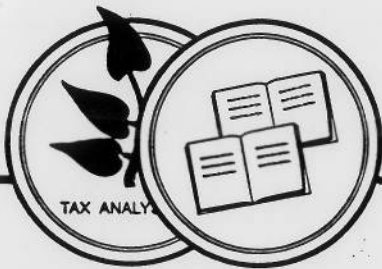




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# book reviews

edited by Robert J. Wells

## ***Derivatives Demystified, Twice***

by Viva Hammer

*Derivatives Demystified*, by John C. Braddock. Published John Wiley and Sons, Inc. ISBN 0 471 146331. 306 pages. Price: \$60.

*Derivatives Demystified*, by Robert L. Deutsch and Mark Saccasan. Published by Prospect Publishing by International Business Communications Pty Ltd., 1995. ISBN 1-86316-088-4. 92 pages.

The deluge of books on derivatives has become so overwhelming, professionals will need a perpetually updated annotated bibliography before they even approach the financial aisles of bookstores or libraries. The coincidence of the titles of these two books is a symptom of the phenomenon. I hope to see continuing reviews of these types of books so that students of the financial markets can look beyond the glossy titles to the substance of the texts.

*Derivatives Demystified* by John Braddock, managing director of the Structured Products Group at Oppenheimer & Co. in New York, is an outstanding introduction to the subject matter. He approaches derivatives from the transactional viewpoint, showing how a product is created, developed, sold, and used in the marketplace. After describing why an organization would use structured products, he outlines the duties of the officers and directors to their shareholders in managing the risks inherent in such products, in the context of the U.S. legal environment. The author then gives a brief outline of the structured product creation, development and offering process, which for most people outside the investment banking world is a black box.

After outlining the very basic mathematics of derivatives, Braddock devotes a chapter to each of several significant types of products, such as asset-linked notes, convertible securities, exotic options, warrants, and swaps. In each chapter, he gives detailed examples of who would use each of the products, what

financial problem could be solved by their use, and what role they would serve within an organization's capital structure. There is a chapter on monetizing and hedging strategies for concentrated equity positions and one on capital-raising strategies in the era of derivative products.

What makes this book particularly valuable is the Resource Guide at the end of the book. Braddock gives a remarkable x-ray of the life of a derivative product, providing sample offering expenses spreadsheets, SEC rule filing comment letter, customer suitability memo, marketing memos, syndicate invitation, even a road show marketing schedule! Most informative for a real novice will be the sample structured product term sheets. Anyone looking at a term sheet for the first time will often wonder what the connection is between the legal document and something called a swap or equity-linked note, and these samples may ease the passage between the financial theory and the legal reality.

*Derivatives Demystified* by Robert Deutsch and Mark Saccasan is presented like a college tutorial on derivatives. The entire text is in question-and-answer format, with each kind of basic derivative (options, forwards, swaps) covered by a separate chapter. The questions start very general: What is an option? Then become more specific: How can options be used to speculate in the market? Very simple numerical examples are provided for each derivative, in a manner that is accessible even to a high school math student.

The book has neither preface nor introduction, and there is no indication for whom the book was written. In addition, there is no glossary, and this would have been useful especially for the acronyms that are used extensively throughout the book. It is hard to see the focus of this book. It lacks, for example, Braddock's transactional approach, and there is no discussion of computer applications for the structures described, either. It would be hard to recommend this book except as a self-study guide for those with either significant other supplementary material or just a passing interest in the topic.

Viva Hammer is a principal consultant with Price Waterhouse LLP, New York.



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Ms Viva Hammer  
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17 March 1997

Dear Ms Hammer,

### Derivatives Demystified

Please find enclosed a copy of *Derivatives Demystified* by Robert Deutsch and Mark Saccasan.

I understand that you wished to review this text. We would appreciate a copy of any review you may write and ask that you forward it to our office.

Please contact me if I can offer further information.

Yours faithfully,

Clare Moss  
Legal Editor