country.

**Absolute form of purchasing power parity**
A theory that prices of products of two different countries should be equal when measured by a common currency. Also called the "law of one price."

**Absolute Physical Life**
The period of use after which an asset has deteriorated to such an extent that it can no longer be used.

**Absolute priority**
Rule in bankruptcy proceedings requiring senior creditors to be paid in full before junior creditors receive any payment.

**Absorbed**
Used in context of general equities. Securities are "absorbed" as long as there are corresponding orders to buy and sell. The market has reached the absorption point when further assimilation is impossible without an adjustment in price. See: Sell the book.

**Abusive tax shelter**
A limited partnership that the IRS judges to be claiming tax deductions illegally.

**Accelerated cost recovery**
Schedule of depreciation rates allowed for tax purposes.

**Acceleration clause**
A contract stating that the unpaid balance becomes due and payable if specific actions transpire, such as failure to make interests payments on time.

**Accelerated depreciation**
Any depreciation method that produces larger deductions for depreciation in the early years of an asset's life. Accelerated cost recovery system (ACRS), which is a depreciation schedule allowed for tax purposes, is one such example.

**Acceptance**
Contractual agreement instigated when the drawee of a time draft "accepts" the draft by writing the word "accepted" thereon. The drawee assumes responsibility as the acceptor and for payment at maturity. See: Letter of credit and banker's acceptance.

**Accommodative monetary policy**
Federal Reserve System policy to increase the amount of money available to banks for lending. See: Monetary policy.

**Account**
**Ahead of itself**
In context of general equities, refers to equities that are overbought or oversold on a fundamental basis.

**Ahead of you**
Used for listed equity securities. At the same price but entered ahead of your order/interest, usually referring to the specialist's book. See: Behind, matched orders, priority, stock ahead.

**AIMR Performance Presentation Standards Implementation Committee**
The Association for Investment Management and Research (AIMR) Performance Presentation Standards Implementation Committee is charged with the responsibility to interpret, revise, and update the AIMR Performance Presentation Standards (AIMR-PPS(TM) for portfolio performance presentations.

**Air Freight Consolidator**
An air freight carrier that does not own or operate its own aircraft but ships its cargo with actual equipment operating carriers. Consolidators issue house air waybills to their customers and receive master air waybills from the actual carriers.

**Air pocket stock**
A stock whose price drops precipitously, often on the unexpected news of poor results.

**Alien corporation**
A company incorporated under the laws of a foreign country regardless of where the company conducts its operations.

**All equity rate**
The discount rate that reflects only the business risks of a project, distinct from the effects of financing.

**All in**
Refers to an issuer's interest rate after accounting for commissions and various related expenses.

**All-in-rate**
Rate used in charging customers for accepting banker's acceptances, consisting of the discount interest rate plus the commission.

**All Ordinaries Index**
The major index of Australian stocks comprising 330 of the major companies listed on the Australian Stock Exchange.
Present value of $1 paid for each of $t$ periods.

**Annuity in arrears**
An annuity with a first payment one full period hence, rather than immediately.

**Annuity starting date**
The date when an annuitant starts receiving payments from an annuity.

**Anticipated holding**
The period of time an individual expects to hold an asset.

**Anticipation**
Paying what is owed before it is due (usually to save interest charges).

**Antidilutive effect**
Result of a transaction that increases earnings per common share (e.g., by decreasing the number of shares outstanding).

**Anti-Persistence**
In R/S Analysis, an anti-persistent time series reverses itself more often than a random series would. If the system had been up in the previous period, it is more likely that it will be down in the next period and vice versa. Also called anti-persistent, or 1/f noise. See: Persistence, R/S Analysis, Hurst Exponent, Joseph Effect, Noah Effect.

**Antigreenmail**
Greenmail refers to the agreement between a large shareholder and a company in which the shareholder agrees to sell his stock back to the company, usually at a premium, in exchange for the promise not to seek control of the company for a specified period of time. Antigreenmail provisions prevent such arrangements unless the same repurchase offer is made to all shareholders or approved by a shareholder vote. There are some states that have antigreenmail laws.

**Antitrust laws**
Legislation established by the federal government to prevent the formation of monopolies and to regulate trade.

**Any-interest-date**
A call provision in a municipal bond indenture that establishes the right of redemption for the issuer on any interest payment due date.

**Any-or-all bid**
Often used in risk arbitrage. Takeover bid in which the acquirer offers to pay a set price for all outstanding shares of the target company, or any part thereof; contrasts with two-tier bid.
In the context of investments, refers to the amount by which interest on bonds or dividends on cumulative preferred stock is due and unpaid.

**Articles of incorporation**
Legal document establishing a corporation and its structure and purpose.

**Artificial currency**
A currency substitute, e.g., special drawing rights (SDRs).

**Artificial Intelligence**
The creation of models that mimic thought processes. See: Neural Networks, Fuzzy Logic, and Genetic Algorithms.

**Ascending tops**
A chart pattern that depicts that each peak in a security's price over a period of time is higher than the preceding peak. Antithesis of descending tops.

**Asia-Pacific Economic Cooperation Pact (APEC)**
A loose economic affiliation of Southeast Asian and Far Eastern nations. The most prominent members are China, Japan, and Korea.

**Asian Currency Units (ACU)**
Dollar deposits held in Singapore or other Asian centers.

**Asian dollar market**
Asian banks that collect deposits and make loans denominated in US dollars.

**Asian option**
Option based on the average price of the underlying assets during the life of the option.

**Ask**
This is the quoted ask, or the lowest price an investor will accept to sell a stock. Practically speaking, this is the quoted offer at which an investor can buy shares of stock; also called the offer price.

**Asked price**
In context of general equities, price at which a security or commodity is offered for sale on an exchange or in the OTC Market.

**Asked to bid/off er**
Used in context of general equities. Usually a seller (buyer) looking to aggressively sell (buy) stock, usually asking for a capital commitment from an investment bank.

**Aspirin**
The ratio of net sales to total assets.

**Asset value**
The net market value of a corporation's assets on a per-share basis, not the market value of the shares. A company is undervalued in the market when asset value exceeds market value.

**Assets**
A firm's productive resources.

**Assets-in-place**
Property in which a firm has already invested.

**Assets requirements**
A common element of a financial plan that describes projected capital spending and the proposed uses of net working capital.

**Assignment**
The receipt of an exercise notice by an options writer that requires the writer to sell (in the case of a call) or purchase (in the case of a put) the underlying security at the specified strike price.

**Assignment of proceeds**
Arrangement that allows the original beneficiary of a letter of credit to pledge or turn over proceeds to another, typically a supplier.

**Assimilation**
The public absorption of a new issue of stocks once the stock has been completely sold by underwriter. See: Absorbed.

**Association of Southeast Asian Nations (ASEAN)**
A loose economic and geopolitical affiliation that includes Singapore, Brunei, Malaysia, Thailand, the Philippines, Indonesia, and Vietnam. Future members are likely to include Burma, Laos, and Cambodia.

**Assumed interest rate**
Rate of interest used by an insurance company to calculate the payout on an annuity contract.

**Assumption**
Becoming responsible for the liabilities of another party.

**ASX Derivatives and Options Market (ASXD)**
Options market trading options on more than 50 of Australia's and New Zealand's leading companies.
**Autocorrelation**
The correlation of a variable with itself over successive time intervals. Sometimes called serial correlation.

**Automated bond system (ABS)**
The computerized system that records bids and offers for inactively traded bonds until they are cancelled or executed on the NYSE.

**Automated Clearing House (ACH)**
A collection of 32 regional electronic interbank networks used to process transactions electronically with a guaranteed one-day bank collection float.

**Automated Customer Account Transfer (ACAT)**
For transfers of securities from a non-equity trading account to your equity trading account with your broker.

**Automated Export System**
Electronic filing of Shippers Export Declaration (SEDs) with US Customs prior to departure.

**Automated Order System (AOS)**
Investment banks, computerized order entry system that sends limit order entries to DOT (Odd-Lot) or to investment banks, floor brokers on the exchange. See: Round lot, GTC orders.

**Automated Pit Trading (APT)**
Introduced in 1989, APT is the LIFFE screen-based trading system that replicates the open outcry method of trading. APT is used to extend the trading day for the major futures contracts as well as to provide a daytime trading environment for non-floor trading products.

**Automated teller machine (ATM)**
Computer-controlled terminal located on the premises of financial institutions or elsewhere, though which customers may make deposits, withdrawals or other transactions as they would through a bank teller. Other terms sometimes used to describe such terminals are customer-bank communications terminal (CBCT) and remote service unit (RSU) Groups of banks sometimes share ATM.

**Automatic Data Processing (ADP)**
Acts as an intermediary to perform proxy services for several banks and brokers. Distributes proxy material to beneficial owners, tabulates the returned proxies, and provides the Corporation or its tabulator compiled reports of the tabulation results. ADP also distributes quarterly reports and other corporate information to the beneficial owners.
The weighted-average age of all the firm’s outstanding invoices.

**Average collection period, or days' receivables**
The ratio of accounts receivables to sales, or the total amount of credit extended per dollar of daily sales (average AR/sales 365).

**Average cost**
In the context of investing, refers to the average cost of shares or stock bought at different prices over time.

**Average cost of capital**
A firm's required payout to bondholders and stockholders expressed as a percentage of capital contributed to the firm. Average cost of capital is computed by dividing the total required cost of capital by the total amount of contributed capital.

**Average daily balance**
A method for calculating interest in which the balance owed each day by a customer is divided by the number of days. See also: Adjusted balance method and previous balance method.

**Average discount rate**
Purchasers tender their competitive bids on a discount rate basis. The weighted, or adjusted, mean of all bids accepted in Treasury bill auctions.

**Average down**
A strategy used by investors to reduce the average cost of shares, in which the investor purchases more shares with a fixed amount of capital as the price of the shares decrease. The investor receives more shares per dollar and decreases the average price per share.

**Average equity**
A customer’s average daily balance in a trading account at a brokerage firm.

**Average life**
Also referred to as the weighted-average life (WAL). The average number of years that each dollar of unpaid principal due on the mortgage remains outstanding. Average life is computed as the weighted-average time to the receipt of all future cash flows, using as the weights the dollar amounts of the principal paydowns.

**Average maturity**
The average time to maturity of securities held by a mutual fund. Changes in interest rates have greater impact on funds with longer average maturity.

**Average rate of return (ARR)**
The ratio of the average cash inflow to the amount invested.
Average tax rate
Taxes as a fraction of income; total taxes divided by total taxable income.

Average up
A strategy used by investors to lower the overall cost of shares by buying as many shares with a given amount of capital in an increasing market. Buying $1000 worth of shares at $30, $35, $40, and $45, for instance, will make the average cost of the shares $37.50.

Averaging
See: Constant dollar plan.

Away
A trade, quote, or market that does not originate with the dealer in question, e.g., "the bid is 98-10 away from me."

Away from the market
In context of general equities, out of line with the inside market at this time, such as when a bid on a limit order is lower or the offer price is higher than the current market price for the security; held by the specialist for later execution unless FOK. Antithesis of in-line.

Away from us
Used in context of general equities, to characterize role of a competing broker/dealer. Trading away from us signifies that stock is bought and/or sold with institutions using other trading firms.

Away from you
Used for listed equity securities. See: Outside of you.

Axe to grind
Used in context of general equities. Involvement in a security, whether through a position, order, or inquiry.

B
Fifth letter of a Nasdaq stock descriptor specifying that issue is the Class B shares of the company.

B2B
An Internet strategy of dealing directly with businesses, rather than consumers, i.e. business to (2) business.

BA
The two-character ISO 3166 country code for BOSNIA AND HERZEGOVINA.
Also called on-the-run or current-coupon issue or bellwether issues. In the secondary market, the benchmark issue is the most recently auctioned Treasury issues for each maturity.

**Beneath**
Used for listed equity securities. 1) Behind; 2) Lower in price.

**Beneficial Owner**
As used for most purposes under the federal securities laws. A beneficial owner of stock is any person or entity with sole or shared power to vote or dispose of the stock. This SEC definition is intended to include a holder who enjoys the benefits of ownership although the shares may be held in another name.

**Beneficial ownership**
Often used in risk arbitrage. Person who enjoys the benefits of ownership even though title is in another name. (Abused through the illegal use of a parking violation.)

**Beneficiary**
Term used to refer to the person who receives the benefits of a trust or the recipient of the proceeds of a life insurance policy.

**Bequest**
Property left to an heir under the terms of a will.

**Best's rating**
A rating A.M. Best Co. assigns to insurance companies based on the company's ability to meet its obligations to its policyholders.

**Best-efforts**
A method of securities distribution/underwriting in which the securities firm agrees to sell as much of the offering as possible and return any unsold shares to the issuer. As opposed to a guaranteed or fixed-price sale, in which the underwriter agrees to sell a specific number of shares (and holds any unsold shares in its own account if necessary).

**Best-interests-of-creditors**
The requirement that a claim holder voting against a plan of reorganization must receive at least as much as if the debtor were liquidated.

**Beta**
The measure of an asset's risk in relation to the market (for example, the S&P500) or to an alternative benchmark or factors. Roughly speaking, a security with a beta of 1.5, will have move, on average, 1.5 times the market return. [More precisely, that stock's excess return (over and above a short-term money market rate) is expected to move 1.5 times the market excess return.)] According to asset pricing theory, beta represents the type of risk, systematic risk, that cannot be diversified away. When using beta, there are a
**Bid price**
This is the quoted bid, or the highest price an investor is willing to pay to buy a security. Practically speaking, this is the available price at which an investor can sell shares of stock. Related: Ask, offer.

**Bid-to-cover**
The ratio of the number of bids received in a Treasury security auction compared to the number of accepted bids.

**Bid wanted**
Used in the context of general equities. Announcement that a holder of securities wants to sell and will entertain bids.

**Bidder**
A firm or person that wants to buy a firm or security.

**Bidding buyer**
In the context of general equities, a nonaggressive buyer who prefers to await a natural seller in the hope of paying a lower price.

**Bifurcation**
When a non-linear dynamic system develops twice the possible solutions that it had before it passed its critical level. A bifurcation cascade is often called the period doubling route to chaos because the transition from an orderly system to a chaotic system often occurs when the number of possible solutions begins increasing, doubling each time.

**Bifurcation**
A graph that shows the critical points where bifurcation occurs, and the possible solutions that exist at that point.

**Big Bang**
The term applied to the liberalization in 1986 of the London Stock Exchange (LSE) when trading was automated.

**Big Board**
A nickname for the New York Stock Exchange (NYSE). Also known as The Exchange. More
Applies mainly to convertible securities. Redeemable by the issuer before the scheduled maturity under specific conditions and at a stated price, which usually begins at a premium to par and declines annually. Bonds are usually called when interest rates fall so significantly that the issuer can save money by issuing new bonds at lower rates.

**Called away**
Convertible: Redeemed before maturity.
Option: Call or put option exercised against the stockholder.
Sale: Delivery required on a short sale.

**Cumulative Auction Market Preferred**
Stands for Cumulative Auction Market Preferred Stocks, Oppenheimer & Company's Dutch Auction preferred stock product.

**Canadian agencies**
Agency banks established by Canadian Banks in the US

**Canadian Dealing Network (CDN)**
The organized OTC market of Canada. Formerly known as the Canadian Over-the-Counter Automated Trading System (COATS), the CDN became a subsidiary of the Toronto Stock Exchange in 1991.

**Canadian Exchange Group (CEG)**
The CEG is an association among the Toronto Stock Exchange, the Montreal Exchange, the Vancouver Stock Exchange, the Alberta Stock Exchange, and the Winnipeg Stock Exchange for the purpose of providing Canadian market data to customers outside Canada.

"Can get $xxx"
Refers to over-the-counter trading. "I have a buyer who will pay $xxx for the stock". Usually a standard markdown (1/8) from $xxx is applied to this price in bidding the seller for its stock. Antithesis of cost me.

**Cancel**
To void an order to buy or sell from (1) the floor, or (2) the trader/salesperson's scope. In Autex, the indication still remains on record as having once been placed unless it is expunged.

**Canceled Certificates**
Before the issuance of a new certificate, the old certificate is presented to the Transfer Agent and is canceled.

"Cannot compete"
In the context of general equities, cannot accommodate customers at that price level.
Cheapest to deliver issue
The acceptable Treasury security with the highest implied repo rate; the rate that a seller of a futures contract can earn by buying an issue and then delivering it at the settlement date.

Check
A bill of exchange representing a draft on a bank from deposited funds that pays a certain sum of money to a certain person or party.

Check clearing
The movement of a check from the depository institution at which it was deposited back to the institution on which it was written; the movement of funds in the opposite direction and the corresponding credit and debit to the involved accounts. The Federal Reserve operates a nationwide check-clearing system.

Checking the market
Searching for bid and offer prices from market makers to find the best deal.

Chicago Board Options Exchange (CBOE)
A securities exchange created in the early 1970s for the public trading of standardized option contracts. Primary place stock options, foreign currency options, and index options (S&P 100, 500, and OTC 250 index)

Chicago Board of Trade (CBOT)
The second largest futures exchange in the US, and was a pioneer in the development of financial futures and options.

Chicago Mercantile Exchange
Chicago Mercantile Exchange (CME) is the largest futures exchange in the United States and the second largest exchange in the world for the trading of futures and options on futures. Founded in 1898 as a not-for-profit corporation, in November 2000 CME became the first U.S. financial exchange to demutualize and become a shareholder-owned corporation. Its futures and options on futures trade on CME's trading floors, on its GLOBEX electronic trading platform and through privately negotiated transactions. CME has four major product areas based on interest rates (including Eurodollar futures, the world's most actively traded futures contract), stock indexes (such as the (S&P 500 and Nasdaq-100 futures), foreign exchange and commodities.

Chicago Stock Exchange (CHX)
A major exchange trading only stocks, with 90% of trades taking place on an automated execution system, called MAX.

Chief Executive Officer (CEO)
A title held often by the Chairperson of the Board, or the president. The person principally responsible for the activities of a company.
Clean
In the context of general equities, block trade that matches buy or sell orders/interests, sparing the block trader any inventory risk (no net position and hence none available for additional customers). Natural. Antithesis of open.

Clean Bill of Lading
A bill of lading bearing no findings of damage or shortage.

Clean opinion
An auditor's opinion reflecting an unqualified acceptance of a company's financial statements.

Clean price
Bond price excluding accrued interest.

Clean Report of Findings
A report issued by an inspection firm, indicating that price has been verified, that the goods have been inspected prior to shipment, and that both conform to buyer specifications.

Clean up
In the context of general equities, purchase/sale of all the remaining supply of stock, or the last piece of a block, in a trade leaving a net zero position.

"Clean your skirts"
In the context of general equities, make all your obligated calls check with all prior obligations in a security. Often preceded by "subject to."

Clear
To settle a trade is settled out by the seller delivering securities and the buyer delivering funds in the proper form. A trade that does not clear is said to fail. Comparison of the details of a transaction between broker/dealers prior to settlement; final exchange of securities for cash on delivery.

Clear a position
To eliminate a long or short position, leaving no ownership or obligation.

Clear
Title to ownership that is untainted by any claims on the property or disputed interests, and therefore available for sale. This is usually checked through a title search by a title company.

Clearing corporations
Commission
The fee paid to a broker to execute a trade, based on number of shares, bonds, options, and/or their dollar value. In 1975, deregulation led to the establishment of discount brokers, who charge lower commissions than full service brokers. Full service brokers offer advice and usually have a staff of analysts who follow specific industries. Discount brokers simply execute a client's order and usually do not offer an opinion on a stock. Also known as a round-turn.

Commission broker
A broker on the floor of an exchange who acts as agent for a particular brokerage house and buys and sells stocks for the brokerage house on a commission basis.

Commission house
A firm that buys and sells futures contracts for customer accounts. Related: futures commission merchant, omnibus account.

Commission-only compensation
Payment to a financial adviser's of only commissions on investments purchased when the client implements the recommended financial plan.

Commitment
Describes a trader's obligation to accept or make delivery on a futures contract. Related: Open interest.

Commitment fee
A fee paid to a commercial bank for its legal commitment to lend funds that have not yet been advanced. Often used in risk arbitrage. Payment to institutional investors in the U.K. (pension funds and life insurance companies) by the lead underwriter of a takeover that takes place when the underwriter provides the target company's shareholders with a cash alternative for a target company's shares in exchange for the bidding companies' shares. The payment is typically 0.5% for the first 30 days, 1.25% for each week thereafter, and a final 0.75% acceptance payment when the takeover is completed.

Committee on Uniform Securities Identification Procedures (CUSIP)
Committee that assigns identifying numbers and codes for all securities. These "CUSIP" numbers and symbols are used when recording all buy or sell orders.

Commodities Exchange Center (CEC)
The location of five New York futures exchanges: Commodity Exchange, Inc. (COMEX); the New York Mercantile Exchange (NYMEX); New York Cotton Exchange, Coffee, Sugar; & Cocoa Exchange (CS; & CE), and New York Futures Exchange (NYFE).
and interest, which are in fact passed through to shareholders, the investment company should not be taxed at the corporate level.

**Confidence indicator**
A measure of investors' faith in the economy and the securities market. A low or deteriorating level of confidence is considered by many technical analysts as a bearish sign.

**Confidence letter**
Statement by an investment bank that it is highly confident that the financing for its client/acquirer's takeover can and will be obtained. Often used in risk arbitrage.

**Confidence level**
In risk analysis, the degree of assurance that a specified failure rate is not exceeded.

"Confirm me out"
Used for listed equity securities. "Go to the floor and check with the specialist or floor broker that my previously active order has been canceled and was not executed". One does not have to honor any trade reported after given a "firm out".

**Confirmation**
The written statement that follows any "trade" in the securities market. Confirmation is issued immediately after a trade is executed. It spells out settlement date, terms, commission, etc.

**Confirmed Letter of Credit**
A letter of credit which a bank other than the bank that opened it agrees to honor as though they had themselves issued it. This additional confirmation is in addition to the obligation of the bank which issued the letter of credit.

**Confirming Bank**
The bank which has confirmed a letter of credit opened by another bank.

**Conflict between bondholders and stockholders**
Bondholders and stockholders may have interests in a corporation that conflict. Sources of conflict include dividends, distortion of investment, and underinvestment. Protective covenants in bond documents work to resolve these conflicts.

**Conforming loans**
Mortgage loans that meet the qualifications of Freddie Mac or Fannie Mae, which are bought from lenders and issued as pass-through securities.

**Conglomerate**
A firm engaged in two or more unrelated businesses.
Consortium banks
A merchant banking subsidiary set up by several banks that may or may not be of the same nationality. Consortium banks are common in the Euromarket and are active in loan syndication.

Constant-dollar plan
Method of purchasing securities by investing a fixed amount of money at set intervals. The investor buys more shares when the price is low and fewer shares when the price is high, thus reducing the overall cost.

Constant dollars
Dollars of a base year used as a general measure of purchasing power.

Constant-growth model
Also called the Gordon-Shapiro model, an application of the dividend discount model that assumes (1) a fixed growth rate for future dividends, and (2) a single discount rate.

Constant ratio plan
Maintaining a predetermined ratio between stock and fixed income investments through regular adjustments of distribution of funds into different investments, see: formula investing.

Constant yield method
Allocation of annual interest on a zero-coupon security for income tax use.

Construction loan
A short-term loan to finance building costs.

Constructive receipt
The date a taxpayer receives dividends or other income, for use in the determination of taxes.

Consular Invoice
A document prepared by the shipper and certified in the country of origin by a consul of the country of importation. It shows the transaction details and origin of the goods.

Consumer Advisory Council (CAC)
A statutory body established by Congress in 1976. The Council, with 30 members who represent a broad range of consumer and creditor interests, advises the Federal Reserve Board on the exercise of its responsibilities under the Consumer Credit Protection Act and on other matters on which the Board seeks its advice.

Consumer credit
Contango
A market condition in which futures prices are higher in the distant delivery months.

Contingency graph
A plot of the net profit to a speculator in currency options under various exchange rate scenarios.

Contingency order
In the context of general equities, order to buy one security, if the trader can sell another, usually given that certain price limits or conditions reach a certain level. Swap, switch order.

Contingent claim
A claim that can be made only if one or more specified outcomes occur.

Contingent deferred sales charge (CDSC)
The formal name for the load of a back-end load fund.

Contingent immunization
An arrangement in which the money manager pursues an active bond portfolio strategy until an adverse investment experience drives the then-available potential return down to the safety net level. When that point is reached, the money manager is obligated to pursue an immunization strategy to lock in the safety-net level return.

Contingent order
An order which can be executed only if another event occurs; i.e. "sell Oct 45 call 7-1/4 with stock 52 or lower".

Contingent pension liability
Under ERISA, a firm is liable to its pension plan participants for up to 39% of the net worth of the firm.

Contingent Voting Power
Enables preferred stockholders to vote when the company fails to satisfy the agreement between itself and the preferred stockholders.

Continuous compounding
The process of accumulating the time value of money forward in time on a continuous, or instantaneous, basis. Interest is earned constantly, and at each instant, the interest that accrues immediately begins earning interest on itself.

Continuous net settlement (CNS)
Method of securities clearing and settlement using a clearing house, which matches transactions to securities available, resulting in one net receive or deliver position at the end
**Controlled foreign corporation (CFC)**
A foreign corporation whose voting stock is more than 50% owned by US stockholders, each of whom owns at least 10% of the voting power.

**Controller**
The corporate manager responsible for the firm's accounting activities. Sometimes referred to as the comptroller (which means the same thing).

**Convenience yield**
The extra advantage that firms derive from holding the commodity rather than a future position.

**Convention statement**
An annual statement filed by a life insurance company in each state where it does business in compliance with that state's regulations. The statement and supporting documents show, among other things, the assets, liabilities, and surplus of the reporting company.

**Conventional mortgage**
A loan based on the credit of the borrower and on the collateral for the mortgage.

**Conventional option**
An option contract arranged off the trading floor and not traded regularly.

**Conventional pass-throughs**
Also called private-label pass-throughs, any mortgage pass-through security not guaranteed by government agencies. Compare agency pass-throughs.

**Conventional project**
A project with a negative initial cash flow (cash outflow), which is expected to be followed by one or more future positive cash flows (cash inflows).

**Convertible Arbitrage**
In the context of hedge funds, a style of management that involves the simultaneous purchase of a convertible bond and the short sale of shares of the underlying stock. Interest rate risk may or may not be hedged.

**Convergence**
The movement of the price of a futures contract toward the price of the underlying cash commodity. At the start, the contract price is higher because of time value. But as the contract nears expiration, and time value decreases, the futures price and the cash price converge.
An option strategy in which one call and one put with the same strike price and expiration are written against 100 shares of the underlying stock. In actually, this is not a "covered" strategy because assignment on the short put would require purchase of stock on margin. This method is also know as a covered combination.

**Covered Straddle Write**
The term used to describe the strategy in which an investor owns the underlying security and also writes a straddle on that security. This is not really a covered position.

**Coverage**
See: Fixed-charge coverage

**Coverage initiated**
Usually refers to the fact that analysts begin following a particular security. This usually happens when there is enough trading in it to warrant attention by the investment community.

**Coverage ratios**
Ratios used to test the adequacy of cash flows generated through earnings for purposes of meeting debt and lease obligations, including the interest coverage ratio and the fixed-charge coverage ratio.

**Covered call**
A short call option position in which the writer owns the number of shares of the underlying stock represented by the option contracts. Covered calls generally limit the risk the writer takes because the stock does not have to be bought at the market price, if the holder of the option decides to exercise it.

**Covered call writing strategy**
A strategy that involves writing a call option on securities that the investor owns. See: Covered or hedge option strategies.

**Covered Foreign Currency Loan**
A loan denominated in a currency other than that of the borrower's home country, for which repayment terms are prearranged through the use of a forward currency contract.

**Covered interest arbitrage**
Occurs when a portfolio manager invests dollars in an instrument denominated in a foreign currency and hedges the resulting foreign exchange risk by selling the proceeds of the investment forward for dollars.

**Covered Interest Rate Parity**
The principle that the yields from interest-bearing foreign and domestic investments should be equal when the forward currency market is used to predetermine the domestic currency
Credit watch
A warning by a bond rating firm indicating that a company's credit rating may change after the current review is concluded.

Crediting rate
The interest rate offered on an investment type insurance policy.

Creditor
Lender of money.

Creditor's committee
A group representing firms that have claims on a company facing bankruptcy or extreme financial difficulty.

Creditworthiness
Eligibility of an individual or firm to borrow money.

Creeping tender offer
The process by which a group attempting to circumvent certain provisions of the Williams Act gradually acquires shares of a target company in the open market.

CREST
CREST is CrestCo's real-time settlement system for UK and Irish shares and other corporate securities. CrestCo has provided settlement systems for government bonds and money market instruments in the UK since 1990.

Crisp Sets
The fuzzy set term for traditional set theory. That is, an object either belongs to a set, or does not.

Critical Levels
Values of control parameters where the nature of a nonlinear dynamic system changes. The system can bifurcate, or make the transition from stable to turbulent behavior. An example is the straw that breaks the camel's back.

Cross
Securities transaction in which the same broker acts as agent for both sides of the trade; a legal practice only if the broker first offers the securities publicly at a price higher than the bid.

Cross-border factoring
Concluding a transaction by a network of factors across borders. The exporter’s factor can contact correspondent factors in other countries to handle the collection of accounts.
receivable.

**Cross-border risk**
Describes the volatility of returns on international investments caused by events associated with a particular country as opposed to events associated solely with a particular economic or financial agent.

**Cross-default**
A provision under which default on one debt obligation triggers default on another debt obligation.

**Cross hedging**
Applies to derivative products. Hedging with a futures contract that is different from the underlying being hedged. Use of a hedging instrument different from the security being hedged. Hedging instruments are usually selected to have the highest price correlation to the underlying.

**Cross-holdings**
The holding by one corporation of shares in another firm. One needs to allow for cross-holdings when aggregating capitalizations of firms. Ignoring cross-holdings leads to double-counting.

**Cross rates**
The exchange rate between two currencies expressed as the ratio of two foreign exchange rates that are both expressed in terms of a chosen currency. Foreign exchange rate between two currencies other than the US dollar, the currency in which most exchanges are usually quoted.

**Cross-sectional analysis**
Assessment of relationships among a cross-section of firms, countries, or some other variable at one particular time.

**Cross-Sectional Ratio Analysis**
A method of analysis that compares a firm's ratios with some chosen industry benchmark. The benchmark usually chosen is the average ratio value for all firms in an industry for the time period under study.

**Cross-sectional approach**
A statistical methodology applied to a set of firms at a particular time.

**Cross-share holdings**
Often used in risk arbitrage. Corporations' or governments' equity share ownership in another corporation's shares.
**Cross-border bonds**

Bonds that firms issue in the international market.

**Crossed market**

In the context of general equities, happens when the inside market consists of a highest bid price that is higher than the lowest offer price. See: Overlap the market.

**Crossed trade**

The prohibited practice of offsetting buy and sell orders without recording the trade on the exchange, thus not allowing other traders to take advantage of a more favorable price.

**Crossover rate**

The return at which two alternative projects have the same net present value.

**Crowd trading**

Used for listed equity securities. Group of exchange members with a defined area of function tending to congregate around a trading post pending execution of orders. Includes specialists, floor traders, odd-lot dealers, and other brokers as well as smaller groups with specialized functions. See: Priority.

**Crowding out**

Heavy federal borrowing that drives interest rates up, prevents businesses and consumers from borrowing when they would like to.

**Crown jewel**

A particularly profitable or otherwise particularly valuable corporate unit or asset of a firm. Often used in risk arbitrage. The most desirable entities within a diversified corporation as measured by asset value, earning power, and business prospects; in takeover attempts, these entities typically are the main objective of the acquirer and may be sold by a takeover target to make the rest of the company less attractive. See: Scorched earth policy.

**Cum dividend**

With dividend; said of a stock whose buyer is eligible to receive a declared dividend. Stocks are usually "cum dividend" for trades made on or before the fifth trading day preceding the record date, when the register of eligible holders is closed for that dividend period. Antithesis of ex-dividend.

**Cum rights**

With rights.

**Cumulative abnormal return (CAR)**

Sum of the differences between the expected return on a stock (systematic risk multiplied by the realized market return) and the actual return often used to evaluate the impact of news on a stock price.
A bond selling at or close to par, that is, a bond with a coupon close to the yields currently offered on new bonds of a similar maturity and credit risk.

**Current Coupon Bond**

Bonds on which the coupon is set approximately equal to the bonds' yield to maturity at the time of their issuance.

**Current-coupon issues**

Related: Benchmark issues

**Current income**

Money that is routinely received from investments in the form of dividends, interest, and other income sources.

**Current income bonds**

Bonds paying semiannual interest to holders. Interest is not included in the accrued discount.

**Current issue**

In Treasury securities, the most recently auctioned issue. Trading is more active in current issues than in off-the-run issues.

**Current liabilities**

Amount owed for salaries, interest, accounts payable and other debts due within 1 year.

**Current market value**

The value of a client's portfolio at today's market price, as listed in a brokerage statement.

**Current maturity**

Current time to maturity on an outstanding debt instrument.

**Current/noncurrent method**

The translation of all of a foreign subsidiary's current assets and liabilities into home currency at the current exchange rate while noncurrent assets and liabilities are translated at the historical exchange rate; that is, the rate in effect at the time the asset was acquired or the liability incurred.

**Current production rate**

The highest interest rate permissible on current Government National Mortgage Association, mortgage-backed securities.

**Current rate method**

The translation of all foreign currency balance sheet and income statement items at the current exchange rate.
Fifth letter of a NASDAQ stock symbol specifying that it is a new issue, such as the result of a reverse split.

**D/A**
See: Documents Against Acceptance

**DCF**
See: Discounted Cash Flows

**DDM**
The ISO 4217 currency code for East Germany Ostmark.

**DE**
The two-character ISO 3166 country code for GERMANY.

**DEM**
The ISO 4217 currency code for Deutschemark.

**DEQ**
Abbreviation for the Incoterm "Delivered Ex Quay."

**DES**
Abbreviation for the Incoterm "Delivered Ex Ship."

**DDM**
See: Discounted Dividend Model

**DISC**
See: Domestic International Sales Corporation

**DITM**
See: Deep in the money

**DJ**
The two-character ISO 3166 country code for DJIBOUTI.

**DJF**
The ISO 4217 currency code for Djibouti Franc.

**DK**
The two-character ISO 3166 country code for DENMARK.

**DKK**
The ISO 4217 currency code for Danish Krone.
An asset requiring fixed dollar payments, such as a government or corporate bond.

**Debt leverage**
Amplification of the return earned on equity when an investment or firm is financed partially with borrowed money.

**Debt limit**
The maximum amount that a municipality can borrow.

**Debt limitation**
A bond covenant that restricts the firm's ability to incur additional indebtedness in some way.

**Debt market**
The market for trading debt instruments.

**Debt outstanding**
Obligations incurred by the Treasury subject to the statutory limit set by Congress. Until World War 1, a specific amount of debt was authorized for each separate security issue. Beginning with the Second Liberty Loan Act of 1917, the nature of the limitation was modified until, in 1941, it developed into an overall limit on the outstanding Federal debt. As of March 1999, the debt limit was $5,950,000 million; the limit may change from year to year. The debt subject to limitation includes most of the Treasury's public debt except securities issued to the Federal Financing Bank, up to which there is a limitation of $15 billion, and certain categories of older debt totaling approximately $595 million as of February 1991.

**Debt ratio**
Total debt divided by total assets.

**Debt relief**
Reducing the principal and/or interest payments on Less developed country loans.

**Debt retirement**
The complete repayment of debt. See: Sinking fund.

**Debt securities**
IOUs created through loan-type transactions-commercial paper, bank CDs, bills, bonds, and other instruments.

**Debt service**
Interest payment plus repayments of principal to creditors (retirement of debt).
An options strategy requiring a long and a short position in the same class of option at different strike prices and different expiration dates. For example, two puts or two calls in the same stock. See: Calendar spread; vertical spread.

**Dialing and smiling**

See: Cold calling

**Dialing for dollars**

A term used to describe the practice of cold calling, but which has negative implications as it is frequently applied to salespeople selling speculative or fraudulent investments.

**Diamonds**

Units of interest in the diamonds trust, a unit investment trust that serves as an index to the Dow Jones Industrial Average in that its holdings consist of the 30 component stocks of the Dow.

**Diff**

Short version of Euro rate differential, which is a Chicago Mercantile Exchange Futures contract that is founded on the interest rate spread between the U.S. dollar and the British pound, the German mark, or the Japanese yen.

**Difference check**

The difference in interest payments that is paid to a swap counterparty to close out a deal.

**Difference from S&P**

A mutual fund's return minus the change in the Standard & Poor's 500 index for the same time period. A notation of -5.00 means the fund return is 5 percentage points less than the gain in the S&P, while 0.00 means that the fund and the S&P have the same return.

**Differential**

A small charge, typically 1/8 point, added to the purchase price and subtracted from the selling price by the dealer for odd-lot quantities.

**Differential disclosure**

The practice of reporting conflicting or markedly different information in official corporate statements including annual and quarterly reports and 10-Ks and 10-Qs.

**Differential swap**

Swap between two LIBOR rates of interest, e.g., yen LIBOR for dollar LIBOR Payments are in one currency.

**Diffusion process**

A conception of the way a stock's price changes that assumes that the price takes on all intermediate values.
**EBITD**
See: Earnings Before Interest, Taxes and Depreciation

**EBITDA**
See: Earnings Before Interest, Taxes, Depreciation, and Amortization

**EBT**
See: Earnings Before Taxes

**EC**
The two-character ISO 3166 country code for ECUADOR.

**ECN**

**ECS**
The ISO 4217 currency code for the Ecuadorian Sucre.

**EDGAR Electronic Data Gathering, Analysis and Retrieval System**
The system through which companies electronically file reports and registration statements with the SEC. This requires converting the paper or word-processing document to be filed into a universal ASCII format, a process known as EDGAR-izing the document. The filings can then be accessed by the public through the SEC's Web site on the Internet.

**EEK**
The ISO 4217 currency code for the Estonian Kroon.

**EG**
The two-character ISO 3166 country code for EGYPT.

**EGP**
The ISO 4217 currency code for the Egyptian Pound.

**ECU**
See: European Currency Unit

**EDI**
See: Electronic Data Interchange

**EE**
The two-character ISO 3166 country code for ESTONIA.
EH
The two-character ISO 3166 country code for WESTERN SAHARA.

EM
See: Effective margin

EMS
See: European Monetary System

EOE
See: European Options Exchange

EOQ
See: Economic Order Quantity

ER
The two-character ISO 3166 country code for ERITREA.

ERM
See: Exchange Rate Mechanism

ES
The two-character ISO 3166 country code for SPAIN.

ESOP
See: Employee Stock Ownership Plan

ESP
The ISO 4217 currency code for the Spanish Peseta.

ET
The two-character ISO 3166 country code for ETHIOPIA.

ETB
The ISO 4217 currency code for the Ethiopian Birr.

EU
See: European Union

EUR
The ISO 4217 currency code for Euro.

EUREX
The European derivatives exchange formed in 1998 by a merger of the Deutsche...
**Earning power**
Earnings before interest and taxes (EBIT) divided by total assets.

**Earnings**
Net income for the company during a period.

**Earnings before interest after taxes (EBIAT)**
A financial measure defined as revenues less cost of goods sold and selling, general, and administrative expenses. In other words, operating and nonoperating profit before the deduction of interest plus cash income taxes. Equivalent to EBIT minus cash taxes.

**Earnings before interest and, taxes (EBIT)**
A financial measure defined as revenues less cost of goods sold and selling, general, and administrative expenses. In other words, operating and nonoperating profit before the deduction of interest and income taxes.

**Earnings before interest, taxes, and depreciation (EBITD)**
A financial measure defined as revenues less cost of goods sold and selling, general, and administrative expenses. In other words, operating and nonoperating profit before the deduction of interest and income taxes. Depreciation expenses are not included in the costs.

**Earnings before interest, taxes, depreciation, and amortization (EBITDA)**
A financial measure defined as revenues less cost of goods sold and selling, general, and administrative expenses. In other words, operating and nonoperating profit before the deduction of interest and income taxes. Depreciation and amortization expenses are not included in the costs.

**Earnings before taxes (EBT)**
A financial measure defined as revenues less cost of goods sold and selling, general, and administrative expenses. In other words, operating and nonoperating profit before the deduction of income taxes.

**Earnings momentum**
An increase in the earnings per share growth rate from one reporting period to the next.

**Earnings per share (EPS)**
A company's profit divided by its number of outstanding shares. If a company earning $2 million in one year had 2 million shares of stock outstanding, its EPS would be $1 per share. In calculating EPS, the company often uses a weighted average of shares outstanding over the reporting term. The one-year (historical or trailing) EPS growth rate is calculated as the percentage change in earnings per share. The prospective EPS growth rate is calculated as the percentage change in this year's earnings and the consensus forecast earnings for next year.
upredictable (e.g., Hurricane Andrew in 1991, the rise in oil prices by OPEC).

**Economic surplus**
For any entity, the difference between the market value of all its assets and the market value of its liabilities.

**Economic union**
An agreement between two or more countries that allows the free movement of capital, labor, and all goods and services, and involves the harmonization and unification of social, fiscal, and monetary policies.

**Economic value added (EVA)**
A method of performance evaluation that adjusts accounting performance for investors' required return on investment. Suppose a division produces a 12% return on capital invested. Given the risk of the division's business line would have. If investors would usually require 14% on capital invested, the division destroyed shareholder value by the EVA metric. This description is trade marketed by Stern-Stewart.

**Economics**
The study of the economy. See also: Macroeconomics; microeconomics; Keynesian economics, monetarism, and supply-side economics.

**Economies of scale**
Achievement of lower average cost per unit through increased production.

**Economies of scale**
The decrease in the marginal cost of production as a firm's extent of operations expands.

**Economies of scope**
Scope economies exist whenever the same investment can support multiple profitable activities less expensively in combination than separately.

**Economies of vertical**
Produced by achieving lower operating costs by owning all components of production and sometimes sales outlets rather than contracting for companies in the outside marketplace.

**EDGAR**
The Securities & Exchange Commission uses Electronic Data Gathering and Retrieval to transmit company documents such as 10-Ks, 10-Qs, quarterly reports, and other SEC filings, to investors.

**Edge Act corporation**
Corporation chartered by the Federal Reserve to engage in international banking. The
Exchange, The
A nickname for the New York Stock Exchange. Also known as the Big Board, where more than 2000 common and preferred stocks are traded. The exchange is the oldest in the United States, founded in 1792, and the largest. It is located on Wall Street in New York City.

Exchange of assets
Acquisition of another company by purchase of its assets in exchange for cash or stock.

Exchange controls
Government restrictions on the purchase of foreign currencies by domestic citizens or on the purchase of the local domestic currency by foreigners.

Exchange distribution
A sale on an exchange floor of a large block of stock in a single transaction. A broker bunches a large number of buy orders and sells the block all at once. The broker receives a special commission from the seller.

Exchange fund
Investment vehicle introduced in 1999 that appeals to wealthy investors with large holdings in a single stock who want to diversify without paying capital gains taxes. These funds allow investors to exchange their stock for shares in the diversified portfolio of stocks in a tax-free transaction.

Exchange member
See: Member firm; seat

Exchange offer
An offer by a firm to give one security, such as a bond or preferred stock, in exchange for another security, such as shares of common stock.

Exchange privilege
A mutual fund shareholder's right to switch from one fund to another within one fund family, usually at no additional charge.

Exchange rate
The price of one country's currency expressed in another country's currency.

Exchange Rate Mechanism (ERM)
The methodology by which members of the EMS maintain their currency exchange rates within an agreed-upon range with respect to other member countries.
Execution
The process of completing an order to buy or sell securities. Once a trade is executed, it is reported by a Confirmation Report; settlement (payment and transfer of ownership) occurs in the US between one (mutual funds) and five (stocks) days after an order is executed. Settlement times for exchange-listed stocks are in the process of being reduced to three days in the U.S. The time varies greatly across countries. In France, for example settlements are only once per month.

Execution costs
The difference between the execution price of a security and the price that would have existed in the absence of a trade, which can be further divided into market impact costs and market timing costs.

Exempt securities
Instruments exempt from the registration requirements of the Securities Act of 1933 or the margin requirements of the SEC Act of 1934. Such securities include government bonds, agencies, munis, commercial paper, and private placements.

Exemption
Direct reductions from gross income allowed by the IRS.

Exercise
To implement the right of the holder of an option to buy (in the case of a call) or sell (in the case of a put) the underlying security.

Exercise limit
Cap on the number of option contracts of any one class of contract that can be exercised within a five-day period contract. Stock option's exercise limit is typically 2000 contracts.

Exercise notice
A broker's notification a client want to exercise a right to buy or sell (depending on the type of contract) the underlying security of the option contract.

Exercise price
The price at which the security underlying a future or options contract may be bought or sold.

Exercise settlement amount
The difference between the exercise price fo the option and the exercise settlement value of the index on the day an exercise notice is tendered, multiplied by the index multiplier.

Exercise value
The amount of advantage over a current market transaction provided by an in-the-money option.
FRF
The ISO 4217 currency code for the French Franc.

FRN
See: Floating-rate note

FSC
See: Foreign Sales Corporation

Face-amount certificate
A debt security issued by face amount. The holder makes payments periodically to the issues, and the issuer promises to pay the purchaser the face value at maturity or the surrendered value if the security is presented by the maturity specified in the certificate.

Face value
See: Par value

Facilitation
The process of providing a market for a security. Normally, this refers to bids and offers made for large blocks of securities, such as those traded by institutions. Listed options may be used to offset part of the risk assumed by the trader who is facilitating the large block order. See also: Hedge ratio.

Factor
A financial institution that buys a firm's accounts receivable and collects the accounts.

Factor analysis
A statistical procedure that seeks to explain a certain phenomenon, such as the return on a common stock, in terms of the behavior of a set of predictive factors.

Factor model
A way of decomposing the forces that influence a security's rate of return into common and firm-specific influences.

Factor portfolio
A well-diversified portfolio constructed to have a beta of 1.0 on one factor and a beta of zero on any other factors.

Factor Return
The return attributable to a particular common factor. We decompose asset returns into a common factor component, based on the asset's exposures to common factors times the factor returns, and a specific return.
Fictitious credit
A margin account's credit balance. Fictitious credit exists after the proceeds from a short sale are accounted for with respect to the margin requirement. The proceeds from the short sale are reflected as a credit, but must stay in the account to serve as security for the loan of securities made in a short sale, and are therefore inaccessible to the client for withdrawal.

Fidelity bond
See: Blanket fidelity bond

Fiduciary
One who must act for the benefit of another party.

Field warehouse
Warehouse rented by a company on another firm's premises.

FIFO
See: First in, first out

Figure
Refers to details about price including the bid and ofter. See: Handle

Figuring the tail
Calculating the yield at which a future money market (one available some period hence) is purchased when that future security is created by buying an existing instrument and financing the initial portion of its life with a term repo.

Fill
The price at which an order is executed.

Fill or kill order (FOK)
A trading order that is canceled unless executed within a designated time period. A market or limited price order that is to be executed in its entirety as soon as it is represented in the trading crowd, and, if not so executed, is to be treated as canceled. For purposes of this definition, a stop is considered an execution. Equivalent to AON and IOC simultaneously.

Filter
A rule that stipulates when a security should be bought or sold according to its price action.

Finance
A discipline concerned with determining value and making decisions. The finance function allocates resources, including the acquiring, investing, and managing of resources.
Finance charge  
The total cost of credit a customer must pay on a consumer loan, including interest.

Finance company  
A company whose business and primary function is to make loans to individuals, while not receiving deposits like a bank.

Financial Accounting Standards Board (FASB)  
Board composed of independent members who create and interpret Generally Accepted Accounting Principles (GAAP).

Financial adviser  
A professional offering financial advice to clients for a fee and/or commission.

Financial analysis  
Analysis of a company's financial statement, often by financial analysts.

Financial analysts  
Also called securities analysts and investment analysts. Professionals who analyze financial statements, interview corporate executives, and attend trade shows, in order to write reports recommending either purchasing, selling, or holding various stocks.

Financial assets  
Claims on real assets.

Financial control  
The management of a firm's costs and expenses in relation to budgeted amounts.

Financial distress  
Events preceding and including bankruptcy, such as violation of loan contracts.

Financial distress costs  
Legal and administrative costs of liquidation or reorganization. Also includes implied costs associated with impaired ability to do business (indirect costs).

Financial engineering  
Combining or carving up existing instruments to create new financial products.

Financial future  
A contract entered into now that provides for the delivery of a specified asset in exchange for the selling price at some specified future date.

Financial guarantee insurance  
Insurance created to cover losses from specified financial transactions.
Financial innovation
Design of any new financial product, such as exotic currency options and swaps.

Financial institution
An enterprise such as a bank whose primary business and function is to collect money from the public and invest it in financial assets such as stocks and bonds.

Financial institution buyer credit policy
Insurance coverage for loans by banks to foreign buyers of exports.

Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA)
Legislation that established the Office of Thrift Supervision, which was created in the wake of the savings and loan crisis of the late 1980s.

Financial intermediaries
Institutions that provide the market function of matching borrowers and lenders or traders.

Financial lease
Long-term, noncancellable rental agreement.

Financial leverage
Use of debt to increase the expected return on equity. Financial leverage is measured by the ratio of debt to debt plus equity.

Financial leverage clientele
A group of investors who have a preference for investing in firms that adhere to a particular financial leverage policy.

Financial leverage ratios
Common ratios are debt divided by equity a debt divided by the sum of debt plus equity. Related: capitalization ratios.

Financial market
An organized institutional structure or mechanism for creating and exchanging financial assets.

Financial needs approach
A method of establishing the amount of life insurance required by an individual by estimating the financial needs of dependents in the event of the individual’s death.

Financial objectives
Goals related to returns that a firm will strive to accomplish during the period covered by
its financial plan.

**Financial plan**
A blueprint relating to the financial future of a firm.

**Financial planner**
An investment professional who assists individuals with long- and short-term financial goals.

**Financial planning**
Evaluating the investing and financing options available to a firm. Planning includes attempting to make optimal decisions, projecting the consequences of these decisions for the firm in the form of a financial plan, and then comparing future performance against that plan.

**Financial policy**
Criteria describing a corporation's choices regarding its debt/equity mix, currencies of denomination, maturity structure, method of financing investment projects, and hedging decisions with a goal of maximizing the value of the firm to some set of stockholders.

**Financial position**
The account status of a firm's or individual's assets, liabilities, and equity positions as reflected on its financial statement.

**Financial press**
Media devoted to reporting financial news.

**Financial price risk**
The chance there will be unexpected changes in a financial price, including currency (foreign exchange) risk, interest rate risk, and commodity price risk.

**Financial public relations**
Public relations division of a company charged with cultivating positive investor relations and proper disclosure information.

**Financial pyramid**
A risk structure that spreads investor's risks across low-, medium-, and high-risk vehicles. The bulk of the assets are in safe, low-risk investments that provide a predictable return (base of the pyramid). At the top of the pyramid are a few high-risk ventures that have a modest chance of success.

**Financial ratio**
The result of dividing one financial statement item by another. Ratios help analysts interpret financial statements by focusing on specific relationships.
In the context of mutual funds, refers to the movement of money into or out of a mutual funds or between or among various fund sectors.

**Flow-through basis**
An account for an investment credit to show all income statement benefits of the credit in the year of acquisition, rather than spreading them over the life of the asset.

**Flow-through method**
The practice of reporting to shareholders using straight-line depreciation but using accelerated depreciation for tax purposes and "flowing through" the lower income taxes actually paid to financial statements prepared for shareholders.

**Flower bond**
Government bonds that when owned at the time of death are acceptable at par in payment of federal estate taxes.

**Fluctuation**
A price or interest rate change.

**Fluctuation limit**
The limit created by the commodity exchange that halts trading on a future if the price of the future changes, in either direction, more than a previously set amount.

**Flurry**
A drastic volume increase in a specific security.

**Focus list**
Used in the context of general equities. Investment banks published list of buy and sell recommendations from its research department; signified by a flashing "F" on Quotron.

**Footsie (FTSE)**
Financial Times (FT)-Actuaries 100 index: "Dow average" of London.

**For/At**
Used in the context of general equities. Conjunctions used in an order, market summary, or trade recap that signify a bid or an offer, respectively. See: On.

**For a number**
Used in the context of general equities. Implies that the quantity mentioned is not his total but instead is only approximate, and to open him up more will obligate one to participate.
For your information (FYI)
A prefix to a security price indicating that the quote is for information purposes only, and not an offer to trade.

Forbes 500
Forbes magazine's list of the largest publicly owned corporations in the United States according to sales, assets, profits, and market value.

Force majeure risk
The risk that there will be prolonged interruption of operations for a project finance enterprise due to fire, flood, storm, or some other factor beyond the control of the project's sponsors.

Forced conversion
Occurs when a convertible security is called in by the issuer, usually when the underlying stock is selling well above the conversion price. The issuer thus assures the bonds will be retired without requiring any cash payment. Upon conversion into common, the carrying value of the bonds becomes part of a corporation's equity, thus strengthening the balance sheet and enhancing future debt capability.

Forecasting
Making projections about future performance on the basis of historical and current conditions data.

Foreclosure
Process by which the holder of a mortgage seizes the property of a homeowner who has not made interest and/or principal payments on time as stipulated in the mortgage contract.

Foreign banking market
That portion of domestic bank loans supplied to foreigners for use abroad.

Foreign base company income
A category of Subpart F income that includes foreign holding company income and foreign base company sales and service income.

Foreign bond
A bond issued on the domestic capital market of another company.

Foreign bond market
In the domestic bond market Issues floated by foreign companies or government.

Foreign branch
A foreign affiliate that is legally a part of the parent firm. According to the U.S. tax code, foreign branch income is taxed as it is earned in the foreign country.
Forfaiter (Primary)
An individual or financial entity that arranges a forfaiting transaction directly with an exporter and then holds or sells on the payment obligations of the importer/guarantor.

Forfaiter (Secondary)
An individual or financial entity that buys or sells the payment obligations of the importer/guarantor.

Forfaiting
A form of factoring that involves selling large, medium to long-term receivables to buyers (forfaiters) who are willing and able to bear the costs and risks of credit and collections.

Forfeiting
Method of financing international trade of capital goods.

Forfeiture
The loss of rights to an asset outlined in a legal contract if a party fails to fulfill obligations of the contract.

Form 8-K
The form required by the SEC when a publicly held company incurs any event that might affect its financial situation or the share value of its stock.

Form 4
The form required by the SEC for a change in the holdings of an individual owning 10% or more of the outstanding stock or in the holdings of a company officer.

Form S-3
A shorter form of registration statement than the Form S-1 that can be used by certain already-public companies to sell additional shares. It is also the form most often used to cover resales of restricted securities by selling stockholders.

Form S-8
A very brief form of registration statement filed with the SEC, registers shares to be issued under a stock plan.

Form T
The form required by the NASD to report equity transactions after the market's regular hours.

Form 10-K
A report required by the SEC from exchange-listed companies that provides for annual disclosure of certain financial information.
A transaction in which the *settlement* will occur on a specified date in the future at a price agreed upon on the *trade date*.

**Forward differential**
Annualized percentage difference between *spot* and *forward rates*.

**Forward discount**
A currency trades at a forward *discount* when its *forward* price is lower than its *spot price*.

**Forward exchange**
A type of foreign exchange transaction whereby a contract is made to exchange one currency for another at a fixed date in the future at a specified exchange rate. By buying or selling forward exchange, business protect themselves against a decrease in the value of a currency they plan to sell at a future date.

**Forward exchange rate**
*Exchange rate* fixed today for exchanging *currency* at some future date.

**Forward exchange transaction**
*Foreign currency* purchase or sale at the current *exchange rate* but with payment or delivery of the foreign currency at a future date.

**Forward Fed funds**
*Fed funds* traded for future delivery.

**Forward forward exchange contract**
Agreement that obligates a party to deliver a specified quantity of one currency in return for a specified amount of another currency.

**Forward foreign exchange rate**
The *exchange rate* available today to exchange currency at some specified date in the future.

**Forward forward contract**
In Eurocurrencies, a contract under which a deposit of fixed *maturity* is agreed to at a fixed price for future *delivery*.

**Forward interest rate**
*Interest rate* fixed today on a *loan* to be made at some future date.

**Forward-looking multiple**
A truncated expression for a *P/E ratio* that is based on *forward (expected) earnings* rather than on trailing earnings.
**Fractional Noise**
A noise which is not completely independent of previous values. See Fractional Brownian Motion, 1/f Noise, White Noise.

**Fractional share**
Stocks amounting to less than one full share, usually resulting from splits, acquisitions, exchanges, or dividend reinvestment programs.

**Franchise agreement**
Contract by which a domestic company (franchisor) licenses its trade name and/or business system and practices for a fee to an independent company (franchisee) in a foreign market.

**Franchising**
Provision of a specialized sales or service strategy, support assistance, and possibly an initial investment in the franchise in exchange for periodic fees.

**Frankfurt Stock Exchange**
The largest of Germany's eight securities exchanges, operated by Deutsche Borse AG.

**Freddie Mac (Federal Home Loan Mortgage Corporation)**
A Congressionally chartered corporation that purchases residential mortgages in the secondary market from S&Ls, banks, and mortgage bankers and packages these mortgages for sale in the capital market.

**Free Alongside Ship (FAS)**
An Incoterm (FAS) that means the seller is responsible for the cost of transporting and delivering goods alongside a vessel in a port in his or her country. Since the buyer has responsibility for export clearance under FAS, it is not a practical Incoterm for U.S. exports. FAS should be used only for ocean shipments since risk and responsibility shift from seller to buyer when the goods are placed within the reach of the ship's tackle (crane).

**Free on board (FOB)**
Implies that distribution services like transport and handling performed on goods up to the customs frontier (of the economy from which the goods are classed as merchandise.) are included in the price.

**Free box**
A bank vault or other suitable storage place for the securities of a firm's customer.

**Free Carrier (FCA)**
An Incoterm meaning that the cost, risk and responsibility shift from the seller to the
Free float
An exchange rate system characterized by the absence of government intervention. Also known as clean float.

Free of Particular Average
Marine cargo insurance that does not cover partial losses or partial damage unless caused by the vessel being sunk, stranded, burned, on fire, or in a collision.

Free reserves
Excess reserves minus member bank borrowings at the Fed.

Free rider
A follower who avoids the cost and expense of finding the best course of action simply by mimicking the behavior of a leader who made these investments.

Free-riding
A forbidden practice in which the member of an underwriting syndicate retains a portion of an initial public offering (IPO) and resells the securities at a higher price determined by the market at a later time.

Also forbidden is a brokerage customer's rapid buying and selling of a security without putting up money for the purchase.

Free right of exchange
An investor's right to transfer securities from one name to another name without paying charges that accompany a sales transaction.

Free stock
A stock that is paid for in full and is not pledged in any way as collateral.

Free to trade
Used in the context of general equities. Not subject to any internal (restricted list) or external restrictions on trading; hence, the trader is free to solicit interest.

Freed up
A term used to indicate that an underwriting syndicate's members are no longer restricted to the fixed price agreed upon in the agreement among underwriters and are permitted to trade the security on a free market basis.

Freely floating exchange rate system
Monetary system in which exchange rates are allowed to move due to market forces without intervention by country governments.
Security analysis that seeks to detect misvalued securities through an analysis of the firm’s business prospects. Research often focuses on earnings, dividend prospects, expectations for future interest rates, and risk evaluation of the firm. Antithesis of technical analysis. In macroeconomic analysis, information such as interest rates, GNP, inflation, unemployment, and inventories is used to predict the direction of the economy, and therefore the stock market. In microeconomic analysis, information such as balance sheet, income statement, products, management, and other market items is used to forecast a company’s imminent success or failure, and hence the future price action of the stock.

**Fundamental beta**
The product of a statistical model to predict the fundamental risk of a security using not only price data but also other market-related and financial data.

**Fundamental descriptors**
In the model for calculating fundamental beta, ratios in risk indexes other than market variability, which rely on financial data other than price data.

**Fundamental forecasting**
Analyzing the future on the basis of fundamental relationships between economic variables and exchange rates.

**Fundamental Information**
Information relating to the economic state of a company or economy. In market analysis, fundamental information is related to the earnings prospects of the firm only.

**Funded debt**
Debt maturing after more than one year.

**Funded Liability**
A source of funds that a firm must take overt action to arrange and that carries an interest cost.

**Funded pension plan**
A pension plan in which all liabilities, including payments to be made to pensioners in the immediate future, are completely funded.

**Funding**
Used to describe the refinancing of a debt prior to its maturity (the same as refunding). In corporate finance refers to the floating of bonds to raise finance and levels of capital. See also: refunding.

**Funding ratio**
The ratio of a pension plan’s assets to its liabilities.
GB
The two-character ISO 3166 country code for UNITED KINGDOM.

GBP
Pound Sterling currency

GBP
The ISO 4217 currency code for the United Kingdom Pound.

GD
The two-character ISO 3166 country code for GRENADA.

GDP
See: Gross Domestic Product

GE
The two-character ISO 3166 country code for GEORGIA.

GF
The two-character ISO 3166 country code for FRENCH GUIANA.

GH
The two-character ISO 3166 country code for GHANA.

GI
The two-character ISO 3166 country code for GIBRALTAR.

GIC
See: Guaranteed Investment Contract

GL
The two-character ISO 3166 country code for GREENLAND.

GNP
See: Gross National Product

GM
The two-character ISO 3166 country code for GAMBIA.

GMC
See: Guaranteed Mortgage Certificate

GN
The two-character ISO 3166 country code for GUINEA.
participating homeowners.

**Give up**
Used for listed equity securities. (1) Term used in a securities transaction involving three brokers, as follows: Broker A, a floor broker, executes a buy order for broker B (a member firm broker who has too much business at the time to execute the order). The broker with whom broker A completes the transaction (the sell-side broker) is broker C. Broker A "gives up" the name of broker B, so that the record shows a transaction between broker B and broker C even though the trade is actually executed between broker A and broker C; (2) distribution of commissions to brokerage houses not participating in a trade. This is a grey area of the law governing reimbursement of a broker for services (e.g., research). See: Directed brokerage.

**Glamor stock**
A popular stock characterized by high earnings growth rate and a price that rise is faster than the market average in a bull market.

**Global Depository Receipt**
A receipt denoting ownership of foreign-based corporation stock shares which are traded in numerous capital markets around the world.

**Glass-Steagall Act**
1933 legislation prohibiting commercial banks to own, underwrite, or deal in corporate stock and corporate bonds.

**Global bonds**
Bonds designed to qualify for immediate trading in any domestic capital market and in the Euromarket.

**Global fund**
A mutual fund that can invest anywhere in the world, including the U.S.

**Globalization**
Tendency toward a worldwide investment environment, and the integration of national capital markets.

**GNMA-I**
Mortgage-backed securities (M.B.S.) on which registered holders receive separate principal and interest payments on each of their certificates, usually directly from the servicer of the M.B.S. pool. GNMA-I mortgage-backed securities are single-issuer pools.

**GNMA-II**
Mortgage-backed securities (M.B.S.) on which registered holders receive an aggregate principal and interest payment from a central paying agent on all their certificates. Principal and
Bonds issued by gold-mining companies and backed by gold. The bonds make interest payments based on the level of gold prices.

Gold bullion
Investment-grade, pure gold, which may be smelted into gold coins or gold bars.

Gold certificate
Certificate of an investor, that shows proof of ownership of gold bullion.

Gold coins
Coin minted in gold, such as the American Eagle or the Canadian Maple Leaf.

Gold exchange standard
A fixed exchange rate system adopted in the Bretton Woods agreement. It required the U.S. to peg the dollar to gold and other countries to peg their currencies to the dollar.

Gold fixing
The process of determining the price of gold based on supply and demand forces of the market; which occurs twice daily in London.

Gold mutual fund
A mutual fund that primarily invests in gold-mining companies' stock.

Gold standard
An international monetary system in which currencies are defined in terms of their gold content, and payment imbalances between countries are settled in gold. It was in effect from about 1870 to 1914.

Goldbug
Analysts who recommends gold as an investment/hedge.

Golden handcuffs
A contract that binds a broker to a brokerage firm by offering the broker commissions and bonuses, but penalizes the broker if he or she goes to work for another firm.

Golden handshake
A large payment to a senior employee who is forced into retirement or fired as a result of a takeover or simular development.

Golden hello
A bonus a securities firm pays to attract an employee from a competing firm.

Golden parachute
Compensation paid to top-level management by a target firm if a takeover occurs.
The ISO 4217 currency code for the Honduras Lempira.

**HR**
The two-character ISO 3166 country code for CROATIA.

**HRK**
Croatian Kuna currency. (The ISO 4217 currency code)

**HT**
The two-character ISO 3166 country code for HAITI.

**HTG**
The ISO 4217 currency code for the Haiti Gourde.

**HU**
The two-character ISO 3166 country code for HUNGARY.

**HUF**
The ISO 4217 currency code for the Hungarian Forint.

**Haircut**
The margin or difference between the actual market value of a security and the value assessed by the lending side of a transaction.

**Half-life**
The point in the life of a mortgage-backed security guaranteed or issued by the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation when half the principal has been repaid.

**Half-stock**
Stock, common or preferred, with a $50 par value.

**Hammering the market**
Heavy selling of stocks by speculators who think that the stock is overvalued and is about to drop.

**Handle**
The whole-dollar price of a bid or offer is referred to as the handle (e.g., if a security is quoted at 101.10 bid and 101.11 offered, 101 is the handle). Traders are assumed to know the handle. See: Full.

**Hands-off investor**
An investor who has a large stake in a company, but does not wish to play an active role in the management of the corporation.
**Hands-on investor**  
An investor who has a large stake in a corporation and takes an active role in its management. Antithesis of hands-off investor.

**Hang Seng index**  
The major index in Hong Kong.

**Hard capital rationing**  
A capital budget that under no circumstances can be violated.

**Hard currency**  
A freely convertible currency that is not expected to depreciate in value in the foreseeable future.

**Hard dollars**  
Actual separate payments made by a customer for services, including research, provided by a brokerage firm. Antithesis of soft dollars.

**Harmless warrant**  
Warrant that allows the user to purchase a bond only by surrendering another bond with similar terms.

**The Harmonized Commodity Description and Coding System**  
Commonly known as Harmonized System. It is a classification system devised by the Customs Cooperation Council to provide uniformity in tariff classification, trade statistics, and transport documentation among cooperating countries.

**Hart-Scott-Rodino Act**  
Often used in risk arbitrage. Antitrust act administered by U.S. Department of Justice and the FTC that requires an investor to file a form with the government before he acquires an economic interest in the lesser amount of $15 million or 15% of the capitalization of a specific security. The government has thirty days to respond to the filer.

**Harvey, Campbell R.**  
Author of this glossary. Finance professor at Duke University. Author of research on international finance, asset allocation, and emerging markets.

**Head & shoulders**  
In technical analysis, a pattern that results where a stock price reaches a peak and declines; rises above its former peak and again declines; and rises a third time but not to the second peak, and then again declines. The first and third peaks are shoulders, while the second peak is the formation’s head. Technical analysts generally consider a head and shoulders formation to be a very bearish indication.
**Horizontal analysis**  
The process of dividing each expense item of a given year by the same expense item in the base year. It allows assessment of changes in the relative importance of expense items over time and the behavior of expense items as sales change.

**Horizontal merger**  
A merger involving two or more firms in the same industry that are both at the same stage in the production cycle; that is, two or more competitors.

**Horizontal price movement**  
Stock price movement within a narrow price range over an extended period of time which creates the appearance of a relatively straight line on a graph of the stock’s price.

**Horizontal spread**  
The simultaneous purchase and sale of two options that differ only in their expiration dates.

**Hospital revenue bond**  
A bond issued to finance construction of a hospital by a municipal or state agency.

**Host security**  
The security to which a warrant is attached.

**Hostile takeover**  
A takeover of a company against the wishes of the current management and the board of directors by an acquiring company or raider.

**Hot**  
Used in the context of general equities. Active, usually with positive price implications.

**Hot money**  
Money that moves across country borders in response to interest rate differences and that moves away when the interest rate differential disappears.

**House**  
Firms that conduct business as broker-dealers in securities or in the investment banking field are characterized as houses.

**House account**  
A type of account at a brokerage firm that is given a high level of priority and is handled by the main office or an executive, rather than a traditional salesperson.

**House Air Waybill (AWB)**
uncertainty.

I
Fifth letter of a Nasdaq stock symbol specifying that it is the third preferred bond of the company.

IBES
See: Institutional Brokers Estimate System

IBF
See: International Banking Facility

IBRD
See: International Bank for Reconstruction and Development

IC
See: Information Coefficient

ICC
See: International Chamber of Commerce

ID
The two-character ISO 3166 country code for IRELAND.

IDR
The ISO 4217 currency code for the Indonesian Rupiah.

IDR
See: International Depository Receipt

IE
The two-character ISO 3166 country code for ISRAEL.

IEP
The ISO 4217 currency code for the Irish Punt.

IFC
See: International Finance Corporation

IL
The two-character ISO 3166 country code for ISRAEL.

ILS
The ISO 4217 currency code for the Israeli Shekel.
Index and Option Market (IOM)
A division of the CME established in 1982 for trading stock index products and options.

Index swap
A swap of a market index for some other asset, such as a stock-for-stock or debt-for-stock swap.

Index warrant
A stock index option issued by either a corporate or a sovereign entity as part of a security offering, and guaranteed by an option clearing corporation.

Indexed bond
Bond whose payments are linked to an index, e.g., the consumer price index.

Indexed Stock Options
Options that have an exercise price which may fluctuate above or below market value at performance options in that the exercise price of indexed options typically remains variable until the option is exercised.

Indexing
A passive instrument strategy calling for construction of a portfolio of stocks designed to track the total return performance of an index.

Indexing plus
See: Enhanced indexing.

Indicated dividend
Total amount of dividends that would be paid on a share of stock over the next 12 months if each dividend were the same amount as the most recent dividend. Usually represented by the letter "e" in stock tables.

Indicated yield
The yield, based on the most recent quarterly rate times four. To determine the yield, divide the annual dividend by the price of the stock. The resulting number is represented as a percentage. See: Dividend yield.

Indication
(1) Notice given by a dealer (through Autex) or customer of an interest in buying or selling stock, sometimes including specific volume and price; (2) approximation of where a specialist sees buy and sell interest to tighten the range to an opening price.

Indication of interest
A dealer's or investor's interest in purchasing (not commitment to buy) securities that are still...
Accounting practices allowing for the effects of inflation.

**Inflation-escalator clause**
A clause in a contract providing for increases or decreases in inflation depending on fluctuations in the cost of living, production costs, and so forth.

**Inflation hedge**
Investments designed to hedge against inflation and the loss of purchasing power associated with it.

**Inflation-indexed securities**
Securities such as bonds or notes that guarantee a return higher than the rate of inflation if the security is held to maturity.

**Inflation risk**
Also called purchasing power risk, the risk that changes in the real return the investor will realize after adjusting for inflation will be negative.

**Inflation uncertainty**
The fact that future inflation rates are not known. It is a possible contributing factor to the makeup of the term structure of interest rates.

**Inflexible expenses**
Expenses that cannot be adjusted or eliminated such as car payments or rental payments. Antithesis of flexible expenses.

**Information Agent**
Agent whose primary task is to disseminate and explain the details of capital transactions.

**Information asymmetry**
Condition that information is known to some, but not all, participants.

**Information Coefficient (IC)**
The correlation between predicted and actual stock returns, sometimes used to measure the contribution of a financial analyst. An IC of 1.0 indicates a perfect linear relationship between predicted and actual returns, while an IC of 0.0 indicates no linear relationship.

**Information content effect**
The rise in the stock price following a dividend signal, or publication of some other related news.

**Information costs**
Transactions costs that include the assessment of the investment merits of a financial asset. Related: Search costs.
Intermittency
When a non-linear dynamical system alternates between periodic and chaotic behavior. See: Chaos, Dynamical Systems.

Internal auditor
An employee of a company who analyzes the company’s accounting records to that the company is following and complying with all regulations.

Internal expansion
Growth of assets resulting from internal financing or internally generated cash flow.

Internal finance
Finance generated within a firm by retained earnings and depreciation.

Internal growth rate
Maximum rate a firm can expand without outside sources of funding. Growth generated by cash flows retained by company.

Internal market
The mechanisms for issuing and trading securities within a nation, including its domestic market and foreign market. Compare: External market.

Internal measure
The number of days that a firm can run its operations without additional cash income.

Internal rate of return (IRR)
Discount rate at which net present value (NPV) investment is zero. The rate at which a bond's future cash flows, discounted back to today, equal its price.

Internal Revenue Code
The various statutes and regulations making up federal tax law.

Internal Revenue Service (IRS)
The federal agency responsible for the collection of federal taxes, including personal and corporate income taxes, Social Security taxes, and excise and gift taxes.

Internal Revenue Service Restructuring and Reform Act of 1998
The legislation targeted at IRS reform, particularly related to the time period required for capital gains and taxpayer protection and rights.

Internally efficient market
See: Operationally efficient market

International arbitrage
Line of credit
An informal loan arrangement between a bank and a customer allowing the customer to borrow up to a prespecified amount.

Linear programming
Technique for finding the maximum value of some equation, subject to stated linear constraints.

Linear regression
A statistical technique for fitting a straight line to a set of data points.

Linking method
Method for calculating rates of return that multiplies one plus the interim rate of return.

Lintner's observations
John Lintner's work (1956) suggests that dividend policy is related both to a target level, and to the speed of adjustment of change in dividends.

Lipper Mutual Fund Industry Average
The average level of performance for all mutual funds, as reported by Lipper Analytical Services.

Liquid asset
Asset that is easily and cheaply turned into cash—notably, cash itself and short-term securities.

Liquid market
A market allowing the buying or selling of large quantities of an asset at any time and at low transactions costs.

Liquid yield option note (LYON)
Zero-coupon, callable, putable, convertible bond developed by Merrill Lynch & Co.

Liquidating dividend
Payment by a firm to its owners from capital rather than from earnings.

Liquidation
Occurs when a firm's business is terminated. Assets are sold, proceeds are used to pay creditors, and any leftovers are distributed to shareholders. Any transaction that offsets or closes out a long or short position. Related: Buy in, evening up, offset liquidity.

Liquidation by assignment
Sale or realization of a debtor firm's assets voluntarily agreed to by its creditors who estimate that the firm's liquidation value exceeds its going-concern value.
Lisbon Stock Exchange (LSE)
Stock exchange trading stocks, bonds, and unit trusts. The BVL general index is the exchange's official index.

Listed firm
A company whose stock trades on a stock exchange, and conforms to listing requirements.

Listed option
An option that has been accepted for trading on an exchange.

Listed security
Stock or bond that has been accepted for trading by one of the organized and registered securities exchanges in the United States. Generally, the advantages of being listed are that exchanges provide: (1) an orderly marketplace; (2) liquidity; (3) fair price determination; (4) accurate and continuous reporting on sales and quotations; (5) information on listed companies; and (6) strict regulation for the protection of securityholders. Antithesis of OTC Security.

Listed stocks
Stocks that are traded on an exchange.

Listing
In the context of real estate, written agreement between a property owner and a real estate broker that gives the broker permission to find a buyer or tenant for some property.
See: Listing broker.

Listing broker
A licensed real estate broker who completes a listing of a property for sale.

Listing requirements
Requirements, including minimum shares outstanding, market value, and income, that are laid down by an exchange for any stock to be listed for trading.

Living benefits
Life insurance benefits from which the insured can draw cash while still living, usually in the case of some high-cost illness.

Living trust
A trust that an individual establishes during the individual's lifetime, enabling the person to control the assets contributed to the trust. Also known as an inter vivos trust.

Living will
A document specifying the kind of medical care a person wants-or does not want-in the...
An option that allows the buyer to choose as the option strike price any price of the underlying asset that has occurred during the life of the option. For a call option, the buyer will choose the minimum price; for a put option, the buyer will choose the maximum price. This option will always be in the money.

Looking for
In the context of general equities, this describing a buy interest in which a dealer is asked to offer stock, often involving a capital commitment. Antithesis of in touch with.

Loophole
A technicality in some legislation or regulation that makes it possible to avoid certain consequences or circumvent a rule without breaking the law, such as in the use of a tax shelter.

Loose credit
Policy by the Federal Reserve Board to make loans less expensive and more available by reducing interest rates through open market operations.

Loss
The opposite of gain.

Loss Carry-Back (Carry-Forward)
A tax provision that allows operating losses to be used as a tax shield to reduce taxable income in prior and future years. Losses can be carried backward for up to three years and forward for up to 15 years under current tax codes.

Loss-control activities
Actions that an insured person or company takes at the instigation of an insurance company in order to prevent accidents or losses.

Loss-of-income insurance
Insurance coverage that will pay out income that a policyholder loses as a result of a disability, injury, or business disruption.

Loss ratio
The ratio of losses paid or accrued by an insurer to premiums collected over a year.

Lots
In the context of general equities, this blocks or portions of trades. Can express a specific transaction in a stock at a certain time, often implying execution at the same price (e.g., "I traded 40m in two lots of 10 and four lots of 5.").

Louvre Accord
1987 agreement between countries to attempt to stabilize the value of the US dollar.
MMDA
See: Money market demand account

MMK
The ISO 4217 currency code for the Myanmar (ex-Burma) Kyat.

MMME
See: Middle Market Manufacturing Exporter

MN
The two-character ISO 3166 country code for MONGOLIA.

MNC
See: Multinational corporation

MNT
The ISO 4217 currency code for the Mongolian Tugrik.

MO
The two-character ISO 3166 country code for MACAU.

MOC
See Market on Close.

MOP
The ISO 4217 currency code for the Macau Pataca.

MP
The two-character ISO 3166 country code for NORTHERN MARIANA ISLANDS.

MQ
The two-character ISO 3166 country code for MARTINIQUE.

MR
The two-character ISO 3166 country code for MAURITANIA.

MRO
The ISO 4217 currency code for the Mauritanian Ouguiya.

MS
The two-character ISO 3166 country code for MONTSERRAT.

MSCI
See: Morgan Stanley Capital International
A tactic used by a corporation that is the target of a hostile takeover bid involving the issue of a large number of bonds that must be redeemed at a higher value if the company is taken over.

**Macaulay duration**
The weighted-average term to maturity of the cash flows from a bond, where the weights are the present value of the cash flow divided by the price.

**Macro**
In the context of hedge funds, a style of management that takes long term strategic bets. For example, the manager might believe that the Yen will appreciate relative to the dollar over the next six months and alter the portfolio to capture this potential profit opportunity.

**Macro country risks**
Country risks or political risks that affect all foreign firms in a host country.

**Macroassessment**
Overall risk assessment of a country without consideration of an MNC’s business.

**Macroeconomics**
Analysis of a country’s economy as a whole.

**Madrid Stock Exchange (Bolsa de Madrid)**
The largest of Spain's four stock exchanges.

**Markowitz diversification**
The effective reduction of risk (variance) of a portfolio, achieved without reduction to expected returns through the combination of assets with low or negative correlations (covariances). Related: Markowitz diversification.

**Mail Delay**
Time a payment spends in the postal system before delivery.

**Mail float**
Time period that checks for payment spend in the postal system.

**Mailing Date**
A specific date set for the mailing of certain material to security holders such as interim reports, proxy material and dividend checks.

**Maintenance**
Appropriate ongoing adjustments to security holder records.
A report from management to shareholders that accompanies the firm's financial statements in the annual report. It explains the period's financial results and enables management to discuss topics that may not be apparent in the financial statements in the annual report.

**Manager**
The person or persons responsible for the overall investment decisions of a mutual fund.

**Managerial decisions**
Decisions concerning the operation of the firm, such as the choice of firm size, firm growth rates, and employee compensation.

**Managerial flexibility**
Flexibility in the timing and scale of investment provided by a real investment option.

**Managing underwriter**
The leading firm in an underwriting group, which originates the deal and acts as an agent for the group.

**Mandatory convertibles**
A debt instrument that is exchangeable at some point for equity in the form of common stock or a new issue.

**Mandatory redemption schedule**
Schedule according to which bond sinking fund payments must be made.

**Manipulation**
Dealing in a security to create a false appearance of active trading, in order to bring in more traders. Illegal.

**Manufactured housing securities (MHS)**
Loans on manufactured homes—that is, factory-built or prefabricated housing, including mobile homes.

**Maple Leaf**
A gold, silver, or platinum coin minted in Canada that usually trades at slightly more than its current bullion value.

**Margin**
Allows investors to buy securities by borrowing money from a broker. The margin is the difference between the market value of a stock and the loan a broker makes. Related: Security deposit (initial).

**Margin account (stocks)**
requirement, security deposit, maintenance.

**Margin department**
The department in a brokerage firm that monitors customers’ margin accounts, ensuring that all short sales, stock purchases, and other positions are covered by the margin account balance.

**Margin of profit**
Gross profit divided by net sales. Used to measure a firm’s operating efficiency and pricing policies in order to determine how competitive the firm is within the industry.

**Margin of safety**
With respect to working capital management, the difference between (1) the amount of long-term financing and (2) the sum of fixed assets and the permanent component of current assets.

**Margin requirement (options)**
The amount of cash an uncovered (naked) option writer is required to deposit and maintain to cover his daily position valuation and reasonably foreseeable intraday price changes.

**Margin security**
A security that may be bought or sold in a margin account as defined in Regulation T.

**Marine Cargo Insurance**
Insurance covering loss or damage to goods in transit.

**Marital deduction**
A tax deduction that allow spouses to transfer unlimited amounts of property to one another.

**Marital trust**
A trust created to allow one spouse to transfer, during life or upon death, an unlimited amount of property to his/her spouse without incurring gift or estate tax.

**Markdown**
The amount subtracted from the selling price of securities when they are sold to a dealer in the OTC market. Also, the discounted price of municipal bonds after the market has shown little interest in the issue at the original price.

**Marked-to-market**
An arrangement whereby the profits or losses on a futures contract are settled each day.

**Market**
Usually refers to the equity market. "The market went down today" means that the value
Market microstructure
The functional setup of a market.

Market model
The market model says that the return on a security depends on the return on the market portfolio and the extent of the security’s responsiveness as measured by beta. The return also depends on conditions that are unique to the firm. The market model can be graphed as a line fitted to a plot of asset returns against returns on the market portfolio. This relationship is sometimes called the single-index model.

Market Neutral
In the context of hedge funds, a style of management that has long and short equity exposure with nearly exposure on average to fluctuations in the market. However, the on average qualification is important. The risk of the longs and the shorts could fluctuate through time leading to negative returns when the market falls sharply.

Market Not Held Order
Also a market order, but the investor is allowing the floor broker to use his own discretion as to the exact timing of the execution. If the floor broker expects a decline in price and he is holding a "market not held buy order", he (she) may wait to buy, figuring that a better price will soon be available. There is no guarantee that an "market not held order" will be filled.

Market-on-Close (MOC) order
An order to trade securities, options, or futures as close as possible to the market close. See also MOC.

Market opening
The start of formal trading on an exchange.

Market order
Used in the context of general equities. Order to buy or sell a stated amount of a security at the most advantageous price obtainable after the order is represented in the trading crowd. You cannot specify special restrictions such as all or none (AON) or good 'til canceled order (GTC) on market orders. See: Limit order.

Market order go-along/participating
Used for listed equity securities. See: Percentage order.

Market out clause
A clause that may appear in an underwriting firm commitment that releases it from its purchase requirement if there are negative securities market developments.
Banks that raise most of their funds from the domestic and international money markets, relying less on depositors for funds.

**Money management**
Related: Investment management.

**Money manager**
Related: Investment manager.

**Money market**
Money markets are for borrowing and lending money for three years or less. The securities in a money market can be U.S. government bonds, Treasury bills and commercial paper from banks and companies.

**Money market demand account (M.M.D.A.)**
An account that pays interest based on short-term interest rates.

**Money market fund**
A mutual fund that invests only in short term securities, such as bankers' acceptances, commercial paper, repurchase agreements and government bills. The net asset value per share is maintained at $1.00. Such funds are not federally insured, although the portfolio may consist of guaranteed securities and/or the fund may have portfolio insurance protection.

**Money market hedge**
The use of borrowing and lending transactions in foreign currencies to lock in the home currency value of a foreign currency transaction.

**Money market instruments**
See: Cash investments

**Money market notes**
Publicly traded issues that may be collateralized by mortgages and Mortgage Backed Securities (MBSs).

**Money market security**
Short-term investment usually of less than one year.

**Money market yield**
A bond quotation convention based on a 360-day year and semiannual coupons. See: Bond equivalent yield.

**Money purchase plan**
A defined benefit contribution plan in which the participant contributes some part and the firm contributes at the same or a different rate. Also called an individual account plan.
**Mortgage rate**  
The interest rate on a mortgage loan.

**Mortgage REIT**  
An REIT that invests in loans secured by real estate which derive income from mortgage interest and fees.

**Mortgage servicing**  
The collection of monthly payments and penalties, record keeping, payment of insurance and taxes, and possible settlement of default, involved with a mortgage loan.

**Moscow Interbank Currency Exchange (MICEX)**  
Established in 1992, the most liquid and best organized financial exchange in Russia.

**Most active list**  
The stocks with the highest volume of trading on a certain day.

**Most distant futures contract**  
When several futures contracts are considered, the contract settling last. Related: nearby futures contract.

**Most Favored Nation**  
A privilege granted by one country to another whereby the products of the privileged country pay the lowest delivered duty paid charged by the granting country.

**Moving average**  
Used in charts and technical analysis, the average of security or commodity prices constructed in a period as short as a few days or as long as several years and showing trends for the latest interval. As each new variable is included in calculating the average, the last variable of the series is deleted.

**MTN**  
Medium term notes issued by corporations, much like shorter-term commercial paper.

**MUD**  
A municipal utility district, which is a political subdivision that administers utility-related services, sometimes requiring the issue of special assessment bonds.

**Multibuyer policy**  
Ex-Im Bank program that provides credit risk insurance on export sales to many different buyers.

**Multicurrency clause**
Net salvage value
The after-tax net cash flow for terminating the project.

Net tangible assets per share
All of a company's assets except patents, trademarks, and other intangible assets minus all liabilities and the par value of preferred stock, divided by the number of shares outstanding.

Net transaction
A securities transaction in which no commissions or extra fees are paid, such as in an initial public offering.

Net transaction exposure
Offsetting inflows against outflows in a given currency to determine extent of exposure to risk.

Net Weight
The weight of goods being shipped that does not include the weight of wrapping material, container, or other packaging.

Net working capital
Current assets minus current liabilities. Often simply referred to as working capital.

Net worth
Common stockholders' equity which consists of common stock, surplus, and retained earnings.

Net yield
The rate of return on a security, minus purchase costs, commissions, or markups.

Netting
Reducing transfers of funds between subsidiaries or separate companies to a net amount.

Netting out
To get or bring in as a net; to clear as profit.

Network A/Network B
See: Consolidated tape

neutral
Describing an opinion that is neither bearish nor bullish. Neutral option strategies are generally designed to perform best if there is little or no net change in the price of the underlying stock or index. See also Bearish and Bullish.

Neutral hedge
Hedge that is expected to yield a dollar-neutral result of the combined position, regardless
Any asset that is expected to be held for the whole year, not sold or exchanged, such as real estate, machinery, or a patent.

**Noncurrent liability**
A liability due in one year.

**Non-Discretionary Proposal**
A proposition on a proxy card requiring a response from the beneficial owner which does not fall under the Ten Day Rule. Therefore, the broker cannot vote on behalf of the beneficial owner, it can only vote after specific instructions have been received from the beneficial owner.

**Nondiscretionary trust**
A personal trust whose trustee has no discretion in deciding how income will be distributed to the beneficiary.

**Nondeductible contribution**
A contribution to either a traditional IRA or Roth IRA. Income tax is due on the contribution in the tax year for which the contribution is made.

**Nondeliverable Forward Contracts (NDF)**
Agreement regarding a position in a specified currency, a specified exchange rate, and a specified future settlement date, that does not result in delivery of currencies. Rather one party in the agreement makes a payment to the other party on the basis of the exchange rate at the future date.

**Nondiversifiability of human capital**
The difficulty of hedging one’s human capital (the unique capabilities and expertise of individuals) and employment effort.

**Nondiversifiable risk**
Risk that cannot be eliminated by having a large portfolio of many assets.

**Non-Equity Option**
An option whose underlying entity is not common stock; typically refers to options on physical commodities and index options.

**Nonfinancial assets**
Physical assets such as real estate and machinery.

**Nonfinancial services**
Such things as freight, insurance, passenger services, and travel.

**Noninsured plans**
A loan that increases spending power, but is used in business that does not directly increase the economy’s output, such as a leveraged buyout loan.

**Nonpublic information**
Information about a company that is not known by the general public, which will have a definite impact on the stock price when released. See: Insider trading.

**Nonpurpose loan**
A loan with securities pledged as collateral, but which is not to be used in securities trading or transactions.

**Nonqualified plan**
A retirement plan that does not meet the IRS requirements for favorable tax treatment.

**Nonqualifying annuity**
An annuity that does not fall under an IRS-approved pension plan. Contributions are made with after-tax dollars, but earnings can accumulate tax-deferred until withdrawal.

**Nonqualifying stock option**
An employee stock option that does not satisfy IRS qualifying rules and therefore is liable for taxation upon exercise.

**Nonrated**
A bond that has not been rated by a large rating agency, usually because the issue is too small.

**Nonrecourse**
In the case of default, the lender has ability to claim assets over and above what the limited partners contributed.

**Nonrecourse loan**
A loan taken by limited partners used to finance their portion of the partnership, which is secured by their ownership in the venture.

**Nonrecurring charge**
A one-time expense or credit shown in a company’s financial statement.

**Nonredeemable**
Not permitted, under the terms of an indenture, to be redeemed.

**Nonrefundable**
Not permitted, under the terms of an indenture, to be refundable.

**Nonreproducible assets**
**Off-budget Federal entities**
Federally owned and controlled entities whose transactions are excluded from the budget totals under provisions of law. Their receipts, outlays, and surplus or deficit are not included in budget receipts, outlays or deficits. Their budget authority is not included in totals of the budget.

**Off-floor order**
Used for listed equity securities. (1) Order to buy or sell a security that originates off the floor of an exchange; customer orders originating with brokers, as distinguished from orders placed by floor members trading for their own accounts. Exchange rules require that an off-floor order be executed before orders initiated on the floor. *Upstairs order.* Antithesis of on-floor order; (2) order not handled on the floor but instead upstairs.

**Offer**
Indicates a willingness to sell at a given price. Related: *Bid.*

**Offer price**
See: *Offer.*

**Offer wanted**
Used in the context of general equities. Notice by a potential buyer of a security that he or she is looking for supply from a potential seller of the security, often requiring a capital commitment. Antithesis of bid wanted.

**Offering date**
Date on which a new set of stocks or bonds will first be sold to the public.

**Offering memorandum**
A document that outlines the terms of securities to be offered in a private placement.

**Offering scale**
The range of prices offered by the underwriter of a serial bond issue with different maturities.

**Offering statement**
A shortened registration statement required by the Securities and Exchange Commission on debt issues with less than a nine-month maturity.

**Offerings**
Often refers to initial public offerings. When a firm goes public and makes an offering of stock to the market.

**Office of Thrift Supervision (OTS)**
An agency of the U.S. Treasury department responsible for the US savings and loan...
it crosses the threshold for refinancing, specially if two or more years have passed since the date of issue without the weighted average coupon of the pool crossing the refinancing threshold.

**Oversold**
Used in the context of general equities. Technically too low in price, and hence a technical correction is expected. Antithesis of overbought.

**Oversubscribed issue**
Investors are not able to buy all the shares or bonds they want, so underwriters must allocate the shares or bonds among investors. This occurs when a new issue is underpriced or in great demand because of growth prospects.

**Oversubscription privilege**
In a rights issue, arrangement by which shareholders are given the right to apply for any shares that are not taken up.

**Overtrading**
Excessive broker trading in a discretionary account. Underwriters persuade brokerage clients to purchase some part of a new issue in return for the purchase by the underwriter of other securities from the clients at a premium. This premium is offset by the underwriting spread.

**Overvalued**
A stock price that is seen as too high according to the company’s price-earnings ratio, expected earnings, or financial condition.

**Overwithholding**
Deducting and paying too much tax that may be refunded to the taxpayer or applied against the next period’s obligation.

**Overwriting**
A speculative options strategy that involves selling call or put options on stocks that are believed to be overpriced or underpriced; the options are expected not to be exercised.

**Own foreign offices**
US reporting institutions’ parent organizations, branches, and/or majority owned subsidiaries located outside the United States.

**Owner’s equity**
Paid-in capital plus donated capital plus retained earnings less liabilities.

**Ownership-specific advantages**
Property rights or intangible assets, including patents, trademarks, organizational and marketing expertise, production technology, and management and general
organizational abilities, that form the basis for a company's advantage over other firms.

O
Fifth letter of a Nasdaq stock symbol specifying that it is the company's second class of preferred shares.

OAS
See: Option adjusted spread

OCC
See: Options Clearing Corporation

OECD
See: Organization for Economic Cooperation and Development

OID
See: Original issue discount debt

OM
The two-character ISO 3166 country code for OMAN.

OMR
The ISO 4217 currency code for the Oman Rial.

OTC
See: Over-the-counter.

OTM
See: Out of the money.

OPEC
See: Organization of Petroleum Exporting Countries

Oath of Inspectors
A sworn statement signed by the Inspectors of Election, usually notarized, wherein they swear they will impartially and faithfully execute their duties as Inspectors of Election at the annual or special meeting of shareholders.

Objective (mutual funds)
The fund's investment strategy category as stated in the prospectus. There are more than 20 standardized categories. E.g. Aggressive growth, balanced.

Objective probability
The true unobservable underlying odds that something is so.
maturities.

**Offering statement**
A shortened registration statement required by the Securities and Exchange Commission on debt issues with less than a nine-month maturity.

**Offerings**
Often refers to initial public offerings. When a firm goes public and makes an offering of stock to the market.

**Office of Thrift Supervision (OTS)**
An agency of the U.S. Treasury department responsible for the US savings and loan industry.

**Official reserves**
Holdings of gold and foreign currencies by official monetary institutions.

**Official statement**
A statement published by an issuer of a new municipal security describing itself and the issue.

**Official settlements balance (overall balance)**
An overall measurement of a country's private financial and economic transactions with the rest of the world.

**Official unrequited transfers**
Include a variety of subsidies, military aid, voluntary cancellation of debt, contributions to international organizations, indemnities imposed under peace treaties, technical assistance, taxes, or fines.

**Offset**
Elimination of a long or short position by making an opposite transaction. Related: Liquidation.

**Offshore finance subsidiary**
A wholly owned affiliate incorporated overseas, usually in a tax haven country, whose function is to issue securities abroad for use in either the parent's domestic or foreign business.

**Offshore fund**
A mutual fund whose headquarters is based outside the United States.

"O.K. to cross"
Used for listed equity securities. "Legal to cross the buy and sell orders on the exchange floor
**Origination**
The making of mortgage loans.

**Organization for Economic Cooperation and Development (OECD)**
An organization of industrialized countries formed to promote the economic health of its members and to contribute to worldwide development.

**Originator**
A bank, savings and loan, or mortgage banker that initially made a mortgage loan that is part of a pool. Also, an investment bank that has worked with the issuer of a new securities offering from the beginning and is usually appointed manager of the underwriting syndicate.

**Orphan stock**
A stock that is ignored by research analysts and as a result may be trading at low price earnings ratios.

**Osaka Securities Exchange**
Established after World War II, one of the three major securities markets in Japan.

**Oslo Stock Exchange**
An exchange founded in 1819 and trading stocks, bonds, and stock options that is considered the options market of Norway.

**OTC Bulletin Board**
An electronic quotation listing of the bid and asked prices of OTC stocks that do not meet the requirements to be listed on the NASDAQ stock-listing system.

**OTC margin stock**
Shares traded over-the-counter that can be used as margin securities under Regulation T.

**Other capital**
In the balance of payments, other capital is a residual category that groups all the capital transactions that have not been included in direct investment, portfolio investment, and reserves categories. It is divided into long-term capital and short-term capital and, because of its residual status, can differ from country to country. Generally speaking, other long-term capital includes most nonnegotiable instruments of a year or more, like bank loans and mortgages. Other short-term capital includes financial assets that can be liquidated in less than a year such as currency, deposits, and bills.

**Other current assets**
Value of noncash assets, including prepaid expenses and accounts receivable, due within one year.
A decentralized market (as opposed to an exchange market) where geographically dispersed dealers are linked by telephones and computer screens. The market is for securities not listed on a stock or bond exchange. The NASDAQ market is an OTC market for US stocks. Antithesis of listed.

**Over-the-Counter Option**
An option traded off-exchange, as opposed to a listed stock option. The OTC option has a direct link between buyer and seller, has no secondary market, and has no standardization of striking prices and expiration dates. See also Secondary Market.

**Overage**
Apples mainly to convertible securities. Difference between how much common stock one party must sell and the other wishes to buy for the same amount of convertible in a swap.

**Overall FTC limitation**
A limitation on the FTC equal to foreign source income times US tax on worldwide income divided by worldwide income.

**Overall market price coverage**
Total assets less intangibles divided by the total of the market value of the security issue and the book value of liabilities and issues having a prior claim. This is used to determine how much of the market value of a certain class of securities would be covered in liquidation.

**Overbought**
Used in the context of general equities. Technically too high in price, and hence a technical correction is expected. See: Heavy. Antithesis of oversold.

**Overbought-oversold**
An indicator that attempts to define when prices have moved too far and too fast in either direction and thus are vulnerable to reaction.

**Overcapitalization**
Said to occur when a firm cannot service its debt even though its debt/equity ratio is not excessive.

**Overdraft**
Provision of instant credit by a lending institution.

**Overdraft checking account**
A checking account associated with a line of credit that allows a person to write checks for more that the actual balance in the account, with a finance charge on the overdraft.

**Overfunded pension plan**
The ISO 4217 currency code for the Portugese Escudo.

**PVBP**
See: Price value of a basis point

**PW**
The two-character ISO 3166 country code for PALAU.

**PY**
The two-character ISO 3166 country code for PARAGUAY.

**PYG**
The ISO 4217 currency code for the Paraguay Guarani.

**PAC Bond**
Stands for Planned Amortization Class bond. A *tranche* class offered by some CMOs that has a sinking fund schedule and an ability to make *principal* payments that are not subordinated to other classes.

**Pacific**
Used for listed equity securities. Regional exchange located in Los Angeles and San Francisco; only U.S. exchange open between 4:00 and 4:30.

**Pac-Man strategy**
Takeover defense strategy in which the prospective *acquiree* retaliates against the *acquirer’s* tender offer by launching its own tender offer for the other firm.

**Package mortgage**
A *mortgage* on a house and property in the house.

**Paid-in capital**
Capital received from investors in exchange for stock, but not stock from capital generated from earnings or donated. This account includes capital stock and contributions of stockholders credited to accounts other than capital stock. It would also include surplus resulting from recapitalization.

**Paid in surplus**
See: Paid-in capital

**Paid up**
When all payments that are due have been made.

**Paid-up policy**
A *life insurance policy* in which all *premiums* that are due have been paid.
**Par value**
The official exchange rate between two countries' currencies.

**Parallel bonds**
Fixed income instruments denominated in the respective currencies of the countries where they are placed.

**Parallel loan**
A process whereby two companies in different countries borrow each other's currency for a specific period of time, and repay the other's currency at an agreed maturity for the purpose of reducing foreign exchange risk. Also referred to as back-to-back loans.

**Parallel shift in the yield curve**
A shift in economic conditions in which the change in the interest rate on all maturities is the same number of basis points. In other words, if the three month T-bill increases 100 basis points (one %), then the 6-month, 1-year, 5-year, 10-year, 20-year, and 30-year rates all increase by 100 basis points as well. Related: Non-parallel shift in the yield curve.

**Parameter**
A model is a combination of variables, such as GDP growth, and coefficients which multiply these variables. The coefficients are often estimated from historical data. The coefficients are called parameters.

**Parent company**
A company that controls subsidiaries through its ownership of voting stock, as well as runs its own businesses.

**Paris Bourse**
National stock market of France.

**Paris**
The deposit rate on interbank transactions in the Eurocurrency market quoted in Paris.

**Parity**
For convertibles, level at which a convertible security's market price equals the aggregate value of the underlying common stock; value/worth of the convertible bond considered only as an equity instrument (Conversion ratio times common price). See: Conversion value. For international parity, US$ price of a foreign stock's last sale in an overseas market (Local currency stock price times forex rate times ADR ratio). For listed parity, condition whereby no party has floor priority, and matching thus occurs. For options parity, dollar amount by which an option is in the money. See: Intrinsic value.

**Parity value**
Related: Conversion value
**Performance stock**
High-growth stock in a company that retains earnings for further growth and therefore pays no dividends, but that an investor feels has significant future potential.

**Period-certain annuity**
An annuity that provides guaranteed payments to an annuitant for a specified period of time.

**Period of digestion**
The time period of often high volatility after a new issue is released when the trading price of the security is established by the market.

**Periodic call auction**
Selling stocks by bid at intervals throughout the day.

**Periodic payment plan**
Accumulation of capital in a mutual fund by making regular payments on a monthly or quarterly basis.

**Periodic payments**
A series of payments from an annuity, qualified retirement plan, or 
**Periodic purchase deferred contract**
A fixed or variable annuity contract for which fixed-amount premiums are paid either monthly or quarterly, and that does not begin paying out until a time elected by the annuitant.

**Periodic rate**
The monthly effective interest rate. For example, the periodic rate on a credit card with an 18% annual percentage rate is 1.5% per month.

**Permanent Assets**
Fixed assets (plant and equipment) and permanent current assets.

**Permanent Current Assets**
The minimum level of current assets that a firm needs to continue operation. Because some level is always maintained, they are called permanent current assets.

**Permanent financing**
Long-term financing using either debt or equity.

**Permanent spontaneous current Liabilities**
The minimum level of spontaneous liabilities that is always maintained by a firm.

**Permissable nonbank activities**
Financial activities closely related to banking that may be engaged in by bank holding companies (BHCs), either directly or through nonbank subsidiaries. For example, a BHC might own finance companies or engage in mortgage banking. The Federal Reserve Board determines which activities are closely related to banking. Before making such activities permissible, the Board must determine that performance of the activities by bank holding companies is in the public interest.

**Perpendicular spread**
Option strategy involving the purchase of options with similar expiration dates and different exercise prices.

**Perpetual bond**
Nonredeemable bond with no maturity date that pays regular interest rates indefinitely.

**Perpetual inventory**
Recordkeeping system in which book inventory is updated daily.

**Perpetual warrants**
Warrants that have no expiration date.

**Perpetuity**
A constant stream of identical cash flows with no end, such as a British consol.

**Perquisites**
Personal benefits, including direct benefits, such as the use of a firm car or expense account for personal business, and indirect benefits, such as up-to-date office decoration.

**Personal article floater**
Insurance policy attachment designed to cover specified personal valuables.

**Personal exemption**
Amount of money a taxpayer can exclude from personal income for each member of the household in calculation of a tax obligation.

**Personal income**
Total income received from all sources, including wages, salaries, or rents, and the like.

**Personal inflation rate**
The inflation rate as it affects a specific individual.
**Personal property**
Any assets other than real estate.

**Personal tax view (of capital structure)**
The argument that the difference in personal tax rates between income from debt and income from equity eliminates the disadvantage of the double taxation (corporate and personal) of income from equity.

**Personal trust**
An interest in an asset held by a trustee for the benefit of another person.

**Petrodollars**
Deposits by countries that receive dollar revenues from the sale of petroleum to other countries; the term commonly refers to OPEC deposits of dollars in the Eurocurrency market.

**Phantom income**
Income from a limited partnership that creates taxability without generating cash flow.

**Phantom Stock Award**
A type of incentive grant in which the recipient is not issued actual shares of stock on the grant date but receives an account credited with a certain number of hypothetical shares. The value of the account increases over time based on the appreciation of the stock price and the crediting of phantom dividends. Payout may be settled in cash or stock.

**Phantom stock plan**
An incentive scheme that awards management bonuses based on increases in the market price of the company's stock.

**Phase space**
A graph which shows all possible states of a system. In phase space we plot the value of a variable against possible values of the other variables at the same time. If a system had three descriptive variables, we plot the phase space in three dimensions, with each variable taking one dimension.

**Philadelphia Board of Trade (PBOT)**
A subsidiary of the Philadelphia Stock Exchange that trades currency futures.

**Philadelphia Stock Exchange (PHLX)**
A securities exchange trading American and European foreign currency options on spot exchange rates.

**Philippine Stock Exchange**
Established in 1992 through the merger of the Manila Stock Exchange and the Makati
Stock Exchange, the Philippines' only securities market.

**Phillips Curve**
A graph that supposedly shows the relationship between inflation and unemployment. It is conjectured that there is a simple trade-off between inflation and unemployment (high inflation and low unemployment, and low inflation and high unemployment). Named after A.W. Phillips. Obviously, the relation between these important macroeconomic variables is more complicated than this simple graph would suggest. For a modern treatment, see work of Robert Lucas.

**Phone switching**
Transferring money between funds in the same mutual fund family by telephone request. There may be a charge associated with these transfers. Phone switching is also possible among different fund families if the funds are held in street name by a participating broker/dealer.

**Physical asset**
Actual property such as precious metals or real estate. Also called real or tangible assets.

**Physical commodity**
See: Commodity

**Physical option**
An option whose underlying security is a physical commodity that is not stock or futures. The physical commodity itself (a currency, treasury debt issue, commodity) - underlies that option contract. See also index option.

**Physical verification**
A procedure auditors use to ensure that inventory recorded in the book is correct by actually checking out the physical inventory.

**P & I**
Stands for principal and interest on bonds or mortgage-backed securities.

**Pickup**
The gain in yield that occurs when a block of bonds is swapped for another block of higher-coupon bonds.

**Pickup bond**
A bond with a relatively high coupon that is close to the date at which it is callable, meaning that a fall in interest rates will most likely cause early redemption of the bond at a premium.

**Picture**
Describes bid and asked prices a broker quotes for a given security. Used for listed equity
divided into the regular payments.

**Preemptive right**
Common stockholders' right to anything of value distributed by the company.

**Preference**
Refers to over-the-counter trading. Selection of a dealer to handle a trade despite the dealer's market not being the best available. Often the "preferred dealer" will then move his market in line.

**Preference share**
Preferred shares of a corporation that have first claim to preferred dividends.

**Preference stock**
A security that ranks junior to preferred stock but senior to common stock in the right to receive payments from the firm; essentially junior preferred stock.

**Preferred dividend coverage**
Net income after interest and taxes (before common stock dividends) divided by preferred stock dividends.

**Preferred equity redemption stock (PERC)**
Preferred stock that converts automatically into equity at a stated date. A limit is placed on the value of the shares the investor receives.

**Preferred habitat theory**
A biased expectations theory that allows the term structure reflects the expectation of the future path of interest rates as well as risk premium. The theory rejects the assertion that the risk premium must rise uniformly with maturity, but instead profits that to the extent that the demand for and supply of funds do not match for a given maturity range, some participants will shift to maturities showing the opposite imbalances, as long as they are compensated by an appropriate risk premium whose magnitude will reflect the extent of aversion to either price or reinvestment risk.

**Preferred shares**
Preferred shares give investors a fixed dividend from the company's earnings and entitle them to be paid before common shareholders. See: Preferred stock.

**Preferred stock**
A security that shows ownership in a corporation and gives the holder a claim, prior to the claim of common stockholders, on earnings and also generally on assets in the event of liquidation. Most preferred stock pays a fixed dividend that is paid prior to the common stock dividend, stated in a dollar amount or as a percentage of par value. This stock does not usually carry voting rights. Preferred stock has characteristics of both common stock and
**Product cycle theory**
Theory suggesting that a firm initially establish itself locally and expand into foreign markets in response to foreign demand for its product; over time, the MNC will grow in foreign markets; after some point, its foreign business may decline unless it can differentiate its product from competitors.

**Product Differentiation**
A source of competitive advantage that depends on producing some item that is regarded to have unique and valuable characteristics.

**Product risk**
A type of mortgage pipeline risk that occurs when a lender has an unusual loan in production or inventory but does not have a sale commitment at a prearranged price.

**Production Cost Advantage**
A source of competitive advantage that depends on producing some product or service at the lowest cost.

**Production-flow commitment**
An agreement by the loan purchaser to allow a monthly loan quota to be delivered in batches.

**Production payment financing**
A method of nonrecourse asset-based financing in which a specified percentage of revenue realized from the sale of the project’s output is used to pay debt service.

**Production possibilities schedule**
The maximum amount of goods (i.e., food and clothing) that a country is able to produce given its labor supply.

**Production rate**
The coupon rate at which a pass-through security guaranteed by Ginnie Mae is issued.

**Productivity**
The amount of output per unit of input, such as the quantity of a product produced per hour of capital employed.

**Profile buyer/seller**
Trader trying to get involved in a stock who presents self as a buyer/seller to draw a call from a customer. That is the trader has nothing real, or natural.

**Profit**
Revenue minus cost. The amount one makes on a transaction.
**Profit center**  
A division of an organization held responsible for producing its own **profits**.

**Profit forecast**  
A prediction of future **profits** of a company, which may affect **investment decisions**.

**Profit Graph**  
A graphical representation of the potential outcomes of a strategy. Dollars of profit or loss are graphed on the vertical axis, and various stock prices are graphed on the horizontal axis. Results may be depicted at any point in time, although the graph usually depicts the results at expiration of the options involved in the strategy.

**Profit margin**  
Indicator of profitability. The ratio of **earnings** available to stockholders to net sales. Determined by dividing **net income** by revenue for the same 12-month period. Result is shown as a percentage. Also known as net profit margin.

**Profit Range**  
The range within which a particular position makes a profit. Generally used in reference to strategies that have two break-even points - an upside break-even and a downside break-even. The price range between the two break-even points would be the profit range.

**Profit-sharing plan**  
An incentive system providing that employees share in company **profits** through a cash fund or a deferred plan used to buy **stock** or **bonds**.

**Profit Table**  
A table of results of a particular strategy at some point in time. This is usually a tabular compilation of the data drawn on a profit graph. See also **Profit Graph**.

**Profit taking**  
Action by short-term securities **traders** to cash in on gains created by a sharp **market** rise, which pushes prices down temporarily but implies an upward **market trend**. See: **Ring the [cash] register**.

**Profitability index**  
The **present value** of the future **cash flows** divided by the initial investment. Also called the benefit-cost ratio.

**Profitability ratios**  
Ratios that focus on how well a firm is performing. **Profit margins** measure performance with relation to sales. Rate of return ratios measure performance relative to some measure of size of the investment.
**Proforma Invoice**
A quotation in the form of a ninvoice prepared by the seller that details items which would appear on a commercial invoice if an order results.

**Program trades**
Orders requiring the execution of trades in a large number of different stocks at as near the same time as possible. Also called basket trades. Related: Block trade

**Program trading**
Trades based on signals from computer programs, usually entered directly from the trader's computer in to the market's computer system and executed automatically. Applies to derivative products. A process of electronic execution of trading of a basket of stocks simultaneously, for index arbitrage, portfolio restructuring, or outright buy/sell interests. See: super dot.

**Progress payments**
Periodic payments to a supplier, contractor, or subcontractor for work as it is completed as desired, in order to reduce working capital requirements.

**Progress review**
A periodic review of a capital investment project to evaluate its continued economic viability.

**Progressive tax system**
A tax system that taxes the wealthy at a higher percentage rate than the less wealthy.

**Progressive taxation**
Characterizes a convex tax schedule that results in a higher effective tax rate on higher income levels. Increases for some increases in income, but never decreases with an increase in income.

**Project Finance Loan Program**
Program under which banks, the Ex-Im Bank, or a combination of both may extend long-term financing for capital equipment and related services for major projects.

**Project financing**
A form of asset-based financing in which a firm finances a discrete set of assets on a stand-alone basis.

**Project link**
An econometric model forecasting and describing the effects of changes in different economies on other economies.
Project loan certificate (PLC)
A primary program of Ginnie Mae for securitizing FHA-insured and coinsured multifamily, hospital, and nursing home loans.

Project loans
Usually FHA-insured and HUD-guaranteed mortgages on multiple-family housing complexes, nursing homes, hospitals, and other special development.

Project loan securities
Securities backed by a variety of FHA-insured loans—primarily multifamily apartment buildings, hospitals, and nursing homes.

Project notes (PN)
Notes issued by municipalities to finance federally sponsored programs in urban renewal and housing and guaranteed by the U.S. Department of Housing and Urban Development.

Projected benefit obligation (PBO)
A measure of a pension plan’s liability at the calculation date assuming that the plan is ongoing and will not terminate in the foreseeable future. Related: Accumulated benefit obligation.

Projected maturity date
With CMOs, the date at the end of the estimated cash flow window where final payment is made.

Projection
The use of econometric models to forecast the future performance of a company, country, or other financial entity using historical and current information.

Promissory note
Written pledge to pay.

Property inventory
A list of personal property with corresponding values and initial costs often used to substantiate insurance claim and tax losses.

Property rights
Rights of individuals and companies to own and use property as they see fit and to receive the stream of income that their property generates.

Property tax
A tax levied on real property based on its use and its assessed value.
per month in the first month following the date of issue, increasing at 2% percentage points per month thereafter until the 30th month. Thereafter, 100% PSA is the same as 6% CPR (Constant prepayment rate).

**PSSG**
Financial ratio defined as stock price divided by sales over sales growth. Often used in the valuation of Internet stocks. Related: PREG.

**Public Book (of order)**
The orders to buy or sell, entered by the public, that are generally away from the current market. The order book official or specialist keeps the public book. Market-Makers on the CBOE can see the highest bid and lowest offer at any time. The specialist's book is closed (only he knows at what price and in what quantity the nearest public orders are). See also Market-Maker and Specialist.

**Public Company**
A company that has held an initial public offering and whose shares are traded on a stock exchange or in the over-the-counter market. Public companies are subject to periodic filing and other obligations under the federal securities laws.

**Public debt**
Issues of debt by governments to compensate for a lack of tax revenues.

**Public housing authority bond**
Bonds of local public housing agencies that are secured by the federal government and whose proceeds are used to provide low-rent housing.

**Public limited partnership**
A limited partnership with an unlimited number of partners that is registered with the SEC and is available for public trading by broker/dealers.

**Public offering**
Used in the context of general equities. Offering to the investment public, after compliance with registration requirements of the SEC, usually by an investment banker or a syndicate made up of several investment bankers, at a price agreed upon between the issuer and the investment bankers. Antithesis of private placement. See: Primary distribution and secondary distribution.

**Public**
The price of a new issue of securities at the time that the issue is offered to the public.

**Public ownership**
The portion of a company's stock that is held by the public.
special tax considerations. The plan may provide for employer contributions, as in a pension or profit-sharing plan, as well as employee contributions. Employers can deduct plan contributions made on behalf of eligible employees on the business's tax return as business expenses. Plan earnings are not taxed to the employee until withdrawn.

**Qualified Terminable Interest Property Trust (Q-TIP)**
A trust that allows a surviving spouse to receive income generated from the trust, while the actual distribution of the trust's assets is made to other beneficiaries such as the grantor's children.

**Qualified total distribution**
A payment representing an employee's interest in a qualified retirement plan. The payment must be prompted by retirement (or other separation from service), death, disability, or attainment of age 59-1/2. Payment can be in installments as long as the complete distribution is made within a single tax year.

**Qualifying annuity**
An annuity allowable as investment for a qualified plan or trust.

**Qualifying share**
Shares of common stock that a person must hold in order to qualify as a director of the issuing corporation.

**Qualifying stock option**
A benefit granted by a corporation that allows employees to purchase shares at a discount price.

**Qualitative analysis**
An analysis of the qualities of a company that cannot be measured concretely, such as management quality or employee morale.

**Qualitative research**
Traditional analysis of firm-specific prospects for future earnings. It may be based on data collected by the analysts, there is no formal quantitative framework used to generate projections.

**Quality of earnings**
Increased earnings due to increased sales and cost controls, as compared to artificial profits created by inflation of inventory or other asset prices.

**Quality option**
Gives the seller choice of deliverables in Treasury bond and Treasury note futures contracts. Also called the swap option. Related: Cheapest to deliver issue.
Randomized strategy
A strategy of introducing into the decision-making process a chance element that is designed to confound the information content of the decision-maker's observed choices.

Range
The high and low prices, or high and low bids and offers, recorded during a specified time.

Range forward
A forward exchange rate contract that places upper and lower bounds on the future cost of foreign exchange.

Rate anticipation swaps
An exchange of bonds in a portfolio for new bonds that will achieve the target portfolio duration, given the investor's assumptions about future changes in interest rates.

Rate base
The value of a regulated public utility and its operations as defined by its regulators and on which the company is allowed to earn a particular rate of return.

Rate covenant
A provision governing a municipal revenue project financed by a revenue bond issue, which establishes the rates to be charged users of the new facility.

Rate of exchange
See: Exchange Rate

Rate lock
An agreement between the mortgage banker and the loan applicant guaranteeing a specified interest rate for a designated period, usually 60 days.

Rate of interest
The rate, as a proportion of the principal, at which interest is computed.

Rate of return
Calculated as the (value now minus value at time of purchase) divided by value at time of purchase. For equities, we often include dividends with the value now. See also: Return, annual rate of return.

Rate of return ratios
Ratios that measure the profitability of a firm in relation to various measures of investment in the firm.

Rate risk
Reachback
The ability of a tax shelter or limited partnership to deduct certain costs and expenses at the end of the year that were incurred throughout the entire year.

Reaction
A decline in prices following an advance. Opposite of rally.

Reading the tape
Judging the performance of stocks by monitoring changes in price as they are displayed on the ticker tape.

Real
Used in the context of general equities. (1) natural, (2) not dividend roll-or program trading-related; (3) not tax-related. "Real" indications have three major repercussions: a) pricing will be more favorable to the other side of the trade since an investment bank is not committing any capital; b) price pressure will be stronger if real since a natural buyer/seller may have information leading to his decision or more behind it, and c) an uptick may be required for the trader to transact if the indication is not real and the trader has no long position.

Real assets
Identifiable assets, such as land and buildings, equipment, patents, and trademarks, as distinguished from a financial investment.

Real appreciation/depreciation
A change in the purchasing power of a currency.

Real body
On a candlestick line, it is the broad part consisting of the difference between opening and closing prices.

Real capital
Wealth that can be represented in financial terms, such as savings account balances, financial securities, and real estate.

Real cash flow
Income expressed in current purchasing power terms.

Real Currency
The purchasing power in today's currency of future nominal currency to be disbursed or received.

Real estate
A portfolio constructed to match an index or benchmark.

Repo
An agreement in which one party sells a security to another party and agrees to repurchase it on a specified date for a specified price. See: Repurchase agreement.

Report
Written or oral confirmation that all or part of one’s order has been executed, including the price and size parameters of the trade being reported; often followed by a fresh picture.

Report of Condition and Income
Financial report that all banks, bank holding companies, savings, and loan associations, Edge Act and agreement corporations, and certain other types of organizations must file with a federal regulatory agency. Informally termed a call report.

Reported factor
The pool factor as reported by the bond buyer for a given amortization period.

Reporting currency
The currency in which the parent firm prepares its own financial statements; that is, US dollars for a US company.

Repricing
To change the price of an asset. In derivatives, it sometimes refers to the exchange of options of with different strike prices.

Reproducible assets
A tangible asset with physical properties that can be matched or duplicated, such as a building or machinery.

Repurchase agreement
An agreement with a commitment by the seller (dealer) to buy a security back from the purchaser (customer) at a specified price at a designated future date. Also called a repo, it represents a collateralized short-term loan for which, where the collateral may be a Treasury security, money market instrument, federal agency security, or mortgage-backed security. From the purchaser’s (customer’s) perspective, the deal is reported as a reverse repo.

Repurchase of stock
Technique to pay cash to firm’s shareholders that provides more preferential tax treatment for shareholders than dividends. Treasury stock is the name given to previously issued stock that has been repurchased by the firm. A repurchase is achieved through either a Dutch auction, open market, purchase, or tender offer.
Retention rate
The percentage of present earnings held back or retained by a corporation, or one minus the dividend payout rate. Also called the retention ratio.

Retire
To extinguish a security, as in paying off a debt.

Retirement
Removal from circulation of stock or bonds that have been reacquired or redeemed.

Retirement Protection Act of 1994
Legislation designed to protect the pension benefits of workers and retirees by increasing required support of pension plans by employers.

Retracement
A price movement in the opposite direction of the previous trend.

Return
The change in the value of a portfolio over an evaluation period, including any distributions made from the portfolio during that period.

Return if Exercised
The return that a covered call writer would make if the underlying stock were called away.

Return of capital
A cash distribution resulting from the sale of a capital asset, or securities, or tax breaks from depreciation.

Return on assets (ROA)
Indicator of profitability. Determined by dividing net income for the past 12 months by total average assets. Result is shown as a percentage. ROA can be decomposed into return on sales (net income/sales) multiplied by asset utilization (sales/assets).

Return on capital employed (ROCE)
Indicator of profitability of the firm’s capital investments. Determined by dividing Earnings Before Interest and Taxes by (capital employed plus short-term loans minus intangible assets). The idea is that this ratio should at least be greater than the cost of borrowing.

Return on equity (ROE)
Indicator of profitability. Determined by dividing net income for the past 12 months by common stockholder equity (adjusted for stock splits). Result is shown as a percentage. Investors use ROE as a measure of how a company is using its money. ROE may be decomposed into return on assets (ROA) multiplied by financial leverage (total assets/total equity).
Rider
A form accompanying an insurance policy that alters the policy’s terms or coverage.

Riding the yield curve
Buying long-term bonds in anticipation of capital gains as yields fall with the declining maturity of the bonds.

Riegel-Neal Interstate Banking and Branching Efficiency Act of 1994
Law permitting interstate banking in the US

Rigged market
Manipulation of prices in a market to attract buyers and sellers.

Right
Privilege granted shareholders of a corporation to subscribe to shares of a new issue of common stock before it is offered to the public. Such a right, which normally has a life of two to four weeks, is freely transferable and entitles the holder to buy the new common stock below the public offering price. See: Warrant.

Right here
Used in the context of general equities. In-line, emphasizes that this is a customer inquiry that is ready to be executed and not distant in price. See: Tight.

Rights offering
Issuance to shareholders that allows them to purchase additional shares, usually at a discount to market price. Holders of shareholders who do not exercise rights are usually diluted by the offering. Rights are often transferable, allowing the holder to sell them on the open market to others who may wish to exercise them. Rights offerings are particularly common to closed-end funds, which cannot otherwise issue additional common stock.

Right of first refusal
The right of a person or company to purchase some thing before the offering is made to others.

Right of redemption
The right to recover property that has been attached by paying off the debt.

Right of rescission
The right to void a contract without any penalty within three days as provided in the Consumer Credit Protection Act of 1968.

Rights Agreement (aka "Poison Pill")
An anti-takeover arrangement often established by a company in anticipation of a hostile takeover attempt. The company appoints a Rights Agent who will issue Rights certificates to each shareholder at the time of the takeover attempt. The shareholder may then exercise these rights to receive additional shares of stock and/or debentures, making the target company more expensive to acquire as a result of the additional shares outstanding, or the additional debt.

Rights Offering
A popular means of raising capital by offering shareholders the opportunity to buy additional shares of the same stock at a price below the current market value.

Rights-on
Shares trading with rights attached to them.

Rights of set-off
An agreement defining each party’s rights should one party default on its obligation. A setoff is common in parallel loan arrangements.

Rings
Trading arenas located on the floor of an exchange in which traders execute orders. Sometimes called a pit.

"Ring the cash register"

Rio de Janeiro Stock Exchange (Bolsa do Rio)
Brazil’s major securities market.

Rising bottoms
Chart pattern showing an increasing trend in the daily low prices of a security or commodity.

Risk
Often defined as the standard deviation of the return on total investment. Degree of uncertainty of return on an asset. In context of asset pricing theory. See: Systematic risk.

Risk-adjusted discount rate
The rate established by adding an expected risk premium to the risk-free rate in order to determine the present value of a risky investment.

Risk-adjusted profitability
A probability used to determine a "sure" expected value (sometimes called a certainty equivalent) that would be equivalent to the actual risky expected value.

Risk-adjusted return
efficient index; otherwise, it holds not at all. Attributable to Richard Roll in 1977.

**Ross, Stephen**
Developer of the Arbitrage Pricing Theory. Finance professor at MIT.

**Roth IRA**
Individual Retirement Account that allows contributors to invest up to $2,000 per year, and to withdraw the **principal** and earnings totally tax-free under certain conditions.

**Round lot**
A **trading order** typically of 100 **shares** of a **stock** or some multiple of 100. Related: odd lot.

**Round-trip trade**
The purchase and sale of a **security** within a short period of time.

**Round-trip transactions costs**
Costs of completing a transaction, including commissions, market impact costs, and taxes.

**Round-turn**
Procedure by which the **long** or **short position** of an individual is **offset** by an opposite transaction or by accepting or making **delivery** of the actual financial instrument or physical commodity.

**Royalty**
Payment for the right to use intellectual property or natural resources.

**Rubber check**
A check that bounces for lack of funds.

**R square (R)**
Square of the **correlation coefficient**. The proportion of the variability in one **series** that can be explained by the variability of one or more other series a regression model. A measure of the quality of fit. 100% R-square means perfect predictability.

**Rule 10b-5**
An **SEC** rule that prohibits trading by insiders on material nonpublic information. This is also the rule under which a company may be sued for false or misleading disclosure.

**Rule 13-d**
Often used in risk arbitrage. Requirement under Section 13-d of the Securities Act of 1934 that a form must be filed with the SEC within ten business days of acquiring direct or beneficial ownership of 5% or more of any **class** of equity securities in a publicly held corporation. The purchaser of such **stock** must also file a 13-d with the **stock exchange** on which the **shares** are listed (if any) and the company itself. Required information includes
R
Fifth letter of a Nasdaq stock symbol specifying that the stock has rights.

RAM
See: Reverse-annuity mortgage

RAP
See: Regulatory accounting procedures

RE
The two-character ISO 3166 country code for REUNION.

REIT
See: Real Estate Investment Trust

REMIC
See: Real Estate Mortgage Investment Conduit

RO
The two-character ISO 3166 country code for ROMANIA.

ROA
See: Return on assets

ROCE
See: Return on capital employed

ROE
See: Return on equity

ROI
See: Return on investment

ROL
The ISO 4217 currency code for the Romanian Leu.

RPPP
See: Relative purchasing power parity

RU
The two-character ISO 3166 country code for RUSSIAN FEDERATION.

RUB
The ISO 4217 currency code for the Russian Rouble.
**RW**  
The two-character ISO 3166 country code for RWANDA.

**RWF**  
The ISO 4217 currency code for the Rwanda Franc.

**Radar alert**  
Close monitoring of trading patterns in a company's stock by senior managers to uncover unusual buying activity that might signal a takeover attempt. See: Shark watcher.

**Raider**  
Individual or corporate investor who intends to take control of a company (often ostensibly for greenmail) by buying a controlling interest in its stock and installing new management. Raiders who accumulate 5% or more of the outstanding shares in the target company must report their purchases to the SEC, the exchange of listing, and the target itself. See: takeover.

**Rainmaker**  
A valuable employee, manager or subcontracted person who brings new business to a company.

**Rally (recovery)**  
An upward movement of prices. Opposite of reaction.

**Reverse-annuity mortgages (RAM)**  
Bank loan for an amount equal to a percentage of the appraisal value of the home. The loan is then paid to the homeowner in the form of an annuity.

**Random variable**  
A function that assigns a real number to each and every possible outcome of a random experiment.

**Random walk**  
Theory that stock price changes from day to day are accidental or haphazard; changes are independent of each other and have the same probability distribution. Many believers in the random walk theory believe that it is impossible to outperform the market consistently without taking additional risk.

**Randomized strategy**  
A strategy of introducing into the decision-making process a chance element that is designed to confound the information content of the decision-maker's observed choices.

**Range**
An intermediary who receives a *commission* for arranging and facilitating the sale of a property for a buyer or a seller.

**Real Estate Investment Trust (REIT)**
REITs invest in real estate or *loans* secured by real estate and *issue shares* in such investments. A REIT is similar to a *closed-end mutual fund*.

**Real Estate Mortgage Investment Conduit (REMIC)**
A pass-through tax entity that can hold *mortgages* secured by any type of real property and can *issue* multiple *classes* of ownership interests to *investors* in the form of pass-through certificates, *bonds*, or other legal forms. A financing vehicle created under the *Tax Reform Act of 1986*.

**Real exchange rates**
Exchange rates that have been adjusted for the *inflation* differential between two countries.

**Real gain or loss**
A gain or loss adjusted for increasing prices by an *inflation index* such as the CPI.

**Real GDP**
Inflation-adjusted measure of *Gross Domestic Product*.

**Real income**
The income of an individual, group, or country adjusted for *inflation*.

**Real interest rate**
The rate of interest *exclusive* of expected *inflation*; that is, the rate that is earned in terms of constant-purchasing-power dollars. Interest rate expressed in terms of *real goods*, i.e. *nominal interest rate* adjusted for expected inflation.

**Real market**
The *bid* and *offer* prices at which a *dealer* could execute the desired quantity of shares. Quotes in the *brokers market*.

**Real option**
An *option* or option-like feature embedded in a *real investment* opportunity.

**Real property**
Land plus all other property that is in some way attached to the land.

**Real rate of return**
The percentage *return* on some *investments* that has been adjusted for *inflation*.

**Real return**
after a period of declining security values.

**Redemption date**
The date on which a bond matures or is redeemed.

**Redemption fee**
A fee some mutual funds charge when an investor sells shares within a specified short period of time.

**Redemption price**
See: Call price

**Red herring**
A preliminary prospectus providing information required by the SEC. It excludes the offering price and the coupon of the new issue.

**Redeemable**
Eligible for redemption under the terms of an indenture.

**Redemption**
Repayment of a debt security or preferred stock issue, at or before maturity, at par or at a premium price.

**Redemption charge**
The commission a mutual fund charges an investor who is redeeming shares. For example, a 2% redemption charge (also called a back end load) on the sale of shares valued at $1000 will result in payment of $980 (98% of the value) to the investor. This charge may decline or be eliminated as shares are held for longer time periods.

**Redemption cushion**
The percentage by which the conversion value of a convertible security exceeds the redemption price (strike price).

**Redemption or call**
Right of the issuer to force holders on a certain date to redeem their convertibles for cash. The objective usually is to force holders to convert into common prior to the redemption deadline. Typically, an issue is not called away unless the conversion price is 15%-25% below the current level of the common. An exception might occur when an issuer's tax rate is high, and the issuer could replace it with debt securities at a lower after-tax cost.

**Rediscoun**
To discount short-term negotiable debt instruments for a second time, after they have been discounted with a bank.
Movement of a stock price over the past year as compared to a market index (like the S&P 500). A value below 1.0 means the stock shows relative weakness in price movement (underperformed the market); a value above 1.0 means the stock shows relative strength over the one-year period. Equation for Relative Strength: \[
\frac{\text{current stock price} - \text{year-ago stock price}}{\text{current S&P 500} - \text{year-ago S&P 500}}
\]. Note this can be a misleading indicator of performance because it does not take risk into account.

**Relative value**
The attractiveness measured in terms of risk, liquidity, and return of one instrument relative to another, or, for a given instrument, of one maturity relative to another.

**Relative yield spread**
The ratio of the yield spread to the yield level. Used for bonds.

**Release**
Relieve party to a trade of any previously made obligation concerning that trade, hence allowing the would-be transactor to show the inquiry/order to a new broker.

**Release clause**
A mortgage provision that releases a pledged asset after a certain portion of the total payments has been made.

**Reload Stock Option**
A replacement stock option granted by some companies to optionees upon a stock swap. The number of reload shares granted is equal to the number of shares delivered to exercise the option plus, in some cases, any shares withheld for tax withholding obligations. The exercise price of the new option is the current market price. The option generally expires on the same date that the original option would have.

**Remainderman**
One who receives the principal of a trust when it is dissolved.

**Remaining maturity**
The length of time remaining until a bond comes due.

**Remaining principal balance**
The amount of principal dollars remaining to be paid under a mortgage as of a given time.

**Remargining**
Putting up additional cash or securities after a margin call on a brokerage customer’s margin account so that it meets minimum maintenance requirements.

**Rembrandt market**
The foreign market in the Netherlands.
Report
Written or oral confirmation that all or part of one's order has been executed, including the price and size parameters of the trade being reported; often followed by a fresh picture.

Report of Condition and Income
Financial report that all banks, bank holding companies, savings, and loan associations, Edge Act and agreement corporations, and certain other types of organizations must file with a federal regulatory agency. Informally termed a call report.

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Technique to pay cash to firm's shareholders that provides more preferential tax treatment for shareholders than dividends. Treasury stock is the name given to previously issued stock that has been repurchased by the firm. A repurchase is achieved through either a Dutch auction, open market, purchase, or tender offer.

Required minimum distribution (RMD)
The minimum amount that the IRS requires must be withdrawn each year from all tax-advantaged retirement plans starting in the calendar year following the year in which the plan holder reaches age 70-1/2. Roth IRAs are exempt from this rule.

Required Rate of Return (RRR)
offers, leveraged buyouts, divestitures, spin-offs, equity carve-outs, liquidations and reorganizations.

**Resyndication limited partnership**
The sale of existing properties to new **limited partners**, so that they can receive the tax advantages that are no longer available to the old **partners**.

**Retail**
Individual and institutional customers as opposed to dealers and brokers.

**Retail credit**
Credit granted by a firm to consumers for the purchase of goods or services. See: consumer credit.

**Retail house**
A brokerage firm that caters to individual customers rather than large institutions.

**Retail investors**
Small individual investors who commit capital for their personal account rather than on behalf of another company.

**Retail price**
The total price charged for a product sold to a customer, which includes the manufacturer's cost plus a retail markup.

**Retained earnings**
Accounting earnings that are retained by the firm for reinvestment in its operations; earnings that are not paid out as dividends.

**Retained earnings statement**
A statement of all transactions affecting the balance of a company's retained earnings account.

**Retention**
The number of units allocated to an underwriting syndicate member less the units held back by the syndicate manager for facilitating institutional sales and for allocation to nonmember firms.

**Retention rate**
The percentage of present earnings held back or retained by a corporation, or one minus the dividend payout rate. Also called the retention ratio.

**Retire**
To extinguish a security, as in paying off a debt.
SAIF
See: Savings Association Insurance Fund

SAR
The ISO 4217 currency code for the Saudi Arabian Riyal.

SB
The two-character ISO 3166 country code for SOLOMON ISLANDS.

SBD
The ISO 4217 currency code for the Solomon Islands Dollar.

SC
The two-character ISO 3166 country code for SEYCHELLES.

SCR
The ISO 4217 currency code for the Seychelles Rupee.

SD
The two-character ISO 3166 country code for SUDAN.

SDD
The ISO 4217 currency code for the Sudanese Dinar.

SDR
See: Special drawing rights

SE
The two-character ISO 3166 country code for SWEDEN.

SEAQ
See: Stock Exchange Automated Quotation System

SEC
See: Securities & Exchange Commission

SED
See: Shipper’s Export Declaration

SEHK
See: Stock Exchange of Hong Kong

SEK
The ISO 4217 currency code for the Swedish Krona.
Rating service provided by S&P that indicates the amount of risk involved with different securities.

Saturday night special
Often used in risk arbitrage. Sudden attempt by one company to take over another by making a public tender offer.

Saucer
Technical chart pattern depicting a security whose price has reached bottom and is moving up.

Savings Association Insurance Fund (SAIF)
A government organization that replaced the Federal Savings and Loan Insurance Corporation as the provider of deposit insurance for thrift institutions.

Savings bank
An institution that primarily accepts consumer savings deposits and to make home mortgage loans.

Savings bond
A government bond issued in face value denominations from $50 to $10,000, with local and state tax-free interest and semiannually adjusted interest rates.

Savings deposits
Accounts that pay interest, typically at below-market interest rates, that do not have a specific maturity, and that usually can be withdrawn upon demand.

Savings element
Used in the context of life insurance, the cash value built up in a policy, which equals the amount of premium paid minus the cost of protection. This excess is invested by the insurance company, and the returns are tax-deferred inside the policy.

Savings
A tax-deferred retirement savings plan similar to a conventional 401(k) plan, redesigned with specific rules to meet the needs of small employers. The Small Business Job Protection Act of 1996 created these plans for companies with fewer than 100 employees. An employee's contributions are indexed for inflation, and employers must make annual matching contributions.

Savings and loan association
National- or state-chartered institution that accepts savings deposits and invests the bulk of the funds thus received in mortgages.

Savings rate
**Section 83(b) Election**
A tax filing within 30 days of grant that allows employees granted stock to pay taxes on the grant date instead of on the date restrictions lapse. If an employee files the election, taxes are based on the fair market value on the grant date, with any future appreciation taxed as a capital gain. If the employee does not file an election, taxes are based on the fair market value on the date the restrictions lapse, which will be higher assuming the stock has appreciated in value.

**Section 423**
The government agency responsible for the supervision and regulation of the securities industry and markets, as well as public securities offerings and the ongoing disclosure obligations of public companies.

**Section 482**
US Department of Treasury regulations governing transfer prices.

**Sector**
Used to characterize a group of securities that are similar with respect to maturity, type, rating, industry, and/or coupon.

**Sector allocation**
Investment of certain proportions of a portfolio in certain sectors. See: Industry allocation.

**Sector diversification**
Constituting of a portfolio of stocks of companies in each major industry group.

**Sector fund**
A mutual fund that concentrates on a relatively narrow market sector. These funds can experience higher share price volatility than some diversified funds because sector funds are subject to common market forces specific to a given sector.

**Sector rotation**
An active asset management strategy certain sectors, that tactically overweights and underweights depending on expected performance. Sometimes called rotation.

**Secular**
Long-term time frame (10-50 years or more).

**Secured bond**
A bond backed by the pledge of collateral, a mortgage, or other lien, as opposed to an unsecured bond, called a debenture.

**Secured debt**
Security market plane
A plane that shows the relationship between expected return and the beta coefficient of more than one factor.

Security ratings
Commercial rating agencies' assessment of the credit and investment risk of securities.

Security selection
See: Security selection decision

Security selection decision
Choosing the particular stocks or bonds or other investment instruments to include in a portfolio.

Seed money
The first contribution by a venture capitalist toward the financing of a new business, often using a loan or purchase of convertible bonds or preferred stock. See: Mezzanine level and second round.

Seek a market
Search for a securities buyer or seller.

Segmented Market
A market in which there are impediments to the free flow of labor, capital, and information.

Segregation of securities
SEC rules to dictate how customers' securities may be used by broker-dealers in broker loans.

Seigniorage
The profit which results from the difference between the cost of making coins and currency and the exchange value of coin and currency in the market.

Select ten portfolio
A unit investment trust that buys and holds for one year the ten stocks in the Dow Jones Industrial Average with the highest dividend yields.

Selective hedging
Protecting investments during some time periods and not during others.

Selected dealer agreement
The set of rules governing the selling group in an underwriting.

Self-amortizing mortgage
**Seller's market**
Market in which demand exceeds supply. As a result, the seller can dictate the price and the terms of sale.

**Seller's option**
Delayed settlement/delivery in a transaction.

**Seller's points**
In reference to a loan, seller’s points consist of a lump sum paid by the seller to the buyer’s creditor to reduce the cost of the loan to the buyer. This payment is either required by the creditor or volunteered by the seller, usually in a loan to buy real estate. Generally, one point equals one percent of the loan amount.

**Selling climax**
A sudden drop in security prices as sellers dump their holdings.

**Selling concession**
The discount underwriters offer the selling group on securities in a new issue.

**Selling dividends**
Inducing a prospective customer to buy shares in order to profit from a dividend scheduled in the near future.

**Selling, general, and administrative (SG&A) expenses**
Expenses such as salespersons' salaries and commissions, advertising and promotion, travel and entertainment, office payroll and expenses, and executives’ salaries.

**Selling on the good news**
A strategy of selling stock shortly after a company announces good news and the stock price rises. Investors believe that the price is as high as it can go and is on the brink of going down.

**Selling group**
All banks involved in selling or marketing a new issue of stock or bonds.

**Selling short**
Selling a stock not actually owned. If an investor thinks the price of a stock is going down, the investor could borrow the stock from a broker and sell it. Eventually, the investor must buy the stock back on the open market. For instance, you borrow 1000 shares of XYZ on July 1 and sell it for $8 per share. Then, on Aug. 1, you purchase 1000 shares of XYZ at $7 per share. You've made $1000 (less commissions and other fees) by selling short.

**Selling short against the box**
Selling short stock that is actually owned by the seller but held in the box, meaning it is held
Series
Options: All option contracts of the same class that also have the same unit of trade, expiration date, and exercise price. Stocks: shares that have common characteristics, such as rights to ownership and voting, dividends, or par value. In the case of many foreign shares, one series may be owned only by citizens of the country in which the stock is registered.

Series bond
Bond that may be issued in several series under the same indenture document.

Series E bond
A local and state tax-free bond issued by the U.S. government from 1941 to 1979, which was then replaced by Series HH bonds.

Series EE bond
See: Savings bond

Series HH bond
See: Savings bond

Service charge
A component of some finance charges, such as the fee for triggering an overdraft checking account into use.

Set-aside
A percentage of a municipal or corporate bond underwriting that is allocated for handling by a minority-owned broker/dealer firm.

Set of contracts perspective
View of corporation as a set of contracting relationships among individuals who have conflicting objectives, such as shareholders or managers. The corporation is a legal construct that serves as the nexus for the contracting relationships.

Set up
Applies mainly to convertible securities. Arbitrage involving going long the convertible and short a certain percentage of the underlying common. Antithesis of Chinese hedge.

Settle price
An average of the trading prices in the futures market during the last few minutes of trading.

Settlement
When payment is made for a trade.
Used for listed equity securities. Exclude a public bid or offer from participation in a print.

**Side effects**
Effects of a proposed project on other parts of the firm.

**Side-by-side trading**
Trading a security and an option on the same security on the same exchange.

**Sidelines**
Hypothetical position referring to noninvolvement in a stock; merely watching.

**Sideways market**
See: Horizontal price movement

**Sight draft**
Demand for immediate payment.

**Sight Letter of Credit**
A letter of credit made payable to a beneficiary upon presentation to the opener of conforming documents.

**Signal**
To convey information through a firm's actions: the more costly it is to provide a signal, the more credibility it has. For example, to call a press conference and tell everyone that the firm's prospects have improved is less effective than saying the same thing and raising the dividend.

**Signaling approach**
Notion that insiders in a firm have information that the market does not have, and that the choice of capital structure by insiders can signal information to outsiders and change the value of the firm. This theory is also called the asymmetric information approach.

**Signaling approach (on dividend policy)**
The argument that dividend changes are important signals to investors about changes in management's expectation about future earnings.

**Signature guarantee**
The authentication of a signature in the form of a stamp, seal, or written confirmation by a bank or member of a domestic stock exchange (or other acceptable guarantor). A notary public cannot provide a signature guarantee. A signature guarantee is a common requirement when transferring or redeeming shares or changing the ownership of an account.

**Signature loan**
A model of security returns that acknowledges only one common factor. The single factor is usually the market return. See: Factor model.

**Single-index model**
A model of stock returns that decomposes influences on returns into a systematic factor, as measured by the return on the broad market index, and firm specific factors. Related: Market Model

**Single life annuity**
An annuity covering one person. A straight life annuity provides payments until death, while a life annuity with a guaranteed period provides payments until death or continues payments to a beneficiary for a guaranteed term, such as ten years.

**Single option**
A single put option or call option, as opposed to a spread or straddle, which involves multiple puts and calls.

**Single-payment bond**
A bond that makes only one payment of principal and interest.

**Single-Premium Deferred Annuity (SPDA)**
An IRA-like annuity into which an investor makes a lump-sum payment that is invested in either a fixed-return instrument or a variable-return portfolio, which is taxed only when distributions are taken.

**Single-premium life insurance**
A whole life insurance policy requiring one premium payment, which accrues cash value much more quickly than a policy paid in installments.

**Single-state municipal bond fund**
A mutual fund investing only in government obligations within a single state, with state tax-free dividends, but taxed capital gains.

**Sinker**
A bond with interest and principal payments coming from the proceeds of a sinking fund.

**Sinking fund**
A fund to which money is added on a regular basis that is used to ensure investor confidence that promised payments will be made and that is used to redeem debt securities or preferred stock issues.

**Sinking fund requirement**
A condition included in some corporate bond indentures that requires the issuer to retire a specified portion of debt each year. Any principal due at maturity is called the balloon
**Spot trade**
The purchase and sale of a foreign currency, commodity, or other item for immediate delivery.

**Spot transaction**
A foreign exchange transaction in which each party promises to pay a certain amount of currency to the other on the same day or within one or two days.

**Spousal IRA**
An individual retirement account in the name of an unemployed spouse.

**Spousal remainder trust**
A fixed-term trust from which income is distributed to the beneficiary (such as a child of the grantor) to take advantage of a lower tax bracket, and that at the end of the term passes to the grantor’s spouse.

**Spread**
(1) The gap between bid and ask prices of a stock or other security. (2) The simultaneous purchase and sale of separate futures or options contracts for the same commodity for delivery in different months. Also known as a straddle. (3) Difference between the price at which an underwriter buys an issue from a firm and the price at which the underwriter sells it to the public. (4) The price an issuer pays above a benchmark fixed-income yield to borrow money.

**Spread income**
Also called margin income, the difference between income and cost. For a depository institution, the difference between the assets it invests in (loans and securities) and the cost of its funds (deposits and other sources).

**Spread option**
A position consisting of the purchase of one option and the sale of another option on the same underlying security with a different exercise price and/or expiration date.

**Spread order**
An order listing the series of options that the customer wants to buy and sell and the desired spread between the premiums paid and received for the options.

**Spread position**
The status of an account after a spread order has been carried out.

**Spread strategy**
A strategy that involves a position in one or more options so that the cost of buying an option is funded entirely or in part by selling another option in the same underlying. Also called spreading.
Staggered board of directors
Occurs when a portion of directors are elected periodically, instead of all at once. Board terms are often staggered in order to thwart unfriendly takeover attempts, since potential acquirers would have to wait longer before they could take control of a company's board through the normal voting procedure.

Staggering maturities
Hedging against interest rate movements by investment in short-, medium-, and long-term bonds.

Stagnation
A period of slow economic growth, or, in securities trading, a period of inactive trading.

Stakeholders
All parties that have an interest, financial or otherwise, in a firm—stockholders, creditors, bondholders, employees, customers, management, the community, and the government.

Stalking horse
In bankruptcy proceedings, this refers to the company that first bids for the companies assets.

Stalking horse bid
In bankruptcy proceedings, this refers to first bid for the companies assets. This is the bid to beat. If there are multiple bids, often there is a bankruptcy auction.

Stamp duty
Applies mainly to international equities. Taxes on foreign transactions, usually a percentage of total transaction amount, that can be unilateral or bilateral in nature.

Stamp tax
Tax on a financial transaction.

Stand-alone principle
Investment approach that advocates a firm should accept or reject a project by comparing it with securities in the same risk class.

Standby Letter of Credit
Documents evidencing failure of the bank's customer (the applicant) to pay an obligation when due.

Stand up to
Make a good-sized market in the trader's own bid and offering prices. Hence, "standing up" to the bid signifies the trader's willingness to buy size (i.e., 50m) volume at the advertised bid, even if the customer buyer/seller falls down.
Statistical tracking error
Used in the context of general equities. Standard deviation of the difference between the portfolio return and the desired investment benchmark return.

Statutory debt limit
The cap that Congress imposes on the amount of public debt that may be outstanding whether temporary or permanent. When this limit is reached, the Treasury may not sell new debt issues until Congress raises the limit. For a detailed listing of changes in the limit since 1941, see Budget of the United States Government. See: Debt outstanding subject to limitation.

Statutory investment
An investment that a trustee is authorized to make under state law.

Statutory merger
A merger in which one corporation remains as a legal entity, instead of a new legal entity being formed.

Statutory surplus
The surplus of an insurance company determined by the accounting treatment of both assets and liabilities as established by state statutes.

Statutory voting
The standard rule in most corporations that there is one vote per share in elections of the board of directors.

Staying power
The ability of an investor to stay in the market and not to sell out of a position when an investment has fallen in value.

Steady state
As an MBS pool ages, or four to six months after component mortgages have passed at least once the threshold for refinancing, the prepayment speed tends to stabilize within a fairly steady range.

Steenth
1/16 (0.0625) of one full point in price. Often used in negotiations to compromise an eighth difference, and in options trading.

Steepening of the yield curve
A change in the yield curve where the spread between the yield on a long-term and short-term Treasury has increased. Compare flattening of the yield curve and butterfly shift.
Stock bonus plan
A plan used as an incentive that rewards employee performance with stock in the company.

Stockbroker
See: Registered representative

Stock Appreciation Right (SAR)
A contractual right, often granted in tandem with an option that allows an individual to receive cash or stock of a value equal to the appreciation of the stock from the grant date to the date the SAR is exercised.

Stock buyback
A corporation's purchase of its own outstanding stock, usually in order to raise the company's earnings per share.

Stock certificate
A document representing the number of shares of a corporation owned by a shareholder.

Stock dividend
Payment of a corporate dividend in the form of stock rather than cash. The stock dividend may be additional shares in the company, or it may be shares in a subsidiary being spun off to shareholders. Stock dividends are often used to conserve needed to operate the business. Unlike a cash dividend, stock dividends are not taxed until sold.

Stock Exchange Automated Quotation System (SEAQ)
London's Nasdaq system.

Stock Exchange of Hong Kong (SEHK)
Only stock exchange located in Hong Kong.

Stock Exchange, Mumbai (BSE)
Formerly the Bombay stock exchange, the BSE accounts for more than one-third of Indian trading volume.

Stock Exchange of Singapore (SES)
The only stock exchange in Singapore.

Stock Exchange of Thailand
The major securities market of Thailand.

Stock exchanges
Formal organizations, approved and regulated by the Securities and Exchange Commission
Acquisition of another firm in order to realize some operational benefits which will result in increased earnings.

Strategy
The general or specific approach to investing that an individual, institution, or fund manager employs.

Stratified equity indexing
A method of constructing a replicating portfolio that classifies the stocks in the index into strata, and represents each stratum in the portfolio.

Stratified sampling approach to indexing
Dividing an index into cells, each representing a different characteristic of the index, such as duration or maturity.

Stratified sampling bond indexing
A method of bond indexing that divides the index into cells, each cell representing a different characteristic, and that buys bonds to match those characteristics.

Stray
(1) Not a member of the participating party in the trade at hand; (2) not a meaningful indication of a customer's desire to take a sizable position or be involved in a stock.

Street
Means Wall Street financial community: brokers, dealers, underwriters, and other knowledgeable participants.

Street name
Registration under which securities may be held by a broker on behalf of a client but be registered in the name of the Wall Street firm.

Strike index
For a stock index option, the index value at which the buyer of the option can buy or sell the underlying stock index. The strike index is converted to a dollar value by multiplying by the option's contract multiple. Related: Strike price.

Strike price
The stated price per share for which underlying stock may be purchased (in the case of a call) or sold (in the case of a put) by the option holder upon exercise of the option contract.

Striking price
The price at which an option can be exercised. See: Exercise price.

Striking Price Intercal
See: Targeted amortization class bond.

**Tactical Asset**
Portfolio strategy that allows active departures from the normal asset mix according to specified objective measures of value. Often called active management. It involves forecasting asset returns, volatilities, and correlations. The forecasted variables may be functions of fundamental variables, economic variables, or even technical variables.

**Tail**
(1) The difference between the average price in Treasury auctions and the stopout price.
(2) A future money market instrument (one available some period hence) created by buying an existing instrument and financing the initial portion of its life with a term repo. (3) The extreme ends under a probability curve. (4) The odd amount in an MBS pool.

**Tailgating**
Purchase of a security by a broker after the broker places an order for the same security for a customer. The broker hopes to profit either because of information which the customer has or because the customer’s purchase is of sufficient size to affect security prices. This is an unethical practice.

**Taiwan Stock Exchange (TSEC)**
Established in 1961, the only centralized securities market in Taiwan.

**Take**
(1) To agree to buy. A dealer or customer who agrees to buy at another dealer’s offered price is said to take the offer. (2) Euro bankers speak of taking deposits rather than buying money.

**Take a bath**
To sustain a loss on either a speculation or an investment.

"Take it down"
Reduce the offering price or hit others’ bids to such an extent as to lower the inside market.

**Take a flier**
To speculate on highly risky securities.

"Take me along"
"Allow me to participate in the side of a particular trade.

**Take off**
A sharp increase in the price of a stock, or a positive movement of the market as a whole.

**Take the offer**
**Term life insurance**  
A *contract* that provides a death benefit but no cash build up or investment component. The *premium* remains constant only for a specified term of years, and the policy is usually renewable at the end of each term.

**Term loan**  
A bank *loan*, typically with a *floating interest rate*, for a specified amount that matures in between one and ten years, and requires a specified repayment schedule.

**Term to maturity**  
The time remaining on a *bond*'s life, or the date on which the *debt* will cease to exist and the borrower will have completely paid off the amount borrowed. See: *Maturity*.

**Term premiums**  
Excess of the *yields to maturity* on long-term *bonds* over those of short-term bonds.

**Term repo**  
A *repurchase agreement* with a term of more than one day.

**Term structure**  
Relationship between interest rates on *bonds* of different *maturities*, usually depicted in the form of a graph often called a *yield curve*. Firms that invest in term structures (long rates below short rates) have preceded every recession over the past 30 years.

**Term trust**  
A *closed-end fund* that has a fixed termination or *maturity* date.

**Terminal value**  
The value of a *bond* at *maturity*, typically its *par value*, or the value of an *asset* (or an entire *firm*) on some specified future valuation date. Usually, a perpetuity formula is used. For example, suppose we forecast cash flows through year 10. We make an assumption that year 11 and beyond will be no growth (except for inflation). If the cash flow forecast for year 11 is 100, the firm's discount rate is 12%, and inflation is expected to be 2%, we use the formula $V_{10} = \frac{CF_{11}}{(disc\ rate - inflation)}$. Hence, the value is $\frac{100}{(0.12 - 0.02)}$ that is 1,000. This cash flow needs to be brought back to present value using the formula $1000/(1.12)^{10}$, which is 321.97. Note the importance of the inflation assumption.

**Terms of Delivery**  
The part of a sales *contract* that indicates the point at which title and risk of loss of merchandise pass from the seller to the buyer. See: *Incoterms*.

**Terms of sale**  
Conditions under which a firm proposes to sell its goods or services for cash or credit.
value of an option beyond its current exercise value representing the optionholder's control until expiration, the risk of the underlying asset, and the riskless return.

**Time-series analysis**
Assessment of relationships between two or among more variables over periods of time.

**Time series models**
Systems that examine series of historical data; sometimes used as a means of technical forecasting, by examining moving averages.

**Time spread strategy**
Buying and selling puts and calls with the same exercise price but different expiration dates, and trying to profit from the different premiums of the options.

**Time until expiration**
The time remaining until a financial contract expires. Also called time to maturity.

**Time value**
Applies to derivative products. Portion of an option price that is in excess of the intrinsic value, due to the amount of volatility in the stock; sometime referred to as premium. Time value is positively related to the length of time remaining until expiration.

**Time value of money**
The idea that a dollar today is worth more than a dollar in the future because the dollar received today can earn interest until the time the future dollar is received.

**Time value of an option**
The portion of an option's premium that is based on the amount of time remaining until the expiration date of the option contract, and the idea that the underlying components that determine the value of the option may change during that time. Time value is generally equal to the difference between the premium and the intrinsic value. Related: In the money.

**Time value premium**
The amount by which an option's total premium exceeds its intrinsic value.

**Times-interest-earned ratio**
Earnings before interest and tax, divided by interest payments.

**Time-weighted**
Related: Geometric mean return

**Timeliness**
A source of competitive advantage that depends on being the first to enter a given market with a product or service.
The largest stock exchange in Japan with the some of the most active trading in the world.

**Toll revenue bond**
A municipal bond that is repaid with revenues from tolls that are paid by users of the public project built with the bond revenue.

**Tolling agreement**
An agreement to put a specified amount of raw material per period through a particular processing facility. For example, an agreement to process a specified amount of alumina into aluminum at a particular aluminum plant.

**Tom next**
Means to "tomorrow next.". In the interbank market in Eurodollar deposits and the foreign exchange market, the value (delivery) date on a tom next transaction is the next business day.

**Tombstone**
Advertisement listing the underwriters of a security issue.

**Ton**
$100 million in bond trader's terms.

**too-big-too-fail**
Government practices that protect large banking organizations from the normal discipline of the marketplace because of concerns that such institutions are so important to markets and their positions so intertwined with those of other banks that their failure would be unacceptably disruptive, financially and economically.

**Top**
Indicates the higher price one is willing to pay for a stock in an order; implies a not held order.

**Top-down approach**
A method of security selection that starts with asset allocation and works systematically through sector and industry allocation to individual security selection.

**Top-down**
Investment style that begins with an assessment of the overall economic environment and makes a general asset allocation decision regarding various sectors of the financial markets and various industries. The bottom-up manager, in contrast, selects specific securities within the particular sectors.

**Top-heavy**
At a price level where supply is exceeding demand. See: Resistance level.
Buying and selling securities.

Trading authorization
A document (power of attorney) a customer gives to a broker in order that the broker may buy and sell securities on behalf of the customer.

Trading costs
Costs of buying and selling marketable securities and borrowing. Trading costs include commissions, slippage, and the bid/ask spread. See: Transactions costs.

Trading desk (dealing desk)
Personnel at an international bank who trade spot and forward foreign exchange.

Trading dividends
Maximizing a firm's revenues by purchasing stock in other firms in order to collect the maximum amount of dividends of which 70% is tax-free.

Trading halt
When trading of a stock, bond, option or futures contract is stopped by an exchange while news is being broadcast about the security. See: Suspended trading.

Trading limit
The exchange-imposed maximum daily price change that a futures contract or futures option contract can undergo.

Trading paper
CDs purchased by accounts that are likely to resell them. The term is commonly used in the Euromarket.

Trading pattern
Long-range direction of a security or commodity futures price, charted by drawing one line connecting the highest prices the security has reached and another line connecting the lowest prices at which the security has traded over the same period. See: Technical analysis.

Trading posts
The positions on the floor of a stock exchange where the specialists stand and securities are traded.

Trading price
The price at which a security is currently selling.

Trading profit
The profit earned on short-term trades of securities held for less than one year, subject to tax at normal income tax rates.
Trading range
The difference between the high and low prices traded during a period of time; for commodities, the high/low price limit an exchange establishes for a specific commodity for any one day’s trading.

Trading symbol
See: Ticker symbol

Trading unit
The number of shares of a particular security that is used as the acceptable quantity for trading on the exchanges.

Trading variation
The increments to which securities prices are rounded up or rounded down.

Trading volume
The number of shares transacted every day. As there is a seller for every buyer, one can think of the trading volume as half of the number of shares transacted. That is, if A sells 100 shares to B, the volume is 100 shares.

Traditional IRA
A tax-deferred individual retirement account that allows annual contributions of up to $2000 for each income earner. Contributions are fully deductible for all individuals who are not active participants in an employer-sponsored plan or for plan participants within certain income ranges.

Traditional
An argument that, "within reason," investors prefer higher dividends to lower dividends because the dividend is sure but future capital gains are uncertain.

Trailing earnings
Past earnings. Often used in the context of the price earnings ratio. This ratio is usually distinguished as price to trailing earnings (today's price divided by the most recent 12 months of earnings) versus price to prospective earnings (today's price divided by consensus forecast earnings for the next 12 months).

Trailing sales
Past sales. Often used in the valuation of companies that have negative cash flows or earnings. The company is said to be valued at some multiple of past sales - usually, the last 12 months sales.

Tranche
One of several related securities offered at the same time. Tranches from the same
Transferor
The beneficiary of a transferable letter of credit who causes a bank to transfer the credit to another party.

Transshipment
The passing goods from one ocean vessel to another.

Transition phase
A stage of development when a company begins to mature and its earnings decelerate to the rate of growth of the economy as a whole. Related: Three-phase DDM.

Translation exposure
Risk of adverse effects on a firm's financial statements that may arise from changes in exchange rates. Related: Transaction exposure.

Translation Risk
The risk of changes in the reported home currency accounting results of foreign operations due to changes in currency exchange rates.

Transmittal letter
A letter describing the contents and purpose of a transaction delivered with a security that is changing ownership.

Travel and entertainment expense
Funds spent on business travel and entertainment that qualify for a tax deduction of 50% of the amount claimed.

Treasurer
The corporate officer responsible for designing and implementing a firm's financing and investing activities.

Treasurer's check
A check issued by a bank to make a payment. Treasurer's checks outstanding are counted as part of a bank's reservable deposits and as part of the money supply.

Treasuries
Related: Treasury securities

Treasury
US Department of the Treasury, which issues all Treasury bonds, notes, and bills as well as overseeing agencies. Also, the department within a corporation that oversees its financial operations including the issuance of new shares.

Treasury bills
Debt obligations of the US Treasury that have maturities of one year or less. Maturities for T-bills are usually 91 days, 182 days, or 52 weeks.

**Treasury bonds**
Debt obligations of the US Treasury that have maturities of 10 years or more.

**Treasury direct**
A system allowing an individual investor to make a noncompetitive bid on US Treasury securities and thus avoid broker-dealer fees.

**Treasury notes**
Debt obligations of the US Treasury that have maturities of more than 2 years but less than 10 years.

**Treasury securities**
Securities issued by the US Department of the Treasury.

**Treasury Shares**
Shares issued in the name of the Corporation. The shares are considered issued, but not outstanding. Usually refers to stock that was once traded in the market but has since been repurchased by the corporation. Treasury stock not considered when calculating dividends or earnings per share.

**Treasury stock**
Common stock that has been repurchased by the company and held in the company's treasury.

"Treat me subject"
In the equities market, a conditional bid or offer. "My bid or offer is not firm, but is subject to confirmation between other parties and to market changes."

**Trend**
The general direction of the market.

**Trend Ratio Analysis**
The comparison of the successive values of each ratio for a single firm over a number of years.

**Trendline**
A technical chart line that depicts the past movement of a security and that is used in an attempt to help predict future price movements.

**Treynor Index**
A measure of the excess return per unit of risk, where excess return is defined as the
have exceeded a certain threshold of ownership.

**Unfavorable Balance of Trade**
The value of a nation’s imports in excess of the value of its exports.

**Unfunded debt**
Debt maturing within one year (short-term debt). See: Funded debt.

**Unfunded pension plan**
Provides for the employer to pay out amounts to retirees or beneficiaries as and when they are needed. There is no money put aside on a regular basis. Instead, it is taken out of current income.

**Unified tax credit**
A federal tax credit that reduces tax liability, dollar for dollar, on lifetime gifts and asset transfers at death.

**Uniform Commercial Code (UCC)**
Collection of laws dealing with commercial business.

**Uniform Customs and Practices (Brochure 500)**
International Chamber of Commerce rules (commonly referred to as UCP 500 or ICC 500), that are used for Letters of credit. These rules then become legally binding when written into the text of the letter.

**Uniform Gifts to Minors Act (UGMA)**
Legislation that provides a tax-effective manner of transferring property to minors without the complications of trusts or guardianship restrictions.

**Uniform practice code**
Standards of the NASD prescribing procedures for handling over-the-counter securities transactions, such as delivery, settlement date, and ex-dividend date.

**Uniform Rules for Collections**
International Chamber of Commerce rules on the handling of documentary and clean collections.

**Uniform securities agent state law examination**
A test required in some states for registered representatives who are employees of member firms of the NASD or over-the-counter brokers.

**Uniform Transfers to Minors Act (UTMA)**
A law similar to the Uniform Gifts to Minors Act that extends the definition of gifts to include real estate, paintings, royalties, and patents.
An investment in a start-up business that is perceived to have excellent growth prospects but does not have access to capital markets. Type of financing sought by early-stage companies seeking to grow rapidly.

**Venture capital limited partnership**
A partnership between a startup company and a brokerage firm or entrepreneurial company that provides capital for the new business in return for stock in the company and a share of the profits.

**Vertical acquisition**
Buying or taking over a firm in the same industry in which the acquired firm and the acquiring firm represent different steps in the production process.

**Vertical analysis**
Dividing each expense item in the income statement of a given year by net sales to identify expense items that rise more quickly or more slowly than a change in sales.

**Vertical line charting**
A form of technical charting that shows the high, low, and closing prices of a stock or a market on each day on one vertical line with the closing price indicated by a short horizontal mark.

**Vertical merger**
When one firm acquires another firm in the same industry but at another stage in the production cycle. For example, the firm being acquired serves as a supplier to the firm doing the acquiring.

**Vertical spread**
Simultaneous purchase and sale of two options that differ only in their exercise price. See: Horizontal spread.

**Vessel**
A conveyance for the transport of goods by water.

**Vest**
Become applicable or exercisable. A term mainly used on the context of employee stock ownership or option programs. Employees might be given equity in a firm but they must stay with the firm for a number of years before they are entitled to the full equity. This is a vesting provision. It provides incentive for the employee to perform.

**Vesting**
Nonforfeitable ownership (or partial ownership) by an employee of the retirement account balances or benefits contributed on the employees behalf by an employer. The Tax Reform Act of 1986 established minimum vesting rights for employees based on
A measure of risk based on the standard deviation of the asset return. Volatility is a variable that appears in option pricing formulas, where it denotes the volatility of the underlying asset return from now to the expiration of the option. There are volatility indexes. Such as a scale of 1-9; a higher rating means higher risk.

**Volume counting**
The SEC dictates how volume is counted. Thus, volume is counted in the same manner on all markets based on the above reporting structure. Any time money changes hands (or any time capital is risked), it must be counted as a trade. Examples: 1) One registered market participant on Nasdaq buys 100 shares into inventory from another registered market participant or from one of its clients. In either case, it is counted as 100 shares. 2) One member firm on the NYSE or Amex buys 100 shares from another member firm. The Specialist matches the order between the two firms and it is counted as 100 shares. 3)The Specialist sells 100 shares from his inventory to a member firm on the NYSE. It is counted as 100 shares. 4) A Market Maker receives an order to buy 100 shares from it's client. It does not have 100 shares in its inventory. It must go buy 100 shares from someone else. It then sells these 100 shares to the client. Thus, there are two trades in this example for a total of 200 shares.

**Volume deleted**
A note appearing on the consolidated tape when the tape is running behind under heavy trading, meaning that only the stock symbol and price will be shown for trades under 5000 shares.

**Volume discount**
A reduction in price based on the purchase of a large quantity.

**Voluntary accumulation plan**
Arrangement allowing shareholders of a mutual fund to purchase shares over a period of time on a regular basis, and in so doing take advantage of dollar cost averaging.

**Voluntary bankruptcy**
The legal proceeding that follows a petition of bankruptcy.

**Voluntary liquidation**
Liquidation proceedings that are supported by a company's shareholders.

**Voluntary plan**
A pension plan supported partially by the employee by pension contributions deducted from each paycheck.

**Volatility risk**
The risk in the value of options portfolios due to the unpredictable changes in the volatility of the underlying asset.
WS
The two-character ISO 3166 country code for SAMOA.

WST
Western Samoa Tala currency

W-8
Certificate of Foreign Status form required by the IRS to tell the payer, transfer agent, broker or other middleman that an employee is a nonresident alien or foreign entity that is not subject to U.S. tax reporting or backup withholding rules.

W-9
Request for Taxpayer Identification Number and Certification form required by the IRS to furnish the payer, transfer agent, broker or other middleman with an employee's social security or taxpayer identification number, in order that the employee not be subject to backup withholding because of under-reporting of interest and dividends on his or her tax return.

W-9
A form used to certify a shareholder's social security or tax identification number as true and correct, in order to avoid federal tax withholding.

Wage assignment
A loan agreement provision allowing the lender to deduct payments from an employee's wages in case of default.

Wage-push inflation
Inflation caused by skyrocketing wages.

Waiting period
Time during which the Securities and Exchange Commission (SEC) studies a firm's registration statement. During this time the firm may distribute a preliminary prospectus.

Waiver of premium
A provision in an insurance policy that allows payment of insurance premiums to be permanently or temporarily stopped in the event the policyholder becomes incapacitated.

Walk away
To take and maintain a position in a stock after going to the floor to consummate a trade. Antithesis of trade me out, buy them back.

Wall Street
Generic term for the securities industry firms that buy, sell, and underwrite securities.
Wraparound mortgage
A second mortgage that leaves the original mortgage in force. The wraparound mortgage is held by the lending institution as security for the total mortgage debt. The borrower makes payments on both loans to the wraparound lender, which in turn makes payments on the original senior mortgage.

Wrinkle
A feature of a new product or security intended to entice a buyer.

Write
Sell an option. Applies to derivative products.

Write-down
Reducing the book value of an asset if its is overstated compared to current market values.

Write-off
Charging an asset amount to expense or loss, such as through the use of depreciation and amortization of assets.

Write out
The procedure used when a specialist makes a trade involving his own inventory, on one hand, and a floor broker’s order, on the other. The broker must first complete the trade with the specialist, who then transacts a separate trade with the customer.

Writer
The seller of an option, usually an individual, bank, or company that issues the option and consequently has the obligation to sell the asset (if a call) or to buy the asset (if a put) on which the option is written if the option buyer exercises the option.

Writing cash-secured puts
An option strategy to avoid using a margin account. Instead of depositing margin with a broker, a put writer can deposit a cash balance equal to the option exercise price, and can avoid additional margin calls.

Writing naked
See: Naked option

Writing puts to acquire stock
Selling a put option at an exercise price that would represent a good investment by an option writer who believes a stock’s value will fall, so that the writer cannot lose. If the stock price unexpectedly goes up, the option will not be exercised and the writer is at least ahead the amount of the premium received. If the stock loses value, as expected, the option will be exercised, and the writer has the stock at what he had earlier decided was originally a good buy, and he has the premium income in addition.
**Yield to worst**
The bond yield computed by using the lower of either the yield to maturity or the yield to call on every possible call date.

**Yo-yo stock**
A highly volatile stock that moves up and down like a yo-yo.

**Z**
Fifth letter of a Nasdaq stock symbol indicating that listing is a fifth class of preferred stock, a stub, a certificate representing a limited partnership interest, foreign preferred when issued, or a second class of warrants.

**ZA**
The two-character ISO 3166 country code for SOUTH AFRICA.

**ZAR**
The ISO 4217 currency code for the South Africa Rand.

**ZBA**
See: Zero balance account

**ZM**
The two-character ISO 3166 country code for ZAMBIA.

**ZMK**
The ISO 4217 currency code for the Zambian Kwacha.

**ZRN**
The ISO 4217 currency code for the Zaire New Zaire.

**ZW**
The two-character ISO 3166 country code for ZIMBABWE.

**ZWD**
The ISO 4217 currency code for the Zimbabwe Dollar.

**Zabara**
Applies mainly to international equities. Japanese securities transactions conducted on the principal of auction, i.e., (1) price priority in which the selling (buying) order with the lowest (highest) price takes precedence over other orders, and (2) time priority in that an earlier order takes precedence over other orders at the same price.

**Zaibatsu**