

EFFICIENT MARKETS

May 28th, 2001

- When it comes to the Efficient Market Theory, most investment veterans would go along with the "trading floor cynic". He always thought it was a crock with enough fantasies to distract academics from more important matters such as who is selling what to whom and why? – sort of the opiate of intellectuals.
- Recently much has changed with the revelation that not only does the theory work but it is even more efficient than it used to be – quite likely due to the economies of scale attendant to the biggest financial mania in history.
- For example, employment figures have been dropping much faster than during the 1990-1991 recession. Moreover, durable goods orders are plunging at a rate more than twice the consensus forecast. Now that's getting to be a pretty good bang for the research dollar.
- Signs of even more dramatic improvements in market efficiencies are becoming apparent in the stock market. Following the climax of the last New Era in 1929, it took almost two years and fully 8 discount rate cuts for the Dow to collapse 68% to May, 1931.
- Following speculative exhaustion of our New Era in March, 2000, it took only one year and only 4 discount rate cuts to accomplish a 68% crash in the Nasdaq. The cynic is impressed with the efficiency and now a true believer, but he thinks "they" have overdone it a little. However, you can't hold back progress and perhaps other sectors can become more efficient as well.

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