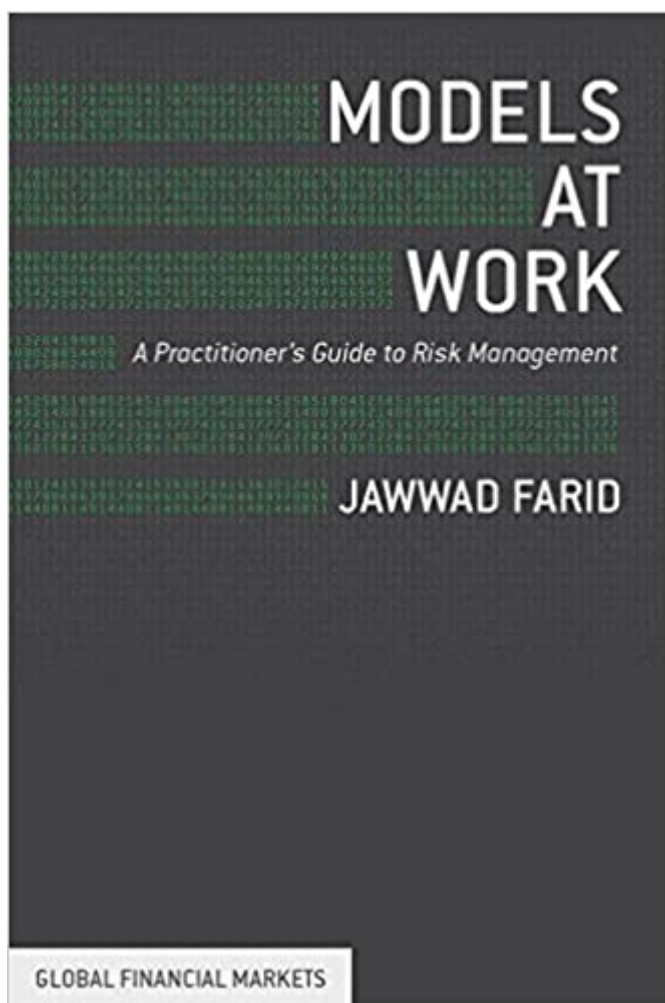


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# Models At Work: A Practitioner's Guide To Risk Management (Global Financial Markets)



## Synopsis

This book provides a much needed 'middle ground' for risk practitioners who need an in-depth understanding of risk management without excessive formulae or theory. Written to appeal to a broad but financially-minded audience, it provides coverage of risk management and the frameworks commonly applied in the financial services industry.

## Book Information

Series: Global Financial Markets

Hardcover: 613 pages

Publisher: Palgrave Macmillan; 2014 edition (December 6, 2013)

Language: English

ISBN-10: 1137371633

ISBN-13: 978-1137371638

Product Dimensions: 6.3 x 1.5 x 11.1 inches

Shipping Weight: 2.4 pounds (View shipping rates and policies)

Average Customer Review: 5.0 out of 5 stars 4 customer reviews

Best Sellers Rank: #1,759,097 in Books (See Top 100 in Books) #72 in [Books > Business & Money > Finance > Financial Engineering](#) #540 in [Books > Business & Money > Investing > Commodities](#) #579 in [Books > Business & Money > Insurance > Risk Management](#)

## Customer Reviews

I am not a Quant. I always wanted to be one but it took a single meeting with Goldman's Firmwide risk team in London to clear any delusions I may have harbored. All remaining reservations were removed in the one PhD elective in Finance that I took with Maria Vassalou at Columbia. Despite Maria's kindness and dedication it was obvious in April 1999 that I was just an ordinary mortal and not a Quant. In 1999, the realization wasn't heart breaking. If one couldn't live in the exotic world of high finance, the less exalted levels in the banking and trading world offered enough to keep you engaged and happy as a professional. But that was then. The last eight years have left no doubt that the impact of quantitative models travels beyond the inner circle of the more mathematically inclined amongst us. Imagine being a board member at a large bank or a financial institution; imagine the board meeting dossier filled with numbers and graphs that come with no cheat sheet or Rosetta Stone and then envisage the need for you, as a board member, to initial and certify it all with your name and reputation. The challenge is, that armed without a PhD in the subject or years of experience on the trading desk, most of us are hopelessly

lost when it comes to dissecting models at work. Even if one wants to learn there is little material available in a language that ordinary mortals can understand. The foundation of the field of risk management is based on well aged sciences of mathematics and statistics. It is but natural that books heavy on mathematical and statistical treatment of the subject are common and abundant, while those relying on simple layperson language and do it yourself modeling in EXCEL are not. Ideally, a book should introduce a framework for managing risk and follow it through with a number of real world illustrative examples with numbers and data. If you are interested, it should allow you to build and test simple models that you can then use to strengthen your understanding of the conditions under which models can breakdown or predict where things can go wrong. A great text would educate you enough to not only ask the right questions but also evaluate and digest the answers provided.

Over the last decade, as we put together teaching notes for participants in our workshops for bankers, traders, treasurers and executive MBA students, we found that the above design on teaching risk management worked well. The challenge most professionals face is not with theoretical derivations but practical applications and translation into the real world. If you are looking for detailed mathematical derivations, differential equations or easy answers, you will be disappointed. The book is about building intuition around risk and using simple tools in EXCEL to test that intuition against the real world and occasionally with economic drivers. Taleb calls it "playing with the generator function". My mentors in the field have called it the "Build, Test, Dissect, Decode" mode of learning. Till you figure out how to break it, you won't really learn how it works. The book shows you how to build some models, shares the framework that you can use to test and stretch the same and in some instances gives you the data to extend them. But it stops short of putting it all together. It will show you the way and partially unlock the door, but you have to make the effort to open it and walk inside. This book is for you if you ever wondered about risk and its implications in the real world; if you wanted to model risk but felt awed by the terminology; if you like to question assumptions and test them in EXCEL; if your board is a "What if" board and you want to put a better process around that one troubling question; and if you wanted to be a quant, but like me, are not.

Jawwad Farid has been building and implementing risk models since August 1998. Working with clients on four continents he helps bankers, board members and regulators take a market relevant approach to risk management. He is the founder of Alchemy Technologies, a risk consulting practice and writes about risk and treasury products at [FinanceTrainingCourse.com](http://FinanceTrainingCourse.com). Jawwad's expertise includes investment management, product development and risk models. He has advised

multiple due diligence teams on risk assessment in banking and insurance sectors, set up FX and commodity hedging desks, built fair value models for illiquid securities for FAS 157 disclosures, helped a 3 billion US\$ dollar life insurance fund on allocation and bid patterns for 20 and 30 year bonds, ALM mismatch and fixed income strategy. He has worked with the securities and banking regulator and the Asian Development Bank on assessing the state of the corporate bond market as well as issued valuation opinions on cross currency swaps, participating forwards and contingent liabilities for Exchange Guarantee Funds in the region. Jawwad is a Fellow Society of Actuaries (Schaumburg, IL), holds an MBA from Columbia Business School and is a computer science graduate (NUCES FAST). He is an adjunct Faculty member at the SP Jain Global School of Management in Dubai and Singapore where he teaches Risk Management, Derivative Pricing, Project Finance and Entrepreneurship.

Unlike college finance courses, this book includes knowledge and skills needed in the real world. Throughout *Models at work*, one can sense that the author has worked extensively in the field. If you're just starting out in financial risk modeling (like me), Jawwad provides a highly practical and relevant guide for designing and creating reusable risk models, using numerous real world illustrative examples with supporting numbers. He emphasizes on how to create meaning and sense, out of the results that you'll derive from them. And most importantly, in a language which is easy to comprehend. Jawwad has a very humble and thoughtful approach that lets the reader know there are many ways one can introduce errors into models - and how to best avoid doing so. And for those who need to value non-standard assets (oil & gas, gold, energy, commodities etc.), *Models at work* is a resource like none other. This book will become a fixture on every risk professional's bookshelf.

*Models at Work* provides good practical, and clear advice on how to do and how to use risk modeling. Early in the book, Farid provides a couple of questions that can be applied to each and every risk problem...1. What is the exposure?2. What is the trend of the exposure?3. What is the impact of the risk factors on an exposure?4. What is the Risk Appetite?And he applies these to jet fuel, palm oil, FX, wheat, corn, natural gas, crude oil, precious metals along with financial instruments such as bonds, stocks, insurance and pensions. MaW has 100 pages explaining Monte Carlo simulations. A very helpful technique. Farid is based in South Asia and works with businesses and professionals throughout the region and for many of those risk types, the data is not as available as it might be in US or Europe. So Monte Carlo modeling becomes more important to help

to fill in the gaps. Besides the step-by-step descriptions of these processes, MaW also includes a colorful travelogue of the markets and pitfalls of modeling. In some ways, MaW reads like the best of cook books. It is not just the recipes, but the stories that make the book what it is.

"Models at Work" is an amazing book by about building an intuition about risk in real-world application. Coming from an academic background in financial mathematics and having worked in FS audit, risk management and FS consulting, focusing on quantitative models at globally leading investment banks, I can recommend this great book to any risk professional or student out there, who wants to get to know about what is essential in real-life risk management applications and models. In his book Jawwad Farid succeeds in making the so difficult balancing act that most books in this area don't make teaching sophisticated frameworks, tools and concepts in a language "normal human beings" understand. You don't need to call yourself a quant, hold a PhD in Physics or Mathematics, or understand Ito's lemma to make sense of this book. Jawwad manages to stay away from overly theoretical concepts, which often are of limited use in our day-to-day work as risk and finance professional, and instead focuses on real-world application throughout the book. Well done Jawaad looking forward to your next one!

I had previously encountered this book when it was titled "Risk Frameworks and Applications (2nd Ed.)" and used certain sections to assist in building the most useful and practical models I have ever designed for my job. My role is a combination of asset management and risk management/monitoring and so I believe that I exist in that sweet spot that the author is trying to target -- not too complex as a true quant might be, but at the same time, relatively comfortable with basic risk management ideas. The author does the job he has set out to do, which is, instead of impressing readers with pages and pages of intangible formulas, he has actually written a book that a sufficiently interested person could sit down with and in an afternoon, actually build and understand a working example that can easily be modified to suit their needs. Even though the target market is already naturally small for such a book, I am still surprised that this book is not more well-known. Highly recommended.

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