Risk management may have been the single most important topic in finance over the past two decades. To appreciate its complexity, one must understand the art as well as the science behind it. And in order to do so, investment professionals must have a solid framework for understanding the theory, philosophy, and development of the practice of risk management.

Risk Management: Foundations for a Changing Financial World outlines the evolution of risk management with key contributions from the top minds in the field, such as Richard Bookstaber, Aswath Damodaran, Philippe Jorion, Clifford Asness, and Andrew Lo, among others. They show how the discipline has adapted to address the future of managing risk.

Covering the full range of risk management issues, the book first provides an overview of the past two decades of risk management. It goes on to discuss the various aspects of measuring risk—from how risk management can benefit portfolio managers to understanding and monitoring the liquidity cycle, and more. The last section of the book examines the practical aspects of managing risk, including risk management for hedge funds, the uses and risks of derivatives, and other critical topics.

For financial analysts, money managers, and others in the finance industry, this book offers an in-depth understanding of the issues most important to today’s investment professionals.

WALTER V. “BUD” HASLETT Jr., CFA, is Head, Risk Management, Derivatives, and Alternative Investments for CFA Institute. Mr. Haslett has served CFA Institute as an exam grader and member of the Council of Examiners as well as an ad hoc reviewer for the Financial Analysts Journal and abstractor for the CFA Digest. He is past president of the CFA Society of Philadelphia and former board member of the New York Society of Security Analysts. He holds a Master of Liberal Arts from the University of Pennsylvania and an MBA from Drexel University. Prior to joining CFA Institute, Mr. Haslett was head of option analytics for Miller Tabak & Co., LLC, and spent much of his career managing risk on the option trading floor at the Philadelphia Stock Exchange.

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PRAISE FOR
Risk Management

“A timeless collection of thought-provoking ideas from the rock stars of risk management.”
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“Risk management has become virtually as important as portfolio construction and asset allocation—even more so after the financial crisis of 2008. Those who understand the finer points of risk management were better able to cope with the recent carnage in the markets than those who depended entirely on the field’s quantitative aspects. It is in these finer points of risk management that the work in this volume shines. It is enlightening the reader. Collecting seminal research and expert analysis on the most important topic in modern finance
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From the evolution of risk management to credit risk, risk measurement, and managing the risk of distressed, alternative investments, pension funds, and international investments, the book’s expert contributions cover the key topics investment professionals worry about daily.”

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Risk Management
Foundations for a Changing Financial World

Walter V. “Bud” Haslett Jr., CFA, Editor

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RISK MANAGEMENT
CFA Institute Investment Perspectives Series is a thematically organized compilation of high-quality content developed to address the needs of serious investment professionals. The content builds on issues accepted by the profession in the CFA Institute Global Body of Investment Knowledge and explores less established concepts on the frontiers of investment knowledge. These books tap into a vast store of knowledge of prominent thought leaders who have focused their energies on solving complex problems facing the financial community.

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RISK MANAGEMENT

Foundations for a Changing Financial World

Walter V. “Bud” Haslett Jr., CFA
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Although risk management has always been an integral part of the investment management process, it has certainly become more prominent in recent years. By properly measuring and managing risk, the needs of clients and firms can be more effectively addressed. As the ever-evolving financial markets become more sophisticated and challenging, the application of risk management techniques must also evolve. This book traces that evolution from the perspective of some of the greatest minds in the investment management business.

The 53 individual chapters included in this book highlight two decades of risk management thought. They are taken from the Research Foundation of CFA Institute, Financial Analysts Journal, and CFA Institute conference proceedings series. The pieces represent works by Nobel Prize winners, industry legends, and a host of insightful academics and practitioners. The reader will be struck by the timelessness of the principles: An article written in the throes of the 1997 Asian currency crisis could easily be mistaken for one written after the most recent global financial meltdown.

The chapters are organized into three main sections. The first section provides an introduction and overview of risk management thought. The second section, which investigates the measurement of risk, focuses on risk modeling; it addresses such topics as value at risk, risk budgeting, and liquidity risk. The third section concentrates on risk management and issues related to asset classes, such as alternative investments. In addition, derivatives are explored, as well as the topical areas of credit, global, nonfinancial, and pension risk.

Risk Management: Foundations for a Changing Financial World represents the third in our CFA Institute Investment Perspectives Series and joins our previous works on private wealth management and investment performance management. We hope you will find it a useful guide and resource in addressing current issues as well as the many risk management challenges you may face in the future.

Robert R. Johnson, PhD, CFA
Senior Managing Director
CFA Institute