The myth of "more sellers than buyers"

Blog

After a rough market session, it's not uncommon to see investors and news articles saying that there were "more sellers than buyers."

But this conclusion is a misconception of how markets operate. Trades are an exchange, not an act of creation or destruction, and no trade occurs in a vacuum. So although it's true that there can be a mismatch between the number of investors on each side of the ledger, it doesn't matter whether a single investor enters a 1,000-share buy order or if 1,000 investors each submit a 1-share buy order—the effect on market prices will be the same.

Market prices are actually determined by the willingness of buyers and sells to transact at a given price. There are two main drivers of an asset's price change:

1. **Mismatch:** The number of shares that people want to buy at the current price exceeds the number of shares that people want to sell at the current price.

   Result: The price goes up until there is enough seller demand to match buyer demand.

2. **Mismatch:** The number of shares that people want to sell at the current price exceeds the number of shares that people want to buy at the current price.

   Result: The price goes down until there is enough buyer demand to match seller demand.

In other words, the number of shares bought will always equal the number of shares sold. Markets are a hugely effective mechanism for finding the equilibrium price to match buyers and sellers at any given moment.

For investors, it's perhaps most useful to ignore the question of who is on the other side of trade, and envision a singular entity—"Mr. Market," to borrow a concept from Warren Buffett—who constantly changes his mind about how much he's willing to pay for your investments. On some days, Mr. Market is willing to pay top dollar for your portfolio; on other days, paralyzed by fear and doubt, he will offer you mere pennies. Thinking of markets this way highlights an enviable goal for all investors: to build a financial plan that gives us the time and patience to take advantage of Mr. Market's mood swings, selling assets at or above their fair value, and buying assets at bargain prices.

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Appendix

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