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A Risk Measurement of Caterpillar Stock since the 2008 Financial Recession

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A RISK MEASUREMENT OF CATERPILLAR STOCK SINCE THE 2008 FINANCIAL RECESSION

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Risk measurement has been a challenging and important task for all companies in recent years. Value at Risk (VaR)is probably the most widely used risk measure. Management and shareholders easily understand the risk level since VaR captures a firm's portfolio risks in a single number. Organizations have used different methods to estimate the maximum possible loss (VaR) at a given time period. The variance-covariance method assumes that asset returns are normally distributed. Historical simulation method is suggested to overcome this distributional assumption. Historical simulation method preserves any "heavy-tailed" properties since variance and co-variances of key risk factors are implicitly included. We measure the amount of risk that investors are exposed to from investing in Caterpillar stock during the recent financial crisis. We also compare the performance of risk measurement between these two methods.