The BLCOP package: an R implementation of the Black-Litterman and copula opinion pooling models.

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useR! 2008. Dortmund.

Abstract

In the early 1990s Fischer Black and Robert Litterman devised a framework for smoothly blending analyst views on the mean of the distribution of financial asset returns with a market "official equilibrium" distribution. The model has generated substantial interest since then, though it is limited by its assumptions of normality in market and analyst view distributions, as well as by vagueness in the meaning of certain parameters and their determination. In late 2005 Attilio Meucci of Lehman Brothers proposed the "copula opinion pooling" (COP) method as a generaliztion that overcomes all of these limiations, though at the cost of greater complexity. The BLCOP package is an implementation of both of these models. The emphasis of the package is on ease of use, flexibility, and allowing the user to easily analyze the impact of his or her views on the market posterior distribution.

References

[1] Meucci, Attilio. *Beyond Black-Litterman: Views on Non-normal Markets.* November 2005. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=848407