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2002

Backtesting Derivative Portfolios with Filtered Historical Simulation (FHS)

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European Financial Management

http://hdl.handle.net/11728/6557

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Title:	Backtesting Derivative Portfolios with Filtered Historical Simulation (FHS)
Year:	2002
Author:	Barone-Adesi Giovanni, Giannopoulos Kostas, Vosper, Les
Abstract:	Filtered historical simulation provides the general framework to our backtests of portfolios of derivative securities held by a large sample of financial institutions. We allow for stochastic volatility and exchange rates. Correlations are preserved implicitly by our simulation procedure. Options are repriced at each node. Overall results support the adequacy of our framework, but our VaR numbers are too high for swap portfolios at long horizons and too low for options and futures portfolios at short horizons. .

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