



Volatility Trading, + CD-ROM

By Euan Sinclair

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Volatility Trading, + CD-ROM By Euan Sinclair

In *Volatility Trading*, Sinclair offers you a quantitative model for measuring volatility in order to gain an edge in your everyday option trading endeavors. With an accessible, straightforward approach. He guides traders through the basics of option pricing, volatility measurement, hedging, money management, and trade evaluation. In addition, Sinclair explains the often-overlooked psychological aspects of trading, revealing both how behavioral psychology can create market conditions traders can take advantage of-and how it can lead them astray. Psychological biases, he asserts, are probably the drivers behind most sources of edge available to a volatility trader.

Your goal, Sinclair explains, must be clearly defined and easily expressed-if you cannot explain it in one sentence, you probably aren't completely clear about what it is. The same applies to your statistical edge. If you do not know exactly what your edge is, you shouldn't trade. He shows how, in addition to the numerical evaluation of a potential trade, you should be able to identify and evaluate the reason why implied volatility is priced where it is, that is, why an edge exists. This means it is also necessary to be on top of recent news stories, sector trends, and behavioral psychology. Finally, Sinclair underscores why trades need to be sized correctly, which means that each trade is evaluated according to its projected return and risk in the overall context of your goals.

As the author concludes, while we also need to pay attention to seemingly mundane things like having good execution software, a comfortable office, and getting enough sleep, it is knowledge that is the ultimate source of edge. So, all else being equal, the trader with the greater knowledge will be the more successful. This book, and its companion CD-ROM, will provide that knowledge. The CD-ROM includes spreadsheets designed to help you forecast volatility and evaluate trades together with simulation engines.

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Volatility Trading, + CD-ROM By Euan Sinclair Bibliography

- Sales Rank: #1213889 in Books
- Published on: 2008-06-23
- Original language: English
- Number of items: 1
- Dimensions: 9.30" h x .84" w x 6.30" l, .99 pounds
- Binding: Hardcover
- 224 pages

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Editorial Review

From the Inside Flap

Successful trading, says Euan Sinclair, is about developing a consistent process. You must have a goal; you must find trades with a clear statistical edge; you must capture that edge and size each trade in a way that is consistent with your goal. Everything else you do must be done within this framework.

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From the Back Cover

Praise for VOLATILITY TRADING

“Written by a mathematically literate trader, this concise guide is full of valuable insights—not just for volatility traders but for quantitative traders too. From Zakamouline's optimal delta-hedging approximation to Browne's optimal trade-sizing policy, there is much interesting technical material that is put to work to provide a framework for thinking clearly about practical problems such as: When should we hedge? Should we double up or cut our position? How much capital should we allocate to a trade in the first place? This book raises the discussion of quantitative trading to a new level and I strongly recommend it.”—**Jim Gatheral**, author of *The Volatility Surface: A Practitioner's Guide*

“Euan Sinclair's *Volatility Trading* fills a neglected gap in financial literature on trading volatility with options and updates and expands on basic works with contemporary strategies, insights, and technical detail. *Volatility Trading* is uncommonly clear, examples are well chosen, and explanations are thorough without being tedious. Not since Allan J. Baird's *Option Market Making* has there been a work on volatility strategies as well written and practical. Sinclair's modern treatment is a tremendous resource for options market makers and clients alike as they inescapably take a view on volatility with each position. *Volatility Trading* is

destined to become a classic and is highly recommended for students and practitioners alike.”—**James N. Ward, Head of High-Yield Investments, AXA Investment Managers Paris, and Professor of Finance, The American University of Paris**

“I wish this book had been available when I started. I had to discover its contents the hard way. It nicely illustrates what successful plain vanilla option trading is all about: a sound quantitative approach coupled with a few robust principles. It also should help to dispel the myth surrounding volatility trading: that is an obscure and highly complex field of phynancial voodoo that only a gifted few have the ability to understand and master.—**FDAXHunter, founding member of nuclearphynance.com**

“Euan Sinclair provides a unique and valuable insight into the art and science of option trading. With clarity and purpose, he demonstrates how the successful option trader judiciously selects the appropriate quantitative tools for the job—neither too rudimentary nor too complex but just right for each stage of the trading process. I strongly recommend this book to volatility traders and all options who wish to see 'behind the curtain' of option pricing.”—**Carl Mason, Chief U.S. Equity Derivatives Strategist, Morgan Stanley**

About the Author

Euan Sinclair is an option trader with over ten years of experience trading options professionally. He specializes in the design and implementation of quantitative trading strategies. Sinclair is currently a proprietary option trader for Bluefin Trading, where he trades based on quantitative models of his own design. He holds a PhD in theoretical physics from the University of Bristol.

Users Review

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Nannie Hernandez:

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Michael Sherman:

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