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PREVIEW

Scholars on Investing: Academic Failures

A recent study of academics' theories of how to beat the market shows that most are about as accurate as a Ouija board.

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Random: Studies claiming to predict market movements are often as accurate as picking stocks with a Ouija board. *Illustration: William Waitzman for Barron's*

Investors have long sought the secret to beating the market. They've tried all kinds of statistical tricks, from buying Dogs of the Dow (the 10 highest-yielding Dow stocks) to selling when stocks hit a price/earnings ratio. Quants deploy even more arcane methods.

Many of these schemes come from academics who regularly publish ways to predict returns. Most appear to be as accurate as picking stocks with a Ouija board. Duke finance professor Campbell Harvey, one of three authors of a recent study that reviews more than 300 academic papers claiming to predict or explain stock-market perturbations, notes that half "are likely false."

Academics, he adds, are too casual suggesting that investment strategies will consistently produce high returns. Just because a coin lands on tails nine out of 10 times doesn't mean there's a 90% chance it will do so on the next flip. "By random chance, some of those strategies look good," he says.

Michael J. Barclay, a senior research advisor at the Lawrence Berkeley National Laboratory and former head of global quantitative research at Tudor Investment, calls the study "revolutionary." For years, quants wondered why so many studies fizzled, he says. "Professor Harvey and his co-authors have provided the clearest mathematical

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explanation as to why most empirical findings published in financial academic journals are likely to be wrong. He points out the widespread misuse of statistical tests, which makes it easy to confound noise with signal." Which means the secret remains as elusive as ever.

-- Avi Salzman

Next Week

Monday 27

Closing arguments are due on the city of Detroit's restructuring plan.

Energy Future Holdings asks a judge to approve rules for an auction of its 80% stake in Oncor.

Look for [Tenneco](#) to post \$1.09 of earnings, says RBC Capital Markets.

Germany's Ifo business climate index will continue to deteriorate for the fifth consecutive month, Nomura predicts.

Tuesday 28

Growth in the S&P/Case-Shiller 20-city index should slow to 5.4% for August, says Steve Blitz, chief economist at ITG Investment Research. But numbers should start picking up in November on lower interest rates.

DuPont posts quarterly results. There may be some discussion on the conference call about activist group Trian Partners' call for a split.

Amgen holds a business review meeting in New York.

Bank of New York Mellon hosts a conference with investors.

Kroger holds a two-day conference with investors. Deutsche Bank says the grocer could discuss a new market under its Harris Teeter banner, a possible buyout of its dunnhumbyUSA partnership with Tesco, and growth in its natural and organics offerings.

Shell Midstream Partners is seen pricing 37.5 million shares at an average of \$20 apiece.

Honda Motor reports results.

An "expectation among investors for a guidance boost" from [Aetna](#) when it posts results "may be setting the bar too high," says Wedbush.

Wednesday 29

Look for the Fed to end its quantitative easing program on schedule, and to leave its stance on interest rates alone, says Blitz. But given the growth problems in Europe and Japan, and expected slower U.S. growth, it will "reassure people that QE done is not QE gone," he says.

Gannett and Kohl's host meetings with investors.

Carlyle Group reports results.

Thursday 30

The first reading on third-quarter GDP should show growth slowing to 2.8%, says Blitz, "setting up for fourth-quarter growth of 2.3% to 2.5%."

Allstate and Mylan are among the many reporting quarterly results.

Juniper Networks hosts a meeting with investors. Also on the roster of analyst meetings: [Mattel](#).

Samsung Electronics posts results.

Johnson Controls should report quarterly earnings of \$1 a share, says RBC, and that guidance for fiscal year 2015 will be given.

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