RAMA UNIVERSITY

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FACULTY OF COMMERCE AND MANAGEMENT

COURSE: BBA (DM)

SUBJECT: SECURITY AND PORTFOLIO MANAGEMENT

SUBJECT CODE:BBA (DM) 602

LECTURE: 7

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Efficient Market Hypothesis (EMH)?

- The efficient market hypothesis (EMH), alternatively known as the efficient market theory, is a hypothesis that states that share prices reflect all information and consistent alpha generation is impossible.

What is Alpha

- Alpha (α) is a term used in investing to describe an investment strategy's ability to beat the market, or it's "edge." Alpha is thus also often referred to as "excess return" or "abnormal rate of return," which refers to the idea that markets are efficient, and so there is no way to systematically earn returns that exceed the broad market as a whole. Alpha is often used in conjunction with beta (the Greek letter β), which measures the broad market's overall volatility or risk, known as systematic market risk.

Forms of EMH

- There are three forms of EMH i.e.
- **Weak Form EMH**
- **Semi-Strong Form EMH**
- **Strong Form EMH**

Weak Form EMH

- Suggests that all past information is priced into securities. Fundamental analysis of securities can provide an investor with information to produce returns above market averages in the short term, but there are no "patterns" that exist. Therefore, fundamental analysis does not provide long-term advantage and technical analysis will not work.

Semi-Strong Form EMH

- Implies that neither fundamental analysis nor technical analysis can provide an advantage for an investor and that new information is instantly priced in to securities.

Strong Form EMH

- Says that all information, both public and private, is priced into stocks and that no investor can gain advantage over the market as a whole. Strong Form EMH does not say some investors or money managers are incapable of capturing abnormally high returns because that there are always outliers included in the averages.

- EMH does not say that no investors can outperform the market; it says that there are outliers that can beat the market averages; however, there are also outliers that dramatically lose to the market. The majority is closer to the median. Those who "win" are lucky and those who "lose" are unlucky.