

# Index

- agency problem 44
- Amaranth Advisors natural gas hedge fund
  - disaster (2006) 47, 95, 111–22, 203, 250
  - background 116–17
  - trade and rogue trader 117–18
  - valuing a fund 115–16
- Amazon.com 72
- Amgen 72
- APT 257
- Archeus Capital 121–2
- Argentina 161–9
  - financial crisis 161
  - financial sector challenges 165–7
  - GDP 163
  - long-term value-added production 168
  - peso vs. US dollar 162–5
  - poverty rate 164–5
- Arrow-Pratt risk aversion index 32, 33, 241
- Asian Financial crises 101, 138, 151
- Askin Capital 92, 93
- AutoZone 73
  
- baccarat 7
- Bain Capital 67
- Bank of Japan 244, 248
- Bank of New York 118
- Barclays 45
- Barings 92
- BARRA 44, 105, 257
- Battoo, Nikolai 46, 74
- Beacon Hill 118
- Benter, Bill 46, 48, 74
- Berkshire Hathaway 29, 49, 53, 55, 57, 58, 59, 60, 61, 119, 120
- Berkshire Partners 67
- Berlusconi, Prime Minister 195
- Bernanke, Ben 263
- Bernouilli, Daniel 9
- Bernstein Litowitz Berger and Grossmann 122
- Beta 46
- betting the ranch 118
  
- beyond-previous experience events 224
- black hole 166
- Black, Derman and Toy model 226
- blackjack 3, 12–13, 83–4
- bold play 6
- bond-stock crash measures 241, 243–4
- bond stock-yield difference model 229–34, 244, 263
- bootstrapping 226
- BP 147
- Buffett, Warren 29, 31, 46, 47, 49, 53, 54, 57, 62, 70, 74, 95, 119, 284
  
- Cal Tech 63
- Cambridge Associates 71
- Camelot 26
- Campbell, John 259
- CAP:Link 253, 255
- capital asset market equilibrium beta model 3
- capital growth theory of investment 9–27
- Capital Structure Arbitrage 81
- CAPM 35, 44, 46, 62
- Carer's 73
- carryovers (rollovers) 24
- Caxton Global 79
- Central Bank of Iceland (CBI) 181
- certainty equivalent (CE) 50
- Cevik, Serhan 130
- Chemin de Fer 7
- China 131–42
  - costs of development 133–6
  - economy 144–5
  - effect of demand for resources 145
  - equity markets 156–9
  - FDI 127
  - future investment 155
  - GDP 137–8, 143
  - hedge fund scenario analysis 143–59
  - IPOs, ownership and returns 148–68
  - overseas investment 136–42
  - price/earnings ratios 152, 154

- China (*Continued*)  
 return on assets (ROA) 148–9  
 share alphabet 147-  
 stock markets 145–68, 248  
 trade 134–5  
 trade surplus 134–5
- China Life 150  
 China Shipping Container 150  
 Cisco Systems 72  
 Citadel Investment Group 119, 121  
 classification of investors 43–4, 44–7, 63  
 Clayton Dubilier & Rice 67  
 CNOOC 144  
 Columbia University 71  
 commodity training 13–19  
 commissions of active trading 47  
 Commodity Futures Trading Commission (CFTC) 122  
 Compaq Computer 72  
 constant relative risk aversion negative power 62  
 Convexity Capital Management 70  
 counterparty default 91  
 credit risk 91  
 Credit Suisse 118  
 Cross, Frank 105  
 currency strength 255  
 Cyprus 171–6
- Danske Bank 177, 193  
 Dell Computer 72  
 Deutsche Bank 118, 120, 157  
 Dimension Fund Advisors 45  
 dividend growth 255  
 Domino's Pizza 73  
 doubling up strategies 6  
 Doueck, Joe 118  
 Dow Jones Industrial Average (DJIA) 240  
 real and nominal (1885–2001) 242  
 downside risk 57  
 downside symmetric Sharpe ratio (DSSR) 20, 57, 59, 60, 61, 119–20, 295–6
- earthquake data 221–2  
 eating your own cooking 79, 104  
 efficient market theory 43–4  
 Egypt 125–30  
 FDI 125, 126–7, 130  
 floatation 126, 128  
 investment picture 126–9  
 pound 128  
 Qualified Industrial Zones 130
- El-Erian, Mohamed 70, 71  
 Enron 122  
 enron loophole 122  
 Equity Convergence Hedge 81
- EST-LACT 258, 264, 284  
 euro 171–3  
 Euro/dollar exchange rate 171–2  
 European Free Trade Area (EFTA) 177  
 European Union 174–5, 178, 195–6  
 Event Arbitrage 81  
 Event Driven strategy 81  
 Expected Utility Analysis 49  
 extreme scenarios 221–3
- Fama, Gene 44, 46  
 Fed model 103, 235, 246  
 first-time market events 224  
 Fixed Income Arbitrage 81  
 fixed mix strategies vs. strategic asset allocation 204–6, 207, 209  
 forced liquidation 92  
 Ford Foundation 31, 49, 55, 57, 58, 59, 60–1, 74, 119, 120  
 foreign direct investment (FDI)  
 China 127  
 Egypt 125, 126–7, 130  
 free trade agreements (FTAs) 176  
 full Kelly betting 10–11
- gamblers as hedge fund managers 82–5  
 gamblers' ruin 23  
 gambling 3, 4  
 changing into an investment 6  
 fixed payment games 5  
 pari-mutuel games 5, 21  
 vs. investment 4–5
- Gates, Bill 53  
 Genentech 72  
 generalized Hull and White process 251  
 geometric mean 62  
 Gjensidige NOR 207  
 Glenwood Capital Investments LLC 121  
 Goldman Sachs 80, 122  
 Google 72  
 Greenspan, Alan 248, 263, 280  
 Greenwich, Connecticut fund 111  
 Greylock 67  
 Gross, Bill 70  
 Gulf War 128
- hair trigger type behavior 41  
 half Kelly betting 10, 24–7  
 hard landing 137, 143  
 Harvard Investment Company 61  
 Harvard University endowment 59–61, 63–4, 68–9, 70, 72, 74, 119, 120  
 Harvey, Campbell 259  
 Hausch, Donald 47, 84  
 Harvard endowment 70–1  
 Heath–Jarrow–Morton model 226

- hedge fund scenario analysis 229–50  
 hedge funds  
   number of funds 80  
   disasters 91, 203–20  
   *see also* Amaranth; Long Term Capital Management ; Niederhoffer  
 Henkel, Lee 105  
 Henry, John 46  
 Hirsch, Peter G. 121  
 Ho and Lee process 251  
 horseracing 3, 11  
 hot money 138  
 HSBC 137  
 Hull, Blair 46, 74, 122  
 Hunter, Brian 117, 118, 119, 120–1, 250  
 Hurricane Katrina 277–80, 284–6  
  
 Iceland 177–93  
   currency 184–5  
   current account deficit 181  
   debt 182  
   equity ownership 192  
   financial stability 187  
   future prospects 192  
   GDP 180, 181, 187–8  
   inflation 183–4  
   interest rates 186–7, 192–3  
   property 186–7, 192  
   recessions 187–8  
   stock market 189–91  
   stock market crash prediction 189  
 IMF 143  
 impossible trinity 138–9  
 incentive fee 104  
 InnoALM model 41, 208–20  
   applications 210–15  
   test results 215–16  
   model tests 217–19  
 Invest pension plan model 93  
 interest only (IO) securities 93  
 interest rates, effect of 230–2  
 Iran 249–50  
 ISK index 184–5  
  
 Japan  
   1990 crash 220–2  
   stock exchange 248  
   yen 248–9  
 Juniper Networks 72  
  
 Kaupthing Bank 192  
 Kelly betting 9, 10  
 Kelly criterion properties 33–5  
 Kelly fractions 10, 24–7  
 Kenner, Laurel 105  
 Keynes, John Maynard 29–31, 46, 49, 74, 84  
  
 Kilberg, Gary K. 121  
 King's College Cambridge Chest Fund 29, 30, 48, 84  
 Kinko's 73  
 Kirchner, President 166  
 Kleiner Perkins 67  
 Kolmogorov–Smirnov (KS) distances 273  
 Kristjansson, Bjarni 177  
  
 Leeson, Nick 92, 119  
 Lewis, David 224  
 Lexmark International 73  
 Lipper 118  
 log betting 10  
 log utility 9, 10–11  
 Long 81  
 Long Bias 81  
 Long Term Capital Management (LTCM) 32, 47, 79, 80, 81, 92, 93, 95–9, 112, 119, 203, 222  
 lotteries 3, 5  
   carryovers (rollovers) 24  
   design errors 22  
   syndicates 26  
   types of games 22  
   unpopular numbers 21–7  
  
 Maastricht treaty 172, 173  
 Macro funds 80, 81  
 Madison Dearborn Partners 67  
 Man Alternative Investments Ltd 121  
 Man Group PLC 121  
 Man Investments 118  
 Manchester Partners, LLC 105  
 Manchester Trading 107, 109, 110  
 Manhattan Fund 118  
 Maounis, Nick 119, 121  
 market averages, failure to beat 44–7  
 Markowitz mean-variance analysis 55  
 Martingales 6  
 Matador 105–108, 110  
 Maximal 177  
 McPike, Harry 46, 74  
 mean, dominance of 49–52  
   errors in means, variance and covariances 50  
 mean reversion 23, 258, 271  
 mean-variance analysis 49, 50, 62, 67  
 Medallion Fund 79, 295–7  
 Merriwether, John 95, 121  
 Merton-Samuelson criticism of Kelly criterion 46, 48  
 Metallgesellschaft 92  
 Meyer, Jack 70  
 Miller, Bill 224  
 MIT 63  
 Mittleman, David 70

- Mohieddin, Mahmoud 130  
 moment matching 251, 267–72  
 money management 7  
 Morgan, J.P. 119, 121  
 Morgan Chase, J.P. 116, 121  
 Morgan Stanley 16, 118, 122  
 Morgenson, Gretchen 122  
 mortgage backed securities 93  
 Moskow, Michael 280  
 Mother Rock LP 121  
 Mubarak, President 128  
 multiperiod scenarios 267–71, 272
- Natale, John 118  
 natural gas 112–122  
 Neff, John 31  
 Nerton, Bob 47  
 New York stock exchanges 151–4  
 Niederhoffer, Victor 47, 95, 101, 104–5, 107, 109, 110, 119, 203  
 Niederhoffer, Cross and Zeckhauser (NCZ) 105  
 Niederhoffer Henkel 105  
 Nikkei Put Warrant Market (1989–90) 85–6  
 Nikkei put warrant risk arbitrage 96  
 Nikkei puts and calls on Toronto and American Stock Exchanges (1989–92) 86–90
- oil 92, 118, 119, 259–61, 280–3  
 optimal Kelly fraction 38–41  
   secured annual drawdown 39–41  
   VaR control 38–9  
 Oracle 72
- Paulson, Henry 142  
 pension funds  
   disasters 203–20  
   stochastic programming models 206–7  
 People's Insurance Co. 150  
 Pimco Newport Beach 70  
 poker 3  
 Poundstone, William 287–94  
 presidential election, 2004, effect of 236–9  
 price–earnings (PE) ratio 258  
 price inflation 254  
 Princeton Newport Partners (PNP) 46, 48, 54, 84, 85, 119  
 Princeton University endowment 63  
 principal-agent framework 82  
 Prodi, Romano 195  
 pyramid strategies 6
- Qualcomm 3  
 Qualified Investment Zones (QIZ) 174  
 Quantum Funds 31, 60, 61, 81, 116
- Rachev, Zari 98  
 real interest rates 254–5  
 Red Bank, NJ 118  
 Red Hat 72  
 Relative Cost 87  
 Renaissance hedge fund 46, 70, 79  
 risk exposure, misunderstanding 92–3  
 Risk Premium (RP) 45  
 Robertson, Julian 31, 81  
 rogue trader 112, 117–18, 119–20  
 rollovers 24  
 Rosenberg Investments 105  
 Rosenberg, Barr 105  
 roulette 6  
 Russell 2000 small cap index 16, 19  
 Russell–Yasuda Kasai insurance model, five period 251, 267  
 Russian New Europe (RNE) 109, 244
- S&P500 index 3, 14–17, 37, 45, 46, 55, 60, 229, 230–1  
   2000–2002 crash 232–6  
   daily over time 245–6  
 Salomon Brothers 89, 121  
 Salomon Brothers Bond index 37  
 Samuels, Maurice 70  
 Samuelson, Paul 46, 47  
 San Diego County Employees' Retirement Association 122  
 Santomero, Anthony 280  
 scenario estimation and aggregation 221–7  
 scenario generation 251–6  
 scenario reduction 251–6  
 scenario tree 224, 251–2, 267, 271, 272, 274–5  
   multiperiod 251–2  
 scenarios 221–7  
 Scholes, Myron 96  
 September 11, 2001 244  
 Sequoia 67  
 Shanghai Stock Exchange 133–4  
 Shannon 287, 288  
 Sharpe ratio 31, 48, 49, 52, 55, 57, 59, 60, 61–2  
 Sharpe-Lintner Mossin capital asset pricing model 55  
 Shaw, Julian 85  
 Shell 127  
 Short funds 81  
 Sicily 195–9  
   agriculture 197  
   exports 196–7, 198  
   GDP 196  
   investment 196  
   transportation links 197, 198–9  
 Siegel, Larry 53, 60

- Siemens AG Osterreich 208  
pension plan 59, 208–20
- Simons, Jim 7, 46, 70, 122, 295
- Snapple Beverage 73
- Solengo Capital 121
- Soros, George 31, 49, 74, 81, 105, 116, 173, 230
- Sortino ratio 59
- speculation 91–2
- sports betting 3, 4
- Stanford University endowment 63, 69–70
- state-owned enterprises (SOEs) 146
- statistical arbitrage 257
- stochastic differential equations 226, 251
- stochastic programming models 206–7  
*see also* InnoALM
- stock market crash  
Japan 1990 263  
October 1987 crash 230, 231, 263  
October 1997 crash 101–10  
US 2000 263  
2000–2002 crash 232–6, 263
- stocks 3–4
- Stovall, Bob 247
- strategic asset allocation vs. fixed mix  
strategies 204–6, 207, 209
- strategy development 7
- Summers, Lawrence 249
- Susquehanna Group 46
- Sutter Hill 67
- Swensen, David F. 43, 46, 63, 64–6, 74, 75, 294
- T-option measure 242, 243–4
- Taleb, Nassim Nicholas 294
- TCL Communications 149
- terrorism 236
- Thorp, Ed 46, 47, 53, 54, 74, 83–5, 119, 287, 288
- Tiger Fund 31, 57, 60, 81
- Tobin, James 120
- Towers Perrin scenario generation system 226, 252, 256
- transactions costs 44
- turn-of-the-year effect 13–19
- two-factor Brennan–Schwartz model 254
- two period stochastic program 277–8
- ultraconservative and risk taking measures 241
- UNOCAL 144
- US dollar/euro exchange rate 171–2
- utility functions 9, 19–20
- Value at Risk 226
- Value Line index (VL) 14–17
- Vasicek model 226
- vector auto-regressive (VAR) models 97–8, 122, 226, 251, 252–6
- VIX volatility index 247–8, 249
- VL/S&P spread 14–19
- Vodafone 127
- volatility (gamma risk) 91, 283
- wage inflation 254
- Wasserstein distance 251, 272, 273
- wheel of fortune 6
- Windsor 31, 61
- WTZ 16, 49, 207, 241, 249–50
- Yahoo 72
- Yale University endowment 60, 63, 64–8, 69, 70, 71, 72–3, 74–5
- Yass, Jeff 46, 74
- Yellen, Janet 280
- Zaida, Mustafa 105
- Zeckhauser, Richard 105
- zero sum games 91