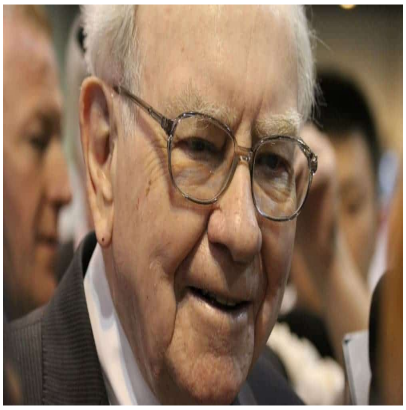

3 Warren Buffett Quotes That Apply in Today’s Stock Market

Description

The year 2021 marks the beginning of a crazy market. The futures and options that originally derived their value from stocks started affecting the price of meme stocks. Digital tokens that are not widely accepted and regulated made many millennials rich and many poor. The world is going crazy day by day. If you think Warren Buffett is old and knows nothing about the new world, you’ve got it wrong. The wise words of the 90-year-old investor apply in today’s stock market menagerie.

Warren Buffett’s quotes reveal the working of Wall Street

Buffett’s letters to shareholders hold an ocean of wisdom on how Wall Street works. At every moment, every stock price is a well-planned strategy. If you learn to control your temperament, let go of fear and greed, and follow the rules of the game, you can win.

Buffett’s first lesson: Becoming rich twice is dumb

Buffett said, “Anyone who has become rich twice is dumb. Why would you risk what you need and have for what you don’t need?”

What does it mean? Many Redditors took to the stock market in January as the subreddit WallStreetBets revealed a strategy to leverage the short position of hedge funds in **Gamestop**, **AMC** , and **BlackBerry** (TSX:BB)(NYSE:BB). These stocks surged 50-300%, as Redditors began buying them. They didn’t buy to invest but to force hedge funds to buy back these stocks at a higher price.

Some fundamental investors sold the stock and became rich. But then greed overtook logic, and they bought the stock again to make more money. The outcome was the end of the short squeeze. Those who made gains on meme stocks moved to Dogecoin and Bitcoin — once again not to hold, but to escalate the price and cash out money.

The ones who'd bought AMC and BlackBerry were stuck with expensive stocks. A similar thing happened with Dogecoin holders. The coin has dropped 60% from its May high. Redditors who became rich in January and May are now poor.

As Buffett said, why risk what you need (that is, fiat money you can use as a medium of exchange) for what you don't need (meme stocks and cryptocurrency that have limited utility and you don't want to hold)? He said, "If you are already rich, there is no upside to taking on a lot more risk, but there is disgrace on the downside."

Second lesson: Returns decrease as motion increases

Referring to Isaac Newton's law of motion, Buffett said, "Fourth Law of Motion: For investors as a whole, returns decrease as motion increases." Here, Buffett almost predicted the whole meme stock fiasco. He quoted Gertrude Stein: "Money is always there, but the pockets change."

Stock trading comes for a price. Although there are 0% commission brokers, they benefit from high-volume transactions. With every transaction, a commission and tax reduce real returns. Such artificial motion also impacts fundamentals.

BlackBerry has largely linked its management's compensation to equity. The management benefits when the share price does well. But if the stock rises without any sustainable business efforts, the management will sell their shares and have little motivation to perform. The increase in motion could harm returns.

Third lesson: It's not how you sell, but how you tell

Lastly, Warren Buffett noted that the deals on Wall Street happen because someone has arranged for it or agreed to it. It is nothing but a sale. In the form of story-telling, he shares a lesson he learned from his brother-in-law: "Warren, it's not how you sell 'em. It's how you tell 'em."

Many retail investors think 0% commission brokers offer free trading. But like social media, these brokers main business is data and not broking. They sell the trading data analytics to institutional investors but tell retail investors it's free trade. Similarly, Dogecoin prices soared, because Elon Musk sold it by telling the audience it has the potential to go to the moon.

Bottom line

These lessons teach one thing: invest in the business and not in the stock price.

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