

# STEWARD

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## Back to the Investment Basics

### Part 4: The Price You Pay Matters

**I**n our last piece, we described our marvelous markets, and how to account for their being both robust and random at the same time. Today, we'll look at how stock pricing works, and why Nobel laureate **William F. Sharpe** was correct when he reminded us: "Asset prices are not determined by someone from Mars" (even if it may sometimes feel that arbitrary).

1. You can't invest if you haven't saved.
2. Markets are inspired by ingenuity, tempered by diversification.
3. **The price you pay matters.**
4. Patience is a virtue.
5. Investing is personal.

#### Random Numbers, Efficiently Arranged

Why is Berkshire Hathaway Inc.'s Class A stock (BRK-A) priced at more than \$600,000 per share as of February 2024? Why do other stocks trade for pennies on the dollar? Why did Meta's (META) share price drop by more than half during 2022, while Consol Energy Inc.'s (CEIX) more than doubled that year?

We caution against trying to predict a stock's next price based on the numbers at hand. But it helps to know those numbers are not drawn out of thin air. Both moods and mechanics factor into each price set every instant the markets are open for business. As a result, like markets in general, stock pricing can be both remarkably efficient in aggregate, as well as wildly unpredictable from one moment to the next.

#### Stock Prices and Power to the People

Behind all the number crunching and academic theory that goes into discovering a stock's next price,

many of the seemingly random mood swings have to do with whatever we, the people, collectively believe a stock is worth. Bids pour in from sources ranging from high-paid analysts and institutional managers, to hotshot day-traders and everyday investors. Combine them all, and the price is ultimately whatever actual buyers and sellers settle on when they trade.

Credited with establishing the capital asset pricing model, Sharpe is worth heeding. So is his fellow **Nobel laureate Eugene F. Fama**, who further explains why group-think pricing represents the best overall estimate of a stock's worth in relatively efficient markets (emphasis ours):

"[T]here are large numbers of rational profit-maximizers actively competing, with each trying to predict future market values of individual securities, and where important current information is almost freely available to all participants. . . . In other words, **in an efficient market at any point in time the actual price of a security will be a good estimate of its intrinsic value.**"

#### An Investment's Intrinsic Value

Circling back to the practical matter of making money as an investor, if we assume:

1. Stock shares ultimately represent an ownership stake in a real company, delivering measurable goods or services.
2. The price at which shares can be bought or sold is continuously set and re-set by what market players collectively agree the shares are worth at any point in time, based on the company's

underlying metrics, as well as capricious investor sentiment.

3. As long as a company keeps exceeding investor expectations, its stock price can keep climbing (although growth on growth often becomes increasingly difficult to sustain).

Does this mean stock prices are irrelevant? Should we be willing to pay any price for any promising investment?

Academic insights help us understand why Berkshire Hathaway's Class A shares have been able to exceed an astounding \$600,000/share in stronger markets, without ever having imploded (yet). Markets are relatively efficient at setting roughly accurate prices based on a constant trade flow. As a result, stock markets have flourished over time and around the world, as have countless investors who have participated in their aggregate growth.

But these same insights also explain why real-time trading prices can swing wildly up and down around a target price. Which is why, as Berkshire Hathaway Chairman **Warren Buffett** has observed about buying stakes in a company: "What is smart at one price is stupid at another."

#### Assuming the Price is Right

Bottom line, the stock price you pay does matter, just not in the way many investors may think. By understanding how price-setting works, we can stop trying to game the system while it's still in play. We focus instead on investing broadly, diversifying widely, and sticking around, as expected growth in overall stock prices translates into expected returns over time.

This brings us to our fourth investment basic, which we'll cover next: Patience is a virtue. Please be in touch if we can answer any questions before then.

Until next time, no regrets!



**Eric Hutchens**  
President & Chief Investment Officer

## Headlines

- David Bromelkamp presented *The AdvisorSmart® Guide to Selecting a Fee-Only Advisor* at the 2024 Allodium Investment Forum webinar on January 25, 2024.
- Saul Baumann, Derek Van Calligan and Tyler Chapman became Allodium shareholders along with David Bromelkamp and Eric Hutchens.
- Our office will be closed on March 29 and May 27 for company holidays in 2024.
- Allodium welcomed four new clients in the fourth quarter of 2023.

To find out more about Allodium's breaking news, please visit our website: [www.allodium.com](http://www.allodium.com).

## Upcoming Webinar

### Navigating the Current Market Environment: Perspectives for Long-term Investors

Tuesday, May 14, 2024 at 3:00 - 4:30 p.m.

Registration will be coming soon.



**Apollo Lupescu, Ph.D.**  
Vice President  
Dimensional Fund Advisors

Current events, such as the war in Ukraine, the rise of Artificial Intelligence (AI), higher prices at the grocery store, and a stormy election year, cause many people to wonder — how are my investments affected? Is now the right time to invest?

Allodium is excited to welcome back Apollo Lupescu, Vice President at Dimensional Fund Advisors. Apollo will help us understand the current market environment and what it might mean for our investments. Apollo has the unique ability to convey the technical aspects of investing in a manner that is understandable and relatable to investors with various levels of financial understanding.

#### Topics include:

- Fed interest rate changes, inflation and recession
- Perspectives on Artificial Intelligence (AI) and investing
- Increase in government debt and market reaction
- The seeming disconnect between the market and the economy
- The role of diversification in international, small cap and value stocks
- Politics, elections and the market

## NEW EMPLOYEE SPOTLIGHT:

### Maddie McGinn

Allodium is happy to welcome Madison McGinn to our team. Get to know Maddie.



**Role at Allodium:**  
Client Service Associate

**Joined firm on:**  
February 26, 2024

**Hometown:** Lakeville, MN

**Favorite movie:**  
*Anyone But You*

**Favorite book:** Recently I have been busy reading college textbooks, but I typically enjoy a Colleen Hoover novel.

**Favorite TV show:** *Suits*

**Favorite food(s):** Pickles

**Favorite news source:** X (aka Twitter)

**Favorite place in Twin Cities:** A good coffee shop. There's too many to choose just one.

**Favorite gadget/technology:** My Nespresso Vertuo

**Favorite activity:** Going boating on a hot summer day. I like to wake surf and tube.

**Favorite music:** I enjoy country music. My favorite artist is Zach Bryan.

**Person I admire most:** My Mom is the perfect blend of spunk, authenticity, and resilience. She inspires me every day.

**What I'm most thankful for:** Good health, my family, and friends.

Steward is published quarterly by Allodium Investment Consultants. Please contact [iavraamides@allodium.com](mailto:iavraamides@allodium.com) if you have any comments about this publication or wish to be added to or removed from our mailing list.

## WE APPRECIATE YOUR INTRODUCTIONS

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