Preface

A volume of collected works is almost always a bad sign for one's research trajectory, an indication of declining productivity as much as professional recognition. We hope to be the exception that proves this rule because neither of us is willing to concede that we have reached the apex of our careers. However, we do think that the papers collected in this volume form a coherent and exciting story, one that bears retelling now that we have the luxury of seeing the forest for the trees. When we began our collaboration over a decade ago, we certainly had no intention of embarking on as ambitious a research agenda as this volume might imply. And although we are still actively engaged in exploring these issues, when we were presented with the opportunity to bring together a group of our papers, we simply could not resist. Whether by design or by coincidence, here we are with eleven papers and an introduction, the running total of our research on the Random Walk Hypothesis and predictability in financial markets.

Although we were sorely tempted to revise our papers to incorporate the benefits of hindsight, we have resisted that temptation so as to keep our contributions in their proper context. However, we do provide general introductions to each of the three parts that comprise this collection of papers, which we hope will clarify and sharpen some of the issues that we only touched upon when we were in the midst of the research. Also, we have updated all our references, hence on occasion there may be a few temporal inconsistencies, e.g., citations of papers published several years after ours.

We hope that this volume will add fuel to the fires of debate and controversy, and expand the arena to include a broader set of participants, particularly those who may have more practical wisdom regarding the business of predicting financial markets. Although Paul Samuelson once chided economists for predicting "five out of the past three recessions", our research has given us a deeper appreciation for both the challenges and the successes of quantitative investment management. As for whether or not this little book contains the secrets to greater wealth, we are reminded of the streetwise aphorism that the first principle of making money is learning how not to lose it. Indeed, although there are probably still only a few ways to make money reliably, the growing complexity of financial markets has created many more ways to lose it and lose it quickly. We have argued that our research has not uncovered tremendous untapped profit opportunities, but on the other hand, our research does provide some guidance on how not to lose money. What more can one expect?

During the course of our research we have accumulated a number of intellectual debts—fortunately, they bear no interest otherwise we would have become insolvent years ago. First and foremost, we thank our advisors—Andy Abel and Jerry Hausman (AWL), and Gene Fama and Arnold Zellner (ACM)—who gave us the training and guidance that launched our careers and continue to sustain us.

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Chapter 2: *Review of Financial Studies*, Volume 1, 1988.

Chapter 3: *Journal of Econometrics*, Volume 40, 1989.

Chapter 4: *Journal of Econometrics*, Volume 45, 1990.

Chapter 5: *Review of Financial Studies*, Volume 3, 1990.

Chapter 6: *Econometrica*, Volume 59, 1991.

Chapter 7: *Journal of Financial Economics*, Volume 38, 1995.

Chapter 8: *Review of Financial Studies*, Volume 3, 1990.

Chapter 9: *Macroeconomic Dynamics*, Volume 1, 1997.

Chapter 10: *Journal of Financial Economics*, Volume 31, 1992 (coauthored with Jerry Hausman)

Chapter 11: *Review of Financial Studies*, Volume 1, 1988 (co-authored with Krishna Ramaswamy).

Chapter 12: *Journal of Finance*, Volume 44, 1989 (co-authored with Marshall Blume and Bruce Terker).