A
ABO. see accumulated benefit obligation
absolute approach, to portfolio optimization, 4:470
absolute benchmarks, 6:84
absolute contribution to total risk (ACTR), 3:261–262
absolute priority rule, 5:102
absolute return seeking, 1:277
absolute-return vehicles, 5:62
absolute risk
causes and sources of, 4:475–477
measures of relative risk vs., 4:474–477
ABEs. see asset-backed securities
Abu Dhabi Investment Authority, 1:247
academic designations, 1:174
ACCE. see American Council for Capital Formation
account information, regular statements
measures of relative risk vs., 475–477
causes and sources of, 4:475–477
defined, 476
with beneficial ownership, 1:247–248
audits of, 1:247–248
family, 1:90
in performance calculations, 1:100
retirement
Monte Carlo simulation for, 3:244–246
taxation of, 3:343
tax-deferred, 2:232
selecting, 2:248–250
taxable, 2:246, 390
tax-advantaged savings, 2:245–246
tax-deferred, 2:246, 3:347–348
and after-tax asset allocation, 2:247–248
asset location for, 2:251–254
financial capital in, 2:390
and investment risk, 2:250
rebalancing to, 3:347–348
retirement, 2:232
selecting tax exempt accounts vs., 2:248–250
tax-exempt, 2:246–247
and after-tax asset allocation, 2:247–248
asset location for, 2:251–254
rebalancing to, 3:347
selecting TDAs vs., 2:248–250
tax-exempt accounts, 2:246–247
tax-sheltered savings accounts, 2:181
temporary new, 6:189
account information, regular statements of, 1:77
accounting
accrual, 6:167, 168, 233
HIFO and LIFO tax lot, 2:258
settlement-date, 6:167, 237
"shadow," 6:215
trade date, 6:167, 168, 238
accounting defasance, 4:62–63
accounting risk, 5:148–149
account reviews
disclosure of, 1:253–254
firm policies on, 1:77
regular, 1:94
systematic, 1:86
accrual accounting, 6:167, 168, 233
accrual equivalent returns, 2:243–245
accrual equivalent tax rates, 2:244–245
accrual taxes, on interest and dividends, 2:233–234
accrued defined benefits, 2:387
accumulated benefit obligation (ABO), 2:465
accumulated service, 2:465
accumulation. see also after-tax accumulations and returns
future long term, 2:242–243
tax-exempt investment accounts, 2:246–247
using long- vs. short-term capital gains tax rate, 2:258–260
accumulation phase of life (accumulation stage), 2:163–164
actions
disciplinary, 1:252
investment (see also Investment Analysis, Recommendations, and Actions [Standard of Professional Conduct V])
in AMC, 1:238
fair dealing in, 1:83–84
firm policies on, 1:77
impact of, 1:12–13
unethical, 1:29
personal, 1:55
Active Accumulators, 2:113–114, 116
active currency management
carry trade in, 3:412–414
and currency risk, 3:403–404
economic fundamentals in, 3:409–410
example, 3:417–419
technical analysis in, 3:411–412
volatility trading in, 3:414–419
active equity investing, 4:404–411
alpha generation, 4:408–409
company performance, 4:408
market reaction, 4:409
popularity, 4:405–406
tactics, 4:406–407
typical targets, 4:407
active equity investing portfolio construction, 4:445–525
about, 4:445–446
approaches, 4:458–474
examples, 4:472–474
objectives and constraints, 4:469–471
portfolio management approach
selection, 4:459–469
building blocks, 4:449–458
alpha generation, 4:451–453
breath of expertise, 4:455–457
overweight or underweight rewarded factors, 4:449–451
position sizing, 4:453–455
characteristics of well-constructed portfolio, 4:499–504
cost-related considerations, 4:492–499
implicit costs, 4:493–495
scale issues, 4:498–499
slippage costs, 4:495–498
fundamentals, 4:447–449
long extension strategies, 4:508
long/short strategies, 4:505–507, 509–513
about, 4:506–507
benefits and drawbacks of, 4:509–511
long-only strategies vs., 4:505–506, 513
130/30 strategy, 4:508, 511–513
market-neutral strategies, 4:508–509
practice problems, 4:517–521
risk budget allocation, 4:474–486
absolute risk measures, 4:474–477
equations, 4:484–486
process, 4:482–484
relative risk measures, 4:474–475, 478–479
risk level determination, 4:479–482
risk measures, 4:486–492
consequences of mistaken risk expectations, 4:489–491
equations, 4:491–492
formal constraints, 4:487–489
heuristic constraints, 4:486–487
solutions to problems, 4:522–525
active equity investing strategies, 4:376–444
fundamental strategy creation, 4:414–420
pitfalls, 4:417–420
process, 4:414–417
fundamental vs. quantitative approaches, 4:376–381
focus of analysis, 4:379
information used, 4:378–379
portfolio construction, 4:380–381
time orientation to data, 4:379–380
investment style classification, 4:427–436
holdings-based approaches, 4:428–431
manager self-identification, 4:434–435
practice problems, 4:439–441
returns-based approaches, 4:432–434
solutions to problems, 4:442–444
strengths and limitations of analysis based on, 4:435
variation of characteristics within, 4:435–436
active equity investing strategies (Continued)

quantitative strategy creation, 4:420–427
pitfalls, 4:424–425
process, 4:421–424, 427
quant crowding, 4:426

types, 4:381–444
activist strategies, 4:404–411
bottom-up strategies, 4:381–388
event-driven strategies, 4:413–414
factor-based strategies, 4:391–404
market microstructure-based strategies, 4:413
statistical arbitrage-based strategies, 4:411–412
top-down strategies, 4:388–391
active equity management
costs and risks of, 4:318
passive-factor investing vs., 4:336–337
passive vs., 4:326
active investors
in Barnewall two-way model, 2:109
in behavioral alpha process, 2:111–112
trading behavior of, 2:254
active-lives portion of pension liability, 2:465, 469, 471–472
active management, 1:269–270
of allocations to asset classes, 3:210–212
of asset class weights, 3:209
benchmarks for, 4:125; 5:60
currency
carry trade in, 3:412–414
and currency risk, 3:403–404
economic fundamentals in, 3:409–410
example, 3:417–419
technical analysis in, 3:411–412
volatility trading in, 3:414–419
defined, 4:91
of endowment investments, 2:496
of equity portfolio, 4:315–318
full fundamental law of, 4:481n.30
fundamental law of, 4:455–456
with index-tracking strategies, 2:355
and macro attribution, 6:101–102
returns due to, 6:82–83
and semi-strong-form EMH, 2:31–32
yield curve strategies (see yield curve strategies)

active managers
confidence in outperformance of, 4:316
portfolio construction by, 4:445–446
selecting, 5:10–11
active positions, benchmark, 6:91
active return(s) (Rα) and active risk, 4:478–480
calculating, 4:446–447
defined, 4:15–16
formula for, 6:102
in information ratio, 6:119
and investment skill, 6:115
portfolio construction based on, 4:447–448
relative to a one-factor model, 6:104
and tracking error, 4:95
active risk, 4:15–16; 5:151; 6:119; see also tracking error
and active returns, 4:478–480
and Active Share/factor exposure, 4:464
calculating, 4:463–464
causes and sources of, 4:478–479
classifying investments based on, 4:465–466
defined, 4:454, 488
ex ante, 4:474
in portfolio management, 4:462–469
active risk budgeting, 3:214
Active Share, 4:462–469
and active risk/factor exposure, 4:464
calculating, 4:462–463
classifying investments based on, 4:465–466
active trading, tax drag and, 2:254, 258
activist investing
and passive manager engagement, 4:359–360
and shareholder engagement, 4:314
ACTR. see absolute contribution to total risk
actual cost value policy, 2:419
actual extreme events, scenario analysis with, 5:171
actuaries, 2:409
ACWI. see MSCI All Country World Index
adaptive markets hypothesis (AMH), 2:41
Additional Compensation Arrangements [Standard IV(B)], 1:116–117
application of the standard, 1:116–117
compliance procedures, 1:116
guidance, 1:116
text of, 1:17, 116
adequate compliance procedures, 1:119–121
adjustment bias, see anchoring and adjustment bias
ADLs. see asset-driven liabilities
administrative fees, 4:310; 6:203–204, 233
ad-valorem fees, 4:309
advanced life deferred annuities (ALDAs), 2:826
Adventurer (BB&K classification), 2:110
adverse selection risk, 2:409; 6:19
advertise-to-draw-liquidity trading focus, 6:39, 40
advertising
availability bias and, 2:68
GIPS guidelines for (see GIPS Advertising Guidelines)
advise. see financial advice
adviser-client relations, 2:117–120
client expectations, 2:118
consistency of approach, 2:118
and estate planning, 2:272
general financial goals, 2:118
limitations of risk tolerance questionnaires, 2:119–120
mutual benefits, 2:119
advisers, selecting, 1:129
Africa
exchange-traded funds, 1:277
global assets under management, 1:268
mutual funds, 1:276
after-tax accumulations and returns, 2:232–245
accrual equivalent returns, 2:243–245
accrual equivalent tax rates, 2:244–245
blended tax environments, 2:239–243
after tax returns, 2:241
future long term accumulation, 2:465–466
for investor types, 2:254–255
simple tax environments, 2:232–239
accrual taxes on interest and dividends, 2:233–234
cost basis, 2:237–238
delayed capital gains, 2:234–237
returns-based taxes, 2:232–237
wealth-based taxes, 2:238–239
and tax-exempt accounts vs. TDAs, 2:248–250
after-tax asset allocation
in estate planning, 2:292–293
and investment accounts, 2:247–248
after-tax liquidation value, 2:326
after-tax mean–variance optimization, 2:260
after-tax portfolio optimization, 3:343–346
after-tax returns, 2:241; 6:226–229
after-tax wealth, 2:225–226
AG. see Aktiengesellschaft
age, workforce, 2:471–472
age effects, hedge fund, 5:76
agency RMBS, 4:279, 280
agent options, 1:154
agents, as trading focus, 6:38–40
aggregate family portfolios, 2:291–293
aging, behavioral changes and, 2:117
AIMA. see Alternative Investments Management Association
AIM Constellation Fund, 4:466
AIMR. see Association for Investment Management and Research
AIMR Performance Presentation Standards Handbook, 6:156, 157
AIMR-PPS. see Association for Investment Management and Research Performance Presentation Standards
Aktiengesellschaft (AG), 5:35
Albania, 2:304
ALBI. see Asian Local Bond Index
ALCOs. see asset–liability committees
ALDAs. see advanced life deferred annuities
algorithmic execution systems, 6:42–45
implementation shortfall strategies, 6:43–44
opportunistic participation strategies, 6:34–45
simple logical participation strategies, 6:43
specialized strategies, 6:45
algorithmic trading, 6:40–47
classification of algorithmic execution systems, 6:42–45
defined, 6:40
growth of, 6:41–42
reasoning behind logical participation strategies, 6:45–47
all-cap indexes, 4:329
allocation(s)
asset (see asset allocation)
capital, 4:312; 5:190–192
of execution rights/responsibilities, 1:285–287
geographic/country-based, for equity investing, 4:388–389
minimum lot, 1:88–89
policy, 6:96–97
to portfolio managers, 5:183
risk budget, 4:474–486
trade allocation procedures, 1:85, 86, 246, 253
transaction, 1:87–88
working capital, 5:184
Allocation/Selection Interaction return, 6:102
Allocation Effects strategy, 6:102
Allocation/Selection Interaction return, 6:107
all-or-nothing options, 3:435
all-risks homeowner’s insurance policy, 2:418
Allstate Corporation, 2:515, 516
ALM. see asset-liability management;
asset–liability management
alpha. see also behavioral alpha (BA)
process and absolute return investing, 5:62
and core–satellite investing, 5:13
in currency overlay programs, 3:405
defined, 4:447
ex post, 6:116–117
and factor timing, 4:452
and hedge funds, 5:62
Jensen’s, 6:116
and passive equity investing, 4:326
and performance, 4:451
and semi-strong-form EMH, 2:32
tax, 2:251
zero-alpha mutual funds, 2:58–59
Alphabet Inc., 5:33
alpha core, 5:13
alpha generation
in active equity investing portfolio, 4:451–453
by activist investors, 4:408–409
alpha research, 3:8
alternative asset managers, 1:270
alternative beta, 4:447
alternative investments, 5:5–129
commodities, 5:45–55
benchmarks, 5:47–48
historical performance, 5:48–50
interpretation issues, 5:51
investment characteristics, 5:51–53
market for, 5:46–47
in portfolios, 5:53–55
common features, 5:7
defined, 57
distressed securities, 5:94–103
bankruptcy process, 5:100–102
benchmarks, 5:95
example, 5:102–103
historical performance, 5:95–97
interpretation issues, 5:97
investment characteristics, 5:97–98
market for, 5:94–95
in portfolios, 5:98–100
evaluation of, 5:10–11
in global invested capital market, 1:269
hedge funds, 5:55–84
about, 5:55–56
benchmarks, 5:60–62, 70–71
due diligence, 5:76–78
fund effects, 5:74–76
historical performance, 5:62–67
interpretation issues, 5:67–71
investment characteristics, 5:71–72
market for, 5:56–58
performance evaluations, 5:78–84
in portfolios, 5:72–74
investors’ goals for, 5:6
low-return environments, 5:9
managed futures, 5:85–93
benchmarks, 5:86–87
historical performance, 5:87–89
interpretation issues, 5:89
investment characteristics, 5:90
market for, 5:85–86
performance persistence, 5:92
in portfolios, 5:90–92
strategic asset allocation, 5:92–93
practice problems, 5:108–120
private equity, 5:27–45
about, 5:27–29
benchmarks, 5:37
due diligence, 5:43–45
historical performance, 5:38
interpretation issues, 5:38
investment characteristics, 5:38–42
market for, 5:29–37
in portfolios, 5:42–43
real estate, 5:13–27
benchmarks, 5:15–17
due diligence, 5:27
historical performance, 5:17–18
interpretation issues, 5:19
investment characteristics, 5:20–21
market for, 5:13–15
in portfolios, 5:21–27
smoothed data for, 3:14–16
solutions to problems, 5:121–129
traditional vs., 5:7–13
Alternative Investments Management
Association (AIMA), 6:76–77
Altman-NYU Salomon Center Defaulted
Public Bond and Bank Loan Index, 5:95
Alvarez, M., 4:424
A.M. Best, 2:503
Amazon, Inc., 6:53
AMC. see Asset Manager Code of
Professional Conduct
AMC Entertainment, 5:99
American Council for Capital Formation
(ACCF), 2:245–246
American Express, 2:464
American options, 5:177, 276
American Stock Exchange (AMEX)
and NAREIT Index, 5:17
NASDAQ 100 Trust Shares, 5:277n.3
American style swaptions, 3:389, 394, 396
American style swaptions, 3:389, 394, 396
AMH. see adaptive markets hypothesis
amygdala, 2:20
analysts
biases of, 2:125–136
in conducting research, 2:133–136
conservatism bias, 2:53–54
and management’s influence on
analysis, 2:131–133
overconfidence in forecasting skills,
2:126–131
judgment of, 3:50
analytical method, 5:155–159
anchoring and adjustment bias, 2:63–64, 94–95, 332
consequences of, 2:63
detection and methods of overcoming,
2:63–64
diagnostic questions, 2:87, 93
and forecasting, 2:132–133
and market bubbles, 2:143
and momentum effect, 2:140
anchoring trap, 3:21
anchor points, 2:63
angel investors, 5:31–32
Anglo-Saxon law, 2:158
annualized return, 6:80
annuities, 2:422–431. see also specific
types, e.g.: fixed annuities
advantages and disadvantages of fixed
and variable annuities, 2:426–428
appropriateness of, 2:429–431
classifications of, 2:423–426
advanced life deferred annuities, 2:426
devolved fixed annuities, 2:424
deferred variable annuities, 2:423–424
immediate fixed annuities,
2:424–426
immediate variable annuities, 2:424
comparing, 2:426
devolved from insurance companies, 2:504
as non-publicly traded marketable
assets, 2:389
parties to, 2:423
payout methods of, 2:428–429
tax benefits of, 2:429
annualization, 2:427
anomalies. see market anomalies
Apple, Inc.
branding by, 4:382
consistent weight of stock in NASDAQ
100, 4:333
in international credit portfolios,
4:275
and venture capital, 5:39
applicable law
and Code/Standards, 1:22–23
on confidentiality, 1:102
in firm policy, 1:77
and Code/Standards, 1:22–23
on confidentiality, 1:102
in firm policy, 1:77
global, 1:23–25
and investment products, 1:23–25
providing information on, 1:27
appraisal, performance. see performance
appraisal
appraisal data, capital market
expectations and, 3:14–16
appreciation
capital, 4:296–297
of gifted assets, 2:290, 291
appropriateness of, 2:429–431
of benchmarks, 6:83, 88–89
of interdepartmental communications,
1:61
of life insurance, 2:416
approval
from clients, 1:77
for outside compensation, 1:117
arbitrage
covered interest, 4:178
defined, 5:214
distressed debt, 5:98
hedge fund strategies for, 5:57
limited, 2:35–36
for pension funds, 2:252–253
risk-arbitrage trading, 1:63; 4:413–414
Arbitrage, Covered Interest, 4:178
arbitrages, 6:34
Archipelago Exchange, 6:42
ARCH time-series models, see autoregressive conditional heteroskedasticity time-series models
Argentina
currency crisis, 3:78
in Hague Conference, 2:304
inflation-linked bonds, 4:9
interest income taxation, 2:227
market integration, 3:43
tax-advantaged savings accounts, 2:246
tax regime, 2:231, 347
trade partners, 3:84
arithmetic mean return, geometric vs., 3:24
Arnott, Robert, 4:337
arrival price strategy, 6:43–44
Asia, see also MSCI EAFE (Europe, Australasia, and Far East) Index; specific countries
economic indicators, 3:83
exchange-traded funds, 1:276
foundations in, 3:339
global assets under management, 1:268
mutual funds, 1:276
real estate allocations in, 5:21, 22
retail investors, 1:271
slippage costs, 4:497
AsiaHedge, 5:60, 61
Asian financial crisis (1997) and currency values, 3:99
as exogenous shock, 3:75
and inflation, 3:56
international interactions in, 3:76, 80
liquidity in, 3:331
Asian Local Bond Index (ALBI), 4:95–96
ask price, 6:10
ask size, 6:10
aspirational risk budget, 2:334, 335; 3:207
aspiration levels, 2:23
asset allocation, 3:179–227, see also behaviorally-modified asset allocation
adjusting, 5:241–248
approaches, 3:184–194
modeling asset class risk, 3:188–194
relevant objectives, 3:187
relevant risk concepts, 3:187–188
types of, 3:184–186
limited, 2:35–36
and availability bias, 2:68
behaviorally-modified, 2:81–96
about, 2:82–83
amount to moderate or adapt, 2:84–86
case studies, 2:86–96
guidelines, 2:83–84
and investment policy development, 2:81–82
and currency risk, 3:399
dynamic, 3:25
and economic balance sheet, 3:181–184
effect of human capital on, 2:440–443
and endowment bias, 2:79
and equity market risk, 5:384–387
and futures, 5:241–250
adjusting asset allocation, 5:241–248
pre-investing in asset classes, 5:248–250
glide path, 2:121
goals-based, 3:283–300
description of client goals for, 3:287–289
issues related to, 3:298–300
module process in, 3:294–298
overall portfolio in, 3:292–294
process for, 3:285–287
revisiting overall asset allocation in, 3:298
sub-portfolio construction for, 5:289–292
implementation choices, 3:209–214
of allocations to asset classes, 3:210–212
of asset class weights, 3:209
for global market portfolio, 3:202
risk budgeting constraints, 4:480–481
risk budgeting perspectives, 3:214
risk budgeting perspectives in, 3:214
for individual investors, 2:188–199
cases studies, 2:188–196
examples, 2:188–191, 193–196
Monte Carlo simulation, 2:196–199
process of elimination for, 2:188–196
liability-relative, 3:267–281
approaches to, 3:270–283
characterization of liabilities in, 3:267–270
factor modeling in, 3:283
robustness of asset allocation alternatives, 3:281–282
mitigating behavioral biases in, 3:369–371
overview of, 3:179–180
practice problems, 3:223–225
rebalancing, 3:214–219
framework for, 3:216–217
strategic considerations in, 3:218–219
rebalancing policy, 1:288
and risk reduction, 2:443–446
robustness of alternatives to, 3:281–282
short-term shifts in, 3:361–363
simulations of, 2:196
solutions to problems, 3:226–227
statements of, 2:192–193
strategic, 3:194–209
4:102; 5:26–27
92–93
asset-only allocation, 3:196–201
goals-based allocation, 3:204–209
liability-relative allocation, 3:201–204
real-world constraints in, 3:351–357
steps in selecting, 3:195–196
utility theory in, 3:194–195
and sustainability of spending rates, 2:285–287
tactical, 3:209; 4:102
discretionary TAA, 3:359–360
real-world constraints in, 3:358–363
as short term, 3:256
systematic TAA, 3:360–361
asset allocation principles, 3:229–320
asset-only allocation, 3:231–266
allocating to less liquid asset classes, 3:259–260
criticisms of mean–variance optimization, 3:246–259
factor-based allocation, 3:263–266
mean–variance optimization, 3:231–243
Monte Carlo simulation, 3:243–246
risk budgeting, 3:261–263
goals-based allocation, 3:283–300
description of client goals for, 3:287–289
issues related to, 3:298–300
module process in, 3:294–298
overall portfolio in, 3:292–294
process for, 3:285–287
revisiting overall asset allocation in, 3:298
sub-portfolio construction for, 3:289–292
liability-relative allocation, 3:267–281
approaches to, 3:270–283
characterization of liabilities in, 3:267–270
factor modeling in, 3:283
robustness of asset allocation alternatives, 3:281–282
other approaches to, 3:300–305
overview, 3:230–231
portfolio rebalancing in practice, 3:305–309
practice problems, 3:313–317
solutions to problems, 3:318–320
asset allocation with real-world constraints, 3:323–381
behavioral biases, 3:363–371
availability bias, 3:368–369
framing bias, 3:367–368
illusion of control, 3:364–365
loss aversion, 3:364
mental accounting, 3:365–366
representative bias, 3:366–367
constraints in asset allocation, 3:324–342
asset size, 3:324–329
liquidity, 3:329–332
regulatory and other external constraints, 3:336–342
time horizon, 3:332–336
overview, 3:323
practice problems, 3:375–379
solutions to problems, 3:380–381
strategic asset allocation, 3:351–357
tactical asset allocation, 3:358–363
discretionary, 3:359–360
systematic, 3:360–361
taxes, 3:342–351
after-tax portfolio optimization, 3:343–346

Index
Index

and portfolio rebalancing, 3:346–347 strategies to reduce tax impact, 3:347–348

asset-backed securities (ABSs) in credit portfolios, 4:281 mortgage-backed securities in credit portfolios, 4:279–280 defined, 4:278 and negative convexity, 4:136 for reducing convexity, 4:174–175

asset-class risk, 3:188–194

asset class weights 99–100

asset class weights, 3:188

asset-driven liabilities (ADLs), 47

asset-based models of equity market, 4:281 forecasting returns of, 3:281–285 and factors, 3:264

asset location decision, 3:261–264

asset location decision, 3:261–264

asset location decisions, 3:261–264

asset management industry, 3:268–269

asset marketability risk, 505–506

asset-only allocation, 3:196–201

asset–liability committees (ALCOs), 2:520–521, 4:47

asset–liability management (ALM), see also liability–based mandates and asset allocation, 3:279 for defined-benefit pension plans, 2:467 fixed-income mandates in, 4:11 in liability-driven investing, 4:46, 47

asset location and asset allocation, 2:196 and concentrated positions, 2:337 defined, 2:188 holistic approach to, 3:351 and real estate monetization, 2:367 and wealth management, 2:251–254

asset location decision, 2:337


Asset Manager Code of Professional Conduct (AMC), 1:129, 235–261

Code of Ethics and Standards of Professional Conduct vs., 1:10 compliance of firms with Standard I(A), 1:27


Investment Processes and Actions (Part B), 1:238, 241–244

Loyalty to Clients (Part A), 1:238, 240–241

Performance and Valuation (Part E), 1:239, 250–251

practice problems, 1:255–259

principles of conduct, 1:237

recommendations and guidance, 1:240–254


Trading (Part C), 1:238–239, 244–246

asset managers ownership structure of, 1:271 types of, 1:269, 270

asset marketability risk, 2:505–506

asset-only allocation, 3:196–201, 231–266

allocating to less liquid asset classes, 3:259–260

criticisms of mean–variance optimization, 3:246–259

Black–Litterman model, 3:250–253 constraints beyond budget constraints, 3:253

non-normal optimization approaches, 3:255–259

resampled mean–variance optimization, 3:254–255

reverse optimization, 3:248–250

defined, 3:185

for defined benefit pension plan, 3:202–203

factor-based allocation, 3:263–266

investment objectives of, 3:187

mean–variance optimization, 3:231–243

Monte Carlo simulation, 3:243–246

risk budgeting, 3:261–263

risk concepts relevant to, 3:187–188

tactical asset allocation as, 3:358

asset owners, in investment policy statements, 1:287

asset pricing behavioral approach to, 2:38–39, 145 in behavioral finance, 2:167

CAPM, 2:34, 38

risk premiums in, 3:50 in traditional finance, 2:166

asset protection, trusts for, 2:301

assets business, 2:389

capital, 3:188 consumable/transformable, 3:188

correlations of in asset-only allocation, 3:235 inconsistency of estimates, 3:12–13 judgment in estimates, 3:50

misinterpretations of, 3:20–21

nonlinear, 3:20

partial, 3:20 in portfolio rebalancing, 3:307 and taxation estimates, 3:344

current, 2:386

custody of, 1:74

domestic, 3:391

on economic balance sheets, 2:396 extended portfolio, 3:181 foreign, 3:392–394

gifted, 2:290, 291

illiquid, and rebalancing, 3:219

investment, 2:388

mixed, 2:387

non-core, 2:360

non-current, 2:386

non-marketable, 2:389–390

non-publicly traded marketable, 2:388–389

personal, 2:387

portable, 2:464

real, 3:59, 191

risk-free, 3:240–241

size of, as asset allocation constraint, 3:324–329

on traditional balance sheets, 2:395

asset segregation, in behavioral finance, 2:166

assets under management (AUM) fees, 1:277, 5:58–59

asset weighing, 1:199

asset-weighted standard deviation, 6:199–200

Association for Investment Management and Research (AIMR), 6:156, 157

and foreign currency

asset composition, in foreign-currency portfolios, 3:400

asset covariance matrix, 3:28

asset-driven liabilities (ADLs), 4:47

asset integration, 2:165

Index

Cumulative_Ind_13 5

August 3, 2018 6:59 PM
Association for Investment Management and Research Performance
Presentation Standards (AIMR-PPS), 6156, 157
assurance of completion, 6:9
asymmetry of the contract, 6:20
ASX-200 Index, 4:346
asynchronism, 3:17n.8
AT&T, 1:253–254
at-the-money (ATM) options, 3:415
attitudes toward risk, 2:17–19
attribute
of absolute risk, 4:475–477
performance (see performance attribution)
of portfolio variance, 4:476–477
of relative risk, 4:478–479
attribution analysis, 4:356–358
auction markets, 6:10, 16
audits
of accounts, 1:253–254
governance, 1:288–289
AUM fees. see assets under management fees
Aussie-dollar market (USD/AUD), 3:386, 438
Australia. see also MSCI EAFE (Europe, Australasia, and Far East) Index
asset manager ownership structure, 1:271
capital gains taxes, 2:236, 240n.5
Conference Board index, 3:84
corporate estate tax freeze, 2:338
deemed disposition regimes, 2:298
defined-benefit pension plans, 2:473
equity index futures contracts, 4:345
equity risk premium, 3:39
exit taxes, 2:306–307
expected returns for bonds, bills, and equities in, 4:296
franking in, 2:228
global assets under management, 1:268
in Hague Conference, 2:304
market bubbles, 2:142
market integration, 3:43
market value of ETFs, 4:342
pension assets, 1:272, 273
real estate market, 5:16, 22, 25
real GDP growth rate, 3:32
real returns on bonds, bills, and equities in, 4:296
tax regime, 2:231, 347
authorized participants, 4:100, 340–341
automated auctions, 6:16
automated trading, 6:40–47
algorithmic trading, 6:40–47
classification of algorithmic execution systems, 6:42–45
implementation shortfall strategies, 6:43–44
opportunistic participation strategies, 6:44–45
simple logical participation strategies, 6:43
specialized strategies, 6:45
defined, 6:40
reasoning for logical participation
algorithmic strategies, 6:45–47
automobile insurance, 2:420
autopilot strategies, 2:120
autoregressive conditional heteroskedasticity (ARCH) time-series models, 3:27n.25
availability bias, 2:67–69, 332
of analysts, 2:126, 128
and asset allocation, 3:368–369
consequences of, 2:68
detection and methods of overcoming, 2:69
diagnostic questions, 2:87
and forecasting, 2:132
in fundamental investing, 4:417–418
and momentum effect, 2:140
average effective spread, 6:13
aversion
loss, 4:418
regret, 4:418
AXA Equitable-NY, 2:504, 516
Axiom, 4:338

B
Bachelier, Louis, 2:30
back-end loaded tax benefits, 2:246
backfill bias, of hedge funds, 5:70
back office, 5:139
backtesting, 4:421–423, 5:168
Bahamas, 2:276
Bahrain, 3:76
bail, Thai, 3:331, 448
B.A.I. see Bank Administration Institute
Bailard, Biehl, and Kaiser (BB&K) model of investor behavior, 2:109–110
balance of payments, 3:79n.64
balance sheet(s)
economic (holistic)
and asset allocation, 3:181–184
assets on, 2:382
human capital considered on, 2:442
used in individual risk management, 2:396–397
individual, 2:394–400
changes in net wealth, 2:397–400
economic (holistic) balance sheet, 2:396–397
traditional balance sheet, 2:395–396
life, 2:279–280
traditional, 2:395–397
bancassurance, 2:519n.29
Bank Administration Institute (BAI), 6:74, 79, 80, 156
Bank for International Settlements (BIS), 5:359n.4
Bank Herstatt, 5:146
Bank of England, 3:65
Bank of Japan, 3:65, 83
Bank of Thailand, 3:99
bankruptcy, 5:100–102
absolute priority rule, 5:102
Chapter 7 and Chapter 11, 5:102
and international portfolios, 4:278
netting in, 5:187
Orange County, 4:208
prepackaged filings, 5:102
in United States vs. other countries, 5:101
Bankruptcy Reform Act (1978), 5:101
banks and banking
as asset management clients, 1:274
central banks
monetary policy of, 3:56–57, 63
negative interest rates, 3:65
watching of, 3:89
in emerging market indexes, 4:277
integrated asset–liability approach for, 3:279
investment, 1:32–33, 2:519–520
investment policy statements for, 2:524–526
offshore, 2:310–311
portfolio management for, 2:519–526
legal and regulatory factors, 2:523
liquidity requirements, 2:523
return objectives, 2:523
risk objectives, 2:522
tax concerns, 2:523
time horizon, 2:523
unique circumstances, 2:524
U.S. commercial banks, 1:274
universal, 2:519
Banz, Rolf W., 4:336
BA process. see behavioral alpha process
barbell portfolios
convexity, 4:106
defined, 4:147
duration-neutral, 4:157–166, 168–170
extreme, 4:191–192
extreme vs. less extreme, 4:195–196
structure, 4:105, 147–150
Barclay CTA Asset Weighted Currency Index, 5:88
Barclay CTA Asset Weighted Discretionary Index, 5:88
Barclay CTA Asset Weighted Diversified Index, 5:88
Barclay CTA Asset Weighted Financials Index, 5:88
BarclayHedge, 5:60, 86
Barclays Capital US Aggregate Bond Index, 4:101, 6:193
Barclay Systematic Traders Index, 5:86
Barclay Traders indexes, 5:86
Barker, William A., 3:409n.15
behaviorally-modified asset allocation,
2:81–96
about, 2:82–83
amount to moderate or adapt, 2:84–86
case studies, 2:86–96
high wealth level investor with emotional biases, 2:88–92
low wealth level investor with cognitive errors, 2:92–96
guidelines, 2:83–84
and investment policy development, 2:81–82
behavioral portfolio theory (BPT), 2:39–40
example, 2:40
and mental accounting bias, 2:64
and portfolio construction, 2:124–125
Belarus, 2:304
Belgium
equity risk premium, 3:39
Eurozone membership, 3:9n.
and EUSD, 2:304
index
grade European corporate bond
index
European Corporate Bond
index
European Corporate Bond Index
Black–Litterman approach, 4:327–339
considerations, 4:328–330
factor-based strategies, 4:335–339
index construction methodologies, 4:330–335
and indexes as basis for investment, 4:327–328
performance measurement, 1:93
for private equity, 5:37
for real estate, 5:15–17
returns-based, 6:86–87
style indexes, 6:85
tests of quality, 6:90–91
types, 6:84–87
unconditional, 3:19
valid, 6:83–84, 88–89
benchmark-agnostic approaches to portfolio construction, 4:459
risk budget allocation for investment with, 4:482–484
benchmark-aware approaches to portfolio construction, 4:459
benchmark bonds
and credit spreads, 4:242–243
and l-spread evaluation, 4:244
shortcomings, 4:254
benchmark description, 6:194, 221, 233
benchmark portfolio returns, 6:97
benchmark-relative risk, 4:462. see also active risk; Active Share
benchmark spread, 4:242
Benches strategy, 6:100–101
beneficial ownership, 1:158
beneficiaries, of trusts, 2:184–185
benefit period, of disability income insurance, 2:417–418
 BERC. see Bloomberg EUR Investment Grade European Corporate Bond Index
Bernanke, Ben, 2:6
Bernstein, Peter L., 3:10
best efforts order, 6:38
best execution
and Asset Manager Code of Professional Conduct, 1:246
and Loyalty, Prudence, and Care [Standard III(A)], 1:76, 78
and trade execution decisions, 6:37
in Trade Management Guidelines, 6:48
best-in-class approaches, 4:300
Best Practice Guidelines Governing Analyst/Corporate Issuer Relations
(CFA Institute), 1:33
beta
alternative, 4:447
changing, 5:240–241
and credit quality, 4:258
defined, 5:152
and duration profile, 4:103
factor, 3:28–29
and market-neutral strategies, 4:508–509
measuring and managing, 5:228–229
normal, 6:86
in passive equity investing, 4:326
smart, 1:270; 4:103, 336, 391
and systemic biases, 6:90
yield, 5:222, 228n.17
beta research, 3:8
BEUH. see Bloomberg EUR High Yield Corporate Bond Index
BFMA. see behavioral finance macro
BFML. see behavioral finance micro
BHP Billiton Limited, 4:92
bias(es). see also specific types, e.g.: forward rate bias
in analyst methods, 3:18–19
of analysts, 2:125–136
in conducting research, 2:133–136
conservatism bias, 2:53–54
and management’s influence on analysis, 2:131–133
overconfidence in forecasting skills, 2:126–131
and asset allocation, 3:363–371
availability bias, 3:368–369
framing bias, 3:367–368
illusion of control, 3:364–365
loss aversion, 3:364
mental accounting, 3:365–366
representative bias, 3:366–367
in conducting research, 2:133–136
in data measurement, 3:14–16
in fundamental investing, 4:417–418
for hedge funds, 5:67–70
in index creation, 5:67–68
in quantitative investing, 4:424–425
bid–ask spreads, 6:10
credit risk and, 5:143–144
effective, 6:12–14
inside, 6:11
and liquidity, 4:20, 22, 240
market, 6:11
and market quality, 6:19
on-the-run sovereign bonds, 4:19
in secondary credit markets, 4:270–271
and transaction costs, 6:22
bid–offer spreads
and bond inventory, 4:92
and liquidity, 4:240, 241
on-the-run Treasuries, 4:161
bid price, 3:387; 6:10
bid size, 6:10
big data
in asset management industry, 1:279–280
factor-based investing using, 4:400–401
in quantitative investment process, 4:424
“big figure,” currency quote, 3:386
Big Four European countries, CII for, 3:82
bilateral repos, 4:30
bills, real returns on, 4:296
binary options, 3:435
binomial model
and box spreads, 5:310
volatility in, 5:343
BIS. see Bank for International Settlements
BIST 30 Index, 4:345
BITs. see behavioral investor types
Black, Fischer, 3:250
Black–Litterman approach, 3:12, 40, 250–253
blackout periods, 1:159; 2:330
blackrock indexed australian equity fund, 4:354
blackrock institutional trust company, 4:359
black-scholes–merton pricing option and box spreads, 5:310
and delta hedging, 5:335
formula for, 5:304
and model risk, 5:145
prices from, 5:277n.4, 291
volatility in, 5:152, 343
blended approach, to passive equity investing, 4:352
blind trusts, 1:198
block orders, 6:17
bloomberg, 3:104, 4:347
bloomberg barclays, 4:249
bloomberg barclays aggregate bond index
capital market projections, 3:44
commodities correlations, 5:53
real estate correlations, 5:108
bloomberg barclays euro corporate index, 4:248
bloomberg barclays global aggregate bond index
bond eligibility standards, 4:96n.24
bond market correlation matrix, 4:7
composition of, 4:91
on correlation matrix, 4:299
and global credit market, 4:234
and total return mandates, 4:111, 18–19
bloomberg barclays global aggregate–corporate bond index, 4:239
bloomberg barclays global bond index
commodities correlations, 5:109–110
hedge fund correlations, 5:111
bloomberg barclays global corporate index, 4:279
bloomberg barclays global credit index, 4:275, 299
bloomberg barclays global high yield index, 4:239
bloomberg barclays global securitized index, 4:279
bloomberg barclays global treasury index, 4:299
bloomberg barclays government/credit bond index
commodities correlations, 5:109–110, 123
hedge fund correlations, 5:110–111, 124
bloomberg barclays us aggregate bond index
bond market correlation matrix, 4:6–8
commodities correlations, 5:48, 50, 53–55
composition of, 4:91, 102–103
consumer credit value in, 4:281
distressed securities correlations, 5:96–97
expected annualized return, 5:116
hedge fund correlations, 5:62–66, 73
managed futures correlations, 5:87–89, 91
origins, 4:93
real estate correlations, 5:17–18
and total return swaps, 4:101
bloomberg barclays us corporate bond index
bond market correlation matrix, 4:6, 7
and tail risk, 4:273
bloomberg barclays us corporate high yield bond index
bond market correlation matrix, 4:6–8
commodities correlations, 5:48, 50, 53
distressed securities correlations, 5:96–97
and global speculative-grade default rate, 4:259
hedge fund correlations, 5:64–66
managed futures correlations, 5:88, 89
bloomberg barclays us credit index, 4:248
bloomberg barclays us tips index, 4:6, 7
bloomberg barclays us treasury bond 10-year term index, 4:6, 7
bloomberg commodity index (bcom), 5:47, 51
bloomberg eur high yield corporate bond index (beuh), 4:104
bloomberg eur investment grade european corporate bond index (berc), 4:104, 105
bls. see bureau of labor statistics
bmw, branding by, 4:382
board of directors, 4:312
bofa merrill lynch us high yield master ii index, 4:248
bogle, john c., 1:298
bond(s). see also fixed-income investments; specific types
adjusting allocation between, 5:244–245
adjusting allocation between stocks and, 5:241–243, 246–247
cheapest to deliver, 5:221
in current and previous investing environments, 3:353–354
with embedded options and cash flow matching, 4:13
and credit spread measures, 4:246
effective convexity, 4:133
effective duration, 4:132
expected return decomposition, 4:24
immunization, 4:14
interest rate exposure, 4:263
and oas, 4:245
yield curve strategies, 4:174–175
equities vs., 4:92–93
expected returns, 3:24–25, 36
formula for price of, 4:153
inflation/deflation effects for, 3:59
inflation-indexed, 3:92–93
insurance company investments in, 2:515–516
portfolio management (see fixed-income portfolio management)
real returns on bills and equities vs., 4:296
yield to maturity of, 3:35
bloomberg barclays us corporate bond index
bond market correlation matrix, 4:6, 7
and tail risk, 4:273
bloomberg barclays us corporate high yield bond index
bond market correlation matrix, 4:6–8
commodities correlations, 5:48, 50, 53
distressed securities correlations, 5:96–97
and global speculative-grade default rate, 4:259
hedge fund correlations, 5:64–66
managed futures correlations, 5:88, 89
bloomberg barclays us credit index, 4:248
bloomberg barclays us tips index, 4:6, 7
bloomberg barclays us treasury bond 10-year term index, 4:6, 7
bloomberg commodity index (bcom), 5:47, 51
bloomberg eur high yield corporate bond index (beuh), 4:104
bloomberg eur investment grade european corporate bond index (berc), 4:104, 105
bls. see bureau of labor statistics
bmw, branding by, 4:382
board of directors, 4:312
bofa merrill lynch us high yield master ii index, 4:248
bogle, john c., 1:298
bond(s). see also fixed-income investments; specific types
adjusting allocation between, 5:244–245
adjusting allocation between stocks and, 5:241–243, 246–247
cheapest to deliver, 5:221
in current and previous investing environments, 3:353–354
with embedded options and cash flow matching, 4:13
and credit spread measures, 4:246
effective convexity, 4:133
effective duration, 4:132
expected return decomposition, 4:24
immunization, 4:14
interest rate exposure, 4:263
and oas, 4:245
yield curve strategies, 4:174–175
equities vs., 4:92–93
expected returns, 3:24–25, 36
formula for price of, 4:153
inflation/deflation effects for, 3:59
inflation-indexed, 3:92–93
insurance company investments in, 2:515–516
portfolio management (see fixed-income portfolio management)
real returns on bills and equities vs., 4:296
yield to maturity of, 3:35
bloomberg barclays us corporate bond index
bond market correlation matrix, 4:6, 7
and tail risk, 4:273
bloomberg barclays us corporate high yield bond index
bond market correlation matrix, 4:6–8
commodities correlations, 5:48, 50, 53
distressed securities correlations, 5:96–97
and global speculative-grade default rate, 4:259
hedge fund correlations, 5:64–66
managed futures correlations, 5:88, 89
bloomberg barclays us credit index, 4:248
bloomberg barclays us tips index, 4:6, 7
bloomberg barclays us treasury bond 10-year term index, 4:6, 7
bloomberg commodity index (bcom), 5:47, 51
bloomberg eur high yield corporate bond index (beuh), 4:104
bloomberg eur investment grade european corporate bond index (berc), 4:104, 105
bls. see bureau of labor statistics
bmw, branding by, 4:382
board of directors, 4:312
bofa merrill lynch us high yield master ii index, 4:248
bogle, john c., 1:298
bond(s). see also fixed-income investments; specific types
adjusting allocation between, 5:244–245
adjusting allocation between stocks and, 5:241–243, 246–247
cheapest to deliver, 5:221
in current and previous investing environments, 3:353–354
with embedded options and cash flow matching, 4:13
and credit spread measures, 4:246
effective convexity, 4:133
effective duration, 4:132
expected return decomposition, 4:24
immunization, 4:14
interest rate exposure, 4:263
and oas, 4:245
yield curve strategies, 4:174–175
equities vs., 4:92–93
expected returns, 3:24–25, 36
formula for price of, 4:153
inflation/deflation effects for, 3:59
inflation-indexed, 3:92–93
insurance company investments in, 2:515–516
portfolio management (see fixed-income portfolio management)
real returns on bills and equities vs., 4:296
yield to maturity of, 3:35
bloomberg barclays us corporate bond index
bond market correlation matrix, 4:6, 7
and tail risk, 4:273
bottom-up approach to psychographic modeling, 2:110
bottom-up forecasts, 3:142–148
earnings forecast revisions based on, 3:146–147
of market earnings per share, 3:145, 147
portfolio suitability for, 3:143–144
top-down vs., 3:142, 145–146
using top-down forecasts with, 3:144–146
bottom-up portfolio construction, 4:256–257, 266
bounded rationality, 2:15, 20, 22–24
box spreads, 5:310–312
BP p.l.c., 6:7–8
BPT. see behavioral portfolio theory
BPV. see basis point value
branding, in bottom-up equity investing strategies, 4:382
Brazil
capital gains tax, 2:228
equity index futures contracts, 4:345
gilt tax, 2:293
government bonds, 4:155–156
in Hague Conference, 2:304
inflation-linked bonds, 4:9
market integration, 3:43
market value of ETFs, 4:343
pension assets, 1:272
pension funds in, 3:337
tax rates, 2:179
tax regime, 2:231, 347
Brazilian Institute for Geography and Statistics, 3:83
Brazilian real, 3:385, 450–451
Brazil Industrial Production, 3:83
BRC survey, see British Retail Consortium survey
breadth, in fundamental law of active management, 4:456
breadth of expertise
in active equity investing portfolio construction, 4:455–457
in portfolio construction, 4:459
break-even point
bear spread, 5:298
box spread, 5:311
bull spread, 5:295
butterfly spread, 5:301, 302
call options, 5:280, 281, 285
collars, 5:305, 306
covered calls, 5:287
protected puts, 5:291
put options, 5:283–285
straddles, 5:308–309
Brightman, Christopher J., 5:10
Brin, Sergey, 5:32
Brinson, Gary P. L., 4:326
British pound
and carry trade, 4:139–140
currency code, 3:385
currency conversion in loans, 5:370–373
in currency pairs, 3:386
British Retail Consortium (BRC) survey, 3:61
broad market indexes, 6:84–85
Broadridge Financial Services, 4:360
brokerage
directed, 1:76
prime, 5:55; 6:18
brokerage arrangements, 1:76, 79
brokered markets, 6:17
broker recruiting, 1:107
brokers, 6:8, 18
bubbles, market, 2:141–144; 3:31n.31
budget constraints, 3:232–233, 253
budget deficits and fiscal policy, 3:67–68
and government structural policies, 2:72–73
budgeting, risk. see risk budget allocation buffering, of indexes, 4:328
Buffett, Warren, 4:385
building blocks
active equity investing portfolio construction, 4:449–458
alpha generation, 4:451–453
breadth of expertise, 4:455–457
overweight or underweight rewarded factors, 4:449–451
position sizing, 4:453–455
of asset management, 4:457–458
portfolio management approaches using, 4:461–462
build-up approach, 3:36–40
Bulgaria, 2:304
bullet portfolio, 4:105
defined, 4:147
duration-neutral, 4:157–166, 168–170
extreme, 4:192–194
structure, 4:147–150
bull spreads, 5:293–296
"bums problem," 4:103
bundled commissions, 1:253
bundled fees, 6:178, 214–215, 233
Bureau of Labor Statistics (BLS), 3:13
business assets, 2:389
business-continuity planning, 1:248–249
business cycle analysis, 3:51–66
factors affecting, 3:60–68
business investment, 3:61–62
consumer spending, 3:61
fiscal policy, 3:67–68
monetary policy, 3:62–67
inflation and deflation in, 3:55–59
inventory cycle, 3:51, 52
market expectations in, 3:59–60
and P/E ratio, 3:59–60
and P/E ratio, 3:96
and returns for common shares, 3:94
and returns for common shares, 3:94
stages of business cycle, 3:53–55
business cycle risk, 2:324
business cycles
and consumer confidence, 3:53, 54
defined, 3:51
stages of, 3:53–55
business equity. see private equity
taxes, concentrated positions held in, 2:357–358
business investment, in business cycle analysis, 3:61–62
business model, in bottom-up equity investing strategies, 4:382
business owners with concentrated positions
monetization decision-making process for, 2:336–337, 362–364
personal lines of credit for, 2:360–361
profile of, 2:358
business relationships
in AMC, 1:241
and conflicts of interest, 1:152, 156
business risk, 5:141n.6
business strategy, 4:312
butterfly, in yield curves, 4:203–204
butterfly portfolios, 4:166–168
butterfly spreads, 4:131; 5:299–303
butterfly twists, 4:60
buy-and-hold strategies, 4:135; 6:105
buyers
financial, 2:358–359
in liquid markets, 6:20
strategic, 2:358
buying convexity (as strategy), 4:145–147
buyout funds, VC funds vs., 5:40
buy-side clients, 1:31
buy-side traders, 6:6
Bylaws and Rules of Procedure for Proceedings Related to Professional Conduct, 1:9
C
CAC 40 Index, 4:91, 345
CAD/USD. see Dollar-Canada market
Calculation Methodology (GIPS Section 1.2)
composite return calculation provisions, 6:178–181
except of, 6:162
external cash flows, 6:172–175
inputs, 6:172
solutions, 6:172–175
further calculation provisions, 6:175–178
implementation of, 6:175
time-weighted total return, 6:169–172
calendar anomalies, 2:35
calendar rebalancing, 3:217, 306
callable bonds, 6:76–77, 136
callable debt, removing calls from, 5:398–400
call options (calls)
adding to noncallable debt, 5:400–403
with borrowing, 5:313–318
covered, 4:309
in equity portfolios
combinations of puts and, 5:304–312
covered, 5:286–290
long/short positions for, 5:279–282
premiums, 5:159
removing from callable debt, 5:398–400
call payoffs, 5:312–316
Calmar ratio, 5:82n.107
Cambridge Associates, 5:37, 38
Campbell, John Y., 3:400–401, 442
Canada
asset manager ownership structure, 1:271
bankruptcy, 5:101
capital gains taxes, 2:228, 240n.5
capital loss limits, 2:255
CLI for, 3:82
corporate estate tax freeze, 2:338
deemed disposition regimes, 2:298
defined-benefit pension plans, 2:473
equity index futures contracts, 4:345
equity risk premium, 3:39
exchange-traded funds, 1:276
exit taxes, 2:306–307
expected returns for equities/bonds, 3:24
in Hague Conference, 2:304
inflation-linked bonds, 4:9
insurance companies, 2:499, 507
interest income taxation, 2:233
market value of ETFs, 4:342
ownership of private business enterprises, 2:322
pension assets, 1:272, 273
pension funds, 5:9
real estate allocations in, 5:21
real estate benchmarks, 5:16
real GDP growth rate, 3:32
real GDP growth rate vs. speculative-grade bond default rate, 4:258
real returns on bonds, bills, and equities in, 4:296
REITs, 5:14, 25
securities lending, 4:358
slippage costs, 4:497
tax-advantaged savings accounts, 2:246
tax rates, 2:179
tax regime, 2:231, 347
trade partners, 3:84
transfer of assets from DB plans, 2:464n.1
universal banking, 2:519
Canadian dollar
converting euro into, 5:376–377
currency code, 3:385
in currency pairs, 3:386
T + 1 settlement, 3:387n.4
Canadian National Railway (CNR), 4:412
Canadian Pacific Railway (CPR), 4:412
cancellation, in prospect theory, 2:25
candidacy in CFA program, referring to, 1:171–172
Candidate Body of Knowledge (CBOK), 1:298
Candidate Pledge, 1:167
candidates, CFA
test of knowledge of the law [Standard I(A)], 1:26
responsibilities of (see Responsibilities of CFA Members and Candidates [Standard of Professional Conduct VII])
capacity
for investment management, 1:286
with long-only investing, 4:505
private equity, 5:29
CAPE, see Cyclically Adjusted P/E Ratio
Capellas, Michael D., 5:99
capital, see specific types, e.g.: financial capital
Capital Accord of 1988 (Basel I), 5:180
capital adequacy ratio, 5:180n.36
capital allocation
in equity portfolio management, 4:312
risk management in, 5:190–192
capital appreciation, 4:296–297
capital asset pricing model (CAPM) and ex post SML, 6:116
and market behavior, 2:34, 38
market model vs., 6:85n.10
validity of, 6:119
capital assets, 3:188
capital flows and currency returns, 3:99
forecasting approach based on, 3:101 and USD/euro exchange rate, 3:102
capital gains accumulation using long- vs. short-term tax rate on, 2:258–260
and cost basis, 2:237–238
deferred, 2:234–237
and income, 2:181–182
and investment policy statements, 2:179
pass-through treatment, 4:33
taxation of, 3:342, 343, 4:32–34
tax provisions for, 2:228
in tax regimes, 2:229–231, 347
capitalization weighting, 4:330–333
capital losses
turndown return and, 4:24
tax issues, 4:33, 34
tax loss harvesting for, 2:255–258
yield curve and, 4:200
capital market constraints, on concentrated positions, 2:330–331
capital market expectations (CME), 3:5–126
for asset class, 3:295
and asset class returns, 3:97–99
in business cycle analysis, 3:59–60
defined, 3:6
economic analysis of, 3:50–102
business cycle analysis, 3:51–66
and economic forecasting, 3:80–88
exogenous shocks in, 3:74–75
forecasting asset class returns with, 3:89–104
growth trends, 3:68–73
information sources for, 3:103–104
international interactions in, 3:75–80
forecasting of, 3:13–23
biases of analyst methods, 3:18–19
conditioning information, 3:19–20
correlations in, 3:20–21
data measurement errors and biases, 3:14–16
economic data, 3:13–14
and ex post risk, 3:18
and GNP vs. GDP, 3:14
with historical estimates, 3:16–18
and model uncertainty, 3:23
psychological traps with, 3:21–22
framework, 3:7–13
and expected return estimates, 3:11–12
historical analysis in, 3:10
and inconstistency of correlation estimates, 3:12–13
information requirements, 3:8–10
modifying, 3:97–99
and negative interest rates, 3:66–67
in portfolio management, 1:283
practice problems, 3:110–117
setting, 3:23–50
with formal tools, 3:23–48
and judgment, 3:50
with survey and panel methods, 3:48–49
solutions to problems, 3:118–126
Capital Market Line (CML), ex post, 6:117
capital markets. see also Integrity of Capital Markets [Standard of Professional Conduct II]
anomalies in, 3:23
and benefit of ethics to society, 1:12
business cycle effects on, 3:53, 54
forecasts of, 3:43–45
sustainability of, 1:12–13
capital returns, 6:206, 233
caplet payoff, 5:323–325, 330, 331
caplets, 5:323, 324
CAPM, see capital asset pricing model caps, floating-rate loan, 5:323–327
care. see also Loyalty, Prudence, and Care [Standard III(A)] and independent professional judgment, 1:207–208
and prudent judgment, 1:241–242
career development phase (financial stage of life), 2:393
Carhart, Mark M., 4:447n.2
carried interest
for alternative asset managers, 1:270
defined, 6:233
with private equity and venture capital funds, 1:278
for private equity managers, 5:35
returns after deducting, 6:212
carry trade
in active currency management, 3:412–414
inter-market, 4:137–139
intra-market, 4:136–137
and roll yield, 3:425
and yield curve strategies, 4:136–141
carve-out segments in composite construction, 6:190–191
GIPS definition, 6:233
presentation and reporting of, 6:202
case studies
Susan Fairfax, 2:188–194
high-wealth-level investor with emotional biases, 2:88–92
behaviorally-modified portfolio decision, 2:92
diagnostic tests, 2:89–91
effect of biases, 2:91
moderate or adapt recommendation, 2:91–92
low-wealth-level investor with cognitive biases, 2:92–96
behaviorally-modified portfolio decision, 2:96
diagnostic tests, 2:93–94
effect of biases, 2:95
moderate or adapt recommendation, 2:95
Perrier family, 2:433–440
Index

Chicago Mercantile Exchange (CME) and ETFs, 4:101
forwards traded on, 3:420–421
S&P 500 Index futures trading on, 4:234
SPAN system of, 5:171
and Treasury futures contracts, 4:80

children
forced heirship rules, 2:274–276
gifting to, 2:182, 184

Chile
degree of specialization, 3:75
in Hague Conference, 2:304
inflation-linked bonds, 4:9
market integration, 3:43
pension assets, 1:272
regulatory constraints in, 3:337
sovereign wealth funds, 1:274
sovereign wealth funds in, 3:340
tax-advantaged savings accounts, 2:246
tax rates, 2:179

Chilean peso, 3:448

China
Cobb-Douglas model for economic growth in, 3:128, 130–133
economic experience, 3:110–131
equity index futures contracts, 4:345
future economic growth, 3:132–133
in Hague Conference, 2:304
historical growth accounting, 3:130
H-model for estimating P/E, 3:134–141
home ownership, 2:388
insurance company regulations in, 3:337
macroeconomic linkages, 3:75
pension assets, 1:272
real returns on bonds, bills, and equities in, 4:296
retail investors in, 1:271
sovereign wealth funds, 1:274
tax rates, 2:179
tax regime, 2:231, 347
TFP growth, 3:71
trade partners, 3:83, 84
China Industrial Production index, 3:83
China Investment Corporation, 1:274
Chinese yuan, 3:385, 450, 4:278
Choquefaty, Yves, 4:338
CIPM. see Center for International Securities and Derivatives Markets
CISDM Convertible Arbitrage Index, 5:64–66, 68
CISDM CTA EW Index
commodities correlations, 5:48, 50
hedge fund correlations, 5:62–63
managed futures correlations, 5:87–89, 91
CISDM CTA trading strategy benchmarks, 5:86–89
CISDM Distressed Securities Index, 5:64–66, 68
CISDM Equal Weighted Hedge Fund Index
as benchmark, 5:60
commodities correlations, 5:48, 50
correlations, 5:65
HFRX indexes vs., 5:68
historical performance, 5:64
real estate correlations, 5:17–18
CISDM Equity Long/Short Index, 5:64–66, 68
CISDM Equity Market Neutral Index, 5:64–66, 68
CISDM Event Driven Multi-Strategy Index, 5:64–66, 68
CISDM Global Macro Index, 5:64–66
CISDM Hedge Funds, 5:66
CISDM Merger Arbitrage Index, 5:64–66, 68
Citibank, 2:520
Citicorp, 2:520
Citigroup, 4:93
Citigroup Non-U.S. World Government Bond Index, 3:94
Citigroup US Broad Investment-Grade Bond Index (USBIG), 4:160, 6:94
civil law systems, 2:75, 80–81, 93
cognitive cost, 2:47–49
cognitive errors, 2:52–69
cognitive dissonance, 2:52, 125–126
cognitive errors, 2:52–69
collateralized loan obligations, 6:11
closed-book markets, 6:11
closed-end funds, 5:14, 6:205, 233
closeout netting, 5:187
closet indexes, 4:315–316, 465
closing out of transactions prior to expiration, 2:342
cloth settlements
CME. see commercial mortgage-backed securities
CME. see capital market expectations; Chicago Mercantile Exchange
CME Group
and ETFs, 4:101–102
T-notes futures contracts, 4:71, 72, 74
CML, ex post. see Capital Market Line, ex post
CMOs. see collateralized mortgage obligations
CNA Financial Corporation, 2:515, 516
CNR. see Canadian National Railway
Cobb-Douglas production function
(Cobb-Douglas model), 3:128–132
for Chinese economic growth, 3:128, 130–133
and neoclassical approach to growth accounting, 3:128–129
projections of economic growth from, 3:132–133
Code of Ethics (CFA Institute), 1:5–16, 298
adoption of, 1:10
and applicable law, 1:22–23
evolution of, 1:6–7
and importance of ethics, 1:11–15
notification of, 1:14
and Professional Conduct Program, 1:9–10
soft dollar policies, 6:29
and Standards of Practice Council, 1:10–11
in Standards of Practice Handbook, 1:1, 5–7
text of, 1:15–16
and values of CFA Institute, 1:15
codes of ethics (in general)
adopting, 1:120
commitment to, 1:14
developing, 1:26–27, 54
codification, in prospect theory, 2:25

cognitive biases. see behavioral biases; cognitive errors
cognitive cost, 2:58
cognitive dissonance, 2:52, 125–126
cognitive errors, 2:52–69
of analysts, 2:125
anchoring and adjustment bias, 2:63–64
availability bias, 2:67–69
in behavioral finance, 2:166
belief perseverance biases, 2:52–63
confirmation bias, 2:55–56
conservatism bias, 2:52–55
hindsight bias, 2:62
illusion of control bias, 2:61
representativeness bias, 2:56–60
in BFMI, 2:7–8
confirmation bias, 2:55–56
Index

Decision-making process, 2:332–337, 340, 362–364
government planning, 2:334–337
institutional constraints, 2:329–330
investor constraints, 2:328–329
objectives, 2:327–328
psychological considerations, 2:331–334
monetization, 2:322
practice problems, 2:372–375
private business equity, 2:356–356
about, 2:356–357
business owner profile, 2:358
business profile, 2:357–358
monetization strategies, 2:358–366
single-stock positions, 2:340–356
about, 2:340–341
management strategies, 2:343–356
non-tax considerations, 2:342–343
tax considerations, 2:341–342
solutions to problems, 2:376–379
concentrated stock positions, 3:366
concentration of, 4:332–333
concurrent returns, expected value of, 2:198
conditional 1/n diversification, 2:122
conditional probability, see Bayes’ formula
conditional value at risk (CVaR), 3:367–366
conditional information, 3:19–20
Conduct as Participants in CFA Institute Programs [Standard VII(A)], 1:19,
165–169
application of the standard, 1:167–169
eleventh edition revision, 1:8
guidance, 1:165–167
additional CFA restrictions, 1:166
confidential program information, 1:165–166
expressing opinions, 1:166
text of, 1:19, 165
Conference Board economic indicators published by, 3:82, 104
LEI index by, 3:84, 85
confidence, of active managers in outperformance, 4:316
confidence band, quality control chart, 6:121
confidence intervals, 2:74, 126
confidence information about firms, 1:115
in AMC, 1:241
conveying, 1:203
disclosing, 1:103–105
possessing, 1:103
confidence, see also Preservation of Confidentiality [Standard III(E)]
of CFA program information, 1:165–166
maintaining, 1:78
confirmation of information, 1:247–248
of transactions, 1:160
confirmation bias, 2:55–56, 332
of analysts, 2:133
consequences of, 2:55–56
detection and methods of overcoming, 2:56
diagnostic questions, 2:88
in fundamental investing, 4:417
and market bubbles, 2:143
confirming evidence trap, 3:21
conflicts of interest
in AMC, 1:251–252
avoidance of, 1:198
and business relationships, 1:152, 156
and business stock ownership, 1:152
in case studies, 1:197–200
and compensation arrangement, 1:153–154
directorship, 1:154–155
disclosure of (see also Disclosure of Conflicts [Standard VI(A)]) in AMC, 1:251–252
firm policies, 1:77
and personal stock ownership, 1:153
and personal trading, 1:155
potential, in ethical decision-making framework, 1:198
and priority of transactions, 1:157
and requested favors, 1:155
Conflicts of Interest [Standard of Professional Conduct VI], 1:149–164
Disclosure of Conflicts [Standard VI(A)], 1:149–156
application of the standard, 1:152–156
compliance procedures, 1:152
guidance, 1:149–152
text of, 1:18, 149
Priority of Transactions [Standard VI(B)], 1:157–162
application of the standard, 1:160–162
case study, 1:202–203
compliance procedures, 1:158–160
guidance, 1:157–158
text of, 1:18, 157
Referral Fees [Standard VI(C)], 1:162–164
application of the standard, 1:162–164
case study, 1:202–203
compliance procedures, 1:162
guidance, 1:162
text of, 1:18, 162
Congressional Budget Office, 3:104
conjunction fallacy, 2:133, 135
conservatism bias, 2:52–55, 87, 332
consistency of investment approach, 2:118
performance evaluations, 5:82–84
constant growth model, see Gordon growth model
constant returns to scale, 3:129
constraints (generally)
in active equity investing
formal constraints, 4:487–489
heuristic constraints, 4:486–487
portfolio construction, 4:469–471
budget, 3:232–233, 253
cash-in-advance, 4:63–64
on concentrated positions, 2:329–330
case study, 1:202–203
compliance procedures, 1:158–160
guidance, 1:157–158
text of, 1:18, 157
Referral Fees [Standard VI(C)], 1:162–164
application of the standard, 1:162–164
case study, 1:202–203
compliance procedures, 1:162
guidance, 1:162
text of, 1:18, 162
Congressional Budget Office, 3:104
conjunction fallacy, 2:133, 135
conservatism bias, 2:52–55, 87, 332
consistency of investment approach, 2:118
performance evaluations, 5:82–84
constant growth model, see Gordon growth model
constant returns to scale, 3:129
constraints (generally)
in active equity investing
formal constraints, 4:487–489
heuristic constraints, 4:486–487
portfolio construction, 4:469–471
budget, 3:232–233, 253
cash-in-advance, 4:63–64
on concentrated positions, 2:329–330
constraints (generally) (Continued)

formal with active equity investing, 4:487–489
limitations of, 4:491
guideline, 4:267
heuristic, 4:486–487
implementation, 4:480–481
in investment policy statements, 1:287; 2:176–187
investor, 1:93, 283
minimum size, 2:343
of pension participants, 2:478–479
unity, 3:232
constraints in asset allocation, 3:324–342
asset size, 3:324–329
beyond budget constraints, 3:253
liquidity, 3:329–332
regulatory and other external constraints, 3:336–342
endowments and foundations, 3:339–340
insurance companies, 3:337
pension funds, 3:337–339
sovereign wealth funds, 3:340
revising strategic asset allocation for change in, 3:352–353
time horizon, 3:332–336
constraints of individual investors, 2:176–187
asset allocation based on, 2:193, 194
and asset location, 2:253–254
case study, 2:186–187
with concentrated positions, 2:328–329
in investment policy statements, 1:93
legal and regulatory environment, 2:182–185
family foundation, 2:184–185
jurisdiction, 2:185
personal trust, 2:183–185
liquidity, 2:176–178
in portfolio management, 1:283
in sample IPSs, 2:186–187, 190–191
early transfers, 2:179–182
tax avoidance, 2:181
tax deferral, 2:181
tax reduction, 2:181–182
transfer at death, 2:182
wealth transfer taxes, 2:182
time horizon, 2:178
unique circumstances, 2:185
consultants (case study), 1:196–200
consulting contract, 1:197
evaluation of, 1:197–200
comparable assets, 3:188
consumer comparisons, of life insurance costs, 2:413–415
consumer confidence, business cycle and, 3:53, 54
consumer credit, 4:281
Consumer Cyclical Services, 4:281
consumer income growth, in econometric modeling, 2:81
consumerism, 1:300–301
consumer nondurables, Pure Sector Allocation return for, 6:106
Consumer Price Index. see US Consumer Price Index (CPI)

consumers, economic growth trends and, 3:69–70
consumer spending and business cycle, 3:60, 61
in business cycle analysis, 3:60, 61
in econometric modeling, 3:81
in United Kingdom, 3:49
consumption behavioral approach to, 2:37–38
taxes on, 2:226
taxation, in emerging markets, 3:449–450
contingent immunization, 4:14, 75–76
contingent liabilities, 3:267
continuing education, 1:295
continuing professional development, 1:295
Continuity axiom (utility theory), 2:9
continuous auction markets, 6:16
continuously linked settlements (CLSs), 5:146
contract risk, 5:147
contracts. see also forward contracts; futures
assurance of, 6:20
consulting, 1:197
derivative contracts, 5:148–149
employment, 5:44
guaranteed investment, 5:148–149
restrictions on concentrated positions in, 2:330
service, 2:422
contractual restrictions, on concentrated positions, 2:330
contrarian investing style, 4:384–385
control(s). see also illusion of control
in asset-only allocation, 3:235
inconsistent of estimates, 3:12–13
judgment in estimates, 3:50
misinterpretations of, 3:20–21
partial, 3:20
in portfolio rebalancing, 3:307
and taxation estimates, 3:344
default, 4:281–282
1-performance appraisal measures, 5:82
in scenario analysis, 4:274
cost(s) of active equity management, 4:318
in active equity investing portfolio construction, 4:492–499
implicit costs, 4:493–495
scale issues, 4:498–499
slippage costs, 4:495–498
cognitive, 2:58
consumer comparisons of life insurance, 2:413–415
delay, 6:23, 25
distribution, 4:311
of equity portfolio, 4:309–312
explicit, 6:25
“gaming” of cost measures, 6:23, 24
hedging, 3:430–438
example, 3:436–438
exotic options, 3:434–435
over-/under-hedging with forward contracts, 3:431
protective puts with OTM options, 3:432
put spreads, 3:432–433
risk reversal, 3:432
seagull spreads, 3:433–434
implicit, 4:493–495
investment approaches and, 4:311–312
life insurance, 2:413–415
management, 4:506
market impact, 4:493
marketing, 4:311
credit strategies (Continued)

CDOs, 4:281–282
covered bonds, 4:282
MBS, 4:279–280
tail risk, 4:273–275
assessing, 4:273–274
managing, 4:274–275
scenario analysis, 4:273–274
top-down, 4:257–265
bottom-up vs., 4:266
country/currency exposure, 4:265–266
credit quality, 4:258–261
industry sector allocation, 4:262–263
interest rate measurement/management, 4:263–264
spread curves in, 4:265
Credit Suisse, 5:60, 95
Credit Suisse First Boston, 5:32
Credit Suisse Hedge Fund Index, 5:60, 61
Credit Suisse/Tremont Investable Managed Futures Index, 5:89
Credit Support Annexes (CSAs), 3:259–260, 278–280
credit tranching, 4:281
credit universe
in bottom-up approach to credit strategy, 4:248–249
in emerging markets, 4:277
credit VaR, 5:173
CREFs, see commingled real estate funds
Croatia, 2:176n; 2:304
cross-border estate planning, 2:303–311
Hague Conference, 2:304–305
taxes, 2:305–310
double taxation, 2:307–310
exit taxes, 2:306–307
foreign tax credit provisions, 2:307–308
income taxes, 2:305–306
wealth and wealth transfer taxes, 2:306
transparency and offshore banking, 2:310–311
cross-default provisions, 5:173
cross-departmental conflicts, 1:151
cross hedging
currency, 3:438–440
risk management with, 2:355–356
cross-sectional momentum, 3:360n.21
crowding risk, 4:140–141
crowds, committees vs., 2:137–138
CRSP, see Center for Research Security
Prices
CRSP US Total Market Index, 4:330
CTF, see charitable remainder trusts
CSAs, see Credit Support Annexes
CSI 300, 4:345
CTA managed accounts, see managed futures
CTAs, see commodity trading advisors
CTD security, see cheapest-to-deliver security
cumulative composite returns, calculating, 6:204
currency(-ies)
base, 3:385–387
commodity, 3:449
in country risk analysis, 3:78–79
domestic, 3:391
emerging market, 3:448–451
forecasts of returns, 3:99–100
foreign, 3:392
funding, 3:414
haven, 3:449
home (domestic), 3:391
investment, 3:414
price, 3:385–387
currency codes, 3:385
currency conversions and exchange rate risk, 5:370–377
of foreign cash receipts, 5:375–377
of loans, 5:370–375
currency exposure, 4:139, 264–265
international, 3:391–394
and portfolio returns, 3:391–396
international exposure, 3:391–394
risk and return, 3:391–396
volatility of returns, 3:394–395
strategic decisions about, 3:399–402
cost considerations, 3:401–402
diversification considerations, 3:399–401
with top-down approach, 4:264–265
currency gains/losses, 4:24
currency hedging
costs, 3:402, 430–438
example, 3:436–438
exotic options, 3:434–435
over-/under-hedging with forward contracts, 3:431
protective puts with OTM options, 3:432
put spreads, 3:432–433
risk reversals, 3:432
seagull spreads, 3:433–434
discretionary, 3:403
for fixed-income portfolios, 3:400
for managing interest rate risk, 5:362
and market conditions, 3:400–401
multiple currencies, 3:438–443
cross hedges, 3:438–440
macro hedges, 3:440
minimum-variance hedge ratio, 3:441–443
over- and under-, 3:431
passive, 3:403
and time horizons, 3:399–400
and yield curve strategies, 4:178–179
currency managed futures, 5:86
currency management, 3:383–471
currency risk and portfolio return/risk, 3:391–396
emerging market currencies, 3:448–451
non-deliverable forwards, 3:450–451
trading costs and extreme market events, 3:448–450
foreign exchange markets, 3:384–391
currency options markets, 3:391
forward markets, 3:387–390
spot markets, 3:385–387
swap markets, 3:390–391
formulating programs for, 3:406–408
globalization and, 3:383–384
portfolio return, 3:391–396
and international exposure, 3:391–394
and risk, 3:391–396
volatility of, 3:394–395
practice problems, 3:455–463
solutions to problems, 3:464–471
strategic decisions, 3:397–408
currency exposures, 3:399–402
currency risk, 3:402–406
formulating currency management programs, 3:406–408
in Investment Policy Statements, 3:397–398
portfolio optimization, 3:398–399
tactical decisions, 3:409–419
carry trade in, 3:412–414
economic fundamentals in, 3:408–410
example, 3:417–419
technical analysis in, 3:411–412
volatility trading in, 3:414–419
tools, 3:419–448
“correct” approach, 3:444–448
currency options, 3:416–417, 427–430
forward contracts, 3:420–427
hedging multiple currencies, 3:438–443
reduction of hedging costs, 3:430–438
currency market spreads, 4:175–176
currency options, 3:391, 416–417, 427–431
currency overlay, 3:404–406, 4:344
currency risk, 4:264–265, 278, see also currency exposure; currency management
asset allocation with, 3:399
forward and futures strategies for managing, 5:250–258
in global credit portfolios, 4:278
and portfolio return/risk, 3:391–396
risk of foreign currency payments, 5:252–254
risk of foreign currency receipts, 5:252
risk of foreign-market asset portfolio, 5:254–258
strategic decisions about, 3:402–406
active currency management, 3:403–404
currency overlay programs, 3:404–406
discretionary hedging, 3:403
passive hedging, 3:403
top-down approach, 4:264–265
currency swaps, see also interest rate swaps in global credit portfolios, 4:278
interest rate vs., 5:374
notional principal in, 5:179
current account deficits, 3:78–79, 102–103
current account receipts, 3:79
current assets, 2:386
current credit risk, 5:172–173
curvature, yield curve defined, 4:131
strategies for changes in, 4:141–151
custodial relationships, 1:32
Index

custodians, and transactional complexity, 4:506
custody fees, 4:310; 6:178, 234
custody of client assets, 1:74
customers, opinions of, 5:44
customer–supplier chain factor, 4:401
custom security-based benchmarks, 6:87–88
CVaR. see conditional value at risk
CVG. see Country Version of GIPS
Cyclically Adjusted P/E Ratio (CAPE), 3:154–158, 163, 164

cyclical stocks, 3:94
Cypriot, 2:293, 304; 3:9n.
Czech Republic
gift tax, 2:293
in Hague Conference, 2:304
interest income taxation, 2:233
tax regime, 2:231, 347

D
DAA. see dynamic asset allocation
DALBAR, 2:59, 75
Dallas, Lynne, 4:360
Darnell, R. Max, 3:400
data
appraisal, 3:14–16
biases/errors in measurement of, 3:14–16
for capital market expectations, 3:14–16
comparable, 2:128–129
historical, 2:199; 4:380
input, 6:162, 166–169
in Monte Carlo simulations, 2:199
quality of, 6:80–81
in quantitative investment process, 4:421
smoothed, 3:14–16
data acquisition, 4:421
data measurement, biases and errors in, 3:14–16
data mining, 4:424–425
data-mining biases, 3:18
data sources, for returns-based style analysis, 4:432–433
DAX 30 Index, 4:345
days in underlying, 5:313
day traders, 6:34
DB pension plans. see defined-benefit pension plans
DCF models. see discounted cash flow models
DC pension plans. see defined-contribution pension plans
dealer(s)
bond market, 4:22
defined, 6:10
and market liquidity, 4:241
roles of, 6:18–19
as type of trader, 6:34
dealer markets, 6:10–15
death, transfer of taxes at, 2:182
death benefits, of deferred variable annuities, 2:424
death tax, 2:182
debit Collins, 2:350
debt
callable, 5:398–400
collateralized debt obligations, 1:114; 4:281–282
defaultable, 3:91
distressed, 5:98 (see also distressed securities)
emerging market, 3:91
external, 3:79
fiscal debt to GDP ratio, 3:78
foreign debt to GDP ratio, 3:79
noncallable, 5:400–403
off-balance-sheet, 2:330
recourse with respect to, 2:341
Treasury, 3:37
debt investments, in global invested capital market, 1:269
Debt Management Associates, 5:225–226
defbtor-in-possession, 5:101
debt outstanding, 4:393–395
debt to current account receipts, 3:79
decapitalizations, 2:5
deceit, 1:55
decentralization, 6:41
deci-pips, 3:387n.3
decision making
about concentrated single-asset positions, 2:332–337, 340, 362–364
basis for, 1:242–243
behavioral factors in, 2:107–108
in behavioral finance, 2:20–28
bounded rationality, 2:22–24
decision theory, 2:20–22
prospect theory, 2:24–28
committee, 2:135–138
investment committee dynamics, 2:137

techniques for structuring and operating committees, 2:137–138
ethical framework for, 1:13–14, 195–196

group, 1:129
inter-market curve strategies, 4:179–188
in traditional finance, 2:8–11
decision-making style questionnaire, 2:168
decision price, 6:24
decision-reversal risk, 1:289
decision risk, for alternative investments, 5:11–12
decisions, time frame for dissemination and, 1:84–85
decision theory, 2:20–22
decline-balancing portfolio, 3:286n.27

decomposition of expected returns, 4:23–26
evaluating yield curve trades with, 4:197–198
example, 4:25–26
limitations on, 4:26–27
dedicated bond portfolio, 4:62
deductible
health insurance, 2:403n.3, 421
homeowner’s insurance, 2:419
deduction method, 2:308
deduced dispositions, 2:298, 307
deduced distributions, 2:303
deep-value investing style, 4:385
default
credit default swaps
and credit risk, 5:188
index derivatives, 4:272–273
for liquidity risk management, 4:272–273
tail risk hedge strategy instrument, 4:274–275
cross-default provisions, 5:173
loss given default, 4:235
defaultable debt, 3:92
default correlations, CDOs and, 4:281–282
default options, 2:120–121
default rates, real GDP growth rate vs., 4:258
default risk, 4:235
default risk premiums, 3:26
deferred annuities, 2:423
deferred capital gains, 2:234–237
deferred fixed annuities, 2:424
deferred variable annuities, 2:423–424
deficits
budget, 3:67–68, 72–73
current account, 3:78–79, 101–102
twin deficits problem, 3:72–73
defined-benefit (DB) pension plans
as asset management clients, 1:272
asset size and performance of, 3:325
contingent liabilities of, 3:267
defined, 2:463
defined-contribution vs., 2:463–464
discourting liabilities for, 2:283
investment objective of, 1:284, 285
liabilities of, 3:268–270
liability-driven investing for, 4:76–86
cash flow matching, 4:62–65
contingent immunization, 4:14, 75–76
derivatives overlay, 4:71–74
duration matching, 4:65–71
interest rate immunization, 4:50–76
for multiple liabilities, 4:62–76
for single liability, 4:50–61
liability-relative allocation for, 3:201–204
portfolio management for, 2:464–477
corporate risk management, 2:476–477
legal and regulatory factors, 2:472–473
liquidity requirement, 2:470–471
return objectives, 2:468–470
risk objectives, 2:465–468
tax concerns, 2:472
time horizon, 2:471–472
unique circumstances, 2:473–476
risk management for, 5:142
defined-contribution (DC) pension plans, 1:272
behavioral factors in portfolio construction for, 2:120–125
defined, 2:463
defined-benefit vs., 2:463–464
portfolio management for, 2:477–484
middle-aged participant, 2:478
objectives and constraints framework, 2:478–479
participant in early career, 2:479

Cumulative_Ind_L3 19
August 3, 2018 6:59 PM
deflation, 3:55–59
delay costs, 6:23, 25
deleveraged floaters, 4:207
Deloitte Touche Tohmatsu International Business Guides, 2:227
delusion
and currency option quotes, 3:416–417
defined, 3:414; 5:152
gamma and risk of, 5:342–343
and option portfolio risk management, 5:333–335
and option price sensitivity, 5:336
and time, 5:336–337
and volatility trading, 3:415–416
delta hedge, 3:415; 5:333–343
delta-normal method, 5:159
demand
business-cycle related, 5:51–52
for venture capital, 5:30–31
demand deposit, 2:520n.30
demutualization, 2:499
Denmark
capital gains taxes, 2:240n.5
equity index futures contracts, 4:345
equity risk premium, 3:69
expected returns for equities/bonds, 3:24
in Hague Conference, 2:304
negative interest rates, 3:65
real GDP growth rate, 3:32
real returns on bonds, bills, and equities in, 4:296
tax regime, 2:231, 347
departments, physical separation of, 1:61
depository fees, 4:310
Depository Trust Company, 4:30
deposits, time and demand, 2:520n.30
depth, market, 6:19
de-risking, 3:351
derivative contracts, accounting risk with, 5:148–149
derivative product companies, 5:187–188
derivatives, see also specific types, e.g.: options
duration management, 4:143–145
foundation investments in, 2:488
for immunizing multiple liabilities, 4:71–74
for interest rate exposure management, 4:264
as tail risk hedge strategy instrument, 4:275
types of, 4:143n.12
derivatives-based passive equity investing, 4:343–347
derivatives overlay, 4:71–74, 80, 82–89
Derivatives Policy Group, 5:170–171
descriptions of securities, 1:141–142
descriptive statistics, 3:23
de Silva, Harindra, 4:456n.12
detection of dominance, in prospect theory, 2:25
deterministic retirement analysis, 2:197
Deutsche Bank, 4:276, 277; 5:9
developed economies
analysis of emerging vs., 3:77
justified P/E estimates for, 3:140–141
developed markets, 4:304
DFA. see dynamic financial analysis
Dietz, Peter, 6:79, 156, 229
differential returns, 6:94
diffusion index, 3:82
digital options, 3:435
diligence, 1:127
Diligence and Reasonable Basis [Standard V(A)], 1:126–137
application of the standard, 1:130–137
case study, 1:207–209
cumulative index
compliance procedures, 1:130
guidance, 1:126–129
diligence and reasonable basis defined, 1:127
group research and decision making, 1:129
quantitatively oriented research, 1:128
quantitatively oriented techniques, 1:129
second or third-party research, 1:127–128
selecting external advisers and subadvisers, 1:129
text of, 1:118, 126
dilution, of interest, 5:45
direct commodity investment, 5:46
directed brokerage, 1:76
direct investment in commodities, 5:46
foreign, 3:101
of venture capital, 5:34
direct loss, of property, 2:402
direct market access (DMA), 6:36
directors, conflicts of interest for, 1:151–152, 154–155
direct real estate, 2:388
direct venture capital investment, 5:34
disability income insurance, 2:417–418, 434, 438
disciplinary action, disclosure of, 1:252
Disciplinary Review Committee (DRC), 1:49
disclosure of compensation, 1:77
of confidential information, 1:103–105
conflicts of interest in case studies, 1:198–199
firm policies on, 1:77
in GIPS Valuation Principles, 6:217
interdepartmental referral arrangements, 1:163
investment system, 1:141, 143
issuer-paid research, 1:48
level of service, 1:86
material information, 1:60–61, 64
of performance calculation methodology, 1:100–101
personal investing policies, 1:160
personal trading, 1:161
possible illegal activity, 1:104
for real estate, 6:207–208
referral arrangements, 1:162–164
selective, 1:64, 86, 88
on social media, 1:89
trade allocation procedures, 1:86
Trade Management Guidelines on, 6:89
for wrap fee/SMAs, 6:216
discount rate
in hedging portfolio approach, 3:277–278
for human capital, 2:383–384
and liabilities, 3:270
in life insurance pricing, 2:411
and longevity risk, 3:208
discounts
lack of marketability, 2:339
for non-controlling interest, 2:339
valuation, 2:297–298
discretion
of brokers, 6:18
GIPS definition, 6:183
for real estate investments, 6:207
in verification process, 6:224–225
discretionary hedging, 3:403
discretionary processes. see also fundamental strategies
portfolio construction based on, 4:448–449
of portfolio management
building block use by, 4:462
discretionary vs. systematic processes, 4:459–460
discretionary trading strategies, 5:86
discretionary trusts, 2:300, 301
discretionary wealth, 2:279n.11, 335n.4
discretion strategies, 6:45
disequilibrium behavior, temporary, 2:139
disinflation, 3:55
disintermediation, 2:499, 505
Disney World, 5:251
dispersion
defined, 4:54
internal, 6:196–201, 235
disposition effect
defined, 2:70
example of, 2:71
and excessive trading/bubbles, 2:143–144
and momentum, 2:141
disruptive technologies, 4:390
dissemination of information
pre-dissemination behavior, 1:85
simultaneous, 1:85
time frame between decision and,
1:84–85
taking prior to, 1:161–162
dissociation, 1:26–28
distressed business entity, 6:164, 234
distressed debt arbitrage, 5:98
distressed investing style, 4:385
distressed securities, 5:94–103
distressed securities market, 5:94–95
distress

164, 234
distributions
311
diversification
simultaneous,
1:100–102
types of,
5:private equity of,
defined,
of concentrated portfolios,
and availability bias,
2:with asset classes,
3:2:
and asset allocation,
2:short-term income,
2:present value of distribution of cash
in defined-contribution pension plans,
2:
with hedge funds,
72–73
and fixed-income portfolio
1:
with human capital,
2:
483–484
with international,
5:
with market risk,
2:
and mental accounting bias,
2:124–125
naive, 2:122
need for, 1:92
with private equity, 5:42, 43
with real estate, 5:22–25
risk level and limited opportunities for,
4:481
as role of equities in portfolio,
4:298–299
and strategies decisions about currency
exposures, 3:399–401
with swap strategies,
5:380–384
time, 3:336
and volatility/idiosyncratic risk,
4:453–455
diversification effect, for VaR, 5:162
diversification-oriented strategies, 4:338
diversified managed futures, 5:86
diversified management style, 4:464, 465
divestiture, of private business equity,
2:360
divide-and-conquer procedure, 2:23
capture strategy, 4:309
dividend income
from equities in portfolio, 4:297
in equity portfolio, 4:307–308
taxation of, 3:942
dividend recapitalization, 5:33
dividend returns, 4:297
dividends
accrual taxes on, 2:233–234
heavy dividend tax regime, 2:229–231
manufactured, 4:308
optional stock, 4:308
special, 4:308
and stock index futures trade, 5:230
in synthetic index funds, 5:235–236
tax provisions for, 2:228
in tax regimes, 2:229–231, 235, 347
dividend yield strategies, 4:337
DIIA, see Dow Jones Industrial Average
DMA, see direct market access
documentation portfolio, 6:182
research, 2:136
of trade allocation procedures, 1:85
in verification process, 6:226
documents, former employers’, 1:110
Dodd, David, 1:297; 4:383, 395
dollar, Australian
as commodity currency, 3:449
currency code, 3:835
in currency pairs, 3:836, 438
yen carry trade, 4:140–141
dollar, Canadian
converting euro into, 5:376–377
currency code, 3:835
in currency pairs, 3:836, 438
yen carry trade, 4:140–141
T + 1 settlement, 3:387n.4
dollar, Hong Kong, 4:278
dollar, New Zealand
and carry trade, 4:139–140
as commodity currency, 3:449
currency code, 3:835
in currency pairs, 3:836, 438
dollar, US
benefits of currency exposure for,
3:400–401
converting yen into, 5:375–376
currency code, 3:835
in currency pairs, 3:102, 386, 387, 388n.7, 421, 438
dual-currency bonds in, 5:377–380
as haven currency, 3:449
and interest rate derivatives, 4:71–72
swap curve, 4:244
and yen carry trade, 4:140
and yield curve trades, 4:198
Dollar-Canada market (CAD/USD), 3:386, 387n.4
dollar duration, 4:65, 132. see also
money duration
dollar neutral portfolios, 4:508
Dollar-Swiss market (CHF/USD), 3:386
dollar value of basis point (DV01), 4:66,
132. see also price value of a basis point
Dollar-yen market (JPY/USD), 3:386,
387, 388n.7, 421
domestic assets, 3:391
domestic currency, 3:391
domestic-currency returns, 3:392–395
donor-advised funds, 2:367–368
do not initiate orders, 6:8
dopamine, 2:19–20
double inflection utility function, 2:17
double taxation, 2:307–310
double taxation treaties (DTT),
2:308–310
Dow Jones Euro STOXX 50 Index, see
Euro STOXX 50 Index
Dow Jones Industrial Average (DIIA)
certainty overconfidence in prediction of,
2:74–75
as equity market gauge, 4:91
and historical simulation method,
5:161
passive equity investing and, 4:326
price weighting of, 4:331
and Qualidex Fund, 4:339
technical anomalies, 2:34
Dow Jones mini, 4:345
Dow Jones REIT Indexes, 5:17
downside deviation, 5:79–80, 190
downside risks, aversion to, 2:145
downside volatility, 5:79–80
DPL, 6:211, 234
drawdown, 4:488, 5:80, 189
drawdown controls, 3:296
DRC, see Disciplinary Review
Committee
DTS, see duration times spread
DTT, see double taxation treaties
dual currency bonds, 5:377–380
dual-currency notes, 4:208
due diligence
for alternative investments, 5:9–12
for DB plans, 2:473
defined, 5:7
and failed investments, 1:135
in financial research and analysis, 1:33
for hedge funds, 5:76–78
for private equity, 5:43–45
for real estate, 5:27
in submanager selection, 1:132–133
sufficient, 1:130, 133–134
Duffie, Darrell, 4:359
duration, 2:521
of bonds, 5:152, 219
dollar, 4:65, 132
effective, 4:48–49
defined, 4:132
empirical duration vs., 4:238
as indexing risk factor, 4:93
and interest rate exposure, 4:263
empirical, 4:238, 239
ex post, 5:224, 225
Duties to Clients [Standard of duration times spread (DTS), 4:152–155]


Duties to Clients [Standard of Professional Conduct III], 1:73–105; 6:29

Fair Dealing [Standard III(B)], 1:82–90 application of the standard, 1:86–90 case study, 1:205 compliance procedures, 1:84–86 guidance, 1:82–84 text of, 1:17, 82


E

EAR, see earnings at risk 
early career phase (financial stages of life), 2:392–393 
estimates at risk (EAR), 5:170 earnings-based models for equity market 
see also specific countries 
Eastern Europe. see specific countries 
EBS, 3:421 
EC. see GIPS Executive Committee 
ECB. see European Central Bank 
ECNs. see electronic communications networks econometric modeling for costs of trading, 6:30–32 for economic forecasting, 3:80–81, 89 econometrics, 3:80 economic activity, 4:305–307 
economic analysis, 3:50–103 business cycle analysis, 3:51–66 
defaultable debt, 3:92 
in GDP, 3:70–72 and government structural policies, 3:72–73 
economic (holistic) balance sheet and asset allocation, 3:181–184 assets on, 2:382 human capital considered on, 2:442 used in individual risk management, 2:396–397 
economic data, for CME forecasts, 3:13–14 economic exposure, 5:251 

Cumulative_Ind_L3 22 August 3, 2018 6:59 PM
effective convexity, 4:333–334
effective spread, 6:12–14
efficiency of risk governance, 5:138
tax, 2:327
efficient asset mixes, 3:233
efficient frontier(s) for asset allocation in pension funds, 3:339
for asset-only allocation, 3:275
balance sheet approach, 3:243 and Black–Litterman model, 3:251–253
expected returns in, 3:247
with resampling, 3:254–255
retirement income, 2:430–431
risk aversion coefficient in, 3:236–237
surplus, 2:273–275 and taxation, 3:344–346
efficient market hypothesis (EMH), 2:28–36
and AMH, 2:41
and calendar anomalies, 2:35
and fundamental anomalies, 2:33–34 and index funds, 6:22 and limited arbitrage, 2:35–36
passive equity investing and, 4:326
review of, 2:28–30
semi-strong-form, 2:29–32
studies challenging, 2:32–36
studies in support of, 2:30–32
and technical anomalies, 2:34
weak-form, 2:29–31
Egypt, 2:179, 304
elective professional clients, 3:327
electronic communications networks (ECNs), 6:16
electronic crossing networks, 6:15–16, 20
Ecuador, 2:304
Edelman, 1:300
EDPCs. see enhanced derivative product companies
education, 1:121, 199, 295
education phase (financial stages of life), 2:392
EFA. see MSCI EAFE ETF
effective convexity, 4:133, 263–264
effective duration
calculation of, 4:48–49
defined, 4:132
empirical duration vs., 4:238
as indexing risk factor, 4:93
and interest rate exposure, 4:263
effective interest
with call, 5:314, 316
with cap, 5:324–326
with collar, 5:331, 332
with floor, 5:328, 329
with put, 5:319–321
effective loan rate
with call, 5:314, 316–317
with cap, 5:325, 326
with put, 5:319, 321
effectiveness of risk governance, 5:138
effective number of stocks, in index, 4:333–334
emerging market debt, 3:91
emerging market equities, 3:191
emerging markets, 3:448–451
carry trade returns, 4:141
common shares in, 3:97
contagion in, 3:449–450
country risk analysis, 3:77–80
credit universe in, 4:277
currencies, 3:448–451
developed vs. emerging economies, 3:77
in economic analysis, 3:77–80
in hedge fund strategies, 5:58
liquidity problems, 4:278
non-deliverable forwards, 3:450–451
segmentation of equities from, 4:504
slippage costs, 4:497
trading costs and extreme market events, 3:448–450
EMH. see efficient market hypothesis
EMMA. see Electronic Municipal Market Access
emotional biases, 2:70–81
of analysts, 2:125
in BFM, 2:7–8
cognitive errors vs., 2:51–52
in conducting research, 2:133–136
defined, 2:50
endowment bias, 2:78–79
in fundamental investing, 4:420
high-wealth-level investor case study, 2:88–92
behaviorally-modified portfolio decision, 2:91
diagnostic tests, 2:88–90
effect of biases, 2:90
moderate or adapt recommendation, 2:90–91
investors with cognitive errors and, 2:117
of investors with concentrated positions, 2:331–332
loss aversion, 3:364
loss-aversion bias, 2:70–73
consequences of, 2:72
detection and methods of overcoming, 2:73
effect of, 2:71
myopic loss aversion, 2:72–73
overconfidence as, 3:364
overconfidence bias, 2:73–76
consequences of, 2:75
detection and methods of overcoming, 2:75–76
prediction and certainty overconfidence, 2:74–75
regret-aversion bias, 2:79–80
self-control bias, 2:76–77
status quo bias, 2:77–78
emotional intelligence, 2:79
emotions, control of, 2:51
empirical duration, 4:238, 239
employee classifications, 1:109
employee references, checking, 1:54
employees
communication of material nonpublic information to, 1,63
independent contractors vs., 1,108–109
sale of private business equity to, 2,359–360
employee share ownership plans, 2,483–484
employee stock ownership plans as hybrid pension plans, 2,483–484 and private business equity, 2,361–362
employer(s) competing with current, 1,112
disclosure of conflicts to, 1,150, 156
duties to (see Duties to Employers
[Standard of Professional Conduct IV])
leaving, 1,106–107, 115
misrepresentation of work for, 1,146
responsibilities of, 1,106
employer mandates, 2,330
employer pension plans (vested), 2,389–390
employment, nature of, 1,108–109
employment contracts, 5,444
empty voting, 4,315
EMU. see European Monetary Union
endogenous variables, 3,20
endowment bias, 2,78–79, 331
of analysts, 2,134
consequences of, 2,79
detection and methods of overcoming, 2,79
diagnostic questions, 2,87
and status quo bias, 2,77
endowment model, 3,302–303
endowments in asset allocation constraints, 3,339–340
as asset management clients, 1,275
foundations vs., 2,485
investment objective of, 1,284, 285
investment policy statements, 2,496–499
as liabilities, 3,267
portfolio management for, 2,489–499
legal and regulatory factors, 2,495
liquidity requirements, 2,494
return objectives, 2,492–494
risk objectives, 2,491–492
tax concerns, 2,495
time horizon, 2,494–495
unique circumstances, 2,495–496
energy sector, 4,276
engagement encouraging, 1,296
of passive managers, 4,359–360
shareholder, 4,312–315
Engle, Robert F., 3,27
enhanced active equity strategies, 4,508
enhanced derivative product companies (EDPCs), 3,187–188
enhanced indexing
and bond market exposure, 4,91–92
ESG considerations, 4,97
and fixed-income portfolio management, 4,16–17
Enron Corporation, 2,122, 325; 3,68
equity long–short hedge fund strategies, 5,67
equity manager, 4,314–315
equity market
asset-based models, 3,159–162
constant growth model, 3,31–33
discounted cash flow models, 3,31–35
earnings-based models, 3,148–159
Cyclically Adjusted P/E Ratio, 3,154–158
Fed model, 3,148–151
Yardeni model, 3,151–154
forecasts of, 3,142–147
market EPS, 3,145–147
portfolio suitability of, 3,144
revising earnings forecasts, 3,146–147
types of forecasts, 3,142
using both forecasting approaches, 3,144–147
relative value models, 3,147–162
equity market-neutral hedge fund strategies, 5,57
equity market risk
forward and futures strategies for managing, 5,227–241
cash from equity, 5,237–241
equity from cash, 5,232–237
risk of equities, 5,228–230
risk of equity portfolios, 5,230–232
swap strategies for managing, 5,380–389
and allocation of stocks and bonds, 5,384–387
diversifying concentrated portfolios, 5,380–382
insider exposure, 5,387–389
international diversification, 5,382–384
equity market valuation, 3,127–175
with dividend discount models, 3,139
drivers of equity returns, 3,127–128
for insurance companies, 2,507
justified P/E estimates, 3,128–140
for China, 3,130–131
creating valuation from estimates, 3,133–151
for developed economies, 3,140–141
and neoclassical approach to growth accounting, 3,128–129, 131–132
quantifying future economic growth from, 3,132–133
practice problems, 3,166–172
relative value models, 3,147–162
asset-based models, 3,159–163
earnings-based models, 3,147–158, 162–163
solutions to problems, 3,173–175
in systematic TAA, 3,360
and top-down/bottom-up forecasts, 3,141–147
gaps in, 3,144–146

Index
of market earnings per share, 3:146, 148
portfolio suitability for, 3:144–145
revising earnings forecasts, 3:147–148
top-down vs. bottom-up forecasting, 3:143, 146–147
equity monetization, 2:343–347
equity portfolio management, 4:295–324
costs, 4:309–312
income, 4:307–309
investment universe segmentation, 4:301–307
by economic activity, 4:305–307
for equity indexes and benchmarks, 4:307
by geography, 4:304–305
by size and style, 4:301–303
options strategies, 5:277–312
combinations of calls and puts, 5:304–312
money spreads, 5:293–303
standard long and short positions, 5:279–286
and the underlying, 5:286–292
passive-active spectrum for, 4:315–318
practice problems, 4:321–322
roles of equities in portfolio, 4:296–301
capital appreciation, 4:296–297
client considerations, 4:300
diversification, 4:298–299
dividend income, 4:297
inflation hedging, 4:299
shareholder engagement in, 4:312–315
solutions to problems, 4:323–324
equity portfolios, risk in, 5:230–232
equity premium puzzle, 2:72
equity q ratio, 3:160–163
equity REITs, 5:14
equity risk premium for capital market expectations, 3:38–40
and Fed model, 3:150
Grinold-Kroner model for forecasting, 3:34–35
equity style rotation strategies, 4:392
equity swaps, 5:380–389
diversifying concentrated portfolios with, 5:380–382
fixed-income swaps vs., 5:384–389
international diversification with, 5:382–384
involving executives in, 5:389
total return, 2:344–345, 4:100–101, 3:188
equity tranche, 4:282
ERISA, see Employee Retirement Income Security Act
ERM, see enterprise risk management
error(s), see also cognitive errors in accounts, 1:205–206
of commission, 2:79
known, 1:48
notification of, 1:144
of omission, 2:79
processing, 2:52
tracking of benchmarks, 6:87n.11, 90
controlling, 4:355
enhancement strategies to reduce, 4:97–98
and excess return, 4:353–354
and indexing risk, 4:95
with liability-driven investing, 4:90
management of, 4:353–355
optimization approaches to minimize, 4:352
potential causes of, 4:354–355
with total return mandates, 4:16
transcription, 3:14
Type I, 6:129–130
Type II, 6:129–130
unintentional, 1:48
ESG factors. see environmental, social, and governance factors
ESG risk, 5:150
estate planning, 2:271–318
core capital, 2:278–288
Monte Carlo estimation, 2:285–288
mortality table estimation, 2:280–284
cross-border, 2:303–311
Hague Conference, 2:304–305
taxes, 2:305–310
transparency and offshore banking, 2:310–311
defined, 2:273
estates, wills, and probate, 2:273–274
and legal systems, 2:274–276
practice problems, 2:313–314
solutions to problems, 2:315–318
taxes, 2:276–278
tools for, 2:299–303
companies and controlled foreign corporations, 2:303
foundations, 2:302
life insurance, 2:302–303
trusts, 2:299–301
transferring excess capital, 2:288–299
charitable gratuitous transfers, 2:298–299
deemed dispositions, 2:298
valuation, 2:297
valuation discounts, 2:297–298
and wealth management, 2:272–273
estates, 2:273–274
taxe, 2:182, 277n.8, 288, 338–340
estimates biases for, 2:63–64
correlation, 3:12–13
covariance, 3:28, 29
expected return, 3:11–12
historical, 3:16–18
of human capital, 2:383–386
justified P/E, 3:128–142
for China, 3:130–141
for developed economies, 3:141–142
point, 3:24n.19
estimators sample, 3:24–25
shrinkage, 3:25–26
time-series, 3:26–27
Estonia, 2:304, 3:9n.
ETFs. see exchange-traded funds
ethical culture, 1:200
ethical decision-making framework, 1:13–14, 195–196, 300
ethical investment considerations, for DB plans, 2:473
ethical principles, applicable, 1:198
ethics, see also Code of Ethics; Standards of Professional Conduct; violations of ethical standards
case studies, 1:195–233
consultants, 1:196–200
Pearl Investment Management, 1:200–210
practice problems, 1:211–227
solutions to problems, 1:228–233
firms commitment to, 1:14
as focus of portfolio decisions, 6:49
importance, 1:11–15
and investment industry, 1:11–15
and regulations, 1:13
societal benefit of, 1:12
ETPs. see electronic trading platforms
EU. see European Union
Eurex, 4:101
Euribor. see Euro Interbank Offered Rate
EURO(s) converting to British pounds, 5:370–373
to Canadian dollars, 5:376–377
currency code, 3:385
in currency pairs, 3:103, 385, 386
dual-currency bonds in, 5:377–379
exchange rate pegging, 3:76
forward contracts on, 5:254–255
Eurobonds, 4:129–130
Eurodollar futures controlling risk with, 5:218–219
hedging floating-rate loans with, 5:259
Euro-dollar market (USD/EUR), 3:103, 386
EuroHedge, 5:60–61
Euro Interbank Offered Rate (Euribor), 5:390–392
Euronext Amsterdam, 6:8–9
Europe. see also MSCI EAFE (Europe, Australasia, and Far East) Index; specific countries
China stock market volatility vs., 3:138
credit market (2015–2016), 4:276
defined-benefit pension plans, 2:464
economic indicators, 3:82–83
energy industry in credit market indexes, 4:276
equity index futures contracts, 4:345
exchange-traded funds, 1:276
family foundations, 2:184
global assets under management, 1:268
insurance companies, 2:499
investor activism in, 4:406
and justified P/E estimates, 3:135
mutual fund governance, 4:340
mutual funds, 1:275
and neoclassical approach to growth accounting, 3:131
ownership of private business enterprises, 2:322
Pfandbriefe bond market, 4:282
private equity activity, 5:36–37
real estate allocations in, 5:21
real estate returns in, 5:20
Europe (Continued)
retail investors, 1:271
sector-neutralized price momentum factor, 4:397–398
securities lending, 4:358
slippage costs, 4:497
sovereign debt crisis effects, 4:275
TPF growth, 3:71, 72
trusts, 2:302
European Central Bank (ECB)
monetary policy, 3:66, 102
open market operations by, 3:89
quantitative easing, 3:65
European Community, 2:304
European Monetary Union (EMU), 2:
European style swaptions, 389
European Monetary Union (EMU), 2:
euro-Swiss market (CHF/EUR), 386
euro-STOXX 50 Index, 4:
euro-sterling market (GBP/EUR), 386
euro-yen market (JPY/EUR), 3:386
Eurozone, 3:9n.
capital flows forecasting approach, 3:101
CLL, 3:82
deflation, 3:56–57
economic valuation, 3:141–142
monetary policy, 3:66
negative interest rates, 3:65
open market operations, 3:89
Eurozone Harmonized Index of Consumer Prices (HICP), 3:82–83
EUSD. see European Union Savings Directive
evaluated pricing, 4:93
evaluation phase (prospect theory), 2:26–28
event-driven hedge fund strategies, 5:67
event-driven strategies, 4:143–414
event risk, of distressed securities, 5:99
evergreen funds, 6:205, 234
evidence, 2:135
EWMA. see exponentially weighted moving average
ex ante risk
active risk, 4:474
for equities, 3:40
from ex post risk, 3:18
excess benefit transactions, 2:495
excess capital, 2:88–299
charitable gratuitous transfers, 2:298–299
deemed dispositions, 2:298
defined, 2:279
generation skipping, 2:296

Index
Trade Management Guidelines, 6:48–49
costs of trading, 6:21–32
econometric models for costs, 6:30–32
transaction cost components, 6:22–30
duties of portfolio managers, 6:66
market microstructure, 6:7–21
evaluating market quality, 6:19–21
order types, 6:7–9
roles of brokers and dealers, 6:18–19
types of markets, 6:9–17
practice problems, 6:53–58
solutions to problems, 6:59–64
trade execution decisions, 6:36–47
automated trading, 6:40–47
for handling of a trade, 6:36–37
objectives in trading, 6:37–40
traders, 6:32–36
traders’ selection of order types, 6:35–36
types of traders, 6:33–35
execution-only responsibilities, 1:81
execution uncertainty, 6:8
executives, equity swaps involving, 5:389
exempt investors, 2:254
exemption method, 2:307–308
exercise rate, of swaptions, 5:390
exhaustive stock inclusion methods, for indexes, 4:330
exit phase (private equity investments), 1:277–278
exit strategies
for private equity investments, 5:31
staged, 2:359, 361
exit taxes, 2:306–307
exogenous economic shocks, 3:74–75
exogenous variables, 3:20
exotic options, 3:431, 434–435
expansion-stage companies, venture capital for, 5:30
expectations. see also capital market expectations (CME)
future market, 2:427
of investment management professionals, 1:299–300
investor, 2:118, 165, 166
macro and micro, 3:6
mortality, 2:409–410
about risk, 4:489–491
expected annual credit loss, 4:247
expected credit losses, 4:242, 247
expected excess return (EXR) in credit portfolio, 4:247–248
in relative value analysis, 4:250–253
in top-down approach to credit strategy, 4:261
and tracking error, 4:353–354
exchange funds, 2:356
Exchange Rate Mechanism, 3:76
exchange rate risk
and currency conversions, 5:370–377
and foreign cash receipts, 5:375–377
and loans, 5:370–375
risk of dual currency bonds, 5:377–380
swap strategies for managing, 5:370–380
exchange rates, 4:175–176
defined, 3:385
in emerging markets, 3:450
forecasts of, 3:99–102
capital flows, 3:101
government intervention, 3:103
in laddered portfolio, 4:106
in pooled investments, 3:430–433
in exchange-traded futures, in FX market, 3:420–421
business risk, in exchange-traded futures, 3:430–433
exclusionary screening, see negative screening
execution. see best execution
execution of portfolio decisions, 6:5–63
client’s interests, 6:47–49
importance of ethical focus, 6:49
expected returns
in asset-only allocation, 3:234
decomposition of, 4:23–26
evaluating yield curve trades with, 4:197–198
example, 4:25–26
limitations on, 4:26–27
Index

estimates of, \(3:11–12\)
and framing bias, \(3:367\)
in goals-based allocation, \(3:285\)
Gordon growth model, \(3:31–33\)
Grinold–Kroner approach, \(3:34–35\)
risk premium approach, \(3:36\)
and taxation, \(3:343, 345–346\)
unconditional, \(3:19–20\)
expected risk-adjusted performance, \(2:193, 194\)
expected tail loss (expected shortfall), \(4:488\)
expected value of concurrent returns, \(2:198\)
expenses
liquidity and, \(2:176\)
maximum out-of-pocket, \(2:421\)
going, \(2:176\)
pension, \(2:469\)
trading, \(6:177–178, 203, 238\)
transaction, \(6:206, 212, 238\)
travel, \(1:36–37, 39–40\)
expertise
in active equity investing portfolio construction, \(4:455–457\)
breadth of, in portfolio construction, \(4:459\)
expert knowledge, \(1:295\)
expert networks, \(1:67\)
experts, \(1:59–60\)
expiration
closing out prior to, \(2:342\)
time to, \(5:52\)
value at
bear spread, \(5:296–298\)
box spread, \(5:310, 311\)
bull spread, \(5:293, 295\)
butterfly spread, \(5:299–300, 302\)
call options, \(5:279–281, 285\)
collars, \(5:306\)
covered calls, \(5:286, 287\)
protective puts, \(5:290, 291\)
put options, \(5:282–285\)
straddles, \(5:307–309\)
explicit costs, \(6:25\)
explicit objective functions, \(4:471\)
exponentially weighted moving average (EWMA), \(4:463n.14\)
\textit{ex post} alpha, \(6:116–117\)
\textit{ex post} Capital Market Line, \(6:117\)
\textit{ex post} duration, \(8:224, 225\)
\textit{ex post} risk, \(3:18\)
\textit{ex post} Security Market Line, \(6:116–117\)
\textit{ex post} Sharpe ratio, \(6:117\)
\textit{ex post} standard deviation, \(6:197, 201\)
exposures. see risk exposure(s)
EXR. see expected excess return
extended portfolio assets and liabilities, \(3:181\)
extension risk, \(4:280\)
extensions of VaR, \(5:169–170\)
external accounts, in country risk analysis, \(3:78–79\)
external advisers, selecting, \(1:129\)
external cash flows at beginning/end of evaluation period, \(6:72–73\)
defined, \(6:71\)
GIPS definition, \(6:189n.20, 234\)
in GIPS provisions, \(6:168, 172–175\)
intraperiod, \(6:71–73\)
macro attribution, \(6:97–98\)
and performance evaluations, \(6:71–73\)
and rate-of-return calculations, \(6:71–73\)
and TWR vs. MWR, \(6:77–79\)
external constraints, \(3:336–342\)
endowments and foundations, \(3:339–340\)
insurance companies, \(3:337\)
pension funds, \(3:337–339\)
sovereign wealth funds, \(3:340\)
debt, in country risk analysis, \(3:79\)
externalities, \(3:73n.63\)
externally compensated assignments, \(1:113\)
external manager, travel expenses from, \(1:39–40\)
external valuations of real estate, \(6:206\)
extinguishing accrual notes, \(4:207\)
\textit{Extraordinary Popular Decisions and the Madness of Crowds} (Mackay), \(2:141\)
extreme market events, \(3:450\)
Eze Castle Integration, \(4:347\)
F
Fabozzi, Frank J., \(4:352, 5:219n.3\)
factor(s). see also specific factors
defined, \(4:391\)
factor-based allocation strategies, \(3:263–266\)
average equity investing, \(4:391–404\)
about, \(4:391–395\)
research for, \(4:401–404\)
scaling of, \(4:498\)
style factors, \(4:395–400\)
unconventional factors, \(4:400–401\)
modeling asset class risk, \(3:192–194\)
passive equity investing benchmark selection for, \(4:335–339\)
ETFs for, \(4:341\)
growth of, \(4:391\)
balancing in, \(3:219\)
factor betas, \(3:228–29\)
factor covariance matrix, \(3:228–30\)
factor exposures and active risk/Active Share, \(4:464\)
in portfolio construction, \(4:458\)
of well-constructed equities portfolio, \(4:500, 501\)
factor loadings, \(3:228–29\)
factor-mimicking portfolios (FMPs), \(4:395\)
factor-model-based benchmarks, \(6:85–86, 103\)
factor modeling, \(3:283\)
factor-neutral management style, \(4:464, 465\)
factor push models, \(5:172\)
factor sensitivities, \(3:28–29\)
factor-tilting portfolios, \(4:395\)
factor timing, \(4:401–404, 452\)
facts
opinions in reports vs., \(1:141, 209–210\)
providing opinions as, \(1:141\)
FactSet, \(4:347\)
factual presentations, misrepresentation and, \(1:46–47\)
failed investments, due diligence and, \(1:135\)
fair dealing
in AMC, \(1:242\)
with clients, \(1:90\)
between funds, \(1:86–87\)
and IPO distribution, \(1:87\)
and transaction allocation, \(1:87–88\)
Fair Dealing [Standard III(B)], \(1:82–90\)
application of the standard, \(1:86–90\)
case study, \(1:205\)
compliance procedures, \(1:84–86\)
developing firm policies, \(1:84–86\)
disclosure of level of service, \(1:86\)
disclosure of trade allocation procedures, \(1:86\)
systematic account reviews, \(1:86\)
guidance, \(1:82–84\)
investment action, \(1:83–84\)
investment recommendations, \(1:82–83\)
text of, \(1:177, 82\)
Fairfax, Susan (case study), \(2:188–194\)
Fair value
GIPS definition, \(6:206, 235\)
in GIPS provisions, \(6:167, 168, 206\)
in GIPS Valuation Principles, \(6:217\)
Fair Value Definition (GIPS Section II.A), \(6:217\)
fallen angels, \(5:97\)
Fama, E., \(4:336, 393, 395, 447n.2\)
Fama and French three-factor asset pricing model, \(2:144\)
Fama–French multi-risk-factor framework, \(2:38\)
familiarity bias (familiarity effect), \(2:123; 3:368–369\)
family accounts, \(1:80, 158, 160–161\)
family foundations, \(2:184–185, 487\)
family limited partnerships (FLPs), \(2:297–298, 339\)
family members, sale of private business equity to, \(2:360\)
Fannie Mae. see Federal National Mortgage Association
FAS 115. see Financial Accounting Standards Board
FASB. see Financial Accounting Standards Board
favorability, requested, \(1:155\)
FCMs. see futures commission merchants
FDI. see foreign direct investment
FDI. see foreign direct investment
Federal Deposit Insurance Corporation, \(2:520\)
federal funds rate (f Fed), \(3:64, 90\)
Federal Home Loan Mortgage Corporation (Freddie Mac), \(4:279\)
Federal National Mortgage Association (FNMA; Fannie Mae), \(4:174, 279\)
Federal Reserve economic data from, \(3:103\)
fed funds rate, \(3:64, 8\)

Flow of Funds Accounts of the United States-Z.1, \(3:159\)
and MBS, \(4:279\)
Federal Reserve (Continued)
monetary policy, 3:101
monetary policy in recessions, 3:60
and Orange County bankruptcy, 4:208
quantitative easing, 3:65
response to financial crisis, 3:75
and systematic risk, 5:229
and “Taper Tantrum,” 4:240
Federal Reserve Bank of New York,
3:331
Federal Reserve Bank of Philadelphia,
3:48
fed funds. see federal funds rate
Fed model, 3:148–151
as DCF model, 3:35
strengths and limitations, 3:161
with US data, 3:151
with UK data, 3:148–149
Yardini model vs., 3:162–163
feedback
and committee decision making, 2:137
and hindsight bias, 2:128
and overconfidence bias, 2:128
and research, 2:135
fees
Active Share as measure of, 4:463n.15
administration, 4:310
administrative, 6:203–204, 233
ad-valorem, 4:309
assets under management, 5:58–59
associated with annuities, 2:428
bundled, 6:178, 214–215, 233
and conflicts of interest, 1:151
custody, 4:310; 6:178, 234
depository, 4:310
for equity portfolios, 4:309–312
with exchange-traded instruments, 2:342
hedge fund, 1:277; 5:75
investment management, 6:169, 203, 235
management, 1:252; 4:309–310
performance, 4:310
platform, 4:311
private equity and venture capital fund,
1:278
referral (see Referral Fees [Standard VI(C)]),
registration, 4:310
with robo-advisers, 1:280
service, 1:40
upwards only, 4:310
fee schedule, 6:196, 235
Ferguson, Roger W., Jr., 4:359
fictitious name, 1:174
fiduciary, 2:473
fiduciary duty, 1:295
Fieldstein, Paul J., 4:326
files
current, maintaining, 1:26
of former employers, 1:110
final liquidation date, 6:211, 213, 235
Financial Accounting Standard (FAS),
15, 2:502n.22
Financial Accounting Standards Board
(FASB), 5:148, 149; 6:216
financial advice
for Active Accumulators, 2:116
on asset allocation, 2:84–86
for Friendly Followers, 2:115
for Independent Individualists,
2:115–116
for Passive Preservers, 2:114–115
Financial Analysts Federation, 6:154,
2:229
Financial Analysts Journal, 1:298
financial buyers, 2:358–359
financial capital, 2:386–390
account types, 2:390
core (see core capital)
defined, 2:382–383
excess (see excess capital)
human vs., 2:387
investment assets, 2:388
non-marketable assets, 2:389–390
employer pension plans, 2:389–390
government pensions, 2:390
non-publicly traded marketable assets,
2:388–389
annuities, 2:389
business assets, 2:389
cash-value life insurance, 2:389
collectibles, 2:389
real estate, 2:388
personal assets, 2:387
publicly traded marketable assets,
2:388
financial crises. see also specific crises
as exogenous shocks, 3:75
as liquidity risk, 4:274
financial crisis (2007–2009), see global
government goals, 1:282
Financial Industry Regulatory Authority
(FINRA), 2:41, 92–93
Financial Instruments: Recognition and
Measurement (IAS 39), 5:149
financial managed futures, 5:86
financial market equilibrium models,
3:40–48
financial market participants (FMPs),
2:52
financial market risk. see market risk
financial modeling, 1:9
Financial Modernization Act, 2:506–507
financial ownership, 5:14
financial review, of private equity,
5:44–45
financial risk, 1:206; 5:141
Financial Services Authority (FSA),
2:507; 4:505
financial stages of life, 2:392–394
career development phase, 2:393
early career phase, 2:392–393
early retirement phase, 2:393
education phase, 2:392
late retirement phase, 2:394
peak accumulation phase, 2:393
pre-retirement phase, 2:393
financial statements, 4:383; 5:45
Financial Times Stock Exchange Indices.
see indices beginning FTSE
financial wealth. see wealth
financial, 2:367
Finland
Eurozone membership, 3:9n.
in Hague Conference, 2:304
interest income taxation, 2:233
market value of ETFs, 4:343
mutual funds, 1:276n.
pension assets, 1:272
real returns on bonds, bills, and
equities in, 4:296
tax regime, 2:231, 156, 229
FINRA. see Financial Industry
Regulatory Authority
fire sale, 4:31
firewalls, 1:32, 61
firm policies in case studies, 1:202, 203, 205, 206,
208–210
for fair dealing, 1:84–86
on loyalty, prudence, and care, 1:77–78
firm results, overemphasis of, 1:53
firms
commitment to ethics by, 1:14
compliance with Code of Standards,
1:10
confidential information about, 1:115
GIPS compliance for, 6:155, 160,
164–166
GIPS definition, 6:235
informing, of referral arrangements,
1:163
knowledge of the law, 1:26–27
records as property of, 1:147
starting new, 1:112
total firm assets, 6:165–166, 238
venture capital, 5:30n.41
verification, 6:221–222
first-stage financing, 5:31
fiscal debt to GDP ratio, 3:78
fiscal policy
in business cycle analysis, 3:54, 67–68
in country risk analysis, 3:78
defined, 3:60
and government structural policies,
3:72–73
and monetary policy, 3:68
Fitch Ratings, 2:503; 4:96n.24, 234n.2
FIX communications technology, 6:41
fixed annuities
advantages and disadvantages of
variable and, 2:426–428
deferred, 2:424
immediate, 2:424–426
fixed-coupon bonds, 4:9
fixed-income arbitrage hedge fund
strategies, 5:57
fixed-income derivatives, 4:22
fixed-income investments. see also
bonds
and emerging market equities, 3:191
in pension funds, 3:351
performance attribution for, 6:109–115
total return of, 6:112–113
fixed-income mandates, 4:11–19
liability-based, 4:11–15
cash flow matching, 4:12–13
contingent immunization, 4:14
duration matching, 4:13–14
horizon matching, 4:14–15
total return, 4:15–19
active management, 4:17
pure/enhanced indexing, 4:16–17
fixed-income markets, discounted cash
flow models in, 3:35
fixed-income portfolio management, 4:5–44
about, 4:5–6
and bond market liquidity, 4:19–23
alternatives to direct investment in bonds, 4:22
among sub-sectors, 4:20–21
effects of, 4:21–22
portfolio construction, 4:21–22
pricing, 4:21
credit portfolios
credit spreads, 4:242–248
credit strategy approaches, 4:248–267
defined, 4:233
international, 4:275–278
liquidity risk, 4:268–273
structured financial instruments, 4:278–283
tail risk, 4:273–275
index-based investment strategies, 4:46, 96–108
benchmark selection, 4:102–105
laddered bond portfolios, 4:105–108
passive bond market exposure
methods, 4:96–102
leverage, 4:27–31
futures contracts, 4:28–29
methods, 4:28–31
repurchase agreements, 4:29–30
risks, 4:31
securities lending, 4:30–31
structured financial instruments, 4:29
swap agreements, 4:29
using, 4:27–28
liability-driven investing, 4:445–90
about, 4:45–50
for defined benefit pension plan, 4:76–86
interest rate immunization, 4:50–76
matching a portfolio to an index, 4:90–96
risks in, 4:86–90
mandates, 4:11–19
liability-based, 4:11–15
total return, 4:15–19
model for fixed-income returns, 4:23–27
decomposing expected returns, 4:23–26
estimation of inputs, 4:26
limitations of expected return decomposition, 4:26–27
practice problems, 4:37–41
roles of fixed-income securities in portfolios, 4:6–11
diversification, 4:6–8
inflation hedging, 4:9–10
regular cash flows, 4:8–9
solutions to problems, 4:42–44
taxation, 4:32–35
and investment vehicle choice, 4:33–34
principles of, 4:32–33
yield curve strategies, 4:125–232
about, 4:125–126
for changes in market level/slope/curvature, 4:141–151
foundational concepts, 4:126–134
framework for evaluating yield curve trades, 4:197–208
major types, 4:134–151
portfolio performance in multiple curve environments, 4:189–197
positioning strategy for a given market view, 4:152–175
practice problems, 4:212–222
solutions to problems, 4:223–232
for stable yield curve, 4:135–141
fixed-income portfolios
currency hedging for, 4:300
duration of, 5:363–366
fixed-income premiums, for capital market expectations, 3:36–38
fixed-income swaps, 4:29, 5:384–389
fixed-maturity corporate bond ETFs, 4:106
fixed-rate loans, 5:359–363
fixed trusts, 2:300
FIX Protocol, 4:348
flash reports, 1:85
Flat and Heavy Tax Regime, 2:230–232, 3:347
Flat and Light Tax Regime, 2:230–232, 3:347
flat tax structures, 2:227, 230–232
flexibility of annuities, 2:427
with exchange-traded instruments, 2:343
flexible-premium variable life insurance, 2:500n.20
floating-coupon bonds, 4:9
floating-rate bonds (floaters)
deleveraged, 4:207
inverted, 4:29, 207, 5:368–370
leveraged, 5:366–367
ratchet, 4:208
spread risk for, 4:236–237
floating-rate loans
with caps, 5:323–327
with collars, 5:329–333
converting fixed- and, 5:359–363
with floors, 5:327–329
with FRAs, 5:218–219
inverse, 5:368–370
leveraged floating-rate notes, 5:366–367
floating-rate notes (FRNs), 4:81
floor brokers, 6:8
floorlet payoff, 5:327, 328, 330, 331
floorlets, 5:327
floors, 5:327–329
Flow of Funds Accounts of the United States-Z.1, 3:160
FLPs. see family limited partnerships
FMPs. see factor-mimicking portfolios
financial market participants
FNMA. see Federal National Mortgage Association
Focardi, Sergio M., 4:352
focus, of analysis, 4:379
FOFs. see funds of funds
forced heirship rules, 2:274–276
forced liquidation, 4:31
Ford Credit, 5:197–198, 205
Ford Foundation, 2:490
Ford Motor Company
annual report, 5:196, 197, 204
debt and equity outstanding, 4:92
investment committee decision about, 2:137
forecasting, 4:379
forecasts, 2:125–136
asset class returns, 3:88–103
cash and equivalents, 3:88–89
common shares, 3:92–96
currencies, 3:99–100
defaultable debt, 3:91
demerging market bonds, 3:91
and forecasting exchange rates, 3:100–102
and historical capital market expectations, 3:97–99
inflation-indexed bonds, 3:92
nominal default-free bonds, 3:90–91
real estate, 3:96
biases in research for, 2:133–136
bottom-up, 3:142–147
earnings forecast revisions based on, 3:146–147
dividend earnings per share, 3:146, 147
portfolio suitability for, 3:144–145
top-down vs., 3:142, 145–147
using top-down forecasts with, 3:145–147
capital market expectations, 3:13–23, 43–45
and biases of analyst methods, 3:18–19
conditioning information, 3:19–20
correlations in, 3:20–21
data measurement errors and biases, 3:14–16
economic data, 3:13–14
and ex post risk, 3:18
and GNP vs. GDP, 3:14
with historical estimates, 3:16–18
and model uncertainty, 3:23
psychological traps with, 3:21–22
and conservatism bias, 2:54
economic, 3:80–88
checklist approach, 3:85–88
econometric modeling, 3:80–81
economic indicators, 3:81–86
strengths and weaknesses of forecasting, 3:88
equity market, 3:142–147
market EPS, 3:146, 147
portfolio suitability of, 3:144–145
types of forecasts, 3:141–143
using both forecasting approaches, 3:144–146
equity risk premium, 3:34–35
evaluating previous, 2:135
exchange rates, 3:100–101
capital flows, 3:101
government intervention, 3:103
purchasing power parity, 3:100
relative economic strength, 3:100–101
savings-investment imbalances, 3:101–102
USD/euro exchange rate, 3:102–103
management’s influence on analysis, 2:131–133
forecasts (Continued)
and overconfidence in forecasting skills, 2:126–131
case studies, 2:128, 130–131
remedial actions, 2:128–131
and representativeness bias, 2:58
returns, 3:34–35
top-down, 3:141–147
bottom-up vs., 3:142, 145–146
earnings forecast revisions based on, 3:146–147
of market earnings per share, 3:145, 147
portfolio suitability for, 3:144–145
using bottom-up forecasts with, 3:145–147
foreign assets, 3:392–394
foreign cash receipts, 3:392
foreign currency payments, 5:252–254
foreign-currency portfolios, asset composition in, 3:400
foreign-currency returns, 3:392
foreign currency risk, see currency risk
foreign debt to GDP ratio, 79
foreign direct investment (FDI), 101
foreign exchange (FX) market
exchange-traded futures in, 2:420–421
forward, 3:387–390
spot, 3:385–387
swap, 3:390–391
foreign exchange risk budgeting, 5:182–183
foreign-market asset portfolio, risk of, 5:254–258
foreign tax credit provisions for estate planning, 2:307–308
foreign trade, business cycle and, 3:60
formal constraints
limitations of, 4:491
risk management with, 4:487–489
formal tools for capital market expectations, 3:23–48
discounted cash flow models, 3:31–35
financial market equilibrium models, 3:40–48
and justification of capital market forecasts, 3:43–45
risk premium approach, 3:36–40
Singer–Terhaar approach, 3:40–48
statistical methods, 3:23–31
formative-stage companies, venture capital for, 5:30
former clients, soliciting, 1:109–114
former employers
documents and files of, 1:110
in performance presentation, 1:99
Fortune, 2:145
forward contracts (forwards), 4:138, 265, see also risk management applications of forward and futures strategies
basis risk with, 3:442n.34
currency management with, 3:420–427, 430, 431
hedge ratios, 3:421–424
roll yield, 3:424–426
futures vs., 3:420–421; 5:258–260
measuring credit risk of, 5:175–176
non-deliverable, 3:450–451
over-/under-hedging with, 3:431
prepaid variable, 2:330, 350
range (see collars)
repricing, 5:186
risk management applications of (see risk management applications of forward and futures strategies)
and swaps, 5:358
forward conversions with options, 2:345
forward curve, roll yield and, 3:424–425
forward FX rates, 4:179
forward justified P/E estimates, 3:135
forward markets, foreign exchange, 3:387–390
forward rate agreements (FRAs) hedging with, 5:214–215
loans with, 5:215–219
floating-rate loans, 5:218–219
single-payment loans, 5:215–218
forward rate bias, 3:413, 425
forward swaps, swaptions and, 5:404
foundation, case of life, 2:163
foundations as asset management clients, 1:275
defined, 2:302
endowments vs., 4:485
as estate planning tool, 2:302
external constraints for, 3:339–340
family, 2:184–185, 487
investment policy statements for, 2:488–489
portfolio management for, 2:484–489
legal and regulatory factors, 2:488
liquidity requirements, 2:486–487
return objectives, 2:486
risk objectives, 2:486
tax concerns, 2:487–488
time horizon, 2:487
unique circumstances, 2:488
401(k) plans, 2:120n.4
company stock in, 2:122–123, 484n.9
excessive trading in, 2:124
fourth market, 6:15n.5
fragmentation, 6:42
framing bias, 2:37–38, 65–67
in asset allocation, 3:367–368
consequences of, 2:67
detection and methods of overcoming, 2:67
diagnostic questions, 2:87
effect of, 2:65–66
and forecasting, 2:132–133
and loss-aversion bias, 2:72
and management’s influence on forecasts, 2:132–133
and overinvestment in company stock, 2:123
framing stage (prospect theory), 2:24–26
franc, Swiss
benefits of currency exposure for, 3:401n.11
currency code, 3:385
in currency pairs, 3:386
as haven currency, 3:449
synthetic dual-currency bond in, 5:379–380
France
CLII, 3:82
Conference Board index, 3:84
corporate form of publicly-traded companies, 3:35
defined-benefit pension plan, 2:473
domestic tax relief, 2:308
equity index futures contracts, 4:345
equity risk premium, 3:39
estate tax, 2:299
Eurozone membership, 3:9n.
expected returns for equities/bonds, 3:24
gift tax, 2:293, 295–296
in Hague Conference, 2:304
inflation-linked bonds, 4:9
long-term after-tax asset allocation, 2:293
market integration, 3:43
market value of ETFs, 4:342
mutual funds, 1:276n.
ownership of private business enterprises, 2:322
pension assets, 1:272
real estate market, 5:16, 25
real GDP growth rate, 3:32
real GDP growth rate vs. speculative-grade bond default rate, 4:258
real returns on bonds, bills, and equities in, 4:296
recognition of trusts, 2:274
tax-free gifts, 2:289
tax rates, 2:179
tax regime, 2:231, 347
trade partners, 3:83
wealth taxes, 2:306
franking, 2:228
Frank Russell Company, 6:85
FRAs, see forward rate agreements
fraud, 1:55
Frazzini, Andrea, 4:470n.23, 498
Freddie Mac, see Federal Home Loan Mortgage Corporation
Free Commission (UK), 2:473
free-float adjustment, 4:327
free-float weighting, 4:331
free rider problem, 4:313
French, K. R., 3:24, 326, 336, 393, 395, 447n.2
French Monthly Business Survey, 3:83
Friendly Followers, 2:115
FRNs, see floating-rate notes
frontier markets, 4:304, 305
front-loaded strategies, 6:44
front office, 5:139
front-running, 4:139
FTSE 100 Index
as basis for investment, 4:327
as benchmark, 4:449
and Fed model with UK data, 3:152
forecasting approaches for, 3:142
formulating CMEs from, 3:24
future contracts on, 4:345
HSBC Holdings in, 4:419
for synthetic index fund, 5:233, 235, 236
FTSE/Athens 20 Index, 4:345
Index

Gibney, Paul, 4:359
GICS. see Global Industry Classification Standard
gifts, 2:288–296
in AMC, 1:241
from clients, 1:39
and family foundations, 2:184–185
and forced heirship rules, 2:275
limiting, 1:36
location of gift tax liability, 2:293–296
from related parties, 1:38–39
taxable gifts, 2:291–293
taxes on, 2:277, 288
tax-free gifts, 2:289–291
and wealth transfer taxes, 2:182
Gilovich, Thomas, 2:55
GIM, see global investable market
Ginnie Mae, see Government National Mortgage Association
GIPS, see Global Investment Performance Standards
GIPS Advertising Guidelines, 6:192n.22, 219–221
GIPS Council, 6:157, 158
GIPS Executive Committee (EC), 6:157–160, 226, 229
GIPS Guidance Statement for Country-Specific Taxation Issues, 6:226
GIPS Guidance Statement on Composite Definition, 6:183, 185, 186, 189–190
GIPS Guidance Statement on the Treatment of Carve-Outs, 6:191n.21
GIPS Guidance Statement on the Treatment of Significant Cash Flows, 6:189
GIPS Guidance Statement on the Use of Supplemental Information, 6:184, 226
GIPS Handbook. see Global Investment Performance Standards Handbook
GIPS Valuation Principles, 6:216–219
disclosure requirements in, 6:194
fair and market value calculations, 6:167
for private equity investments, 6:213
for real estate investments, 6:206, 208
glide paths
asset allocation, 2:121
based on “120 minus your age” rule, 3:300
liability, 3:204
of life-cycle balanced fund, 3:182–183
in portfolio rebalancing, 3:355
Global Association of Risk Professionals (GARP), 5:181
Global Body of Investment Knowledge (GBIK), 1:298
global custodian, 5:140
asset allocation changes due to, 3:363
CLO spreads, 4:281
credit market structural changes following, 4:271
Fed and ECB response to, 3:66
and historical scenario analysis, 4:273, 274
liquidity in, 3:331, 368
and liquidity risk, 4:268–269
low interest rates caused by, 3:56–57
and 130/30 equity strategy, 4:508n.44
regional differences in effects, 4:275
and yen carry trade, 4:141
global fixed income (asset class), 3:191
global income tax structures, 2:226–232
common elements, 2:227–229
dimensions in tax planning, 2:232
general regimes, 2:229–232
international comparisons of income taxes, 2:227
Global Industry Classification Standard (GICS), 4:305, 306; 5:14
global investable market (GIM), 3:40
global Investment Performance Standards (GIPS), 1:129; 6:151–259
advertising guidelines, 6:219–221
after-tax return calculations, 6:226–229
background, 6:153–161
development of performance presentation standards, 6:156–157
governance of GIPS, 6:158
need for standards, 6:153–156
overview of standards, 6:158–161
defined, 6:152–153
glossary of terms, 6:233–239
keeping current with, 6:229–230
performance presentation with, 1:98
performance presentation without, 1:98
practice problems, 6:240–250
provisions, 6:161–216
Calculation Methodology (Section 1.2), 6:162, 169–181
Composite Construction (Section 1.3), 6:162, 181–191
Disclosure (Section 1.4), 6:162, 191–197
Fundamentals of Compliance (Section 1.0), 6:155, 162–166
Input Data (Section 1.1), 6:162, 166–169
overview, 6:161–163
Presentation and Reporting (Section 1.5), 6:162–163, 197–205
Private Equity (Section 1.7), 6:163, 205–212
Real Estate (Section 1.6), 6:163, 205–211
Wrap Fee/Separately Managed Account Portfolios (Section 1.7), 6:163, 214–216
solutions to problems, 6:251–259
TWR methodology for, 6:79
valuation principles, 6:216–219
disclosure requirements in, 6:194
fair and market value calculations, 6:167
for private equity investments, 6:213
for real estate investments, 6:206, 208
verification, 6:221–226
Globalization as challenge for investment management professionals, 1:301
and currency management, 3:383–384
global macro hedge fund strategies, 5:58, 74
global market portfolio, 3:302
in asset-only allocation, 3:200–201
to mitigate illusion of control bias, 3:365
in passive management, 3:210
Global Performance Presentation Standards Subcommittee, 6:157
global private equity, 3:190
global public equity, 3:190
global tactical asset allocation (GTAA), 3:209, 358n.18
GMO Quality Fund, 4:466
GNMA. see Government National Mortgage Association
GNP. see gross national product
goal-based planning, 2:334–337
goals and ability to take risk, 2:174–175
and adviser-client relations, 2:118
changes in, 3:352
classification of, 3:206–207
defining by individual investors, 3:284
describing clients’, 3:287–289
dynamic, 3:207
importance of, 3:206
of individuals vs. institutions, 3:284
negative, 3:288n.30
in portfolio management process, 1:282
revising strategic asset allocation for change in, 3:352
goals-based allocation, 3:204–209,
283–300
defined, 3:185
description of client goals for, 3:287–289
for institutional investors, 3:185–186
investment objectives of, 3:187
issues related to, 3:298–300
liability-relative allocation vs., 3:186
loss aversion in, 3:364
and mental accounting, 3:366
module process in, 3:294–298
overall portfolio in, 3:292–294
process for, 3:285–287
rebalancing, 3:309
rebalancing in, 3:219
revising overall asset allocation in, 3:298
risk concepts relevant to, 3:188
sub-portfolio construction for, 3:289–292
goals-based investing (GBI), 2:81–82,
3:185, 186
Goldman Sachs, 3:49
Goldman Sachs Commodity Index (GSCI), 5:109–110, 114, 123. see also S&P GSCI
Goldman Sachs Group, Inc., 5:162–166
Goldstein, Marc, 4:359
goodwill, 2:386n.2
Google, Inc.
benchmark price, 6:54
initial public offering of, 5:32–33
venture capital for, 5:39

Cumulative_Ind_L3 32

August 3, 2018 6:59 PM
Government bond portfolios, 5:
government bond futures contracts,
governing laws, regulations and, 
Government Pension Fund–Global 
on TAO
Government National Mortgage 
Gordon (constant) growth model for equity markets, 3:31–33 
and Fed model, 3:150 
governance. see also investment governance 
corporate, 4:312 
of GIPS, 6:158 
mitigating behavioral biases with, 3:369 
risk, 5:138–140 
structures for, 1:284 
governance audit, 1:284 
governance reporting, 1:287 
governing laws, regulations and, 1:201 
government bond futures contracts, 5:226 
government bond portfolios, 5:223–226
Government National Mortgage Association (Ginnie Mae; GNMA), 4:279 
Government of Singapore Investment Corporation, 1:274 
Government Pension Fund–Global Corporation (Norway), 1:274; 3:303 
government pensions, 2:390 
government policy(-ies) and business cycle, 3:61 
and exogenous shocks, 3:74 
structural, 3:72–73 
government regulations. see regulations government retirement benefits, 2:387 
GP. see general partners 
Graham, Benjamin, 1:296, 297; 4:383, 395 
Gramm-Leach-Bliley Act (1999), 2:520 
grandchildren, gifting to, 2:182, 184, 296 
Granger, Clive W. J., 1:478, 183, 184; 2:296, 297; 4:296, 297; 5:110 
guideline constraints, 2:67 
Granta, 2:183–184, 299–300 
gratuitous transfers charitable, 2:298–299 
of excess wealth, 2:288 
lifetime, 2:277 
Greece 
et equity index futures contracts, 4:345 
Eurozone membership, 3:9n. 
in Hague Conference, 2:304 
interest income taxation, 2:233 
tax regime, 2:231, 347 
Greenblatt, J., 4:386 
green bonds, 4:267 
Grinold, R. C., 4:456n.12 
Grinold–Kroner model, 3:33–35 
gross domestic product (GDP) in business cycles, 3:51 
in econometric modeling, 3:80 
and economic growth trends, 3:70–72 
fiscal debt to GDP ratio, 3:78 
foreign debt to GDP ratio, 3:79 
GNP vs., 3:14 
growth rate for, 3:32–33; 4:258 
nominal, 3:32 
real, 3:32–33 
gross domestic product (GDP) deflator, 2:492–493 
Grossman-Stiglitz paradox, 2:29 
gross national product (GNP), 3:14 
gross-of-fees return 
GIPS definition, 6:196, 235 
for real estate, 6:207 
gross premiums, of life insurance, 2:411–412 
group decision making, 1:129 
group research, 1:129, 132 
growth approach, 2:172 
growth at a reasonable price (GARP) investing, 4:386 
growth-based approach to equity investing about, 4:386 
benchmarked selection for, 4:329 
segmentation of investments for, 4:301–303 
traps for, 4:420 
value-based investing vs., 4:387–388 
Growth factor, 4:336, 399 
growth investing, fundamental 
anomalies and, 2:33–34 
growth stocks (growth equities) in holdings-based investment 
classification, 4:430 
performance of, 2:144 
total return index, 4:392 
growth trap, 4:420 
GSCI. see Goldman Sachs Commodity Index; S&P GSCI 
G-spread, 4:242–243 
GTA, see global tactical asset allocation 
guaranteed investment contracts, 2:504 
guaranteed minimum withdrawal benefit for life rider, 2:424 
Guardian (BBR classification), 2:110 
guideline constraints, 4:267 
Gulf Cooperation Council, 3:76 
Gupta, P., 4:428 

H 
Hague Conference on Private International Law, 2:304–305 
Hague Convention of the Law 
Applicable to Trusts and Their Recognition, 2:304–305 
halo effect, 2:144 
“handle,” currency quote, 3:386 
Hang Seng Index 
as benchmark for fundamental 
investment strategy, 4:415 
as equity market gauge, 4:91 
financial ratios for, 4:384 
futures contracts on, 4:345 
HSBC Holdings in, 4:419 
Hannan, Richard, 4:333 
Hartley, Joel, 4:359 
harvesting phase (private equity 
investments), 1:277–278 
haven currencies, 3:449 
Hayward, Paul, 2:346n.7 
health maintenance organization (HMO), 2:421 
health/medical insurance, 2:420–421 
in case study, 2:434 
direct costs of, 2:403n.3 
recommendations for, in case study, 2:438 
health risk, 2:403–404 

Heavy Capital Gain Tax Regime, 2:229–231, 347 
Heavy Dividend Tax Regime, 2:229–231, 235, 347 
Heavy Interest Tax Regime, 2:229–231, 347 
hedged equity strategies, 5:58 
hedged portfolio approach, 4:393 
Hedge Fund Composite Index (HFCI), 5:66, 110–111 
Hedge Fund Intelligence, 5:60, 61 
hedge fund market, 5:56–60 
size of, 5:60 
types of hedge fund investments, 5:57–59 
HedgeFund.net, 5:61 
Hedge Fund Research (HFR), 5:60, 61, 95. see also HFRX entries 
hedge funds, 5:55–64 
about, 5:55–56 
activist, 4:405–406 
in asset management industry, 1:277 
benchmarks, 5:60–62, 70–71 
benchmarks for, 6:91–94 
defined, 5:7 
due diligence, 5:76–78 
fund effects, 5:74–76 
historical performance, 5:62–67 
and institutional investors, 2:526 
translation issues, 5:67–71 
backfill bias, 5:70 
bias in index creation, 5:67–68 
relevance of past data on performance, 5:69 
stale price bias, 5:69–70 
survivorship bias, 5:69 
investment characteristics, 5:71–72 
investor size constraints for, 3:327 
performance evaluations, 5:78–84 
consistency, 5:82–84 
correlations, 5:82 
performance appraisal measures, 5:80–82 
skewness and kurtosis, 5:82 
volatility and downside volatility, 5:79–80 
in portfolios, 5:72–74 
hedge funds as diversifiers, 5:72–73 
historical performance, 5:73–74 
skewness and hedge funds, 5:74 
types of investments, 5:57–59 
hedge fund structure, distressed 
securities with, 5:94 
hedge ratios 
defined, 3:391 
with forward contracts, 3:421–424 
minimum-variance, 3:441–443 
hedges 
core, 3:444 
currency, 4:178–179 
delta, 3:415; 5:333–343 
dynamic, 3:422–424, 431 
inflation, 5:20; 53–54 
macro, 3:440 
natural, 3:445 
static, 3:422 
tail risk, 4:273–274 
Texas, 3:442n.34
hedging. see also currency hedging compared to other approaches, 3:280–281
currency exposure, 4:265, 278
defined, 3:270; 5:214
delta, 5:335–342, and G-spread, 4:242
inflation, 4:9–10, 299
interest rate, 4:86–88, 242–245 (see also immunization strategies) and liability-driven investing, 4:80–84 and liability-relative allocation, 3:276–279
over- and under-, 3:431
proxy, 3:438–440
of single-stock positions, 3:231, 348–354
cashless collars, 2:349–350
prepaid variable forwards, 2:350
purchasing of puts, 2:348–349
selecting best strategy, 2:352–354
with swaps, 5:362
tail risk, 4:274–275
hedging ratio, 4:81, 82, 84
Heine, Max L., 5:94
heirs, forced heirship rules, 2:274–276
HEPI. see Higher Education Price Index
herding behavior, 2:280, 140
Herfindahl–Hirschman Index (HHI), 4:332–333
Herstatt risk, 5:145–146
heuristic constraints, 4:486–487
heuristics, 2:22n.13, 23, 67; 4:471
HFCL. see Hedge Fund Composite Index
HFR. see Hedge Fund Research
HFRX Activist Index, 4:408–409
HFRX Convertible Arbitrage Index, 5:68
HFRX Distressed/Restructuring Index, 5:68, 95–97
HFRX Equal Weighted Strategies Index, 5:68
HFRX Equity Hedge Index, 5:68
HFRX Equity Market Neutral Index, 5:68
HFRX Event Driven Index, 5:68
HFRX Fixed Income-Credit Index, 5:96
HFRX indexes, 5:61, 68
HFRX Merger Arbitrage Index, 5:68
HHI. see Herfindahl–Hirschman Index
HICP. see Eurozone Harmonized Index of Consumer Prices
hidden order, 6:8–9
Higher Education Price Index (HEPI), 2:492–493
highest-in, first-out (HIFO) tax lot accounting, 2:258
highest requirement, following, 1:28
high-net-worth investors (HNWI), 2:272–273. see also portfolio management, for individual investors
high-quality value investing style, 4:385
high-water mark (HWM), 4:310; 5:59
high-wealth-level investor with emotional biases (case study), 2:88–92
behaviorally-modified portfolio decision, 2:92
diagnostic tests, 2:89–91
effect of biases, 2:91
moderate or adapt recommendation, 2:91–92
high-yield (HY) bonds defined, 4:234
expected return and taxation of, 3:345–346
strategic asset allocation for, 3:348–350
high-yield corporate bond portfolios credit mitigation risk, 4:236
credit risk, 4:235–236
interest rate risk, 4:237–240
liquidity and trading, 4:240–241
spread risk, 4:236–237
high-yield investing, 5:98
Hill, Joanne M., 4:355
hindsight bias, 2:62
of analysts, 2:127
in asset allocation, 3:365
consequences of, 2:62
detection and methods of overcoming, 2:62–63
diagnostic questions, 2:87
and market bubbles, 2:143
overcoming, 2:128
and regret, 2:141
historical analysis for asset allocation, 2:282
of beta relative to the account, 6:90 and capital market expectations, 3:7, 10, 11
Grinold–Kroner model, 3:33–35
historical data in Monte Carlo simulations, 2:199
in quantitative analysis, 4:380
historical estimates, capital market expectations from, 3:16–18
historical method of calculating VaR, 5:159–166
historical scenario analysis, 4:273–274
historical simulation method, 5:160–162
historical statistical approach to formulating CMEs, 3:24–25
hitting the bid, 3:387
HK Monetary Authority, 1:274
HMO. see health maintenance organization
H-model for estimating P/E, 3:133–140
HNW1. see high-net-worth investors
holding period and asset location, 2:253
and capital gains tax rate, 2:236
holding period management, 2:258–260
holding period rate of return, 4:56
holdings-based style analysis, 4:428–431
size classifications for, 4:429–430
strengths and limitations of, 4:435
value, growth, and core classifications, 4:430–431
holistic balance sheet. see economic balance sheet
home bias (home-country bias) in asset-only allocation, 3:201
and availability bias, 3:368
and currency management, 3:384
in portfolio construction, 2:124
and value vs. growth stocks, 2:144–145
home currency, 3:391
home equity, 2:177–178
homeowner’s insurance, 2:418–420
homestead, 2:177
Hong Kong dollar, 4:278
Hong Kong SAR. see Equity Index Futures Contracts
market value of ETFs, 4:342
pension assets, 1:272
regulatory constraints in, 3:327
Hong Kong Stock Exchange, 4:419
Hood, Randolph, 4:326
Horan, Stephen M., 2:337
horizon matching, 4:14–15
horizon yield, 4:56
hot issue securities, 1:84
Hotspot FX, 6:15, 42
household savings rate, 3:61
house money effect, 2:71
HSBC Holdings, 4:419–420
H-Shares Index, 4:345
Hsu, Jason, 4:337
Hua, R. H., 4:423
human capital defined, 2:382
diversification of investments in, 2:483–484
in economic balance sheets, 2:396–397
effect of, on asset allocation policy, 2:440–443
financial vs., 3:387
government structural policies, 3:73 as implied asset, 2:279
in life-cycle balanced funds, 3:181–183
in mean–variance optimization, 3:241–243
in net wealth, 2:399–400
“120 minus your age” rule, 3:300
in risk management for individual investors, 2:383–386
in time horizon, 3:333
human capital risk, 2:442–443
human life value method of calculating life insurance needs, 2:412
in case study, 2:435–438
human resources, in AMC, 1:248
Humphrey-Hawkins report, 3:149
Hungary, 2:231, 304, 306, 347
Hunjan, Manny, 4:464
hunter strategies, 6:45
hurdle rate, 5:35
HWM. see high-water mark
HY bonds. see high-yield bonds
hybrid markets, 6:17
hybrid pension plans, 2:463, 483–484
hyperbolic discounting, 2:76
hypothetical scenario analysis, 4:273–274; 5:171
I
IAS. see International Accounting Standards
IAS (39). see International Accounting Standards
IASB. see International Accounting Standards Board
IBEX 35 Index, 4:345
IBM, 1:279, 5:161–162
Ibovespa, 4:345
Index
implicit advice, 2:123
implicit costs, 4:493–495
implied annual capital gains tax rate, 3:343n.11
implied forward rate, 4:154
implied yield, bond, 5:221
inadequate compliance procedures, 1:124
inadequate supervision, 1:124–125
incentives for analysts, 2:128
establishing, 1:122
for overinvestment in company stock, 2:123
incident-reporting procedures, 1:109
inclusion bias, 5:70
income for banks, 2:522
and consumption, 3:69–70
corporate share of, 2:506
dividend from equities in portfolio, 4:297
in equity portfolio, 4:307–308
taxation of, 3:342
from dividends, 2:228
in ecomometric modeling, 3:81
endowment spending based on, 2:490
from equity portfolio, 4:307–309
expected return for, 3:34
interest (see interest income)
et investment, 2:487–488
and objectives for concentrated positions, 2:28
pension, 2:469
permanent income hypothesis, 3:69–70
policyholder’s share of, 2:506
from private equity and venture capital funds, 1:278
securities lending, 4:308
taxation of interest, 3:342
unrelated business, 2:487, 495
yield, 4:23
income approach, 2:172
income beneficiaries of trusts, 3:184–185
income investing style, 4:385
income returns, 6:206, 235
income taxes, 2:347
cross-border estate planning, 2:305–306
in estate planning, 2:276
and gains taxes, 2:181–182
global structures, 2:226–232
common elements, 2:227–229
dimensions in tax planning, 2:232
general regimes, 2:229–232
international comparisons of income taxes, 2:227
and investment policy statements, 2:179
income yield, for immediate fixed annuities, 2:424–425
incremental value at risk (IVaR), 4:488;
5:169–170
indemnity plan, as health/medical insurance, 2:421
independence, in AMC, 1:241
Independence and Objectivity
[Standard I(B)], 1:30–42
application of the standard, 1:36–42
compliance procedures, 1:35–36
guidance, 1:30–35
buy-side clients, 1:31
credit rating agency opinions, 1:33–34
fund manager and custodial relationships, 1:32
influence in manager selection/procurement process, 1:34
investment banking relationships, 1:32–33
issuer-paid research, 1:34–35
performance measurement and attribution, 1:33
public companies, 1:33
case funded, 1:35
test of, 1:16
30 Independence axiom utility theory, 2:9
independence policies, 1:56
independent analysis, 1:69
independent contractors, employees vs., 1:108–109
independent events, emotional biases about, 2:133
independent foundations, 2:484–485
independent Individualists, 2:115–116
independent practice, 1:106
independent professional judgment, 1:207–208
index-based investment, for fixed-income portfolios, 4:46, 96–108
benchmark selection, 4:102–105
laddered bond portfolios, 4:105–108
passive bond market exposure methods, 4:96–102
indexes. see also *specific indexes*
cal-cap, 4:329
as basis for investment, 4:327–328
broad market, 6:84–85
buffering, 4:328
capitalization-weighted, 4:330–333
closet, 4:315–316, 465
congestion of, 4:332–333
construction methodologies for, 4:330–335
diffusion, 3:82
effective number of stocks in, 4:333–334
equally-weighted, 4:331–332, 338
equity style, 4:307
exhaustive stock inclusion methods for, 4:330
fundamental-weighted, 4:332
hedge fund, 5:61–62, 68
investability of, 4:327–328, 5:62
investment style, 6:85
limitations of data on, 3:13, 14
manager-based hedge fund, 5:61–62
managing to, 1:93
packaging of, 4:328
in passive and active management, 3:210–211
price-weighted, 4:331
re-basing of, 3:14
reconstitution, 4:334–335
selective stock inclusion methods for, 4:330
"smid-cap," 4:329
style, 6:85
types of, 6:84–85
volatility weighted, 3:359; 4:334, 338
Index funds
efficient market hypothesis and, 6:22
synthetic, 5:233–236
indexing
in bottom-up portfolio construction, 4:257
enhanced
and bond market exposure, 4:91–92
ESG considerations, 4:97
and fixed-income portfolio management, 4:16–17
and fixed-income portfolio management, 4:16–17
fundamental factor, 4:337
passive equity investing vs., 4:325
risk factors, 4:93–94
Index-Linked Gilts (ILGs), 93–94
India
individual behavior, 15–17
economic
394–400
2:
402–403
indirect loss, of property, 400–405
indirect investment
see also
efficient market hypothesis and, 6:22
risk factors, 325
fundamental factor, 2:
9
and fixed-income portfolio
management, 4:17–17
and fixed-income portfolio
management, 4:16–17
indirect investment
in commodities, 5:46–47
of venture capital, 5:34–35
indirect loss, of property, 2:402–403
individual balance sheet, 2:394–400
changes in net wealth, 2:397–400
economic (holistic) balance sheet,
2:396–397
traditional balance sheet, 2:395–396
individual behavior, 2:7–20
in behavioral finance, 2:14–19
attitudes toward risk, 2:17–19
challenges to rational economic man, 2:15
utility maximization, 2:15–17
BFMA and BFMI, 2:7–8
and neuro-economics, 2:19–20
in traditional finance, 2:8–14
perfect rationality, self-interest, and information, 2:12
rational economic man, 2:11–12
risk aversion, 2:13–14
utility theory and Bayes' formula, 2:8–11
individual investors.
see also constraints of individual investors; portfolio management, for individual investors; risk management, for individual investors
in asset management industry, 1:271
asset size as constraint for, 3:327
changing liabilities of, 3:333
CME research, 3:8
extended portfolio assets and liabilities of, 3:181
goals-based allocation for, 3:283–284
goals of, 3:352
investment objectives of, 1:284
liabilities for, 3:186
Individualist (BB&K classification), 2:110
Individualist investors, 2:169
individual local market, 3:42
Individual Retirement Accounts (IRAs), 2:246
individual risk exposures, 2:400–405
earnings risk, 2:400–401
health risk, 2:403–404
liability risk, 2:403
longevity risk, 2:402
premature death risk, 2:401
property risk, 2:402–403
Indonesia
Asian currency crisis (1997), 3:331
tax regime, 2:231, 347
trade partners, 3:83
industry(-ies)
in fundamental active investment strategy, 4:145
top-down equity investing strategies
based on, 4:389
Industry Classification Benchmark (ICB), see FTSE Industry Classification Benchmark
industry experts, 1:59–60
industry sectors. see economic sectors inertia
2:77, 120–121
inferential statistics, 3:23
inflation
and ALM, 4:47
and annuity income, 2:428
in business cycle analysis, 3:55–59
and nominal default-free bonds, 3:90–91
and P/E ratios, 3:96
reducing risk factor exposure to, 3:194
and returns for endowments,
2:492–494
inflation hedges
commodities as, 5:53–54
equities as, 4:299
fixed-income securities as, 4:9–10
real estate as, 5:20
inflation-indexed bonds, 3:92–93
inflation-linked bonds, 4:9–10, 48
inflation premiums, 3:36–38
inflation risk, 2:324
inflation point, inventory cycle, 3:52
information, 4:378–379
account, 1:77
on applicable laws, 1:27
from brokers, 6:18
for capital market expectations, 3:8–10
conditioning, 3:19–20
confidential
about CFA program, 1:165–166
about firms, 1:115
conveying, 1:203
disclosing, 1:103–105
possessing, 1:103
considering, before taking action, 1:77
dissemination simultaneous, 1:85
time frame between decision and, 1:84–85
trading prior to, 1:161–162
for economic analysis, 3:104–105
insider, 1:208–209
and market liquidity, 6:20
material, 1:57
in AMC, 1:251
analyst recommendations as, 1:65–66
selective disclosure of, 1:64
material nonpublic (see material nonpublic information)
misrepresentation of (see misrepresentation)
nonpublic, 1:58, 63–66, 158
acting on, 1:63
analyst recommendations as, 1:65–66
controlling, 1:64
defined, 1:58
standards for priority of transactions with, 1:128
out-of-date, 1:52–53
perfect, 2:12, 15
supplemental, 6:184, 238
third-party confirmation of, 1:247–248
verification of outside, 1:47
informational advantage, 4:266
information-based manipulation, 1:68
72–73
information coefficient (IC)
in back-testing of quantitative investment strategy, 4:422–423
in fundamental law of active management, 4:456
information-motivated traders, 6:33–35
information-processing biases, 2:63–69
anchoring and adjustment bias, 2:63–64, 94–95, 332
consequences of, 2:63
detection and methods of overcoming, 2:63–64
diagnostic questions, 2:87, 93
and forecasting, 2:132–133
and market bubbles, 2:143
and momentum effect, 2:140
availability bias, 2:67–69, 332; 3:368
of analysts, 2:126, 128
and asset allocation, 3:368–369
consequences of, 2:68
detection and methods of overcoming, 2:69
diagnostic questions, 2:87
and forecasting, 2:132
in fundamental investing, 4:417–418
and momentum effect, 2:140
in asset allocation, 3:367–368
consequences of, 2:67
detection and methods of overcoming, 2:67
diagnostic questions, 2:87
effect of, 2:65–66
and forecasting, 2:132–133
and loss-aversion bias, 2:72
and management's influence on forecasts, 2:132–133
and overinvestment in company stock, 2:123
mental accounting bias, 2:64–65, 94–95, 3:365
and asset allocation, 3:365–366
Index

consequences, 264
and consumption/savings, 237–38
detection and methods of
overcoming, 264–65
diagnostic questions, 237, 93–94
diversity and diversification, 2124–125
information ratio (IR), 5183; 6118–119
infrastructure, 373
infrastructure funds, 514, 15
Inger family (case study), 2159–162,
164–165, 170–171, 173–175, 177,
178, 184–187, 194–196
inheritance, 2277
inheritance tax, 2277n.8, 288
inherited securities, endowment bias
and, 278, 79
initial public offerings, 2361
initial public offerings (IPOs)
and conflicts of interest, 1158–159
dealings in, 1187
Google, Inc., 532–33
private equity for, 530
initial recovery phase (business cycle),
353, 54
Input Data (GIPS Section I.1),
6166–169
excerpt of, 6162
implementation of, 6169
inputs, model, 172
input uncertainty, 323
inside ask, 610–11
inside bid, 610
inside bid–ask spread, 611
inside buildup of cash values, 2506
inside quote, 611
insider exposure, 5387–389
insider information, 1208–209
insider status, 2190
inside spread, 611
Institute of Chartered Financial
Analysts, 6156
Institute of Supply Management (ISM),
362, 84, 104
institutional constraints, on
concentrated positions, 2329–330
institutional investors
in asset management industry,
1272–275
CME research, 38
constraints, 3327
defined, 2462
extended portfolio assets and liabilities
of, 3181
goals-based allocation for, 3185–186
goals of, 3284, 352
liabilities for, 3186, 269
liquidity requirements
banks, 2523
defined-benefit plans, 2472–473
downstrokes, 2495
foundations, 2488
life insurance companies, 2506–508
non-life insurance companies, 2517
and loss aversion, 3364
portfolio management for, 2461–544
about, 2462
banks, 2519–526
downstrokes, 2489–499
foundations, 2484–489
insurance industry, 2499–519
investment intermediaries,
2506–527
pension funds, 2463–484
practice problems, 2530–536
solutions to problems, 2537–544
portfolio rebalancing for, 3346–347
Institutional Shareholder Services, 4360
in-substance defeasance, 463; see also
accounting defeasance
insurable interest, for life insurance,
2408
insurance(s)
disability income insurance, 2417–418
health/medical, 2420–421
in case study, 2434
direct costs of, 2463n.3
recommendations for, in case study,
2438
health/medical insurance, 2420–421
liability insurance, 2421–422
life insurance, 2405–416
in case study, 2434–438
elements of, 2407–409
as estate planning tool, 2302–303
participating vs. non-participating
policies, 2406–407
pricing of, 2409–415
iders on, 2407
types of, 2406–407
uses of, 2406
other types of, 2422
property insurance, 2418–420
automobile insurance, 2420
homeowner’s insurance, 2418–420
insurance, protective puts as, 5292
insurance companies, 1274
in asset allocation constraints, 3337
integrated asset–liability approach for,
3279
life insurance
investment policy statements for,
2508–511
legal and regulatory factors, 2506–508
liquidity requirements, 2505–506
portfolio management for, 2499–511
return objectives, 2503–505
risk objectives, 2501–503
tax concerns, 2506
unique circumstances, 2508
non-life insurance, 2511–519
legal and regulatory factors, 2517
liquidity requirements, 2515
portfolio policy determination, 2517
return objectives, 2513–515
risk objectives, 2512–513
tax concerns, 2516–517
time horizon, 2515–516
insurance industry
life insurance companies, 2499–511
non-life insurance companies,
2511–519
portfolio management for, 2499–519
insurance program analysis, 2433–440
current insurance plan in, 2434
program review in, 2434–438
recommendations from, 2438–440
integrated asset–liability approach,
3279–280
compared to other approaches,
3280–281
defined, 3270
integrated markets, 342–43
integrity, 155, 169; 620
Integrity of Capital Markets [Standard
of Professional Conduct II], 156–73
eleventh edition revision, I7
Market Manipulation [Standard II(B)],
116, 68–73
application of the standard, 169–73
guidance, 168–69
text of, 116, 68
Material Nonpublic Information
[Standard II(A)], 116, 56–67
application of the standard, 163–67
case study, 1208–209
compliance procedures, 160–63
guidance, 156–60
text of, 116, 56
text of, 116
Intel Corporation, 539
intellectual property, 544
Intercontinental Exchange (ICE), 474,
101
interdepartmental communications, 161
interdepartmental referral arrangements,
disclosure of, 1163
interest
accrual taxes on, 2233–234
charged, 1270, 278, 6212, 233
for alternative asset managers, 1270
defined, 6233
with private equity and venture
capital funds, 1278
for private equity managers, 535
returns after deducting, 6212
dilution of, 545
effective
with call, 5314, 316
with cap, 5324–326
with collar, 5331, 332
with floor, 5328, 329
with put, 5319–321
insurable, 2408
net interest margin, 2521
net interest spread, 2503
retained, 2184–185
short, 3359
in tax regimes, 2229–232, 347
interest income
accrual taxes on, 2233–234
and asset location, 2253
heavy interest tax regime, 2229–231
taxation of, 2227–228, 3342
interest-only strips (IOs), 4143n.12
interest rate(s)
and currency exposure management,
4264–265
and currency risk, 4278
and duration management, 4141
and duration matching, 413
and exchange rate, 375–77, 100
and inflation-linked bonds, 49
long-term real risk-free, 337
and monetary policy, 363, 65–66
negative, 365–67
interest rate(s) (Continued)
neutral level of, 3:63
nominal, 3:36; 4:9
portfolio positioning in anticipation of
change in, 4:155–157
real, 3:37, 3:98; 4:9
risk-free, 3:36, 37; 4:237, 238
uncovered interest rate parity theorem,
3:412
volatility, 4:245
interest rate calls, loans with, 5:315–318
interest rate derivatives
for duration management, 4:143–145
for immunizing multiple liabilities,
4:71–74
interest rate differential notes, 4:208
interest rate exposure
managing, 4:265
measuring, 4:263–264
interest rate management effect, 6:113
interest rate options
and options on futures, 5:344
risk management applications, 5:312–333
calls with borrowing, 5:313–318
caps with floating-rate loans, 5:323–327
collars with floating-rate loan,
5:329–337
floor with floating-rate loan,
5:327–329
puts with lending, 5:318–323
interest rate risk
banks’ management of, 2:521
in corporate bond portfolios, 4:237–240
forward and futures strategies for
managing, 5:215–227
and future market expectations, 2:427
immunization (see immunization
strategies)
for insurance companies, 2:501–502
with liability-driven investing, 4:86–90
MBS and, 4:280
swap strategies for managing,
5:359–370
converting floating- and fixed-rate
loans, 5:359–363
duration of fixed-income portfolios,
5:363–366
risk of structured notes, 5:366–370
interest rate swaps, 4:22, 29
currency swaps vs., 5:374
for DB pension plan derivatives
strategy, 4:80–86
and duration management, 4:144–145
uncollateralized, 4:87–88
interest rate swaptions, 5:390–397
in anticipation of future borrowing,
5:390–394
terminating swaps with, 5:394–397
interest rate volatility, Z-spread and,
4:245
interest tests
client, 1:78, 240–241; 6:47–49 (see also
conflicts of interest)
minority, 2:297; 5:39, 40
non-controlling, 2:339
perfect self-interest, 2:12
interest spread, 2:521
intergenerational equity, 2:486
inter-market carry trades, 4:137–139
inter-market curve strategies, 4:175–188
convergence trades, 4:176–178
and currency hedges, 4:178–179
and currency market spreads,
4:176–176
trade decision-making examples,
4:179–188
internal capital requirements, in capital
allocation, 5:191
internal dispersion, 6:196–201, 235
internal rate of return (IRR),
6:76–79
linked, 6:79–80
modified, 6:171–173
money-weighted rate of return,
6:76–79
of private equity, 5:39
for real estate, 6:208–211
since inception, 6:208–211, 213–214,
238
Internal Revenue Code, 2:488, 495
Internal Revenue Service (IRS), 2:487
International Accounting Standard 39
(IAS 39), 5:149
International Accounting Standards
Board (IASB), 5:148, 149, 6:216
international CAPM-based approach
(ICAPM), 3:40–48
international credit portfolios,
4:275–278
currency risk, 4:278
emerging markets credit, 4:277
legal risk, 4:278
liquidity considerations, 4:278
relative value in, 4:275–277
international currency exposure,
3:391–394
international diversification, 5:382–384
International Financial Reporting
Standards (IFRS), 6:208
international interactions in economic
analysis, 3:75–80
for emerging markets, 3:77–80
interest rate/exchange rate linkages,
3:75–77
macroeconomic linkages, 3:75
International Monetary Fund (IMF),
3:77, 104; 5:149
International Securities Exchange, 6:15, 42
International Securities Lending
Association, 4:358
International Swaps and Derivatives
Association (ISDA), 4:87–88
Interpretations Subcommittee, 6:158
interest rate parity, 4:237
intra-day trading, 4:354–355
intrafirm pressure, 1:37, 42
intra-market carry trades, 4:136–137
intraperiod external cash flows, 6:71–73
intrinsic value, currency option, 3:428
introduction (investment policy
statement), 4:287
inventory cycle, 3:51, 52
inventory/sales ratio, 3:52
inverse floaters, 4:29, 207; 5:368–370
investability
of benchmarks, 6:83, 88
of hedge fund indexes, 5:68
of indexes, 4:327–328
of manager-based hedge fund indexes,
5:62
investing process, 4:405
investment(s)
alternative (see alternative investments)
direct, 3:101, 5:34, 46
in econometric modeling, 3:81
and economic growth, 3:70–71
eligible, 2:507
failed, 1:135
indexes as basis for, 4:327–328
indirect, 5:34–35, 46–47
liability-driven, 4:11 (see also
liability-based mandates; liability-driven
investing)
locked up, 3:43
long-term, 2:59
offshore, 2:185
operating, 2:476–477
poled, 4:339–343
restricting, 1:36
traditional vs. alternative, 5:7–13
zero risk, 5:189
investment accounts. see account(s)
investment actions. see also Investment
Analysis, Recommendations, and
Actions [Standard of Professional
Conduct V]
in AMC, 1:238, 241–244
fair dealing in, 1:83–84
firm policies on, 1:77
impact of, 1:12–13
unethical, 1:29
investment analysis
due diligence in, 1:33
independent, 1:69
risks and limitations of, 1:139–140,
145–146
Investment Analysis, Recommendations,
and Actions [Standard of Professional
Conduct V], 1:126–148
Communication with Clients and
Prospective Clients [Standard V(B)]
application of the standard,
1:141–146
case study, 1:209–210
compliance procedures, 1:140–141
eleventh edition revision, 1:8
guidance, 1:138–140
text of, 1:18, 137–138
Diligence and Reasonable Basis
[Standard V(A)], 1:126–137
application of the standard,
1:130–137
case study, 1:207–209
compliance procedures, 1:130
guidance, 1:126–129
text of, 1:18, 126
Index

Record Retention [Standard V(C)], 1:146–148
application of the standard, 1:148
compliance procedures, 1:147
guidance, 1:146–147
text of, 1:18, 146
investment assets, 2:388
investment banking, 1:32–33;
2:519–520
investment committees, 1:284; 2:137;
3:354
Investment Company Act (1940), 496
investment currencies, 3:414
Investment Company Act (1940), 496
investment governance, 1:388
investment grade (IG) bonds
expected return and taxation of, 1:284–285
case examples, 1:289–291
governanceaudit, 1:288–289
governance structures, 1:284
investment policy statement, 1:287
rebalancing policy, 1:288
reporting framework, 1:288
investment governance, 1:283–292
allocation of rights and responsibilities, 1:285–287
articulating investment objectives, 1:284–285
case examples, 1:289–291
governance audit, 1:288–289
governance structures, 1:284
investment policy statement, 1:287
rebalancing policy, 1:288
reporting framework, 1:288
investment grade (IG) bonds defined, 4:224
expected return and taxation of, 3:345–346
strategic asset location for, 3:348–350
investment-grade corporate bond portfolios
credit mitigation risk, 4:236
credit risk, 4:235–236
interest rate risk, 4:237–240
liquidity and trading, 4:240–241
spread risk, 4:236–237
investment income
net, 2:487–488
from private equity and venture capital funds, 1:278
investment industry, ethics in, 1:111–115
see also ethics
investment instruments, asset allocation
and, 2:196
investment intermediaries, 2:526–527
investment management
capacity required for, 1:286
governance vs. 1:284
knowledge required for, 1:286
large and small assets in, 3:325–326
professionalism in, 1:296–298
trust in, 1:297
Investment Management Consultants
Association (IMCA), 6:156
investment management fees, 6:169,
203, 235
investment management professionals,
1:293–304
about, 1:293–294
challenges for, 1:300–301
characteristics of professions, 1:294–296
expectations of, 1:299–300
practice problems, 1:303
professionalism in investment
management, 1:296–298
solutions, 1:304
investment managers, on performance
evaluation, 6:70
Investment Managers strategy, 6:101–102
Investment Manager Subcommittee, 6:158
investment multiple, 6:211, 236
investment objectives
in asset allocation, 3:187
of defined benefit pension fund, 1:284, 285
of endowment fund, 1:284, 285
establishing, 1:77
in governance, 1:284–285
of individual investors, 1:284
in investment policy statements, 1:287
in IPSs, 1:93, 148
and risk tolerance, 1:285
investment opportunity set, availability
bias and, 2:68
Investment Performance Council (IPC),
6:157, 222
investment personnel, see personnel
investment policy, performance
evaluation in, 6:69
investment policy statements (IPSs)
and AMC, 1:243–244
and asset allocation, 2:189–191
behaviorally-modified asset allocation
for, 2:81–92
in compliance procedures, 1:93
in currency management programs,
3:406–408
currency management strategies based
on, 3:397–398
developing, 1:91
governance, 1:287
for individual investors, 2:171–187
constraints, 2:176–187
return objectives, 2:172–174
risk objectives, 2:174–175
for institutional investors
banks, 2:524–526
defined-contribution pension plans,
2:478–482
endowments, 2:496–499
foundations, 2:488–489
life insurance companies, 2:508–511
non-life insurance companies,
2:518–519
investment restrictions in, 6:182–183
in portfolio management process,
1:283
portfolio return calculation provisions
in, 6:175–176
record retention of objectives/
recommendations in, 1:148
requirements and limitations of,
1:95–96
reviews of, 1:96
updating, 1:92
investment practice, impact of
misrepresentation on, 1:44
investment process. see also behavioral
factors in investment processes
changes to, 1:142–144
disclosure of, 1:252
fundamental vs. quantitative,
4:378–379
informing clients of, 1:138–139
Investment Processes and Actions
(AMC Part B), 1:238, 241–244
investment products
applicable laws for, 1:23–25
in asset management industry,
1:275–278
Investment Property Databank (IPD),
5:16
investment real estate
about, 2:366
client objectives with, 2:328
concentrated positions in, 2:324,
366–369
monetization strategies, 2:367–369
donor-advised funds, 2:367–368
mortgage financing, 2:367
sale and leaseback, 2:368–369
investment risk
with concentrated single-asset
positions, 2:324–327
and taxes, 2:290–251
investment services,of brokers, 6:18
investment size, 4:301–303
investment skill, 6:115
investment strategies. see also specific
strategies
active equity investing
activist strategies, 4:404–411
bottom-up strategies, 4:381–388
event-driven strategies, 4:413–414
factor-based strategies, 4:391–404
fundamental strategy creation,
4:414–420
fundamental vs. quantitative
approaches, 4:376–381
investment style classification,
4:427–436
market microstructure-based
strategies, 4:413
quantitative strategy creation,
4:420–427
statistical arbitrage-based strategies,
4:411–412
top-down strategies, 4:388–391
types, 4:381–444
in composite construction, 6:184–187
managing to, 1:243
investment style(s)
for active equity investing, 4:427–436
active equity investing style
classification, 4:427–436
holdings-based approaches,
4:428–431
manager self-identification, 4:434–435
practice problems, 4:439–441
returns-based approaches, 4:432–434
solutions to problems, 4:442–444
strengths and limitations of analysis
based on, 4:435
variation of characteristics within,
4:435–436
activist, 4:359–360
characteristics-based, 4:427
contrarian, 4:384–385
core, 4:301–303
deep-value, 4:385
investment style(s) (Continued)
distressed, 4:385
FTSE Russell classification of, 4:428
high-quality value, 4:385
holdings-based approaches, 4:428–431
impact investing, 4:300
income, 4:385
indexes for, 6:85
investment universe segmentation by, 4:301–303
manager self-identification, 4:434–435
managing to, 1:243
membership-based, 4:427
Morningstar classification of, 4:428, 430–431
MSCI classification of, 4:428
position-based, 4:427
restructuring, 4:385
returns-based approaches, 4:432–434
returns due to, 6:82–83
segmentation by, 4:301–303
special situations, 4:385–386
strengths and limitations of analysis based on, 4:435
therm, 4:300
Thomson Reuters Lipper classification of, 4:428
variation of characteristics within, 4:435–436
investment style indexes, 6:85
investment system, disclosure of, 1:141, 143
investment thesis, 4:421
investment universe for factor-based strategies, 4:393
for fundamental active investment strategy, 4:415
investment universe segmentation, 4:301–307
by economic activity, 4:305–307
for equity indexes and benchmarks, 4:307
by geography, 4:304–305
by size and style, 4:301–303
investor(s). see also institutional investors; portfolio management; individual investors
active
in Barnewall two-way model, 2:109
in behavioral alpha process, 2:111–112
trading behavior of, 2:254
angel, 5:31–32
asset allocation constraints of, 3:325–326
behavioral types, 2:108–117
Barnewall two-way model, 2:108–109
BB&K model, 2:109–110
limitations of classification, 2:116–117
psychographic modeling, 2:111–116
characteristics of individual investors, 2:162–171
psychological profiling, 2:165–171
situational profiling, 2:162–165
with emotional biases, 2:88–92
exempt investors, 2:254
goals of, 5:6
high-net-worth, 2:272–273

Index

issue size, 4:255
Italy
CLI, 3:82
equity risk premium, 3:39
Eurozone membership, 3:9n.
expected returns for equities/bonds, 3:25
gift tax, 2:293
in Hague Conference, 2:304
interest income taxation, 2:227
market value of ETFs, 4:342
mutual funds, 1:276n.
pension assets, 1:272
real GDP growth rate, 3:32
real GDP growth rate vs. speculative-grade bond default rate, 4:258
real returns on bonds, bills, and equities in, 4:296
tax-advantaged savings accounts, 2:246
tax rates, 2:179
tax regime, 2:231, 347
trade partners, 3:83
iTraxx, 2:272
IVaR. see incremental value at risk

J
Jacobs, Bruce L., 4:336
Jamet, Frédéric, 4:333
January effect, 2:35, 139
Japan
asset price bubble of 1980s, 2:142
banking, 2:519–520
China stock market volatility vs., 3:137
CLI, 3:82
commodity market, 5:46
Conference Board index, 3:84
corporate form of publicly-traded companies, 5:35
defined-benefit pension plans, 2:464
economic growth, 3:69
economic state of, 2:63
emerging market debt, 3:92
equity index futures contracts, 4:345
equity risk premium, 3:39
expected returns for equities/bonds, 3:25
foreign cash receipts, 5:375–376
foreign currency payments, 5:253
gift tax, 2:293, 296
global assets under management, 1:268
in Hague Conference, 2:304
insurance companies, 2:507
interest income taxation, 2:233
interest rate swaptions, 5:394–397
investment real estate, 2:324
and justified P/E estimates, 3:135
life insurance industry, 2:503
market value of ETFs, 4:342
negative interest rates, 3:65
pension assets, 1:272, 273
pension funds in, 3:337
population growth, 3:113
real GDP growth rate, 3:32
real GDP growth rate vs. speculative-grade bond default rate, 4:258
real returns on bonds, bills, and equities in, 4:296
REITs, 5:14
risk governance, 5:138
key employees, sale of private business equity to, 2:359–360
Keynes, John Maynard, 2:80
key rate durations (KRDs) and bullet/barbell portfolios, 4:147
defined, 4:132
as indexing risk factor, 4:93
and interest rate exposure, 4:263
KIM Cruise Index F2.8 Equity Index, 4:354
Knight, Frank, 2:21
knock-in options, 3:434–435
knock-out options, 2:348–349; 3:434–435
knowingly (term), 1:43
knowledge for investment management, 1:286
of the law, 1:26–27, 29
in professions, 1:295
Knowledge of the Law [Standard I(A)], 1:21–29
application of the standard, 1:27–29
case study, 1:201–202
compliance procedures, 1:26–27
CFA members and candidates, 1:26
dissociation, 1:26
distribution area laws, 1:26
firms, 1:26–27
legal counsel, 1:26
guidance, 1:21–25
Code/Standards and applicable law, 1:22–23
investment products and applicable law, 1:23–25
violations by others, participation or association with, 1:23
text of, 1:16, 21
Kolm, Petter N., 4:352
Korea. see South Korea
Korean won, 3:85, 450
KOSPI 200 Index, 4:345
KRDs. see key rate durations
krona, Swedish, 3:385
kurtosis, 5:12n.9, 82
Kuwait, 3:76
sovereign wealth funds, 1:274
Kuwait Investment Authority, 1:274

L
labor force, economic growth and, 3:71
lack of marketability discount, 2:339
laddered portfolio, 4:105–108, 189
construction, 4:9, 105–106
extreme barbell portfolio vs., 4:191–195
less extreme barbell portfolio vs., 4:194–195
lagging economic indicators, 3:81
Lakonishok, J., 4:395
Lambiotte, Clay, 4:359
Langer, E., 4:417
Langlois, Hughes, 4:463.14
large-cap companies in holdings-based investment classification, 4:429–430
segmentation of equities for, 4:302, 303
large-cap equities, 2:144
large cash flows, 6:168, 189n.20, 236
late retirement phase (financial stages of life), 2:394
later-stage financing, 5:31
late upswing phase (business cycle), 3:53, 54
Latin America. see also specific countries
debt crisis, 3:75
exchange-traded funds, 1:276
global assets under management, 1:268
ownership of private business enterprises, 2:322
unsecured bond recovery rate, 4:277
Latvia
in Hague Conference, 2:304
tax regime, 2:231, 347
law(s). see also applicable law
knowledge of, 1:26–27, 29 (see also Knowledge of the Law [Standard I(A)])
more strict law, 1:22
regulations and governing, 1:201–202
religious tenets as basis for, 1:28–29
LawInContext, 2:274
law of small numbers, 2:57
LDI see liability-driven investing: liability-driven investments
leadership, 1:200
leading economic indicator (LEI), 3:81–82
leaseback, 2:368–369
leaving an employer, 1:106–107, 115
legacy goals, 2:416
legal constraints of individual investors, 2:182–185
family foundation, 2:184–185
jurisdiction for taxation, 2:185
personal trust, 2:183–185
in sample IPSs, 2:187
legal counsel, 1:26
legal factors and equities in portfolio, 4:300
for institutional investors
banks, 2:523
defined-benefit plans, 2:472–473
endowments, 2:495
foundations, 2:488
life insurance companies, 2:506–508
non-life insurance companies, 2:517
legal issues, with estate planning, 2:274–276
legal liabilities, 3:267
legal liability, with long-only investments, 4:505
legal review, of private equity, 5:44–45
legal risk, 5:47
legal risk, with international credit portfolios, 4:278
legs, swap, 3:390
Lehman AA Industrials Index, 6:111
Lehman Aggregate Bond Index, 6:84, 85
Lehman Brothers, bankruptcy of, 4:64n.17, 5:90
Lehman Brothers Government Bond Index (LGB), 5:388
Lehman Brothers Government/Credit Bond Index, 6:85, 100
Lehman Brothers US Government Index, 6:110, 111
Index

defined, 4:240; 6:9
of emerging market currencies, 3:449
in equities investment approaches, 4:312
in financial crises, 3:331–332
of individual investors, 2:176–178
in international credit portfolios, 4:278
of markets, 6:19–20
natural, 6:11–12
of private equity, 5:42–43
and rebalancing, 3:219
in sample IPSs, 2:186–187, 190
and tax-sheltered savings accounts, 2:181
trade size relative to, 6:30
and trading costs, 6:30
in trading focus, 6:38–40
liquidity-at-any-cost trading focus, 6:38, 40
liquidity constraints of investors
and asset location, 2:253
and gift tax, 2:294
and life insurance, 2:303
liquidity factor, 4:329
liquidity limits, fund management company, 5:185
liquidity management, 4:106
liquidity-motivated traders, 6:34–36
liquidity requirements for institutional investors
banks, 2:523
defined-benefit plans, 2:470–471
endowments, 2:494
foundations, 2:487
life insurance companies, 2:505–506
non-life insurance companies, 2:515
liquidity retirement, 4:300
liquidity risk
in credit portfolios, 4:268–273
management of, 4:272–273
secondary market measures, 4:268–271
structural industry changes, 4:271–272
identifying, 5:143–144
market, 5:100
measuring, 5:179
Lithuania, 2:304
Litterman, Robert, 3:250
Livingston, Joseph, 3:48
Livingston Survey, 3:48
LLTB index. see Lehman Long Treasury Bond index
loading, in life insurance pricing, 2:411
loans
and currency conversions, 5:370–375
and exchange rate risk, 5:370–375
fixed-rate, 5:359–363
floating-rate
with caps, 5:323–327
with collars, 5:329–333
converting fixed- and, 5:359–363
with floors, 5:327–329
with FRAs, 5:218–219
inverse, 5:368–370
leveraged floating-rate notes, 5:366–367
with FRAs, 5:215–219
floating-rate loans, 5:218–219
single-payment loans, 5:215–218
mortgage, 2:388
non-recourse, 2:367
protected with interest rate calls, 5:315–318
stock, 4:308
local requirements, for record retention, 1:147
locked up investments, 3:43
lock-up period, 5:59, 75
Loews Cineplex Entertainment Corporation, 5:99
logical participation strategies, 6:42–47
London Business School, 2:140
London Interbank Offered Rate (Libor) credit risk exposures, 5:178
credit risk of swaps, 5:176
currency swaps, 5:371n.14
equity swaps, 5:385
interest rate compounding, 5:257
interest rate swaps, 5:360–361, 364, 366–370
and interest rate swaps, 4:80–82, 87, 145
and inverse floaters, 4:29
loan interest rate
calls, 5:313, 314, 316, 317
caps, 5:323–326
collars, 5:330–333
floors, 5:327–329
forward and futures strategies, 5:215–218, 259
options, 5:312, 313
puts, 5:318–322
as underlying rate, 5:259, 312, 313
and range accrual notes, 4:207
swaptions, 5:390, 393–402
and total return swaps, 4:100
and US dollar swap curve, 4:244
London Stock Exchange (LSE)
HSBC holdings and, 4:419
market orders at, 6:7
price volatility of, 6:56, 62
and SEAQ, 6:12
Long Bund contract, 4:74
long data series, capital market expectations from, 3:17
longevity insurance, 2:440
longevity risk, 2:402; 3:208; 4:78
long extension strategies, 4:504, 508
long-only strategies, 4:505–506, 513
long-only value investing, 5:98
long positions
for call options, 5:279–282
for put options, 5:282–286
in risk reversals, 3:432
in seagull spreads, 3:433
long—short investing, 4:166–168
active equity investing portfolio construction, 4:505–507, 509–513
about, 4:504, 506–507
benefits and drawbacks of, 4:509–511
long-only strategies vs., 4:505–506, 513
130/30 strategy, 4:508, 511–513
management costs with, 4:506
long straddle, 4:389–390
long tail, of non-life insurance, 2:511
long-term capital gains tax rate, 4:505
accomulation using, 2:258–260
Long-Term Capital Management (LTCM)
and adaptive markets hypothesis, 2:41
liquidity crisis at, 3:331–332;
4:126–127
liquidity risk for, 5:179
and Russian financial crisis, 3:75
long-term health care, 2:404
long-term health care insurance, 2:439
long-term inputs, 3:256
long-term investments, identifying, 2:59
long-term real risk-free interest rate, 3:37
long-term risk premiums, 4:505
look-ahead bias, 4:380, 424
losses. see also tax-loss harvesting
capital rollover return and, 4:24
tax issues, 4:33, 34
tax loss harvesting for, 2:255–258
yield curve and, 4:200
credit, 4:24, 235–237, 247
currency, 4:24
direct vs. indirect, 2:402–403
taxed tail loss, 4:488
gain-to-loss ratio, 5:82
maximum (see maximum loss) realized, 6:25
unrealized, 6:23, 25
loss aversion
in behavioral finance, 2:166
myopic, 2:72–73
and prospect theory, 2:26
loss-aversion bias, 2:70–73
and asset allocation, 3:364
consequences of, 2:72
detection and methods of overcoming, 2:73
diagnostic test, 2:87, 94–95
effect of, 2:71
in fundamental investing, 4:418
myopic loss aversion, 2:72–73
and prospect theory, 2:166
loss control, 2:432
loss given default, 4:235
loss harvesting, see tax loss harvesting
loss prevention, 2:432
loss reduction, 2:432
loss severity, 4:235
lot allocations, minimum, 1:88–89
low-cost—whatever—the-liquidity trading focus, 6:39, 40
lowest in, first-out (LIFO) tax lot accounting, 2:258
low-return environments, 5:9
low-weight-level investor with cognitive biases (case study), 2:92–96
behaviorally-modified portfolio decision, 2:96
diagnostic tests, 2:93–94
effect of biases, 2:95
moderate or adapt recommendation, 2:95
Loyalty, Prudence, and Care
[Standard III(A)], 1:73–81; 6:29
application of the standard, 1:78–81
case study, 1:203–205
compliance procedures, 1:77–81
client approval, 1:77
firm policies, 1:77–78
regular account information, 1:77
guidance, 1:73–77
client's portfolio, developing, 1:75–76
identifying the client, 1:75
proxy voting policies, 1:76–77
soft commission policies, 1:76
understanding application of
standard, 1:74–75
text of, 1:17, 73
understanding application of standard,
1:74–75
loyalty effects, overinvestment in
company stock and, 2:123
Loyalty [Standard IV(A)], 1:105–115
application of the standard, 1:109–115
case study, 1:203
compliance procedures, 1:109
competition policy, 1:109
employee classification, 1:109
incident-reporting procedures, 1:109
termination policy, 1:109
guidance, 1:105–109
employer responsibilities, 1:106
independent practice, 1:106
leaving employers, 1:106–107
nature of employment, 1:108–109
social media, 1:108
whistleblowing, 1:108
text of, 1:17, 105
loyalty to clients, 1:81
Loyalty to Clients (AMC Part A), 1:238,
240–241
LPs see limited partners
LPX, 5:37
LS countries. see less strict countries
LSE. see London Stock Exchange
LTCM. see Long-Term Capital
Management
Long Term Capital Management
 Luo, Frank, 4:331, 332
Luo, Y., 4:424
Lussier, Jacques, 4:463n.14
Luxembourg
in Eurozone, 3:9n.
and EUSD, 2:311
in Hague Conference, 2:304
mutual funds, 1:276n.
offshore banking centers, 2:310–311
tax regime, 2:231, 347
Lynch, Peter, 4:498n.40
M
$M^2$ measure, 6:116–118
Macaulay duration
defined, 4:53, 132; 5:220n.7
duration matching, 4:65, 66
of single fixed-income bond, 4:51–54,
57, 59
for zero-coupon bonds, 4:133
Macedonia, former Yugoslav Republic of, 2:304
machine-learning techniques, 4:424
Mackay, Charles, 2:141
Macquarie True Index Australian
Shares, 4:354
macro attribution
conducting, 6:98–102
Allocation Effects strategy, 6:102
Asset Category strategy, 6:99–100
Benchmarks strategy, 6:100–101
Investment Managers strategy,
6:101–102
Net Contributions strategy, 6:99
Risk-Free Asset strategy, 6:99
defined, 6:94
inputs, 6:96–98
overview, 6:96
macroeconomic factors
forecasting based on, 3:141
international linkages in, 3:75
top-down approach to credit
strategy, 4:257
and top-down approach to portfolio
construction, 4:266
macro expectations, 3:6
macro hedge fund strategies, 5:67
macro hedges, 3:440
macro securities, 2:178
Magellan Fund, 4:498n.40
maintenance phase of life, 2:164
making the market, 1:63; 6:12
Malaysia
in Hague Conference, 2:304
pension assets, 1:272
tax regime, 2:231, 347
Malevergne, Yannick, 4:333
Malta, 2:304; 3:9n.
managed care facilities, 2:177
managed futures, 5:85–93
benchmarks, 5:86–87
defined, 5:7, 85
historical performance, 5:87–89
interpretation issues, 5:89
investment characteristics, 5:90
market for, 5:85–86
performance persistence, 5:92
in portfolios, 5:90–92
and skewness of hedge funds, 5:74
strategic asset allocation, 5:92–93
of types of investments, 5:85–86
managed futures funds, 3:421
managed futures market, 5:85–86
management in bottom-up equity investing
strategies, 4:383
buyer of private business by, 2:359–360
commitment of, 5:44
commitment to GIPS, 6:161
experience of, 5:43–44
influence on analysts' forecasts of,
2:131–133
management costs, 4:506
management effect, 6:113
management fees, 1:252, 278; 4:309–310
management reporting, in asset
allocation, 1:288
manager-based hedge fund indexes,
5:61–62
manager continuation policies (MCP),
6:126–130
as filter, 6:129–130
phases, 6:127–128
purposes of, 6:127
manager monitoring, 6:127–128
manager review, 6:127–129
managers. see also portfolio managers
active, 4:316
confidence in outperformance of,
4:316
portfolio construction by, 4:445–446
selecting, 5:10–11
alternative asset, 1:270
external, travel expenses from,
1:39–40
fund
relationships with, 1:32, 42
risk budgeting by, 5:184–185
investment, 6:70
money, 3:88–89
passive, 4:359–360
relationships with, 1:32, 42
submanagers, 1:96, 132–133
manager selection process
criteria for, 6:124
diligence in, 1:136
influencing, 1:34, 41–42
manager self-identification, 4:434–435
manager universes, 6:84, 88–89
mandates
fixed-income, 4:11–19
liability-based, 4:11–15
total return, 4:15–19
following, 1:95
in fundamental active investment
process, 4:415
managing to, 1:93, 243
notification of change in, 1:142
and risk level, 4:479–480
manipulation, market. see Market
Manipulation [Standard II(B)]
manufactured dividends, 4:308
MAR. see minimum acceptable return
margin, net interest, 2:521
marginal contribution to portfolio risk,
3:261
marginal contribution to total risk
(MCTR), 3:261–262
marginal tax rate, 2:227
marginal value at risk (MVaR), 4:488
margin borrowing, 3:359
margin-lending rule, 2:330
margin requirements, for futures, 3:420
market(s)
auction, 6:10, 16
brokered, 6:17
capital. see also Integrity of Capital
Markets [Standard of Professional
Conduct I]
anomalies in, 3:23
and benefit of ethics to society, 1:12
business cycle effects on, 3:53, 54
forecasts of, 3:43–45
sustainability of, 1:12–13
closed-book, 6:11
commodity, 5:46–47
continuous auction, 6:16
currency hedging and conditions in,
3:400–401
dealer, 6:10–15
depth, 6:19
Index
developed, 4:304
distressed securities, 5:94–95
electronic limit-order, 6:16
emerging, 3:498–491
carry trade rebates, 4:141
common shares in, 3:96
contagion in, 3:449–450
country risk analysis, 3:77–80
credit universe in, 4:277
currencies, 3:448–451
developed vs. emerging economies, 3:77
in economic analysis, 3:77–80
in hedge fund strategies, 5:58
liquidity problems, 4:278
non-deliverable forwards, 3:450–451
segmentation of equities from, 4:304
slippage costs, 4:497
trading costs and extreme market events, 3:448–450
equity
asset-based models, 3:158–163
classical growth model, 3:31–33
discounted cash flow models, 3:31–35
earnings-based models, 3:148–158
forecasts of, 3:141–147
relative value models, 3:148–164
in evaluation of private equity investments, 5:43
fixed-income, 3:35
foreign exchange
exchange-traded futures in, 3:420–421
forward, 3:387–390
spot, 3:385–387
swap, 3:390–391
fourth, 6:15n.5
frontier, 4:304, 305
global investable, 3:40
hedge fund, 5:56–60
hybrid, 6:17
individual local, 3:42
information from brokers about, 6:18
integrated, 3:42–43
local, 3:42
making, 1:63; 6:12
managed futures, 5:85–86
marking to, 3:388; 5:185–186
microstructure, 6:7–21
brokered markets, 6:17
evaluating market quality, 6:19–21
hybrid markets, 6:17
order-driven markets, 6:15–16
order types, 6:7–9
quote-driven markets, 6:10–15
roles of brokers and dealers, 6:18–19
money, 5:256–257
open, 3:89–90
open outcry auction, 6:10
order-driven, 6:15–16
over-the-counter, 4:241
perfect, 3:41
periodic auction, 6:16
private equity, 5:29–37
demand for venture capital, 5:30–31
exit from investment, 5:31
size of market, 5:36–37
supply of venture capital, 5:31–34
types of private equity investments, 5:34–35
quality of, 6:19–21
quote-driven (dealer), 6:10–15
real estate, 5:13–15
SEAO, 6:12
secondary
bid–ask spreads in, 4:270–271
evaluating liquidity in, 4:268–271
spread sensitivity to fund outflows, 4:269–270
trading volume in, 4:268–269
segmented, 3:42–43
types of, 6:9–17
brokered markets, 6:17
hybrid markets, 6:17
order-driven markets, 6:15–16
quote-driven markets, 6:10–15
upstairs, 6:17n.7
zero-sum derivatives, 5:90
market-adjusted implementation shortfall, 6:25–26
market anomalies
behavioral factors in, 2:138–139
calendar anomalies, 2:35
defined, 2:138–139
and EMH, 2:32–36
fundamental anomalies, 2:33–34
technical anomalies, 2:34
market ask, 6:10–11
market behavior, 2:28–41
behavioral factors in, 2:138–145
bubbles and crashes, 2:141–144
market anomalies, 2:138–139
momentum, 2:140–141
value and growth stocks, 2:144–145
in behavioral finance, 2:37–38, 41
adaptive markets hypothesis, 2:41
behavioral approach to asset pricing, 2:38–39
behavioral approach to consumption and savings, 2:37–38
and behavioral portfolio theory, 2:39–40
in traditional finance, 2:28–36
market bid, 6:8, 10
market bid–ask spread, 6:11
market bubbles, 2:141–144; 3:31n.31
market capitalization, 3:249
and slippage costs, 4:496–497
and trading volume for equities, 4:493–495
market-cap weighted indexes, 4:330–333
market crashes, 2:141–144
market EPS, forecasts, 3:314, 316
market exposure, 4:328–329
market factor, 4:448n.3
attribution of risk to, 4:477, 479
in liquidity crisis of 2008, 4:464n.17
in long/short strategies, 4:510
weighting of, 4:449–451
market fragmentation, 6:9
market growth, 2:144
market impact, 6:12, 22–23
market impact costs, 4:493
market indexes. see indexes
marketing costs, 4:311
market liquidity risk, 5:100
Market Manipulation [Standard II(B)], 1:16, 68–73
application of the standard, 1:69–73
guidance, 1:68–69
information-based manipulation, 1:68
transaction-based manipulation, 1:69
text of, 1:16, 68
market mechanism, 6:18
market microstructure, 6:7–21
evaluating market quality, 6:19–21
order types, 6:7–9
roles of brokers and dealers, 6:18–19
strategies based on, 4:413
types of markets, 6:9–17
brokered markets, 6:17
hybrid markets, 6:17
order-driven markets, 6:15–16
quote-driven (dealer) markets, 6:10–15
market model, 6:85–86
market momentum, 2:140–141
market-neutral strategies, 4:504, 508–509
market-not-held order, 6:8
market-on-close algorithms, 6:45
market on close order, 6:9
market on open order, 6:9
market opportunity, 4:421
market orders, 6:7
market-oriented approach, 4:305
market quote, 6:11
market risk, see also equity market risk of distressed securities, 5:100
diversifying, 2:334–335
identifying, 5:142
managing, 3:181–185
measuring, 3:151–152
market risk bucket, 2:334, 335; 3:207
market sentiment, 3:359
market spread, 6:11
market stress, 3:330
market value, 4:256–257; 6:167, 236
marking to market, 3:388; 5:185–186
Markit, 4:426
Markit Boxx Asian Local Bond Index (ALBI), 4:95–96
Markowitz, Harry, 3:95, 122
Markowitz framework for diversifying market risk, 2:334
Martellini, Lionel, 3:186
Martini, Giulio, 3:400
M&As. see mergers and acquisitions
mass affluent investors, 1:280; 5:9n.3
matched swaps, 3:390–391, 422
matching
cash flow, 4:112–14, 62–65
of company stock contributions, 2:123
duration, 4:113–14, 65–71
horizon, 4:14–15
material information
in AMC, 1:244–245, 251
defined, 1:57
selective disclosure of, 1:64
materiality, determining, 1:64, 67
material nonpublic information
adopting compliance procedures for, 1:60
in AMC, 1:244–245
analyst recommendations as, 1:65–66

Cumulative_Ind_L3 45 August 3, 2018 6:59 PM
Material Nonpublic Information
[Standard II(A)]
application of the standard, I:63–67
case study, I:208–209
compliance procedures
achieving public dissemination, I:60
drafting, I:60
adopting, I:60
drafting disclosure procedures,
I:60–61
appropriate interdepartmental
communications, I:61
communication to employees, I:63
firewall elements, I:61
issuing press releases, I:61
personal trading limitations, I:62
physical separation of departments,
I:61
preventing personnel overlap, I:62
proprietary trading procedures, I:63
record maintenance, I:62
reporting systems, I:62
guidance, I:56–60
industry experts, I:59–60
investment research reports, I:60
material information defined, I:57
mosaic theory, I:58–59
nonpublic information defined, I:58
social media, I:59
text of, I:116, 56
matrix prices, 4:93, 6:81
maturity, yield curve and, 3:55
maturity extension, 4:134
maturity management, 4:264
maturity premiums, 3:37
maximum diversification strategies,
4:338
maximum drawdown, 5:80, 189
maximum loss
bear spread, 5:297, 298
box spread, 5:311
bull spread, 5:295
butterfly spread, 5:302
call options, 5:280, 281
collars, 5:305, 306
covered calls, 5:287
protective puts, 5:291
put options, 5:283, 284
straddles, 5:308, 309
minimum loss limits, in capital
allocation, 5:191
maximum loss optimization, 5:172
maximum out-of-pocket expenses, for
health insurance, 2:421
maximum profit
bear spread, 5:297, 298
box spread, 5:311
bull spread, 5:295
butterfly spread, 5:302, 301, 302
call options, 5:280, 281
collars, 5:305, 306
covered calls, 5:287
protective puts, 5:291
put options, 5:283, 284
straddles, 5:308, 309
maximum yearly benefits, for
health insurance, 2:421
MBs, see mortgage-backed securities
MCI, 5:99
McKinsey Global Institute, 3:354
MCP, see manager continuation policies
MCTR, see marginal contribution to
total risk
mean returns
arithmetic vs. geometric, 3:24
shrinkage estimator of, 3:26
means-end analysis, 2:23
mean–variance approach
behavioral models vs., 2:125
for expectation setting, 3:24
for portfolio construction, 2:36
mean–variance optimization (MVO)
after-tax, 2:260
asset-only allocation, 3:231–243
as asset-only approach, 3:185
criticisms of, 3:246–259
Black–Litterman model, 3:250–253
constraints beyond budget
constraints, 3:253
non-normal optimization
approaches, 3:255–259
resampled mean–variance
optimization, 3:254–255
reverse optimization, 3:248–250
hedge funds and, 3:72
investment objectives of, 3:187
measurable benchmarks, 6:83
measurement errors, for returns of VC,
5:41
measure of wealth classifications, 2:163
medical insurance. see health/medical
insurance
mega-cap buy-out funds, 5:33
members, CFA. see Responsibilities of
CFA Members and Candidates
[Standard of Professional
Conduct VII]
membership-based investment styles,
4:427
membership status, CFA Institute,
1:170–171, 173
memory, hindsight bias and, 2:62
mental accounting bias, 2:94–95
and asset allocation, 3:363–366
consequences, 2:64
and consumption/savings, 2:37–38
detection and methods of overcoming,
2:64–65
diagnostic questions, 2:87, 93–94
diversification, 2:124–125
merger arbitrage hedge fund strategies,
3:58
mergers and acquisitions (M&As),
4:413–414
Merrill Lynch Corporate Bond (MLCB)
index, 5:385
Methodological investors, 2:169
Mexican IPC, 4:345
Mexican peso, 3:18n.10, 385; 4:139–140
Mexico
CLI, 3:82
Conference Board index, 3:84
currency crisis, 3:75
equity index futures contracts, 4:345
in Hague Conference, 2:304
market value of ETFs, 4:343
pension assets, 3:172
pension funds in, 3:337
tax rates, 2:180

tax regime, 2:231, 347
trade partners, 3:84
wealth taxes, 2:306
mezzanine financing, 5:31
mezzanine tranche, 4:282
micro attribution
defined, 6:94
fundamental factor model, 6:108–109
overview, 6:102–104
sector weighting/stock selection,
6:104–107
microeconomics, 3:142
micro expectations, 3:6
Microsoft, 2:35; 5:39
mid-cap companies
in holdings-based investment
classification, 4:429–430
segmentation of equities for,
4:302, 303
Middle East, 1:268, 277; 3:74; see also
specific countries
middle-market buy-out funds, 5:33
midquote (term), 6:11, 16
Millheim Corporation, 4:360
minimum acceptable return (MAR),
5:189–190
minimum credit standards, 5:187–188
minimum expectations
in goals-based allocation, 3:285
in sub-portfolio construction, 3:290
minimum lot allocations, 1:88–89
minimum size constraints, 2:343
minimum transfer amount, 4:88
minimum-variance hedge ratio, 3:441–443
minimum variance investing, 4:338
Ministry of Finance, 2:507
minority interests
nonmarketable, 5:39, 40
valuation discounts for, 2:297
Misconduct [Standard I(D)], 1:53–56
application of the standard, 1:54–56
compliance procedures, 1:54
guidance, 1:53–54
text of, 1:16, 53
misfit return, 6:97n.18, 101
mismatched swaps, 3:390, 391
mismatch in character, 2:352–354
misrepresentation
in AMC, 1:250
avoiding, 1:52
potential, 1:49
Misrepresentation [Standard I(C)],
1:43–53
application of the standard, 1:48–53
case study, 1:209, 210
compliance procedures, 1:46–47
factual presentations, 1:46–47
maintaining webpages, 1:47
plagiarism policy, 1:47
qualification summary, 1:47
verifying outside information, 1:47
guidance, 1:43–46
impact on investment practice, 1:44
omissions, 1:45
performance reporting, 1:44–45
plagiarism, 1:45–46
social media, 1:45
work completed for employer, 1:46
text of, 1:16, 43
missed trade opportunity costs, 6:23, 25
mixed assets, 2:387
MLCB index. see Merrill Lynch
Corporate Bond index
MLM Index. see Mount Lucas
Management Index
model portfolios
in bottom-up portfolio construction, 4:256
for goals-based asset allocation, 3:286–287
sub-portfolio, 3:289–292
Model Request for Proposal, 1:129
model risk, 1:289–292
models
manipulating inputs for, 1:72
in quantitatively oriented research, 1:128
model uncertainty, capital market expectations and, 3:23
moderate or adapt recommendations in behaviorally-modified asset allocation, 2:84–86
for high-wealth-level investors, 2:91–92
for low-wealth-level investors, 2:95
moderating, of cognitive biases, 2:51–52
Modified Dietz method, 6:171–174
modified duration, 5:220, 364–365
defined, 4:132
duration matching, 4:65
formula for, 4:133n.4
Modified Internal Rate of Return (Modified IRR), 6:171–173
module process, in goals-based allocation, 3:294–298
momentum
cross-sectional, 3:360n.21
defined, 4:338
market, 2:140–141
in systematic TAA, 3:360
time-series, 3:360n.21
and trading costs, 6:30
Momentum factor
active investing based on, 4:396–399
for benchmark index selection, 4:329
defined, 3:360
for equities, 4:336
in liquidity crisis of 2008, 4:464n.17
in long/short strategies, 4:510
weighting of, 4:450, 451
Monaco, 2:304
monetary policy
in business cycle analysis, 3:54, 62–67
with interest rates at zero or negative, 3:65–66
money supply trends, 3:64–65
and Taylor rule, 3:63–64
in United States vs. Eurozone, 3:66
in country risk analysis, 3:78
defined, 3:60
of Fed and ECB, 3:101
and fiscal policy, 3:68
in recessions, 3:60
monetary position limits, 5:190–191
monetization
of assets in concentrated positions, 2:322, 336–337, 362–364
of calls, 5:398n.33
of equity, 2:343–347
of private business equity, 2:362
of real estate, 2:367
of tax-free exchanges, 2:369
monetization strategies
for business equity, 2:358–366
evaluating, 2:362–366
types of, 2:358–362
for investment real estate, 2:367–369
for donor-advised funds, 2:367–368
mortgage financing, 2:367
for single-stock position, 2:341
money duration
defined, 4:132
duration management, 4:143
duration matching, 4:65–67, 69
money managers, forecasting by, 3:88–89
money markets, 2:526–527
money spreads
bear spreads, 5:296–299
bull spreads, 5:293–296
butterfly spreads, 5:299–303
in equity portfolios, 5:293–303
money supply trends, in, 3:64–65
money-weighted rate of return (MWR), 6:76–79
monitoring
of managers, 6:127–128
outcome, 3:18
of professional conduct, 1:295
reserve funding adequacy, 2:503
risk exposure, 2:392
Monte Carlo simulation
for asset allocation, 2:196–199
in asset-only allocation, 3:243–246
estimating core capital with, 2:285–288
for estimating VaR, 5:166–167
in resampling, 3:254
of returns for endowments, 2:493–494
Montenegro, 2:304
Montier, James, 21–22
Moody's Investors Service
bond ratings, 4:96n.2, 234n.2
effective duration of bonds across rating spectrum, 4:238
minimum credit standards, 5:187
recovery rate for Latin American bonds, 4:277
reserve funding monitoring, 2:503
Moore, Philip, 4:337
more strict (MS) countries, 1:24–25
more strict law, 1:22
Morgan Stanley Capital International
(MSCI), 6:85, *see also specific indexes beginning MSCI* equity indexes from, 4:327
and Google IPO, 5:32
investment style classification by, 4:428
Morningstar
active-manager benchmarks, 5:60
equity indexes from, 4:327
on ETFs vs. open-end mutual funds, 4:343
funds study, 2:58
on holdings- vs. returns-based style analysis, 4:435
on index-tracing ETF portfolios, 4:348
investment style classification by, 4:428, 430–431
Morningstar MSCI, 5:61
Morningstar Style Box, 4:429, 435–436
Morocco, 2:304
mortality credits, 2:427, 429–430
mortality expectations, 2:409–410
mortality risk, 2:401
mortality tables, estimating core capital with, 2:380–284
mortgage-backed securities (MBS) in credit portfolios, 4:279–280
defined, 4:278
and negative convexity, 4:136
for reducing convexity, 4:174–175
mortgage financing, 2:367
mortgage loans, 2:388
mortgage REITs, 5:14
mosaic theory and AMC, 1:245
applying, 1:65, 66
in case studies, 1:208
and material nonpublic information, 1:58–59
Moskowitz, Tobias, 4:498
Mount Lucas Management (MLM) Index, 5:86, 89
moving averages, 2:34; 3:412
Moxy (OMS), 4:350
MPSR, *see multiperiod Sharpe ratio
MSCI, *see Morgan Stanley Capital International
MSCI AC Far East Index, 4:299
MSCI ACWI Investable Markets Index, 4:349
MSCI All Country World Index (ACWI) as benchmark, 4:449
capacity of equities on, 4:505
on correlation matrix, 4:299
and home-country bias, 3:201
and less liquid assets, 3:260
MSCI Asia ex Japan Index, 4:381
MSCI Asset Owner survey, 5:21–22
MSCI BRIC Index, 4:299
MSCI China Index, 3:136n.14, 137, 138
MSCI Diversified Multi-Factor Index, 4:489
MSCI EAFE ETF, 4:369
MSCI EAFE (Europe, Australasia, and Far East) Index as benchmark, 6:84
in capital market forecasts, 3:44
on correlation matrix, 4:299
derivatives on, 4:343
equity swap, 5:408
international diversification with, 5:383
number of constituents of, 4:369
MSCI Emerging Markets Large Cap Growth Index, 4:307
MSCI EM Index, 4:299
MSCI Europe Large Cap Growth Index, 4:307
MSCI indexes, emerging markets on, 3:191
MSCI International Equity Indexes, 4:304–305
MSCI Latin America Midcap Index, 4:307
MSCI Momentum Index family, 4:338

Cumulative_Ind_L1 47
August 3, 2018 6:59 PM
MSCI USA Large Cap Index, 4:328
MSCI USA Mid Cap Index, 4:328
MSCI US REIT Index, 5:16
MSCI World Energy Index, 4:307
MSCI World Growth Index, 4:431
MSCI World Index commodities correlations, 5:109–111 on correlation matrix, 4:299 as equity market gauge, 4:91
well-constructed portfolio of equities from, 4:502–504
MSCI World Small Cap Value Index, 4:307
MSCI World Value Index, 4:431
MSCI USA Large Cap Index, 4:328
mutual life insurance companies, 1:269
mutifactor models for capital market expectations, 3:27–31 for risk, 3:193; 4:423 multifunctional duration. see key rate duration
multi-period portfolio models, 3:276
multi-period Sharpe ratio (MPSR), 3:45
time-outage times, 2:178
municipal bond future contracts, 5:226
municipal bonds, taxation of interest on, 2:253
Municipal Securities Rulemaking Board, 4:21
must (term), 6:160, 236
mutual benefit, adviser-client relations and, 2:119
mutual funds, 1:275–276 alphs of, 2:32
for fixed-income portfolios, 4:222, 99–100
institutional investors and, 2:526
laddered portfolios vs., 4:106
open-end defined, 6:236
ETFs vs., 4:334
passive vs. active equities in, 4:316–317
pooleed investments in, 4:339–340
private-equity, 6:205
pass-through treatment of capital gains, 4:33
skilled and unskilled, 2:58–59
Vanguard, 5:184–185
zero-alpha, 2:58–59
mutual life insurance companies, 2:411, 499
mutuals, 2:499
MVAr, see marginal value at risk
MVO. see mean-variance optimization; mean–variance optimization
MWR, see money-weighted rate of return
Myner Commission (UK), 2:473
myopic loss aversion, 2:72–73
N
NAFTA. see North American Free Trade Agreement
NAIC. see National Association of Insurance Commissioners naïve diversification, 2:122
naked short-selling, 4:505
named-risks homeowner’s insurance policy, 2:418
names, fictitious, 1:174
NAREIT. see National Association of Real Estate Investment Trusts
NASDAQ market quality of, 6:20–21
options strategies involving, 5:277
quote driven market, 6:11
trade size on, 6:41
and venture capital returns, 5:38
NASDAQ 100 Index, 4:333
NASDAQ 100 mini, 4:345
NASDAQ 100 Trust Shares, 5:277n.3
NASDAQ Composite Index historical method with portfolio invested in, 5:159–160, 160n.28
Monte Carlo simulation with portfolio invested in, 5:166–167
variance-covariance method with portfolio invested in, 5:155–156
National Association of Insurance Commissioners (NAIC), 2:501,
506–507
National Association of Real Estate Investment Trusts (NAREIT), 5:15
National Association of Real Estate Investment Trusts (NAREIT) Index as benchmark, 5:16, 19
correlation of S&P 500 and, 5:25
historical performance, 5:17–18
indirect investment in real estate with, 5:108, 116, 122, 123, 128
unsmoothed performance, 5:23–24
National Bureau of Statistics (NBS), 3:83
National Council of Real Estate Investment Fiduciaries (NCREIF), 3:44
National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index as benchmark, 5:16, 19
historical performance, 5:17–18
indirect investment in real estate with, 5:108, 114, 116, 121–123, 128
unsmoothed performance, 5:23–24
National Futures Association (NFA), 3:421; 5:85
National Social Security Fund, 1:274
National Venture Capital Association (NVCA), 5:36, 38
National Westminster Bank, 5:196 natural hedge, 3:445
natural liquidity, 6:11–12
nature of employment, 4:108–109
NatWest Markets, 5:196–197
NAV. see net asset value
NBS. see National Bureau of Statistics
NCREIF. see National Council of Real Estate Investment Fiduciaries
NCREIF Property Index. see National Council of Real Estate Investment Fiduciaries Property Index
needs, financial and ability to take risk, 2:174–175
estimating, 2:280–284
needs analysis method, 2:412
need-trustworthy-agent trading focus, 6:58–40
negative convexity, 4:136
negative goals, 3:288n.30
negative interest rates, 3:65–67
negative liquidity events, 2:176
negative screening, 4:300, 317–318
negative yields, 4:129
net asset value (NAV), 4:99; 5:59
Net Contributions strategy, 6:99
net employment capital, 2:279
net exposure, 4:507
Netherlands equity risk premium, 3:39
Eurozone membership, 3:9n.
exted taxes, 2:306–307
expected returns for equities/bonds, 3:25
gift tax, 2:293
in Hague Conference, 2:304
market integration, 3:43
market value of ETFs, 4:342
mutual funds, 1:276n.
pension assets, 1:272, 273
real GDP growth rate, 3:32
real returns on bonds, bills, and equities in, 4:296
REITs, 5:14, 25
taxable gifts, 2:291
tax-advantaged savings accounts, 2:246
tax regime, 2:231, 347
trade partners, 3:83, 84
wealth taxes, 2:306
net interest margin, 2:521
net interest spread, 2:503
net investment income, 2:487–488
net-of-fees return, 6:196, 207
net-of-tax principal, 2:257–258
net payment cost index, for life insurance, 2:414–415
net premiums, of life insurance, 2:411–412
netting, 5:186–187
netting risk (settlement netting risk), 5:151
net wealth, 2:390, 397–400
net worth, 2:276–277
networks, expert, 1:67
net worth, 2:390
net worth tax, 2:276–277
neuro-economics, 2:19–20
neutral level of interest rates, 3:63
new entrants, robo-advisers as, 1:280
new firms, starting, 1:112
new media, information retention on, 1:147
New York, New York, 2:310–311
New York Federal Reserve, 5:179
New York State, 2:507, 517
New York Stock Exchange (NYSE) Archipelago Exchange merger, 6:42
cross-listing of stock with TSE, 6:31–32
as hybrid market, 6:17
market quality of, 6:20–21
and NAREIT Index, 5:17
operational risk management by, 5:145
and price volatility of LIKE, 6:56, 62
Index

size and style segmentation of equities, 4302–303
Trade and Quote database, 6153
trade size on, 6141
New York Times, 532
New Zealand
in Hague Conference, 2304
marginal tax rates, 2318
market value of ETFs, 4343
mutual funds, 1276n.
real returns on bonds, bills, and equities in, 4296
tax regime, 2231, 347
New Zealand dollar
and carry trade, 4139–140
as commodity currency, 3449
currency code, 3536
in currency pairs, 3386, 438
NEA, see National Futures Association
Nifty 50 Index, 4345
Nigeria, 2231, 347
Nikkei 225 Index, 3142; 4331, 345
no free lunch (assumption), 2329
noise, in performance evaluations, 53125–126
nominal bond yields, 376–77
nominal default-free bonds, 390–91
nominal gross domestic product, 332, 64–65
nominal interest rates, 439
nominal position limits, 5190–191
nominal risk-free interest rate, 336
Nominations Committee, 6158
Nomura, 1279
noncallable debt, adding calls to, 5400–403
non-cancelable and guaranteed
renewable policy, for disability
income insurance, 23418
non-cancelable policy, for disability
income insurance, 23418
noncompete agreements, 11107
non-controlling interest, discount for, 22339
non-core assets, 2360
noncorrection of known errors, 148
non-current assets, 23386
non-deliverable forwards, 3450–451
nondiversifiable risk, excess return to, 6116
Norfarm Nonfinancial Corporate
Business, 3159–160
non-fee paying portfolios, in composites, 6202
nonfinancial risks
Basel II requirements, 51180–181
defined, 5141
measuring, 51179–181
operational risk, 51180–181
non-insurance risk transfers, 2432
non-investable hedge fund indexes, 568
non-life insurance companies,
2511–519
legal and regulatory factors, 2517
liquidity requirements, 23515
portfolio policy determination, 23517
return objectives, 2513–515
risk objectives, 2512–513
tax concerns, 2516–517
time horizon, 2515–516
nonlinear correlations of assets, 320
non-marketable assets, 32389–390
employer pension plans, 2389–390
government pensions, 2390
non-normal optimization approaches,
3255–259
nonparametric (term), 51161
non-participating life insurance policy,
2407
nonpublic information
acting on, 1563, 66
analyst recommendations as, 1655–66
controlling, 1158
defined, 1158
material (see Material Nonpublic
Information [Standard II(A)])
standards for priority of transactions
with, 1158
non-publicly traded marketable assets,
2388–389
annuities, 2389
business assets, 2389
cash-value life insurance, 2389
collectibles, 2389
real estate, 2388
non-recourse loans, 2367
non-recourse mortgages, 2388
nonstationarity, 317
nonsystematic risk, 5229; see also
idiosyncratic risk
non-taxable accounts, 2390
normal beta, 688
normalization, of professional behavior,
1294
normal portfolio, 686
Noronha, Gregory, 4335
North America. see also specific
countries
Conference Board index, 3845
global assets under management, 1268
mutual funds, 1275
real estate market, 2520, 22
securities lending, 4338
North American Free Trade Agreement
(NAFTA), 382
Northfield, 4338
Norway
equity risk premium, 339
expected returns for equities/bonds, 325
in Hague Conference, 2304
mutual funds, 1276
real returns on bonds, bills, and equities in, 4296
sovereign wealth funds, 1274
sovereign wealth funds in, 3340
tax regime, 2231, 347
Norway model, 3303
no securities laws (NS) countries,
124–25
notional principal, 5179, 364–365,
374–375
notional value, of derivatives, 4343
Novatel Wireless, Inc., 528
NS countries. see no securities laws
countries
NVCA. see National Venture Capital
Association
NYSE. see New York Stock Exchange
NYSE Arca Exchange, 616
NYSE Fact Book, 641n.25
NYSE Trade and Quote (TAQ) database,
4812
O
OAS. see option-adjusted spread
objective function, 645–46
objectives
in active equity investing portfolio
construction, 4469–471
investment
in asset allocation, 3187
of defined benefit pension fund,
1284, 285
of endowment fund, 1284, 285
establishing, 1777
in governance, 1284–285
of individual investors, 1284
in investment policy statements,
1287
in IPSs, 193, 148
and risk tolerance, 1285
management of concentrated single-
asset positions, 2327–328
in portfolio construction, 4300,
469–471
return
asset allocation based on, 2192–195
for banks, 2523
for defined-benefit plans, 2468–470
for endowments, 2492–494
for foundations, 2486
for individual investors, 2172–174
for life insurance companies,
2503–505
for non-life insurance companies,
2513–515
in sample IPSs, 2186, 189
risk
asset allocation based on, 2193–195
for banks, 2522
for defined-benefit plans, 2465–468
for endowments, 2491–492
for foundations, 2486
for individual investors, 2174–175
for life insurance companies,
2501–503
for non-life insurance companies,
2512–513
of risk management strategies, 2391
trading, 637–40
objectives and constraints framework,
4578–479
objectivity, 1241; see also Independence
and Objectivity [Standard I(B)]
OECD. see Organisation for Economic
Cooperation and Development
OECD Commentary, 2309
off-balance-sheet debt, 2330
offer price, spot currency, 3387
Index

over-the-counter markets, credit securities in, 4:241
overweight rewarded factors, 4:449–451
owned benchmarks, 6:83
owners, with concentrated positions monetization decision-making process for, 2:336–337, 362–364
personal lines of credit for, 2:360–361
profile of, 2:358
ownership, 5:12
in asset management industry, 1:271
beneficial, 1:158
in civil law, 2:274
of completed prior work, 1:111
of firm’s records, 1:147, 148
joint ownership with right to survivorship, 2:274
sole, 2:274
P
Pacific Rim, 2:322. see also specific countries
packeting, of indexes, 4:328
Page, Larry, 5:32
paid-in capital, 6:211, 236
pairs trading, 4:411–412, 6:42–43
Pakistan, 2:180, 331, 347
Panama, 2:304
panel methods, 3:48–49
Paraguay, 2:304
Paris, France, 2:310–311
Paris Bourse, 6:16
partial correlation of assets, 3:20
partial disability benefit, 2:417
partial duration (p), 4:132, 160, 165–166. see also key rate durations
partial DV01 (PDV01), 4:160
partial fills, 1:85; 6:16
partial price value of a basis point (PPVBP), 4:160
participant-directed DC pension plans, 2:464
participate (do not initiate) orders, 6:8
participating life insurance policy, 2:406–407
parties
to annuities, 2:423
outside, 1:162–164
related, 1:38–39
partners
general, 1:278; 6:212, 235
limited, 6:212, 236
strategic, 5:31, 32
turnaround, 5:99
partnerships
FLPs, 2:297–298, 339
limited, 6:212, 236
tax avoidance with, 2:181
part-time status, 1:116
Pascal, Blaise, 2:20–21
passing exams in consecutive years, 1:173
passive hedging, 3:403
passive investing
in equities, 4:325–371
about, 4:325–326
approaches, 4:339–348
benchmark selection, 4:327–339
growth of, 1:278–279
indexing vs., 4:325
portfolio construction, 4:348–352
practice problems, 4:364–368
return and risk sources, 4:355–360
solutions to problems, 4:369–371
tracking error management, 4:353–355
in fixed-income instruments active investment vs., 4:45–46
bond market exposure methods, 4:96–102
fixed-income market definition, 4:96
passive investors, 2:108–109
in behavioral alpha process, 2:111–112
trading behavior of, 2:254
Passive management, 4:315–318
active management vs., 1:269–270
of allocations to asset classes, 3:210–212
of asset class weights, 3:209
passive managers, 4:359–360
Passive Preservers, 2:113–115
passive traders, 6:34, 36
pass-through treatment, 4:197n.8
paying the offer, 3:387
payment netting, 5:186–187
payments
balance of, 3:79n.64
copayments, 2:403n.3, 421
foreign currency, 5:252–254
prepayment risk, 4:280
single-payment loans, 5:215–218
payout methods, of annuities, 2:428–429
pay-to-play scandals, 1:34
PBGC. see Pension Benefit Guaranty Corporation
PBO. see projected benefit obligation
PCP. see Professional Conduct Program
PDV01. see partial DV01
P/E. see price to earnings ratio
peak accumulation phase (financial stages of life), 2:393
Pearl Investment Management, 1:200–210
Code of Ethics and Standards of Professional Conduct violations of new employees, 1:200–203
in ordinary business practices, 1:206–210
with rush projects, 1:203–206
Pearson IC, 4:422–423
Pedersen, Lasse Heje, 4:359, 470n.23
peer group comparisons. see manager universes
peer groups, manager. see manager universes
P/E factor, 4:396
peging strategies, 6:45
Pension Benefit Guaranty Corporation (PBGC), 2:468
pension funds, 2:463–484
adjusting asset allocation of, 5:241–243, 245–246
alternative investments for, 5:9
application of VaR to, 5:168
arbitrage argument for, 2:251–254
creating synthetic cash for, 5:238–240
defined, 2:463
portfolio management for, 2:463–484
defined-benefit plans, 2:464–477
defined-contribution plans, 2:478–483
hybrid plans, 2:483–484
Pension Funds (Dietz), 6:156
pension income, 2:469
pension liabilities
active-lives portion of, 2:465, 469, 471–472
defined, 2:463
managing investments for, 2:469
pension investments and, 2:476–477
retired-lives portion of, 2:465, 469, 471
pension participants, objectives and constraints of, 2:478–479
pension plans
allocations to fixed income in, 3:351
in asset allocation constraints, 3:337–339
as asset management clients, 1:272–273
asset size and performance of, 3:325
changing liabilities of, 3:333
considered in asset allocation, 2:444–445
defined-benefit as asset management clients, 1:272
asset size and performance of, 3:325
contingent liabilities of, 2:267
corporate risk management with, 2:476–477
defined, 2:463
defined-contribution vs., 2:463–464
discounting liabilities for, 2:283
investment objective of, 1:284, 285
legal and regulatory factors with, 2:472–473
liabilities of, 3:268–270
liability-driven investing for, 4:14, 50–86
liability-relative allocation for, 3:201–204
liability requirements for, 2:470–471
portfolio management for, 2:464–477
return objectives for, 2:468–470
risk management for, 5:142
risk objectives for, 2:465–468
tax concerns with, 2:472
time horizon for, 2:471–472
unique circumstances of, 2:473–476
defined-contribution, 1:272; 2:477–484
behavioral factors in portfolio construction for, 1:210–125
middle-aged participant, 2:478
objectives and constraints framework, 2:478–479
for participants in early career, 2:479
employer pension plans, 2:389–390
government pensions, 2:390
liability-driven investing for, 4:76–86
liquidity as constraint for, 3:330
in net wealth, 2:399
portfolio rebalancing in, 3:355
taxation of, 3:334
Pension Protection Fund (PPF), 2:390
pension surplus, 2:465, 467
percentage-of-volume strategy, 6:43
percent-range rebalancing, 3:217, 306
perfect competition, 2:12
perfect information, 2:12, 15
perfect markets, 3:41
perfect rationality, 2:12
perfect self-interest, 2:12
Performance and Valuation (AMC Part E), 1:239, 250–251
performance appraisal, 6:115–123
defined, 6:71
for hedge funds, 5:80–82
quality control charts, 6:119–123
risk-adjusted measures, 6:116–119
performance assessment
and hindsight bias, 2:62
with Monte Carlo simulations, 2:198–199
performance attribution, 6:94–115
defined, 6:71
fixed-income, 6:109–115
macro attribution, 6:96–102
managers' impact on, 6:95
micro attribution, 6:102–109
and objectivity, 1:33
and suitability, 1:100
performance-based fees, 1:277; 4:310; 5:75
performance calculations and asset weighting, 1:99
and length of time, 1:98
methodology for, 1:100–101
on selected accounts, 1:100
performance evaluation. see also portfolio performance evaluation
defined, 6:68
for hedge funds, 5:78–84
consistency, 5:82–84
performance appraisal measures, 5:80–82
returns, 5:79
skewness and kurtosis, 5:82
volatility and downside volatility, 5:79–80
in quantitative investing, 4:423
and risk management, 5:188–190
performance measurement(s), 6:71–81
annualized return, 6:80
benchmarks for, 1:93
data quality issues, 6:80–81
defined, 6:71
and independence/objectivity, 1:33
linked internal rate of return, 6:79–80
money-weighted rate of return, 6:76–79
time-weighted rate of return, 6:74–79
total rate of return, 6:74
without intraperiod external cash flows, 6:71–73
performance netting risk, 5:150–151
performance persistence, 5:92
performance presentation development of standards, 6:156–157
and misrepresentation, 1:210
and prior fund/employer, 1:99
for private equity, 6:214
for real estate, 6:207–208
and simulated results, 1:99–100
for wrap fee/SMA composites, 6:216
Performance Presentation [Standard III(D)], 1:97–101
application of the standard, 1:98–101

Index
point estimates, 3:24n.19
points, forward exchange rate, 3:387
poison pill plans, 4:807
Poland
bond yields, 3:76
equity index futures contracts, 4:345
in Hague Conference, 2:204
tax regime, 2:231, 347
policy allocations, in macro attribution, 6:96–97
policyholder reserves, 2:503n.23
policyholder’s share of income, 2:506
policy portfolio, 3:194. see also strategic asset allocation
policy pricing, insurance, 2:513
policy reserves, of life insurance, 2:412–413
political leadership, 3:79
political risk, 5:149
pooled assets, 3:327
pooled funds, managing, 1:243
pooled investment vehicles, 4:22
339–343
population mean, estimating, 3:17n.7
possibility of past performance, 6:202
portable assets, 2:464
portfolio(s). see also bond portfolio(s)
adding, removing, and switching, 6:188
barbell, 4:105, 106
defined, 4:147
duration-neutral, 4:157–166, 168–170
extreme, 4:191–192
extreme vs. less extreme, 4:195–196
structure, 4:147–150
bullet, 4:105
defined, 4:147
duration-neutral, 4:157–166, 168–170
extreme, 4:192–194
structure, 4:147–150
butterfly, 4:166–168
commodities' roles in, 5:53–55
completeness, 2:355
corner, 3:237n.6
corporate bond, 5:219–227
credit mitigation risk, 4:236
credit risk, 4:235–236
interest rate risk, 4:237–240
liquidity and trading, 4:240–241
spread risk, 4:236–237
credit
construction of (see credit strategies)
defined, 4:233
declining-balance, 3:286n.27
dedicated bond, 4:62
developing, 1:75–76
distressed securities' roles in, 5:98–100
distressed debt arbitrage, 5:98
long-only value investing, 5:98
private equity, 5:98–100
documentation of, 6:182
dollar neutral, 4:508
equities' roles, 4:296–301
capital appreciation, 4:296–297
client considerations, 4:300
diversification, 4:298–299

Cumulative_Ind_L3  52
August 3, 2018 6:59 PM
characteristics of well-constructed portfolio, 4:499–504
risk-based considerations, 4:492–499
portfolios, 4:47–49
long extension strategies, 4:508
long/short strategies, 4:505–507,
market-neutral strategies, 4:508–509
portfolio management approach
selection, 4:459–469
practice problems, 4:517–521
risk budget allocation, 4:474–486
risk measures, 4:486–492
solutions to problems, 4:522–525
asset allocation in, 3:289–292
behavioral factors in, 2:120–125
and behavioral portfolio theory,
2:124–125
company stock, 2:122–123
excessive trading, 2:123–124
home bias, 2:124
inertia and default options, 2:120–121
naive diversification, 2:122
target date funds, 2:121
in behavioral finance, 2:167
and bond market liquidity, 4:21–22
bottom-up approach, 4:266
credit portfolios (see credit strategies)
return and, 4:247
for fundamental vs. quantitative
strategies, 4:379–381
G-spread and, 6:242
and liquidity needs, 4:21–22
passive equity investing, 4:348–352
blended approach, 4:352
full replication approach, 4:349–350
optimization approaches, 4:351–352
stratified sampling approach,
4:350–351
in quantitative investing, 4:423–424
with quantitative vs. fundamental
approaches, 4:380–381
sub-portfolios
for goals-based allocation, 3:286–287,
289–292
module process, 3:294–298
top-down approach, 4:266
in traditional finance, 2:36, 166
portfolio decisions, execution of, see
diversification
portfolio management
approach selection for active equity
investing, 4:459–469
Active Share and active risk in,
4:462–469
bottom-up vs. top-down approaches,
4:460–461
building block use by approaches,
4:461–462
systematic vs. discretionary
processes, 4:459–460
diversifying concentrated portfolios,
5:380–382
equity, 4:295–324
costs, 4:309–312
income, 4:307–309
investment universe segmentation,
4:301–307
passive–active spectrum for,
4:315–318
practice problems, 4:321–322
roles of equities in portfolio,
4:296–301
shareholder engagement in,
4:312–315
solutions to problems, 4:323–324
for individual investors, 2:157–223
about, 2:158
asset allocation, 2:188–199
case study, 2:158–162
investment policy statements,
2:171–187
investor characteristics, 2:162–171
practice problems, 2:202–211
solutions to problems, 2:212–223
for institutional investors, 2:461–544
about, 2:462
banks, 2:519–526
endowments, 2:489–499
foundations, 2:484–489
insurance industry, 2:499–519
investment intermediaries,
2:526–527
pension funds, 2:463–484
practice problems, 2:530–536
solutions to problems, 2:537–544
for mandates, 1:243
portfolio managers. See also manager
continuation policies (MCP)
allocation of funds to, 5:183
duties of, 6:66
impact of, 6:95
independence of, 1:32
modified adjusted duration, 4:93
portfolio optimization
absolute approach to, 4:470
after-tax, 3:343–346
defined, 484–489
for passive equity investing, 4:351–352
solutions to problems, 4:398–399
portfolio overlay, 4:391
performance evaluation,
6:67–150
benchmarks, 6:81–94
absolute, 6:84
broad market indexes, 6:84–85
custom security-based, 6:87–88
defined, 6:82–83
factor-model-based, 6:85–86
for hedge funds, 6:91–94
manager universes, 6:84, 88–89
returns-based, 6:86–87
style indexes, 6:85
tests of quality, 6:90–91
types, 6:84–87
valid, 6:83–84
components, 6:70–71
defined, 6:68
importance, 6:69–70
manager continuation policies,
6:126–130
noisiness of data, 6:125–126
performance appraisal, 6:115–123
quality control charts, 6:119–123
risk-adjusted measures, 6:116–119
portfolio performance evaluation  
(Continued)  
performance attribution, 6:94–115  
fixed-income, 6:109–115  
macro attribution, 6:96–102  
managers’ impact on, 6:95  
micro attribution, 6:102–109  
performance measurement, 6:71–81  
anualized return, 6:80  
data quality issues, 6:81  
linked internal rate of return, 6:79–80  
money-weighted rate of return, 6:76–79  
time-weighted rate of return, 6:74–79  
total rate of return, 6:74  
without intraperiod external cash flows, 6:71–73  
practice, 6:124–130  
practice problems, 6:135–141  
solutions to problems, 6:142–150  
tax considerations in, 2:180–181  
portfolio policy, non-life insurance company, 2:517  
portfolio rebalancing  
asset allocation, 3:214–219  
framework for, 3:216–217  
in practice, 3:305–309  
strategic considerations in, 3:218–219  
defining, 3:305  
for fundamental vs. quantitative strategies, 4:379, 380  
in goals-based allocation, 3:298  
and taxes, 3:346–347  
portfolio returns, 3:391–396  
benchmark, 6:97  
currency risk and return, 3:391–396  
international currency exposure, 3:391–394  
real estate, 6:207  
volatility of returns, 3:394–395  
portfolio risk  
for bond portfolios, 5:219–227  
balancing types of risks, 5:221–223  
of government bond portfolios, 5:223–226  
risk of bond futures, 5:221–223  
risk of bond portfolio, 5:219–221  
varyations and problems, 5:226–227  
marginal contribution to, 3:261  
and rebalancing, 3:216  
portfolio theory, 2:226, see also  
behavioral portfolio theory (BPT)  
portfolio tilts, 2:181  
portfolio trades, 6:9  
portfolio turnover, 2:116  
portfolio variance  
attribute to factor exposures of, 4:476–477  
contribution of assets to, 4:476  
portfolio volatility, taxes and, 2:251  
portfolio weights, 3:395, 398  
portfolio yields, 2:503, 515  
Portugal  
equity index futures contracts, 4:345  
Eurozone membership, 3:9n.  
in Hague Conference, 2:304  
real returns on bonds, bills, and equities in, 4:296  
tax regime, 2:231, 347  
POs. see principal-only strips  
position a trade (term), 6:17  
position-based investment styles, 4:427  
position concentration limits, fund management company, 5:184  
position sizing  
in active equity investing portfolio construction, 4:453–455  
in liquidity risk management, 4:272  
in portfolio construction, 4:459, 492–495  
positive active positions, benchmark, 6:91  
positive screening, 4:300  
POSIT trading system, 6:15, 53, 59  
post-trade transparency, 6:20  
potential output, 3:51  
pound, British  
and carry trade, 4:139–140  
currency code, 3:385  
currency conversion in loans, 5:370–373  
in currency pairs, 3:386  
power-reverse dual note, 4:208  
PowerShares, 4:279  
power utility functions, 3:195  
PfP. see Pension Protection Fund  
PPO.  
see preferred provider organization  
PPI. see Purchasing Power Parity  
PPVB. see partial price value of a basis point  
practice, defined, 1:106  
practice analysis, 1:298  
preadmission certification, 2:421  
preclearance procedures, 1:160  
preatory trading, 4:312  
prediction overconfidence, 2:74–75  
pre-dissemination behavior, guidelines for, 1:85  
preexisting conditions, 2:421  
preferred provider organization (PPO), 2:421  
preferred return, 5:35  
pre-investing in asset classes, 5:248–250  
presure death risk, 2:401  
premature death risk, 2:401  
premiums  
bond-yield-plus-risk-premium method, 3:38  
of call options, 5:159  
for caps vs. floors, 5:327n.24  
currency option, 3:428  
default risk, 3:36  
disability income insurance waiver, 2:418  
equity premium puzzle, 2:72  
equity risk, 3:54–35, 38–40, 150  
fixed-income, 3:36–38  
flexible-premium variable life insurance, 2:500n.20  
illiquidity, 3:36  
inflation, 3:36–38  
life insurance, 2:302  
long-term risk, 4:505  
maturity, 3:37  
net and gross, 2:411–412  
on puts, 2:348; 5:159  
risk, 3:11, 36–40, 50  
single-premium immediate annuities, 2:423  
tax, 3:37  
zero-premium collars, 2:349–350  
prepackaged bankruptcy, 5:99, 102  
prepaid variable forwards, 2:330, 350  
prepayment risk, 4:280  
PreP, 5:37  
pre-retirement phase (financial stages of life), 2:393  
prescreening criteria, 4:415  
presentation(s)  
factual, 1:46–47  
performance (see performance presentation)  
Presentation and Reporting (GIPS  
Section 1.5)  
excerpt of, 6:162–163  
recommendations, 6:203–205  
requirements, 6:197–205  
see performance presentation, development of standards  
present value, of human capital, 2:385–386  
present value of a basis point (PVBP). see price value of a basis point  
present value of distribution of cash flows methodology, 4:94  
Preservation of Confidentiality  
[Standard III(E)], 1:17, 101–105  
application of the standard, 1:103–105  
compliance procedures, 1:103  
communicating with clients, 1:103  
guidance, 1:101–102  
compliance with laws, 1:102  
electronic information and security, 1:102  
professional conduct investigations by CFA Institute, 1:102  
status of client, 1:102  
text of, 1:17, 101  
press releases, issuing, 1:61  
pretrade transparency, 6:20  
pre-verification procedures, 6:224  
price(s)  
artificial price volatility, 1:70–72  
ask, 6:10  
bid, 3:387; 6:10  
band, 5:219–221  
in bond markets, 4:21  
decision, 6:24  
distortion of, 1:242  
growth-at-a-reasonable-price investment style, 4:386  
matrix, 4:93; 6:81  
offer, 3:387  
and personal trading practices, 1:69–70  
sale, 2:362  
sta, 6:27, 39  
and stock splits, 2:31  
volume-weighted average, 6:23–24, 27–28  
price currency, 3:385–387  
priced factors, see rewarded factors  
price discovery, 2:342; 6:16  
priced risk, 3:36  
price improvement, 6:12  
price is right (assumption), 2:28–29  
price momentum, as style factor, 4:396–399
price to earnings ratio (P/E)
of common shares, 3:95–96
Cyclically Adjusted, 3:154–158, 163, 164
H-model for estimating, 3:134–140
justified estimates, 3:128–142
for China, 3:130–140
for developed economies, 3:141
price uncertainty, 6:7
price value of a basis point (PVBP) and bond portfolio risk, 5:220
defined, 4:132
and duration management, 4:143–145, 148–149
in duration matching, 4:66
price volatility, liquidity and, 2:176
PricewaterhouseCoopers, 5:36
price-weighted indexes, 4:331
pricing
asset
behavioral approach to, 2:38–39, 145
in behavioral finance, 2:167
CAPM, 2:34, 38
risk premiums in, 3:50
in traditional finance, 2:166
Black–Scholes–Merton pricing option
and box spreads, 5:310
and delta hedging, 5:335
formula for, 5:304
and model risk, 5:145
prices from, 5:277n.4, 291
volatility in, 5:152, 343
capital asset pricing model and ex post SML, 6:116
and market behavior, 2:34, 38
market model vs., 6:35n.10
validity of, 6:119
evaluated, 4:93
expected repricing return, 3:34
Fama and French three-factor asset pricing model, 2:144
insurance, 2:411, 513
option-pricing theory, 5:173–175
PRIMA. see Professional Risk Managers’
International Association
primary capital, 2:335
primary fund vehicles, 6:205, 237
primary residence, as illiquid holding, 2:177–178
prime brokerage, 5:55, 6:18
principal
net-of-tax, 2:257–258
notional, 4:81
notional, 5:179, 364–365, 374–375
principal-only strips (POs), 4:143n.12
principal trades, 6:9
prior coverage, 1:38
prior employer
documents and files of, 1:110
in performance presentation, 1:99
prior fund, in performance presentation, 1:99
priority of transactions (AMC), 1:245
Priority of Transactions
[Standard VI(B)], 1:157–162
application of the standard, 1:160–162
case study, 1:202–203
compliance procedures, 1:158–160
guidance
accounts with beneficial ownership, 1:158
avoiding potential conflicts, 1:157
nonpublic information standards, 1:158
personal trading secondary to trading for clients, 1:157
text of, 1:18, 157
prior work, ownership of, 1:111
private clients, portfolio management for, see portfolio management, for individual investors
Private Equity (GIPS Section 1.7), 6:212–214
copyright of, 6:163
and GIPS definition of private equity, 6:205
private equity (private business equity), 5:27–45
about, 2:356–357, 5:27–29
benchmarks, 5:37
business owner profile, 2:358
business profile, 2:357–358
client objectives with, 2:328
concentrated positions, 2:324
defined, 5:7
distressed securities, 5:98–100
due diligence, 5:43–45
GIPS definition, 6:205, 237
GIPS Valuation Principles for, 6:218–219
global private equity asset class, 3:190
historical performance, 5:38
interpretation issues, 5:38
investment characteristics, 5:38–42
investment in publicly-traded equity vs., 5:29
market for, 5:29–37
demand for venture capital, 5:30–31
exit from investment, 5:31
size of market, 5:36–37
supply of venture capital, 5:31–34
types of private equity investments, 5:34–35
monetization strategies, 2:356–366
evaluating, 2:362–366
types of, 2:358–362
in portfolios, 5:42–43
types of investments, 5:34–35
private equity funds
in asset management industry, 1:277–278
defined, 5:28
distressed securities with structure similar to, 5:94
limited liability company form, 5:34–35
private equity market, 5:29–37
demand for venture capital, 5:30–31
exit from investment, 5:31
size of, 5:36–37
supply of venture capital, 5:31–34
types of private equity investments, 5:34–35
Private Financing Initiative (United Kingdom), 5:15
private foundations, 2:302, 486–488
private investment in public entity (PIPE), 5:28
private placement memorandum, 5:30
private placements, limits on, 1:159
private sector, government structural policies in, 3:73
private wealth management, 2:251–260.
see also portfolio management, for individual investors
after-tax mean–variance optimization, 2:260
and after-tax wealth, 2:225–226
asset location, 2:251–254
and estate planning, 2:272–273
holding period management, 2:258–260
tax loss harvesting, 2:255–258
adding net-of-tax principal, 2:257–258
current tax savings, 2:255–256
tax deferral, 2:256–257
trading behavior, 2:254–255
probabilistic retirement analysis, 2:196–199
probabilities
assigning, in research, 2:135
conditional (see Bayes’ formula)
equal probability rebalancing, 3:307
from Monte Carlo simulations, 2:196–199
ruin, 2:285, 286
shortfall, 3:364, 368
survival, 2:280–284
VaR probability levels, 5:157–158
probate, 2:273, 302
processes, Trade Management
Guidelines on, 6:49
processing errors, 2:52
procurement process, 1:34
production-oriented approach, 4:305
productivity, total factor, 3:70–72, 129
professional conduct. see also Standards
of Professional Conduct
Asset Manager Code of Professional Conduct, 1:235–261
introduction, 1:235–237
practice problems, 1:255–259
principles of conduct, 1:237
recommendations and guidance, 1:240–254
solutions to problems, 1:260–261
text of, 1:238–240
CFA Professional Conduct Program, 1:9–10
monitoring of, 1:295
professional conduct investigations, 1:102
Professional Conduct Program (PCP), 1:9–10, 23
confidentiality of investigations, 1:102
misuse of, 1:54
Professional Conduct Statement
Agreement, 1:171
professional designations, 1:174
Professional Investor, 3:327
professionalism
in investment management, 1:293, 296–298
and misconduct, 1:54
Professional Risk Managers’ professionally designated, certified, profit.

2: profiling of individual investors.

2: see

2: profit-sharing plans,

2: profitability cycle.

2: property/casualty insurance companies,

2: Property Council/IPD Australia All Property Index,

2: property insurance, 2:418–420

2: automobile insurance, 2:420

in case study, 2:434

homeowner’s insurance, 2:418–420

2: and integrated asset–liability approach, 3:279

recommendations for, in case study, 2:439–440

property risk, 2:402–403

property-specific risk, 2:327

property taxes, 2:379

proprietary trading procedures, 1:63

prospective clients. see also

Communication with Clients and Prospective Clients [Standard V(B)]

GIPS definition, 6:237

GIPS provisions for, 6:159

prospect theory, 2:24–28

defined, 2:18

and loss-aversion bias, 2:70, 166–167

and utility theory, 2:20, 22

protective puts defined, 3:428

with OTM options, 3:432

in risk management strategies, 5:290–292

“Protocol for Broker Recruiting,” 1:107

proxy hedging, 3:438–440

proxy voting, 1:76–78, 4:314–315, 359–360

prudence, 6:48, see also Loyalty, Prudence, and Care [Standard III(A)]

prudence trap, 3:21–22

Prudential, 2:504, 516

prudent investor rule, 2:507

prudent judgment, 1:241–242

Prudent Person Rule, 2:190

PSI-20 Index, 4:345

psychographic modeling of investors, 2:111–116

behavioral alpha process, 2:111–116

Active Accumulators, 2:116

classifying as behavioral investor type, 2:113–116

Friendly Followers, 2:115

Independent Individualists, 2:115–116

Passive Preservers, 2:114–115

plotting on risk tolerance and active/passive scale, 2:112

testing for behavioral biases, 2:112–113

testing for risk tolerance and active/passive traits, 2:111–112

bottom up approach, 2:110

psychological considerations with concentrated positions, 2:331–334

of risk management, 5:192

psychological profiling of individual investors, 2:165–171

behavioral finance, 2:166–167

personality typing, 2:167–171

traditional finance, 2:165–166

psychological traps, in capital market expectations, 3:21–22

public companies, independence and objectivity of, 1:33

public dissemination, achieving, 1:60

public equity (publicly traded equity) global, 3:190

investment in private equity vs., 5:29

public good, 3:73n.63

public limited company (PLC), 5:35

public market equivalents, 6:213, 237

public sector, government structural policies in, 3:73

pump and dump strategy, 1:72

pump-priming strategy, 1:71

purchasing managers index (PMI), 3:62

Purchasing Power Parity (PPP), 3:100

pure indexing defined, 4:91

and fixed-income portfolio management, 4:16, 17

“pure-play” independent asset managers, 2:1268

Pure Sector Allocation return, 6:106

putable bonds, 4:48, 136

put–call parity, 5:174–175

put options (puts)

cash-covered, 4:309

in equity portfolios combinations of calls and, 5:304–312

long/short positions, 5:282–286

protective, 5:290–292

hedging with, 2:348–349

with lending, 5:318–323

premiums, 5:159

protective, 3:428, 432; 5:290–292

put payoffs, 5:313, 318–321

put spread, 2:348, 350

put spreads, 3:432–433

PVBP. see price value of a basis point

Q

Qatar, 1:274; 3:76

Qatar Investment Authority, 1:274

QE. see quantitative easing

Qian, E. E., 4:242

Qin, Nan, 4:332

Qualindex Fund, 4:339

qualification summary, 1:47

Qualified Intermediaries (QIs), 2:311

qualified purchasers, 3:327

quality, tests of, 6:690–91

quality control charts, 6:119–123

assumptions underlying, 6:120

confidence bands on, 6:121

defined, 6:119

interpreting, 6:122–123

quality effect, 6:113

Quality factor

active investing based on, 4:399–400

for equities, 4:356

weighting of, 4:450

quant crowding, 4:426

QuantEX™, 6:42

quantiles, 4:393

Quantitative Analysis of Investor Behavior (DALBAR), 2:59
quantitative easing (QE), 3:56–57, 65, 66
quantitatively oriented models, 1:134–135
quantitatively oriented research, 1:128
quantitatively oriented techniques, 1:129
quantitative strategies
active equity investing about, 4:375–376
fundamental vs. quantitative strategies, 4:376–381
strategy creation, 4:420–427
bottom-up, 4:381–382
quant meltdown (August 2007), 4:208
ratio analysis, 4:207
range of experience, availability bias and, 6:19
quote-driven (dealer) markets, 6:10–15
R
rand, South African, 3:385, 449
random walks, 3:366
range accrual notes, 4:207
range forwards. see collars
range of experience, availability bias and, 2:68
RAROC. see risk-adjusted return on capital
ratchet floaters, 4:208
rate of return
annualized return, 6:60
with external cash flows at beginning/ end of evaluation period, 6:72–73
holding period, 4:56
internal, 6:76–79
linked, 6:79–80
modified, 6:171–173
money-weighted rate of return, 6:76–79
of private equity, 5:39
for real estate, 6:208–211
money-weighted, 6:76–79
real, 4:296
subperiod, 6:75–76
time-weighted rate, 6:74–79
about, 6:74–76
GIPS definition, 6:238
and linked internal rate of return, 6:79, 80
MWR vs., 6:77–79
as requirement of GIPS standards, 6:170
total, 6:74
without external cash flows, 6:72
ratio analysis, 4:263
real assets
as asset class, 3:191
inflation/deflation effects for, 3:59
real bond yields, 3:90, 92
real estate, 5:13–27
about, 2:366
benchmarks, 5:15–17
client objectives with, 2:328
concentrated positions in, 2:324,
366–369
concentrated single-asset positions in,
2:366–369
defined, 5:7
direct, 2:388, 5:21
donor-advised funds, 2:367–368
due diligence, 5:27
forecasts of returns, 3:97
GIPS Valuation Principles for, 6:218
historical performance, 5:17–18
inflation/deflation effects for, 3:59
interpretation issues, 5:19
investment characteristics, 5:20–21
and liquidity, 3:260
market for, 5:13–15
monetization strategies, 2:367–369
mortgage financing, 2:367, 388
as non-publicly traded marketable asset, 2:388
in portfolios, 5:21–27
diversification within real estate, 5:23–25
real estate as diversifier, 5:22–23
returns, 6:207
for strategic asset allocation, 5:26–27
worldwide investment in real estate, 5:25
sale and leaseback, 2:368–369
types of investments, 5:14–15
wealth taxes on, 2:238
Real Estate (GIPS Section 1.6), 6:163,
205–211
real estate investment trusts (REITs), 5:14–15;
6:205
real estate market, 5:13–15
real estate securities, 6:205
real exchange rate, 3:409–410
real gross domestic product, growth rate of,
3:32–33
real interest rate
and inflation premium, 3:37
reducing risk factor exposure to, 3:194
risk-free, 3:37
volatility of, 4:9
realization multiples, 6:211, 237
realized profit/loss, 6:25
real options, 5:52
REALpac/IPD Canada Quarterly Property Index, 5:16
real returns, equities vs. bonds/bills,
4:296
real risk-free interest rate, 3:36, 37
reasonable basis, see also Diligence and
Reasonable Basis [Standard V(A)]
defined, 1:127
developing, 1:131
reasonable care, 1:241–242
rebalancing of indexes, 4:334–335; 5:62
of portfolios (see portfolio rebalancing)
rebalancing overlay, 4:344
rebalancing policy, 1:288
rebalancing range, 3:217
rebalancing returns, 3:306n.44
rebasing scheme, for manager-based hedge fund indexes, 5:62
re-basing, of indexes, 3:14
rebate rate, 4:31
recallability trap, 3:22
recapitalization, leveraged, 2:359
receipts
current account, 3:79
foreign cash, 5:252, 375–377
receiver swaptions, 4:82; 5:398–403
recency effect, 2:140; 3:366
recession phase (business cycle), 3:54
defined, 3:51
earnings in, 3:93
and market expectations, 3:59–60
yield curve as predictor of, 3:54
recommendation objectivity, 1:40–41
recommendations. see also Investment
Analysis, Recommendations, and
Actions [Standard of Professional Conduct V]
trade dealing in, 1:82–83
GIPS, 6:160, 208, 237
in investment policy statements, 1:148
as material nonpublic information,
1:65–66
number of people privy to, 1:84
reasonable basis for, 1:127
reconstitution, of market indexes, 4:334–335
record keeping
in AMC, 1:248
supervision of, 1:123
Trade Management Guidelines on, 6:49
record retention, 1:148
Record Retention [Standard V(C)], 1:146–148
application of the standard, 1:148
compliance procedures, 1:147
guidance, 1:146–147
local requirements, 1:147
new media records, 1:147
records as property of firm, 1:147
text of, 1:18, 146
records maintenance of, 1:62
as property of firm, 1:147, 148
recourse mortgages, 2:388
recourse with respect to a debt, 2:341n.a
redemption, of ETFs, 4:341
reference dependence, 2:27
references, employee, 1:54
Reference to CFA Institute, Designation
and Program [Standard VIII(B)],
1:19, 170–174
application of the standard, 1:173–174
compliance procedures, 1:172
guidance, 1:170–172
CFA designation, 1:71
CFA Institute membership,
1:170–171
referring to candidacy in CFA
program, 1:171–172
text of, 1:19
referral arrangements
disclosure of, 1:162–164
informing firms of, 1:163
interdepartmental, 1:163
Referral fees [Standard VI(C)],
1:162–164
application of the standard, 1:162–164
compliance procedures, 1:162
guidance, 1:162
text of, 1:162, 162
refinancing, 2:369
reflector of current investment opinions
(benchmark property), 6:83
regimes, 3:17–18
Regional Investment Performance
Subcommittees (RIPS), 6:158
Registered Retirement Savings Plans
(RRSPs), 2:246
registration fees, 4:310
regression analysis, 4:167n.22, 262
regression analysis, regime changes and,
3:17–18
regret, hindsight bias and, 2:141
regret-aversion bias, 2:79–80, 91; 4:418
consequences of, 2:80
detection and methods of overcoming, 2:80
diagnostic questions, 2:87, 89
and status quo bias, 2:77
regulations
after 2008 global financial crisis, 1:301
as challenge for investment
management professionals, 1:301
changes in, 3:353
and concentrated positions, 2:330
and ethics, 1:13
and governing laws, 1:201–202
on insurance companies, 3:337
on pension funds, 3:338
religious tenets as basis for, 1:28–29
on securities sales, 2:330
against short selling, 4:505–506
regulatory capital requirements, 3:191
regulatory constraints of individual
investors, 2:182–185; see also
external constraints
and asset allocation, 3:336
family foundation, 2:184–185
jurisdiction for taxation, 2:185
personal trust, 2:183–185
in sample IPSs, 2:187
for small asset owners, 3:327
regulatory factors for institutional
investors
banks, 2:523
defined-benefit plans, 2:472–473
downfalls, 2:395
and equities in portfolio, 4:300
foundations, 2:488
life insurance companies, 2:506–508
with long-only investments, 4:505–506
non-life insurance companies, 2:517
regulatory risk, 5:146–147
rehabilitation clause, of disability income
insurance, 2:418
reinvestment risk, 2:502
REITs, see real estate investment trusts
related parties, gifts and entertainment
from, 1:38–39
relationships
in AMC, 1:241
and conflicts of interest, 1:152, 156
custodial, 1:32
fund manager, 1:32, 42
independent contractor, 1:108–109
investment banking, 1:32–33
relative approach, 4:470
relative economic strength forecasting
approach, 3:100, 102
relative risk, see also active risk; Active
Share
benchmark, 4:462
causes and sources of, 4:478–479
measures of absolute risk vs.,
4:474–475
relative value
after-tax, 2:290–291, 294
of CDOs, 4:281
and ESG practices, 4:267
in international credit portfolios,
4:275–277
of taxable gifts, 2:291, 294
of tax-free gifts, 2:290–291
in values-based equity investing,
4:383–384
and Z-spread, 4:245
relative-value analysis, 4:249–256
relative value hedge fund strategies, 5:67
relative value models for equity market,
3:148–163
asset-based models, 3:158–162
earnings-based models, 3:148–158
Cyclically Adjusted P/E Ratio,
3:154–158
Fed model, 3:148–151
Yardeni model, 3:151–154
religious tenets, laws and regulations
based on, 1:28–29
REM. see rational economic man
remaindermen beneficiaries of, trusts,
2:184–185
remittance basis charge, 2:306
remuneration, 4:312
Renshaw, Edward F., 4:326
reorganization plans, bankruptcy,
5:101–102
replacement costs, in homeowner’s
insurance, 2:418–419
repo rate, defined, 4:30
reporting, see also Presentation and
Reporting (GIPS Section I.5)
of carve-out segments, 6:202
framework for, 1:287, 288
governance, 1:287, 288
incident-reporting procedures, 1:109
management, 1:288
of material nonpublic information,
1:62
performance, 1:44–45
of potential unethical actions, 1:29
requirements for investment
personnel, 1:159–160
reports
facts vs. opinions in, 1:140, 209–210
flash, 1:85
material nonpublic information in,
1:60
presentation of, 1:140
repos. see repurchase agreements
representativeness bias, 2:56–60
of analysts, 2:126, 128, 134
and asset allocation, 3:366–367
consequences of, 2:58
detection and methods of overcoming,
2:58–60
diagnostic questions, 2:87
and halo effect, 2:144
of investment managers, 2:134
repurchase agreements (repos), 4:29–30
repurchase yield, 3:33
requested favors, 1:155
request for proposal (RFP), 1:112
requirements, GIPS, 6:160, 208, 237
resampled mean–variance optimization,
3:254–255
rescaling, of appraisal data, 3:16
research
alpha and beta, 3:8
assigning probabilities in, 2:135
biases in, 2:133–136
diligence, 1:33, 129
documentation, 2:136
on factor-based strategies, 4:401–404
facts vs. opinions in reports, 1:209–210
and feedback, 2:135
forecasting, 2:133–136
group, 1:129, 132
issuer-paid, 1:34–35, 48
of others, using, 1:209
and plagiarism, 1:45–46
quantitatively oriented, 1:128
reasonable basis for, 1:311, 209
and record retention, 1:148
secondary, 1:127–128
supervision of, 1:122–123, 125–126
systematic approach to, 2:315
third-party, 1:127–128, 132
research independence, 1:37–38, 40
research reports, material nonpublic
information in, 1:60
reserve(s)
emergency, 2:176
life insurance, 2:412–413
policyholder, 2:503n.23
safety, 2:283, 285
valuation, 2:501n.21
reserve order, 6:8–9
residence, as illiquid holding,
2:177–178
residence jurisdiction, 2:305
residence—residence conflicts, 2:307
residence—source conflicts, 2:307–310
and double taxation treaties,
2:308–310
relief from, 2:307–308
resident, non-domiciliaries (RNDs),
2:306
residential mortgage-backed securities
(RMBSs), 4:279
residential property boom (2005–2007),
2:142
residents, taxation of, 2:305–306
residual disability benefit, 2:417
residuals, 3:71
residual value, 6:211, 237
resilience, market, 6:19
resistance levels, 3:411
resonance, availability bias and, 2:68
Responsibilities of CFA Members
and Candidates [Standard of Professional Conduct VII]
case study, I:204
Conduct as Participants in CFA
Institute Programs
[Standard VII(A)], I:19, 165–169
application of the standard,
I:167–169
eleventh edition revision, I:8
guidance, I:165–167
text of, I:19, 165
Reference to CFA Institute,
Designation and Program
[Standard VII(B)], I:19, 170–174
application of the standard,
I:173–174
case study, I:202
compliance procedures, I:120–122
adequate, I:120–121
code of ethics or compliance
procedures, I:120
establishing incentive structures,
I:122
implementation of compliance
education and training, I:121
eleventh edition revision, I:7–8
guidance, I:118–120
detection in supervision, I:119–120
system for supervision, I:119
text of, I:118, 116
responsibility(-ies)
accepting, I:124
allocation of, I:285–287
of employers, I:106
in investment policy statement, I:287
responsiveness, bond, 5:221
restricted lists, creating, I:36
restricted periods, I:159
restructuring investment style, 4:385
results
overemphasis of, I:53
simulated, I:99–100
retail investors, I:271
retired CFA Institute membership
status, I:173
retired-lives portion of pension liability,
2:465, 469, 471
retirement accounts
IRAs, 2:246
Monte Carlo simulation for, 3:244–246
taxation of, 3:343
tax-deferred, 2:232
retirement income efficient frontier,
2:430–431
retirement planning
longevity risk in, 2:402
Monte Carlo simulation in, 2:196–199
primary residence in, 2:178
Retirement Savings Accounts (RSAs),
2:159, 181
retrievability, availability bias and,
2:67–68
return(s)
accrual equivalent, 2:243–245
active, 6:104, 118–119
and active risk, 4:480
calculating, 4:446–447
information ratio, 6:119
portfolio construction based on,
4:447–448
relative to one-factor model, 6:104
and total return mandates, 4:15–16
and active management/investment
style, 6:82–83
after tax, 2:241
after-tax return calculations, 6:226–229
Allocation/Selection Interaction, 6:107
annualized, 6:80
capital, 6:206, 233
of company stock, 2:123
component, 6:206–207
composite, 6:178–181, 204
compounded, 2:287
concurrent, 2:198
constant returns to scale, 3:129
differential, 6:94
dividend, 4:297
domestic-currency, 3:392–395
drivers of, 3:127–128
excess, 4:353–355
in credit portfolio, 4:247–248
to nondiversifiable risk, 6:116
in relative value analysis, 4:250–253
in top-down approach to credit
strategy, 4:261
expected
in asset-only allocation, 3:234
decomposition of, 4:23–26
estimates of, 3:11–12
and framing bias, 3:367
in goals-based allocation, 3:285
Gordon growth model, 3:31–33
Grinold–Kroner approach, 3:34–35
risk premium approach, 3:36
taxation, 3:543, 345–346
unconditional, 3:19–20
fixed-income, 4:23–26
of fixed-income securities, 6:112–113
forecasting, 3:89–103
for cash and equivalents, 3:88–89
for common shares, 3:92–96
for currencies, 3:99
for defaultable debt, 3:91
for emerging market bonds, 3:91
and exchange rates, 3:99–102
and historical capital market
expectations, 3:96–98
for inflation-indexed bonds, 3:92
for nominal default-free bonds, 3:91
for real estate, 3:96
foreign-currency, 3:392
geometrical linking of, 6:170–171
gross-of-fees, 6:196, 207, 235
from hedge funds, 1:277
income, 3:34, 6:206, 235
low-return environments, 5:9
macro attribution, 6:97–98
from market models, 6:86
mean, 3:24, 26
minimum acceptable, 5:189–190
misfit, 6:97n.18, 101
net-of-fees, 6:196, 207
and performance evaluation for hedge
funds, 5:79
and performance evaluations of hedge
funds, 5:79
portfolio, 3:391–396
benchmark portfolio returns,
6:86–87, 227–228
currency risk and return, 3:391–396
international currency exposure,
3:391–394
real estate, 6:207
volatility of returns, 3:394–395
preferred, 5:35
Pure Sector Allocation, 6:106
real estate portfolio, 6:207
rebalancing, 3:306n.44
risk-adjusted, 4:447
risk-adjusted return on capital, 5:189
roll, 3:424–426
rolldown, 4:23–24
rolling, 5:79
sources of, in passive equity investing,
4:355–360
time-weighted total, 6:169–172
total, 4:15–19
with active management, 4:17
dividend returns for S&P 500 Index
vs., 4:297
endowment spending based on,
2:489–491
of fixed-income securities, 6:112–113
with indexing, 4:16–17
for insurance companies, 2:504
investor requirements based on,
2:172–173
for non-life insurance companies,
2:514
time-weighted, 6:169–172
Within-Sector Selection, 6:106–107
return drivers, 4:967–968
return objectives, 4:300
asset allocation based on, 2:192–195
for individual investors, 2:172–174
for institutional investors
banks, 2:523
defined-benefit plans, 2:468–470
endowments, 2:492–494
foundations, 2:486
life insurance companies, 2:503–505
non-life insurance companies,
2:513–515
in sample IPSs, 2:186, 189
return-oriented factor-based strategies,
4:337–338
return over maximum drawdown
(RoMAD), 5:189
return rates. see rate of return
return requirement, 2:172–173, 469
returns-based benchmarks, 6:86–87
returns-based style analysis, 4:342–346
returns-based taxes, 2:232–237
return-seeking portfolio approach,
3:276–279
compared to other approaches,
3:280–281
defined, 3:270
Reuters, 3:104, 421

Cumulative_Ind_L3 59 August 3, 2018 6:59 PM
and leverage, 4:481–482
with liability-driven investing, 4:86–90
measuring, 5:151–181
modeling in asset classes, 3:188–194
classification of, 3:188–191
diversification with, 3:190
sub-asset classes, 3:192
in negative interest rate environment, 3:66
and portfolio return, 3:391–396
of private equity investments, 5:39
and rebalancing portfolios, 3:216
risk characteristics of benchmarks, 6:91
sources of, in passive equity investing, 4:355–360
of structured notes, 5:366–370
inverse floaters, 5:360–370
leveraged floating-rate notes, 5:366–367
time diversification of, 3:336
and trading costs, 6:30
with well-constructed equities
portfolio, 4:500–501
willingness to take risk, 2:175
risk-adjusted performance measures, 6:116–119
criticisms, 6:119
ex post alpha, 6:116–117
information ratio, 6:118–119
\( M^2 \), 6:116–118
Sharpe ratio, 6:117
Treynor, 6:117
risk-adjusted return on capital
(RAROC), 5:189
risk-adjusted returns
maximizing, as portfolio management
objective, 4:469
portfolio construction based on, 4:447
risk arbitrage, 1:63; 4:413–414
risk aversion
for downside risk, 2:145
and source of wealth, 2:162
in traditional finance, 2:13–14, 165
risk aversion coefficient
in asset allocation, 3:232
in efficient frontier, 3:236–237
estimating, 3:233
risk avoidance, 2:391, 432
risk-based capital (RBC) requirements, 2:501, 517, 523
risk-based margin regimes, 2:330
risk budget allocation, 5:182–185
active equity investing, 4:474–486
absolute risk measures, 4:474–477
examples, 4:484–486
process, 4:482–484
relative risk measures, 4:474–475, 478–479
risk level determination, 4:479–482
in asset allocation implementation, 3:214
asset-only allocation, 3:261–263
in risk parity–based allocation, 3:304
risk efficiency, of well-constructed
equities portfolio, 4:501
risk exposure(s), 2:400–405
analysis of, 5:141–142
and benchmark indexes, 4:329
credit, 5:177–179, 185
currency
international, 3:391–394
and portfolio returns, 3:391–396
strategic decisions about, 3:399–402
with top-down approach, 4:264–265
defined, 5:135n.2
earnings, 2:400–401
health, 2:403–404
insider, 5:387–389
interest rate, 4:237–240, 263–265
and leverage in fixed-income portfolio
management, 4:31
liability, 2:403
longevity, 2:402; 2:208, 4:78
monitoring, in risk management
strategies, 2:392
premature death, 2:401
property, 2:402–403
and pure indexing, 4:16
thematic, 4:453
transaction, 5:251
translation, 5:251
risk factor approach, 3:203–204
risk-factor exposure, 4:329
risk factors
bond indexing, 4:93–94
common equity, 4:336
limits for portfolio managers, 5:184
risk-free assets, 3:240–241
Risk-Free Asset strategy, 6:99
risk-free interest rates, 3:36, 37; 4:237, 238
risk level, determination of, 4:479–482
risk management, 1:249–250; 5:133–209
about, 5:134–135
of currency risk (see currency
management disclosure of process, 1:254
identifying risk, 5:140–151
accounting risk, 5:148–149
analysis of risk exposures, 5:141–142
credit risk, 5:142–143
ESG, performance netting, and
settlement netting risk, 5:150–151
legal/contract risk, 5:147
liquidity risk, 5:143–144
market risk, 5:142
model risk, 5:145
operational risk, 5:144–145
regulatory risk, 5:146–147
settlement risk, 5:145–146
sovereign and political risks, 5:149
tax risk, 5:147–148
for individual investors, 2:381–458
annuities, 2:422–431
determining optimal strategy, 2:431–433
financial capital, 2:386–390
framework for, 2:391–405
human capital, 2:383–386
implementation of, 2:431–446
insurances, 2:405–422
life-cycle finance, 2:382
net wealth, 2:390
practice problems, 2:449–454
solutions to problems, 2:455–458
strategy for, 2:391–392
in investment policy statement, 1:287
managing risk, 5:181–192
in capital allocation, 5:190–192
credit risk, 5:185–188
market risk, 5:181–185
and performance evaluation, 5:188–190
psychological and behavioral considerations of, 5:192
measuring risk, 5:151–181
credit risk, 5:172–179
liquidity risk, 5:179
market risk, 5:151–152
nonfinancial risks, 5:179–181
stress testing, 5:170–172
value at risk, 5:152–170
portfolio management for defined-benefit plans, 2:477
practice problems, 5:196–203
as process, 5:135–138
risk governance, 5:138–140
solutions to problems, 5:204–209
Risk Management, Compliance, and Support (AMC Part D), I:239,
246–250
risk management, currency. see currency management
risk management applications of forward and futures strategies, 5:213–274
about, 5:213–215
asset allocation with futures, 5:241–250
adjusting asset allocation, 5:241–248
pre-investing in asset classes, 5:248–250
equity market risk, 5:227–241
cash from equity, 5:237–241
equity from cash, 5:232–237
risk of equities, 5:228–230
risk of equity portfolios, 5:230–232
foreign currency risk, 5:250–258
risk of foreign currency payments, 5:252–254
risk of foreign currency receipts, 5:252
risk of foreign-market asset portfolio, 5:254–258
futures vs. forwards, 5:258–260
interest rate risk, 5:215–227
risk for bond portfolios, 5:219–227
risk for loans, 5:215–219
practice problems, 5:264–268
solutions to problems, 5:269–274
risk management applications of option strategies, 5:275–356
about, 5:275–277
for equity portfolios, 5:277–312
combinations of calls and puts, 5:304–312
money spreads, 5:293–303
standard long and short positions, 5:279–286
and the underlying, 5:286–292
interest rate option strategies, 5:312–313
calls with borrowing, 5:313–318
caps with floating-rate loans, 5:323–327
collars with floating-rate loan, 5:329–333
floor with floating-rate loan, 5:327–329
puts with lending, 5:318–323
option portfolio risk management strategies, 5:333–343
delta hedging over time, 5:335–342
gamma and risk of delta, 5:342–343
interest rate options and options on futures, 5:344
vega and volatility risk, 5:343
practice problems, 5:348–351
solutions to problems, 5:352–356
risk management applications of swap strategies, 5:357–421
about, 5:358–359
equity market risk, 5:380–389
and allocation of stocks and bonds, 5:384–387
diversifying concentrated portfolios, 5:380–382
insider exposure, 5:387–389
international diversification, 5:382–384
exchange rate risk, 5:370–380
and currency conversions, 5:370–377
and foreign cash receipts, 5:375–377
and loans, 5:370–375
risk of dual currency bonds, 5:377–380
interest rate risk, 5:359–370
converting floating- and fixed-rate loans, 5:359–363
duration of fixed-income portfolios, 5:363–366
risk of structured notes, 5:366–370
practice problems, 5:397–415
solutions to problems, 5:416–421
swaptions, 5:389–404
and forward swaps, 5:404
for future borrowing, 5:390–394
interest rate swaptions, 5:390–397
synthetically removing/adding call features, 5:398–403
terminating swaptions with swaptions, 5:394–397
risk measures
absolute, 4:474–477
active equity investing, 4:486–492
absolute, 4:474–477
consequences of mistaken risk expectations, 4:489–491
examples, 4:491–492
formal constraints, 4:487–489
heuristic constraints, 4:486–487
relative, 4:474–475, 478–479
relative, 4:474–475, 478–479
RiskMetrics Group, 5:27, 5:181
risk models, for quantitative investing, 4:423
risk neutrality, 2:113
risk objectives, 4:300
asset allocation based on, 2:193–195
for defined-benefit pension plans, 2:465–468
for individual investors, 2:174–175
for institutional investors, 2:522
banks, 2:522
defined-benefit plans, 2:465–468
endowments, 2:491–492
foundations, 2:486
life insurance companies, 2:501–503
non-life insurance companies, 2:512–513
risk-oriented strategies, 4:338
risk-parity–based allocation, 3:303–305
risk premium approach to capital market expectations, 3:11, 36–40
equity risk premiums, 3:38–40
fixed-income premiums, 3:36–38
general expression, 3:36
risk premiums
about, 3:37–38
in asset-pricing theory, 3:50
default, 3:36
equity for capital market expectations, 3:38–40
Grinold–Kroner model for forecasting, 3:34–35
financial market equilibrium models for, 3:40–48
fixed-income, 3:36–38
long-only investing, 4:505
risk profile
investment suitability for, 1:94, 96
understanding, 1:91
risk reduction
and asset allocation, 2:443–446
in risk management strategies, 2:391
for single-stock positions, 2:343–356
cross hedging, 2:355–356
equity monetization, 2:343–347
exchange funds, 2:356
hedging, 2:348–354
tax-optimized equity strategies, 2:354–355
yield enhancement, 2:354
risk retention, 2:392, 432
risk reversals, 3:432, see also collars
risk-seeking, 2:13
risk tolerance
in asset-only allocation, 3:198–199
of defined-benefit pension plans, 2:466
determining, when articulating investment objectives, 1:285
of endowments, 2:491–492
in ERM, 5:182
and goals-based investing, 2:81–82
misidentification of, 2:67
"120 minus your age" rule for, 3:300–301
plotting, in behavioral alpha process, 2:112
and return requirements, 2:172–173
in sample IPSs, 2:186, 189–190
testing for, in behavioral alpha process, 2:111–112
and willingness to take risk, 2:175
risk tolerance questionnaires, 2:119–120, 168
risk transfer, 2:391–392, 432
risksy-asset holdings, 3:240
RiverSource Disciplined Equity Fund, 4:466
R/JCRB Index. see Reuters Jefferies/Commodity Research Bureau Index
RMBs. see residential mortgage-backed securities
RNDs. see resident, non-domiciliaries
Robinson, Thomas R., 2:337n.5
robo-advisers, 2:280–281
rogue traders, 5:144–145
Rohal, G., 4:424
Roll, Richard, 4:352
roll down, 4:135
rolldown return, 4:23–24
rolling return (RR), 5:79
rolling three-year average spending rule, 2:491
roll return, 3:424–426
roll yield, 3:424–426
RoMAD. see return over maximum drawdown
Romania, 1:276n.; 2:304
Roman law, 2:274
Rosenberg, Michael R., 3:409n.15
Roth IRAs, 409n.15
Royal Dutch Shell PLC, 92
Roth IRAs, 409n.15
2:337n.5
RNDs.
RMBS.
I-62 Index
rupee, Indian, 385, 450
ruin probabilities, 2:285, 286
rule-based margin regimes, 2:330
rules-based trading, 6:42–43
Rules of Procedure. see Bylaws and Rules of Procedure for Proceedings Related to Professional Conduct
rumors, addressing, 1:110–111
rupee, Indian, 3:85, 450
Russell 1000 Index
absolute risk factor attribution, 4:477
active risk factor attribution, 4:479
as benchmark, 6:136
calculating Active Share with, 4:465n.21
capitalization and trading volume for equities on, 4:493–494
cumulative value, 4:452
risk factor exposure of, 4:450–451
volatility in, 4:453
Russell 1000 Large-Cap Index, 4:335
Russell 1000 Value Index
absolute risk factor attribution, 4:477
active risk factor attribution, 4:479
as benchmark, 6:136
cumulative value, 4:452
risk factor exposure of, 4:450–451
Russell 2000 Index
as benchmark, 6:136, 137
cumulative performance of equities on, 4:391–392
market capitalization and trading volume for equities on, 4:495
Russell 2000 Small-Cap Index, 4:335
Russell 2500 Index, 3:44
Russell 3000 Index, 4:352; 5:383, 408; 6:59, 136–137
Russell Global Sectors Classification (RGS), 4:305, 306
Russell Large Value Index, 6:85
Russia
flat tax rate, 2:227
gift tax, 2:293
in Hague Conference, 2:304
real returns on bonds, bills, and equities in, 4:296
tax rates, 2:180
tax regime, 2:231, 232n.4, 347
Russian ruble, 3:385, 450
RVPI, 6:211, 237
S
SAFE Investment Company,
SAMA Foreign Holdings, 2:360
S&P, 2:336–369
sale price, private business equity, 2:362
sales pressure, 1:38
sales prospects, in evaluation of private equity investments, 5:43
sales taxes, 2:226
Salomon, Robert S., 4:355
Salomon Smith Barney, 2:520
SAMAA Foreign Holdings, 1:274
sample estimators, 3:72–73
sampling theory, 3:170n.7
Samsung Index Premium Equity Index, 4:354
Samuelson, Paul, 2:72–73
sandwich spread, 1:280
Saudi Arabia
currency pegging, 3:76
sovereign wealth funds, 1:274
tax regime, 2:231, 232n.4, 347
trade partners, 3:83
savings
behavioral approach to, 2:37–38
tax-advantaged, 2:245–246
tax-sheltered, 2:181
self-attrition bias of analysts, 2:126, 127
and management, 2:132
and market bubbles, 2:143
and overconfidence bias, 2:73–74
Schroder Salomon Smith Barney, 3:49
Scope and Purpose of Verification (GIPS Section IVA), 6:223
screening
negative, 4:300, 317–318
positive, 4:300
screening criteria, investment, 2:55
SE. see societies Europaeae
seagull spreads, 3:433–434
SEAAQ market, 6:12
search process, for information, 2:135
SEC. see US Securities and Exchange Commission
secondary credit markets
bid–ask spreads in, 4:270–271
evaluating liquidity in, 4:268–271
spread sensitivity to fund outflows, 4:269–270
trading volume in, 4:268–269
secondary fund vehicles, 6:205, 237
secondary research, 1:127–128
second-stage financing, 5:31
secrecy, broker, 6:18
sector effect, for fixed-income, 6:236–238
sector-neutralized price momentum factor, 4:397–398
sectors. see economic sectors
sector weighting, 6:104–107
securities. see also specific types of securities
description of, 1:141–142
inherited, 2:78, 79
lending income, 4:308
lending of, 4:30–31, 358–359
macro, 2:178
regulations on sale of, 2:330
security (of electronic information), 1:102
Security Analysis (Graham and Dodd), 1:297; 4:383
security-based benchmarks, custom, 6:87–88
Security Market Line (SML), ex post, 6:116–117
security selection effect, 6:113
security selection strategy, 4:248. see also bottom-up approaches to credit strategy
Security Valuation Book (NAIC), 2:507
seed money, 5:30, 31
segmentation
of insurance companies, 2:505
investment universe, 4:301–307
by economic activity, 4:305–307
for equity indexes and benchmarks, 4:307
by geography, 4:304–305
by size and style, 4:301–303
segmented markets, 3:42–43
segregation, in prospect theory, 2:25
selective disclosure, 1:64, 86, 88
selective stock inclusion methods, for indexes, 4:330
self-attribution bias of analysts, 2:126, 127
and management, 2:132
and market bubbles, 2:143
and overconfidence bias, 2:73–74
self-control bias, 2:76–77
consequences of, 2:77
defined, 2:37
detection and methods of overcoming, 2:77
diagnostic questions, 2:88, 90–91
defaulting, 1:107
self-enhancing bias, 2:74
self-insured, 2:392
self-interest, perfect, 2:12
self-made investors, 2:162
self-protecting bias, 2:74
sellers, in liquid markets, 6:20
selling convexity, 4:136
sell side, 6:19
semi-strong form EMH, 2:29–32
senior management, see management
detected by, 3:281–282
sensitivity analysis, 3:281–282
sensors, investment data, 1:280
sentimental holdings, 6:183
separately managed accounts (SMAs),
1:276
separately managed equity index-based portfolios, 4:347–348
separate property regimes, 2:275
Separate Trading of Registered Interest and Principal of Securities. see US Treasury STRIPS
September 11 terrorist attacks, 3:60
Sequoia Fund, 4:466
Serbia, 2:304
Serfaty-de Medeiros, Karine, 3:400–401
serotonin, 2:19–20
service(s)
additional, for select clients, 1:88
level of, 1:86
misrepresentation of, 1:210
professions as providers of, 1:294–295
service contracts, as insurance, 2:422
service fees, 1:40
service providers, selecting, 1:135–136
settlement, 3:387; 6:9
settlement-date accounting, 6:167, 237
settlement netting risk, 5:151
settlement (Herstatt) risk, 5:145–146
settlor, 2:299–300
SEU. see subjected expected utility
SFAS 133. see Statement of Financial Accounting Standard 133
"shadow accounting," 6:215n.46
shadow period, 2:307
shaping risk, 4:132
share-for-share exchange transactions, 4:414
shareholder engagement
benefits of, 4:313
disadvantages of, 4:313–314
equity manager’s role in, 4:314–315
in equity portfolio management, 4:312–315
shareholder voting policies, 1:253
share repurchases, Grinold–Kroner model for, 3:33–34
shares. see also equities; stock(s)
common, 3:92–96, 348–350
employee share ownership plans, 2:483–484
Sharir law, 2:274; 3:340
Sharpe ratio
defined, 6:116
ex post, 6:117
for hedge funds, 5:80–81
of hedge funds, 6:93–94
and 1/N rule, 3:237
and risk-adjusted returns, 4:469
and risk management, 5:189
shift, in yield curves, 4:203–204
Shiller, Robert, 2:166, 178
Sheifer, A., 4:395
short availability, with quantitative investing, 4:425
shortfall, expected, 4:488
shortfall probability, 3:364, 368
shortfall risk, 2:467
shorting, see long–short investing
short interest, 3:359
short positions
for call options, 5:279–282
delta hedges of, 5:338–339
for put options, 5:282–286
in risk reversals, 3:452
in seagull spreads, 3:433–434
short sales against the box, 2:344, 365–366
short selling
complexity of, 4:506
in hedge funds, 1:277
naked, 4:505
and personal ideology of investors, 4:506
regulations against, 4:505–506
short squeeze, 4:510
short-term borrowing, country risk and, 3:79
short-term capital gains tax rate, accumulation using, 2:258–259
short-term forecasts, 3:359
short-term income distributions, 3:313
short-term interest, 2:432
short-term inputs, 3:256
short-term shifts, 3:361–363
should (term), 6:160, 237
shrinkage estimation, 3:25–26
sidearrangements, 1:242
side-letter arrangements, 1:242
Sigma Finance Company, 4:359
significant cash flows, 6:189n.20
SI-IRR. see since inception internal rates of return
simple logical participation strategies, 6:43
simple spending rule, 2:491
simplification, in prospect theory, 2:25
simulated frontiers, 3:254
simulated results, 1:79–100
simulation analysis, 2:282
simultaneous disembination, 1:85
since inception internal rates of return (SI-IRR)
GIPS definition, 6:238
for private equity, 6:213–214
for real estate, 6:208–211
Singal, Vijay, 4:332, 335
Singapore
and Economic Freedom Index, 3:78
market value of ETFs, 4:342
offshore banking centers, 2:310–311
REITs, 5:14
residence–source conflicts, 2:307
RNDs’ assets in, 2:306
sovereign wealth funds, 1:274
tax regime, 2:231, 347
territorial tax system, 2:305
TFP growth, 3:71
wealth taxes, 2:238
Singer–Terhaar approach, 3:40–48
single-asset positions. see concentrated single-asset positions
single-payment loans, 5:215–218
single-premium immediate annuities (SPIAs), 2:423
single-stock positions, 2:323, 340–356
about, 2:340–341
non-tax considerations, 2:342–343
risk reduction strategies, 2:343–356
equity monetization, 2:343–347
exchange funds, 2:356
hedging, 2:348–354
tax-optimized equity strategies, 2:354–355
yield enhancement, 2:354
tax considerations, 2:341–342
situational profiling of individual investors, 2:162–165
by measure of wealth, 2:163
by source of wealth, 2:162
by stage of life, 2:163–165
60/40 stock/bond heuristic, 3:301–302
Size factor
for benchmark index selection, 4:329
for equities, 4:336
in long/short strategies, 4:510
weighting of, 4:449–451
Skalsia, S., 4:428
skewed forecasts, 2:127
skewness, 4:488; 5:12n.9
and performance evaluations, 5:82
and roles in portfolios, 5:74
skilled mutual funds, 2:58–59
skills, overconfidence in, 5:58–59
sovereign wealth funds, 1:307
RNDs’ assets in, 2:304
residence–source conflicts, 2:307
wealth taxes, 2:238
soverign wealth funds, 1:307
RNDs’ assets in, 2:304
residence–source conflicts, 2:307
wealth taxes, 2:238
Slovakia
Eurozone membership, 3:9n.
in Hague Conference, 2:304
mutual funds, 1:276n.
Slovenia
Eurozone membership, 3:9n.
in Hague Conference, 2:304
slowdown phase (business cycle), 3:53–54
SLR. see standard of living risk
small-cap companies
in holdings-based investment classification, 4:429–430
segmentation of equities for, 4:302, 303
small-capitalization stocks, performance of, 2:144
small-cap stock effect, 3:18
small numbers, law of, 2:57
smart beta, 1:270; 4:103, 336, 391
smart routing, 6:40, 45
SMAs. see separately managed accounts “smell” test for factor-based investing, 4:393
smid-cap indexes, 4:329
Smith, Adam, 1:300
SML, ex post. see Security Market Line, ex post
smoothed data, 3:14–16
smoothing rule, 2:487, 491–492, 494
socially responsible investing (SRI), 4:267
social media, 1:9
investment data on, 1:279–280
limited disclosures on, 1:89
and loyalty to employers, 1:108
material nonpublic information on, 1:159
misrepresentation on, 1:45
social proof, 2:304
in SPF–SPF correlations, 3:304
in VIX–VIX correlations, 3:304
Society for Worldwide Interbank Financial Telecommunication Protocol. see SWIFT Protocol
soft commissions, 1:76, 246, 253
soft dollars, 1:76, 246; 6:28–29
Soft Dollar Standards, 1:246; 6:28
sole ownership, 2:274
solicitation, of former clients, 1:109–114
Solvency II regulatory standards, 3:337
Sorenson, E. H., 4:423
Sorrette, Didier, 4:333
Sortino ratio, 5:82, 189–190
source jurisdiction, 2:305
source of wealth classifications, 2:162
source–source conflicts, 2:307
South Africa
equity index futures contracts, 4:345
equity risk premium, 3:39
expected returns for equities/bonds, 3:25
gift tax, 2:293
in Hague Conference, 2:304
market value of ETFs, 4:342
pension assets, 1:272
regulatory constraints in, 3:337
REITs, 5:14
sovereign wealth funds in, 3:340
tax rates, 2:179
trade partners, 3:83, 84
sovereign ceiling, 4:277
sovereign government bonds duration management, 4:142
liquidity, 4:19, 20, 268
relative value, 4:276
returns, 4:154
taxation, 4:32
sovereign risk, 5:149
sovereign wealth funds (SWFs), 1:273–274
in asset allocation constraints, 3:340
and asset size constraints, 3:327
Soviet Union, 3:130, 131
S&P. see Standard & Poor’s
S&P 500 Index
appraisal data on, 3:15, 16
Asian financial crisis (1997), 3:331
in Assets Category strategy, 6:100
as benchmark, 4:449; 6:193
bond market correlation matrix, 4:6–7
as broad-market index, 6:84, 85
calendar anomalies in, 2:35
in capital market forecasts, 3:44
commodities correlations, 5:48, 53
109–110, 123
commodities performance in portfolios, 5:54–55
on correlation matrix, 4:299
cumulative performance of equities on, 4:391–392
derivatives on, 4:343
distressed debt hedge funds and, 5:74
distressed securities correlations, 5:96–97
dividend returns relative to total returns for, 4:297
equity fund investors’ performance vs., 2:59
in equity swaps, 5:381, 382, 385
and Fed model, 3:149, 151
forecasting approaches for, 3:142
full replication of, 4:349
futures contracts on, 4:344, 345
futures price of, 5:230
Google’s inclusion in, 5:32
Grinold–Kroner analysis, 3:34
hedge fund correlations, 5:62–66, 73, 110–111, 124
and justified P/E estimates, 3:135–136
in LEI, 3:84
long-only positions in, 6:92
managed futures correlations, 5:87–89, 91
market earnings per share forecasting, 3:146–148
Monte Carlo simulations of, 2:198, 199
number of constituents of, 4:369
portfolio trades with, 6:9
private equity correlations, 5:38
as proxy for true market portfolio, 5:228
real estate correlations, 5:17–18, 25
108, 116
returns for HFRX Activist Index vs., 4:408–409
reweighting schedule for, 4:331–332
selective stock inclusion method of, 4:330
stratified sampling of, 4:351
in studies of EMH, 2:32
as surrogate, 6:119
time diversification, 3:336
volatility of, 4:490
and Yardeni model, 3:152–153
S&P 500 mini, 4:345
S&P 500 Total Return Index, 5:64
S&P 500/TSX 60 Index, 4:369
S&P 500 Value Index, 4:351
S&P 1500 High Yield Dividend Aristocrats Index, 4:337
S&P 1500 Index, 4:352
S&P /ASX 200 Index, 4:345
S&P BMI US REIT Index, 5:156
S&P China BMI Index
dividend discount model, 3:138–139
H-model, 3:133
and justified P/E estimates, 3:135–136
US stock market returns vs., 3:136–137
S&P Corporation. see Standard & Poor’s
S&P Dow Jones, 4:327
S&P Eurozone Sovereign Bond Index, 4:104, 105
S&P Global Broad Market Index, 4:351
S&P Global Natural Resources Index, 4:307
S&P GSCI (Standard & Poor’s Goldman Sachs Commodity Index), 5:17–18, 47–55
S&P GSCI Agricultural TR Index, 5:49
S&P GSCI Commodities Index, 4:299
S&P GSCI Energy TR Index, 5:49
S&P GSCI Gold Index, 4:299
S&P GSCI Grains TR Index, 5:49
S&P GSCI Industrial Metals TR Index, 5:49
S&P GSCI Livestock TR Index, 5:49
S&P GSCI Petroleum TR Index, 5:49
S&P GSCI Precious Metals TR Index, 5:49
S&P Large Value Index, 6:85
S&P REIT Composite Index, 5:17
S&P Small Cap 600 Index (SPSC), 5:385
S&P /TSX 60 Index, 4:345
S&P /TSX Composite mini, 4:345
Spain
Conference Board index, 3:84
corporate form of publicly-traded companies, 5:35
domestic tax relief, 2:308
equity index futures contracts, 4:345
equity risk premium, 3:39
Eurozone membership, 3:9n.
equality returns for equities/bonds, 3:25
gift tax, 2:293
in Hague Conference, 2:304
Sterling ratio, 5:82n.107
Sterling-yen market (JPY/GBP), 3:386
stock(s), see also equities; shares
substantial gains
subordinated, 281
subordinated tranche, 4:281, 282
subjected expected utility (SEU), 2:11
sub-advisers, selecting, 1:129, 136
sub-asset classes, 3:192
sub-portfolio construction of
goods onUBs, 3:286–287, 289–292
subperiod rates of return, 6:75–76
structured bonds, 4:282
structured financial instruments, 4:29
in credit portfolios, 4:278–283
asset-backed securities, 4:281
CDOs, 4:281–282
covered bonds, 4:282
MBS, 4:279–280
in fixed-income portfolio, 4:29
structured mandates, 4:11; see also
liability-based mandates
structured notes, 4:207–208; 5:359,
366–370
style bias, 6:97n.18, 101
style classification, manager-based hedge
fund index, 5:61
style-defined composites, 6:216
style drift, 5:75
style factors, 4:395–400
style indexes, 6:85
style matrix, 6:185
stylized scenarios, analysis of, 5:170–171
subadvisers, selecting, 1:129, 136
sub-asset classes, 3:192
subjected expected utility (SEU), 2:21–22
submanagers and IPS reviews, 1:96
selection of, 1:132–133
subordinated tranche, 4:281, 282
subordination, 4:281
subperiod rates of return, 6:75–76
sub-portfolios construction of
for goals-based allocation, 3:286–287, 289–292
module process, 3:294–298
in goals-based allocation, 3:207–209
time horizon management with, 3:334
suitability, 1:57
of alternative investments, 5:11
in AMC, 1:244
for entire portfolio, 1:94–95
for investor risk profile, 1:94, 96
Suitability [Standard III(C)], 1:90–97
application of the standard, 1:94–97
Index
Index

compliance procedures, 1:93–94
investment policy statements, 1:93
regular updates, 1:94
suitability test policies, 1:94
guidance, 1:90–93
developing investment policies, 1:91
managing to indexes or mandates, 1:93
need for diversification, 1:92
understanding client’s risk profile, 1:91
unsolicited trading requests, 1:92–93
updating investment policies, 1:92
text of, 1:17, 90
suitability test policies, 1:94
summaries, attributing, 1:47
sunshine trades, 6:38
Super Bowl indicator, 2:139
supervision
detection as part of, 1:119–120
inadequate, 1:124–125
of research activities, 1:122–123, 125–126
system for, 1:119
of trading activities, 1:123
supervisors. see Responsibilities of Supervisors [Standard IV(C)]
supplemental information, 6:184, 238
supplements, VaR, 5:169–170
supply
business-cycle related, 5:51–52
in relative value analysis, 4:254–255
of venture capital, 5:31–34
support levels, 3:411
Suriname, 2:304
surplus
in contingent immunization, 4:75
of insurance companies, 2:501n.21, 512–513
liabilities and, 3:269, 270
of non-insurance companies, 2:514
pension, 2:465, 467; 5:168
surplus at risk, 5:168
surplus capital, 2:335
surplus efficient frontier, 3:273–275
surplus optimization, 3:271–276
compared to other approaches, 3:280–281
defined, 3:270
as liability-relative approach, 3:185
surrender cost index, for life insurance, 2:414, 415
survey data, in quantitative investment
process, 4:421
survey methods, 3:48–49
survival probability, core capital based on, 2:280–284
survivor bias (survivorship bias), 3:14;
4:424; 5:69; 6:89
survivorship, joint ownership with right to, 2:274
sustainability of capital markets, 1:12–13
swaps. see also risk management
applications of swap strategies
credit default and credit risk, 5:188
index derivatives, 4:272–273
for liquidity risk management, 4:272–273
as tail risk hedge strategy instrument, 4:274–275
currency, 4:278; 5:179, 374 (see also interest rate swaps)
equity, 5:380–389
diversifying concentrated portfolios with, 5:380–382
fixed-income swaps vs., 5:384–389
international diversification with, 5:382–384
involving executives in, 5:389
total return, 2:344–345; 4:100–101; 5:188
equity index, 4:346–347
fixed-income, 4:29; 5:384–389
in fixed-income portfolio management, 4:29
interest rate, 4:22, 29
currency swaps vs., 5:374
for DB pension plan derivatives
strategy, 4:80–86
and duration management, 4:144–145
uncollateralized, 4:87–88
matched, 3:390–391, 422
measuring credit risk of, 5:176–177
mismatched, 3:390, 391
off-market, 5:358n.1
terminating, 5:394–397
swap markets, foreign exchange, 3:390–391
swap rates, l-spread, 4:244
swaption collars, 4:82–85, 87
swaptions, 5:389–404
defined, 5:359
and forward swaps, 5:404
for future borrowing, 5:390–394
interest rate swaptions, 5:390–397
removing/adding call features with, 5:398–403
strategies for managing, 5:389–404
terminating swaps with, 5:394–397
Sweden
equity index futures contracts, 4:345
equity risk premium, 3:39
exit taxation, 2:306–307
expected returns for equities/bonds, 3:25
in Hague Conference, 2:304
inflation-linked bonds, 4:9
market value of ETFs, 4:343
negative interest rates, 3:65
real estate market, 5:25
real GDP growth rate, 3:32
real returns on bonds, bills, and equities in, 4:296
tax regime, 2:231, 347
Swedish krona, 3:385
Swensen, David, 1:275; 3:302
SWFs. see sovereign wealth funds
SWIFT (Society for Worldwide Interbank Financial Telecommunication) Protocol, 4:348
Swiss franc
benefits of currency exposure for, 3:401n.11
currency code, 3:385
in currency pairs, 3:386
as haven currency, 3:449
synthetic dual-currency bond in, 5:379–380
Swiss Market, 4:345
Switzerland
equity index futures contracts, 4:345
equity risk premium, 3:39
expected returns for equities/bonds, 3:25
gift tax, 2:293
in Hague Conference, 2:304
market integration, 3:43
market value of ETFs, 4:342
mutual funds, 1:276n.
negative interest rates, 3:65
ownership of private business enterprises, 2:322
pension assets, 1:272, 273
real estate market, 5:25
real GDP growth rate, 3:33
real returns on bonds, bills, and equities in, 4:296
regulatory constraints in, 3:337
retail investors, 1:271
tax regime, 2:231, 347
trade partners, 3:83
wealth taxes, 2:306
Sydney Futures Exchange, 4:346
synthetic index funds, 5:233–236
systematic account reviews, 1:86
systematic approach to research, 2:135
systematic biases, benchmark, 6:90
systematic processes. see also quantitative strategies
portfolio construction based on, 4:448–449
of portfolio management
building block use by, 4:462
discretionary vs. systematic processes, 4:459–460
systematic risk, 2:324, 443; 4:508–509; 5:229
systematic trading strategies, 5:86
T
T. Rowe Price, 2:121
T. Rowe Price Mid-Cap Value Fund, 4:466
T + 1 settlement, 3:387n.4
T + 2 settlement, 3:387
tactical asset allocation (TAA), 3:209;
4:102
discretionary TAA, 3:359–360
real-world constraints in, 3:358–363
as short term, 3:256
systematic TAA, 3:360–361
tactical currency management decisions, 3:409–419
carry trade in, 3:412–414
economic fundamentals in, 3:409–410
example, 3:417–419
technical analysis in, 3:411–412
volatility trading in, 3:414–419
Taft-Hartley Labor Act, 2:473
tag-along arrangements, 1:242
tail events, 4:490
tail loss, expected, 4:488
tail risk, 4:273–275
assessing, 4:273–274
managing, 4:274–275
scenario analysis, 4:273–274
tail risk hedge strategy, 4:273–274
tail value at risk (TVaR), 5:170
Takahashi, Dean, 1:275
Tankan Survey, 3:83
"Taper Tantrum," 4:240
T&Q database, see Trade and Quote
database
target companies, for activist investors, 4:407
target covariance matrix, 3:25–26
target-date funds, see also life-cycle
balanced funds
asset allocation and human capital in, 3:180
and glide paths, 2:121; 3:355
use of "120 minus your age" rule by, 3:300–301
target dollar duration of portfolio, 2:36
see also target-date funds.
TAQ database.
Trade and Quote
see 240
83
Tankan Survey, 3:
Cumulative_Ind_L3 68 August 3, 2018 6:59 PM
Takahashi, Dean, 170
tail value at risk (TVaR), 273–274
tail risk hedge strategy,
I-68 Index
tax drag,
tax efficiency,
2:247–248
tax-deferred accounts (TDAs), 2:246
and after-tax asset allocation,
2:247–248
asset location for, 2:251–254
financial capital in, 2:390
and investment risk, 2:250
rebalancing to, 3:347–348
retirement, 2:232
selecting tax exempt accounts vs.,
2:248–250
tax drag, 2:233, 235
tax efficiency, 2:327
taxes, 2:225–269. see also specific types,
e.g.: income taxes
with active vs. passive equities
management, 4:318
after-tax accumulations and returns,
2:232–245
accrual equivalent returns, 2:243–245
accrual equivalent tax rates,
2:244–245
blended tax environments, 2:239–243
and GIPS, 2:226–229
simple tax environments, 2:232–239
after-tax portfolio optimization,
3:343–346
and after-tax wealth, 2:225–226
and alternative investments, 5:11
and asset allocation, 2:196
client considerations for equities in a
portfolio, 4:300
and concentrated positions
equity monetization strategies,
2:345–347
hedging strategies, 2:352–354
leveraged recapitalization, 2:359
managing single-stock positions,
2:341–342
monetization of private business
equity, 2:362
outright sale of positions, 2:328–329
and cross-border estate planning,
2:305–310
double taxation, 2:307–310
double taxation treaties, 2:308–310
exit taxes, 2:306–307
foreign tax credit provisions,
2:307–308
income taxes, 2:305–306
wealth and wealth transfer taxes,
2:306
and disability income insurance,
2:348
for endowments and foundations,
3:339–340
and estate planning, 2:276–278
fixed-income portfolios, 4:32–35
investment vehicle choice, 4:33–34
principles, 4:32–33
global income tax structures,
2:226–232
common elements, 2:227–229
dimensions in tax planning, 2:232
general regimes, 2:229–232
international comparisons of income
taxes, 2:227
and government structural policies,
3:73
for individual investors, 2:179–182
early transfers, 2:182
jurisdiction for taxation, 2:185
tax avoidance, 2:181
tax deferral, 2:181
tax reduction, 2:181–182
transfer at death, 2:182
wealth transfer taxes, 2:182
for institutional investors
banks, 2:523
defined-benefit plans, 2:472
endowments, 2:495
foundations, 2:487–488
life insurance companies, 2:506
non-life insurance companies, 2:514,
516–517
and investment account types,
2:245–250
after-tax asset allocation, 2:247–248
selecting account type, 2:248–250
tax-deferred accounts, 2:246
tax-exempt accounts, 2:246–247
and investment risk, 2:250–251
for irrevocable trusts, 2:183
and life insurance, 3:302–303
in Monte Carlo simulations, 2:199
pass-through treatment, 4:33
and portfolio rebalancing, 3:346–347
practice problems, 2:260–266
and rebalancing, 3:219
in sample IPFs, 2:187, 190
solutions to problems, 2:267–269
strategies to reduce tax impact,
3:347–348
and trusts, 2:301
and wealth management, 2:251–260
after-tax mean–variance
optimization, 2:260
asset location, 2:251–254
holding period management,
2:258–260
tax loss harvesting, 2:255–258
trading behavior, 2:254–255
tax evasion, 2:310
tax-exempt accounts, 2:246–247
and after-tax asset allocation,
2:247–248
asset location for, 2:251–254
rebalancing to, 3:347
selecting TDAs vs., 2:248–250
tax-exempt securities, 2:181
tax loss harvesting, 2:255–258
adding net-of-tax principal, 2:257–258
and constraints on individual investors,
2:181–182
current tax savings, 2:255–256
with fixed-income portfolios, 4:33, 34
and GIPS standards, 6:229
and portfolio rebalancing, 3:347
tax deferral, 2:256–257
tax-optimized equity strategies,
2:354–355
tax premiums, 3:37
tax rates
accrual equivalent, 2:244–245
implied annual capital gains, 3:343n.11
in other jurisdictions, 2:179–180,
227–229
short-term capital gains, 2:258–259
Tax Reform Act (1969), 2:486
tax risk, 5:147–148
tax-sheltered savings accounts, 2:181
Taylor rule, 3:63–64
TBI for Institutional Commercial
Property Performance. see
Transaction-Based Index for
Institutional Commercial Property
Performance
T-bills, see US Treasury bills
T-bonds. see US Treasury bonds
TDAs. see tax-deferred accounts
technical analysis, currency management
and, 3:411–412
technical anomalies, 2:34
technical model requirements, 1:136–137
technology
and investment management
professionals, 1:301
validation of, 5:44
technology bubble (1990s), 2:69, 142
technology sector, 6:106–107
temporary disequilibrium behavior,
2:139
temporary life insurance, 2:406
temporary new accounts, 6:189, 238
termination policies, 1:109
term life insurance, 2:406, 499n.19
territorial tax systems, 2:305
testamentary grantor trusts, 2:277
testator, 2:274
tests of quality (benchmark), 6:90–91
Texas hedge, 3:42n.34
TFP, see total factor productivity
Thai baht
Index

Thailand
Asian currency crisis (1997), 3:331
tax regime, 2:231, 347
trade partners, 3:83

Thaler, Richard,
2:64, 72, 166
thematic exposures, 4:453
thematic investing, 4:300
thematic investment strategies, 4:390
“The Theory of Speculation” (Bachelier), 2:30
theta, 5:152
third-party confirmation of information, 1:247–248
third-party custodians, 1:32
third-party research, 1:127–128, 132
third-stage financing, 5:31
Thomson Reuters Business Classification (TRBC), 4:305, 306
Thomson Reuters Corporate Governance Intelligence database, 4:409
Thomson Reuters Global Financials Index, 4:307
Thomson Reuters Lipper, 4:428, 432–434
Thomson Venture Economics, 5:36
Thorley, Steven, 4:456n.12
TIAA-CREF plans, 120n.6, 122
Tobin’s q ratio, 3:158–162
Tokyo Stock Exchange, 6:16
tolerance bands, 3:308
top-down active equity investing, 4:388–391
about, 4:376
information used in, 4:378
top-down credit strategy approach, 4:257–265
bottom-up approach vs., 4:266
country/currency exposure, 4:264–265
credit quality, 4:258–261
defined, 4:248
excess returns in, 4:261
industry sector allocation, 4:262–263
interest rate measurement/management, 4:263–264
spread curves in, 4:265
top-down forecasts, 3:141–147
bottom-up vs., 3:142, 145–146
earnings forecast revisions based on, 3:147
of market earnings per share, 3:145, 147
portfolio suitability for, 3:144
using bottom-up forecasts with, 3:143–146
top-down portfolio management bottom-up vs., 4:460–461
building block use by, 4:462
defined, 4:459
top-down psychographic modeling approach, see behavioral alpha process
Topix Index, 4:345
Toronto 300 Composite, 5:384
Toronto Stock Exchange (TSE), 4:340, 6:15, 31–32
total factor productivity (TFP) growth in, 3:70–72
and neoclassical approach to growth accounting, 3:129
total firm assets, GIPS definition, 6:165–166, 238
total future liability, pension plan, 2:465
total rate of return, 6:74
total return(s), 4:297
endowment spending based on, 2:489–491
of fixed-income securities, 6:112–113
for insurance companies, 2:504
investor requirements based on, 2:172–173
mandates on, 4:11, 15–19
active management, 4:117
pure/enhanced indexing, 4:16–17
for non-life insurance companies, 2:514
time-weighted, 6:169–172
total return payer, 4:100
total return receiver, 4:100
total return swaps (TRSs)
and credit risk, 5:188
equity, 2:344–345
passive bond market exposure with, 4:100–101
total value, in TVPI, 6:211, 238
TRACE. see Trade Reporting and Compliance Engine tracking error of benchmarks, 6:87n.11, 90
controlling, 4:355
enhancement strategies to reduce, 4:97–98
and excess return, 4:353–354
and indexing risk, 4:95
management of, 4:353–355
and matching portfolios to indexes, 4:90
optimization approaches to minimize, 4:352
potential causes of, 4:354–355
and total return mandates, 4:16
tracking risk, 4:16, 90; 5:152
trade (foreign)
and business cycle, 3:60
and currency returns, 3:99
overall trade balance, 3:79n.64
trade allocation procedures
devolving and documenting, 1:85
disclosure of, 1:86, 253
fair and equitable, 1:246
Trade and Quote (TAQ) database, 6:53
trade blotter, 6:46
trade date accounting, 6:167, 168, 238
trade execution decisions, 6:36–47
automated trading, 6:40–47
algorithmic trading, 6:40–47
classification of algorithmic execution systems, 6:42–45
reasoning for logical participation
algorithmic strategies, 6:45–47
for handling of a trade, 6:36–37
and objectives in trading, 6:37–40
Trade Management Guidelines, 6:48–49
Trade Reporting and Compliance Engine (TRACE), 4:92–93
and bond market, 4:21
evaluating bond liquidity with, 4:268
US bond market, 4:278
traders, 6:32–36
behavior of, 2:254–255
buy-side, 6:6
day, 6:34

Cumulative_Ind_L3 69
August 3, 2018 6:59 PM
information-motivated, 6:33–35
liquidity-motivated, 6:34–36
passive, 6:34, 36
preferred order types of, 6:35–36
rogue, 5:144–145
roles of, 6:41
types of, 6:6, 33–35
value-motivated, 6:34, 35

trades
carry, 4:136–141
in active currency management, 3:412–414
inter-market, 4:137–139
intra-market, 4:136–137
and roll yield, 3:425
yen, 4:140–141
and yield curve strategies, 4:136–141
convergence, 4:176–178
handling of, 6:36–37
inter-market curve strategy examples, 4:179–188
missed trade opportunity costs, 6:23, 25
opposite sides of, 6:18
pairs, 4:411–412, 6:42–43 (see also long–short investing)
portfolio, 6:9
positioning, 6:17
principal, 6:9
size relative to available liquidity, 6:30
sunshine, 6:38
urgency of, 6:33
trade settlement, 5:140; 6:9
trading
active, 2:254, 258
automated, 6:40–47
algorithmic trading, 6:40–47
classification of algorithmic execution systems, 6:42–45
reasoning for logical participation
algorithmic strategies, 6:45–47
CISDM CTA benchmarks for, 5:86–89
and corporate bond portfolio liquidity, 4:240–241
costs of, 6:21–32
for currency hedging, 3:401–402
econometric models for costs, 6:30–32
with emerging market currencies, 3:448–450
for equity portfolios, 4:311
for quantitative investing, 4:424
transaction cost components, 6:22–30
decisions related to handling of trades, 6:36–37
excessive, 2:123–124
ethics violation examples, 1:80, 89
and framing bias, 2:67
and illusion of control bias, 2:61
and loss-aversion bias, 2:72
and market bubbles, 2:143
for family member accounts, 1:160
intra-day, 4:324–355
objectives in, 6:37–40
pairs, 4:411–412; 6:42–43
personal, 1:69–70
and conflict of interest, 1:155
disclosure of, 1:161
disclosure of policies for, 1:160
limitations on, 1:62
priority of transactions for, 1:157, 202–203
predatory, 4:312
priority of transactions for, 1:157
prior to dissemination, 1:161–162
program, 4:348
proprietary trading procedures, 1:63
rules-based, 6:42–43
surviving trading activities, 1:123
systematic strategies, 5:86
in unlit venues, 4:496
unsolicited trading requests, 1:92–93
volatility, 3:414–419
and wealth management, 2:254–255
Trading (AMC Part C), 1:238–239, 244–246
trading activity, in fixed-income attribution, 6:113
“trading and other” factor, in micro attribution, 6:105–106
trading commission, 4:355
trading costs
for currency hedging, 3:401–402
with emerging market currencies, 3:448–450
for equity portfolios, 4:311
and momentum, 6:30
for quantitative investing, 4:424
trading expenses, 6:177–178, 203, 238
trading range breaks, technical anomalies in, 2:34
trading requests, unsolicited, 1:92–93
trading style, 6:30
trading volume
in AMC, 1:242
and capitalization for equities, 4:493–495
and market manipulation, 1:70
secondary credit market, 4:268–269
traditional asset managers, 1:270
traditional balance sheet, 2:395–397
traditional finance
behavioral vs., 2:5–6
individual behavior in, 2:8–14
perfect rationality, self-interest, and information, 2:12
rational economic man, 2:11–12
risk aversion, 2:13–14
utility theory and Bayes’ formula, 2:8–11
market behavior in, 2:28–36
portfolio construction in, 2:36
and psychological profiling of individual investors, 2:165–166
trailing metrics, in valuation ratios, 4:396
training, compliance, 1:121
tranches, 4:279, 281–282
transactional complexity, 4:506
transaction allocation, 1:87–88
Transaction-Based Index (TBI) for Institutional Commercial Property Performance, 5:16
transaction-based manipulation, 1:69
transaction costs
with active management, 4:17, 22
with cash flow matching, 4:12
costs of, 6:22–30
econometric model for, 6:30–32
and liquidity, 2:176
with portfolio rebalancing, 3:308–309
with quantitative investing, 4:425
transaction expenses, 6:206, 212, 238
transaction exposure, 5:251
transaction fees, 1:278
transactions, priority of, see priority of transactions
transcription errors, 3:14
transfer coefficient, 4:456
Transitivity axiom (utility theory), 2:9
translation exposure, 5:251
transparency
bond market, 4:21
in cross-border estate planning, 2:310–311
defined, 6:9
pre- and post-trade, 6:20
Travelers Group, 2:520
Travelers Insurance, 2:515, 516, 520
travel expenses, 1:36–37, 39–40
travel funding, 1:35
TRBC, see Thomson Reuters Business Classification
Treasury bills, see US Treasury bills
Treasury Inflation-Protected Securities (TIPS), see US Treasury Inflation-Protected Securities
trend-chasing effect, 2:141
trend following, 3:360–361
trending effects. see momentum, market trends
asset management industry, 1:278–281
in economic growth, 3:51, 68–73
representative bias and, 3:366
Treynor, Jack, 6:24
Treynor measure, 6:116–117
trigger points, 3:217
Trinidad and Tobago, 1:276n.
tri-party repos, 4:30
TRs. see total return swaps
trust
establishing, in professions, 1:294–296
in investment management, 1:297
of investment management professionals, 1:300
trust companies, 2:183
trust departments, 2:183
trustees, 2:158, 183–184, 473
trusts, 2:299–301
asset protection, 2:301
beneficiaries of, 2:184–185
blind, 1:198
charitable, 2:368
charitable remainder, 2:287–288
in common law, 2:274
control, 2:300
discretionary, 2:300, 301
fixed, 2:300
and Hague Conference, 2:305
irrevocable, 2:183–184, 300, 301
personal, 2:183–185
real estate investment, 5:14–15
revocable, 2:183, 300
tax avoidance with, 2:181
tax reduction with, 2:301
venture capital, 5:32

Index
Trust Universe Comparison Service (TUCS), 6:156
TSE. see Toronto Stock Exchange
Turkey
equity index futures contracts, 4:345
in Hague Conference, 2:304
mutual funds, 1:276n.
tax regime, 2:231, 347
turnaround partners, 5:99
turnover
benchmark, 6:91
and cost of portfolio construction, 4:493–495
portfolio, 2:116
in quantitative investing, 4:425
TVaR. see tail value at risk
Tversky, Amos, 70, 166
TWAP strategy. see time-weighted average price strategy
“2017 Edelman Trust Barometer,” 1:300
twin deficits problem, 3:72–73
twists, yield curve, 4:59–60, 69, 203–204, 5:171n.34
two-fund separation, 3:240
two-layer factor approach for modeling covariance, 3:30
two-portfolio approach, 3:276–277
TWR. see time-weighted rate of return
Type I error, in MCP analysis, 6:129–130
Type I liabilities, 4:48
Type II error, in MCP analysis, 6:129–130
Type II liabilities, 4:48, 76–77
Type III liabilities, 4:48, 77
Type IV liabilities, 4:48, 77, 78
U
UCITS. see Undertakings for Collective Investment in Transferable Securities
Ukraine
in Hague Conference, 2:304
pension funds in, 3:337
tax regime, 2:231, 323n.4, 347
UMIFA. see Uniform Management of Funds Act
unambiguous benchmarks, 6:83, 88
uncertainty
in cash flow, 3:277–278
execution, 6:8
input and model, 3:23
price, 6:7
unconditional benchmarks, 3:19
unconditional expected returns, 3:19–20
unconditional inputs, 3:256
unconventional data, in quantitative investment process, 4:421, 424
unconventional factors, 4:400–401
uncovered interest rate parity theorem, 3:412
undeclared funds, 2:310
underfunded pension plans, 2:465, 466
under-hedging, 3:431
underlying
for covered calls, 5:286–290
days in, 5:313
for derivatives, 3:414n.21
for protective puts, 5:286–292
for protective puts, 5:290–292
Undertakings for Collective Investment in Transferable Securities (UCITS), 4:340
underweight rewarded factors, 4:449–451
underwriting, of life insurance, 2:409
underwriting cycle, of non-life insurance companies, 5:121, 516
undisclosed limit order, 6:8–9
unemployment, structural level of, 3:73
unethical actions, reporting, 1:29
Uniform Management of Institutional Funds Act (UMIFA), 2:488, 490, 495
unilateral pegging of currency, 3:75–76
unintentional errors, correction of, 1:48
unique circumstances
for banks, 2:524
for defined-benefit plans, 2:473–476
for endowments, 2:495–496
for foundations, 2:488
of individual investors, 2:185, 187
for life insurance companies, 2:508
United Arab Emirates
currency pegging, 3:76
sovereign wealth funds, 1:274
taxation, 2:276
trade partners, 3:83
United Energy Services, 5:223–225
United Kingdom
asset manager ownership structure, 1:271
BRC survey, 3:61
capital gains treatment, 4:33
CLI, 3:82
Conference Board index, 3:84
corporate form of publicly-traded companies, 5:35
defined-benefit pension plans, 2:464, 466n.3, 473
deflation, 3:56–57
denationalization, 3:137
economic growth, 3:69
equity index futures contracts, 4:345
equity in residential property in, 5:262
expected returns for equities/bonds, 3:25
Fed model with UK data, 3:151
foreign currency payments, 5:253–254
gift tax, 2:294
in Hague Conference, 2:304
house price average multiple of family income, 2:142
inflation, 3:55–56
inflation hedging by real estate, 5:20
inflation-indexed bonds, 3:92–93
inflation-linked bonds, 4:9
infrastructure funds in, 5:15
inheritance tax, 2:277–278
insurance companies, 2:499, 507
interest income taxation, 2:233
legal system, 2:274
market bubbles, 2:142
market integration, 3:43
market value of ETFs, 4:342
momentum effect in, 2:140
mutual funds, 1:276n.
ownership of private business enterprises, 2:322
pension assets, 1:272, 273
pensions, 2:390
private equity activity, 5:36–37
private equity in, 5:29
real estate investment in, 5:21, 22
real estate market, 5:16, 19, 25
real GDP growth rate, 3:33
real GDP growth rate vs. speculative-grade bond default rate, 4:258
real returns on bonds, bills, and equities in, 4:296
regulatory constraints in, 3:327
return on government bonds, 3:90
short-term consumer spending, 3:49
slippage costs, 4:97
Solvency II program in, 3:337n.7
spousal exemptions for estate tax, 2:297
stock purchases, 2:323
taxable gifts, 2:291
tax-advantaged savings accounts, 2:246
taxation of residents, 2:306
taxation on pension funds, 2:472
tax-free gifts, 2:289
tax incentives in, 3:353
tax rates, 2:180
tax regime, 2:231, 347
TFP growth, 3:71
trade partners, 3:83
volatility index in, 3:359
wealth taxes, 2:238
weekend effect, 2:139
United Nations System of National Accounts (UNSDA), 3:14
United States
asset class classification in, 3:235
bankruptcy law, 4:278
bankruptcy process in other countries vs., 5:101
banks, 2:519–520, 522
bonds
default rates, 4:262
market transparency, 4:21
bond yields, 3:76
capital flows forecasting approach, 3:102
capital gains treatment, 4:33
China equity market valuation vs., 3:137–139
CLI, 3:82
commercial banks, 1:274
commodity market, 5:47
corporate estate tax freeze, 2:338
corporate form of publicly-traded companies, 5:35
credit market (2016), 4:276
default levels in 2008-2009 financial crisis, 4:275
defined-benefit pension plans, 2:464, 472–473
deflation, 3:56–57
degree of specialization, 3:75
de-risking in, 3:351
disintermediation, 2:499, 505
distressed securities in, 5:94, 95
domestic tax relief, 2:308
United States (Continued)
donor-advised funds, 2:367–368
Economic Freedom Index, 3:78
economic growth, 3:130, 132
employee stock ownership plans, 2:361
endowments, 2:385
endowments and foundations, 1:275
ergy industry in credit market
indexes, 4:276
equity index futures contracts, 4:345
equity risk premium, 3:34–35, 39
exchange rate linkages with, 3:76
exchange-traded funds, 1:276
exit taxes, 2:306–307
expected returns for equities/bonds, 3:25
Fed model with US data, 3:148–149
formative-stage companies, 5:30
foundations, 338
GDP growth and business cycles, 3:70–71
generation-skipping transfer tax, 2:296
government pensions, 2:390
growth accounting in, 3:272, 273
in Hague Conference, 2:304
health/medical insurance, 2:421
hedge fund market, 5:60
inflation, 3:55–56
inflation-indexed bonds, 3:91–92
inflation-linked bonds in, 4:9
insurance industry, 2:499
interest income taxation, 2:233
interest income taxation in, 3:342
inventory/sales ratio, 3:52
investment service fees, 1:280
investor activism in, 4:406
investors in private equity funds, 5:33–34
laws on transparency in banking, 2:311
legal system and wills in, 2:274
life insurance companies, 2:500–501, 503–508
liquidity of credit market, 4:278
macroeconomic linkages, 3:75
managed care facilities, 2:177
managed futures market, 5:86
market bubbles, 2:142
market integration, 3:43
market value of ETFs, 4:342
mismatch in character, 2:353–354
monetary policy, 3:66
monetizing tax-free exchanges, 2:369
municipal bond futures contracts in, 5:226
mutual fund governance, 4:340
non-life insurance companies, 2:511, 513–515, 517
normal distribution of common stocks, 2:191–192
ownership of private business enterprises, 2:322
pension assets, 1:272, 273
pension fund regulations in, 3:338
pension funds in, 5:29
P/E ratios, 3:96
PMI, 3:62
prepaid variable forwards, 2:330
private equity capacity in, 5:29
private equity returns, 5:38
public foundations in, 3:339
real estate investment in, 5:12–25
real GDP growth rate, 3:33
real GDP growth rate vs. speculative-grade bond default rate, 4:258
real returns on bonds, bills, and equities in, 4:296
recessions, 3:60
registration of CTAs and CPOs, 5:85
regulatory changes in, 3:53
regulatory constraints in, 3:327
residence–source conflicts, 2:307
retail investors, 1:271
return on government bonds, 3:91
sector-neutralized price momentum factor, 4:397–398
securities lending, 4:358
slippage costs, 4:497
spousal exemptions for estate tax, 2:297
taxable gifts, 2:291
tax-advantaged savings accounts, 2:246
taxation of citizens and residents, 2:305
tax-free gifts, 2:289
tax on stock exchanges, 2:333
tax rates, 2:180
tax regime, 2:231, 347
tax treatment of irrevocable trusts, 2:183
TFF growth, 3:71
TRACE, 4:92–93
trade partners, 2:102, 386, 387, 390
trade partners for, 4:168–170
Treasury bills (T-bills) in,
capital market forecasts, 3:44
nominal risk-free interest rate, 3:36
in rising vs. declining markets, 6:176
Sharpe ratio of, 5:189
yield curve of T-bonds and, 3:55
US Treasury bonds (T-bonds)
Federal Reserve repurchase program, 4:240
and Fed model, 3:35, 151
FNMA MBS vs., 4:174
and l-spread, 4:244
MBS volumes vs., 4:279
portfolio structures for, 4:168–170
yield curve of T-bills and, 3:55
yield curve strategies with options, 4:170–175
US Treasury bonds (T-bonds) futures contracts, 5:221
US Treasury Inflation-Protected Securities (TIPS), 2:390; 3:91–92;
4:48
US Treasury notes (T-notes)
in Fed model, 3:152
FNMA MBS vs., 4:174–175
and yield curve dynamics, 4:127–131
US Treasury notes (T-notes) futures contracts
for contingent immunization, 4:75
as derivatives overlay, 4:71–74
and duration management, 4:143–144
for interest rate immunization, 4:71–74
and liability-driven investing, 4:80
US Treasury securities in duration-neutral portfolio, 4:189
and Fed model, 3:149–150
interest rates and prices, 6:110
and US credit markets, 4:269
yield curve movements of, 4:203–207
US Treasury STRIPS (Separate Trading of Registered Interest and Principal of Securities), 4:88; 5:219n.4
unit-linked life insurance, 2:500n.20
unity constraint, 3:232
universal banking, 2:519–520
universal life insurance, 2:407, 500n.20
University of Michigan Survey, 3:104
University of Virginia Investment Management Company (UVIMICO), 5:10–11
unl H venues, trading in, 4:496
unrealized capital gains, 3:343
unrealized multiple, 6:211, 238
unrealized profit/loss, 6:23, 25
unrelated business income, 2:487, 495
unrewarded factors, 4:377n.1, 391, 452–453
unskilled mutual funds, 2:58–59
UNSNA. see United Nations System of National Accounts
unsolicited trading requests, 1:92–93
unstructured data, factor-based investing, 4:400–401
unstructured modeling, 3:80n.65
updates, 1:94, 131–132
upstairs markets, 6:17n.7
upwards only fees, 4:310
urgency of the trade, 6:33
Uruguay, 3:43
in Hague Conference, 2:304
USBIG. see Citigroup US Broad Investment-Grade Bond Index
USD/AUD. see Aussie-dollar market
USD/EUR. see Euro-dollar market
USD/GBP. see Sterling-dollar market
USD/NZD currency pair, 3:438
US GAAP. see US Generally Accepted Accounting Principles
utility, 2:8–9, 11–12
utility curves, 3:236–237
utility function, of wealth, 2:13–14
utility maximization, 2:15–17
utility theory, 3:194–195
and indifference curve analysis, 2:16–17
prospect theory vs., 2:27
risk aversion in, 2:13
in traditional finance, 2:8–9
utility function of wealth, 2:13–14
UVMICO. see University of Virginia Investment Management Company
V
V2X, 3:359
valuation. see also equity market valuation
disclosure of methods, 1:253
and endowment bias, 2:78–79
fundamental vs. quantitative strategies, 4:379
GIPS principles related to, 6:216–219
of insurance company investments, 2:508
and interest rate risk, 2:501
in macro attribution, 6:97–98
Performance and Valuation (AMC Part E), 1:239, 250–251
valuation discounts, 2:297–298
valuation reserve, 2:501n.21
value-added real estate strategies, 6:207
value-added taxes, 2:226
value at expiration
bear spread, 5:296–298
box spread, 5:310, 311
bull spread, 5:293, 295
butterfly spread, 5:299–300, 302
call options, 5:279–281, 285
collars, 5:306
covered calls, 5:286, 287
protective puts, 5:290, 291
put options, 5:282–285
straddles, 5:307–309
value at risk (VaR), 2:521; 3:367
advantages and limitations, 5:168–169
conditional, 3:367–368; 4:488
credit, 5:173
defined, 4:488
diversification effect for, 5:162
elements, 5:153–155
extensions and supplements, 5:169–170
extensions of, 5:169–170
incremental, 4:488; 5:169–170
limitations of, 4:491
marginal, 3:24
measuring, 5:152–170
analytical method, 5:155–159
historical method, 5:159–166
Monte Carlo simulation method, 5:166–167
probability levels and time horizons, 5:157–158
and risk budgeting, 5:182–183
supplements, 5:169–170
surplus at risk, 5:168
tail value at risk, 5:170
value-based approaches to equity investing
competitive advantage in, 4:382
growth-based investing vs., 4:387–388
segmentation of investments for, 4:301–303
traps for, 4:318–420
types of, 4:383–386
value factor
active investing based on, 4:395–396
attribution of risk to, 4:477, 479
for benchmark index selection, 4:329
for equities, 4:336
in long/short strategies, 4:510
portfolio construction based on, 4:448–449
and systematic TAA, 3:360
weighting of, 4:450, 451
value inclusion factor, 4:431
value investing
deep-value, 4:385
fundamental anomalies and, 2:33–34
long-only, 5:98
value-motivated traders, 6:34, 35
values, CFA Institute, 1:15
value stocks
benchmark selection for, 4:329
growth stocks vs., 4:392
in holdings-based investment classification, 4:430
Morningstar classification criteria for, 4:430–431
performance of, 2:144
value trap, 4:418–420
Vanguard Australian Shares Index, 4:354
Vanguard Group, Inc., 1:279
Vanguard Index Fund, 4:466
Vanguard Investments Australia, 2:58
Vanguard mutual funds, 5:184–185
Vanguard S&P 500 Index Fund, 4:339
vanilla options, 3:434
VaR. see value at risk
VaR-based position limits, 5:191
variable annuities
advantages and disadvantages of fixed and, 2:426–428
deferred, 2:423–424
immediate, 2:424
variable life insurance, 2:500n.20
variables, endogenous vs. exogenous, 3:20
variable universal life insurance, 2:500n.20
variance. see also mean–variance optimization (MVO)
of domestic-currency returns, 3:394–395
mean–variance approach, 2:36, 125, 231
minimum-variance hedge ratio, 3:441–443
variance–covariance method, 5:155–159
VC. see venture capital
VC funds. see venture capital funds
VCTs. see venture capital trusts
VDAX-NEW, 3:359
vega
defined, 3:414
and market risk, 5:152
and volatility risk, 5:343
in volatility trading, 3:415
Venezuela
in Hague Conference, 2:304
tax regime, 2:231, 347
venture capital (VC). see also private equity
defined, 5:28, 32
demand for, 5:30–31
for IPOs, 5:30
supply of, 5:31–34
venture capital firms, 5:30n.41
venture capital funds (VC funds), 1:277–278, 3:32, 40–41
venture capitalists, 5:32
venture capital trusts (VCTs), 5:32
VE Post Venture Capital Index, 3:44
verification
GIPS definition, 6:221n.48, 239
GIPS provisions on, 6:221–226
implementation of, 6:221–222, 224
preparing for, 6:224
verification firms, selecting, 6:221–222
Verification/Practitioner Subcommittee, 6:158
verification report, 6:221–223, 239
Verizon, 4:253–254
Vernley, Mark (case study), 1:196–200
vested (term), 2:383n.1, 464n.1
Viceira, Luis M., 3:400–401
Vienna Convention on the Law of Treaties, 2:309
Vietnam, tax regime in, 2:231, 347
vintage effects, hedge fund, 5:76
vintage year, 5:38; 6:211, 239
violations of ethical standards
case studies, 1:195–233
consultants, 1:196–200
Pearl Investment Management, 1:200–210
practice problems, 1:211–227
solutions to problems, 1:228–233
dissociating from, 1:27–28
and legal violations, 1:201
lists of, 1:54
notification of known, 1:27
by others, participation or association with, 1:23
sanctions, 1:15
supervisor’s response to, 1:121
Vishny, R. W., 4:395
VIX Index, 3:359; 4:389
volatility
of benefits, for annuities, 2:427
in binomial model, 5:343
in Black–Scholes–Merton pricing
option, 5:152, 343
cash flow, 2:502
defined, 4:488
and diversification/idiosyncratic risk, 4:453–455
downside, 5:79–80
of emerging markets, 3:77
and expected value of returns, 2:198, 199
of hedge fund performance, 5:79–80
and historical analysis, 3:17
human capital, 2:441
interest rate, 4:245
and market risk, 5:151
and measure of wealth, 2:163
portfolio, 2:251
in portfolio rebalancing, 3:307
of portfolio returns, 3:394–395
price, 1:70–72; 2:176
reducing risk factor exposure to, 3:194
reward-to-volatility, 6:116
in Russell 1000 Index, 4:453
of S&P 500, 4:490
and sustainability of spending rates, 2:285, 287
volatility-based strategies, 4:389–390
volatility clustering, 4:327
volatility factor, 4:336
volatility index, 3:359
volatility management, 4:264
volatility overlay programs, 3:416
volatility pumping, 3:306n.44
volatility risk, 5:343
volatility smile, 5:196
volatility trading, currency management
and, 3:414–419
volatility/trend costs, 4:495
volatility weighted indexes
constructing, 4:334
risk-oriented strategies with, 4:338
Volcker, Paul, 3:60
Volcker Rule, 4:271
volume, trading, see trading volume
volume-weighted average price (VWAP), 6:23–24, 27–28
volume-weighted average price (VWAP) strategy, 6:43
volunteers, compromising of CFA
Institute integrity, 1:169
voting
empty, 4:315
proxy, 4:314–315, 359–360
proxy voting policies, 1:76–78
by shareholders, 4:314–315
shareholder voting policies, 1:253
voting control, 2:328
vulture capital, 5:99
vulture funds, 5:99
vulture investors, 5:99
VWAP see volume-weighted average price
W
waiting period, of disability income
insurance, 2:418
waiver of premium clause, of disability
income insurance, 2:418
Wall Street Reform and Consumer
Protection Act (2010), 5:56
Wal-Mart Stores, 3:71
Wang, A., 4:424
Wang, S., 4:424
weak-form EMH, 2:29–31
wealth
after-tax, 2:225–226
and behaviorally modified asset
allocation, 2:84–86
changes in, 2:397–400
cognitive biases of low-wealth-level
investors, 2:92–96
discretionary, 2:279n.11, 335n.4
emotional biases of high-wealth-level
investors, 2:88–92
measure of wealth classifications, 2:163
net, 2:390, 397–400
source of wealth classifications, 2:162
utility function of, 2:13–14
wealth concentration, 2:327
wealth effect, permanent income
hypothesis and, 3:69–70
wealth management. see private wealth
management
wealth relative, 6:75–76
wealth taxes, 2:238–239
and cross-border estate planning, 2:306
and estate planning, 2:276–277
in global tax structures, 2:226
and tax planning, 2:232
wealth transfers, managing concentrated
positions with, 2:337–340
wealth transfer taxes
and concentrated positions, 2:339–340
and constraints on individual investors, 2:182
and cross-border estate planning, 2:306
and estate planning, 2:276–277
and investment policy statements, 2:179
webpages, maintaining, 1:47
weekend effect, 2:139
weighting scheme, for manager-based
hedge fund indexes, 5:62
well-constructed portfolio, 4:499–504
Wen Jiabao, 3:132
Western Europe. see also specific
countries
managed care facilities, 2:177
universal banking, 2:519
zero population growth in, 3:133
Westpac, 4:236
whistleblowing, 1:108, 113
Whole Foods Market, 4:328
whole life insurance, 2:406–407, 499n.19
WIG20 Index, 4:345
Wilcox, Jarrod, 2:335n.4
wills
defined, 2:273
and legal system, 2:274–276
and trusts, 2:183
Wilshire 5000 Index
and adjustments to composite-specific
minimum asset levels, 6:190
as broad-market index, 4:352; 6:84, 136
diversification with, 5:382
Wilshire Associates, 5:16, 17; 6:156
Winkelman, Kurt, 3:261
Within-Sector Selection return, 6:106–107
Woerheide, Walt, 4:332–333
won, Korean, 3:385, 450
workforce age, 2:471–472
working capital allocations, 5:184
World Bank, 3:77, 103
WorldCom, Inc., 2:122; 5:99
World Trade Center bombing (1993), 5:145
worldwide economic indicators, 3:82
worst-case scenario analysis, 5:172
Wrap Fee/Separately Managed Account
(SMA) Portfolios (GIPS Section
1.8), 6:163, 214–216
Wright, Christopher, 5:9n.2
writing, after exam period, 1:168
written material, brought into exam
room, 1:167
Y
Yale model, 3:302. see also endowment
model
Yale University, 1:275
Yale University Investments Office, 3:302–303
Yardeni, Edward, 3:148
Yardeni model, 3:151–154, 162–163
year-over-year change in debt
outstanding, factor-based strategy
using, 4:393–395
year-over-year earnings growth factor,
4:399
yen, Japanese
benefits of currency exposure for, 3:401n.11
carry trade, 4:140–141
currency code, 3:385
and currency exposure hedging, 4:265
in currency pairs, 3:386, 387, 388n.7,
421
in currency swap, 5:375–376
as haven currency, 3:449
yen carry trade, 4:140–141
yield(s)
bond
and annuity pricing, 2:426
covered, 4:282
and credit spread, 4:242–243
decomposing expected returns, 4:23–26
and expected return, 4:23
implied, 5:221
and interest rate risk, 4:237
and liquidity, 4:20, 21
nominal, 3:76–77
price and, 5:219–221
real, 3:91, 93
yield to maturity, 3:35
yield to worst, 3:35n.38
cash flow
in interest rate immunization for
multiple liabilities, 4:67–69, 71
in interest rate immunization for
single liability, 4:53–60
of laddered bond portfolios, 4:106
Index I-75

<table>
<thead>
<tr>
<th>term</th>
<th>page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>convenience</td>
<td>5:52</td>
</tr>
<tr>
<td>horizon</td>
<td>4:56</td>
</tr>
<tr>
<td>income, for immediate fixed annuities</td>
<td>2:424–425</td>
</tr>
<tr>
<td>negative</td>
<td>4:129</td>
</tr>
<tr>
<td>portfolio</td>
<td>2:503, 504, 515</td>
</tr>
<tr>
<td>repurchase</td>
<td>3:33</td>
</tr>
<tr>
<td>roll</td>
<td>3:424–426</td>
</tr>
<tr>
<td>yield beta</td>
<td>5:222, 228n.17</td>
</tr>
<tr>
<td>Yield Book</td>
<td>4:160</td>
</tr>
<tr>
<td>yield curve(s)</td>
<td>4:203–204</td>
</tr>
<tr>
<td>curvature</td>
<td>4:131, 141–151</td>
</tr>
<tr>
<td>defined</td>
<td>4:126</td>
</tr>
<tr>
<td>and duration matching</td>
<td>4:13</td>
</tr>
<tr>
<td>dynamics of</td>
<td>4:127–131</td>
</tr>
<tr>
<td>and exchange rates</td>
<td>4:175–176</td>
</tr>
<tr>
<td>and immunization</td>
<td>4:57–60</td>
</tr>
<tr>
<td>and interest rate exposure</td>
<td>4:263</td>
</tr>
<tr>
<td>and laddered bond portfolios</td>
<td>4:105</td>
</tr>
<tr>
<td>and life insurance companies,</td>
<td>2:515–516</td>
</tr>
<tr>
<td>and maturity</td>
<td>3:55</td>
</tr>
<tr>
<td>and monetary/fiscal policy</td>
<td>3:68</td>
</tr>
<tr>
<td>on-the-run</td>
<td>4:126–129</td>
</tr>
<tr>
<td>as predictor of economic growth</td>
<td>3:55</td>
</tr>
<tr>
<td>shifts in</td>
<td>4:203–204</td>
</tr>
<tr>
<td>slope of</td>
<td>4:130, 141–151</td>
</tr>
<tr>
<td>twists in</td>
<td>4:59–60, 69, 203–204; 5:171n.34</td>
</tr>
<tr>
<td>yield curve strategies</td>
<td>4:125–232</td>
</tr>
<tr>
<td>about</td>
<td>4:125–126</td>
</tr>
<tr>
<td>for changes in market level/slope/curvature</td>
<td>4:141–151</td>
</tr>
<tr>
<td>bullet and barbell structures</td>
<td>4:147–150</td>
</tr>
<tr>
<td>buying convexity</td>
<td>4:145–147</td>
</tr>
<tr>
<td>duration management</td>
<td>4:141–145</td>
</tr>
<tr>
<td>duration and convexity</td>
<td>4:132–134</td>
</tr>
<tr>
<td>duration-neutral portfolios in multiple curve environments</td>
<td>4:189–197</td>
</tr>
<tr>
<td>baseline portfolio</td>
<td>4:189</td>
</tr>
<tr>
<td>extreme barbell vs. laddered portfolio</td>
<td>4:191–192</td>
</tr>
<tr>
<td>extreme bullet</td>
<td>4:192–194</td>
</tr>
<tr>
<td>extreme vs. less extreme barbell portfolios</td>
<td>4:195–196</td>
</tr>
<tr>
<td>less extreme barbell portfolio vs. laddered portfolio</td>
<td>4:194–195</td>
</tr>
<tr>
<td>yield curve scenarios</td>
<td>4:189–191</td>
</tr>
<tr>
<td>foundational concepts</td>
<td>4:126–134</td>
</tr>
<tr>
<td>duration and convexity</td>
<td>4:132–134</td>
</tr>
<tr>
<td>yield curve dynamics</td>
<td>4:127–131</td>
</tr>
<tr>
<td>framework for evaluating yield curve trades</td>
<td>4:197–208</td>
</tr>
<tr>
<td>inter-market strategies</td>
<td>4:175–188</td>
</tr>
<tr>
<td>convergence trades</td>
<td>4:176–178</td>
</tr>
<tr>
<td>and currency hedges</td>
<td>4:178–179</td>
</tr>
<tr>
<td>and currency market spreads,</td>
<td>4:175–176</td>
</tr>
<tr>
<td>trade decision-making examples,</td>
<td>4:179–188</td>
</tr>
<tr>
<td>major types</td>
<td>4:134–151</td>
</tr>
<tr>
<td>positioning strategy</td>
<td>4:152–175</td>
</tr>
<tr>
<td>in anticipation of a change in interest rates,</td>
<td>4:155–157</td>
</tr>
<tr>
<td>in anticipation of parallel upward shift in yield curve,</td>
<td>4:152–155</td>
</tr>
<tr>
<td>duration-neutral bullet/barbell/butterfly performance,</td>
<td>4:157–170</td>
</tr>
<tr>
<td>using options</td>
<td>4:170–175</td>
</tr>
<tr>
<td>practice problems</td>
<td>4:212–222</td>
</tr>
<tr>
<td>riding the yield curve</td>
<td>4:135</td>
</tr>
<tr>
<td>selling convexity</td>
<td>4:136</td>
</tr>
<tr>
<td>solutions to problems</td>
<td>4:223–232</td>
</tr>
<tr>
<td>for stable yield curve</td>
<td>4:135–141</td>
</tr>
<tr>
<td>buy and hold</td>
<td>4:135</td>
</tr>
<tr>
<td>carry trades</td>
<td>4:136–141</td>
</tr>
<tr>
<td>riding the yield curve</td>
<td>4:135</td>
</tr>
<tr>
<td>selling convexity</td>
<td>4:136</td>
</tr>
<tr>
<td>yield duration, see duration</td>
<td></td>
</tr>
<tr>
<td>yield enhancement</td>
<td>2:354</td>
</tr>
<tr>
<td>yield factor, for equities</td>
<td>4:336</td>
</tr>
<tr>
<td>yield income</td>
<td>4:23</td>
</tr>
<tr>
<td>yield spreads</td>
<td>4:24</td>
</tr>
<tr>
<td>yield to maturity (YTM), bond</td>
<td>3:35</td>
</tr>
<tr>
<td>yield to worst</td>
<td>3:35n.38</td>
</tr>
<tr>
<td>younger investors, robo-advisers for,</td>
<td>1:280</td>
</tr>
<tr>
<td>yuan, Chinese</td>
<td>3:385, 450; 4:278</td>
</tr>
<tr>
<td>Z.</td>
<td></td>
</tr>
<tr>
<td>zakat</td>
<td>2:231, 347</td>
</tr>
<tr>
<td>zero-alpha mutual funds</td>
<td>2:58–59</td>
</tr>
<tr>
<td>zero-based budgeting process</td>
<td>6:128</td>
</tr>
<tr>
<td>zero-cost collars</td>
<td>5:304</td>
</tr>
<tr>
<td>zero-coupon bonds</td>
<td></td>
</tr>
<tr>
<td>convexity</td>
<td>4:133</td>
</tr>
<tr>
<td>and immunization</td>
<td>4:50</td>
</tr>
<tr>
<td>zero lower bound</td>
<td>3:65</td>
</tr>
<tr>
<td>zero-premium collars</td>
<td>2:349–350</td>
</tr>
<tr>
<td>zero risk investments</td>
<td>5:189</td>
</tr>
<tr>
<td>zero-sum derivatives markets</td>
<td>5:90</td>
</tr>
<tr>
<td>zero-sum game</td>
<td></td>
</tr>
<tr>
<td>investing as</td>
<td>4:451n.8</td>
</tr>
<tr>
<td>trading as</td>
<td>6:49</td>
</tr>
<tr>
<td>zero weight (term)</td>
<td>4:254</td>
</tr>
<tr>
<td>Zheng, Hu, and Bigsten (ZHB) projections,</td>
<td>3:132–133</td>
</tr>
<tr>
<td>Zwg, Liu</td>
<td>4:331, 332</td>
</tr>
<tr>
<td>Zhou, G.</td>
<td>4:424</td>
</tr>
<tr>
<td>Z-spread</td>
<td>4:245, 253–254</td>
</tr>
<tr>
<td>Zurich, Switzerland</td>
<td>2:310–311</td>
</tr>
</tbody>
</table>