

Dynamic Hedging Managing Vanilla And Exotic Options Wiley Finance

An essential guide to real-world derivatives trading FX Derivatives Trader School is the definitive guide to the technical and practical knowledge required for successful foreign exchange derivatives trading. Accessible in style and comprehensive in coverage, the book guides the reader through both basic and advanced derivative pricing and risk management topics. The basics of financial markets and trading are covered, plus practical derivatives mathematics is introduced with reference to real-world trading and risk management. Derivative contracts are covered in detail from a trader's perspective using risk profiles and pricing under different derivative models. Analysis is approached generically to enable new products to be understood by breaking the risk into fundamental building blocks. To assist with learning, the book also contains Excel practicals which will deepen understanding and help build useful skills. The book covers of a wide variety of topics, including: Derivative exposures within risk management Volatility surface construction Implied volatility and correlation risk Practical tips for students on trading internships and junior traders Market analysis techniques FX derivatives trading requires mathematical aptitude, risk management skill, and the ability to work quickly and accurately under pressure. There is a tremendous gap between option pricing formulas and the knowledge required to be a successful derivatives trader. FX Derivatives Trader

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School is unique in bridging that gap.

A groundbreaking collection on currency derivatives, including pricing theory and hedging applications. "David DeRosa has assembled an outstanding collection of works on foreign exchange derivatives. It surely will become required reading for both students and option traders."-Mark B. Garman President, Financial Engineering Associates, Inc. Emeritus Professor, University of California, Berkeley. "A comprehensive selection of the major references in currency option pricing."-Nassim Taleb. Senior trading advisor, Paribas Author, Dynamic Hedging: Managing Vanilla and Exotic Options. "A useful compilation of articles on currency derivatives, going from the essential to the esoteric."-Philippe Jorion Professor of Finance, University of California, Irvine Author, Value at Risk: The New Benchmark for Controlling Market Risk. Every investment practitioner knows of the enormous impact that the Black-Scholes option pricing model has had on investment and derivatives markets. The success of the theory in understanding options on equity, equity index, and fixed-income markets is common knowledge. Yet, comparatively few professionals are aware that the theory's greatest successes may have been in the derivatives market for foreign exchange. Perhaps this is not surprising because the foreign exchange market is a professional trading arena that is closed virtually to all but institutional participants. Nevertheless, the world's currency markets have proven to be an almost ideal testing and development ground for new derivative instruments. This book contains many of the most

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important scientific papers that collectively constitute the core of modern currency derivatives theory. What is remarkable is that each and every one of these papers has found its place in the real world of currency derivatives trading. As such, the contributing authors to this volume can properly claim to have been codevelopers of this new derivatives market, having worked in de facto partnership with the professional traders in the dealing rooms of London, New York, Tokyo, and Singapore. The articles in this book span the entire currency derivatives field: forward and futures contracts, vanilla currency puts and calls, models for American exercise currency options, options on currencies with bounded exchange rate regimes, currency futures options, the term and strike structure of implied volatility, jump and stochastic volatility option pricing models, barrier options, Asian options, and various sorts of quanto options.

Destined to become a market classic, *Dynamic Hedging* is the only practical reference in exotic options hedging and arbitrage for professional traders and money managers. Watch the professionals. From central banks to brokerages to multinationals, institutional investors are flocking to a new generation of exotic and complex options contracts and derivatives. But the promise of ever larger profits also creates the potential for catastrophic trading losses. Now more than ever, the key to trading derivatives lies in implementing preventive risk management techniques that plan for and avoid these appalling downturns. Unlike other books that offer risk management for corporate treasurers, *Dynamic Hedging*

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targets the real-world needs of professional traders and money managers. Written by a leading options trader and derivatives risk advisor to global banks and exchanges, this book provides a practical, real-world methodology for monitoring and managing all the risks associated with portfolio management. Nassim Nicholas Taleb is the founder of Empirica Capital LLC, a hedge fund operator, and a fellow at the Courant Institute of Mathematical Sciences of New York University. He has held a variety of senior derivative trading positions in New York and London and worked as an independent floor trader in Chicago. Dr. Taleb was inducted in February 2001 in the Derivatives Strategy Hall of Fame. He received an MBA from the Wharton School and a Ph.D. from University Paris-Dauphine.

Identify and understand the risks facing your portfolio, how to quantify them, and the best tools to hedge them. This book scrutinizes the various risks confronting a portfolio, equips the reader with the tools necessary to identify and understand these risks, and discusses the best ways to hedge them. The book does not require a specialized mathematical foundation, and so will appeal to both the generalist and specialist alike. For the generalist, who may not have a deep knowledge of mathematics, the book illustrates, through the copious use of examples, how to identify risks that can sometimes be hidden, and provides practical examples of quantifying and hedging exposures. For the specialist, the authors provide a detailed discussion of the mathematical foundations of risk management, and draw on their experience of hedging complex multi-asset class

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portfolios, providing practical advice and insights. Provides a clear description of the risks faced by managers with equity, fixed income, commodity, credit and foreign exchange exposures Elaborates methods of quantifying these risks Discusses the various tools available for hedging, and how to choose optimal hedging instruments Illuminates hidden risks such as counterparty, operational, human behavior and model risks, and expounds the importance and instability of model assumptions, such as market correlations, and their attendant dangers Explains in clear yet effective terms the language of quantitative finance and enables a non-quantitative investment professional to communicate effectively with professional risk managers, "quants", clients and others Providing thorough coverage of asset modeling, hedging principles, hedging instruments, and practical portfolio management, Hedging Market Exposures helps portfolio managers, bankers, transactors and finance and accounting executives understand the risks their business faces and the ways to quantify and control them.

Advanced Guidance to Excelling in the FX Market Once you have a textbook understanding of money market and foreign exchange products, turn to FX Options and Structured Products, Second Edition, for the beyond-vanilla options strategies and traded deals proven superior in today's post-credit crisis trading environment. With the thoroughness and balance of theory and practice only Uwe Wystup can deliver, this fully revised edition offers authoritative solutions for the real world in an easy-to-access format. See how specific

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products actually work through detailed case studies featuring clear examples of FX options, common structures and custom solutions. This complete resource is both a wellspring of ideas and a hands-on guide to structuring and executing your own strategies.

Distinguish yourself with a valued skillset by: Working through practical and thought-provoking challenges in more than six dozen exercises, all with complete solutions in a companion volume Gaining a working knowledge of the latest, most popular products, including accumulators, kikos, target forwards and more Getting close to the everyday realities of the FX derivatives market through new, illuminating case studies for corporates, municipalities and private banking FX Options and Structured Products, Second Edition is your go-to road map to the exotic options in FX derivatives.

This publication aims to fill the void between books providing an introduction to derivatives, and advanced books whose target audience are members of quantitative modelling community. In order to appeal to the widest audience, this publication tries to assume the least amount of prior knowledge. The content quickly moves onto more advanced subjects in order to concentrate on more practical and advanced topics. "A master piece to learn in a nutshell all the essentials about volatility with a practical and lively approach. A must read!" Carole Bernard, Equity Derivatives Specialist at Bloomberg "This book could be seen as the 'volatility bible!'" Markus-Alexander Flesch, Head of Sales & Marketing at Eurex "I highly recommend this book both for those new to the equity derivatives business, and for

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more advanced readers. The balance between theory and practice is struck At-The-Money" Paul Stephens, Head of Institutional Marketing at CBOE "One of the best resources out there for the volatility community" Paul Britton, CEO and Founder of Capstone Investment Advisors "Colin has managed to convey often complex derivative and volatility concepts with an admirable simplicity, a welcome change from the all-too-dense tomes one usually finds on the subject" Edmund Shing PhD, former Proprietary Trader at BNP Paribas "In a crowded space, Colin has supplied a useful and concise guide" Gary Delany, Director Europe at the Options Industry Council

An A to Z options trading guide for the new millennium and the new economy Written by professional trader and quantitative analyst Euan Sinclair, Option Trading is a comprehensive guide to this discipline covering everything from historical background, contract types, and market structure to volatility measurement, forecasting, and hedging techniques. This comprehensive guide presents the detail and practical information that professional option traders need, whether they're using options to hedge, manage money, arbitrage, or engage in structured finance deals. It contains information essential to anyone in this field, including option pricing and price forecasting, the Greeks, implied volatility, volatility measurement and forecasting, and specific option strategies. Explains how to break down a typical position, and repair positions Other titles by Sinclair: Volatility Trading Addresses the various concerns of the professional options trader

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Option trading will continue to be an important part of the financial landscape. This book will show you how to make the most of these profitable products, no matter what the market does.

Approaches trading from the viewpoint of market makers and the part they play in pricing, valuing and placing positions. Covers option volatility and pricing, risk analysis, spreads, strategies and tactics for the options trader, focusing on how to work successfully with market makers. Features a special section on synthetic options and the role of synthetic options market making (a role of increasing importance on the trading floor). Contains numerous graphs, charts and tables.

"Provides readers with a comprehensive guide to active trading, including the inner workings of the market, basic executions strategies, and how to apply trading insights. Covers the most common market maker setups; how to identify market maker traps; and how to follow the direction of the lead market maker in an individual stock. Emphasizes the importance of using Level II quotes to understand how market makers drive prices and manipulate the market"--

Written by leading market risk academic, Professor Carol Alexander, Value-at-Risk Models forms part four of the Market Risk Analysis four volume set. Building on the three previous volumes this book provides by far the most comprehensive, rigorous and detailed treatment of market VaR models. It rests on the basic knowledge of financial mathematics and statistics gained from Volume I, of factor models, principal component analysis, statistical models of volatility and correlation and copulas from Volume II and, from Volume III, knowledge of pricing and hedging financial

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instruments and of mapping portfolios of similar instruments to risk factors. A unifying characteristic of the series is the pedagogical approach to practical examples that are relevant to market risk analysis in practice. All together, the Market Risk Analysis four volume set illustrates virtually every concept or formula with a practical, numerical example or a longer, empirical case study. Across all four volumes there are approximately 300 numerical and empirical examples, 400 graphs and figures and 30 case studies many of which are contained in interactive Excel spreadsheets available from the the accompanying CD-ROM . Empirical examples and case studies specific to this volume include: Parametric linear value at risk (VaR)models: normal, Student t and normal mixture and their expected tail loss (ETL); New formulae for VaR based on autocorrelated returns; Historical simulation VaR models: how to scale historical VaR and volatility adjusted historical VaR; Monte Carlo simulation VaR models based on multivariate normal and Student t distributions, and based on copulas; Examples and case studies of numerous applications to interest rate sensitive, equity, commodity and international portfolios; Decomposition of systematic VaR of large portfolios into standard alone and marginal VaR components; Backtesting and the assessment of risk model risk; Hypothetical factor push and historical stress tests, and stress testing based on VaR and ETL.

A detailed, one-stop guide for experienced options traders Positional Option Trading is a rigorous, professional-level guide on sophisticated techniques from professional trader and quantitative analyst Euan Sinclair. The author has over two decades of high-level option trading experience. He has written this book specifically for professional options traders who have outgrown more basic trading techniques and are searching for in-depth information suitable for advanced trading. Custom-tailored to respond to the volatile option

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trading environment, this expert guide stresses the importance of finding a valid edge in situations where risk is usually overwhelmed by uncertainty and unknowability. Using examples of edges such as the volatility premium, term-structure premia and earnings effects, the author shows how to find valid trading ideas and details the decision process for choosing an option structure that best exploits the advantage. Advanced topics include a quantitative approach for directionally trading options, the robustness of the Black Scholes Merton model, trade sizing for option portfolios, robust risk management and more. This book: Provides advanced trading techniques for experienced professional traders Addresses the need for in-depth, quantitative information that more general, intro-level options trading books do not provide Helps readers to master their craft and improve their performance Includes advanced risk management methods in option trading No matter the market conditions, Positional Option Trading is an important resource for any professional or advanced options trader.

Gain a deep, intuitive and technical understanding of practical options theory The main challenges in successful options trading are conceptual, not mathematical. Volatility: Practical Options Theory provides financial professionals, academics, students and others with an intuitive as well as technical understanding of both the basic and advanced ideas in options theory to a level that facilitates practical options trading. The approach taken in this book will prove particularly valuable to options traders and other practitioners tasked with making pricing and risk management decisions in an environment where time constraints mean that simplicity and intuition are of greater value than mathematical formalism. The most important areas of options theory, namely implied volatility, delta hedging, time value and the so-called options greeks are explored based on intuitive economic arguments

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alone before turning to formal models such as the seminal Black-Scholes-Merton model. The reader will understand how the model free approach and mathematical models are related to each other, their underlying theoretical assumptions and their implications to level that facilitates practical implementation. There are several excellent mathematical descriptions of options theory, but few focus on a translational approach to convert the theory into practice. This book emphasizes the translational aspect, while first building an intuitive, technical understanding that allows market makers, portfolio managers, investment managers, risk managers, and other traders to work more effectively within—and beyond—the bounds of everyday practice. Gain a deeper understanding of the assumptions underlying options theory Translate theoretical ideas into practice Develop a more accurate intuition for better time-constrained decision making This book allows its readers to gain more than a superficial understanding of the mechanisms at work in options markets. Volatility gives its readers the edge by providing a true bedrock foundation upon which practical knowledge becomes stronger.

Short term interest rate futures (STIR futures) are one of the largest financial markets in the world. The two main contracts, the Eurodollar and Euribor, regularly trade in excess of one trillion dollars and euros of US and European interest rates each day. STIR futures are also unique because their structure encourages spread and strategy trading, offering a risk reward profile incomparable to other financial markets. STIR futures are traded on a completely electronic market place that provides a level playing field, meaning that the individual can compete on exactly the same terms as banks and institutions. The sheer number of trading permutations allows traders to find their own niche. 'STIR Futures' is a handbook to the STIR futures markets, clearly explaining

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what they are, how they can be traded, and where the profit opportunities are. The book has been written for aspiring traders and also for experienced traders looking for new markets. This book offers a unique look at a significant but often overlooked financial instrument. By focusing exclusively on this market, the author provides a comprehensive guide to trading STIR futures. He covers key points such as how STIR futures are priced, the need to understand what is driving the markets and causing the price action, and provides in-depth detail and trading examples of the intra-contract spread market and cross-market trading opportunities of trading STIR futures against other financial products. An essential read for anyone involved in this market.

The book investigates the misapplication of conventional statistical techniques to fat tailed distributions and looks for remedies, when possible. Switching from thin tailed to fat tailed distributions requires more than "changing the color of the dress." Traditional asymptotics deal mainly with either $n=1$ or $n=?$, and the real world is in between, under the "laws of the medium numbers"-which vary widely across specific distributions. Both the law of large numbers and the generalized central limit mechanisms operate in highly idiosyncratic ways outside the standard Gaussian or Levy-Stable basins of convergence. A few examples: - The sample mean is rarely in line with the population mean, with effect on "naïve empiricism," but can be sometimes be estimated via parametric methods. - The "empirical distribution" is rarely empirical. - Parameter uncertainty has compounding effects on statistical metrics. - Dimension reduction (principal components) fails. - Inequality estimators (Gini or quantile contributions) are not additive and produce wrong results. - Many "biases" found in psychology become entirely rational under more sophisticated probability distributions. - Most of the failures of financial economics, econometrics, and

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behavioral economics can be attributed to using the wrong distributions. This book, the first volume of the Technical Incerto, weaves a narrative around published journal articles. If you have experience in option trading, or a strong understanding of the options markets, but want to better understand how to trade given certain market conditions, this is the book for you. Many people have some knowledge of trading strategies, but have no idea how to pull it all together. Mark Sebastian's latest book will teach trade evaluation, using Greeks, trading various spreads under different market conditions, portfolio-building, and risk management. Sebastian's approach will help traders understand how to find edge, what kind of trade under what conditions will capture edge, and how to create and successfully hedge to help you build your own personal Goldman Sachs or Merrill Lynch. The book demonstrates how to structure a portfolio of trades that makes more money with less risk. Click here to watch the author's interviews with Fox Business and Nasdaq: <http://video.foxbusiness.com/v/5759956686001/> <https://youtu.be/dOEJ118vMnA>

A hands-on guide to navigating the new fuel markets Fuel Hedging and Risk Management: Strategies for Airlines, Shippers and Other Consumers provides a clear and practical understanding of commodity price dynamics, key fuel hedging techniques, and risk management strategies for the corporate fuel consumer. It covers the commodity markets and derivative instruments in a manner accessible to corporate treasurers, financial officers, risk managers, commodity traders, structurers, as well as quantitative professionals dealing in the energy markets. The book includes a wide variety of key topics related to commodities and derivatives markets, financial risk analysis of commodity consumers, hedge program design and implementation, vanilla derivatives and exotic hedging products. The book is unique

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in providing intuitive guidance on understanding the dynamics of forward curves and volatility term structure for commodities, fuel derivatives valuation and counterparty risk concepts such as CVA, DVA and FVA. Fully up-to-date and relevant, this book includes comprehensive case studies that illustrate the hedging process from conception to execution and monitoring of hedges in diverse situations. This practical guide will help the reader: Gain expert insight into all aspects of fuel hedging, price and volatility drivers and dynamics. Develop a framework for financial risk analysis and hedge programs. Navigate volatile energy markets by employing effective risk management techniques. Manage unwanted risks associated with commodity derivatives by understanding liquidity and credit risk calculations, exposure optimization techniques, credit charges such as CVA, DVA, FVA, etc. A top risk management practitioner addresses the essential aspects of modern financial risk management In the Second Edition of Financial Risk Management +Website, market risk expert Steve Allen offers an insider's view of this discipline and covers the strategies, principles, and measurement techniques necessary to manage and measure financial risk. Fully revised to reflect today's dynamic environment and the lessons to be learned from the 2008 global financial crisis, this reliable resource provides a comprehensive overview of the entire field of risk management. Allen explores real-world issues such as proper mark-to-market valuation of trading positions and determination of needed reserves against valuation uncertainty, the structuring of limits to control risk taking, and a review of mathematical models and how they can contribute to risk control. Along the way, he shares valuable lessons that will help to develop an intuitive feel for market risk measurement and reporting. Presents key insights on how risks can be isolated, quantified and managed from a top risk

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management practitioner Offers up-to-date examples of managing market and credit risk Provides an overview and comparison of the various derivative instruments and their use in risk hedging Companion Website contains supplementary materials that allow you to continue to learn in a hands-on fashion long after closing the book Focusing on the management of those risks that can be successfully quantified, the Second Edition of Financial Risk Management + Website is the definitive source for managing market and credit risk.

This book provides a hands-on, practical guide to understanding derivatives pricing. Aimed at the less quantitative practitioner, it provides a balanced account of options, Greeks and hedging techniques avoiding the complicated mathematics inherent to many texts, and with a focus on modelling, market practice and intuition.

The Business of Options shows how to conduct a professional options business. While it addresses the principles and practices of option trading and hedging in great detail, the book is the first to do so from a management perspective. O'Connell's extensive experience in option trading, training, and consulting enables the book to offer a unique combination of sophistication, clarity and insight. Most option books that are written for professionals focus on advanced math or on specific trades. This book goes farther, incorporating broad strategic considerations and exploring the implications of likely human behavior. It often challenges conventional wisdom of "what works" in the options business. Its intuitive approach to complex issues involving options enables readers to stretch their mathematical capabilities. Its down-to-earth explanations about the business of options reflect both the optimism and skepticism of a seasoned practitioner in the option market who has, for over 20 years, advised and trained professional dealers and users of options

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around the world.

Long-established as a definitive resource by Wall Street professionals, *The Complete Guide to Option Pricing Formulas* has been revised and updated to reflect the realities of today's options markets. The Second Edition contains a complete listing of virtually every pricing formula—all presented in an easy-to-use dictionary format, with expert author commentary and ready-to-use programming code. The Second Edition of this classic guide now includes more than 60 new option models and formulas...extensive tables providing an overview of all formulas...new examples and applications...and an updated CD containing all pricing formulas, with VBA code and ready-to-use Excel spreadsheets. The volume also features several new chapters covering such things as: option sensitivities, discrete dividend, commodity options, and two chapters on numerical methods covering trees, finite difference and Monte Carlo Simulation. The new edition of *The Complete Guide to Option Pricing Formulas* offers quick access to: Options Pricing Overview Black-Scholes-Merton Black-Scholes-Merton Greeks Analytical Formulas for American Options Exotic Options Single Asset Exotic Options on Two Assets Black-Scholes-Merton Adjustments and Alternatives Trees and Finite Difference Methods Monte Carlo Simulation Options on Stocks that Pay Discrete Dividends Commodity and Energy Options Interest Rate Derivatives Volatility and Correlation Distributions Some Useful Formulas: Interpolation, Interest Rates, and Risk-Reward Measures This all-in-one options pricing guide contains a numerical example or a table with values for each option pricing formula. The book also includes a helpful glossary of notations, as well as an extensive bibliography of related books and articles.

Dynamic Hedging Managing Vanilla and Exotic Options John Wiley & Sons

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It was the end of 2005 when our employer, a major European Investment Bank, gave our team the mandate to compute in an accurate way the counterparty credit exposure arising from exotic derivatives traded by the firm. As often happens, exposure of products such as, for example, exotic interest-rate, or credit derivatives were modelled under conservative assumptions and credit officers were struggling to assess the real risk. We started with a few models written on spreadsheets, tailored to very specific instruments, and soon it became clear that a more systematic approach was needed. So we wrote some tools that could be used for some classes of relatively simple products. A couple of years later we are now in the process of building a system that will be used to trade and hedge counterparty credit exposure in an accurate way, for all types of derivative products in all asset classes. We had to overcome problems ranging from modelling in a consistent manner different products booked in different systems and building the appropriate architecture that would allow the computation and pricing of credit exposure for all types of products, to finding the appropriate management structure across Business, Risk, and IT divisions of the firm. In this book we describe some of our experience in modelling counterparty credit exposure, computing credit valuation adjustments, determining appropriate hedges, and building a reliable system. Smile Pricing Explained provides a clear and thorough explanation of the concepts of smile modelling that are at the forefront of modern derivatives pricing. The key models used in practice are covered, together with numerical techniques and calibration.

Valuation and hedging of financial derivatives are intrinsically linked concepts. Choosing appropriate hedging techniques depends on both the type of derivative and assumptions placed on the underlying stochastic process. This volume

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provides a systematic treatment of hedging in incomplete markets. Mean-variance hedging under the risk-neutral measure is applied in the framework of exponential Lévy processes and for derivatives written on defaultable assets. It is discussed how to complete markets based upon stochastic volatility models via trading in both stocks and vanilla options. Exponential utility indifference pricing is explored via a duality with entropy minimization. Backward stochastic differential equations offer an alternative approach and are moreover applied to study markets with trading constraints including basis risk. A range of optimal martingale measures are discussed including the entropy, Esscher and minimal martingale measures. Quasi-symmetry properties of stochastic processes are deployed in the semi-static hedging of barrier options. This book is directed towards both graduate students and researchers in mathematical finance, and will also provide an orientation to applied mathematicians, financial economists and practitioners wishing to explore recent progress in this field."

In *Volatility Trading*, Sinclair offers you a quantitative model for measuring volatility in order to gain an edge in your everyday option trading endeavors. With an accessible, straightforward approach. He guides traders through the basics of option pricing, volatility measurement, hedging, money management, and trade evaluation. In addition, Sinclair explains the often-overlooked psychological aspects of trading, revealing both how behavioral psychology can create market conditions traders can take advantage of-and how it can lead them astray. Psychological biases, he asserts, are probably the drivers behind most sources of edge available to a volatility trader. Your goal, Sinclair explains, must be clearly defined and easily expressed-if you cannot explain it in one sentence, you probably aren't completely clear about what it is. The same applies to your statistical

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edge. If you do not know exactly what your edge is, you shouldn't trade. He shows how, in addition to the numerical evaluation of a potential trade, you should be able to identify and evaluate the reason why implied volatility is priced where it is, that is, why an edge exists. This means it is also necessary to be on top of recent news stories, sector trends, and behavioral psychology. Finally, Sinclair underscores why trades need to be sized correctly, which means that each trade is evaluated according to its projected return and risk in the overall context of your goals. As the author concludes, while we also need to pay attention to seemingly mundane things like having good execution software, a comfortable office, and getting enough sleep, it is knowledge that is the ultimate source of edge. So, all else being equal, the trader with the greater knowledge will be the more successful. This book, and its companion CD-ROM, will provide that knowledge. The CD-ROM includes spreadsheets designed to help you forecast volatility and evaluate trades together with simulation engines.

Supercharge options analytics and hedging using the power of Python Derivatives Analytics with Python shows you how to implement market-consistent valuation and hedging approaches using advanced financial models, efficient numerical techniques, and the powerful capabilities of the Python programming language. This unique guide offers detailed explanations of all theory, methods, and processes, giving you the background and tools necessary to value stock index options from a sound foundation. You'll find and use self-contained Python scripts and modules and learn how to apply Python to advanced data and derivatives analytics as you benefit from the 5,000+ lines of code that are provided to help you reproduce the results and graphics presented. Coverage includes market data analysis, risk-neutral valuation, Monte Carlo simulation, model calibration,

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valuation, and dynamic hedging, with models that exhibit stochastic volatility, jump components, stochastic short rates, and more. The companion website features all code and IPython Notebooks for immediate execution and automation. Python is gaining ground in the derivatives analytics space, allowing institutions to quickly and efficiently deliver portfolio, trading, and risk management results. This book is the finance professional's guide to exploiting Python's capabilities for efficient and performing derivatives analytics. Reproduce major stylized facts of equity and options markets yourself Apply Fourier transform techniques and advanced Monte Carlo pricing Calibrate advanced option pricing models to market data Integrate advanced models and numeric methods to dynamically hedge options Recent developments in the Python ecosystem enable analysts to implement analytics tasks as performing as with C or C++, but using only about one-tenth of the code or even less. Derivatives Analytics with Python — Data Analysis, Models, Simulation, Calibration and Hedging shows you what you need to know to supercharge your derivatives and risk analytics efforts. A comprehensive overview of trading and risk management in the energy markets Energy Trading and Risk Management provides a comprehensive overview of global energy markets from one of the foremost authorities on energy derivatives and quantitative finance. With an approachable writing style, Iris Mack breaks down the three primary applications for energy derivatives markets – Risk Management, Speculation, and Investment Portfolio Diversification – in a way that hedge fund traders, consultants, and energy market participants can apply in their day to day trading activities. Moving from the fundamentals of energy markets through simple and complex derivatives trading, hedging strategies, and industry-specific case studies, Dr. Mack walks readers through energy trading and risk management concepts at an instructive pace,

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supporting her explanations with real-world examples, illustrations, charts, and precise definitions of important and often-misunderstood terms. From stochastic pricing models for exotic derivatives, to modern portfolio theory (MPT), energy portfolio management (EPM), to case studies dealing specifically with risk management challenges unique to wind and hydro-electric power, the book guides readers through the complex world of energy trading and risk management to help investors, executives, and energy professionals ensure profitability and optimal risk mitigation in every market climate. Energy Trading and Risk Management is a great resource to help grapple with the very interesting but oftentimes complex issues that arise in energy trading and risk management. Written by an experienced trader and consultant, Frans de Weert's Exotic Options Trading offers a risk-focused approach to the pricing of exotic options. By giving readers the necessary tools to understand exotic options, this book serves as a manual to equip the reader with the skills to price and risk manage the most common and the most complex exotic options. De Weert begins by explaining the risks associated with trading an exotic option before dissecting these risks through a detailed analysis of the actual economics and Greeks rather than solely stating the mathematical formulae. The book limits the use of mathematics to explain exotic options from an economic and risk perspective by means of real life examples leading to a practical interpretation of the mathematical pricing formulae. The book covers conventional options, digital options, barrier options, cliquets,

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quanto options, outperformance options and variance swaps, and explains difficult concepts in simple terms, with a practical approach that gives the reader a full understanding of every aspect of each exotic option. The book also discusses structured notes with exotic options embedded in them, such as reverse convertibles, callable and puttable reverse convertibles and autocallables and shows the rationale behind these structures and their associated risks. For each exotic option, the author makes clear why there is an investor demand; explains where the risks lie and how this affects the actual pricing; shows how best to hedge any vega or gamma exposure embedded in the exotic option and discusses the skew exposure. By explaining the practical implications for every exotic option and how it affects the price, in addition to the necessary mathematical derivations and tools for pricing exotic options, Exotic Options Trading removes the mystique surrounding exotic options in order to give the reader a full understanding of every aspect of each exotic option, creating a useable tool for dealing with exotic options in practice. "Although exotic options are not a new subject in finance, the coverage traditionally afforded by many texts is either too high level or overly mathematical. De Weert's exceptional text fills this gap superbly. It is a rigorous treatment of a number of exotic structures and includes numerous examples to clearly illustrate

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the principles. What makes this book unique is that it manages to strike a fantastic balance between the theory and actual trading practice. Although it may be something of an overused phrase to describe this book as compulsory reading, I can assure any reader they will not be disappointed.” —Neil Schofield, Training Consultant and author of *Commodity Derivatives: Markets and Applications*

“Exotic Options Trading does an excellent job in providing a succinct and exhaustive overview of exotic options. The real edge of this book is that it explains exotic options from a risk and economical perspective and provides a clear link to the actual profit and pricing formulae. In short, a must read for anyone who wants to get deep insights into exotic options and start trading them profitably.” —Arturo Bignardi

What is a safe haven? What role should they play in an investment portfolio? Do we use them only to seek shelter until the passing of financial storms? Or are they something more? Contrary to everything we know from modern financial theory, can higher returns actually come as a result of lowering risk? In *Safe Haven*, hedge fund manager Mark Spitznagel—one of the top practitioners of safe haven investing and portfolio risk mitigation in the world—answers these questions and more. Investors who heed the message in this book will never look at risk mitigation the same way again.

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Cut risk and generate profit even after the market drops The Second Leg Down offers practical approaches to profiting after a market event. Written by a specialist in global macro, volatility and hedging overlay strategies, this book provides in-depth insight into surviving in a volatile environment. Historical back tests and scenario diagrams illustrate a variety of strategies for offsetting portfolio risks with after-the-fact options hedging, and the discussion explores how a mixture of trend following and contrarian futures strategies can be beneficial. Without a rational analysis-based approach, investors often find themselves having to cut risk and buy protection just as options are at their most overpriced. This book provides practical strategies, expert analysis and the knowledge base to assist you in recovering your portfolio. Hedging strategies are often presented as expensive and unnecessary, especially during a bull market. When equity indices and other unstable assets drop, they find themselves stuck – hedging is now at its most expensive, but it is imperative to hedge or face liquidation. This book shows you how to salvage the situation, with strategies backed by expert analysis. Identify the right hedges during high volatility Generate attractive risk-adjusted returns Learn new strategies for offsetting risk Know your options for when losses have already occurred Imagine this scenario: you've incurred significant losses, you're approaching risk

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limits, you must cut risk immediately, yet slashing positions would damage the portfolio – what do you do? The Second Leg Down is your emergency hotline, with practical strategies for dire conditions. The Team at Wilmott is very proud to present this compilation of Wilmott magazine articles and presentations from our second year. We have selected some of the very best in cutting-edge research, and the most illuminating of our regular columns. The technical papers include state-of-the-art pricing tools and models. You'll notice there's a bias towards volatility modelling in the book. Of course, it's one of my favourite topics, but volatility is also the big unknown as far as pricing and hedging is concerned. We present research in this area from some of the best newcomers in this field. You'll see ideas that make a mockery of 'received wisdom,' ideas that are truly paradigm shattering - for we aren't content with a mere 'shift.' We know you'll enjoy it! The Best of Wilmott will return again next year...

Praise for THE NEW MARKET WIZARDS "Jack Schwager simply writes the best books about trading I've ever read. These interviews always give me a lot to think about. If you like learning about traders and trading, you'll find that reading this book is time well spent." -Richard Dennis, President, The Dennis Trading Group, Inc. "Jack Schwager's deep knowledge of the markets and his extensive network

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of personal contacts throughout the industry have set him apart as the definitive market chronicler of our age." -Ed Seykota "Very interesting indeed!"

-John Train, author of The Money Masters

"Successful trading demands longtime experience because it requires firsthand knowledge. If there is a shortcut to this requirement, however, it is in reading about the experiences of others. Jack Schwager's book provides that shortcut. If you find yourself sweating upon occasion as you read, then you're as close to the trading experience as you can get without actually doing it yourself." -Robert R.

Prechter, Jr., editor, The Elliott Wave Theorist THE NEW MARKET WIZARDS Some traders distinguish themselves from the herd. These supertraders make millions of dollars-sometimes in hours-and consistently outperform their peers. As he did in his acclaimed national bestseller, Market Wizards, Jack Schwager interviews a host of these supertraders, spectacular winners whose success occurs across a spectrum of financial markets. These traders use different methods, but they all share an edge. How do they do it? What separates them from the others? What can they teach the average trader or investor? In The New Market Wizards, these wildly successful traders relate the financial strategies that have rocketed them to success, as well as the embarrassing losses that have proven them all too human. Meet the Wizards of Wall Street: * Stan

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Druckenmiller, who, as manager of the Soros Quantum Fund, realized an average annual return of more than 38 percent on assets ranging between \$2.0 and \$3.5 billion * William Eckhardt, a mathematician who, in collaboration with trader Richard Dennis, selected and trained the now-legendary circle known as the Turtles * Bill Lipschutz, a former architect who, for eight years, was Salomon Brothers' largest and most successful currency trader * Blair Hull, a one-time blackjack player who began an options trading company with Asking the questions that readers with an interest in the financial markets would love to pose to the financial superstars, and filled with candid appraisals, *The New Market Wizards* takes its place as a classic.

As today's preeminent doomsday investor Mark Spitznagel describes his Daoist and roundabout investment approach, "one gains by losing and loses by gaining." This is Austrian Investing, an archetypal, counterintuitive, and proven approach, gleaned from the 150-year-old Austrian School of economics, that is both timeless and exceedingly timely. In *The Dao of Capital*, hedge fund manager and tail-hedging pioneer Mark Spitznagel—with one of the top returns on capital of the financial crisis, as well as over a career—takes us on a gripping, circuitous journey from the Chicago trading pits, over the coniferous boreal forests and canonical strategists from Warring

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States China to Napoleonic Europe to burgeoning industrial America, to the great economic thinkers of late 19th century Austria. We arrive at his central investment methodology of Austrian Investing, where victory comes not from waging the immediate decisive battle, but rather from the roundabout approach of seeking the intermediate positional advantage (what he calls *shi*), of aiming at the indirect means rather than directly at the ends. The monumental challenge is in seeing time differently, in a whole new intertemporal dimension, one that is so contrary to our wiring. Spitznagel is the first to condense the theories of Ludwig von Mises and his Austrian School of economics into a cohesive and—as Spitznagel has shown—highly effective investment methodology. From identifying the monetary distortions and non-randomness of stock market routs (Spitznagel's bread and butter) to scorned highly-productive assets, in Ron Paul's words from the foreword, Spitznagel “brings Austrian economics from the ivory tower to the investment portfolio.” The Dao of Capital provides a rare and accessible look through the lens of one of today's great investors to discover a profound harmony with the market process—a harmony that is so essential today.

Fooled by Randomness is a standalone book in Nassim Nicholas Taleb's landmark *Incerto* series, an investigation of opacity, luck, uncertainty,

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probability, human error, risk, and decision-making in a world we don't understand. The other books in the series are *The Black Swan*, *Antifragile*, *Skin in the Game*, and *The Bed of Procrustes*. *Fooled by Randomness* is the word-of-mouth sensation that will change the way you think about business and the world. Nassim Nicholas Taleb—veteran trader, renowned risk expert, polymathic scholar, erudite raconteur, and New York Times bestselling author of *The Black Swan*—has written a modern classic that turns on its head what we believe about luck and skill. This book is about luck—or more precisely, about how we perceive and deal with luck in life and business. Set against the backdrop of the most conspicuous forum in which luck is mistaken for skill—the world of trading—*Fooled by Randomness* provides captivating insight into one of the least understood factors in all our lives. Writing in an entertaining narrative style, the author tackles major intellectual issues related to the underestimation of the influence of happenstance on our lives. The book is populated with an array of characters, some of whom have grasped, in their own way, the significance of chance: the baseball legend Yogi Berra; the philosopher of knowledge Karl Popper; the ancient world's wisest man, Solon; the modern financier George Soros; and the Greek voyager Odysseus. We also meet the fictional Nero, who seems to understand the role of randomness in his

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professional life but falls victim to his own superstitious foolishness. However, the most recognizable character of all remains unnamed—the lucky fool who happens to be in the right place at the right time—he embodies the “survival of the least fit.” Such individuals attract devoted followers who believe in their guru’s insights and methods. But no one can replicate what is obtained by chance. Are we capable of distinguishing the fortunate charlatan from the genuine visionary? Must we always try to uncover nonexistent messages in random events? It may be impossible to guard ourselves against the vagaries of the goddess Fortuna, but after reading *Fooled by Randomness* we can be a little better prepared. Named by Fortune One of the Smartest Books of All Time A Financial Times Best Business Book of the Year

"TAIL RISKS" originate from the failure of mean reversion and the idealized bell curve of asset returns, which assumes that highly probable outcomes occur near the center of the curve and that unlikely occurrences, good and bad, happen rarely, if at all, at either "tail" of the curve. Ever since the global financial crisis, protecting investments against these severe tail events has become a priority for investors and money managers, but it is something Vineer Bhansali and his team at PIMCO have been doing for over a decade. In one of the first comprehensive and rigorous books ever written on

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tail risk hedging, he lays out a systematic approach to protecting portfolios from, and potentially benefiting from, rare yet severe market outcomes. Tail Risk Hedging is built on the author's practical experience applying macroeconomic forecasting and quantitative modeling techniques across asset markets. Using empirical data and charts, he explains the consequences of diversification failure in tail events and how to manage portfolios when this happens. He provides an easy-to-use, yet rigorous framework for protecting investment portfolios against tail risk and using tail hedging to play offense. Tail Risk Hedging explores how to:

- Generate profits from volatility and illiquidity during tail-risk events in equity and credit markets
- Buy attractively priced tail hedges that add value to a portfolio and quantify basis risk
- Interpret the psychology of investors in option pricing and portfolio construction
- Customize explicit hedges for retirement investments
- Hedge risk factors such as duration risk and inflation risk

Managing tail risk is today's most significant development in risk management, and this thorough guide helps you access every aspect of it. With the time-tested and mathematically rigorous strategies described here, including pieces of computer code, you get access to insights to help mitigate portfolio losses in significant downturns, create explosive liquidity while unhedged participants are forced to sell, and create more

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aggressive yet tail-risk-focused portfolios. The book also gives you a unique, higher level view of how tail risk is related to investing in alternatives, and of derivatives such as zerocost collars and variance swaps. Volatility and tail risks are here to stay, and so should your clients' wealth when you use Tail Risk Hedging for managing portfolios. PRAISE FOR TAIL RISK HEDGING: "Managing, mitigating, and even exploiting the risk of bad times are the most important concerns in investments. Bhansali puts tail risk hedging and tail risk management under a microscope--pricing, implementation, and showing how we can fine-tune our risk exposures, which are all crucial ways in how we can better weather our bad times." -- ANDREW ANG, Ann F. Kaplan Professor of Business at Columbia University "This book is critical and accessible reading for fiduciaries, financial consultants and investors interested in both theoretical foundations and practical considerations for how to frame hedging downside risk in portfolios. It is a tremendous resource for anyone involved in asset allocation today." -- CHRISTOPHER C. GECZY, Ph.D., Academic Director, Wharton Wealth Management Initiative and Adj. Associate Professor of Finance, The Wharton School "Bhansali's book demonstrates how tail risk hedging can work, be concretely implemented, and lead to higher returns so that it is possible to have your cake and eat it too! A must read for the savvy investor." -- DIDIER

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SORNETTE, Professor on the Chair of Entrepreneurial Risks, ETH Zurich

Legendary trader Larry McMillan does it-again-offering his personal options strategies for consistently enhancing trading profits Larry McMillan's name is virtually synonymous with options. This "Trader's Hall of Fame" recipient first shared his personal options strategies and techniques in the original McMillan on Options. Now, in a revised and Second Edition, this indispensable guide to the world of options addresses a myriad of new techniques and methods needed for profiting consistently in today's fast-paced investment arena. This thoroughly new Second Edition features updates in almost every chapter as well as enhanced coverage of many new and increasingly popular products. It also offers McMillan's personal philosophy on options, and reveals many of his previously unpublished personal insights. Readers will soon discover why Yale Hirsch of the Stock Trader's Almanac says, "McMillan is an options guru par excellence."

Required Reading for the Serious Options Trader This book is an expanded revision of "Options: Perception and Deception" and "Coulda Woulda Shoulda". "Options Trading: The Hidden Reality" (OTTHR) is printed in color and has 100 more pages than previous versions. In addition to 3D graphics and Skew Library, OTTHR features Position Dissection (the Market Maker Risk

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Management Tool) illustrations on popular wingspread (stretched-out condors, slingshots and skip-strike-flies) and calendarized spread (double diagonals, straddle strangle swaps and double calendars) configurations. 'The Next Perfect Trade' articulates a set of principles that can be applied in discovering superior trades; those that will be profitable in the broadest range of economic scenarios. The book shifts focus from forces that drive markets to forces that drive successful trades. The robust performance of this approach has inspired the subtitle 'A Magic Sword of Necessity'. If you think of investing as a rigorous intellectual battle, you need to prepare for it thoroughly. Get in proper shape. Learn your moves, acquire your armor, your shield, your helmet and your battle horse. A magic weapon will be wasted if you get killed by the market's first arrow. Every chapter in this book represents a step towards mastering the sword of necessity. Taking each of those steps has its own merit. Both aspiring and experienced investors can find value in this book long before the advanced concepts, such as "necessity" and "dominance," are fully introduced. And with complete training and equipment, this weapon may give you a devastating advantage. "Trading VIX Derivatives will be a comprehensive book covering all aspects of the Chicago Board Options Exchange stock market volatility index. The book will explain the mechanics and strategies associated with trading VIX options, futures, exchange trading notes and options on exchange traded notes. Known as the "fear index" the VIX provides a snapshot of expectations about future stock market volatility and generally moves

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inversely to the overall stock market. As such, many market participants look at the VIX to help understand market sentiment and predict turning points. With a slew of VIX index trading products now available, there are a variety of strategies traders use to speculate outright on the direction of market volatility or to use the products in conjunction with other instruments to create spread trades or hedge their overall risk. A top instructor at the CBOE's Options Institute, the author will reflect the wide range of uses associated with the VIX and will make the book useful to both new traders and seasoned professionals"--

Liquid markets generate hundreds or thousands of ticks (the minimum change in price a security can have, either up or down) every business day. Data vendors such as Reuters transmit more than 275,000 prices per day for foreign exchange spot rates alone. Thus, high-frequency data can be a fundamental object of study, as traders make decisions by observing high-frequency or tick-by-tick data. Yet most studies published in financial literature deal with low frequency, regularly spaced data. For a variety of reasons, high-frequency data are becoming a way for understanding market microstructure. This book discusses the best mathematical models and tools for dealing with such vast amounts of data. This book provides a framework for the analysis, modeling, and inference of high frequency financial time series. With particular emphasis on foreign exchange markets, as well as currency, interest rate, and bond futures markets, this unified view of high frequency time series methods investigates the price formation

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process and concludes by reviewing techniques for constructing systematic trading models for financial assets.

Book and CDROM include the important topics and cutting-edge research in financial derivatives and risk management.

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