Monkey Business: Contest Ignores Risk

Every time The Wall Street Journal Europe reports the results of the stock-picking contest between the by-now legendary monkey and the pros ("Investment Dartboard: Monkey Pulls Farther Ahead In Contest With Stock Pros," news article, Dec. 20), I think that the article should be preceded by a warning like those that can be found on cigarette packages. It should read: "Warning: This article may be dangerous to unsophisticated investors."

Even the titles of these articles portray the monkey as a star money manager. The suggestion that a monkey throwing darts at a page of The Wall Street Journal would be as likely to pick a winner as a pro if securities markets are efficient has created a monster.

The idea is that if securities markets are efficient, then a stock price reflects all available information relevant to stock valuation, thus making changes in stock prices unpredictable. Hence, a pro and a monkey are equally likely to pick a winner. However, investors are concerned about more than just returns; the *risk* of their portfolio is just as important for them.

As is well known, risk can be minimized by buying a portfolio of several stocks that exhibit low or negative correlations among them. And here is where the contest fails: It restricts pros to picking *one* stock, thus preventing them from diversifying the risk of their choices.

It should be clear that market efficiency does not imply that the advice of the pros is worthless. If anything, it suggests that a good strategy for investors is to buy a diversified portfolio and hold it for a long time. Such a goal puts the investment decisions of a dart-wielding monkey in a less positive light—and that without considering the danger of giving four darts to a monkey.

Thus, if the contest aims to be of any use to investors, I suggest the following two changes: First, instead of having four pros picking one stock, the contest should have one pro picking four (perhaps more) stocks. Second, the contest should compare the *risk-adjusted* returns of the portfolios selected by the monkey and the pro. Under those conditions, in the long run, a pro beaten by a monkey may well qualify as a monkey himself.

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WALL STREET JOURNAL EUROPE
JAN/10/95