

# Portfolio choices and VaR constraint with a defaultable asset

Abstract: Assuming a Constant Elasticity of Variance (CEV) model for the asset price, that is a defaultable asset showing the so called leverage effect (high volatility when the asset price is low), a VaR constraint reevaluated over time induces an agent more risk averse than a logarithmic utility to take more risk than in the unconstrained setting.