

Package ‘NMOF’

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Type Package

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Maintainer Enrico Schumann <es@enricoschumann.net>

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Imports grDevices, graphics, parallel, stats, utils

Suggests MASS, PMwR, RUnit, Rglpk, datetimeutils, openxlsx, quadprog, readxl, tinytest, zoo

Description Functions, examples and data from the first and the second edition of “Numerical Methods and Optimization in Finance” by M. Gilli, D. Maringer and E. Schumann (2019, ISBN:978-0128150658). The package provides implementations of optimisation heuristics (Differential Evolution, Genetic Algorithms, Particle Swarm Optimisation, Simulated Annealing and Threshold Accepting), and other optimisation tools, such as grid search and greedy search. There are also functions for the valuation of financial instruments such as bonds and options, for portfolio selection and functions that help with stochastic simulations.

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URL <https://enricoschumann.net/NMOF.htm>, <https://gitlab.com/NMOF>,
<https://git.sr.ht/~enricoschumann/NMOF>,
<https://github.com/enricoschumann/NMOF>

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Author Enrico Schumann [aut, cre] (ORCID:
<<https://orcid.org/0000-0001-7601-6576>>)

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NMOF-package

Numerical Methods and Optimization in Finance

Description

Functions, data and other R code from the book ‘Numerical Methods and Optimization in Finance’. Comments/corrections/remarks/suggestions are very welcome (please contact the maintainer directly).

Details

The package contains implementations of several optimisation heuristics: Differential Evolution ([DEopt](#)), Genetic Algorithms ([GAopt](#)), (Stochastic) Local Search ([LSopt](#)), Particle Swarm ([PSopt](#)), Simulated Annealing ([SAopt](#)) and Threshold Accepting ([TAopt](#)). The term heuristic is meant in the sense of general-purpose optimisation method.

Dependencies: The package is completely written in R. A number of packages are *suggested*, but they are not strictly required when using the NMOF package, and most of the package’s functionality is available without them. Specifically, package **MASS** is needed to run the complete example for [PSopt](#) and also in one of the vignettes (PSlms). Package **parallel** is optional for functions [bracketing](#), [GAopt](#), [gridSearch](#) and [restartOpt](#), and may become an option for other functions. Package **quadprog** is needed for a vignette (TAportfolio), some tests, and it may be used for computing mean-variance efficient portfolios. Package **Rglpk** is needed for function [minCVaR](#). Package **readxl** is needed to process the raw data in function [Shiller](#); package **datetimeutils** is used by [French](#) and [Shiller](#). **PMwR** would be needed to run the examples of the backtesting examples in the NMOF book. Finally, packages **RUnit** and **tinytest** are needed to run the tests in subdirectory ‘unitTests’.

Version numbering: package versions are numbered in the form major-minor-patch. The *patch* level is incremented with any published change in a version. *Minor* version numbers are incremented when a feature is added or an existing feature is substantially revised. (Such changes will be reported in the NEWS file.) The *major* version number will only be increased if there were a new edition of the book.

The source code of the NMOF package is also hosted at <https://github.com/enricoschumann/NMOF/>. Updates to the package and new features are described at <https://enricoschumann.net/notes/NMOF/>.

Optimisation:

There are functions for Differential Evolution ([DEopt](#)), Genetic Algorithms ([GAopt](#)), (Stochastic) Local Search ([LSopt](#)), Simulated Annealing ([SAopt](#)), Particle Swarm ([SAopt](#)), and Threshold Accepting ([TAopt](#)). The function [restartOpt](#) helps with running restarts of these methods; also available are functions for grid search ([gridSearch](#)) and greedy search ([greedySearch](#)).

Pricing Financial Instruments:

For options: See [vanillaOptionEuropean](#), [vanillaOptionAmerican](#), [putCallParity](#). For pricing methods that use the characteristic function, see [callCF](#).

For bonds and bond futures: See [vanillaBond](#), [bundFuture](#) and [xtContractValue](#).

Simulation:

See [resampleC](#) and [mc](#).

Data:

See [bundData](#), [fundData](#) and [optionData](#).

Author(s)

Enrico Schumann

Maintainer: Enrico Schumann <es@enricoschumann.net>

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. [doi:10.1016/C2017001621X](https://doi.org/10.1016/C2017001621X)

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

Examples

```
## Not run:
library("NMOF")

## overview
packageDescription("NMOF")
help(package = "NMOF")

## code from book
showExample("equations.R", edition = 1)
showExample("Heur")

## show NEWS file
news(Version >= "2.0-0", package = "NMOF")

## vignettes
vignette(package = "NMOF")
nss <- vignette("DEnss", package = "NMOF")
print(nss)
edit(nss)
```

```
## _book_ websites
browseURL("https://nmof.net")
browseURL("https://enricoschumann.net/NMOF/")

## _package_ websites
browseURL("https://enricoschumann.net/R/packages/NMOF/")
browseURL("https://cran.r-project.org/package=NMOF")
browseURL("https://git.sr.ht/~enricoschumann/NMOF")
browseURL("https://github.com/enricoschumann/NMOF")

## unit tests
file.show(system.file("unitTests/test_results.txt", package = "NMOF"))

## End(Not run)

test.rep <- readLines(system.file("unitTests/test_results.txt",
                                package = "NMOF"))
nt <- gsub(".*\\([0-9]+) checks?\\).*", "\\1",
          test.rep[grepl("\\([0-9]+ checks?\\)", test.rep)])
message("Number of unit tests: ", sum(as.numeric(nt)))
```

approxBondReturn

Approximate Total Return of Bond

Description

Approximate the total return of a bond by its current yield, duration and convexity.

Usage

```
approxBondReturn(yield, tm, n = 2, scale = 1/250, pad = NULL)
```

Arguments

yield	a numeric vector
tm	a numeric vector: time-to-maturity
n	number of coupon payments per period
scale	how to scale yield; see Details
pad	how to pad the first observation: NULL (default) means to drop it; useful alternatives are NA or <code>0</code>

Details

The function approximates the total return of a bond investor, based on changes in yield. The computation is based on a Taylor-series expansion. See the references, in particular concerning the shortcomings of the approximation:

1. approximation is based on par yield
2. it relies on yield alone, so does not take into account defaults; so for indices, the approximation should only be used for issuers without defaults

Value

a numeric vector, with attributes duration and convexity

Note

Package **treasuryTR** implements the method as well.

Author(s)

Enrico Schumann

References

Swinkels, L. (2019). Treasury Bond Return Data Starting in 1962. Data. **4** (3).
 Tuckman, B. and Serrat, A. (2012). *Fixed Income Securities – Tools for Today's Markets*. 3rd edition. Wiley.

Examples

```
yield0 <- 0.05
tm <- 20
cf <- c(rep(5, tm-1), 105)
duration(cf, 1:tm, yield0)

approxBondReturn(yield = c(yield0, 0.05), tm = tm, n = 1)
## ==> no price change, current yield is earned

approxBondReturn(yield = c(yield0, 0.04), tm = tm, n = 1)
## ==> current yield + price change is earned
```

bracketing

Zero-Bracketing

Description

Bracket the zeros (roots) of a univariate function

Usage

```
bracketing(fun, interval, ...,
           lower = min(interval), upper = max(interval),
           n = 20L,
           method = c("loop", "vectorised", "multicore", "snow"),
           mc.control = list(), cl = NULL)
```

Arguments

<code>fun</code>	a univariate function; it will be called as <code>fun(x, ...)</code> with <code>x</code> being a numeric vector
<code>interval</code>	a numeric vector, containing the end-points of the interval to be searched
<code>...</code>	further arguments passed to <code>fun</code>
<code>lower</code>	lower end-point. Ignored if <code>interval</code> is specified.
<code>upper</code>	upper end-point. Ignored if <code>interval</code> is specified.
<code>n</code>	the number of function evaluations. Must be at least 2 (in which case <code>fun</code> is evaluated only at the end-points); defaults to 20.
<code>method</code>	can be <code>loop</code> (the default), <code>vectorised</code> , <code>multicore</code> or <code>snow</code> . See Details.
<code>mc.control</code>	a list containing settings that will be passed to <code>mclapply</code> if <code>method</code> is <code>multicore</code> . Must be a list of named elements. See the documentation of <code>mclapply</code> in package parallel .
<code>cl</code>	default is <code>NULL</code> . If <code>method</code> is <code>snow</code> , this must be a cluster object or an integer (the number of cores to be used). See the documentation of packages parallel and snow .

Details

`bracketing` evaluates `fun` at equal-spaced values of `x` between (and including) `lower` and `upper`. If the sign of `fun` changes between two consecutive `x`-values, `bracketing` reports these two `x`-values as containing ('bracketing') a root. There is no guarantee that there is only one root within a reported interval. `bracketing` will not narrow the chosen intervals.

The argument `method` determines how `fun` is evaluated. Default is `loop`. If `method` is "vectorised", `fun` must be written such that it can be evaluated for a vector `x` (see Examples). If `method` is `multicore`, function `mclapply` from package **parallel** is used. Further settings for `mclapply` can be passed through the list `mc.control`. If `multicore` is chosen but the functionality is not available (eg, currently on Windows), then `method` will be set to `loop` and a warning is issued. If `method` is `snow`, function `clusterApply` from package **parallel** is used. In this case, the argument `cl` must either be a cluster object (see the documentation of `clusterApply`) or an integer. If an integer, a cluster will be set up via `makeCluster(c(rep("localhost", cl)), type = "SOCK")`, and `stopCluster` is called when the function is exited. If `snow` is chosen but the package is not available or `cl` is not specified, then `method` will be set to `loop` and a warning is issued. In case that `cl` is a cluster object, `stopCluster` will not be called automatically.

Value

A numeric matrix with two columns, named *lower* and *upper*. Each row contains one interval that contains at least one root. If no roots were found, the matrix has zero rows.

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

[uniroot](#) (in package **stats**)

Examples

```
## Gilli/Maringer/Schumann (2011), p. 290
testFun <- function(x)
  cos(1/x^2)

bracketing(testFun, interval = c(0.3, 0.9), n = 26L)
bracketing(testFun, interval = c(0.3, 0.9), n = 26L, method = "vectorised")
```

bundData

German Government Bond Data

Description

A sample of data on 44 German government bonds. Contains ISIN, coupon, maturity and dirty price as of 2010-05-31.

Usage

```
bundData
```

Format

bundData is a list with three components: cfList, tmList and bm. cfList is list of 44 numeric vectors (the cash flows). tmList is a list of 44 character vectors (the payment dates) formatted as YYYY-MM-DD. bm is a numeric vector with 44 elements (the dirty prices of the bonds).

Details

All prices are as of 31 May 2010. See chapter 14 in Gilli et al. (2011).

Source

The data was obtained from <https://www.deutsche-finanzagentur.de/en/> . The data is also freely available from the website of the Bundesbank <https://www.bundesbank.de/en/> .

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

Examples

```
bundData
str(bundData)

## get ISINs of bonds
names(bundData$cfList)

## get a specific bond
thisBond <- "DE0001135358"
data.frame(dates = as.Date(bundData$tmList[[thisBond]]),
           payments = bundData$cfList[[thisBond]])
```

bundFuture	<i>Theoretical Valuation of Euro Bund Future</i>
------------	--

Description

Compute theoretical prices of bund future.

Usage

```
bundFuture(clean, coupon, trade.date,
           expiry.date, last.coupon.date,
           r, cf)

bundFutureImpliedRate(future, clean, coupon,
                      trade.date, expiry.date,
                      last.coupon.date, cf)
```

Arguments

clean	numeric: clean prices of CTD
future	numeric: price of future
coupon	numeric
trade.date	Date or character in format YYYY-MM-DD
expiry.date	Date or character in format YYYY-MM-DD
last.coupon.date	Date or character in format YYYY-MM-DD
r	numeric: 0.01
cf	numeric: conversion factor of CTD

Details

bundFuture computes the theoretical prices of the Bund Future, given the prices of the cheapest-to-deliver eligible government bond.

bundFutureImpliedRate computes the implied refinancing rate.

Value

numeric

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

Examples

```
## Bund-Future with expiry Sep 2017
## CTD: DE0001102408 -- 0%, 15 Aug 2026
##
## On 21 August 2017, the CTD traded (clean) at 97.769
## the FGBL Sep 2017 closed at 164.44.

bundFuture(clean = 97.769,                ## DE0001102408
            coupon = 0,
            trade.date = "2017-8-21",
            expiry.date = "2017-09-07",    ## Bund expiry
            last.coupon.date = "2017-08-15", ## last co
            r = -0.0037,
            cf = 0.594455) ## conversion factor (from Eurex website)

bundFutureImpliedRate(future = 164.44,
                      clean = 97.769,
                      coupon = 0,
                      trade.date = "2017-8-21",
                      expiry.date = "2017-09-07",
                      last.coupon.date = "2017-08-15",
                      cf = 0.594455)
```

callCF

*Price a Plain-Vanilla Call with the Characteristic Function***Description**

Price a European plain-vanilla call with the characteric function.

Usage

```
callCF(cf, S, X, tau, r, q = 0, ...,
       implVol = FALSE, uniroot.control = list(), uniroot.info = FALSE)
cfBSM(om, S, tau, r, q, v)
cfMerton(om, S, tau, r, q, v, lambda, muJ, vJ)
cfBates(om, S, tau, r, q, v0, vT, rho, k, sigma, lambda, muJ, vJ)
cfHeston(om, S, tau, r, q, v0, vT, rho, k, sigma)
cfVGG(om, S, tau, r, q, nu, theta, sigma)
```

Arguments

cf	characteristic function
S	spot
X	strike
tau	time to maturity
r	the interest rate
q	the dividend rate
...	arguments passed to the characteristic function
implVol	logical: compute implied vol?
uniroot.control	A list. If there are elements named interval, tol or maxiter, these are passed to uniroot. Any other elements of the list are ignored.
uniroot.info	logical; default is FALSE. If TRUE, the function will return the information returned by uniroot. See paragraph Value below.
om	a (usually complex) argument
v0	a numeric vector of length one
vT	a numeric vector of length one
v	a numeric vector of length one
rho	a numeric vector of length one
k	a numeric vector of length one
sigma	a numeric vector of length one
lambda	a numeric vector of length one
muJ	a numeric vector of length one
vJ	a numeric vector of length one
nu	a numeric vector of length one
theta	a numeric vector of length one

Details

The function computes the value of a plain vanilla European call under different models, using the representation of Bakshi/Madan. Put values can be computed through put-call parity (see [putCallParity](#)).

If `implVol` is `TRUE`, the function will compute the implied volatility necessary to obtain the same value under Black–Scholes–Merton. The implied volatility is computed with [uniroot](#) from the **stats** package. The default search interval is `c(0.00001, 2)`; it can be changed through `uniroot.control`.

The function uses variances as inputs (not volatilities).

The function is not vectorised (but see the NMOF Manual for examples of how to efficiently price more than one option at once).

Value

Returns the value of the call (numeric) under the respective model or, if `implVol` is `TRUE`, a list of the value and the implied volatility. (If, in addition, `uniroot.info` is `TRUE`, the information provided by [uniroot](#) is also returned.)

Note

If `implVol` is `TRUE`, the function will return a list with elements named `value` and `impliedVol`. Prior to version 0.26-3, the first element was named `callPrice`.

Author(s)

Enrico Schumann

References

Bates, David S. (1996) Jumps and Stochastic Volatility: Exchange Rate Processes Implicit in Deutsche Mark Options. *Review of Financial Studies* **9** (1), 69–107.

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. [doi:10.1016/C2017001621X](https://doi.org/10.1016/C2017001621X)

Heston, S.L. (1993) A Closed-Form Solution for Options with Stochastic Volatility with Applications to Bonds and Currency options. *Review of Financial Studies* **6** (2), 327–343.

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

[callHestoncf](#)

Examples

```
S <- 100; X <- 100; tau <- 1
r <- 0.02; q <- 0.08
v0 <- 0.2^2 ## variance, not volatility
vT <- 0.2^2 ## variance, not volatility
v <- vT
```

```

rho <- -0.3; k <- .2
sigma <- 0.3

## jump parameters (Merton and Bates)
lambda <- 0.1
muJ <- -0.2
vJ <- 0.1^2

## get Heston price and BSM implied volatility
callHestoncf(S, X, tau, r, q, v0, vT, rho, k, sigma, implVol = FALSE)
callCF(cf = cfHeston, S=S, X=X, tau=tau, r=r, q = q,
       v0 = v0, vT = vT, rho = rho, k = k, sigma = sigma, implVol = FALSE)

## Black-Scholes-Merton
callCF(cf = cfBSM, S=S, X=X, tau = tau, r = r, q = q,
       v = v, implVol = TRUE)

## Bates
callCF(cf = cfBates, S = S, X = X, tau = tau, r = r, q = q,
       v0 = v0, vT = vT, rho = rho, k = k, sigma = sigma,
       lambda = lambda, muJ = muJ, vJ = vJ, implVol = FALSE)

## Merton
callCF(cf = cfMerton, S = S, X = X, tau = tau, r = r, q = q,
       v = v, lambda = lambda, muJ = muJ, vJ = vJ, implVol = FALSE)

## variance gamma
nu <- 0.1; theta <- -0.1; sigma <- 0.15
callCF(cf = cfVG, S = S, X = X, tau = tau, r = r, q = q,
       nu = nu, theta = theta, sigma = sigma, implVol = FALSE)

```

callHestoncf

Price of a European Call under the Heston Model

Description

Computes the price of a European Call under the Heston model (and the equivalent Black–Scholes–Merton volatility)

Usage

```

callHestoncf(S, X, tau, r, q, v0, vT, rho, k, sigma, implVol = FALSE,
             ...,
             uniroot.control = list(), uniroot.info = FALSE)

```

Arguments

S	current stock price
X	strike price

<code>tau</code>	time to maturity
<code>r</code>	risk-free rate
<code>q</code>	dividend rate
<code>v0</code>	current variance
<code>vT</code>	long-run variance (theta in Heston's paper)
<code>rho</code>	correlation between spot and variance
<code>k</code>	speed of mean-reversion (kappa in Heston's paper)
<code>sigma</code>	volatility of variance. A value smaller than 0.01 is replaced with 0.01.
<code>implVol</code>	compute equivalent Black–Scholes–Merton volatility? Default is FALSE.
<code>...</code>	named arguments, passed to integrate
<code>uniroot.control</code>	A list. If there are elements named <code>interval</code> , <code>tol</code> or <code>maxiter</code> , these are passed to <code>uniroot</code> . Other elements of the list are ignored.
<code>uniroot.info</code>	logical; default is FALSE. If TRUE, the function will return the information returned by <code>uniroot</code> . See section Value below.

Details

The function computes the value of a plain vanilla European call under the Heston model. Put values can be computed through put–call-parity.

If `implVol` is TRUE, the function will compute the implied volatility necessary to obtain the same price under Black–Scholes–Merton. The implied volatility is computed with [uniroot](#) from the **stats** package (the default search interval is `c(0.00001, 2)`; it can be changed through `uniroot.control`).

Note that the function takes variances as inputs (not volatilities).

Value

Returns the value of the call (numeric) under the Heston model or, if `implVol` is TRUE, a list of the value and the implied volatility. If `uniroot.info` is TRUE, then instead of only the computed volatility, the complete output of [uniroot](#) is included in the result.

Note

If `implVol` is TRUE, the function will return a list with elements named `value` and `impliedVol`. Prior to version 0.26-3, the first element was named `callPrice`.

Author(s)

Enrico Schumann

References

- Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X
- Heston, S.L. (1993) A Closed-Form Solution for Options with Stochastic Volatility with Applications to Bonds and Currency options. *Review of Financial Studies* 6(2), 327–343.
- Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

[callCF](#), [EuropeanCall](#)

Examples

```
S <- 100; X <- 100; tau <- 1; r <- 0.02; q <- 0.01
v0 <- 0.2^2 ## variance, not volatility
vT <- 0.2^2 ## variance, not volatility
rho <- -0.7; k <- 0.2; sigma <- 0.5

## get Heston price and BSM implied volatility
result <- callHestoncf(S = S, X = X, tau = tau, r = r, q = q,
                      v0 = v0, vT = vT, rho = rho, k = k,
                      sigma = sigma, implVol = TRUE)

## Heston price
result[[1L]]

## price BSM with implied volatility
vol <- result[[2L]]
d1 <- (log(S/X) + (r - q + vol^2 / 2)*tau) / (vol*sqrt(tau))
d2 <- d1 - vol*sqrt(tau)
callBSM <- S * exp(-q * tau) * pnorm(d1) -
           X * exp(-r * tau) * pnorm(d2)
callBSM ## should be (about) the same as result[[1L]]
```

callMerton

Price of a European Call under Merton's Jump–Diffusion Model

Description

Computes the price of a European Call under Merton's jump–diffusion model (and the equivalent Black–Scholes–Merton volatility)

Usage

```
callMerton(S, X, tau, r, q, v, lambda, muJ, vJ, N, implVol = FALSE)
```

Arguments

S	current stock price
X	strike price
tau	time to maturity
r	risk-free rate
q	dividend rate
v	variance
lambda	jump intensity
muJ	mean jump-size
vJ	variance of log jump-size
N	The number of jumps. See Details.
implVol	compute equivalent Black–Scholes–Merton volatility? Default is FALSE.

Details

The function computes the value of a plain-vanilla European call under Merton’s jump–diffusion model. Put values can be computed through put–call-parity (see [putCallParity](#)). If `implVol` is TRUE, the function also computes the implied volatility necessary to obtain the same price under Black–Scholes–Merton. The implied volatility is computed with [uniroot](#) from the **stats** package.

Note that the function takes variances as inputs (not volatilities).

The number of jumps N typically can be set 10 or 20. (Just try to increase N and see how the results change.)

Value

Returns the value of the call (numeric) or, if `implVol` is TRUE, a list of the value and the implied volatility.

Author(s)

Enrico Schumann

References

- Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. [doi:10.1016/C2017001621X](https://doi.org/10.1016/C2017001621X)
- Merton, R.C. (1976) Option Pricing when Underlying Stock Returns are Discontinuous. *Journal of Financial Economics* 3(1–2), 125–144.
- Schumann, E. (2023) Financial Optimisation with R (**NMOF** Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

[callCF](#), [EuropeanCall](#)

Examples

```

S <- 100; X <- 100; tau <- 1
r <- 0.0075; q <- 0.00
v <- 0.2^2
lambda <- 1; muJ <- -0.2; vJ <- 0.6^2
N <- 20

## jumps can make a difference
callMerton(S, X, tau, r, q, v, lambda, muJ, vJ, N, implVol = TRUE)
callCF(cf = cfMerton, S = S, X = X, tau = tau, r = r, q = q,
       v = v, lambda = lambda, muJ = muJ, vJ = vJ, implVol = TRUE)
vanillaOptionEuropean(S,X,tau,r,q,v, greeks = FALSE)

lambda <- 0 ## no jumps
callMerton(S, X, tau, r, q, v, lambda, muJ, vJ, N, implVol = FALSE)
vanillaOptionEuropean(S,X,tau,r,q,v, greeks = FALSE)

lambda <- 1; muJ <- 0; vJ <- 0.0^2 ## no jumps, either
callMerton(S, X, tau, r, q, v, lambda, muJ, vJ, N, implVol = FALSE)
vanillaOptionEuropean(S,X,tau,r,q,v, greeks = FALSE)

```

colSubset

*Full-rank Column Subset***Description**

Select a full-rank subset of columns of a matrix.

Usage

```
colSubset(x)
```

Arguments

x a numeric matrix

Details

Uses [qr](#).

Value

A list:

columns	indices of columns
multiplier	a matrix

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

[repairMatrix](#)

Examples

```
nc <- 3    ## columns
nr <- 10   ## rows
M <- array(rnorm(nr * nc), dim = c(nr, nc))

C <- array(0.5, dim = c(nc, nc))
diag(C) <- 1
M <- M %%% chol(C)
M <- M[ , c(1,1,1,2,3)]
M

(tmp <- colSubset(M))

C <- cor(M[ , tmp$columns])
nc <- ncol(C)
nr <- 100
X <- array(rnorm(nr*nc), dim = c(nr, nc))
X <- X %%% chol(C)
X <- X %%% tmp$multiplier
head(X)
cor(X)
```

CPPI

Constant-Proportion Portfolio Insurance

Description

Simulate constant-proportion portfolio insurance (CPPI) for a given price path.

Usage

```
CPPI(S, multiplier, floor, r, tau = 1, gap = 1)
```

Arguments

S	numeric: price path of risky asset
multiplier	numeric
floor	numeric: a percentage, should be smaller than 1
r	numeric: interest rate (per time period tau)
tau	numeric: time periods
gap	numeric: how often to rebalance. 1 means every timestep, 2 means every second timestep, and so on.

Details

Based on Dietmar Maringer's MATLAB code (function CPPIgap, Listing 9.1).

See Gilli, Maringer and Schumann, 2011, chapter 9.

Value

A list:

V	normalised value (always starts at 1)
C	cushion
B	bond investment
F	floor
E	exposure
N	units of risky asset
S	price path

Author(s)

Original MATLAB code: Dietmar Maringer. R implementation: Enrico Schumann.

References

Chapter 9 of Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. [doi:10.1016/C2017001621X](https://doi.org/10.1016/C2017001621X)

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

Examples

```
tau <- 2
S <- gbm(npaths = 1, timesteps = tau*256,
        r = 0.02, v = 0.2^2, tau = tau, S0 = 100)

## rebalancing every day
sol <- CPPI(S, multiplier = 5, floor = 0.9, r = 0.01,
           tau = tau, gap = 1)
```

```

par(mfrow = c(3,1), mar = c(3,3,1,1))
plot(0:(length(S)-1), S, type = "s", main = "stock price")
plot(0:(length(S)-1), sol$V, type = "s", main = "value")
plot(0:(length(S)-1), 100*sol$E/sol$V, type = "s",
     main = "% invested in risky asset")

## rebalancing every 5th day
sol <- CPPI(S, multiplier = 5, floor = 0.9, r = 0.01,
           tau = tau, gap = 5)
par(mfrow = c(3,1), mar = c(3,3,1,1))
plot(0:(length(S)-1), S, type = "s", main = "stock price")
plot(0:(length(S)-1), sol$V, type = "s", main = "value")
plot(0:(length(S)-1), 100*sol$E/sol$V, type = "s",
     main = "% invested in risky asset")

```

DEopt

*Optimisation with Differential Evolution***Description**

The function implements the standard Differential Evolution algorithm.

Usage

```
DEopt(OF, algo = list(), ...)
```

Arguments

OF	The objective function, to be minimised. See Details.
algo	A list with the settings for algorithm. See Details and Examples.
...	Other pieces of data required to evaluate the objective function. See Details and Examples.

Details

The function implements the standard Differential Evolution (no jittering or other features). Differential Evolution (DE) is a population-based optimisation heuristic proposed by Storn and Price (1997). DE evolves several solutions (collected in the ‘population’) over a number of iterations (‘generations’). In a given generation, new solutions are created and evaluated; better solutions replace inferior ones in the population. Finally, the best solution of the population is returned. See the references for more details on the mechanisms.

To allow for constraints, the evaluation works as follows: after a new solution is created, it is (i) repaired, (ii) evaluated through the objective function, (iii) penalised. Step (ii) is done by a call to OF; steps (i) and (iii) by calls to algo\$repair and algo\$pen. Step (i) and (iii) are optional, so the respective functions default to NULL. A penalty is a positive number added to the ‘clean’ objective function value, so it can also be directly written in the OF. Writing a separate penalty function is often clearer; it can be more efficient if either only the objective function or only the penalty function

can be vectorised. (Constraints can also be added without these mechanisms. Solutions that violate constraints can, for instance, be mapped to feasible solutions, but without actually changing them. See Maringer and Oyewumi, 2007, for an example.)

Conceptually, DE consists of two loops: one loop across the generations and, in any given generation, one loop across the solutions. DEopt indeed uses, as the default, two loops. But it does not matter in what order the solutions are evaluated (or repaired or penalised), so the second loop can be vectorised. This is controlled by the variables `algo$loopOF`, `algo$loopRepair` and `algo$loopPen`, which all default to TRUE. Examples are given in the vignettes and in the book. The respective `algo$loopFun` must then be set to FALSE.

All objects that are passed through . . . will be passed to the objective function, to the repair function and to the penalty function.

The list `algo` collects the the settings for the algorithm. Strictly necessary are only `min` and `max` (to initialise the population). Here are all possible arguments:

`CR` probability for crossover. Defaults to 0.9. Using default settings may not be a good idea.

`F` The step size. Typically a numeric vector of length one; default is 0.5. Using default settings may not be a good idea. (`F` can also be a vector with different values for each decision variable.)

`nP` population size. Defaults to 50. Using default settings may not be a good idea.

`nG` number of generations. Defaults to 300. Using default settings may not be a good idea.

`min`, `max` vectors of minimum and maximum parameter values. The vectors `min` and `max` are used to determine the dimension of the problem and to randomly initialise the population.

Per default, they are no constraints: a solution may well be outside these limits. Only if `algo$minmaxConstr` is TRUE will the algorithm repair solutions outside the `min` and `max` range.

`minmaxConstr` if TRUE, `algo$min` and `algo$max` are considered constraints. Default is FALSE.

`pen` a penalty function. Default is NULL (no penalty).

`initP` optional: the initial population. A matrix of size `length(algo$min)` times `algo$nP`, or a function that creates such a matrix. If a function, it should take no arguments.

`repair` a repair function. Default is NULL (no repairing).

`loopOF` logical. Should the OF be evaluated through a loop? Defaults to TRUE.

`loopPen` logical. Should the penalty function (if specified) be evaluated through a loop? Defaults to TRUE.

`loopRepair` logical. Should the repair function (if specified) be evaluated through a loop? Defaults to TRUE.

`printDetail` If TRUE (the default), information is printed. If an integer `i` greater than one, information is printed at very `i`th generation.

`printBar` If TRUE (the default), a `txtProgressBar` is printed.

`storeF` if TRUE (the default), the objective function values for every solution in every generation are stored and returned as matrix `Fmat`.

`storeSolutions` default is FALSE. If TRUE, the solutions (ie, decision variables) in every generation are stored and returned as a list `P` in list `xlist` (see Value section below). To check, for instance, the solutions at the end of the `i`th generation, retrieve `xlist[[c(1L, i)]]`. This will be a matrix of size `length(algo$min)` times `algo$nP`. (To be consistent with other functions, `xlist` is itself a list. In the case of DEopt, it contains just one element.)

`classify` Logical; default is FALSE. If TRUE, the result will have a class attribute `TAopt` attached. This feature is **experimental**: the supported methods may change without warning.

`drop` If FALSE (the default), the dimension is not dropped from a single solution when it is passed to a function. (That is, the function will receive a single-column matrix.)

Value

A list:

<code>xbest</code>	the solution (the best member of the population), which is a numeric vector
<code>OFvalue</code>	objective function value of best solution
<code>popF</code>	a vector. The objective function values in the final population.
<code>Fmat</code>	if <code>algo\$storeF</code> is TRUE, a matrix of size <code>algo\$nG</code> times <code>algo\$nP</code> containing the objective function values of all solutions over the generations; else NA.
<code>xlist</code>	if <code>algo\$storeSolutions</code> is TRUE, a list that contains a list <code>P</code> of matrices and a matrix <code>initP</code> (the initial solution); else NA.
<code>initial.state</code>	the value of <code>.Random.seed</code> when the function was called.

Author(s)

Enrico Schumann

References

- Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X
- Maringer, D. and Oyewumi, O. (2007). Index Tracking with Constrained Portfolios. *Intelligent Systems in Accounting, Finance and Management*, **15**(1), pp. 57–71.
- Schumann, E. (2012) Remarks on 'A comparison of some heuristic optimization methods'. <https://enricoschumann.net/R/remarks.htm>
- Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>
- Storn, R., and Price, K. (1997) Differential Evolution – a Simple and Efficient Heuristic for Global Optimization over Continuous Spaces. *Journal of Global Optimization*, **11**(4), pp. 341–359.

See Also

[GAopt](#), [PSopt](#)

Examples

```
## Example 1: Trefethen's 100-digit challenge (problem 4)
## https://people.maths.ox.ac.uk/trefethen/hundred.html

OF <- tfTrefethen          ### see ?testFunctions
algo <- list(nP = 50L,      ### population size
            nG = 300L,     ### number of generations)
```

```

        F = 0.6,          ### step size
        CR = 0.9,         ### prob of crossover
        min = c(-10, -10), ### range for initial population
        max = c( 10,  10))

sol <- DEopt(OF = OF, algo = algo)
## correct answer: -3.30686864747523
format(sol$OFvalue, digits = 12)
## check convergence of population
sd(sol$popF)
ts.plot(sol$Fmat, xlab = "generations", ylab = "OF")

## Example 2: vectorising the evaluation of the population
OF <- tfRosenbrock      ### see ?testFunctions
size <- 3L              ### define dimension
x <- rep.int(1, size)   ### the known solution ...
OF(x)                  ### ... should give zero

algo <- list(printBar = FALSE,
             nP = 30L,
             nG = 300L,
             F = 0.6,
             CR = 0.9,
             min = rep(-100, size),
             max = rep( 100, size))

## run DEopt
(t1 <- system.time(sol <- DEopt(OF = OF, algo = algo)))
sol$xbest
sol$OFvalue  ### should be zero (with luck)

## a vectorised Rosenbrock function: works only with a *matrix* x
OF2 <- function(x) {
  n <- dim(x)[1L]
  xi <- x[seq_len(n - 1L), ]
  colSums(100 * (x[2L:n, ] - xi * xi)^2 + (1 - xi)^2)
}

## random solutions (every column of 'x' is one solution)
x <- matrix(rnorm(size * algo$nP), size, algo$nP)
all.equal(OF2(x)[1:3],
          c(OF(x[,1L]), OF(x[,2L]), OF(x[,3L])))

## run DEopt and compare computing time
algo$loopOF <- FALSE
(t2 <- system.time(sol2 <- DEopt(OF = OF2, algo = algo)))
sol2$xbest
sol2$OFvalue      ### should be zero (with luck)
t1[[3L]]/t2[[3L]] ### speedup

```

divRatio	<i>Diversification Ratio</i>
----------	------------------------------

Description

Compute the diversification ratio of a portfolio.

Usage

```
divRatio(w, var)
```

Arguments

w	numeric: a vector of weights
var	numeric matrix: the variance–covariance matrix

Details

The function provides an efficient implementation of the diversification ratio, suitable for optimisation.

Value

a numeric vector of length one

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:[10.1016/C2017001621X](https://doi.org/10.1016/C2017001621X)

Yves Choueifaty and Yves Coignard (2008) Toward Maximum Diversification. *Journal of Portfolio Management* **35**(1), 40–51.

See Also

pm, drawdown

Examples

```
na <- 10      ## number of assets
rho <- 0.5     ## correlation
v_min <- 0.2   ## minimum vol
v_max <- 0.4   ## maximum vol

## set up a covariance matrix S
```

```

C <- array(rho, dim = c(na,na))
diag(C) <- 1
vols <- seq(v_min, v_max, length.out = na)
S <- outer(vols, vols) * C

w <- rep(1/na, na) ## weights
divRatio(w, S)

```

drawdown

Drawdown

Description

Compute the drawdown of a time series.

Usage

```
drawdown(v, relative = TRUE, summary = TRUE)
```

Arguments

<code>v</code>	a price series (a numeric vector)
<code>relative</code>	if TRUE, maximum drawdown is chosen according to percentage losses; else in units of <code>v</code>
<code>summary</code>	if TRUE, provide maximum drawdown and time when it occurred; else return drawdown vector

Details

The drawdown at position t of a time series v is the difference between the highest peak that was reached before t and the current value. If the current value represents a new high, the drawdown is zero.

Value

If `summary` is FALSE, a vector of the same length as `v`. If `summary` is TRUE, a list

<code>maximum</code>	maximum drawdown
<code>high</code>	the max of <code>v</code>
<code>high.position</code>	position of high
<code>low</code>	the min of <code>v</code>
<code>low.position</code>	position of low

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

[drawdowns](#)

Examples

```
v <- cumprod(1 + rnorm(20) * 0.02)
drawdown(v)
```

EuropeanCall

Computing Prices of European Calls with a Binomial Tree

Description

Computes the fair value of a European Call with the binomial tree of Cox, Ross and Rubinstein.

Usage

```
EuropeanCall(S0, X, r, tau, sigma, M = 101)
EuropeanCallBE(S0, X, r, tau, sigma, M = 101)
```

Arguments

S0	current stock price
X	strike price
r	risk-free rate
tau	time to maturity
sigma	volatility
M	number of time steps

Details

Prices a European Call with the tree approach of Cox, Ross, Rubinstein.

The algorithm in EuropeanCallBE does not construct and traverse a tree, but computes the terminal prices via a binomial expansion (see Higham, 2002, and Chapter 5 in Gilli/Maringer/Schumann, 2011).

Value

Returns the value of the call (numeric).

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. [doi:10.1016/C2017001621X](https://doi.org/10.1016/C2017001621X)

M. Gilli and Schumann, E. (2009) Implementing Binomial Trees. COMISEF Working Paper Series No. 008. <https://enricoschumann.net/COMISEF/wps008.pdf>

Higham, D. (2002) Nine Ways to Implement the Binomial Method for Option Valuation in MATLAB. *SIAM Review*, **44**(4), pp. 661–677. [doi:10.1137/S0036144501393266](https://doi.org/10.1137/S0036144501393266).

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

[callHestoncf](#)

Examples

```
## price
EuropeanCall( S0 = 100, X = 100, r = 0.02, tau = 1, sigma = 0.20, M = 50)
EuropeanCallBE(S0 = 100, X = 100, r = 0.02, tau = 1, sigma = 0.20, M = 50)

## a Greek: delta
h <- 1e-8
C1 <- EuropeanCall(S0 = 100 + h, X = 100, r = 0.02, tau = 1,
  sigma = 0.20, M = 50)
C2 <- EuropeanCall(S0 = 100, X = 100, r = 0.02, tau = 1,
  sigma = 0.20, M = 50)
(C1 - C2) / h
```

French

Download Datasets from Kenneth French's Data Library

Description

Download datasets from Kenneth French's Data Library.

Usage

```
French(dest.dir,
  dataset = "F-F_Research_Data_Factors_CSV.zip",
  weighting = "value", frequency = "monthly",
  price.series = FALSE, na.rm = FALSE,
  adjust.frequency = TRUE,
  return.class = "data.frame")
```

Arguments

<code>dest.dir</code>	string: a path to a directory
<code>dataset</code>	a character string: the CSV file name. Also supported are the keywords ‘market’ and ‘rf’.
<code>weighting</code>	a character string: “equal” or “value”
<code>frequency</code>	a character string: daily, monthly or annual. Whether it is used or ignored depends on the particular dataset.
<code>price.series</code>	logical: convert the returns series into prices series?
<code>na.rm</code>	logical: remove missing values in the calculation of price series?
<code>adjust.frequency</code>	logical: if TRUE, frequency is switched to “daily” when the word “daily” appears in the dataset’s name
<code>return.class</code>	a string: ‘data.frame’ (the default) or ‘zoo’

Details

The function downloads data provided by Kenneth French at https://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html. The download file gets a date prefix (current date in format YYYYMMDD) and is stored in directory `dest.dir`. Before any download is attempted, the function checks whether a file with today’s prefix exist in `dest.dir`; if yes, the file is used.

In the original data files, missing values are coded as -99 or similar. These numeric values are replaced by [NA](#).

Calling the function without any arguments will print the names of the supported datasets (and return them invisibly).

For dataset ‘market’, the function downloads the three-factor dataset, and adds excess return and risk-free rate. For dataset ‘rf’, only the risk-free rate is returned.

Value

A [data.frame](#), with contents depending on the particular dataset, or an object as specified by `return.class`.

If the download fails, the function evaluates to [NULL](#), typically with warnings.

Author(s)

Enrico Schumann

References

- Fama, Eugene F. and French, Kenneth R. (2023) Production of U.S. Rm-Rf, SMB, and HML in the Fama-French Data Library, Chicago Booth Research Paper No. 23-22. [doi:10.2139/ssrn.4629613](https://doi.org/10.2139/ssrn.4629613)
- Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. [doi:10.1016/C2017001621X](https://doi.org/10.1016/C2017001621X)
- Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also[Shiller](#)**Examples**

```
## list all supported files
French()

## fetch names of files from Kenneth French's website
try({
  txt <- readLines(paste0("https://mba.tuck.dartmouth.edu/pages/",
    "faculty/ken.french/data_library.html"))
  csv <- txt[grept("ftp/*CSV.zip", txt, ignore.case = TRUE)]
  gsub(".*ftp/(.*?CSV.zip).*", "\\1", csv, ignore.case = TRUE)
})

## Not run:
archive.dir <- "~/Downloads/French"
if (!dir.exists(archive.dir))
  dir.create(archive.dir)
French(archive.dir, "F-F_Research_Data_Factors_CSV.zip")

## End(Not run)
```

fundData

*Mutual Fund Returns***Description**

A matrix of 500 rows (return scenarios) and 200 columns (mutual funds). The elements in the matrix are weekly returns.

Usage

```
fundData
```

Format

A plain numeric matrix.

Details

The scenarios were created with a bootstrapping technique. The data set is only meant to provide example data on which to test algorithms.

Source

Schumann, E. (2010) *Essays on Practical Financial Optimisation*, (chapter 4), PhD thesis, University of Geneva.

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

Examples

```
apply(fundData, 2, summary)
```

GAopt

Optimisation with a Genetic Algorithm

Description

A simple Genetic Algorithm for minimising a function.

Usage

```
GAopt (OF, algo = list(), ...)
```

Arguments

OF	The objective function, to be minimised. See Details.
algo	A list with the settings for algorithm. See Details and Examples.
...	Other pieces of data required to evaluate the objective function. See Details and Examples.

Details

The function implements a simple Genetic Algorithm (GA). A GA evolves a collection of solutions (the so-called population), all of which are coded as vectors containing only zeros and ones. (In GAopt, solutions are of mode logical.) The algorithm starts with randomly-chosen or user-supplied population and aims to iteratively improve this population by mixing solutions and by switching single bits in solutions, both at random. In each iteration, such randomly-changed solutions are compared with the original population and better solutions replace inferior ones. In GAopt, the population size is kept constant.

GA language: iterations are called generations; new solutions are called offspring or children (and the existing solutions, from which the children are created, are parents); the objective function is called a fitness function; mixing solutions is a crossover; and randomly changing solutions is called mutation. The choice which solutions remain in the population and which ones are discarded is

called selection. In GAopt, selection is pairwise: a given child is compared with a given parent; the better of the two is kept. In this way, the best solution is automatically retained in the population.

To allow for constraints, the evaluation works as follows: after new solutions are created, they are (i) repaired, (ii) evaluated through the objective function, (iii) penalised. Step (ii) is done by a call to `OF`; steps (i) and (iii) by calls to `algo$repair` and `algo$pen`. Step (i) and (iii) are optional, so the respective functions default to `NULL`. A penalty can also be directly written in the `OF`, since it amounts to a positive number added to the ‘clean’ objective function value; but a separate function is often clearer. A separate penalty function is advantageous if either only the objective function or only the penalty function can be vectorised.

Conceptually a GA consists of two loops: one loop across the generations and, in any given generation, one loop across the solutions. This is the default, controlled by the variables `algo$loopOF`, `algo$loopRepair` and `algo$loopPen`, which all default to `TRUE`. But it does not matter in what order the solutions are evaluated (or repaired or penalised), so the second loop can be vectorised. The respective `algo$loopFun` must then be set to `FALSE`. (See also the examples for [DEopt](#) and [PSopt](#).)

The evaluation of the objective function in a given generation can even be distributed. For this, an argument `algo$methodOF` needs to be set; see below for details (and Schumann, 2011, for examples).

All objects that are passed through . . . will be passed to the objective function, to the repair function and to the penalty function.

The list `algo` contains the following items:

`nB` number of bits per solution. Must be specified.

`nP` population size. Defaults to 50. Using default settings may not be a good idea.

`nG` number of iterations (‘generations’). Defaults to 300. Using default settings may not be a good idea.

`crossover` The crossover method. Default is “onePoint”; also possible is “uniform”.

`prob` The probability for switching a single bit. Defaults to 0.01; typically a small number.

`pen` a penalty function. Default is `NULL` (no penalty).

`repair` a repair function. Default is `NULL` (no repairing).

`initP` optional: the initial population. A logical matrix of size `length(algo$nB)` times `algo$nP`, or a function that creates such a matrix. If a function, it must take no arguments. If `mode(mP)` is not logical, then `storage.mode(mP)` will be tried (and a warning will be issued).

`loopOF` logical. Should the `OF` be evaluated through a loop? Defaults to `TRUE`.

`loopPen` logical. Should the penalty function (if specified) be evaluated through a loop? Defaults to `TRUE`.

`loopRepair` logical. Should the repair function (if specified) be evaluated through a loop? Defaults to `TRUE`.

`methodOF` loop (the default), vectorised, snow or multicore. Setting vectorised is equivalent to having `algo$loopOF` set to `FALSE` (and `methodOF` overrides `loopOF`). snow and multicore use functions `clusterApply` and `mclapply`, respectively. For snow, an object `algo$c1` needs to be specified (see below). For multicore, optional arguments can be passed through `algo$mc.control` (see below).

`c1` a cluster object or the number of cores. See documentation of package `parallel`.

`mc.control` a list of named elements; optional settings for `mclapply` (for instance, `list(mc.set.seed = FALSE)`)

`printDetail` If TRUE (the default), information is printed.

`printBar` If TRUE (the default), a `txtProgressBar` is printed.

`storeF` If TRUE (the default), the objective function values for every solution in every generation are stored and returned as matrix `Fmat`.

`storeSolutions` If TRUE, the solutions (ie, binary strings) in every generation are stored and returned as a list `P` in list `xlist` (see Value section below). To check, for instance, the solutions at the end of the `i`th generation, retrieve `xlist[[c(1L, i)]]`. This will be a matrix of size `algo$nB` times `algo$nP`.

`classify` Logical; default is FALSE. If TRUE, the result will have a class attribute `TAopt` attached. This feature is **experimental**: the supported methods may change without warning.

Value

A list:

<code>xbest</code>	the solution (the best member of the population)
<code>OFvalue</code>	objective function value of best solution
<code>popF</code>	a vector. The objective function values in the final population.
<code>Fmat</code>	if <code>algo\$storeF</code> is TRUE, a matrix of size <code>algo\$nG</code> times <code>algo\$nP</code> containing the objective function values of all solutions over the generations; else NA
<code>xlist</code>	if <code>algo\$storeSolutions</code> is TRUE, a list that contains a list <code>P</code> of matrices and a matrix <code>initP</code> (the initial solution); else NA.
<code>initial.state</code>	the value of <code>.Random.seed</code> when the function was called.

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

[DEopt](#), [PSopt](#)

Examples

```
## a *very* simple problem (why?):
## match a binary (logical) string y

size <- 20L ### the length of the string
OF <- function(x, y) sum(x != y)
y <- runif(size) > 0.5
x <- runif(size) > 0.5
OF(y, y)      ### the optimum value is zero
OF(x, y)
algo <- list(nB = size, nP = 20L, nG = 100L, prob = 0.002)
sol <- GAopt(OF, algo = algo, y = y)

## show differences (if any: marked by a '^')
cat(as.integer(y), "\n", as.integer(sol$xbest), "\n",
    ifelse(y == sol$xbest, " ", "^"), "\n", sep = "")

algo$nP <- 3L ### that shouldn't work so well
sol2 <- GAopt(OF, algo = algo, y = y)

## show differences (if any: marked by a '^')
cat(as.integer(y), "\n", as.integer(sol2$xbest), "\n",
    ifelse(y == sol2$xbest, " ", "^"), "\n", sep = "")
```

greedySearch

*Greedy Search***Description**

Greedy Search

Usage

greedySearch(OF, algo, ...)

Arguments

OF	The objective function, to be minimised. Its first argument needs to be a solution; ... arguments are also passed.
algo	List of settings. See Details.
...	Other variables to be passed to the objective function and to the neighbourhood function. See Details.

Details

A greedy search works starts at a provided initial solution (called the current solution) and searches a defined neighbourhood for the best possible solution. If this best neighbour is not better than the current solution, the search stops. Otherwise, the best neighbour becomes the current solution, and the search is repeated.

Value

A list:

<code>xbest</code>	best solution found.
<code>OFvalue</code>	objective function value associated with best solution.
<code>Fmat</code>	a matrix with two columns. <code>Fmat[, 1L]</code> contains the proposed solution over all iterations; <code>Fmat[, 2L]</code> contains the accepted solutions.
<code>xlist</code>	a list
<code>initial.state</code>	the value of <code>.Random.seed</code> when the function was called.
<code>x0</code>	the initial solution
<code>iterations</code>	the number of iterations after which the search stopped

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

LSopt

Examples

```
na <- 100
inc <- 5
R <- randomReturns(na = na,
                   ns = 1000,
                   sd = seq(0.01, 0.02, length.out = 100),
                   rho = 0.5)

S <- cov(R)
OF <- function(x, S, ...) {
  w <- 1/sum(x)
  sum(w * w * S[x, x])
}

x <- logical(na)
x[1:inc] <- TRUE

all.neighbours <- function(x, ...) {
  true  <- which( x)
  false <- which(!x)
```

```

    ans <- list()
    for (i in true) {
      for (j in false) {
        ans1 <- x
        ans1[i] <- !x[i]
        ans1[j] <- !x[j]
        ans <- c(ans, list(ans1))
      }
    }
    ans

  }

  algo <- list(loopOF = TRUE,
              maxit = 1000,
              all.neighbours = all.neighbours,
              x0 = x)

  system.time(sol.gs <- greedySearch(OF, algo = algo, S = S))
  sqrt(sol.gs$OFvalue)

```

gridSearch

*Grid Search***Description**

Evaluate a function for a given list of arguments.

Usage

```

gridSearch(fun, levels, ..., lower, upper, npar = 1L, n = 5L,
           printDetail = TRUE,
           method = NULL,
           mc.control = list(), cl = NULL,
           keepNames = FALSE, asList = FALSE)

```

Arguments

fun	a function of the form <code>fun(x, ...)</code> , with <code>x</code> being a numeric vector or a list
levels	a list of levels for the arguments (see Examples)
...	objects passed to <code>fun</code>
lower	a numeric vector. Ignored if levels are explicitly specified.
upper	a numeric vector. Ignored if levels are explicitly specified.
npar	the number of parameters. Must be supplied if <code>lower</code> and <code>upper</code> are to be expanded; see Details. Ignored when levels are explicitly specified, or when <code>lower/upper</code> are used and at least one has length greater than one. See Examples.
n	the number of levels. Default is 5. Ignored if levels are explicitly specified.

<code>printDetail</code>	print information on the number of objective function evaluations
<code>method</code>	can be <code>loop</code> (the default), <code>multicore</code> or <code>snow</code> . See Details.
<code>mc.control</code>	a list containing settings that will be passed to <code>mclapply</code> if <code>method</code> is <code>multicore</code> . Must be a list of named elements; see the documentation of <code>mclapply</code> in parallel .
<code>cl</code>	default is <code>NULL</code> . If <code>method</code> <code>snow</code> is used, this must be a cluster object or an integer (the number of cores).
<code>keepNames</code>	logical: should the names of levels be kept?
<code>asList</code>	does <code>fun</code> expect a list? Default is <code>FALSE</code> .

Details

A grid search can be used to find ‘good’ parameter values for a function. In principle, a grid search has an obvious deficiency: as the length of `x` (the first argument to `fun`) increases, the number of necessary function evaluations grows exponentially. Note that `gridSearch` will not warn about an unreasonable number of function evaluations, but if `printDetail` is `TRUE` it will print the required number of function evaluations.

In practice, grid search is often better than its reputation. If a function takes only a few parameters, it is often a reasonable approach to find ‘good’ parameter values.

The function uses the mechanism of `expand.grid` to create the list of parameter combinations for which `fun` is evaluated; it calls `lapply` to evaluate `fun` if `method == "loop"` (the default).

If `method` is `multicore`, then function `mclapply` from package **parallel** is used. Further settings for `mclapply` can be passed through the list `mc.control`. If `multicore` is chosen but the functionality is not available, then `method` will be set to `loop` and a warning is issued. If `method == "snow"`, the function `clusterApply` from package **parallel** is used. In this case, the argument `cl` must either be a cluster object (see the documentation of `clusterApply`) or an integer. If an integer, a cluster will be set up via `makeCluster(c(rep("localhost", cl)), type = "SOCK")` (and `stopCluster` is called when the function is exited). If `snow` is chosen but not available or `cl` is not specified, then `method` will be set to `loop` and a warning is issued.

Value

A list.

<code>minfun</code>	the minimum of <code>fun</code> .
<code>minlevels</code>	the levels that give this minimum.
<code>values</code>	a list. All the function values of <code>fun</code> .
<code>levels</code>	a list. All the levels for which <code>fun</code> was evaluated.

Author(s)

Enrico Schumann

References

- Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X
- Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

Examples

```
testFun <- function(x)
  x[1L] + x[2L]^2

sol <- gridSearch(fun = testFun, levels = list(1:2, c(2, 3, 5)))
sol$minfun
sol$minlevels

## specify all levels
levels <- list(a = 1:2, b = 1:3)
res <- gridSearch(testFun, levels)
res$minfun
sol$minlevels

## specify lower, upper and npar
lower <- 1; upper <- 3; npar <- 2
res <- gridSearch(testFun, lower = lower, upper = upper, npar = npar)
res$minfun
sol$minlevels

## specify lower, upper, npar and n
lower <- 1; upper <- 3; npar <- 2; n <- 4
res <- gridSearch(testFun, lower = lower, upper = upper, npar = npar, n = n)
res$minfun
sol$minlevels

## specify lower, upper and n
lower <- c(1,1); upper <- c(3,3); n <- 4
res <- gridSearch(testFun, lower = lower, upper = upper, n = n)
res$minfun
sol$minlevels

## specify lower, upper (auto-expanded) and n
lower <- c(1,1); upper <- 3; n <- 4
res <- gridSearch(testFun, lower = lower, upper = upper, n = n)
res$minfun
sol$minlevels

## non-numeric inputs
test_fun <- function(x) {
  -(length(x$S) + x$N1 + x$N2)
}
```

```

ans <- gridSearch(test_fun,
                  levels = list(S = list("a", c("a", "b"), c("a", "b", "c")),
                                N1 = 1:5,
                                N2 = 101:105),
                  asList = TRUE, keepNames = TRUE)

ans$minlevels
## $S
## [1] "a" "b" "c"
##
## $N1
## [1] 5
##
## $N2
## [1] 105

```

LS.info

Local-Search Information

Description

The function can be called from the objective and neighbourhood function during a run of [LSopt](#); it provides information such as the current iteration.

Usage

```
LS.info(n = 0L)
```

Arguments

`n` generational offset; see Details.

Details

This function is still experimental.

The function can be called in the neighbourhood function or the objective function during a run of [LSopt](#). It evaluates to a list with the state of the optimisation run, such as the current iteration.

LS.info relies on [parent.frame](#) to retrieve its information. If the function is called within another function in the neighbourhood or objective function, the argument `n` needs to be increased.

Value

A list

iteration	current iteration
step	same as 'iteration'

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

[LSopt](#), [TA.info](#)

Examples

```
## MINIMAL EXAMPLE for LSopt

## objective function evaluates to a constant
fun <- function(x)
  0

## neighbourhood function does not even change the solution,
## but it reports information
nb <- function(x) {
  tmp <- LS.info()
  cat("current iteration ", tmp$iteration, "\n")
  x
}

## run LS
algo <- list(nS = 5,
            x0 = rep(0, 5),
            neighbour = nb,
            printBar = FALSE)
ignore <- LSopt(fun, algo)
```

LSopt

Stochastic Local Search

Description

Performs a simple stochastic Local Search.

Usage

```
LSopt(OF, algo = list(), ...)
```

Arguments

OF	The objective function, to be minimised. Its first argument needs to be a solution; ... arguments are also passed.
algo	List of settings. See Details.
...	Other variables to be passed to the objective function and to the neighbourhood function. See Details.

Details

Local Search (LS) changes an initial solution for a number of times, accepting only such changes that lead to an improvement in solution quality (as measured by the objective function OF). More specifically, in each iteration, a current solution `xc` is changed through a function `algo$neighbour`. This function takes `xc` as an argument and returns a new solution `xn`. If `xn` is not worse than `xc`, ie, if $OF(xn, \dots) \leq OF(xc, \dots)$, then `xn` replaces `xc`.

The list `algo` contains the following items:

- `nS` The number of steps. The default is 1000; but this setting depends very much on the problem.
- `nI` Total number of iterations, with default NULL. If specified, it will override `nS`. The option is provided to makes it easier to compare and switch between functions [LSopt](#), [TAopt](#) and [SAopt](#).
- `x0` The initial solution. This can be a function; it will then be called once without arguments to compute an initial solution, ie, `x0 <- algo$x0()`. This can be useful when `LSopt` is called in a loop of restarts and each restart is to have its own starting value.
- `neighbour` The neighbourhood function, called as `neighbour(x, ...)`. Its first argument must be a solution `x`; it must return a changed solution.
- `printDetail` If TRUE (the default), information is printed. If an integer `i` greater than one, information is printed at very `i`th step.
- `printBar` If TRUE (the default), a `txtProgressBar` (from package **utils**) is printed). The progress bar is not shown if `printDetail` is an integer greater than 1.
- `storeF` if TRUE (the default), the objective function values for every solution in every generation are stored and returned as matrix `Fmat`.
- `storeSolutions` default is FALSE. If TRUE, the solutions (ie, decision variables) in every generation are stored and returned in list `xlist` (see Value section below). To check, for instance, the current solution at the end of the `i`th generation, retrieve `xlist[[c(2L, i)]]`.
- `OF.target` Numeric; when specified, the algorithm will stop when an objective-function value as low as `OF.target` (or lower) is achieved. This is useful when an optimal objective-function value is known: the algorithm will then stop and not waste time searching for a better solution.

At the minimum, `algo` needs to contain an initial solution `x0` and a `neighbour` function.

LS works on solutions through the functions `neighbour` and `OF`, which are specified by the user. Thus, a solution need not be a numeric vector, but can be any other data structure as well (eg, a list or a matrix).

To run silently (except for warnings and errors), `algo$printDetail` and `algo$printBar` must be FALSE.

Value

A list:

<code>xbest</code>	best solution found.
<code>OFvalue</code>	objective function value associated with best solution.
<code>Fmat</code>	a matrix with two columns. <code>Fmat[, 1L]</code> contains the proposed solution over all iterations; <code>Fmat[, 2L]</code> contains the accepted solutions.
<code>xlist</code>	if <code>algo\$storeSolutions</code> is <code>TRUE</code> , a list; else <code>NA</code> . Contains the neighbour solutions at a given iteration (<code>xn</code>) and the current solutions (<code>xc</code>). Example: <code>Fmat[i, 2L]</code> is the objective function value associated with <code>xlist[[c(2L, i)]]</code> .
<code>initial.state</code>	the value of <code>.Random.seed</code> when the function was called.

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

[TAopt](#), [restartOpt](#). Package **neighbours** (also on CRAN) offers helpers for creating neighbourhood functions.

Examples

```
## Aim: find the columns of X that, when summed, give y

## random data set
nc <- 25L      ## number of columns in data set
nr <- 5L       ## number of rows in data set
howManyCols <- 5L ## length of true solution
X <- array(runif(nr*nc), dim = c(nr, nc))
xTRUE <- sample(1L:nc, howManyCols)
Xt <- X[, xTRUE, drop = FALSE]
y <- rowSums(Xt)

## a random solution x0 ...
makeRandomSol <- function(nc) {
  ii <- sample.int(nc, sample.int(nc, 1L))
  x0 <- logical(nc); x0[ii] <- TRUE
  x0
}
x0 <- makeRandomSol(nc)
```

```

## ... but probably not a good one
sum(y - rowSums(X[, xTRUE, drop = FALSE])) ## should be 0
sum(y - rowSums(X[, x0, drop = FALSE]))

## a neighbourhood function: switch n elements in solution
neighbour <- function(xc, Data) {
  xn <- xc
  p <- sample.int(Data$nc, Data$n)
  xn[p] <- !xn[p]
  if (sum(xn) < 1L)
    xn <- xc
  xn
}

## a greedy neighbourhood function
neighbourG <- function(xc, Data) {
  of <- function(x)
    abs(sum(Data$y - rowSums(Data$X[, x, drop = FALSE])))
  xbest <- xc
  Fxbest <- of(xbest)
  for (i in 1L:Data$nc) {
    xn <- xc; p <- i
    xn[p] <- !xn[p]
    if (sum(xn) >= 1L) {
      Fxn <- of(xn)
      if (Fxn < Fxbest) {
        xbest <- xn
        Fxbest <- Fxn
      }
    }
  }
  xbest
}

## an objective function
OF <- function(xn, Data)
  abs(sum(Data$y - rowSums(Data$X[, xn, drop = FALSE])))

## (1) GREEDY SEARCH
## note: this could be done in a simpler fashion, but the
##       redundancies/overhead here are small, and the example is to
##       show how LSopt can be used for such a search
Data <- list(X = X, y = y, nc = nc, nr = nr, n = 1L)
algo <- list(nS = 500L, neighbour = neighbourG, x0 = x0,
  printBar = FALSE, printDetail = FALSE)
solG <- LSopt(OF, algo = algo, Data = Data)

## after how many iterations did we stop?
iterG <- min(which(solG$Fmat[, 2L] == solG$OFvalue))
solG$OFvalue ## the true solution has OF-value 0

## (2) LOCAL SEARCH

```

```

algo$neighbour <- neighbour
solLS <- LSopt(OF, algo = algo, Data = Data)
iterLS <- min(which(solLS$Fmat[,2L] == solLS$OFvalue))
solLS$OFvalue ## the true solution has OF-value 0

## (3) *Threshold Accepting*
algo$nT <- 10L
algo$nS <- ceiling(algo$nS/algo$nT)
algo$q <- 0.99
solTA <- TAopt(OF, algo = algo, Data = Data)
iterTA <- min(which(solTA$Fmat[,2L] == solTA$OFvalue))
solTA$OFvalue ## the true solution has OF-value 0

## look at the solution
all <- sort(unique(c(which(solTA$xbest),
                        which(solLS$xbest),
                        which(solG$xbest),
                        xTRUE)))
ta <- ls <- greedy <- true <- character(length(all))
true[ match(xTRUE, all)] <- "o"
greedy[match(which(solG$xbest), all)] <- "o"
ls[ match(which(solLS$xbest), all)] <- "o"
ta[ match(which(solTA$xbest), all)] <- "o"
data.frame(true = true, greedy = greedy, LS = ls , TA = ta,
            row.names=all)

## plot results
par(ylog = TRUE, mar = c(5,5,1,6), las = 1)
plot(solTA$Fmat[seq_len(iterTA), 2L], type = "l", log = "y",
     ylim = c(1e-4,
              max(pretty(c(solG$Fmat, solLS$Fmat, solTA$Fmat)))),
     xlab = "iterations", ylab = "OF value", col = grey(0.5))
lines(cummin(solTA$Fmat[seq_len(iterTA), 2L]), type = "l")
lines(solG$Fmat[ seq_len(iterG), 2L], type = "p", col = "blue")
lines(solLS$Fmat[seq_len(iterLS), 2L], type = "l", col = "goldenrod3")
legend(x = "bottomleft",
       legend = c("TA best solution", "TA current solution",
                  "Greedy", "LS current/best solution"),
       lty = c(1,1,0,1),
       col = c("black", grey(0.5), "blue", "goldenrod2"),
       pch = c(NA, NA, 21, NA))
axis(4, at = c(solG$OFvalue, solLS$OFvalue, solTA$OFvalue),
     labels = NULL, las = 1)
lines(x = c(iterG, par()$usr[2L]), y = rep(solG$OFvalue, 2),
      col = "blue", lty = 3)
lines(x = c(iterTA, par()$usr[2L]), y = rep(solTA$OFvalue, 2),
      col = "black", lty = 3)
lines(x = c(iterLS, par()$usr[2L]), y = rep(solLS$OFvalue, 2),
      col = "goldenrod3", lty = 3)

```

Description

The function computes a moving average of a vector.

Usage

```
MA(y, order, pad = NULL)
```

Arguments

<code>y</code>	a numeric vector
<code>order</code>	An integer. The order of the moving average. The function is defined such that order one returns <code>y</code> (see Examples).
<code>pad</code>	Defaults to <code>NULL</code> . If not <code>NULL</code> , all elements of the returned moving average with position smaller than <code>order</code> are replaced by the value of <code>pad</code> . Sensible values may be <code>NA</code> or <code>0</code> .

Value

Returns a vector of length `length(y)`.

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:[10.1016/C2017001621X](https://doi.org/10.1016/C2017001621X)

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

Examples

```
MA(1:10, 3)
MA(1:10, 3, pad = NA)

y <- seq(1, 4, by = 0.3)
z <- MA(y, 1)
all(y == z)      ### (typically) FALSE
all.equal(y, z)  ### should be TRUE

## 'Relative strength index'
rsi <- function(y, t) {
  y <- diff(y)
  ups   <- y + abs(y)
  downs <- y - abs(y)
  RS <- -MA(ups, t) / MA(downs, t)
  RS/(1 + RS)
}
x <- cumprod(c(100, 1 + rnorm(100, sd = 0.01)))
```

```
par(mfrow = c(2,1))
plot(x, type = "l")
plot(rsi(x, 14), ylim = c(0,1), type = "l")
```

maxSharpe

Maximum-Sharpe-Ratio/Tangency Portfolio

Description

Compute maximum Sharpe-ratio portfolios, subject to lower and upper bounds on weights.

Usage

```
maxSharpe(m, var, min.return,
          wmin = -Inf, wmax = Inf, method = "qp",
          groups = NULL, groups.wmin = NULL, groups.wmax = NULL)
```

Arguments

m	vector of expected (excess) returns.
var	the covariance matrix: a numeric (real), symmetric matrix
min.return	minimum required return. This is a technical parameter, used only for QP.
wmin	numeric: a lower bound on weights. May also be a vector that holds specific bounds for each asset.
wmax	numeric: an upper bound on weights. May also be a vector that holds specific bounds for each asset.
method	character. Currently, only "qp" is supported.
groups	a list of group definitions
groups.wmin	a numeric vector
groups.wmax	a numeric vector

Details

The function uses [solve.QP](#) from package **quadprog**. Because of the algorithm that [solve.QP](#) uses, var has to be positive definit (i.e. must be of full rank).

Value

a numeric vector (the portfolio weights) with an attribute variance (the portfolio's variance)

Author(s)

Enrico Schumann

References

- Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X
- Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>
- Schumann, E. (2012) Computing the global minimum-variance portfolio. <https://enricoschumann.net/R/minvar.htm>

See Also

[minvar](#), [mvPortfolio](#), [mvFrontier](#)

Examples

```
S <- var(R <- NMOF::randomReturns(3, 10, 0.03))
x <- solve(S, colMeans(R))
x/sum(x)
x <- coef(lm(rep(1, 10) ~ -1 + R))
unname(x/sum(x))

maxSharpe(m = colMeans(R), var = S)
maxSharpe(m = colMeans(R), var = S, wmin = 0, wmax = 1)
```

mc

Option Pricing via Monte-Carlo Simulation

Description

Functions to calculate the theoretical prices of options through simulation.

Usage

```
gbm(npaths, timesteps, r, v, tau, S0,
    exp.result = TRUE, antithetic = FALSE)
gbb(npaths, timesteps, S0, ST, v, tau,
    log = FALSE, exp.result = TRUE)
```

Arguments

npaths	the number of paths
timesteps	timesteps per path
r	the mean per unit of time
v	the variance per unit of time
tau	time
S0	initial value

ST	final value of Brownian bridge
log	logical: construct bridge from log series?
exp.result	logical: compute exp of the final path, or return log values?
antithetic	logical: if TRUE, random numbers for only npaths/2 are drawn, and the random numbers are mirrored

Details

gbm generates sample paths of geometric Brownian motion.

gbb generates sample paths of a Brownian bridge by first creating paths of Brownian motion W from time 0 to time T , with W_0 equal to zero. Then, at each t , it subtracts $t/T * W_T$ and adds $S_0*(1-t/T)+ST*(t/T)$.

Value

A matrix of sample paths; each column contains the price path of an asset. Even with only a single time-step, the matrix will have two rows (the first row is S_0).

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. [doi:10.1016/C2017001621X](https://doi.org/10.1016/C2017001621X)

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

[vanillaOptionEuropean](#)

Examples

```
## price a European option
## ... parameters
npaths <- 5000 ## increase number to get more precise results
timesteps <- 1
S0 <- 100
ST <- 100
tau <- 1
r <- 0.01
v <- 0.25^2

## ... create paths
paths <- gbm(npaths, timesteps, r, v, tau, S0 = S0)

## ... a helper function
```

```

mc <- function(paths, payoff, ...)
  payoff(paths, ...)

## ... a payoff function (European call)
payoff <- function(paths, X, r, tau)
  exp(-r * tau) * mean(pmax(paths[NROW(paths), ] - X, 0))

## ... compute and check
mc(paths, payoff, X = 100, r = r, tau = tau)
vanillaOptionEuropean(S0, X = 100, tau = tau, r = r, v = v)$value

## compute delta via forward difference
## (see Gilli/Maringer/Schumann, ch. 9)
h <- 1e-6                ## a small number
rnorm(1)                 ## make sure RNG is initialised
rnd.seed <- .Random.seed ## store current seed
paths1 <- gbm(npaths, timesteps, r, v, tau, S0 = S0)
.Random.seed <- rnd.seed
paths2 <- gbm(npaths, timesteps, r, v, tau, S0 = S0 + h)

delta.mc <- (mc(paths2, payoff, X = 100, r = r, tau = tau) -
  mc(paths1, payoff, X = 100, r = r, tau = tau))/h
delta <- vanillaOptionEuropean(S0, X = 100, tau = tau,
  r = r, v = v)$delta
delta.mc - delta

## a fanplot
steps <- 100
paths <- results <- gbm(1000, steps, r = 0, v = 0.2^2,
  tau = 1, S0 = 100)

levels <- seq(0.01, 0.49, length.out = 20)
greys <- seq(0.9, 0.50, length.out = length(levels))

## start with an empty plot ...
plot(0:steps, rep(100, steps+1), ylim = range(paths),
  xlab = "", ylab = "", lty = 0, type = "l")

## ... and add polygons
for (level in levels) {
  l <- apply(paths, 1, quantile, level)
  u <- apply(paths, 1, quantile, 1 - level)
  col <- grey(greys[level == levels])
  polygon(c(0:steps, steps:0), c(l, rev(u)),
    col = col, border = NA)

  ## add border lines
  ## lines(0:steps, 1, col = grey(0.4))

```

```

    ## lines(0:steps, u, col = grey(0.4))
  }

```

minCVaR

Minimum Conditional-Value-at-Risk (CVaR) Portfolios

Description

Compute minimum-CVaR portfolios, subject to lower and upper bounds on weights.

Usage

```

minCVaR(R, q = 0.1, wmin = 0, wmax = 1,
        min.return = NULL, m = NULL,
        method = "Rglpk",
        groups = NULL, groups.wmin = NULL, groups.wmax = NULL,
        Rglpk.control = list())

```

Arguments

R	the scenario matrix: a numeric (real) matrix
q	the Value-at-Risk level: a number between 0 and 0.5
wmin	numeric: a lower bound on weights. May also be a vector that holds specific bounds for each asset.
wmax	numeric: an upper bound on weights. May also be a vector that holds specific bounds for each asset.
m	vector of expected returns. Only used if min.return is specified.
min.return	minimal required return. If m is not specified, the column means of R are used.
method	character. Currently, only "Rglpk" is supported.
groups	a list of group definitions
groups.wmin	a numeric vector
groups.wmax	a numeric vector
Rglpk.control	a list: settings passed to Rglpk_solve_LP

Details

Compute the minimum CVaR portfolio for a given scenario set. The default method uses the formulation as a Linear Programme, as described in Rockafellar/Uryasev (2000).

The function uses [Rglpk_solve_LP](#) from package **Rglpk**.

Value

a numeric vector (the portfolio weights); attached is an attribute whose name matches the method name

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Rockafellar, R. T. and Uryasev, S. (2000). Optimization of Conditional Value-at-Risk. *Journal of Risk*. 2 (3), 21–41.

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

Schumann, E. (2020) Minimising Conditional Value-at-Risk (CVaR). <https://enricoschumann.net/notes/minimising-conditional-var.html>

See Also

[minvar](#)

Examples

```
if (requireNamespace("Rglpk")) {
  ns <- 5000 ## number of scenarios
  na <- 20   ## number of assets
  R <- randomReturns(na, ns, sd = 0.01, rho = 0.5)

  res <- minCVaR(R, 0.25)
  c(res) ## portfolio weights
}
```

minMAD

Compute Minimum Mean–Absolute-Deviation Portfolios

Description

Compute minimum mean–absolute-deviation portfolios.

Usage

```
minMAD(R, wmin = 0, wmax = 1,
  min.return = NULL, m = NULL, demean = TRUE,
  method = "lp",
  groups = NULL, groups.wmin = NULL, groups.wmax = NULL,
  Rglpk.control = list())
```

Arguments

R	a matrix of return scenarios: each column represents one asset; each row represents one scenario
wmin	minimum weight
wmax	maximum weight
min.return	a minimum required return; ignored if NULL
m	a vector of expected returns. If NULL, but min.return is not NULL, then column means are used as expected returns.
demean	logical. If TRUE, the columns of R are demeaned, corresponding to an objective function xxxx
method	string. Supported are lp and ls.
groups	group definitions
groups.wmin	list of vectors
groups.wmax	list of vectors
Rglpk.control	a list

Details

Compute the minimum mean–absolute-deviation portfolio for a given scenario set.

The function uses [Rglpk_solve_LP](#) from package **Rglpk**.

Value

a vector of portfolio weights

Author(s)

Enrico Schumann

References

Konno, H. and Yamazaki, H. (1991) Mean-Absolute Deviation Portfolio Optimization Model and Its Applications to Tokyo Stock Market. *Management Science*. **37** (5), 519–531.

See Also

[minvar](#), [minCVaR](#)

Examples

```
na <- 10
ns <- 1000
R <- randomReturns(na = na, ns = ns,
                   sd = 0.01, rho = 0.8, mean = 0.0005)

minMAD(R = R)
minvar(var(R))
```

minvar

*Minimum-Variance Portfolios***Description**

Compute minimum-variance portfolios, subject to lower and upper bounds on weights.

Usage

```
minvar(var, wmin = 0, wmax = 1, method = "qp",
       groups = NULL, groups.wmin = NULL, groups.wmax = NULL)
```

Arguments

var	the covariance matrix: a numeric (real), symmetric matrix
wmin	numeric: a lower bound on weights. May also be a vector that holds specific bounds for each asset.
wmax	numeric: an upper bound on weights. May also be a vector that holds specific bounds for each asset.
method	character. Currently, only "qp" is supported.
groups	a list of group definitions
groups.wmin	a numeric vector
groups.wmax	a numeric vector

Details

For method "qp", the function uses `solve.QP` from package **quadprog**. Because of the algorithm that `solve.QP` uses, var has to be positive definite (i.e. must be of full rank).

Value

a numeric vector (the portfolio weights) with an attribute `variance` (the portfolio's variance)

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

Schumann, E. (2012) Computing the global minimum-variance portfolio. <https://enricoschumann.net/R/minvar.htm>

See Also

TAopt

Examples

```
## variance-covariance matrix from daily returns, 1 Jan 2014 -- 31 Dec 2013, of
## cleaned data set at https://enricoschumann.net/data/gilli\_accuracy.html

if (requireNamespace("quadprog")) {

  var <- structure(c(0.000988087100677907, -0.0000179669410403153, 0.000368923882626859,
    0.000208303611101873, 0.000262742052359594, -0.0000179669410403153,
    0.00171852167358765, 0.0000857467457561209, 0.0000215059246610556,
    0.0000283532159921211, 0.000368923882626859, 0.0000857467457561209,
    0.00075871953281751, 0.000194002299424151, 0.000188824454515841,
    0.000208303611101873, 0.0000215059246610556, 0.000194002299424151,
    0.000265780633005374, 0.000132611196599808, 0.000262742052359594,
    0.0000283532159921211, 0.000188824454515841, 0.000132611196599808,
    0.00025948420130626),
    .Dim = c(5L, 5L),
    .Dimnames = list(c("CBK.DE", "VOW.DE", "CON.DE", "LIN.DE", "MUV2.DE"),
      c("CBK.DE", "VOW.DE", "CON.DE", "LIN.DE", "MUV2.DE")))

  ##          CBK.DE    VOW.DE    CON.DE    LIN.DE    MUV2.DE
  ## CBK.DE    0.000988 -0.0000180 0.0003689 0.0002083 0.0002627
  ## VOW.DE   -0.000018  0.0017185 0.0000857 0.0000215 0.0000284
  ## CON.DE    0.000369  0.0000857 0.0007587 0.0001940 0.0001888
  ## LIN.DE    0.000208  0.0000215 0.0001940 0.0002658 0.0001326
  ## MUV2.DE   0.000263  0.0000284 0.0001888 0.0001326 0.0002595
  ##

  minvar(var, wmin = 0, wmax = 0.5)

  minvar(var,
    wmin = c(0.1,0,0,0,0), ## enforce at least 10% weight in CBK.DE
    wmax = 0.5)

  minvar(var, wmin = -Inf, wmax = Inf) ## no bounds
  ## [1] -0.0467  0.0900  0.0117  0.4534  0.4916

  minvar(var, wmin = -Inf, wmax = 0.45) ## no lower bounds
  ## [1] -0.0284  0.0977  0.0307  0.4500  0.4500

  minvar(var, wmin = 0.1, wmax = Inf) ## no upper bounds
  ## [1] 0.100 0.100 0.100 0.363 0.337

  ## group constraints:
  ## group 1 consists of asset 1 only, and must have weight [0.25,0.30]
  ## group 2 consists of assets 4 and 5, and must have weight [0.10,0.20]

  ## => unconstrained
  minvar(var, wmin = 0, wmax = 0.40)
```

```
## [1] 0.0097 0.1149 0.0754 0.4000 0.4000

## => with group constraints
minvar(var, wmin = 0, wmax = 0.40,
       groups = list(1, 4:5),
       groups.wmin = c(0.25, 0.1),
       groups.wmax = c(0.30, 0.2))
## [1] 0.250 0.217 0.333 0.149 0.051
}
```

mvFrontier

*Computing Mean–Variance Efficient Portfolios***Description**

Compute mean–variance efficient portfolios and efficient frontiers.

Usage

```
mvFrontier(m, var, wmin = 0, wmax = 1, n = 50, rf = NA,
          groups = NULL, groups.wmin = NULL, groups.wmax = NULL)
mvPortfolio(m, var, min.return, wmin = 0, wmax = 1, lambda = NULL,
           groups = NULL, groups.wmin = NULL, groups.wmax = NULL)
```

Arguments

<code>m</code>	vector of expected returns
<code>var</code>	expected variance–covariance matrix
<code>wmin</code>	numeric: minimum weights
<code>wmax</code>	numeric: maximum weights
<code>n</code>	number of points on the efficient frontier
<code>min.return</code>	minimal required return
<code>rf</code>	risk-free rate
<code>lambda</code>	risk–reward trade-off
<code>groups</code>	a list of group definitions
<code>groups.wmin</code>	a numeric vector
<code>groups.wmax</code>	a numeric vector

Details

`mvPortfolio` computes a single mean–variance efficient portfolio, using package **quadprog**. It does so by minimising portfolio variance, subject to constraints on minimum return and budget (weights need to sum to one), and min/max constraints on the weights.

If λ is specified, the function ignores the `min.return` constraint and instead solves the model

$$\min_w -\lambda m'w + (1 - \lambda)w' \text{var } w$$

in which w are the weights. If λ is a vector of length 2, then the model becomes

$$\min_w -\lambda_1 m'w + \lambda_2 w' \text{var } w$$

which may be more convenient (e.g. for setting λ_1 to 1).

`mvFrontier` computes returns, volatilities and compositions for portfolios along an efficient frontier. If `rf` is not NA, cash is included as an asset.

Value

For `mvPortfolio`, a numeric vector of weights.

For `mvFrontier`, a list of three components:

return	returns of portfolios
volatility	volatilities of portfolios
weights	A matrix of portfolio weights. Each column holds the weights for one portfolio on the frontier. If <code>rf</code> is specified, an additional row is added, providing the cash weight.

The i -th portfolio on the frontier corresponds to the i -th elements of return and volatility, and the i -th column of portfolio.

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

[minvar](#) for computing the minimum-variance portfolio

Examples

```
na <- 4
vols <- c(0.10, 0.15, 0.20, 0.22)
m <- c(0.06, 0.12, 0.09, 0.07)
const_cor <- function(rho, na) {
  C <- array(rho, dim = c(na, na))
  diag(C) <- 1
}
```

```

      C
    }
    var <- diag(vols) %*% const_cor(0.5, na) %*% diag(vols)

    wmax <- 1          # maximum holding size
    wmin <- 0.0        # minimum holding size
    rf <- 0.02

    if (requireNamespace("quadprog")) {
      p1 <- mvFrontier(m, var, wmin = wmin, wmax = wmax, n = 50)
      p2 <- mvFrontier(m, var, wmin = wmin, wmax = wmax, n = 50, rf = rf)
      plot(p1$volatility, p1$return, pch = 19, cex = 0.5, type = "o",
           xlab = "Expected volatility",
           ylab = "Expected return")
      lines(p2$volatility, p2$return, col = grey(0.5))
      abline(v = 0, h = rf)
    } else
      message("Package 'quadprog' is required")

```

NS

*Zero Rates for Nelson–Siegel–Svensson Model***Description**

Compute zero yields for Nelson–Siegel (NS)/Nelson–Siegel–Svensson (NSS) model.

Usage

```

NS(param, tm)
NSS(param, tm)

```

Arguments

<code>param</code>	a vector. For NS: $\beta_1, \beta_2, \beta_3, \lambda$. For NSS: a vector: $\beta_1, \beta_2, \beta_3, \beta_4, \lambda_1, \lambda_2$.
<code>tm</code>	a vector of maturities

Details

See Chapter 14 in Gilli/Maringer/Schumann (2011).

Maturities (`tm`) need to be given in time (not dates).

Value

The function returns a vector of length `length(tm)`.

Author(s)

Enrico Schumann

References

- Gilli, M. and Grosse, S. and Schumann, E. (2010) Calibrating the Nelson-Siegel-Svensson model, COMISEF Working Paper Series No. 031. <https://enricoschumann.net/COMISEF/wps031.pdf>
- Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X
- Gilli, M. and Schumann, E. (2010) A Note on ‘Good’ Starting Values in Numerical Optimisation, COMISEF Working Paper Series No. 044. <https://enricoschumann.net/COMISEF/wps044.pdf>
- Nelson, C.R. and Siegel, A.F. (1987) Parsimonious Modeling of Yield Curves. *Journal of Business*, **60**(4), pp. 473–489.
- Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>
- Svensson, L.E. (1994) Estimating and Interpreting Forward Interest Rates: Sweden 1992–1994. IMF Working Paper 94/114.

See Also

[NSf](#), [NSSf](#)

Examples

```
tm <- c(c(1, 3, 6, 9) / 12, 1:10) ## in years
param <- c(6, 3, 8, 1)
yM <- NS(param, tm)
plot(tm, yM, xlab = "maturity in years",
      ylab = "yield in percent")

param <- c(6, 3, 5, -5, 1, 3)
yM <- NSS(param, tm)
plot(tm, yM, xlab = "maturity in years",
      ylab = "yield in percent")
```

NSf

Factor Loadings for Nelson–Siegel and Nelson–Siegel–Svensson

Description

Computes the factor loadings for Nelson–Siegel (NS) and Nelson–Siegel–Svensson (NSS) model for given lambda values.

Usage

```
NSf(lambda, tm)
NSSf(lambda1, lambda2, tm)
```

Arguments

<code>lambda</code>	the λ parameter of the NS model (a scalar)
<code>lambda1</code>	the λ_1 parameter of the NSS model (a scalar)
<code>lambda2</code>	the λ_2 parameter of the NSS model (a scalar)
<code>tm</code>	a numeric vector with times-to-payment/maturity

Details

The function computes the factor loadings for given λ parameters. Checking the correlation between these factor loadings can help to set reasonable λ values for the NS/NSS models.

Value

For NS, a matrix with `length(tm)` rows and three columns. For NSS, a matrix with `length(tm)` rows and four columns.

Author(s)

Enrico Schumann

References

- Gilli, M. and Grosse, S. and Schumann, E. (2010) Calibrating the Nelson-Siegel-Svensson model, COMISEF Working Paper Series No. 031. <https://enricoschumann.net/COMISEF/wps031.pdf>
- Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X
- Gilli, M. and Schumann, E. (2010) A Note on ‘Good’ Starting Values in Numerical Optimisation, COMISEF Working Paper Series No. 044. <https://enricoschumann.net/COMISEF/wps044.pdf>
- Nelson, C.R. and Siegel, A.F. (1987) Parsimonious Modeling of Yield Curves. *Journal of Business*, **60**(4), pp. 473–489.
- Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>
- Svensson, L.E. (1994) Estimating and Interpreting Forward Interest Rates: Sweden 1992–1994. IMF Working Paper 94/114.

See Also

[NS](#), [NSS](#)

Examples

```
## Nelson-Siegel
cor(NSf(lambda = 6, tm = 1:10)[-1L, -1L])

## Nelson-Siegel-Svensson
cor(NSSf(lambda1 = 1, lambda2 = 5, tm = 1:10)[-1L, -1L])
cor(NSSf(lambda1 = 4, lambda2 = 9, tm = 1:10)[-1L, -1L])
```

optionData

Option Data

Description

Closing prices of DAX index options as of 2012-02-10.

Usage

optionData

Format

optionData is a list with six components:

pricesCall a matrix of size 124 times 10. The rows are the strikes; each column belongs to one expiry date.

pricesPut a matrix of size 124 times 10

index The DAX index (spot).

future The available future settlement prices.

Euribor Euribor rates.

NSSpar Paramaters for German government bond yields, as estimated by the Bundesbank.

Details

Settlement prices for EUREX options are computed at 17:30, Frankfurt Time, even though trading continues until 22:00.

Source

The data was obtained from several websites: close prices of EUREX products were collected from <https://www.eurex.com/ex-en/> ; Euribor rates and the parameters of the Nelson-Siegel-Svensson can be found at <https://www.bundesbank.de/en/> .

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

Examples

```
str(optionData)
NSS(optionData$NSSpar, 1:10)
```

PBO

Probability of Backtest Overfitting

Description

Estimate probability of backtest overfitting, as described in Bailey et al. 2017

Usage

```
PBO(M, s = 12, fun = colMeans,  
     threshold = 0, ..., loop.fun = TRUE)
```

Arguments

M	a numeric matrix
s	number of submatrices
fun	a function
threshold	a scalar
...	additional arguments passed to fun
loop.fun	logical: if TRUE, fun is called separately for every column of M; if FALSE, fun will be passed the whole matrix M

Details

fun is called with M as its first argument.

Value

A list:

pbo	probability
lambda	vector of logits
in.sample	numeric
out.of.sample	numeric

Author(s)

Enrico Schumann

References

Bailey, D. H. et al. (2017). The probability of backtest overfitting. *Journal of Computational Finance* **20** (4), 39–69. doi:[10.21314/JCF.2016.322](https://doi.org/10.21314/JCF.2016.322)

Examples

```
## might run a few seconds
N <- 5000
T <- 480
M <- array(rnorm(N*T, sd = 0.01), dim = c(T, N))
p <- PBO(M, s = 12, fun = colMeans, loop.fun = FALSE)
str(p)
```

pm

Partial Moments

Description

Compute partial moments.

Usage

```
pm(x, xp = 2, threshold = 0, lower = TRUE,
   normalise = FALSE, na.rm = FALSE)
```

Arguments

x	a numeric vector or a matrix
xp	exponent
threshold	a numeric vector of length one
lower	logical
normalise	logical
na.rm	logical

Details

For a vector x of length n , partial moments are computed as follows:

$$\text{upper partial moment} = \frac{1}{n} \sum_{x > t} (x - t)^e$$

$$\text{lower partial moment} = \frac{1}{n} \sum_{x < t} (t - x)^e$$

The threshold is denoted t , the exponent xp is labelled e .

If `normalise` is `TRUE`, the result is raised to $1/xp$. If x is a matrix, the function will compute the partial moments column-wise.

See Gilli, Maringer and Schumann (2019), chapter 14.

Value

numeric

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:[10.1016/C2017001621X](https://doi.org/10.1016/C2017001621X)

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

Examples

```
pm(x <- rnorm(100), 2)
var(x)/2

pm(x, 2, normalise = TRUE)
sqrt(var(x)/2)
```

PSopt

Particle Swarm Optimisation

Description

The function implements Particle Swarm Optimisation.

Usage

```
PSopt(OF, algo = list(), ...)
```

Arguments

OF	the objective function to be minimised. See Details.
algo	a list with the settings for algorithm. See Details and Examples.
...	pieces of data required to evaluate the objective function. See Details.

Details

The function implements Particle Swarm Optimisation (PS); see the references for details on the implementation. PS is a population-based optimisation heuristic. It develops several solutions (a ‘population’) over a number of iterations. PS is directly applicable to continuous problems since the population is stored in real-valued vectors. In each iteration, a solution is updated by adding another vector called velocity. Think of a solution as a position in the search space, and of velocity as the direction into which this solution moves. Velocity changes over the course of the optimization: it is

biased towards the best solution found by the particular solution and the best overall solution. The algorithm stops after a fixed number of iterations.

To allow for constraints, the evaluation works as follows: after a new solution is created, it is (i) repaired, (ii) evaluated through the objective function, (iii) penalised. Step (ii) is done by a call to `OF`; steps (i) and (iii) by calls to `algo$repair` and `algo$pen`. Step (i) and (iii) are optional, so the respective functions default to `NULL`. A penalty can also be directly written in the `OF`, since it amounts to a positive number added to the ‘clean’ objective function value. It can be advantageous to write a separate penalty function if either only the objective function or only the penalty function can be vectorised. (Constraints can also be added without these mechanisms. Solutions that violate constraints can, for instance, be mapped to feasible solutions, but without actually changing them. See Maringer and Oyewumi, 2007, for an example with Differential Evolution.)

Conceptually, PS consists of two loops: one loop across the iterations and, in any given generation, one loop across the solutions. This is the default, controlled by the variables `algo$loopOF`, `algo$loopRepair`, `algo$loopPen` and `loopChangeV` which all default to `TRUE`. But it does not matter in what order the solutions are evaluated (or repaired or penalised), so the second loop can be vectorised. Examples are given in the vignettes and in the book. The respective `algo$loopFun` must then be set to `FALSE`.

The objective function, the repair function and the penalty function will be called as `fun(solution, ...)`.

The list `algo` contains the following items:

`nP` population size. Defaults to 100. Using default settings may not be a good idea.

`nG` number of iterations. Defaults to 500. Using default settings may not be a good idea.

`c1` the weight towards the individual’s best solution. Typically between 0 and 2; defaults to 1. Using default settings may not be a good idea. In some cases, even negative values work well: the solution is then driven off its past best position. For ‘simple’ problems, setting `c1` to zero may work well: the population moves then towards the best overall solution.

`c2` the weight towards the populations’s best solution. Typically between 0 and 2; defaults to 1. Using default settings may not be a good idea. In some cases, even negative values work well: the solution is then driven off the population’s past best position.

`iner` the inertia weight (a scalar), which reduces velocity. Typically between 0 and 1. Default is 0.9.

`initV` the standard deviation of the initial velocities. Defaults to 1.

`maxV` the maximum (absolute) velocity. Setting limits to velocity is sometimes called velocity clamping. Velocity is the change in a given solution in a given iteration. A maximum velocity can be set so to prevent unreasonable velocities (‘overshooting’): for instance, if a decision variable may lie between 0 and 1, then an absolute velocity much greater than 1 makes rarely sense.

`min, max` vectors of minimum and maximum parameter values. The vectors `min` and `max` are used to determine the dimension of the problem and to randomly initialise the population. Per default, they are no constraints: a solution may well be outside these limits. Only if `algo$minmaxConstr` is `TRUE` will the algorithm repair solutions outside the `min` and `max` range.

`minmaxConstr` if `TRUE`, `algo$min` and `algo$max` are considered constraints. Default is `FALSE`.

`pen` a penalty function. Default is `NULL` (no penalty).

`repair` a repair function. Default is `NULL` (no repairing).

- `changeV` a function to change velocity. Default is NULL (no change). This function is called before the velocity is added to the current solutions; it can be used to impose restrictions like changing only a number of decision variables.
- `initP` optional: the initial population. A matrix of size `length(algo$min)` times `algo$nP`, or a function that creates such a matrix. If a function, it should take no arguments.
- `loopOF` logical. Should the OF be evaluated through a loop? Defaults to TRUE.
- `loopPen` logical. Should the penalty function (if specified) be evaluated through a loop? Defaults to TRUE.
- `loopRepair` logical. Should the repair function (if specified) be evaluated through a loop? Defaults to TRUE.
- `loopChangeV` logical. Should the `changeV` function (if specified) be evaluated through a loop? Defaults to TRUE.
- `printDetail` If TRUE (the default), information is printed. If an integer `i` greater than one, information is printed at very `i`th iteration.
- `printBar` If TRUE (the default), a `txtProgressBar` (from package **utils**) is printed).
- `storeF` If TRUE (the default), the objective function values for every solution in every generation are stored and returned as matrix `Fmat`.
- `storeSolutions` default is FALSE. If TRUE, the solutions (ie, decision variables) in every generation are stored as lists `P` and `Pbest`, both stored in the list `xlist` which the function returns. To check, for instance, the solutions at the end of the `i`th iteration, retrieve `xlist[[c(1L, i)]]`; the best solutions at the end of this iteration are in `xlist[[c(2L, i)]]`. `P[[i]]` and `Pbest[[i]]` will be matrices of size `length(algo$min)` times `algo$nP`.
- `classify` Logical; default is FALSE. If TRUE, the result will have a class attribute `TAopt` attached. This feature is **experimental**: the supported methods may change without warning.
- `drop` Default is TRUE. If FALSE, the dimension is not dropped from a single solution when it is passed to a function. (That is, the function will receive a single-column matrix.)

Value

Returns a list:

<code>xbest</code>	the solution
<code>OFvalue</code>	objective function value of best solution
<code>popF</code>	a vector: the objective function values in the final population
<code>Fmat</code>	if <code>algo\$storeF</code> is TRUE, a matrix of size <code>algo\$nG</code> times <code>algo\$nP</code> . Each column contains the best objective function value found by the particular solution.
<code>xlist</code>	if <code>algo\$storeSolutions</code> is TRUE, a list that contains two lists <code>P</code> and <code>Pbest</code> of matrices, and a matrix <code>initP</code> (the initial solution); else NA.
<code>initial.state</code>	the value of <code>.Random.seed</code> when <code>PSopt</code> was called.

Author(s)

Enrico Schumann

References

- Eberhart, R.C. and Kennedy, J. (1995) A New Optimizer using Particle Swarm theory. *Proceedings of the Sixth International Symposium on Micromachine and Human Science*, pp. 39–43.
- Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X
- Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

DEopt

Examples

```
## Least Median of Squares (LMS) estimation
genData <- function(nP, n0, ol, dy) {
  ## create dataset as in Salibian-Barrera & Yohai 2006
  ## nP = regressors, n0 = number of obs
  ## ol = number of outliers, dy = outlier size
  mRN <- function(m, n) array(rnorm(m * n), dim = c(m, n))
  y <- mRN(n0, 1)
  X <- cbind(as.matrix(numeric(n0) + 1), mRN(n0, nP - 1L))
  zz <- sample(n0)
  z <- cbind(1, 100, array(0, dim = c(1L, nP - 2L)))
  for (i in seq_len(ol)) {
    X[zz[i], ] <- z
    y[zz[i]] <- dy
  }
  list(X = X, y = y)
}

OF <- function(param, data) {
  X <- data$X
  y <- data$y
  aux <- as.vector(y) - X %>% param
  ## as.vector(y) for recycling (param is a matrix)
  aux <- aux * aux
  aux <- apply(aux, 2, sort, partial = data$h)
  aux[h, ]
}

nP <- 2L; n0 <- 100L; ol <- 10L; dy <- 150
aux <- genData(nP, n0, ol, dy); X <- aux$X; y <- aux$y

h <- (n0 + nP + 1L) %/% 2
data <- list(y = y, X = X, h = h)

algo <- list(min = rep(-10, nP), max = rep( 10, nP),
  c1 = 1.0, c2 = 2.0,
  iner = 0.7, initV = 1, maxV = 3,
  nP = 100L, nG = 300L, loopOF = FALSE)
```

```

system.time(sol <- PSopt(OF = OF, algo = algo, data = data))
if (require("MASS", quietly = TRUE)) {
  ## for nsamp = "best", in this case, complete enumeration
  ## will be tried. See ?lqs
  system.time(test1 <- lqs(data$y ~ data$X[, -1L],
    adjust = TRUE,
    nsamp = "best",
    method = "lqs",
    quantile = data$h))
}
## check
x1 <- sort((y - X %*% as.matrix(sol$xbest))^2)[h]
cat("Particle Swarm\n", x1, "\n\n")

if (require("MASS", quietly = TRUE)) {
  x2 <- sort((y - X %*% as.matrix(coef(test1)))^2)[h]
  cat("lqs\n", x2, "\n\n")
}

```

putCallParity

Put-Call Parity

Description

Put-call parity

Usage

```
putCallParity(what, call, put, S, X, tau, r, q = 0, tauD = 0, D = 0)
```

Arguments

what	character: what to compute. Currently only call or put are supported.
call	call price
put	put price
S	underlier
X	strike
tau	time to expiry
r	interest rate
q	dividend rate
tauD	numeric vector: time to dividend
D	numeric vector: dividends

Details

Put–call parity only works for European options. The function is vectorised (like [vanillaOptionEuropean](#)), except for dividends.

Value

Numeric vector.

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. [doi:10.1016/C2017001621X](https://doi.org/10.1016/C2017001621X)

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

Examples

```
S <- 100; X <- 100; tau <- 1; r <- 0.02; q <- 0.0;
vol <- 0.3; D <- 20; tauD <- 0.5
call <- vanillaOptionEuropean(S, X, tau, r, q, vol^2,
                             tauD = tauD, D = D, type = "call")$value
put  <- vanillaOptionEuropean(S, X, tau, r, q, vol^2,
                             tauD = tauD, D = D, type = "put")$value

## recover the call from the put (et vice versa)
all.equal(call, putCallParity("call", put = put, S=S, X=X, tau=tau,
                             r=r, q=q, tauD=tauD, D=D))
all.equal(put, putCallParity("put", call = call, S=S, X=X, tau=tau,
                             r=r, q=q, tauD=tauD, D=D))

## Black--Scholes--Merton with with 'callCF'
S <- 100; X <- 90; tau <- 1; r <- 0.02; q <- 0.08
v <- 0.2^2 ## variance, not volatility

(ccf <- callCF(cf = cfBSM, S = S, X = X, tau = tau, r = r, q = q,
              v = v, implVol = TRUE))
all.equal(ccf$value,
          vanillaOptionEuropean(S, X, tau, r, q, v, type = "call")$value)
all.equal(
  putCallParity("put", call=ccf$value, S=S, X=X, tau=tau, r=r, q=q),
  vanillaOptionEuropean(S, X, tau, r, q, v, type = "put")$value)
```

qTable

Prepare LaTeX Table with Quartile Plots

Description

The function returns the skeleton of a LaTeX tabular that contains the median, minimum and maximum of the columns of a matrix X. For each column, a quartile plot is added.

Usage

```
qTable(X, xmin = NULL, xmax = NULL, labels = NULL, at = NULL,
       unitlength = "5cm", linethickness = NULL,
       cnames = colnames(X), circlesize = 0.01,
       xoffset = 0, yoffset = 0, dec = 2, filename = NULL,
       funs = list(median = median, min = min, max = max),
       tabular.format, skip = TRUE)
```

Arguments

X	a numeric matrix (or an object that can be coerced to a numeric matrix with <code>as.matrix</code>)
xmin	optional: the minimum for the x-axis. See Details.
xmax	optional: the maximum for the x-axis. See Details.
labels	optional: labels for the x-axis.
at	optional: where to put labels.
unitlength	the unitlength for LaTeX's picture environment. See Details.
linethickness	the linethickness for LaTeX's picture environment. See Details.
cnames	the column names of X
circlesize	the size of the circle in LaTeX's picture environment
xoffset	defaults to 0. See Details.
yoffset	defaults to 0. See Details.
dec	the number of decimals
filename	if provided, output is cat into a file
funs	A list of functions; the functions should be named. Default is <code>list(median = median, min = min, max = max)</code>
tabular.format	optional: character string like "rrrrr" that defines the format of the tabular.
skip	Adds a newline at the end of the tabular. Default is TRUE. (The behaviour prior to package version 0.27-0 corresponded to FALSE.)

Details

The function creates a one-column character matrix that can be put into a LaTeX file (the matrix holds a tabular). It relies on LaTeX's picture environment and should work for LaTeX and pdfLaTeX. Note that the tabular needs generally be refined, depending on the settings and the data.

The tabular has one row for every column of X (and header and footer rows). A given row contains (per default) the median, the minimum and the maximum of the column; it also includes a picture environment the shows a quartile plot of the distribution of the elements in that column. Other functions can be specified via argument funs.

A number of parameters can be passed to LaTeX's picture environment: unitlength, xoffset, yoffset, linethickness. Sizes and lengths are functions of unitlength (linethickness is an exception; and while circlesize is a multiple of unitlength, it will not translate into an actual diameter of more than 14mm).

The whole tabular environment is put into curly brackets so that the settings do not change settings elsewhere in the LaTeX document.

If xmin, xmax, labels and at are not specified, they are computed through a call to `pretty` from the **base** package. If limits are specified, then both xmin and xmax must be set; if labels are used, then both labels and at must be specified.

To use the function in a vignette, use `cat(tTable(X))` (and `results=tex` in the code chunk options). The vignette qTableEx shows some examples.

Value

A matrix of mode character. If filename is specified then qTable will have the side effect of writing a textfile with a LaTeX tabular.

Note

qTable returns a raw draft of a table for LaTeX. Please, spend some time on making it pretty.

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Tufte, E. (2001) *The Visual Display of Quantitative Information*. 2nd edition, Graphics Press.

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

Examples

```
x <- rnorm(100, mean = 0, sd = 2)
y <- rnorm(100, mean = 1, sd = 2)
z <- rnorm(100, mean = 1, sd = 0.5)
X <- cbind(x, y, z)
```

```

res <- qTable(X)
print(res)
cat(res)

## Not run:
## show vignette with examples
qt <- vignette("qTableEx", package = "NMOF")
print(qt)
edit(qt)

## create a simple LaTeX file 'test.tex':
## ---
## \documentclass{article}
## \begin{document}
## \input{res.tex}
## \end{document}
## ---

res <- qTable(X, filename = "res.tex", yoffset = -0.025, unitlength = "5cm",
             circlesize = 0.0125, xmin = -10, xmax = 10, dec = 2)
## End(Not run)

```

randomReturns

Create a Random Returns

Description

Create a matrix of random returns.

Usage

```
randomReturns(na, ns, sd, mean = 0, rho = 0, exact = FALSE)
```

Arguments

na	number of assets
ns	number of return scenarios
sd	the standard deviation: either a single number or a vector of length na
mean	the mean return: either a single number or a vector of length na
rho	correlation: either a scalar (i.e. a constant pairwise correlation) or a correlation matrix
exact	logical: if TRUE, return a random matrix whose column means, standard deviations and correlations match the specified values exactly (up to numerical precision)

Details

The function corresponds to the function `random_returns`, described in the second edition of NMOF (the book).

Value

a `numeric matrix` of size `na` times `ns`

Note

The function corresponds to the function `random_returns`, described in the second edition of NMOF (the book).

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. [doi:10.1016/C2017001621X](https://doi.org/10.1016/C2017001621X)

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

`mc`

Examples

```
if (requireNamespace("quadprog")) {
  ## a small experiment: when computing minimum-variance portfolios
  ## for correlated assets, how many large positions are in the portfolio?

  na <- 100 ## number of assets
  inc <- 5 ## minimum of assets to include

  n <- numeric(10)
  for (i in seq_along(n)) {
    R <- randomReturns(na = na,
                       ns = 500,
                       sd = seq(.2/.16, .5/.16, length.out = 100),
                       rho = 0.5)
    n[i] <- sum(minvar(cov(R), wmax = 1/inc) > 0.01)
  }
  summary(n)
}
```

repairMatrix

Repair an Indefinite Correlation Matrix

Description

The function ‘repairs’ an indefinite correlation matrix by replacing its negative eigenvalues by zero.

Usage

```
repairMatrix(C, eps = 0)
```

Arguments

C	a correlation matrix
eps	a small number

Details

The function ‘repairs’ a correlation matrix: it replaces negative eigenvalues with eps and rescales the matrix such that all elements on the main diagonal become unity again.

Value

Returns a numeric matrix.

Note

This function may help to cure a numerical problem, but it will rarely help to cure an empirical problem. (Garbage in, garbage out.)

See also the function nearPD in the **Matrix** package.

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. [doi:10.1016/C2017001621X](https://doi.org/10.1016/C2017001621X)

Rebonato, R. and Jaeckel, P. (1999) The most general methodology to create a valid correlation matrix for risk management and option pricing purposes.

Schumann, E. (2023) Financial Optimisation with R (**NMOF** Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

Examples

```
## example: build a portfolio of three assets
C <- c(1,.9,.9,.9,1,.2,.9,.2,1)
dim(C) <- c(3L, 3L)
eigen(C, only.values = TRUE)

vols <- c(.3, .3, .3)      ## volatilities
S <- C * outer(vols,vols)  ## covariance matrix
w <- c(-1, 1, 1)           ## a portfolio
w %*% S %*% w              ## variance of portfolio is negative!
sqrt(as.complex(w %*% S %*% w))

S <- repairMatrix(C) * outer(vols,vols)
w %*% S %*% w              ## more reasonable
sqrt(w %*% S %*% w)
```

resampleC

*Resample with Specified Rank Correlation***Description**

Resample with replacement from a number of vectors; the sample will have a specified rank correlation.

Usage

```
resampleC(..., size, cormat)
```

Arguments

...	numeric vectors; they need not have the same length.
size	an integer: the number of samples to draw
cormat	the rank correlation matrix

Details

See Gilli, Maringer and Schumann (2011), Section 7.1.2. The function samples with replacement from the vectors passed through ... The resulting samples will have an (approximate) rank correlation as specified in cormat.

The function uses the eigenvalue decomposition to generate the correlation; it will not break down in case of a semidefinite matrix. If an eigenvalue of cormat is smaller than zero, a warning is issued (but the function proceeds).

Value

a numeric matrix with size rows. The columns contain the samples; hence, there will be as many columns as vectors passed through ...

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

[repairMatrix](#)

Examples

```
## a sample
v1 <- rnorm(20)
v2 <- runif(50)
v3 <- rbinom(100, size = 50, prob = 0.4)

## a correlation matrix
cormat <- array(0.5, dim = c(3, 3))
diag(cormat) <- 1

cor(resampleC(a = v1, b = v2, v3, size = 100, cormat = cormat),
    method = "spearman")
```

restartOpt

Restart an Optimisation Algorithm

Description

The function provides a simple wrapper for the optimisation algorithms in the package.

Usage

```
restartOpt(fun, n, OF, algo, ...,
           method = c("loop", "multicore", "snow"),
           mc.control = list(), cl = NULL,
           best.only = FALSE)
```

Arguments

fun	the optimisation function: DEopt, GAopt, LSopt, TAOpt or PSopt
n	the number of restarts
OF	the objective function
algo	the list algo that is passed to the particular optimisation function
...	additional data that is passed to the particular optimisation function
method	can be loop (the default), multicore or snow. See Details.
mc.control	a list containing settings that will be passed to mclapply if method is multicore. Must be a list of named elements. See the documentation of mclapply.
cl	default is NULL. If method snow is used, this must be a cluster object or an integer (the number of cores).
best.only	if TRUE, only the best run is reported. Default is FALSE.

Details

The function returns a list of lists. If a specific starting solution is passed, all runs will start from this solution. If this is not desired, initial solutions can be created randomly. This is done per default in [DEopt](#), [GAopt](#) and [PSopt](#), but [LSopt](#) and [TAopt](#) require to specify a starting solution.

In case of [LSopt](#) and [TAopt](#), the passed initial solution algo\$x0 is checked with is.function: if TRUE, the function is evaluated in each single run. For [DEopt](#), [GAopt](#) and [PSopt](#), the initial solution (which also can be a function) is specified with algo\$initP.

The argument method determines how fun is evaluated. Default is loop. If method is "multicore", function mclapply from package **parallel** is used. Further settings for mclapply can be passed through the list mc.control. If multicore is chosen but the functionality is not available, then method will be set to loop and a warning is issued. If method == "snow", function clusterApply from package **parallel** is used. In this case, the argument cl must either be a cluster object (see the documentation of clusterApply) or an integer. If an integer, a cluster will be set up via makeCluster(c(rep("localhost", cl)), type = "SOCK"), and stopCluster is called when the function is exited. If snow is chosen but **parallel** is not available or cl is not specified, then method will be set to loop and a warning is issued. In case that cl is a cluster object, stopCluster will not be called automatically.

Value

If best.only is FALSE (the default), the function returns a list of n lists. Each of the n lists stores the output of one of the runs.

If best.only is TRUE, only the best restart is reported. The returned list has the structure specific to the used method.

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

DEopt, GAopt, LSopt, PSopt, TAOpt

Examples

```
## see example(DEopt)
algo <- list(nP = 50L,
            F = 0.5,
            CR = 0.9,
            min = c(-10, -10),
            max = c( 10,  10),
            printDetail = FALSE,
            printBar = FALSE)

## choose a larger 'n' when you can afford it
algo$nG <- 100L
res100 <- restartOpt(DEopt, n = 5L, OF = tfTrefethen, algo = algo)
res100F <- sapply(res100, `[[`, "OFvalue")

algo$nG <- 200L
res200 <- restartOpt(DEopt, n = 5L, OF = tfTrefethen, algo = algo)
res200F <- sapply(res200, `[[`, "OFvalue")

xx <- pretty(c(res100F, res200F, -3.31))
plot(ecdf(res100F), main = "optimum is -3.306",
     xlim = c(xx[1L], tail(xx, 1L)))
abline(v = -3.3069, col = "red") ## optimum
lines(ecdf(res200F), col = "blue")
legend(x = "right", box.lty = 0, , lty = 1,
       legend = c("optimum", "100 generations", "200 generations"),
       pch = c(NA, 19, 19), col = c("red", "black", "blue"))

## a 'best-of-N' strategy: given a sample x of objective
## function values, compute the probability that, after N draws,
## we have at least one realisation not worse than X
x <- c(0.1,.3,.5,.5,.6)
bestofN <- function(x, N) {
  nx <- length(x)
  function(X)
    1 - (sum(x > X)/nx)^N
}
bestof2 <- bestofN(x, 2)
bestof5 <- bestofN(x, 5)
bestof2(0.15)
```

```
bestof5(0.15)

## Not run:
## with R >= 2.13.0 and the compiler package
algo$nG <- 100L
system.time(res100 <- restartOpt(DEopt, n = 10L, OF = tfTrefethen, algo = algo))

require("compiler")
enableJIT(3)
system.time(res100 <- restartOpt(DEopt, n = 10L, OF = tfTrefethen, algo = algo))

## End(Not run)
```

Ritter

Download Jay Ritter's IPO Data

Description

Download IPO data provided by Jay Ritter and transform them into a data frame.

Usage

```
Ritter(dest.dir,
       url = "https://site.warrington.ufl.edu/ritter/files/IPO-age.xlsx",
       ...)
```

Arguments

<code>dest.dir</code>	character: a path to a directory
<code>url</code>	the data URL
<code>...</code>	named arguments to be passed to download.file

Details

The function downloads IPO data provided by Jay R. Ritter <https://site.warrington.ufl.edu/ritter/>. Since the data are provided in Excel format, package **openxlsx** is required.

The downloaded Excel gets a date prefix (today in format YYYYMMDD) and is stored in directory `dest.dir`. Before any download is attempted, the function checks whether a file with today's prefix exist in `dest.dir`; if yes, this file is used.

Value

a [data.frame](#)

Author(s)

Enrico Schumann

References

<https://site.warrington.ufl.edu/ritter/ipo-data/>

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

[French, Shiller](#)

Examples

```
## Not run:
archive.dir <- "~/Downloads/Ritter"
if (!dir.exists(archive.dir))
  dir.create(archive.dir)
Ritter(archive.dir)

## End(Not run)
```

SA.info

Simulated-Annealing Information

Description

The function can be called from the objective and neighbourhood function during a run of [SAopt](#); it provides information such as the current iteration, the current solution, etc.

Usage

```
SA.info(n = 0L)
```

Arguments

n generational offset; see Details.

Details

This function is still experimental.

The function can be called in the neighbourhood function or the objective function during a run of [SAopt](#). It evaluates to a list with information about the state of the optimisation run, such as the current iteration or the currently best solution.

SA.info relies on [parent.frame](#) to retrieve its information. If the function is called within another function within the neighbourhood or objective function, the argument n needs to be increased.

Value

A list

calibration	logical: whether the algorithm is calibrating the acceptance probability
iteration	current iteration
step	current step for the given temperature level
temperature	current temperature (the number, not the value)
xbest	the best solution found so far

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. [doi:10.1016/C2017001621X](https://doi.org/10.1016/C2017001621X)

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

[SAopt](#), [TA.info](#)

Examples

```
### MINIMAL EXAMPLE for SAopt

## the objective function evaluates to a constant
fun <- function(x)
  0

## the neighbourhood function does not even change
## the solution; it only reports information
nb <- function(x) {
  info <- SA.info()
  cat("current step ",      info$step,
      "| current iteration ", info$iteration, "\n")
  x
}

## run SA
algo <- list(nS = 5, nT = 2, nD = 10,
            initT = 1,
            x0 = rep(0, 5),
            neighbour = nb,
            printBar = FALSE)
ignore <- SAopt(fun, algo)
```

Description

The function implements a Simulated-Annealing algorithm.

Usage

```
SAopt(OF, algo = list(), ...)
```

Arguments

OF	The objective function, to be minimised. Its first argument needs to be a solution x ; it will be called as $OF(x, \dots)$.
algo	A list of settings for the algorithm. See Details.
...	other variables passed to OF and algo\$neighbour. See Details.

Details

Simulated Annealing (SA) changes an initial solution iteratively; the algorithm stops after a fixed number of iterations. Conceptually, SA consists of a loop than runs for a number of iterations. In each iteration, a current solution x_c is changed through a function algo\$neighbour. If this new (or neighbour) solution x_n is not worse than x_c , ie, if $OF(x_n, \dots) \leq OF(x_c, \dots)$, then x_n replaces x_c . If x_n is worse, it still replaces x_c , but only with a certain probability. This probability is a function of the degree of the deterioration (the greater, the less likely the new solution is accepted) and the current iteration (the longer the algorithm has already run, the less likely the new solution is accepted).

The list algo contains the following items.

nS	The number of steps per temperature. The default is 1000; but this setting depends very much on the problem.
nT	The number of temperatures. Default is 10.
nI	Total number of iterations, with default NULL. If specified, it will override nS with ceiling(nI/nT). Using this option makes it easier to compare and switch between functions LSopt , TAopt and SAopt .
nD	The number of random steps to calibrate the temperature. Defaults to 2000.
initT	Initial temperature. Defaults to NULL, in which case it is automatically chosen so that initProb is achieved.
finalT	Final temperature. Defaults to 0.
alpha	The cooling constant. The current temperature is multiplied by this value. Default is 0.9.
mStep	Step multiplier. The default is 1, which implies constant number of steps per temperature. If greater than 1, the step number nS is increased to $m \cdot nS$ (and rounded).

- `x0` The initial solution. If this is a function, it will be called once without arguments to compute an initial solution, ie, `x0 <- algo$x0()`. This can be useful when the routine is called in a loop of restarts, and each restart is to have its own starting value.
- `neighbour` The neighbourhood function, called as `neighbour(x, ...)`. Its first argument must be a solution `x`; it must return a changed solution.
- `printDetail` If TRUE (the default), information is printed. If an integer `i` greater than one, information is printed at very `i`th iteration.
- `printBar` If TRUE (default is FALSE), a `txtProgressBar` (from package **utils**) is printed. The progress bar is not shown if `printDetail` is an integer greater than 1.
- `storeF` if TRUE (the default), the objective function values for every solution in every generation are stored and returned as matrix `Fmat`.
- `storeSolutions` Default is FALSE. If TRUE, the solutions (ie, decision variables) in every generation are stored and returned in list `xlist` (see Value section below). To check, for instance, the current solution at the end of the `i`th generation, retrieve `xlist[[c(2L, i)]]`.
- `classify` Logical; default is FALSE. If TRUE, the result will have a class attribute `SAopt` attached.
- `OF.target` Numeric; when specified, the algorithm will stop when an objective-function value as low as `OF.target` (or lower) is achieved. This is useful when an optimal objective-function value is known: the algorithm will then stop and not waste time searching for a better solution.

At the minimum, `algo` needs to contain an initial solution `x0` and a `neighbour` function.

The total number of iterations equals `algo$nT` times `algo$nS` (plus possibly `algo$nD`).

Value

`SAopt` returns a list with five components:

- | | |
|----------------------------|---|
| <code>xbest</code> | the solution |
| <code>OFvalue</code> | objective function value of the solution, ie, <code>OF(xbest, ...)</code> |
| <code>Fmat</code> | if <code>algo\$storeF</code> is TRUE, a matrix with one row for each iteration (excluding the initial <code>algo\$nD</code> steps) and two columns. The first column contains the objective function values of the neighbour solution at a given iteration; the second column contains the value of the current solution. Since SA can walk away from locally-optimal solutions, the best solution can be monitored through <code>cummin(Fmat[, 2L])</code> . |
| <code>xlist</code> | if <code>algo\$storeSolutions</code> is TRUE, a list; else NA. Contains the neighbour solutions at a given iteration (<code>xn</code>) and the current solutions (<code>xc</code>). Example: <code>Fmat[i, 2L]</code> is the objective function value associated with <code>xlist[[c(2L, i)]]</code> . |
| <code>initial.state</code> | the value of <code>.Random.seed</code> when the function was called. |

If `algo$classify` was set to TRUE, the resulting list will have a class attribute `TAopt`.

Note

If the `...` argument is used, then all the objects passed with `...` need to go into the objective function and the neighbourhood function. It is recommended to collect all information in a list `myList`

and then write `OF` and `neighbour` so that they are called as `OF(x, myList)` and `neighbour(x, myList)`. Note that `x` need not be a vector but can be any data structure (eg, a matrix or a list).

Using an initial and final temperature of zero means that SA will be equivalent to a Local Search. The function `LSopt` may be preferred then because of smaller overhead.

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Kirkpatrick, S., Gelatt, C.D. and Vecchi, M.P. (1983). Optimization with Simulated Annealing. *Science*. **220** (4598), 671–680.

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

`LSopt`, `TAopt`, `restartOpt`

Examples

```
## Aim: given a matrix x with n rows and 2 columns,
##       divide the rows of x into two subsets such that
##       in one subset the columns are highly correlated,
##       and in the other lowly (negatively) correlated.
##       constraint: a single subset should have at least 40 rows

## create data with specified correlation
n <- 100L
rho <- 0.7
C <- matrix(rho, 2L, 2L); diag(C) <- 1
x <- matrix(rnorm(n * 2L), n, 2L) %*% chol(C)

## collect data
data <- list(x = x, n = n, nmin = 40L)

## a random initial solution
x0 <- runif(n) > 0.5

## a neighbourhood function
neighbour <- function(xc, data) {
  xn <- xc
  p <- sample.int(data$n, size = 1L)
  xn[p] <- abs(xn[p] - 1L)
  # reject infeasible solution
  c1 <- sum(xn) >= data$nmin
  c2 <- sum(xn) <= (data$n - data$nmin)
  if (c1 && c2) res <- xn else res <- xc
}
```

```

    as.logical(res)
  }

  ## check (should be 1 FALSE and n-1 TRUE)
  x0 == neighbour(x0, data)

  ## objective function
  OF <- function(xc, data)
    -abs(cor(data$x[xc, ])[1L, 2L] - cor(data$x[!xc, ])[1L, 2L])

  ## check
  OF(x0, data)
  ## check
  OF(neighbour(x0, data), data)

  ## plot data
  par(mfrow = c(1,3), bty = "n")
  plot(data$x,
        xlim = c(-3,3), ylim = c(-3,3),
        main = "all data", col = "darkgreen")

  ## *Local Search*
  algo <- list(nS = 3000L,
              neighbour = neighbour,
              x0 = x0,
              printBar = FALSE)
  sol1 <- LSopt(OF, algo = algo, data=data)
  sol1$OFvalue

  ## *Simulated Annealing*
  algo$nT <- 10L
  algo$nS <- ceiling(algo$nS/algo$nT)
  sol <- SAopt(OF, algo = algo, data = data)
  sol$OFvalue

  c1 <- cor(data$x[ sol$xbest, ])[1L, 2L]
  c2 <- cor(data$x[!sol$xbest, ])[1L, 2L]

  lines(data$x[ sol$xbest, ], type = "p", col = "blue")

  plot(data$x[ sol$xbest, ], col = "blue",
        xlim = c(-3, 3), ylim = c(-3, 3),
        main = paste("subset 1, corr.", format(c1, digits = 3)))

  plot(data$x[!sol$xbest, ], col = "darkgreen",
        xlim = c(-3,3), ylim = c(-3,3),
        main = paste("subset 2, corr.", format(c2, digits = 3)))

  ## compare LS/SA
  par(mfrow = c(1, 1), bty = "n")
  plot(sol1$Fmat[ , 2L], type = "l", ylim=c(-1.5, 0.5),
        ylab = "OF", xlab = "Iterations")
  lines(sol$Fmat[ , 2L], type = "l", col = "blue")

```

```
legend(x = "topright", legend = c("LS", "SA"),
      lty = 1, lwd = 2, col = c("black", "blue"))
```

Shiller

Download Robert Shiller's Data

Description

Download the data provided by Robert Shiller and transform them into a data frame.

Usage

```
Shiller(dest.dir,
        url = NULL)
```

Arguments

<code>dest.dir</code>	character: a path to a directory
<code>url</code>	the data URL

Details

The function downloads US stock-market data provided by Robert Shiller which he used in his book ‘Irrational Exuberance’. Since the data are provided in Excel format, package **readxl** is required.

The downloaded Excel gets a date prefix (today in format YYYYMMDD) and is stored in directory `dest.dir`. Before any download is attempted, the function checks whether a file with today's prefix exist in `dest.dir`; if yes, the file is used.

Value

a [data.frame](#):

Date	end of month
Price	numeric
Dividend	numeric
Earnings	numeric
CPI	numeric
Long Rate	numeric
Real Price	numeric
Real Dividend	numeric
Real Earnings	numeric
CAPE	numeric

Author(s)

Enrico Schumann

References

- Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X
- Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>
- Shiller, R.J. (2015) *Irrational Exuberance*. Princeton University Press. 3rd edition.

See Also

[French](#)

Examples

```
## Not run:
archive.dir <- "~/Downloads/Shiller"
if (!dir.exists(archive.dir))
  dir.create(archive.dir)
Shiller(archive.dir)

## End(Not run)
```

showExample

Display Code Examples

Description

Display the code examples from ‘Numerical Methods and Optimization and Finance’.

Usage

```
showExample(file = "", chapter = NULL, showfile = TRUE,
            includepaths = FALSE, edition = 2, search,
            ..., ignore.case = TRUE)
showChapterNames(edition = 2)
```

Arguments

file	a character vector of length one. See Details.
chapter	optional: a character vector of length one, giving the chapter name (see Details), or an integer, indicating a chapter number. Default is NULL: look in all chapters.
showfile	Should the file be displayed with file.show ? Defaults to TRUE. A file will be displayed only if one single file only is identified by file and chapter.
includepaths	Should the file paths be displayed? Defaults to FALSE.
...	Arguments passed to grepl ; see Details.
edition	an integer: 1 and 2 are supported

search	a regular expression: search in the code files. Not supported yet.
ignore.case	passed to grepl; see Examples. Default is TRUE (which is much more helpful than the default FALSE before package version 2)

Details

showExample matches the specified file argument against the available file names via `grepl(file, all.filesnames, ignore.case = ignore.case, ...)`. If chapter is specified, a second match is performed, `grepl(chapter, all.chapternames, ignore.case = ignore.case, ...)`. The chapternames are those in the book (e.g., 'Modeling dependencies'). The selected files are then those for which file name and chapter name could be matched.

Value

showExample returns a `data.frame` of at least two character vectors, Chapter and File. If `includepaths` is TRUE, Paths are included. If no file is found, the `data.frame` has zero rows. If a single file is identified and `showfile` is TRUE, the function has the side effect of displaying that file.

showChapterNames returns a character vector: the names of the book's chapters.

Note

The behaviour of the function changed slightly with version 2.0 to accommodate the code examples of the second edition of the book. Specifically, the function gained an argument `edition`, which defaults to 2. Also, the default for `ignore.case` was changed to TRUE. To get back the old behaviour of the function, set `edition` to 1 and `ignore.case` to FALSE.

The code files can also be downloaded from <https://gitlab.com/NMOF>.

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2011) *Numerical Methods and Optimization in Finance*. Elsevier. doi:10.1016/C20090305693

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

Examples

```
## list all files
showExample() ## 2nd edition is default
showExample(edition = 1)

## list specific files
showExample("Appendix")
showExample("Backtesting")
```

```

showExample("Heuristics")

showExample("tutorial") ## matches against filename
showExample(chapter = 13)
showExample(chapter = "tutorial")

## show where a file is installed
showExample(chapter = "portfolio", includepaths = TRUE)

## first edition
showExample("equations.R", edition = 1)
showExample("example", chapter = "portfolio", edition = 1)

showExample("example", chapter = 13, edition = 1)
showExample("example", chapter = showChapterNames(1)[13L], edition = 1)

```

TA.info

*Threshold-Accepting Information***Description**

The function can be called from the objective and neighbourhood function during a run of [TAopt](#); it provides information such as the current iteration, the current solution, etc.

Usage

```
TA.info(n = 0L)
```

Arguments

`n` generational offset; see Details.

Details

This function is still experimental.

The function can be called in the neighbourhood function or the objective function during a run of [TAopt](#). It evaluates to a list with the state of the optimisation run, such as the current iteration.

`TA.info` relies on [parent.frame](#) to retrieve its information. If the function is called within another function in the neighbourhood or objective function, the argument `n` needs to be increased.

Value

A list

`OF.sampling` logical: if TRUE, is the algorithm sampling the objective function to compute thresholds; otherwise (i.e. during the actual optimisation) FALSE

iteration	current iteration
step	current step (i.e. for a given threshold)
threshold	current threshold (the number, not the value)
xbest	the best solution found so far
OF.xbest	objective function value of best solution

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

[TAopt](#)

Examples

```
### MINIMAL EXAMPLE for TAopt

## objective function evaluates to a constant
fun <- function(x)
  0

## neighbourhood function does not even change the solution,
## but it reports information
nb <- function(x) {
  tmp <- TA.info()
  cat("current threshold ", tmp$threshold,
      "| current step ", tmp$step,
      "| current iteration ", tmp$iteration, "\n")
  x
}

## run TA
algo <- list(nS = 5,
            nT = 2,
            nD = 3,
            x0 = rep(0, 5),
            neighbour = nb,
            printBar = FALSE,
            printDetail = FALSE)
ignore <- TAopt(fun, algo)

## printed output:
```

```
## current threshold NA | current step 1 | current iteration NA
## current threshold NA | current step 2 | current iteration NA
## current threshold NA | current step 3 | current iteration NA
## current threshold 1 | current step 1 | current iteration 1
## current threshold 1 | current step 2 | current iteration 2
## current threshold 1 | current step 3 | current iteration 3
## current threshold 1 | current step 4 | current iteration 4
## current threshold 1 | current step 5 | current iteration 5
## current threshold 2 | current step 1 | current iteration 6
## current threshold 2 | current step 2 | current iteration 7
## current threshold 2 | current step 3 | current iteration 8
## current threshold 2 | current step 4 | current iteration 9
## current threshold 2 | current step 5 | current iteration 10
```

TAopt

Optimisation with Threshold Accepting

Description

The function implements the Threshold Accepting algorithm.

Usage

```
TAopt(OF, algo = list(), ...)
```

Arguments

OF	The objective function, to be minimised. Its first argument needs to be a solution x ; it will be called as $OF(x, \dots)$.
algo	A list of settings for the algorithm. See Details.
...	other variables passed to OF and algo\$neighbour. See Details.

Details

Threshold Accepting (TA) changes an initial solution iteratively; the algorithm stops after a fixed number of iterations. Conceptually, TA consists of a loop that runs for a number of iterations. In each iteration, a current solution x_c is changed through a function algo\$neighbour. If this new (or neighbour) solution x_n is not worse than x_c , ie, if $OF(x_n, \dots) \leq OF(x_c, \dots)$, then x_n replaces x_c . If x_n is worse, it still replaces x_c as long as the difference in ‘quality’ between the two solutions is less than a threshold τ ; more precisely, as long as $OF(x_n, \dots) - \tau \leq OF(x_c, \dots)$. Thus, we also accept a new solution that is worse than its predecessor; just not too much worse. The threshold is typically decreased over the course of the optimisation. For zero thresholds TA becomes a stochastic local search.

The thresholds can be passed through the list algo (see below). Otherwise, they are automatically computed through the procedure described in Gilli et al. (2006). When the thresholds are created automatically, the final threshold is always zero.

The list algo contains the following items.

- nS The number of steps per threshold. The default is 1000; but this setting depends very much on the problem.
- nT The number of thresholds. Default is 10; ignored if `algo$vT` is specified.
- nI Total number of iterations, with default NULL. If specified, it will override nS with `ceiling(nI/nT)`. Using this option makes it easier to compare and switch between functions `LSopt`, `TAopt` and `SAopt`.
- nD The number of random steps to compute the threshold sequence. Defaults to 2000. Only used if `algo$vT` is NULL.
- q The highest quantile for the threshold sequence. Defaults to 0.5. Only used if `algo$vT` is NULL. If q is zero, `TAopt` will run with `algo$nT` zero-thresholds (ie, like a Local Search).
- x0 The initial solution. If this is a function, it will be called once without arguments to compute an initial solution, ie, `x0 <- algo$x0()`. This can be useful when the routine is called in a loop of restarts, and each restart is to have its own starting value.
- vT The thresholds. A numeric vector. If NULL (the default), `TAopt` will compute `algo$nT` thresholds. Passing threshold can be useful when similar problems are handled. Then the time to sample the objective function to compute the thresholds can be saved (ie, we save `algo$nD` function evaluations). If the thresholds are computed and `algo$printDetail` is TRUE, the time required to evaluate the objective function will be measured and an estimate for the remaining computing time is issued. This estimate is often very crude.
- neighbour The neighbourhood function, called as `neighbour(x, ...)`. Its first argument must be a solution x; it must return a changed solution.
- printDetail If TRUE (the default), information is printed. If an integer i greater than one, information is printed at very ith iteration.
- printBar If TRUE (default is FALSE), a `txtProgressBar` (from package `utils`) is printed. The progress bar is not shown if `printDetail` is an integer greater than 1.
- scale The thresholds are multiplied by scale. Default is 1.
- drop0 When thresholds are computed, should zero values be dropped from the sample of objective-function values? Default is FALSE.
- stepUp Defaults to 0. If an integer greater than zero, then the thresholds are recycled, ie, vT is replaced by `rep(vT, algo$stepUp + 1)` (and the number of thresholds will be increased by `algo$nT` times `algo$stepUp`). This option works for supplied as well as computed thresholds. Practically, this will have the same effect as restarting from a returned solution. (In Simulated Annealing, this strategy goes by the name of ‘reheating’.)
- thresholds.only Defaults to FALSE. If TRUE, compute only threshold sequence, but do not actually run TA.
- storeF if TRUE (the default), the objective function values for every solution in every generation are stored and returned as matrix `Fmat`.
- storeSolutions Default is FALSE. If TRUE, the solutions (ie, decision variables) in every generation are stored and returned in list `xlist` (see Value section below). To check, for instance, the current solution at the end of the ith generation, retrieve `xlist[[c(2L, i)]]`.
- classify Logical; default is FALSE. If TRUE, the result will have a class attribute `TAopt` attached. This feature is **experimental**: the supported methods (plot, summary) may change without warning.

`OF.target` Numeric; when specified, the algorithm will stop when an objective-function value as low as `OF.target` (or lower) is achieved. This is useful when an optimal objective-function value is known: the algorithm will then stop and not waste time searching for a better solution.

At the minimum, algo needs to contain an initial solution `x0` and a neighbour function.

The total number of iterations equals `algo$nT` times (`algo$stepUp` + 1) times `algo$nS` (plus possibly `algo$nD`).

Value

TAopt returns a list with four components:

<code>xbest</code>	the solution
<code>OFvalue</code>	objective function value of the solution, ie, <code>OF(xbest, ...)</code>
<code>Fmat</code>	if <code>algo\$storeF</code> is TRUE, a matrix with one row for each iteration (excluding the initial <code>algo\$nD</code> steps) and two columns. The first column contains the objective function values of the neighbour solution at a given iteration; the second column contains the value of the current solution. Since TA can walk away from locally-optimal solutions, the best solution can be monitored through <code>cummin(Fmat[, 2L])</code> .
<code>xlist</code>	if <code>algo\$storeSolutions</code> is TRUE, a list; else NA. Contains the neighbour solutions at a given iteration (<code>xn</code>) and the current solutions (<code>xc</code>). Example: <code>Fmat[i, 2L]</code> is the objective function value associated with <code>xlist[[c(2L, i)]]</code> .
<code>initial.state</code>	the value of <code>.Random.seed</code> when the function was called.

If `algo$classify` was set to TRUE, the resulting list will have a class attribute TAopt.

Note

If the `...` argument is used, then all the objects passed with `...` need to go into the objective function and the neighbourhood function. It is recommended to collect all information in a list `myList` and then write `OF` and `neighbour` so that they are called as `OF(x, myList)` and `neighbour(x, myList)`. Note that `x` need not be a vector but can be any data structure (eg, a matrix or a list).

Using thresholds of size 0 makes TA run as a Local Search. The function `LSopt` may be preferred then because of smaller overhead.

Author(s)

Enrico Schumann

References

- Dueck, G. and Scheuer, T. (1990) Threshold Accepting. A General Purpose Optimization Algorithm Superior to Simulated Annealing. *Journal of Computational Physics*. **90** (1), 161–175.
- Dueck, G. and Winker, P. (1992) New Concepts and Algorithms for Portfolio Choice. *Applied Stochastic Models and Data Analysis*. **8** (3), 159–178.
- Gilli, M., K llezi, E. and Hysi, H. (2006) A Data-Driven Optimization Heuristic for Downside Risk Minimization. *Journal of Risk*. **8** (3), 1–18.

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Moscato, P. and Fontanari, J.F. (1990). Stochastic Versus Deterministic Update in Simulated Annealing. *Physics Letters A*. **146** (4), 204–208.

Schumann, E. (2012) Remarks on 'A comparison of some heuristic optimization methods'. <https://enricoschumann.net/R/remarks.htm>

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

Winker, P. (2001). *Optimization Heuristics in Econometrics: Applications of Threshold Accepting*. Wiley.

See Also

[LSopt](#), [restartOpt](#). Simulated Annealing is implemented in function [SAopt](#). Package **neighbours** (also on CRAN) offers helpers for creating neighbourhood functions.

Examples

```
## Aim: given a matrix x with n rows and 2 columns,
##       divide the rows of x into two subsets such that
##       in one subset the columns are highly correlated,
##       and in the other lowly (negatively) correlated.
##       constraint: a single subset should have at least 40 rows

## create data with specified correlation
n <- 100L
rho <- 0.7
C <- matrix(rho, 2L, 2L); diag(C) <- 1
x <- matrix(rnorm(n * 2L), n, 2L) %*% chol(C)

## collect data
data <- list(x = x, n = n, nmin = 40L)

## a random initial solution
x0 <- runif(n) > 0.5

## a neighbourhood function
neighbour <- function(xc, data) {
  xn <- xc
  p <- sample.int(data$n, size = 1L)
  xn[p] <- abs(xn[p] - 1L)
  # reject infeasible solution
  c1 <- sum(xn) >= data$nmin
  c2 <- sum(xn) <= (data$n - data$nmin)
  if (c1 && c2) res <- xn else res <- xc
  as.logical(res)
}

## check (should be 1 FALSE and n-1 TRUE)
x0 == neighbour(x0, data)
```

```

## objective function
OF <- function(xc, data)
  -abs(cor(data$x[xc, ])[1L, 2L] - cor(data$x[!xc, ])[1L, 2L])

## check
OF(x0, data)
## check
OF(neighbour(x0, data), data)

## plot data
par(mfrow = c(1,3), bty = "n")
plot(data$x,
      xlim = c(-3,3), ylim = c(-3,3),
      main = "all data", col = "darkgreen")

## *Local Search*
algo <- list(nS = 3000L,
             neighbour = neighbour,
             x0 = x0,
             printBar = FALSE)
sol1 <- LSopt(OF, algo = algo, data=data)
sol1$OFvalue

## *Threshold Accepting*
algo$nT <- 10L
algo$nS <- ceiling(algo$nS/algo$nT)
sol <- TAopt(OF, algo = algo, data = data)
sol$OFvalue

c1 <- cor(data$x[ sol$xbest, ])[1L, 2L]
c2 <- cor(data$x[!sol$xbest, ])[1L, 2L]

lines(data$x[ sol$xbest, ], type = "p", col = "blue")

plot(data$x[ sol$xbest, ], col = "blue",
      xlim = c(-3,3), ylim = c(-3,3),
      main = paste("subset 1, corr.", format(c1, digits = 3)))

plot(data$x[!sol$xbest, ], col = "darkgreen",
      xlim = c(-3,3), ylim = c(-3,3),
      main = paste("subset 2, corr.", format(c2, digits = 3)))

## compare LS/TA
par(mfrow = c(1,1), bty = "n")
plot(sol1$Fmat[, 2L], type="l", ylim=c(-1.5,0.5),
      ylab = "OF", xlab = "iterations")
lines(sol$Fmat[, 2L], type = "l", col = "blue")
legend(x = "topright", legend = c("LS", "TA"),
      lty = 1, lwd = 2, col = c("black", "blue"))

```

Description

A number of functions that have been suggested in the literature as benchmarks for unconstrained optimisation.

Usage

```
tfAckley(x)
tfEggholder(x)
tfGriewank(x)
tfRastrigin(x)
tfRosenbrock(x)
tfSchwefel(x)
tfTrefethen(x)
```

Arguments

`x` a numeric vector of arguments. See Details.

Details

All functions take as argument only one variable, a numeric vector `x` whose length determines the dimensionality of the problem.

The *Ackley* function is implemented as

$$\exp(1) + 20 - 20 \exp \left(-0.2 \sqrt{\frac{1}{n} \sum_{i=1}^n x_i^2} \right) - \exp \left(\frac{1}{n} \sum_{i=1}^n \cos(2\pi x_i) \right).$$

The minimum function value is zero; reached at $x = 0$.

The *Eggholder* takes a two-dimensional `x`, here written as x and y . It is defined as

$$-(y + 47) \sin \left(\sqrt{\left| y + \frac{x}{2} + 47 \right|} \right) - x \sin \left(\sqrt{\left| x - (y + 47) \right|} \right).$$

The minimum function value is -959.6407; reached at $c(512, 404.2319)$.

The *Griewank* function is given by

$$1 + \frac{1}{4000} \sum_{i=1}^n x_i^2 - \prod_{i=1}^n \cos \left(\frac{x_i}{\sqrt{i}} \right).$$

The function is minimised at $x = 0$; its minimum value is zero.

The *Rastrigin* function:

$$10n + \sum_{i=1}^n (x_i^2 - 10 \cos(2\pi x_i)).$$

The minimum function value is zero; reached at $x = 0$.

The *Rosenbrock* (or banana) function:

$$\sum_{i=1}^{n-1} (100(x_{i+1} - x_i^2)^2 + (1 - x_i)^2) .$$

The minimum function value is zero; reached at $x = 1$.

The *Schwefel* function:

$$\sum_{i=1}^n \left(-x_i \sin \left(\sqrt{|x_i|} \right) \right) .$$

The minimum function value (to about 8 digits) is $-418.9829n$; reached at $x = 420.9687$.

Trefethen's function takes a two-dimensional x (here written as x and y); it is defined as

$$\exp(\sin(50x)) + \sin(60e^y) + \sin(70 \sin(x)) + \sin(\sin(80y)) - \sin(10(x + y)) + \frac{1}{4}(x^2 + y^2) .$$

The minimum function value is -3.3069; reached at $c(-0.0244, 0.2106)$.

Value

The objective function evaluated at x (a numeric vector of length one).

Warning

These test functions represent *artificial* problems. It is practically not too helpful to fine-tune a method on such functions. (That would be like memorising all the answers to a particular multiple-choice test.) The functions' main purpose is checking the numerical implementation of algorithms.

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

[DEopt](#), [PSopt](#)

Examples

```
## persp for two-dimensional x

## Ackley
n <- 100L; surf <- matrix(NA, n, n)
x1 <- seq(from = -2, to = 2, length.out = n)
for (i in 1:n)
  for (j in 1:n)
    surf[i, j] <- tfAckley(c(x1[i], x1[j]))
persp(x1, x1, -surf, phi = 30, theta = 30, expand = 0.5,
      col = "goldenrod1", shade = 0.2, ticktype = "detailed",
      xlab = "x1", ylab = "x2", zlab = "-f", main = "Ackley (-f)",
      border = NA)

## Trefethen
n <- 100L; surf <- matrix(NA, n, n)
x1 <- seq(from = -10, to = 10, length.out = n)
for (i in 1:n)
  for (j in 1:n)
    surf[i, j] <- tfTrefethen(c(x1[i], x1[j]))
persp(x1, x1, -surf, phi = 30, theta = 30, expand = 0.5,
      col = "goldenrod1", shade = 0.2, ticktype = "detailed",
      xlab = "x1", ylab = "x2", zlab = "-f", main = "Trefethen (-f)",
      border = NA)
```

trackingPortfolio

Compute a Tracking Portfolio

Description

Computes a portfolio similar to a benchmark, e.g. for tracking the benchmark's performance or identifying factors.

Usage

```
trackingPortfolio(var, wmin = 0, wmax = 1,
                 method = "qp", objective = "variance", R,
                 ls.algo = list())
```

Arguments

var	the covariance matrix: a numeric (real), symmetric matrix. The first asset is the benchmark.
R	a matrix of returns: each columns holds the returns of one asset; each rows holds the returns for one observation. The first asset is the benchmark.
wmin	numeric: a lower bound on weights. May also be a vector that holds specific bounds for each asset.

wmax	numeric: an upper bound on weights. May also be a vector that holds specific bounds for each asset.
method	character. Currently, "qp" and "ls" are supported.
objective	character. Currently, "variance" and "sum.of.squares" are supported.
ls.algo	a list of named elements, for settings for method 'ls'; see Details

Details

With method "qp", the function uses `solve.QP` from package **quadprog**. Because of the algorithm that `solve.QP` uses, var has to be positive definite (i.e. must be of full rank).

With method "ls", the function uses `LSopt`. Settings can be passed via `ls.algo`, which corresponds to `LSopt`'s argument `algo`. Default settings are 2000 iterations and `printBar`, `printDetail` set to `FALSE`.

R is needed only when objective is "sum.of.squares" or method is 'ls'. (See Examples.)

Value

a numeric vector (the portfolio weights)

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

Schumann, E. (2020) Return-based tracking portfolios. <https://enricoschumann.net/notes/return-based-tracking-portfolios.html>

Sharpe, W. F. (1992) Asset Allocation: Management Style and Performance Measurement. *Journal of Portfolio Management*. **18** (2), 7–19. <https://web.stanford.edu/~wfsarpe/art/sa/sa.htm>

See Also

`minvar`

Examples

```
if (requireNamespace("quadprog")) {
  ns <- 120
  R <- randomReturns(na = 1 + 20,
                    ns = ns,
                    sd = 0.03,
                    mean = 0.005,
                    rho = 0.7)
```

```

var <- cov(R)

sol.qp <- trackingPortfolio(var, wmax = 0.4)
sol.ls <- trackingPortfolio(var = var, R = R, wmax = 0.4, method = "ls")
data.frame(QP = round(100*sol.qp, 1),
           LS = round(100*sol.ls, 1))

sol.qp <- trackingPortfolio(var, R = R, wmax = 0.4,
                          objective = "sum.of.squares")
sol.ls <- trackingPortfolio(var = var, R = R, wmax = 0.4, method = "ls",
                          objective = "sum.of.squares")
data.frame(QP = round(100*sol.qp, 1),
           LS = round(100*sol.ls, 1))

## same as 'sol.qp' above
sol.qp.R <- trackingPortfolio(R = R,
                            wmax = 0.4,
                            objective = "sum.of.squares")
sol.qp.var <- trackingPortfolio(var = crossprod(R),
                              wmax = 0.4,
                              objective = "variance")

## ==> should be the same
all.equal(sol.qp.R, sol.qp.var)
}

```

vanillaBond

Pricing Plain-Vanilla Bonds

Description

Calculate the theoretical price and yield-to-maturity of a list of cashflows.

Usage

```

vanillaBond(cf, times, df, yields)
ytm(cf, times, y0 = 0.05, tol = 1e-05, maxit = 1000L, offset = 0)

duration(cf, times, yield, modified = TRUE, raw = FALSE)
convexity(cf, times, yield, raw = FALSE)

```

Arguments

cf	Cashflows; a numeric vector or a matrix. If a matrix, cashflows should be arranged in rows; times-to-payment correspond to columns.
times	times-to-payment; a numeric vector
df	discount factors; a numeric vector

yields	optional (instead of discount factors); zero yields to compute discount factor; if of length one, a flat zero curve is assumed
yield	numeric vector of length one (both duration and convexity assume a flat yield curve)
y0	starting value
tol	tolerance
maxit	maximum number of iterations
offset	numeric: a 'base' rate over which to compute the yield to maturity. See Details and Examples.
modified	logical: return modified duration? (default TRUE)
raw	logical: default FALSE. Compute duration/convexity as derivative of cashflows' present value? Use this if you want to approximate the change in the bond price by a Taylor series (see Examples).

Details

vanillaBond computes the present value of a vector of cashflows; it may thus be used to evaluate not just bonds but any instrument that can be reduced to a deterministic set of cashflows.

ytm uses Newton's method to compute the yield-to-maturity of a bond (a.k.a. internal interest rate). When used with a bond, the initial outlay (i.e. the bonds dirty price) needs be included in the vector of cashflows. For a coupon bond, a good starting value y_0 is the coupon divided by the dirty price of the bond.

An offset can be specified either as a single number or as a vector of zero rates. See Examples.

Value

numeric

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:[10.1016/C2017001621X](https://doi.org/10.1016/C2017001621X)

See Also

[NS](#), [NSS](#)

Examples

```
## ytm
cf <- c(5, 5, 5, 5, 5, 105)  ## cashflows
times <- 1:6                ## maturities
y <- 0.0127                 ## the "true" yield
```

```

b0 <- vanillaBond(cf, times, yields = y)
cf <- c(-b0, cf); times <- c(0, times)
ytm(cf, times)

## ... with offset
cf <- c(5, 5, 5, 5, 5, 105) ## cashflows
times <- 1:6 ## maturities
y <- 0.02 + 0.01 ## risk-free 2% + risk-premium 1%
b0 <- vanillaBond(cf, times, yields = y)
cf <- c(-b0, cf); times <- c(0, times)
ytm(cf, times, offset = 0.02) ## ... only the risk-premium

cf <- c(5, 5, 5, 5, 5, 105) ## cashflows
times <- 1:6 ## maturities
y <- NS(c(6,9,10,5)/100, times) ## risk-premium 1%
b0 <- vanillaBond(cf, times, yields = y + 0.01)
cf <- c(-b0, cf); times <- c(0, times)
ytm(cf, times, offset = c(0,y)) ## ... only the risk-premium

## bonds
cf <- c(5, 5, 5, 5, 5, 105) ## cashflows
times <- 1:6 ## maturities
df <- 1/(1+y)^times ## discount factors
all.equal(vanillaBond(cf, times, df),
          vanillaBond(cf, times, yields = y))

## ... using Nelson--Siegel
vanillaBond(cf, times, yields = NS(c(0.03,0,0,1), times))

## several bonds
## cashflows are numeric vectors in a list 'cf',
## times-to-payment are numeric vectors in a
## list 'times'

times <- list(1:3,
              1:4,
              0.5 + 0:5)
cf <- list(c(6, 6, 106),
           c(4, 4, 4, 104),
           c(2, 2, 2, 2, 2, 102))

alltimes <- sort(unique(unlist(times)))
M <- array(0, dim = c(length(cf), length(alltimes)))
for (i in seq_along(times))
  M[i, match(times[[i]], alltimes)] <- cf[[i]]
rownames(M) <- paste("bond.", 1:3, sep = "")
colnames(M) <- format(alltimes, nsmall = 1)

vanillaBond(cf = M, times = alltimes, yields = 0.02)

## duration/convexity
cf <- c(5, 5, 5, 5, 5, 105) ## cashflows
times <- 1:6 ## maturities

```

```

y <- 0.0527                ## yield to maturity

d <- 0.001                  ## change in yield (+10 bp)
vanillaBond(cf, times, yields = y + d) - vanillaBond(cf, times, yields = y)

duration(cf, times, yield = y, raw = TRUE) * d

duration(cf, times, yield = y, raw = TRUE) * d +
  convexity(cf, times, yield = y, raw = TRUE)/2 * d^2

```

vanillaOptionEuropean *Pricing Plain-Vanilla (European and American) and Barrier Options (European)*

Description

Functions to calculate the theoretical prices and (some) Greeks for plain-vanilla and barrier options.

Usage

```

vanillaOptionEuropean(S, X, tau, r, q, v, tauD = 0, D = 0,
                      type = "call", greeks = TRUE,
                      model = NULL, ...)
vanillaOptionAmerican(S, X, tau, r, q, v, tauD = 0, D = 0,
                      type = "call", greeks = TRUE, M = 101)

vanillaOptionImpliedVol(exercise = "european", price,
                        S, X, tau, r, q = 0,
                        tauD = 0, D = 0,
                        type = "call",
                        M = 101,
                        uniroot.control = list(),
                        uniroot.info = FALSE)

barrierOptionEuropean(S, X, H, tau, r, q = 0, v, tauD = 0, D = 0,
                      type = "call",
                      barrier.type = "downin",
                      rebate = 0,
                      greeks = FALSE,
                      model = NULL, ...)

```

Arguments

S	spot
X	strike
H	barrier

<code>tau</code>	time-to-maturity in years
<code>r</code>	risk-free rate
<code>q</code>	continuous dividend yield, see Details.
<code>v</code>	variance (volatility squared)
<code>tauD</code>	vector of times-to-dividends in years. Only dividends with <code>tauD</code> greater than zero and not greater than <code>tau</code> are kept.
<code>D</code>	vector of dividends (in currency units); default is no dividends.
<code>type</code>	call or put; default is call.
<code>barrier.type</code>	string: combination of up/down and in/out, such as <code>downin</code>
<code>rebate</code>	currently not implemented
<code>greeks</code>	compute Greeks? Defaults to TRUE. But see Details for American options.
<code>model</code>	what model to use to value the option. Default is NULL which is equivalent to <code>bsm</code> .
<code>...</code>	parameters passed to pricing model
<code>M</code>	number of time steps in the tree
<code>exercise</code>	european (default) or american
<code>price</code>	numeric; the observed price to be recovered through choice of volatility.
<code>uniroot.control</code>	A list. If there are elements named <code>interval</code> , <code>tol</code> or <code>maxiter</code> , these are passed to <code>uniroot</code> . Any other elements of the list are ignored.
<code>uniroot.info</code>	logical; default is FALSE. If TRUE, the function will return the information returned by <code>uniroot</code> . See paragraph Value below.

Details

For European options the formula of Messrs Black, Scholes and Merton is used. It can be used for equities (set `q` equal to the dividend yield), futures (Black, 1976; set `q` equal to `r`), currencies (Garman and Kohlhagen, 1983; set `q` equal to the foreign risk-free rate). For future-style options (e.g. options on the German Bund future), set `q` and `r` equal to zero.

The Greeks are provided in their raw ('textbook') form with only one exception: Theta is made negative. For practical use, the other Greeks are also typically adjusted: Theta is often divided by 365 (or some other yearly day count); Vega and Rho are divided by 100 to give the sensitivity for one percentage-point move in volatility/the interest rate. Raw Gamma is not much use if not adjusted for the actual move in the underlier.

For European options the Greeks are computed through the respective analytic expressions. For American options only Delta, Gamma and Theta are computed because they can be directly obtained from the binomial tree; other Greeks need to be computed through a finite difference (see Examples).

For the European-type options, the function understands vectors of inputs, except for dividends. American options are priced via a Cox-Ross-Rubinstein tree; no vectorisation is implemented here.

The implied volatility is computed with `uniroot` from the `stats` package (the default search interval is `c(0.00001, 2)`; it can be changed through `uniroot.control`).

Dividends (`D`) are modelled via the escrowed-dividend model.

Value

Returns the price (a numeric vector of length one) if greeks is FALSE, else returns a list.

Note

If greeks is TRUE, the function will return a list with named elements (value, delta and so on). Prior to version 0.26-3, the first element of this list was named price.

Author(s)

Enrico Schumann

References

Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X

Haug, E. (2007) *The Complete Guide to Option Pricing Formulas*. 2nd edition. McGraw-Hill.

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

[EuropeanCall](#), [callCF](#)

Examples

```
S <- 100; X <- 100; tau <- 1; r <- 0.02; q <- 0.06; vol <- 0.3
unlist(vanillaOptionEuropean(S, X, tau, r, q, vol^2, type = "put"))

S <- 100; X <- 110; tau <- 1; r <- 0.1; q <- 0.06; vol <- 0.3; type <- "put"
unlist(vanillaOptionAmerican(S, X, tau, r, q, vol^2, type = type,
                             greeks = TRUE))

## compute rho for 1% move
h <- 0.01
(vanillaOptionAmerican(S, X, tau, r + h, q, vol^2,
  type = type, greeks = FALSE) -
  vanillaOptionAmerican(S, X, tau, r, q, vol^2,
  type = type, greeks = FALSE)) / (h*100)

## compute vega for 1% move
h <- 0.01
(vanillaOptionAmerican(S, X, tau, r, q, (vol + h)^2,
  type = type, greeks = FALSE) -
  vanillaOptionAmerican(S, X, tau, r, q, vol^2,
  type = type, greeks = FALSE)) / (h*100)

S <- 100; X <- 100
```

```

tau <- 1; r <- 0.05; q <- 0.00
D <- c(1,2); tauD <- c(0.3,.6)
type <- "put"
v <- 0.245^2 ## variance, not volatility

p <- vanillaOptionEuropean(S = S, X = X, tau, r, q, v = v,
                           tauD = tauD, D = D, type = type, greeks = FALSE)
vanillaOptionImpliedVol(exercise = "european", price = p,
                        S = S, X = X, tau = tau, r = r, q = q, tauD = tauD, D = D, type = type)

p <- vanillaOptionAmerican(S = S, X = X, tau, r, q, v = v,
                           tauD = tauD, D = D, type = type, greeks = FALSE)
vanillaOptionImpliedVol(exercise = "american", price = p,
                        S = S, X = X, tau = tau, r = r, q = q, tauD = tauD, D = D, type =
                        type, uniroot.control = list(interval = c(0.01, 0.5)))

## compute implied q
S <- 100; X <- 100
tau <- 1; r <- 0.05; q <- 0.072
v <- 0.22^2 ## variance, not volatility

call <- vanillaOptionEuropean(S=S, X = X, tau=tau, r=r, q=q, v=v,
                              type = "call", greeks = FALSE)
put <- vanillaOptionEuropean(S=S, X = X, tau=tau, r=r, q=q, v=v,
                             type = "put", greeks = FALSE)

# ... the simple way
-(log(call + X * exp(-tau*r) - put) - log(S)) / tau

# ... the complicated way :-)
volDiffCreate <- function(exercise, call, put, S, X, tau, r) {
  f <- function(q) {
    cc <- vanillaOptionImpliedVol(exercise = exercise, price = call,
                                  S = S, X = X, tau = tau, r = r, q = q, type = "call")
    pp <- vanillaOptionImpliedVol(exercise = exercise, price = put,
                                  S = S, X = X, tau = tau, r = r, q = q, type = "put")
    abs(cc - pp)
  }
  f
}
f <- volDiffCreate(exercise = "european",
                  call = call, put = put, S = S, X = X, tau = tau, r)
optimise(f,interval = c(0, 0.2))$minimum

##
S <- 100; X <- 100
tau <- 1; r <- 0.05; q <- 0.072
v <- 0.22^2 ## variance, not volatility
vol <- 0.22

vanillaOptionEuropean(S=S, X = X, tau=tau, r=r, q=q, v=v, ## with variance
                      type = "call", greeks = FALSE)

```

```

vanillaOptionEuropean(S=S, X = X, tau=tau, r=r, q=q, vol=vol, ## with vol
                      type = "call", greeks = FALSE)
vanillaOptionEuropean(S=S, X = X, tau=tau, r=r, q=q, vol=vol, ## with vol
                      type = "call", greeks = FALSE, v = 0.2^2)

```

xtContractValue	<i>Contract Value of Australian Government Bond Future</i>
-----------------	--

Description

Compute the contract value of an Australian government-bond future from its quoted price.

Usage

```

xtContractValue(quoted.price, coupon, do.round = TRUE)
xtTickValue(quoted.price, coupon, do.round = TRUE)

```

Arguments

quoted.price	The price, as in 99.02.
coupon	numeric; should be 6, not 0.06
do.round	If TRUE, round as done by ASX clearing house.

Details

Australian government-bond futures, traded at the Australian Securities Exchange (ASX), are quoted as 100 - yield. The function computes the actual contract value from the quoted price.

xtTickValue computes the tick value via a central difference.

Value

A numeric vector.

Author(s)

Enrico Schumann

References

<https://www.rba.gov.au/mkt-operations/resources/tech-notes/pricing-formulae.html>
 Gilli, M., Maringer, D. and Schumann, E. (2019) *Numerical Methods and Optimization in Finance*. 2nd edition. Elsevier. doi:10.1016/C2017001621X
 Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

Examples

```

quoted.price <- 99
coupon <- 6
xtContractValue(quoted.price, coupon)
xtTickValue(quoted.price, coupon)
## convexity
quoted.price <- seq(90, 100, by = 0.1)
plot(100 - quoted.price,
     xtContractValue(quoted.price, coupon),
     xlab = "Yield", ylab = "Contract value")

```

xwGauss

Integration of Gauss-type

Description

Compute nodes and weights for Gauss integration.

Usage

```

xwGauss(n, method = "legendre")
changeInterval(nodes, weights, oldmin, oldmax, newmin, newmax)

```

Arguments

n	number of nodes
method	character. default is "legendre"; also possible are "laguerre" and "hermite"
nodes	the nodes (a numeric vector)
weights	the weights (a numeric vector)
oldmin	the minimum of the interval (typically as tabulated)
oldmax	the maximum of the interval (typically as tabulated)
newmin	the desired minimum of the interval
newmax	the desired maximum of the interval

Details

xwGauss computes nodes and weights for integration for the interval -1 to 1. It uses the method of Golub and Welsch (1969).

changeInterval is a utility that transforms nodes and weights to an arbitrary interval.

Value

a list with two elements

weights	a numeric vector
nodes	a numeric vector

Author(s)

Enrico Schumann

References

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Golub, G.H. and Welsch, J.H. (1969). Calculation of Gauss Quadrature Rules. *Mathematics of Computation*, **23**(106), pp. 221–230+s1–s10.

Schumann, E. (2023) Financial Optimisation with R (NMOF Manual). <https://enricoschumann.net/NMOF.htm#NMOFmanual>

See Also

[callHestoncf](#)

Examples

```
## examples from Gilli/Maringer/Schumann (2019), ch. 17

## a test function
f1 <- function(x) exp(-x)
m <- 5; a <- 0; b <- 5
h <- (b - a)/m

## rectangular rule -- left
w <- h; k <- 0:(m-1); x <- a + k * h
sum(w * f1(x))

## rectangular rule -- right
w <- h; k <- 1:m ; x <- a + k * h
sum(w * f1(x))

## midpoint rule
w <- h; k <- 0:(m-1); x <- a + (k + 0.5)*h
sum(w * f1(x))

## trapezoidal rule
w <- h
k <- 1:(m-1)
x <- c(a, a + k*h, b)
aux <- w * f1(x)
sum(aux) - (aux[1] + aux[length(aux)])/2

## R's integrate (from package stats)
integrate(f1, lower = a, upper = b)

## Gauss--Legendre
temp <- xwGauss(m)
temp <- changeInterval(temp$nodes, temp$weights,
                        oldmin = -1, oldmax = 1, newmin = a, newmax = b)
```

```
x <- temp$nodes; w <- temp$weights  
sum(w * f1(x))
```

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