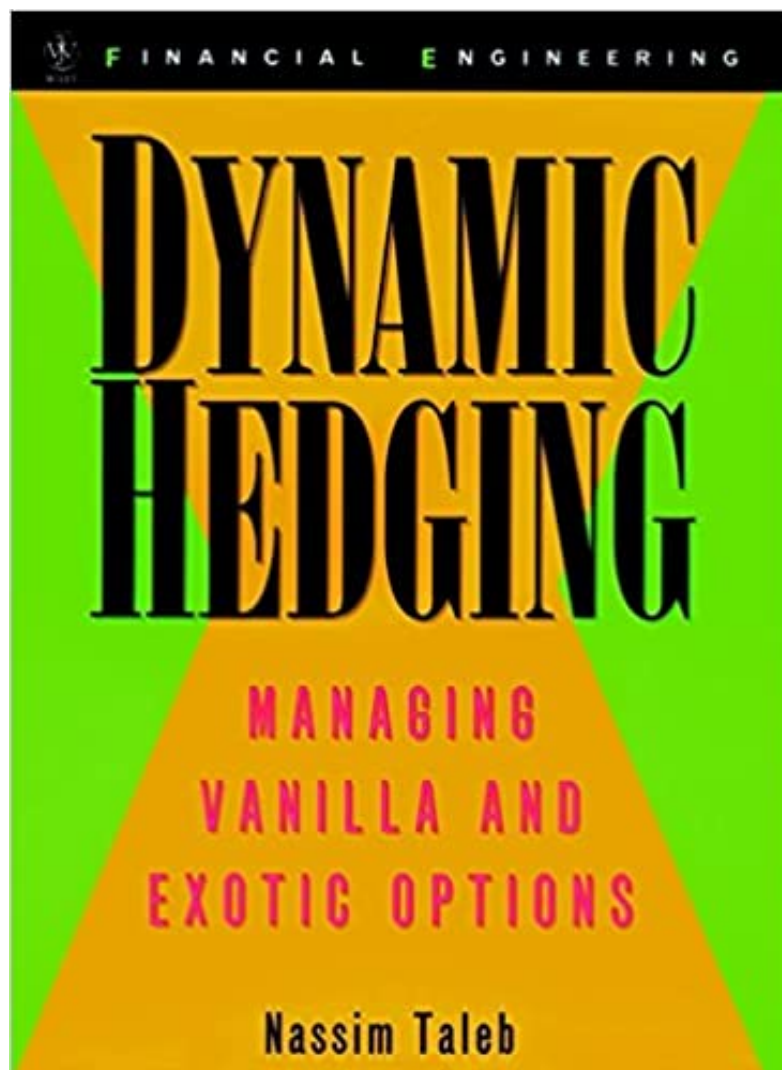


Dynamic Hedging: Managing Vanilla and Exotic Options

by

Matthew R. Kratter



EBOOK DOWNLOAD

Synopsis

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* 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.

Sort review

From the Publisher
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. Fills a big gap in investment literature--the only book to share complex options trading strategies and advanced risk management methods with trading professionals.
From the Inside Flap
Dynamic Hedging is the definitive source on derivatives risk. It provides a real-world methodology for managing portfolios containing any nonlinear security. It presents risks from the vantage point of the option market maker and arbitrage operator. The only book about derivatives risk written by an experienced trader with theoretical training, it remolds option theory to fit the practitioner's environment. As a larger share of market exposure cannot be properly captured by mathematical models, noted option arbitrageur Nassim Taleb uniquely covers both on-model and off-model derivatives risks. The author discusses, in plain English, vital issues, including:
* The generalized option, which encompasses all instruments with convex payoff, including a trader's potential bonus.
* The techniques for trading exotic options, including binary, barrier, multiasset, and Asian options, as well as methods to take into account the wrinkles of actual, non-bellshaped distributions.
* Market dynamics viewed from the practitioner's vantage point, including liquidity holes, portfolio insurance, squeezes, fat tails, volatility surface, GARCH, curve evolution, static

option replication, correlation instability, Pareto-Levy, regime shifts, autocorrelation of price changes, and the severe flaws in the value at risk method.* New tools to detect risks, such as higher moment analysis, topography exposure, and nonparametric techniques.* The path dependence of all options hedged dynamically

Dynamic Hedging is replete with helpful tools, market anecdotes, at-a-glance risk management rules distilling years of market lore, and important definitions. The book contains modules in which the fundamental mathematics of derivatives, such as the Brownian motion, Ito's lemma, the numeraire paradox, the Girsanov change of measure, and the Feynman-Kac solution are presented in intuitive practitioner's language.

Dynamic Hedging is an indispensable and definitive reference for market makers, academics, finance students, risk managers, and regulators.

The definitive book on options trading and risk management

"If pricing is a science and hedging is an art, Taleb is a virtuoso." -- Bruno Dupire, Head of Swaps and Options Research, Paribas Capital Markets

"This is not merely the best book on how options trade, it is the only book." -- Stan Jonas, Managing Director, FIMAT-Soci

"Dynamic Hedging bridges the gap between what the best traders know and what the best scholars can prove." -- William Margrabe, President, The William Margrabe Group, Inc.

"The most comprehensive, insightful, intuitive work on the subject. It is instrumental for both beginning and experienced traders." -- "A tour de force. That rare find, a book of great practical and theoretical value. Taleb successfully bridges the gap between the academic and the real world. Interesting, provocative, well written. Each chapter worth a fortune to any current or prospective derivatives trader." -- Victor Niederhoffer, Chairman, Niederhoffer Investments

From the Back Cover

Dynamic Hedging is the definitive source on derivatives risk. It provides a real-world methodology for managing portfolios containing any nonlinear security. It presents risks from the vantage point of the option market maker and arbitrage operator. The only book about derivatives risk written by an experienced trader with theoretical training, it remolds option theory to fit the practitioner's environment. As a larger share of market exposure cannot be properly captured by mathematical models, noted option arbitrageur Nassim Taleb uniquely covers both on-model and off-model derivatives risks.

The author discusses, in plain English, vital issues, including:

- * The generalized option, which encompasses all instruments with convex payoff, including a trader's potential bonus.
- * The techniques for trading exotic options, including binary, barrier, multiasset, and Asian options, as well as methods to take into account the wrinkles of actual, non-bellshaped distributions.
- * Market dynamics viewed from the practitioner's vantage point, including liquidity holes, portfolio insurance, squeezes, fat tails, volatility surface, GARCH, curve evolution, static option replication, correlation instability, Pareto-Levy, regime shifts, autocorrelation of price changes, and the severe flaws in the value at risk method.
- * New tools to detect risks, such as higher moment analysis, topography exposure, and nonparametric techniques.
- * The path dependence of all options hedged dynamically

Dynamic Hedging is replete with helpful tools, market anecdotes, at-a-glance risk management rules distilling years of market lore, and important definitions. The book contains modules in which the fundamental mathematics of derivatives, such as the Brownian motion, Ito's lemma, the

numeraire paradox, the Girsanov change of measure, and the Feynman-Kac solution are presented in intuitive practitioner's language. Dynamic Hedging is an indispensable and definitive reference for market makers, academics, finance students, risk managers, and regulators. The definitive book on options trading and risk management "If pricing is a science and hedging is an art, Taleb is a virtuoso." --Bruno Dupire, Head of Swaps and Options Research, Paribas Capital Markets "This is not merely the best book on how options trade, it is the only book." --Stan Jonas, Managing Director, FIMAT-Société Générale "Dynamic Hedging bridges the gap between what the best traders know and what the best scholars can prove." --William Margrabe, President, The William Margrabe Group, Inc. "The most comprehensive, insightful, intuitive work on the subject. It is instrumental for both beginning and experienced traders." --"A tour de force. That rare find, a book of great practical and theoretical value. Taleb successfully bridges the gap between the academic and the real world. Interesting, provocative, well written. Each chapter worth a fortune to any current or prospective derivatives trader." --Victor Niederhoffer, Chairman, Niederhoffer Investments

About the Author 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. Read more

[Download to continue reading...](#)

Option Volatility and Pricing: Advanced Trading Strategies and Techniques, 2nd Edition Trading
Options Greeks: How Time, Volatility, and Other Pricing Factors Drive Profits Python for Data
Analysis: Data Wrangling with Pandas, NumPy, and IPython The Black Swan: Second Edition:
The Impact of the Highly Improbable: With a new section: "On Robustness and
Fragility" (Incerto) When Genius Failed: The Rise and Fall of Long-Term Capital Management

What people say about this book

Button1, "The options bible. Not light beach reading but a necessity for anyone serious about trading options."

bailey_nyc, "Advanced Text on Derivatives Trading. Taleb is one arrogant dude who loves flooding his books with archaic words which were last employed in the English Language by Geoffrey Chaucer. But alas, Dynamic Hedging is a strong advanced text which goes through many nuanced topics. For example, he makes some good points on managing option greeks. Some chapters I really enjoyed which are hugely important in practice that you don't learn in any classroom: soft American options, discrete delta vs continuous delta, fungibility. Just a warning that you might have to read over sections multiple times before you digest ideas. For example, for American options, you can tend to think of the early exercise having some sensitivity to interest rates (as rates go higher, it becomes more optimal to exercise puts and less optimal to exercise calls), so in some circumstances, the early exercise provision of American option is actually an option on rates. Also, every mathematician teaches delta as a continuous derivative $d[\text{option value}]/d[\text{spot}]$, but really what's important is to know the delta at discrete intervals since no one hedges continuously and also since in a real options book the Greek sensitivities might flip or go through extreme changes over discrete intervals. Just some great material which makes you think hard. The structure of the book jumps over the place, but mainly Taleb is focused on options, volatility, and exotics. So not exactly a good book on vanilla rates or commodities for example. This text is certainly one I keep as a reference guide on my desk. As a sign of its value, everytime I read it, I do learn something new. I rated it highly based solely on the excellent and juicy material but the writing style is really horrible. Not for beginners but a great read for anyone interested in the deep details of trading derivatives."

Benjamin Dorsey, "Taleb Is Fantastic Here!. Excellent! This book is about how to avoid the absorbing barrier of bankruptcy! Taleb does an excellent job of covering the practical and mathematical (in a practical way) properties of options trading. There are no recommendations about volatility spreads but you will learn more about how vol, the Greeks, and time impact your P/L than you thought possible. The most interesting things discussed were the practical uses and impacts of unexpected market shifts and the consequences to the trader (liquidity holes, huge change in pricing and the impact on the trader's portfolio, the limitations of Black Scholes and delta hedges... when and how to use them). I bet you have never thought about the 7th derivative of an option contract and how it affects your P/L. Taleb discusses how to deal with all of these issues and much more. Build an anti-fragile portfolio. Excellent guide on the properties of options and their impact on your portfolio! Thanks Nassim!"

American Writer & Director, "Waaaaay over my head, but it's still great.. I'm nowhere near able to understand 90% of this book, but as usual, anything I read from Nassim Taleb, I get something

out of. The guy is almost too brilliant.”

Ebook Library Reader, “The best hands-on book on options I ever read. A great book from the best professional in the options trading I know. If you finished reading books like "Options, futures and other derivatives" it's a good time to go up one level and read the Dynamic Hedging by N. Taleb. It requires more effort to understand the author's intentions, but it totally worth it.”

PC, “One of a kind. The book is a difficult read the first time around while you get used to Taleb's style. It is because his style is so refreshingly different from everything published on the subject before and 10 years later I don't see anything that comes close. If you are a beginner, get the basic option math down (Hull) then read Taleb, and be patient. I have the original edition and have read it several times from cover to cover and I don't see the "numerous" errors several reviewers are complaining about. There are a few very obvious typos towards the end of the book, but all the conclusions and intuition is right. If you think it's wrong, it's most likely you, not the book. Go reread it and think about it, you will get it and you will want to thank Taleb for making you think. I am a vol trader and I use this book to filter out idiots. If this book ticks you off, you don't have a makeup of a trader. Do yourself a favor and find something else to do. People who give this book a negative review are most frequently quants. His criticism towards quants has a purpose - it is to make you as an impressionable young trader aware that a person with a PhD does not have all the answers, and that you should not be intimidated and use your own head. If this ticks quants off then so be it. The book is not for them.”

Ben Kream, “Quick Question. This isn't so much a review as an inquiry -I'm still working through this book, but I've noticed that it is replete with algebraic errors. Taleb doesn't always go through every step of his calculations, so they're difficult to follow. Does anyone else notice these errors or am I getting caught in the algebra? An example is on page 38 towards the top: He says that $12,500,000/.985$ is 1,269,000. Even with the rounding (shaving off the 355), I'd say he's off by a factor of 10. Shouldn't the answer be 12,690,000? To confirm this, in the next paragraph he writes that a 1 cent rise in the futures price will yield \$125,000 in profits on the future ($12,500,000*.01$) or \$126,900 on the forward hedge. Intuitively, it seems that to get \$126,900, you could divide \$125,000 by .985 or multiply 12,690,000 (the answer you should've previously arrived at) by .01. There are other errors like this throughout the book - anyone else notice them?”

zaratou, “The best book on hedging out there. Very few traders (or former traders) have taken time to explain what their work actually is. This a book for professional who want to understand in deep how professional trades manage their risk by hedging.”

Mr. Christopher M. T. Bowden, “A must for anybody wanting to fully understand the Game of Exotics Options. I All I can say is that this is the best Start for anybody wanting to trade Exotic Options At a retail Level, but also wishing to start a career in any global Financial Center. This

Book could change your life I.e ' you will Win or you Will Lose' playing this Game.Good Luck Everybody the Game is On.”

Martin Rucka, “MasterPiece. Trading Math you need to understand in a single and in my opinion simple-to-understand package. If you want something on Hedging, this is THE BOOK.”

The book by Matthew R. Kratter has a rating of 5 out of 4.4. 147 people have provided feedback.

Book Information

Language: English

File size: 1572 KB

Text-to-Speech: Enabled

Screen Reader: Supported

Enhanced typesetting: Enabled

X-Ray: Enabled

Word Wise: Enabled

Sticky notes: On Kindle Scribe

Print length: 37 pages

Paperback: 200 pages

Item Weight: 2.3 pounds

Dimensions: 7 x 1.38 x 10 inches

Simultaneous device usage: Unlimited

Hardcover: 528 pages

[DMCA](#)