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Value at risk can be used to analyze a company's stock

Firm	Market capitalization to value at risk ratio	P/e ratio
BankAmerica	2,920	19.00
Bear Stearns	354	11.59
Lehman Brothers	577	14.24
Morgan Stanley Dean Witter	1,623	16.67
NationsBank	4,481	16.87

Source: Capital Market Risk Advisors — ADAM DOI

VAR offers another way to slice data

By Paul G. Barr

NEW YORK — As more companies calculate the value at risk of their operations, VAR could become adopted for use as an investment tool, said Tanya Styblo Beder, principal for Capital Market Risk Advisors Inc., a risk consulting firm.

With the Securities and Exchange Commission and other regulators requiring more risk disclosure, VAR numbers are becoming more widely available.

CMRA executives looked at selected companies' market capitalizations relative to their VARs, and at their price/earnings ratios, and found some interesting results.

Two financial companies with similar price/earnings ratios might be taking on more risk to achieve those earnings, Ms. Beder said. VAR could capture those differences, she said.

For example in recent public disclosures, Morgan Stanley Dean Witter & Co. had a p/e of 16.67, while NationsBank Corp. had a p/e of 16.86, according to CMRA. But Morgan Stanley's market-cap/VAR ratio was 1,623, while NationsBank's was 4,481.

So NationsBank's stock carried a similar p/e ratio, but had less value at risk relative to its market capitalization than did Morgan Stanley, based on CMRA's analysis.

Investment analysts may want to consider using VAR as another tool in evaluating a company, although there are limits to the usefulness of VAR, particularly given the different ways it can be calculated, she said. But to a degree those differences can be compensated for, she added.

Conversely, part the appeal of VAR comes from its encapsulation of risk along more than one dimension, Ms. Beder said.

Value at risk is a statistical calculation that attempts to identify the most a portfolio of assets could lose, given certain assumptions and with a set degree of confidence, say 95%. In that example, 5% of the time, the expected losses could be greater than the VAR.

But VAR may be of more limited use in analyzing anything but financial companies. Kevin Johnson, partner and director of research with Aronson + Partners, Philadelphia, said the factors that affect the future performance of, for example, a cement company, would be difficult to model within a VAR framework because of the number of variables involved.

"I'm not so sure (of the usefulness of VAR) for companies that make real things," he said. ■