

BOTTOM FISHING



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Understanding Bottom Fishing



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There was a man named Raj who was taking a stroll when he came across a bunch of ragpickers. They were scanning through piles of garbage and waste.



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He realized they were searching for valuable stuff that sometimes accidentally makes their way into the garbage. This practice of the ragpickers reminded him of a term in investing known as “Bottom Fishing”.



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If we look at the stock market, the stock market's health is largely dependent upon “NEWS” flow reflecting the state of the macro-economic environment. In other words, a good macro-economic environment leading to good and positive “NEWS” flow improves “sentiments” of investors.



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No investor would like to invest when the economic environment is not conducive because the risks of investing in adverse conditions are rather high.

Let's say a country which had favorable political conditions, suddenly finds itself in the throes of terrorism. Under such circumstances the stock market plummets to a level that is commonly referred to as the “bottom”.



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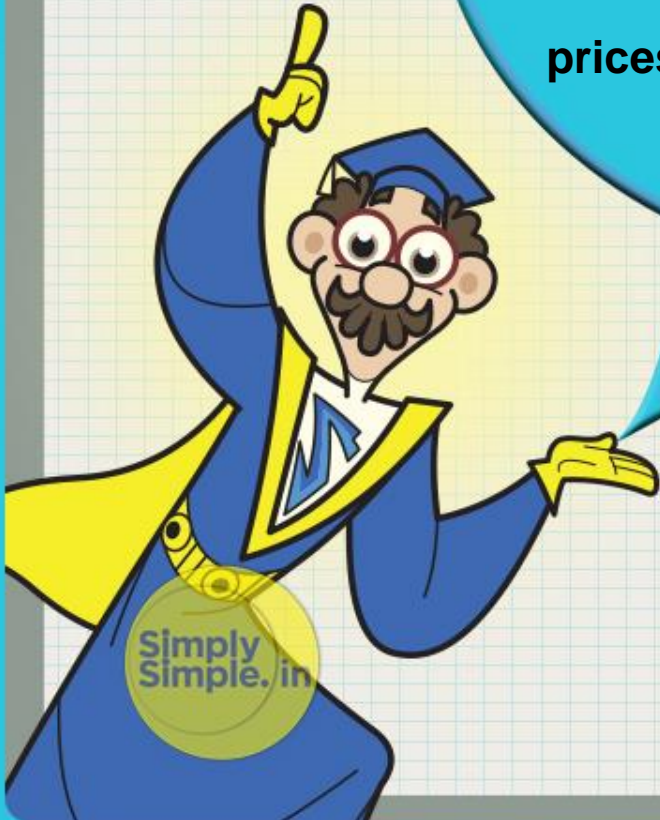
At such times, the stock prices of perfectly healthy and robust companies also tend to test the bottom.

The sentiments are so discouraging that everything is viewed from the same “pessimistic” lens and all companies good and bad get painted by the same “gloomy and gray” brush.



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However, such are times that present the best opportunities to astute investors. There are opportunities to identify stocks that are quoting at prices below their intrinsic values.



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Such under-valued stocks can yield handsome returns when the negativity in the macro-economic environment alleviates.

Identifying such valuable stocks in what is popularly known as “Bottom Fishing” which translates to “fishing for good companies when the markets bottom out.”



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Hope this lesson has helped you
in understanding the term
Bottom Fishing

Thinking of Investment

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