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Portfolio selection under VaR constraints

Giannopoulos, Kostas

Springer-Verlag

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Title:	PORTFOLIO SELECTION UNDER VAR CONSTRAINTS
Year:	03/2005
Author:	Giannopoulos, Kostas ; Clark, Ephraim ; Tunaru, Radu
Abstract:	In this paper we show that by assuming a constant variance/covariance matrix over the holding period, the VaR limits can often be exceeded within the relevant horizon period. To minimize this risk, we formulate the problem in terms of portfolio selection and propose an innovative methodology using conditional VaR that minimizes the VaR at each point of the holding period. We rewrite the optimisation problem by taking into consideration the variability of risk on all assets eligible to be included in the portfolio.