



Investor applications of equity derivatives

Course description

Aim

To provide an overview of the main investor applications of equity derivatives

Topics

Forwards and Futures

- Single stock and index structures
- OTC vs. exchange traded structures
- Applications of equity forwards and futures

Equity swaps

- Basic structure of total return swaps
- Cash flow settlement
- Valuation of swaps
- Dividend swaps and their applications

Equity options

- Revision of terminology and principles of valuation

Expressing directional views

- Using options to gain leverage
- Expressing a view with limited downside
- Expressing more complex views

Range views

- Constructing trades that will profit if a share is expected to trade within a particular range
- Expressing views on a volatile asset

Yield enhancement

- Monetising overpriced volatility
- Opportunistic yield extraction

Portfolio protection

- Elimination of worst case
- Lowering portfolio risk

Objectives

By the end of the seminar the participant will be able to:

- Determine the main features and applications of exchange traded futures and over the counter forwards
- Analyse a variety of equity swap structures and identify a variety of possible applications
- Describe how equity options could be used to express a directional view on an underlying asset
- Identify how options could be used to express a view on the volatility of an asset
- Demonstrate how the sale of options could generate an enhanced yield and identify the associated risks
- Explain under what circumstances an investor would use options to hedge against a downside exposure

Is this the right course for you?

In order to get the most out of this course you should be able to answer the following questions:

1. What is the difference between a spot and a forward contract?
2. What are the basic features of a swap structure?
3. What is the difference between a call and a put option?

This course is not for you if you know the answer to the following questions:

1. What exposure were banks trying to offload when they started trading dividend swaps?
2. How is leverage defined with respect to options?
3. What are the relative merits of a single call position versus a bull spread?
4. What are the different strategies an investor could use to express a view on whether or not the price of an equity stays within a range
5. What are the relative merits of call overwriting and put selling to generate an enhanced yield

Duration

1 - 2 days