



The Astonishing Hypocrisy of Efficient Market Theorists

I thought random walk was bullshit... The whole idea that an individual can't make serious money with a competitive edge over the rest of the market is wacko.

- F. Helmut Weymar, founder of Commodities Corp

If one could point to a single organization that really kicked things off — a sort of Mount Olympus for legendary global macro traders — it would have to be Commodities Corp, founded by Helmut Weymar and a partner in 1969.

In terms of direct connections and indirect influence, Commodities Corp brought forth the likes of Paul Tudor Jones, Louis Bacon, Bruce Kovner, Michael Marcus, Ed Seykota, and others. **The sheer amount of talent (and financial success) in that short list is astonishing.**

In baseball terms, it's like seeing Babe Ruth, Ted Williams, Mickey Mantle, Sandy Koufax and Joe Dimaggio all having a connection to the same triple-A ball club.

The story of Commodities Corp. is recounted in Sebastian Mallaby's [More Money Than God: Hedge Funds and the Making of a New Elite](#).

So far, it's a fascinating read. (Of course, you have to have a taste for this sort of thing — but since the great traders to me are like the great ball players to the average Joe Sixpack, Mallaby is right in my wheelhouse.)

But here's why I bring this up. In chapter three, Mallaby reveals something that made my jaw drop.

As background, we all know the arrogance of the Efficient Market Hypothesis, right? Particularly the high and mighty godfathers of EMH. Eugene Fama is on record as saying "God himself" could not dispute the efficiency of markets.

And of those EMH fathers, few were higher and mightier — or more insanely arrogant — than Paul Samuelson, the founder of neoclassical economics...

So here's the thing that blew me away.

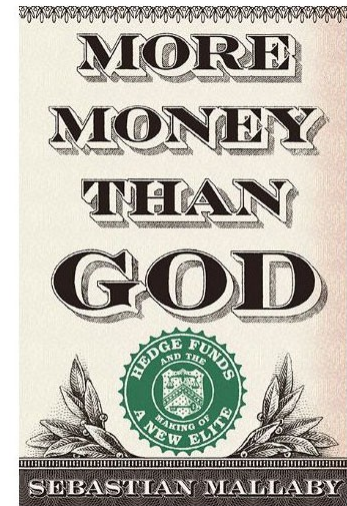
Right at the same time EMH was gaining real traction... and right at the time Paul Samuelson was proclaiming in favor of absolute randomness for the markets... Samuelson was **investing his OWN money with Warren Buffett — and with Commodities Corp.**

At the *very genesis* of EMH gaining a foothold as indisputable academic dogma, the guy **pounding the table** for that dogma was making **big side bets** with the **great investors and traders of the era!**

I mean, talk about chutzpah!

Here is this "I'm too brilliant for you to comprehend" S.O.B. telling the entire world that no one can beat the markets — and thus helping to deeply legitimize academic theories that would later be major contributors to **systemic crisis** through the foolhardy actions of poorly run institutional funds — and at the very same time, the guy is **investing his own money in the private belief that markets can be beat!**

It's like the Pope practicing Islam on the side.





No, actually it's worse than that. There are no words. Samuelson's epic hypocrisy would be absolutely hilarious if not for all the damage that EMH has wrought over the decades... plus the damage it **continues** to inflict... through the widespread "license to be stupid" that academia has granted to all those who argue that "the market is efficient, and so prices can never be wrong."

Here's the excerpt where Mallaby spills the beans:

In famous congressional testimony in 1967, the great economist Paul Samuelson delivered his verdict on the money-management industry. Citing a recent dissertation by a PhD candidate at Yale, he suggested that randomly chosen stock portfolios tended to beat professionally managed mutual funds. **When the House banking committee chairman sounded incredulous, the professor stood his ground. "When I say 'random', I want you to think of dice or think of random numbers or a dart", he emphasized.** Three years later, Samuelson became the third economist to win the Nobel Prize, but the recognition did not mellow him one bit. "Most portfolio decision makers should go out of business — take up plumbing, teach Greek, or help produce the annual GNP by serving as corporate executives," he wrote in 1974. "Even if this advice to drop dead is good advice, it obviously is not counsel that will be eagerly followed."

Samuelson's pronouncements did not sound much like an endorsement of hedge funds. But his condemnation of professional investors left room for exceptions. **Even if most fund managers might contribute more to society as plumbers, Samuelson believed that a giant with genuinely fresh insights could beat the market.** [Ed note: No Shit Sherlock!] "People differ in their heights, pulchritude, and acidity," he wrote. "Why not in their P.Q. or performance quotient?" Of course, those exceptional investors would not rent themselves out cheaply "to the Ford Foundation or to the local bank trust department. They have too high an I.Q. for that." The giants were more likely to form small partnerships that would capture the gains for themselves: They were more likely to start hedge funds. Samuelson never lacked for confidence — by the age of twenty-five, he had published more papers than he was years old — and he naturally believed he could pick out the rare exceptions from the ranks of should-have-been plumbers. **In 1970 he became a founding backer of an investment start-up called Commodities Corporation, diversifying his portfolio around the same time with an investment in Warren Buffett.**

Commodities Corporation was among the first boutiques created by hard-core "quants" — the breed of computer-wielding modelers sometimes known as "rocket scientists." The company's premise, as proclaimed on the first page of its prospectus, was to "harness" large scale econometric analysis, impossible prior to the introduction of computers. **The founding traders at Commodities Corporation included Paul Cootner, a colleague of Samuelson's at the Massachusetts Institute of Technology, who was ironically famous in academia for his contribution to efficient market theory.** Along with several other economics PhDs, the firm later hired a programmer who had worked on the Apollo project — he was literally a rocket scientist. The venture was legally structured as a corporation rather than a partnership, but it was in other ways **a typical hedge fund.** It went both long and short. It used leverage. Its astronomical profits were shared between its managers and a small number of investors. **Samuelson paid \$125,000 for his stake in Commodities Corporation and agreed to become an active board member.**

- More Money Than God: Hedge Funds and the Making of a New Elite

So the high priests of EMH **never actually believed their own theory.** They just got legions of less bright minions to take EMH as diehard gospel, with the final culmination of arrogance + ignorance being Alan "Bubbles Can't Be Recognized" Greenspan and Ben "Global Savings Glut" Bernanke.



In other words, “one of the most remarkable errors in the history of economic thought” — per the description of Yale professor Robert J. Shiller — **was not just an error but a lie.**

I hereby nominate Paul Samuelson one of the top ten biggest jerks in the history of modern finance.

JS

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