



Get MarketWatch Anytime, Anywhere.

More

Enter Symbol(s) or Keyword(s)

Welcome, please [sign in](#).
[My Portfolio](#) • [Community](#) • [VSE](#) • [Alerts](#)

FRONT PAGE **MARKETS**
[Global Markets](#) [Emerging Markets](#) [Earnings Watch](#)
MARKET SNAPSHOT**Market meltdown refutes 'efficient markets' theory**By [Kate Gibson](#), MarketWatch

Last update: 12:30 p.m. EDT March 18, 2009

NEW YORK (MarketWatch) -- The stock market collapse calls into question the soundness of one cornerstone of modern financial theory -- the idea of "efficient markets" -- since all the components that conspired to produce the mess were in plain sight, contends one analyst.

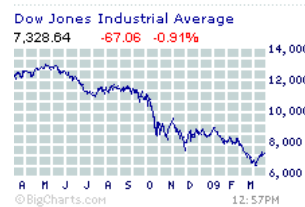
"Anything that purports to describe the last 18 months as 'efficient' seems like a cruel joke," said Nicolas Colas, chief market strategist at BNY ConvergEx Group.

The premise behind the term holds that available information about a given security is quickly baked into its price, yet Colas says in the latest market decline, stock prices ignored the news until the situation threatened the likes of a Lehman Brothers.

"All the factors that created the market's collapse were hiding in plain sight in brokerage firm 10-K filings and news reports about the housing and mortgage markets. Hundreds, if not thousands, of individuals knew the risks in the collateralized debt obligations and credit default swaps marketplaces. Many of them even work in one place -- New York City," said Colas.

"We suspect the academic community will have a hard time explaining away the destruction of half of the value of the U.S. stock market in a little over a year after it took 70 years to create much of that same wealth," the analyst said.

On Wednesday, energy and industrials led sector declines as stocks reversed course on the prior day's rally. Off earlier lows, the Dow Jones Industrial Average ([\\$INDU](#)) was lately down 53.05 points at 7,342.65. The S&P 500 Index ([\\$SPX](#)) declined 1.57 points to 776.55, while the Nasdaq Composite ([\\$COMP](#)) shed its losses to add 7.5 points to 1,469.61.



The market collapse also discredits the common wisdom of near-certain returns if one holds stocks for five to 10 years.

"That's another one we can throw out the window, but you can flip the coin, if you've made your 10% for 10 years, then get out," said Colas.

Colas also rejects the notion of using math as an investment edge, saying those who believe they can call on market bottom based on S&P 500 earnings estimates and "some notion of a 'normal' P/E" should reconsider. "The reason the market bottomed is not because we hit some magical P/E ratio," the analyst said.

Instead, Colas advises trying to devise a more complete picture of where corporate valuations may end their fall, looking at current economic and business fundamentals to help determine what fundamental scenario might develop as the recession wanes.

"What I've tried to say is don't baseline your expectations on the notion that markets are as efficient as the academic world wants to believe, think for yourself," said Colas. ■

Kate Gibson is a reporter for MarketWatch, based in New York.

From MarketWatch

The Technical Indicator
NEWSLETTER

"Technical analysis of the market's trading ranges, exit and entry points, including five stocks poised to move in each issue."

Michael Ashbaugh, Editor

[FREE 30-DAY TRIAL >](#)

[Site Index](#) | [Topics](#) | [Archive](#) | [Help](#) | [Feedback](#) | [Media Archive](#) | [Premium Products](#) | [Mobile](#) | [RSS](#) | [Podcasts](#) | [Company Info](#) | [Advertising Media Kit](#) | [License our Content](#)

The Wall Street Journal Digital Network:
[WSJ.com](#) | [Barron's Online](#) | [BigCharts](#) | [Virtual Stock Exchange](#) | [All Things Digital](#) | [MarketWatch Community](#)
[RealEstateJournal.com](#) | [Financial News Online](#) | [WSJ.com Small Business](#) | [FiLife - Personal Finance](#)

MarketWatch

Copyright © 2009 MarketWatch, Inc. All rights reserved.
 By using this site, you agree to the [Terms of Use](#) and [Privacy Policy](#).
 MarketWatch.com: [Stock Market Quotes](#) - [Business News](#) - [Financial News](#)

Intraday data provided by [Interactive Data Real Time Services](#), a division of Interactive Data Corp. and subject to [terms of use](#). Historical and current end-of-day data provided by [Interactive Data Pricing and Reference Data](#). More information on [NASDAQ traded symbols](#) and their current financial status. Intraday data delayed 15 minutes for Nasdaq, and 20 minutes for other exchanges. Dow Jones Indexes(SM) from Dow Jones & Company, Inc. SEHK intraday data is provided by Comstock and is at least 60-minutes delayed. All quotes are in local exchange time. Real-time last sale data provided by NASDAQ.