top one percent of titles for 32 percent of all plays." Although the numbers represent a much greater diversity of songs (since even one percent of a million is still 10,000) than might be available at, say, a typical Wal-Mart store, Elberse found that overall Rhapsody sales were still more densely clustered around the "head"—the more popular offerings—than the "tail." The same pattern held when she looked at Quickflix, an Australian service that rents DVDs by mail: "Some 150 titles (roughly the number of movies released annually to theaters by major Hollywood studios) accounted for nearly a fifth of all rentals."

Elberse and a colleague also looked at Nielsen reports about online music and video sales. They showed that "sales did shift measurably into the tail." Sales of obscure DVDs increased, for example. But the overall revenue from such sales still showed that "an ever smaller set of top titles continues to account for a large chunk of the overall demand for music."

Elberse also uncovered some familiar patterns, matching those described by William McPhee in the early 1960s in his book *Formal Theories of Mass Behavior.* McPhee had suggested that people who shop sparingly tend to gravitate toward popular products—no big surprise—but also that high-volume consumers were much more willing to explore obscure items. When Elberse looked at video rentals, for instance, she found that volume renters (those averaging at least 50 rentals over six months) did dare to "venture into the tail" to select rarely rented titles. Tellingly, though, all the consumers rated the popular movies as more enjoyable than the obscure ones. "It is a myth," Elberse says, "that obscure books, films, and songs are treasured."

Even though the online world offers consumers astounding diversity, Elberse writes, it also opens "a flood of products all competing for consumers' attention." In such a volatile marketplace, it's always going to be easier for better-known products to rise to the top, a truism illustrated by a decision Hyperion Books made in 2006 to back a new title trumpeting a red-hot Internet phenomenon: Chris Anderson's *The Long Tail.*

ECONOMICS, LABOR & BUSINESS

## The Graying of Kindergarten

**THE SOURCE:** "The Lengthening of Childhood" by David Deming and Susan Dynarski, in ***The Journal of Economic Perspectives***, Summer 2008.

Kindergarteners are getting older and older, and it's not good for the economy, write David Deming and Susan Dynarski of the Kennedy School of Government at Harvard. The age of children entering school has gradually risen since 1968, so that today one in every six fails to start classes in the traditional year of the child's fifth birthday.

A major reason for the graying of kindergarten is that states have raised the minimum age of enrollment. But this accounts for only a quarter of the change. The rest is the "redshirting" of youngsters intentionally kept out of school by at least some parents who expect them to grow bigger, smarter, and more competitive in the "arms race" for high school football and Harvard.

Educators often describe this extra year of school-free childhood as a "gift of time" that gives socially or educationally underdeveloped children a chance to mature. But it can also enable enterprising parents to position their offspring to be the oldest in the class, instead of just average. There is no evidence that seniority guarantees success in the long run, but in sports, studies have shown that children who make the elite soccer, hockey, swimming, and tennis teams are disproportionately born just after the age cutoff for those leagues, write the two public-policy scholars.

Having a few hefty nearly-seven-year-olds in a class of children who recently turned five can skew the curriculum of the class as teachers "raise their standards, resulting in lower relative performance and increased grade retention rates for children who enter school at the statutory age," the authors say. Redshirting parents are more likely to be richer and better educated than those who enroll their children as soon as they are old enough to attend.

Postponing kindergarten intensifies inequality in American life, Deming and Dynarski con-

clude. It puts the average five-year-old at a disadvantage when compared to children who are 12 to 15 months older. It means that younger children may be labeled immature (and studies have shown that such children are consequently more likely to be judged learning disabled). It makes drop-out rates a bigger drag on the economy because teenagers who leave school as soon as the law lets them often have less education under their belts. It also depresses lifetime earnings by delaying entry into the labor market.

In the end, the increased number of senior kindergarteners has implications for that "third rail of American politics," Social Security. Reduced labor force participation among millions of young workers is problematic when the fertility rate is falling and the baby boomers are retiring. Delayed students are delayed workers who pay one year less into the Social Security trust fund.

ECONOMICS, LABOR & BUSINESS

## Beating the Market

**THE SOURCE:** "The Elusiveness of Investment Skill" by Robert A. Jaeger, in ***The Journal of Wealth Management***, Fall 2008.

You've heard it a million times: Nobody can beat the stock market, so just stash your investment dollars in index mutual funds and settle for "the average return." Behind that nostrum is the so-called efficient market theory, which holds that stock prices already reflect all the available information about a company, making it impossible for anybody to get a leg up.

> A denizen of the hedge fund world says that investment prowess is no more common there than elsewhere.

Efficient market theory no longer dominates the academic discipline of finance, says Robert A. Jaeger, senior market strategist at BNY Mellon Asset Management, but it has left a legacy: the notion that there is no such thing as a skilled investor, and no way to distinguish skill from luck. Not true, Jaeger argues.

Two strands of the theory challenge the notion of skill. One is the idea that "there are no free lunches": No market inefficiencies exist that might enable investors to make money without taking risk. Risk, the argument goes, will always catch up with successful investors, reducing their returns to the norm. The second idea is that "nobody knows anything": Investors can't predict the future. But, Jaeger says, those who have skill as investors don't exploit market inefficiencies or use vatic powers to see tomorrow's stock market. They make "intelligent judgments about risk and reward." Paraphrasing billionaire speculator George Soros, he writes, "The question is not whether you're right or wrong—it's how much you make when you're right and how much you lose when you're wrong."

Efficient market theorists believe that investors are totally rational. In fact, Jaeger says, they are driven by fear, greed, and a host of behavioral "biases." But irrationality still doesn't create free lunches or predictable prices. Even during bubbles and panics, which are prime moneymaking opportunities for savvy investors, there are no riskless profits and no way to forecast market turning points. Many hedge funds lost money "selling short" too early during the market bubble of the past few years, and many sovereign wealth funds lost money buying too early during the ensuing panic.

Although the stock market is unpredictable, efficient market theorists are wrong to claim that it is a "random walk," Jaeger adds. Random events can't be explained even after the fact, but market events can.

Theorists resort to the example of coin tosses to explain the success of the few investors who do manage consistently to outpace the market. Just as it's possible to get 20 straight "heads" when tossing a coin, so it's possible by sheer luck to beat the market 20 years running. But there's another possibility, Jaeger points out. Maybe the coin is biased—weighted in such a way that heads is more likely to turn up. A successful investor's performance