



Hedging Market Exposures: Identifying and Managing Market Risks

By Oleg V. Bychuk, Brian Haughey

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Identify and understand the risks facing your portfolio, how to quantify them, and the best tools to hedge them

This book scrutinizes the various risks confronting a portfolio, equips the reader with the tools necessary to identify and understand these risks, and discusses the best ways to hedge them.

The book does not require a specialized mathematical foundation, and so will appeal to both the generalist and specialist alike. For the generalist, who may not have a deep knowledge of mathematics, the book illustrates, through the copious use of examples, how to identify risks that can sometimes be hidden, and provides practical examples of quantifying and hedging exposures. For the specialist, the authors provide a detailed discussion of the mathematical foundations of risk management, and draw on their experience of hedging complex multi-asset class portfolios, providing practical advice and insights.

- Provides a clear description of the risks faced by managers with equity, fixed income, commodity, credit and foreign exchange exposures
- Elaborates methods of quantifying these risks
- Discusses the various tools available for hedging, and how to choose optimal hedging instruments
- Illuminates hidden risks such as counterparty, operational, human behavior and model risks, and expounds the importance and instability of model assumptions, such as market correlations, and their attendant dangers
- Explains in clear yet effective terms the language of quantitative finance and enables a non-quantitative investment professional to communicate effectively with professional risk managers, "quants", clients and others

Providing thorough coverage of asset modeling, hedging principles, hedging instruments, and practical portfolio management, *Hedging Market Exposures* helps portfolio managers, bankers, transactors and finance and accounting executives understand the risks their business faces and the ways to quantify and control them.

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Editorial Review

From the Inside Flap

Hedging Market Exposures Identifying and Managing Market Risks

In *Hedging Market Exposures*, authors and financial industry leaders Oleg Bychuk and Brian Haughey—who through the Great Recession have successfully managed a complex highly leveraged portfolio of asset-backed securities with significant equity, fixed income, credit, and other exposures—offer a practical guide to three fundamental elements of the risk control process that have not previously received the attention they deserve—*identifying, quantifying, and managing* market risks.

Providing a practical, proactive plan to help you know the risks facing your portfolio, *Hedging Market Exposures* offers expert guidance on:

- How to select the appropriate tools to hedge various risks
- Learning the language of quantitative finance
- Communicating effectively with professional risk managers and "quants"
- Asset modeling
- Market exposures and factor sensitivities
- Constructing a hedge

The tasks of identifying and quantifying risks and then selecting an optimal hedge when a "perfect" one does not exist are just as important as understanding the intricacies of exotic derivative valuation, but are usually overlooked. In-depth and straightforward, *Hedging Market Exposures* reveals how to focus not merely on quantitative measurement of risk but also on qualitative analysis and, crucially, on risk *management*.

While a manager is ultimately concerned with the risks of a portfolio as a whole, the need also exists to understand the dangers associated with the underlying portfolio constituents. In the end, it is the risks of these individual securities and, especially, the interplay of these risks that shape the portfolio's risk profile. Find out how you can identify, quantify, and manage market risks in your portfolio with the dynamic hedging strategies found in *Hedging Market Exposures*.

From the Back Cover

Praise for Hedging Market Exposures:Identifying and Managing Market Risks

"This timely book draws on the lessons of the recent financial crisis to provide a comprehensive survey of the vast array of overt and, most importantly, hidden hazards that face investors and managers. The authors, who combine extensive industry experience with academic thoroughness, offer a practical guide on how to prepare for market turbulence by following the often challenging steps of identifying, quantifying, and, most crucially, managing risks. An indispensable read for all market participants."—Frank J. Fabozzi, Professor in the Practice of Finance, Yale School of Management, and Editor, *Journal of Portfolio Management*

"An essential addition to every asset manager's library, this book is an apt reminder that investment management means, above all, managing risks. The authors make this task easier by introducing a number of innovative techniques that extend and complement existing methods."—Jolanta Wysocka, CEO, Mountain Pacific Group, LLC

"This is a valuable resource for seasoned professionals and beginners alike. Methodical yet accessible, it is written by authors with broad experience in hedging various financial exposures, offering a refreshingly original perspective on handling risk and the role and use of hedging techniques. They guide the reader from identifying the major sources of risks in capital markets to a detailed explanation of the quantitative tools necessary to measure those risks, to demonstrating the practical trade-offs of actual hands-on market exposure management."—Rudi Schadt, PhD, Senior Portfolio Risk Analyst, Invesco Ltd.

"This book, by two veterans of the financial crisis, puts the reader on a fast track to understanding risk management and hedging in modern financial markets. It presents a comprehensive catalog of investment risks and a practitioner's perspective on the whys and hows of hedging those risks. The authors elucidate how the interplay of markets, regulation, financial practice, and human behavior impact the hedging decision, and enliven the discussion with examples from past risk management debacles. This is an enjoyable book and can be effective either as an introduction or as an overview."—Colm O'Cinneide, Head of Portfolio Construction, QS Investors, LLC, New York

About the Author

OLEG V. BYCHUK has eleven years of capital markets experience. This includes roles as head of Risk Management at Julius Baer Investment Management and head of Risk Management and Quantitative Research at Alternative Asset Managers. He has also held various positions at Citigroup Global Markets, OppenheimerFunds, and Deutsche Bank. Dr. Bychuk holds degrees from Columbia University (PhD) and Lomonosov Moscow State University and has published numerous articles.

BRIAN J. HAUGHEY is an Assistant Professor of Finance and Director of the Investment Center at Marist College. Previously, he headed the Mutual Fund Fee business in the Global Special Situations Group at Citigroup Global Markets. Prior to joining Citigroup, he was with Fitch Ratings.

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