

Simulation	Advantage	Drawback
Monte Carlo	<p>Accurate for all instruments</p> <p>Provide a full distribution of potential portfolio values</p> <p>Permit use of various distributional assumption and therefore has potential to address the issue of fat tails</p> <p>No need for extensive historical data</p>	<p>Computationally intensive and time-consuming</p> <p>Quantifies fat-tailed risk only if market scenarios are generated from the appropriate distribution</p>
Historical	<p>Accurate for all instruments</p> <p>Provide a full distribution of potential portfolio values</p> <p>No need to make distributional assumption</p> <p>Faster than Monte Carlo simulation because less scenarios are used</p>	<p>Requires a significant amount of daily rate history</p> <p>Difficult to scale far into the future</p> <p>Coarse at high confidence levels</p> <p>Somewhat computationally intensive and time-consuming</p> <p>Incorporate tail risk only if historical data set includes tail events</p>