Rebuttal of Bond Market Efficiency

Defense counsel retained Cornerstone Research to analyze market efficiency issues in this Rule 10b-5 class action.

Retained by Munger, Tolles & Olson and Irell & Manella

Plaintiffs sought to certify a class of purchasers of MGM Mirage's common stock and eleven publicly traded bonds. They alleged that the securities at issue had been artificially inflated by misrepresentations related to the company's CityCenter construction project, as well as the company's viability and general financial position. Defense counsel retained Dr. David Marcus of Cornerstone Research to analyze market efficiency issues in this Rule 10b-5 class action.

Dr. Marcus demonstrated that the plaintiffs’ expert erred in assuming that a single efficient market existed for the eleven bonds.

The case posed unique challenges because the eleven bonds had distinct features and traded infrequently during the proposed class period. The plaintiffs’ expert's event study attempted to establish a cause-and-effect relationship between public information about MGM Mirage and changes in the company's bond prices. The plaintiffs’ expert identified statistically significant price changes for each bond and then attempted to find releases of company-specific information that could have caused the price changes.

In his rebuttal, Dr. Marcus demonstrated that the plaintiff’s expert failed to meet basic requirements of an event study—namely, that events of interest should be identified first, and price changes are then analyzed in the context of these events. Dr. Marcus also showed that price changes were not consistent across the eleven bonds and did not reflect the new information identified by the plaintiffs’ expert in a systematic or predictable fashion. Further, his analysis of several cause-and-effect relationship tests illustrated that other indicators of market efficiency were not present. Overall, Dr. Marcus demonstrated that the plaintiffs’ expert erred in assuming that a single efficient market existed for the eleven bonds.

The case settled before any ruling on the plaintiffs’ motion for class action.
certification.