

Strategy #22: Spotting market inefficiencies

Covered in this section:

What to look for to find inefficiencies

- Markets are based on supply and demand, but sometimes you can find inefficiencies because of a few reasons:
 - 1) The profit motive is not properly incentivizing business owners
 - example: private education
 - they want to charge as much as possible AND cut costs
 - it's impossible to offer great quality by cutting costs
 - 2) Government regulations
 - example: rent control
 - there is a regulation saying that your rent can never change according to the market
 - example: items coming to Brazil will get taxed a huge amount
 - 3) Not enough incentive to address something
 - example: orphan drugs
 - only a small population needs them
 - you can't make enough profit from selling them

- How to spot market inefficiencies:
 - 1) Look for extreme price differences
 - example: private vs. public education
 - 2) Look for weird consumer behaviors
 - example: Brazilian people fly to the US to purchase electronics and clothes
 - example: landlords are trying to evict their tenants so they can raise the rent

- The big problems might be too hard to solve
- Look for the problems caused by the inefficiencies and solve those instead