Tayla:

Reading list:

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Less useful readings:

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* Grinold R.C. and Kahn R.N. (2000), Active Portfolio Management: A Quantitative Approach for Providing Superior Returns and Controlling Risk, second edition, McGraw-Hill.
* Meucci A. (2005), Risk and Asset Allocation, Springer.
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* Tütüncü R.H and Koenig M. (2004), Robust Asset Allocation, Annals of Operations Research, 132, pp. 132-157.
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* Denuit, M., J. Dhaene, M. Goovaerts, and R. Kaas, 2005, *Actuarial Theory for Dependent Risks: Measures, Orders and Models* (Chichester: JohnWiley).

Managing Risk Exposures using the Risk Budgeting Approach:

* “The ongoing economic crisis has profoundly changed the industry of asset management by putting risk management at the heart of most investment processes. This new risk-based investment style does not rely on return forecasts and is therefore assumed to be more robust.”
* “risk budgeting approach”: “minimum variance, ERC or risk parity strategies.”
* “Mean-variance optimization, however, generally leads to portfolios concentrated in terms of weights. Slight differences in inputs can lead to dramatic changes in allocations and create portfolios heavily invested on very few assets. There is also confusion between optimizing the volatility and optimizing the risk diversification that could be naively described by the general “don’t put all your eggs in one basket” concept.”
* “Like the ERC portfolio, the risk budgeting approach is an heuristic asset allocation method.”
* “a dynamic strategy based on MVO portfolios will generate a higher turnover than a dynamic strategy based on RB portfolios.”
* This paper: “present four main applications of the risk budgeting approach. They concern risk parity funds, strategic asset allocation, equity indexes and sovereign bonds benchmarks.”

AFTER VAR: THE THEORY, ESTIMATION,

AND INSURANCE APPLICATIONS OF QUANTILE-BASED

RISK MEASURES:

* “the VaR is seriously flawed.”
* “(1) There are many QBRMs that have respectable properties and are demon-strably superior to the VaR, but the choice of “best” risk measure(s) is a subjective one that can also depend on the context. (2)”
* “that it should be relatively straightforward for institutions to upgrade from VaR to more sophisticated risk measures.”
* “A good case in point here is the slowness with which axiomatic theories of financial risk measurement—of which the theory of coherent risk measures is the most notable example—have been accepted across the FRM community, despite highly persuasive arguments that coherent measures are superior to the VaR.”
* ” The VaR provides a common measure of risk across different positions and risk factors. It can be applied to any type of portfolio, and enables us to compare the risks across different (e.g., fixed-income and equity) portfolios. Traditional methods are more limited: duration measures apply only to fixed-income positions, Greek measures apply only to derivatives positions, portfolio-theory measures apply only to equity and similar (e.g., commodity) positions, and so forth.”
* “VaR enables us to aggregatethe risks of positions taking account of the ways in which risk factors correlate with each other, whereas most traditional risk measures do not allow for the “sensible” aggregation of component risks.”
* “ VaR is holistic in that it takes full account of all driving risk factors, whereas many traditional measures only look at risk factors one at a time (e.g., Greek measures) or resort to simplifications that collapse multiple risk factors into one (e.g., duration-convexity and CAPM (Capital Asset Pricing Model) measures).”
* “VaR is also holistic in that it focuses assessment on a complete portfolio, and not just on individual positions in it.”
* “ VaR is probabilistic, and gives a risk manager useful information on the probabilities associated with specified loss amounts. Many traditional measures (e.g., duration, Greeks, etc.) only give answers to “what if?” questions and do not give an indication of loss likelihoods.”
* “VaR is expressed in the simplest and most easily understood unit of measure, namely, “lost money.” Many other measures are expressed in less transparent units (e.g., average period to cashflow, etc.).”