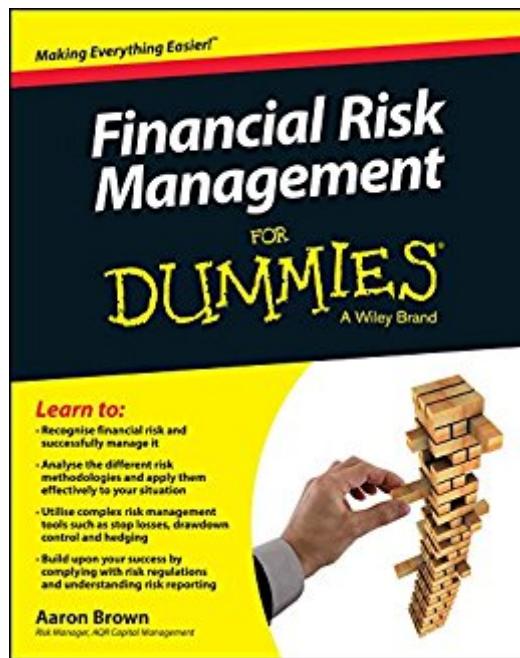


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# Financial Risk Management For Dummies



## Synopsis

Take the risk out of financial risk management Written by bestselling author and past winner of the GARP Award's Risk Manager of the Year, Aaron Brown, *Financial Risk Management For Dummies* offers thorough and accessible guidance on successfully managing and controlling financial risk within your company. Through easy-to-follow instruction, you'll find out how to manage risk, firstly by understanding it, and then by taking control of it. Plus, you'll discover how to measure and value financial risk, set limits, stop losses, control drawdowns and hedge bets. Financial risk management uses financial instruments to manage exposure to risk within firms, large and small—particularly credit risk and market risk. From managing and measuring risk to working in financial institutions and knowing how to communicate risk to your company and clients, *Financial Risk Management For Dummies* makes it easy to make sense of the management of risk when working in various different financial institutions and concludes by covering the topic of how to communicate risk — how to report it properly and how to deal with and comply with all of the regulations. Covers managing risk and working as a financial risk manager Provides everything you need to know about measuring financial risk Walks you through working in financial institutions Demonstrates how to communicate risk If you work in the financial sector and want to make financial risk management your mission, you've come to the right place!

## Book Information

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## Customer Reviews

The book is for sophisticated dummies--those who are either aspiring fund managers, or have advanced knowledge in finance, or are either executives or board members with oversight responsibilities. I liked how the book ties risk management material with fields that most people can relate to. As an economist with a PhD, I have worked in a variety of financial jobs but never fully understood what risk managers really do as professionals on day-to-day basis. As experts, I suppose they should manage financial risk (if they are fund managers), risks in sports events, political risk, health risk, accident risk, natural disaster risk, etc. Rewards reaped from identifying, assessing, managing and bearing risks of different kinds are a significant part of how we need to manage our savings and investments. I am mostly interested in understanding how financial risks of investment portfolios are managed and how the insurance markets function. Risk assessment and risk premiums affect lots of every day decisions, but not in obvious ways. Experts toss around terms that are familiar to me but mean something different in risk management. By reading Brown's books on risk, especially this recent book, "Financial Risk Management for Dummies", I was delighted to learn clear, simple explanations for a lot of the stuff; and just as important, confirmed my suspicions that a lot of the stuff that experts call risk-management is often just bad practice. I now feel I can interact intelligently with people working in the field of risk management and refer them to this book so that they too may read it, as a start, and, if necessary, contact the author to discuss things they could do which would be helpful to them. i.e., improving their products and services and how they explain their products and services to stakeholders in a uniform and consistent way and avoid doing things that are or could be harmful. While in graduate school, I learned the math behind the Greeks (parameters) but had not thought about the different risk management aspects of each Greek parameter until I read Chapter 8, Speaking Greek, of this book. All along, I have thought diversification and hedging are the only techniques for managing risk, but in Chapter 13, Hedging Bets, I was surprised to learn that risk managers dislike hedges and use them only as a last resort. And, Chapter 18, Reporting Risk, gave me an unexpected insight into the importance of giving all stakeholders the same view of risk. i.e., having an accurate picture of risk and managing it properly. but even the best risk managers frequently fail to do this for

their audience/clientele. The book helped me recognize financial risk and how to successfully manage it, analyze the different risk methodologies and apply them effectively to different situations, utilize tools such as stop losses, drawdown control and hedging. Specifically, I learned how to assess and manage risk, through easy to follow steps, firstly, by understanding it and then controlling or mitigating it. I also learned how to measure and value financial risk, hedge bets and how to communicate about financial risk with the pros. The book is fun and easy to read and I got the feeling that being a risk manager could be challenging, exciting, rewarding and fulfilling. Some of the author's personal stories—e.g., the regulation story, playing poker with stops, distinguishing fraud from finance, and emotional stop loss were very interesting and insightful for me. I highly recommend it.

When I ordered Financial Risk Management for Dummies, I expected a responsibly written "how to" book. What I got was so much more. Perhaps it's because the author was in the risk management trenches when the field was first established -- and has had a bird's eye view to its development. But in any case, I was pleasantly surprised. Brown's content goes beyond the pragmatic and provides engaging theoretical, historical, and philosophical views relative to risk. Sure, you'll get the math, from VaR to vega. But you'll also learn that good financial risk managers can't rely on quantitative skills alone. Brown discusses how effective communication with co-workers, bosses, boards, lawyers, regulators, and industry peers can all improve an organization's risk readiness. This is clearly a book that will aid those considering or starting out in the financial risk management field. I also believe that fund managers, traders, family office managers and RIAs will learn a lot from this book about how to keep their operations responsibly afloat. But I'd also recommend this book to anyone who might be interested in thought-provoking essays about risk.

Many investors and traders are drawn to the financial markets and focus on what there is to gain by adding risk to one's portfolio. And that's just for equities. The relative strength of this pilgrimage is amplified 10-fold if one is considering derivatives or commodity futures. The difference between this ideology and how a professional thinks about the markets is counter-emotional and otherwise "bass ackwards": pros focus on what there is to lose and the myriad ways losing can happen. They imagine "new and improved" ways one can lose and how to avoid those instances when possible. Hence, one's gains are only gains to the extent they keep their losses small. Focusing on playing defense is the key to lasting success in the financial markets for investor or

trader. Aaron has done a great job in clarifying what the salient aspects of risk management actually are and where that is different from diversification, and most of this data analysis can be done at home on a mac or PC using a basic spreadsheet. He also explains with examples how a part of risk management comes down to using your judgment or common sense. There are certain parts of risk that we can't define because there is no sufficient data to study (what pros call 'tail risk'). Aaron delineates with great detail where individuals managing risk need to look to have a more clear understanding of the perils that go with financial risk. For example, 'diversification' is "risk reduction" and for most people, that's where it ends. Diversification is NOT risk management - there is much more to it. More surprising is that he is able to illustrate these concepts WITHOUT the jargon and vernacular of someone in his position. He's speaking to today's market participants who most likely do not speak this dialect of financial literacy. A reader does not need to know advanced math such as Differential Equations, Stochastic Calculus, or know how to derive Ito's Lemma to get the most from this book. In this regard the book's format follows the "...For Dummies" ethos. But for the Chief Risk Manager of AQR and a developer of Value at Risk (VaR) to write such a book, is like a carpenter building a new home with tools used by cavemen and it is the sign of a great teacher to be able to teach these concepts to laypeople. IMHO, this book will provide more than several "aha" moments to the uninitiated to risk management and I recommend this book and "initiate coverage" with a screaming "Buy Rating." The value herein is well worth many multiples of the price and will stimulate a lot of great thinking from the reader's standpoint.

What a great read! I really enjoyed this book. The text is incredibly clear and user friendly, while also just a great reference tool. Not only did this book serve as a great refresher, but it also enhanced my conceptual understanding of Financial Risk Management. Highly recommended read for anyone who is starting their launch into the FRM world or who simply wants to enhance their knowledge base. A+

unnecessarily lengthy. too much time spent on analogies. instead if the author had focused on explaining formulas and models, it would have been helpful. disappointed.

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