

Contents

Foreword by Gillian Tett	xi
Preface	xv
Why I Wrote this Book	xv
What this Book Does and Does Not Do	xvi
Who this Book Is For	xvi
Finally, Some Key People in the Process of Writing this Book	xvii
All Feedback Welcome!	xvii
Women on the Trading Floor . . . Really?	xix
CHAPTER 1	
What Are Financial Markets?	1
Debt Markets	4
Equity Markets	11
Other Asset Classes	21
Derivative Markets	22
Conclusion	26
Discussion Questions	27
CHAPTER 2	
What Role Do Banks Play in Financial Markets?	29
What It Means to Provide Liquidity	31
Central Market Platforms	37
Who Are the Clients and What Are They Doing?	45
Conclusion	54
Discussion Questions	56
CHAPTER 3	
Which Part of the Bank Are We Talking About?	57
Corporate Finance	60
Global Financial Markets	63
	vii

Where Are these Trading Floors?	73
The Trading Floor's Relationship with Clients	75
The Loan Portfolio and the Funding Department	76
Conclusion	80
Discussion Questions	81
CHAPTER 4	
What Does It Mean to Trade?	83
PACAM Treasury Trade	85
Supermart Interest Rate Swap Trade	94
A Structured Equity Product	108
Conclusion	118
Discussion Questions	119
CHAPTER 5	
What Is the Market and Why Does It Move?	121
What Is the Market?	123
Price Fundamentals: Macroeconomics	128
Price Fundamentals: Company Specific News	135
Supply and Demand	140
Conclusion	142
Discussion Questions	143
CHAPTER 6	
How Do Traders Make a Market?	145
PACAM Treasury Trade	148
Supermart Interest Rate Swap Trade	158
Equity Structured Product Trade	163
A Typical Trader Day	166
Conclusion	168
Discussion Questions	169
CHAPTER 7	
How Is Proprietary Trading Different from Market Making?	171
Proprietary Trading Desk Overview	173
Proprietary Desk Liquidity	176
How Market Makers Are Similar to Proprietary Traders	180
Trading Book Accounting	186
Trader Capital Allocation	187
Conclusion	188
Discussion Questions	189

CHAPTER 8	
What Is the Relationship Between Sales and Trading?	191
A Day in the Life	195
Know Your Client	199
Managing the Client Relationship	201
Sales Person Stereotypes	209
Conclusion	211
Discussion Questions	211
CHAPTER 9	
What Role Does the Research Analyst Play?	213
The Role of a Credit or Equity Analyst	215
Conflict of Interest	221
The Economists and Strategists	222
Desk Analysts	225
Conclusion	226
Discussion Questions	227
CHAPTER 10	
What's So Special About Trading Derivatives?	229
Bond Intermediation	231
Derivative Intermediation	234
Counterparty Credit Risk	241
Illiquid Derivatives Intermediation	246
Conclusion	248
Discussion Questions	249
CHAPTER 11	
Where Does Structuring Fit?	251
The Deal Origination	252
Deal Negotiation	255
Deal Closing	260
Conclusion	263
Discussion Questions	264
CHAPTER 12	
Where Are the Quants?	265
Pricing Models and What They Do	266
Risk Management Models and What They Do	271
Financial Market Evolution	274
Quants' Relationship with the Trading Floor	275

Conclusion	277
Discussion Questions	278
CHAPTER 13	
What Are the Risks?	279
Market Risk	281
Credit Risk	287
Other Risk	292
Conclusion	295
Discussion Questions	296
CHAPTER 14	
How Do We Manage These Risks?	297
New Product Approval Process	299
Market Risk Limits	304
Credit Risk Limits	307
Learn from Experience	309
Conclusion	312
Discussion Questions	313
Epilogue	315
Glossary	317
Index	341