ow Relevant is Volatility Forecasting for Financial Risk Management? 🔼
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bstract
depends. If volatility fluctuates in a forecastable way, volatility forecasts are useful for risk anagement (hence the interest in volatility forecastability in the risk management literature). Volatility recastability, however, varies with horizon, and different horizons are relevant in different eplications. Moreover, existing assessments of volatility forecastability are plagued by the fact that ey are joint assessments of volatility forecastability and an assumed model, and the results can vary of only with the horizon but also with the assumed model. To address this problem, we develop a codel-free procedure for assessing volatility forecastability across horizons. Perhaps surprisingly, we not that volatility forecastability decays quickly with horizon. Volatility forecastability – although clearly relevance for risk management at the short horizons relevant for, say, trading desk management – any be much less important at longer horizons.
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