

## Subject Index

<b>A</b>	
Abuses	
“churn’ m and burn’ m” .....	131
Trader fraud .....	144
accrual accounting .....	163
ADRs .....	91
annualisation .....	356
Annutisation .....	276
Arbitrage .....	41, 145
assets .....	53
Default/Credit Risk .....	50
geographical .....	43
mispricing .....	43
riskless .....	44
synthetic .....	43
synthetically replicated portfolio .....	54
temporal .....	43
traditional .....	41
Arbitrage Pricing Theory .....	65
(APT) .....	67
Arbitrage Trading Strategies .....	117
Asset Class	
Commodities .....	88
Equities .....	87
Foreign Exchange .....	88
Interest Rate Products .....	87
Asset Classes .....	87
Asset/Liability Committee (ALCO) ...	206
audit .....	111
Average .....	525
<b>B</b>	
Back Testing .....	603
Backward Testing .....	600
Bank of England (BoE) .....	206
bid/offer spread .....	15
Black-Scholes	
assumptions .....	497
Black & Scholes .....	479
Option Pricing Equation .....	493
Bonuses .....	156, 178
Borrowers .....	15. <i>See also</i> Participants
Brokers .....	129. <i>See also</i> Participants
broker .....	15
Bucket Curve Shifts .....	428
Bundesbank .....	79
Business Day Basis .....	282
business plan .....	175
buy&hold strategy .....	110
<b>C</b>	
CAD I .....	160
CAD II .....	160
Calibration .....	331, 356
call-spread .....	442
Capital .....	154
Operating Capital .....	154
Operating costs .....	156
Regulatory capital .....	159
Regulatory Capital .....	154
Risk Capital .....	157
Trading/Risk Capital .....	154
Trading-Risk Capital .....	157
Capital Asset Pricing Model .....	65
CAPM .....	65
Cash Flow .....	165
Cash Flow Matching .....	437
Cash is King .....	10
chaos .....	580
Cheap/Dear Analysis .....	580, 585
CDA .....	585
Client	
Corporate .....	29, 30
Institutional .....	29, 30
Inter-bank .....	29, 31
Retail .....	27
Sovereigns .....	31
compensation packages .....	156
Constant Elasticity of Variance .....	367
contingent claims .....	98
contract .....	89
forward and futures .....	92
over-the-counter (OTC) .....	90

settlement rules.....	89
underlying deliverable.....	89
value/payout formula.....	89
Convertible Bonds.....	555
convexity.....	390, 536
Correlation/Covariance.....	535
Counterparty Exposure.....	159
Covariance VaR (CVaR) ...	446, 454, 463, 467, 468
Credit Default Swaps.....	445
cross-correlation.....	535
Cumulative Density Function CDF ....	306
CVaR.....	463

## D

Delta and Gamma neutral.....	418
Delta neutral.....	407
demand.....	11
Digital Options.....	315, 358
Directional strategies.....	114
Buy & Hold.....	114
Directional trading strategies.....	114
Discount Factors.....	263
Discounting multiple cash flows.....	270
discrete vs. continuous time.....	346
Distribution	
Normal Distribution.....	305
Uniform Distribution.....	305
Distributions	
Continuous.....	304
Discrete.....	303
Implied.....	581
Drawdown measures.....	187
drift.....	287, 331, 344
Dynamic Replication.....	51. <i>See also</i>
synthetic replication	
Delivery.....	51

## E

economics.....	78
macro-economics.....	78
micro-economics.....	78
Efficient Frontier.....	65
End Users.....	150
equilibrium.....	12
Exchange for Physical (EFP).....	92

Exit Conditions	
Core.....	121
discipline.....	121
Specific.....	121
Expectations.....	301
Continuous.....	304
Discrete.....	301
expected loss level.....	314

## F

Fair Value.....	46
Fast Fourier Transform.....	583
FFT.....	583
fixed costs.....	155
Forecasting	
model.....	292
Prices.....	320
Returns.....	320
Formulations	
Closed form vs. Numerical.....	257
Difference.....	339
Difference vs. Differential.....	346
Differential.....	339
differential/integral equation.....	361
Model vs. Solution.....	255
Forward markets.....	45
forward prices	
dynamics.....	287
Forward Rates.....	267
Forward Testing.....	600, 601
forward-forward.....	94
Forwards.....	45
delivery price.....	47
IOU's.....	45
fractals.....	580
Fund Manager.....	138
Futures.....	93

## G

Game	
Coin Toss.....	311
Dice Rolling.....	312
Gamma hedge.....	413
Gamma neutral.....	412
GARCH.....	580
Gaussian.....	336, 359, 500

Generally Accepted Accounting	
Principals (GAAP).....	163
Greeks.....	396

## H

Hedge	
ratio.....	404
slippage.....	380, 412
hedgers.....	150
Hedgers.....	15. <i>See also</i> Participants
Hedging	
Profile match based.....	371
Sensitivity based.....	371
Variability based.....	371
histogram.....	59
Historical VaR (HVaR).....	447, 454
HVaR.....	456
holding period.....	71

## I

Immunisation.....	437
integration.....	308
inter-bank.....	133
Interest Basis.....	282
Interest Rate Parity.....	53
Interest Rates	
Annuitisation.....	276
Compound Interest.....	265
Continuous compounding.....	266
Forward Rates.....	267
Frequency conversion.....	266
Price to yield conversion.....	275
Simple Interest.....	264
Spot.....	264
intermediaries.....	15
Internal Rate of Return.....	271
IRR.....	271
investment income.....	113
Investors.....	15. <i>See also</i> Participants
IR Curves.....	270
Corporate.....	279
Government.....	279
in Practice.....	278
IRR.....	278
LIBOR.....	279
mean-reverting.....	558

Zero-Coupon.....	278
Ito's Lemma.....	348, 481

## J

Jump-Diffusion.....	366
---------------------	-----

## K

Knock-in.....	552
Kurtosis.....	525

## L

Lenders.....	15. <i>See also</i> Participants
Log-Normal.....	328

## M

mandate.....	6
Margining.....	102
Market Basics.....	5
Market Convention	
most common model.....	368
Market Makers.....	26, 118, 133
Market Making.....	118
market price of risk.....	63, 289
Market Risk.....	<i>See also</i> Risk
Markowitz.....	65
mark-to-market.....	163
Mathematical modelling.....	255
of securities prices.....	287
Mean Variance Optimisation (MVO).....	623
Mean-Variance Optimisation (MVO).....	65, 125, 438
Merton.....	479
mispricing.....	118
model of uncertainty.....	325
Modelling the Price>Returns processes.....	290
Models	
absolute.....	322
arithmetic.....	322
geometric.....	323
relative.....	323
Moments	
volatility.....	524
Monte Carlo VaR (MCVaR).....	447, 455
MCVaR.....	469
mountain range.....	336

multiple dimensions of risk ..... 415

## N

negative prices ..... 327  
Non-Linear Dynamics (NLD) ..... 584  
Normal ..... 328  
Normally Distributed Differences  
    Absolute ..... 341  
    Relative ..... 342  
Numerical Approximation Errors ..... 351  
Numerical methods ..... 257

## O

Off Balance Sheet (OBS) ..... 160  
Open/High/Low/Close ..... 533  
opportunity loss ..... 15  
optimal holding period P&L analysis ..... 623  
optimal portfolios objectives ..... 439  
Options ..... 96  
    surface ..... 194  
Ornstein-Ühlenbeck Equations ..... 366  
Over trading ..... 131

## P

P&L vs. Value ..... 166  
Paper Trading ..... 120  
PaR ..... 69, 372  
    Efficient Frontier ..... 73, 613  
Parallel Curve Shifts ..... 427  
Participants  
    Brokers ..... 25  
    Commodity Trading Advisors ..... 24  
    Hedge Funds ..... 24  
    Hedgers ..... 21  
    Insurance Companies ..... 24  
    Investors ..... 21  
    Net Lenders/Borrowers ..... 18  
    Net Lenders/Borrowers – Investment  
        Banking ..... 18  
    Net Lenders/Borrowers – M&A ..... 20  
    Net Lenders/Borrowers – Mergers and  
        Acquisitions ..... 20  
    Net Lenders/Borrowers – new Issues ..... 18  
    Net Lenders/Borrowers – Traditional  
        Banking ..... 18  
    Outright Borrowers ..... 18

Outright Lenders ..... 16  
    Pension Funds ..... 24  
payout ..... 89  
    linear or non-linear ..... 89  
Performance measurement ..... 168  
portfolio variance ..... 466  
Position keeping ..... 205, 371  
position sensitivities ..... 216  
Position Sensitivity Measures ..... 376  
Present Value Theory ..... 262  
primary markets ..... 14  
Principle Component Analysis ..... 581  
Probability Density Function ..... 306  
Profile Matching ..... 195, 435  
Profit at Risk (PaR) ..... 72, 174, 523, 592  
proprietary liability  
    trading ..... 3  
Proprietary Liability Trading ..... 15  
    Prop Trader ..... 138  
    Prop trading ..... 113  
Provisioning ..... 518  
Pyramid Hedging ..... 406, 415

## Q

quadrature ..... 362  
Quasi Forecasting Model ..... 319

## R

rebalance optimisers ..... 438  
rebalancing strategies ..... 109  
regulators ..... 365  
repo ..... 117, 332  
    reverse ..... 117  
repo rates ..... 332  
residual risk ..... 119  
retail mortgages ..... 556  
revenue generation policies ..... 128  
Risk ..... 57  
    Credit Risk ..... 184  
    Event Risk ..... 185  
    Market Risk ..... 57, 184  
    Model/Systems/Valuation ..... 185  
    Operational ..... 185  
    Traditional measures ..... 186  
    Types of ..... 184  
risk and return ..... 56

Risk Management	205, 371
Risk Measure	
Drawdown	57
Profile Matching	57
Sensitivity	57
VaR	58
Variability	57
risk measurement	365
Risk Neutral Valuation	479, 481, 485
Risk Preference	60
risk premium	63
risk reporting	219
Risk/Return profile	56, 59, 60, 62
Risk-adjusted Performance Calculations	
	612
Root Finding	275
Root-2	336, 359, 500

## S

Scenario Analysis	
multi-dimensional	423
secondary markets	14
Securities Market Line (SML)	66
Sensitivity	
chord slope	377
Extrapolated vs. Empirical	221
Instantaneous	381
Matching and Hedging	373
Measures	191
Multi-Dimensional	395
reporting	220
scenarios	420
Sensitivity of	390
tangent slope	382
V01	376
serial forwards	96
serial-correlation	535
Settled for Difference (SFD)	92
Settlement Convention	282
Shape of Uncertainty	325
Sharpe Ratio	171
Skew	525
SPYPDERS	91
squeeze risk	400

Static Replication/Delivery	<i>See also</i>
dynamic replication and synthetic replication	
Statistical Forecasting	290
Stochastic Calculus	344, 349
stochastic valuation	291
stochastic volatility	366
structured product	98
Structuring a trade	108
supply	11
Supply/Demand	11
Swaps	95
IR Swap	117
Synthetic Replication	502, 511, 514
slippage	119

## T

tailing	536
Taylor Series	392
Technical Analysis	116
term-structure	425
term-structure of volatility	499
Term-Structure Theories (TST)	560
time buckets	428
Time Evolution of Uncertainty	334
Time Series Analysis (TSA)	583
time stretching factor	338
Trade Discipline	
Draw-down exit	107
Event-limit	107
Other	107
Time-limit	107
Up-side exit	107
trade idea generation	108
trade optimisers	609
Trading Cycle	106
Audit	106
Execution/Selling	106
Position Keeping	106
Structuring	106
Trade Idea Generation	106
Trading Discipline	120
Trading Floor	
asset class desks	36
asset class desks - bonds	37
asset class desks – capital markets	37

asset class desks - commodities.....	38
asset class desks - equities.....	36
asset class desks - FX.....	36
asset class desks – money markets ...	36
back office.....	39
clients and counterparties.....	39
compliance.....	39
front office.....	34
mid office.....	38
quant/research groups.....	39
risk management.....	39
sales/structuring desks.....	34
senior management.....	39
trading desks.....	35
traditional forecast.....	319
Transactions Costs.....	158
Treasurers.....	150
trend.....	287
Trends and Wobbles.....	291
Treynor’s Ratio.....	172

## U

Uncertainty.....	24, 285
------------------	---------

## V

V01 flat.....	399
Valuation Under Uncertainty.....	357
VaR.....	371, 446
Covariance VaR (CVaR).....	371
Credit VaR.....	371, 471
formulation.....	448
Historical VaR (HVaR).....	371
Measurement.....	454
Measures.....	197
model assumptions.....	449
Monte Carlo VaR (MCAVaR).....	371
policy.....	450
VaR Methods.....	476
Verification.....	470
Variability Measures.....	190
variable costs.....	155
Variance.....	525
of a portfolio.....	465

Vega.....	416
Volatility.....	523
“P&L” Volatility.....	578
“Trading” Volatility.....	531, 532, 547, 548, 549, 575
Absolute.....	538
Advanced Concepts.....	527, 580
Asian options.....	550
Barrier option.....	550
Convertible Bonds.....	550
GARCH.....	572
Historical, Empirical, Statistical.....	524
Histories of “Historicals”.....	540
implied volatility.....	544, 545
Intra-Period Effects & Annualisation.....	532
Mean Reversion.....	560
Mean Reverting.....	571
model volatility.....	544
Quantos.....	550
Relative.....	537
Sample Weighting.....	531
Sampling Frequency.....	530
Sampling Length.....	529
Skew.....	560, 568
smile.....	569
Spread Options.....	550
stationarity.....	540
Surfaces.....	565
Term-Structure and Expiration.....	561
Term-Structure in terms of Maturity of the Underlying.....	563
Term-Structure Models.....	557
Term-Structure of Volatility.....	560
Traded Volatility.....	560

## W

Where is the Greed?.....	32
--------------------------	----

## Z

Zero-Coupon rate.....	265
volatility.....	426