

Simulation	Advantage	Drawback
Monte Carlo	<ul style="list-style-type: none"> • Accurate for all instruments • Provide a full distribution of potential portfolio values • Permit use of various distributional assumption and therefore has potential to address the issue of fat tails • No need for extensive historical data 	<ul style="list-style-type: none"> • Computationally intensive and time-consuming • Quantifies fat-tailed risk only if market scenarios are generated from the appropriate distribution
Historical	<ul style="list-style-type: none"> • Accurate for all instruments • Provide a full distribution of potential portfolio values • No need to make distributional assumption Coarse at high confidence levels • Faster than Monte Carlo simulation because less scenarios are used 	<ul style="list-style-type: none"> • Requires a significant amount of daily rate history • Difficult to scale far into the future • Somewhat computationally intensive and time-consuming • Incorporate tail risk only if historical data set includes tail events