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Comments on: Riding Bubbles

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Contribution of the Paper

- Empirical findings on investors' decision when a stock price bubble is detected → industry specific investigation for the U.S.
- Result: investors should ride bubbles → increase in returns outweighs crash likelihood → Abreu and Brunnermeier (2003)
- Investors infer presence of bubble from publicly available information
- Contrast to literature: assumption in many theoretical models that investors receive a true, noiseless information

Comments I

- Use of CAPM, Fama-French (1993) and Carhart (1997) model:
 - Similar findings not too surprising
 - Present value under constant expected returns mentioned
 - Alternative: present value under time varying expected returns
 - logarithm of dividend yield (Campbell and Shiller, 1988) → very established in the literature

Comments II

- Detection of stock price bubbles:
 - Importance for investors and monetary policy makers
 - Start of bubbles detected consistent with our knowledge about bubble periods?
 - Comparable with Yangru's finding? Sup ADF → different method → similar results?
 - Role of different industries as origin of bubbles → important innovations, liberalizations, credit expansion, overcapacities
 - link between these arguments and specific industry

Minor Comments

- Number of crashes in category 1
 - Standardized negative abnormal return below -1.65
 - More than 40 crashes
 - High number given the limited bubble periods
- Editorial point of view:
 - Paper too long