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Volatility Forecasts for the RTS Stock Index: Option-Implied Volatility Versus Alternative Methods

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Abstract


This paper compares volatility forecasts for the RTS Index (the main index for the Russian stock market) generated by alternative models, specifically option-implied volatility forecasts based on the Black-Scholes model, ARCH/GARCH-type model forecasts, and forecasts combining those two using a mixing strategy based either on a simple average or a weighted average with the weights being determined according to two different criteria (either minimizing the errors or maximizing the information content). Various forecasting performance tests are carried out which suggest that both implied volatility and combination methods using a simple average outperform ARCH/GARCH-type models in terms of forecasting accuracy.

Keywords: option-implied volatility, ARCH-type models, mixed strategies

JEL Classification: C220, G120

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