DOWNLOAD PDF MANAGING RISK WITH FINANCIAL FUTURES

Chapter 1 : Managing Interest-Rate Risk with Bond Futures - MATLAB & Simulink Example

vii Managing Financial Risk with Fowards, Futures, Options, andÃˆÂ¹s Ã±Â» Interest Rate Options Using Interest Rate Options to Set Interest Rate Borrowing Caps.

But where there is high return, there is high risk. The fact of the matter is: The art of managing risk is an interesting area to focus on. Ever since the Asian Economic Crisis, the survivors â€” there were a handful of them, were viewed as strong. Most of the other companies, especially those with high leverage and unprotected exposures were subjected to high premium risks. Typically, there were a horde of unpleased shareholders. Restructuring was called for. How could this happened? The answer lies in a simple marketing saying: True enough, seldom do we pay attention to what the shareholders are signaling to the company. Naturally, shareholders are very concerned about risk. Sure, they can diversify. But if the norm of industries in man-handling risks are the same â€” its like putting all the eggs in one very big basket. There are factors that influences investor attitude towards risks. These factors can basically play a big role for business to identify and capitalize on the factors. This is the general purpose of this study. The expected outcome of my research should very well be aligned with the norm. There are various statistical tests carried out between classes against the dependent variable. There are three classes. Each has at least one independent variable, and it is tested for any relationship between each sub-variable and the independent variable. The finding of my research is detailed in the book. Many of the respondents have heard about futures as a hedging tool. The literature review that I have solicited states that futures is a rapidly growing derivative tool, spurned by speculation per se. A large source of information on financial futures are from the United States. Trading of derivative in this continent is highly active.

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Chapter 2 : An Overview Of Futures, Derivatives, and Liquidity | Investopedia

Get this from a library! Managing risk with financial futures: hedging, pricing, and arbitrage. [Robert T Daigler] -- "Today's fast-changing markets are forcing financial institutions, investors and corporations to bear more risk than ever before.

This video and article gives you insights into risk management and money management in trading, which will definitely help you tremendously in your trades. Really, trading is a lot about risk management. Professional traders care more about money management and risk management trading than we do about indicators, candlestick patterns, support resistance, all that stuff that most people are looking at. What time interval should it be trading, which is the best market, all that stuff, sorry, not the most important thing and what is most important is what most new traders completely ignore. New Traders, I find, are obsessed with indicators and the indicators can be helpful. They can be a part of your trading toolbox. You might even think you know what? Trading is even a lot harder than I thought.. So what have you lost? What percentage of your position have you lost? So now, how do you get back to even? So to get from here to here, the market actually has to go up percent. More than you might even realize. So going down, you lose 50 percent. And yes, the market is looking at percentages. The market is not as likely to go up percent as it is to go down 50 percent. In fact, then you add the human dynamic in there that markets tend to go down faster than they go up. That fear is a stronger emotion than greed. The second issue I want to share with you today is about unrealized losses. An unrealized loss is a loss right now. And boy do I disagree with that. That money is not available to you. Those losses are real right now. And it is a loss. And this is, again, how important it is to avoid major losses and to cut your losses short. Every time you take a trade, you are immediately in a losing position. Well, a couple reasons. Number one, the spread between the bid and the ask. Number two, what else we got? We got commissions, right? Think of it almost like poker. Because, well, first of all, you got to pay taxes on that. Make sure you talk to your tax professional as to exactly how this is going to work out. And pretty soon, what do you got left? Futures Trading Risk Management So they will often limit the deductions that you can take on your losses. Again, talk to your tax professional about that. And each situation is different. People are in different tax brackets. How the tax is calculated, which taxes are calculated, all that will vary from person to person, situation to situation with your trade through a business or a personal account, countries, states, etc. Still, what you think was a big winner was only half as big. Find out for yourself with your tax professional what actually will be for you as an individual. This is the kind of stuff you need to really understand that it makes it even harder to make money. So what you do need is a good risk management trading plan. Click that share button. Click the thumbs up icon below and leave a comment. I love your comments. I also have a special offer to you today. This is a trading strategy that actually does have a very high win-loss ratio, which I think you can see how important that is now, and I can teach it to you in about 26 short minutes. This is one of the most simple trade strategies that I have. Once you do one of those things, I will personally email the video to you with the rubber band trade strategy. Just send me an email at Barry TopDogTrading. Just fill out the yellow form at the top of the sidebar on the right.

Chapter 3 : A STUDY ON MANAGING RISK USING FINANCIAL FUTURES (A BEHAVIOURAL APPROA

Managing Risk with Financial Futures goes much further than any other book in explaining how futures can be used safely to reduce risk and bolster returns. Such complex topics as duration-based hedging, immunization and hedge ratios are addressed fully, from both a theoretical and practical point of view.

Eurex offers futures on the following: Since bond futures derive their value from the underlying instrument, the duration of a bond futures contract is related to the duration of the underlying bond. There are two challenges in computing this duration: Since there are many available bonds for delivery, the short in the contract has a choice in which bond to deliver. Some contracts allow the short flexibility in choosing the delivery date. Typically, the bond used for analysis is the bond that is cheapest for the short to deliver CTD. Note that these definitions of duration for the futures contract are approximate, and do not account for the value of the delivery options for the short. If the goal is to modify the duration of a portfolio, use the following: Note that the contract size is typically for , face value of a bond -- so the contract size is typically , as the bond face value is The following example assumes an initial duration, portfolio value, and target duration for a portfolio with exposure to the Euro interest rate. The June Euro-Bund Futures contract is used to modify the duration of the portfolio. Note that typically futures contracts are offered for March, June, September and December. Modifying the Key Rate Durations of a Portfolio with Bond Futures One of the shortcomings of using duration as a risk measure is that it assumes parallel shifts in the yield curve. One approach is to use key rate duration -- this is particularly relevant when using bond futures with multiple maturities, like Treasury futures. The following example uses 2, 5, 10 and 30 year Treasury Bond futures to hedge the key rate duration of a portfolio. Computing key rate durations requires a zero curve. This example uses the zero curve published by the Treasury and found at the following location: Therefore, if a position is hedged with a future where the CTD bond has a maturity that is different than the portfolio this could lead to a situation where the hedge under- or over-compensates for the actual interest-rate risk of the portfolio. One approach is to perform a regression on historical yields at different maturities to determine a Yield Beta, which is a value that represents how much more the yield changes for different maturities. Market data on Gilt futures is found at the following:

Chapter 4 : The Reality of Investment Risk | theinnatdunvilla.com

A futures contract is a financial derivative of the commodity on which it is based in the sense that it is an arrangement for exchanging money on the basis of the change in the price or yield of some underlying commodity.

Futures are standardized contracts traded on a centralized exchange. Both parties need to pay an initial margin amount a fraction of the total exposure with the exchange. The next day the settlement price is used as the base price. The investor can close out the position at any time before maturity but has to be responsible for any profit or loss made from the position. Studies have also shown that introduction of futures into markets increase the trading volumes in underlying as a whole. Consequently, futures help reduce transaction costs and increase liquidity as they are viewed as an insurance or risk management vehicle. How Do Futures Contracts Work? Futures and Price Discovery Another important role futures play in financial markets is that of price discovery. Future market prices rely on a continuous flow of information and transparency. This kind of information is absorbed and reflected in future prices quickly. Future prices for contracts nearing maturity converge to the spot price and thus the future price of such contracts serve as a proxy for the price of the underlying asset. Future prices also give an indication of market expectations. In the case of an oil exploration disaster, the supply of crude oil is likely to fall so near term prices will rise perhaps quite a lot. Futures contracts with later maturities may remain at pre-crisis levels, however, because supply is expected to eventually normalize. Contrary to general belief, future contracts enhance liquidity and information dissemination leading to higher trading volumes and lower volatility. Liquidity and volatility are inversely proportional. Benefits notwithstanding, futures contracts and other derivatives come with a fair share of drawbacks. Due to the nature of margin requirements, one can take on a lot of exposure, which means a small movement in the wrong direction could lead to huge losses. Plus the daily marking to market can put undue pressure on the investor. One needs to be a good judge of the direction and minimum magnitude the market would move. Critics also contend that futures and other derivatives are used by speculators to bet on the market and take on undue risk. Futures contracts also face counterparty risk , though at a much reduced level because of the central counterparty clearing house CCP. For example, if the market moves very far in one direction, a lot of parties could default on their obligation and the exchange would have to bear the risk. Other Derivatives Apart from futures, the world of derivatives are also represented by products that are traded over the counter OTC or between private parties. These may be standardized or highly tailored for sophisticated market participants. Forwards are such a derivative product that are just like futures except for the fact that they are not traded on a central exchange and are not marked to market regularly. The Bottom Line Futures are a great vehicle for hedging and managing risk; they enhance liquidity and price discovery. However, they are complicated and one should understand them before taking on any trades. Trading Center Want to learn how to invest? Get a free 10 week email series that will teach you how to start investing. Delivered twice a week, straight to your inbox.

Chapter 5 : Risk Management Trading Forex, Stocks and Futures - Top Dog Trading

Managing Financial Risk with Forwards, Futures, Options, and Swaps (2nd Edition) You hear it all the time: today, risk management drives financial strategy.

This article describes what security futures are, how they differ from stock options, some of the risks they can pose, and how they are regulated. You should also read the Security Futures Risk Disclosure Statement and August and April supplements before trading security futures. Although discussed in greater detail below, security futures involve a high degree of risk and are not suitable for all investors. You could lose a substantial amount of money in a very short period of time. The amount you may lose is potentially unlimited and can exceed the amount you originally deposit with your broker. This is because trading security futures is highly leveraged, with a relatively small amount of money controlling assets having a much greater value. Investors who are uncomfortable with this level of risk should not trade security futures. Existing Futures Contracts Futures contracts have been around for some time. In addition to security futures, futures contracts exist for a variety of agricultural commodities and energy products, precious metals, foreign currencies, and financial instruments. A security futures contract is a legally binding agreement between two parties to buy or sell a specific quantity of shares of an individual stock or a narrow-based security index at a specified price, on a specified date in the future known as the settlement or expiration date. If you buy a futures contract, you are entering into a contract to buy the underlying security and are said to be "long" the contract. Conversely, if you sell a futures contract, you are entering into a contract to sell the underlying security and are considered "short" the contract. Security Futures Contract Specifications Contract sizeâ€”Typically, one single stock futures contract will represent shares of the underlying stock. A narrow-based index futures contract will represent the value of the index times a dollar amount set by the exchange. Contract monthâ€”The month when the contract expires. There will be several different contract months available for trading at any one time, and the number of contract months may vary from exchange to exchange. Last trading dayâ€—The last day during the contract month when the contract will trade. This is usually the third Friday in the month. Manner of settlementâ€—Security futures may be settled by physical delivery of the underlying security or cash settlement. Most security futures contracts require physical delivery. Offsetting Transactions Prior to expiration, you can realize your current gains or losses by executing an offsetting sale or purchase in the same contract i. The terms of the contract specify whether a contract will be settled by physical deliveryâ€—receiving or giving up the actual shares of stockâ€—or by cash settlement. Where physical delivery is required, a holder of a short position must deliver the underlying security. Conversely, a holder of a long position must take delivery of the underlying shares. Where cash settlement is required, the underlying security is not delivered. Rather, any security futures contracts that are open are settled through a final cash payment based on the settlement price. Once this payment is made, neither party has any further obligations on the contract. By contrast, a security futures contract is an obligation not an asset and has no value as collateral for a loan. When you enter into a security futures contract, you are required to make a payment referred to as a "margin payment" or "performance bond" to cover potential losses. For a relatively small amount of money the margin requirement , a futures contract worth several times as much can be bought or sold. The smaller the margin requirement in relation to the underlying value of the futures contract, the greater the leverage. Because of this leverage, small changes in price can result in large gains and losses in a short period of time. Thus, leverage can either benefit or harm an investor. Note that a 4 percent decrease in the value of the contract resulted in a loss of 20 percent of the margin deposited. In addition, brokers can and sometimes do establish margin requirements higher than these minimums. Adverse price movements that reduce the reserve below a specified level will therefore result in a demand that you promptly deposit additional margin funds to the account. Because of the always-present possibility of margin calls, security futures contracts are not appropriate if you cannot come up with the additional funds on short notice to meet margin calls on open futures positions. If you fail to meet a margin call, your firm may close out your security futures position to reduce your margin deficiency. If your position is liquidated at a loss, you will be liable for the loss. Thus, you can lose substantially more than your original margin deposit. If due to losses your account falls below maintenance margin requirements, you will be required to place additional funds in your account to cover those losses. Tax Implications The tax consequences of a security futures transaction may depend on the status of the taxpayer and the type of position that is, long or short, covered or uncovered. For example, for most individual investors, security futures are not taxed as futures contracts. Short security futures contract positions are taxed at the short-term capital gains rate, regardless of how long the contract is held. Long security futures contracts may be taxed at either the long-term or short-term capital gains rate, depending on how long they are held. For dealers, however, security future contracts are taxed like other futures contracts at a blend of 60 percent long-term and 40 percent short-term capital gains rates. Depending on the type of trading strategy that is used, there can be additional or different tax consequences too. Taxes are a complicated matter. Consult your tax adviser before trading security futures. Where Do Security Futures Trade? Currently, securities futures trade on OneChicago. Variety of Security Futures Contracts Contract specifications may vary from contract to contract. For instance, most security futures contracts require you to settle by making physical delivery of the underlying security, as opposed to making a cash settlement. Carefully review the settlement and delivery conditions before entering into a security futures contract. Differences Between Security Futures and Stock Options Although security futures share some characteristics in common with stock options, these products differ significantly. Most importantly, an option buyer may choose whether or not to exercise the option by the exercise date. Options purchasers who neither sell their options in the secondary market nor exercise them before they expire will lose the amount of the premium they paid for each option, but they cannot lose more than the amount of the premium. A security futures contract, on the other hand, is a binding agreement to buy or sell. Based upon movements in price of the underlying security, holders of a security futures contract can gain or lose many times their initial margin deposit. Security Futures Risks All security futures contracts involve risk, and there is no trading strategy that can eliminate it. Strategies using combinations of positions, such as spreads see definition below , may be as risky as outright long or short futures positions. Trading in security futures requires knowledge of both the securities and the futures markets. And bear in mind the following specific risks involved when trading security futures contracts: Trading security futures contracts may result in potentially unlimited losses that are greater than the amount you deposited with your broker. As with any high-risk financial product, you should not risk any money that you cannot afford to lose, such as your retirement savings, medical and other emergency funds, funds set aside for education or home ownership or funds required to meet your living expenses. Be cautious of claims that you can make large profits from trading security futures. Although the high degree of leverage in futures can result in large and immediate gains, it can also result in large and immediate losses. As with any financial product, there is no such thing as a "sure winner. Unlike holdings in traditional securities, gains and losses in security futures are credited or debited to your account on a daily basis at a minimum. Because of daily market moves, your broker may require you to have or make additional funds available. If your account is under the minimum margin requirements set by the exchange or the firm, your position may be liquidated at a loss, and you will be liable for any deficit in your account. Under some market conditions, it may be difficult or impossible to hedge or liquidate a position. If you cannot hedge or liquidate your position, any existing losses may continue to mount. Even if you can hedge or liquidate your position, you may be forced to do so at a price that involves a large loss. This can occur, for example: Under some market conditions, the prices of security futures may not maintain their customary or anticipated relationships to the prices of the underlying security or index. This can occur, for example, when the market for the security futures contract is illiquid and lacks trading interest, when the primary market for the underlying security is closed or when the reporting of transactions in the underlying security has been delayed. For index products, this could also occur when trading is delayed or halted in some or all of the securities that make up the index. You may experience losses due to computer systems failures. As with any financial transaction, you may experience losses if your orders cannot be executed normally due to systems failures on a regulated exchange or at the firm carrying your position. Your losses may be greater if your brokerage firm does not have adequate back-up systems or procedures. Placing contingent orders, if permitted, such as "stop-loss" or "stop-limit" orders, will not necessarily limit your losses to the intended amount. Market conditions may make it impossible to execute the order or to get the stop price. Day trading strategies involving security futures pose special risks. As with any financial product, seeking to profit from intra-day price movements poses a number of risks, including increased trading costs, greater exposure to leverage and heightened competition with professional traders. Finding and Choosing a Broker As an individual investor, you cannot trade directly on an exchange. Security futures transactions for individual investors must be handled by a broker. Most brokers are honest, competent professionalsâ€”and there are regulators, like FINRA, to help make sure that the few who are not are identified and disciplinedâ€—sometimes even barred from the industry. Before you do business with any security futures professional or firm, you should check out their background. These sites can provide a wealth of information about the professional background, business practices and conduct of firms and brokers. Your state securities regulator also may have additional information about securities professionals. But there is more to finding a broker than knowing which ones might not be trustworthy. The key is finding the broker and firm that make you feel comfortable and best meet your personal financial needs. Security Futures Account Protection Security futures positions may be held in either a securities or futures account. The protections for your funds and security futures positions differ depending on whether the account is a securities account or a futures account. Your brokerage firm must tell you whether your security futures positions will be held in a securities account or a futures account. You also may have a choice about which type of account to hold your funds and positions. You should thoroughly understand the regulatory protections available to your funds and positions if your firm fails. Protections for Securities Accountsâ€—If you hold security futures contracts in a securities account, SEC rules prohibit a brokerage firm from using your funds and securities to finance its business.

Chapter 6 : Security Futuresâ€”Know Your Risks, or Risk Your Future | theinnatdunvilla.com

Compre o livro Managing Risk With Financial Futures: Hedging, Pricing, and Arbitrage na theinnatdunvilla.com: confira as ofertas para livros em inglÃªs e importados.

All investments carry some degree of risk. Stocks, bonds, mutual funds and exchange-traded funds can lose value, even all their value, if market conditions sour. Even conservative, insured investments, such as certificates of deposit CDs issued by a bank or credit union, come with inflation risk. They may not earn enough over time to keep pace with the increasing cost of living. When you invest, you make choices about what to do with your financial assets. Risk is any uncertainty with respect to your investments that has the potential to negatively affect your financial welfare. For example, your investment value might rise or fall because of market conditions market risk. Corporate decisions, such as whether to expand into a new area of business or merge with another company, can affect the value of your investments business risk. If you own an international investment, events within that country can affect your investment political risk and currency risk, to name two. There are other types of risk. How easy or hard it is to cash out of an investment when you need to is called liquidity risk. Another risk factor is tied to how many or how few investments you hold. Generally speaking, the more financial eggs you have in one basket, say all your money in a single stock, the greater risk you take concentration risk. In short, risk is the possibility that a negative financial outcome that matters to you might occur. There are several key concepts you should understand when it comes to investment risk. The level of risk associated with a particular investment or asset class typically correlates with the level of return the investment might achieve. The rationale behind this relationship is that investors willing to take on risky investments and potentially lose money should be rewarded for their risk. In the context of investing, reward is the possibility of higher returns. Historically, stocks have enjoyed the most robust average annual returns over the long term just over 10 percent per year , followed by corporate bonds around 6 percent annually , Treasury bonds 5. The tradeoff is that with this higher return comes greater risk: Exceptions Abound Although stocks have historically provided a higher return than bonds and cash investments albeit, at a higher level of risk , it is not always the case that stocks outperform bonds or that bonds are lower risk than stocks. Both stocks and bonds involve risk, and their returns and risk levels can vary depending on the prevailing market and economic conditions and the manner in which they are used. So, even though target-date funds are generally designed to become more conservative as the target date approaches, investment risk exists throughout the lifespan of the fund. While historic averages over long periods can guide decision-making about risk, it can be difficult to predict and impossible to know whether, given your specific circumstances and with your particular goals and needs, the historical averages will play in your favor. The timing of both the purchase and sale of an investment are key determinants of your investment return along with fees. If you buy a stock or stock mutual fund when the market is hot and prices are high, you will have greater losses if the price drops for any reason compared with an investor who bought at a lower price. That means your average annualized returns will be less than theirs, and it will take you longer to recover. Investors should also understand that holding a portfolio of stocks even for an extended period of time can result in negative returns. It has only been recently that the closing price has approached this record level, and for well over a decade the NASDAQ Composite was well off its historic high. Investors holding individual stocks for an extended period of time also face the risk that the company they are invested in could enter a state of permanent decline or go bankrupt. However, the historical data should not mislead investors into thinking that there is no risk in investing in stocks over a long period of time. Money was madeâ€”but not as much as if shares were sold the previous year. This is not a hypothetical risk. If you had planned to retire in the to timeframeâ€—when stock prices dropped by 57 percentâ€—and had the bulk of your retirement savings in stocks or stock mutual funds, you might have had to reconsider your retirement plan. Investors should also consider how realistic it will be for them to ride out the ups and downs of the market over the long-term. Will you have to sell stocks during an economic downturn to fill the gap caused by a job loss? Predictable and unpredictable life events might make it difficult for some investors to stay invested in stocks over an extended period of time. Managing Risk You cannot eliminate investment risk. But two basic investment strategies can help manage both systemic risk risk affecting the economy as a whole and non-systemic risk risks that affect a small part of the economy, or even a single company. By including different asset classes in your portfolio for example stocks, bonds, real estate and cash , you increase the probability that some of your investments will provide satisfactory returns even if others are flat or losing value. Diversification, with its emphasis on variety, allows you to spread you assets around. Hedging buying a security to offset a potential loss on another investment and insurance can provide additional ways to manage risk. However, both strategies typically add often significantly to the costs of your investment, which eats away any returns. In addition, hedging typically involves speculative, higher risk activity such as short selling buying or selling securities you do not own or investing in illiquid securities. The bottom line is all investments carry some degree of risk. By better understanding the nature of risk, and taking steps to manage those risks, you put yourself in a better position to meet your financial goals.

Chapter 7 : Managing Risk With Managed-Futures Funds - Barron's

ã€•ä¸-å•¤ã€‘Managing Risk With Financial Futures: Hedging, Pricing, and Arbitrage / Robert T. Daigler (ãƒ•ãƒ¼ãƒ‰ã‚«ãƒ•ãƒ¼),JORDAN ã‚¸ãƒ§ãƒ¼ãƒ€ãƒ³ ã‚·ãƒ¥ãƒ¼ã‚º ã‚¹ãƒ‹ãƒ¼ã‚«ãƒ¼ JORDAN RETRO 1 HIGH OG - MEN'S_ãƒ•ã‚¤ãƒ•ãƒƒã‚¯ã‚½ãƒ•ã‚¡ ãƒ-ãƒ¼ ã‚½ãƒ•ã‚¡ãƒ¼ 4ç‚¹ã‚»ãƒƒãƒˆ 3äººæŽ›ã•‘ ãƒ•ã‚¤ãƒ•ãƒƒã‚¯ã‚½ãƒ•ã‚¡ãƒ¼ ã‚½ãƒ•ã‚¡ ãƒ-ãƒ¼ã‚½ãƒ•ã‚¡ ãƒ–ãƒ©ãƒƒã‚¯ é»’.

Chapter 8 : How can derivatives be used for risk management? | Investopedia

Using a derivatives overlay is one way of managing risk exposures arising between assets and liabilities. Derivatives are often used to hedge 'unrewarded' risks in the pension scheme (such as interest rates) providing schemes with greater.