Dynamic Hedging: Managing Vanilla and Exotic Options (Wiley Finance) by Nassim Nicholas Taleb

Dynamic Hedging

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 practitioners 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 traders 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 practitioners 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, Itos lemma, the numeraire paradox, the Girsanov change of measure, and the Feynman-Kac solution are presented in intuitive practitioners 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.

**Personal Review: Dynamic Hedging: Managing Vanilla and Exotic Options (Wiley Finance) by Nassim Nicholas Taleb**

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.

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