



Prota Challenge 2018

QUESTION:

What is the impact of passive indexing (either through ETFs or mutual funds) on market liquidity and price discovery for individual equities? Assume the S&P 500 or Russell 1000 as representative of the market.

DETAILS:

Over the past several years, index funds have grown at an incredible pace, while active managed funds have suffered reduced inflows. If 100% of the market were passively indexed, there would be no price discovery on stocks, and market distortions would grow quickly, as the index would not be able to take into account new information about a particular company and adjust its value accordingly.

We are trying to understand if there is a tipping point at which the valuation of individual companies within the market begins to be distorted by this effect. If so, when and how should we expect to see such distortions?

PRIZE:

A cash prize of **\$1,000** will be given to the winning team, which will be chosen by a panel of judges at the 8th Eubank Conference on Real World Markets at Rice University on April 23, 2018. Team entrants must present their work as a poster at the conference. For Prota Challenge rules and specifications, see website below.



[*Prota Challenge Website*](#)
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