

## Speculation Strategies for the Russian Stock Market in the Conditions of Crisis

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**Abstract:** The study contains the analysis of the situation on the securities market crisis first, given the concept of speculative strategies and shows the ever-increasing role of speculators in times of crisis because speculative strategy is objectively forced form of portfolio investment because in the long run only effective short-term investments. Consider the possibility of speculation in shares in the fuel and energy complex of Russia.

**Key words:** The securities market, financial strategy, crisis, sanctions, security, speculation

### INTRODUCTION

Three main factors putting pressure on global stock markets: China's economy is slowing faster than analysts expected, uncertainty regarding the key interest rate by the Federal Reserve System, as well as extremely cheap oil it is now trading at around 37.45\$. On global stock markets is a process which is the language of traders called "bubble burst". The value of shares in the United States and Europe for several years has grown under the influence of "quantitative easing" (money issue) and substantially divorced from the situation in the real economy which is in general from the crisis of 2008 is not completely recovered (Parr, 2014; Ajupov *et al.*, 2015). Now there is an inevitable process when the market value of assets comes in line with common sense.

An indirect sign that the situation is extremely serious is the fact that in the current crisis the worst feeling China's stock market. In the past 20 years, China has become the world's industrial center and the locomotive of the world economy which until recently was quite resistant to external shocks. For example, during the 2008 crisis hit the Chinese market is quite moderate and now they are asking "crisis mode".

As for the particularly China, for over a year stock bubble inflated. Sooner or later it had to burst. The impact of falling domestic Chinese market index on world markets is limited because foreign investors have lost nothing there. Imposed and other circumstances, in particular, the fall in oil prices. But in general, the situation on the stock markets of developed countries and their economies although, far from ideal but it is more stable than in China.

Until the fall of the Chinese stock market is so fast that leaves no doubt of its speculative nature, as well as speculative and wore the growth of this market over the last year. On the general slowdown of the Chinese economy can be judged from a variety of sources in recent years: it defaults of large companies and a slowdown in industrial production and the acute situation in the steel sector.

In the face of rising geopolitical tensions in the situation on the Russian securities market largely depends on the position of the US government and the European Union, from various areas of tension such as the Middle East (Safiullin *et al.*, 2012). Currently trending stocks and bonds in its pure form is not observed, despite the fact that some paper successfully resist the negative trends from the beginning of the crisis, such as securities companies, tied to the retail trade and the end user (PAO "Magnit") (Fig. 1). The graph shows that the price increase for 1 share of PAO "Magnit" for 2 years from 01.01.2014 on 22.12.2015 amounted to 8395 rubles, respectively to 10779 rubles in absolute value or 28.39% as a percentage. In 2015, the shares showed an increase of +1.78% on average for the year.

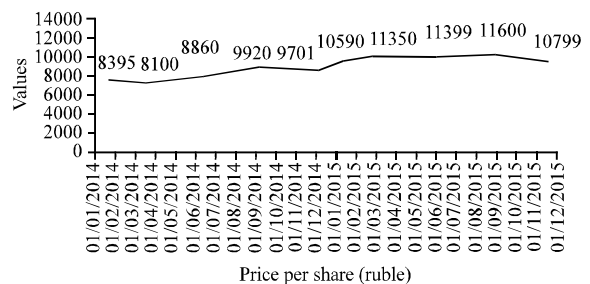


Fig. 1: Dynamics of the cost of shares of OJSC "Magnit"

**MATERIALS AND METHODS**

**Theory:** Now we see a more detailed picture of the current market crisis, securities first but it still will specify what we mean by the term “financial crisis on the securities market”. The crisis in the securities market a violation of the stock sector of the financial market, followed by the devaluation of securities, decrease in demand and an increase in their supply stop (termination) works debt markets, tightening of the credit markets, the decrease in transactions (reduction in the volume otransactions), increasing transaction costs, changes in the composition of market operators, the bankruptcy of companies participating in the market, an increase in the spread in interest rates, the increase in risk premiums for all classes of securities (Ajupov *et al.*, 2015).

During 2014-15, the position of the companies in the economic sector in Russia were affected by the sanctions that have been applied by some countries of the world community as a response to an acute exacerbation of the political conflict in Ukraine. The sanctions were introduced in order to break the current financial and economic relations of Russia with constant trading partners. Of course, along with the influence exerted by the outside, on the development of the Russian economy and influenced by many other factors as totally unrelated, as conditionally or indirectly related to above restrictions. It is difficult to assess the effects of the sanctions but it is possible to identify some kind of relationship between the introduction of sanctions and the changes that have taken place in the Russian stock market since the beginning of 2014 and that lasts to this day. Each new stage of development of Ukrainian conflict caused a new wave of financial sanctions against Russia. Domestic companies are a little bit lost access to foreign credit and capital markets, forecasts for GDP worsened every month, investors stampeded and the capitalization of the stock market has been steadily falling (Melnik and Mustafina, 2013).

As a result, for 2014 and for 2015 (21.12.2015), the RTS index lost just 45%. And the main reason for the weakening of the market Ukrainian conflict. Rather, the associated Western sanctions against Russia. Now the obvious fact that the extension of economic sanctions is not connected with the performance of the Minsk Agreement, namely the pressure on the Russian government to adopt certain decisions favorable to Western countries. Since December 21, 2015 all the countries of the European Union adopted a decision on the extension of economic sanctions for another 6 months (Bagautdinova *et al.*, 2013).

As the experience of trading in the MICEX market participants who adhere to speculative strategies must take into account the fundamental factors, external risks, liquidity and others. For example, due to external shocks, domestic markets have experienced significant volatility in March, May and December 2014; July, September, November 2015, allowing traders to receive significant financial benefits (Safiullin *et al.*, 2012).

**RESULTS AND DISCUSSION**

The Russian stock market capitalization in the unfortunately inferior to Western markets. The role of speculators as one of the participants in the securities market increases substantially in the Russian reality. Speculative strategies can be applied to mainstruments: stocks, bonds, derivatives and other securities. Short-term speculative transactions are mainly carried out in the sector of corporate securities stocks, bonds, etc. Most transactions are concluded via the internet. The share of online transactions is very high and constantly increasing (Table 1). This allows the investor to buy or sell a large number of assets in the securities market in the shortest time, that is, the investor receives the opportunities of effective portfolio management.

To carry out short-term operations requiring high market liquidity. Speculators are important to the economy as a whole, as they provide the liquidity of the financial market. Liquidity the ability to convert one asset into another asset. Currently, the most liquid securities are securities included in the index of RTS and MICEX. According to the Moscow Stock Exchange, the stock indices formed from 50 of the most financially stable and dynamically developing Russian companies, economic activities which are a key sector of the economy (Fig. 2). Wherever no transactions: on the stock exchange or on the secondary market, approaches to extract the same income. Three main approaches, the rest can be classified as different combinations:

Table 1: The volume of the market for Internet commerce

Years	The volume of the market (billion dollars)
2008	64.9
2009	116.0
2010	176.9
2011	312.6
2012	381.4
2013	537.4
2014	683.0
2015	650.0
2016	695.5
2017	834.6
2018	959.8

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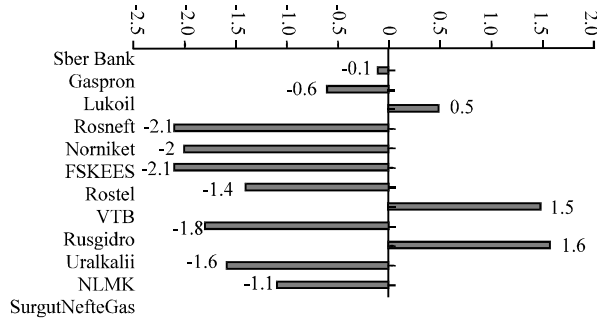


Fig. 2: The most liquid shares on the MICEX

- Investing
- Trading on the exchange rate fluctuations. It is also called the speculation or trading
- Arbitrage

Speculative strategies in times of crisis on the securities market an objective form of forced portfolio investment, as in the long term only effective short-term investments. Therefore, if there is free money from the investment backlog for the period of 1-3 years, it is much more profitable to place these funds multiple way for 1-2 months than 1 times and for several years. Justified on practical strategy is to use the following growth drivers: the purchase of instruments with high dividend yields, the purchase of shares in a sharp decline in the market because of political and other. Risk, the acquisition of shares of exporting companies in terms of devaluation, short positions in the formation of short-term overbought assets. For example, the US dollar in the middle of the day December 16, 2014, according to most methods of technical and fundamental analysis of the more was significantly overbought. The basis of speculative strategies in times of crisis in the financial markets the scientific basis of modeling trends and leveling of the psychological component in management decisions.

Most speculators, in particular private investors, unprofessional, not prone to modeling courses and to the psycho-emotional buying at the peak of prices (Ajupov *et al.*, 2015). Consider the possibility of speculation in stocks of fuel and energy complex. Studies show the current state of fuel and energy complex as having a fundamental component of quality and problems in particular in the electricity industry. Analysis of investment attractiveness of companies of the electricity sector shows a low potential for generating income for long-term investors and high for speculators. In fact, the current situation in the domestic securities market is pushing market participants to the mass transition to the category of speculators. Political risks suggest

opportunities for speculation in stocks, since most industries are joint-stock companies with a significant participation of the state and private companies, the shareholders of which there are foreign investors. The fuel and energy complex is expressed quite clearly. For example, after the start of the sanctions it seemed logical speculation the purchase of shares of OJSC “LUKOIL” and the sale of shares including “Short” shares of “Rosneft”. After the appearance of well-known problems in the AFC “System” an opportunity to speculate on the fall of shares of “Bashneft” and the purchase of shares of “Tatneft”. These examples reflect the possibility of hedging transactions, i.e., virtually risk-free speculation. In fact, from the political decision-making, significantly affecting the economy, losing all subjects of the market economy and the state, business and households. Preferences receive speculators.

This suggests that investment strategies in the power sector, as such, it is possible to form only in 1-2 years, as shares of companies with quality management and high financial stability also do not suggest a significant and steady growth of quotations in the coming time. Formation of an effective dividend policy of the company estimated revenue for major portfolio investors but also more opportunities to get speculators. Since the majority of market participants consistently receive damages, the speculator is always the possibility for a profitable investment. In a crisis, speculation is even more advantageous, not only because of the high volatility but also because of lack of understanding how individuals and experienced traders essentially defensive assets. Justification of long-term investment strategies for individuals a complex and intractable problems but speculators are additional opportunities for capital appreciation.

Experience has shown that in times of crisis, you can substantiate scientifically effective investment strategy. Noteworthy method of forming an efficient investment strategy in terms of financial and economic crisis. Because the greater the crisis, the more attention is traditionally paid to agriculture, there are objective grounds for investment and even more so for speculation. For example, in August 2014 after announcing retaliatory sanctions in relation to imports of food in Russia, stocks of agribusiness companies (OJSC “Rusgreyn” and OJSC “Razgulyay”, OJSC “Cherkizovo”) logically rose in a few trading days at 50-100% and then another more logically fell to previous levels (for lifting the agribusiness companies requires not kontrsanction short and long-term systemic approach). Thus, the domestic economy may be regarded as speculative oriented financial economy at a constant state intervention. Government intervention is

usually delayed, unproductive, bad forecast. This creates additional opportunities for effective speculation.

The basis for investment decisions is a fundamental analysis, technical analysis is only used to determine the time of purchase and time of sale of the asset. Ideal speculation a deal given the rapid changes in fundamental factors. For example, on the night of December 16th, 2014 the Central Bank has significantly increased its key interest rate from 10.5-17%. Those, the value of the ruble against other major currencies has grown substantially and this news could be used for large, essentially guaranteed benefits. Since, September 2015 the key rate in Russia is 11%. The fact that the regulator has to this day not carry out foreign exchange intervention, once again proves prohibitively poor quality of the management of the Central Bank. December 16, 2014 a day in which the ruble established historical lows. This is the day highest of panic among the population. And that day when, according to official reports, the Central Bank has not sold a single dollar. Contrary to the existing legal framework, despite the financial logic and general common sense. While the Central Bank actually does not fulfill its function and demonstrates the lack of understanding of the foundations of the global financial economy, the opportunities for speculation in the domestic market the broadest.

### **CONCLUSION**

You can make the following conclusions on the basis of the analysis:

- Speculative strategy in the crisis conditions in the securities market an objective form of forced portfolio investment, as in the long term only effective short-term capital investments
  - Foundation of speculative strategies in the crisis of the securities market, the scientific basis of modeling trends and leveling of the psychological component in management decisions
  - Basis for investment decisions is a fundamental analysis, technical analysis is only used to determine the time of purchase and time of sale of the asset
  - Inefficient management of the economy by the state and the financial illiteracy of the population creates additional preferences speculators
- In any case, in the short term, the Russian market will be a good option for high risk investments, as most experts expect the conservation volatility Russian indices at current levels. At the same time, it is not excluded individual bursts of activity. The Russian market is still one of the world's largest energy suppliers with a large consumer sector. In addition, Russia is now offering the most attractive dividend payments per share.

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