FORECASTING FINANCIAL MARKETS N°7:
ADVANCES FOR EXCHANGE RATES,
INTEREST RATES AND ASSET MANAGEMENT

Seventh International Conference
sponsored by
Elseware,
IFS Ltd and
LIFFE

**FFM2000 will share a Joint Programme with the Computational Finance
Conference CF2000 sponsored by London Business School**

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Program Chairs:
- Christian Dunis(Infacts/StatQ and Liverpool Business School)
- John Moody (Oregon Graduate Institute)
- Allan Timmermann(UCSD)
- Neil Burgess (London Business School)

Industrial Chairs:
- Patrick Nam (Elseware)
- Darren Toulson(Intelligent Financial Systems Ltd.)

Topics:
- Fund management and trading rules
- Advances in asset management and portfolio optimisation
- Relative value and market neutral strategies
- Modelling volatility and correlation
- Modelling with high frequency data
- Risk analysis and credit trading
- Derivatives pricing models
- Special Session: Weather derivatives

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FORECASTING FINANCIAL MARKETS / COMPUTATIONAL FINANCE
JOINT CONFERENCE PROGRAMME

Day 1: Wednesday 31 May 2000
08:00 Registration & Coffee
08:45 Opening Address

SESSION 1 MARKET DYNAMICS AND INVESTMENT STRATEGIES

09:00 Invited Speaker: H. Pesaran (University of Cambridge), Real Time
Modelling in Finance.
09:35 EUR/USD Exchange Rate: A Monthly Econometric Model for
Forecasting, D. Sartore et al., University Ca Foscari, Venice.
10:00 What Exactly Should We Be Optimising? Criterion Risk in
Multi-Component and Multi-Model Forecasting, A. N. Burgess, London
Business School.
10:25 Poster Preview, Exhibits and Coffee
10:45 Duration Dependence in Stock Prices: An Analysis of Bull and Bear
Markets, A. Lunde et al., Aalborg University.
11:10 Covariance and Correlation in International Equity Returns: A
Value-at-Risk Approach, R. Campbell et al., Erasmus University,
Rotterdam.
11:35 A Real Options Approach to Hedge Fund Valuation, J. Moody , Oregon
Graduate Institute, Portland.
12:00 Lunch, Exhibits and Poster Session 1

TUTORIAL SESSION (Additional registration fee applies)
14:30 Tutorial 1: VaR: Volatility, Extremes and Correlation, A. McNeil
(Swiss Federal Technical University, Zurich).
15:45 Posters, Exhibits and Tea
16:15 Tutorial 2: Data Mining in Finance, V. Dhar (Stern School of
Business, New York.)
17:30 Close of session

SPECIAL SESSION ON WEATHER DERIVATIVES

14:30 The Use of Weather Derivatives in the Financial and Insurance
Markets, R. Douglas, WIRE Ltd., Brighton.
14:55 Weather Data for Derivative Trading, M. Gibbs, The Met Office,
Bracknell.
15:20 Weather Derivatives & Basic Pricing Strategies, D. Toulson,
Intelligent Financial Systems Limited, London.
15:45 Posters, Exhibits and Tea
16:15 Is Over-analysis Killing the Weather Market? R. McIntyre, R.
Preston, Speedwell Weather Derivatives, London.
16:40 Weather Derivatives - Strategy for Cracking the Corporate Market,
S. Harry, Willis Corroon Ltd., London.
17:05 Panel Discussion & Alternative Risk Transfer: Insurance meets
Finance.
17:35 Close of session

Day 2: Thursday 1 June 2000
08:30 Coffee

PARALLEL SESSION 2
TRADING STRATEGIES

09:00 21 Methodologies to Beat the Market, G. T. Albanis et al., City
University Business School, London.
09:25 Optimising Trading Strategies Using Multi-Action Reinforcement
Learning, N. Towers et al, London Business School.
09:50 FXYI2: An FX Investing Index, M. Levitt, High Frequency Finance,
Sunnyvale, California.
10:15 Poster Preview, Exhibits and Coffee
FX MARKETS
10:45 Nonlinearities Are Simulatneously Present in the Conditional Mean
and Variance of Financial Data: Application to High Frequency Exchange
Rates, G. Dufrénot et al., Paris 12 University and GREQAM, Marseille.
11:10 Structural Change and Long Memory in Volatility, M. Beine et al.,
Lille 2 University and SES, MRW, Belgium.
11:35 Intraday Technical Trading in the Foreign Exchange Market, M.
Neely et al., Federal Reserve Bank of St. Louis.
12:00 Lunch, Exhibits and Poster Session 2

PARALLEL SESSION 3
ESTIMATING PROBABILITY DENSITIES

9:00 Recovering the Density Function of Asset Prices Using GARCH as
Diffusion Approximations, F. Fornari et al., Bank of Italy and
University of Cambridge.
9:25 Testing the Stability of Implied Probability Density Functions, R.
R. Bliss et al., Federal Reserve Bank of Chicago.
9:50 Density Estimation through Quasi-Analytic Monte-Carlo Simulation:
Option Pricing Bounds under Fixed and Proportional Transaction Costs, N.
K. Chidambaran, Stern School of Business, New York.
10:15 Poster Preview, Exhibits and Coffee
CREDIT RISK ANALYSIS
10:45 Credit Contagion: Pricing Cross-Country Risk in Brady Debt
Markets, M. Avellaneda et al., New York University.
11:10 A New Approach to Corporate Loan Default Prediction from Financial
Statements, A. Fan et al., University of Melbourne.
11:35 An Equity-Based Neural Network Loan Default Prediction Model, A.
Atiya et al., Caltech, Pasadena, California.
12:00 Lunch, Exhibits and Poster Session 2

PARALLEL SESSION 4
DERIVATIVE PRICING

14:30 Jump-Diffusion Processes: Volatility Smile Fitting and Numerical
Methods for Pricing, L. Andersen et al., General Re Financial Products,
London.
14:55 Error Bounds on Tree Methods for Calculating Options Prices, D.
Basterfield, Oregon Graduate Institute, Portland.
15:20 Fourth Order Finite Difference Method, A. Mayo, IBM, T. J. Watson
Research Center.

15:45 Posters, Exhibits and Tea
TERM STRUCTURE MODELS
16:15 Bootstrap Results from State Space Form Representation of the HJM
Model, R. Bhar et al., University of Technology, Sydney.
16:40 Specification Testing of Univariate Continuous-Time Interest Rate
Models, R. G. Fléres et al., EPGE/FGV, Rio de Janeiro.
17:05 Nonparametric Modelling of Parametric Short Term Interest Rate
Models, F. Altissimo et al., Bank of Italy, Rome.
17:30 Close of session

PARALLEL SESSION 5
CONTROLLING DOWNSIDE RISK

14:30 Building a Mean Downside Risk Portfolio Frontier, G. M. de
Athayde, EPGE/FGV, Rio de Janeiro.
14:55 Implementing Dynamic Investment Strategies with Downside Risk, M.
Persson, Lund University, Sweden.
15:20 Portfolio Optimization in a Downside Risk Framework, R. Bramante
et al., University Cattolica del Sacro Cuore, Milan.
15:45 Posters, Exhibits and Tea
VOLATILITY AND CORRELATION MODELLING
16:15 The Jumping Interest Rate: Testing, Modeling and Forecasting, R.
D. de O. Brito et al., EPGE/FGV, Rio de Janeiro.
16:40 The Arrival of Public Information and Volatility Persistence in
Financial Markets, G. Janssen, University of Leuven, Belgium.
17:05 Forecasting FX Volatility Using Canonical Variate Analysis, B.
Pilgram et al., University of Western Australia.
17:30 Close of session

Day 3: Friday 2 June 2000
08:30 Coffee

PARALLEL SESSION 6
ASSET PRICING MODELS

09:00 Factor Representing Portfolios in Large Asset Markets, E. Sentana,
CEMFI, Madrid.
09:25 The 3-CAPM: Theoretical Foundations and a Comparison of Asset
Pricing Models, E. Jurczenko et al., Paris 1 University.
09:50 Should International Investors Rely on Asset Pricing Models? A
Bayesian Perspective, F. Fornari et al., University of Cambridge.
10:15 Poster Preview, Exhibits and Coffee
STRESS TESTING VALUE-AT-RISK
10:45 Value-at-Risk under Non-normality and Non-linearity, I. Mauleon,
Universidad Rey Juan Carlos I, Madrid.
11:10 Stress Testing Portfolio Value-at-Risk, F. Bourgoin, Barclays
Global Investors, London.
11:35 VaR-based Asset Allocation using Neural Networks, N. Chapados et
al., University de Montréal.
12:00 Lunch, Exhibits and Poster Session 3

PARALLEL SESSION 7
ADVANCED PORTFOLIO ALLOCATION

09:00 Portfolio Selection Based on the Multivariate Skew Normal
Distribution, C. J. Adcock et al., University of Bath.
09:25 Multi-Level Risk-Controlled Sector Optimisation, R. D & Vari et al,
State Street Research and Management, Boston.
09:50 Optimal Benchmark Tracking with Small Portfolios, R. Jansen et al,
ING Investment Management, The Hague.
10:15 Poster Preview, Exhibits and Coffee
ADVANCED FORECASTING METHODS
10:45 A Financial Stock Index Trend Prediction Approach with Temporal
Considerations, G. Banavas et al, University of Plymouth.
11:10 Nonlinear Estimation for Linear Prediction, M. Saffell et al.,
Oregon Graduate Institute, Portland.
11:35 Improved Neural Network Forecasting by Optimal State Space
Reconstruction, H.-G, Zimmermann et al., Siemens, Munich.
12:00 Lunch, Exhibits and Poster Session 3

SESSION 8
VOLATILITY, RISK AND ASSET MANAGEMENT

14:00 Invited Speaker: M. Dempster (Judge Institute, Cambridge), Dynamic
Model-Based Asset Liability Management.
14:35 Scenario-Based Valuation of Credit Event-Linked Securities, K.
Giesecke, Humboldt University, Berlin.
15:00 Value-at-Risk with Heavy-Tailed Risk Factors, P. Glasserman et
al., Columbia University, New York.
15:25 Posters, Exhibits and Tea
15:50 FX Volatility Forecasts and the Informational Content of Market
Data for Volatility, C. Dunis et al., Liverpool Business School.
16:15 Extreme Values and Time Series: Application to Risk Management, S.
Avouyi-Dovi et al., Banque de France, Paris.
16:40 Invited Speaker: F. Diebold (Stern School of Business, New York),
The Distribution of Stock Return Volatility.
17:15 End of Conference

Poster Session 1 (Wednesday) - Derivatives Pricing, Portfolio
Management, Asset Allocation and Volatility

Risk-Neutral Pricing of Credit Derivatives, M. Jost et al. (WEDIT
Deloitte and Touche, Dusseldorf);
Methods of Symbolic Dynamics in Options Trading, P. Tito et al. (Austrian Research Institute for
Artificial Intelligence);
An Icosahedral Lattice Method for Three-Factor Models, L. A. McCarthy et al. (University of New
South Wales);
Index Tracking, J. E. Beasley et al. (Imperial College, London);
Risk Characteristics of Actively Managed Market Neutral Portfolios, M. Lundin et al. (Fortis
Investment Management);
Risk-Averse Asset Allocation Using Reinforcement Learning, R. Neunier et al. (Siemens);
Nonparametric
Specification Tests for Conditional Duration Models, M. Fernandes (European University
Institute); Predicting High Performance Stocks
Using Dimensionality Reduction Techniques Based on Neural Networks, G. T. Albanis et al.
(City University Business School, London);

Estimation Methods in Generalized Long Memory Processes, L. Ferrara et al. (Paris
13 University);
Modeling Realized Volatility, R. Oomen (European University Institute); Long-Run Volatility
Dependencies in Intraday Data and Mixture of Normal Distributions, A. Boubel et al. (Evry
University);
Volatility Estimation Using High, Low and Close Data - A Maximum Likelihood Approach, M.
Magdon-Ismail et al. (RPI, New York);
Volatility Models and Time-Varying Parameters, J. del Hoyo et al. (Universidad Autonoma,
Madrid);
Using White's Reality Check with GARCH Models, L.Souza et al. (University of Warwick);
Modeling Outliers and Extreme Observations for ARMA-GARCH Processes, P. Verhoven et al.
(Curtin University of Technology).

Poster Session 2 (Thursday) - Option Pricing, Trading Strategies and
Risk Measurement

The Valuation of Point Barrier Options in a Path Integral Framework, C.Chiarella et al.
(University of Technology, Sydney);
A Neural Network-Based Approach to Extracting Risk-Neutral Densities and to Derivative
Pricing, C. Schittenkopf (Austrian Research Institute for AI);
Short Term Interest Rate Option Pricing: An Empirical Analysis of the Relative Accuracy of
Implied Volatilities Across Contracts, G.Cifarelli (University of Brescia);
The Quality of Option Price Forecasts: A Dynamic Approach, G. Capelle-Blancard et al.
(Paris 1 University);
Exploiting Computational Intelligence Techniques within a Framework for Statistical
Arbitrage, A. N. Burgess (London Business School);
Anomalous Scaling in a Stock Market Model with Endogenous Trading Activity Dynamics, G.
Iori, (University of Essex);
Expected Utility Maximization and Time Diversification, B. Hannson et al. (Lund University);
Profitability and Market Stability in the Presence of a Technical Trading Rule, D. Goldbaum
(State University of New Jersey);
Extreme Value Theory for Tail-Related Risk Measures, E. Kellezi et al. (University of
Geneva);
Measuring DAX Market Risk: A Neural Network Volatility Mixture Approach, K. Bartlmae et
al. (DaimlerChrysler AG);
(Un)Conditionality and Risk Forecasting, J. Danielsson (London School of Economics);
Comparing Different Methods for Estimating Value-At-Risk for Nonlinear Real Portfolios, M.
Coronado (Universidad P. Comillas, Madrid);
An Efficient and Feasible VaR Method for Highly Nonlinear Securities, L. Iversen et al. (BG
Bank, Copenhagen);
Specific Simulation Based on Default Intensities for Risk Measurement of Credit Portfolios,
M. Benfaida (DaimlerChrysler AG);
Modeling Liquidity Risk in A Monetary Policy Environment, C. Caglio et al. (University
Bocconi, Milan).

Poster Session 3 (Friday) - Forecasting, Market Analysis and Volatility

Combining Heterogenous Classifiers for Stock Selection, G. T. Albanis et al. (City University
Business School, London);
Optimizing Forecasting Models for Trading Using Meta-Parameters, N. Towers et al. (London
Business School);
Dynamical Deseasonalization in OTC and Localized Exchange-Traded Markets, W.
Breymann et al. (Olsen and Associates, Zurich);
On Out-of-Sample Statistics for Time Series, F. Gingras et al. (Université de Montréal);
Asymmetries as a New Explanation for the Forward Premium Puzzle, J. Coakley et al.
(London Guildhall University);

High Frequency Data in Financial Markets - An Academic Review, B. Roche, (University of Bruxelles);

The Stable Paretian Hypothesis and The Asian Currency Crisis, D. Basterfield et al. (Oregon Graduate Institute);

Chile's Downward-Sloping Term Structure of Interest Rates: a Non-Parametric View, V. Fernandez (Catholic University of Chile);

Comparing Data-Driven Spot and Integrated Volatility Estimators with Different Sampling Frequencies and the Design of Optimal Filters, E. Andreou et al. (University of Manchester);

GARCH, Implied Volatilities and Implied Distributions: An Evaluation for Forecasting Purposes, J. Aguilar (Sveriges Riskbank, Stockholm);

Multivariate GARCH with Nonparametric Conditional Correlations, C. Huse et al. (EPGE, Rio de Janeiro);

On the Relevance of Modeling Volatility for Pricing Purposes, M. Moreno (Universitat Pompeu Fabra, Barcelona);

A Volatility Forecasting Model Based upon the Least Common Action Principle, G. Chernizer (CVTM Inc., New York);

The Bed Spread Common Volatility, Volatility Spillovers, Price Discovery and Implications for Trading Strategies, B. Campbell et al. (Concordia University, Montréal);

Revisiting the Finite Mixture of Gaussian Distributions in Futures Markets, T. An et al. (Paris 9 University).

Conference Venue:
The Harrington Centre
Harrington Hall
5-25 Harrington Gardens
London SW7 4JW