Who does not know the truth is a fool, but he who, knowing it, calls it lie, is a disloyal person.

Bertold Brecht

Statistical significance: That's why the Most Out of Financial Studies Are Wrong

by Matthew J. Stettler | written October 24, 2014

Why do some investments make more than others? Hundreds of economists and investment companies that invest their resources every day in field studies to lead to a resolution of this age-old dilemma. On the other hand, there are also those who have contributed to the yield out the result of a study with little or no correlation - ergo, many of the results in finance are meaningless.

University, Heqing Zhu, assistant professor of economics at Texas A&M University, in a recent (NBER), a member organization of the National Bureau of Economic Research, study, and Yan Liu, the Arizona State University, Department of Economics, Research, the paper, the team found that more than 30% of the investment returns are due to the successful distribution of funds.

From Israel to Chile: a Growth Strategy Based on Entrepreneurship

There are those who know it. Then there are those who studied. And there's even someone who really has learned. Italy, thinking positively, can belong to at most the first category. The policy discusses...
True to its initial inspiration, Harvey and his collaborators, in order to explain the distortions present in the search results, they used **genetic tests** used in the medical field - a check which is then employed when you are intent on demonstrating the relationship between a particular gene and a disease. The practice, in these cases, involves the examination of several genes for a single disease - where, if for a test unique gene-disease, the chance that the statistical relationship between the two is a pure coincidence are very low, when testing a high number of assumptions, the probability of finding a relationship “statistically significant” without any foundation causal grow more and more.

What emerged from the comparative Harvey is a lack of rigor in the standards used to determine the **statistical significance** of the results of financial studies. The direct consequence of this approximation is, according to the three that “most of the results claimed in financial economics are probably false.” Similarly to what happens in medicine with genetic testing, in economic analysis in order to understand which variables are correlated with high returns of the securities, the guru of finance tend to compare several variables on the basis of **statistical tests that are significant at the 5 per cent** - This means that when a variable proved statistically “significant” in explaining the high equity returns, there is a 5 percent chance of observing such a result (or a bigger one), even if there is a real effect of correlation.

Although these may seem rather low probability when considering a single test, performing many simultaneously you have the security of finding a relationship that is “significant”, but in reality it is just white noise . To show this dynamic, Harvey has checked 200 random variables using a random number generator (see Figure 1).

**Figure 1.** Simulation results of Harvey with random variables

What, at first glance in the graph, it can seem like a very good correlation with high dividend yields (the line highlighted in dark red), is in fact, according to Harvey, the consideration “of a monkey throwing darts to the stock listings in the Wall Street Journal . ” If you want to analyze the results of the study from a broader perspective, we can say that the lesson imparted by Harvey and his collaborators in having’re taught to distrust “by some financial managers who seem to outperform,” because that, in many cases is a real question “luck.”
That's where I am born of the Billionaires Today
There is a correlation between the place of birth of a person and his social and financial development? Certainly arise in the developed areas of the planet, it offers a greater possibility of any

The Free Trade Zone of China
Today is undoubtedly the most popular topic at the table of the great investors around the world. It is discussed at length and with different opinions. We speak of the birth

Jordan Belfort, The Wolf of Wall Street Vero
He earned more than $ 50 million per year; Rolex, Ferrari, rivers of champagne, nostrils always dusty and disturbingly beautiful women were the golden frame of the life of excesses of Jordan