



Efficient Markets Hypothesis



The Efficient-Market Theory

- ▶ Security prices efficiently incorporate all public information
- ▶ They reflect their true investment value at all times
- ▶ Asset allocation relies on market efficiency and rational investor behavior
- ▶ However, investors do not always behave rationally



Efficient Markets Hypothesis

Eugene F. Fama

The Hypothesis States:

- Current prices incorporate all available information and expectations.
- Current prices are the best approximation of intrinsic value.
- Price changes are due to unforeseen events.
- “Mispricings” can occur but not in predictable patterns that can lead to consistent outperformance.

The Hypothesis Does not State:

- All investors are rational.
- Prices are always right.
- Prices should be stable.
- Professional money managers can't earn higher than market returns.

What Affects a Stock's Current Price?



Given all information, a stock's current price offers the best approximation of actual value.

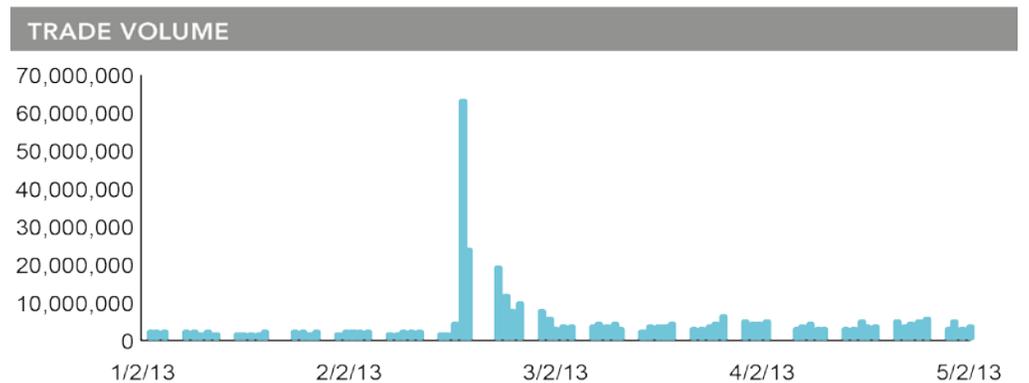
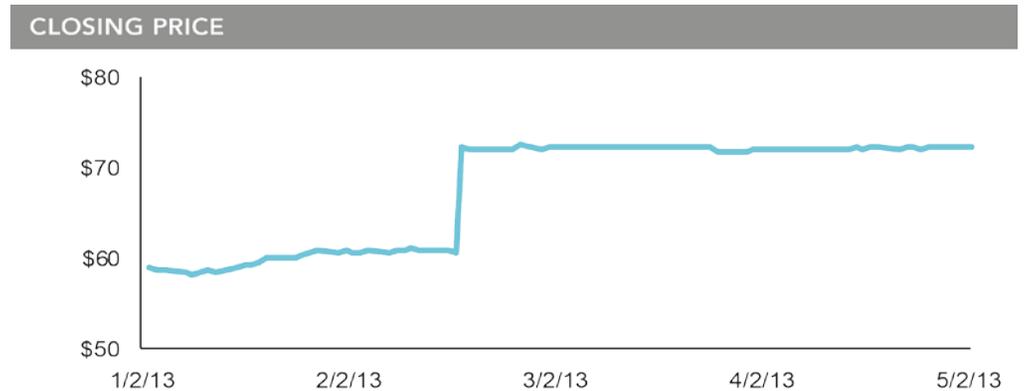
Stock Prices Adjust Quickly

Heinz, 2/14/2013

**“Heinz agrees to buyout by
Berkshire Hathaway, 3G”**

-USA Today, February 14, 2013

News travels quickly, and prices
can adjust in an instant.



Source: Bloomberg

The security identified is shown for illustrative purposes only to demonstrate the investment philosophy described herein. These materials are not, and should not be construed as, a recommendation to purchase or sell the security identified or any other securities. Actual holdings will vary for each client, and there is no guarantee that any client will hold the security identified.



Markets Integrate the Combined Knowledge of All Participants

World Equity Trading in 2016

	Number of Trades	Dollar Volume
Daily Average	82.7 million	\$346.4 billion

The market effectively enables competition among many market participants who voluntarily agree to transact.

This trading aggregates a vast amount of dispersed information and drives it into security prices.

In US dollars.

Source: World Federation of Exchanges members, affiliates, correspondents and non-members. Trade data from the global electronic order book. Daily averages were computed using year-to-date totals as of December 31, 2016, divided by 250 as an approximate number of annual trading days.



Together, We Know More Than We Do Alone



Participants were asked to estimate the number of jelly beans in a jar.

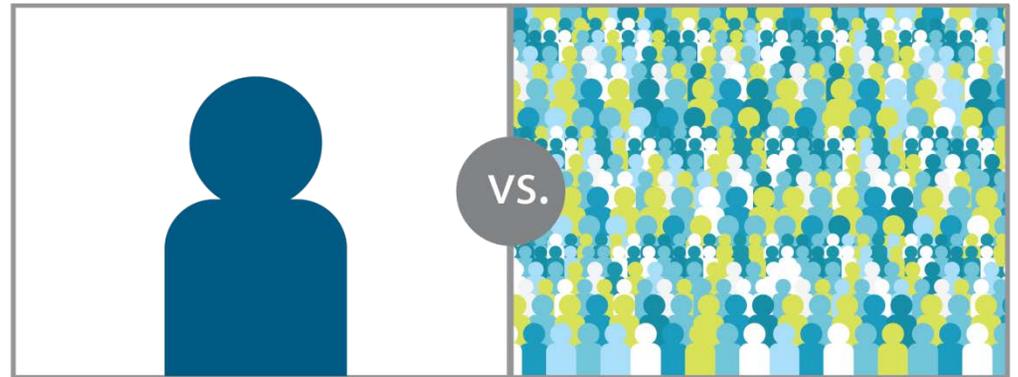
Range: 409-5,365

Average: 1,653

Actual: 1,670

Let the Market Work for You

When you try to outwit the market, you compete with the collective knowledge of all investors.



By harnessing the market's power, you put their knowledge to work in your portfolio.

