**Mr. Market's Mistakes:**

Investing is an arrogant act. Buying a stock implies its price - set by thousands of well informed and highly incentivized market participants - is wrong.

Understanding when the conditions are ripe for a company to be over or under valued is key to earning outsized returns.

Over the past 50 years investors have gone from not having enough information to having too much. The days of using scuttlebutt or analyzing arcane securities filings to gain an informational edge are over.

It's common for companies worth trillions of dollars to have their market values fluctuate by 50% each year. How can this happen with the most well-known and deeply researched businesses in the world?

Perhaps counterintuitively, an onslaught of information along with investors being more connected may be the cause. This combination encourages herding behavior which can push prices too high or low relative to fundamentals. When this happens the most valuable asset is independent thought that keeps the investor from being part of the crowd.

The second situation I've encountered where the market struggles mightily is when a company's future will look very different from its past. The market does a good job handicapping a company's near-term business prospects but doesn't like the ambiguity and uncertainty that comes with evolving business models.

Exceptional operators create value that is lumpy and unpredictable and surprise shareholders with positive developments - new business lines, shrewd acquisitions, timely share repurchases - that increase the per share value of the business. An investor who buys a stock at a price that does not include a lot of optimism about the future can get paid when these unexpected positive developments materialize.

Anyone can run a DCF and the answers are never in a spreadsheet. Learning to spot the situations where the market is more likely to be making a mistake is one of the most valuable tools an investor can have in their belt.