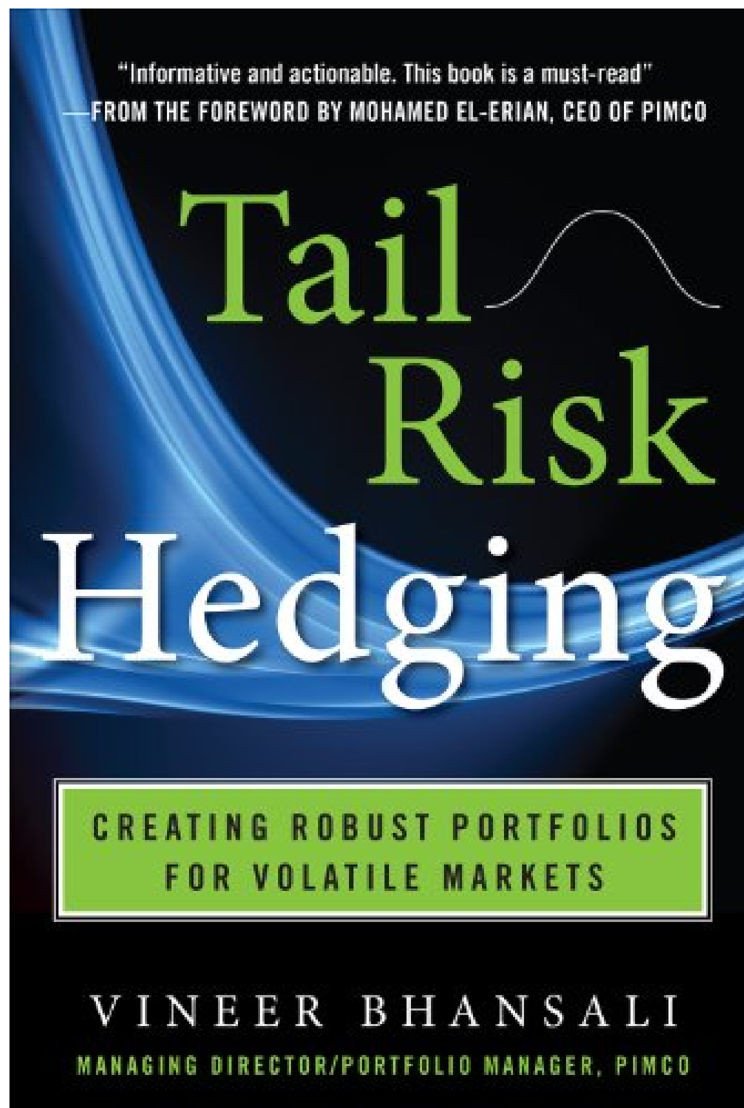
TAIL RISK HEDGING: Creating Robust Portfolios for Volatile Markets (Professional Finance Investment)

Vineer Bhansali
*Download PDF | ePub | DOC | audiobook | ebooks



Download Read Online

#1105953 in eBooks 2013-12-27 2013-12-27File Name: B00GWSY2IK | File size: 48.Mb

Vineer Bhansali : TAIL RISK HEDGING: Creating Robust Portfolios for Volatile Markets (Professional Finance Investment) before purchasing it in order to gage whether or not it would be worth my time, and all praised TAIL RISK HEDGING: Creating Robust Portfolios for Volatile Markets (Professional Finance Investment):

4 of 4 people found the following review helpful. This is the one to read if you want to be "lucky"By LeeI have worked in institutional funds management for 35 years, on both the sell side as a financial engineer, and on the buy

side as a portfolio manager. Early on I managed a team that created one of the first VAR systems, and later I learned why a good VAR model is necessary, but not sufficient, to understand the risks embedded in your portfolio. Security price changes are not distributed normally. Fat tails are not just a curious quirk.I try routinely to keep up with the major academic and practitioner research in the area of risk management, theory and practice. As a consequence, I have read more than a a few books about tail risk hedging. They are generally written after a crash reminds a new generation of skeptics that, yes, some day you might see a black swan. (Which means that you better be ready to see a neon pink one, too.) Most of these books are technically competent. Occasionally one is well written and clear. But getting the math right does not mean that the author understands the material at an intuitive level. That takes practical, hands-on-the-controls experience that few quants have.Who should read this book? Read it if you design tail risk hedges, of course. Read it if you are starting out, and want to learn how it is done. And also read it if you rely on someone else to design your tail hedge. It will help you to understand why it is structured as it is, what the hedge can do, what its limitations are, and how it can be customized to tilt in the direction of protecting against the event risks you think are the most threatening.Each emergency is different, and yet each one is the same. They don't teach a student pilot how to recover from a spin by describing the fluid mechanics of a stall. They put you beside an instructor. A stochastic differental equation just doesn't capture what an experienced flight instructor might blandly call an "unusual attitude."If I were learning how to recover an airplane that seemed about to lose a wing -- "It just happened! All of a sudden! For no reason at all!" -- I would hope that someone who had done this a few times before was sitting beside me, ready to take over. And when we had landed safely, I would want that same person to be the one to explain to me why there actually was a reason for what seemed to me to be "no reason at all!". Then I would ask what I should do to prepare for the next big moment, and most importantly, what I could do to make that moment of terror less likely to happen again.If I couldn't monopolize that instructor's time, I would ask her to write this kind of book, and hope she could write clearly as Bahnsali does.You never forget your first, but you only get to remember it if you survive it. Bhansali has obviously been there. He is rigorous, but also clear. He is the right guy to explain how to prepare for an event that you cannot precisely predict or precisely describe in advance. This book tells you what you how to prepare, and how to calculate how much being prepared will likely cost -- the insurance premium -- why you should do it anyway, and how to get the most bang for your hedging buck. He even explains how a chaotic market can be a blessing. On the day when everybody else is sweating margin calls, and dumping anything that is still liquid enough to be sold, wouldn't you want to be the portfolio manager sitting on a tidy little pile of cash that had been generated by a tail event hedge?If you are going to read one book to show you how to be that "lucky" manager, you might as well read the best book on the topic. Luck happens when you are prepared. This is the best book to read if you want to be lucky.8 of 10 people found the following review helpful. A must read for CFOs,By Value PMWith SP 500 up 30% in 2013, and economic outlook improving in the US and Europe, it is hard to imagine a tail risk will occur in the near horizon. However, as history told us, black swan event happens more frequently than normal. With market participants gaining confidence and VIX 80% reading lower than in 2008, this is the right time to implement tail risk hedging strategies.Dr. Bhansali's book is unique. There is no book prior to this one on the market that go through hedging decision in a systematic matter. As an advisor to CFOs on hedging strategies, I highly recommend this book, not just for CFOs, but also for money managers, quants and finance students.

"TAIL RISKS" originate from the failure of mean reversion and the idealized bell curve of asset returns, which assumes that highly probable outcomes occur near the center of the curve and that unlikely occurrences, good and bad, happen rarely, if at all, at either "tail" of the curve. Ever since the global financial crisis, protecting investments against these severe tail events has become a priority for investors and money managers, but it is something Vineer Bhansali and his team at PIMCO have been doing for over a decade. In one of the first comprehensive and rigorous books ever written on tail risk hedging, he lays out a systematic approach to protecting portfolios from, and potentially benefiting from, rare yet severe market outcomes. Tail Risk Hedging is built on the author's practical experience applying macroeconomic forecasting and quantitative modeling techniques across asset markets. Using empirical data and charts, he explains the consequences of diversification failure in tail events and how to manage portfolios when this happens. He provides an easy-to-use, yet rigorous framework for protecting investment portfolios against tail risk and using tail hedging to play offense. Tail Risk Hedging explores how to: Generate profits from volatility and illiquidity during tail-risk events in equity and credit markets Buy attractively priced tail hedges that add value to a portfolio and quantify basis risk Interpret the psychology of investors in option pricing and portfolio construction Customize explicit hedges for retirement investments Hedge risk factors such as duration risk and inflation risk Managing tail risk is today's most significant development in risk management, and this thorough guide helps you access every aspect of it. With the time-tested and mathematically rigorous strategies described here, including pieces of computer code, you get access to insights to help mitigate portfolio losses in significant downturns, create explosive liquidity while unhedged participants are forced to sell, and create more aggressive yet tail-risk-focused portfolios. The book also gives you a unique, higher level view of how tail risk is related to investing in alternatives, and of derivatives such as zerocost collars and variance swaps. Volatility and tail risks are here to stay, and so should your clients' wealth when

you use Tail Risk Hedging for managing portfolios. PRAISE FOR TAIL RISK HEDGING: "Managing, mitigating, and even exploiting the risk of bad times are the most important concerns in investments. Bhansali puts tail risk hedging and tail risk management under a microscope--pricing, implementation, and showing how we can fine-tune our risk exposures, which are all crucial ways in how we can better weather our bad times." -- ANDREW ANG, Ann F. Kaplan Professor of Business at Columbia University "This book is critical and accessible reading for fiduciaries, financial consultants and investors interested in both theoretical foundations and practical considerations for how to frame hedging downside risk in portfolios. It is a tremendous resource for anyone involved in asset allocation today." -- CHRISTOPHER C. GECZY, Ph.D., Academic Director, Wharton Wealth Management Initiative and Adj. Associate Professor of Finance, The Wharton School "Bhansali's book demonstrates how tail risk hedging can work, be concretely implemented, and lead to higher returns so that it is possible to have your cake and eat it too! A must read for the savvy investor." -- DIDIER SORNETTE, Professor on the Chair of Entrepreneurial Risks, ETH Zurich

From the Back CoverInvestors know that just one severe market shock may be terminal for a financial plan. To retain a portfolio's hard-won value, asset managers need to supplement traditional risk management paradigms with a forward-thinking, "just-in-case" strategy. The answer is Tail Risk Hedging. No one is better qualified to offer this first authoritative and rigorous coverage of hedging against tail risks than Vineer Bhansali. A master of implementing theory into practice, he shares strategies, frameworks, and formulas for managing portfolios hedged against tail risk. He gives you the tools and the foundations you need to manage your clients' wealth against market disasters, including: AN INSIDERrsquo;S LOOK AT PIMCO'S RISK FACTOR APPROACH TO FORWARD-LOOKING INVESTMENT DEVELOPMENT AND PORTFOLIO CONSTRUCTION UNIQUE INSIGHTS AND FRAMEWORKS NOT BROADLY WRITTEN ABOUT IN THE FIELD OR ACADEMIA ANALYSIS OF THE MAJOR BEHAVIORAL PHENOMENA IN THE MARKETS AND THEIR RELEVANCE FOR TAIL HEDGINGAbout the AuthorVINEER BHANSALI, PH.D., is a managing director and portfolio manager in the Newport Beach office of PIMCO, where he oversees the company's quantitative investment portfolios.