UNIVERSITY OF RICHMOND

FIN 366: INVESTMENTS
CRITICAL THINKING & CONCEPTUAL QUESTIONS

Chapter 8 & 9:

1. Why do we expect stock prices to follow random walks?
2. What is the EMH? What do we mean by “all available information”?
3. What is the driving force behind the EMH?
4. Which form of market efficiency is most likely to be the closest to reality?
5. What are the implications of strong-form market efficiency (regarding insider trading)?
6. If markets are weak-form efficient, does that imply that they are semistrong and strong form efficient?
7. If markets are strong-form efficient, does that imply that they are also semistrong and weak-form efficient?
8. How does increasing technology and the ability for more investors to keep up-to-date with financial news (with apps like Robinhood, websites like Yahoo! Finance, Seeking Alpha etc.) affect the ability of stock prices to quickly reflect new information?
9. What does fundamental analysis entail?
10. What might classify a share as undervalued based on its P/E ratio?
11. Why might someone be interested in purchasing undervalued stocks?
12. Can you interpret an OHLC chart? A moving average chart?
13. What is the goal of a chartist or technician?
14. Why does weak-form market efficiency invalidate technical analysis?
15. Why does semistrong-form market efficiency invalidate fundamental analysis?
16. If semistrong-form market efficiency invalidates fundamental analysis, does it also invalidate technical analysis?
17. If weak-form market efficiency invalidates technical analysis, does it also invalidate fundamental analysis?
18. If we assume markets are reasonably efficient, what is the role of financial management?

19. Why does market efficiency imply the need for *some* investors to engage in security analysis?
20. How is it that security analysis can both drive market efficiency and be rendered ineffective by market efficiency?
21. Why is it difficult to assess whether markets are efficient?
22. A fund manager beats the market for 10 years in a row. Does this tell us anything about market efficiency?
23. A firm generates high profits for 150 years in a row. What does this tell us about market efficiency?
24. A firm generates high profits for 150 years in a row. Should you buy this firm's stock?
25. What are market anomalies? Why might they exist?
26. Do anomalies necessarily imply inefficiencies or a breakdown of market efficiency?
27. You decide you'd like to purchase shares of XYZ, and *data mine* until you find some measure that shows this firm is a good investment. What is this an example of?
28. How do portfolios consisting of stocks of different size, B/M, and momentum on average perform?
29. How do behavioral factors and investors' irrational behaviors contradict market efficiency?
30. Are markets efficient?
31. Why would investing in an index fund make sense given markets are reasonably efficient?
32. How does the adaptive markets hypothesis help to reconcile the EMH and the behavioral critique?
33. A firm announces that its revenue and earnings are up, and that its revenue and earnings are projected to rise well into the future. Upon this news being announced, the share price immediately and quickly *falls*. Why might this be? Is this a breakdown of market efficiency?
34. Given we know markets are *reasonably efficient*, how would we go about finding a good financial advisor? What are some of the things they should be able to help us with? What would be some red flags?