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Market efficiency, long-term returns, and behavioral finance [1]

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Abstract

Market efficiency survives the challenge from the literature on long-term return anomalies. Consistent with the market efficiency hypothesis that the anomalies are chance results, apparent overreaction to information is about as common as underreaction, and post-event continuation of pre-event abnormal returns is about as frequent as post-event reversal. Most important, consistent with the market efficiency prediction that apparent anomalies can be due to methodology, most long-term return anomalies tend to disappear with reasonable changes in technique.

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JEL classification

G14; G12

Keywords

Market efficiency; Behavioral finance

[1] The comments of Brad Barber, David Hirshleifer, S.P. Kothari, Owen Lamont, Mark Mitchell, Hersh Shefrin, Robert Shiller, Rex Sinquefield, Richard Thaler, Theo Vermaelen, Robert Vishny, Ivo Welch, and a referee have been helpful. Kenneth French and Jay Ritter get special thanks.

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