



# Pricing and Hedging Financial Derivatives: A Guide for Practitioners

By Leonardo Marroni, Irene Perdomo



**Pricing and Hedging Financial Derivatives: A Guide for Practitioners** By Leonardo Marroni, Irene Perdomo

**The only guide focusing entirely on practical approaches to pricing and hedging derivatives**

One valuable lesson of the financial crisis was that derivatives and risk practitioners don't really understand the products they're dealing with. Written by a practitioner for practitioners, this book delivers the kind of knowledge and skills traders and finance professionals need to fully understand derivatives and price and hedge them effectively. Most derivatives books are written by academics and are long on theory and short on the day-to-day realities of derivatives trading. Of the few practical guides available, very few of those cover pricing and hedging—two critical topics for traders. What matters to practitioners is what happens on the trading floor—information only seasoned practitioners such as authors Marroni and Perdomo can impart.

- Lays out proven derivatives pricing and hedging strategies and techniques for equities, FX, fixed income and commodities, as well as multi-assets and cross-assets
- Provides expert guidance on the development of structured products, supplemented with a range of practical examples
- Packed with real-life examples covering everything from option payout with delta hedging, to Monte Carlo procedures to common structured products payoffs
- The Companion Website features all of the examples from the book in Excel complete with source code

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### **Editorial Review**

From the Inside Flap

“This text fills an existing gap in the market. Too many books on pricing and hedging are filled with dreary equations whose only purpose is to show off how clever the author is relative to his readership. In the real world there is an old market adage that says 'the price of any derivative is driven by the underlying hedge' so this text is particularly relevant and useful. Any reader will walk away from this text with an excellent applied understanding of the pricing principles that underpin all of the main derivative asset classes.”

—**Neil C. Schofield, Managing Director, Financial Markets Training Ltd**

“Marroni and Perdomo offer a rare glimpse into the world of financial derivatives through a practitioners perspective. The book takes you through basic and complex derivatives from a variety of asset classes, and highlights how the professional trader or structurer uses them. Using real life examples from their years of financial experience the authors show you both the academic and the practical sides of how financial derivatives are priced and traded.”

—**Patrick E. Boyle, Founding Partner, Palomar Fund Management**

“This book is highly recommended to students and professional derivatives traders. The book provides an excellent balance conceptualising the mathematics of financial derivatives with more practical discussions around hedging and managing derivatives investments. The authors have extensive practical experience at top tier investment banks and hedge funds and combine this with an ability to explain the underlying theory with great clarity. An excellent guide to the world of derivatives and hedging.”

—**Jesse McDougall, Visiting Professor, Queen Mary, University of London**

“This book captures the core of derivative products with a simple but yet rigorous approach. It also provides illustrative examples and simulations to strengthen the intuition behind the concepts. The authors have done an excellent job combining rigor and practice in a compelling and fluent style; something that is not very easy to achieve. Those who are looking for a broad understanding of these complex issues won't be disappointed.”

—**Pedro Videla, Economics Professor, IESE Business School**

“Marroni and Perdomo's book offers an excellent practical guide to how derivatives are priced and can be used for trading and hedging. The book contains numerous helpful examples that are presented with clarity and without unnecessary technical digressions. Both newcomers to derivatives and seasoned practitioners will certainly want a copy of this book in their reference libraries.”

—**Christopher L. Culp, Adjunct Professor of Finance, The University of Chicago Booth School of Business/Senior Advisor, Compass Lexecon**

From the Back Cover

*Pricing and Hedging Financial Derivatives: A Guide for Practitioners* attempts to explain the insights required in the pricing and hedging of the most common derivative products and aims to educate and inform the many rather than the few. Targeted at the practitioner rather than the academic, this book contains many worked examples to help develop an understanding of key concepts and tools.

The book begins with a descriptive examination of the main asset classes, the main derivative products and the most common option strategies. It then moves on to the fundamentals of option pricing, the Greeks, implied volatility, the volatility smile, exotic derivatives (digitals, barriers, Asian options) and multi-asset derivatives. Along the way, the authors spend time explaining the concepts of replication and risk-neutral valuation with numerous examples that help develop an intuitive grasp of derivative pricing. The book concludes with a chapter on structured products because these, unlike derivative products, may be accessible to investors.

A website accompanies the book ([www.wiley.com/go/financialderivatives](http://www.wiley.com/go/financialderivatives)) and contains a number of practical example excel spreadsheets.

The book will provide investment professionals, whether new to the world of finance or seasoned, with the toolkit required to understand derivatives and approach them with confidence.

#### About the Author

**LEONARDO MARRONI** is an asset manager with the Emerging Markets team at GLG Partners in London. He joined in January 2010 from Barclays where he was working as a structurer in the commodities division. Before joining Barclays, Leonardo worked in the equity structured products trading team at Banca Caboto in London where he was responsible for structuring and trading algorithmic products. Prior to this, Leonardo was part of the interest rates derivatives trading team at Banca Caboto in Milan. Leonardo graduated in Economics from Bocconi University in Milan.

**IRENE PERDOMO** trades base metals at Noble in Singapore. Prior to this, she worked as a structurer for the commodities division of Barclays in London. Irene has an MBA from IESE Business School in Barcelona. She is a native of Uruguay and she studied Computer Science Engineering in Montevideo. She also spent time studying finance at the University of Chicago Booth School of Business. Before working in the finance industry, she worked in IT, in South America and the Indian sub-continent.

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**Cathy Lantz:**

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