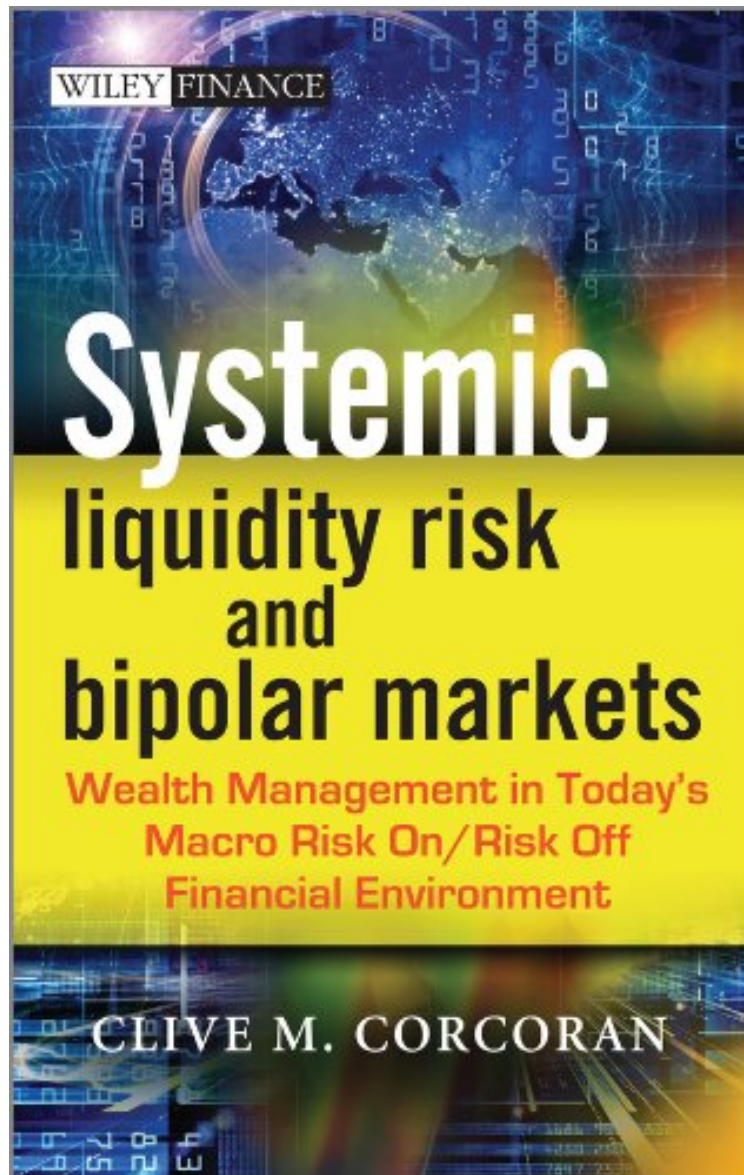


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# **Systemic Liquidity Risk and Bipolar Markets: Wealth Management in Today's Macro Risk On / Risk Off Financial Environment (Bloomberg (UK))**

*Clive M. Corcoran*

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4 of 4 people found the following review helpful. Really Informative and mesmerising !!! Must Read for all serious traders  
By JHMCThe author provides a really great narrative explaining Flash Crash, 2008 crisis, what indicators to look for (e.g. The Volume Synchronized Probability of INformed Trading that forecasted the crash 1 hour in advance [...]), what to do with tail risk etc. Each chapter is filled with many charts, quotes and references from the latest research on investing done by universities professors and firms from buy side and sell side. Given the author is a trader, one could say this book is probably more useful, practical and probably better than 95% of all trading books out there. I have learned a lot just from reading the chapter on the alternative way or cheapest way to hedge equity using correlated currency instead of expensive tail risk products. e.g. 20% of portfolio shorting AUD/JPY. People should check it out in their local bookstore ! Can't believe I am the first person to rate this book! Considering the amount of information, the lucid writing, this book is extremely underrated!!!

The dramatic and well chronicled crisis of 2007/8 marked a watershed moment for all stakeholders in global capital markets. In the aftermath, financial markets have become even more tightly coupled as correlations in returns across multiple asset classes have been at historically elevated levels. Investors and fund managers are, to a much larger degree than previously and often much more than they realize, subject to the risk of severe wealth destruction. The ultimate hazard, which is not adequately characterized by the widely touted notion of tail risk, is the systemic risk which arises when liquidity in markets completely evaporates. Not only did this happen in the second half of 2008, but it has been repeated episodically since then; most notably in May 2010, in an incident known as the Flash Crash, and in the fall of 2011 when correlations were at historically elevated levels. Conventional asset allocation tools and techniques have failed to keep pace with the changing financial landscape which has emerged since 2008. In addition to the preponderance of algorithmic trading and the associated changes in the liquidity characteristics of financial markets, a new paradigm of risk on/risk off asset allocation has emerged. Risk on/risk off is a widely adopted style of trading and macro allocation strategy where positions are taken in several closely aligned asset classes depending on the prevailing sentiment or appetite for risk. The consequences of the day to day (and intraday) switching between either a risk on or risk off tactical strategies poses significant new challenges to investors who are still making investment decisions with outmoded notions from traditional asset allocation theory. How can one cushion the impact of systemically threatening events when the ability to exit financial instruments becomes almost non-existent? How can one trust the integrity of financial models and orthodox macro financial theory which have become increasingly discredited? Can central bankers be relied upon to become the counter-parties of last resort and provide a safety net under the financial system? These vital questions, and many others, need to be addressed by everyone who has a stake in modern financial markets, and they are addressed in *Systemic Liquidity Risk and Bipolar Markets*. Proper functioning markets require fractiousness or divided opinion, and this needs to be lubricated by communications from central bankers, economic forecasters, corporate executives and so on. As long as such messages and market conditions remain ambiguous, providing asymmetric information to different market players, then the conditions are present to enable systemic liquidity to be preserved. Seen in this context the prevailing paradigm of bipolar risk on/risk off asset allocations is both a prerequisite to liquid markets, and also paradoxically, when one side of the polarity becomes too extreme, a major source of systemic instability. Should such polarities become critically unbalanced, and should the signals received by market players become symmetrically disadvantageous as they were in the fall of 2008, then an even more substantial systemic liquidity crisis than that seen in those troubled times is a dangerous possibility. Apart from the practical risk management tools and tactics that are recommended in *Systemic Liquidity Risk and Bipolar Markets*, there is a provocative and cogent narrative to provide anxious and perplexed investors with a coherent explanation of the post GFC financial environment, and which should assist them in navigating the choppy waters ahead.

From the Inside Flap: Clive does a great job of outlining the changes in investor behaviour in financial markets and volatility as a result of the financial crisis which started in 2007. He highlights clearly the changes in investor behaviour as a result of the skewing caused by central bank intervention and some of the breakdowns in the traditional risk on/risk off behaviour of previous eras. He also looks at how the policy response to the current crisis has led to a change in the concept of what we used to call safe haven assets in this new era of (ZIRP) zero interest rate policy and argues quite correctly that for capitalism to work properly the only solution to the current problems manifesting themselves around the world is for policymakers to make the hard decisions and let bankrupt institutions fail, and for bondholders to bear the consequences of their ultimately erroneous investment decisions. Michael Hewson, Senior Market Analyst, MSTA, CFTe CMC Markets UK PLC: Clive Corcoran has opened a door to the future of investment management. With this book he has made the fat tailed Black Swan of the Great Financial Crisis into an understandable creature of logic. He shows, with objective analytical detail, yet with subjective clarity, how the assumptions of economic theory have failed to perceive the essential

dynamics of markets. This dynamism involves the rapid variation of correlations among asset classes, leading to repeated incidents of potential financial disasters, not just in the Great Financial Crisis but in more recent everyday market activity. Clive shows with examples from current markets exactly the type of behavior which indicates the potential for dramatic market discontinuities such as the Flash Crash of 2010 and how the factors that make such events possible can be monitored in real time. This is a book that will be an eye opener for hedge fund and investment managers, institutional asset managers and retail investors.

John B. Lounsbury Ph.D. CFP, Managing Editor, [Econintersect.com](#) / Senior Contributor, [TheStreet.com](#) / Author, [Seeking Alpha](#) "Clive Corcoran's book is a rarity in finance. Most criticisms of conventional approaches to finance go no further than criticism. Corcoran's book also contains practical ideas about how to manage a portfolio in this most chaotic of markets." Professor Steve Keen, Author, [Debunking Economics: The Naked Emperor Dethroned](#) Clive Corcoran provides compelling empirical evidence that market risk should not be disassociated from liquidity risk. The reader may be surprised to learn that many market risk models used by institutional investors may not give sufficient attention to the probability of a rise in liquidity premiums. Through a myriad of real examples, Corcoran makes the case that, in a risk-on/risk-off environment, those models may be insufficient. The financial system that has emerged after the 2008 crisis may benefit from a broader toolkit. Rather than relying on any single approach, Corcoran presents many interesting analyses that may signal when it is time to load or unload risk.

Marcos Lopez de Prado, Ph.D., Global Quantitative Research, Tudor Investment Corporation CIFT, Lawrence Berkeley National Laboratory

The dramatic and well-chronicled crisis of 2007/2008 marked a watershed moment for all stakeholders in global capital markets. In the aftermath, financial markets have become even more tightly coupled as correlations in returns across multiple asset classes have been at historically elevated levels. Investors and fund managers are subject to the risk of severe wealth destruction. The ultimate hazard, which is understated and not adequately characterised by the widely touted notion of tail risk, is the systemic risk which arises when liquidity in markets completely evaporates. Legacy modeling tools for asset allocation have failed to keep pace with the changing financial landscape since 2008. In addition to a decline in the quality of market liquidity, in part epitomised by the prevalence of algorithmic churn, a new paradigm of risk on/risk off asset allocation has emerged. Increasingly it is necessary to go to next generation concepts and tools to manage risk and this will entail using unorthodox strategies to minimise drawdowns. In general terms, investors need to undertake more diligent research into how asset class correlations perform under stress, and recognise that markets are far more likely to seriously misbehave than conventional risk management tools suggest. Insights from such stress analysis make it possible to determine how to combine assets which are more capable of absorbing shocks in a crisis, while at the same time still proving an attractive upside when markets are not under stress. *Systemic Liquidity Risk and Bipolar Markets* delivers practical risk management tools and tactics alongside a provocative and cogent narrative to provide investors with a coherent explanation of the post global financial crisis environment. The book begins with an introduction to Systemic Liquidity Risk and goes on to discuss its relevance in today's financial markets. Asset Correlations, The Flash Crash, the Eurozone Crisis and Tail Risk Management are just some of the topics covered in chapters relating to all of the current issues faced by investors today. Written by a respected authority on risk reduction and market-neutral investment strategies, the key objective of the book is to provide both a better understanding of the new characteristics and risks that are in evidence in today's markets, and to offer practical steps to avoid the kind of value destruction experienced when markets crash.

About the Author Clive Corcoran has been an independent trader, on both sides of the Atlantic, for more than 20 years. In recent years he has been engaged as a course developer and tutor, providing international executive education workshops and individual mentoring. He is also an FSA registered adviser and provides wealth management services and investment advice to private clients. As an author he has written *Long/Short Market Dynamics: Trading Strategies for Today's Markets* (Wiley, 2007) and several titles for the Chartered Institute for Securities and Investment (CISI). He has been a regular analyst/contributor to CNBC Europe and other broadcast outlets, runs executive education workshops in conjunction with Euromoney, ICMA and Thomson Reuters, and has been a featured speaker at international trading and investment expos.