An international test of the Fed model

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1. It should be stressed that this model is neither endorsed nor discussed by the Federal Reserve.

2. Note that W.T. Ziemba already discussed such a relative valuation model for Japan in the early 1990s in his book with S.L. Schwartz *Invest Japan: The Structure, Performance and Opportunities of Japan's Stock, Bond and Fund Markets* (Probus Publishing Company, Chicago).

3. In this way, we also avoid possible problems related to particularly high $(E/P) \div Y$ ratios due to low government bond yields with respect to earnings yields.

4. As mentioned in Asness (2003), empirical evidence also supports this theory.

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in the finance industry in Japan. This paper is based on his Master's thesis in finance.

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Appendix

Regression analyses of the same type as above have also been performed with Germany, France, Belgium, Switzerland, and Sweden. We include the relevant

Table a4 Forecasting Switzerland's real stock returns of different horizons

Table a5 Forecasting Sweden's real OMX Stockholm stock returns of different horizons

First, in terms of the first or second form of regression, forecasting power should translate into a high R^2 value and a positive coefficient of the explanatory variable, that is, β for the traditional model or β' for the Fed model, and a corresponding t-statistic that is sufficiently different from zero. Secondly, the third form of regression can be used to distinguish between the extent to which variations in real returns can be associated with variations in either E/P (D/P) or Y. The

France

See Table A2.

Belgium

See Table A3.

Switzerland

See Table A4.

Sweden

See Table A5.

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