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Writing and design sample

Assignment—Teach investors

basics of FX option trading

(Tutorial sample pages)

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Underlying Currency	+	110%
Spot Price 10.00000	+	100%
	+	90%
	+	80%
	+	70%
	4	60%
	-	50%
	-	40%
	-	30%
		20%
	-	10%
	-	0%
Jow	-	-10%
e Ma	-	-20%
len	4	-30%
2011	4	-40%
Q	1	-50%
	+	-60%
	+	-70%
	+	-80%
	+	-90%
Time in Days 365	+	-100%
	+	-110%
	+	-120%
	+	-130%
	+	-140%
Days per Year 365		-150%

10%				+ :	30.04166
.00%				+ :	27.18282
90%				+ :	24.59603
80%				4 :	22.25541
70%					20.99999 20.13753
608					18 22110
500					17.48634
50%					16.48721
40%					14.56058
30%				- :	13.49859
20%				:	12.12435
10%				- :	11.05171
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-10%					9.04837
200					8.40656
-208					
-30%				Ł	7.40818
40%				1	6.70320
-50%	To calculate your forecast t 99.7% of its price range:	from		+	6.06531
-60%	Enter end-of-period price three standard deviations			t	5.48812
70%	above median	21.0		+	4.96585
- 80 %	Enter end-of-period price three standard deviations			+	4.49329
90%	below median	7.0		+	4.06570
00%	Click button again.				3 67879
	Calculate Your Forecast	t		T	5.07075
10%				1	3.32871
.20%	Simulations from:		Your Forecast	Ŧ	3.01194
.30%				+	2.72532
40%				+	2.46597
.50%				4	2.23130

From a dealer's bid and ask prices for an option, you can extract the forecast for the underlying currency that the option price implies.

Thus far, to begin your assessment of an option, we've asked you to express your forecast for the underlying currency as a six-sigma span of end-of-period prices.

We've assumed that you can do your analysis or think about a currency and readily come up with an end-of-period high price and an end-of-period low price.

Most likely, rather than come up with your forecast out of the blue, you would find it easier to express how and how much you disagree with what everybody else thinks the consensus forecast.

Fortunately, with the simulator, you can do exactly that.

Underlying Cu	rrongy	+	110%
Spot Price	10.00000		100%
Domestic RfR (r,)	7.0%		1000
Foreign RfR (r,)	4.0%	+	90%
		┢	80%
		+	70 %
		+	60%
		+	50%
			40%
		1	30%
		+	20 %
		+	10%
		+	0%
2000 101		+	-10%
TY Ma		+	-20%
<u>5</u>		+	-30%
1102 6		+	-40%
~		+	-50%
		+	-60%
		ł	-70%
		ł	-80%
Option		+	-90%
Days to Expiration	365	1	-100%
Strike Price	11.02769		1100
Market price of call	0.50000	Ť	-110%
		Ŧ	-120%
		Ť	-130%
		+	-140%
Days per Year	365		_150%

.0%	-	- 30	.04166
10%	-	- 27	. 18282
90%	-	- 24	. 59603
:0 %	-	- 22	. 25541
10%	-	- 20	.13753
i0%	-	- 18	. 22119
i0%	-	- 16	.48721
10%	-	- 14	. 91825
80%	-	- 13	.49859
20%	-	- 12	. 21403
.0%		- 11	.05171
0%		- 10	. 00000
.0%	- -	- 9	. 04837
20%	- -	- 8	. 18731
80%	-	- 7	.40818
10%	- -	- 6	. 70320
i0%	-	- 6	.06531
i0%	-	- 5	.48812
<i>1</i> 0%		- 4	.96585
80%	-	- 4	.49329
0%	- - -	- 4	.06570
10%	-	- 3	. 67879
.0%	-	- 3	. 32871
20%		- 3	.01194
80%		- 2	. 72532
0%		- 2	.46597
i0%		- 2	.23130
		_	

From an option's price and a couple of other pieces of information, you can use the standard model for valuing FX options to extract the forecast for the underlying currency that the option price implies.

You can use the implied forecast as your reference and, if you disagree with it, express how you disagree with it by your choice of end-ofperiod high and low prices.

To extract the implied forecast from an option price, we also need:

- the spot price,
- the domestic risk-free rate,
- the risk-free rate of the underlying foreign currency and
- the option's strike price.

Let's say that, for this option, the dealer's ask price is 0.501 and bid price is 0.499.

To find the implied forecast, we use the midpoint of the ask and bid prices, which is 0.500.

Let's say the domestic risk-free rate is 7.0% geometric; the foreign currency's risk-free rate is 4.0% geometric.

Once you have entered this information, click ...

Underlying CurrencySpot Price10.00000Domestic RfR (r_d)7.000 %Foreign RfR (r_i)4.000 %	Implied Forecast 100% Annualized Period 100% Yather 90% Median 1.0000% 1.0000% 90% Volatility 20.0000% 20.0000% 70% 60% 50% 50%	- 30.04166 - 27.18282 - 24.59603 - 22.25541 - 20.13753 - 18.22119 - 16.48721	Calculate Implied Volatility. The simulator extracts the forecast that the option price implies.
	- 40% - 30% - 20%	- 14.91825 - 13.49859 - 12.21403	
Marlow	- 10% - 0% 10% 10%	11.05171 10.00000 - 9.04837	
© 2011 Terry J	20% 30% 40% 50%	+ 8.18731 - 7.40818 - 6.70320 - 6.06531	
	60% 70% 80%	- 5.48812 - 4.96585 - 4.49329	
OptionDays to Expiration365CallPutNo OptionStrike Price11.02769Market price of call0.50000	90% 100% 110%	- 4.06570 - 3.67879 - 3.32871	
Calculate Implied Volatility Days per Year 365	120% Implied Fore 130% 140%	cast + 3.01194 + 2.72532 + 2.46597 - 2.23130	

Underlying Currency					
Spot Price	10.00000				
Domestic RfR (r,)	7.000%				
Foreign RfR (r,)	4.000%				

365

365

No Option

11.02769

0.50000

Days to Expiration

Market price of call

Put

Call

Strike Price

Days per Year

108	Imp	olied Forec	ast			-
)0%		<u>Annualized</u>	Period			-
10%	r _d - r _f	3.0000%	3.0000%			
108	Median	1.0000%	1.0000%			-
30%	Volatility	20.0000%	20.0000%			-
70%						L
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90%						-
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20%		•	Implied Fore	ecast		-
30%						7
10%						-

Click Standard Devs.

30.04166

27.18282

24.59603

22.25541

20.13753

-18.40431

16.48721

-15.06818

13.49859

11.05171

10.10050

9.04837

7.40818

6.77057

6.06531

5.54327

4.96585

4.49329

4.06570

3.67879

3.32871

3.01194

Within the standard framework for valuing foreign exchange options, the implied forecast embodies the market-equilibrium view of how the spot price of a foreign currency is likely to evolve relative to a domestic currency over the option's time to expiration.

We call this the market-equilibrium forecast because its estimate of expected volatility is derived from the market-equilibrium price of the option. The market-equilibrium price of the option is arrived at through an auction process in the financial markets. The equilibrium price is the price at which the supply of a particular option (ask prices) finds equilibrium with the demand for it (bid prices.)

Market equilibrium prices are dynamic. A net influx into the auction of buyers willing to pay higher prices will drive up the price at which transactions clear the market. A net influx of sellers willing to sell at lower prices will drive down the price at which transactions clear the market.

2.72532 Standard Devs 2.46597 2.23130

Underlying Currency					
Spot Price	10.00000				
Domestic RfR (r _a)	7.000%				
Foreign RfR (r,	4.000%				

365

365

No Option

11.02769

0.50000

Days to Expiration

Market price of call

Put

Call

Strike Price

Days per Year



The six-sigma end-of-period price span of this implied forecast is from a high of 18.40431 to a low of 5.54327.

If you disagree with this forecast, then-depending on how you disagree— you believe your dealer's price for this option either undervalues it or overvalues it.

Let's say you've been studying unfolding or impending events in the home country of either the domestic or foreign currency. You think the market at large is underestimating the impact of these events on the future exchange rate between the two countries.

9.04837

7.40818

6.77057

6.06531

5.54327

4.96585

4.49329

4.06570

3.67879

3.32871

3.01194

2.72532

2.46597

2.23130

You think the spot price of the foreign currency is more likely to go up than the marketequilibrium view says. You think the spot price is likely to be more volatile than the marketequilibrium view says.

Underlying Currency			
Spot Price	10.00000	_	
Domestic RfR (r _a)	7.0%		
Foreign RfR (r_i)	4.0%		

Days to Expiration

Market price of call

😑 Call

Strike Price

Days per Year

🛑 Put

365

365

No Option

11.02769

0.50000

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0

110%	Implied Forecast	+ :	30.04166
100%	Annualized Period	: +	27.18282
90%	$\mathbf{r}_{\rm d} - \mathbf{r}_{\rm f} = \frac{3.0000\%}{1.0000\%} = \frac{3.0000\%}{1.0000\%}$		24.59603
500	Median 1.0000% 1.00008		
80%	VOIAIIIIIY 20.0000 /0 20.00000	+ *	22.25541
70 %		: +	20.13753
60%			18.40431
50%			16.48721
40 %			15.06818
30%			13.49859
20%			
10% -			11.05171
N % -			10.10050
			0.01007
-10%			9.04837
-20%			
-30%			7.40818
-40%			6.77057
-50%	To calculate your forecast from 99.7% of its price range:		6.06531
-60%	Enter end-of-period price three standard deviations	- F	5.54327
-70%	above median 24.59603	†	4.96585
-80%	Enter end-of-period price three standard deviations	-	4.49329
-90%	below median 6.77057		4.06570
100%	Click button again.	-	3.67879
110%			2 22071
1102		T.	3.32071
120%	Simulations from: 🛛 🖶 Implied For	recast 🗧 Your Forecast 🕇	3.01194
130%		-	2.72532
140%		+	2.46597
150%		-	2.23130

You decide that an end-of-period high price of 24.59603 and an end-of-period low price of 6.77057 best express how you disagree with the market-equilibrium view.

II		-	1
Underlying C			
Spot Price	10.00000		1
Domestic RIR (\mathbf{r}_{d})	1.0%		
Foreign RfR (r_{f})	4.0%		
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Optio	n	+	_
Days to Expiration	365		
😑 Call 🛛 🔍 Put	No Option	+	-1
Strike Price	11.02769	+	-1
Market price of cal	1 0.50000		
		+	-1
		1	-1
		+	-1
Days per Year	365		1

10%	Im	olied Forec	ast				+	30.04166
.00%		Annualized	Period				+	27.18282
90.0%	$\mathbf{r}_{d} - \mathbf{r}_{f}$	3.0000%	3.0000%					-24.59603
80%	Wedian Volatility	20.0000 %	20.0000%					22 25541
000								22.23341
70%								-19.83772
60%							7 1	18.22119
50%								16 40791 - <mark>15.99994</mark>
40%								14.91825
30%						7		13.49859
20%								12.21403
						\sim		
10% _								11.05171
0% —						$ \rightarrow $		-10.40811
10%								9.04837
20%								- 8.39457
30%								7.40818
-39.0%								- 6.77057
50%								6.06531
60%								5.48812
70%	Ye	our Foreca	st				4	4.96585
80%	Diff on our	Annualized	Period 27, 81128				+	4.49329
008	Median	25.5001%	25.5001%					4 06570
50%	Volatility	21.5000 %	21.5000%				Т	4.00370
<i>.</i> 00%	Calcul	late Your Fore	cast 📄				+	3.67879
10%							+	3.32871
20%	Simulatio	ns from: 🛛	Implied Fo	precast	•	Your Forec	ast –	3.01194
30%							+	2.72532
40%							÷	2.46597
50%							_	2.23130

Your forecast looks like this. It will give this call a value very different from its market price.

To find the call's value according to your forecast, we evaluate your forecast against the option's strike price.

Underlying C	urrency	+ 11
Spot Price	10.00000	• 10
Domestic RfR (r_d)	7.0%	
Foreign RfR (r,)	4.0%	l °
		<mark> </mark> + 8
	,	4 7
	/	<u>і</u> 6
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		3
)		5
		-6
Oution		T -8
Days to Expiration	365	† -9
Call Put	No Option	10
Strike Price	11.02769	11
Market price of call	0.50000	
		+ -12
		13
		14
Days per Year	365	15

0%	Im	plied Forec	ast				- 30.04166
0.34%		Annualized	Period				27.27544
	r _d - r _f	3.0000%	3.0000%				
0%	Median	1.0000%	1.0000%				— <mark>24</mark> .59603
0%	Volatility	20.0000 %	20.0000%				- 22.25541
0%							-19.83772
0%						1	- 18.22119
0%							<u> 16 10791</u> — <mark>15.99994</mark>
0%							- 14.91825
0%							-13.49859
0%					 1		- 12.21403
0% _							11.05171
n s							-10.40811
00 -							- 10.00000
0%							- 9.04837
0%							8.39457
0%							- 7.40818
0%							- 6.77057
0%							- 6.06531
0%							- 5.48812
0%	Y	our Foreca	st			-	- 4.96585
0%		Annualized	Period			_	- 4.49329
	Mean	27.8113 %	27.8113%				
0%	Wedian	21 5000 %	21 5000%			-	- 4.06570
0%	volatinty	21.3000 %	21.5000%			-	- 3.67879
0%	Risk-adj i	7.0000 %	7.0000%			-	- 3.32871
0%	Simulatio	ons from: 🛛 🗨	Implied Fo	precast	Your For	ecast	- 3.01194
0%						-	- 2.72532
0%	Evaluate I	Prob Dist again	ist Strike				- 2.46597
0%							2.23130

4	End-of-period currency price - Strike price = Payoff	27.27544 11.02769 16.24775
3	Payoff x Probability = Probability-weighted future value	16.24775 0.00050 0.00812387
2	Probability-weighted FV/ (exp(Period geo discount r)) = Probability-weighted present value	0.00812387 1.07251 0.00757465
5	Cumulative probability-weighted present value	0.00757465
<u> </u>		
3 L J 7 7	From your forecast, the his end-of-period price we me expect would be 27.27544 The payoff would be 16.24 With your risk-adjusted comparison	ghest ught 4. 4775. ost of

Underlying C	urrency	+ 11
Spot Price	10.00000	- 10
Domestic RfR (r _a)	7.0 %	
Foreign RfR (r_i)	4.0%	1 9
		- 8
		- 7
		5
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TBIMI		2
eny		
		-3
		-4
		-5
		6
		-7
		+ -8
Option	1	9
Days to Expiration	365	
Call Put	No Option	-10
Strike Price Markot price of cell	0 50000	+ -11
Marker price of call	0.50000	12
		13
		14
Days per Year	365	1.6

)%	Im	nlied Ebred	act				- 30.0
18	mu	Annualized	Period				07 1
18	r - r	3.0000%	3.0000%				- 27.1
)%	Median	1.0000%	1.0000%				-24.5
)%	Volatility	20.0000%	20.0000%				- 22.2
18-							A
							-19.8
3.53%							17.9
8							
18						1	- 14.9
18					1		- 13 4
							12.9
8							12.2
18 _							- 11.0
0.							-10.4
18 -							- 10.0
8							- 9.0
8							- 8.3
8							- 7.4
8							6.7
8							6.0
8							÷ 5.4
8	Y	our Foreca	st				4.9
8		Annualized	Period				4.4
	Mean	27.8113 %	27.8113%				
8	Median	25.5001%	25.5001%				+ 4.0
18	volatility	21.3000 %	21.30008				- 3.6
18	Risk-adj 2	7.0000%	7.0000%				- 3.3
8	C		Incertify of T			Terret	- 3.0
	Simulatio	ons from:	Implied fo	precasi	- 10	ar Forecast	
8							+ 2.7
8	Evaluate P	Prob Dist again	ist Strike	Fast			- 2.4
8							2.2

End-of-period currency price - Strike price = Payoff	17.95605 11.02769 6.92836
Payoff x Probability = Probability-weighted future value	6.92836 0.00050 0.00346418
Probability-weighted ΓV/ (exp(Period geo discount r)) = Probability-weighted present value	0.00346418 1.07251 0.00322998
Cumulative probability-weighted present value	0.50931935
We sweep through your for probability distribution. We the cumulative probability weighted present value of potential future option pay	orecast's Ve tally y- f its yoffs.

Underlying C	urrency	+	110%
Spot Price	10.00000	•	100%
Domestic RfR (r _a)	7.0%	:	
Foreign RfR (r,)	4.0%		90%
		4	80%
			70%
			60%
			50%
			40%
	<i>(</i>	••••	31.
			20%
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		_	. 0%
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leny		V	200
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0 0		T	-40%
			-50%
		1	-60%
		1	-70%
		╡	-80%
Option	n	-	-90%
Days to Expiration	365		_100%
Call Put	No Option		100%
Sinke Price	11.02789	ł	-110%
market price of call	0150000	+	-120%
		+	-130%
		+	-140%
Days per Year	365		-150%

8	Implied Fore	cast			+ 30.04166
8	Annualized	Period			- 27.18282
0.	r _a - r _f 3.0000%	6 3.0000%			
0	Median 1.0000%				-24.39003
8	Volatility 20.0000	0 20.00008			- 22.25541
8					-19.83772
8					- 18.22119
8					16 A0701
8				<i></i>	- 14.91825
.09%					13,64669
					12.90462
æ					- 12.21403
* -	/				- 11.05171
»					-10.40811
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8					- 9.04837
8					8.39457
8					- 7.40818
8					6.77057
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8-	Vour Foron	ant			1 96585
°	Annualized	Period			4.90385
8	Mean 27.8113 9	6 27.8113%			4.49329
8	Median 25.5001 %	6 25.5001 %			4.06570
8	Volatility 21.5000 9	6 21.5000%			- 3.67879
8	Risk-adj r 7.0000 9	% 7.0000%			3.32871
8	Ci	Turnited To		Stern Free of	- 3.01194
*	Simulations from:	- Implied Fo	recasi	• Your Forecast	2,72532
8	Evaluate Prob Dist aga	inst Strike)	Fast		+ 2.46597
8					+ 2.23130

6	End-of-period currency price	13.64669
9	- Strike price	11.02769
2	= Payoff	2.61900
	Payoff	2.61900
	× Probability	0.00050
T	= Probability-weighted future value	0.00130950
2	Probability-weighted FV/	0.00130950
9	(exp(Period geo discount r))	1.07251
1	= Probability-weighted present value	0.00122097
5	Cumulative probability-weighted	
<mark>59</mark>	present value	1.84916430
2		

Underlying Currency					
Spot Price	10.00000				
Domestic RfR (r _a)	7.0%				
Foreign RfR (r,)	4.0%				

Days to Expiration

Market price of call

🔍 Put

😑 Call

Strike Price

Days per Year

365

365

No Option

11.02769

0.50000

110%	Im	nlied Forec	ast			4 30.04166
100%		Annualized	Period			27 18282
1000	r r.	3.0000%	3.0000%			27.10202
90%	Median	1.0000%	1.0000%			-24.59603
80%	Volatility	20.0000 %	20.0000%			- 22.25541
70 %						-19.83772
60%						- 18.22119
50%						16 40791
40%						- 14.91825
30%						
20%						- 12.21403
9.81%		Z _				11.03122
•						-10.40811
U% -						- 10.00000
-10%						- 9.04837
-20%						8.39457
-30%						- 7.40818
-40%						6.77057
-50%						6.06531
-60%						5.48812
-70%	Y	our Foreca	st			4.96585
-80%	Mean	Annualized 27.8113 %	Period 27.8113%			4.49329
-90%	Median	25.5001%	25.5001%			4.06570
-100%	Volatility	21.5000 %	21.5000%			- 3.67879
-110%	Risk-adj i	7.0000 %	7.0000%			- 3.32871
-120%	Simulatio	ons from: 🛛 🔵	Implied Fo	recast	- Your Forecas	st - 3.01194
-130%						- 2.72532
-140%	Evaluate I	Prob Dist again	st Strike			- 2.46597
-150%						2.23130

30.04166	End-of-period currency price	11.03122
27.18282	= Payoff	0.00353
24.59603	Payoff	0.00353
22.25541	x Probability = Probability-weighted	0.00050
10 93772	future value	0.00000177
19.03772	Probability-weighted FV/	0.00000177
18.22119	(exp(Period geo discount r))	1.07251
16 40701	= Probability-weighted present value	0.00000165
14.91825	Cumulative probability-weighted	0 00101655
13.49859	present value	2.30181655
12.90462		
12.21403		
11 00100		
11.03122		
-10.40811 10.00000		

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10.00000
7.0%
4.0%

110%	Implied	Forecast			+ 30.041
100%	Annua	lized Period			27.182
	$\mathbf{r}_{a} - \mathbf{r}_{f}$ 3.0	0000% 3.0000	8		-
90%	Median 1.	0000 <mark>% 1.0000</mark>	8		-24.596
80%	Volatility 20.	0000 % 20.0000	8		- 22.2554
70 %					-19.837
60%					- 18.221
50%					16 A07
40 %				/	- 14.918
30%				- /	- 13.498
20%					12.904
108					11 051
100 -					-10.408
0% -					- 10.000
-10%					- 9.048
-19.72	8				8.210
-30%					- 7.408
-40%					6.770
-50%					- 6.065
-60%					5.488
-70%	Your F	orecast			4.965
	Annua	lized Period			
-80%	Mean 27.	8113 % 27.8113	8		4.493
-90%	Median 25.	5001% 25.5001	8		4.065
-100%	Volatility 21.	5000 % 21.5000	8		3.678
-110%	Risk-adj r 7.	0000 % 7.0000	8		- 3.328
-120%	Simulations fro	m: Implied	Forecast	Sour Foregot	3.011
-130%	Simulations fro	m. – mipheu .	lorecast		2.725
-140%	Evaluate Prob Di	st against Strike	Fast		- 2.465
-150%					- 2.231

30.04166	End-of-period currency price	8.21063
27.18282	- Strike price = Payoff	11.02769 0
24.59603	Payoff	0
22.25541	x Probability = Probability-weighted	0.00050
19.83772	future value	0.00000000
18.22119	Probability-weighted FV/ (exp(Period geo discount r))	0.00000000 1.07251
16 40791 - <mark>15.99994</mark>	= Probability-weighted present value	0.00000000
14.91825	Cumulative probability-weighted	
13.49859	present value	2.30181655
-12.90462		
12.21403		
11.05171		
-10.40811 10.00000		

9.04837

8.21063

7.40818

6.06531

5.48812

4.96585

4.49329

4.06570

3.67879

3.32871

3.01194

2.72532

2.46597

2.23130

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	-
Optior	L -
Days to Expiration	365
🗧 Call 🔎 Put 👘	No Option
Strike Price	11.02769
Market price of call	0.50000
	-
	-
	-
	205
Days per Year	365

Underlying Currency				
Spot Price	10.00000			
Domestic RfR (r _a)	7.0%			
Foreign RfR (r,)	4.0%			

365

365

No Option

11.02769

0.50000

Days to Expiration

Market price of call

Put

Call

Strike Price

Days per Year

2011

0

110.0	Imp	olied Forec	ast				T 30.04
100%	2	<u>Annualized</u>	Period				- 27.18
	$\mathbf{r}_{d} - \mathbf{r}_{f}$	3.0000%	3.0000%				
908	Median	1.0000%	1.0000%				-24.59
80%	Volatility	20.0000 %	20.0000%				- 22.25
70 %							-19.8 3
60%							- 18.22
50 %							
40 %						/	- 14.91
30%							- 13.49
20%		/					- 12.9
10% -							- 11.05
0% -							
_10%							q n/
-100					<u> </u>		8.39
-20%							- 0.10
-30%							- 7.40
-40%							- 6.77
-50%							6.06
-60%							5.48
-70%	Ye	our Foreca	st				4.96
-80%	Mean	<u>innualized</u> 27.8113 %	Period 27.8113%				- 4.49
-90%	Median	25.5001 %	25.5001%				4.06
-100%	Volatility	21.5000 %	21.5000%				- 3.67
-110%	Risk-adj r	7.0000%	7.0000%				- 3.32
-120%	Simulatio	ne from:	Implied F	vecant	Vour	Forecast	- 3.01
-130%	Simulano		implied fo	recast	lour	rorecast	2.72
-140%				_			2 2 16
140.0	Evaluate P	rob Dist agair	ist Strike	Fast			2.40
-150%							9 9 9 2

30.04166	End-of-period currency price	6.10547
07 10000	- Strike price	11.02769
21.10202	= Payoff	0
- <mark>24.59</mark> 603	Payoff	0
	x Probability	0.00050
22.25541	= Probability-weighted	
	future value	0.0000000
-19.83772	Probability weighted FW/	0 0000000
18.22119	(nor (Desired as a discount of the	1 07051
TOTELL	(exp(Period geo discount r))	1.07251
16 40791 - <mark>15,99994</mark>	= Probability-weighted present value	0.0000000
14.91825	Cumulative	
	probability-weighted	9 20101655
13.49859	present value	2.30101033
12.90462	T 11 / 0	
12.21403	According to your forecas	st, this call

According to your forecast, this call is worth 2.302, which is much more than the dealer's ask price of 0.501.

Of course, if you buy this call, your trading platform will show that you have a small loss, because you paid the ask price and, if you had to sell the option right back, you'd have to sell at the bid price of 0.499 which is below the market-equilibriumforecast price.

The market hasn't realized yet that the market-equilibrium forecast is wrong and your forecast is right. The market view is that its forecast is right and yours is wrong.

To reap the benefit of your superior forecast, you have to hold the option until the spot price evolves as you expect, not as the marketequilibrium forecast expects.

2.23130

11.05171

10.40811 10.00000

9.04837

8.39457

7.40818

6.06531

5.48812

4.96585

4.49329

4.06570

3.67879

3.32871

3.01194

2.72532

2.46597