Five reasons the stock market is just plain weird

Peter Hodson | February 19, 2016 2:22 PM ET

Markets have indeed been strange for some time now. Most investors are confused about whether to sell, or buy, or panic, or just go to cash and avoid the craziness. However, if you think more closely about things, you might come to the conclusion that markets are always strange. Investors and the market are just not … normal. Why do we say this? Let's look at five reasons why markets and investing are just plain weird compared with other industries:

1. **Investors/analysts try to predict the long-term future**

If I were a meteorologist, and I tried to tell you what the weather was going to be five years from now, you would simply laugh at me. If I told you who was going to win the Stanley Cup in 2022 (well, not the Maple Leafs) you wouldn't give my prediction the time of day. But stock analysts routinely create financial models to see where a company's sales and earnings are going to be years down the road. No, these predictions are not accurate, as you might have expected, but that doesn't stop investors from extrapolating on them and changing stock valuations based on these predictions. It doesn't seem to matter that these predictions are wrong: Investors act on them anyway.

2. **In investing, bad news is good news**

What's the best thing that could happen to markets this week? Well, no doubt the market would soar if there were some bad news from some key U.S. economic data. Say what? Yes, investors want some bad news, so the big old nasty Fed doesn't raise interest rates. Name another industry that actively cheers bad news. Strange, but true.

3. **When times are really good you should not participate**

We like to say: 'If you are not worried about anything, it is time to get out of the market.' That's right — when things are going perfectly you should worry the most. With perfect conditions stocks are going to reflect this, and be expensive, and destined for a fall. In most regular industries, workers want good conditions. Investors need something to worry about, so stocks can climb the 'wall of worry.' The more you are worried about, the better chance you have of investment success, because stocks will be very cheap under those conditions.

4. **Everyone is an expert**

If we tried (and we really don't want to) we could find you a dozen 'experts' who expect the market to rise sharply this year, and a dozen more who expect a giant crash. These are not dumb people, and you will find groups of investors who will follow their leads with portfolio decisions. Every stock trade, though, has an exact and equal opposite. If not, there would be no trading conducted. Most so-called experts are really just trying to sell themselves, or sell you something. Hundreds of studies have proven forecasts are almost always wrong, anyways.

5. **Companies run their business to perform for 90-day periods**

Successful companies plan for their long-term future. They think in terms of decades. In the market, though, no one cares about much except your next quarterly reporting period. What you do in the next three months drives your stock price, regardless of how solid your 10-year plan is. No other industry has such a short-term focus. Investors will punish harshly any company that misses their quarterly numbers. Many of the best companies, though, don’t play this game, and stick to the long term. These companies’ stocks generally get a lower valuation in the market. Weird.

So, next time you see some market activity that you can’t explain, don’t try to interpret it. It is just the weirdness of the whole industry, and nothing to worry about.