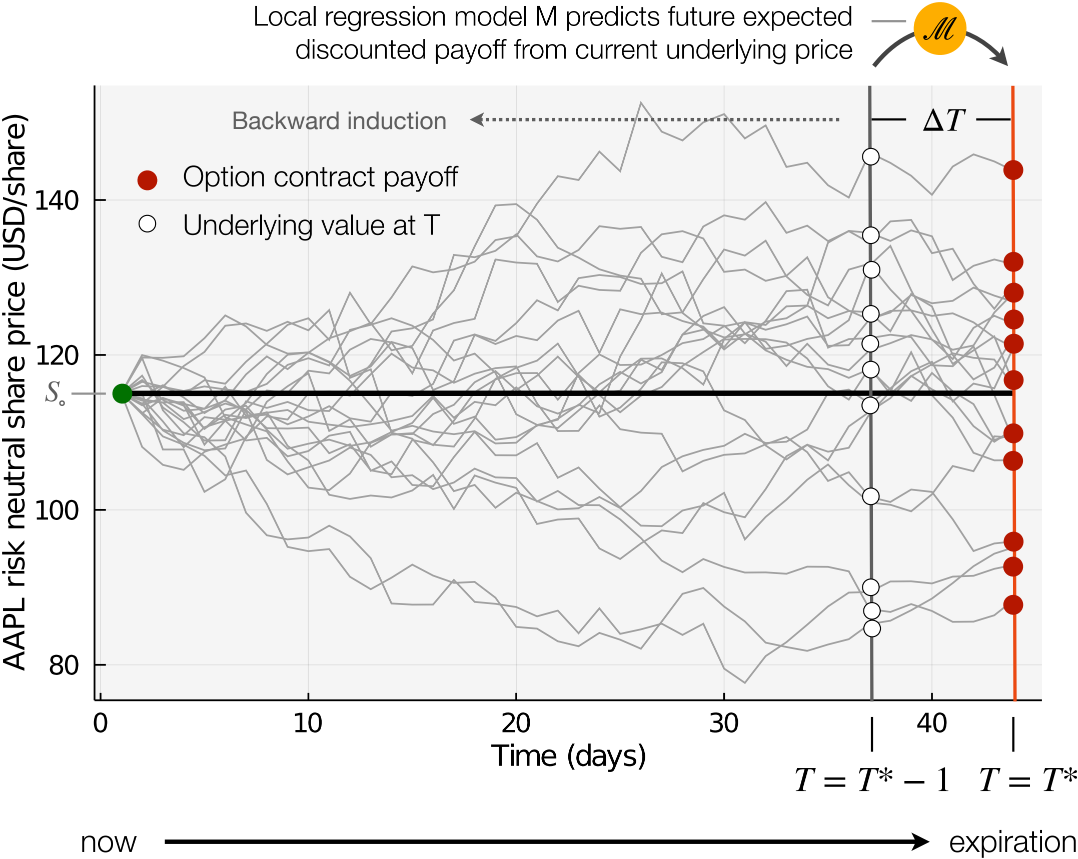

Local regression model M predicts future expected
discounted payoff from current underlying price
Backward induction
ΔT
Option contract payoff
Underlying value at T
AAPL risk neutral share price (USD/share)
140
120
100
80
$S_\circ$
0
10
20
30
40
Time (days)
$T = T^* - 1$
$T = T^*$
now
expiration