



Dynamic Hedging: Managing Vanilla and Exotic Options

By Nassim Nicholas Taleb

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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-Society GARCH

"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
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Editorial 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 Back Cover

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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.

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Robert Miller:

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