“Mr. Market” Is Having a Panic Attack: Is it Time to Sell or Buy More?

Description

“Mr. Market” is a famous investing allegory developed by Benjamin Graham, one of the founding fathers of value investing and the mentor to arguably the world’s greatest investor of all time, Warren Buffett.

The story goes that you are to imagine yourself as the 50% owner of a business jointly held with Mr. Market, and every day your business partner calls you on the phone with an offer to buy or sell your stake in the business.

On some days, Mr. Market is manically optimistic about his prospects for the future; other days, he is terribly depressed and no longer wants to be involved in the business at all.

The lesson of Graham’s allegory is that investors are to “sell high” to Mr. Market when he is wildly optimistic, conversely “buying low” from him when he is bleak about the future.

Well, this week saw Mr. Market get a little nervous when the Fed announced a cut to its official policy rate by one-quarter of a percent, the first time it’s reduced its benchmark interest rate since 2008 amid the U.S. housing crisis.

Because interest rates and asset prices tend to move in opposite directions, the market’s sell-off in response to this week’s announcement seemed, well, a bit “questionable.”

So, what’s an investor left to do?

One approach would be to buy from Mr. Market and add to your existing holdings.

If, after all, Graham’s lesson was to “buy low” and “sell high” if Mr. Market is feeling disturbed and dismayed about this week’s developments, then conventional wisdom would be that you would be more than happy to take his shares off him.

But what if Mr. Market continues to get increasingly more disturbed as time goes on?

No one that I know particularly enjoys being around that type of erratic behavior. If it turned out to be the case that Mr. Market just couldn't seem to get a grip on things, there's a chance the other investors who do business with him might just opt to head for the hills until the old codger were to regain his composure.

Last month, I discussed the merits of following different approaches that can help to manage "market risk," such as using a dollar-cost-averaging strategy, and how a sector-rotation strategy can be used to pivot to and away from some of the riskier parts of the market.

Foolish bottom line

We're now in the 10th year of the current bull market, one of the longest bull cycles in recorded history, and there's a decent chance that maybe Mr. Market's just starting to get a little tired and cranky about everything.

That could mean he's about to fall back asleep soon, or it could mean that things are about to get even more volatile.

Only time will tell.

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