Hoang Anh Thai Vu

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Revised Paper Proposal

**The Rise of Passive Investing and Its Effect on the Stock Market**

**Proposals:** Over the past few years, the market has observed a shift from active investment (stock picking) to passive investment (ETFs picking) (Tergesen, Zweig). Many economic researchers and financial analyst have been pondering how would such shift impact the stock market as a whole. One common perspective on this matter is the increase in price volatility for stocks included in ETFs (Ben-David, Franzoni, Moussawi; Curcio, Anderson, Guirguis, Boney). Even though the increase in volatility does not affect the nominal return on any particular stock, it does affect the risk-adjusted return, which is a common measurement of portfolio performance. In this paper, I am aspiring to expand on the previous researches and trying to answer one (or several) of these questions:

1. Did the increase in the popularity of ETFs in the stock market create a snowball effect that shift the market from active investment to passive investment?
2. Would the reduction in active investment (stock picking) affect the mechanism of stock market other than volatility? Such as lag in realizing the market price, reduction in trading liquidity, etc.?
3. Is there any strategy for arbitrage/quantitative trading in such scenario?

**References:**

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