Dynamic Hedging Taleb

Destined to become a market classic, Dynamic Hedging is the only practical reference in exotic options hedgingand arbitrage for professional traders and money managers Watch the professionals. From central banks to brokerages to multinationals, institutional investors are flocking to a new generation of exotic and complex options contracts and derivatives. But the promise of ever larger profits also creates the potential for catastrophic trading losses. Now more than ever, the key to trading derivatives lies in implementing preventive risk management techniques that plan for and avoid these appalling downturns. Unlike other books that offer risk management for corporate treasurers, Dynamic Hedging targets the real-world needs of professional traders and money managers. Written by a leading options trader and derivatives risk advisor to global banks and exchanges, this book provides a practical, real-world methodology for monitoring and managing all the risks associated with portfolio management. Nassim Nicholas Taleb is the founder of Empirica Capital LLC, a hedge fund operator, and a fellow at the Courant Institute of Mathematical Sciences of New York University. He has held a variety of senior derivative trading positions in New York and London and worked as an independent floor trader in Chicago. Dr. Taleb was inducted in February 2001 in the Derivatives Strategy Hall of Fame. He received an MBA from the Wharton School and a Ph.D. from University Paris-Dauphine.

Derivatives Models on Models takes a theoretical and practical look at some of the latest and most important ideas behind derivatives pricing models. In each chapter the author highlights the latest thinking and trends in the area. A wide range of topics are covered, including valuation methods on stocks paying discrete dividend, Asian options, American barrier options, Complex barrier options, reset options, and electricity derivatives. The book also discusses the latest ideas surrounding finance like the robustness of dynamic delta hedging, option hedging, negative probabilities and space-time finance. The accompanying CD-ROM with additional Excel sheets includes the mathematical models covered in the book. The book also includes interviews with some of the world's top names in the industry, and an insight into the history behind some of the greatest discoveries in quantitative finance. Interviewees include: Clive Granger, Nobel Prize winner in Economics 2003, on Cointegration Nassim Taleb on Black Swans Stephen Ross on Arbitrage Pricing Theory Emanuel Derman the Wall Street Quant Edward Thorp on Gambling and Trading Peter Carr the Wall Street Wizard of Option Symmetry and Volatility Aaron Brown on Gambling, Poker and Trading David Bates on Crash and Jumps Andrei Khrennikov on Negative Probabilities Elie Ayache on Option Trading and Modeling Peter Jaeckel on Monte Carlo Simulation Alan Lewis on Stochastic Volatility and Jumps Paul Wilmott on Paul Wilmott Knut Aase on Catastrophes and Financial Economics Eduardo Schwartz the Yoga Master of Quantitative Finance Bruno Dupire on Local and Stochastic Volatility Models

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Dynamic HedgingManaging Vanilla and Exotic OptionsJohn Wiley & Sons

"Over the past two decades, the mathematically complex models of finance theory have had a direct and wide-ranging influence on finance practice. Nowhere is this conjoining of intrinsic intellectual interest with extrinsic application better exemplified than in derivative-security pricing. The backgrounds of the authors of Options, Futures and Exotic Derivatives fit perfectly this pattern of combining theory and practice and so does their book. The range and depth of subject matter show excellent taste for what is essential to know the field and what is relevant and important to its application in the financial world. In addition to its fine subject-defining, the book delivers on subject-content, with rigorous derivations presented in a clear, direct voice for the serious student, whether academic or practitioner.

To the reader: Bon Appetit!" Robert C. Merton, Harvard Business School Long-Term Capital Management, L.P. "One of the merits of this book is that it is self-contained. It is both a textbook and a reference book. It covers the basics of the theory, as well as the techniques for valuation of many of the more exotic derivatives. It contains a detailed knowledge of the field. What is more, however, it is written with a deep understanding of the economics of finance." From the Foreword by Oldrich Alfons Vasicek "The authors have done an admirable job at distilling what is relevant in option research in one single volume. I wish I'd had the chance to read it before writing my own book." Nassim Taleb, veteran option arbitrageur and bestselling author of Dynamic Hedging: Managing Vanilla and Exotic Options "This is a delightful promenade in derivatives land. The book is encyclopaedic yet crisp and inspired. It is the story - told in equations - of the charms and spells of options and their underlying mathematics." Jamil Baz, Head of Financial Strategies, Lehman Brothers Europe Building steadily from the basic mathematical tools to the very latest techniques in exotic options, Options, Futures and Exotic Derivatives covers all aspects of the most innovative and rapidly developing area of international financial markets - the world of over-the-counter and tailor-made derivative asset pricing. Written by a globally renowned team of authors this book offers comprehensive coverage of exotic derivative assets and * Deals with numerous new forms of exotic options and option pricing * Provides detailed explanations of different models and numerical methods * Offers a deep understanding of the economics of finance With questions and review sections throughout, Options, Futures and Exotic Derivatives provides a thorough introduction to a crucial and expanding area in the world of finance for both finance students and practitioners.

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Getting agreement between finance theory and finance practice is important like never before. In the last decade the derivatives business has grown to a staggering size, such that the outstanding notional of all contracts is now many multiples of the underlying world economy. No longer are derivatives for helping people control and manage their financial risks from other business and industries, no, it seems that the people are toiling away in the fields to keep the derivatives market afloat! (Apologies for the mixed metaphor!) If you work in derivatives, risk, development, trading, etc. you'd better know what you are doing, there's now a big responsibility on your shoulders. In this second edition of Frequently Asked Questions in Quantitative Finance I continue in my mission to pull quant finance up from the dumbed-down depths, and to drag it back down to earth from the super-sophisticated stratosphere. Readers of my work and blogs will know that I think both extremes are dangerous. Quant finance should inhabit the middle ground, the mathematics sweet spot, where the models are robust and understandable, and easy to mend. ...And that's what this book is about. This book contains important FAQs and answers that cover both theory and practice. There are sections on how to derive Black-Scholes (a dozen different ways!), the popular models, equations, formulae and probability distributions, critical essays, brainteasers, and the commonest quant mistakes. The quant mistakes section alone is worth trillions of dollars! I hope you enjoy this book, and that it shows you how interesting this important subject can be. And I hope you'll join me and others in this industry on the discussion forum on wilmott.com. See you there!" FAQQF2...including key models, important formulae, popular contracts, essays and opinions, a history of quantitative finance, sundry lists, the commonest mistakes in quant finance, brainteasers, plenty of straight-talking, the Modellers' Manifesto and lots more.

Essays by leading intellectuals and public figures explore extreme events, environments, and achievements.

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A groundbreaking collection on currency derivatives, including pricing theory and hedging applications. "David DeRosa has assembled an outstanding collection of works on foreign exchange derivatives. It surely will become required reading for both students and option traders."-Mark B. Garman President, Financial Engineering Associates, Inc. Emeritus Professor, University of California, Berkeley. "A comprehensive selection of the major references in currency option pricing."-Nassim Taleb. Senior trading advisor, Paribas Author, Dynamic Hedging: Managing Vanilla and Exotic Options. "A useful compilation of articles on currency derivatives, going from the essential to the esoteric."-Philippe Jorion Professor of Finance, University of California, Irvine Author, Value at Risk: The New Benchmark for

Controlling Market Risk. Every investment practitioner knows of the enormous impact that the Black-Scholes option pricing model has had on investment and derivatives markets. The success of the theory in understanding options on equity, equity index, and fixed- income markets is common knowledge. Yet, comparatively few professionals are aware that the theory's greatest successes may have been in the derivatives market for foreign exchange. Perhaps this is not surprising because the foreign exchange market is a professional trading arena that is closed virtually to all but institutional participants. Nevertheless, the world's currency markets have proven to be an almost ideal testing and development ground for new derivative instruments. This book contains many of the most important scientific papers that collectively constitute the core of modern currency derivatives theory. What is remarkable is that each and every one of these papers has found its place in the real world of currency derivatives trading. As such, the contributing authors to this volume can properly claim to have been codevelopers of this new derivatives market, having worked in de facto partnership with the professional traders in the dealing rooms of London, New York, Tokyo, and Singapore. The articles in this book span the entire currency derivatives field: forward and futures contracts, vanilla currency puts and calls, models for

American exercise currency options, options on currencies with bounded exchange rate regimes, currency futures options, the term and strike structure of implied volatility, jump and stochastic volatility option pricing models, barrier options, Asian options, and various sorts of quanto options.
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A critical look at the risk measurement tool that has repeatedlyhurt the financial world The Number That Killed Us finally tells the "greateststory never told": how a mysterious financial risk measurementmodel has ruled the world for the past two decades and how it hasrepeatedly, and severely, caused market, economic, and socialturmoil. This model was the key factor behind the unleashing of thecataclysmic credit crisis that erupted in 2007 and which theeffects are still being felt around the world. The Number ThatKilled Us is the first and only book to thoroughly explain thishitherto-uncovered phenomenon, making it the key reference fortruly understanding why the malaise took place. The very number financial institutions and regulators use tomeasure risk (Vale at Risk/VaR) has masked it, allowing firms toleverage up their speculative bets to unimaginable levels. VaRsanctioned and allowed the monstrously geared toxic punts that sankWall Street, and the world, during the latest crisis. We canconfidently say that VaR was the culprit. In The Number ThatKilled

Us, derivatives expert Pablo Triana takes you throughthe development of VaR and shows how its inevitable structuralflaws allowed banks to take on even greater risks. The precise roleof VaR in igniting the latest crisis is thoroughly covered,including in-depth analysis of how and why regulators, by fallingin love with the tool, condemned us to chaos. Uncritically embracedworldwide for way too long, VaR is, in the face of suchdestruction, just starting to be examined as problematic, and inthis book Triana (long an open critic of the tool's role inencouraging mayhem) uncovers exactly why it makes our financialworld a more dangerous place. If we care for our safety, we shouldlet VaR go. Contains controversial analysis of the hotly debated riskmetric Value at Risk (VaR) and its central role in the creditcrisis Denounces the role of regulators and academics in forcing thepresence of the inevitably malfunctioning in financeland Describes how bonus-hungry traders can use VaR as an alibi totake on the most reckless of bets Reveals how the most recent financial crisis will simply repeatitself if the problems behind VaR are not unmasked Pablo Triana is also the author of Lecturing Birds onFlying The very risk measurement tool that was intended to contain riskallowed financial firms to blindly take on more. The model that wassupposed to save us condemned us to misery. The Number ThatKilled Us reveals how this has happened and what needs to bedone to

correct the situation.
Nassim Nicholas Taleb is a Lebanese born American literateur, scholar, essayist, trade-cum-risk analyst, statistician and so on. His multi-faceted talent and the ability to wander freely amongst diverse faculty of subjects have made him a force to reckon with in the gamut of global intellectual society. Most of Taleb's works are related to the dilemma of volatility, probability and uncertainty. Nicholas Taleb was born in Amioun (Lebanon) in the year 1960. He is an author of international fame and has served as an academician in several universities and is currently positioned as a distinguished professor of Risk Engineering at the New York University (Tandon School of Engineering). He has authored so many books to devour. The Black Swan, Antifragile, Skin in the Game, Fooled by Randomness, The Bed of Procrustes, Dynamic Hedging to name a few (combinedly called Incerto) are termed as Taleb’s most outstanding creations in the contemporary literary world. Nassim Nicholas Taleb has had devoted a good 21 years as a risk-taker (quantitative trader) before becoming a wanderer and researcher in spheres of mathematics, philosophy and largely potential problems with chance and probability. Over and above being impressed as a trader, Taleb has also written over 50 academic articles in multiple subjects as a sequel to Incerto. The topics covered are from physics,

philosophy, statistics, economics, ethics, quantitative finance and international affairs. The central idea in all these creations has centered on the notion of risk and probability with an undercurrent of randomness. Chinese edition of The black swan: the impact of the highly improbable. The author examines the highly improbable events that have massive impacts. An enlightening book that will change the way we think about the world. Distributed by Tsai Fong Books, Inc. In Volatility Trading, Sinclair offers you a quantitative model for measuring volatility in order to gain an edge in your everyday option trading endeavors. With an accessible, straightforward approach. He guides traders through the basics of option pricing, volatility measurement, hedging, money management, and trade evaluation. In addition, Sinclair explains the often-overlooked psychological aspects of trading, revealing both how behavioral psychology can create market conditions traders can take advantage of-and how it can lead them astray. Psychological biases, he asserts, are probably the drivers behind most sources of edge available to a volatility trader. Your goal, Sinclair explains, must be clearly defined and easily expressed-if you cannot explain it in one sentence, you probably aren't completely clear about what it is. The same applies to your statistical edge. If you do not know exactly what your edge is, you shouldn't trade. He shows how, in addition to the numerical evaluation of a potential trade, you should be able to identify and evaluate the reason why implied volatility is priced where it is, that is, why an edge exists. This means it is also necessary to be on top of recent news stories, sector trends, and behavioral psychology. Finally, Sinclair underscores why trades need to be sized correctly, which means that each trade is evaluated according to its projected return and risk in the overall context of your goals. As the author concludes, while we also need to pay attention to seemingly mundane things like having good execution software, a comfortable office, and getting enough sleep, it is knowledge that is the ultimate source of edge. So, all else being equal, the trader with the greater knowledge will be the more successful. This book, and its companion CD-ROM, will provide that knowledge. The CD-ROM includes spreadsheets designed to help you forecast volatility and evaluate trades together with simulation engines.

Introduction -- The global financial crisis of 2007-09 : an overview of neglected ideas from economics, psychology, and values / A.G. Malliaris, Leslie Shaw, and Hersh Shefrin -- The global financial crisis of 2007-09 and economics -- From asset price bubbles to liquidity traps / A.G. Malliaris -- A minsky meltdown: lessons for central bankers / Janet Yellen -- Modeling financial instability / Steve Keen -- Assessing the contribution of hyman minsky's perspective to our understanding of economic instability / Hersh Shefrin -- The Great Recession of 2008-09 and its impact on unemployment / John Silvia -- Mathematical definition, mapping, and detection of (anti)fragility / Nassim Taleb and Rafael Douady -- The global financial crisis of 2007-09 and psychology -- The varieties of incentive experience / Robert Kolb -- Goals and the organization of choice under risk in both the long run and the short run / Lola Lopes -- Topology of greed and fear / Graciela Chichilnisky -- A sustainable understanding of instability in minds and in markets / Leslie Shaw -- Existence of monopoly in the stock market : a model of information-based manipulation / Viktoria Dalko, Lawrence R. Klein, S. Prakash Sethi, and Michael Wang -- Crisis of authority / Werner DeBondt -- Social structure, power, and financial fraud / Brooke Harrington -- The global financial crisis of 2007-09 and values -- Economics, self psychology, and ethics : why modern economic persons cheat and how self psychology can provide the basis for a trustworthy economic world / John Riker -- Finance professionals in the market for status / Meir Statman -- Why risk management failed: ethical and behavioral explanations / John Boatright -- The global financial crisis and social justice : the crisis seen through the lens of Catholic social doctrine / Paul Fitzgerald, S.J -- The moral benefits of financial crises: a virtue ethics perspective / John Dobson --

Three ethical dimensions of the financial crisis / Antonio Argandonan -- Epilogue -- Lessons for future financial stability / A.G. Malliaris, Leslie Shaw, and Hersh Shefrin

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Table of contents
Nassim Nicholas Taleb is a Lebanese born American literateur, scholar, essayist, trade-cum-risk analyst, statistician and so on.His multi-faceted talent and the ability to wander freely amongst diverse faculty of subjects have made him a force to reckon with in the gamut of global intellectual society. Most of Taleb's works are related to the dilemma of volatility, probability and uncertainty.Nicholas Taleb was born in Amioun (Lebanon) in the year 1960. He is an author of international fame and has served as an academician in several universities and is currently positioned as a distinguished professor of Risk Engineering at the New York University (Tandon School of Engineering).He has authored so many books to devour. The Black Swan, Antifragile, Skin in the Game, Fooled by Randomness, The Bed of Procrustes, Dynamic Hedging to name a few (combinedly called Incerto) are termed as Taleb's most outstanding creations in the contemporary literary world.Nassim Nicholas Taleb has had devoted a good 21 years as a risk-taker (quantitative

trader) before becoming a wanderer and researcher in spheres of mathematics, philosophy and largely potential problems with chance and probability. Over and above being impressed as a trader, Taleb has also written over 50 academic articles in multiple subjects as a sequel to Incerto.The topics covered are from physics, philosophy, statistics, economics, ethics, quantitative finance and international affairs.The central idea in all these creations has centered on the notion of risk and probability with an undercurrent of randomness.

The Business of Options shows how to conduct a professional options business. While it addresses the principles and practices of option trading and hedging in great detail, the book is the first to do so from a management perspective. O'Connell's extensive experience in option trading, training, and consulting enables the book to offer a unique combination of sophistication, clarity and insight. Most option books that are written for professionals focus on advanced math or on specific trades. This book goes farther, incorporating broad strategic considerations and exploring the implications of likely human behavior. It often challenges conventional wisdom of "what works" in the options business. Its intuitive approach to complex issues involving options enables readers to stretch their mathematical capabilities. Its down-to-earth explanations about the business of options reflect both the optimism and skepticism of a seasoned practitioner in the option market who has, for over 20 years, advised and trained professional dealers and users of options around the world.

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In The Handbook of Municipal Bonds, editors Sylvan Feldstein and Frank Fabozzi provide traders, bankers, and advisors—among other industry participants—with a well-rounded look at the industry of tax-exempt municipal bonds. Chapter by chapter, a diverse group of experienced contributors provide detailed explanations and a variety of relevant examples that illuminate essential elements of this area. With this book as your guide, you'll quickly become familiar with both buy side and sell side issues as well as important innovations in this field.

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An A to Z options trading guide for the new millennium and the new economy Written by professional trader and quantitative analyst Euan Sinclair, Option Trading is a comprehensive guide to this discipline covering everything from historical background, contract types, and market structure to volatility measurement, forecasting, and hedging techniques. This comprehensive guide presents the detail and practical information that professional option traders need, whether they're using options to hedge, manage money, arbitrage, or engage in structured finance deals. It contains information essential to anyone in this field, including option pricing and price forecasting, the Greeks, implied volatility, volatility measurement and forecasting, and specific option strategies. Explains how to break down a typical position, and repair positions Other titles by Sinclair: Volatility Trading Addresses the various concerns of the professional options trader Option trading will continue to be an important part of the financial landscape. This book will show you how to make the most of these profitable products, no matter what the market does.

Introduces a powerful new approach to financial risk modelingwith proven strategies for its real-world applications The 2008 credit crisis did much to debunk the much touted powersof Value at Risk (VaR) as a risk metric. Unlike most authors on VaRwho focus on what it can do, in this book the author looks at whatit cannot. In clear, accessible prose, finance practitioners, MaxWong, describes the VaR measure and what it was meant to do, thenexplores its various failures in the real world of crisis riskmanagement. More importantly, he lays out a revolutionary newmethod of measuring risks, Bubble Value at Risk, that iscountercyclical and offers a well-tested buffer against marketcrashes. Describes Bubble VaR, a more macro-prudential risk measureproven to avoid the limitations of VaR and by providing a moreaccurate risk exposure estimation over market cycles Makes a strong case that analysts and risk managers need tounlearn our existing "science" of risk measurement and discovermore robust approaches to calculating risk capital Illustrates every key concept or formula with an abundance ofpractical, numerical examples, most of them provided in interactiveExcel spreadsheets Features numerous real-world applications, throughout, based onthe author's firsthand experience as a veteran financial riskanalyst

This book combines the study of rhetoric, history, philosophy, philosophy of statistics and the culture of investing to discuss the foundations of stochastical predictability in investment theory. Besides discussing the problem of stochastical prediction, the book also covers alternative investment theories. Ideas from uncertainty economics, expressed by the likes of Keynes, Knight, von Mises, Taleb and McCloskey are also discussed. This book will be of interest to researchers and academics in the field of investment theory, as well as investment practitioners.

Praise for Dynamic Term Structure Modeling "This book offers the most comprehensive coverage of term-structure models I have seen so far, encompassing equilibrium and no-arbitrage models in a new framework, along with the major solution techniques using trees, PDE methods, Fourier methods, and approximations. It is an essential reference for academics and practitioners alike." --Sanjiv Ranjan Das Professor of Finance, Santa Clara University, California, coeditor, Journal of Derivatives "Bravo! This is an exhaustive analysis of the yield curve dynamics. It is clear, pedagogically impressive, well presented, and to the point." --Nassim Nicholas Taleb author, Dynamic Hedging and The Black Swan "Nawalkha, Beliaeva, and Soto have put together a comprehensive, up-to-date textbook on modern dynamic term structure modeling. It is both accessible and rigorous and should be of tremendous interest to anyone who wants to learn about state-of-the-art fixed income modeling. It provides many numerical examples that will be valuable to readers interested in the practical implementations of these models." --Pierre Collin-Dufresne Associate Professor of Finance, UC Berkeley "The book provides a comprehensive description of the continuous time interest rate models. It serves an important part of the trilogy, useful for financial engineers to grasp the theoretical underpinnings and the practical implementation." --Thomas S. Y. Ho, PHD President, Thomas Ho Company, Ltd, coauthor, The Oxford Guide to Financial Modeling

The most up-to-date resource on market risk methodologies Financial professionals in both the front and back office require an understanding of market risk and how to manage it. Measuring Market Risk provides this understanding with an overview of the most recent innovations in Value at Risk (VaR) and Expected Tail Loss (ETL) estimation. This book is filled with clear and accessible explanations of complex issues that arise in risk measuring-from parametric versus nonparametric estimation to incre-mental and component risks. Measuring Market Risk also includes accompanying software written in Matlab—allowing the reader to simulate and run the examples in the book.

This concise textbook provides a unique framework to introduce Quantitative Finance to advanced undergraduate and beginning postgraduate students. Inspired by Newton's three laws of motion, three principles of Quantitative Finance are proposed to help practitioners also to understand the pricing of plain vanilla derivatives and fixed income securities. The book provides a refreshing perspective on Box's thesis that "all models are wrong, but some are useful." Being practice- and market-oriented, the author focuses on financial derivatives that matter most to practitioners. The three principles of Quantitative Finance serve as buoys for navigating the treacherous waters of hypotheses, models, and gaps between theory and practice. The author shows that a risk-based parsimonious model for modeling the shape of the yield curve, the arbitrage-free properties of options, the Black-Scholes and binomial pricing models, even the capital asset pricing model and the Modigliani-Miller propositions can be obtained systematically by applying the normative principles of Quantitative Finance.

LECTURING BIRDS ON FLYING For the past few decades, the financial world has often displayed an unreasonable willingness to believe that "the model is right, the market is wrong," in spite of the fact that these theoretical machinations were largely responsible for the stock market crash of 1987, the LTCM crisis of 1998, the credit crisis of 2008, and many other blow-ups, large and small. Why have both financial insiders (traders, risk managers, executives) and outsiders (academics, journalists, regulators, the public) consistently demonstrated a willingness to treat quantifications as gospel? Nassim Taleb first addressed the conflicts between theoretical and real finance in his technical treatise on options, Dynamic Hedging. Now, in Lecturing Birds on Flying, Pablo Triana offers a powerful indictment on the trustworthiness of financial theory, explaining—in jargon-free plain English—how malfunctions in these quantitative machines have wreaked havoc in our real world. Triana first analyzes the fundamental question of whether financial markets can in principle really be solved mathematically. He shows that the markets indeed cannot be tamed with equations, presenting a long and powerful list of obstacles to prove his point: maverick unlawful human actions rule the markets, unexpected and unimaginable events shape the markets, and historical data is not necessarily a trustworthy guide to the future of the markets. The author then examines the sources of origin of many prevalent theories and mathematical dictums. He details how the field of financial economics evolved from a descriptive discipline to an abstract one dedicated to technically concocting professors' own versions of how such a world should work. He goes on to explain how Wall Street and other financial centers became eager employers of scientists, and how scientists became eager employees of financial firms. Triana concludes with an in-depth discussion of the most significant historical episodes of theory-caused real-life market malaise, with a strong emphasis on the current credit crisis. In the end, Lecturing Birds on Flying calls for the radical substitution of good old-fashioned common sense in place of mathematical decision-making and the

restoration to financial power of those who are completely unchained to the iron ball of classroom-obtained qualifications.
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