



Advisor Views

A feature from **Eide Bailly Financial Services**. *Advisor Views* offers timely investment news and market updates designed to keep you informed, while enhancing your overall investment experience.

None of Us is as Smart as All of Us*

From breaking ground to completion, it took a mere 410 days to construct one of the seven wonders of the modern world. The Empire State Building stands as perhaps the greatest example of what can be achieved when a group of diverse individuals combine their knowledge to maximize efficiency. Over 3,000 architects, masons, steelworkers, electricians, skilled laborers, and more all worked in conjunction to construct the mammoth building. Independently, they were incapable of completing such a monumental task, but collectively they forged an amplified wisdom that made a remarkable feat possible.

The functionality of financial markets, like any market, is similarly predicated on a meeting of the minds which creates an environment where judgments are made based upon the perception of value. For centuries, market efficiency has been the fundamental principle at the heart of human tendencies for exchange. It is a concept that has been vindicated, challenged and vindicated again. So what makes markets efficient?

At any given time, it's possible that a single individual acting independently can display naive judgment. It's not to say that a group can't, but we would suggest that the likelihood is reduced, considering the broad collection of knowledge. Capital markets work much the same way. Millions of participants make judgments through the active buying and selling of companies based upon information that freely flows from sources too numerous to mention. What this signifies is that, at any moment, the current price at which a security is trading is likely a pretty good estimate of what that company is worth.

If the best answer to a question is more likely to come from within a crowded room, than theoretically, the bigger the room - the better the answer. When it comes to information, the rule of thumb is usually: more is better. The wisdom of many supersedes the wisdom of a few. Consider the scenario of shopping for a new computer – a purchase that would typically require some due diligence. Like most individuals, you would probably begin by collecting information, asking your friends and family for input, and scouring the internet for consumer reports and product ratings. When a satisfactory level of information had been gathered, a selection would be made. Hundreds, perhaps thousands of varying viewpoints may have been taken into consideration. Ultimately, significant amounts of supporting evidence were required to make the most efficient decision on which computer to purchase. Information is the key ingredient, and these days it moves at a staggering pace.

THE POWER OF PASSIVE FOR YOU

With respect to the financial markets, they don't trade in yesterday's information, or even today's. They are forever looking toward the future, trading based on what they believe is tomorrow's perceived value. Collectively, the judgment of the masses is hard to beat. However, let's say an investor was feeling confident enough to attempt to identify a random mispricing. First, what are the chances that the investor knows something that millions of other people don't? Second, if they thought that they did know something, what are the chances that the information isn't outdated and hasn't already been incorporated into the current price of the stock? If reasonable doubt exists, then it is logical to suggest that the information may be insufficient.

None-the-less, there have likely been occasions when an individual did know something that everyone else didn't. Generally, what happens on these occasions is the person with the information acts upon it. Word spreads, others act, and the impact of the information becomes less and less relevant.

In the 24 hour news cycle that we live in, it's hard to keep much of anything a secret. Once upon a time, people relied solely on word of mouth commentary and newspapers to gather information. Today we have access to breaking news in the palm of our hand. Information has never been so abundant and readily available. Collectively, our interpretation of that information empowers us to freely judge the value of the things we invest in, consume and utilize. The beauty that is market efficiency is the reflection of those interpretations.

*Source: "High Five! None of Us Is as Smart as All of Us" by Ken Blanchard, Shannon Bowles, Sheldon M. Bowles

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