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For the Intelligent Investor

Answers to questions you may not even know you have.

Learning the Difference between Price and Value: Take Your Child to an Auction

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With the popularity of television entertainment such as Pawn Stars, Antiques Roadshow, and American Pickers, there is ample opportunity to observe the difference between establishing a value and the price someone is willing to pay for an item. The value of what may be considered a “collectible” (either through sentiment or fad) may not be substantiated by its price.

With summer in our midst, why not take the opportunity to turn off the television, get outside, and experience this phenomenon first hand? There is no better place to learn the difference than by participating at an auction! If you are unfamiliar with locating auctions, they are usually listed in the classified section of your local newspaper or found by doing an online search.

Once you arrive at a live auction, get ready to participate. You must register so you can get a bidder’s number (without this number, you will not be allowed to bid.) Then you (and everyone else) have the opportunity to preview and inspect the items for sale prior to bidding. This is the time when everyone determines what they would like to buy and what value they place on the item.

Then, the game begins! There is usually a minimum ask price that the auctioneer uses to begin the sale of an item. Each bidder raises their bidder’s number if they want the item and are willing to pay the price then quoted by the auctioneer. The bidding war continues as the auctioneer keeps increasing the price of the item until all bidders drop out but one. These bidders usually drop out because the asking price of the item increases to an amount that is more than the value they had previously determined. The winning bidder is the one who is willing to pay the highest price for the item. The item is sold once the auctioneer accepts the final bid (market value).

For example, if your child sees a toy car at an auction and decides it is worth \$5 (and you agree), then he would be willing to pay up to \$5 for it. If the bidding starts at \$1 and reaches a final bid price of \$3, it doesn’t mean your child would now value the car at \$3, but it does make it likely that he is the one making the winning bid. With the final bid price of \$3, it would be worth buying the toy car at that price,



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since it is below the value your child determined. Just hope that there isn't another child at the auction that wants the car and values it at \$6. The outcome could be much different.

Here are some of the fundamental lessons from attending an auction:

1. Understanding that price and value are not always one and the same.
2. Practice Discipline - Set a limit on how much you are willing to pay for any item, and stick to it.
3. Understanding "Supply versus Demand" – The number of available items for sale and the number of interested bidders in attendance make a difference on an item's price.
4. Help your children to understand how to structure their spending so that they determine a maximum dollar amount that they are willing to pay for something they want.

Attending an auction will provide you and your child a great example of where price and value are not necessarily one and the same. (And for those interested in teaching their children about investing, there is no better place to learn about how the stock market works than by participating at an auction!)

The comments made in this commentary are opinions and are not intended to be investment advice or a forecast of future returns.

