

# Wall street journal case study

Business



Wall Street Journal's Dartboard Contest In his popular personal finance book arguing that investors can't consistently beat the market (A Random Walk Down Wall Street), economist Burton Malkin says that " a linefeed monkey throwing darts at a newspaper's financial pages could select a portfolio that would do just as well as one carefully selected by experts. " Sounds like a challenge. So, in 1988, the Wall Street Journal decided to see if Malkin's theory would hold up, and created the Dartboard Contest.

How it worked: Wall Street Journal staffers, acting as the monkeys, threw darts at a stock table, while investment experts picked their own stocks. After six months, they compared the results of the two methods.

The WAS even solicited stock picks from mom of its readers, and compared them, too. After 100 contests, the results were in. From Investor Home's great description of the contest: <http://www.Authentications.Com/monkey-stock-picking/> On October 7, 1998 the Journal presented the results of the 10th dartboard contest.

So who won the most contests and by how much? The pros won 61 of the 100 contests versus the darts.

That's better than the 50% that would be expected in an efficient market. On the other hand, the pros losing 39% of the time to a bunch of darts certainly could be viewed as somewhat of an embarrassment for the pros.

Additionally, the performance of the pros versus the Dow Jones Industrial Average Nas less impressive. The pros barely edged the DEJA by a margin of 51 to 49 contests.

In other words, simply investing passively in the Dhow, an investor would have beaten the picks of the pros in roughly half the contests (that is, without even considering transactions costs or taxes for taxable investors).

Ere pro's picks look more impressive when the actual returns of their stocks are compared with the dartboard and DEJA returns. The pros average gain was 10. % ' errors 4. 5% for the darts and 6. 8% for the DEJA. So isn't this a victory for professional stock experts? Milkier says no.

He and a number of other commentators point to a number of factors affecting the results, including: The Announcement Effect: by announcing the stocks to the entire audience of the WAS, it will artificially inflate the returns (in fact, abnormal gains for the first 2 days after publication scaled back between 15 and 25 days later). Pros picked riskier stocks: Case Western Reserve University professor Binge Liana says that, adjusted for risk, the pros' would have lost 3. 8% on the market over the six- month period. The Dartboard stocks continued to do well: After the contest ended, the dart stocks continued to perform, while the pros' picks fell from their initial highs after publication. Inner, Winner, Chicken Dinner In 2002, the WAS stopped the contest, but wouldn't go so far to say who won. The Wall Street Journal isn't declaring a winner.

Indeed, the decision to wind down the Investment Dartboard competition has nothing to do with the results. " The Dartboard eater has been an entertaining way for readers to learn about picking stocks, and about broader market theories, too," said Lawrence Ingrains, Money & Investing editor of the Journal. But 14 years is a long time for any newspaper feature.

Retiring the Dartboard will free more resources to satisfy our readers' growing appetite for a range of vital financial stories ? not just about stocks and bonds, but corporate finance, mergers and acquisitions, banking, accounting and mutual funds, as well as the names and faces behind the news. " The Journal's Dartboard Contest isn't a reflect representation of the stock picking expertise of monkeys vs..

Professionals, but it has certainly tested a popular theory and given us regular investors something to learn from.

The contest has inspired a lot of analysis, testing both professional stock picking as well as the Efficient-market hypothesis. The long-story snort is that, except in a very rare occasion, I'm not knowledgeable enough to beat the market over an extended period of time with my investment choices. And neither are you. If {o'er paying someone to do the Job for you, you're likely not even beating the indexes they're benchmarking against ? and then you have to pay them fees.

012/2/29 Ere WAS recently started running a modified version of the Sunday Dartboard Contest, with the latest sharing how its readers are performing against the darts Ride the Rally and Beat the Darts"). More reading: Ere Wall Street Journal Dartboard Contest – Investor Home Monkey business – Forbes. Com Urinal's Dartboard Retires After 14 Years of Stock Picks – Wall Street Journal (GoogleCache) Tagged as: actively managed funds, dashboard, experts, index funds, Invest, mutual funds, stocks, wall street Journal