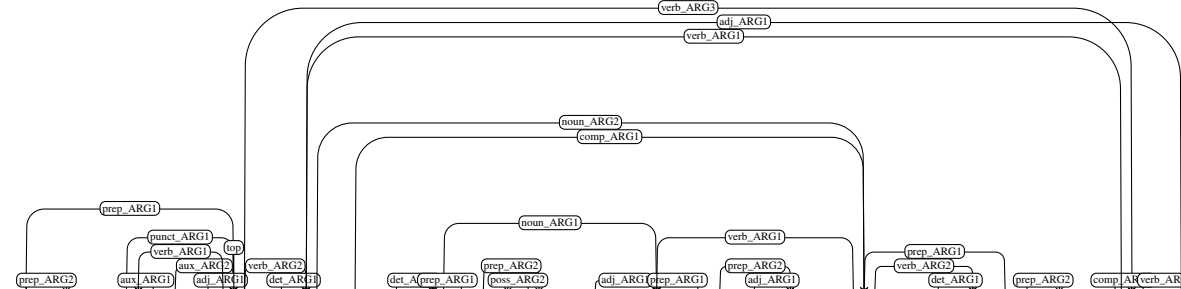
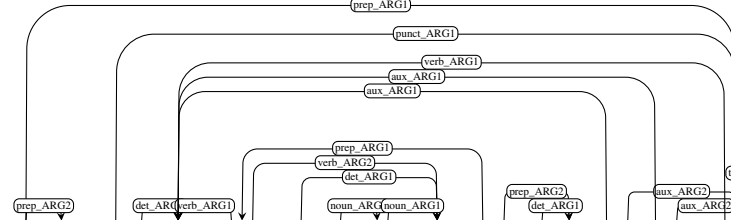


[20728002]



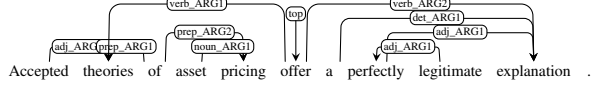
In particular , I do not find the fact that your group of pros ' monthly selections of four stocks outperforms the market in general to be inconsistent with market efficiency .

[20728004]



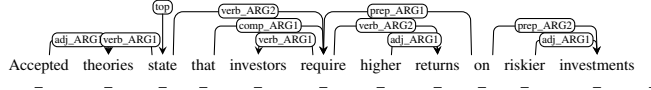
In contrast , an investor holding the Dow Jones portfolio over the year would have accumulated only \$ 127,446 .

[20728005]



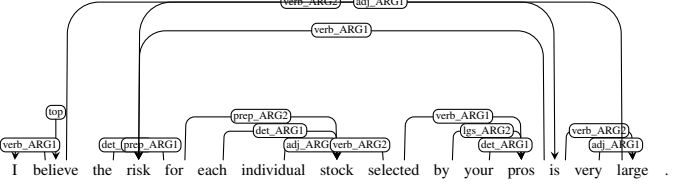
Accepted theories of asset pricing offer a perfectly legitimate explanation .

[20728006]



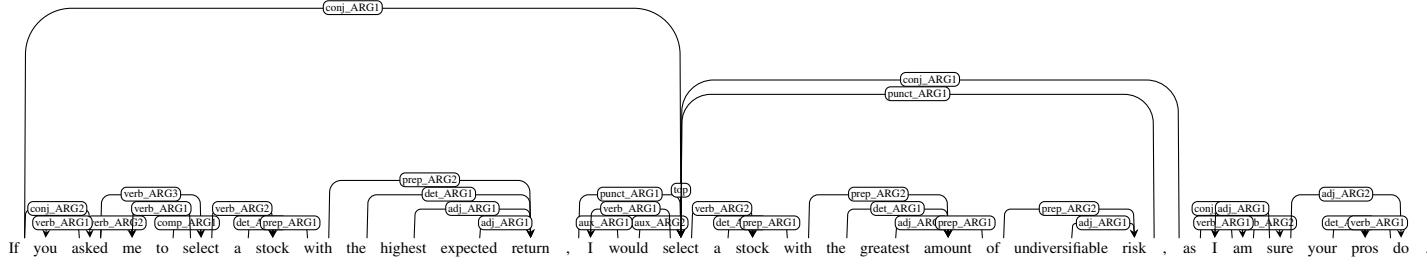
Accepted theories state that investors require higher returns on riskier investments .

[20728008]



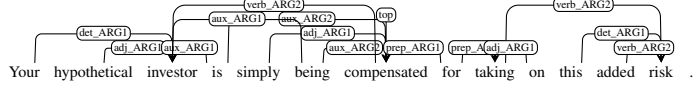
I believe the risk for each individual stock selected by your pros is very large .

[20728009]



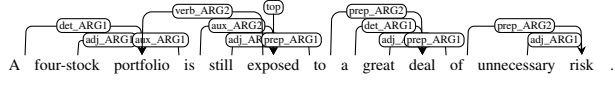
If you asked me to select a stock with the highest expected return , I would select a stock with the greatest amount of undiversifiable risk , as I am sure your pros do .

[20728010]



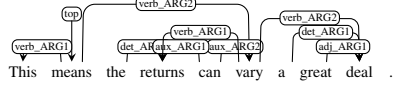
Your hypothetical investor is simply being compensated for taking on this added risk .

[20728012]



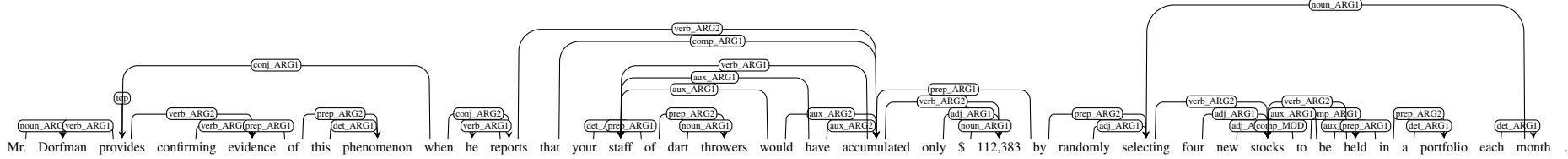
A four-stock portfolio is still exposed to a great deal of unnecessary risk .

[20728013]



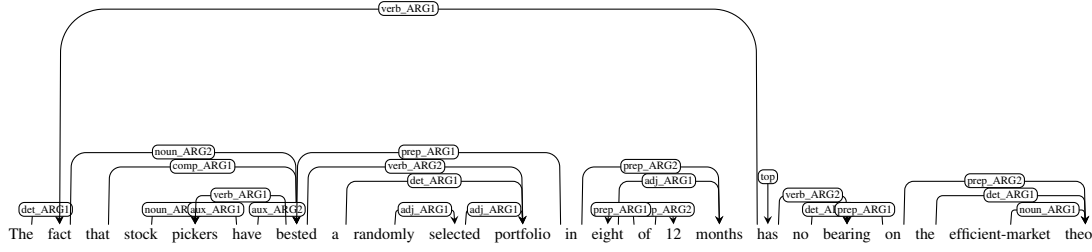
This means the returns can vary a great deal .

[20728014]



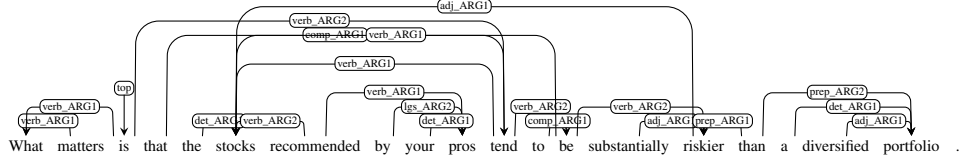
Mr. Dorfman provides confirming evidence of this phenomenon when he reports that your staff of dart throwers would have accumulated only \$ 112,383 by randomly selecting four new stocks to be held in a portfolio each month .

[20728016]



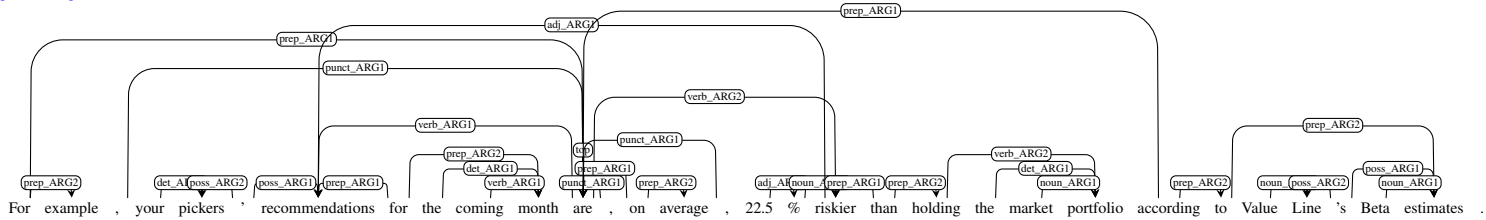
The fact that stock pickers have bested a randomly selected portfolio in eight of 12 months has no bearing on the efficient-market theory .

[20728017]



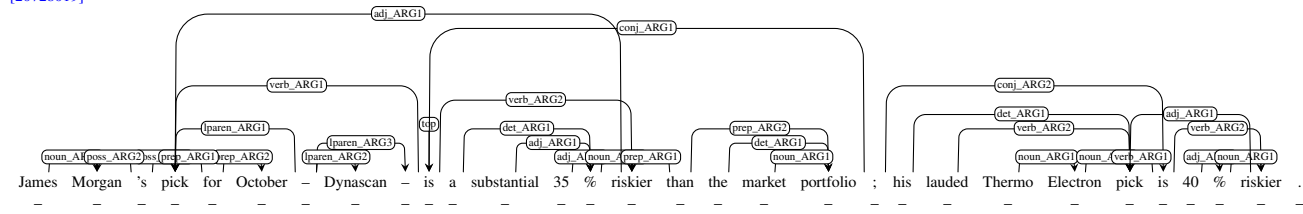
What matters is that the stocks recommended by your pros tend to be substantially riskier than a diversified portfolio .

[20728018]



For example , your pickers ' recommendations for the coming month are , on average , 22.5 % riskier than holding the market portfolio according to Value Line 's Beta estimates .

[20728019]



[20728020]

