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Delta-hedging vega risk?

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Abstract

In this article we compare the profit and loss arising from the delta-neutral dynamic hedging of options, using two possible values for the delta of the option. The first is the Black-Scholes implied delta, while the second is the local delta, namely the delta of the

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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.



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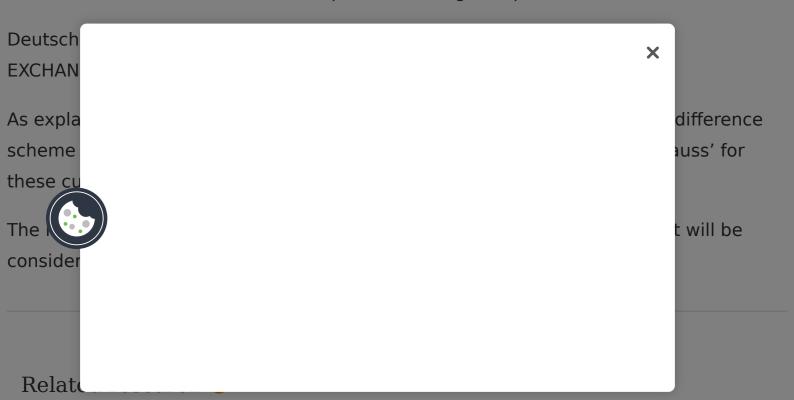
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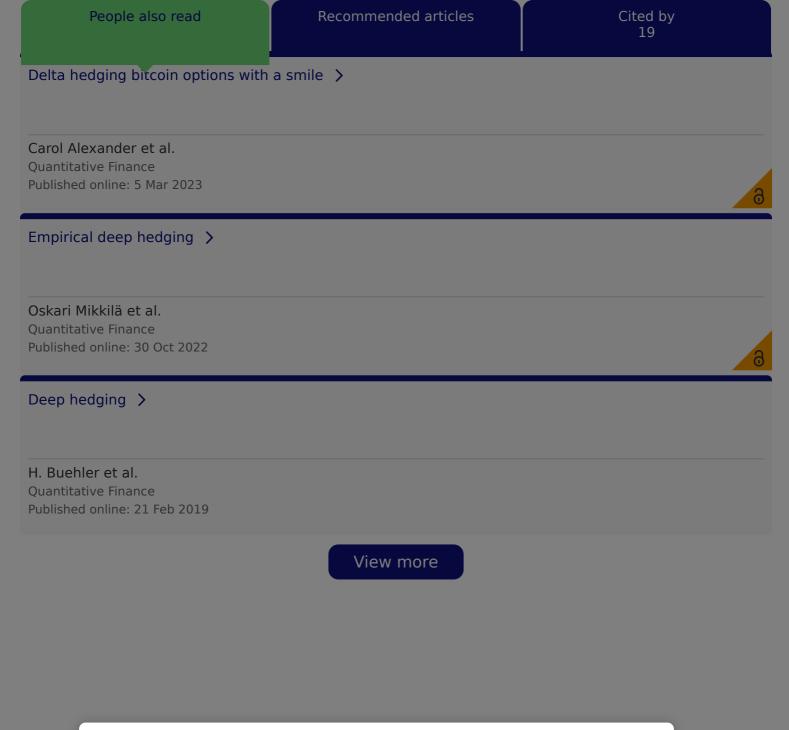
Vähämaa [55] assesses the significance of the differences by a bootstrapping method with 1000 resamplings.

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 4 and 5.

International Financial Futures and Options Exchange, http://www.liffe-data.com.







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