

## Smart Money: Asking good questions

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*Brad Brain: "So, here is the cool part about my kid asking me to tell her why a stock goes up. There was no pretense. There were no preconceived ideas. There was no agenda. She asked this question with genuine curiosity, and the question is incisive." | Getty Images*

I had a fantastic Father's Day this year. My daughter had a sports tournament in Edmonton, and we had some wonderful Dad & Daughter time.

I am not a fan of the long car ride, but this one was good. My kid and I had some meaningful conversations, something that can be hard to do in the hectic pace of regular life.

Somehow, we got onto the topic of my work, and my kid asked me a really thoughtful question. Now, I get asked questions all the time, but this one was a little different.

She asked me to tell her why a stock goes up.

Here's what I mean by this question being a little different. When I am having financial conversations, people are sometimes reluctant to ask what is really on their mind for fear of appearing silly or stupid. Sure, they may toss out a couple of superficial questions, but often people have judgment anxiety, and it holds them back.

This is not an ideal scenario. If people have questions about their money, who should you talk to if not a professional financial planner? It's not silly to ask a question, it's silly not to ask, yet this happens all the time.

But there is another situation that I see too. It's the person who thinks they know far more than they actually do. These folks don't really ask good questions either, but now it's because they think that they are experts already.

This is also not an ideal scenario. If people have questions about their money, who should you listen to if not a professional financial planner? It's not silly to ask a question, it's silly to think you know it all already, yet this also happens all the time.

So, here is the cool part about my kid asking me to tell her why a stock goes up. There was no pretense. There were no preconceived ideas. There was no agenda. She asked this question with genuine curiosity, and the question is incisive.

Why does a stock go up? That's a good question.

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How I chose to answer it is with a quote from Ben Graham, the mentor of Warren Buffett. Graham said, "In the short run, the market is a voting machine but in the long run, it is a weighing machine."

What Graham means by saying that the stock market is a voting machine is that, in the short run, the stock market is a popularity contest. When an idea captures the public imagination, all kinds of wacky things can happen. The last couple of years have proved this, yet again, to be true.

Crazy speculations with no basis in fundamentals are bid higher and higher, simply because they are fashionable. People are voting their money.

But the opposite is also true. Investments can be out of favour, and prices collapse because people are still voting their money, but this time they are voting to stay away.

In the short run, the market is a voting machine. What is popular does well, and what is unpopular does not.

But in the long run, fundamentals matter. It's the quality of the business that will shine through. Or the absence of quality will shine through. In the long run, the market is a weighing machine, with the share price determined by the substance of the business.

You won't see a company that loses money indefinitely have their share price rise indefinitely. There has to be something to support it.

But the opposite is also true. You usually don't see a company that makes a lot of money have its share price languish indefinitely. Money-making companies are valuable assets, and some people, eventually, will want a piece of the action.

Why does a stock go up? Great question. The complete answer is that this happens for different reasons. In the short run, the stock market is a voting machine, but in the long run it is a weighing machine.

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