



“Beating the Market:” A Fool’s Errand

– by John Augenblick

As I was straightening my tie before work last week, I decided to tune into one of those 24-hour financial news stations that adds perilously little value to society in general. I nearly always end up frustrated with what I witness there, but important lessons are often available for the taking. The reporter said they had a special guest coming up next that we wouldn’t want to miss. She mentioned that he managed to turn \$33,000 into \$7 million in 15 months. Wow, I thought, here we go again...

Her guest laments about how he was burned by an unscrupulous broker (this part I believe) and decided to invest his own money. And, in just 15 months, he turned his small sum into a fortune. He offered little in the way of proof, but evidently his day-trading scheme is bulletproof. I’ll let you evaluate his credibility, but first: the benefit of some perspective.

So, this guy managed to turn \$33,000 into \$7 million in just 15 months. Now, \$33,000 to \$7 million in 15 months is a 7,252% annualized return. At this pace he will be worth over \$2 Trillion (yes, with a “T”) in just 3 more years. What do you think of that likelihood?

How can you learn to do this? Don’t worry, he has lots of avenues to teach you. Maybe buy his book that sells for around \$24. Or, subscribe to any of his web site packages that run anywhere from around \$15 to \$400 per month. Also, he recommends a certain online trading firm to do your trading. Might he have a stake in the trading firm he recommends where he gets a cut of every trade?

I’m sure you can see where my thinly veiled sarcasm is aimed. If you had a system that could annualize 7,252% a year and would make you the wealthiest person in the world in just a few years, what would you do? Would you waste your time and energy writing books and running a web site to tell other people how to do it? I don’t know about you, but I would be with my family on a tropical island somewhere.

This example is clearly ridiculous, but there are others that are similar in structure, but claim more “reasonable” performance returns. These are the ones we have to watch out for. Keep constantly before you that trying to “beat the market” is amateurish and a monumental waste of resources. A professional focuses on trying to **participate in the correct markets in the correct proportions** given his or her goals and tolerance for risk.

Enlightened investors understand that capital markets are generally efficient and that market forces are constantly at work. We understand that competition among market participants will make it highly unlikely that any single investor can consistently make profits over and above all other investors. The existence of a “market magician” or someone that has a magic formula for consistently beating the market is a glaring falsehood. If such a tactic really worked, then market forces would takeover – everyone would use the tactic and no further advantage would be gleaned. The efficiency of markets worldwide has continued to improve as almost any investor with a web connection can access the real-time information. As a result, our global capital markets are significantly more efficient today than they were 25 years ago. Unfortunately, peddlers of “get rich quick” schemes didn’t get any more scrupulous.

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