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Abstract

We show that asset pricing models of return with risk factors that entail either shares or dividends are logically circular simultaneities and thus are fallacious, meaningless, non-interpretable, indeterminate and not valid when tested and estimated by scientific statistical methods. This extends the findings for such models with risk factors that entail price. We also show that stock-split events are not a counter-example. Further we demonstrate that shares-, dividends- and price-entailing asset pricing simultaneities conform to three phases: events, individual risk factors and multi-factor return models, and the simultaneities reflect patterns that have a common source which suggests a grand design.

The unique selling point and competitive edge of the financial products of the private investment company, which has grown to $65 billion of assets under management worldwide, is that these investment strategies are derived from the Fama-French Three-Factor model and risk factors, are developed by prominent academic financial economists, and are claimed to be scientific and to earn excess expected returns.

There are no exceptions, therefore, to the general statement that models of return with price-, dividends- or shares-entailing risk factors, whether directly included through model specification or indirectly included through data sorting, are circular SES [single-equation simultaneity] and thus are fallacious, meaningless, non-interpretable, indeterminate and not scientifically valid. The fatal fallacy is irremediable, irrefutable and terminal to the argument. Circular SES models are neither scientifically interesting nor important. Circular SES models must be rejected unless the logically circular variables are either isolated or excluded. Thus these irrational and inefficient stock pricing models of return with circular SES must be rejected to avoid economic waste.

The combination of (1) acknowledged nonscientific research motivation, (2) numerous undisclosed embedded circular SES, (3) three circular SES phases of events, risk factors and return models, and (4) circular SES patterns of (a) common center of influence, (b) numerous major bias-inducing ties, (c) nondisclosure of these ties in scientific academic journal articles, (d) evasion of standard checks and balances on scientific research integrity, (e) large financial gifts, (f) two-faced asymmetrical information and impression management, (g) iron triangle among academia, journals and industry, and (h) effective regulatory capture through subtle complex obfuscation, is highly improbable and approaches zero likelihood. One scientifically logical explanation, therefore, for this concatenation of coincidental facts is that the Fama-French Three-Factor stock pricing model, which is a fatal fallacy, a fabrication and a falsification, is also a grand design, a Piltdown man of economic sciences, a vast expanding harmful costly hoax and a contagion spreading to bourses worldwide.

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