MONTE CARLO VAR HINTS

The document "Return to RiskMetrics: The Evolution of a standard" describes in detail the methodology you should follow.

Notice that on p14 they describe precisely ~~[illegible]~~ the volatility you should use for your Monte Carlo simulations. You will need to use historic data from Bloomberg to compute this.

I recommend starting simply ~~and~~ by trying to compute VaR for a single stock. You can then compare your answer with a computation using parametric VaR.

When you have a single stock working add in options on that stock.

The next step would be portfolios involving more than one stock. In this case you'll need to come up with appropriate correlations for your Monte Carlo simulation, and generate correlated random variables.

I recommend using Matlab for this project. You will discover that a lot of the code has already been done during the FM06 course.