

A MACAT ANALYSIS

BURTON G. MALKIEL'S

A RANDOM WALK DOWN WALL STREET





An Analysis of

Burton G. Malkiel's

**A Random Walk
Down Wall Street**

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The Macat Library is a series of unique academic explorations of seminal works in the humanities and social sciences – books and papers that have had a significant and widely recognised impact on their disciplines. It has been created to serve as much more than just a summary of what lies between the covers of a great book. It illuminates and explores the influences on, ideas of, and impact of that book. Our goal is to offer a learning resource that encourages critical thinking and fosters a better, deeper understanding of important ideas.

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Macat has worked with the University of Cambridge to identify the elements of critical thinking and understand the ways in which six different skills combine to enable effective thinking.

Three allow us to fully understand a problem; three more give us the tools to solve it. Together, these six skills make up the

PACIER model of critical thinking. They are:

ANALYSIS – understanding how an argument is built

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INTERPRETATION – understanding issues of meaning

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PROBLEM-SOLVING – producing strong solutions

REASONING – creating strong arguments

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CRITICAL THINKING AND A *RANDOM WALK DOWN WALL STREET*

Primary critical thinking skill: EVALUATION

Secondary critical thinking skill: ANALYSIS

Burton Malkiel's 1973 *A Random Walk Down Wall Street* was an explosive contribution to debates about how to reap a good return on investing in stocks and shares. Reissued and updated many times since, Malkiel's text remains an indispensable contribution to the world of investment strategy – one that continues to cause controversy among investment professionals today.

At the book's heart lies a simple question of evaluation: just how successful are investment experts? The financial world was, and is, full of people who claim to have the knowledge and expertise to outperform the markets, and produce larger gains for investors as a result of their knowledge. But how successful, Malkiel asked, are they really? Via careful evaluations of performance – looking at those who invested via 'technical analysis' and 'fundamental analysis' – he was able to challenge the adequacy of many of the claims made for analysts' success. Malkiel found the major active investment strategies to be significantly flawed. Where actively managed funds posted big gains one year, they seemingly inevitably posted below average gains in succeeding years. By evaluating the figures over the medium and long term, indeed, Malkiel discovered that actively-managed funds did far worse on average than those that passively followed the general market index.

Though many investment professionals still argue against Malkiel's influential findings, his exploration of the strengths and weaknesses of the argument for believing investors' claims provides strong evidence that his own passive strategy wins out overall.

ABOUT THE AUTHOR OF THE ORIGINAL WORK

Born in 1932, **Burton G. Malkiel** is one of the most influential American economists specializing in how the stock markets work. After earning an MBA at Harvard University, Malkiel worked for a Wall Street investment firm for a couple of years before moving to academia and gaining a PhD in economics from Princeton. He quickly became a professor, and after a long career is now retired. Malkiel has also acted as a director of many companies, giving him a perspective on both the academic and business worlds. He has served as a member of the Council of Economic Advisers, advising the US president. Malkiel has published numerous books and articles, but is best known for 1973's *A Random Walk Down Wall Street*.

ABOUT THE AUTHOR OF THE ANALYSIS

Dr Nick Burton holds a degree in economics from Bowdoin College, Maine, and a DPhil in English literature from Oxford. An award-winning playwright who has taken on subjects as diverse as the financial crisis and the lives of the Romantic poets, he currently lectures on play-writing at Royal Holloway, University of London, and is the Creative Arts Fellow at Wolfson College, Oxford.

ABOUT MACAT

GREAT WORKS FOR CRITICAL THINKING

Macat is focused on making the ideas of the world's great thinkers accessible and comprehensible to everybody, everywhere, in ways that promote the development of enhanced critical thinking skills.

It works with leading academics from the world's top universities to produce new analyses that focus on the ideas and the impact of the most influential works ever written across a wide variety of academic disciplines. Each of the works that sit at the heart of its growing library is an enduring example of great thinking. But by setting them in context – and looking at the influences that shaped their authors, as well as the responses they provoked – Macat encourages readers to look at these classics and game-changers with fresh eyes. Readers learn to think, engage and challenge their ideas, rather than simply accepting them.

“Macat offers an amazing first-of-its-kind tool for interdisciplinary learning and research. Its focus on works that transformed their disciplines and its rigorous approach, drawing on the world’s leading experts and educational institutions, opens up a world-class education to anyone.”

Andreas Schleicher
**Director for Education and Skills, Organisation for Economic
Co-operation and Development**

‘Macat is taking on some of the major challenges in university education ... They have drawn together a strong team of active academics who are producing teaching materials that are novel in the breadth of their approach.’

Prof Lord Broers,
former Vice-Chancellor of the University of Cambridge

‘The Macat vision is exceptionally exciting. It focuses upon new modes of learning which analyse and explain seminal texts which have profoundly influenced world thinking and so social and economic development. It promotes the kind of critical thinking which is essential for any society and economy.

This is the learning of the future.’

Rt Hon Charles Clarke, former UK Secretary of State for Education

‘The Macat analyses provide immediate access to the critical conversation surrounding the books that have shaped their respective discipline, which will make them an invaluable resource to all of those, students and teachers, working in the field.’

Professor William Tronzo, University of California at San Diego



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WAYS IN TO THE TEXT

KEY POINTS

- Burton G. Malkiel is an American academic and investor who started as an analyst on Wall Street before moving to a very successful academic career.
- *A Random Walk Down Wall Street* argues that movements in stock* market prices are completely unpredictable, or “random.”*
- The book is an argument for the efficient market hypothesis* (EMH), according to which no investor can consistently “beat the market,” since in today’s world, all legally obtained information that can affect stock prices is almost instantly available to all investors.

Who Is Burton G. Malkiel?

Burton G. Malkiel, the author of *A Random Walk Down Wall Street: The Time-Tested Strategy for Successful Investing* (1973) was born in Boston in 1932 and is a well-known American economist, investor, businessman, and writer. He started out as an analyst on Wall Street before quickly moving into academia, earning a PhD in economics at Princeton University before taking a post in the institution’s economics department. Following a distinguished academic career at Princeton, he now holds the title of Chemical Bank Chairman’s Professor of Economics Emeritus (“emeritus” means retired).