



**“It's Tough to Beat the Market,
But If You Try Real Hard...”**

by Mark Skousen

Doti-Spogli Chair of Free Enterprise

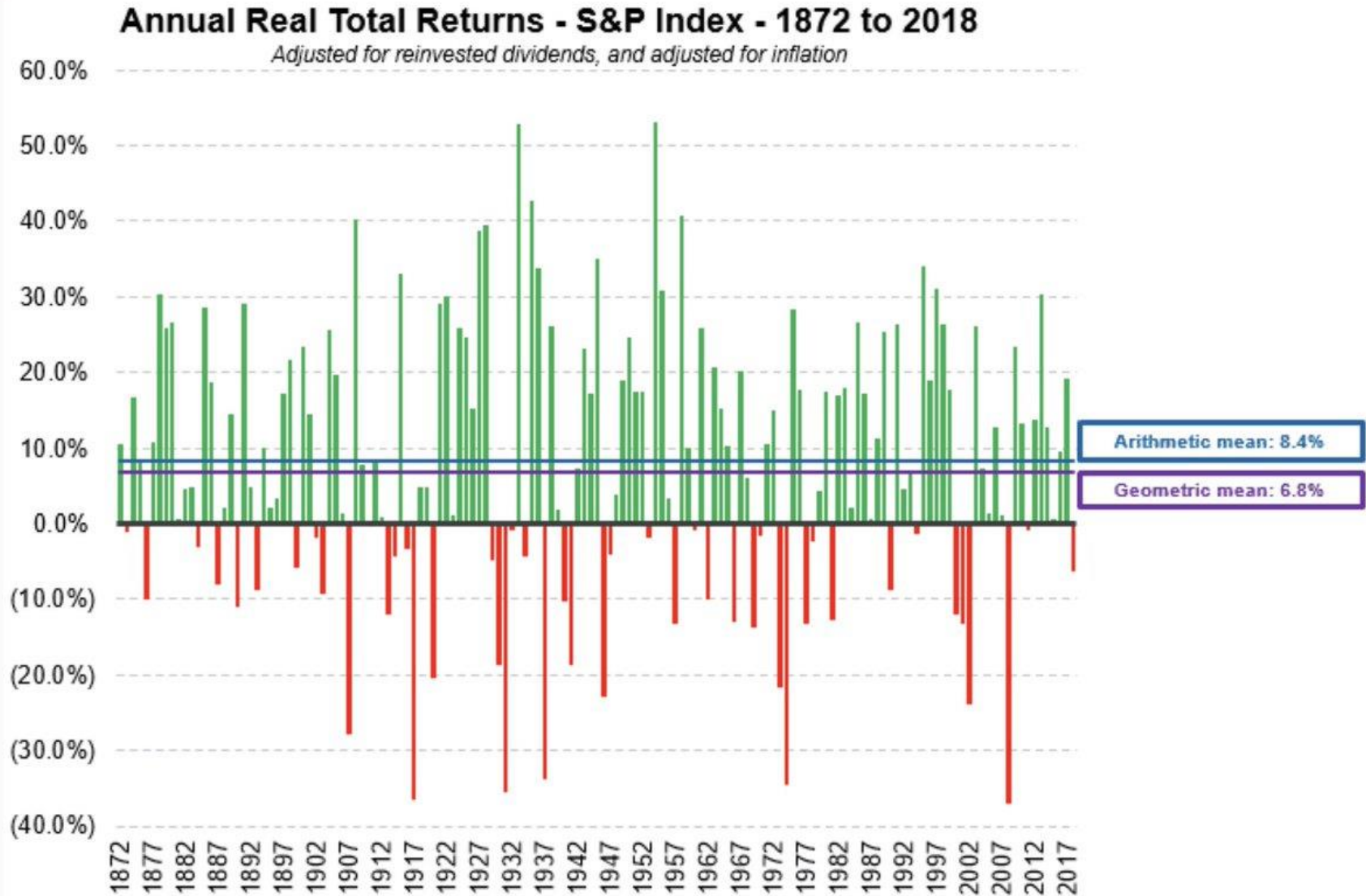
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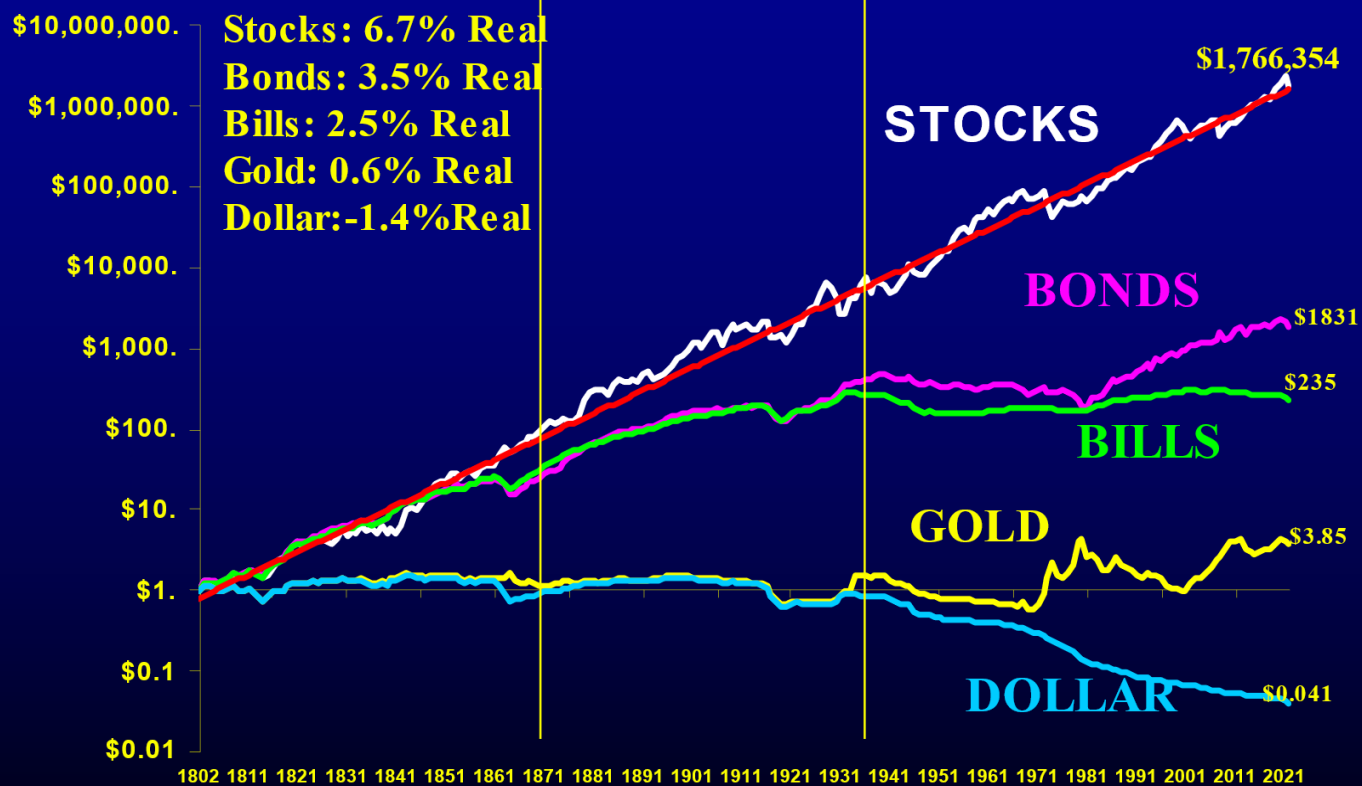
In the Short Run, the Stock Market Appears to be Chaotic, Volatile and Unpredictable



In the Long Run, the Stock Market Appears to be Bullish, Stable and Predictable

Total Real Return Indexes

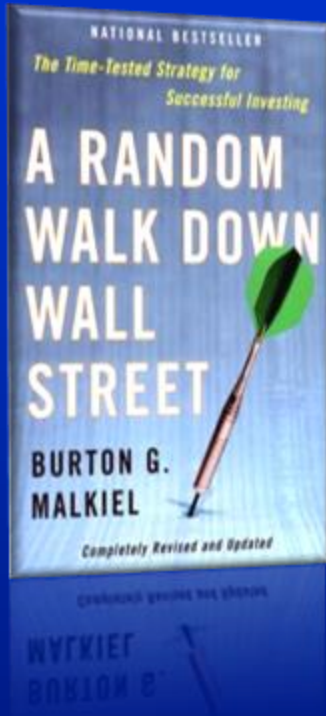
January 1802 – June 2022



Source: Siegel, Jeremy, *Stocks for the Long Run* (2014), *With Updates to 2022*

Past performance is not indicative of future results. You cannot invest directly in an index.

Do Investors Take a Random Walk or a Waltz Down Wall Street?



Princeton Professor Burt Malkiel claims, “Short-run changes in stock prices are random and unpredictable. Investment advisory services, earnings forecasts, and chart patterns are useless.”



On the other hand, money manager Ken Fisher states, “The dance down Wall Street isn’t random, it’s a waltz.”

In what sense is the stock market random or a dance?

Can You Beat the Market?



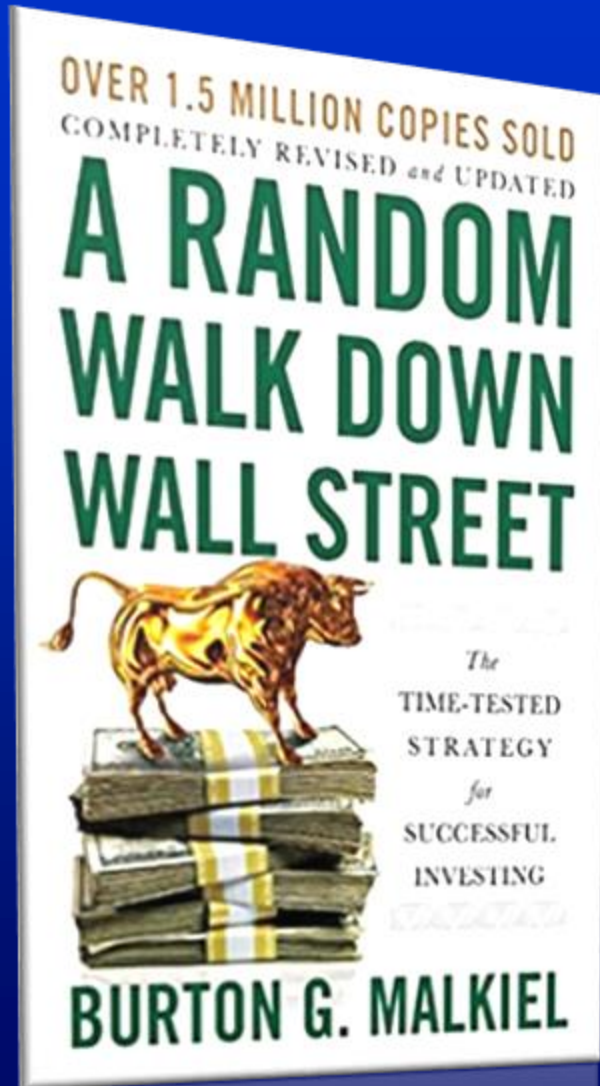
The mathematical expectation of
the speculator is zero.

— *Louis Bachelier* —

AZ QUOTES

– Louis Bachelier,
French mathematician (1870-1946)

Efficient Market Theory or Random Walk?

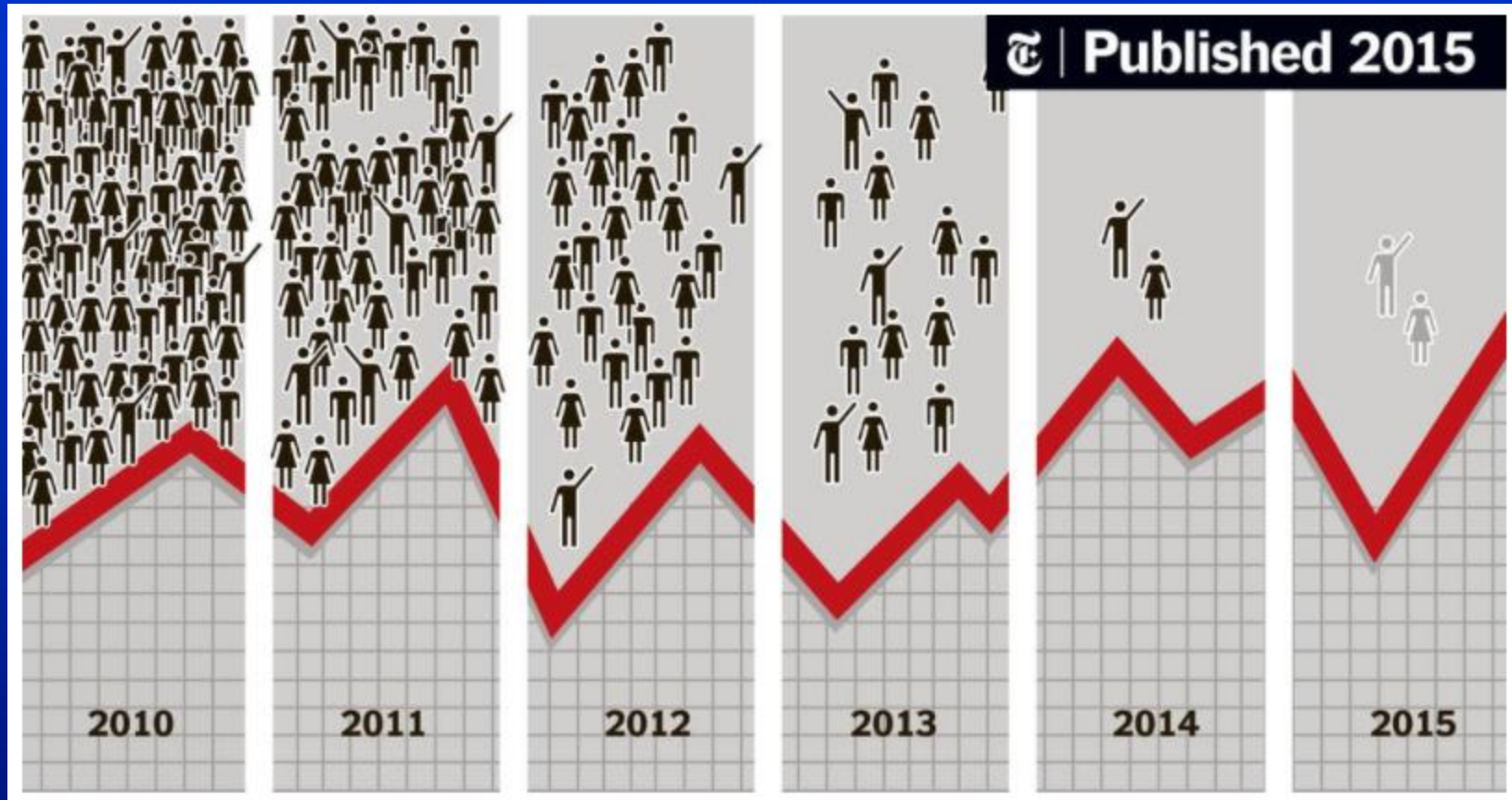


“A blindfolded monkey throwing darts at a newspaper’s financial pages could select a portfolio that would do just as well as one carefully selected by the experts.”

– Burt Malkiel

BURTON G. MALKIEL

Can Professional Money Managers Beat the Market?



“You can win a horse race, but you can't beat the races.”

– Jesse Livermore

“In the world of investing, being average means you are one of the best students in the class.”

– Robert Julian

Modern Portfolio Theory



Harry Markowitz, Father of Modern Portfolio Theory

1. High returns are associated with high risk.
2. Investors should not try to beat the market.
3. Investors should diversify their portfolio.

The Rise of Index Funds

“

Don't look for the needle in the haystack. Just buy the haystack.

JACK BOGLE

FOUNDER AND CEO OF
THE VANGUARD GROUP,
AMERICAN INVESTOR

PHOTO: GETTY IMAGES

YAHOO!
FINANCE

John Bogle (1929-2019),
founder of the
Vanguard 500 Index Fund

Meeting Jack Bogle at the Forbes
100th Anniversary Celebration in
New York City (2017).



Wall Street Breakthrough

What event signifies the greatest breakthrough in Wall Street history?

It could be:

- A. The creation of the Dow Jones Industrial Average in 1884.
- B. The invention of mutual funds in the 1920s.
- C. The first day of trading stock options.
(the best way to speculate)
- D. The creation of the first discount brokerage firm.
(Charles Schwab & Co.)
- E. The invention of the first index fund.

Warren Buffett Beats the Market...

Here is what he wrote in the 1988 shareholder report:

“The continuous 63-year arbitrage experience of Graham-Newman Corp., Buffett Partnership, and Berkshire illustrates just how foolish EMT is. While at Graham-Newman, I made a study of its earnings from arbitrage during the entire 1926-1956 lifespan of the company. Unleveraged returns averaged 20% per year. Starting in 1956, I applied Ben Graham’s arbitrage principles, first at Buffett Partnership and then Berkshire. Though I’ve not made an exact calculation I have done enough work to know that the 1956-1988 returns averaged well over 20%.

“Over the 63 years, the general market delivered just under a 10% annual return, including dividends. That means \$1,000 would have grown to \$405,000 if all income had been reinvested. A 20% rate of return, however, would have produced \$97 million. That strikes us as a statistically significant differential might, conceivably, arouse one’s curiosity.”



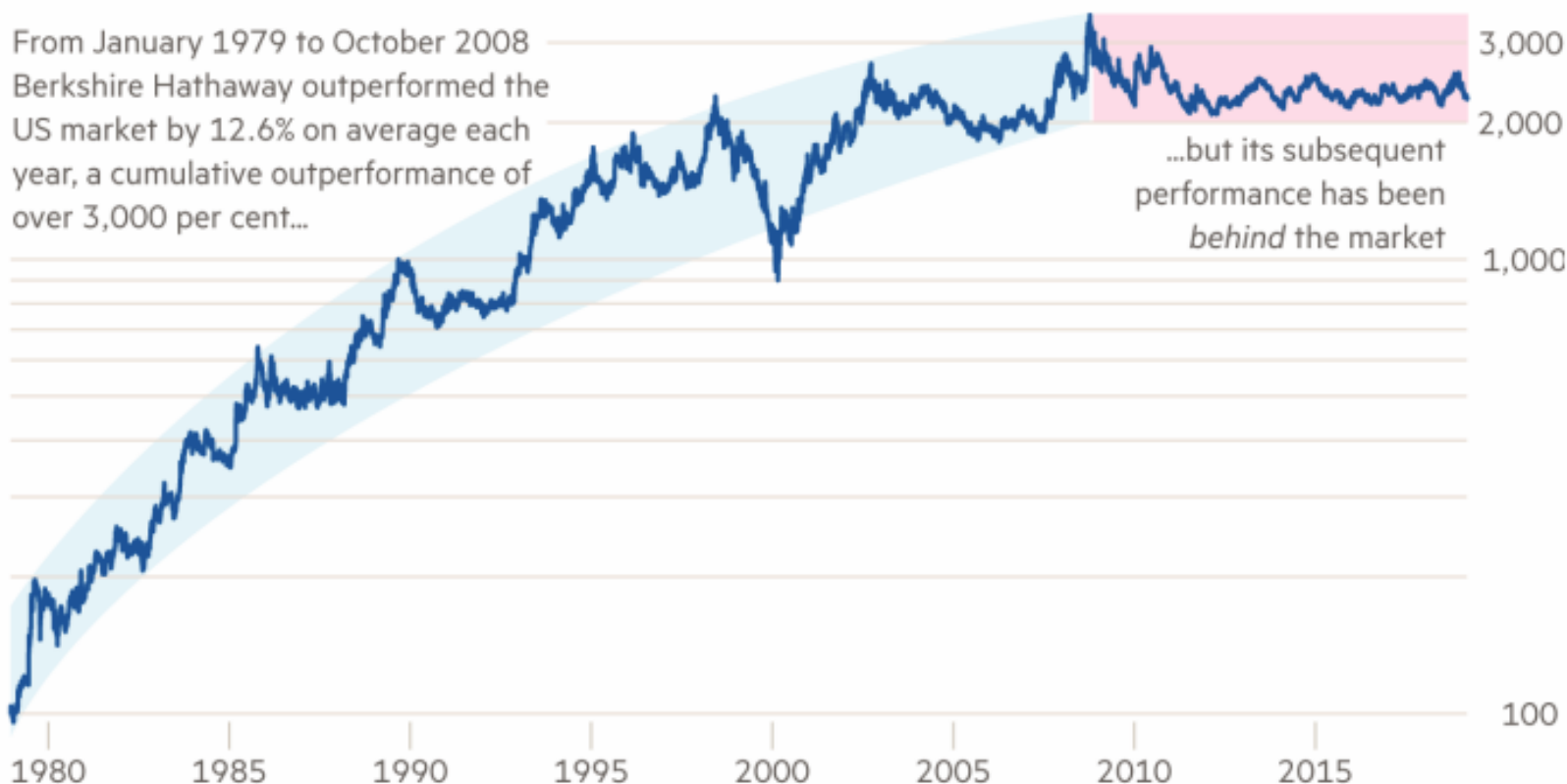
Warren Buffett No Longer Beats the Market

Two parts to the Berkshire Hathaway story

Share price relative to S&P 500, with dividends reinvested
(100 = 1 Jan 1979, log scale)

From January 1979 to October 2008
Berkshire Hathaway outperformed the
US market by 12.6% on average each
year, a cumulative outperformance of
over 3,000 per cent...

...but its subsequent
performance has been
behind the market



Graphics: Keith Fray, Alan Smith Source: Refinitiv

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Beating the Market with Ron Baron, CEO, Baron Funds

“We invest in people, not businesses.” – Ron Baron



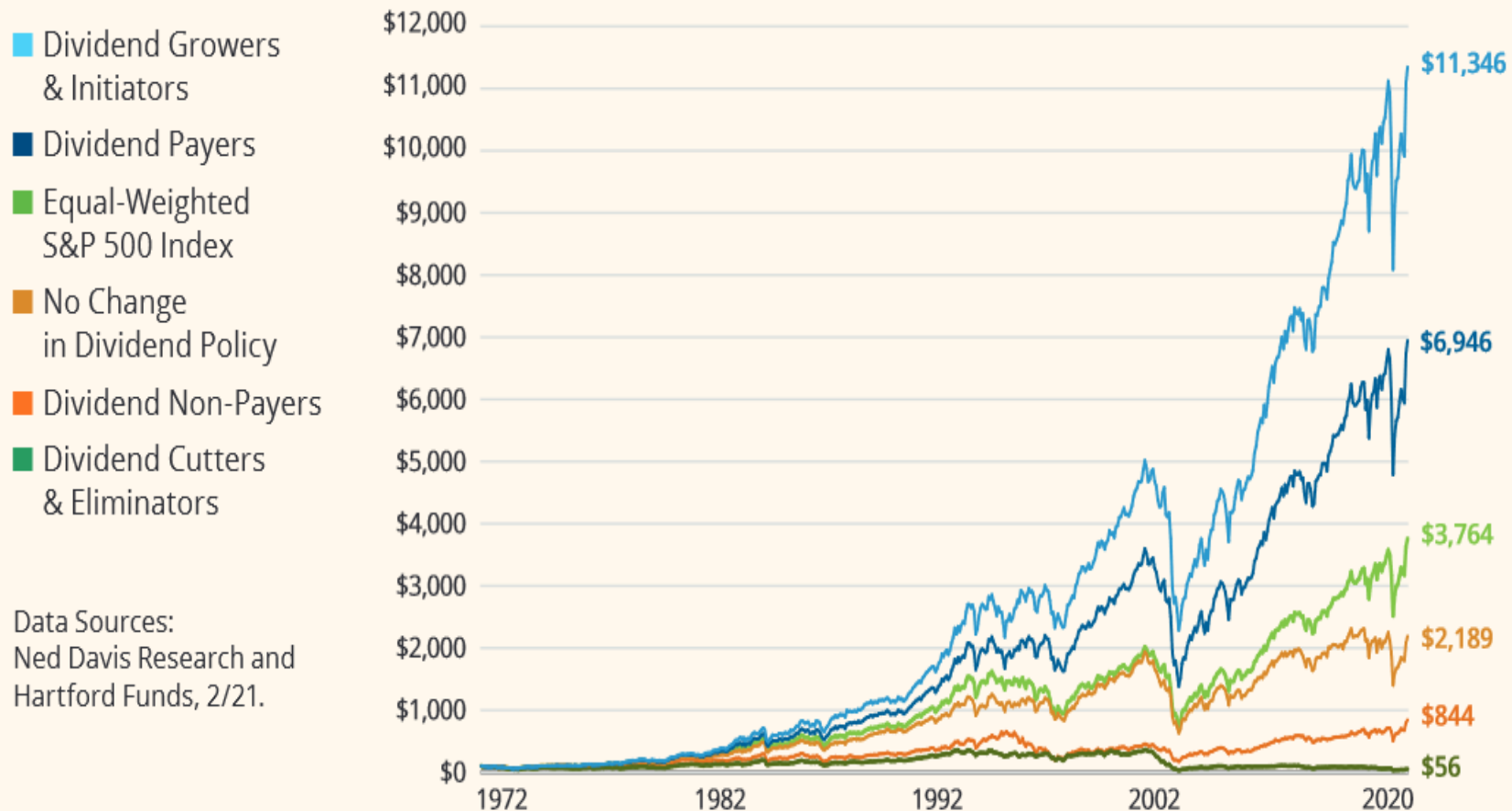
Baron Partners Fund won Best Diversified Mutual Fund last year

“Dividends are the critical factor giving the edge to most winning stocks in the long run.”

– Jeremy Siegel

FIGURE 8

Returns of S&P 500 Index Stocks by Dividend Policy: Growth of \$100 (1973–2020)



The Big Oil vs Big Blue Paradox



IBM was the growth stock since 1950, Exxon (Standard Oil) was the value stock.



Look at the metrics:

Revenue Growth:

IBM: 12.19% per year
Standard Oil: 8.04%

Dividend Growth:

IBM: 9.19%
Standard Oil: 7.11%

Earning Per Share Growth:

IBM: 10.94%
Standard Oil: 7.47%

Sector Growth:

IBM: 14.65%
Standard Oil: negative 14.22%

Which stock performed better since 1950 and why?

The Big Oil vs Big Blue Paradox



Which stock performed better since 1950 and why?

The advantage goes to IBM in every category except the one category that really counts.

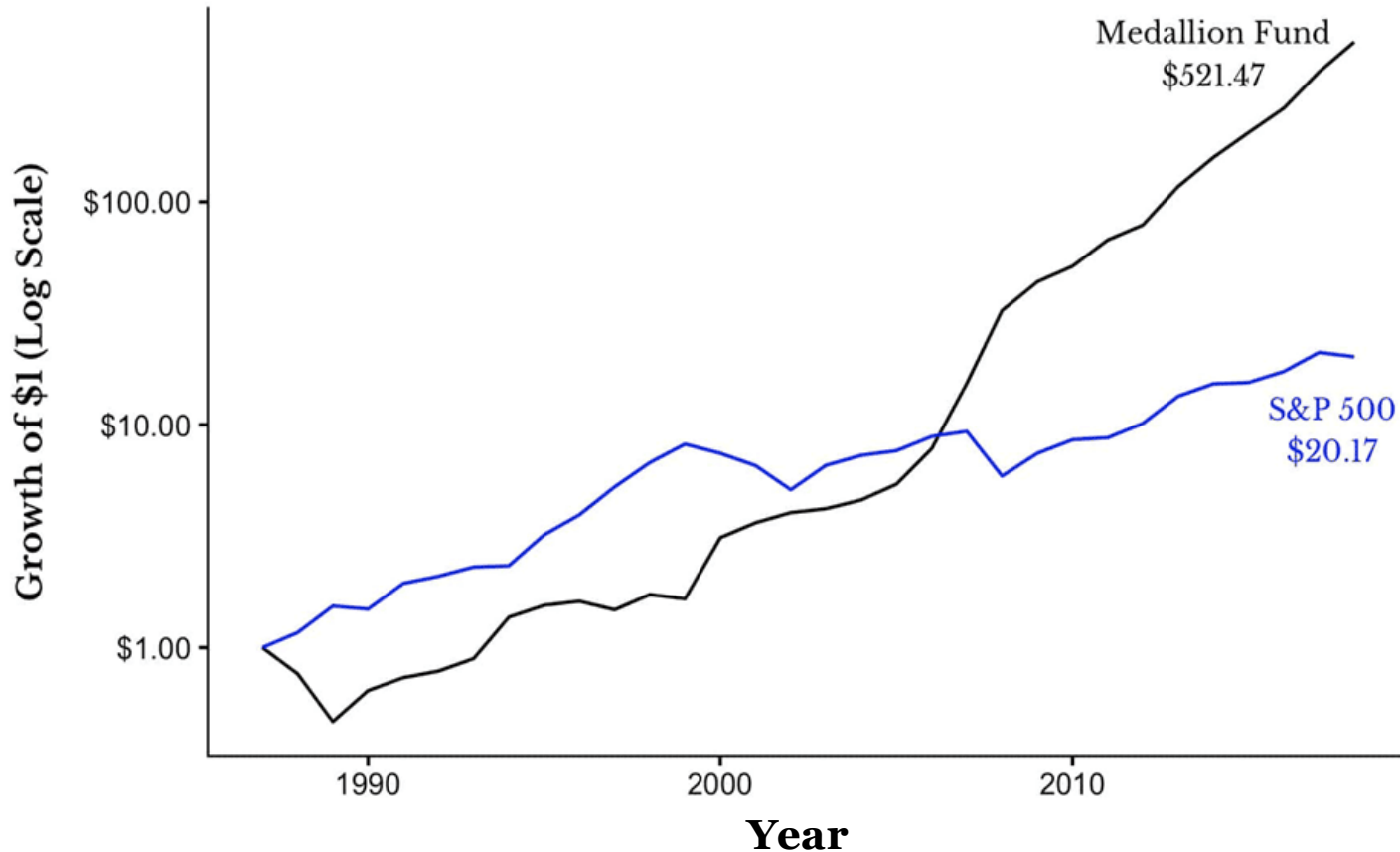
Standard Oil (Exxon) actually produced the better total return.

Total Return

IBM: 13.83%

Standard Oil: 14.42%

Medallion Fund with 40% Fee vs. S&P 500 Growth of \$1



Source: DFA, Gregory Zuckerman (OfDollarsAndData.com)

Note: Assumes the Medallion Fund charges a 40% annual management fee and a 0% annual performance fee. Management fees are assessed on the beginning year balance and charged at year end

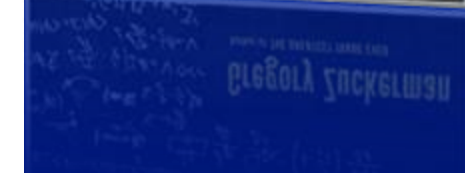
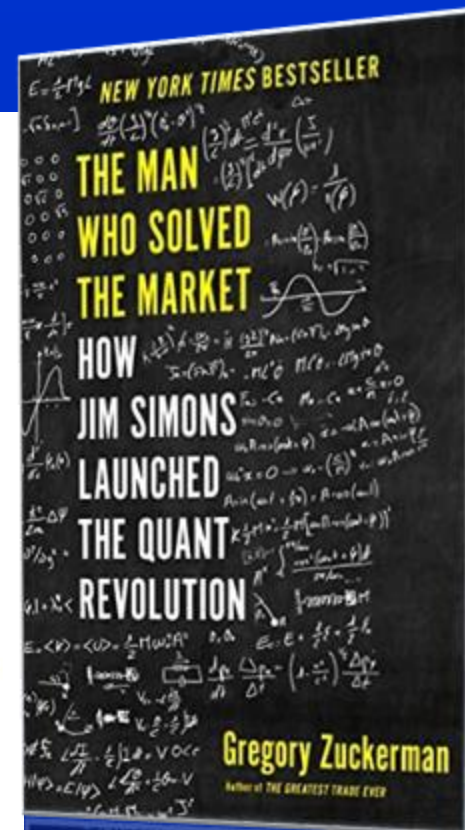




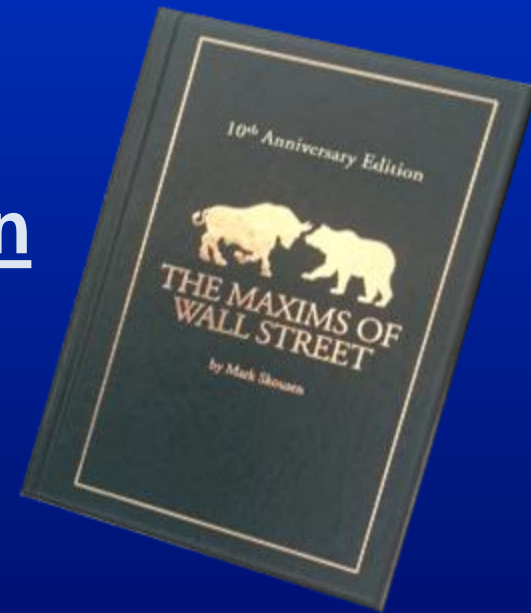
Figure 1., page 192

***A Viennese Waltz Down Wall Street:
Austrian Economics for Investors***



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of *"Maxims of Wall Street,"*
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