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What Is the Stock Market Hoax in a Nutshell?

Stock equity index funds based on size (cap), value (style), or dividends can not be scientifically designed to earn premium *expected* returns. This would be equivalent to a free lunch for all times for all investors. The designers and managers of some such index funds represent that they can provide this universal, perpetual, free lunch. For access to these stock equity index funds, investors must periodically pay a premium fee for asset management. They pay premium fees now for premium *expected* returns in the future.

Some of the most popular of these stock equity index funds are based on the Fama and French Three-Factor Model of total return for stock-portfolio pricing. The three factors are related to market, size and value. The two size- and value-related risk factors in this return model are material, fatal fallacies. The authors of the econometric linear regression model had reason to know that these two factors are neither logically nor scientifically valid; and in that sense, the Three-Factor Model is a hoax. The hoax is vast.

If a stock-pricing model is not logically valid, then it can not be scientifically valid. If it is not scientifically valid, then it is unreliable and can not consistently, persistently earn superior total returns above the stock market average. Five arguments prove that these index funds can not be scientifically designed to earn premium *expected* returns:

1. Classical Logic — Genuine Method
2. Classical Logic — Vicious Circular Reasoning
3. Mathematics — Algebraic Isolation of the Unknown
4. Econometrics — Circular Single-Equation Simultaneity
5. Classical Logic — Contradiction in Econometric Model Equation

Scientific research letters, notes and papers that explain these arguments can be accessed on the Internet at the web page: http://www.numeraire.com/download.htm.

Specialized knowledge is required to verify the conclusions of these arguments.