



## Fixed Income Securities: Tools for Today's Markets

By Bruce Tuckman, Angel Serrat

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**Fixed Income Securities: Tools for Today's Markets** By Bruce Tuckman, Angel Serrat

Fixed income practitioners need to understand the conceptual frameworks of their field; to master its quantitative tool-kit; and to be well-versed in its cash-flow and pricing conventions. *Fixed Income Securities, Third Edition* by Bruce Tuckman and Angel Serrat is designed to balance these three objectives. The book presents theory without unnecessary abstraction; quantitative techniques with a minimum of mathematics; and conventions at a useful level of detail.

The book begins with an overview of global fixed income markets and continues with the fundamentals, namely, arbitrage pricing, interest rates, risk metrics, and term structure models to price contingent claims. Subsequent chapters cover individual markets and securities: repo, rate and bond forwards and futures, interest rate and basis swaps, credit markets, fixed income options, and mortgage-backed-securities.

*Fixed Income Securities, Third Edition* is full of examples, applications, and case studies. Practically every quantitative concept is illustrated through real market data. This practice-oriented approach makes the book particularly useful for the working professional.

This third edition is a considerable revision and expansion of the second. Most examples have been updated. The chapters on fixed income options and mortgage-backed securities have been considerably expanded to include a broader range of securities and valuation methodologies. Also, three new chapters have been added: the global overview of fixed income markets; a chapter on corporate bonds and credit default swaps; and a chapter on discounting with bases, which is the foundation for the relatively recent practice of discounting swap cash flows with curves based on money market rates.

### [FOR THE UNIVERSITY EDITION]

This university edition includes problems which students can use to test and enhance their understanding of the text.

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## Fixed Income Securities: Tools for Today's Markets By Bruce Tuckman, Angel Serrat Bibliography

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## **Editorial Review**

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### **From the Authors: Five Ways to Deepen Your Knowledge of Fixed Income Markets in the Wake of the Financial Crisis**

*By Bruce Tuckman and Angel Serrat*

- 1. Get to know the 'big picture' of markets and institutions.** When markets are calm, you can get away with focusing on your products, your markets, and your customers or trading partners. During a crisis, however, everyone and everything reacts to the same macro forces. To take one example from the '07-'09 crisis, the deterioration of the housing market put stress on structured mortgage products and on the balance sheets of financial institutions, which, in turn, led to the collapse of a seemingly unrelated market, namely that for municipal auction rate securities. Weakened financial institutions were not in a position to support the auctions, which were failing as investors abandoned nearly all short-term investments in structured products.
- 2. Understand financing.** Financial businesses lose money by bets on some market going bad, but they most often fail because they lose their financing. For example, at the start of the financial crisis, many hedge funds that invested exclusively in mortgage-backed securities on a levered basis were forced to unwind and cease operations. This was in part due to portfolio losses, but mostly due to depletion of capital from having to post more and more collateral in support of their borrowing. An even more important example, of course, was the threat to broker-dealers during the crisis, whose repo and commercial paper funding evaporated.
- 3. Be aware of money market spreads, basis swaps, and credit risk.** Perhaps the single most telling icon of the financial crisis is the graph of the three-month LIBOR-OIS spread. This spread, which can be thought of as the cost of locking up funds for three months relative to borrowing at the overnight fed funds rate, became a key metric of financial stress during the crisis. From 2005 to 2007, the average of the USD and EUR LIBOR-OIS spreads were about eight and six basis points, respectively; at the height of the crisis, these spreads peaked at about 365 and 200 basis points, respectively. Of course, locking in the fed funds rate plus the LIBOR-OIS spread is achieved by borrowing at LIBOR and paying LIBOR vs. OIS in a basis swap. More broadly speaking, this all means that credit risk, even at short maturities and even for historically solid counterparties, can no longer be assumed away.
- 4. Learn how the practice of discounting has changed.** Until relatively recently, the cash flows of swaps were discounted at rates derived from par swap rates. This was never a perfectly sound methodology in theory, but so long as LIBOR was not too different from the cost of funding, the methodology was good enough. During the crisis, however, when LIBOR rose way above the cost of funding, discounting at par swap rates gave significantly misleading results. As a result, the most sophisticated practitioners completed their conversion to a two-curve pricing methodology, and, in June 2010, LCH Clearnet converted to OIS discounting.
- 5. Follow regulatory changes to derivatives markets.** The Dodd-Frank law and other regulatory initiatives

set out to require that certain swaps be cleared and that others be subject to new rules and capital requirements. Despite the significant passage of time, however, many of the details of the new regulatory regime, including the criteria for mandated clearing and the extent of capital requirements for non-cleared swaps, remain in flux. As a result, significant uncertainties exist with respect to the costs of using and of making markets in swaps.

*Fixed Income Securities: Tools for Today's Markets*, Third Edition, was revised, among other reasons, to discuss these and other issues that have assumed greater importance as a result of the financial crisis.

#### From the Inside Flap

Both working professionals and newcomers to the broad, complex, and competitive field of fixed income will appreciate the approach of authors Bruce Tuckman and Angel Serrat in this Third Edition, namely: theory and conceptual frameworks presented intuitively and without unnecessary abstraction; quantitative models and techniques developed with a minimum of mathematical complexity; institutional structures and market conventions described at a useful level of detail; and ideas clearly and profusely illustrated with market data, realistic examples, applications, and case studies.

*Fixed Income Securities*, Third Edition begins with an overview of global fixed income markets, focusing on those in the United States, Europe, and Japan. Who borrows and who lends? How big are the various players and markets? How has the 2007–2009 financial crisis manifested itself?

With the institutional background set, Part One of the book lays the foundations of fixed income pricing, namely, the arbitrage pricing of securities with fixed cash flows and the various ways to quote interest rates and returns. Part Two then describes interest rate risk and hedging, including: one-factor approaches (DV01, duration, and convexity); multi-factor approaches (key rate '01s and durations, partial '01s and PV01, and forward-bucket '01s); and empirical approaches (regression and principal component analyses).

Part Three shows how to price interest rate derivatives. It starts with the fundamentals, the arbitrage pricing of contingent claims and the determination of the shape of the yield curve, and then continues on to one-factor short-rate models. Finally, the last chapter of this part presents the Gauss+ model, a three-factor model popular with relative value traders, and—in a presentation unique for its mathematical simplicity—introduces the LMM model, an approach popular with exotic derivatives traders.

Part Four builds on the earlier parts of the book to present and analyze many other markets and securities, including repo, interest rate futures and derivatives, note and bond futures, interest rate and basis swaps, fixed income options, corporate bonds, credit default swaps, mortgages, and mortgage-backed securities. This part also contains a chapter explaining the industry's relatively recent shift from LIBOR to OIS discounting and another chapter on the practicalities of curve construction.

*Fixed Income Securities*, Third Edition has been written in such a way as to bring a necessarily complex subject matter—developed over years by leading academics and practitioners—to a broad audience of investors, traders, and other working finance professionals. This audience will indeed find this book an invaluable collection of tools for today's markets.

#### From the Back Cover

#### Praise For

#### Fixed Income Securities

"Fixed Income Securities is excellent, seamlessly combining theory and experience to make the global fixed-income markets come alive for students and practitioners. It is obvious that the authors not only understand and articulate theory with ease, but also enjoy its application to myriad simple and complicated instruments."  
—Myron Scholes 1997 Nobel Laureate in Economics; Frank E. Buck Professor of Finance, Emeritus, Graduate School of Business, Stanford University

"It takes authors who have both insight into financial economics and a thorough understanding of how markets function to write a book that integrates theory and practice so effortlessly. As market turmoil forces us to revisit historical relationships, the book's setting of applications and data in the context of sound theory is particularly useful."  
—Ravi Mattu Managing Director and Head of Analytics, PIMCO

"Fixed Income Securities conveys intuition, is full of examples, and is comprehensive in its coverage. Professionals will find valuable insights in the authors' treatment of advanced topics; students will value the careful organization and presentation of ideas. I recommend it very highly indeed."  
—Krishna Ramaswamy Edward Hopkinson, Jr., Professor of Investment Banking, The Wharton School, University of Pennsylvania

"This is a great reference book for fixed income students and practitioners alike, which seamlessly combines mathematical concepts with practical applications."  
—Kostas Pantazopoulos Global Head of Interest Rate Products, Goldman Sachs

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#### **George Finch:**

In this 21st hundred years, people become competitive in every way. By being competitive right now, people have do something to make these survives, being in the middle of typically the crowded place and notice by surrounding. One thing that occasionally many people have underestimated it for a while is reading. Yeah, by reading a reserve your ability to survive enhance then having chance to stay than other is high. To suit your needs who want to start reading a book, we give you that Fixed Income Securities: Tools for Today's Markets book as basic and daily reading publication. Why, because this book is greater than just a book.

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In this era which is the greater man or woman or who has ability in doing something more are more important than other. Do you want to become among it? It is just simple strategy to have that. What you need to do is just spending your time not very much but quite enough to possess a look at some books. One of the books in the top checklist in your reading list is actually Fixed Income Securities: Tools for Today's Markets. This book which is qualified as The Hungry Hills can get you closer in turning into precious person. By looking right up and review this guide you can get many advantages.

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