



Foreign Exchange: A Practitioner's Approach to the Market

Edited by Amy Middleton

Over time, the awareness of currency as not only just a risk provider but also as return provider has deepened greatly. *Foreign Exchange – a Practitioner's Approach to the Markets* explores topics ranging from the evolution of currency overlay to the advent of currency as an alpha generator.

Foreign Exchange – a Practitioner's Approach to the Markets offers the reader a practical resource on currency, covering topics varying from an embedded and unwanted risk, to a potential return provider and a source of portable alpha. It provides you with an objective viewpoint and expertise from all corners of the industry, including new research on deciphering currency overlay.

Amy Middleton has divided the book into four sections covering: Currency Risk; Currency Overlay; Currency Hedge Funds and Alpha Generation; and Portfolio Allocation

Foreign Exchange – a Practitioner's Approach to the Markets is recommended reading for portfolio managers, pension funds, currency overlay managers and corporate treasury managers.

About the Editor

Amy Middleton is vice president in the GFX Portfolio and Risk Strategy Group (PaRs) at Bank of America, London. Amy has spent the last seven years working as a quantitative analyst in the currency markets for institutional clients such as hedge funds, pension funds, real money managers and fund of funds. Her research has focused on developing systematic directional trading models, analysis of currency exposures and the formulation of appropriate hedging strategies.

Her specialisation is currency overlay. Amy has had many of her articles published in international periodicals and is frequently invited to speak at conferences on the topic of currency. She has donated all royalties to Clic Sargent - the UK's leading children's cancer charity, offering all round care and support.

Chapter 13 is *Currency Management Indexes: What Do They Tell Us?* by **Emmanuel Acar; Momtchil Pojarliev**.

The volatility of currency manager's indexes is exhibiting a downward trend. This decline cannot be explained by the volatility of the foreign exchange market. We make use of a new database on currency managers over an eighteen year period to highlight some of the challenges surrounding the construction of currency indexes. We show that not correcting for the numbers of managers included in the index and for the correlation between their returns substantially bias the volatility of the index. While some of the issues are methodological, attempting to resolve them only reinforces the complexity of the challenges ahead of us. Yet, we hope that our findings will constitute some preliminary work and encourage further research on the construction of hedge fund indexes.

Emmanuel Acar is chief executive officer at Directional Trading Limited. He has researched the foreign exchange and futures markets since 1990. Emmanuel worked for almost 16 years in FX dealing rooms. He combines his trading experience with a PhD from City University in London, on the stochastic properties of trading rules. He also qualified as an actuary in France.

Momtchil Pojarliev joined Hermes as head of currencies in April 2007. He brought to the firm his currency investment process and his outstanding track record in currency management. Before joining Hermes, he was a senior currency portfolio manager with Pictet in Geneva and with Invesco in Frankfurt and London. Momtchil earned a PhD in financial econometrics with honours from the University of Basel. He has published in the Financial Analysts Journal and other professional and academic journals. He is a CFA charterholder.

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