

Efficient Markets Hypothesis

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The Hypothesis States:

- Current prices incorporate all available information and expectations.
- Current prices are the best approximation of intrinsic value.
- Price changes are due to unforeseen events.
- “Mispricings” do occur but not in predictable patterns that can lead to consistent outperformance.

The Hypothesis Does Not State

- All investors are rational.
- Prices are always right.
- Prices should be stable.
- Professional money managers can't earn higher than market returns.