Proof that Properly Anticipated Prices Fluctuate Randomly

As the title indicates, the purpose of Samuelson’s paper was to prove to readers that prices fluctuate and take ‘random walks’. Future spot prices are dependent on the sum of all the events that relate to the stock before a given date. We cannot disregard seemingly random events because each event is correlated to a change in the stock’s price. Furthermore, Samuelson proved that nest periods prices are unrelated to the prices of previous periods.

Samuelson also discussed the behavior of futures prices. He acknowledge that futures prices fluctuate. He also concluded that spot prices are set by bidding on futures prices based on currently expected spot prices. In this way people put their knowledge into the market, although believing the knowledge of individuals may include large amounts of risk. The market prices contain as much information as can be known about the future, thus individuals cannot experience unexpected gains. Therefore, if an individual gains from a given market it must be because they were able to make use whatever knowledge is available in the market.

He continued by explaining that greater risk and price fluctuations are experienced from day to day or hour to hour as a futures contract nears maturity. As the contract nears its close any given event could be a deciding factor in the price. When the date is far out the market price may have time to recover, and prices could rise. Alternatively, close to the maturity date any given event that has enough impact to significantly impact prices could be a large determining factor in the price that the contract closes at.

It was also noted that patterns of prediction are doomed to fail. I think that there are several reasons included in why this would be true. Most likely this statement is true largely because using past data is a poor indicator of how the market is currently behaving.

In conclusion I think that Samuelson’s theory is sound, although possibly too pessimistic. I do agree that prices fluctuate, and investing in the stocks or commodities is risky. However, I also believe that given experience in a particular field an investor could make profitable educated guesses. I don’t think that prices contain all the information currently available. It seems to me that an individual with knowledge in a particular field could use past experience to evaluate current situations and gain from the market. Prices do fluctuate, however, prices may not hold all available data.