

A Case for Staying Invested: The Voting Machine

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Fast Reading:

- Markets can be noisy in the short term, with prices often driven by sentiment, momentum and dominant narratives rather than underlying business value.
- The current data center and AI infrastructure cycle may create real opportunities, but it also risks concentrating investor attention and expectations too narrowly.
- The core case for staying invested is that long-term value is ultimately determined by fundamentals: business quality, cash generation, capital discipline and durable competitive advantage.

Introduction

Benjamin Graham is widely credited with laying the foundations of value investing and reshaping how investors analyze markets. As Warren Buffett's early teacher and the mind behind The Intelligent Investor, Graham argued that investment decisions should be grounded in an asset's underlying worth, not in the market's shifting moods. One of his best-known observations is that "in the short-term the market is a voting machine; in the long run it acts as a weighing machine." It is a reminder that daily market movements often reflect noise, while genuine business strength is revealed only with patience.[1]

At Brown Advisory, we spend considerable time distinguishing what is changing from what is true. That distinction feels especially important today. In the near term, market leadership and market movements have been heavily influenced by expectations around a capital spending cycle tied to data center growth. The rapid buildout of artificial intelligence infrastructure, cloud capacity, power availability, networking equipment and semiconductor supply chains has created a powerful investment narrative. Companies perceived to be direct beneficiaries of that spending have often been rewarded, while businesses outside the immediate path of that theme have sometimes received less attention, regardless of their long-term fundamentals.

This does not mean the market is wrong to recognize meaningful investment opportunities tied to data center growth. In many cases, the capital cycle reflects real demand, real innovation and real business opportunity. But it does mean that short-term returns can become unusually concentrated around a single theme, and that prices may reflect investors' expectations about the next phase of spending as much as the durable value of the underlying businesses themselves.

Markets can be compelling storytellers, reacting quickly to headlines, narratives and shifts in sentiment. Yet over full cycles, long-term outcomes tend to be driven by more durable forces: business quality, cash generation, capital discipline and the sustainability of competitive advantage. Graham's analogy captures this tension well. Prices can move for reasons unrelated to intrinsic value, but fundamentals have a way of asserting themselves over time.

That is why we keep near-term performance in context and resist letting the market's short-term vote define our conviction. We aim to stay focused on what we and our investment research teams can control: rigorous research, disciplined decision-making and long-term fundamentals.

Graham's enduring contribution was not just his framework for valuation, but his recognition that markets are shaped by human behavior. The market is not a spreadsheet; it is a crowd. And crowds can be clever, but they can also be emotional, narrow and inconsistent, particularly over short horizons. For long-term investors, the practical question is not whether the voting machine exists — it does — but how to build an investment process resilient enough to withstand it.

The Voting Machine: Popularity, Narrative and the Reflexive Short Term

Graham's short-term "voting machine" is a helpful description of what investors experience day to day: price moves that often reflect changes in mood, positioning and narrative rather than changes in intrinsic worth. Graham was generally dismissive of short-term market movements, viewing them as a popularity contest more relevant to traders than to investors. Yet he did not ignore short-term moves entirely. He understood that fluctuations can create opportunity for those willing to "weigh" a business rather than simply join the vote.

That is particularly relevant in markets shaped by a dominant investment theme. Today, the data center capital spending cycle has become one of the market's most influential narratives. Investors are not only evaluating current earnings or cash flows; they are also trying to anticipate how much capital will be spent, which companies will capture that spending, whether growth rates can persist and how long the cycle may last. This can create powerful feedback loops. Strong price performance reinforces investor attention, investor attention reinforces flows, and flows can reinforce the original price performance.

In that environment, the voting machine can become especially loud. Companies tied to the prevailing theme may be valued on expectations that extend far into the future, while companies with less obvious exposure may be overlooked despite attractive fundamentals. This is not unusual. Markets often move in clusters of enthusiasm, and the strongest near-term returns can accrue to the companies most closely associated with the dominant story.

John Maynard Keynes, an economist who also managed money, understood this dynamic well. Keynes was appointed bursar of King's College, Cambridge in 1924 and oversaw the College's Chest Fund from 1927 to 1946. During that period, Keynes experienced significant setbacks and drawdowns, but despite this volatility the fund delivered an annualized return of 9.1%, compared with an annual decline of just under 1% in the UK stock market.[2] The point is not that short-term market forces can be mastered without pain. It is that they cannot be dismissed as irrelevant. Keynes warned that "markets can remain irrational longer than you can remain solvent." [3]

Keynes's famous market remarks offer a direct explanation for why the voting machine can be so powerful. "Successful investing is anticipating the anticipations of others" captures the reflexive reality of markets: prices often respond not only to fundamentals, but to what investors believe other investors will do. His beauty-contest analogy makes the same point in a different way: the game is not simply to identify what is best, but to predict what the crowd will choose.[4]

This is the essence of short-term price formation: layers of expectations built on other expectations. In those conditions, even good fundamental news can be "voted down" if it does not fit the prevailing narrative, while weaker fundamentals can be "voted up" if momentum and popularity dominate. Today, that dynamic can be seen in how quickly investors respond to signals about data center spending, AI infrastructure demand, semiconductor capacity, power requirements and cloud investment plans.

The Weighing Machine: Fundamentals, Time and the Slow Recognition of Value

If the voting machine reflects the market's changing preferences, the weighing machine reflects a business's enduring economics. Over time, companies reveal themselves through the compounding impact of strategy, industry structure, pricing power, investment discipline and the durability of cash flows. The market may vote quickly, but it weighs slowly. That slowness can create both frustration and opportunity for long-term investors.

This is especially important when a market narrative is tied to a capital spending cycle. Capital cycles can be powerful, but they are rarely linear. They can create real winners, but they can also create periods of overinvestment, changing competitive dynamics and shifting profit pools. The companies that ultimately benefit most may not always be the ones that lead the market in the earliest phase of enthusiasm. The weighing machine eventually asks harder questions: Is the demand durable? Are returns on invested capital attractive? Is pricing power sustainable? Are customers earning sufficient returns on their own spending? Are competitive advantages strengthening or eroding?

Short-term market movements can persist, sometimes longer than expected, because sentiment and positioning can reinforce themselves. That persistence is why "being right" on fundamentals does not always translate into immediate returns, and why investors who are ultimately correct can still face uncomfortable periods of apparent failure. Keynes's experience, including material drawdowns before subsequent recovery, illustrates a reality that long-term investors know well: the path to the weighing machine is rarely smooth.

What matters is whether the underlying investment case is grounded in economics that can endure, not whether the vote goes your way in a given quarter or year.

For our firm, this framework clarifies what disciplined investing requires in practice. Long-term investing does not mean ignoring the voting machine. It means refusing to be governed by it. It means treating short-term volatility as information rather than as a definitive verdict on intrinsic value. It also means recognizing our own fallibility. Graham's emphasis on psychology is a reminder that the toughest investing mistakes often begin with a behavioral slip: chasing what is popular, abandoning a sound thesis too early or confusing price movement with fundamental change.

Implications in Modern Markets

Today's market structure can amplify the voting machine. The speed of information, the volume of commentary, the concentration of flows and the intensity of short-term performance measurement can make it harder to maintain a weighing-machine perspective. When a dominant narrative emerges — as it has around data center growth and the associated capital spending cycle — investors can quickly crowd into the perceived beneficiaries.

Again, the conclusion is not that the narrative is wrong. Data center growth may represent a meaningful and durable investment opportunity. Artificial intelligence, cloud computing and digital infrastructure are reshaping how businesses operate, and many companies are making substantial investments to support that transition. But a powerful long-term theme does not eliminate the need for valuation discipline, business analysis or patience. In fact, it makes those disciplines more important.

The market may be right about the importance of the theme while still being wrong about the timing, magnitude or distribution of future returns. Some companies may justify elevated expectations. Others may not. Some beneficiaries may be obvious today. Others may emerge more gradually. And some businesses currently outside the market's favored narrative may continue compounding value quietly while investor attention is elsewhere.

That is why Graham's analogy endures. It speaks to an unchanged truth about markets: price discovery is influenced by human behavior, and human behavior can be unstable. In the short run, markets may vote on stories. Over time, they must weigh results.

The conclusion is not that the weighing machine is broken. It is that the journey to it may be more demanding — and therefore more differentiated — than investors expect. For long-term clients, the practical takeaway is that successful investing requires a process designed to withstand the voting machine's volatility while remaining anchored in the weighing machine's logic. That means doing the hard work of fundamental assessment, staying honest about what would change a thesis and maintaining patience when sentiment moves against you.

Conclusion

At Brown Advisory, we believe that long-term results are driven by the underlying strength of businesses, not by market sentiment alone. Graham's voting-and-weighing-machine analogy endures because it captures a truth central to our investment philosophy: short-term movements can distract, but fundamentals ultimately determine value.

Today's market has been shaped in part by a powerful capital spending cycle tied to data center growth. That cycle may create meaningful opportunities, and we are attentive to the businesses that can benefit from it. But we also recognize that markets can become narrowly focused on a single theme, and that near-term leadership does not always tell the full story of long-term value creation.

Our role is to stay focused on what matters most: high-quality companies, thoughtful capital allocation, durable competitive advantages and the discipline to distinguish temporary market enthusiasm from enduring business strength. We aim to help clients look past near-term volatility and remain anchored to a long-term perspective that has historically rewarded patience and discipline.

Staying invested, staying analytical and staying aligned with enduring fundamentals remain the most reliable ways to allow the weighing machine to work over time.

1. Warren E. Buffett, *To the Shareholders of Berkshire Hathaway Inc.*, shareholder letter, Berkshire Hathaway Inc. Annual Report 2014 (Omaha, NE: Berkshire Hathaway Inc., 2015). "As Ben Graham said many decades ago: 'In the short-term the market is a voting machine; in the long-run it acts as a weighing machine.'" Page 34.
2. Marshall, P., 2020. *10½ lessons from experience: Perspectives on fund management.* Lesson 4: In the short term the market is a voting machine, in the long term it is a weighing machine. Profile Books.
3. Marshall, P., 2020. *10½ lessons from experience: Perspectives on fund management.* Lesson 4: In the short term the market is a voting machine, in the long term it is a weighing machine. Profile Books.
4. Keynes, J.M., 1936. *The General Theory of Employment, Interest and Money.* London: Macmillan. Note: Keynes compared short-term investing to a newspaper beauty contest in which contestants do not pick the faces they personally find most attractive but instead try to choose the faces they think everyone else will pick. In other words, success depends on predicting what the average opinion believes the average opinion will be, rather than judging the faces themselves. This was Keynes's way of illustrating how markets often move based on investors guessing each other's expectations rather than evaluating fundamental value.

Disclosures

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