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Delta-hedging vega risk?

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Abstract

In this a… dynamic
hedging… e first is the
Black–Sc… delta of the
option in… ted to the
market s… local delta
should p… fast sell-offs,
and a… sell-offs.
Since… or slow sell-
offs in n… plied
negative… a better
hedge th… same
conclusi… ults using
both sim… large
negative… ver, we

check numerically that the conclusions we draw are true when transaction costs are taken into account. In the last section we discuss the case of barrier options.

Acknowledgments

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Notes

Vähämaa [55] assesses the significance of the differences by a bootstrapping method with 1000 resamplings.

Note the difference between these conclusions and the implications of section 2.2 (see also the discussion in section 3.5).

We shall take τ as being equal to one market day in the numerical experiments of sections

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