
CONTENTS

Foreword	xiii
Acknowledgments	xv
Introduction	1
PART I: OVERVIEW—TWO DECADES OF RISK MANAGEMENT	5
1990–1999	
CHAPTER 1	
A Framework for Understanding Market Crisis	7
Richard M. Bookstaber <i>Reprinted from AIMR Conference Proceedings: Risk Management: Principles and Practices (August 1999):7–19.</i>	
CHAPTER 2	
Practical Issues in Choosing and Applying Risk Management Tools	25
Jacques Longerstae <i>Reprinted from AIMR Conference Proceedings: Risk Management: Principles and Practices (August 1999):52–61.</i>	
CHAPTER 3	
The Three P's of Total Risk Management	39
Andrew W. Lo <i>Reprinted from the Financial Analysts Journal (January/February 1999):13–26.</i>	
CHAPTER 4	
Reporting and Monitoring Risk Exposure	61
Robert W. Kopprasch, CFA <i>Reprinted from AIMR Conference Proceedings: Risk Management (April 1996): 25–33.</i>	
2000–Present	
CHAPTER 5	
Risk Management: A Review	73
Sébastien Lleo, CFA <i>Modified from The Research Foundation of CFA Institute (February 2009).</i>	

CHAPTER 6		
Defining Risk		113
Glyn A. Holton		
<i>Reprinted from the Financial Analysts Journal (November/December 2004):</i>		
<i>19–25.</i>		
CHAPTER 7		
Value and Risk: Beyond Betas		125
Aswath Damodaran		
<i>Reprinted from the Financial Analysts Journal (March/April 2005):</i>		
<i>38–43.</i>		
CHAPTER 8		
A Simple Theory of the Financial Crisis; or,		
Why Fischer Black Still Matters		133
Tyler Cowen		
<i>Reprinted from the Financial Analysts Journal (May/June 2009):</i>		
<i>17–20.</i>		
CHAPTER 9		
Managing Firm Risk		139
Bluford H. Putnam		
<i>Reprinted from AIMR Conference Proceedings: Ethical Issues for Today's Firm</i>		
<i>(July 2000):</i>		
<i>51–61.</i>		
CHAPTER 10		
Risk Measurement versus Risk Management		153
D. Sykes Wilford		
<i>Reprinted from AIMR Conference Proceedings: Improving the Investment</i>		
<i>Process through Risk Management (November 2003):</i>		
<i>17–21.</i>		
	PART II: MEASURING RISK	161
CHAPTER 11		
What Volatility Tells Us about Diversification		
and Risk Management		163
Max Darnell		
<i>Reprinted from CFA Institute Conference Proceedings Quarterly</i>		
<i>(September 2009):</i>		
<i>57–66.</i>		
CHAPTER 12		
Risk²: Measuring the Risk in Value at Risk		175
Philippe Jorion		
<i>Reprinted from the Financial Analysts Journal (November/December 1996):</i>		
<i>47–56.</i>		
CHAPTER 13		
How Risk Management Can Benefit Portfolio Managers		189
Michelle McCarthy		
<i>Reprinted from AIMR Conference Proceedings: Risk Management:</i>		
<i>Principles and Practices (August 1999):</i>		
<i>62–72.</i>		

CHAPTER 14	
Merging the Risk Management Objectives of the Client and Investment Manager	205
Bennett W. Golub	
<i>Reprinted from AIMR Conference Proceedings: Exploring the Dimensions of Fixed-Income Management (March 2004):13–23.</i>	
CHAPTER 15	
The Mismeasurement of Risk	219
Mark Kritzman, CFA, and Don Rich	
<i>Reprinted from the Financial Analysts Journal (May/June 2002):91–99.</i>	
CHAPTER 16	
Riskiness in Risk Measurement	233
Roland Lochhoff	
<i>Reprinted from AIMR Conference Proceedings: Exploring the Dimensions of Fixed-Income Management (March 2004):40–51.</i>	
CHAPTER 17	
The Second Moment	249
Don Ezra	
<i>Reprinted from the Financial Analysts Journal (January/February 2009):34–36.</i>	
CHAPTER 18	
The Sense and Nonsense of Risk Budgeting	253
Arjan B. Berkelaar, CFA, Adam Kobor, CFA, and Masaki Tsumagari, CFA	
<i>Reprinted from the Financial Analysts Journal (September/October 2006):63–75.</i>	
CHAPTER 19	
Understanding and Monitoring the Liquidity Crisis Cycle	273
Richard Bookstaber	
<i>Reprinted from the Financial Analysts Journal (September/October 2000):17–22.</i>	
CHAPTER 20	
Why Company-Specific Risk Changes over Time	283
James A. Bennett, CFA, and Richard W. Sias	
<i>Reprinted from the Financial Analysts Journal (September/October 2006):89–100.</i>	
CHAPTER 21	
Black Monday and Black Swans	301
John C. Bogle	
<i>Reprinted from the Financial Analysts Journal (March/April 2008):30–40.</i>	
CHAPTER 22	
The Uncorrelated Return Myth	317
Richard M. Ennis, CFA	
<i>Reprinted from the Financial Analysts Journal (November/December 2009):6–7.</i>	

PART III: MANAGING RISK	321
<i>Alternative Investments</i>	
CHAPTER 23	
Risk Management for Hedge Funds: Introduction and Overview	323
Andrew W. Lo	
<i>Reprinted from the Financial Analysts Journal (November/December 2001): 16–33.</i>	
CHAPTER 24	
Risk Management for Alternative Investment Strategies	353
Leslie Rahl	
<i>Reprinted from AIMR Conference Proceedings: Exploring the Dimensions of Fixed-Income Management (March 2004):52–62.</i>	
CHAPTER 25	
Sources of Change and Risk for Hedge Funds	367
Clifford S. Asness	
<i>Reprinted from CFA Institute Conference Proceedings: Challenges and Innovation in Hedge Fund Management (August 2004):4–9, 13–14.</i>	
CHAPTER 26	
Risk Management in a Fund of Funds	379
S. Luke Ellis	
<i>Reprinted from CFA Institute Conference Proceedings: Challenges and Innovation in Hedge Fund Management (August 2004):31–39.</i>	
CHAPTER 27	
Hedge Funds: Risk and Return	391
Burton G. Malkiel and Atanu Saha	
<i>Reprinted from the Financial Analysts Journal (November/December 2005): 80–88.</i>	
<i>Credit Risk</i>	
CHAPTER 28	
Credit Risk	407
Jeremy Graveline and Michael Kokalari	
<i>Modified from The Research Foundation of CFA Institute (November 2006).</i>	
CHAPTER 29	
Tumbling Tower of Babel: Subprime Securitization and the Credit Crisis	427
Bruce I. Jacobs	
<i>Reprinted from the Financial Analysts Journal (March/April 2009):17–30.</i>	

CHAPTER 30	
Applying Modern Risk Management to Equity and Credit Analysis	447
Robert C. Merton	
<i>Reprinted from CFA Institute Conference Proceedings Quarterly (December 2007):14–22.</i>	
<i>Derivatives</i>	
CHAPTER 31	
The Uses and Risks of Derivatives	459
Joanne M. Hill	
<i>Reprinted from AIMR Conference Proceedings: Investing Worldwide VI (January 1996):46–58.</i>	
CHAPTER 32	
Effective Risk Management in the Investment Firm	475
Mark C. Brickell	
<i>Reprinted from AIMR Conference Proceedings: Risk Management (April 1996):48–55.</i>	
CHAPTER 33	
Risk-Management Programs	487
Maarten Nederlof	
<i>Reprinted from AIMR Conference Proceedings: Risk Management (April 1996):15–24.</i>	
CHAPTER 34	
Does Risk Management Add Value?	501
Charles W. Smithson	
<i>Reprinted from AIMR Conference Proceedings: Corporate Financial Decision Making and Equity Analysis (July 1995):47–53.</i>	
CHAPTER 35	
Risk Management and Fiduciary Duties	511
Robert M. McLaughlin	
<i>Reprinted from AIMR Conference Proceedings: Risk Management: Principles and Practices (August 1999):20–31.</i>	
<i>Global Risk</i>	
CHAPTER 36	
Financial Risk Management in Global Portfolios	529
R. Charles Tschampion, CFA	
<i>Reprinted from AIMR Conference Proceedings: Investing Worldwide VI (January 1996):67–73.</i>	

CHAPTER 37	
Universal Hedging: Optimizing Currency Risk and Reward in International Equity Portfolios	539
Fischer Black	
<i>Reprinted from the Financial Analysts Journal (July/August 1989):16–22.</i>	
CHAPTER 38	
Strategies for Hedging	551
Mark P. Kritzman, CFA	
<i>Reprinted from AIMR Conference Proceedings: Managing Currency Risk (November 1997):28–38.</i>	
CHAPTER 39	
Currency Risk Management in Emerging Markets	567
H. Gifford Fong	
<i>Reprinted from AIMR Conference Proceedings: Investing Worldwide VII (September 1996):18–23.</i>	
CHAPTER 40	
Managing Geopolitical Risks	573
Marvin Zonis	
<i>Reprinted from CFA Institute Conference Proceedings Quarterly (September 2009):22–29.</i>	
CHAPTER 41	
Country Risk in Global Financial Management	583
Claude B. Erb, CFA, Campbell R. Harvey, and Tadas E. Viskanta	
<i>Reprinted from The Research Foundation of CFA Institute (January 1998).</i>	
CHAPTER 42	
Political Risk in the World Economies	651
Marvin Zonis	
<i>Reprinted from AIMR Conference Proceedings: Investing Worldwide VIII: Developments in Global Portfolio Management (September 1997):1–6.</i>	
Nonfinancial Risk	
CHAPTER 43	
A Behavioral Perspective on Risk Management	657
Andrew W. Lo	
<i>Reprinted from AIMR Conference Proceedings: Risk Management: Principles and Practices (August 1999):32–37.</i>	
CHAPTER 44	
Behavioral Risk: Anecdotes and Disturbing Evidence	667
Arnold S. Wood	
<i>Reprinted from AIMR Conference Proceedings: Investing Worldwide VI (January 1996):74–78.</i>	

CHAPTER 45	
The Ten Commandments of Operational Due Diligence	673
Robert P. Swan III	
<i>Reprinted from</i> CFA Institute Conference Proceedings: Challenges and Innovation in Hedge Fund Management (August 2004):47–52.	
CHAPTER 46	
Models	681
Emanuel Derman	
<i>Reprinted from the</i> Financial Analysts Journal (January/February 2009):28–33.	
CHAPTER 47	
The Use and Misuse of Models in Investment Management	689
Douglas T. Breeden	
<i>Reprinted from</i> CFA Institute Conference Proceedings Quarterly (December 2009):36–45.	
CHAPTER 48	
Regulating Financial Markets: Protecting Us from Ourselves and Others	701
Meir Statman	
<i>Reprinted from the</i> Financial Analysts Journal (May/June 2009):22–31.	
<i>Pension Risk</i>	
CHAPTER 49	
Budgeting and Monitoring Pension Fund Risk	715
William F. Sharpe	
<i>Reprinted from the</i> Financial Analysts Journal (September/October 2002):74–86.	
CHAPTER 50	
The Plan Sponsor’s Perspective on Risk Management Programs	735
Desmond Mac Intyre	
<i>Reprinted from</i> AIMR Conference Proceedings: Risk Management: Principles and Practices (August 1999):38–44.	
CHAPTER 51	
Evaluating a Risk-Management Program	745
Christopher J. Campisano, CFA	
<i>Reprinted from</i> AIMR Conference Proceedings: Risk Management (April 1996):41–47.	
CHAPTER 52	
Developing and Implementing a Risk-Budgeting System	755
Leo J. de Bever	
<i>Reprinted from</i> AIMR Conference Proceedings: Improving the Investment Process through Risk Management (November 2003):62–72.	

CHAPTER 53	
Liability-Driven Investment Strategies for Pension Funds	771
Roman von Ah	
<i>Reprinted from CFA Institute Conference Proceedings Quarterly (December 2008):39–46.</i>	
About the Contributors	781
Index	783

<http://www.pbookshop.com>