October 2013 *MoneyMinute* – Bravo, Dr. Fama!

Here at ICM, we are thrilled about this month's news that University of Chicago Professor and Dimensional Fund Advisors board member Eugene F. Fama has been named a co-recipient of the 2013 Nobel Prize in Economic Sciences, in recognition for his contributions to the "empirical analysis of asset prices."

It's about time that Professor Fama was honored with one of the highest academic honors available. Dr. Fama's groundbreaking work in capital market theory has unquestionably helped us to help our clients achieve their personal long-term investment goals.

In short, much of our understanding on how to identify and harness the relationships between market risks and expected returns is grounded in Dr. Fama's work, which began nearly a half-century ago in 1966, with the formation of the Efficient Market Hypothesis.

Dr. Fama has not rested there. You can see his ongoing contributions at the Fama/French Forum on the Dimensional website. We also recommend this fun, short video sharing Dr. Fama's modest perspective on his life's work to date.

Nor has he worked in a vacuum. In his Nobel prize interview, Dr. Fama lauds his collaborators at the University of Chicago and elsewhere: "I couldn't do what I did without the help of my professors at the time and colleagues since then and students since then."

Which brings us to Dr. Fama's co-recipients, fellow University of Chicago Professor Lars Peter Hansen and Yale University Professor Robert J. Shiller. For many on the inside of financial economic drama, the shared award comes with some bemusement, in that Dr. Shiller is often found at loggerheads with Dr. Fama regarding the role that market efficiency plays in investors' decisions. In a Bloomberg column, 1987 Nobel laureate Robert Solow said that naming professors Fama and Shiller as co-recipients is "like giving a prize to the Yankees and the Red Sox."

As in any academic field, financial economists forever wrangle over points that may seem agonizingly granular to most of us, but that can still have significant impact on our daily lives – for good or for ill. In this case, the debate is over whether overall market efficiency should lead us to patiently participate in the market throughout its volatile swings, or whether potentially predictable irrational investor behavior (bubbles) may justify trying to respond to shorter-term fluctuations.

In light of the collective evidence available from professors Fama, Shiller and others whose work we routinely track, we remain convinced that your best financial interests are served – and your carefully planned goals most likely achieved – by sticking to a disciplined strategy and avoiding the risk and expenses involved in trying to profit from market irrationality.

Congratulations to Dr. Fama for his richly deserved reward for his contributions to our financial lives.

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