.” However, in the exchange markets, price originates from two separate parties agreeing to disagree. If I am buyer of a stock, it takes a second party willing to sell the same stock to commence the exchange. So what is this second party’s opinion of the stock I want to buy? Why would he desire to sell it? Obviously, he believes it is going down. Otherwise, he would not agree sell it. Meanwhile, I believe it’s going up, or I would not buy it. Thus, the seller and I disagree on the future outlook of the security, and that disagreement leads us to agree to exchange. This agreed-upon amount is called *price* in the exchange markets. Thus, price is a single point of agreement in a situation fraught with disagreement.

The Market’s Price Is Right

Whether one uses the term intrinsic, fundamental, or theoretical value, value is just that: theoretical. Value represents someone’s opinion. Price is truth. When intrinsic value does not equal market price, then that opinion is currently wrong. Price is the de facto belief of people. The collective knowledge anticipated by investors is manifested within price. Investors’ ever-changing beliefs are priced into the stock via their actions. All new data, analysis, and events are constantly and efficiently “priced into the stock” as investors respond to these events and speculate about their consequences. As a result, all fundamental data, economic data, and any combination of financial or economic ratios lag price. No matter how well a fundamental model is constructed, the fundamentals cannot help one determine when to buy or sell. Only volume and technically manipulated data (such as derivatives of price) have been demonstrated to lead price. Unlike fundamental or economic data, price datum is not subject to constant revisions.