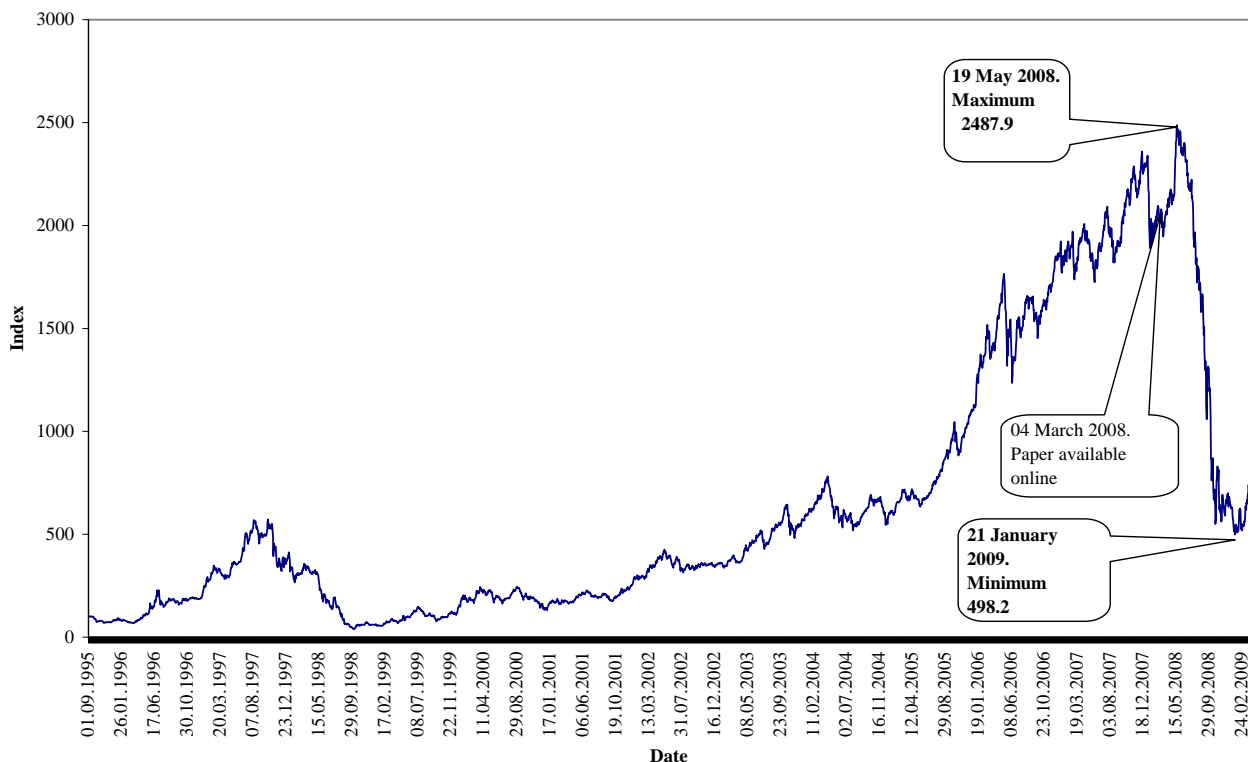


Predicting the Crash in the Russian Stock Market

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In my article “[The Informational Efficiency and the Financial Crashes](#)” published in *Research in International Business and Finance* on 4th March 2008, I asserted that according to my measure, the Russian market was the most inefficient and the probability of having a crash was the largest. Well, looking at the RST index we can observe that my prediction was right, the Russian index arrived to a maximum on 21st May 2008 (2487.9) and then it crashed arriving to a minimum (498.2) on 2nd February 2009, as shown in Figure 1.

Evolution of the Russian Stock Market Index (RST)



The index decreased 79.97% from 19 May 2008 to 21 January 2009; this is an annualized loss of 91.04%!

In my article “[The Informational Efficiency: The Emerging Markets Versus the Developed Markets](#)” recently published in *Applied Economics Letters* but written time before, I show that using daily data for 20 countries from 1997 to 2007 the Russian market ranked as one of the most inefficient (18/20).

The intuition that a bubble was developing in the Russian stock market was not new, some investors warned time before about it. On 14th March 2007, Jim Rogers, co-founded of Quantum Fund with George Soros, warned that the Russian stock market was overvalued. He asserted literally “*Everybody in Russia is busy stripping assets. If you ride across Russia, you are not going to see a lot of money being spent on railroads, pipelines or roads*”. “*It’s outlaw capitalism*”.

One year later, on October 2008 when the Russian market accumulated a loss of 71% since the maximum on May 2008, Clifford Levy claimed that many Russian billionaires had done their fortunes by borrowing against the future earnings of their main commodity assets. He says that *“Now, as the value of their investment sinks on the stock markets and bankers call in their debts; they’re staying at home to lick their wounds.”*

As we can note, this is a very difficult moment for the Russian economy. Some economists suggest that the only thing that could save the country from either disintegration or a massive totalitarian crackdown would be a significant rise in crude oil prices.

Considering the devastating effects of the formation of a financial bubble for the financial market, the economy and even the political stability, I would like to remark the importance of developing measures of financial risk useful predicting or at least detecting these events. On the other hand, I would like to remark again the potential of the entropy as predictor of a crash.