

Risk and Light

David Ingram, CERA, FRM, PRM

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Abstract

“In the Kingdom of the Blind, the One Eyed Man is King” — Erasmus

It is widely reported that markets are made because different market participants have different views of the opportunities in the market. For every transaction, there may be an agreement on price, but an inevitable complete disagreement on direction of the next move in price. This article examines one source of those differences of opinion in the market: the view of risk of the various market participants. Based on some popular theoretical approaches to risk, a possible range of types of approach to risk is posited that is tied to some popular theoretical approaches to risk. The impact of these views of risk on the types of transactions chosen is extrapolated from groupings of risk views along that range. Finally, the interaction in the market of those varying points of view is illustrated with a simplified example; extension to a fully realistic real world situation is discussed. Simply stated, the article shows how market participants' view of risk impacts not just their own choices, but also how they impact on everyone else's choices as well.