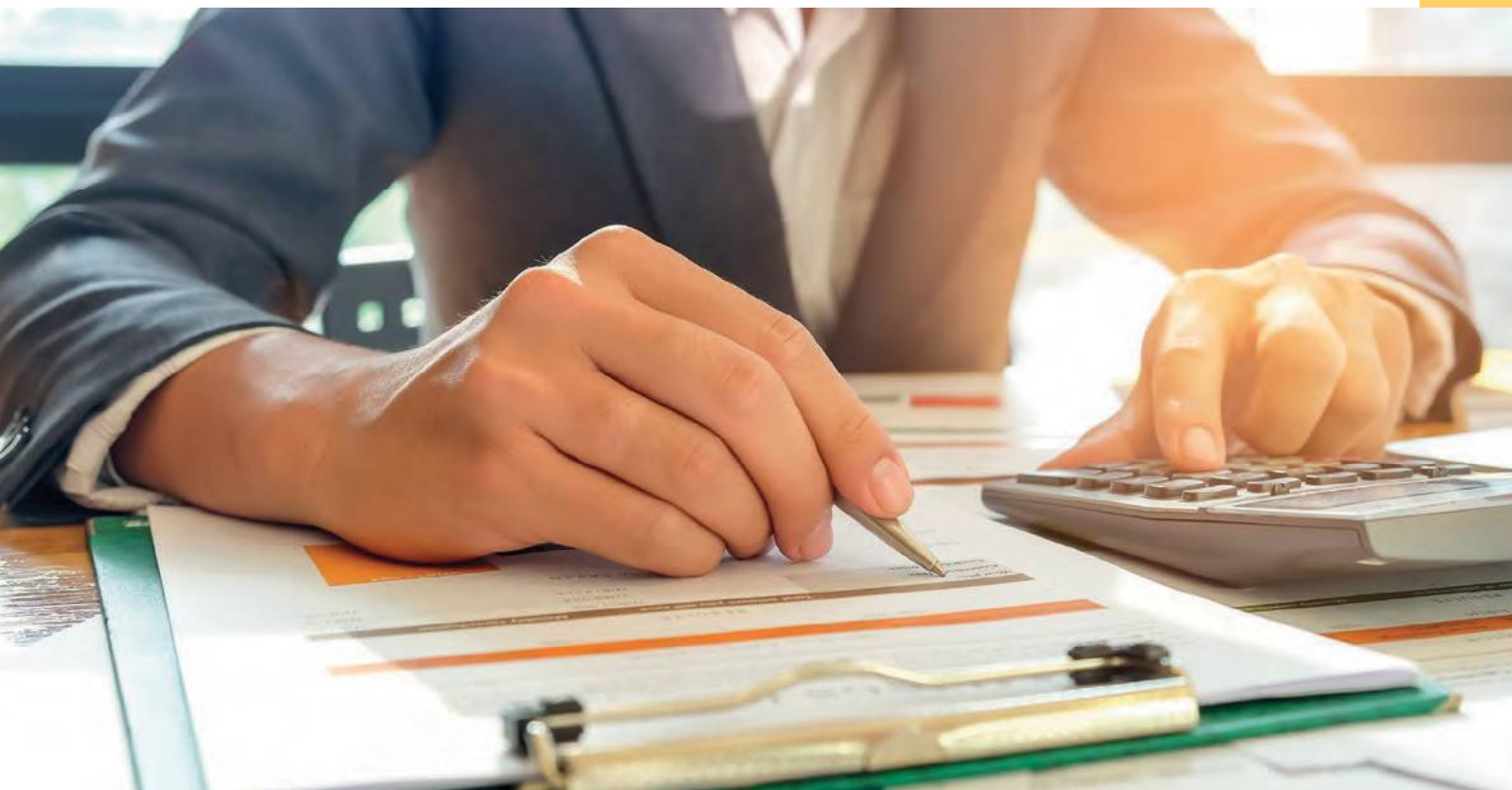




INCITO

WEALTH



Mr Market

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MR MARKET

The concept of 'Mr Market' is a useful analogy, as used by Ben Graham and Warren Buffett, two famous investors. This helps us to better understand share markets and provides useful guidance toward the aim of profiting from equity markets as opposed to falling victim to 'market psychology'.

Benjamin Graham in his book the Intelligent Investor (in 1949) used the term 'Mr Market'. This figuratively imagines the share market is a person, known as Mr Market. Buffett as a student of Ben Graham, has referred to this on more than one occasion, including in his annual reports to investors in the US.

To paraphrase the concept for your benefit, imagine Mr Market is a person who provides the ability to buy and sell a company with you. Unfortunately, Mr Market has incurable emotional problems.



At times he is euphoric and can only see favourable factors affecting the business and at such times names a very high price for you to buy the said company given the state of euphoria. At other times, Mr Market is depressed and can see nothing but trouble for the particular business and the world and is wondering in fact if the world will end. At such times, he will offer the same business at a very low price, as he is gripped with pessimism and fear. Now the economic fundamentals of this business may be very sound and stable from one day to the next, but Mr Market's quotations for the price of a share in the business will be anything but.

Ultimately, as Warren Buffett says, Mr Market has an endearing quality; he doesn't mind being ignored. If his quotation is uninteresting to you today, he will be back with another one tomorrow. Transactions are strictly at your option. Beware, Mr Market is there to serve you, not to guide you. Take advantage of Mr Market when it is of benefit to you, and ignore him when it is not. All the while, with an understanding and valuation of what the fundamental intrinsic value of the company in question is. In referring to this concept, Warren Buffett said, in his annual letter to shareholders in 1987:

"...[A]n investor will succeed by coupling good business judgement with an ability to insulate his/her thoughts and behaviour from the super contagious emotions that swirl about the marketplace. In my own efforts to stay insulated, I have found it highly useful to keep Ben Graham's Mr Market concept firmly in mind"



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