

Preface

This book had its origins on a sleepless night when I discovered that the Internet was a great place to convey ideas.¹ I had found the UseNet group misc.invest.futures, which was the only user group whose discussions were focused on derivatives. Misc.invest.futures struck me as a group whose conversation was largely dominated by someone selling a new futures trading service, a discount brokerage firm, or someone with an opinion about whether a commodity had “bottomed out” according to some technical indicator. Even worse were those people offering astrological advice for futures trading. Amidst all of this commercialism and hype, it appeared to me that the readership had a thirst for knowledge of another sort: simple, to the point, and not motivated by a big sale. I am, of course, as profit-oriented as anyone else but being new to the Internet, I decided to make my entry on a *pro bono* basis, with the hope that down the road there might be some profits, however modest they are likely to be.²

Thus was born my weekly column on derivatives, which later was called *Derivatives Research Unincorporated* or DRU.³ Over the next 52 weeks, I posted a total of 41 essays to the misc.invest.futures group, simultaneously depositing them into an electronic filebox where they were available for downloading. The feedback I received was surprising, overwhelming and above all, gratifying. Virtually every week I received a new e-mail from a reader somewhere around

¹ Maybe this is because almost everything on the Internet is free or very inexpensive, and it's hard for people to complain that they're not getting their money's worth.

² If you're reading this at a book store or library, please go out and buy the book. In fact buy an extra copy for a loved one. (Just kidding, unless you're in love with a derivatives person.)

³ I cannot legally tell you what it was originally called, but many of you already know and others can guess.

the world, many asking how to obtain personal subscriptions, which I would not do. I was even getting requests for topics, making me feel somewhat like a disk jockey, spinning the platters of derivatives.

Soon others began placing pointers to DRU on their home pages, and DRU began to be mentioned in articles about sources available on the Internet in the area of derivatives. My readers ranged from individuals seeking a little extra knowledge to technically skilled personnel of major financial institutions to college students and professors. I seemed to have developed something of a cult following like the Rocky Horror Picture Show! People e-mailed to complain if I disappeared for a couple of weeks.

The second year I wrote another 20 or so essays. I finally quit writing them when it was taking too much time, I was getting too many e-mails from people with questions, and I was running out of topics that could be written up in simple, non-technical language. When I posted my last essay in September 1996, I thought DRU had come to an end. The phone calls and e-mails continued to the point that I was beginning to feel like the Ann Landers of derivatives. Repeated efforts to discourage people from contacting me were mildly successful. What I wanted was that people would read the essays, perhaps refer to my main home page (www.cob.vt.edu/finance/faculty/dmc) and take advantage of any other writings, documents or links that I had posted, but generally, leave me alone. At around the same time, I had reached an agreement with a major business publishing group to have the essays published in hard copy form. A long and complicated story later, we broke off the arrangement. Since that time, I continued to be contacted by individuals and firms who enjoyed the essays.

About a year later, Frank Fabozzi found my web site. Frank and I had enjoyed a productive business relationship a few years back, but had not talked in several years. One thing led to another and Frank agreed to publish these essays in his own publishing venture, Frank J. Fabozzi Associates (www.frankfabozzi.com). I believe you will agree that Frank has done an excellent job with his own publishing venture, and I am pleased to now be a part of it.

The original essays all sounded like a conversation with an unidentified person, namely the Internet surfer. There were no charts or graphs, with the exception of a few figure-like tables necessary to

illustrate binomial trees. There were no complex equations and the number of simple equations was kept to an absolute minimum. The tone was informal and written in fairly non-technical language. People told me repeatedly how beneficial this approach was to them. In this book version, each essay has been re-written, maintaining the basic qualities that made them attractive, while simply polishing the language and removing references that suggested that this was a posting on an Internet site.

The level of knowledge I assume in the reader is pretty low. I would say that one should already know the definitions of options and futures. That's about it. I have been told that the essays appeal to individuals at all levels of expertise. Beginners will particularly find them useful, and experts seem to appreciate the simple manner in which such seemingly complicated subjects can be presented. They have been used in college classes as well as in corporations, financial institutions, and government agencies in training employees, executives, and clients. With all of this given freely to the rest of the world, don't you think I deserve to earn at least one hour at minimum wage?

In the original versions the essays were written and posted in whatever order a topic came to me. Now they have been grouped into logical sections. In addition ten new essays have been added to fill in some gaps. In some of the essays there is a list of articles called *For More Reading*. I chose these articles very carefully. Any article mentioned in an essay is included. Otherwise, I tried to include only classic articles, articles that are pretty much standard references for these topics, and articles that are exceptionally well-written and at a slightly higher level than that of these essays. Obviously some of you will disagree, especially with omissions. To this I say, you're probably right, but you'll have to write your own book.

At the end of this book is a reading list of books in derivatives, arranged in various groups, with some commentary about each group and a selected few of the titles. After reading these essays, this collection of books is where I would go next.⁴

⁴ Don't forget to get my other book *An Introduction to Derivatives*, 4th edition, the Dryden Press (1998), ISBN 0-03-024483-8, which you can have ordered by any book store, or through www.amazon.com or by calling Harcourt Brace at 1-800-782-4479. It's expensive, but so is everything else on this subject.

Also be aware that I maintain a large collection of materials and links at my web site (www.cob.vt.edu/finance/faculty/dmc). Clicking on the “Courses” menu choice gives you free access to an extensive collection of lecture notes and a set of materials called “Teaching Notes,” which to some extent are more advanced versions of some of the essays in this book. You might also enjoy a site called DerivaQuote, which is a collection of quotations about derivatives, with a few others on finance in general. As with most sites, this one is dynamic, with new quotes added as I stumble on them. There is also a dynamic bibliography of all published articles I can find on modeling the term structure and pricing interest rate derivatives. Who knows what else there will be by the time you’re reading this.

Please send me your feedback on this book by e-mail (dmc@vt.edu) or snail mail (Department of Finance, Pamplin College of Business, Virginia Tech, Blacksburg, VA 24061) or give me a call at 540-231-5061 or a fax at 540-231-3155. Maybe there will be a second edition someday, and your input would be useful.

There is still a long way to go before people understand and appreciate derivatives as well as they do stocks and bonds. I hope these essays will contribute to the general knowledge level and help dispel the myths about derivatives. But please don’t send me your questions on how to solve your personal or corporate derivatives problems. I just cannot respond to all of the requests I receive of this type.

And please, don’t ask me to write any more articles for the Internet.

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