Note: In deciding whether an “issue” rises to the need to be posted as errata, the emphasis is on assisting the candidate to prepare for the exam. Errata should be posted when the benefit to the candidate’s preparation for the exam (especially in the context of responding to a specific learning objective) exceeds the cost to the candidate of allocating time to digesting the correction.

Page 97 Equation: (4.18)

\[ \rho_s = 1 - \frac{\sum d_i^2}{n(n^2 - 1)} \]

should be

\[ \rho_s = 1 - \frac{6 \sum d_i^2}{n(n^2 - 1)} \]

Page 137 Sections 5.7.1 and 5.7.2

Page 137 Section 5.7.1: in the last line of the first paragraph of 5.7.1: change:

“in four primary ways” to “in three primary ways”

Page 138 Section 5.7.2: in the first sentence of the top paragraph: change:

“The most common definition…” to “The second common definition…”

Page 202 Section 7.2.7

Page 202, Section 7.2.7: in the last two lines: change

“VaR of the combination might be the square root of the sum of the individual VaRs, or $141,421, which can be derived from the equation for the variance of”

to

“VaR of the combination might be the square root of the sum of the squared individual VaRs, or $141,421, which can be derived from the equation for the variance of”

by adding “squared”

Page 272-3 Section 9.6.2 Changed material is highlighted:
Equation 9.5 can be used to create a relation containing the mean of the stale return series, \( u^* \), based on the mean of the true return series, \( u \).

\[
\begin{align*}
\ u^* &= u + \left( \frac{1}{T} \right) [(1 - \alpha)(r_{t,0} - r_{t,T})] \\
\end{align*}
\] (9.6)

Note that the term in brackets on the rightmost side of Equation 9.6 is the error of approximating \( u \) based on the use of a stale price from period 0 when \( r^*_{t,t} \) was used in place of \( r_{t,t} \), as well as a correction for using only \( \alpha \) as the weight on \( r_{t,T} \) rather than the full weight for period T. In other words, the only differences between calculating a mean with the stale returns and the true returns occurs as follows: The mean based on stale data overweights the return in period 0 and underweights the return in period T.

For example, consider a true series from time 0 to 6: 4%, –2%, 8%, 0%, 2%, 6%. The true mean based on the last five returns is 2.8%. Using Equation 9.5, the series based on stale prices and \( \alpha = 0.5 \) is: 1%, 3%, 4%, 1%, 4% (each calculated as an average of the current and previous period’s true value) and has a mean of 2.6%. Equation 9.6 isolates the source of the difference, which is due to the stale data’s improper use of the period 0 true return (4%) and the underweight of the period T true return of 6%. Substituting the numbers from this example into Equation 9.6 verifies the relation:

\[
2.6\% = 2.8\% + (1/5) \left( (1 - 0.5) \times (4\% - 6\%) \right)
\]

Note that the above equation can be used to explain the difference between the mean returns of the true and stale return series without knowing the true returns from periods 1 to \( T - 1 \).

**APPLICATION 9.6.2A**

An analyst observes a stale return series over a period of 50 weeks and finds a mean weekly return of 0.24%. The analyst notes that the returns of the week prior to the most recent 50 returns (week 0) was 2.50% and the return of the most recent period (week 50) was 5.00%. What is the mean return of the true returns for weeks 1 to 50 based on the analyst’s assumption that \( \alpha = 0.60 \)? Substituting into Equation 9.6:

\[
0.24\% = u + (1/50) \left( (1 - 0.6) \times (2.50\% - 5.00\%) \right)
\]

\[
u = 0.24\% - (1/50) \times .4 \times (-2.50\%) = 0.22\%
\]

The large period 0 and T returns caused a relatively minor error (0.02%) from using a stale mean to estimate a true mean.
Page 282 Equation 10.1

Change $T$ subscript on right hand side of Equation 10.1 from $T$ to $0$ (correction highlighted):

$$E(P_i,T) = P_i,0 e^{rT} \quad (10.1)$$

Page 305 Last line of Page 305 (appears in Section 10.4.6)

Remove the word “preferred” from “preferred market segmentation” so that the line simply reads:

“in fixed-income markets in discussions of the market segmentation (i.e.,...”

Page 334 Replace exhibit at bottom of page with the following Exhibit 11.6

EXHIBIT 11.6 Sensitivity to Business Cycles

Page 733 Exhibit 22.6

1. Change entry in first section under “Leveraged Loans” from “Most senior” to “Most or second-most senior”
2. Change first line of entry in second section under “Leveraged Loans” (i.e., “Type of security”) from “First lien on assets” to “First or second lien on assets”
The equation in the explanation that reads:

\[
\frac{\$50}{(1 + 10\%)^1} + \frac{\$100}{(1 + 10\%)^3} + \frac{\$250}{(1 + 10\%)^4} = \$444.205
\]

Should read:

\[
50 \times (1 + 10\%) + 100 \times (1 + 10\%)^2 + 250 \times (1 + 10\%)^3 = \$444.205
\]