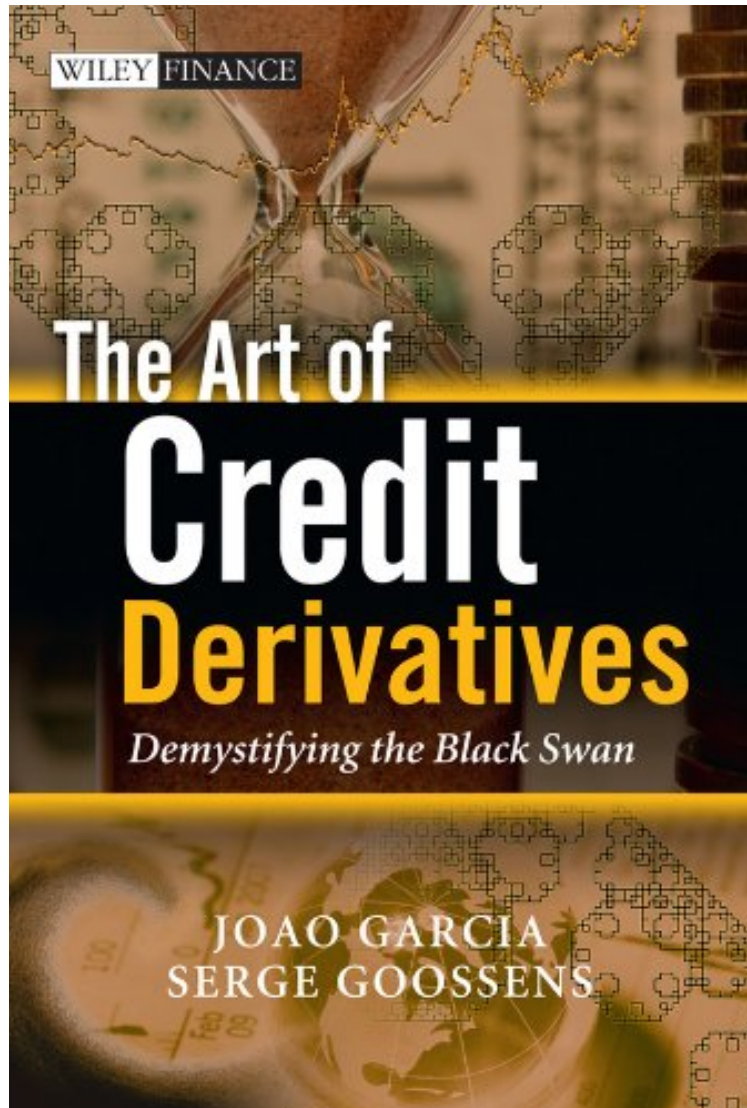


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The Art of Credit Derivatives: Demystifying the Black Swan (The Wiley Finance Series)

Joao Garcia, Serge Goossens
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Credit derivatives have been instrumental in the recent increase in securitization activity. The complex nature and the size of the market have given rise to very complex counterparty credit risks. The Lehman failure has shown that these issues can paralyse the financial markets, and the need for detailed understanding has never been greater. The Art of Credit Derivatives shows practitioners how to put a framework in place which will support the securitization activity. By showing the models that support this activity and linking them with very practical examples, the authors show why a mind-shift within the quant community is needed - a move from simple modeling to a more hands on mindset where the modeler understands the trading implicitly. The book has been written in five parts, covering the modeling framework; single name corporate credit derivatives; multi name corporate credit derivatives; asset backed securities and dynamic credit portfolio management. Coverage includes: groundbreaking solutions to the inherent risks associated with investing in securitization instruments how to use the standardized credit indices as the most appropriate instruments in price discovery processes and why these indices are the essential tools for short term credit portfolio management why the dynamics of systemic correlation and the standardised credit indices are linked with leverage, and consequently the implications for liquidity and solvability of financial institutions how Levy processes and long term memory processes are related to the understanding of economic activity why regulatory capital should be portfolio dependant and how to use stress tests and scenario analysis to model this how to put structured products in a mark-to market-environment, increasing transparency for accounting and compliance. This book will be invaluable reading for Credit Analysts, Quantitative Analysts, Credit Portfolio Managers, Academics and anyone interested in these complex yet important markets.

From the Back Cover Credit derivatives have been instrumental in the recent increase in securitization activity. The complex nature and the size of the market have given rise to very complex counterparty credit risks. The Lehman failure has shown that these issues can paralyse the financial markets, and the need for detailed understanding has never been greater. The Art of credit derivatives shows practitioners how to put a framework in place which will support the securitization activity. By showing the models that support this activity and linking them with very practical examples, the authors show why a mind-shift within the quant community is needed - a move from simple modeling to a more hands on mindset where the modeler understands the trading implicitly. The book has been written in five parts, covering the modeling framework; single name corporate credit derivatives; multi name corporate credit derivatives; asset backed securities and dynamic credit portfolio management. Coverage includes: groundbreaking solutions to the inherent risks associated with investing in securitization instruments how to use the standardized credit indices as the most appropriate instruments in price discovery processes and why these indices are the essential tools for short term credit portfolio management why the dynamics of systemic correlation and the standardized credit indices are linked with leverage, and consequently the implications for liquidity and solvability of financial institutions how Levy processes and long term memory processes are related to the understanding of economic activity why regulatory capital should be portfolio dependent and how to use stress tests and scenario analysis to model this how to put structured products in a mark-to market-environment, increasing transparency for accounting and compliance. This book will be invaluable reading for Credit Analysts, Quantitative Analysts, credit Portfolio Managers, Academics and anyone interested in these complex yet important markets.

About the Author Joao Garcia is the Head of the Credit Modelling team at the Treasury and Financial Markets of Dexia Group in Brussels. His current work includes credit derivatives, securitization and structured products, correlation mapping of credit portfolios in indices, developing strategies and trading signals for credit derivatives indices and pricing distressed credit instruments. Prior to this he worked for four years on the construction of a grid system for strategic credit portfolio management of the whole Dexia Group. The aim of the system was to manage large portfolios of securitization notes. Additionally he has experience on methodologies to rate and price cash flow, CDOs, to allocate credit economic capital and to price exotic interest rate derivatives. He is an Electronic Eng. from Instituto Tecnológico de Aeronautica (ITA, Brazil), with a M.Sc. in Physics (UFPe, Brazil) and a Ph.D. in Physics (UA, Belgium). Serge Goossens is a senior quantitative analyst working on credit derivatives and correlation modelling in the Front Office of Dexia Bank. He has a vast experience with credit derivative instruments, both rating and pricing for hedging and trading. He has also focused on mark to model of hard to value distressed assets and on restructuring the capital structure of large portfolios. From his previous positions he has extensive expertise in parallel large scale numerical simulation of complex systems, ranging from computational fluid dynamics to electronics. Serge holds a M.Sc. in Engineering and a Ph.D. from the faculty of Engineering of the K.U.Leuven and a Master of Financial and Actuarial Engineering degree obtained from the Leuven School of business and Economics. He has published a number of papers and he has presented at conferences world-wide.