Editorial

There are some very interesting issues currently being marketed in the asset management industry which relate to the measurement of portfolio risk and time horizons. Recent US-originated risk models now provide risk measurement over different time horizons, using financial data of differing frequencies (days, months, etc) as inputs.

The issues that underlie these new products are as follows. First, volatility has now been historically high for approximately the last five years in most major markets. Whilst much investment is fixed in calendar time due to the nature of the liabilities associated with the investment, many investments are effectively in what we might describe as volatility time. Thus increased volatility

leads to shorter re-balancing periods, and the need to use higher frequency data. Secondly, there has been an undeniable influence of ideas from banking risk such as value at risk, expected loss, etc, which naturally focuses on high frequency risk information. Attempts to integrate high frequency risk have led to a number of new issues. Thirdly, the recent market bubbles of 1997 and 2000 have reminded many institutional investors that they are long-term investors, having lost money from making short-term decisions in those periods; thus the issue of the time horizon and its relationship to the measurement of risk is a current issue.

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