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# HETEROGENEOUS AGENTS, THE FINANCIAL CRISIS AND EXCHANGE RATE PREDICTABILITY<sup>★</sup>

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## Highlights:

- we build an empirical heterogeneous agent model for 6 currencies
- individual agent forecasts are constructed from DMA framework
- our daily out-of-sample R<sup>2</sup> relative to RW can be as high as 1.41% and highly significant
- our model forecasts yield annualized Sharpe ratios of up to 1.1 and performance fees above 400 basis points
- our predictability results break down after February 2009, are strongest after Lehman Brothers collapse

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