

Greater Fool Theory



A theory that states it is possible to make money by buying securities, whether overvalued or not, and later selling them at a profit because there will always be someone (a bigger or greater fool) who is willing to pay the higher price.



When acting in accordance with the greater fool theory, an investor buys questionable securities without any regard to their quality, but with the hope of quickly selling them off to another investor (the greater fool), who might also be hoping to flip it quickly. Unfortunately, speculative bubbles always burst eventually, leading to a rapid depreciation in share price due to the selloff.

Bigger fool theory

From Wikipedia, the free encyclopedia

The **bigger fool theory** or **greater fool theory** (also called **survivor investing**) is the belief held by one who makes a questionable investment with the assumption that they will be able to sell it later to "a bigger fool"; in other words, buying something not because you believe that it is worth the price, but rather because you believe that you will be able to sell it to some one else for an even higher price.

It might be on some occasions a valid method of making money in the stock market -- however, the market participants eventually realize that the price level is too outrageous and the speculative pops. The bigger fool theory relies on market optimism concerning a particular stock, an industry, or the market as a whole.

The opposite of the bigger fool theory is value investing, which tries to discount market psychology. Value investors such as Warren Buffett believe that it is corporate profits which are the normal returns from stock investments, and any higher return is only possible due to the bigger fool theory.

The bigger fool theory holds for any pure value transaction, not just speculative ones. When a commodity with a universal value is traded then, no matter how the situation is interpreted, either the seller or the buyer has made a mistake.

Don't be the Greatest Fool. Get Rich Slowly.