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What should the value of lambda be in the exponentially weighted moving average volatility model?

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Abstract

Forecasting volatility is fundamental to forecasting parametric models of value-at-risk. The exponentially weighted moving average (EWMA) volatility model is the recommended model for forecasting volatility by the Riskmetrics group. For monthly data, the lambda parameter of the EWMA model is recommended to be set to 0.97. In this study, we empirically investigate if this is the optimal value of lambda in terms of forecasting volatility. Employing monthly realized volatility as the benchmark for testing the valu ptimal. The tests are imal value of lamb The article offers -risk forec

Keywor
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Notes

[1] See http://research.stlouisfed.org/fred2/series/SP500/downloaddata

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