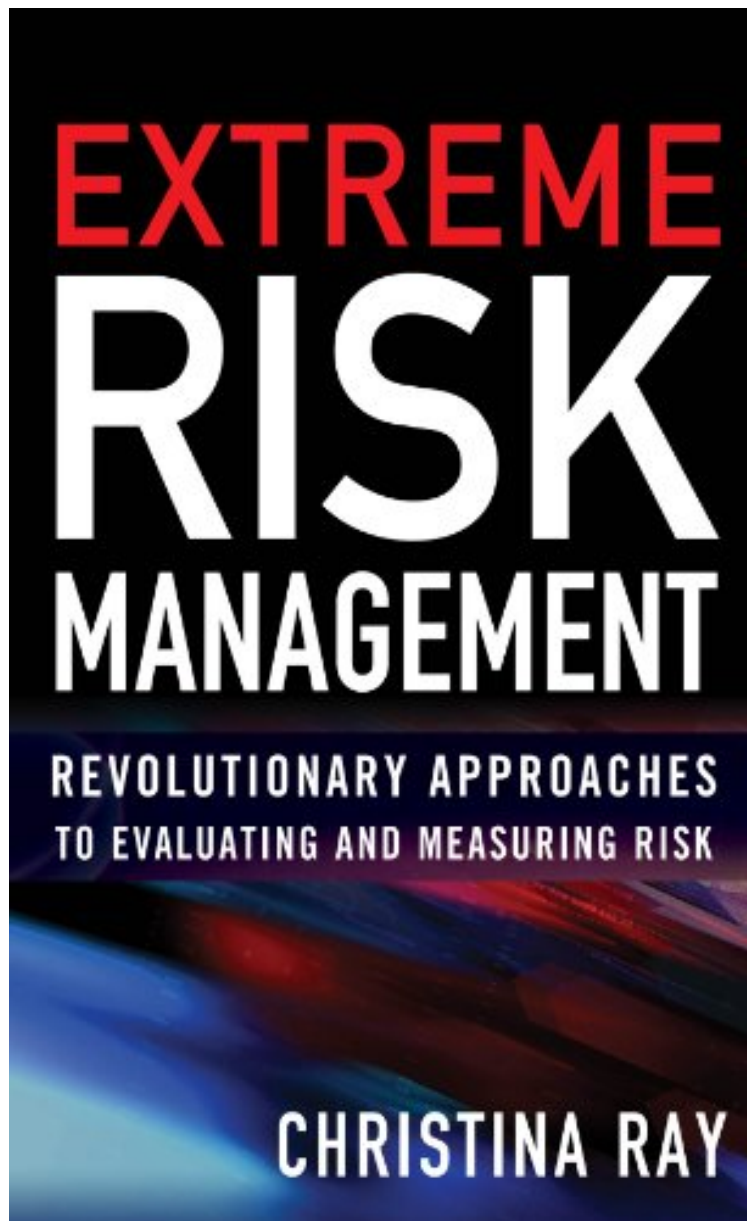


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(Professional Finance Investment)

## **Extreme Risk Management: Revolutionary Approaches to Evaluating and Measuring Risk (Professional Finance Investment)**

*Christina I. Ray*

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**Christina I. Ray : Extreme Risk Management: Revolutionary Approaches to Evaluating and Measuring Risk (Professional Finance Investment)** before purchasing it in order to gage whether or not it would be worth my time, and all praised Extreme Risk Management: Revolutionary Approaches to Evaluating and Measuring Risk

(Professional Finance Investment):

0 of 0 people found the following review helpful. Fascinating and important  
By Philip Lawton  
Christina I. Ray's *Extreme Risk Management: Revolutionary Approaches to Evaluating and Measuring Risk* (McGraw-Hill, 2010) is a revelatory work. Ray, who specializes in the analysis of low-frequency, high-severity risks, helped create the field of MARKINT ("the systematic collection and analysis of open-source information from the global capital and commodities markets") for the mutual benefit of the financial and intelligence communities. The author sets the stage by contrasting the approaches of financial analysts, who employ quantitative models based upon statistical correlations, and intelligence analysts, who develop causal models to assess the likelihood and consequences of events that have not previously occurred. The first part of the book, presumably intended to introduce intelligence analysts to the probabilistic approach, makes for pleasant reading, but the material will be familiar to most financial risk professionals. The second part of the book, however, crucially introduces the discipline and surveys the techniques of structured causal modeling, including directed acyclic graphs, connectivism, and risk inference networks--hence its inestimable value to financial risk managers. Ray cogently advocates combining the best methodologies of both worlds: "The financial community might more explicitly include cause and effect and expert opinion in its models, while the intelligence community might likewise include more mathematical models, automated sensemaking tools, and open-source market data." This book is fascinating and important. [Note: This notice originally appeared in my Middle Office blog under "Summer Reading--Risk Management," 17 August 2011. Go to [...]]  
0 of 1 people found the following review helpful. A Lightweight Read on the Subject  
By tbonds  
Reasons for only granting three stars were:  
1) Given the title, the first four chapters covering a history of risk models and risk management were completely unnecessary. This book is not meant for those brand new to the field (certainly should not be amongst your first few books if you're new to risk mgmt), so these chapters could have been altogether left out.  
2) Like a slow movie, this book proceeded too gradually.  
3) Not enough meat in the chapters covering Bayesian Inference Systems.  
1 of 1 people found the following review helpful. No secrets revealed  
By Kindle Customer  
I bought this book on the strength of the back cover and read it cover-to-cover in one day. Overall, the ideas sound excellent, but there is little detail on how they would be implemented or how well they performed in the past. It seems almost as if it were designed to raise interest but avoid revealing anything that might be useful -- as one might expect when valuable intellectual property and trading technique are being discussed. There are a few minor inconsistencies, such as the repeated warning that data from the past should not be used, followed by detailed discussions of how necessary it is to do so. My interpretation is that the former warning is that standard statistical regression techniques should not be blindly used on past data (because they leave out any modeling of causal connections or changes in which dynamics are operating at any given moment), while the latter advice is to make sure your causal (i.e. Bayes network) models are consistent with known facts (i.e. with past data on causal connections and different market dynamics, which is all we will ever have because the future is unobservable). Again, it sounds like a really great technological/modeling approach, but the book itself does not go into details -- for fairly obvious reasons.

A revolutionary new approach for detecting and managing inherent risk  
The unprecedented turmoil in the financial markets turned the field of quantitative finance on its head and generated severe criticism of the statistical models used to manage risk and predict "black swan" events. Something very important had been lost when statistical representations replaced expert knowledge and statistics substituted for causation. *Extreme Risk Management* brings causation into the equation. The use of causal models in risk management, securities valuation, and portfolio management provides a real and much-needed alternative to the stochastic models used so far. Providing an alternative tool for risk modeling and scenario-building in stress-testing, this game-changing book uses causal models that help you:  
Evaluate risk with extraordinary accuracy  
Predict devastating worst-case scenarios  
Enhance transparency  
Facilitate better decision making  
TABLE OF CONTENTS  
Plausibility vs. Probability: Alternative World Views  
The Evolution of Modern Analytics  
Risk Management Metrics and Models  
The Future as Forecast: Assumptions Implicit in Stochastic Risk Measurement Models  
An Alternative Path to Actionable Intelligence  
Solutions: Moving Toward a Connectivist Approach  
An Introduction to Causality: Theory, Models, and Inference  
Risk Inference Networks: Estimating Vulnerability, Consequences, and Likelihood  
Securities Valuation, Risk Measurement, and Portfolio Management Using Causal Models  
Risk Fusion and Super Models: A Framework for Enterprise Risk Management  
Inferring Causality from Historical Market Behavior  
Sensemaking for Warnings: Reverse-Engineering Market Intelligence  
The United States as Enterprise: Implications for National Policy and Security