Doubtful finance research

have no idea, yet his guru?

In the end, more luck than science: finance professor and statistician Harvey Campbell criticized the financial research. Can you become a financial guru even without much knowledge?

07.15.2015, by MARTIN HOCK

With or without financial research: Warren Buffett (right here with Bill Gates) is considered guru in the investment scene.
In my opinion, more than half of all research articles on financial market issues are faulty," says Campbell Harvey, a finance professor at Duke University in Durham, North Carolina. The sitting once. Then Harvey adds: "In my view, this means that more than half of the financial products that should bring on the basis of such studies a positive return, were based on false premises." This explains of course why many highly praised product does not meet expectations.

Harvey specializes in portfolio and risk management. His judgment is based on considerations of probability theory. "Quite fundamentally true: If you try a lot, anything works purely coincidental. Thus a result is significant, high hurdles should sufficiently be built. "But that was in the financial research rather less often the case.

Harvey illustrates this with an example: Give 10,000 investors an index forecast. One half prophesy one rising, the other falling prices. When this system ten months compared with those beibhalte, which you've said is right, it still applies after ten months with around ten investors as omniscient guru. Without having even the slightest idea would - it was pure statistics.

**Higher barriers for financial products**

With reputable research the matter is somewhat more complicated. The reason why promising trading strategies often fail as calculated, is in a wrong methodology, says Campbell. The phenomenon is actually known, as a so-called multiple comparisons problem. "Simply put, if you test the data on a hypothesis out yet everything fits. But if you test several hypotheses - and in finding a trading strategy you test a lot of -, the probability increases that happened to be successful."

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confirmed only prevailing prejudices. In physics or biomedicine has already increased the test barriers significantly, in the financial research not.

"There is no reason to assume that there is a difference between the natural and the financial scientific research," says Harvey. "In my opinion, the way it should be changed, is operated in the research." After Harvey’s stringent testing methods have of 296 findings from the Public Finance since 1964 more than three-quarters, rather only half stock.

**Luck takes research**

And what does this mean? Harvey, who is not only a professor, but also a hedge fund provider advises Man Group in the investment strategy has two tips ready. Professional investors should invest in quality, he says, and choose Portfolio Manager, create the bigger hurdles in their choice of investment strategy. Private investors should establish a diversified globally positioned Depot and be satisfied with what the market will bear.

"The research on investment funds in America has yet to provide any evidence that it is possible to systematically outperform the market. If they succeeded, it was my research to generally just luck. "And yes, exchange-traded funds are a good, inexpensive way of doing this.

**No pure hedge?**

Under diversification Harvey understands not only to hedge against fluctuations. "One should keep not only the normal fluctuations in the eye, but also what can happen at the edges." Conventional portfolio models assume a normal distribution of income.

That is, these vary with a probability of 99.97 percent in a relatively narrow range around the average. "But the reality is not normally distributed," says Harvey. "You really do not know what or what is
risk volatility. Especially in the financial crisis, the border risks have increased enormously.

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