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What you should know about the stock market

If you believe that more goods and services are available to you than were available to your parents or grandparents, you probably believe in our economy. If you believe in our economy, you should believe in the stock market.

The stock market is a vehicle that allows you to participate in our economy. The latter is conducted by companies that are led by individuals. The stock market is only an intermediary. It is not an end in itself; it is a means to an end. Like when you buy a house with the help of an intermediary (broker), you can also use an intermediary to buy your stocks, bonds and mutual funds.

The important difference is that the stock market is such an efficient intermediary and that since a stock does not give you the same practical utility as a house (lodging), owners of stocks, bonds and mutual funds tend to buy and sell far too often and receive price information much more frequently than they need it.

You do not need a price for your home every minute, every day or every month. Someone who bought a house in Canada in 1989 and still owns it today may not be aware that he had a paper loss for the first 2, 3 or 7 years. He never had the market value of his house evaluated and if he did, he was probably not worried because he refused to believe in that valuation or knew time was on his side.

The average price of a Canadian home in 1989 was $150,000. 2 years later, the average price of a house was about 20% lower. In Toronto, the average price fell by almost 30% from 1989 to 1996.

What is interesting is that several buyers of the late 80s did not incur losses. How is it possible? They were patient, they did not react to market fluctuations and they were able to take advantage of the meteoric rise of the following years.

If only people could behave the same way with their stock market investments.

The average price of a Canadian home in March 2019 was $480,000. It can therefore be calculated that the purchase of a house in 1989 yielded an annual return of 4%. Average rental income, which is a type of dividend, could be added to that return, but since we exclude all other expenses and interest expenses, I think it's fair to exclude it. The S & P 500, the world's most popular stock index that anyone can buy easily and keep in the long run, has yielded about 10% annually over this period including dividends.

If people treated their stock as they treat their home, they would have a much better performance on the stock market. Do your homework. Be patient. Do not worry about fluctuations. Trust the wealth-generating power of businesses and the economy.

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