

Overview of Markets

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**TOPICS**

- Financial Instruments Generally
  
- Derivatives

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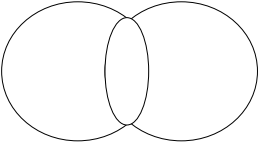
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Financial Instruments

Equity                      Fixed Income



- Contracts
- Securities
- Futures

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## Derivatives

Types:

- Forwards or Futures Contracts
- Options
  - Calls
  - Puts
- Swaps

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

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### To Reduce the Credit Risk of a Forward or Futures Contract

1. Reduce the Performance Period  Mark the Contract to Market and Cash Settle Daily
2. Post a Bond  Margin

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## OPTIONS

Call Option (from the Holder's Perspective)

The right, but not the obligation, to purchase the underlying commodity or security at a specified price (the "strike") up to or on a specified expiration date.

Put Option (from the Holder's Perspective)

The right, but not the obligation, to sell the underlying commodity or security at a specified price (the "strike") up to or on a specified expiration date.

Call		Put	
Seller or "Writer"	Purchaser or "Holder" (Pays Option Fee or "Premium")	Seller or "Writer"	Purchaser or "Holder" (Pays Option Fee or "Premium")

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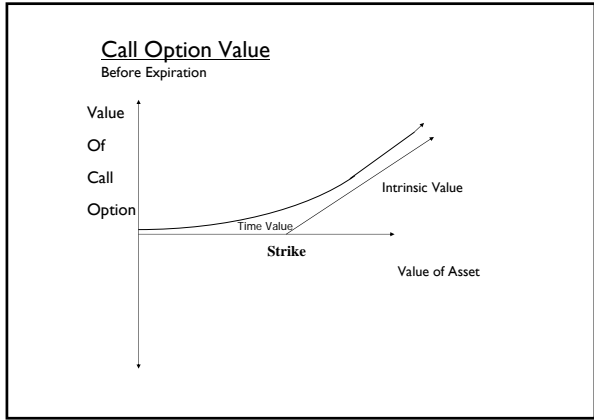
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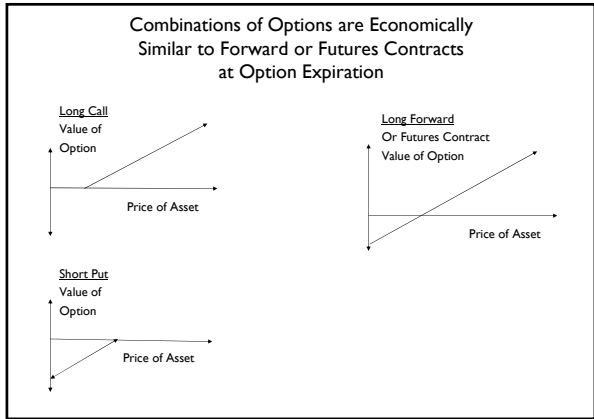
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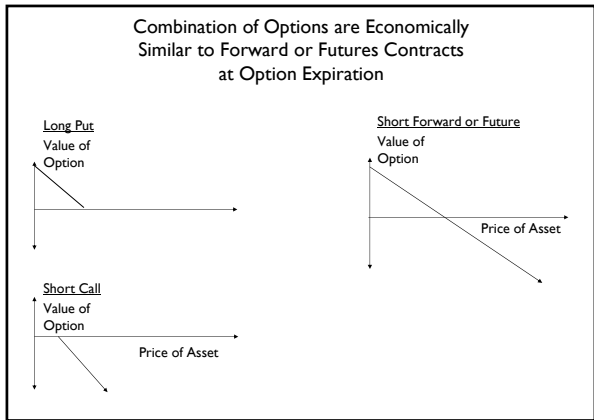
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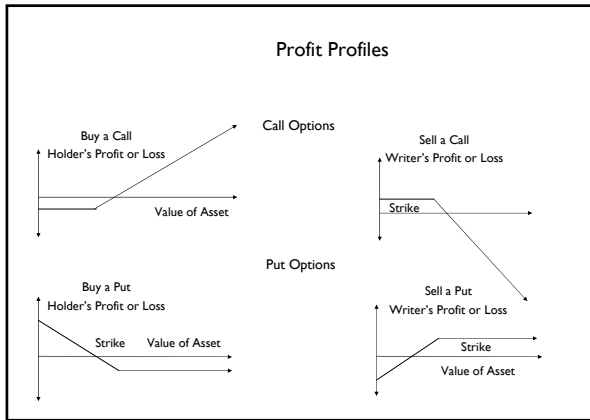
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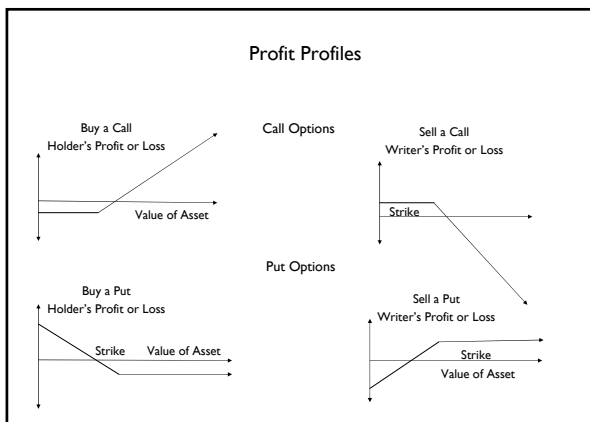
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### Hedging Currency Exposure

U.S. company enters into a contract to sell 100 computers to a French company in three months.

The French company will pay the U.S. company in Euros.

The U.S. company wants to protect its profit on the computers by hedging its exposure to changes in the Euros/\$ exchange rate.

- Sell Euros with a Forward or Futures Contract
- Buy a U.S. Dollar Call Option
- Buy a Euro Put Option

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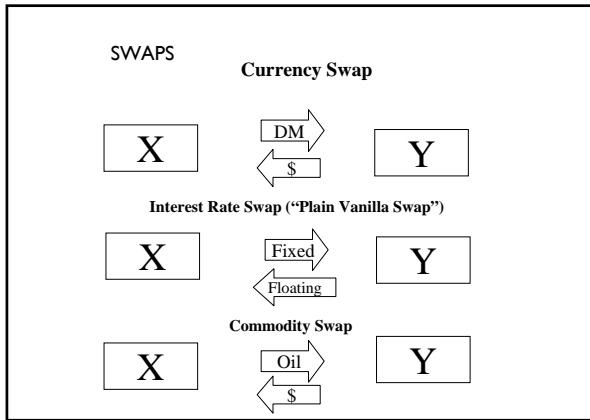
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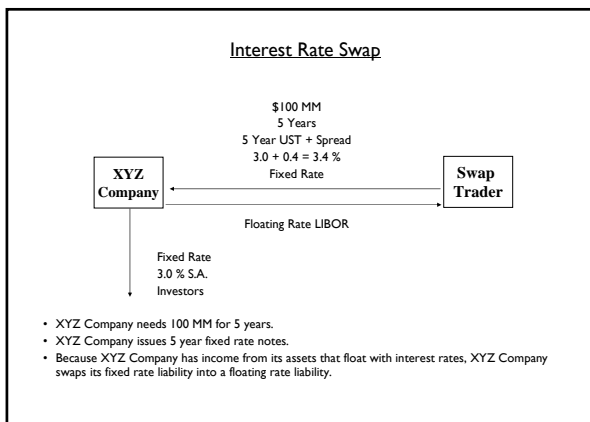
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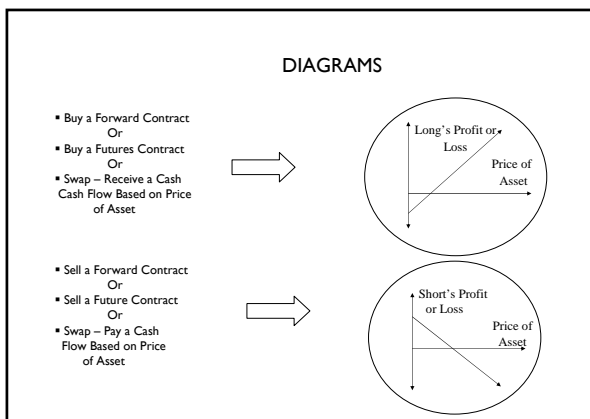
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