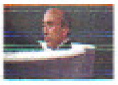
DJIA	16,100.40	+35.67	0.22%
S&P 500	1,805.99	+1.23	0.07%
NASDAQ	3,998.56	+6.91	0.17%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Fama, Shiller, Hansen Win Nobel Prize for Asset-Price Work

By Rich Miller, Joshua Zumbrun & Niklas Magnusson - Oct 14, 2013 3:14 PM PT

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Fama, Hansen, Shiller Win Nobel Prize in Economics

Eugene F. Fama, Robert J. Shiller and Lars Peter Hansen shared the 2013 Nobel Prize in Economic Sciences for at times conflicting research on how financial markets work and assets such as stocks are priced.

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The Royal Swedish Academy of Sciences Torsten Persson, from left, Per Krusell, Staffan Normark and Per Stromberg announce the winners of 2013 Nobel Memorial Prize in Economic Sciences as Eugene Fama, Lars Peter Hansen and Robert Shiller during a press conference at the Royal Swedish Academy of Sciences in Stockholm, on Oct. 14, 2013.

The three economists, all Americans, "laid the foundation for the current understanding of asset prices," the Royal Swedish Academy of Sciences, which selects the winner, said today in Stockholm. "It relies in part on fluctuations in risk and risk attitudes, and in part on behavioral biases and market frictions."

Their work spans almost 50 years of research, beginning with the finding by the University of Chicago's Fama that it's difficult to predict price movements in the short run. That conclusion forms the basis for the theory that financial markets are efficient and led to the development of stock-index funds.

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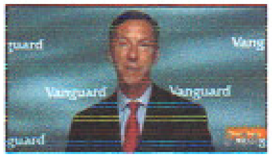

Oct. 14 (Bloomberg) -- William McNabb, chief executive officer of Vanguard Group, talks about Eugene F. Fama, Robert J. Shiller and Lars Peter Hansen sharing the 2013 Nobel Prize in Economic Sciences, and investment strategy. McNabb speaks with Tom Keene, Sara Eisen and Scarlet Fu on Bloomberg Television's "Surveillance." (Source: Bloomberg)

Enlarge image

Robert J. Shiller poses at an undisclosed location on Jan. 18, 2012. Source: Princeton University Press via Bloomberg

Later papers by Shiller and the University of Chicago's Hansen focused on longer-run price swings and the extent to which they could be explained by such fundamental features as dividend payouts on stocks and the risk appetite of investors. Yale University's Shiller, in particular, took issue with the argument that investors are always logical, using the phrase "irrational exuberance" to explain run-ups in asset prices.

The winners represent a "very interesting collection because Fama is the founder of the efficient-market theory and Shiller at least is one of the critics of it," said Robert Solow, winner of the Nobel economics prize in 1987 and professor emeritus at the Massachusetts Institute of Technology in Cambridge.

Yankees-Red Sox

"It's like giving a prize to the Yankees and the Red Sox," he said, comparing the competing theories to the rivalry between the New York and Boston baseball teams. "What it suggests is there really isn't a settled doctrine" in finance.

The award comes five years after a financial crisis that drove the U.S. and world economies into their deepest recession since the Great Depression.

Fama, 74, has dismissed criticism that the turmoil undercut his thesis that markets are efficient, arguing that it was triggered by developments in the economy, including a fall in house prices and the onset of a recession.

In the mid-1960s, he propounded theories arguing that stock-price movements are unpredictable and follow a "random walk," making it impossible for any investor, even a professional, to gain an advantage. He also showed in later work that so-called value and small-cap stocks have higher returns than growth stocks, and he rejected the notion that markets often produced bubbles.

Beating Market

"Fama's research at the end of the 1960s and the beginning of the 1970s showed how incredibly difficult it is to beat the market, and how incredibly difficult it is to predict how share prices will develop in a day's or a week's time," said Peter Englund, professor in banking at the Stockholm School of Economics and secretary of the committee that awards the Nobel Prize in Economic Sciences. "That shows that there is no point for the common person to get involved in share analysis. It's much better to invest in a broadly composed portfolio of shares."

Fama said he learned of the award while preparing for a class on portfolio theory and asset pricing. A native of Boston, Fama earned a bachelor of arts degree at Tufts University in Medford, Massachusetts, in 1960, and went on to the University of Chicago, where he received a master of business administration degree in 1963 and a doctorate in 1964.

Housing Bubbles

Since 1981, Shiller has been at the vanguard of economists chipping away at the theory of efficient markets. His research showed that investors can be irrational and that assets from stocks to housing can develop into bubbles.