Age, Melbourne
22 Oct 2014, by The `Honest' Broker Marcus Padley

Money, page 6 - 494.00 cm²
Capital City Daily - circulation 130,767 (MTWTF--)

ID 329229126

Don't wait to be waited on, go find out for yourself

The efficient market hypothesis would suggest that share prices are ''informationally efficient'', in other words share prices reflect all of the information that is publicly available and because of that you cannot consistently achieve returns in excess of the market average.

Pretty depressing stuff and if it were true we may as well throw in the towel and buy an index fund because picking stocks is no more than a bet.

But luckily for us the efficient market hypothesis is only partially true because although a lot of information is publicly available, the market is far from efficient at discounting it and there is money to be made by exploiting its inefficiencies.

These include:

Alack of research A lot of stocks are under researched particularly at the smaller end. Alot of the public information simply doesn't get processed by the market. This is why small companies seek out the limelight and employ investor relations firms, because nobody is listening. To get an idea of the edge available in smaller companies and smaller company research done properly, look no further than the microcap listed investment companies.

The Contango Microcap LIC for instance has been in existence for more than 10 years and has returned 17.5 per cent a year since it began – and that includes the GFC. Compare that with the All Ordinaries accumulation index return over the same period of somewhere less than 5 per cent. There is money in researching under-researched companies.

Thinking ''expensive'' is bad The stock market must be the only place in the world where the sales people tell you to sell something simply because it is expensive. But the stock market is no different to the car market – quality comes at a price. If you drove a Rolls-Royce and I rang you and told you that you should be driving aTata Nano instead because it is cheaper, should you switch? In the same way if I rang you and told you the Commonwealth Bank was at an all-time high and Lakes Oil was at an all-time low, should you switch? Of course not.

Stocks are cheap and expensive for a reason, because there are quality stocks and there are rubbish stocks and their prices, much like the price of a car, reflect that. You will make more money buying the 10 most expensive quality stocks than you ever will buying the 10 cheapest rubbish stocks. Paying up for quality pays.

Inside information You'd be amazed how much inside information is around that no one is taking any notice of. I'm not talking criminal inside information, I'm talking publicly available inside information, in particular your own inside information.

What industry do you work in? Who do you know who is moving into a bigger office, taking the family on a two-month holiday in Europe or buying the latest Aston Martin? What do *they* do for a living?

Inside information is all around us. I, for instance, have some friends in the property industry who have been having their best years in the past decade.

But having identified that I didn’t have to buy an apartment in the CBD, all I had to do was look around the stock market for companies exposed to that cycle. You could have doubled your money in a year in Mortgage Choice to name one, all without having to find a tenant or mend a toilet. Public ‘‘inside’’ information is all around you. You may as well use it.

Long-term growth One of the most exploitable inefficiencies of the market is that it never prices in much more than the next couple of years, probably because that’s as far out as brokers dare forecast and they only publish target prices one year out. But if you can identify a company or industry that is going to grow in the long term, beyond two years, then the market will not have priced it in.

In the resources boom for instance, BHP was $8 at the low in 2003 hitting $50 at the peak in 2008.You had five years of steady share price progression.

If the market had been efficient, the share price would have jumped from$8 to $50 in a day. But it didn’t because the market never prices in anything beyond the end of its nose.

There is money to be made in long-term themes. In my industry for instance, the most obvious theme is the legislated long-term growth in superannuation. I can guarantee some of the listed fund managers and wealth management companies aren’t pricing that in.

Ultimately, having the edge on the share market is not about having the information that affects a share price, it’s about handling that information efficiently.

Marcus Padley is the author of the stock market newsletter Marcus Today. For a free trial go to marcustoday.com.au.