Agnostic fundamental analysis works#

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Agnostic fundamental analysis works✧

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ABSTRACT
To assess stock market informational efficiency with minimal data snooping, we take the view of a statistician with little knowledge of finance. The statistician uses techniques such as least squares to estimate peer-implied fair values from the market values of replicating portfolios with the same accounting statements as the company being valued. Divergence of a company's peer-implied value estimate from its market value represents mispricing, motivating a convergence trade that earns risk-adjusted returns of up to 10% per year and is economically significant for both large and small cap firms. The rate of convergence decays to zero over the subsequent 34 months.
Keywords: Valuation, Asset pricing, Market efficiency, Fundamental analysis, Point-in-Time, Theil-Sen
JEL Classification: G11, G12, G14
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