



## Bayesian Risk Management: A Guide to Model Risk and Sequential Learning in Financial Markets (Wiley Finance)

By Matt Sekerke

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### Bayesian Risk Management: A Guide to Model Risk and Sequential Learning in Financial Markets (Wiley Finance) By Matt Sekerke

#### A risk measurement and management framework that takes model risk seriously

Most financial risk models assume the future will look like the past, but effective risk management depends on identifying fundamental changes in the marketplace as they occur. *Bayesian Risk Management* details a more flexible approach to risk management, and provides tools to measure financial risk in a dynamic market environment. This book opens discussion about uncertainty in model parameters, model specifications, and model-driven forecasts in a way that standard statistical risk measurement does not. And unlike current machine learning-based methods, the framework presented here allows you to measure risk in a fully-Bayesian setting without losing the structure afforded by parametric risk and asset-pricing models.

- Recognize the assumptions embodied in classical statistics
- Quantify model risk along multiple dimensions without backtesting
- Model time series without assuming stationarity
- Estimate state-space time series models online with simulation methods
- Uncover uncertainty in workhorse risk and asset-pricing models
- Embed Bayesian thinking about risk within a complex organization

Ignoring uncertainty in risk modeling creates an illusion of mastery and fosters erroneous decision-making. Firms who ignore the many dimensions of model risk measure too little risk, and end up taking on too much. *Bayesian Risk Management* provides a roadmap to better risk management through more circumspect measurement, with comprehensive treatment of model uncertainty.

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**Bayesian Risk Management: A Guide to Model Risk and Sequential Learning in Financial Markets (Wiley Finance) By Matt Sekerke Bibliography**

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### Editorial Review

From the Inside Flap

Most financial risk models assume that the future will look like the past. They don't have to. *Bayesian Risk Management* sketches a more flexible risk-modeling approach that more fully recognizes the irreducibility of our uncertainty about the future.

The risk that a firm's models may fail to capture shifts in market pricing, risk sensitivities, or the mix of the firm's risk exposures is a central operational risk for any financial services business. Yet many, if not most, financial services firms lack insight into the probabilistic structure of risk models and the corresponding risk of model failures. The thesis of *Bayesian Risk Management* is that most firms lack insight into model risk because of the way they practice statistical modeling. Because generally accepted statistical practice provides thin means for assessing model risk, alternative methods are needed to take model risk seriously. Bayesian probability methods are used throughout the book to:

- Understand the assumptions underlying classical time-series methods and the manner in which they restrict ongoing learning about market conditions
- Account for the possibility that different risk models may be useful under alternative market conditions, and that model parameters are known imperfectly
- Allow risk models to adjust continuously to changing market conditions, incorporating varying degrees of memory and coherently revising model estimates from day to day in light of new information
- Develop and compare alternative online models for single- and multiple-asset volatility
- Simulate the evolution of state variables and model parameters in dynamic asset pricing models to distinguish market and model risk

Ignoring the many dimensions of model risk means measuring too little risk and assuming too much of it. *Bayesian Risk Management* provides a coherent framework for discerning one's informational advantages and limitations in rapidly-evolving financial markets.

From the Back Cover

### A Risk Measurement and Management Framework that Takes Model Risk Seriously

Why do risk models break down? The answer may lie in the way that statistical methods are conventionally used to draw inferences about market conditions and inform risk-taking behavior. *Bayesian Risk Management* enables a discussion on the way standard statistical methods overlook uncertainty in model specifications, model parameters, and model-driven forecasts. In a simple and direct way, Bayesian methods are used throughout the book to:

- Recognize the assumptions embodied in classical statistics
- Quantify model risk along multiple dimensions
- Model time series without assuming continuity between past and future
- Adjust time-series estimates to maintain forecast accuracy
- Uncover uncertainty in workhorse risk and asset-pricing models
- Achieve decentralized control of risk-taking in complex organizations

For firms in financial services and other industries operating in a dynamic environment of incomplete information, *Bayesian Risk Management* provides a thought-provoking challenge to the prevailing wisdom about the uses and limitations of statistical risk modeling.

About the Author

**MATT SEKERKE** is an economic consultant based in New York whose work focuses on the financial services industry and the application of advanced quantitative modeling techniques of financial data. He holds a BA in economics and mathematics from The Johns Hopkins University, an MA in history from The Johns Hopkins University, and an MBA in econometrics and statistics, analytic finance, and entrepreneurship from The University of Chicago Booth School of Business. He is also a CFA charterholder, a certified Financial Risk Manager, and a certified Energy Risk Professional.

## Users Review

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**Frank Craver:**

This Bayesian Risk Management: A Guide to Model Risk and Sequential Learning in Financial Markets (Wiley Finance) book is absolutely not ordinary book, you have after that it the world is in your hands. The benefit you will get by reading this book is definitely information inside this reserve incredible fresh, you will get information which is getting deeper anyone read a lot of information you will get. This kind of Bayesian Risk Management: A Guide to Model Risk and Sequential Learning in Financial Markets (Wiley Finance) without we understand teach the one who reading through it become critical in imagining and analyzing. Don't always be worry Bayesian Risk Management: A Guide to Model Risk and Sequential Learning in Financial Markets (Wiley Finance) can bring whenever you are and not make your case space or bookshelves' come to be full because you can have it in your lovely laptop even mobile phone. This Bayesian Risk Management: A Guide to Model Risk and Sequential Learning in Financial Markets (Wiley Finance) having good arrangement in word and also layout, so you will not sense uninterested in reading.

**Thomas Jones:**

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