



The Rise in the Russian Stock Market— Is it a Bubble?

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Technical Terms

Bubbles

Fads

**Rational
Expectations**

**Fundamental
Value**

**Keynes'
Beauty Contest**

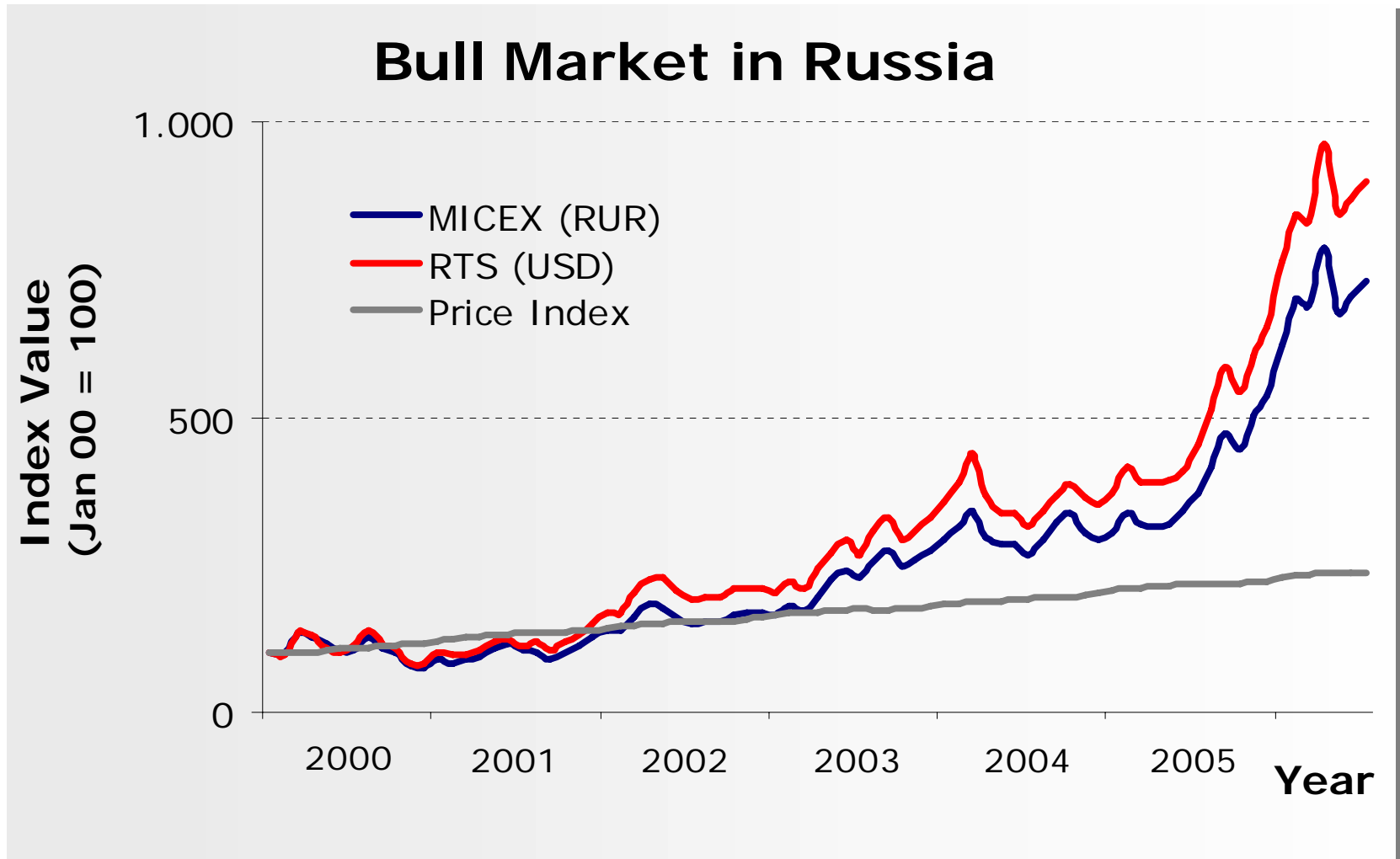


- ① **Booming Russian Stock Market**
- ② **Random Walk Down Dolgorukovskaya**
- ③ **Trading Strategies**
- ④ **Fundamental Value**
- ⑤ **Conclusion**

1 Booming Russian Stock Market



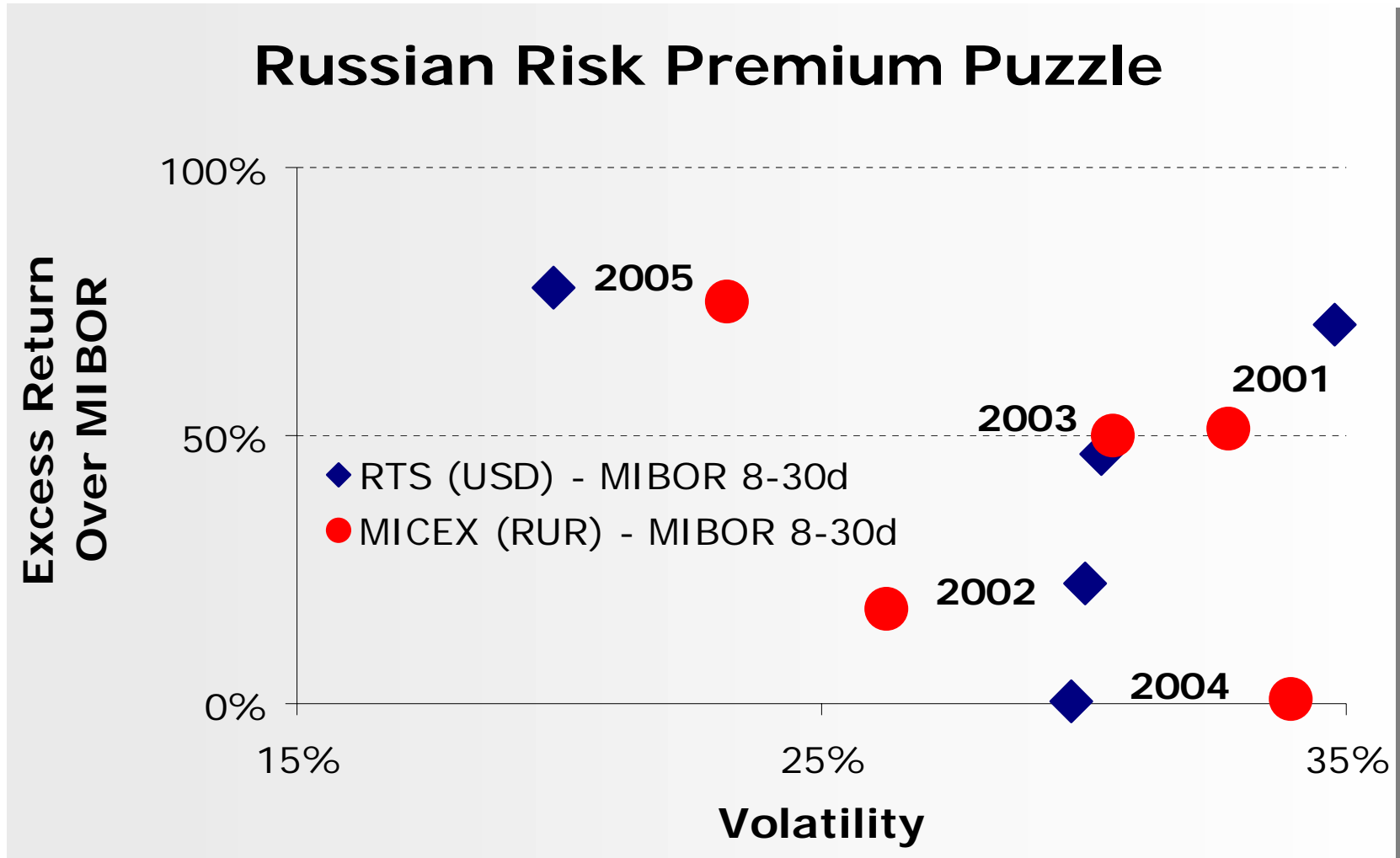
Stock market pays for inflation (money market does not)



1 Booming Russian Stock Market



Risk Return Trade-offs



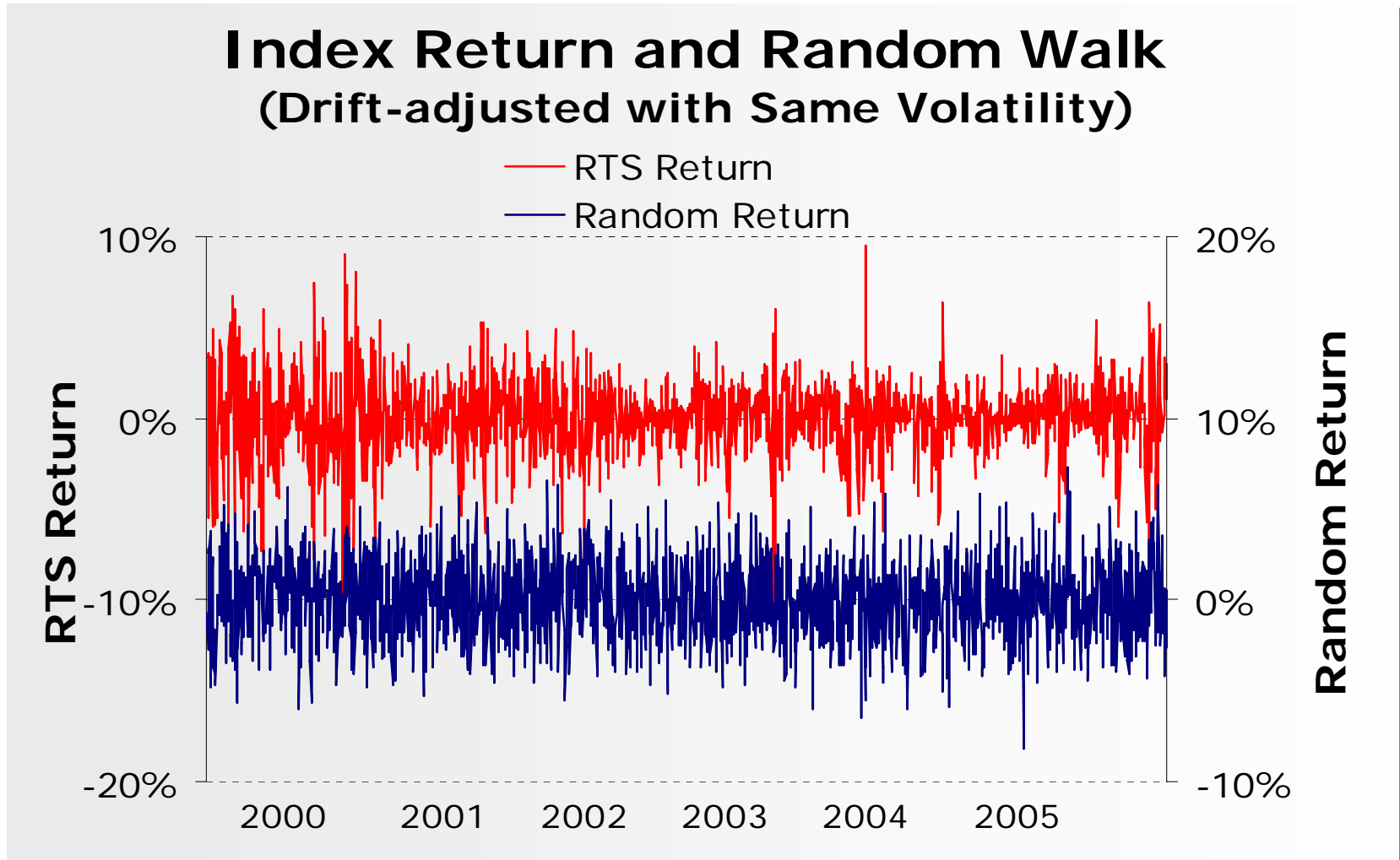


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2 Random Walk Down Dolgorukovskaya



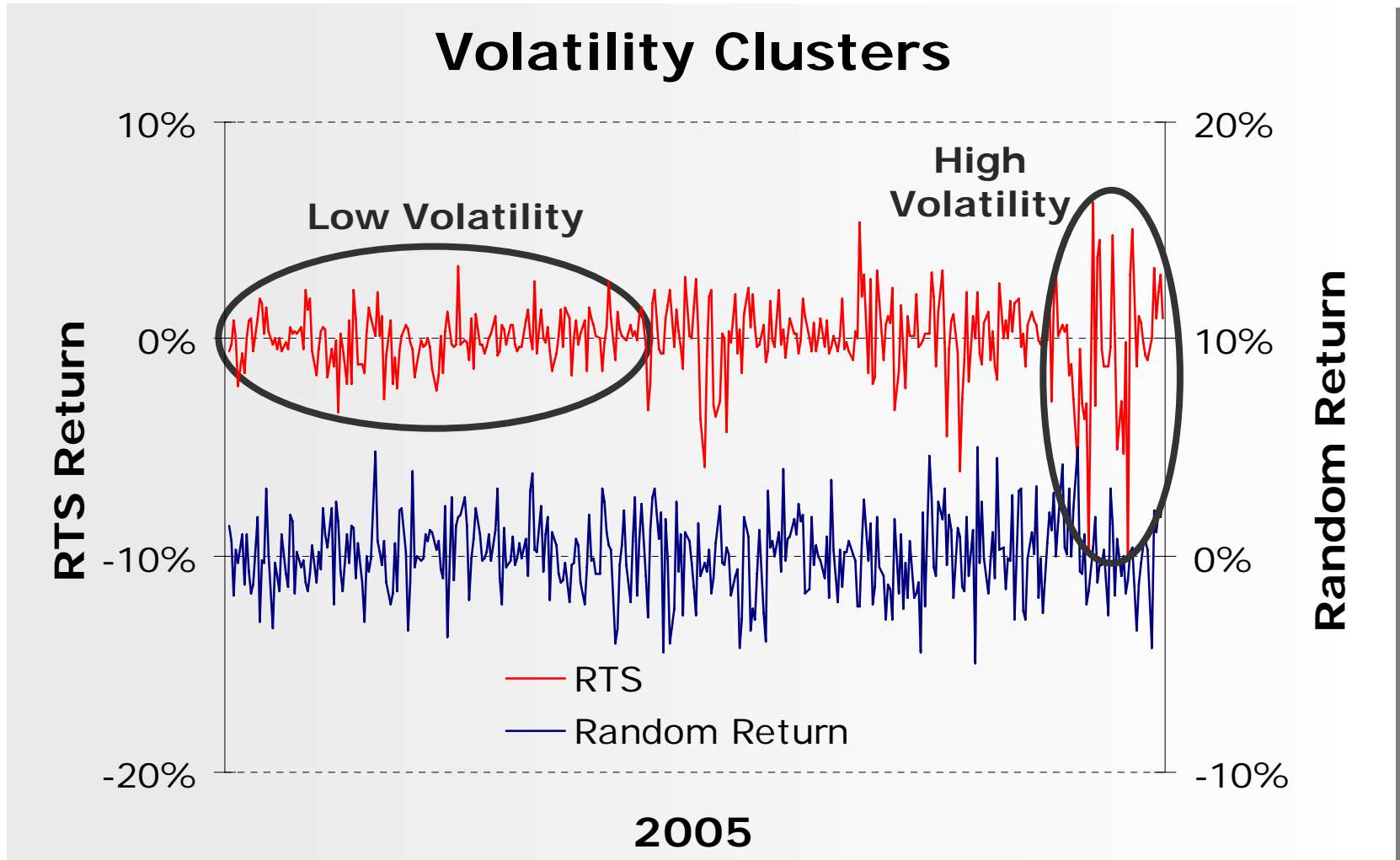
Price path is similar to a random walk



2 Random Walk Down Dolgorukovskaya



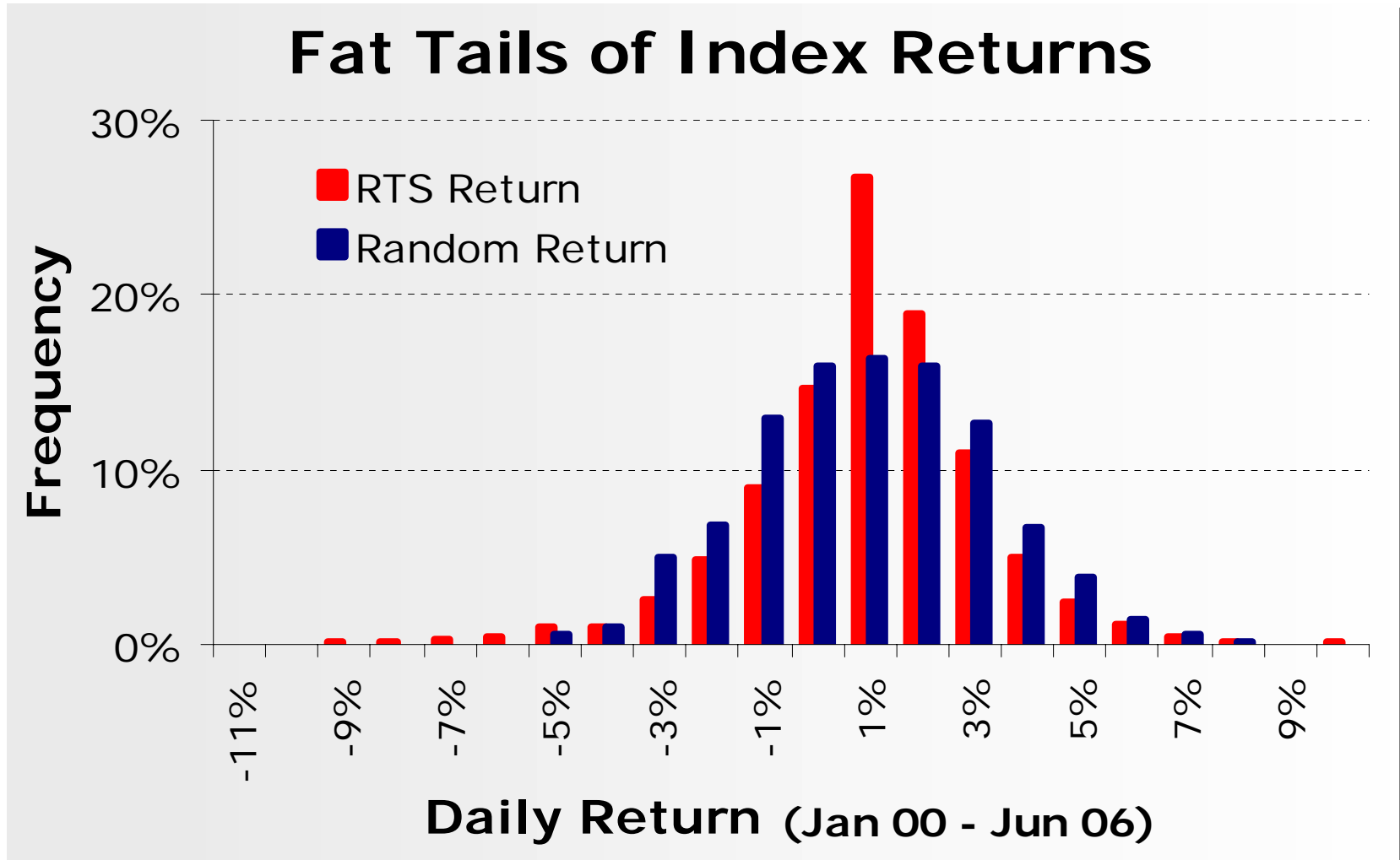
A Closer Look at 2005



2 Random Walk Down Dolgorukovskaya



Fat Tails and Peakedness



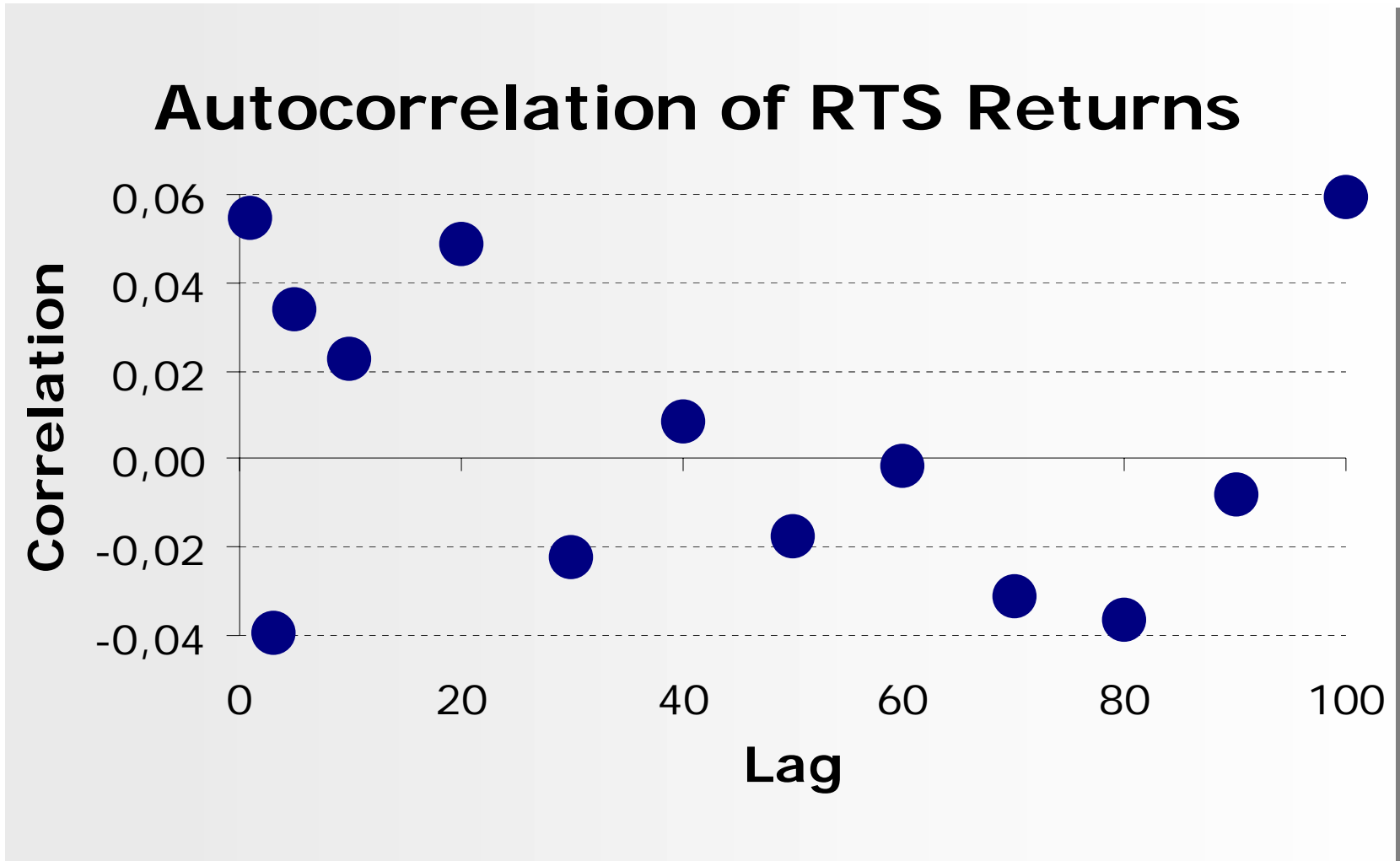


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3 Trading Strategies



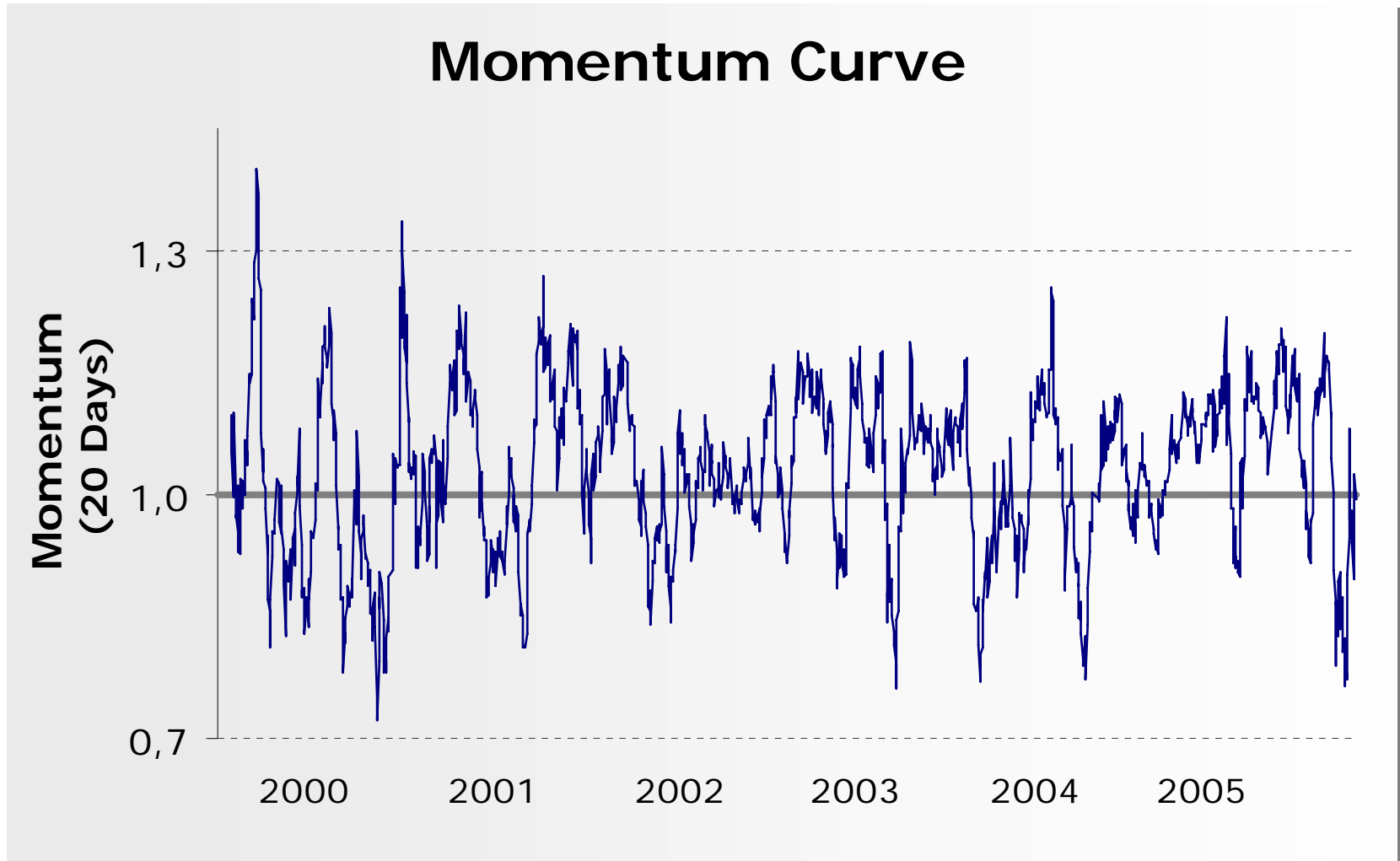
No strong autocorrelation



3 Trading Strategies



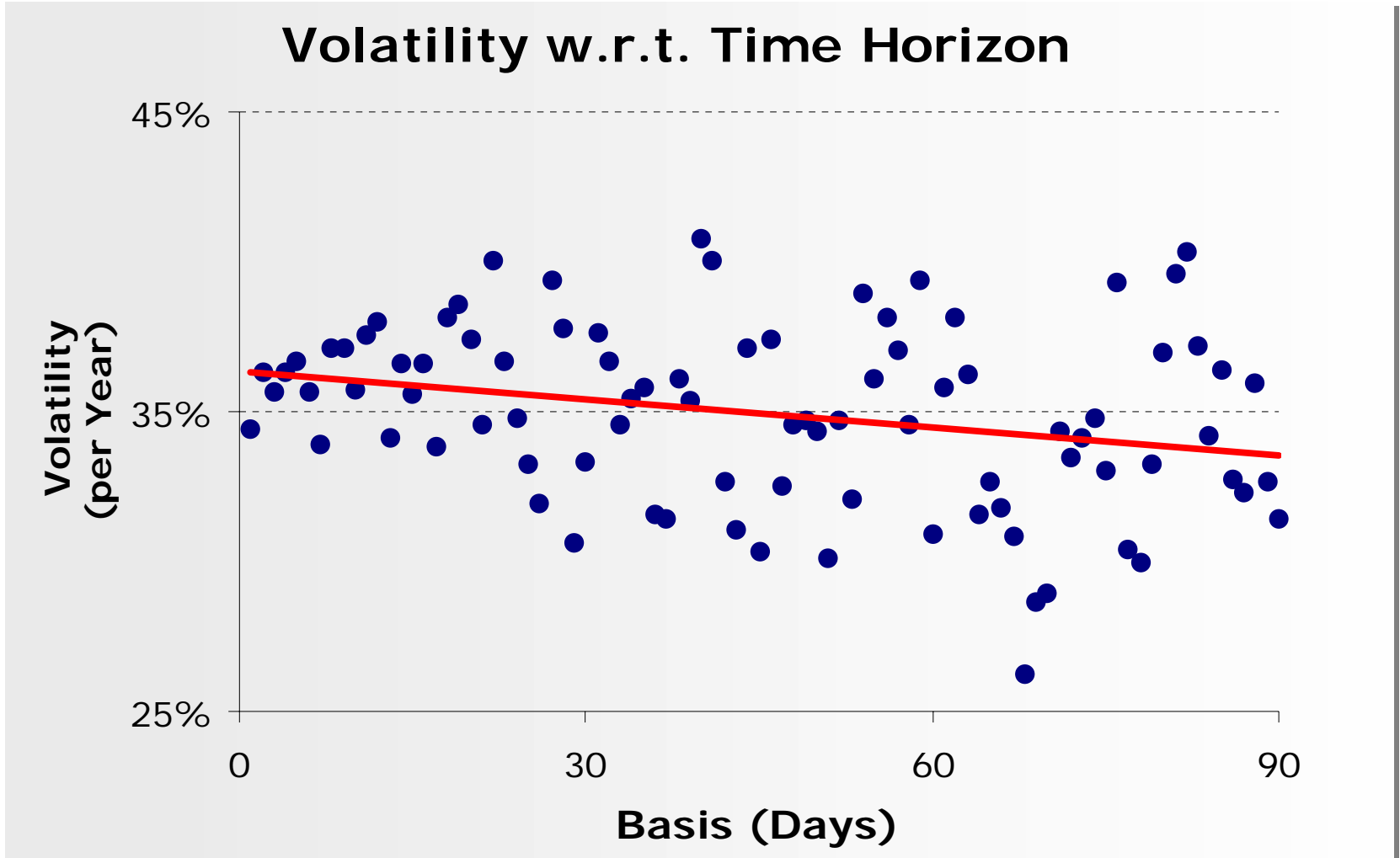
Non-strong momentum supports Markov Process



3 Trading Strategies



No significant mean reversion



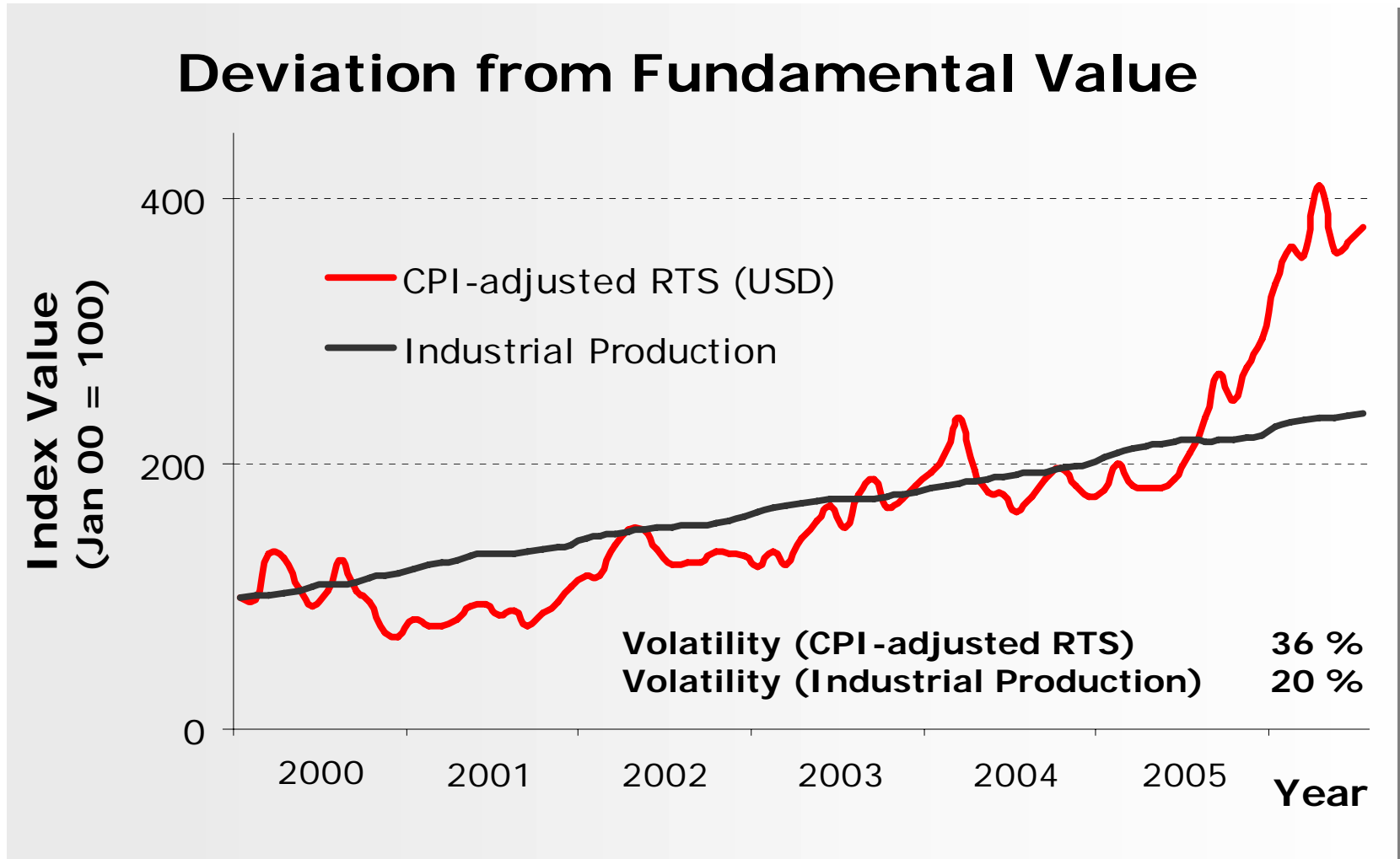


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4 Fundamental Value



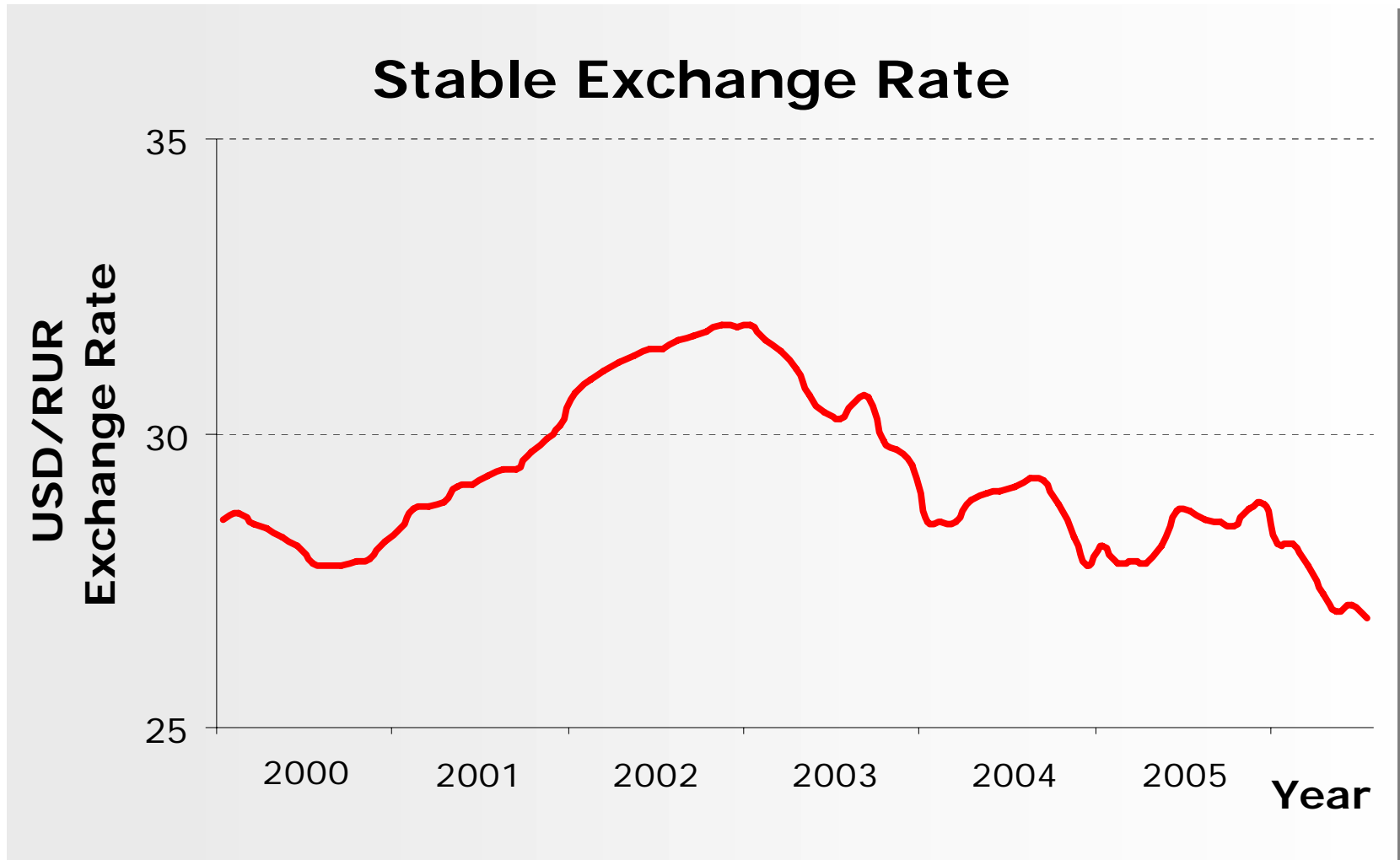
Real Index Values (Domestic View)



4 Fundamental Value



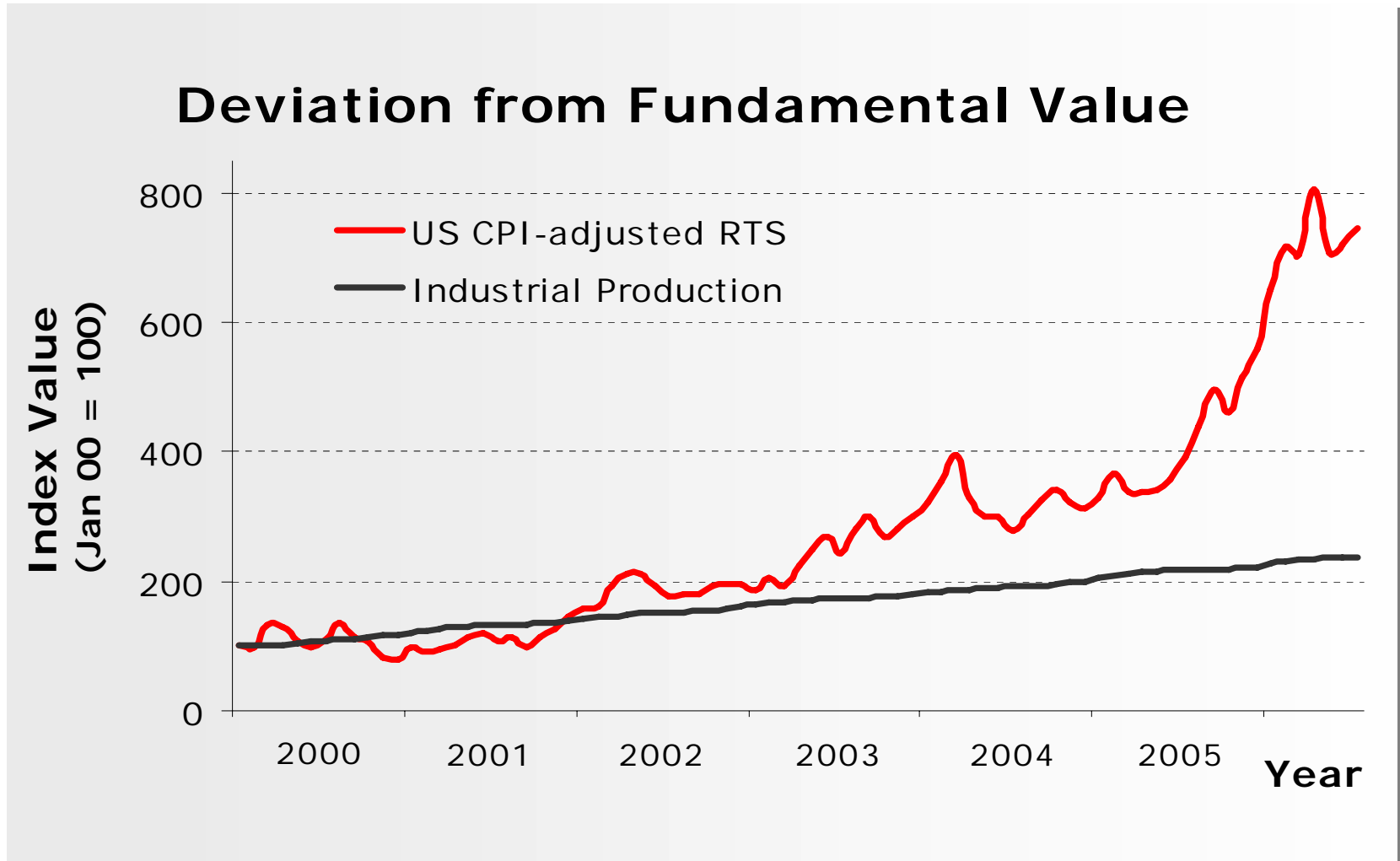
Small Differences between USD- and RUR-based RTS



4 Fundamental Value



Real Index Values (Foreign View)





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5 Conclusion



Results for Domestic Investors

- No strong deviation of the index price path from a random walk
- Only little volatility clustering and a small tendency to fat tails
- No momentum and no mean reversion indicate no arbitrage within the market
- **No evidence for a bubble from the domestic investors' viewpoint**

5 Conclusion



Results for US Dollar Investors

- **Strong evidence for a bubble from the US dollar investors' viewpoint**
- Bubble must not burst as long as the USD-RUR exchange rate is stable
- No incentive for (domestic and) foreign investors to change their strategy or behavior

5 Conclusion



Implications

Implications

for Domestic Investors

for US dollar Investors

Stock market pays for inflation and GDP growth

(Nominal) stock market prices are highly correlated with the inflation rate

If the inflation rate is high, investors are better off with stocks than with bonds

If hedging is possible using a foreign (commodity) market (and the exchange rate stays stable), a profitable strategy with low risk can be pursued