

Risk Factor Beta Conditional Value-at-Risk

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Abstract

We propose a new approach to calculate the portfolio VaR. This approach allows to generate the sequence of hypothetical future equilibrium portfolio returns given the historical values of the underlying risk factors and the individual asset betas with respect to these factors. VaR can then be found as an appropriate percentile of the corresponding hypothetical distribution of the portfolio profits and losses. We refer the obtained VaR to as the risk factor beta conditional VaR. Empirical evidence is that this approach yields reasonably accurate estimates of the portfolio VaR.