

[Home](#) > [Journal of Asset Management](#) > [Article](#)

An international test of the Fed model

Paper | Published: 30 June 2007

Volume 8, pages 86–100, (2007) [Cite this article](#)



[Journal of Asset Management](#)

[Aims and scope](#) →

[Submit manuscript](#) →

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 96 **partners**, also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our **privacy policy** for more information on the use of your personal data. Your consent choices apply to springer.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

- > **Store and/or access information on a device**
- > **Personalised advertising and content, advertising and content measurement, audience research and services development**

[Accept all cookies](#)

[Reject optional cookies](#)

[Manage preferences](#)

Subscribe and save

Springer+ Basic

€32.70 /Month

- Get 10 units per month
- Download Article/Chapter or eBook
- 1 Unit = 1 Article or 1 Chapter
- Cancel anytime

Subscribe now →

Buy Now

Buy article PDF 39,95 €

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 96 **partners**, also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our **privacy policy** for more information on the use of your personal data. Your consent choices apply to springer.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

Accept all cookies

Reject optional cookies

Manage preferences

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.

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 96 [partners](#), also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our [privacy policy](#) for more information on the use of your personal data. Your consent choices apply to springer.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

[Accept all cookies](#)

[Reject optional cookies](#)

[Manage preferences](#)

Market Outlook', Journal of Portfolio Management, 24, 11-26.

[Article](#) [Google Scholar](#)

Campbell, J. Y. and Vuolteenaho, T. (2004) 'Inflation Illusion and Stock Prices', American Economic Review, Papers and Proceedings, 94, 19-23.

[Article](#) [Google Scholar](#)

Cohen, R. B., Polk, C. and Vuolteenaho, T. (2005) 'Money Illusion in the Stock Market: The Modigliani-Cohn Hypothesis', NBER Working Paper 11018.

Durré, A. and Giot, P. (2007) 'An International Analysis of Earnings, Stock Prices and Bond Yields', Journal of Business Finance and Accounting, forthcoming.

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 96 **partners**, also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our **privacy policy** for more information on the use of your personal data. Your consent choices apply to springer.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

[Accept all cookies](#)

[Reject optional cookies](#)

[Manage preferences](#)

Modigliani, F. and Cohn, R. A. (1979) 'Inflation, Rational Valuation, and the Market', *Financial Analysts Journal*, 35, 24-44.

[Article](#) [Google Scholar](#)

Ritter, J. R. and Warr, R. S. (2002) 'The Decline of Inflation and the Bull Market of 1982-1989', *Journal of Financial and Quantitative Analysis*, 37 (1), 29-61.

[Article](#) [Google Scholar](#)

Thomas, J. (2005) Understanding the Fed Model and the Implications of this Remarkable Empirical Regularity, Yale University School of Management, Mimeo.

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 96 **partners**, also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our **privacy policy** for more information on the use of your personal data. Your consent choices apply to springer.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

[Accept all cookies](#)

[Reject optional cookies](#)

[Manage preferences](#)

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

²has a PhD in financial econometrics from the Université Catholique de Louvain in Belgium. He is a professor of finance at the University of Namur (Belgium) and has published in many leading finance journals such as the *JIMF*, the *Journal of Empirical Finance* and the *Journal of Banking and Finance*. His research focuses on market microstructure, risk management, venture capital economics and stock market valuation.

Appendix

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

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 96 [partners](#), also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our [privacy policy](#) for more information on the use of your personal data. Your consent choices apply to springer.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

[Accept all cookies](#)

[Reject optional cookies](#)

[Manage preferences](#)

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

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 96 [partners](#), also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our [privacy policy](#) for more information on the use of your personal data. Your consent choices apply to springer.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

[Accept all cookies](#)

[Reject optional cookies](#)

[Manage preferences](#)

France

See [Table A2](#).

Belgium

See [Table A3](#).

Switzerland

See [Table A4](#).

Sweden

See [Table A5](#).

Rights and permissions

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 96 **partners**, also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our **privacy policy** for more information on the use of your personal data. Your consent choices apply to springer.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

[Accept all cookies](#)

[Reject optional cookies](#)

[Manage preferences](#)

Search

Search by keyword or author



Navigation

Find a journal

Publish with us

Track your research

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 96 [partners](#), also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our [privacy policy](#) for more information on the use of your personal data. Your consent choices apply to springer.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

[Accept all cookies](#)

[Reject optional cookies](#)

[Manage preferences](#)