Can you beat the market?

Fundamental analysis and why known news is already in the price; the SPIVA scorecard of active funds; Buffett's ten-year bet; luck that looks like skill; what a fee costs over decades; who can beat the market.

1 Fundamental analysis

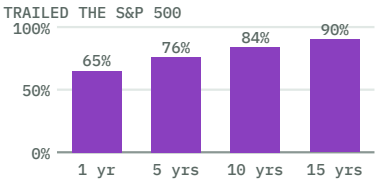
studying a company

- **Fundamental analysis**: "valuing a company from its profits, debts and prospects, to find shares worth more than their price"
- **Warren Buffett** (American investor, born 1930) → one of the best records of anyone who does it
- Record profits → thousands of analysts read the report in minutes → they buy → price jumps at once → late reader pays the higher price
- ⇒ known news is **already in the price** (Lesson 7) → gain only from what others missed

2 The scorecard

SPIVA, to end 2024

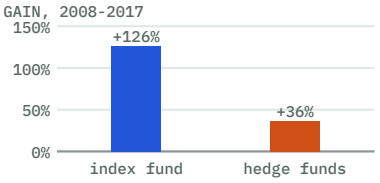
- **Active fund**: managers pick stocks to beat the market · fee ≈ 0.6% a year · **index fund**: "holds all the stocks of an index, very low fees" (≈ 0.05%) = the index minus a tiny fee
- **S&P 500**: index of the 500 largest US companies = "the market" · **trail the index**: "earn less than the index over the same years, after fees"
- SPIVA = S&P Indices Versus Active (S&P Dow Jones Indices, index maker): active US large-company funds that trailed → 1 year **65** · 5 years 76 · 10 years 84 · 15 years **90** in 100
- Longer wait → **harder**: costs and misses pile up · one year: 35 in 100 did better (a coin crowd: 50)



3 Buffett's bet

2008-2017

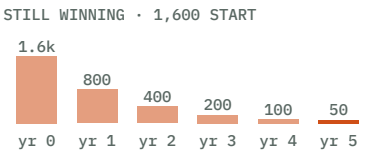
- $1 million, for charity: a plain S&P 500 **index fund** against 5 mixes of **hedge funds** picked by the firm that took the bet, 10 years
- **Hedge fund**: private fund for rich investors · managers pick · **high fees**
- Index fund **+126%** · hedge funds **+36%** on average, after fees (Buffett's 2017 letter) → the fees ate the gains
- 2013 letter, for the money he leaves his wife: 90% very low-cost S&P 500 index fund, 10% short-term government bonds → what he thinks, not a plan for you



4 Luck or skill?

coin-flip managers

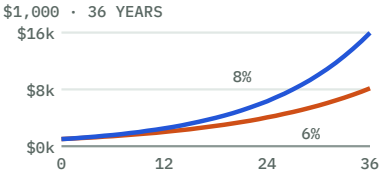
- 1,000 managers, 50-50 each year, losers drop out → 500 · 250 · 125 · 62 · 31 → 10 years: `1,000 ÷ 1,024 ≈ 1` → the magazine cover
- 1,600 → 800 · 400 · 200 · 100 · **50** after 5 years (`÷ 32`) → an ad "5 years in a row!" proves nothing alone
- **Survivor**: "a manager who beat the market every year so far, by skill or by luck: from outside you cannot tell" · **sample size**: how many were tried
- Eugene Fama & Kenneth French (American economists), 2010: active funds together own ≈ the whole market → earn ≈ market − costs · few cover costs · a few at the top beat luck → **which, in advance?**



5 Fees

fee drag

- **Fee drag**: "a fee is taken every year, so it also takes the growth that money would have made"
- $1,000, 40 years: 7% → **$14,974** · 6% (fee 1% a year) → **$10,286** → 31% less ≈ **a third**
- Rule of 72 (years to double ≈ `72 ÷ rate`): 8% doubles every 9 years, 6% every 12 → 36 years: $1,000 → ≈ $16,000 against ≈ $8,000 → a 2% fee takes ≈ **half**



6 Verdict

who can beat it?

- Fundamental analysis works **if your name is Warren Buffett**: one person in a very big crowd · for the typical manager it did not pay
- The data do **not** say: nobody ever beats the market (a few do) · stocks are bad (≈ 10% a year, Lesson 6)
- They say: picking the winners is **hard** · paying for it is **costly**

Watch out: a streak can be **luck** → ask how many tried · one good year proves nothing · "nobody ever wins" × too: the hard part is knowing **which, in advance**

This is a lesson, not financial advice. It shows what the evidence says about choices like these; what is right for you depends on your life.