



University of Sussex

Business & Management

Seminar series

Date: Wednesday 13 February 2013

Speaker: Prof Bill Ziemba (Sauder School of Business, University of British Columbia)

Title: When to sell Apple and the NASDAQ? Trading bubbles with a stochastic disorder model

Abstract: Shiryaev and Zhitlukhin (2012a,b) have developed a continuous time stochastic process model for optimal stopping of random price processes that appear to be bubbles. By a bubble we mean the rising price is largely based on the expectation of higher and higher future prices, see Stiglitz (1990) and Evano et al (2012). Futures traders such as George Soros attempt to trade such markets. The idea is to exit near the peak from a starting long position. The model applies equally well on the short side, that is when to enter and exit a short position. In this paper we test the model in two technology markets. These include the price of Apple computer stock AAPL from various times in 2009{2012 after the local low of March 6, 2009; plus a market where it is known that the generally very successful bubble trader George Soros lost money by shorting the NASDAQ-100 stock index too soon in 2000. The Shiryaev and Zhitlukhin model provides good exit points in both situations that would have been profitable to speculators following the model.