Cheatography

markets Cheat Sheet

by echoecho via cheatography.com/198358/cs/43287/

cardinals

sizing too big in volatile markets is the biggest sin of the financial markets (you could be right about the longterm trends however you get smashed due to your position size and volatility)

building efficiency

occupancy rate =	occupied space / total space ×100%. (above 80% is good)
space utilisation ratio =	usable space / total space ×100%.
cost per square foot (sq) =	total cost of property / total square footage

risk management (market mathematics)

- "a fool and his money are soon parted."

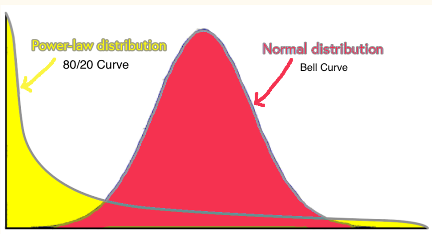
- **gresham's dynamic:** the more the bad practices spread, the more everyone has to mimic them to be competitive.

- never depend on too much on variables you cannot control.

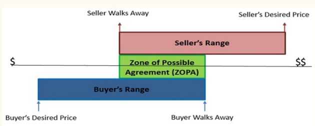
- there is a price that pulls everyone out of their positions.

- number go up doesn't mean anything fundamentally has changed about the underlying asset(s).

power law vs. normal distribution



zone of possible agreement (ZOPA)

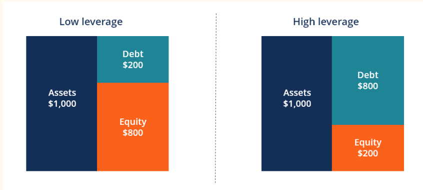


the seller determines the price, the consumer determines the value.*

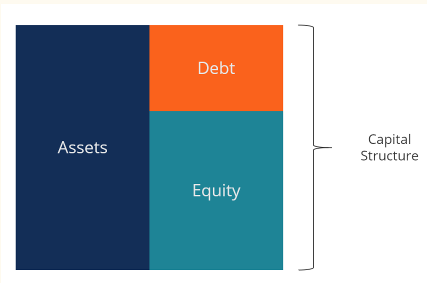
change in capital structure

capital structure dynamics

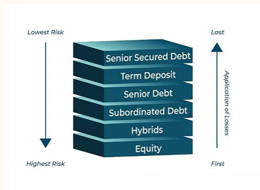
low vs high leverage



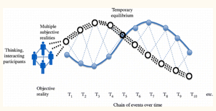
capital structure



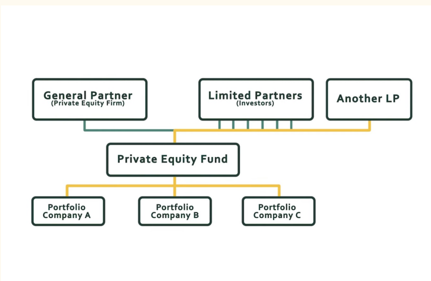
cap structure decile



theory of reflexivity

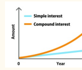


fund structure

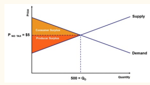


exters pyramid

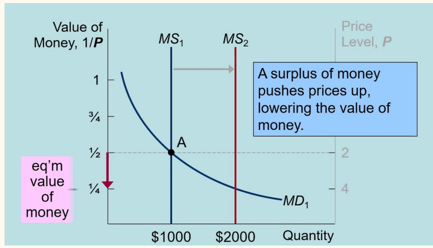
simple v. compound interest



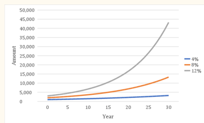
deadweight loss



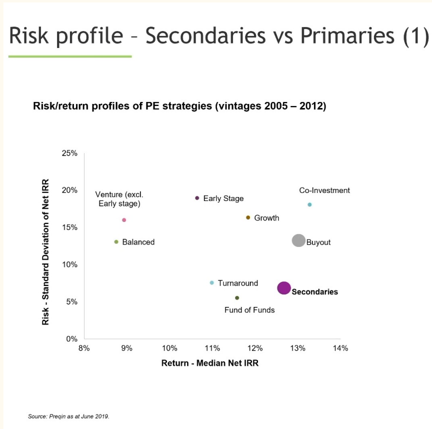
value of money



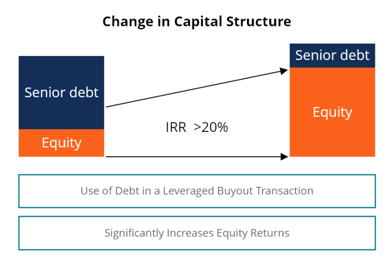
time value of money



risk profile (primaries vs. secondaries)

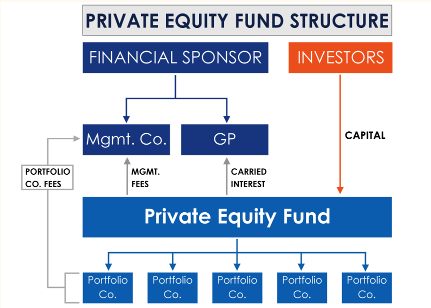


risk profile (secondaries)



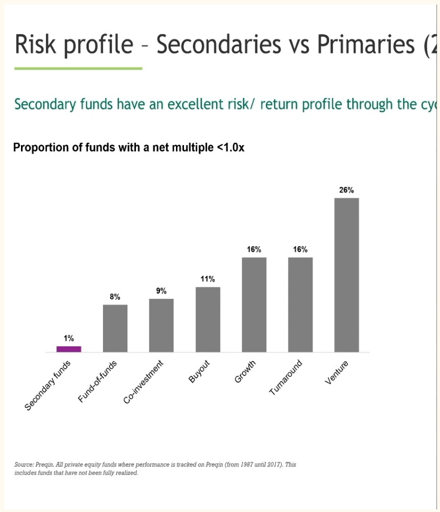
*demonstrates how the use of leverage can significantly increase equity returns as the debt is paid off over time.***

PE fund structure



*- 3.7% of all managers reach a 1BN USD in AUM.**

*- 93% of all small funds (below 100M) fail within the first 5 years.**



*secondary funds have excellent risk/return profile through the cycle. fewer secondary funds return a loss**

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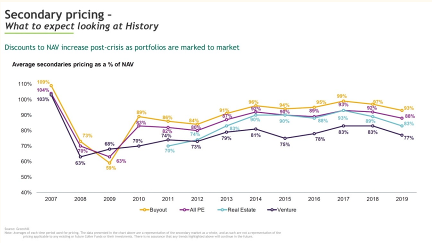
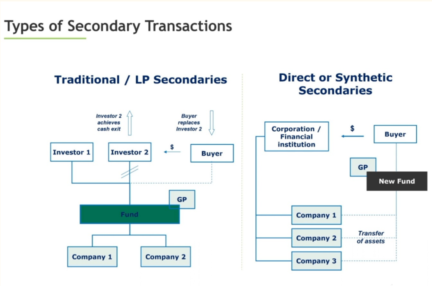
secondary pricing



types of secondary transactions



keys

it is better to observe what governments do rather than listen to what they say*

good return ton return/risk ratio

trust but verify

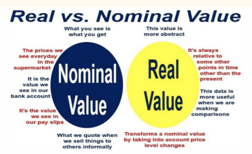
maximisation of speed ***(can this be done by the end of the day?)***

low rates can make anyone look good, with regular-high rates you have to really know what you're doing or you'll be exposed for being a hobo

constant size on various trades

- know your circle of competence

real vs. nominal value



financial quarters

quarter	commences	final date
Q1	january 1	march 31
Q2	april 1	june 30
Q3	july 1	september 30
Q4	october 1	december 31

fed

- monetary policy works with long and variable lags.

- USA = largest collateral hub in the world.

window guidance

a credit policy allowing central banks to steer bank lending toward certain economic activities.

*in the post-war period, it was common for both developed and emerging economies to employ various forms of credit control and allocation.**

fund reporting

type of reporting	frequency	details
regulatory	quarterly/annually	Form PF, AIFMD, etc.
investor	monthly/quarterly/annually	Performance, NAV, strategy updates
internal	daily/weekly	Performance, risk metrics, compliance

*window dressing typically happens at the end of the month. Fund manager try to make their books look better.**

free roll

a situation in gambling or investing where there is no risk of loss but a potential for gain.

trade on

- if uncorrelated trades, look at the drivers of these markets and their behaviours.

- if leveraged open interest needs to be flushed out = short

geometric nature of return

determining the culprit

who is interested + who is capable

cui prodest scelus is fecit *(for whom the crime advances, he has done it)*

folllow the trail, cui bono?

counterparty risk

the potential for one party in a financial transaction to default or fail to meet its obligations, leading to financial losses for the other party.

capital ratios

category	description	range
poor	capital ratio is below regulatory minimums, indicating significant risk of insolvency and inability to absorb losses. Bank may face regulatory scrutiny and potential intervention.	less than regulatory minimum
below average	capital ratio meets regulatory minimums but is at the lower end of the spectrum. Bank has limited buffer against losses and may struggle during economic downturns.	regulatory minimum to below 8%
average	capital ratio meets regulatory requirements but does not provide a substantial cushion against risks. Bank's stability may be adequate but lacks robustness for unforeseen challenges.	8% to below 10%

debt

- the debt that is outstanding = someone owns it

geometric return: compounding effect, where your returns grow on the returns that have already been earned. (snowballing down a hill, picking up more snow as it goes.)

geometric mean: the nth root of the product of n numbers, used to find the central tendency in multiplicative datasets.

capital ratios (cont)

above average	capital ratio exceeds regulatory minimums, providing a reasonable buffer against risks. Bank is better positioned to absorb losses and maintain stability in various economic conditions.	10% to below 12%
good	capital ratio is comfortably above regulatory requirements, indicating strong financial health and resilience. Bank can withstand adverse events and has capacity for growth and innovation.	12% to below 15%
excellent	capital ratio significantly exceeds regulatory minimums, demonstrating exceptional financial strength and risk management. Bank is well-prepared for unexpected shocks and has ample capacity for expansion and investment.	15% and above

negative ev

- losses

- poor ROI

- high risks *(high levels of risk that are not adequately compensated by potential rewards. This could include factors such as market volatility, regulatory uncertainties, or operational challenges.)*

- wasted resources

negative ev (cont)

- opportunity cost *(pursuing opportunities with negative EV may prevent a business from allocating resources to more promising ventures that could generate higher returns.)*

tail risk

the risk of extreme and rare financial events that lead to significant losses, occurring more frequently than predicted by standard models.

(financial crises, market crashes, natural disasters, pandemics, political upheaval, terrorist attacks, sovereign debt crises.)

capitalism/socialism

capitalist society = voluntary cooperation, voluntary exchange.

socialist society = force, no choice, all is decided for you.

positive ev

- built-in incentive

- narrative

profitability?, ROI?, risk management (are there strategies in place to help mitigate potential loses), opportunity assessment (is it the one with the highest yield?), decision making (focus on actions that are expected to add value to the business)

the stripper index

sex industry workers can and do indicate soon to be realised economic downturn.