Chapter 6: Are financial markets Efficient?

Efficient market hypothesis (theory of efficient capital markets):
prices of securities in financial markets fully reflect all ~~reflect all~~ available information.

Arbitrage: refers to how some market participants will elimate take advantage of unexploited profit opportunities to the point that the unexploited profit opportunities are eliminated.

- Therefore, not everyone participating in the financial market needs to be well informed for a security's price to reflect all available information

Evidence in favor of Efficient Market Hypothesis

The performance of Investment Analysts and Mutual funds:

- Efficient market hypothesis state it will be impossible to beat the market as the market reflects all available information already.
- Studies show that investment advises and mutual funds do not consistently outperform the market b/c past performance is not indicative of future performance.

Stock prices reflecting publicly available information:

therefore, if information is already publicly available a positive announcement on a company should not (on avg) cause the stock's price to rise.