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 a 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 pink noise, 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 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 / offer
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 end 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 single 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 on screen. 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 maching (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 forBOSNIA 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 non**aggressive** buyer who prefers to await a **natural** seller in the hope of paying a lower price.

In the context of general equities, **aggressive** willingness to purchase a **security** at a **premium** to the **inside market**. Contrast with **bidding buyer**.

Bidding up

Moving the **bid** price higher.

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 in return 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 markets. 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.

Conversion

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 asignment 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 that 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 third 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 and 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 items 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, upon 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

Electronic Communications Network. Defined under Rule 11Ac1- 1(a)(8) under the U.S. Securities Exchange Act of 1933.

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

(Nasdaq).

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 members

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 facilitation 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 offer. 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, non**cancellable** 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 clienteles
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 foreign exchange contract

Agreement that obligates an investor 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 **securities** these mortgages for sale in the **capital markets**.

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 **owner'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 INDONESIA.

IDR

The **ISO** 4217 currency code for the Indonesian Rupiah.

IDR

See: **International Depository Receipt**

IE

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

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 of stocks**.

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 finance operations without additional **cash** income.

Internal rate of return (IRR)

Dollar-weighted rate of return. **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 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**.

Magic of 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 a "market not held order" will be filled.

Market-on-Close (MOC) order

An **order** to **trade** **stocks**, **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 private 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 not 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 require 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** trategy 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: **Orgainization 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 the 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 business.

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 403(b)(7) account made over a certain term of years. A payment from an **IRA**, even if over a period of years, is not considered a periodic payment for tax purposes.

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.

Permissiable 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** without 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 "preferenced 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 believes 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 refernce 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.

Riegle-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**, emphasizing that this is a customer **inquiry** that is ready to be executed and not distant on price. See: **Tight**.

Rights offering
Issuance to **shareholders** that allows them to purchase additional **shares**, usually at a **discount** to **market** price. Holdings 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"

Used in the context of general equities. "Take a profit." See: **Profit taking**.

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 a 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 lOb-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** excluding the effect 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 (or 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.

Rediscount

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: [current stock price/year-ago stock price] divided by [current S&P 500/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.

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**.

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 foregin 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 cash 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** maybe 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**. **Harvey** shows that inverted 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 V10 = CF11/(disc rate-inflation). Hence, the value is 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** up 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 permium
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 unaccrptably 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 daliy 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 employer-sponsored plans 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 letters 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 that is 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 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