

D THE JOURNAL OF **DERIVATIVES**

VOLUME 8, NUMBER 3 SPRING 2001

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Our first article is Hull and White's extension of their earlier valuation model for credit default swaps that appeared in the Fall 2000 issue. As always, they deal with a topic that has real practical importance and offer an approach that takes account of the practical issues of implementation. Here, the focus is on adding additional correlated default risks into the model, thereby allowing explicit consideration of counterparty credit risk along with the credit risk on the underlying risky bonds. Next is a piece by Dowd, who examines the estimation risk in a VaR calculation. After all, VaR is concerned with outcomes in the lower tail of the distribution, and only a limited amount of information about low probability events can be obtained from a given sample of returns. Dowd shows how the theory of order statistics can be used to obtain a confidence interval for VaR as a function of the number of data points in the sample. The next article is also related to the general theme of estimation error in risk assessments. Kritzman, Lowry, and Van Royen consider the related issues of 1) measuring investment risk in terms of exposure to loss at all points during the holding period, rather than just at the terminal date; and 2) taking into account the existence of multiple regimes, one calm and one turbulent. Both factors lead to recognition of greater risk exposure than is indicated by a more typical, but more simplistic, approach.

Takamizawa and Shoji then present a useful linearization technique for incorporating realistic, mean-reverting behavior for the short-term interest rate into an equilibrium term structure model, without substantially increasing the computational burden, as adding a nonlinear drift normally would. Neave and Slavinsky also offer a new computational technique, this one for valuing path-dependent derivatives, such as "options on the maximum." The approach is based on calculating the probability distribution for the lifetime maximum statistic within a valuation lattice. In the last article, Rendleman takes a fresh look at the old covered call strategy, in essence, asking the question why one would do it. It turns out that if options are priced correctly, or even incorrectly but not too wrong, the conditions on risk preferences and mean asset returns for which writing covered calls is preferred to simple alternatives are surprisingly narrow.

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Finally, looking back at the Editor's Letter for the last issue of JOD, one may observe my irrational exuberance, as of the beginning of November, that the U.S. Presidential election would soon be concluded. How wrong one can be! Even so, I am now confident, and relieved, to report that while there may still be some chad-counting going on in Florida, the election is over. Just in time for the 2002 campaign to begin.

Stephen Figlewski
Editor