

# [Before from previous prices. malkiel points out](https://assignbuster.com/before-from-previous-prices-malkiel-points-out/)

[](https://assignbuster.com/)[Finance](https://assignbuster.com/essay-subjects/finance/), [Investment](https://assignbuster.com/essay-subjects/finance/investment/)

Before to explain the efficient markethypothesis, there is an important to mention “ efficiency” in the financial markets such market do not allow investor to earn the averagereturns above the average risks. There is an old story among economists, a $100bill lying on the ground, the student stops to pick up then the professor said “ Don’tbother, if it were really $100 bill, it wouldn’t be there” the story showsmarket is efficiency even valuation may sometimes exist errors. Market could beefficiency even if many market participants are irrationality and stock pricesare volatility. Therefore, all of these concepts of market efficiency could besummarized if market is efficiency that they do not allow investors to earn excessrisk adjust returns. Efficient Market Hypothesis has been accepted bymany financial economists in a generation ago, such as Fama (1970).

It reflects all information about stocks arerationally and without delay, for example, in a security market, all investorshave rationality expectations, security prices can complete reflect allavailable information, each security price is equal to the value of investment. The efficient market hypothesis involved the theory of Random Walk, whichgenerally used in prices series, prices changing could represent prices goes randomlyfrom previous prices. Malkiel points out in the idea of random walk ifinformation is unimpeded and immediately reflect stock prices, the today’s pricesonly reflect the news in today that cannot reflect news in tomorrow or futurebecause news is unpredictable, thus, resulting prices is unpredictable andrandom. According Malkiel’s book (ARandom Walk Down Walk Street) published in 1973, he mentioned “ ablindfolded chimpanzee throwing darts could do as well as the experts select a portfolio” the meaning of the advice is not really to throw darts that is to buy the basicfund which involved all bought and held all stocks in the market that chargedlow expenses.