

Week 4 discussion 2

Discuss the non-rational factors that may have a role in the valuation of stocks and stock market equilibrium. Provide specific examples to support your response.

There are two extreme views of the valuation process. At one end are those who believe that valuation, done right, is a hard science, where there is little room for analyst views or human error. At the other are those who feel that valuation is more of an art, where savvy analysts can manipulate the numbers to generate whatever result they want. The truth does lie somewhere in the middle. Things that need to be considered in the valuation process: the bias that analysts bring to the process, the uncertainty that they have to grapple with and the complexity that modern technology and easy access to information have introduced into valuation.

Examples of non-rational factors that influence stock value include, herd behavior, greed, biased tax incentives, poor corporate governance, stock options, IPOs, margin lending practices and growth and power of giant institutions.