Advertisement

Journal of Applied Corporate Finance / Volume 13, Issue 4 / pp. 100-109

A COMPARABLES APPROACH TO MEASURING CASHFLOW-AT-RISK FOR NON-FINANCIAL FIRMS

Jeremy C. Stein, Stephen E. Usher, Daniel LaGattuta, Jeff Youngen

First published: 11 April 2005

https://doi.org/10.1111/j.1745-6622.2001.tb00430.x

We are grateful to Lou Guth for his support, encouragement, and advice on this project. Thanks also to Omar Choudhry and Amy Shiner for research assistance, and to Ken Froot, Paul Hinton, as well as to seminar participants at NERA for helpful comments.

PDF

Abstract

Cashflow-at-Risk (C-FaR) is an attempt to create an analogue to Value at Risk (VaR) that can be used by non-financial firms to quantify various kinds of risk exposures, including interest rate, exchange rate, and commodity price risks. There are two basic ways to attack this problem. One is from the "bottom up," which involves building a detailed model of all of a company's specific exposures. The C-Far approach presented here is a "top-down" method of comparables that looks directly at the ultimate item of interest—the companies' cashflows. The fundamental challenge facing the top-down strategy is that, for any one company, there is not enough data on its own cashflows to make precise statements about the likelihood of rare events. To get around this problem, the authors match a target company with a large set of comparable companies that are expected to have similar cashflow volatility. The comparables are chosen to be close to the target company on four dimensions: (1) market cap; (2) profitability; (3) industry risk; and (4) stock price volatility.

C-FaR can be useful to managers addressing a variety of corporate finance decisions. For example,

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Citing Literature

Download PDF

ABOUT WILEY ONLINE LIBRARY

Privacy Policy
Terms of Use
About Cookies
Manage Cookies
Accessibility
Wiley Research DE&I Statement and Publishing Policies

HELP & SUPPORT

Contact Us
Training and Support
DMCA & Reporting Piracy
Sitemap

OPPORTUNITIES

Subscription Agents
Advertisers & Corporate Partners

CONNECT WITH WILEY

The Wiley Network
Wiley Press Room

Copyright © 1999-2026 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

WILEY

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential