Stratadigm
ideas that work
Careers • Banking • Financial Services • Insurance

Equities & Derivatives

See new section 4A on CDS and Risk Transference
See new section 18A on Fx

Additional 3 hours required for this coverage.

Investing inherently implies taking a position. That position results in different types of risks to the investor.

Not investing is not an option. Not managing the different risks is not an option either.

Portfolio diversification, Hedging and the use of Derivatives are the core approaches to managing the risks associated with investment.

This program focuses on the application of these approaches in the context of Equities only.

Length & Scheduling: The Program outline (follows) is covered in 18 hours:

This can be scheduled as needed.

Stratadigm
ideas that work
Careers • Banking • Financial Services • Insurance

rajan.bala@stratadigm.biz

PROGRAM OUTLINE

1. Building Portfolios: 30 m

- ☑ Who are the typical investors we encounter
- ☑ Investor risk-appetite
- ☑ Investor intent
- ☑ Top-down approach to portfolio construction
- ☑ Bottom-up approach to portfolio construction

2. Risks in Equity Investments: 30 minutes

- ☑ Price Risk (aka Market Risk)
- ☑ Liquidity Risk
- ☑ Performance Risk
- ☑ Currency Risk
- ☑ Portfolio concentration risk
- ☑ Within the Asset class
- ☑ Within a sector
- ☑ Within a geography
- ☑ Risk & Return: what happens if risk is eliminated

3. Diversification: 30 m

- ☑ The principles of diversification
- ☑ The broadest possible diversification
- ☑ The narrowest portfolio: the absence of diversification
- ☑ Specific Risks: diversifiable
- ☑ Systemic Risks: non-diversifiable

4. Exposure and Hedging: 30 m

- ☑ The definition of Exposure
- ☑ The definition of Hedging
- ☑ Arbitrage
- ☑ Speculation
- ☑ Who does which

4A. CDS, CDO and the Global Financial Crisis: 60 m

- ☑ Default Risk
- ☑ Trading away Default Risk
- ☑ Does it affect equity portfolios
- ☑ Correlation between Default Risk and Equity Valuation
- ☑ CDS as a risk management mechanism in equities
- ☑ Risk transference, CDOs and the Global Financial Crisis

rajan.bala@stratadigm.biz

5.The User Perspective on Derivatives: 30 m

- ☑ How derivatives are used by institutional customers:
  - ☑ Producers
  - ☑ Consumers

6. The Concept of Underlying Assets: 30 m

- ☑ Futures, Options and the Connect to the Underlying
- ☑ Futures and the Connect to the Underlying

7. Derivatives Operational Framework & Lifecycles: 30 m

- ☑ OTC Derivatives
- ☑ Listed Derivatives
- ☑ Exchange traded, cleared and uncleared - operational implications

8. Risk Framework for the User of these Derivatives: 30 m

- ☑ Market Risk
- ☑ Counterparty Risk
- ☑ Settlement Risk
- ☑ Risk Mitigants

9. The Concept of Margins: 15 m

- ☑ Margins in Forwards
- ☑ Margins in Futures
- ☑ Margins in Options
- ☑ An Intuitive Understanding of Margining
- ☑ Margins, derivatives and the understanding of LEVERAGE

10. Further Risk Management: 15 m

- ☑ Initial Margin
- ☑ Maintenance Margin
- ☑ Variation Margin

11. Futures - 1 hour

- ☑ Futures are a definite exposure - either long or short.
- ☑ So how are they used in hedging?
- ☑ Underlying Assets on which Futures can be booked
- ☑ Trading Futures
- ☑ Futures Settlement
- ☑ Listed Futures Contracts on CME
- ☑ Cash (Financial) Settlement
- ☑ Physical Settlement

12. Indexes - 30 m

- ☑ What is an index
- ☑ Investing based on indexes
- ☑ Hedging based on indexes
- ☑ Why there is no possibility of Cash Settlement using indexes

rajan.bala@stratadigm.biz

Options in Detail

13. Basics: 1.5 h

- ☑ Call Options
- ☑ Put Options
- ☑ What is the directional bet of a Call; Put (in relation to the Underlying)
- ☑ Who is running Market Risk
- ☑ Who is running Credit Risk

14. Parameters in an Option: 30 m

- ☑ Current Market Price of the Underlying
- ☑ Strike Price
- ☑ Expiry

15. Option Statuses: 45 m

- ☑ ATM
- ☑ ITM
- ☑ OTM
- ☑ Option Profitability
- ☑ Overall Profitability

16. Exercise: 1 h

- ☑ Exercise Windows
- ☑ American Options
- ☑ European Options
- ☑ Bermudan Options
- ☑ Exercise for Physical Settlement in Exchange Traded Options
- ☑ Trading Positions in Options: 30 m

17. Options Pricing (without the math!): 45 m

- ☑ What does options "price' mean?
- ☑ Drivers of price
  - ☑ Time
  - ☑ 'Distance'
  - ☑ Probability of a favorable event
  - ☑ Payoff if event occurs
  - ☑ The role of interest cost: Black-scholes explained (no math!)

18. Delta Hedging: 1.5 h

- ☑ Defining Delta (and the 'greeks' that precede it)
- ☑ Defining Delta Hedging

18A Multi-Currency Exchanges and Settlements

- ☑ The currency of an exchange
- ☑ The location of the counterparties to a trade
- ☑ The settlement currency in question

rajan.bala@stratadigm.biz

- Strategies for selecting settlement currencies, conversion risk and implications
- Base & Variable Currencies
- Principle currency pairs
- The foreign (variable) currency required for a settlement
- Booking a forward to fix the rate
- Working days
  - At the exchange
  - For the currency pair
- Organizing money in time
  - The fx swap in organizing money

19. XVA

- Counterparty Risk
- The Basic valuation of derivatives
- Valuation Adjustments to account for
  - Wrong-way risk (CVA)
  - The mirror equivalent of CVA - DVA
  - Funding risks (FVA)
  - Inadequacy of margins [incl. Uncleared Margin Rules] (MVA)

20. Regulation

- A story
- What does regulation seek to do
- Market integrity
- Consumer protection
- By geography
- Regulatory frameworks in markets
- US broad scope (SEC, FINRA, Volcker)
- EU broad scope (Mifid2, EMIR
- Rest of the world: broad scope

+ 30 MCQ: things you must know!

Stratadigm
ideas that work
Careers • Banking • Financial Services • Insurance

rajan.bala@stratadigm.biz