(12) INTERNATIONAL APPLICATION PUBLISHED UNDER THE PATENT COOPERATION TREATY (PCT)

(19) World Intellectual Property Organization
International Bureau

(43) International Publication Date
11 November 2004 (11.11.2004)

PCT

(10) International Publication Number
WO 2004/097595 A2

(51) International Patent Classification[7]: G06F

(21) International Application Number:
PCT/US2004/003792

(22) International Filing Date: 10 February 2004 (10.02.2004)

(25) Filing Language: English

(26) Publication Language: English

(30) Priority Data:
10/406,282 4 April 2003 (04.04.2003) US

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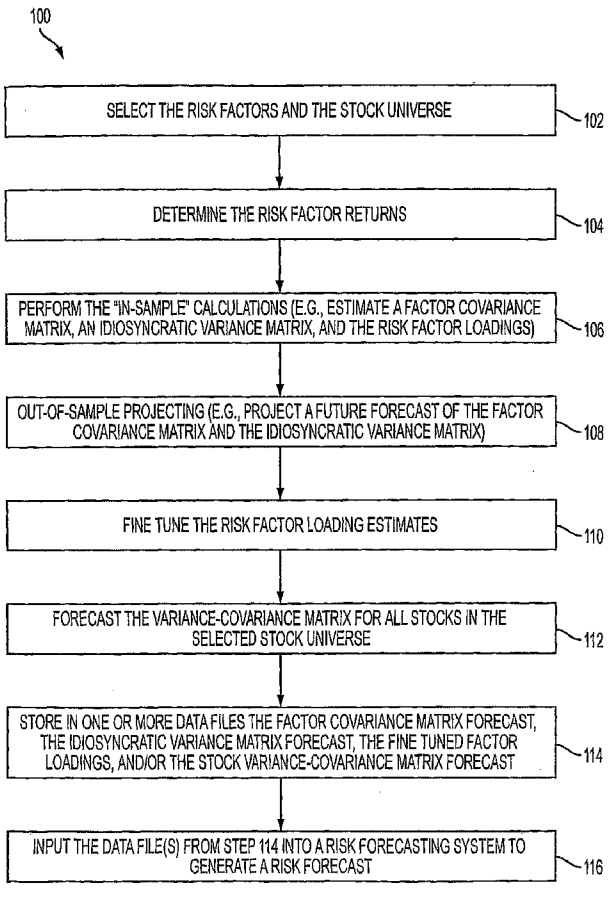
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(81) Designated States *(unless otherwise indicated, for every kind of national protection available)*: AE, AG, AL, AM, AT, AU, AZ, BA, BB, BG, BR, BW, BY, BZ, CA, CH, CN, CO, CR, CU, CZ, DE, DK, DM, DZ, EC, EE, EG, ES, FI, GB, GD, GE, GH, GM, HR, HU, ID, IL, IN, IS, JP, KE, KG, KP, KR, KZ, LC, LK, LR, LS, LT, LU, LV, MA, MD, MG, MK, MN, MW, MX, MZ, NA, NI, NO, NZ, OM, PG,

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(54) Title: A FACTOR RISK MODEL BASED SYSTEM, METHOD, AND COMPUTER PROGRAM PRODUCT FOR GENERATING RISK FORECASTS



(57) Abstract: A factor risk model based method for generating risk forecasts. In one embodiment, the method includes: selecting a set of securities; selecting a set of risk factors; determining the risk factor returns; constructing a risk factor covariance matrix; constructing an idiosyncratic variance matrix; determining, for each risk factor, a factor loading coefficient for each selected security; projecting the risk factor covariance matrix into a future forecast; and projecting the idiosyncratic variance matrix into a future forecast. The factor loading coefficients, the future forecast of the risk factor covariance matrix, and the future forecast of the idiosyncratic variance matrix can be used to determine a forecast of the variance-covariance matrix for the selected securities. In some embodiments, the step of estimating factor loadings includes performing a time series regression to obtain the sensitivity of each stocks' return to variations in the factor's return.

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PH, PL, PT, RO, RU, SC, SD, SE, SG, SK, SL, SY, TJ, TM, TN, TR, TT, TZ, UA, UG, US, UZ, VC, VN, YU, ZA, ZM, ZW.

(84) **Designated States** *(unless otherwise indicated, for every kind of regional protection available)*: ARIPO (BW, GH, GM, KE, LS, MW, MZ, SD, SL, SZ, TZ, UG, ZM, ZW), Eurasian (AM, AZ, BY, KG, KZ, MD, RU, TJ, TM), European (AT, BE, BG, CH, CY, CZ, DE, DK, EE, ES, FI, FR, GB, GR, HU, IE, IT, LU, MC, NL, PT, RO, SE, SI, SK, TR), OAPI (BF, BJ, CF, CG, CI, CM, GA, GN, GQ, GW, ML, MR, NE, SN, TD, TG).

Published:

— *without international search report and to be republished upon receipt of that report*

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