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Managing Derivative Exposure

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We present an approach to derivative exposure management based on subjective and implied probabilities. We suggest to maximize the valuation difference subject to risk constraints and propose a class of risk measures derived from the subjective distribution. We illustrate this process with specific examples for the two and three dimensional case. In these cases the optimization can be performed graphically.

Comments: 8 pages, 5 figures

Portfolio Management (q-fin.PM); Risk Management (q-fin.RM) Subjects:

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