

## **SURVEY: WHO IS INVOLVED IN THE GRAND DESIGN?**

The Grand Design is found in economic research about financial markets. It consists of a set of financial asset pricing models that are based on price-, shares- and dividends-related explanatory factors in econometric models of total return.

This survey schedule is designed for any professor of economics, econometrics, finance, financial economics or financial econometrics, whether researcher or teacher and regardless of his or her research or teaching interests. To answer the questions in Part A, survey respondents may refer to the annotated references in Part B and to the example completed survey in Part C. The word "manuscript" herein refers to any text document, whether hard copy or electronic and whether published in any medium or not published.

### **PART A**

#### **QUESTIONS**

##### **Question 1**

- A.** What is your scientific assessment of the Fama-French Three-Factor (FF3F) model?
- B.** Do you detect any serious flaw in the FF3F model? If so, briefly explain the flaw.
- C.** What is your scientific assessment of the Fama-French Split-Sample (FFSS) test?
- D.** Do you detect any serious flaw in the FFSS test? If so, briefly explain the flaw.

##### **Question 2**

- A.** What do you now know about the logical and scientific validity of the FF3F model?
- B.** What do you now know about the logical and scientific validity of the FFSS test?
- C.** When did you first know about each of these?

**Question 3A**

Have you ever been the author or co-author of any manuscript about financial asset pricing in general, or about the size effect, the value effect, the FF3F model, or other logically circular stock pricing model in particular? If so, what are the full citations?

**Question 3B**

For any manuscript by Fama and French or other author that expressed approval of a logically circular stock pricing model, were you ever an editor or referee for the scientific research journal at the time that it accepted the manuscript for publication? If so, what are the full citations of the manuscript?

**Question 3C**

For any doctoral dissertation that included a logically circular econometric model or expressed approval of a logically circular econometric model, were you ever the chair of the dissertation committee or a member of the dissertation committee? If so, what are the full citations of the dissertation?

**Question 3D**

Have you ever been the author or co-author of any manuscript that favorably approvingly cites another manuscript about the size effect, the value effect, the FF3F model, or other logically circular stock pricing model? If so, what are the full citations of the manuscript?

**Question 3E**

Have you ever been the author or co-author of any manuscript that was favorably approvingly cited by Fama and French or other author in one or more of their manuscripts that expressed approval of a logically circular stock pricing model? If so, what are the full citations of your manuscripts and of the Fama and French manuscripts?

**Question 3F**

In any manuscript by Fama and French or other author that expressed approval of a logically circular stock pricing model, have you ever been acknowledged for reviewing a pre-publication draft of the manuscript and for contributing your comments about the draft of the manuscript? If so, what are the full citations?

**Question 3G**

In any manuscript authored or co-authored by you, have you ever acknowledged Fama or French or other author of a manuscript that expressed approval of a logically circular stock pricing model? If so, what are the full citations?

**Question 3H**

Do you have any bias-inducing ties or conflicts of interest with Eugene F. Fama, Professor of Finance from the University of Chicago, or with Kenneth R. French, Professor of Finance from Dartmouth College? Have you offered, been offered, or accepted any inducements in regard to the acceptance of the size effect, the value effect or the FF3F model?

*Note:* For the 12 years 1993 to 2005, there is no known published article about the question of the scientific validity of the FF3F model. Articles have been published only about other aspects of the FF3F model. It is highly unlikely that over 4,000 members of the worldwide finance faculty never questioned the validity of the FF3F model and the FFSS test. More likely, academic forums have been tightly controlled and stage-managed regarding the FF3F model.

## **PART B**

### **ANNOTATED REFERENCES**

#### **B.1. FF3F MODEL RISK FACTORS**

Fama, Eugene F. and Kenneth R. French (1992), "The Cross-Section of Expected Stock Returns," *Journal of Finance*, Vol. 47, No. 2, June, 427-465.

This is the first appearance of a stock-portfolio pricing model of return by Fama and French that includes the three risk factors: market-related (proxy of total stock market), size-related (market capitalization or market equity) and value-related (book-to-market equity ratio). The return models are vicious circular reasoning because both expected return on the left-hand side of the model equation and one or more explanatory variables on the right-hand side of the model equation include the same identical variables. Vicious circular reasoning is not valid logically, scientifically, financially, economically or econometrically.

#### **B.2. FF3F MODEL**

Fama, Eugene F., Kenneth R. French, David G. Booth and Rex A. Siquefield (1993), "Differences in the Risks and Returns of NYSE and NASD Stocks," *Financial Analysts Journal*, Vol. 49, No. 1, January/February, 37-41.

This is the first print publication of the phrase "three-factor model" to refer to the stock portfolio pricing model of return. The main purpose of the article is to give Mr. Booth and Mr. Siquefield, co-chairmen of DFA and co-founders with Fama of DFA, the appearance of at least quasi-academic credentials as published authors. Booth and Siquefield hold MBA degrees from the Graduate School of Business at the University of Chicago and dropped out of the PhD program there.

### B.3. FFSS TEST

Fama, Eugene F. and Kenneth R. French (1993), "Common Risk Factors in the Returns of Stocks and Bonds," *Journal of Financial Economics*, Vol. 33, No. 1, February, 3-56.

This is the strongest argument published in support of the Fama-French Three-Factor (FF3F) model, and it is made by Messrs. Fama and French in response to an outcry from other financial economists and from Wall Street. This article introduces a concocted model-specific *ad hoc* "split-sample" diagnostic test (FFSS) to prove that the FF3F model is not spuriously inducing explanatory power in linear regressions and thus is valid. Perceptive financial economists can detect that the diagnostic test itself commits the same egregious error as does the FF3F model, i.e., vicious circular reasoning. The split-sample argument is, of course, a fiction, a falsification and a fabrication. This article is a monument to academic hubris and corruption. Many academicians with a Ph.D. degree in financial economics still have not detected the vicious circular reasoning in the split-sample test, but then the flaw is intentionally buried deep in a fog of obfuscation. If some scholars with a Ph.D. in financial economics have not figured this out yet, then practitioners (CFA, CFP, RIA, etc.), journalists and others without such highly specialized knowledge can be excused for not understanding the fatal flaw.

**PART C****EXAMPLE OF COMPLETED SURVEY**

The survey asks for scientific assessment of the FF3F Model and of the FFSS Test of the FF3F Model. Some persons do not know what the scientific method is, what it contributes, and why it is important. Scientific method includes classical logic and reasoning. The following is an example survey completed by a hypothetical professor.

**SURVEY**

**Name (finance faculty member):** [I. M. Fawly](#)  
**Current Institutional Affiliation:** [Top-Tier Scientific Research Institution](#)  
**Institution and Year of Ph.D. Degree:** [University of Renown, 1985](#)

**Question 1:** *Scientific Assessment of FF3F and FFSS:*

- A. [I think the FF3F model is the best scientific stock pricing model.](#)
- B. [I do not detect any serious flaw in the FF3F model.](#)
- C. [The FFSS test proves that size and value factors are independent in the FF3F model.](#)
- D. [I do not detect any serious flaw in the FFSS test.](#)

**Question 2:** *Scientific Validity of FF3F and FFSS:*

- A. [The FF3F model is logically and scientifically valid.](#)
- B. [The FFSS test is logically and scientifically valid.](#)
- C. [I have known these facts since 1992 and 1993.](#)

**Question 3A.** *Me as Author of Published Paper:*

[Yes \(see references\).](#)

**Question 3B.** *Me as Editor, Referee or Officer of Published Paper:*

[Yes \(see references\).](#)

**Question 3C.** *My Membership of Doctoral Dissertation Committee:*

None.

**Question 3D.** *My Citation of a Paper by Others:*

Yes (see references).

**Question 3E.** *Citation by Others of My Paper:*

No.

**Question 3F.** *I Named in Acknowledgements by Others:*

No.

**Question 3G.** *Others Named in My Acknowledgements:*

Yes (see references).

**Question 3H.** *My Bias-Inducing Ties or Conflicts of Interest:*

None. I am a member of the education profession, and I am a member of the worldwide finance faculty. Other than those two memberships, there is nothing concerning me that might appear to be a bias-inducing tie, a conflict of interest or an improper inducement offered or accepted.

**List of References:** *Citations of all known instances based on Question 3:*

Fawlty and Milarky (1997). WFF Survey: Question 3A, Question 3B.

Fawlty and Milarky (2001). WFF Survey: Question 3B.

Fawlty and Milarky (2003). WFF Survey: Question 3B, Question 3D, Question 3G.