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Experts? Not in the Stock Market

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The stock market is notoriously difficult, if not just about impossible, for amateurs to predict, but financial experts in corporate America might be better at it, right? Not really, but they think they are. That's what a survey of hundreds of U.S. chief financial officers found when it asked them to predict one- and 10-year stock market returns. Itzhak Ben-David of the University of Chicago and John Graham and Campbell Harvey of Duke University found in **Managerial Overconfidence and Corporate Policies** that the CFOs are too confident in their own abilities: Their predictions were wrong most of the time. Overconfidence leads CFOs, the researchers say, to make more acquisitions and overestimate the value of those investments. The bias of managers also tends to increase their companies' debt.

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