Bloomberg Financial Glossary

A
Fifth letter of a Nasdaq stock symbol specifying Class A shares.

AAII
See: American Association of Individual Investors

ABO
See: Accumulated Benefit Obligation

ABS
See: Automated Bond System

ACAT
See: Automated Customer Account Transfer

ACES
See: Advance Computerized Execution System

ACH
See: Automated Clearing House

ACRS
See: Accelerated cost recovery system

ACU
See: Asian currency units

AD
The two-character ISO 3166 country code for ANDORRA.

ADB
See: Adjusted Debit Balance

ADR
See: American Depository Receipt

ADS
See: American Depository Share

AE
The two-character ISO 3166 country code for UNITED ARAB EMIRATES.
AED
The ISO 4217 currency code for United Arab Emirates Dirham.

AEX
See: Amsterdam Exchange

AFA
The ISO 4217 currency code for Afghan Afghani.

AF
The two-character ISO 3166 country code for AFGHANISTAN.

AFM
See: Amman Financial Market

AG
The two-character ISO 3166 country code for ANTIGUA AND BARBUDAAG.

AI
The two-character ISO 3166 country code for ANGUILLAIAI.

AIBD
Association of International Bond Dealers

AL
The two-character ISO 3166 country code for ALBANIA.

ALL
The ISO 4217 currency code for Albanian Lek.

ALT
Alternative Trading System. This term is defined under section 301 of the U.S. Securities Act.

AM
The two-character ISO 3166 country code for ARMENIA.

AMD
The ISO 4217 currency code for Armenian Dram.

AMEX
See: American Stock Exchange

AMPS
See: Auction Market Preferred Stock

**AN**
The two-character ISO 3166 country code for NETHERLANDS ANTILLES.

**ANG**
The ISO 4217 currency code for Netherlands Antilles Guilder.

**AO**
The two-character ISO 3166 country code for ANGOLA.

**AON**
See: All or none order

**AOR**
The ISO 4217 currency code for Angolan Reajustado Kwanza.

**AOS**
See: Automated Order System

**APR**
See: Annual Percentage Rate

**APT**
See: Arbitrage Pricing Theory

**APT**
See: Automated Pit Trading

**APV**
See: Adjusted Present Value

**APY**
See: Annual Percentage Yield

**AR**
See: Auto-Regressive

**ARCH**
See: Auto-Regression Conditional Heteroskedasticity

**AQ**
The two-character ISO 3166 country code for ANTARCTICA.
AR
The two-character ISO 3166 country code for ARGENTINA.

ARS
The ISO 4217 currency code for Argentinan Peso.

ARM
See: Adjustable-rate mortgage

ARPS
See: Adjustable-rate preferred stock

ARPS
See: Auction rate preferred stock

ARR
See: Average rate of return

AS
The two-character ISO 3166 country code for AMERICAN SAMOA.

ASE
See: Athens Stock Exchange.

ASX
See: Australian Stock Exchange

AT
The two-character ISO 3166 country code for AUSTRIA.

ATP
See: Arbitrage Trading Program

ATS
The ISO 4217 currency code for Austrian Schilling.

AU
The two-character ISO 3166 country code for AUSTRALIA.

AUD
The ISO 4217 currency code for Australian Dollar currency.

AW
The two-character ISO 3166 country code for ARUBA.
**AWG**
The ISO 4217 currency code for Aruban Guilder.

**AZ**
The two-character ISO 3166 country code for AZERBAIJAN.

**AZM**
The ISO 4217 currency code for Azerbaijani Manat.

**AAA+ Bank**
Refers to banks that are rated AAA by IBCA, Moodys Investor Service and Standard & Poors.

**Abandonment**
Controlling party giving up rights to property voluntarily.

**Abandonment option**
The option of terminating an investment earlier than originally planned.

**ABC agreement**
A contract between an employee and a brokerage firm outlining the rights of the firm purchasing an NYSE membership for that employee.

**Ability to pay**
Refers to the borrower's ability to make interest and principal payments on debts. See: Fixed charge coverage ratio.
In context of municipal bonds, refers to the issuer's present and future ability to create sufficient tax revenue to fulfill its contractual obligations, accounting for municipal income and property values.
In context of taxation, notion that tax rates should be determined according to income or wealth.

**Abnormal returns**
The component of the return that is not due to systematic influences (market-wide influences). In other words, abnormal returns are above those predicted by the market movement alone. Related: excess returns.

**Above par**
See: Par.

**Absolute advantage**
A person, company or country has an absolute advantage if its output per unit of input of all goods and services produced is higher than that of another person, company or
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**
In the context of bookkeeping, refers to the ledger pages upon which various assets, liabilities, income, and expenses are represented.

In the context of investment banking, refers to the status of securities sold and owned or the relationship between parties to an underwriting syndicate. In the context of securities, the relationship between a client and a broker/dealer firm allowing the firm's employee to be the client's buying and selling agent. See: Account executive; account statement.

**Account Ad Valorem Duty**
An imported merchandise tax expressed as a percentage.

**Account balance**
Credits minus debits at the end of a reporting period.

**Account executive**
The brokerage firm employee who handles stock orders for clients. See: Broker.

**Account Party**
Party who applies to open a bank for the issuance of a letter of credit.

**Account reconciliation**
The reviewing and adjusting of the balance in a personal checkbook to match your bank statement.

**Account statement**
In the context of banking, refers to a summary of all balances.

In the context of securities, a summary of all transactions and positions (long and short) between a broker/dealer and a client. See also: Option agreement.

**Accountant's opinion**
A signed statement from an independent public accountant after examination of a firm's records and accounts. The opinion may be unqualified or qualified. See: Qualified opinion.

**Accounting earnings**
Earnings of a firm as reported on its income statement.

**Accounting exposure**
The change in the value of a firm's foreign currency-denominated accounts due to a change in exchange rates.
**Accounting insolvency**
Total liabilities exceed total assets. A firm with a negative net worth is insolvent on the books.

**Accounting liquidity**
The ease and quickness with which assets can be converted to cash.

**Accounts payable**
Money owed to suppliers.

**Accounts receivable**
Money owed by customers.

**Accounts receivable financing**
A short-term financing method in which accounts receivable are collateral for cash advances. See: Factoring.

**Accounts receivable turnover**
The ratio of net credit sales to average accounts receivable, which is a measure of how quickly customers pay their bills.

**Accredited investor**
Refers to an individual whose net worth, or joint net worth with a spouse, exceeds $1,000,000; or whose individual income exceeded $200,000 or whose joint income with a spouse exceeded $300,000 in each of the 2 most recent years and can be expected to meet that income in the current year. More details of the definitions for investors other that individuals are found in Regulation D of the Securities and Exchange Commission.

**Accretion (of a discount)**
In portfolio accounting, a straight-line accumulation of capital gains on a discount bond in anticipation of receipt of par at maturity.

**Accrual Accounting Convention**
An accounting system that tries to match the recognition of revenues earned with the expenses incurred in generating those revenues. It ignores the timing of the cash flows associated with revenues and expenses.

**Accrual basis**
In the context of accounting, practice in which expenses and income are accounted for as if they are earned or incurred, whether or not they have been received or paid. Antithesis of cash basis accounting.

**Accrual bond**
A bond on which interest accrues but is not paid to the investor during the time of accrual.
The amount of accrued interest is added to the remaining principal of the bond and is paid at maturity.

**Accrued benefits**
The pension benefits earned by an employee according to the years of the employee’s service.

**Accrued discount**
Interest that accumulates on savings bonds from the date of purchase until the date of redemption or final maturity, whichever comes first. Series A, B, C, D, E, EE, F, I, and J are discount or accrual bonds, meaning principal and interest are paid when the bonds are redeemed. Series G, H, HH, and K are current-income bonds, and the semiannual interest paid to their holders is not included in accrued discount.

**Accrued interest**
Applies mainly to convertible securities. Interest that has accumulated between the most recent payment and the sale of a bond or other fixed-income security. At the time of sale, the buyer pays the seller the bond’s price plus "accrued interest," calculated by multiplying the coupon rate by the fraction of the coupon period that has elapsed since the last payment. (If a bondholder receives $40 in coupon payments per bond semiannually and sells the bond one-quarter of the way into the coupon period, the buyer pays the seller $10 as the latter’s proportion of interest earned.)

**Accrued market discount**
The rise in the market value of a discount bond as it approaches maturity (when it is redeemable at par) and not because of falling market interest rates.

**Accumulate**
Broker/analyst recommendation that could mean slightly different things depending on the broker/analyst. In general, it means to increase the number of shares of a particular security over the near term, but not to liquidate other parts of the portfolio to buy a security that might skyrocket. A buy recommendation, but not an urgent buy.

**Accumulated Benefit Obligation (ABO)**
An approximate measure of the liability of a pension plan in the event of a termination at the date the calculation is performed. Related: Projected benefit obligation.

**Accumulated dividend**
A dividend that has reached its due date, but is not paid out. See: Cumulative preferred stock.

**Accumulated profits tax**
A tax on earnings kept in a firm to prevent the higher personal income tax rate that would obtain if profits were paid out as dividends to the owners.
Accumulation
In the context of corporate finance, refers to profits that are added to the capital base of the company rather than paid out as dividends. See: Accumulated profits tax.
In the context of investments, refers to the purchase by an institutional broker of a large number of shares over a period of time in order to avoid pushing the price of that share up.
In the context of mutual funds, refers to the regular investing of a fixed amount while reinvesting dividends and capital gains.

Accumulation area
A price range within which a buyer accumulates shares of a stock. See: On-balance volume and distribution area.

Acid test ratio
Also called the quick ratio, the ratio of current assets minus inventories, accruals, and prepaid items to current liabilities.

Acquired surplus
The surplus acquired when a company is purchased in a pooling of interests combination, i.e. the net worth not considered to be capital stock.

Acquiree
A firm that is being acquired.

Acquirer
A firm or individual that is acquiring something.

Acquisition
When a firm buys another firm.

Acquisition cost
Refers to the price (including the closing costs) to purchase another company or property.
In the context of investments, refers to price plus brokerage commissions, of a security, or the sales charge applied to load funds. See: Tax basis.

Acquisition of assets
A merger or consolidation in which an acquirer purchases the selling firm’s assets.

Acquisition of stock
A merger or consolidation in which an acquirer purchases the acquiree’s stock.

Across the board
Movement or trend in the stock market that affects almost all stocks in all sectors to move in the same direction.
**Acting in concert**
Investors working together and performing identical actions to attain the same investment goal.

**Act of state doctrine**
This doctrine says that a nation is sovereign within its own borders, and its domestic actions may not be questioned in the courts of another nation.

**Active**
A market in which there is frequent trading.

**Active account**
Refers to a brokerage account in which many transactions occur. Brokerage firms may levy a fee if an account generates an inadequate level of activity.

**Active bond crowd**
Refers to members of the bond department of the NYSE who trade the most bonds. Antithesis of cabinet crowd.

**Active box**
Securities that are held in safekeeping and are available as collateral for securing brokers’ loans or customers’ margin positions.

**Active fund management**
An investment approach that purposely shifts funds either between asset classes (asset allocation) or between individual securities (security selection).

**Active income**
Income from an active business as opposed to passive investment income according to the U.S. tax code.

**Active Management**
The pursuit of investment returns in excess of a specified benchmark.

**Active portfolio strategy**
A strategy that uses available information and forecasting techniques to seek better performance than a buy and hold portfolio. Related: Passive portfolio strategy.

**Active Return**
Return relative to a benchmark. If a portfolio’s return is 5%, and the benchmark’s return is 3%, then the portfolio’s active return is 2%.

**Active Risk**
The risk (annualized standard deviation) of the active return. Also called the tracking error.
**Actual market**
Used in context of general equities. Firm market. Antithesis of Subject market.

**Actuals**
The physical commodities underlying a futures contract. Cash commodity, physical asset.

**A-D**
Advance-Decline, or measurement of the number of issues trading above their previous closing prices less the number trading below their previous closing prices over a particular period. As a technical measure of market breadth, the steepness of the AD line indicates whether a strong bull or bear market is under way.

**Additional bonds test**
A test for ensuring that bond issuers can meet the debt service requirements of issuing any new additional bonds.

**Additional hedge**
A protection against borrower fallout risk in the mortgage pipeline.

**Adequacy of coverage**
A test that measures the extent to which the value of an asset is protected from potential loss either through insurance or hedging.

**Adjustable rate**
Applies mainly to convertible securities. Refers to interest rate or dividend that is adjusted periodically, usually according to a standard market rate outside the control of the bank or savings institution, such as that prevailing on Treasury bonds or notes. Typically, such issues have a set floor or ceiling, called caps and collars that limits the adjustment.

**Adjustable-rate mortgage (ARM)**
A mortgage that features predetermined adjustments of the loan interest rate at regular intervals based on an established index. The interest rate is adjusted at each interval to a rate equivalent to the index value plus a predetermined spread, or margin, over the index, usually subject to per-interval and to life-of-loan interest rate and/or payment rate caps.

**Adjustable-rate preferred stock (ARPS)**
Publicly traded issues that may be collateralized by mortgages and MBS

**Adjusted balance method**
Method of calculating finance charges that uses the account balance remaining after adjusting for all transactions posted during the given billing period as its basis. Related: Average daily balance method, previous balance method, past due balance method.
Adjusted basis
Price from which to calculate and derive capital gains or losses upon sale of an asset. Account actions such as any stock splits that have occurred since the initial purchase must be accounted for.

Adjusted debit balance (ADB)
The account balance for a margin account that is calculated by combining the balance owed to a broker with any outstanding balance in the special miscellaneous account, and any paper profits on short accounts.

Adjusted exercise price
Term used in options on Ginnie Mae (Government National Mortgage Association) contracts. The final exercise price of the option accounts for the coupon rates carried on Ginnie Mae mortgages. For example, if the standard GNMA mortgage has an 9% yield, the price of GNMA pools with 13% mortgages in them is altered so that the investor receives the same yield.

Adjusted gross income (AGI)
Gross income less allowable adjustments, is the income on which an individual is taxed by the federal government.

Adjusted present value (APV)
The net present value analysis of an asset if financed solely by equity (present value of unlevered cash flows), plus the present value of any financing decisions (levered cash flows). In other words, the various tax shields provided by the deductibility of interest and the benefits of other investment tax credits are calculated separately. This analysis is often used for highly leveraged transactions such as a leveraged buyout.

Adjustment bond
A bond issued in exchange for outstanding bonds when a corporation facing bankruptcy is recapitalized.

Administrative pricing rules
IRS rules used to allocate income on export sales to a foreign sales corporation.

Advance
Increase in the market price of stocks, bonds, commodities, or other assets.

Advance commitment
A promise to sell an asset before the seller has lined up purchase of the asset. This seller can offset risk by purchasing a futures contract to fix the sales price approximately.

Advance Computerized Execution System (ACES)
Refers to the Advance Computerized Execution System, run by Nasdaq. ACES automates
trades between order entry and market maker firms that have established trading relationships with each other. Securities are designated as specified for automatic execution.

**Advance funded pension plan**
A pension plan in which funds are set aside in advance of the date of retirement.

**Advance refunding**
In the context of municipal bonds, refers to the sale of new bonds (the refunding issue) before the first call date of old bonds (the issue to be refunded). The refunding issue usually specifies a rate lower than the issue to be refunded, and the proceeds are invested, usually in government securities, until the higher-rate bonds become callable. See: Refunding escrow deposits.

**Advancement**
Money or property given to a person by the deceased before death and intended as an advance against the beneficiary's share in the will.

**Adverse opinion**
An independent auditor's opinion expressing that a firm's financial statements do not reflect the company's position accurately. See also: Qualified opinion.

**Adverse selection**
Refers to a situation in which sellers have relevant information that buyers lack (or vice versa) about some aspect of product quality.

**Advising bank**
Corresponding bank in the beneficiary's country to which an issuing bank sends a letter of credit.

**Advisory letter**
A newsletter offering financial advice to its readers.

**Affidavit of Loss**
A sworn statement describing the particulars and circumstances of the loss of securities. This affidavit is required before a Bond of Indemnity can be issued and the securities replaced.

**Affiliate**
Relationship between two companies when one company owns substantial interest, but less than a majority of the voting stock of another company, or when two companies are both subsidiaries of a third company. See: Subsidiaries, parent company.

**Affiliated corporation**
A corporation that is an affiliate to the parent company.
**Affiliated person**
An individual who possesses enough influence and control in a corporation as to be able to alter the actions of the corporation.

**Affirmative covenant**
A bond covenant that specifies certain actions the firm must take.

**Affordability index**
An index that measures the financial ability of consumers to purchase a home.

**After acquired clause**
A contractual clause in a mortgage agreement stating that any additional mortgageable property attained by the borrower after the mortgage is signed will be regarded as additional security for the obligation addressed in the mortgage.

**After-hours dealing or trading**
Securities trading after regular trading hours on organized exchanges.

**Aftermarket**
See: Secondary market.

**After-tax basis**
The comparison basis used to analyze the net after-tax returns on a corporate taxable bond and a municipal tax-free bond.

**After-tax profit margin**
The ratio of net income to net sales.

**After-tax real rate of return**
The after-tax rate of return minus the inflation rate.

**Against the box**
See: Selling short against the box.

**Aged fail**
An account between two broker/dealers that remains intact after 30 days after the settlement date. The receiving firm must adjust its capital as it can no longer treat this account as an assets.

**Agencies**
See: Federal agency securities.
In context of general equities, buying or selling for the account and risk of a customer. Generally, an agent, or broker, acts as intermediary between buyer and seller, taking no financial risk personally or as a firm, and charging a commission for the service. The broker represents a customer buyer/seller to a customer seller/buyer and does not act as principal for the firm’s own trading account. Antithesis of principal. See: Dealer.

**Agency bank**
A form of organization commonly used by foreign banks to enter the US market. An agency bank cannot accept deposits or extend loans in its own name; it acts as agent for the parent bank. It is also the financial institution that issues ADRs to the general market.

**Agency basis**
A means of compensating the broker of a program trade solely on the basis of commission established through bids submitted by various brokerage firms.

**Agency cost view**
The argument that specifies that the various agency costs create a complex environment in which total agency costs are at a minimum with some, but less than 100%, debt financing.

**Agency costs**
The incremental costs of having an agent make decisions for a principal.

**Agency incentive arrangement**
A means of compensating the broker of a program trade using benchmark prices for issues to be traded in determining commissions or fees.

**Agency pass-throughs**
Mortgage pass-through securities whose principal and interest payments are guaranteed by government agencies, such as the Government National Mortgage Association (Ginnie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), and Federal National Mortgage Association (Fannie Mae).

**Agency problem**
Conflicts of interest among stockholders, bondholders, and managers.

**Agency securities**
Securities issued by federally related institutions and U.S. government-sponsored entities. Such agencies were created to reduce borrowing costs for certain sectors of the economy, such as agriculture.

**Agency theory**
The analysis of principal-agent relationships, in which one person, an agent, acts on behalf of another person, a principal.
Agent
The decision-maker in a principal-agent relationship.

Aggregate exercise price
The exercise price multiplied by the number of shares in a put or call contract. The option premium is excluded in the aggregate exercise price. In the case of options traded on debt instruments, the aggregate exercise price is the exercise price of the underlying security multiplied by its face value.

Aggregation
Process in corporate financial planning whereby the smaller investment proposals of each of the firm's operational units are aggregated and effectively treated as a whole.

Aggressive Growth Hedge Fund
In the context of hedge funds, a style of management that focuses primarily on equities that are expected to have strong earnings growth.

Aggressive growth mutual fund
A mutual fund designed for maximum capital appreciation that places its money in companies with high growth rates.

Aggressively
Used in context of general equities. For a customer it means working to buy or sell one's stock, with an emphasis on execution over price. For a trader it means acting in a way that puts the firm's capital at higher risk through paying a higher price, selling cheaper, or making a larger short sale or purchase than the trader would under normal circumstances.

Aging schedule
A table of accounts receivable broken down into age categories (such as 0-30 days, 30-60 days, and 60-90 days), which is used to determine if customer payments are keeping close to schedule.

Agreement among underwriters
A contract among participating members of a syndicate that defines the members' proportionate liability, which is usually limited to and based on the participants' level of involvement. The contract outlines the payment schedule on the settlement date. Compare: Underwriting agreement.

Agreement corporation
Corporation chartered by a state to engage in international banking: so named because the corporation enters into an "agreement" with the Fed's Board of Governors that it will limit its activities to those permitted and Edge Act Corporation.
**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.
**All or none order (AON)**
Used in context of general equities. A **limited price order** that is to be **executed** in its entirety or not at all (no partial transaction), and thus is testing the strength/conviction of the counterparty. Unlike an **FOK order**, an AON order is not to be treated as **cancelled** if not executed as soon as it is represented in the **trading crowd**, but instead remains alive until executed or cancelled. The making of "all or none" bids or offers in stocks is prohibited, and the making of "all or none" bids or offers in bonds is subject to the restrictions of Rule 61. AON orders are not shown on the specialist's book because they cannot be traded in pieces. Antithesis of **any-part-of order**. See: **FOK order**.

**All-in cost**
Total costs, explicit and implicit.

**All-or-none underwriting**
An arrangement whereby a security issue is **cancelled** if the underwriter is unable to resell the entire issue.

**All Risk Insurance**
Marine cargo insurance which covers most perils except strikes, riots, civil commotion's, capture, war, seizure, civil war, piracy, loss of market, and inherent vice.

**Allied member**
A partner or **stockholder** of a **firm** that is a member of the NYSE, the partner or stockholder is not personally a member of the NYSE.

**Alligator spread**
The term used to describe a **spread** in the options market that generates such a large **commission** that the client is unlikely to make a **profit** even if the **markets** move as the **investor** anticipated.

**Allocation-of-income rules**
US tax provisions that define how income and deductions are to be allocated between domestic source and foreign source income.

**Allocational efficiency**
The effectiveness with which a **market** channels **capital** toward its most productive uses.

**Allotment**
The number of **securities** assigned to each of the participants in an **underwriting syndicate**.

**Alpha**
Measure of risk-adjusted performance. An alpha is usually generated by regressing the security or mutual fund's excess return on the S&P 500 excess return. The **beta** adjusts for the risk (the slope coefficient). The alpha is the intercept. Example: Suppose the mutual
fund has a return of 25%, and the short-term interest rate is 5% (excess return is 20%). During the same time the market excess return is 9%. Suppose the beta of the mutual fund is 2.0 (twice as risky as the S&P 500). The expected excess return given the risk is 2 x 9% = 18%. The actual excess return is 20%. Hence, the alpha is 2% or 200 basis points. Alpha is also known as the Jensen Index. Related: Risk-adjusted return.

**Alpha equation**
Regression usually run over 36-60 months of data: Return - Treasury bill = alpha + beta (S&P 500 - Treasury bill) + error. The alpha is the intercept. Note that the benchmark does not necessarily have to be the S&P 500. A mutual fund specializing in international investment might be benchmarked to a broader world market index, such as the MSCI World Index.

**Alphabet stock**
Categories of common stock of a corporation associated with a particular subsidiary resulting from acquisitions and restructuring. The various alphabetical categories have different voting rights and pay dividends tied to the operating performance of the particular divisions. See also: Tracking stocks.

**Alternative investments**
Refers to investments in hedge funds. Many hedge funds pursue strategies that are uncommon relative to mutual funds. Examples of alternative investment strategies are: long-short equity, event driven, statistical arbitrage, fixed income arbitrage, convertible arbitrage, short bias, global macro, and equity market neutral.

**Alternative Minimum Tax (AMT)**
A federal tax aimed at ensuring that wealthy individuals, estates, trusts, and corporations pay a minimal level income tax. For individuals, the AMT is calculated by adding adjusted gross income to tax preference items.

**Alternative mortgage**
Variations of mortgage instruments such as adjustable-rate and variable-rate mortgages, graduated-payment mortgages, reverse-annuity mortgages, and several seldom-used variations.

**Alternative order**
Used in context of general equities. Order giving a broker a choice between two courses of action, either to buy or sell, never both. Execution of one course automatically eliminates the other. An example is a combination buy limit/buy stop order, where the buy limit is below the current market and the buy stop is above. If the order is for one unit of trading, when one part of the order is executed on the occurrence of one alternative, the order on the other alternative is to be treated as cancelled. If the order is for an amount of more than one unit of trading, the number of units executed determines the amount of the alternative order to be treated as cancelled. See: Either-or order.
American Association of Individual Investors (AAII)
A not-for-profit organization to educate individual investors about stocks, bonds, mutual funds, and other financial instruments.

American Depository Receipt
Certificates issued by a US depository bank, representing foreign shares held by the bank, usually by a branch or correspondent in the country of issue. One ADR may represent a portion of a foreign share, one share or a bundle of shares of a foreign corporation. If the ADR's are "sponsored," the corporation provides financial information and other assistance to the bank and may subsidize the administration of the ADR. "Unsponsored" ADRs do not receive such assistance. ADRs are subject to the same currency, political, and economic risks as the underlying foreign share. Arbitrage keeps the prices of ADRs and underlying foreign shares, adjusted for the SDR/ordinary ratio essentially equal. American depository shares (ADS) are a similar form of certification.

American Depository Receipt Fees
Fees associated with the creating or releasing of ADRs from ordinary shares, charged by the commercial banks with correspondent banks in the international sites.

American Depository Receipt Ratio
The number of ordinary shares into which an ADR can be converted.

American Depository Share (ADS)
Foreign stock issued in the US and registered in the ADR system.

American option
An option that may be exercised at any time up to and including the expiration date. Related: European option

American shares
Securities certificates issued in the US by a transfer agent acting on behalf of the foreign issuer. The certificates represent claims to foreign equities.

American Stock Exchange (AMEX)
Stock exchange with the third highest volume of trading in the US. Located at 86 Trinity Place in downtown Manhattan. The bulk of trading on AMEX consists of index options (computer technology index, institutional index, major market index) and shares of small to medium-sized companies are predominant. Recently merged with Nasdaq. See: Curb.

American-style option
An option contract that can be exercised at any time between the date of purchase and the expiration date. Most exchange-traded options are American style.

Amman Financial Market (AFM)
Established in 1976, the AFM is the only stock exchange in Jordan.

**Amman Stock Exchange**
The only agency authorized as a formal market for trading securities in Jordan.

**Amortization**
The repayment of a loan by installments.

**Amortization factor**
The pool factor implied by the scheduled amortization assuming no prepayments.

**Amortizing interest rate swap**
Swap in which the principal or notional amount rises (falls) as interest rates rise (decline).

**Amount outstanding and in circulation**
All currency issued by the Bureau of the Mint and intended as a medium of exchange. Coins sold by the Bureau of the Mint at premium prices are not included; uncirculated coin sets sold at face value plus handling charge are included.

**Amsterdam Exchange (AEX)**
Exchange that comprises the AEX-Effectenbeurs, the AEX-Optiebeurs (formerly the European Options Exchange or EOE) and the AEX-Agrarische Termijnmarkt. AEX-Data Services is the operating company responsible for the dissemination of data from the Amsterdam Exchange via its integrated Mercury 2000 system.

**AMTEL**
Used in context of general equities. In-house message system entered and displayed through Quotron A page.

**Analyst**
Employee of a brokerage or fund management house who studies companies and makes buy-and-sell recommendations on stocks of these companies. Most specialize in a specific industry.

**And interest**
An indication that the buyer will receive accrued interest in addition to the price quoted for a bond.

**Andean Pact**
A regional trade pact that includes Venezuela, Colombia, Ecuador, Peru, and Bolivia.

**Angel**
An investment-grade bond. Antithesis to fallen angel. In the context of venture capital, the first investor.
Angels
Individuals providing venture capital.

Ankle biter
*Stock* issued with a *market capitalization* of less than $500 million.

**Announcement date**
Date on which particular news concerning a given company is announced to the public. Used in *event studies*, which researchers use to evaluate the economic impact of events of interest.

**Annual basis**
The technique in statistics of taking a figure covering a period of less than one year and extrapolating it to cover a full one year period. The process is known as *annualizing*.

**Annual effective yield**
See: *Annual percentage yield*.

**Annual exclusion**
A tax rule allowing the deduction of certain income from taxation.

**Annual fund operating expenses**
For investment companies, the *management fee* and "other expenses," including the expenses for maintaining *shareholder* records, providing shareholders with financial statements, and providing custodial and accounting services. For *12b-1 funds*, selling and marketing costs are also included.

**Annual percentage rate (APR)**
The *periodic rate* times the number of periods in a year. For example, a 5% quarterly return has an APR of 20%.

**Annual percentage yield (APY)**
The effective, or true, *annual rate of return*. The APY is the rate actually earned or paid in one year, taking into account the effect of *compounding*. The APY is calculated by taking one plus the periodic rate and raising it to the number of periods in a year. For example, a 1% per month rate has an APY of 12.68% ($1.01^{12} - 1$).

**Annual rate of return**
There are many ways of calculating the annual rate of return. If the *rate of return* is calculated on a monthly basis, we sometimes multiply this by 12 to express an annual rate of return. This is often called the *annual percentage rate (APR)*. The *annual percentage yield (APY)*, includes the effect of compounding interest.
Annual renewable term insurance
See: Term insurance.

Annual report
Yearly record of a publicly held company's financial condition. It includes a description of the firm's operations, as well as balance sheet, income statement, and cash flow statement information. SEC rules require that it be distributed to all shareholders. A more detailed version is called a 10-K.

Annualized gain
If stock X appreciates 1.5% in one month, the annualized gain for that stock over a twelve month period is 121.5% = 18%. Compounded over the 12 month period, the gain is \((1.015)^{12} - 1 = 19.6\%\).

Annualized holding-period return
The annual rate of return that when compounded \(t\) times generates the same \(t\)-period holding return as actually occurred from period 1 to period \(t\).

Annualizing
See: Annual basis.

Annual meeting
Meeting of stockholder held once a year at which the managers of a company report to the shareholders on the year's results.

Annuitant
An individual who receives benefits from an annuity.

Annuitize
To commence a series of payments from the capital that has accumulated in an annuity. The payments may be a fixed amount, for a fixed period of time, or for a lifetime.

Annuity
A regular periodic payment made by an insurance company to a policyholder for a specified period of time.

Annuity certain
An annuity that pays a specific amount on a monthly basis for a set amount of time.

Annuity due
An annuity with \(n\) payments, where the first payment is made at time \(t = 0\), and the last payment is made at time \(t = n - 1\).
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.
Any-part-of order
In context of general equities, order to buy or sell a quantity of stock in pieces if necessary. Antithesis of an all-or-none order (AON).

Appraisal ratio
The signal-to-noise ratio of an analyst’s forecasts. The ratio of alpha to residual standard deviation.

Appraisal rights
A right of shareholders in a merger to demand the payment of a fair price for their shares, as determined independently.

Appreciation
Increase in the value of an asset.

Appropriation request
Formal request for funds for capital investment project.

Approved list
A list of equities and other investments that a financial institution or mutual fund is approved to make. See: Legal list.

APS
Auction Preferred Stock. A type of Dutch Auction Preferred Stock (Goldman Sachs product).

Arbitrage
The simultaneous buying and selling of a security at two different prices in two different markets, resulting in profits without risk. Perfectly efficient markets present no arbitrage opportunities. Perfectly efficient markets seldom exist, but, arbitrage opportunities are often precluded because of transactions costs.

Arbitrage bonds
Municipality issued bonds issued intended to gain an interest rate advantage by refunding a higher-rate bond in ahead of their call date. Lower-rate refunding issue proceeds are invested in Treasuries until the first call date of the higher-rate issue.

Arbitrage-free option-pricing models
Yield curve option-pricing models.

Arbitrage Pricing Theory (APT)
An alternative model to the capital asset pricing model developed by Stephen Ross and based purely on arbitrage arguments. The APT implies that there are multiple risk factors that need to be taken into account when calculating risk-adjusted performance or alpha.
Arbitrage Trading Program (ATP)
See: Program trading.

Arbitrageur
One who profits from the differences in price when the same, or extremely similar, security, currency, or commodity is traded on two or more markets. The Arbitrageur profits by simultaneously purchasing and selling these securities to take advantage of pricing differentials (spreads) created by market conditions. See: Risk arbitrage, convertible arbitrage, index arbitrage, and international arbitrage.

Are you open?
Used in context of general equities. "Can a new customer still participate on opposing side of the trade from that which the first customer initiated?", Inquiring as to whether any portion of that trade is still available See: Open.

Arithmetic average (mean)
Arithmetic mean return.

Arithmetic mean return
An average of the subperiod returns, calculated by summing the subperiod returns and dividing by the number of subperiods.

Arizona Stock Exchange
A single price auction exchange for equity trading that allows anonymous buyers and sellers to trade at low transaction costs.

Arm's length price
The price at which a willing buyer and a willing unrelated seller would freely agree to transact or a trade between related parties that is conducted as if they were unrelated, so that there is no conflict of interest in the transaction.

Arms index
Also known as a TRading INdex (TRIN). The index is usually calculated as the number of advancing issues divided by the number of declining issues. This, in turn, is divided by the advancing volume divided by the declining volume. If there is considerably more advancing volume relative to declining volume this will tend to reduce the index (i.e. increase the denominator). Hence, a value less than 1.0 is bullish while values greater than 1.0 indicate bearish demand. The index often is smoothed with a simple moving average.

Around us
Used in context of general equities. See: Away from you.

Arrearage
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**
Australian Stock Price Riskless Indexed Notes. Zero-coupon four-year bonds repayable at face value plus the percentage increase by which the Australian stock index of all ordinaries (common stocks) rises above a predefined level during the given period.

**Assay**
Metal purity test to confirm that the metal meets the standards for trading on a commodities exchange (commodities exchange center).

**Assessed valuation**
The value assigned to property by a municipality for the purpose of tax assessment. Such an assessed valuation is important to investors in municipal bonds that are backed by property taxes.

**Asset**
Any possession that has value in an exchange.

**Asset activity ratios**
Ratios that measure how effectively the firm is managing its assets.

**Asset allocation decision**
The decision regarding how an institution's funds should be distributed among the major classes of assets in which it may invest.

**Asset allocation mutual fund**
A mutual fund that rotates among stocks, bonds, and money market securities to maximize return on investment and minimize risk.

**Asset-backed security**
A security that is collateralized by loans, leases, receivables, or installment contracts on personal property, not real estate.

**Asset-based financing**
Methods of financing in which lenders and equity investors look principally to the cash flow from a particular asset or set of assets for a return on, and the return of, their financing.

**Asset classes**
Categories of assets, such as stocks, bonds, real estate, and foreign securities.

**Asset-coverage test**
A bond indenture restriction that permits additional borrowing if the ratio of assets to debt does not fall below a specified minimum.

**Asset Depreciation Range System**
A range of depreciable lives the IRS allows for particular classes of assets.
**Asset/equity ratio**
The ratio of total assets to stockholder equity.

**Asset for asset swap**
Creditors exchange the debt of one defaulting borrower for the debt of another defaulting borrower.

**Asset/liability management**
The task of managing the funds of a financial institution to accomplish the two goals of a financial institution: (1) to earn an adequate return on funds invested and (2) to maintain a comfortable surplus of assets beyond liabilities. Also called surplus management.

**Asset management account**
Account at a brokerage house, bank, or savings institution that integrates banking services and brokerage features.

**Asset play**
A company with assets that are not believed to be accurately reflected in its stock price, making it an attractive buy or play.

**Asset pricing model**
A model for determining the required or expected rate of return on an asset. Related: Capital asset pricing model and arbitrage pricing theory.

**Asset stripper**
A corporate raider (company A) that takes over a target company (company B) in order to sell large assets of company B to repay debt. Company A calculates that the net selling of the assets and paying off the debt, will leave the raider with assets that are worth more than what it paid for company B.

**Asset substitution**
Occurs when a firm invests in assets that are riskier than those that the debtholders expected.

**Asset substitution problem**
Arises when the stockholders substitute riskier assets for the firm’s existing assets and expropriate value from the debtholders.

**Asset swap**
An interest rate swap used to alter the cash flow characteristics of an institution's assets in order to provide a better match with its liabilities.

**Asset turnover**
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.
**Asymmetric information**  
Information that is known to some people but not to other people.

**Asymmetric taxes**  
When participants in a transaction have different net tax rates.

**Asymmetric volatility**  
Phenomenon that *volatility* is higher in down markets than in up markets.

**Asymmetry**  
A lack of equivalence between two things, such as the unequal tax treatment of *interest expense* and *dividend* payments.

"At"/"for"  
Used in context of general equities. Paramount terms used to differentiate an *offering*. Stock is offered at; stock is bid for. In an *offering*, the trading syntax followed is "Quantity-at-Price"; in a bid, the syntax followed is "Price-for-Quantity."

**Athens Stock Exchange**  
Greece's only major securities market. Greek language only.

**At par**  
A price equal to nominal or *face value* of a *security*. See: *Par*.

**At risk**  
The exposure to the danger of economic loss. Frequently used in the context of claiming *tax deductions*. For example, a person can claim a *tax deduction* in a *limited partnership* if the taxpayer can show it is at *risk* of never realizing a *profit* and of losing its initial *investment*. See: Value at risk.

**At the bell**  
In context of general equities, at the *opening* or *close* of the market. See: MOC Order.

**At the close order**  
In the context of *securities*, an *all or none market order* that is to be executed at the closing price of the *security* on the *exchange*. If the *execution* cannot be made under this condition, the *order* is to be treated as *cancelled*.  
In the context of *futures* and *options*, refers to a *contract* that is to be *executed* on some *exchanges* during the *closing period*, a period in which there is a *range* of prices.

**At the figure**  
In context of general equities, at the whole integer price (excluding the fraction) closest to the side of the *market* (*bid/ask*) being discussed. At the full.
At the full
Used in context of general equities. At the figure.

At the market
See: Market order.

At-the-money
An option is at the money if the strike price of the option is equal to the market price of the underlying security. For example, if xyz stock is trading at 54, then the xyz 54 option is at the money.

At the opening order
In context of general equities, market order or limited price order that is to be executed at the opening (and corresponding price) of the stock or not at all, and any such order or portion thereof not so executed is to be treated as cancelled.

Attractor
In non-linear dynamic series, an attractor defines the equilibrium level of the system. See: Point Attractor, Limit Cycle, and Strange Attractor.

Attribute bias
The tendency of stocks preferred by the dividend discount model to share certain equity attributes such as low price-earnings ratios, high dividend yield, high book value ratio, or membership in a particular industry sector.

Athens Stock Exchange (ASE)
Greece's principal stock exchange.

Auction Market Preferred Stock (AMPS)
A type of Dutch Auction Preferred Stock (A Merrill Lynch product).

Auction markets
Markets in which the prevailing price is determined through the free interaction of prospective buyers and sellers, as on the floor of the stock exchange.

Auction rate preferred stock (ARPS)
Floating-rate preferred stock, whose dividend is adjusted every seven weeks through a Dutch auction.

Audit
An examination of a company's accounting records and books conducted by an outside professional in order to determine whether the company is maintaining records according to generally accepted accounting principles. See: accountant's opinion.
Audit trail
Resolves the validity of an accounting entry by a step-by-step record by which accounting data can be traced to their source.

Auditor's certificate
See: Accountant's opinion.

Auditor's report
A section of an annual report that includes the auditor's opinion about the veracity of the financial statements.

Aunt Millie
An unsophisticated investor.

Australian Stock Exchange (ASX)
Australia's major securities market, formed when the six state stock exchanges (Adelaide, Brisbane, Hobart, Melbourne, Perth, and Sydney stock exchanges) were merged in 1987.

Autarky
Absence of a cross-border trade in models of international trade.

Autex
Video communication network through which brokerage houses alert institutional investors of their desire to transact block business (a purchase or sale) in a given security. Indications transmit small, medium, and large sizes only, with occasional limits mentioned. Supers are messages with specific size and price included. Both "indications" and "supers" can be only seen by customers (institutional subscribers to Autex). Trade recaps, advertised block trades entered by the dealer/subscribers, are also displayed, but can be seen by both institutions and dealers. See: Expunge, size.

Authentication
In the context of bonds, refers to the validation of a bond certificate.

Authority bond
A bond issued by a government agency or a corporation created to manage a revenue-producing public enterprise. The difference between an authority bond and a municipal bond is that margin protections may be incorporated in the authority bond contract as well as in the legislation that enables the authority.

Authorized shares
Number of shares authorized for issuance by a firm's corporate charter.
**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 machining (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.
**Automatic exercise**
A protection procedure whereby the Options Clearing Corporation attempts to protect the holder of an expiring *in-the-money* option by automatically exercising the option on behalf of the holder.

**Automatic extension**
An automatic extension of time granted to a taxpayer to file a tax return.

**Automatic funds transfer**
A transfer of funds from one account or investment vehicle to another using electronic or telecommunications technology.

**Automatic investment program**
A program in which an investor can invest or withdraw funds automatically. A *mutual fund*, for example, automatically withdraw a predetermined specified amount from the investor's bank account on a regular basis.

**Automatic reinvestment**
See: Constant dollar plan.

**Automatic stay**
The restricting of liability holders from collection efforts related to collateral seizure. Automatically imposed when a firm files for bankruptcy under Chapter 11.

**Automatic transfer service (ATS) account**
A depositor's saving account from which funds may be transferred automatically to the same depositor's checking account to cover a check written or to maintain a minimum balance.

**Automatic withdrawal**
A *mutual fund* that gives shareholders the right to receive a fixed payment from dividends on a quarterly or monthly basis.

**Autoquote**
Autoquote indicative prices are generated for many of the financial *options contracts* traded at LIFFE using standard mathematical models as derived by Black and Scholes and Cox, Ross, Rubinstein. Autoquote calculates prices for all series by processing variables captured in real-time from other systems and trading members each time the underlying price changes. Autoquotes indicate where a series may trade, given the current level of the underlying instrument.

**Autoregressive**
Using past data or variable of interest to predict future values of the same variable.
Auto-Regressive (AR)
A stationary stochastic process where the current value of the time series is related to the past p values, where p is any integer, is called an AR(p) process. When the current value is related to the previous two values, it is an AR(2) process. An AR(1) process has an infinite memory.

Auto-Regressive Conditional Heteroskedasticity (ARCH)
A nonlinear stochastic process, where the variance is time-varying, and a function of the past variance. ARCH processes have frequency distributions which have high peaks at the mean and fat-tails, much like fractal distributions. The Generalized ARCH (GARCH) model is also widely used. See: Fractal Distributions.

Availability float
Checks deposited by a company that have not yet been cleared.

Available on the way in
In context of general equities, stock is available to new customer as trade initiated by another customer is about to be consummated (on the exchange floor). Usually said to an inquiring salesperson. See: Open.

Aval
Term meaning inseparable from the financial instrument. This gives a guarantee and is abstracted from the performance of the underlying trade contract: Article 31 of the 1930 Geneva Convention of the Bills Of Exchange states that the aval can be written on the bill itself or on an allonge. US Banks are prohibited from avalizing drafts.

Avalizor
An institution or person who gives the aval.

Average
An arithmetic mean return of selected stocks intended to represent the behavior of the market or some component of it. One good example is the widely quoted Dow Jones Industrial Average, which adds the current prices of the 30 DJIA stocks, and divides the results by a predetermined number, the divisor.

Average accounting return
The average project earnings after taxes and depreciation divided by the average book value of the investment during its life.

Average (across-day) measures
An estimation of price that uses the average or representative price of a large number of trades.

Average age of accounts receivable
The weighted-average age of all the firm's outstanding invoices.

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

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

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

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

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

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

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

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

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

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

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

Averaging
See: Constant dollar plan.

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

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

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

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

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

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

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

BA
The two-character ISO 3166 country code for BOSNIA AND HERZEGOVINA.
BAM
The ISO 4217 currency code for Bosnia & Herzegovinan Convertible Mark.

BAN
See: Bank anticipation notes

BB
The two-character ISO 3166 country code for BARBADOS.

BBD
The ISO 4217 currency code for Barbadan Dollar.

BD
The two-character ISO 3166 country code for BANGLADESH.

BDT
The ISO 4217 currency code for Bangladeshi Taka currency.

BE
The two-character ISO 3166 country code for BELGIUM.

BHD
The ISO 4217 currency code for Bahrainian Dinar.

BEACON
See: Boston Exchange Automated Communication Order-Routing Network

BEARS
See: Bonds Enabling Annual Retirement Savings (BEARS)

BEF
The ISO 4217 currency code for Belgium Franc.

BF
The two-character ISO 3166 country code for BURKINA FASO.

BG
The two-character ISO 3166 country code for BULGARIA.

BGL
The ISO 4217 currency code for Bulgarian Lev.

BH
The two-character ISO 3166 country code for BAHRAIN.
**BI**
The two-character ISO 3166 country code for BURUNDI.

**BIC**
See: Bank Investment Contract

**BIF**
See: Bank Insurance Fund

**BIF**
The ISO 4217 currency code for Burundian Franc.

**BIPS**
See: Basis point.

**BIS**
See: Bank for International Settlements

**BJ**
The two-character ISO 3166 country code for BENIN.

**BM**
The two-character ISO 3166 country code for BERMUDA.

**BMD**
The ISO 4217 currency code for Bermudan Dollar.

**BN**
The two-character ISO 3166 country code for BRUNEI DARUSSALAM.

**BND**
The ISO 4217 currency code for Brunei Darussalam Dollar.

**BO**
The two-character ISO 3166 country code for BOLIVIA.

**BOB**
The ISO 4217 currency code for Bolivian Boliviano.

**BPS**
See: Basis point.
The two-character ISO 3166 country code for BRAZIL.

**BRL**
The ISO 4217 currency code for Brazilian Real.

**BS**
The two-character ISO 3166 country code for BAHAMAS.

**BSD**
The ISO 4217 currency code for Bahamas Dollar.

**BT**
The two-character ISO 3166 country code for BHUTAN.

**BTM**
See: Book to market.

**BTN**
The ISO 4217 currency code for Bhutan Ngultrum.

**BV**
The two-character ISO 3166 country code for BOUVET ISLAND.

**BW**
The two-character ISO 3166 country code for BOTSWANA.

**BWP**
The ISO 4217 currency code for Botswanan Pula.

**BY**
The two-character ISO 3166 country code for BELARUS.

**BYB**
The ISO 4217 currency code for Belarus Rouble.

**BZ**
The two-character ISO 3166 country code for BELIZE.

**BZD**
The ISO 4217 currency code for Belize Dollar.

**Baby bond**
A bond with a par value of less than $1000.
**Back away**
In the context of general equities, to withdraw from a previously declared interest, indication, or transaction; broker-dealer's failure, as a market maker in a given security, to make good on a bid/offer for the minimum quantity.

**Back fee**
The fee paid on the extension date if the buyer wishes to continue the option.

**Back months**
In the context of futures and options trading, refers to the months of contracts with expiration dates farthest away. See farthest month.

**Back office**
Brokerage house clerical operations that support, but do not include, the trading of stocks and other securities. All written confirmation and settlement of trades, record keeping, and regulatory compliance happen in the back office.

**Back on the**
In the context of general equities, permanently canceled order/interest in a stock by a customer. See: Take a powder.

**Back taxes**
Due taxes that have not been paid on time.

**Back up**
(1) When bond yields rise and prices fall, the market is said to backup. (2) An investor who swaps out of one security into another of shorter current maturity is said to back up.

"Back"
In the context of general equities, "Prepare for a very large buyer."

**Backdating**
In the context of mutual funds, a feature allowing fundholders to use an earlier date on a letter of intent to invest in a mutual fund in exchange for a reduced sales charge, e.g. Giving retroactive value to purchases from the earlier date.

**Backed in**
In the context of general equities, to describe result of unanticipated events that allow for a purchase at a discount or a sale at a premium.

**Back-end**
A mutual fund that charges investors a fee to sell (redeem) shares, often ranging from 4% to 6%. Some back-end load funds impose a full commission if the shares are redeemed within a designated length of time, such as one year. The commission decreases, the
longer the investor holds the shares. The formal name for the back-end load is the contingent deferred sales charge, or CDSC

**Back-testing**
Creating a hypothetical portfolio performance history by applying current asset selection criteria to prior time periods.

**Back-to-back financing**
An intercompany loan channeled through a bank.

**Back-to-back**
A loan in which two companies in separate countries borrow each other's currency for a specific time period and repay the other's currency at an agreed-upon maturity.

**Backup line**
A commercial paper issuer's bank line of credit covering maturing notes if, for some reason, selling new notes to cover the maturing notes is not possible.

**Backup**
A bank assurance of funds obtained by an issuer of commercial paper to protect the CP investor from default. The issuer pays a commitment fee to the bank.

**Backwardation**
A market condition in which futures prices are lower in the distant delivery months than in the nearest delivery month. This may occur when the costs of storing the product until eventual delivery are effectively subtracted from the price today. The opposite of contango.

**Bad debt**
A debt that is written off and deemed uncollectible.

**Bad delivery**
Antithesis of good delivery.

**Bad title**
Title to property that does not distinctly confer ownership, usually in the context of real estate.

**Bai-kai**
Two-sided market picture, in Japanese terminology applies mainly to international equities.

**Bailing out**
In the context of securities, refers to selling a security or commodity quickly, regardless of the price. May occur when an investor no longer wants to sustain further losses on a stock.
Also refers to relieving an individual, corporation, or government entity in financial trouble.

**Bailout bond**
A bond issued by the Resolution Funding Corporation (Refcorp) to save the failing savings and loan associations in the late 1980s and early 1990s.

**Baker Plan**
A plan by former U.S. Treasury Secretary James Baker under which 15 principal middle-income debtor countries (the Baker 15) would undertake growth-oriented structural reforms, to be supported by increased financing from the World Bank and continued lending from commercial banks.

**Balance**
A statistical compilation formulated by a sovereign nation of all economic transactions between residents of that nation and residents of all other nations during a stipulated period of time, usually a calendar year.

**Balance of**
Net flow of goods (exports minus imports) between two countries.

**Balance on goods and services**
Netting of transaction balances, including the net amount of payments of interest and dividends to foreign investors and investments, as well as receipts and payments resulting from international tourism.

**Balance sheet**
Also called the statement of financial condition, it is a summary of a company’s assets, liabilities, and owners' equity.

**Balance**
See: Accounting exposure.

**Balance**
Total assets = Total liabilities + Total stockholders' equity.

**Balanced budget**
A budget in which the income equals expenditure. See: budget.

**Balanced fund**
An investment company that invests in stocks and bonds. The same as a balanced mutual fund.

**Balanced**
This is a fund that buys common stock, preferred stock, and bonds. The same as a balanced fund.

**Balloon interest**
In the context of serial bond issues, the elevated coupon rate on bonds with late maturity's.

**Balloon maturity**
Any large principal payment due at maturity for a bond or loan with or without a sinking fund requirement.

**Balloon Payment**
The final (large) payment that repays all the remaining principal and interest of a partially amortized or unamortized loan.

**Ballot**
The document distributed at the annual meeting to shareholders of record who wish to vote their shares in person.

**BAN**
See: Bond anticipation note.

**Bank**
Notes issued by states and municipalities to obtain interim financing for projects that will eventually be funded long term through the sale of a bond issue.

**Bank collection float**
The time that elapses between when a check is deposited into a bank account and when the funds are available to the depositor, during which period the bank is collecting payment from the payer's bank.

**Bank discount basis**
A convention used for quoting bids and offers for Treasury bills in terms of annualized yield, based on a 360-day year.

**Bank draft**
A draft addressed to a bank.

**Bank holding company**
A company that owns or has controlling interest in two or more banks and/or other bank holding companies.

**Bank Insurance Fund (BIF)**
A unit of the Federal Deposit Insurance Corporation (FDIC) that provides deposit insurance for banks excluding thrifts.
Bank for International Settlements (BIS)
An international bank headquartered in Basel, Switzerland, which serves as a forum for monetary cooperation among several European central banks, the Bank of Japan, and the US Federal Reserve System. Founded in 1930 to handle the German payment of World War I reparations, it now monitors and collects data on international banking activity and promulgates rules concerning international bank regulation.

Bank
Interest guaranteed by the bank in a portfolio over a specific time frame with a specific yield.

Bank line
Line of credit that by a bank grants to a customer.

Bank Letter of Credit Policy
Standards allowing banks to confirm letters of credit by foreign banks supporting the purchase of US exports.

Bank note
A term used synonymously with paper money or currency issued by a bank. Notes are, in effect a promise to pay the bearer on demand the amount stated on the face of the note. Today, only the Federal Reserve Banks are authorized to issue bank notes, i.e. Federal Reserve notes, in the United States.

Bank regulation
The formulation and issuance by authorized agencies of specific rules or regulations, under governing law, for the conduct and structure of banking.

Bank run (bank panic)
A series of unexpected cash withdrawals caused by a sudden decline in depositor confidence or fear that the bank will be closed by the chartering agency, i.e. many depositors withdrew cash almost simultaneously. Since the cash reserve a bank keeps on hand is only a small fraction of its deposits, a large number of withdrawals in a short period of time can deplete available cash and force the bank to close and possibly go out of business.

Bank trust
Bank department that deals with estates, administers trusts, and provides services such as estate planning advice to its clients.

Bank wire
A computer message system linking major banks. It is used not for effecting payments, but as a mechanism to advise the receiving bank of some action that has occurred, e.g., the payment by a customer of funds into that bank's account.
Banker's
A short-term credit investment created by a nonfinancial firm and guaranteed by a bank as to payment. Acceptances are traded at discounts to face value in the secondary market. These instruments have been a popular investment for money market funds. They are commonly used in international transactions.

Banking Delay
Time required for processing and clearing a check through the banking system.

Bankmail
An agreement between a company engaged in a takeover bid and a bank that the bank will not finance the bid of another acquirer.

Bankruptcy
Inability to pay debts. In bankruptcy of a publicly owned entity, the ownership of the firm's assets is transferred from the stockholders to the bondholders.

Bankruptcy
The argument that expected indirect and direct bankruptcy costs offset the other benefits from leverage so that the optimal amount of leverage is less than 100% debt financing.

Bankruptcy risk
The risk that a firm will be unable to meet its debt obligations. Also referred to as default or insolvency risk.

Bankruptcy view
The argument that expected bankruptcy costs preclude firms from financing entirely with debt.

Bar
Slang for one million dollars.

Barbell strategy
A fixed income strategy in which the maturity’s of the securities included in the portfolio are concentrated at two extremes.

Barefoot pilgrim
A slang term for an unsophisticated investor who has lost everything on the stock market.

Bargain hunter
In the context of general equities, purchaser who is extremely selective in the price sought on a transaction.
Bargain-purchase-price option
Gives the lessee the option to purchase the asset at a price below fair market value when the lease expires.

Barometer
Economic and market data that represent an overall trend. The Dow Jones Industrial Average is an example of a stock market barometer.

BARRA’s performance analysis (PERFAN)
A method developed by BARRA, a consulting firm in Berkeley, Calif. It is commonly used by institutional investors applying performance attribution analysis to evaluate their money managers’ performance.

Barrier options
Option contracts with trigger points that, when crossed, automatically generate buying or selling of other options. These are exotic options.

Barron’s confidence index
Index measuring the ratio of the average yield on 10 top-grade bonds to the average yield on 10 intermediate-grade bonds. The discrepancy between high-rated top-grade bonds and low-rated bond yields establishes a measure that is indicative of investor confidence.

Barter
The trading/exchange of goods or services without using currency.

Base
A technical analysis tool. A chart pattern depicting the period when the supply and demand of a certain stock are in relative equilibrium, resulting in a narrow trading range. The merging of the support level and resistance level.

Base currency
Applies mainly to international equities. Currency in which gains or losses from operating an international portfolio are measured.

Base interest
Related: Benchmark interest rate.

Base market
A group of securities, average market price at a specific time. Used for the purpose of indexing.

Base period
A particular period of time used for comparative purposes when measuring economic
Base
The probability of not achieving a portfolio expected return. Related: Value at risk.

Base rate
British equivalent of the US prime rate.

Bank-based corporate governance system
Organization of a supervisory board so that it is dominated by bankers and corporate insiders.

Bank Letter of Credit Policy
Standards allowing banks to confirm letters of credit by foreign banks supporting the purchase of US exports.

Basic balance
In a balance of payments, the basic balance is the net balance of the combination of the current account and the capital account.

Basic
Key strategies a firm intends to pursue in carrying out its business plan.

Basic IRR rule
Accept the project if IRR is higher than the discount rate; reject the project if it is lower than the discount rate. It is wise to also consider net present value for project evaluation.

Basis
The price an investor pays for a security plus any out-of-pocket expenses. It is used to determine capital gains or losses for tax purposes when the stock is sold. Also, for a futures contract, the difference between the cash price and the futures price observed in the market.

Basis point
In the bond market, the smallest measure used for quoting yields is a basis point. Each percentage point of yield in bonds equals 100 basis points. Basis points also are used for interest rates. An interest rate of 5% is 50 basis points higher than an interest rate of 4.5%. Sometimes referred to as BPS, BIPS, and pronounced "Bips"

Basis price
Price expressed in terms of yield to maturity or annual rate of return.

Basis risk
Uncertainty about the basis at the time a hedge may be lifted. Hedging substitutes basis
risk for price risk.

**Basket**
Applies to derivative products. Group of stocks that is formed with the intention of either being bought or sold all at once, usually to perform index arbitrage or a hedging program.

**Basket options**
Packages that involve the exchange of more than two currencies against a base currency at expiration. The basket option buyer purchases the right, but not the obligation, to receive designated currencies in exchange for a base currency, either at the prevailing foreign exchange market rate or at a prearranged rate of exchange. Multinational corporations with multicurrency cash flows frequently use basket options because it is generally cheaper to buy an option on a basket of currencies than to buy individual options on each of the currencies that make up the basket.

**Basket trades**
Related: Program trades.

**BD form**
An SEC required document of brokerage houses that outlines the firm's finances and officers.

**BDS Statistic**
A statistic based upon the correlation integral which examines the probability that a purely random system could have the same scaling properties as the system under study. See: Correlation Integral.

**Boston**
This system permits the automatic execution of trades based on the current stock prices on the consolidated markets at any of the US securities exchanges.

**Bear**
An investor who believes a stock or the overall market will decline. A bear market is a prolonged period of falling stock prices, usually by 20% or more. Related: bull.

**Bear CD**
A bear CD pays the holder a fraction of any fall in a given market index.

**Bear hug**
Often used in risk arbitrage. Hostile take over attempt in which the acquirer offers an exceptionally large premium over the market value of the acquiree's share so as to as to squeeze (hug) the target into acceptance.

**Bear market**
Any market in which prices exhibit a declining trend. For a prolonged period, usually falling by 20% or more.

**Bear raid**
In the context of general equities, attempt by investors to move the price of a stock opportunistically by selling large numbers of shares short. The investors pocket the difference between the initial price and the new, lower price after this maneuver. This technique is illegal under SEC rules, which stipulate that every short sale must be on an uptick.

**Bear spread**
Applies to derivative products. Strategy in the options market designed to take advantage of a fall in the price of a security or commodity, usually executed by buying a combination of calls and puts on the same security at different strike prices in order to profit as the security's price falls.

**Bear trap**
The predicament facing short sellers when a bear market reverses its trend and becomes bullish. The assets continue to sell in anticipation of further declines in price, and short sellers then are forced to cover at higher prices.

**Bearer bond**
Bonds that are not registered on the books of the issuer. Such bonds are held in physical form by the owner, who receives interest payments by physically detaching coupons from the bond certificate and delivering them to the paying agent.

**Bearer form**
Describes issue form of security not registered on the issuing corporation's books, and therefore payable to its bearer. See also: Bearer bond; coupon bond.

**Bearer share**
Security not registered on the books of the issuing corporation and thus payable to possessor of the shares. Negotiable without endorsement and transferred by delivery, thus avoiding some of the control associated with ordinary shares. Dividends are payable upon presentation of dividend coupons, which are dated or numbered. Applies mainly to international equities.

**Bearish**
Words used to describe investor attitude.

**Beating the**
In the context of general equities, gaining an advantageous price in a trade through a quick response to market developments.
**Before-tax contributions**
The portion of an employee's salary contributed to a retirement plan before federal income taxes are deducted; this reduces the individual's gross income for federal tax purposes.

**Before-tax profit margin**
The ratio of net income before taxes to net sales.

**Beggar-thy-neighbor**
An international trade policy of competitive devaluations and increased protective barriers that one country institutes to gain at the expense of its trading partners.

**Beggar-thy-neighbor devaluation**
A devaluation that is designed to cheapen a nation's currency and thereby increase its exports at the expense of other countries. Devaluation can also reduce a nation's imports. Such devaluations often lead to trade wars.

**Behind**
Used for listed equity securities. At the same price but entered after your order/interest, such as on the specialist's book. Antithesis of ahead of you.

**Bell**
Signal on a stock exchange to indicate the open and close of trading.

**Bellwether**
Related: Benchmark issues.

**Below par**
Less than the nominal or face value of a security.

**Benchmark**
The performance of a predetermined set of securities, used for comparison purposes. Such sets may be based on published indexes or may be customized to suit an investment strategy.

**Benchmark error**
Use of an inappropriate proxy for the true market portfolio.

**Benchmark interest rate**
Also called the base interest rate, it is the minimum interest rate investors will demand for investing in a non-Treasury security. It is also tied to the yield to maturity offered on the comparable-maturity Treasury security that was most recently issued (on-the-run).

**Benchmark issue**
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
number of issues that you need to be aware of: (1) betas may change through time; (2)
betas may be different depending on the direction of the market (i.e. betas may be
greater for down moves in the market rather than up moves); (3) the estimated beta will
be biased if the security does not frequently trade; (4) the beta is not necessarily a
complete measure of risk (you may need multiple betas). Also, note that the beta is a
measure of comovement, not volatility. It is possible for a security to have a zero beta
and higher volatility than the market.

**Beta equation**
The market beta of a security is determined as follows: Regress excess returns of stock y on
excess returns of the market. The slope coefficient is beta. Define n as number of
observation numbers.

\[
\text{Beta} = \frac{\left( \sum_{i=1}^{n} xy \right) - \left( \sum_{i=1}^{n} x \right) \left( \sum_{i=1}^{n} y \right)}{\left( \sum_{i=1}^{n} xx \right) - \left( \sum_{i=1}^{n} x \right) \left( \sum_{i=1}^{n} x \right)}
\]

where: \( n = \# \) of observations (usually 36 to 60 months)

\( y = \) rate of return for the security.

\( x = \) rate of return for the S&P 500 index

\( y = \) rate of return for the security.

Related: Alpha

**Biased expectations theories**
Related: Pure expectations theory.

**Bid**
The price a potential buyer is willing to pay for a security. Sometimes also used in the
context of takeovers where one corporation is bidding for (trying to buy) another
corporation. In trading, we have the bid-ask spread which is the difference between what
buyers are willing to pay and what sellers are asking for in terms of price.

**Bid away**
Refers to over-the-counter trading. Bid from another dealer exists at the same (listed) or
higher (OTC) price.

**Bid-asked spread**
The difference between the bid and the asked prices.
**Bid price**  
This is the quoted bid, or the highest price an investor is willing to pay to buy a security. Practically speaking, this is the available price at which an investor can sell shares of stock. Related: Ask, offer.

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

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

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

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

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
than 2,000 common and preferred stocks are traded. Founded in 1792, the NYSE is the oldest exchange in the United States, and the largest. It is located on Wall Street in New York City.

**Big picture**
To highlight trading interest due to the size of the trade.

**Big producer**
A successful broker who generates a large volume of commission. See Rainmaker.

**Big uglies**
Unpopular stocks.

**Bill of exchange**
General term for a document demanding payment.

**Bill of lading**
A contract between an exporter and a transportation company in which the latter agrees to transport the goods under specified conditions that limit its liability. It is the exporter’s receipt for the goods as well as proof that goods have been or will be received.

**Billing cycle**
The time elapsed between billing periods for goods sold or services rendered.

**Binder**
An amount of money paid to indicate good faith in a transaction before the transaction is completed.

**Binomial**
An option pricing model in which the underlying asset can assume one of only two possible, discrete values in the next time period for each value that it can take on in the preceding time period.

**Bi-weekly**
A mortgage loan on which interest and principal payments are made every half-month (total of 26 payments) as opposed to monthly payments. This results in earlier loan retirement.

**Black Friday**
A precipitous drop in a financial market. The original Black Friday occurred on September 24, 1869, when prospectors attempted to corner the gold market.

**Black market**
An illegal market.
Black Monday
Refers to October 19, 1987, when the Dow Jones Industrial Average fell 508 points on the heels of sharp drops the previous week. On Monday, October 27, 1997, the Dow dropped 554 points. While the point drop set a new record, the percentage decline was substantially less than in 1987.

Black-Scholes option-pricing model
A model for pricing call options based on arbitrage arguments. Uses the stock price, the exercise price, the risk-free interest rate, the time to expiration, and the expected standard deviation of the stock return. Developed by Fischer Black and Myron Scholes in 1973.

Blank check
A check that is duly signed, but the amount of the check is left blank to be supplied by the drawee.

Blank check
An initial public offering by a company whose business activities are undefined and therefore peculative.

Blank Check Preferred Stock
This is stock over which the board of directors has broad authority to determine voting, dividend, conversion, and other rights. While it can be used to enable a company to meet changing financial needs, its most important use is to implement poison pills or to prevent takeover by placement of this stock with friendly investors.

Blanket certification form
See: NASD form FR-1

Blanket
SEC-required insurance coverage that brokerage firms are required to have in order to cover fraudulent trading by employees.

Blanket
A secured loan that gives the lender a lien against all the borrower’s inventories.

Blanket Mortgage
A mortgage that covers at least two pieces of real estate as collateral for the same mortgage.

Blanket
A recommendation by a brokerage firm sent to all its customers advising that they buy or sell a particular stock regardless of investment objectives or portfolio size.

Blind pool
A **limited partnership** that does not announce its intentions as to what properties will be acquired.

**Blind trust**
A trust in which a fiduciary third party has total discretion to make investments on behalf of a beneficiary while the beneficiary is uninformed about the holdings of the trust.

**Blitzkrieg tender offer**
In the context of a takeover, refers to a tender offer that is priced so attractively that the tender is completed quickly.

**Block**
Large quantity of stock or large dollar amount of bonds held or traded. As a rule of thumb, 10,000 shares or more of stock and $200,000 or more worth of bonds would be described as a block.

**Block call**
In the context of general equities, conference meeting during which customer indications and orders, along with the traders' own buy/sell preferences, are conveyed to the entire organization. See block list.

**Block house**
Brokerage firms that help to find potential buyers or sellers of large block trades.

**Block list**
In the context of general equities, listing of stock the investment bank is looking for (wants to buy) or (wants to sell) at the beginning of the day, whether on an agency or principal basis.

**Block trade**
A large trading order, defined on the New York Stock Exchange as an order that consists of 10,000 shares of a given stock or at a total market value of $200,000 or more.

**Block trader**
A dealer who will take a position in the block trades to accommodate customer buyers and sellers of blocks. See: Dealer, market maker, principal.

**Block voting**
Describes a group of shareholders banding together to vote their shares in a single block.

**Blocked currency**
A currency that is not freely convertible to other currencies due to exchange controls.

**Blocked funds**
Cash flows generated by a foreign project that cannot be immediately repatriated to the parent firm because of capital flow restrictions imposed by the host government.

**Blow-off top**
A steep and rapid increase in price followed by a steep and rapid drop. This is an indicator seen in charts and used in technical analysis of stock price and market trends.

**Blowout**
The rapid sale of all shares in a new securities offering. See: hot issue.

**Blue list**
Daily financial publication featuring bonds offered for sale by dealers and banks that represent billions of dollars in par value. Also available on-line at www.bluelist.com.

**Blue-chip**
Used in the context of general equities. Large and creditworthy company. Company renowned for the quality and wide acceptance of its products or services, and for its ability to make money and pay dividends. Gilt-edged security.

**Blue chip stocks**
Common stock of well-known companies with a history of growth and dividend payments.

**Blue-sky laws**
State laws covering the issue and trading of securities.

**Bo Derek stock**
High quality stock.

**Board broker**
Employee of the Chicago Board Options Exchange who manages away from the market orders, which cannot be executed immediately.

**Board of**
Individuals elected by the shareholders of a corporation who carry out certain tasks established in the charter.

**Board**
The managing body of the Federal Reserve System, set which policies on bank practices and the money supply.

**Board room**
A room at a brokerage firm where its clients can watch an electronic board displaying stock prices and transactions. Also refers to the room where Board of Directors meetings take place.
Bogey
The return an investment manager is compared to for performance evaluation.

Boiler room
Used to describe place or operation in which unscrupulous salespeople call and try to sell people speculative, even fraudulent, securities.

Boilerplate
Standard terms and conditions.

Bollinger Bands
Plus or minus two standard deviations where the standard deviations are calculated historically in a moving window estimation. Hence, the bands will widen if the most recent data is more volatile. If the prices break out of the band, this is considered a significant move.

Bolsa
Spanish for stock exchange.

Bolsa de Commercio de Santiago (SSE)
Chile’s preeminent stock exchange.

Bolsa de Valores de Rio
Brazil’s second-largest stock exchange.

Bolsa de Valores de
The largest stock exchange in Brazil.

Bolt
Used for listed equity securities. Block trading version of COLT.

Bombay Stock Exchange (BSE)
See: National Stock Exchange; Mumbai stock exchange.

Bond
Bonds are debt and are issued for a period of more than one year. The US government, local governments, water districts, companies and many other types of institutions sell bonds. When an investor buys bonds, he or she is lending money. The seller of the bond agrees to repay the principal amount of the loan at a specified time. Interest-bearing bonds pay interest periodically.

Bond agreement
A contract for privately placed debt.
**Bond**  
A short-term debt instrument issued by a state or municipality to borrow against the proceeds of an upcoming bond issue.

**Bond broker**  
A broker on the floor of an exchange who trades bonds.

**Bond Buyer**  
A daily publication featuring many essential statistics and index figures relevant to the fixed income markets.

**Bond Buyer's municipal bond index**  
A municipal bond price tracking index published daily by the Bond Buyer.

**Bond counsel**  
An attorney who prepares the legal opinion concerning a municipal bond issue.

**Bond covenant**  
A contractual provision in a bond indenture. A positive covenant requires certain actions, and a negative covenant limits certain actions.

**Bond crowd**  
Members of the stock exchange who transact bond orders on the floor of the exchange.

**Bond discount**  
The difference by which a bond’s market price is lower than its face value. The antithesis of a bond premium, which prevails when the market price of a bond is higher than its face value. See: Original issue discount.

**Bond-equivalent basis**  
The method used for computing the bond-equivalent yield.

**Bond equivalent yield**  
Bond yield calculated on an annual percentage rate method. Differs from annual effective yield.

**Bond fund**  
A mutual fund that emphasizes income—consistent with risk, rather than growth—by investing in corporate, municipal, or US government debt obligations, or some combination of them.

**Bond indenture**  
Contract that sets forth the promises of a corporate bond issuer and the rights of investors.
**Bond indexing**
Designing a bond portfolio so that its performance will match the performance of some bond index.

**Bond**
An international trade association of broker/dealers and banks in US government and federal agency securities, municipal securities, mortgage-backed securities, and money market securities.

**Bond mutual**
A mutual fund holding bonds.

**Bond of Indemnity**
An insurance policy that indemnifies the corporation, the shareholder and the Transfer Agent against any and all claims arising from the replacement by the Transfer Agent of certificates lost or stolen.

**Bond points**
A conventional unit of measure for bond prices set at $1 and equivalent to 1% of the $100 face value of the bond. A price of 80 means that the bond is selling at 80% of its face or par value.

**Bond power**
A form used in the transfer of registered bonds from one owner to a different owner.

**Bond premium**
See: Bond discount

**Bond rating**
A rating based on the possibility of default by a bond issuer. The ratings range from AAA (highly unlikely to default) to D (in default). See: Rating, investment grade.

**Bond ratio**
The percentage of a company’s capitalization represented by bonds. The ratio is calculated by dividing the total bonds due after one year by that same figure plus all other equity. See: Debt-to-equity-ratio.

**Bond swap**
The sale of one bond issue and purchase of another bond issue simultaneously. See: Swap; swap order.

**Bond value**
With respect to convertible bonds, the value the security would have if it were not convertible. That is the market value of the bond minus the value of the conversion option.
**Bondholder**
The firm often has stockholders and bondholders. In a liquidation, the bondholders have first priority.

**BONDPAR**
A system that monitors and evaluates the performance of a fixed income portfolio, as well as the individual securities held in the portfolio. BONDPAR decomposes the return into the elements beyond the manager’s control—such as the interest rate environment and client-imposed duration policy constraints—and those that the management process contributes to, such as interest rate management, sector/quality allocations, and individual bond selection.

**Bonds Enabling Annual Retirement Savings (BEARS)**
Holders of BEARS receive the face value of bonds underlying call option, which are exercised by CUBS (an acronym for Calls Underwritten by Swanbrook). If the calls are exercised by CUBS, BEARS holders receive the total of the exercise price.

**Bon voyage**
See: Greenmail.

**Boning**
Charging a lot more for an asset than its worth.

**Book**
A banker or trader’s positions.

**Book cash**
A firm’s cash balance as reported in its financial statements. Also called ledger cash.

**Book to market**
The ratio of book value to market value of equity. A high ratio means is often interpreted as a value stock (the market is valuing equity relatively cheaply compared to book value). This is the same as a low price-to-book value ratio. Value managers often form portfolios of securities with high book to market values.

**Book profit**
The cumulative book income plus any gain or loss on disposition of assets.

**Book runner**

**Book to bill**
The book-to-bill ratio is the ratio of orders taken (booked) to products shipped and bills sent (billed). The ratio measures whether the company has more orders than it can deliver (>1), equal amounts (=1), or less (<1). This ratio is of significant interest to investors/traders in the high-technology sector.

**Book value**
A company’s total assets minus intangible assets and liabilities, such as debt. A company’s book value might be higher or lower than its market value.

**Book value**
The ratio of stockholder equity to the average number of common shares. Book value per share should not be thought of as an indicator of economic worth, since it reflects accounting valuation (and not necessarily market valuation).

**Book-Entry**
Registered ownership of stock without the issuance of a corresponding stock certificate, as is the case with dividend reinvestment and direct purchase plans, employee plans and Direct Registration System issuances. Periodic statements of ownership are issued instead of certificates.

**Book-entry**
System in which securities are not represented by paper certificates but are maintained in computerized records at the Fed in the names of member banks, which in turn keep computer records of the securities they own as well as those they are holding for customers. In the case of other securities where a book-entry has developed, certificates reside in a central clearinghouse or by another agent. These securities do not move from holder to holder.

**Bootstrap**
Term used to describe the start-up of a company with very little capital.

**Bootstrapping**
Creating a theoretical spot rate curve using one yield projection as the basis for the yield of the next maturity.

**Borrow**
To obtain or receive money on loan with the promise or understanding that it will be repaid.

**Borrowed reserves**
Funds borrowed from a Federal Reserve Bank by member banks to maintain the required reserve ratios.

**Borrower fallout**
In the mortgage pipeline, the risk that prospective borrowers of loans committed to be closed will elect to withdraw from the contract.

Bot
Shorthand for bought. Antithesis of SL, meaning sold.

Bottom
Refers to the base support level for market prices of any type. Also used in the context of securities to refer to the lowest market price of a security during a specific time-frame.

Bottom fisher
An investor seeking stocks that have fallen to prices at or near their bottom, which he or she believes will trend up in the future.

Bottom-up
A management style that de-emphasizes the significance of economic and market cycles, focusing instead on the analysis of individual stocks.

Bought deal
Security issue in which one or two underwriters buy the entire issue.

Bounce
A check returned by a bank because it is not payable, usually because of insufficient funds. Also used in the context of securities to refer to the rejection and ensuing reclamation of a security; a stock price's abrupt decline and recovery.

Bourse
French for a stock market.

Boutique
A small, specialized brokerage firm that offers limited services and products to a limited number of clients. Antithesis of financial supermarket.

Box
The actual physical location at a brokerage house or bank where securities or other documents are stored for safekeeping. Alternatively, a quotation machine or battery march.

Box spread
A type of option arbitrage in which both a bull spread and a bear spread are established for a near-riskless position. One spread is established using put options and the other is established using calls. The spread may both be debit spreads (call bull spread vs. put bear spread) or both credit spreads (call bear spread vs. put bull spread). Break-Even Point--the stock price (or prices) at which a particular strategy neither makes nor loses
money. It generally pertains to the result at the expiration date of the options involved in the strategy. A "dynamic" break-even point is one that changes as time passes.

**Bracket**  
A term signifying the extent of an underwriter's commitment in a new issue, e.g., major bracket or minor bracket.

**Bracket creep**  
The gradual movement into higher tax brackets when incomes increase as a result of inflation.

**Brady bonds**  
Bonds issued by emerging countries under a debt reduction plan.

**Branch**  
An operation in a foreign country incorporated in the home country.

**Breadth**  
The percentage of assets or stocks advancing relative to those unchanged or declining. Also the number of independent forecasts available per year. A stock picker forecasting returns to 100 stocks every quarter exhibits a breadth of 400, assuming each forecast is independent (based on separate information).

**Breadth**  
In the context of general equities, percentage of stocks participating in a particular market move. Technical analysts say there was significant breadth if two-thirds of the stocks listed on an exchange move in the same direction during a trading session. See: A/D line.

**Break**  
a rapid and sharp price decline. Related: Crash.

**Break price**  
Used in the context of general equities. Change one's offering or bid prices to move to a more realistic, tight level where execution is more feasible. Often done to trim one's position, thus "breaking price" from where the trades occurred (if long, "break price" downward 1/8 a point or more).

**Break-even**  
An analysis of the level of sales at which a project would make zero profit.

**Break-even lease payment**  
The lease payment at which a party to a prospective lease is indifferent between entering and not entering into a lease arrangement.
**Break-even payment rate**
The prepayment rate of an MBS coupon that will produce the same cash flow yield (CFY) as that of a predetermined benchmark MBS coupon. Used to identify for coupons higher than the benchmark coupon the prepayment rate that will produce the same cash flow yield (CFY) as that of the benchmark coupon; and for coupons lower than the benchmark coupon the lowest prepayment rate that will do so.

**Break-even point**
Refers to the price at which a transaction produces neither a gain nor a loss. In the context of options, the term has the additional definitions:
1. Long calls and short uncovered calls: strike price plus premium.
2. Long puts and short uncovered puts: strike price minus premium.

**Break-even**
The tax rate at which a party to a prospective transaction is indifferent between entering into and not entering into the transaction.

**Break-even time**
Related: Premium payback period.

**Breaking**
Terminating an agreement among underwriters, specifically the investment banking group assembled to underwrite the issue of a security.

**Breakout**
A rise in a security's price above a resistance level (commonly its previous high price) or a drop below a level of support (commonly the former lowest price.) A breakout is taken to signify a continuing move in the same direction. Can be used by technical analysts as a buy or sell indicator.

**Breakpoint sale**
For mutual funds, refers to the investment amount necessary to make the fundholder eligible for a reduced sales charge. See: Letter of intent; right of accumulation.

**Breakup value**
See: Private market value.

**Breeden, Douglas T.**
Inventor of one of the foundational asset pricing models in finance, the consumption based capital asset pricing model. Chairman of Smith Breeden Associates.

**Bretton**
An agreement signed by the original United Nations members in 1944 that established the International Monetary Fund (IMF) and the post-World War II international monetary system of fixed exchange rates.

**Bridge financing**
Interim financing of one sort or another used to solidify a position until more permanent financing is arranged.

"Bring it"
In the context of general equities, "make stock available for sale to indicated buyers."

**British clearers**
The large clearing banks that dominate deposit taking and short-term lending in the domestic sterling market.

**Broad-Base**
Generally referring to an index, it indicates that the index is composed of a sufficient number of stocks or of stocks in a variety of industry groups. See also: Narrow-Based.

**Broad Market**
Usually refers to indices such as the Wilshire 5000 that track the performance of 5,000 securities, rather than the more narrow measures such as the Dow Jones Industrial Average and the S and P 500.

**Broad tape**
An expanded version of the ticker tape, which is displayed on a screen in the board room of a brokerage firm and shows constantly updated financial information and news.

**Broken up**
Used for listed equity securities. Prevented from executing a trade (committed to upstairs) due to exchange priority rules excluding one's order (e.g., higher bid/lower offer on floor, market order to satisfy).

**Broker**
An individual who is paid a commission for executing customer orders. Either a floor broker who executes orders on the floor of the exchange, or an upstairs broker who handles retail customers and their orders. Also, person who acts as an intermediary between a buyer and seller, usually charging a commission. A "broker" who specializes in stocks, bonds, commodities, or options acts as an agent and must be registered with the exchange where the securities are traded. Antithesis of dealer.

**Broker-dealer**
Any person, other than a bank, engaged in the business of buying or selling securities on its own behalf or for others. See: Dealer.
Broker loan
Related: Call money rate.

Brokered CD
A certificate of deposit issued by a bank or thrift institution bought by a brokerage firm in bulk for the purpose of reselling to brokerage customers. A broker CD features a higher interest rate, usually 1% higher, and is FDIC insured and do not usually have commissions.

Brokered market
A market in which an intermediary offers search services to buyers and sellers.

Brokers' loans
Money borrowed by brokers from banks for uses such as financing specialists's inventories of stock, financing the underwriting of new issues of corporate and municipal securities, and financing customer margin accounts.

Brought
Compelling a research analyst of an investment bank to work in the underwriting department for a corporate client, therefore allowing for the transmission of insider information. Also called "Over the Chinese wall".

Brussels
Stock exchange that handles the majority of securities transactions in Belgium.

Bubble theory
Security prices sometimes move wildly above their true values, or the price falls sharply until the "bubble bursts."

Budget
A detailed schedule of financial activity, such as an advertising budget, a sales budget, or a capital budget.

Budget authority
Broad responsibility by Congress that government agencies have the power to spend federal funds. Congress can specify criteria for the spending of these funds. For example, it may stipulate that a given agency must spend within a specific year, number of years, or any time in the future. The basic forms of budget authority are; appropriations, authority to borrow, contract authority, and authority to obligate and expend offsetting receipts and collections. The period of time during which Congress makes funds available may be specified as one-year, multiple years or no year. The available amount may be classified as either definite or indefinite; a specific amount or an unspecified amount can be made available. Authority may also be classified as current or permanent. Permanent authority requires
no current action by Congress.

**Budget deficit**
The amount by which government spending exceeds government revenues.

**Buck**
Slang for one million dollars.

**Bucket shop**
An illegal brokerage firm that accepts customer orders but does not attain immediate executions. A bucket shop broker promises the customer a certain price, but waits until a price discrepancy is present and the trade is advantageous to the firm and then keeps the difference as profit. Alternatively, the broker may never fill the customer's order but keep the money.

**Budapest Stock Exchange**
Established in 1864, the major securities market of Hungary.

**Budget surplus**
The amount by which government revenues exceed government pending.

**Buenos Aires Stock Exchange (Bolsa de Comercio de Buenos Aires)**
Argentina’s major securities market.

**Build a book**
In the context of general equities, develop customer orders to gather demand/supply in order to make a bid or an offer.

**Builder**
A mortgage loan on newly developed property that the builder subsidizes during the early years of the development. The builder uses cash to buy down the mortgage rate to a lower level than the prevailing market loan rate for some period of time. The typical buydown is 3% of the interest rate amount for the first year, 2% for the second year, and 1% for the third year (also referred to as a 3-2-1 buydown).

**Bulge**

**Bulge bracket**
A tier of firms in an underwriting syndicate that have the highest participation level. See: Mezzanine bracket.

**Bull**
An investor who thinks the market will rise. Related: Bear.

**Bull-bear bond**
Bond whose principal repayment is linked to the price of another security. The bonds are issued in two tranches: In the first tranche repayment increases with the price of the other security, and in the second tranche repayment decreases with the price of the other security.

**Bull CD**
A bull CD pays its holder a specified percentage of the increase in return on a specified market index while guaranteeing a minimum rate of return.

**Bull market**
Any market in which prices are in an upward trend.

**Bull spread**
A spread strategy in which an investor buys an out-of-the-money put option, financing it by selling an out-of-the-money call option on the same underlying security.

**Bulldog bond**
Foreign bond issue made in London.

**Bulldog market**
The foreign market in the United Kingdom.

**Bullet contract**
A guaranteed investment contract purchased with a single (one-shot) premium. Related: Window contract.

**Bullet loan**
A bank term loan that calls for no amortization.

**Bullet strategy**
A fixed income strategy in which a portfolio is constructed so that the maturity's of its securities are highly concentrated at one point on the yield curve.

**Bullion coins**
Metal coins consisting of gold, silver, platinum, or palladium that are actively traded. Some examples include the American eagle and the Canadian maple leaf. Their price is directly connected to the underlying price of their metal.

**Bullish**
Words used to describe investor attitudes. Bullish refers to an optimistic outlook, while bearish means a pessimistic outlook.
**Bump-up CD**
A certificate of deposit granting the owner the right to increase its yield one time for the remaining term of the CD. The power is exercised by the owner in the event of an interest rate hike.

**Bunching**
Describes the act of traders combining round-lot orders for execution at the same time. Bunching can also be used to combine odd-lot orders to save the odd-lot differential for customers. Also used to refer to the pattern on the ticker tape when a series of trades for a security appear consecutively.

**Bundling,**
Creation of securities either by combining primitive and derivative securities into one composite hybrid or by separating returns on an asset into classes.

**Bureau of Labor Statistics (BLS)**
A research agency of the U.S. Department of Labor; it compiles statistics on hours of work, average hourly earnings, employment and unemployment, consumer prices and many other variables.

**Burn rate**
Used in venture capital financing to refer to the rate at which a startup company expends capital to finance overhead costs prior to the generation of positive cash flow.

**Burnout**
Depletion of a tax shelter’s benefits. In the context of mortgage backed securities it refers to the percentage of the pool that has prepaid their mortgage.

**Business**
See: Merger

**Business Combination laws**
These laws impose a moratorium on certain kinds of transactions (e.g., asset sales, mergers) between a large shareholder and the firm for a period usually ranging between three and five years after the shareholder’s stake passes a pre-specified (minority) threshold. These laws are in place in more than half the U.S. states.

**Business cycle**
Repetitive cycles of economic expansion and recession. The official peaks and troughs of the US cycle are determined by the National Bureau of Economic Research in Cambridge, MA.

**Business day**
A day in which financial markets are open for trading.

**Business failure**
A business that has terminated operations with a loss to creditors.

**Business risk**
The risk that the cash flow of an issuer will be impaired because of adverse economic conditions, making it difficult for the issuer to meet its operating expenses.

**Business segment reporting**
Reporting the results of the separate divisions or subsidiaries of a business.

**Busted convertible**
Related: Fixed income equivalent. Mainly applies to convertible securities. Convertible bond selling essentially as a straight bond. Assuming the issuer is "money good," or will continue to meet credit obligations, such issues can be highly attractive since the price makes virtually no allowance for the bond's call on the common stock, although such issues usually carry high premiums.

**Bust-up takeover**
A leveraged buyout in which the buyer sells off the assets of the target company to repay the debt that financed the takeover.

**Butterfly**
In the context of equities, a firm with two divisions may split into two companies and issue original shareholders two shares (one in each of the new companies) for every old share they have.

**Butterfly shift**
A nonparallel shift in the yield curve involving the height of the curve.

**Butterfly spread**
Applies to derivative products. Complex option strategy that involves selling two calls and buying two calls on the same or different markets, with several maturity dates. One of the options has a higher exercise price and the other has a lower exercise price than the other two options. The payoff diagram resembles the shape of a butterfly.

**Buy**
To purchase an asset; taking a long position.

**Buy-and-hold strategy**
A passive investment strategy with no active buying and selling of stocks from the time the portfolio is created until the end of the investment horizon.
Buy-and-write strategy
An options strategy that calls for the purchase of stocks and the writing of covered call options on them.

Buy the book
An order, typically from a large institutional investor to a broker to purchase all the shares available at the market from the specialist and other brokers and dealers at the current offer price. The book refers to the record a specialist kept before the advent of computers.

Buydown
A lump sum payment made to the creditor by the borrower or by a third party to reduce the amount of some or all of the consumer's periodic payments to repay the indebtedness.

Buy hedge
See: Long hedge

Buy in
To cover, offset, or close out a short position. Related: Evening up, liquidation.

Buy limit order
A conditional trading order that indicates a security may be purchased only at the designated price or lower. Related: Sell limit order.

Buy minus order
In the context of general equities, rare market or limit order to buy a stated amount of a stock, provided that the price to be obtained is not higher than the last sale if the last sale is a minus or zero-minus tick, and is not higher than the last sale minus the minimum fractional change in the stock if the last sale is a plus or zero-plus tick. (If limit, then the buy cannot occur above the limit, regardless of tick.)

Buy on the
Buying stock shortly after a price drop resulting from bad news from the company. Investors believe that the price has hit bottom and will trend upward. See: Bottom fisher.

Buy on close
Buying at the end of the trading session at a price within the closing range.

Buy on margin
Borrowing to buy additional shares, using the shares themselves as collateral.

Buy on opening
Buying at the beginning of a trading session at a price within the opening range.
Buy order
An order to a broker to purchase a specific quantity of a security.

Buy-side analyst
A financial analyst employed by a nonbrokerage firm, typically one of the larger money management firms that purchases securities on its own account.

Buy stop order
A buy order not to be executed until the market price rises to the stop price. Once the security has broken through that price, the order is then treated as a market order. Also known as a suspended market order.

"Buy them
Used for listed equity securities. "Cover my short position.

Buy write
See also Covered Call.

Buyback
The covering of a short position by purchasing a long contract, usually resulting from the short sale of a commodity. See: Short covering, stock buyback. Also used in the context of bonds. The purchase of corporate bonds by the issuing company at a discount in the open market. Also used in the context of corporate finance. When a firm elects to repurchase some of the shares trading in the market.

Buydowns
Mortgages in which monthly payments consist of principal and interest. During the early part of the loan, portions of these payments are provided by a third party to reduce the borrower's monthly payments.

Buyer's market
Market in which the supply exceeds the demand, creating lower prices. Antithesis of seller's market.

Buyers/sellers on balance
Used for listed equity securities. Indicates that at a given time (usually before the opening of a stock/market or at expiration time), there are more buyers/sellers in the marketplace, usually with market orders. See: Imbalance of orders.

Buying climax
A rapid rise in the price of a stock resulting from heavy buying, which usually creates the market condition for a rapid fall in the price.

Buying the
Purchasing the stocks in the S&P 500 in the same proportion as the index to achieve the same return.

**Buying power**
The amount of money available to buy securities, determined by adding the total cash held in brokerage accounts and the amount that could be spent if securities were margined to the limit.

**Buyout**
Purchase of a controlling interest (or percent of shares) of a company's stock. A leveraged buyout is effected with borrowed money.

**Bylaws**
Rules and practices that govern management of an organization.

**Bylaw Amendment Limitations**
These provisions limit shareholders' ability to amend the governing documents of the corporation. This might take the form of a supermajority vote requirement for charter or bylaw amendments, total elimination of the ability of shareholders to amend the bylaws, or the ability of directors beyond the provisions of state law to amend the bylaws without shareholder approval.

**Bypass trust**
An irrevocable trust that is designed to pay trust income (and principal, if needed) to an individual's spouse for the duration of the spouse's lifetime. The bypass trust is not part of the beneficiary spouse's estate and is not subject to federal estate taxes upon his/her death.

**C**
Fifth letter of a Nasdaq stock descriptor specifying that issue is exempt from Nasdaq listing requirements for a temporary period.

**CA**
The two-character ISO 3166 country code for CANADA.

**CAD**
The ISO 4217 currency code for Canada Dollar.

**CADS**
See Cash Available for Debt Service.

**CAGR**
See: Compound Annual Growth Rate
**CAMPS**
See: Cumulative Auction Market Preferred Stocks

**CAPM**
See: Capital asset pricing model

**CAPS**
See: Convertible adjustable preferred stock

**CARs**
See: Certificates of Automobile Receivables

**CARDs**
See: Certificates of Amortized Revolving Debt

**CATS**
See: Certificate of Accrual on Treasury Securities (CATS)

**CAX**
The ISO 4217 currency code for Canadian Cent.

**CBD**
See: Cash In Advance.

**CBO**
See: Collateralized Bond Obligation.

**CBOE**
See: Chicago Board Options Exchange

**CC**
The two-character ISO 3166 country code for Cocos (Keeling) Islands.

**CD**
See: Certificate of deposit

**CD**
The two-character ISO 3166 country code for Democratic Republic of Congo.

**CDN**
See: Canadian Dealing Network

**CEC**
See: Commodities Exchange Center
CEG
See: Canadian Exchange Group

CF
The two-character ISO 3166 country code for CENTRAL AFRICAN REPUBLIC.

CFAT
Cash flow after taxes.

CFAT
See: Cash flow after taxes

CFC
See: Controlled foreign corporation

CFR
See: Cost and Freight

CFTC
See: Commodity Futures Trading Commission

CG
The two-character ISO 3166 country code for CONG.

CH
The two-character ISO 3166 country code for SWITZERLAND.

CHAP
See: Clearing House Automated Payments System

CHESS
See: Clearing House Electronic Subregister System

CHF
The ISO 4217 currency code for Swiss Franc.

CHIPS
See: Clearing House Interbank Payments System

CI
The two-character ISO 3166 country code for COTE D’IVOIRE.

CIF
See: Cost Insurance and Freight

**CK**
The two-character ISO 3166 country code for COOK ISLANDS.

**CL**
The two-character ISO 3166 country code for CHILE.

**CLF**
The ISO 4217 currency code for Chile Unidades de Fomento.

**CLP**
The ISO 4217 currency code for Chilean Peso.

**CM**
The two-character ISO 3166 country code for CAMEROON.

**CMBS**
See: Commercial Mortgage Backed Securities

**CME**
See: Chicago Mercantile Exchange

**CML**
See: Capital market line

**CMO**
See: Collateralized mortgage obligation

**CN**
The two-character ISO 3166 country code for CHINA.

**CNY**
The ISO 4217 currency code for Chinese Renminbi (Yuan).

**CO**
The two-character ISO 3166 country code for COLOMBIA.

**COP**
The ISO 4217 currency code for Colombian Peso.

**CPT**
See: Carriage Paid To
CR
The two-character ISO 3166 country code for COSTA RICA.

CRB
See: Commodity Research Bureau.

CRC
The ISO 4217 currency code for Costa Rican Colon.

CTA
See: Cumulative Translation Adjustment. Also refers to Commodity Trading Advisor.

CU
The two-character ISO 3166 country code for CUBA.

CUP
The ISO 4217 currency code for Cuban Peso.

CUSIP
See: Committee on Uniform Securities Identification Procedures

CV
The two-character ISO 3166 country code for CAPE VERDE.

CVE
The ISO 4217 currency code for Cape Verde Islands Escudo.

CX
The two-character ISO 3166 country code for CHRISTMAS ISLAND.

CY
The two-character ISO 3166 country code for CYPRUS.

CYP
The ISO 4217 currency code for Cyprus Pound.

CZ
The two-character ISO 3166 country code for CZECH REPUBLIC.

CZK
The ISO 4217 currency code for Czech Republic Koruna.

Cabinet crowd
NYSE members who trade bonds with a low daily traded volume. See: Automated BondSystem.
Cabinet security
A stock or bond listed on a major exchange with low daily traded volume.

Cable
Exchange rate between British pound sterling and the U.S. dollar.

CAC 40 index
A broad-based index of common stocks composed of 40 of the 100 largest companies listed on the forward segment of the official list of the Paris Bourse.

Cage
A section of a brokerage firm used for receiving and disbursing funds.

Calendar
List of new issues scheduled to come to market shortly.

Calendar effect
Describes the tendency of stocks to perform differently at different times, including performance anomalies like the January effect, month-of-the-year effect, day-of-the-week effect, and holiday effect.

Calendar spread
Applies to derivative products. A strategy in which there is a simultaneous purchase and sale of options of the same class at different strike prices, but with the same expiration date.

Calendar Straddle or Combination
See Calendar Spread.

Call
An option that gives the holder the right to buy the underlying futures contract.

Call
A date before maturity, specified at issuance, when the issuer of a bond may retire part of the bond for a specified call price.

Call
Part of the indenture agreement between the bond issuer and buyer describing the schedule and price of redemption's prior to maturity.

Call
A loan repayable on demand. Sometimes used as a synonym for broker loan or broker overnight loan.
Call loan rate
See: Call money rate

Call money rate
Also called the broker loan rate, the interest rate that banks charge brokers to finance margin loans to investors. The broker charges the investor the call money rate plus a service charge.

Call
An option contract that gives its holder the right (but not the obligation) to purchase a specified number of shares of the underlying stock at the given strike price, on or before the expiration date of the contract.

Call an option
To exercise a call option.

Call
Premium in price above the par value of a bond or share of preferred stock that must be paid to holders to redeem the bond or share of preferred stock before its scheduled maturity date.

Call
The price, specified at issuance, at which the issuer of a bond may retire part of the bond at a specified call date.

Call protection
A feature of some callable bonds that establishes an initial period when the bonds may not be called.

Call provision
An embedded option granting a bond issuer the right to buy back all or part of an issue prior to maturity.

Call
The combination of cash flow uncertainty and reinvestment risk introduced by a call provision.

Call swaption
A swaption in which the buyer has the right to enter into a swap as a fixed-rate payer. The writer therefore becomes the fixed-rate receiver/floating-rate payer.

Callability
Feature of a security that allows the issuer to redeem the security prior to maturity by calling it in, or forcing the holder to sell it back.

Callable
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
(i.e., compete with other market makers), often because there is no natural opposite side of the trade.

"Cannot complete"
In the context of general equities, inability to finish an order on a principal or agency basis, given prevailing price instructions and/or market conditions.

Cap
An upper limit on the interest rate on a floating-rate note (FRN) or an adjustable-rate mortgage (ARM).

Capacity
Credit grantors' measurement of a person's ability to repay loans.

Capacity utilization rate
The percentage of the economy's total plant and equipment that is currently in production. Usually, a decrease in this percentage signals an economic slowdown, while an increase signals economic expansion.

Capital
Money invested in a firm.

Capital account
Net result of public and private international investment and lending activities.

Capital allocation
Allocation of invested funds between risk-free assets and the risky portfolio.

Capital appreciation
See: Capital growth

Capital appreciation fund
See: Aggressive growth fund

Capital asset
A long-term asset, such as land or a building, not purchased or sold in the normal course of business.

Capital asset pricing model
An economic theory that describes the relationship between risk and expected return, and serves as a model for the pricing of risky securities. The CAPM asserts that the only risk that is priced by rational investors is systematic risk, because that risk cannot be eliminated by diversification. The CAPM says that the expected return of a security or a portfolio is equal to the rate on a risk-free security plus a risk premium multiplied by the
assets systematic risk. Theory was invented by William Sharpe (1964) and John Lintner (1965).

**Capital budget**
A firm's planned capital expenditures.

**Capital budgeting**
The process of choosing the firm's long-term capital assets.

**Capital Builder Account (CBA)**
A Merrill Lynch brokerage account that allows investors to access the loan value of his or her eligible securities to buy or sell securities. Excess cash in a CBA can be invested in a money market fund or an insured money market deposit account without losing access to the money.

**Capital expenditures**
Amount used during a particular period to acquire or improve long-term assets such as property, plant, or equipment.

**Capital flight**
The transfer of capital abroad in response to fears of political risk.

**Capital formation**
Expansion of capital or capital goods through savings, which leads to economic growth.

**Capital gain**
When a stock is sold for a profit, the capital gain is the difference between the net sales price of the securities and their net cost, or original basis. If a stock is sold below cost, the difference is a capital loss.

**Capital gains distribution**
A distribution to the shareholders of a mutual fund out of profits from selling stocks or bonds, that is subject to capital gains taxes for the shareholders.

**Capital gains tax**
The tax levied on profits from the sale of capital assets. A long-term capital gain, which is achieved once an asset is held for at least 12 months, is taxed at a maximum rate of 20% (taxpayers in 28% tax bracket) and 10% (taxpayers in 15% tax bracket). Assets held for less than 12 months are taxed at regular income tax levels, and, since January 1, 2000, assets held for at least five years are taxed at 18% and 8%.

**Capital gains yield**
The price change portion of a stock's return.

**Capital goods**
Goods used by firms to produce other goods, e.g., office buildings, machinery, equipment.

**Capital growth**
The increase in an asset's market price. Also called capital appreciation.

**Capital-intensive**
Used to describe industries that require large investments in capital assets to produce their goods, such as the automobile industry. These firms require large profit margins and/or low costs of borrowing to survive.

**Capital International Indexes**
Market indexes maintained by Morgan Stanley that track major stock markets worldwide.

**Capital investment**
See: Capital expenditure.

**Capital lease**
A lease obligation that has to be capitalized on the balance sheet.

**Capital loss**
The difference between the net cost of a security and the net sales price, if the security is sold at a loss.

**Capital market**
The market for trading long-term debt instruments (those that mature in more than one year).

**Capital market efficiency**
The degree to which the present asset price accurately reflects current information in the market place. See: Efficient market hypothesis.

**Capital market imperfections view**
The view that issuing debt is generally valuable, but that the firm's optimal choice of capital structure involves various other views of capital structure (net corporate/personal tax, agency cost, bankruptcy cost, and pecking order), that result from considerations of asymmetric information, asymmetric taxes, and transaction costs.

**Capital market line (CML)**
The line defined by every combination of the risk-free asset and the market portfolio. The line represents the risk premium you earn for taking on extra risk. Defined by the capital asset pricing model.

**Capital rationing**
Placing limits on the amount of new investment undertaken by a firm, either by using a higher cost of capital, or by setting a maximum on the entire capital budget or parts of it.

**Capital requirements**
Financing required for the operation of a business, composed of long-term and working capital plus fixed assets.

**Capital shares**
One of two types of shares in a dual-purpose investment company, which entitle the holder to the appreciation or depreciation in the value of a portfolio, as well as the gains from trading in the portfolio. Antithesis of income shares.

**Capital stock**
Stock authorized by a firm’s charter and having par value, stated value, or no par value. The number and the value of issued shares are usually shown, together with the number of shares authorized, in the capital accounts section of the balance sheet. See: Common stock.

**Capital structure**
The makeup of the liabilities and stockholders' equity side of the balance sheet, especially the ratio of debt to equity and the mixture of short and long maturities.

**Capital surplus**
Amounts of directly contributed equity capital in excess of the par value.

**Capital turnover**
Calculated by dividing annual sales by average stockholder equity (net worth). The ratio indicates how much a company could grow its current capital investment level. Low capital turnover generally corresponds to high profit margins.

**Capitalization**
The debt and/or equity mix that funds a firm’s assets.

**Capitalization method**
A method of constructing a replicating portfolio in which the manager purchases a number of the most highly capitalized names in the stock index in proportion to their capitalization.

**Capitalization rate**
The rate of interest used to calculate the present value of a number of future payments.

**Capitalization ratios**
Also called financial leverage ratios, these ratios compare debt to total capitalization and thus reflect the extent to which a corporation is trading on its equity. Capitalization ratios can be interpreted only in the context of the stability of industry and company earnings and...
cash flow.

**Capitalization table**
A table showing the capitalization of a firm, which typically includes the amount of capital obtained from each source - long-term debt and common equity - and the respective capitalization ratios.

**Capitalization-Weighted Index**
A stock index which is computed by adding the capitalization (float times price) of each individual stock in the index, and then dividing by the divisor. The stocks with the largest market values have the heaviest weighting in the index. See also Float, Divisor.

**Capitalized**
Recorded in asset accounts and then depreciated or amortized, as is appropriate for expenditures for items with useful lives longer than one year.

**Capitalized interest**
Interest that is not immediately expensed, but rather is considered as an asset and is then amortized through the income statement over time.

**Capped-Style Option**
A capped option is an option with an established profit cap or cap price. The cap price is equal to the option’s strike price plus a cap interval for a call option or the strike price minus a cap interval for a put option. A capped option is automatically exercised when the underlying security closes at or above (for a call) or at or below (for a put) the Option’s cap price.

**Captive finance company**
A company, usually a subsidiary that is wholly owned, whose main function is financing consumer purchases from the parent company.

**Caput**
An exotic option. It represents a call option on a put option. That is, you purchase the option to buy a put option at a particular price on or before the expiration date.

**Car**
A loose quantity term sometimes used to describe the amount of a commodity underlying one commodity contract; e.g., "a car of bellies." Derived from the fact that quantities of the product specified in a contract once corresponded closely to the capacity of a railroad car.

**Caracas Stock Exchange**
Originally established in 1947 and merged with a competitor in 1974 to become the only securities exchange of Venezuela.
Cargo
Goods being transported.

Carriage and Insurance Paid To (CIP)
Seller is responsible for the payment of freight to carry goods to a named overseas destination. The seller is also responsible for providing cargo insurance at minimum coverage against the buyer's risk of loss or damage to the goods during transport. The risk of loss or damage is transferred from the seller to the buyer once the goods are delivered into the carrier's custody. This term may be used for any mode of transport.

Carriage Paid To (CPT)
Seller is responsible for the payment of freight to carry goods to a named overseas destination. The risk of loss or damage is transferred from the seller to the buyer when the goods have been delivered into the carrier's custody. This term may be used for any mode of transport.

Carrot equity
British slang for an equity investment with the added benefit of an opportunity to purchase more equity if the company reaches certain financial goals.

Carry
Related: Net financing cost.

Basel Accord
Agreement concluded among country representatives in 1988 in Switzerland to develop standardized risk-based capital requirements for banks across countries.

Carryforwards
Tax losses allowed to be applied to offset future income in some specified number of future years.

Carrying charge
The fee a broker charges for carrying securities on credit, such as on a margin account.

Carrying costs
Costs that increase with increases in the level of investment in current assets.

Carrying value
Book value.

Cartel
A group of businesses or nations that act together as a single producer to obtain market control and to influence prices in their favor by limiting production of a product. The United States has laws prohibiting cartels.
Cash
The value of assets that can be converted into cash immediately, as reported by a company. Usually includes bank accounts and marketable securities, such as government bonds and banker's acceptances. Cash equivalents on balance sheets include securities that mature within 90 days (e.g., notes).

Cash account
A brokerage account that settles transactions on a cash-rather than credit-basis.

Cash Available for Debt Service
Ratio of cash assets to debt service (interest plus nearby principal). Used in evaluating the risk of a project or firm. The higher the ratio the less likely the firm or project will fail to meet its debt obligations.

Cash asset ratio
Cash and marketable securities divided by current liabilities. See: Liquidity ratios.

Cashed-Based
Referring to an option or future that is settled in cash when exercised or assigned. No physical entity, either stock or commodity, is received or delivered.

Cash basis
Refers to the accounting method that recognizes revenues and expenses when cash is actually received or paid out.

Cash and equivalents
The value of assets that can be converted into cash immediately, as reported by a company. Usually includes bank accounts and marketable securities, such as government bonds and Banker's Acceptances. Cash equivalents on balance sheets include securities (e.g., notes) that mature within 90 days.

Cash budget
A forecasted summary of a firm’s expected cash inflows and cash outflows as well as its expected cash and loan balances.

Cash & carry
Applies to derivative products. Combination of a long position in a stock/index/commodity and short position in the underlying futures, which entails a cost of carry on the long position.

Cash commodity
The actual physical commodity, as distinguished from a futures contract.

Cash conversion cycle
The length of time between a firm's purchase of inventory and the receipt of cash from accounts receivable.

**Cash cow**
A company that pays out most of its earnings per share to stockholders as dividends. Or, a company or division of a company that generates a steady and significant amount of free cash flow.

**Cash cycle**
In general, the time between cash disbursement and cash collection. In net working capital management, it can be thought of as the operating cycle less the accounts payable payment period.

**Cash deficiency agreement**
An agreement to invest cash in a project to the extent required to cover any cash deficiency the project may experience.

**Cash delivery**
The provision of some futures contracts that requires not delivery of underlying assets but settlement according to the cash value of the asset.

**Cash discount**
An incentive offered to purchasers of a firm's product for payment within a specified time period, such as ten days.

**Cash dividend**
A dividend paid in cash to a company's shareholders. The amount is normally based on profitability and is taxable as income. A cash distribution may include capital gains and return of capital in addition to the dividend.

**Cash earnings**
A firm's cash revenues less cash expenses, which excludes the costs of depreciation.

**Cash-equivalent items**
Examples include Treasury bills and Banker's Acceptances.

**Cash flow**
In investments, cash flow represents earnings before depreciation, amortization, and non-cash charges. Sometimes called cash earnings. Cash flow from operations (called funds from operations by real estate and other investment trusts) is important because it indicates the ability to pay dividends.

**Cash flow after interest and net income**
Net income plus depreciation.
**Cash flow break-even point**
The point below which the firm will need either to obtain additional financing or to liquidate some of its assets to meet its fixed costs.

**Cash flow per common share**
Cash flow from operations minus preferred stock dividends, divided by the number of common shares outstanding.

**Cash flow coverage ratio**
The number of times that financial obligations (for interest, principal payments, preferred stock dividends, and rental payments) are covered by earnings before interest, taxes, rental payments, and depreciation.

**Cash flow matching**
Also called dedicating a portfolio, this is an alternative to multiperiod immunization that calls for the manager to match the maturity of each element in the liability stream, working backward from the last liability to assure all required cash flows.

**Cash flow from operations**
A firm's net cash inflow resulting directly from its regular operations (disregarding extraordinary items such as the sale of fixed assets or transaction costs associated with issuing securities), calculated as the sum of net income plus noncash expenses that are deducted in calculating net income.

**Cash flow time line**
Line depicting the operating activities and cash flows for a firm over a particular period.

**Cash in Advance**
A payment term meaning the buyer pays the seller before shipment is effected.

**Cash In Lieu (CIL)**
In a typical exchange offer, "old" shares of the target company are exchanged for "new shares".

**Cash investments**
Short-term debt instruments—such as commercial paper, banker's acceptances, and Treasury bills—that mature in less than one year. Also known as money market instruments or cash reserves.

**Cash management**
Refers to the efficient management of cash in a business in order to put the cash to work more quickly and to keep the cash in applications that produce income, such as the use of lock boxes for payments.
**Cash management bill**
Very short-maturity bills that the Treasury occasionally sells because its cash balances are down and it needs money for a few days.

**Cash markets**
Also called spot markets, these are markets that involve the immediate delivery of a security or instrument. Related: Derivative markets.

**Cash offer**
Often used in risk arbitrage. Proposal, either hostile or friendly, to acquire a target company through the payment of cash for the stock of the target. Compare to exchange offer.

**Cash-on-cash return**
A method used to find the return on investments when there is no active secondary market. The yield is determined by dividing the annual cash income by the total investment. See: Current yield or yield to maturity.

**Cash on delivery (COD)**
In the context of securities, this refers to the practice of institutional investors paying the full purchase price for securities in cash.

**Cash-out Laws**
These laws enable shareholders to sell their stakes to a "controllin" shareholder at a price based on the highest price of recently acquired shares. This works something like Fair-Price provisions extended to nontakeover situations. A few states have these laws.

**Cash plus convertible**
Convertible bond that requires cash payment upon conversion.

**Cash position**
The percentage of a mutual fund's assets invested in short-term reserves, such as US Treasury bills or other money market instruments.

**Cash price**
Applies to derivative products. See: Spot price.

**Cash ratio**
The proportion of a firm's assets held as cash.

**Cash reserves**
See: Cash investments

**Cash sale/settlement**
Transaction in which a contract is settled on the same day as the trade date, or the next day if the trade occurs after 2:30 p.m. EST and the parties agree to this procedure. Often occurs because a party is strapped for cash and cannot wait until the regular five-business day settlement. See: Settlement date.

**Cash Settlement**
The process by which the terms of an option contract are fulfilled through the payment or receipt in dollars of the amount by which the option is in-the-money as opposed to delivering or receiving the underlying stock.

**Cash settlement contracts**
Futures contracts such as stock index futures that settle for cash and do not involve delivery of the underlying.

**Cash-surrender value**
The amount an insurance company will pay if the policyholder tenders or cashes in a whole life insurance policy.

**Cash transaction**
A transaction in which exchange is immediate in the form of cash, unlike a forward contract (which calls for future delivery of an asset at an agreed-upon price).

**Cashbook**
An accounting book that is composed of cash receipts plus disbursements. This balance is posted to the cash account in the ledger.

**Cashier's check**
A check drawn directly on a customer's account, making the bank the primary obligor, and assuring firms that the amount will be paid.

**Cashout**
Occurs when a firm runs out of cash and cannot readily sell marketable securities.

**Casualty-insurance**
Insurance protecting a firm or homeowner against loss of property, damage, and other liabilities.

**Casualty loss**
A financial loss caused by damage, destruction, or loss of property as a result of an unexpected or unusual event.

**Catastrophe call**
Early redemption of a municipal revenue bond because a catastrophe has destroyed the project that provided the revenue source backing the bond.
Cats and dogs
Speculative stocks with short histories of sales, earnings, and dividend payments.

Caveat emptor, caveat
Latin expressions for "buyer beware" and "seller beware," which warn of overly risky, inadequately protected markets.

Cease-and-desist order
An order issued after notice and opportunity for hearing, requiring a depository institution, a holding company or a depository institution official to terminate unlawful, unsafe or unsound banking practices. Cease-and-desist orders are issued by the appropriate federal regulatory agencies under the Financial Institutions Supervisory Act and can be enforced directly by the courts.

Cede & Co.
Nominee name for The Depository Trust Company, a large clearing house that holds shares in its name for banks, brokers and institutions in order to expedite the sale and transfer of stock.

CEDEL
A centralized clearing system for Eurobonds.

Ceiling
The highest price, interest rate, or other numerical factor allowable in a financial transaction.

Central bank
A country's main bank whose responsibilities include the issue of currency, the administration of monetary policy, open market operations, and engaging in transactions designed to facilitate healthy business interactions. See: Federal Reserve System.

Central bank intervention
The buying or selling of currency, foreign or domestic, by central banks in order to influence market conditions or exchange rate movements.

Central Limit Theorem
The Law of Large Numbers states that as a sample of independent, identically distributed random numbers approaches infinity, its probability density function approaches the normal distribution. See: Normal Distribution.

Centralized cash flow
 Provision of consolidated cash management decisions to all MNC units from one location, usually at the parent's headquarters.
Cents per share
The amount of a mutual fund’s dividend or capital gains distributions that a shareholder will receive for each share owned.

Checkwriting
Free checkwriting privileges offered with nonretirement accounts for select mutual funds.

Certainty equivalent
An amount that would be accepted today (risk free) in lieu of a chance to receive a possibly higher, but uncertain, amount.

Certainty Equivalent
The certain (zero risk) return an investor would trade for a given (larger) return with an associated risk. For example, a particular investor might trade an uncertain expected 4% active return with 6% risk, for a certain active return of 1.5%.

Certificate
A formal document used to record a fact and used as proof of the fact, such as stock certificates, that evidence ownership of stock in a corporation.

Certificate of Accrual on Treasury Securities (CATS)
Refers to a zero-coupon US Treasury issue that is sold at a deep discount from the face value and pays no coupon interest during its lifetime, but returns the full face value at maturity.

Certificate of deposit (CD)
Also called a time deposit this is a certificate issued by a bank or thrift that indicates a specified sum of money has been deposited. A CD has a maturity date and a specified interest rate, and can be issued in any denomination. The duration can be up to five years.

Certificate of Origin
A document certifying the country of origin for goods sold internationally.

Certificates of Amortized Revolving Debt (CARD)
Pass-through securities backed by credit card receivables.

Certificates of Automobile Receivables (CAR)
Pass-through securities backed by automobile loan receivables.

Certificateless municipals
Municipal bonds with one certificate which is valid for the entire issue, and having no individual certificates, easing transactions. See: Book-entry securities.

Certified check
A bank guaranteed check for which funds are immediately withdrawn, and for which the
bank is legally liable.

**Certified Financial Planner**
A person who has passed examinations accredited by the Certified Financial Planner Board of Standards, showing that the person is able to manage a client's banking, estate, insurance, investment, and tax affairs.

**Certified financial**
Financial statements that include an accountant's opinion.

**Certified Public Accountant**
An accountant who has met certain standards, including experience, age, and licensing, and passed exams in a particular state.

**Chair of the board**
Highest-ranking member of a Board of Directors, who presides over its meetings and who is often the most powerful officer of a corporation.

**Chaos**
A deterministic non-linear dynamic system that can produce random looking results. A chaotic system must have a fractal dimension, and exhibit sensitive dependence on initial conditions. See: Fractal Dimension, Lyapunov Exponent, Strange Attractor.

**Chapter 7 Proceedings**
Provisions of the Bankruptcy Reform Act under which the debtor firm's assets are liquidated by a court because reorganization would fail to establish a profitable business.

**Chapter 11 Proceedings**
Provisions of the Bankruptcy Reform Act under which the debtor firm is reorganized by a court because the estimated value of the reorganized firm exceeds the expected proceeds from its liquidation.

**Changes in financial**
Sources of funds provided from operations that alter a company's cash flow position: depreciation, deferred taxes, other sources, and capital expenditures.

**Characteristic line**
The market model applied to a single security; a regression of security returns on the benchmark return. The slope of the regression line is a security's beta.

**Characteristic portfolio**
A portfolio which efficiently represents a particular asset characteristic. For a given characteristic, it is the minimum risk portfolio, with portfolio characteristic equal to 1. For example, the characteristic portfolio of asset betas is the benchmark. It is the minimum risk
beta = 1 portfolio.

**Charge off**
See: Bad debt

**Charitable remainder trust**
An irrevocable trust that pays income to a designated person or persons until the grantor's death, when the income is passed on to a designated charity. A charitable lead trust by contrast allows the charity to receive income during the grantor’s life, and the remaining income to pass to designated family members upon the grantor's death.

**Charter**
See: Articles of incorporation

**Charter Amendment Limitations**
These provisions limit shareholders' ability to amend the governing documents of the corporation. This might take the form of a supermajority vote requirement for charter or bylaw amendments, total elimination of the ability of shareholders to amend the bylaws, or the ability of directors beyond the provisions of state law to amend the bylaws without shareholder approval.

**Chartered Financial Analyst**
An experienced financial analyst who has passed examinations in economics, financial accounting, portfolio management, security analysis, and standards of conduct given by the institute of Chartered Financial Analysts.

**Chartists**
A technical analyst who charts the patterns of stocks, bonds, and commodities to find trends in patterns of trading used to advise clients. Related: Technical analysts.

**Chasing the market**
Purchasing a security at a higher price than expected because prices are rapidly climbing, or selling a security at a lower level when prices are quickly falling.

**Chastity bonds**
Bonds redeemable at par value in the case of a takeover.

**Chatter**
See: Whipsawed

**Chattel Mortgage**
A loan agreement that grants to the lender a lien on property other than real estate. Chattel is personal or movable property.
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.
Chief Financial Officer (CFO)
The officer of a firm is responsible for handling the financial affairs of a company.

Chief Operating Officer (COO)
The officer of a firm responsible for day-to-day management, usually the president or an executive vice-president.

Chinese hedge
Applies mainly to convertible securities. Trading hedge in which one is short the convertible and long the underlying common, in the hope that the convertible’s premium will fall. Antithesis of set-up.

Chinese wall
Communication barrier between financiers at a firm (investment bankers) and traders. This barrier is erected to prevent the sharing of inside information that bankers are likely to have.

Choice market
Applies mainly to international equities. Locked market in London terminology.

Churning
Excessive trading of a client’s account in order to increase the broker’s commissions.

Cincinnati Stock Exchange (CSE)
Stock exchange based in Cincinnati that is the only fully automated stock exchange in the US. It has no trading floor, but handles all members’ transactions using computers.

Circle
Underwriters, actual or potential, often seek out and "circle" investor interest in a new issue before final pricing. The customer circled has basically made a commitment to purchase the issue if it is available at an agreed-upon price. If the actual price is other than that stipulated, the customer supposedly has first offer at the actual price.

Circuit breakers
Measures instituted by exchanges to stop trading temporarily when the market has fallen by a certain percentage in a specified period. They are intended to prevent a market free fall by permitting buy and sell orders to rebalance.

Circus swap
A fixed-rate currency swap against floating US dollar LIBOR payments.

Citizen bonds
Certificateless municipals that can be registered on stock exchanges and are listed in...
newspapers.

**City code on takeovers and mergers**
See: *Dawn raid*

**Claim dilution**
A decrease in the likelihood that one or more of a firm's claimants will be fully repaid, including time value of money considerations.

**Claimant**
A party to an explicit or implicit *contract*.

**Class**
In the case of derivative products, *options* of the same type—put or call—with the same *underlying security*. See: *Series*. In general, refers to a category of assets such as: domestic equity, fixed income, etc.

**Class A/Class B shares**
See: *Classified stock*

**Class action**
A legal complaint filed by a lawyer or group of lawyers for a group of petitioners with an identical grievance, often with an award proportionate to the number of *shareholders* involved.

**Class of Options**
Option contracts of the same type (call or put) and Style (American, European or Capped) that cover the same underlying security.

**Classified Board**
Also known as Staggered Board is one in which, the directors are placed into different classes and serve overlapping terms. Since only part of the board can be replaced each year, an outsider who gains control of a corporation may have to wait a few years before being able to gain control of the board. This slow replacement makes a classified board effectively delays takeovers. Sometimes known as a delay provision.

**Classified stock**
The division of *stock* into more than one *class of common stock*, usually called Class A and Class B. The specific features of each *class*, which are set out in the charter and bylaws, usually give certain advantages to the Class A *shares*, such as increased voting power.

**Claused Bill of Lading**
A *bill of lading* with a notation that indicates damage or shortage. Also called *foul bill of lading* and are the opposite of *clean bills of lading*.
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
Organizations that are affiliated with exchanges and are used to complete securities transactions by taking care of validation, delivery, and settlement.

**Clearing House Automated Payments System (CHAPS)**
A computerized clearing system for sterling funds that began operations in 1984. It includes 14 member banks, nearly 450 participating banks, and is one of the clearing companies within the structure of the Association for Payment Clearing Services (APACS).

**Clearing House Electronic Subregister System (CHESS)**
CHESS is the automatic transfer and settlement system for the majority of Australian Stock Exchange (ASX) listed securities.

**Clearing house funds**
Funds from the Federal Reserve System, requiring three days to clear, that are passed to and from banks.

**Clearing House Interbank Payments System (CHIPS)**
An international wire transfer system for high-value payments operated by a group of major banks.

**Clearinghouse**
An adjunct to a futures exchange through which transactions executed on its floor are settled by a process of matching purchases and sales. A clearing organization is also charged with the proper conduct of delivery procedures and the adequate financing of the entire operation.

**Clearing member**
A member firm of a clearing house. Each clearing member must also be a member of the exchange. Not all members of the exchange, however, are members of the clearing organization. All trades of a non-clearing member must be registered with, and eventually settled through, a clearing member.

**Clientele effect**
Describes the tendary of funds or investments to be followed by groups of investors who have a similar preferences that the firm follow a particular financing policy, such as the amount of leverage it uses.

**Clone fund**
A new fund set up in a fund family to emulate another successful fund.

**Close**
The close is the period at the end of the trading session. Sometimes used to refer to closing price. Related: Opening.
Close a position
In the context of general equities, eliminate an investment from one's portfolio, by either selling a long position or covering a short position.

Close-end credit
An agreement in which advanced credit plus any finance charges are expected to be repaid in full over a definite time. Most real estate and automobile loans are closed-end agreements.

Close market
An active market in which there is a narrow spread between bid and offer prices, due to a high volume of trading and many competing market makers.

Closed corporation
A corporation whose shares are owned by just a few people, having no public market.

Closed-end management company
An investment company that has only a set number of shares of the mutual fund that it manages, and does not create new shares if demand increases. Antithesis of an open-end management company.

Closed-end fund
An investment company that sells shares like any other corporation and usually does not redeem its shares. A publicly traded fund sold on stock exchanges or over the counter that may trade above or below its net asset value. Related: Open-end fund.

Closed-end management
An investment company that has only a set number of shares of the mutual fund that it manages, and does not create new shares if demand increases. Antithesis of an open-end management company.

Closed-end mortgage
Mortgage against which no additional debt may be issued.

Closed fund
A mutual fund that is no longer issuing shares, mainly because it has grown too large.

Closed out
Position that is liquidated when the client does not meet a margin call or cover a short sale.

Closely held
A corporation whose voting stock is owned by only a few shareholders.
**Closely held company**
A company who has a small group of controlling shareholders. In contrast, a widely-held firm has many shareholders. It is difficult or impossible to wage a proxy battle for any closely-held firm.

**Closing costs**
All the expenses involved in transferring ownership of real estate.

**Closing price**
Price of the last transaction of a particular stock completed during a day's trading session on an exchange.

**Closing purchase**
A transaction in which the purchaser's intention is to reduce or eliminate a short position in a stock, or in a given series of options.

**Closing quote**
The last bid and offer prices of a particular stock at the close of a day's trading session on an exchange.

**Closing range**
Also known as the range. The high and low prices, or bids and offers, recorded during the period designated as the official close. Related: Settlement price.

**Closing sale**
A transaction in which the seller's intention is to reduce or eliminate a long position in a stock, or a given series of options.

**Closing tick**
The net of the number of stocks whose closing prices are higher than their previous trades (uptick) against the number of stocks whose closing prices were lower than their previous trades (downtick). A positive closing tick indicates "buying at the close", or a bullish market; a negative closing tick indicates "selling at the close," or a bearish market. See: TRIN.

**Closing transaction**
Applies to derivative products. Buy or sell transaction that eliminates an existing position (selling a long option or buying back a short option). Antithesis of opening transaction.

**Closing TRIN**
See: TRIN

**Cloud on title**
Any claim or encumbrance, usually discovered in a title search, that may impair the title to a property, and make its validity questionable. See: bad title.
Cluster analysis
A statistical technique that identifies clusters of stocks whose returns are highly correlated within each cluster and relatively uncorrelated across clusters. Cluster analysis has identified groupings such as growth, cyclical, stable, and energy stocks.

CMO REIT
A very risky type of Real Estate Investment Trust investing in the residual cash flows of Collateralized Mortgage Obligation (CMOs). CMO cash flows are derived from the difference between the rates paid by the mortgage loan holders and the lower, shorter-term rates paid to CMO investors.

Co-agent
An institution appointed by the issuer as co-transfer agent accepts and transfers certificates and sends daily activity journals to the primary record-keeping agent. A co-agent does not maintain security holder records, but is used to facilitate the transfer of stock in a geographic region not easily accessible to the issuer or its principal transfer agent.

Coattail investing
A risky trading practice of making trades similar to those of other successful investors, usually institutional investors.

COD transaction
See: Delivery versus payment

Code of procedure
The guide of the National Association of Securities Dealers used to adjudicate complaints filed against NASD members.

Coefficient of
A measure of the goodness of fit of the relationship between the dependent and independent variables in a regression analysis; for instance, the percentage of variation in the return of an asset explained by the market portfolio return. Also known as R-square.

Coefficient of Variation
A measure of investment risk that defines risk as the standard deviation per unit of expected return.

Coffee, Sugar & Cocoa Exchange
The New York-based commodity exchange trading futures and options. The CS&CE shares the trading floor at the Commodities Exchange Center.

Cofinancing agreements
Joint participation of the World Bank and other agencies or lenders in providing funds to
developing countries.

**Coherent Market Hypothesis**
A hypothesis that the probability density function of the market may be determined by a combination of group sentiment and fundamental bias. Depending on combinations of these two factors, the market can be in one of four states: random walk, unstable transition, chaos, or coherence.

**Coincident indicators**
Economic indicators that give an indication of the status of the economy.

**Coinsurance effect**
Refers to the fact that the merger of two firms lessens the probability of default on either firm’s debt.

**Cold-calling**
Calling potential new customers in the hope of selling stocks, bonds or other financial products and receiving commissions.

**Collar**
An upper and lower limit on the interest rate on a floating-rate note (FRN) or an adjustable-rate mortgage (ARM).

**Collateral**
Asset than can be repossessed if a borrower defaults.

**Collateral trust bonds**
A bond in which the issuer (often a holding company) grants investors a lien on stocks, notes, bonds, or other financial asset as security. Compare mortgage bond.

**Collateralized Bond Obligation**
Investment-grade bonds backed by a collection of junk bonds with different levels of risk, called tiers, that are determined by the quality of junk bond involved. CBOs backed by highly risky junk bonds receive higher interest rates than other CBOs.

**Collateralized mortgage obligation**
A security backed by a pool of pass-through rates, structured so that there are several classes of bondholders with varying maturities, called tranches. The principal payments from the underlying pool of pass-through securities are used to retire the bonds on a priority basis as specified in the prospectus. Related: mortgage pass-through security.

**Collecting Bank**
A bank that assists in obtaining payment in accordance with draft payment terms.
Collection
The presentation of a negotiable instrument for payment, or the conversion of any accounts receivable into cash.

Collection float
The period between the time is deposited a check in an account and the time funds are made available.

Collection fractions
The percentage of a given month’s sales collected during the month of sale and each month following the month of sale.

Collection period
See: Collection ratio

Collection policy
Procedures a firm follows in attempting to collect accounts receivables.

Collection ratio
The ratio of a company’s accounts receivable to its average daily sales, which gives the average number of days it takes the company to convert receivables into cash.

Collective wisdom
The combination of all the individual opinions about a stock’s or security’s value.

Colombo Stock Exchange
Established in 1984, the only public stock exchange of Sri Lanka.

COLT (Continuous on-line trading system)
Computerized OTC traders assistance system that provides for trade entry and position monitoring, among other functions.

Comanager
A bank that ranks just below a lead manager in a syndicated Eurocredit or international bond issue. Comangers may assist the lead manager bank in the pricing and issue of the instrument.

Combination
Applies to derivative products. Arrangement of options involving two long or two short positions with different expiration dates or strike (exercise) prices. See: Straddle.

Combination annuity
See: Hybrid annuity
**Combination bond**
A bond backed by the government unit issuing it as well as by revenue from the project that is to be financed by the bond.

**Combination order**
See: Alternative order

**Combination matching**
Also called horizon-matching, a variation of multiperiod immunization and cash flow-matching in which a portfolio is created that is always duration-matched and also cash-matched in the first few years.

**Combination strategy**
A strategy in which a put and call with the same strike price and expiration are either both bought or both sold. Related: Straddle

**Combined financial statement**
A financial statement that merges the assets, liabilities, net worth, and operating figures of two or more affiliated companies. A combined statement is distinguished from a consolidated financial statement of a company and subsidiaries, which must reconcile investment and capital accounts.

**Come in**
In the context of general equities, a fall in price.

**Come out of the trade**
In the context of general equities, trader's position in a security that results from executing a trade (or the expectations thereof). Antithesis of going into the trade.

**Comeout**
In the context of general equities, the opening. Antithesis of the close.

**COMEX**
A division of the New York Mercantile Exchange (NYMEX). Formerly known as the Commodity Exchange, COMEX is the leading US market for metals futures and options trading.

**Comfort letter**
A letter from an independent auditor in securities underwriting agreements to assure that information in the registration statement and prospectus is correctly prepared to the best of the auditor’s knowledge.

**Commercial bank**
Bank that offers broad range of deposit accounts, including checking, savings and time
deposits and extends loans to individuals and business. Commercial banks can be contrasted with investment banking firms, such as brokerage firms, which generally are involved in arranging for the sale of corporate or municipal securities.

**Commercial draft**
Demand for payment.

**Commercial hedgers**
Companies that take futures positions in commodities so that they can guarantee prices at which they will buy raw materials or sell their products.

**Commercial invoice**
Bill for merchandise sold.

**Commercial letters of credit**
Trade-related agreement that a certain amount of bank funds is available to an entity.

**Commercial loan**
A short-term loan, typically 90 days, used by a company to finance seasonal working capital needs.

**Commercial Mortgage Backed Securities**
Similar to MBS but backed by loans secured with commercial rather than residential property. Commercial property includes multi-family, retail, office, etc., They are not standardized so there are a lot of details associated with structure, credit enhancement, diversification, etc., that need to be understood when valuing these instruments.

**Commercial paper**
Short-term unsecured promissory notes issued by a corporation. The maturity of commercial paper is typically less than 270 days; the most common maturity range is 30 to 50 days or less.

**Commercial property**
Real estate that produces some sort of income-producing property.

**Commercial risk**
The risk that a foreign debtor will be unable to pay its debts because of business events, such as bankruptcy.

**Commingling**
In the context of securities, this involves mixing customer-owned securities with brokerage firm-owned securities. This process is referred to as rehypothecation, which is the use of customers’ collateral to secure their loans. This is legal with customer consent, although some securities and collateral must be kept separately.
**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).
Commodity
A commodity is food, metal, or another fixed physical substance that investors buy or sell, usually via futures contracts.

Commodity-backed bond
A bond with interest payments tied to the price of an underlying commodity.

Commodity Bundle
One unit of the collection of the complete set of goods produced and sold in the world market.

Commodity Channel Index
An index used in technical analysis. High values mean a potential future correction (downward movement in underlying asset) and low values potentially forecast a rally. Details in Donald Lambert's October 1980 article in Commodities Magazine.

Commodity futures contract
An agreement to buy a specific amount of a commodity at a specified price on a particular date in the future, allowing a producer to guarantee the price of a product or raw material used in production.

Commodity Futures Trading Commission (CFTC)
An agency created by the US Congress in 1974 to regulate exchange trading in futures.

Commodity indices
Indices measuring the price and performance of physical commodities, often by the price of futures contracts for the commodities that are listed on commodity exchanges.

Commodity paper
A loan or advance secured by commodities.

Commodity Research Bureau
Produces a popular price index of 17 commodities which is often used to track inflationary trends in the economy.

Commodity Trading Advisor
An investment manager that focuses on long and short trading in the futures markets. The trades are often intraday trades. Sometimes referred to as Managed Futures.

Common-base-year analysis
The representing of accounting information over multiple years as percentages of amounts in an initial year.
**Common code**
A nine-digit identification code issued jointly by CEDEL and Euroclear. As of January 1991 common codes replaced the earlier separate CEDEL and Euroclear codes.

**Common factor**
An element of return that influences many assets. According to multiple factor risk models, the common factors determine correlations between asset returns. Common factors include size (often measured by market capitalization), valuation measures such as price to book value ratio and dividend yield, industries and risk indices.

**Common market**
An agreement between two or more countries that permits the free movement of capital and labor as well as goods and services.

**Common shares**
In general, a public corporation has two types of shares, common and preferred. The common shares usually entitle the shareholders to vote at shareholders meetings. The common shares have a discretionary dividend.

**Common-size analysis**
The representing of balance sheet items as percentages of assets and of income statement items as percentages of sales.

**Common-size statement**
A statement in which all items are expressed as a percentage of a base figure, useful for purposes of analyzing trends and changing relationship among financial statement items. For example, all items in each year's income statement could be presented as a percentage of net sales.

**Common stock**
Securities that represent equity ownership in a company. Common shares let an investor vote on such matters as the election of directors. They also give the holder a share in a company's profits via dividend payments or the capital appreciation of the security. Units of ownership of a public corporation with junior status to the claims of secured/unsecured creditors, bondholders and preferred shareholders in the event of liquidation.

**Common stock equivalent**
A convertible security that is traded like an equity issue because the optioned common stock is trading at a high price.

**Common stock fund**
A mutual fund investing only in common stock.
Common stock market
The market for trading equities, not including preferred stock.

Common stock/other equity
Value of outstanding common shares at par, plus accumulated retained earnings. Also called shareholders' equity.

Common stock ratios
Ratios that are designed to measure the relative claims of stockholders to earnings (cash flow per share), and equity (book value per share) of a firm.

Community Reinvestment Act (CRA)
Enacted by Congress in 1977, the CRA encourages banks to help meet the credit needs of their communities for housing and other purposes, particularly in neighborhoods with low or moderate incomes, while maintaining safe and sound operations.

Companion bonds
A class of a Collateralized Mortgage Obligation (CMO) whose principal is paid off first when the underlying mortgages are prepaid due to falling interest rates. When interest rates rise, there will be lower prepayments of the principal; companion bonds therefore absorb most of the prepayment risk of a CMO.

Company
A proprietorship, partnership, corporation, or other form of enterprise that engages in business.

Company doctor
An executive, usually appointed from outside, brought in to turn a company around and make it profitable.

Company-specific risk
Related: Unsystematic risk

Comparative advantage
Theory suggesting that specialization by countries can increase worldwide production.

Comparative credit analysis
Comparing a firm to others that have a desired target debt rating in order to deduce an appropriate financial ratio target.

Comparative statements
Financial statements for different periods, that allow the comparison of figures to illustrate trends in a company’s performance.
Comparison
Short for "comparison ticket," a memorandum between two brokers that confirms the details of a transaction to be carried out.

Comparison universe
A group of money managers of similar investment style used to assess relative performance of a portfolio manager.

Compensating balance
An excess balance that is left in a bank to provide indirect compensation for loans extended or services provided.

Compensation
Arrangement under which the delivery of goods to a party is paid for by buying back a certain amount of the product from the recipient of the goods.

Compensatory Financing Facility (CFF)
Entity that attempts to reduce the impact of export instability on country economies.

Competence
Sufficient ability or fitness for one's needs. The necessary abilities to be qualified to achieve a certain goal or complete a project.

Competition
Intra- or intermarket rivalry between or among businesses trying to obtain a larger piece of the same market share.

Competition ahead
Often used in risk arbitrage. Situation whereby another OTC market maker has transacted with investment bank at the stated market level before the bid/offer has been made.

Competitive bidders
One of two categories of bidders on Treasury securities: competitive and noncompetitive. Competitive bidders are usually financial institutions.

Competitive bidding
A securities offering process in which securities firms submit competing bids to the issuer for the securities the issuer wishes to sell.

Competitive offering
An offering of securities through competitive bidding.

Complete
In the context of general equities, to fill an order.
Complete capital market
A market in which there is a distinctive marketable security for each and every possible outcome.

Complete portfolio
The entire portfolio, including risky and risk-free assets.

Completion bonding
Insurance that a construction contract will be completed successfully.

Completion risk
The risk that a project will not be brought into operation successfully.

Completion undertaking
An undertaking either (1) to complete a project so that it meets certain specified performance criteria on or before a certain specified date, or (2) to repay project debt if the completion test cannot be met.

Complexity Theory
The theory that processes with a large number of seemingly independent agents can spontaneously organize themselves into a coherent system.

Compliance department
A department in all organized stock exchanges to ensure that all companies, traders, and brokerage firms comply with Securities and Exchange Commission and exchange rules and regulations.

Composite tape
See: Tape

Composition
Voluntary arrangement to restructure a firm's debt, under which payment is reduced.

Compound Annual Growth Rate
Best defined by example. If you invest $100 today and make 5% in the first year and reinvest ($105) and make 8% in the second year, the compound annual growth rate is 6.489%. The calculation is $100 \times 1.05 \times 1.08 = $113.4 which is what you end up with at the end of year two. The average return is \[\sqrt[3]{113.4/100} -1\] = 0.06489 or 6.489%. Note 1. If we had three compounding periods we would take the cubic root (power of 1/3). Note 2. If we had invested at exactly 6.489 in both periods, we get $100 \times 1.06489 \times 1.06489 = $113.4. Note 3. The example is directed to a return - but CAGR could be applied to earnings growth, GDP growth, etc.
Compound Annual Return
See: Compound Annual Growth Rate

Compound growth rate
See: Compound Annual Growth Rate

Compound interest
Interest paid on previously earned interest as well as on the principal.

Compound option
Option on an option.

Compounding
The process of accumulating the time value of money forward in time. For example, interest earned in one period earns additional interest during each subsequent time period.

Compounding frequency
The number of compounding periods in a year. For example, quarterly compounding has a compounding frequency of 4.

Compounding period
The length of the time period that elapses before interest compounds (a quarter in the case of quarterly compounding).

Comprehensive due diligence investigation
The investigation of a firm's business in conjunction with a securities offering to determine whether the firm's business and financial situation and its prospects are adequately disclosed in the prospectus for the offering.

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

Comptroller of the Currency
A government official, appointed by the president, who keeps control over all national banks, and receives reports from the banks at least quarterly, to be published in newspapers.

Computerized market timing system
A computer system that compiles large amounts of trading data in search of patterns and trends to make buy and sell recommendations.

Concave
Property that a curve is below a straight line connecting two end points. If the curve falls
above the straight line, it is called convexity.

**Concentration account**
A single centralized account into which funds collected at regional locations (lockboxes) are transferred.

**Concentration Banks**
A small number of large banks a firm contracts with to periodically collect the firm's deposit balances from a group of smaller banks.

**Concentration services**
Movement of cash from different lockbox locations into a single concentration account from which disbursements and investments are made.

**Concession**
The per-share or per-bond compensation of a selling group for participating in a corporate underwriting.

**Concession agreement**
An understanding between a company and the host government that specifies the rules under which the company can operate locally.

**Conditional call**
Applies mainly to convertible securities. Circumstances under which a company can effect an earlier call, usually stated as percentage of a stock's trading price during a particular period, such as 140% of the exercise price during a 40-day trading span.

**Conditional call options**
A protective guarantee that, in the event a high yield bond is called, the issuing corporation will replace the bond with a noncallable bond of the same life and terms as the bond that is being called.

**Conditional sales contracts**
Similar to equipment trust certificates, except that the lender is either the equipment manufacturer or a bank or finance company to which the manufacturer has sold the conditional sales contract.

**Condor**
Applies to derivative products. Option strategy consisting of both puts and calls at different strike prices to capitalize on a narrow range of volatility. The payoff diagram takes the shape of a bird.

**Conduit theory**
A theory that because investment companies are merely conduits for capital gains, dividends,
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.
**Conglomerate merger**
A merger involving two or more firms that are in unrelated businesses.

**Consensus forecast**
The mean of all financial analysts' forecasts for a company.

**Consignee**
The party named in the bill of lading to whom delivery is promised and/or title is passed.

**Consignment**
Transfer of goods to a seller while title to the merchandise is retained by the owner.

**Consol**
A government bond with no maturity. Popular in Great Britain. The formula for valuing these bonds is simple. The consol payment divided by yield to maturity is the price of the bond.

**Consolidated financial statement**
A financial statement that shows all the assets, liabilities, and operating accounts of a parent company and its subsidiaries.

**Consolidated mortgage bond**
A bond that covers several units of property, sometimes refinancing mortgages on the properties.

**Consolidated tape**
Used for listed equity securities. Combined ticker tapes of the NYSE and the curb. Network A covers the NYSE-listed securities and is used to identify the originating market. Network B does the same for AMEX-listed securities and also reports on securities listed on regional stock exchanges. See: tape.

**Consolidated tax return**
A tax return combining the reports of affiliated companies, that are at least 80% owned by a parent company.

**Consolidation**
The combining of two or more firms to form an entirely new entity.

**Consolidation loan**
A loan that is used to combine and finance payments on other loans.

**Consortium**
A group of companies that cooperate and share resources in order to achieve a common objective.
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
Credit a firm grants to consumers for the purchase of goods or services. Also called retail credit.

**Consumer Credit Protection Act of 1968**
Federal legislation establishing rules for the disclosure of the terms of a loan to protect borrowers. See: [Truth in lending](#).

**Consumer debenture**
An [investment note](#) issued directly to the public by a financial institution.

**Consumer durables**
Consumer products that are expected to last three years or more, such as an automobile or a home appliance.

**Consumer finance company**
See: [Finance company](#)

**Consumer goods**
Goods not used in production but, bought for personal or household use such as food, clothing, and entertainment.

**Consumer interest**
Interest paid on consumer loans; e.g., interest on credit cards and retail purchases.

**Consumer Price Index**
The CPI, as it is called, measures the prices of consumer goods and services and is a measure of the pace of US inflation. The US Department of Labor publishes the CPI every month.

**Consumption tax**
See: [Value-added tax](#)

**Contagion**
Excess correlation of equity or bond returns. For example, under usual conditions we might observe a certain level of correlation of market returns. A period of contagion would be associated with much higher-than-expected correlation. Some examples are the conjectured contagion in East Asian markets beginning in July 1997 when the Thai currency devalued and the impact across many emerging markets of the Russian default. Contagion is difficult to identify because you need some sort of measure of the expected correlation. It is complicated because correlation's are known to change through time, for example, see Erb, Harvey and Viskanta's article in the 1994 Financial Analysts Journal. In periods of negative returns, correlation’s (and [volatility](#)) are known to increase, so what might appear to be excessive may not be contagion.
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
of the day.

**Continuous random variable**
A random value that can take any fractional value within specified ranges, as contrasted with a discrete variable.

**Contra broker**
The broker on the buy side of a sell order or the sell side of a buy order.

**Contract**
A term of reference describing a unit of trading for a financial or commodity future. Also, the actual bilateral agreement between the buyer and seller of a transaction as defined by an exchange.

**Contract month**
The month in which futures contracts may be satisfied by making or accepting a delivery.

**Contractual Claim**
An amount that by legal agreement must be paid periodically to the buyer of a security; contractual claim may also specify the time at which the principal must be repaid and other details.

**Contractual Intermediary**
Holder of an indirect claim in through a legal agreement that specifies that the individual must make periodic, fixed payments to the intermediary in exchange for the right to receive payments from the intermediary in the future.

**Contractual plan**
A plan in which fixed dollar amounts of mutual fund shares are purchased through periodic investments, usually featuring some sort of additional incentive for the fixed period payments.

**Contramarket stock**
In the context of general equities, stock that tends to go against the trend of the market as a whole, such as a commodities-related stock or one in an industry out of favor with investors in a bull market.

**Contrarian**
An investment style that leads one to buy assets that have performed poorly and sell assets that have performed well. There are two possible reasons this strategy might work. The first is a mean-reversion argument; that is, if the asset has deviated from its usual level, it should eventually return to that usual level. The second reason has to do with overreaction. Investors might have overreacted to bad news sending the asset price lower than it should be.
Contrarian investing
Ignoring market trends by buying securities that the investor considers undervalued and out of favor with other investors.

Contributed capital
See: Paid-in capital

Contribution
Money placed in an individual retirement account (IRA), an employer-sponsored retirement plan, or other retirement plan for a particular tax year. Contributions may be deductible or nondeductible, depending on the type of account.

Contribution margin
The difference between variable revenue and variable cost.

Control
50% of the outstanding votes plus one vote.

Control Limits
The upper and lower limits on the acceptable level of cash that minimizes the sum of the opportunity cost of excessive cash and the cost of marketable security transactions.

Control parameters
In a nonlinear dynamic system, the coefficient of the order parameter; the determinant of the influence of the order parameter on the total system. See: Order Parameter.

Control person
See: Affiliated person

Control-share Acquisition Laws
See Supermajority.

Control stock
The shares owned by the controlling shareholders of a corporation.

Controlled commodities
Commodities regulated by the Commodities Exchange Act of 1936 in order to prevent fraud and manipulation in commodities futures markets.

Controlled disbursement
A service that provides for a single presentation of checks each day (typically in the early part of the day).
**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**
In the context of securities, refers to the exchange of a convertible security such as a bond into stock.

In the context of mutual funds, refers to the free exchange of mutual fund shares from one fund to another in a single family.

**Conversion factors**
Rules set by the Chicago Board of Trade for determining the invoice price of each acceptable deliverable Treasury issue against the Treasury Bond futures contract.

**Conversion feature**
Specification of the right to transform a particular investment to another form of investment, such as switching between mutual funds or converting preferred stock or bonds to common stock.

**Conversion parity**
See: Market conversion price

**Conversion parity price**
Related: Market conversion price

**Conversion parity/value**
Applies mainly to convertible securities. Common stock price at which a convertible bond can become exchangeable for common shares of equal value; value of a convertible bond based solely on the market value of the underlying equity. Par value + conversion ratio. See bond value, investment value, parity.

**Conversion Period**
The time period during which an investor can exchange a convertible security for common stock.

**Conversion premium**
The extent by which the conversion price of a convertible security exceeds the prevailing common stock price at the time the convertible security is issued.

**Conversion price**
Applies mainly to convertible securities. Dollar value at which convertible bonds, debentures, or preferred stock can be converted into common stock, as specified when the convertible is issued.

**Conversion ratio**
Applies mainly to convertible securities. Relationship that determines how many shares of common stock will be received in exchange for each convertible bond or preferred stock when
a conversion takes place. It is determined at the time of issue and is expressed either as a ratio or as a conversion price from which the ratio can be figured by dividing the par value of the convertible by the conversion price.

**Conversion value**
The value of a convertible security if it is converted immediately. Also called parity value.

**Converted put**
See Synthetic Put.

**Convertibility**
The ability to exchange a currency without government restrictions or controls.

**Convertible adjustable preferred stock (Caps)**
The interest rate on caps is adjustable and is pegged to Treasury security rates. They can be exchanged at par value for common stock or cash after the next period’s dividend rates are revealed.

**Convertible arbitrage**
A practice, usually of buying a convertible bond and shorting a percentage of the equivalent underlying common shares, to create a positive cash flow position (with expected returns above the riskless rate) in a static environment and benefits from capital appreciation should the convertible’s premium rise. This form of investing is far from riskless and requires constant monitoring. See: Chinese hedge and setup

**Convertible bond**
General debt obligation of a corporation that can be exchanged for a set number of common shares of the issuing corporation at a prestated conversion price.

**Convertible eurobond**
A eurobond that can be converted into another asset, often through exercise of attached warrants.

**Convertible exchangeable preferred stock**
Convertible preferred stock that may be exchanged, at the issuer’s option, into convertible bonds that have the same conversion features as the convertible preferred stock.

**Convertible 100**
Goldman Sachs index of the 100 convertibles of greatest institutional importance. Weighted by issue size, it measures the performance of its components against that of their underlying common stock and against other broad market indexes as well.

**Convertible preferred stock**
Preferred stock that can be converted into common stock at the option of the holder. See also:
participating convertible preferred stock.

**Convertible price**
The contractually specified price per share at which a convertible security can be converted into shares of common stock.

**Convertible security**
A security that can be converted into common stock at the option of the securityholder; includes convertible bonds and convertible preferred stock.

**Convex**
Curved, as in the shape of the outside of a circle. Usually referring to the price/required yield relationship for option-free bonds.

**Convexity**
Property that a curve is above a straight line connecting two end points. If the curve falls below the straight line, it is called concave.

**Cook the books**
To deliberately falsify the financial statements of a company. This is an illegal practice.

**Cooling-off period**
The period of time between the filing of a preliminary prospectus with the Securities and Exchange Commission and the actual public offering of the securities.

**Cooperative**
An organization owned by its members. Examples are agriculture cooperatives that assist farmers in selling their products more efficiently and apartment buildings owned by the residents who have full control of the property.

**Copenhagen Stock Exchange**
The only securities exchange in Denmark. It features electronic trading of stocks, bonds, futures, and options.

**Core capital**
The capital required of a thrift institution, which must be at least 2% of assets to meet the rules of the Federal Home Loan Bank.

**Core competence**
Primary area of expertise. Narrowly defined fields or tasks at which a company or business excels. Primary areas of specialty.

**Cornering the market**
Purchasing a security or commodity in such volume as to achieve control over its price. An
illegal practice.

**C Corporation**
A corporation that elects to be taxed as a corporation. The C corporation pays federal and state income taxes on earnings. When the earnings are distributed to the shareholders as dividends, this income is subject to another round of taxation (shareholder's income). Essentially, the C corporations' earnings are taxed twice. In contrast, the S corporation's earnings are taxed only once.

**Corporate acquisition**
The acquisition of one firm by another firm.

**Corporate bonds**
Debt obligations issued by corporations.

**Corporate charter**
A legal document creating a corporation.

**Corporate equivalent yield**
A comparison of the after-tax yield of government bonds selling at a discount and corporate bonds selling at par.

**Corporate finance**
One of the three areas of the discipline of finance. It deals with the operation of the firm (both the investment decision and the financing decision) from the firm's point of view.

**Corporate financial management**
The application of financial principles within a corporation to create and maintain value through decision-making and proper resource management.

**Corporate financial planning**
Financial planning conducted by a firm that encompasses preparation of both long-and short-term financial plans.

**Corporate financing committee**
A committee of the NASD that reviews underwriters' SEC-required documents to ensure that proposed markups are fair and in the public interest.

**Corporate income fund (CIF)**
A unit investment trust featuring a fixed portfolio of high-grade securities and other investments, usually with monthly distribution of income.

**Corporate processing float**
The time that elapses between receipt of payment from a customer and the deposit of
the customer's check in the firm's bank account; the time required to process customer payments.

**Corporate repurchase**
Active buying by a corporation of its own stock in the marketplace. Reasons for repurchase include putting idle cash to use, raising EPS, creating support for a stock price, increasing internal control (shark repellent), or stock for ESOP or pension plans. Repurchase is subject to rules, such as that buying must be on a zero minus or a minus tick, after the opening and before 3:30 p.m.

**Corporate tax view**
The argument that double (corporate and individual) taxation of equity returns makes debt a cheaper financing method.

**Corporate taxable equivalent**
Rate of return required on a par bond to produce the same after-tax yield to maturity that the quoted premium or discount bond would generate.

**Corporate Trust**
The function of servicing and maintaining records for debt securities issued by a corporation.

**Corporation**
A legal entity that is separate and distinct from its owners. A corporation is allowed to own assets, incur liabilities, and sell securities, among other things.

**Corpus**
See: Principal

**Correction**
Reverse movement, usually downward, in the price of an individual stock, bond, commodity, or index. If prices have been rising on the market as a whole, and then fall dramatically, this is know as a correction within an upward trend. Antithesis of a technical rally. See: Dip, break.

**Correlation**
Statistical measure of the degree to which the movements of two variables (stock/option/convertible prices or returns) are related. See: Correlation coefficient.

**Correlation coefficient**
A standardized statistical measure of the dependence of two random variables, defined as the covariance divided by the standard deviations of two variables.

**Correlation Dimension**
An estimate of the Fractal Dimension which measures the probability that two points chosen at random will be within a certain distance of each other, and examines how this probability changes as the distance is increased. White noise will fill its space since its components are uncorrelated, and its correlation dimension is equal to whatever dimension it is placed in. A dependent system will be held together by its correlations and retain its dimension whatever embedding dimension it is placed in, as long as it is greater than its fractal dimension.

**Correlation Integral**
The probability that two points are within a certain distance from one another. Used in the calculation of the correlation dimension.

**Correspondent**
A financial organization that performs services (acts as an intermediary) in a market for another organization that does not have access to that market.

**Correspondent bank**
Bank that accepts deposits of, and performs services for, another bank (called a respondent bank); in most cases, the two banks are in different cities.

**Cosigner**
A term referring to a person, other than the principal borrower, who signs for a loan. The cosigner(s) assumes equal liability for the loan.

**Cost**
The opposite of revenue. An expense that reflects the price of purchasing goods, services and financial instruments. A cash cost means that cash is given up today to the purchase.

**Cost accounting**
A branch of accounting that provides information to help the management of a firm evaluate production costs and efficiency.

**Cost and Freight (CFR)**
Seller is responsible for the payment of freight to carry goods to a named destination, as agreed with the buyer. This should be used with ocean shipments only, as the point where risk and responsibility pass from seller to buyer is the rail of the carrying vessel.

**Cost basis**
The original price of an asset, used to determine capital gains.

**Cost-benefit ratio**
The net present value of an investment divided by the investment's initial cost. Also called the profitability index.
Cost of capital
The required return for a capital budgeting project.

Cost of carry
Out-of-pocket costs incurred while an investor has an investment position. Examples include interest on long positions in margin account, dividend lost on short margin positions, and incidental expenses. Related: Net financing cost.

Cost-of-carry market
Applies to derivative products. Futures contracts trade in a "cost-of-carry market" where the underlying commodity can be stored, insured, and converted into the future easily and inexpensively. Arbitrageurs, because of the ease of switching from the spot commodity to futures, will keep these markets in line with prevailing interest rates.

Cost company arrangement
Arrangement whereby the shareholders of a project receive output free of charge but agree to pay all operating and financing charges of the project.

Cost of equity
The required rate of return for an investment of 100% equity.

Cost of funds
Interest rate associated with borrowing money.

Cost of goods sold
The total cost of buying raw materials, and paying for all the factors that go into producing finished goods.

Cost of lease financing
A lease's internal rate of return.

Cost of limited partner capital
The discount rate that equates the after-tax inflows with outflows for capital raised from limited partners.

Cost Insurance and Freight (CIF)
Seller is responsible for the payment of freight to carry goods to a named destination, as agreed with the buyer. The seller is also responsible for providing cargo insurance at minimum coverage against the buyer's risk of loss or damage to the goods during transport. This term should be used with ocean shipments only, as the point where risk and responsibility pass from seller to buyer is the rail of the carrying vessel.

"Cost me"
Refers to over-the-counter trading. "The price I must pay to obtain the securities you wish to buy is [$]." Usually, a standard markup (1/8) is then applied for resale to this buyer. Antithesis of can get.

**Cost-plus contract**
A contract in which the selling price is based on the total cost of production plus a fixed percentage or fixed amount.

**Cost-push inflation**
Inflation caused by rising prices, usually from increased raw material or labor costs that push up the costs of production. Related: Demand-pull inflation.

**Cost records**
The records maintained by an investor of the prices at which securities transactions are made, so that capital gains can be computed.

**Cost Recovery Period**
The number of years it takes to fully depreciate a capital asset. This time period is based on classification of the depreciable life of an asset.

**Council of Economic Advisers**
A group of economists appointed by the President of the United States to provide economic counsel and help prepare the president's budget presentation to Congress.

**Countercyclical stocks**
Stocks whose price tends to rise when the economy is in recession or the market is bearish, and vice versa.

**Counter trade**
The exchange of goods for other goods rather than for cash; barter.

**Counterpart items**
In the balance of payments, counterpart items are analogous to unrequited transfers in the current account. They arise through the double-entry system in balance of payments accounting and refer to adjustments in reserves owing to monetization or demonetization of gold, allocation or cancellation of SDRs, and revaluation of the various components of total reserves.

**Counterparties**
The parties to an interest rate swap.

**Counterparty**
Party on the other side of a trade or transaction.
Counterparty risk
The risk that the other party to an agreement will default. In an options contract, the risk to the option buyer that the option writer will not buy or sell the underlying as agreed.

Counterpurchase
Exchange of goods between two parties under two distinct contracts expressed in monetary terms.

Country allocations
The percentages of a fund’s net assets distributed to securities of various countries. These percentages serve as an indicator of a fund’s diversification and its vulnerability to fluctuations in foreign financial markets or currency exchange rates.

Country beta
Covariance of a national economy’s rate of return and the rate of return of the world economy divided by the variance of the world economy.

Country diversification
Investment of a global or international portfolio's assets in securities of various countries.

Country economic risk
Developments in a national economy that can affect the outcome of an international financial transaction.

Country financial risk
Centers around the ability of a national economy to generate enough foreign exchange to meet payments of interest and principal on its foreign debt.

Country risk
General level of political, financial, and economic uncertainty in a country which impacts the value of the country's bonds and equities.

Credit quality
A measure of a bond issuer's ability to repay interest and principal in a timely manner.

Country selection
A type of active international management that measures the contribution to performance attributable to investing in the better-performing stock markets of the world.

Coupon
The periodic interest payment made to the bondholders during the life of the bond.

Coupon bond
A bond featuring coupons that must be presented to the issuer in order to receive interest
payments.

**Coupon-equivalent rate**
See: Equivalent bond yield

**Coupon equivalent yield**
True interest cost expressed on the basis of a 365-day year.

**Coupon pass**
Canvassing by the desk of primary dealers to determine the inventory and maturities of their Treasury securities. The desk then decides whether to buy or sell certain issues (coupons) in order to add or withdraw reserves.

**Coupon payments**
A bond's interest payments.

**Coupon rate**
In bonds, notes, or other fixed income securities, the stated percentage rate of interest, usually paid twice a year.

**Covariance**
A statistical measure of the degree to which random variables move together. A positive covariance implies that one variable is above (below) its mean value when the other variable is above (below) its mean value.

**Covenants**
Provisions in a bond indenture or preferred stock agreement that require the bond or preferred stock issuer to take certain specified actions (affirmative covenants) or to refrain from taking certain specified actions (negative covenants).

**Cover**
The purchase of a contract to offset a previously established short position.

**Covered**
A written option is considered to be covered if the writer also has an opposing market position on a share-for-share basis in the underlying security. That is, a short call is covered if the underlying stock is owned, and a short put is covered (for margin purposes) if the underlying stock is also short in the account. In addition, a short call is covered if the account is also long another call on the same security, with a striking price equal to or less than the striking price of the short call. A short put is covered if there is also a long put in the account with a striking price equal to or greater than the striking price of the short put.

**Covered Straddle**
An option strategy in which one call and one put with the same strike price and expiration are written against 100 shares of the underlying stock. In actually, this is not a "covered" strategy because assignment on the short put would require purchase of stock on margin. This method is also know as a covered combination.

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

**Coverage**  
See: Fixed-charge coverage

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

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

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

**Covered or hedge option strategies**
Strategies that involve a position in an option as well as a position in the underlying stock, designed so that one position will help offset any unfavorable price movement in the other, including covered call writing and protective put buying. Related: Naked strategies

**Covered option**
Option position that is offset by an equal and opposite position in the underlying security. Antithesis of naked option.

**Covered position**
Use of an option in a trading strategy in the underlying asset is already owned.

**Covered put**
A put option position in which the option writer also is short the corresponding stock or has deposited, in a cash account, cash or cash equivalents equal to the exercise of the option. This limits the option writer’s risk because money or stock is already set aside. In the event that the holder of the put option decides to exercise the option, the writer’s risk is more limited than it would be on an uncovered or naked put option.

**Covered writer**
An investor who writes options only on stock that he or she owns, so that option positions may be collected.

**Covering**
Using forward currency contracts to predetermine the domestic currency amount of an expected future foreign receipt or payment.

**CPI**
A measure of inflation. See: Consumer Price Index.

**Cramdown**
The ability of the bankruptcy court to confirm a plan of reorganization over the objections of some classes of creditors.

**Cram-down deal**
A merger in which stockholders are forced to accept undesirable terms, such as junk bonds instead of cash or equity, due to the absence of any better alternatives.

**Crash**
Dramatic loss in market value. The last great crash was in 1929. Some refer to October 1987 as a crash but the market return was positive.
Crawling peg
An automatic system for revising the exchange rate. It involves establishing a par value around which the rate can vary up to a given percent. The par value is revised regularly according to a formula determined by the authorities.

Credible signal
A signal that provides accurate information; a signal that can distinguish among senders.

Credit
Money loaned.

Credit analysis
Evaluating information on companies and bond issues in order to estimate the ability of the issuer to live up to its future contractual obligations. Related: Default risk.

Credit balance
The surplus in a cash account with a broker after purchases have been paid for, plus the extra cash from the sale of securities.

Credit bureau
An agency that researches the credit history of consumers so that creditors can make decisions about granting of loans.

Credit card
Any card, plate or coupon book that may be used repeatedly to borrow money or buy goods and services on credit.

Credit history
A record of how a person has borrowed and repaid debt.

Credit enhancement
Purchase of the financial guarantee of a large insurance company to raise funds.

Credit insurance
Insurance against abnormal losses due to unpaid accounts receivable.

Credit linked security
A note whose cash flow depends upon a credit event or credit measure of a referenced entity or asset such as default, credit spread, or rating change. The manager would purchase such a note to hedge against possible down grades, or loan defaults that would guarantee payment into the portfolio of the manager even if moneys on referenced assets are reduced.

Credit period
The length of time for which a firm's customer is granted credit.

**Credit Policy Delay**
The period between the sale of goods for a credit and the payment for those goods. This lag is determined largely by the selling firm's credit policy.

**Credit Rating Agencies**
Firms that compile information on and issue public credit ratings for a large number of companies.

**Credit Standards**
The guidelines a company follows to determine whether a credit applicant is creditworthy.

**Credit Terms**
The conditions under which credit will be extended to a customer. The components of credit terms are: cash discount, credit period, net period.

**Covered position**
Use of an option in a trading strategy in the underlying asset is already owned.

**Credit quality**
A measure of the likelihood of default. Rating agencies assign letter designations such as AAA, AA, and so forth.

**Credit rating**
An evaluation of an individual's or company's ability to repay obligations or its likelihood of not defaulting. See: Creditworthiness.

**Credit risk**
The risk that an issuer of debt securities or a borrower may default on its obligations, or that the payment may not be made on a negotiable instrument. Related: Default risk.

**Credit scoring**
A statistical technique that combines several financial characteristics to form a single score to represent a customer's creditworthiness.

**Credit spread**
Applies to derivative products. Difference in the value of two options, when the value of the one sold exceeds the value of the one bought. One sells a "credit spread." Antithesis of a debit spread. Related: Quality spread.

**Credit union**
A not-for-profit institution that is operated as a cooperative and offers financial services such as low-interest loans, to its members.
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.
**Cumulative dividend feature**
A requirement that any missed preferred or preference stock dividends be paid in full before any common dividend payment is made.

**Cumulative preferred stock**
Preferred stock whose dividends accrue, should the issuer not make timely dividend payments. Related: Non-cumulative preferred stock.

**Cumulative probability distribution**
A function that shows the probability that the random variable will attain a value less than or equal to each value that the random variable can take on.

**Cumulative total return**
The actual performance of a fund over a particular period.

**Cumulative Translation Adjustment (CTA) account**
An entry in a translated balance sheet in which gains and/or losses from translation have been accumulated over a period of years. The C.T.A. account is required under the FASB No. 52 rule.

**Cumulative voting**
A system of voting for directors of a corporation in which shareholder's total number of votes is equal to the number of shares held times the number of candidates.

**The Curb**
Used for listed equity securities. American Stock Exchange (AMEX).

**Currency**
Money.

**Currency appreciation**
An increase in the value of one currency relative to another currency. Appreciation occurs when, because of a change in exchange rates, a unit of one currency buys more units of another currency.

**Currency arbitrage**
Taking advantage of divergences in exchange rates in different money markets by buying a currency in one market and selling it in another market.

**Currency basket**
The value of a portfolio of specific amounts of individual currencies, used as the basis for setting the market value of another currency. It is also referred to as a currency cocktail.
Currency Board
Entity charged with maintaining the value of a local currency with respect to some other specified currency.

Currency call option
Contract that gives the holder the right to purchase a specific currency at a specified price (exchange rate) within a specific period of time.

Currency depreciation
A decline in the value of one currency relative to another currency. Depreciation occurs when, because of a change in exchange rates, a unit of one currency buys fewer units of another currency.

Currency devaluation
A deliberate downward adjustment in the official exchange rates established, or pegged, by a government against a specified standard, such as another currency or gold.

Currency diversification
Using more than one currency as an investing or financing strategy. Exposure to a diversified currency portfolio typically entails less exchange rate risk than if all the portfolio exposure were in a single foreign currency.

Currency Exchange Risk
Uncertainty about the rate at which revenues or costs denominated in one currency can be converted into another currency.

Currency futures contract
Contract specifying a standard volume of a particular currency to be exchanged on a specific settlement date.

Currency future
A financial future contract for the delivery of a specified foreign currency.

Currency hedge
Applies mainly to international equities. Hedging technique to guard against foreign exchange fluctuations (i.e., short Euro 100 mm when holding a long position of Euro 100 mm in stocks).

Currency in circulation
Paper money, coins, and demand deposits that constitute all the money circulating in the economy.

Currency no longer issued
Old and new series gold and silver certificates, Federal Reserve notes, national bank notes,
and 1890 Series Treasury notes.

**Currency put option**
*Contract* that gives the holder the right to sell a particular currency at a specified price (exchange rate) within a specified period of time.

**Currency option**
An *option* to buy or sell a *foreign currency*.

**Currency overvaluation**
Applies mainly to international equities: (1) consideration that a currency is overvalued if private demand for the currency at the going *exchange rate* is less than total private supply (i.e., central banks are buying up the difference, supporting the value of the currency through *foreign exchange* intervention); (2) currency value exceeding purchasing power *parity*.

**Currency revaluation**
A deliberate upward adjustment in the official exchange rate established, or pegged, by government against a specified standard, such as another currency or gold.

**Currency risk**
Related: *Exchange rate risk*

**Currency selection**
*Asset* allocation in which the investor chooses among investments denominated in different *currencies*.

**Currency swap**
An agreement to *swap* a series of specified payment obligations denominated in one currency for a series of specified payment obligations denominated in a different currency.

**Current account**
Net flow of goods, services, and unilateral transactions (gifts) between countries.

**Current account balance**
The difference between the nation's total exports of goods, services and transfer and its total imports of them. Current account balance calculations exclude transactions in financial assets and liabilities.

**Current assets**
Value of *cash, accounts receivable, inventories, marketable securities* and other *assets* that could be converted to cash in less than 1 year.

**Current coupon**
A bond selling at or close to par, that is, a bond with a coupon close to the yields currently offered on new bonds of a similar maturity and credit risk.

**Current Coupon Bond**
Bonds on which the coupon is set approximately equal to the bonds’ yield to maturity at the time of their issuance.

**Current-coupon issues**
Related: Benchmark issues

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

**Current income bonds**
Bonds paying semiannual interest to holders. Interest is not included in the accrued discount.

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

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

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

**Current maturity**
Current time to maturity on an outstanding debt instrument.

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

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

**Current rate method**
The translation of all foreign currency balance sheet and income statement items at the current exchange rate.
**Current ratio**
Indicator of short-term debt-paying ability. Determined by dividing current assets by current liabilities. The higher the ratio, the more liquid the company.

**Currency risk sharing**
An agreement by the parties to a transaction to share the currency risk associated with the transaction. The arrangement involves a customized hedge contract embedded in the underlying transaction.

**Current yield**
For bonds or notes, the coupon rate divided by the market price of the bond.

**Cushion**
The minimum period between the time a bond is issued and the time it is called.

**Cushion bonds**
High-coupon bonds that sell at only at a moderate premium because they are callable at a price below that at which a comparable noncallable bond would sell. Cushion bonds offer considerable downside protection in a falling market.

**Cushion theory**
The theory that a stock with many short positions taken in it will rise, because these positions must be covered by the stock.

**CUSIP number**
Unique number given to a security to distinguish it from other stocks and registered bonds. See: Committee on Uniform Securities Identification Procedures.

**Custodial fees**
Fees charged by an institution that holds securities in safekeeping for an investor.

**Custodian**
Either (1) a bank, agent, trust company, or other organization responsible for safeguarding financial assets, or (2) the individual who oversees the mutual fund assets of a minor's custodial account.

**Custodian bank**
Applies mainly to international equities. Bank or other financial institution that keeps custody of stock certificates and other assets of a mutual fund, individual, or corporate client. See: Depository Trust Company (DTC)

**Customary payout ratios**
A range of payout ratios that is typical according to an analysis of comparable firms.
"Customer picking prices"
Customer is firm on price and has set the price at which to transact.

Customer's loan consent
Agreement signed by a margin customer that allows a broker to borrow margined securities up to the level of the customer's debit balance to help cover other customers' short positions.

Customers' net debit balance
The total amount of credit given by NYSE member firms to finance customers purchasing securities.

Customized benchmarks
A benchmark that is designed to meet a client's requirements and long-term objectives.

Customs Broker
An individual or firm licensed by customs authorities to enter and clear imported goods through customs. The broker represents the importer in dealings with the customs authorities.

Customs union
An agreement by two or more countries to erect a common external tariff and to abolish restrictions on trade among members.

Cut Off Date
The date prescribed in the unclaimed property law in most states for determining the items of property that must be turned over to the state. See: Escheat.

Cutoff point
The lowest rate of return acceptable on investments.

Cycles
A full orbital period.

Cyclical stock
Stock that tends to rise quickly when the economy turns up and fall quickly when the economy turns down. Examples are housing, automobiles, and paper.

Cyclical unemployment
Unemployment caused by a low level of aggregate demand associated with recession in the business cycle.

D
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.
**DM**
The two-character ISO 3166 country code for DOMINICA.

**DNR Order**
See: Do Not Reduce Order

**DO**
The two-character ISO 3166 country code for DOMINICAN REPUBLIC.

**DOP**
The ISO 4217 currency code for Dominican Republic Peso.

**DOT**
See: Designated Order Turnaround System

**DOTM**
See: Deep out of the money

**D/P**
Abbreviation for Documents Against Payment.

**DRP**
See: Dividend Reinvestment Plan

**DTC**
See: Depository Transfer Check

**DTC**
See: Depository Trust Company

**DTCC**
See: Depository Trust and Clearing Corporation

**DZ**
The two-character ISO 3166 country code for ALGERIA.

**DZD**
The ISO 4217 currency code for Algerian Dinar.

**Daily price limit**
The level at which many commodity, futures, and options markets are allowed to rise or fall in a day. Exchanges usually impose a daily price limit on each contract.
Daisy chain
Manipulation of the market by traders to create the illusion of active volume to attract investors.

Date of issue
Used in the context of bonds to refer to the date on which a bond is issued and when interest accrues to the bondholder. Used in the context of stocks to refer to the date trading begins on a new stock issued to the public.

Date of payment
Date dividend checks are mailed.

Date of record
Date on which holders of record in a firm's stock ledger are designated as the recipients of either dividends or stock rights.

Dated date
The date one uses to calculate accrued interest on various debt instruments, specifically bonds.

Dates convention
Treating cash flows as being received on exact dates-date 0, date 1, and so forth-as opposed to the end-of-year convention.

Dating
Credit extension beyond normal terms of a credit supplier.

Dawn raid
A term of British origin used to describe the purchase of all available shares of a target company at the market's open by a raider. A dawn raid is a surprise technique that allows the raider to gain a substantial share of the target company before the target company knows what is happening.

Day around order
A day order that supersedes (cancels and replaces) the previous order by altering its size or price limit.

Day of deposit to day of withdrawal account
A bank account that pays interest according to the number of days that the money is actually on deposit.

Day loan
A loan from a bank to a broker prior to the delivery of securities. Upon the delivery of the securities, a day loan becomes a regular broker call loan for which securities serve as collateral.
Day order
In the context of general equities, request from a customer to either buy or sell stock, that, if not canceled or executed the day it is placed, expires automatically. All orders are day orders unless otherwise specified. Traders often make calls before the opening to check for renewals.

Day trade
Also known as a "daylight trade." The purchase and sale or the short sale and cover of the same security in a margin account on the same day.

Day trading
Establishing and liquidating the same position or positions within one day's trading.

Days in receivables
Average collection period.

Days' sales in inventory ratio
The average number of days' worth of sales that is held in inventory.

Days' sales outstanding
Average collection period.

De facto
Existing in actual fact although not by official recognition.

Dead cat bounce
A small upmove in a bear market.

Deal flow
In investment banking, the rate at which new deals are referred to a brokerage firm.

Deal stock
Stock subject to merger or acquisition, either publicly announced or rumored.

Dealing desk (Trading desk)
Personnel at an international bank who trade spot and forward foreign exchange.

Dealer
An entity that stands ready and willing to buy a security for its own account (at its bid price) or sell from its own account (at its ask price). Individual or firm acting as a principal in a securities transaction. Principals are market makers in securities, and thus trade for their own account and risk. Antithesis of broker. See: Agency.

Dealer loan
Overnight, **collateralized loan** from a **money market** bank made to a **dealer** financing his position by borrowing.

**Dealer market**
Where **trader's** specializing in particular **commodities** buy and sell **assets** for their own accounts.

**Dealer options**
**Over-the-counter options**, such as those offered by government and **mortgage-backed securities dealers**.

**Dealer's spread**
See: markdown; **underwriting spread**.

**Dear money**
**British term for** **tight money**.

**Death-backed bonds**
**Bonds** backed by loans of a **policyholder** against a **life insurance policy**. The policyholder will repay the loans while alive or with the benefits from the **insurance policy** upon death.

**Death play**
A stock strategy that buys **stock** on the belief that a key executive will die, the company will be dissolved, and **shares** will command a higher price at their **private market value**.

**Death Valley Curve**
**In venture capital**, refers to the period before a new company starts generating revenues, when it is difficult for the company to raise money.

**Debenture**
Any **debt obligation** backed strictly by the borrower's integrity, e.g. an unsecured bond. A debenture is documented in an **indenture**.

**Debenture bond**
An unsecured **bond** whose holder has the claim of a general **creditor** on all **assets** of the **issuer** not pledged specifically to secure other **debt**. Compare **subordinated debenture bond** and **collateral trust bonds**.

**Debenture stock**
A type of stock that makes fixed payments at scheduled intervals of time. Debenture stock differs from a **debenture** in that it has the status of **equity**, not **debt**, in **liquidation**.

**Debit**
An expense, or money paid out from an account. A debit transaction is one which the net
cost is greater than the net sale proceeds. See also Credit.

**Debit balance**
The amount that is owed to a broker by a margin customer for loans the customer uses to buy securities.

**Debit card**
A card that resembles a credit card but which debits a transaction account (checking account) with the transfers occurring contemporaneously with the customer’s purchases. A debit card may be machine readable, allowing for the activation of an automated teller machine or other automated payments equipment.

**Debit spread**
Applies to derivative products. Difference in the value of two *options*, when the value of the option bought exceeds the value of the one sold. One buys a "debit spread." Antithesis of a *credit spread*.

**Debt**
Money borrowed.

**Debt bomb**
A default on debt and obligations by a major financial institution that disrupts the stability of the economic system.

**Debt capacity**
Ability to borrow. The amount a firm can borrow up to the point where the firm value no longer increases.

**Debt ceiling**
See: Debt limit

**Debt displacement**
The amount of borrowing that leasing displaces. Firms that do a lot of leasing are curtailed in their debt capacity.

**Debt/equity ratio**
Indicator of financial leverage. Compares assets provided by creditors to assets provided by shareholders. Determined by dividing long-term debt by common stockholder equity.

**Debt-for-equity swap**
A swap agreement to exchange equity/returns for debt returns or the converse over a prearranged length of time.

**Debt instrument**
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).
**Debt service coverage**
The ratio of cash flow available to the borrower to the annual interest and principal payments on a loan or other debt.

**Debt-service coverage ratio**
Earnings before interest and income taxes, divided by interest expense plus the quantity of principal repayments divided by one minus the tax rate.

**Debt service parity approach**
Payment alternatives that provide the firm with the exact same schedule of after-tax debt payments (including both interest and principal).

**Debt swap**
A set of transactions in which a firm buys a country's dollar bank debt at a discount and swaps this debt with the central bank for local currency that it can use to acquire local equity. Also called a debt-equity swap.

**Debtholder**
See: Bondholder

**Debtor**
Borrower of money.

**Debtor in possession**
A firm that continues to operate under the Chapter 11 bankruptcy process.

**Debtor-in-possession financing**
New debt obtained by a firm during the Chapter 11 bankruptcy process, Federal Bankruptcy Rule 4001 (c)(1). This financing is unique because it is secured, that is, it has priority over existing debt, equity and other claims.

**Decile rank**
Performance over time, rated on a scale of 1-10. 1 indicates that a mutual fund's return is in the top 10% of funds being compared; while 3 means the return is in the top 30%.

**Decimal trading**
The quotation and trading of stock or bond prices in decimals, as opposed to the quotation of in fractions.

**Decimalization**
The quotation and trading of stock or bond prices in decimals, as opposed to fractions such as eighths.

**Decision Break-Point**
A type of sensitivity analysis that indicates the value at which a key variable will result in a negative NPV for an investment project.

**Decision tree**
Schematic way of representing alternative sequential decisions and the possible outcomes from these decisions.

**Declaration date**
The date on which a firm's directors meet and announce the date and amount of the next dividend.

**Declare**
The Board of Directors motion to authorize dividend payments.

**Dedicated capital**
Total par value (number of shares issued, multiplied by the par value of each share). Also called dedicated value.

**Dedicating a portfolio**
Related: Cash flow matching

**Dedication strategy**
Refers to multiperiod cash-flow matching.

**Deductible contribution**
Amount paid into an IRA, an employer-sponsored retirement plan, or other type of retirement plan for a particular tax year that is a deduction from income for tax purposes.

**Deduction**
An expense that is allowable as a reduction of gross taxable income by the IRS e.g., charity donations.

**Deductive reasoning**
Using known fact to draw a conclusion about a specific situation.

**Deed of trust**
See: Indenture

**Deep-discount bond**
A bond issued with a very low coupon or no coupon that sell at a price far below par value. A bond that has no coupon is called a zero-coupon bond.

**Deep in/out of the money**
A call option with an exercise price substantially below the underlying stock's market price.
(deep in the money) or substantially above the market price (deep out of the money). Also put option with an exercise price substantially above the underlying stock's market price (deep in the money) or substantially below the underlying stock's market price (deep out of the money). Often substantially below is defined as more than one strike price below (for calls)/above (for puts) the current value of the underlying security.

**Default**
Failure to make timely payment of interest or principal on a debt security or to otherwise comply with the provisions of a bond indenture.

**Default premium**
A differential in promised yield that compensates the investor for the risk inherent in purchasing a corporate bond that entails some risk of default.

**Default risk**
The risk that an issuer of a bond may be unable to make timely principal and interest payments. Also referred to as credit risk (as gauged by commercial rating companies).

**Defeasance**
The setting aside by a borrower of cash or bonds sufficient to service the borrower's debt. Both the borrower's debt and the offsetting cash or bonds are removed from the balance sheet. In securities trading, where a clearing house becomes counterparty to each side of a trade, after the trade has been agreed. This is necessary to facilitate netting, and reduce counterparty risk exposure. The term has become popular recently, because of the the growth of central counterparty clearing services in European cash equities markets.

**Defensive securities**
Low-risk stocks or bonds that will provide a predictable and safe return on an investor's money.

**Deferred account**
A type of account that delays taxes on that account until some later date.

**Deferred annuities**
Tax-advantaged life insurance products. Deferred annuities offer deferral of taxes with the option of withdrawing one's funds in the form of life annuity.

**Deferred call**
A provision that prohibits the company from calling the bond before a certain date. During this period the bond is said to be call protected.

**Deferred charge**
An expenditure treated as an asset that carries forward until it becomes pertinent to the
business at hand, e.g., advance rent payment.

**Deferred compensation**
An amount that has been earned but is not actually paid until a later date, typically through a payment plan, pension, or stock option plan.

**Deferred equity**
A common term for convertible bonds, which recognizes their equity component and the expectation that the bond will ultimately be converted into shares of common stock.

**Deferred futures**
The most distant months of a futures contract.

**Deferred interest bond**
A bond that pays interest at a later date, usually in one lump sum, effectively reinvesting interest earned over the life of the bond. See: Zero coupon bond.

**Deferred nominal life Annuity**
A monthly fixed-dollar payment beginning at retirement age. It is nominal because the payment is fixed in a dollar amount at any particular time, up to and including retirement.

**Deferred payment annuity**
An annuity that stipulates payments be made to the annuitant at a later date, such as when the annuitant reaches a certain age.

**Deferred taxes**
A non-cash expense that provides a source of free cash flow. Amount allocated during the period to cover tax liabilities that have not yet been paid.

**Deficiency letter**
Notification from the SEC to a prospective issuer of securities that revisions or additions need to be made to the preliminary prospectus.

**Deficit**
An excess of liabilities over assets, of losses over profits, or of expenditure over income.

**Deficit spending**
When government spending overwhelms government revenue resulting in government borrowing.

**Defined asset fund**
A unit investment trust consisting of a fixed portfolio of securities, including blue chips, REITs, or high-yielding stocks on a major exchange such as the NYSE or FTSE.
**Defined benefit plan**
A pension plan obliging the sponsor to make specified dollar payments to qualifying employees. The pension obligations are effectively the debt obligation of the plan sponsor. Related: Defined contribution plan

**Defined contribution plan**
A pension plan whose sponsor is responsible only for making specified contributions into the plan on behalf of qualifying participants. Related: Defined benefit plan

**Deflation**
Decline in the prices of goods and services. Antithesis of inflation.

**Deflator**
A statistical factor used to convert current dollar purchasing power into inflation-adjusted purchasing power. Enabling the comparison of prices while accounting for inflation in two different time periods.

**Delayed issuance pool**
Refers to mortgage backed securities (MBS) that at the time of issuance were collateralized by seasoned loans originated prior to the MBS pool issue date.

**Delayed opening**
Postponement of the start of trading in a stock until correction of a gross imbalance in buy and sell orders. Such an imbalance is likely to follow on the heels of a significant event such as a takeover offer. See: Suspended trading.

**Delayed settlement/delivery**
In the context of general equities, transaction in which a contract is settled in excess of five full business days. Seller's option. See: Dividend play, settlement.

**Delinquency**
Failure to make a payment on a debt or obligation by the specified due date.

**Delisting**
Removal of a company's security from listing on an exchange because the firm has not abided by specific regulations.

**Deliver**
The sale of a futures or forward contract may require the seller to deliver the commodity.

**Deliverable bills**
The Treasury bills that fulfill a set of guidelines set forth by the exchange on which the bills are traded.
**Deliverable instrument**
The asset in a forward contract that will be delivered in the future at an agreed-upon price.

**Delivered at Frontier (DAF)**
Seller must supply the goods at his or her own risk and expense delivered to a named place (usually a border location) by a specified time. The buyer is responsible for the importation. This is normally used with rail, truck, or multi-modal shipments.

**Delivered Duty Paid (DDP)**
Seller must supply the goods at his or her own risk and expense to a named place in the country of importation. The seller is responsible for importation, payment of duty, and on carriage to the location agreed upon with the buyer.

**Delivered Duty Unpaid (DDU)**
Seller fulfills the contract obligations when the goods have arrived at a named place in the importing country. The seller bears all the costs and risk except for import duties and other customs clearance costs.

**Delivered Ex Ship (DES)**
Seller fulfills the contract obligations when the goods have been made available to the buyer on board a ship at the named port of destination. The seller must bear all costs and risks associated in bringing the goods to the named port of destination. The buyer is responsible for all costs necessary to unload the goods and clear them through customs. Since unloading costs are included the ocean freight charged by most ship lines. The DES is most often used for charter shipments.

**Delivered Ex Quay (DEQ)**
seller fulfills the contract obligations to deliver when the goods are made available to the buyer at the wharf of the destination port. A DEQ can further specify "Duty Paid" or "Duty Unpaid." If "Duty Paid" is specified, the seller is responsible for all risks and costs, including duty, to the wharf of the destination port. If "Duty Unpaid" is specified, the buyer is to clear the goods and pay duty. Since unloading costs are included in the ocean freight charged by most ship lines. This is most often used for charter shipments.

**Delivery**
The tender and receipt of an actual commodity or financial instrument in settlement of a futures contract.

**Delivery date**
Date by which a seller must fulfill the obligations of a forward or futures contract.

**Delivery notice**
The written notice given by the seller of its intention to make delivery against an open, short futures position on a particular date. Related: Notice day.
**Delivery options**
The options available to the seller of an interest rate futures contract, including the quality option, the timing option, and the wild card option. Delivery options mean that the buyer is uncertain of which Treasury bond will be delivered or when it will be delivered.

**Delivery points**
Locations designated by futures exchanges at which the financial instrument or commodity covered by a futures contract may be delivered in fulfillment of such a contract.

**Delivery price**
The price fixed by the clearinghouse at which deliveries on futures are invoiced; also the price at which the futures contract is settled when deliveries are made.

**Delivery versus payment**
A transaction in which the buyer’s payment for securities is due at the time of delivery (usually to a bank acting as agent for the buyer) upon receipt of the securities. The payment may be made by bank wire, check, or direct credit to an account.

**Delta**
The ratio of the change in price of a call option to the change in price of the underlying stock. Also called the hedge ratio. Applies to derivative products. Measure of the relationship between an option price and the underlying futures contract or stock price. For a call option, a delta of 0.50 means a half-point rise in premium for every dollar that the stock goes up. As options near expiration, in-the-money call option contracts approach a delta of 1.0, while in the money put options approach a delta of -1. See: hedge ratio, neutral hedge.

**Delta cross-hedge**
A futures hedge that has both maturity and currency mismatches with an underlying exposure.

**Delta hedge**
A dynamic hedging strategy using options that calls for constant adjustment of the number of options used, as a function of the delta of the option.

**Delta neutral**
Describes value of a portfolio not affected by changes in the value of the asset on which the options are written.

**Delta Spread**
A ratio spread that is established as a neutral position by utilizing the deltas of the options involved. The neutral ratio is determined by dividing the delta of the purchased option by the delta of the written option. See also Ratio Spread and Delta.
Demand deposits
Checking accounts that pay no interest and from which funds can be withdrawn upon demand.

Demand line of credit
A bank line of credit that enables a customer to borrow on a daily or on-demand basis.

Demand loan
A loan which can be called by the lender at any time and carries no set maturity date.

Demand master notes
Short-term securities that are repayable immediately upon the holder's demand.

Demand-pull inflation
A theory of inflation or price increases resulting from so-called excess demand. Related: Cost-push inflation.

Demand shock
An event that affects the demand for goods and services in an economy.

Denomination
Corresponds to the face value of currency units, coins, and securities.

Dependent
Acceptance of a capital budgeting project contingent on the acceptance of another project.

Deposit insurance
See: FDIC: Federal Deposit Insurance Corporation

Depositary
An agent appointed for a Tender or Exchange Offer who accepts certificates from shareholders, processes them and assures that the appropriate cash or new securities are properly remitted to the tendering party.

Depository institution
A financial institution that obtains its funds mainly through deposits from the public. This includes commercial banks, savings and loan associations, savings banks and credit unions. Although historically they have broadened their powers in recent years. For example, NOW accounts, credit union share drafts and other services similar to checking accounts may be offered by thrift institutions.

Depository Institutions Deregulation and Monetary Control Act
The 1980 federal legislation that ended the regulation of the banking industry.
Depository preferred
Device enabling an issuer to circumvent an arbitrary corporate limit on the number of preferred shares issuable. Applies mainly to convertible securities.

Depository receipt
See: ADR American Depository Receipt

Depository transfer check (DTC)
Check made out directly by a local bank to a particular firm or person.

Depository Trust Company (DTC)
DTC is the world’s largest central securities depository. It accepts deposits of over 2 million equity and debt securities issues (valued at $23 trillion) from over 65 countries for custody, executes book-entry deliveries (valued at over $116 trillion in 2000) records book-entry pledges of those securities, and processes related income distributions. DTC is a member of the Federal Reserve System and is owned by The Depository Trust and Clearing Corporation (DTCC), which is in turn owned primarily by most of the major banks, broker-dealers, and exchanges on Wall Street.

Depository Trust and Clearing Corporation (DTCC)
The Depository Trust and Clearing Corporation (DTCC), through its subsidiaries, provides post-trade clearance, settlement, custody and information services for equities, corporate and municipal debt, money market instruments, American depositary receipts, exchange-traded funds, unit investment trusts, mutual funds, insurance products and other securities The National Securities Clearing Corporation (NSCC) subsidiary, which acts as a central counterparty (CCP), provides trade guarantee, netting and risk management services for equity and debt transactions from all U.S. stock exchanges and markets, valued at $105 trillion in 2000. The Depository Trust Company (DTC) subsidiary has custody of and provides asset servicing for 2 million securities issues of issuers from the U.S. and 65 other countries, valued at $23 trillion. DTC serves as a major clearinghouse for institutional post-trade settlement, and in 2000, processed book-entry deliveries valued at more than $116 trillion. DTCC’s two subsidiary businesses have Standard and Poors' highest rating: AAA.

Depreciate
To allocate the purchase cost of an asset over its life.

Depreciated cost
In terms of economics: The measure of cost of capital consumption during production, e.g., machine and equipment wear.
In terms of finance: The process of amortization of fixed assets (equipment) to spread the cost over the depreciable life of the assets.
A non-cash expense that provides a source of free cash flow. Amount allocated during the period to amortize the cost of acquiring long-term assets over the useful life of the assets.

**Depreciation tax shield**
The value of the tax write-off on depreciation of plant and equipment.

**Depressed market**
Market in which supply overwhelms demand, leading to weak and lower prices.

**Depressed price**
In the context of stocks, stock whose market price is low in comparison to stocks in its sector.

**Depression**
Period when excess aggregate supply overwhelms aggregate demand, resulting in falling prices, unemployment problems, and economic contraction.

**Deregulation**
The reduction of government's role in controlling markets, which lead to freer markets, and presumably a more efficient marketplace.

**Derivative**
A financial contract whose value is based on, or "derived" from, a traditional security (such as a stock or bond), an asset (such as a commodity), or a market index.

**Derivative instruments**
Contracts such as options and futures whose price is derived from the price of an underlying financial asset.

**Derivative markets**
Markets for derivative instruments.

**Derivative security**
A financial security such as an option or future whose value is derived in part from the value and characteristics of another security, the underlying asset.

**Descending tops**
A chart pattern in which each successive peak in a security's price is lower than the preceding peak over a period of time. Antithesis of ascending tops.

**Descriptor**
A variable describing assets, used as an element of a risk index. For example, a volatility risk index, distinguishing high volatility assets from low volatility assets, could consist of several descriptors based on short term volatility, long term volatility, systematic and
residual volatility, etc.

**Designated order turnaround system (DOT)**
Computerized order entry system that allows orders to buy or sell large baskets of stock to be transmitted immediately to the specialist on the exchange, where execution will occur quickly, depending on the basket size. Also used for odd-lot transactions to occur at the prices and quantities available. See: AOS.

**Desk**
The New York Federal Reserve Bank's trading desk (or securities department) where all transactions of the Federal Reserve System are executed in the money market or the government securities market.

**Detachable warrant**
A warrant entitles the holder to buy a given number of shares of stock at a stipulated price. A detachable warrant is one that may be sold separately from the package it may have originally been issued with (usually a bond).

**Determinism**
Fully ordained in advance. A deterministic chaos system is one that gives random looking results, even though the results are generated from a system of equations.

**Deterministic models**
Liability-matching models that assume that the liability payments and the asset cash flows are known with certainty. Related: Stochastic models.

**Detrend**
To remove the general drift, tendency, or bent of a set of statistical data as related to time. Often accomplished by regressing a variable or a time index and perhaps time-squared and capturing the residuals.

**Deutsche Börse**
Germany's major securities market, including the Frankfurt Stock Exchange.

**Deutsche Börse AG (DBAG)**
Deutsche Börse AG (DBAG) is the operating company for the German cash and derivatives markets. It has four subsidiaries: Deutsche Börse Clearing AG, Deutsche Börse Systems AG, Frankfurter Wertpapierbörse (FWB), and the derivatives market, EUREX Deutschland (formerly the Deutsche Terminbörse).

**Devaluation**
A decrease in the spot price of a currency. Often initiated by a government announcement.

**Diagonal spread**
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.
**Digits deleted**
Designation on securities exchange tape meaning that because the tape has been delayed, some digits have been dropped (e.g., 26 1/2 becomes 6 1/2).

**Dilution**
Diminution in the proportion of income to which each share is entitled.

**Dilution protection**
Standard provision that changes the conversion ratio in the case of a stock dividend or extraordinary distribution to avoid dilution of a convertible bondholder's potential equity position. Adjustment usually requires a split or stock dividend in excess of 5% or issuance of stock below book value.

**Dilutive effect**
Result of a transaction that decreases earnings per common share (EPS).

**Dip**
Slight drop in securities prices after a sustained uptrend. Analysts often advise investors to buy on dips, meaning to buy when a price is momentarily weak. See: Correction, break, crash.

**Direct Claim**
A financial claim issued by a deficit unit to acquire funds for investment in real assets.

**Direct costs of financial**
Costs such as fees or penalties incurred as a result of bankruptcy or liquidation proceedings.

**Direct deposit**
A method of payment which electronically credits your checking or savings account.

**Direct deposit service**
A service that electronically transfers all or part of any recurring payment—including dividends, paychecks, pensions, and Social Security payments—directly to a shareholder's account.

**Direct estimate method**
A method of cash budgeting based on detailed estimates of cash receipts and cash disbursements category by category.

**Direct Exchange Rate**
The home currency price of one unit of a foreign currency.

**Direct investment**
The purchase of a controlling interest in a company or at least enough interest to have enough influence to direct the course of the company.

**Direct lease**
Contract in which a lessor purchases new equipment from the manufacturer and leases it to the lessee.

**Direct overhead**
A fraction of overhead costs devoted to the manufacturing sector of a firm to cover expenses such as rent and utilities.

**Direct paper**
Commercial paper sold directly by the issuer to investors.

**Direct participation program**
An investment program enabling investors to directly participate in the cash flow and tax benefits of the partnership invested in by the investor, typically a form of passive investment.

**Direct placement**
Selling a new issue not by offering it for sale publicly, but by placing it with one of several institutional investors.

**Direct Purchase Plan**
A plan that enables interested first-time individual investors to purchase a company’s stock directly from the company or without the direct intervention of a broker. The administrator also ensures the safekeeping of the shares by registering them directly on the books of the company. No need for shareholders to hold on to physical certificates.

**Direct quote**
For foreign exchange, the number of US dollars needed to buy one unit of a foreign currency.

**Direct Registration System**
A system that allows shareholders to hold stock in book-entry form registered in their name on the books of the company. At any time, the shareholder may request a certificate which will be provided free of charge. Shareholders have the option to sell shares either through the company (or its transfer agent) or through a broker. The advantage to the shareholders is that they can directly participate in company or transfer agent-sponsored plans that are usually only available to registered shareholders, while still maintaining the a to their brokers.

**Direct rollover**
Movement of tax-deferred retirement plan money from one qualified plan or custodian to another. No immediate tax liabilities or penalties are incurred, but there is an IRS
reporting requirement.

**Direct search market**
Buyers and sellers seek each other directly and transact directly.

**Direct stock-purchase programs**
Investors purchase securities directly from the issuer.

**Direct terms**
The price of a unit of foreign currency in domestic currency terms, such as $.9850/Euro for a US resident. See: **Indirect terms**.

**Director**
See: Board of directors.

**Director Exception**
A proxy or ballot that withholds its votes from one or more, but not all, individuals on the slate of nominated directors.

**Directors' Duties**
In the context of corporate governance, Directors' Duties refers to stated responsibilities of the company's Board of Directors. These provisions allow directors to consider constituencies other than shareholders when considering a merger. These constituencies may include, for example, employees, host communities, or suppliers. This provision provides boards of directors with legal basis for rejecting a takeover that would have been beneficial to shareholders. A majority of states have Directors Duties Laws.

**Directorship**
Used in the context of general equities. Stock status whereby a trader may not maintain positions in the security, due to an investment bank employee serving as a director on the corporation's board of directors done to avoid conflicts of interest; signified by a flashing "D" on Quotron. Contrast to restricted.

**Dirty float**
A system of floating exchange rates in which a government may intervene to change the direction of the value of the country's currency.

**Dirty price**
Bond price including accrued interest, i.e., the price paid by the bond buyer.

**Dirty stock**
A stock that fails to fulfill prerequisites to attain good delivery status.

**Disability income insurance**
An insurance policy that insures a worker in the event of an occupational mishap resulting in disability. Insurance benefits compensate the injured worker for lost pay.

Disbursement float
A decrease in book cash but no immediate change in bank cash, generated by checks written by the firm.

Discharge of bankruptcy
The termination of bankruptcy proceedings, resulting in cancellation of the debtor's obligations.

Discharge of lien
An order terminating a lien on property.

Disclaimer of opinion
An auditor's statement that does not express any opinion regarding the company's financial condition.

Disclosure
A company's release of all information pertaining to the company's business activity, regardless of how that information may influence investors.

Discontinued operations
Divisions of a business that have been sold or written off and that no longer are maintained by the business.

Discount
Convertible: Difference between gross parity and a given convertible price. Most often invoked when a redemption is expected before the next coupon payment, making it liable for accrued interest. Antithesis of premium.
General: Information that has already been taken into account and is built into a stock or market.
Straight equity: Price lower than that of the last sale or inside market.

Discount Arbitrage
A riskless arbitrage in which a discount option is purchased and an opposite position is taken in the underlying security. The arbitrageur may either buy a call at a discount and simultaneously sell the underlying security (basic call arbitrage) or may buy a put at a discount and simultaneously buy the underlying security (basic put arbitrage). See also Discount.

Discount bond
Debt sold for less than its principal value. If a discount bond pays no coupon, it is called a zero coupon bond.
Discount broker
A brokerage house featuring relatively low commission rates in comparison to a full-service broker.

Discount factor
Present value of $1 received at a stated future date.

Discount Interest
Interest at a beginning of the loan. For example if you take out a one-year loan of $100 at a discount interest rate of 10%, you would receive $90 at the outset.

Discount payment
The difference between the face value and the price paid for a security.

Discount period
The period during which a customer can deduct the discount from the net amount of the bill when making payment.

Discount rate
The interest rate that the Federal Reserve charges a bank to borrow funds when a bank is temporarily short of funds. Collateral is necessary to borrow, and such borrowing is quite limited because the Fed views it as a privilege to be used to meet short-term liquidity needs, and not a device to increase earnings.

Discount securities
Non-interest-bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., US Treasury bills.

Discount window
Facility provided by the Fed enabling member banks to borrow reserves against collateral in the form of governments or other acceptable paper.

Discount yield
The yield or annual interest rate on a security sold to an investor at a discount. A bond that is sold at $4875 that matures to $5000 has a discount of $125. To calculate the discount yield: (discount divided by the face value of the security) multiplied by the (number of days in the year divided by the number of days to maturity).

Discounted basis
To sell below maturity value, so that the difference makes up all or part of the interest.

Discounted cash flow (DCF)
Future cash flows multiplied by discount factors to obtain present values.
Discounted dividend model (DDM)
A formula to estimate the intrinsic value of a firm by figuring the present value of all expected future dividends.

Discounted payback
The length of time needed to recoup the present value of an investment.

Discounted payback period rule
An investment decision rule in which cash flows are discounted at an interest rate and one determines how long it takes for the sum of the discounted cash flows to equal the initial investment.

Discounted in/by market
Unannounced information that is widely accepted or anticipated, and hence is already taken into account in the pricing of the security/market (e.g., poor earnings).

Discounting
Calculating the present value of a future amount. Discounting is opposite to compounding.

Discounting the news
An adjustment of a stock's price as speculators bid the price up or down in anticipation of news about the company, whether good or bad.

Discrepancy
Any deviation from the conditions stipulated in a letter of credit. Discrepancies void letter of credit protection.

Discrete compounding
Compounding the time value of money for separate time intervals.

Discrete random variable
A random variable that can take only a certain specified set of individual possible values—for example, the positive integers 1, 2, 3, \ldots

Discrete variable
Variable like 1, 2, 3. Bond ratings are examples of discrete classifications.

Discretion
Freedom given to the floor broker by an investor to use his judgment regarding the execution of an order. Discretion can be limited, as in the case of a limit order that gives the floor broker 1/8 or 1/4 point from the stated limit price to use his judgement in executing the order. Discretion can also be unlimited, as in the case of a market-not-held order. See also: Market Not Held Order.
Discretionary account
Accounts over which an individual or organization, other than the person in whose name the account is carried, exercises trading authority or control.

Discretionary cash flow
Cash flow that is available after the funding of all positive net present value (NPV) capital investment projects; it is available for paying cash dividends, repurchasing common stock, retiring debt, and so on.

Discretionary income
The amount of income a consumer has available after purchasing essentials such as food and shelter.

Discretionary order
A type of buy order that gives the broker the freedom and power to make the execution at any time and price that is seen fit and reasonable, given the investor's goals.

Discretionary Proposition
A proposal on a proxy card that brokers can cast in favor of management if they have not yet heard from the beneficial holder ten days before the annual meeting. See: Ten-Day Rule

Discretionary reserves
Balance sheet accounts representing temporary accumulations of earnings from the current year or the recent past.

Discretionary trust
In the context of mutual funds, refers to a mutual fund or unit trust whose management decides on the best way to use the assets without restriction to a specific type of security. In the context of trusts, refers to a personal trust in which a trustee has the power of decision as to how much income or principal each beneficiary receives.

Discriminate
A statistical process that links the probability of default to a specified set of financial ratios.

Dishonor
A refusal to pay.

Disinflation
A decrease in the rate of inflation.

Disintermediation
Withdrawal of funds from a financial institution in order to invest them directly.
Disinvestment
A reduction in capital investment reflected by a decrease in capital goods and a company's decision not to replace depleted capital goods.

Disposable income
The amount of personal income an individual has after taxes and government fees, which can be spent on necessities, or non-essentials, or be saved.

Distress sale
The selling of assets under adverse conditions, e.g., an investor may have to sell securities to cover a margin call.

Distressed securities
A security of a firm that has declared or is about to declare bankruptcy. In the context of hedge funds, a style of management that focuses on securities of companies that have declared bankruptcy and may be undergoing reorganization. Investment holdings can include bonds as well as stock in these firms.

Distributed
As new Treasury issues in dealers' hands are said to be distributed.

Distributing syndicate
A syndicate consisting of a number of brokerage firms or investment bankers that work together to sell and disperse a large lot of securities.

Distribution
Selling a large lot of a security in such a way that the security price is not heavily influenced.

Distribution area
An established price range in which a stock has been trading in for a significant amount of time. See: Accumulation area.

Distribution Cost
A source of competitive advantage that depends on the efficient delivery of a product or service to customers.

Distribution by coupon
Classification of a portfolio's securities according to coupon rate—the interest rate that an issuer promises to pay, expressed as an annual percentage of face value.

Distribution by credit
Classification of a portfolio's securities according to credit rating.
Distribution by issuer
Classification of a portfolio's holdings by type of issuer or type of instrument.

Distribution by maturity
An indicator of interest rate risk. In general, the higher the concentration of longer-maturity issues, the more a portfolio's share price will fluctuate in response to changes in interest rates.

Distribution period
The few days between the board of directors' declaration of a stock dividend (declaration date) and the date of record, or the date an individual must own shares to be entitled to a dividend.

Distribution plan
A mutual fund's plan to charge distribution costs such as advertising to the investors of the fund.

Distribution schedule
The frequency (monthly, quarterly, semiannually, or annually) of a mutual fund's scheduled distributions of dividends or capital gains.

Distribution stock
A small amount of a specific stock that forms part of a larger block of stock that is sold small amount by small amount so as not to disrupt the stock's market price.

Distributions
Payments from fund or corporate cash flow. May include dividends from earnings, capital gains from sale of portfolio holdings and return of capital. Fund distributions can be made by check or by investing in additional shares. Funds are required to distribute capital gains (if any) to shareholders at least once per year. Some corporations offer Dividend Reinvestment Plans (DRP).

Divergence
When two or more averages or indexes fail to show confirming trends.

Diversifiable risk
Related: Uns systematic risk

Diversification
Dividing investment funds among a variety of securities with different risk, reward, and correlation statistics so as to minimize unsystematic risk.

Diversified investment company
An investment vehicle such as a mutual fund that invests in an assortment of securities.

**Divestiture**
A complete asset or investment disposal such as outright sale or liquidation.

**Dividend**
A portion of a company’s profit paid to common and preferred shareholders. A stock selling for $20 a share with an annual dividend of $1 a share yields the investor 5%.

**Dividend Discount Return**
The rate of return which equates the present value of future expected dividends with the current market price of a security.

**Dividend in arrears**
Accumulated dividends on cumulative preferred stock that are deemed payable to the current holder.

**Dividend capture**
See: Dividend rollover plan

**Dividend clawback**
An arrangement under which sponsors of a project agree to contribute as equity any prior dividends received from the project to the extent necessary to cover any cash deficiencies.

**Dividend clientele**
A group of shareholders who prefer that the firm follow a particular dividend policy. Such a preference may be based on comparable tax situations.

**Dividend Disbursing Agent**
A commercial bank or financial institution that disburses dividend to the securityholders. Usually a Transfer Agent is also the Dividend Disbursing Agent.

**Dividend Discount Model (DDM)**
A method to value the common stock of a company that is based on the present value of the expected future dividends.

**Dividend distribution**
See: Dividend income

**Dividend growth model**
An approach that assumes dividends grow at a constant rate in perpetuity. The value of the stock equals next year’s dividends divided by the difference between the required rate of return and the assumed constant growth rate in dividends.
Dividend income

Distribution of earnings to shareholders that may be in the form of cash, stock, or property. Mutual fund dividends are paid out of income, usually on a quarterly basis, from interest generated by a fund’s investments. Also known as a dividend distribution.

Dividend limitation

A bond covenant that restricts in some way the firm’s ability to pay cash dividends.

Dividend Order

A letter or form signed by the shareholder instructing a corporation to issue and forward dividend and/or interest payments to a specific person or entity other than the registered owner, such as a bank or broker.

Dividend payout ratio

Percentage of earnings paid out as dividends.

Dividend policy

Standards by which a firm determines the amount of money it will pay as dividends.

Dividend rate

The fixed or floating rate paid on preferred stock based on par value.

Dividend record

S&P publication stating companies’ payment histories and corporate policies.

Dividend Reinvestment Plan (DRP)

Automatic reinvestment of shareholder dividends in more shares of a company’s stock, often without commissions. Some plans provide for the purchase of additional shares at a discount to market price. Dividend reinvestment plans allow shareholders to accumulate stock over the long term using dollar cost averaging. The DRP is usually administered by the company without charges to the holder.

Dividend requirement

The annual earnings minimum required for payment of dividends on a preferred stock.

Dividend rights

A shareholder’s rights to receive per-share dividends identical to those other shareholders receive.

Dividend rollover plan

An investment strategy that entails the purchase and selling of a stock right before its ex-dividend date in order to collect the dividends paid out by the stock and capture a trade profit.
**Dividend trade roll/play**
Used for listed equity securities. Method of buying and selling stocks around their ex-dividend dates so as to collect the dividend (which is 80% tax-exempt) offset by a fully-taxable capital loss. Predicated on the 80% current exemption that some corporations receive on dividend income.

**Dividend yield (Funds)**
Indicated yield represents return on a share of a mutual fund held over the past 12 months. Assumes fund was purchased a year ago. Reflects effect of sales charges (at current rates), but not redemption charges.

**Dividend yield (Stocks)**
Indicated yield represents annual dividends divided by current stock price.

**Dividends payable**
The declared dividend dollar amount that a company is obligated to pay.

**Dividends per share**
Dividend paid for the past 12 months divided by the number of common shares outstanding, as reported by a company. The number of shares often is determined by a weighted average of shares outstanding over the reporting term.

**Dividends-received deduction**
A corporate tax deduction on income allowed by company A that is in ownership of shares of company B and receives dividends on the shares of company B.

**DM**
Deutsche (German) marks.

**Deutsche Terminborse (DTB)**
Formerly the German financial futures and options market. Merged with the Swiss Options and Financial Futures Exchange (SOFFEX) in 1998 to form EUREX, the European derivatives exchange.

**Divisor**
Used in construction of stock indices. Suppose you have 10 stocks in an index, each worth $10 and the index is at 100. Now suppose you want to replace one of the stocks with another stock (reshuffling happens). Suppose that the new stock to be included is worth $20. So the total value of the index is 110 after the swapping. But we really shouldn't have an increase in value because nothing has happened - other than switching two constituents. So, what people do is to change the divisor. In this case, the divisor goes from 1 to 1.10. Notice that the value of the index, 110/1.1 is now exactly 100 - which is where we began from.
Delphi technique
Collection of independent opinions without group discussion by the analysts providing the opinions; used for various sorts of evaluations (such as country risk assessment).

Dependent variable
Term used in regression analysis to represent the element or condition that is dependent on values of one or more other variables.

Direct foreign investment
Investment in real assets (such as land, buildings, or plants) outside one's own country.

Direct Loan Program
Fixed-rate loans offered by the Ex-Im Bank directly to the foreign buyer to purchase US capital equipment and services.

Divisor
Denominator in price-weighted indexes to adjust for security changes such as stock splits.

Do Not Increase (DNI)
A restriction that an investor places on a good til' canceled order to prevent an order increase in the case of a stock dividend or stock split.

Do Not Reduce Order (DNR Order)
Limit order to buy or to sell, or a stop limit order to sell that is not to be reduced by the amount of an ordinary cash dividend on the ex-dividend date. A "do not reduce order" applies only to ordinary cash dividends, and not stock dividends or rights.

Doctrine of sovereign immunity
Principle that a nation may not be tried in another country without its consent.

Documentary Collection
A service provided by banks to sellers in obtaining payments. This service is usually transacted by the seller's bank through the buyer's bank, with the latter presenting the shipping documents to the buyer in exchange for payment or for signing a promissory note like instrument called a time draft.

Documentary collections
Trade transactions handled on a draft basis.

Documented discount notes
Commercial paper backed by normal bank lines of credit plus a letter of credit from a bank stating that it will pay off the paper at maturity if the borrower defaults. Such paper is also referred to as L.O.C. paper.
**Documents against**
Shipping documents held by the buyer's bank until the buyer has accepted (signed) the draft.

**Documents against**
Shipping documents that are released to the buyer once the buyer has paid for the draft.

**Dogs of the Dow**
T 10 stocks of the 30 on the Dow Jones Industrial Average with the most depressed prices and consequently the highest yields. The investor buying these stocks speculates that they will bounce back over a one-year period.

**Dollar bears**
Traders who capitalize on a falling dollar by buying other foreign currencies directly.

**Dollar bonds**
Municipal revenue bonds for which quotes are given in dollar prices. Not to be confused with "US Dollar" bonds, a common term of reference in the Eurobond market.

**Dollar cost averaging**
See: Constant dollar plan

**Dollar drain**
The impact of importing from foreign countries more than exporting to them. The money required to finance the import purchases removes dollars from the importing nation.

**Dollar duration**
The product of modified duration and the initial price.

**Dollar price of a bond**
Percentage of face value at which a bond is quoted.

**Dollar return**
The return realized on a portfolio for any evaluation period, including (1) the change in market value of the portfolio and (2) any distributions made from the portfolio during that period.

**Dollar roll**
Similar to the reverse repurchase agreement—a simultaneous agreement to sell a security held in a portfolio with purchase of a similar security at a future date at an agreed-upon price.

**Dollar safety margin**
The dollar equivalent of the safety cushion for a portfolio in a contingent immunization strategy.
Dollar shortage
Results when a nation importing US goods cannot pay for them without the aid of the United States.

Dollar-weighted rate of return
Also called the internal rate of return; the interest rate that makes the present value of the cash flows from all the subperiods in an evaluation period plus the terminal market value of the portfolio equal to the initial market value of the portfolio.

Domestic bonds
Bonds issued and traded within the internal market of a country and denominated in the currency of that country.

Domestic corporation
A corporation that is conducting business and is based in the country in which it is established, as opposed to a foreign corporation.

Domestic International Sales Corporation (DISC)
A US corporation that receives a tax incentive for export activities.

Domestic market
A nation's internal market representing the mechanisms for issuing and trading securities of entities domiciled within that nation. Compare external market and foreign market.

Domestic series
Nonmarketable, interest and noninterest-bearing securities issued periodically by the Treasury to the Resolution Funding Corporation (RFC) for investment of funds authorized under section 21B of the Federal Home Loan Bank Act.

Donor
One who gives property or assets to someone else through the vehicle of a trust.

Don't fight the tape
Phrase advising not to trade against the market trend. If stock prices are rising, do not sell.

Don't know (DK, DKed)
"Don't know the trade." A Street expression used whenever one party lacks knowledge of a trade or receives conflicting instructions from the other party.

Double auction market
Systems by which listed securities are bought and sold through brokers on the securities exchanges, as distinguished from the OTC market, where trades are negotiated. Unlike the conventional auction with one auctioneer and many buyers, double auction markets
consist of many sellers and many buyers.

**Double auction system**
A market consisting of many sellers and many buyers, as opposed to a conventional auction with one market maker and many buyers.

**Double-barreled**
Describes backing of the principal and interest of a smaller municipal revenue bond the large municipal entity.

**Double bottom**
A term used in technical analysis to refer to the drop of a stock's price, a rebound, and then a drop back to the same level as the original drop.

**Double-declining-balance depreciation method (DDB)**
An accounting methodology in which depreciation is accelerated to twice the rate of annual depreciation by the straight-line method.

**Double-declining-balance depreciation**
Method of accelerated depreciation.

**Double dip**
Used for listed equity securities. Dividend roll in which the "dividend capturer" already owns the stock cum dividend.

**Double-dip lease**
A cross-border lease in which the different rules of the lessor's and lessee's countries let both parties be treated as the owner of the leased equipment for tax purposes.

**Double-entry**
Accounting method that records each transaction as both a credit and a debit in different accounts.

**Double-tax agreement**
Agreement between two countries that taxes paid abroad can be offset against domestic taxes levied on foreign dividends.

**Double taxation**
Government taxation of the same money twice; specifically, taxation of earnings at the corporate level and dividends at the stockholder level.

**Double top**
A term used in technical analysis to refer to the rise of a stock's price, a drop, and then a rise back to the same level as the original rise.
Double up
A stock buying strategy that doubles the risk when the price moves in the opposite direction from the direction the investor hoped for. For example, an investor with confidence in ABC buys 1000 shares at $100 and another 1000 shares when the price declines to $90.

Double witching day
A trading day when of two related classes of options and futures expire, resulting in a variety of arbitrage strategies to close out positions.

Doubling option
A sinking fund provision that may allow repurchase of twice the required number of bonds at the sinking fund call price.

Dow dividend theory
See: Dogs of the Dow.

Dow Jones Industrial Average
The best known US index of stocks. A price-weighted average of 30 actively traded blue-chip stocks, primarily industrials including, stocks that trade on the New York Stock Exchange. The Dow, as it is called, is a barometer of how shares of the largest US companies are performing. There are hundreds of investment indexes around the world for stocks, bonds, currencies, and commodities.

Dow Theory
Used in the context of general equities. Technical theory that a major trend in the stock market must be confirmed by simultaneous movement of the Dow Jones Industrial Average and the Dow Jones Transportation Average to new highs or lows.

Down round
Refers to a round of venture capital financing that is raised at a lower firm valuation than the previous round.

Down-and-in option
Barrier option that comes into existence if asset price hits a predetermined price level.

Down-and-out option
Barrier option that expires if asset price hits a predetermined price level.

Downgrade
A negative change in ratings for a stock, or other rated security.

Downside Protection
Generally used in connection with covered call writing, this is the cushion against loss, in case of a price decline by the underlying security, that is afforded by the written call option. Alternatively, it may be expressed in terms of the distance the stock could fall before the total position becomes a loss (an amount equal to the option premium), or it can be expressed as percentage of the current stock price.

**Downside risk**
The risk that a security will decline in value including the implications of risk.

**Downsizing**
A company's reduction in the number of employees, number of bureaucratic levels, and overall size in an attempt to increase efficiency and profitability.

**Downstream**
The transfer of corporate activity from the larger parent to the smaller subsidiary.

**Downtick**
Move down in a particular stock. On U.S. stock exchanges, you cannot sell a stock short on a downtick.

**Downturn**
The transition point between a rising, expanding economy to a falling, contracting one.

**Draining reserves**
Federal Reserve System's course of action to tighten the money supply by (1) raising a bank's minimum reserve requirements, (2) selling bonds in the open market, (3) raising the rate at which banks borrow from the Fed.

**Draft**
An unconventional order in writing-signed by a person, usually the exporter, and addressed to the importer-ordering the importer or the importer's agent to pay, on demand (sight draft) or at a fixed future date (time draft) the amount specified on the face of the draft.

**Draw a call**
In the context of general equities, provoking a customer indication/inquiry/order by up or doing large amount of the volume in a stock.

**Drawback**
A tax or duty rebate on imported goods that are exported at a later date.

**Drawee**
The party who is directed to pay as specified in a draft.
**Drawer**
The party initiating a draft.

**Drayage**
A trucking company freight charge for the pick up or delivery of an ocean container.

**Dressing up a portfolio**
Money managers' strategy to make transactions for the sole purpose of making a portfolio look good to the investor near the end of a reporting period. See: *Window dressing*

**Drip feed**
The continual investment of capital in a small and growing company as the company needs it, rather than investing a lump sum at the company's inception.

**Drive-by VC**
A type of venture capitalist. In the usual model, the venture capitalist (VC) is involved in management and monitoring of the startup. A drive-by VC invests in a portfolio of startups and is often quick to exit.

**Drop**
Refers to over-the-counter trading. Remove from OTC trading list; hence, no longer making a market in a security.

**Drop, The**
In a dollar roll transaction, the difference between the sale price of a mortgage-backed pass-through, and its repurchase price on a future date at a predetermined price.

**Drop-dead day**
The date on which a deadline is final, with no exceptions.

**Drop-dead fee**
A term of British origin referring to fee that must be paid if a deal falls through because of financing issues.

**Drop lock**
The fixing of the interest rate on a floating-rate note or preferred stock if it falls to a specified level.

**Dual banking**
Describes United States custom in which a bank is chartered by the state or federal government.

**Dual-currency issues**
Eurobonds that pay coupon interest in one currency but pay the principal in a different
currency.

**Dual listing**
Listing of a security on more than one exchange, thus increasing the competition for bid and offer prices, the liquidity of the securities, and the length time the stock can be traded daily (if listed on both the east and west coasts.) See: Listed security.

**Dual-purpose fund**
A closed-end fund consisting of two classes of shares. The two classes are preferred shares, on which shareholders receive all the dividends and interest from the portfolio, and common shares, on which shareholders receive all the capital gains.

**Dual syndicate equity offering**
An international equity placement that splits the offering is split into two branches - domestic and foreign - and each grantee is handled by a separate lead manager.

**Dual trading**
The custom of a trader on the commodities market to deal for its own account and the investor's account at the same time.

**Due bill**
An instrument evidencing the obligation of a seller to deliver securities sold to the buyer. Occasionally used in the bill market.

**Due date**
Date on which a debt must be paid.

**Due diligence**
An internal audit of a target firm by an acquiring firm. Offers are often made contingent upon resolution of the due diligence process.

**Due diligence meeting**
Meeting legally required to be held by an underwriter to enable brokers to question a new issuer about an upcoming issue.

**Due-on-sale clause**
A mortgage contract clause stipulating that the borrower to pay off the full remaining principal on a mortgage if the mortgaged property is sold before the mortgage is paid off.

**Dumping**
Used in the context of general equities. Offering large amounts of stock with little or no concern for price or market effect.

**Duplicate Proxy**
A second proxy received on an account. If the second proxy bears a more recent date than the first proxy, and has a different voting pattern, the second proxy will override the first.

**Duplicative portfolio**
Mainly applies to derivative products. Basket of stocks that imitates the price movement of another set of securities (e.g., S&P 500 index).

**Dupont system of financial control**
Highlights the fact that return on assets (ROA) can be expressed in terms of the profit margin and asset turnover.

**Durable merchandise**
Goods that have a relatively lengthy life (television sets, radios, etc.).

**Duration drift**
Change in duration attributable to the passage of time.

**Duration**
A common gauge of the price sensitivity of a fixed income asset or portfolio to a change in interest rates.

**Duration matching**
An immunization technique that matches asset duration with the duration of the liabilities.

**Dutch auction**
Auction in which the lowest price necessary to sell the entire offering becomes the price at which all securities offered are sold. This technique has been used in Treasury auctions. Often used in risk arbitrage. Auction system in which the price of an item (stock) is gradually lowered until it meets a responsive bid (government T-bills) or offer (corporate repurchase) and is sold. In a corporate repurchase, a range of prices is set by the company within which shareholders are invited to tender their shares. The tender offer is open for a specific period of time (i.e., 20 days), and the quantity of stock to be purchased is stated as well, subject to proration if more shares are tendered than can be legally purchased under the stated terms (often an additional amount equal to 20% of outstanding shares can be purchased). The price paid is that at which the amount stated to be purchased can be sold. Compare to double auction system.

**Dutch Auction Preferred Stock**
A form of adjustable-rate preferred stock in which the dividend is ascertained in a Dutch Auction process by corporate bidders every seven weeks.

**Duty**
A tax on imports, exports, or consumption goods.
Dwarfs
Fannie mae issued mortgage-backed securities pool that have an original maturity of 15 years.

dynamic
For option strategies, describing analyses made during the course of changing security prices and during the passage of time. This is as opposed to an analysis made at expiration of the options used in the strategy. A dynamic break-even point is one that changes as time passes. A dynamic follow-up action is one that will change as either the security price changes or the option price changes or time passes.

Dynamic asset allocation
An asset allocation strategy in which the asset mix is quantitatively shifted in response to changing market conditions, as in a portfolio insurance strategy, for example.

Dynamic hedging
A strategy that involves rebalancing hedge positions as market conditions change; a strategy that seeks to insure the value of a portfolio using a synthetic put option.

Dynamical Noise
When the output of a dynamical system becomes corrupted with noise, and the noisy value is used as input during the next iteration. Also called System Noise. See: Observational Noise.

Dynamical Systems
A system of equations where the output of one equation is part of the input for another. A simple version of a dynamical system is linear simultaneous equations. Non-linear simultaneous equations are nonlinear dynamical systems.

E
Fifth letter of a Nasdaq stock symbol specifying that an issue has not met the reporting date for the company's SEC regulatory filing requirements.

EAFE index
See: European Australian and Far East index

EASD
See: European Association of Securities Dealers

EBIAT
See: Earnings Before Interest after Taxes

EBIT
See: Earnings Before Interest and Taxes
**EBITD**  
See: Earnings Before Interest, Taxes and Depreciation

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

**EBT**  
See: Earnings Before Taxes

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

**ECN**  

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

**EDGAR Electronic Data Gathering, Analysis and Retrieval System**  
The system through which companies electronically file reports and registration statements with the SEC. This requires converting the paper or word-processing document to be filed into a universal ASCII format, a process known as EDGARizing 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
Terminborse (DTB) and the Swiss Options and Financial Futures Exchange (SOFFEX).

**EXDEC**
See: Shipper's Export Declaration.

**Each way**
A broker's commission from his or her involvement on both the purchase and the sale side of a security.

**Early distribution**
See: Premature distribution

**Early Exercise (assignment)**
The exercise or assignment of an option contract before its expiration date.

**Early withdrawal**
See: Premature distribution

**Early withdrawal penalty**
Penalty paid by the holder of a fixed-term investment penalizing an investor who withdraws money before the agreed-upon maturity date.

**Earn-out**
Refers to an additional payment in a merger or acquisition that is not part of the original acquisition cost, which is based on the acquired company's future earnings relative to a level determined by the merger agreement.

**Earned income**
Compensation earned from employment, which includes wages, salary, tips, and compensation.

**Earned income credit**
A tax credit for taxpayers with children.

**Earned surplus**
See: Retained earnings

**Earnest money**
Money given to a seller by a buyer to demonstrate the buyer's good faith. If the deal falls through, the deposit is usually forfeited.

**Earning asset**
An asset that generates income, e.g., income from rental property.
**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, 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.
Earnings-price ratio
See: Earnings yield

Earnings response
A measure of relation of stock returns to earnings surprises around the time of corporate earnings announcements.

Earnings retention ratio
Plowback rate.

Earnings surprises
Positive or negative differences from the consensus forecast of earnings by institutions such as First Call or IBES. Negative earnings surprises generally have a greater adverse effect on stock prices than a reciprocal positive earnings surprise.

Earnings yield
The ratio of earnings per share, after allowing for tax and interest payments on fixed interest debt, to the current share price. The inverse of the price-earnings ratio. It is the total twelve months, earnings divided by number of outstanding shares, divided by the recent price, multiplied by 100. The end result is shown in percentage terms. We often look at earnings yield because this avoids the problem of zero earnings in the denominator of the price-earning ratio.

Easy money
See: Tight money

Eating stock
When an underwriter can't find buyers for a stock and therefore has to buy them for his own account.

ECN
See: Emerging company marketplace

Eclectic paradigm
A theory that posits three types of advantages benefiting a multinational corporation: ownership-specific, location-specific, and market internalization advantages.

Econometrics
The quantitative science of predicting the economy.

Economic assumptions
General market environment a firm expects to operate in over the life of a financial plan.
**Economic defeasance**  
See: In-substance defeasance

**Economic dependence**  
When the costs and/or revenues of one project depend on those of another.

**Economic earnings**  
The real flow of cash that a firm could pay out forever in the absence of any change in the firm’s productive capacity.

**Economic exposure**  
The extent to which the value of a firm will change because of an exchange rate change.

**Economic growth**  
An increase in the nation’s capacity to produce goods and services. Usually refers to real GDP growth.

**Economic growth rate**  
The annual percentage rate of change in the Gross National Product.

**Economic income**  
Cash flow plus change in present value.

**Economic indicators**  
The key statistics of the economy that reveal the direction the economy is heading in; for example, the unemployment rate and the inflation rate.

**Economic Life**  
The time period over which an asset's NPV is maximized. Economic life can be less than absolute physical life for reasons of technological obsolescence, physical deterioration, or product life cycle.

**Economic order quantity (EOQ)**  
The order quantity that minimizes total inventory costs.

**Economic rents**  
Profits in excess of the competitive level.

**Economic risk**  
In project financing, the risk that the project's output will not be salable at a price that will cover the project’s operating and maintenance costs and its debt service requirements.

**Economic shock**  
Events that impact the economy, come from outside it, and are unexpected and
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
Board of Governors acts on applications to establish Edge Act corporations and also examines the corporations and their subsidiaries. Named after Senator Walter Edge of New Jersey, who sponsored the original legislation to permit formation of such organizations. See also: agreement corporation.

**Edge corporations**
Specialized banking institutions, authorized and chartered by the Federal Reserve Board of Governors in the U.S., that are allowed to engage in transactions of a foreign or international character. They are not subject to restrictions on interstate banking. Foreign banks operating in the US are permitted to organize and own an edge corporation.

**Education IRA**
A type of individual retirement account enabling the contribution of up to $500 per year for each child up to the age of 18 by the parents in the family.

**Effective annual interest rate**
An annual measure of the time value of money that fully reflects the effects of compounding.

**Effective annual yield**
Annualized interest rate on a security computed using compound interest techniques.

**Effective call price**
The strike price in a market redemption provision plus the accrued interest to the redemption date.

**Effective convexity**
The convexity of a bond calculated using cash flows that change with yields.

**Effective date**
In an interest rate swap, the date the swap begins accruing interest.

**Effective debt**
The total debt owed by a firm to its creditors.

**Effective duration**
The duration calculated using the approximate duration formula for a bond with an embedded option, reflecting the expected change in the cash flow caused by the option. Measures the responsiveness of a bond’s price-taking into account that expected cash flows will change as interest rates change due to the embedded option.

**Effective Interest Rate**
The annual rate at which an investment grows in value when interest is credited more often than once a year.
**Effective margin (EM)**
Used with SAT performance measures, the amount equal to the net earned spread, or margin of income, on assets in excess of financing costs for a given interest rate and prepayment rate scenario.

**Effective net worth**
Net worth plus subordinated debt.

**Effective rate**
A measure of the time value of money that fully reflects the effects of compounding.

**Effective sale**
A sale based on the most recent round-lot price, which determines the price of the next odd lot. The difference created between the last round-lot price and the odd-lot price is referred to as the odd-lot differential.

**Effective spread**
The gross underwriting spread adjusted for the impact that a common stock offering's announcement has on the firm's share price.

**Effective tax rate**
The net rate a taxpayer pays on income that includes all forms of taxes. It is calculated by dividing the total tax paid by taxable income.

**Effective yield**
Yield or return on a short-term investment after adjustment for the change in exchange rates over the period of concern.

**Efficiency**
The degree and speed with which a market accurately incorporates information into prices.

**Efficient capital market**
A market in which new information is very quickly reflected accurately in share prices.

**Efficient diversification**
The organizing principle of modern portfolio theory, which maintains that any risk-averse investor will search for the highest expected return for any particular level of portfolio risk.

**Efficient frontier**
The combinations of securities portfolios that maximize expected return for any level of expected risk, or that minimizes expected risk for any level of expected return. Pioneered by Harry Markowitz.
**Efficient market**
Economy in which prices correctly reflect all relevant information.

**Efficient Market Hypothesis**
States that all relevant information is fully and immediately reflected in a security's market price, thereby assuming that an investor will obtain an equilibrium rate of return. In other words, an investor should not expect to earn an abnormal return (above the market return) through either technical analysis or fundamental analysis. Three forms of efficient market hypothesis exist: weak form (stock prices reflect all information on past prices), semistrong form (stock prices reflect all publicly available information), and strong form (stock prices reflect all relevant information including insider information).

**Efficient markets theory**
Principle that all assets are correctly priced by the market, and that there are no bargains.

**Efficient portfolio**
A portfolio that provides the greatest expected return for a given level of risk (i.e., standard deviation), or, equivalently, the lowest risk for a given expected return.

**Efficient set**
Graph representing a set of portfolios that maximize expected return at each level of portfolio risk.

**Efficient surface**
In mean variance skewness analysis, the set of portfolios that result from investors' preference for higher means, lower variance and higher (positive) skewness. The efficient surface is analogous (in three dimensions, mean, variance and skewness) to the efficient frontier (in two dimensions, mean and variance).

**Eighth[-ed]**
Used in the context of general equities. A specialist or another broker is bidding higher or offering lower than we are, often topping or undercutting us by an eighth.

**Either/or facility**
An agreement permitting a bank customer to borrow either domestic dollars from the bank's head office or Eurodollars from one of its foreign branches.

**Either-or order**
Used in the context of general equities. See: Alternative order.

**Either-way market**
In the interbank Eurodollar deposit market, an either-way market is one in which the bid and offered rates are identical.
Elasticity of demand and supply
The degree of buyers' responsiveness to price changes. Elasticity is measured as the percent change in quantity divided by the percent change in price. A large value (greater than 1) of elasticity indicates sensitivity of demand to price, e.g., luxury goods. Goods with a small value of elasticity (less than 1) have a demand that is insensitive to price, e.g., food.

Elasticity of an option
Percentage change in the value of an option given a 1% change in the value of the option's underlying stock.

Elect
The conversion of a conditional order into a market order.

Electronic data interchange (EDI)
The direct exchange of information electronically, from one firm's computer to another firm's computer in a structured format.

Electronic depository transfers
The transfer of funds between bank accounts through the Automated Clearing House (ACH) system.

Electronic funds transfer (EFT)
Transfer of funds electronically rather than by check or cash. The Federal Reserve's Fedwire and automated clearinghouse services are EFT systems.

Electronic Funds Transfer Systems
A variety of systems and technologies for transferring funds (money) electronically rather than by check. Includes Fedwire, automated clearninghouses (ACHs) and other automated systems.

Electronic Queriable Carrier
A transporter of goods which allows tracking of goods in transit electronically using a waybill number such as United Parcel, Federal Express, etc.

Elephants
A term used to refer to large institutional investors.

Eleven bond index
An index based on the average yield of 11 municipal bonds that mature in 20 years and carry an average AA rating. The eleven bonds used to calculate the index are also found in the 20 bond index, which serves as a benchmark in tracking municipal bond yields.

Eligible bankers' acceptances
In the BA market, an acceptance may be referred to as eligible because it is acceptable by the Fed as collateral at the discount window and/or because the accepting bank can sell it without incurring a reserve requirement.

**Elliott Wave Theory**
Technical market timing strategy that predicts price movements on the basis of historical price wave patterns and their underlying psychological motives. Robert Prechter is a famous Elliott Wave theorist.

**Elves**
A term the host uses to refer to guests on the PBS television show, "Wall Street Week", who are technical analysts attempting to predict the direction of stock prices over the next six months.

**Embedded option**
An option that is part of the structure of a bond that gives either the bondholder or the issuer the right to take some action against the other party, as opposed to a bare option, which trades separately from any underlying security.

**Emergency fund**
A reserve of cash kept available to meet the costs of any unexpected financial emergencies.

**Emergency Home Finance Act of 1970**
The federal legislation creating the Federal Home Loan Mortgage Corporation, a partially government-run program initiated to stimulate the development of a secondary mortgage market and expand mortgages available to veterans and other groups.

**Emerging Company Marketplace (ECM)**
A service once offered by the American Stock Exchange to help small growth companies fulfill special listing requirements. The service is no longer available.

**Emerging markets**
The financial markets of developing economies.

**Emerging Markets Free index (EMF)**
A Morgan Stanley Capital International index created to track stock markets in selected emerging markets that are open to foreign investment like Argentina, Chile, Jordan, Malaysia, Mexico, Philippines, and Thailand.

**Emerging markets fund**
A mutual fund that invests primarily in countries with developing economies (that is, those that are becoming industrialized). Emerging markets funds tend to be more volatile than domestic stock funds due to currency fluctuation and political instability.
Consequently, fund prices can fluctuate dramatically.

**Employee contribution**
An employee's own deposit to a company retirement plan.

**Employee Retirement Income Security Act (ERISA)**
The law that regulates the operation of private pensions and benefit plans.

**Employee stock fund**
A firm-sponsored program that enables employees to purchase shares of the firm's common stock on a preferential basis.

**Employee stock ownership plan (ESOP)**
A company contributes to a trust fund that buys stock on behalf of employees.

**Employee Stock Purchase Plan (ESPP)**
A plan usually linked to a Corporation's payroll deduction system allowing employees to purchase shares at a discount from current market value.

**Employer matching**
The amount, if any, a company contributes on an employee's behalf to the employee's retirement account, usually tied to the employee's own contribution.

**Employment rate**
The percentage of the labor force that is employed. The employment rate is one of the economic indicators that economists examine to help understand the state of the economy. See also: Unemployment rate.

**Empty head and pure heart test**
Securities and Exchange Commission rule that allows only the bidder of a tender offer to trade in the stock while possessing inside information.

**Encumbered**
A property owned by one party on which a second party reserves the right to make a valid claim, e.g., a bank's holding of a home mortgage encumbers property.

**End-of-year convention**
Treating cash flows as if they occur at the end of a year as opposed to the date convention. Under the end-of-year convention, the present is time 0, the end of year 1 occurs one year hence; and so on.

**Endogenous uncertainty**
Describes factors within the control of the firm, such as a decision to reveal information about price or input costs. Converse of exogenous.
**Endogenous variable**
A value determined within the context of a model. Related: Exogenous variable.

**Endorse**
Transferring asset ownership by signing the back of the asset's certificate.

**Endowment**
Gift of money or property to a specified institution for a specified purpose.

**Endowment funds**
Investment funds established for the support of institutions such as colleges, private schools, museums, hospitals, and foundations. The investment income may be used for the operation of the institution and for capital expenditures.

**Energy mutual fund**
Mutual fund investing in energy stocks only, e.g., oil and gas companies.

**Enhanced indexing**
Also called indexing-plus, an indexing strategy whose objective is to exceed or replicate the total return performance of some predetermined index.

**Enhancement**
An innovation that has a positive impact on one or more of a firm's existing products.

**Enterprise**
A business firm.

**Enterprise Value**
The market capitalization of a firm's equity plus the market value of the firm's debt. Often the value of assets that are non-core are excluded the final calculation.

**Entrepreneur**
A person starting a new company who takes on the risks associated with starting the enterprise, which may require venture capital to cover start-up costs.

**Entropy**
The level of disorder in a system.

**Environmental fund**
A mutual fund that invests strictly in stocks of companies that are environmentally friendly and/or have the goal of environmental betterment. The investors are trying to support and profit from opportunities related to the environmental movement.
**EPS**
See: Earnings per share

**Equal dollar swap**
Selling common stock/convertibles in one company and reinvesting the proceeds in as many shares of (1) another type of security issued by the company, or (2) another security of the same type but of another company -- as can be bought with the proceeds of the sale. See: Equal shares swap.

**Equal percentage**
Principle that each asset contributes the same proportion to the equilibrium portfolio rate premium and risk.

**Equal shares swap**
Applies mainly to convertible securities. Selling the underlying common and reinvesting the proceeds in as much of the convertible as can be converted into the number of shares of common just sold. See equal dollar swap.

**Equalizing dividend**
Special dividends received by investors of a firm for income the investor lost because the firm altered the dividends payment schedule.

**Equilibrium**
The stable state of the system. See: Attractor.

**Equilibrium exchange**
Exchange rate at which demand for a currency is equal to the supply of the currency in the economy.

**Equilibrium market price of risk**
The slope of the capital market line (CML). Since the CML represents the expected return offered to compensate for a perceived level of risk, each point on the line is a balanced market condition, or equilibrium. The slope of the line determines the additional expected return needed to compensate for a unit change in risk. The equation of the CML is defined by the capital asset pricing model.

**Equilibrium price**
The price when the supply of goods matches demand.

**Equilibrium rate of interest**
The interest rate that clears the market. Also called the trade-clearing interest rate.

**Equipment leasing partnership**
A limited partnership that receives income and tax benefits such as depreciation costs by
purchasing equipment and leasing it to other parties.

**Equipment trust certificates**
Certificates issued by a trust that is formed to purchase an asset and lease it to a lessee. When the last of the certificates has been repaid, title and ownership of the asset transfers to the lessee.

**Equitable owner**
The beneficiary of a property held in a trust.

**Equity**
Ownership interest in a firm. Also, the residual dollar value of a futures trading account, assuming its liquidation is at the going trade price. In real estate, dollar difference between what a property could be sold for and debts claimed against it. In a brokerage account, equity equals the value of the account's securities minus any debit balance in a margin account. Equity is also shorthand for stock market investments.

**Equity cap**
An agreement in which one party, for an up-front premium, agrees to pay the other at specific time periods if a designated stock market benchmark tops a predetermined level.

**Equity claim**
Also called a residual claim; a claim to a share of earnings after debt obligations have been satisfied.

**Equity collar**
The simultaneous purchase of an equity floor and sale of an equity cap.

**Equity contribution agreement**
An agreement to contribute equity to a project under certain specified conditions.

**Equity floor**
An agreement in which one party agrees to pay the other at specific time periods if a specific stock market benchmark falls below a predetermined level.

**Equity funding**
An investment consisting of a life insurance policy and a mutual fund. The insurance policy is paid by the collateral value of fund shares, give the investor the advantages of insurance protection with the growth potential of a mutual fund.

**Equity kicker**
Stock warrants issued attached to privately placed bonds.

**Equity-linked Eurobonds**
A Eurobond including a convertibility option or warrant.

**Equity-linked policies**
Related: Variable life

**Equity market**
Related: stock market

**Equity multiplier**
Total assets divided by total common stockholders' equity; the total assets per dollar of stockholders' equity.

**Equity options**
Securities that give the holder the right (but not the obligation) to buy or sell a specified number of shares of stock, at a specified price for a certain (limited) time period. Typically one option equals 100 shares of stock.

**Equity REIT**
A Real Estate Investment Trust that assumes ownership status in the property it invests in enabling investors of the REIT to earn dividends on rental income from the property and appreciation in property resale. Antithesis of a Mortgage REIT.

**Equity swap**
A swap in which the cash flows exchanged are based on the total return on some stock market index and an interest rate (either a fixed rate or floating rate). Related: Interest rate swap.

**Equityholders**
Stockholders; those holding shares of the firm's equity.

**Equivalent annual annuity**
The amount per year for some number of years that has a present value equal to a given amount.

**Equivalent annual benefit**
The annual annuity with the same value as the net present value of an investment project.

**Equivalent annual cash flow**
Annuity with the same net present value as the company's proposed investment.

**Equivalent annual cost**
The cost per year of owning an asset over its entire life.

**Equivalent bond yield**
Annual yield on a short-term, noninterest-bearing security calculated for comparison to yields quoted on coupon securities.

**Equivalent loan**
Given the after-tax stream associated with a lease, the maximum amount of conventional debt that the same period-by-period after-tax debt service stream is capable of supporting.

**Equivalent taxable yield**
The yield that must be offered on a taxable bond issue to give the same after-tax yield as a tax-exempt issue.

**Erosion**
A negative impact on one or more of a firm's existing assets.

**Escalator clause**
Provision in a contract allowing cost increases to be passed on. In an employment contract, for example an escalator clause may call for wage increases in line with inflation.

**Escheat**
Reversion of monies or securities to the state in which the securityholder was last known to reside, when no claim by the securityholder has been made after a certain period of time fixed by state law. This known as the holding period or cut-off date.

**Escheat Period**
The period of elapsed time required by applicable state law for property to be presumed abandoned.

**Escheatment**
The process of turning over unclaimed or abandoned property to a state authority. Escheatment laws require mutual funds to turn over uncashed or returned check dollars and/or client account fund shares if the owner cannot be located within a length of time determined by each state.

**Escrow**
Property or money held by a third party until the agreed upon obligations of a contract are met.

**Escrow receipt**
A document provided by a bank in options trading to guarantee that the underlying security is on deposit and available for potential delivery.

**Escrowed to Maturity (ETM)**
Holding of the proceeds from a new bond issue to pay off an existing bond issue at its maturation date.
**Essential purpose (or function) bond**
See: Public purpose bond

**Estate planning**
The preparation of a plan to carry out an individual's wishes as to the administration and disposition of his/her property before or after his/her death.

**Estate tax**
A federal or state tax imposed on an individual's assets inherited by heirs.

**Estimated tax**
Tax to be paid quarterly on income that is not subject to withholding tax, including self-employed income, investment income, alimony, rent, and capital gains.

**Ethical fund**
See: Social conscious mutual fund.

**Ethics**
Standards of conduct or moral judgment.

**Euclidean Geometry**
The Plane geometry we learn in high school, based upon a few ideal, smooth, symmetric shapes.

**Euro**
Originally for a deposit outside one's home country but in the home country currency. This terminology is confusing now since the new European currency unit, also called the Euro, was introduced on January 1, 1999.

**Euro CDs**
CDs issued by a US bank branch or foreign bank located outside the US. Almost all Euro CDs are issued in London.

**Eurodollar obligations**
Certificates of deposit issued in US dollars by foreign banks and foreign branches of US banks.

**Euro lines**
Lines of credit granted by banks (foreign or foreign branches of US banks) for Eurocurrencies.

**Euro straight**
A fixed-rate coupon Eurobond.
**Eurobank**
A bank that regularly accepts foreign currency-denominated deposits and makes foreign currency loans.

**Eurobond**
A bond that is (1) underwritten by an international syndicate, (2) issued simultaneously to investors in a number of countries, and (3) issued outside the jurisdiction of any single country.

**Euroclear**
The Euroclear group is the world's largest settlement system for domestic and international securities transactions, covering both bonds and equities for financial institutions located in over 80 countries.

**Euro-commercial paper**
Short-term notes with maturities up to 360 days that are issued by companies in international money markets.

**Eurocredit market**
Comprises banks that accept deposits and provide loans in large denominations and in a variety of currencies. The banks that constitute this market are the same banks that constitute the Eurocurrency market; the difference is that Eurocredit loans are longer-term than so-called Eurocurrency loans.

**Eurocredits**
Intermediate-term loans of Eurocurrencies made by banking syndicates to corporate and government borrowers.

**Eurocurrency**
Instrument issued outside your country, but denominated in your currency. A Eurodollar is a Certificate of Deposit in US dollars in some other country (though mainly traded in London). A Euroyen is a CD in yen outside Japan.

**Eurocurrency deposit**
A short-term fixed-rate time deposit denominated in a currency other than the local currency (i.e., US dollars deposited in a London bank).

**Eurocurrency market**
The money market for borrowing and lending currencies that are held in the form of deposits in banks located outside the countries where the currencies are issued as legal tender.

**Eurodollar**
Refers to a certificate of deposit in US dollars in a bank that is not located in the US. Most of
the Eurodollar deposits are in London banks, but Eurodeposits may be anywhere other than the US. Similarly, a Euroyen or Euro DM deposit represents a CD in yen or DM outside Japan and Germany, respectively.

**Eurodollar bonds**

Eurobonds denominated in U.S. dollars.

**Eurodollar certificate of deposit**

A certificate of deposit paying interest and principal in dollars, but issued by a bank outside the United States, usually in Europe.

**Euroequity issues**

Securities sold in the Euromarket. That is, securities initially sold to investors simultaneously in several national markets by an international syndicate. Related: External market.

**Euro-medium term note (Euro-MTN)**

A nonunderwritten Euronote issued directly to the market. Euro-MTNs are offered continuously rather than all at once as a bond issue is. Most Euro-MTN maturities are under five years.

**Euro.NM**

Created on March 1, 1996, Euro.NM is a pan-network of regulated markets dedicated to growth companies, regardless of their sector of activity or country of origin. Euro.NM member exchanges and their respective new markets consist of the Paris Stock Exchange (Le Nouveau Marche), the Deutsche Borse AG (Neuer Markt), the Amsterdam Exchanges (NMAX), and the Brussels Stock Exchange (Euro.NM Belgium).

**Euro-note**

Short- to medium-term debt instrument sold in the Eurocurrency market.

**Euroyen bonds**

Eurobonds denominated in Japanese yen.

**European,**

Stock index, computed by Morgan Stanley Capital International.

**European Association of Securities Dealers Automated Quotation (EASDAQ)**

European equivalent of Nasdaq.

**European Central Bank (ECB)**

Bank created to monitor the monetary policy of the 11 countries that have converted to the Euro from their local currencies. The 11 countries are: Austria, Belgium, Finland, France,
Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain.

**European Currency Unit (ECU)**
An index of foreign exchange consisting of European currencies, originally devised in 1979. See also: Euro.

**European exchange rate**
The system that countries in the European Union once used to pay exchange rates within bands around an ERM central value.

**European Exercise**
A feature of an option that stipulates that the option may only be exercised at its expiration. Therefore, there can be no early assignment with this type of option.

**European Monetary System (EMS)**
A system adopted by European Community members with the aim of promoting stability by limiting exchange-rate fluctuations. The system was originated in 1979 by the nine members of the European Community (EC). The EMS comprised three principal elements: the European Currency Unit (ECU), the monetary unit used in EC transactions; the Exchange Rate Mechanism, ERM, whereby those member states taking part agreed to maintain currency fluctuations within certain agreed limits; and the European Monetary Cooperation Fund, which issues the ECU and oversees the ERM. The 1992 Maastricht Treaty provided for the move to Economic and Monetary Union (EMU), including a European Monetary Institute to coordinate the economic and monetary policy of the EU, a European Central Bank (ECB) to govern these policies, and the presentation of a single European currency.

**European option**
Option that may be exercised only at the expiration date. Related: American option.

**European Options Exchange (EOE)**
Now AEX-Optiebeurs. See: Amsterdam Exchanges (AEX).

**European-style exercise**
A method of exercising options contracts in which the buyer can exercise the contract on the last day before expiration.

**European-style option**
An option contract that can be exercised only on the expiration date.

**European terms**
A foreign exchange quotation that states the foreign currency price of one US dollar.

**European Union (EU)**
An economic association of European countries founded by the Treaty of Rome in 1957 as a common market for six nations. It was known as the European Community until January 1, 1994 and currently comprises 15 European countries. Its goals are a single market for goods and services without any economic barriers, and a common currency with one monetary authority.

**Evaluation period**
The time interval over which funds assess a money manager's performance.

**Even lot**
See: Round lot

**Evening up**
Buying or selling to offset an existing market position.

**Event anomalies**
Occurrences such as earnings surprises or stock splits that seem to present opportunity to generate abnormal returns for those trading on the news.

**Event driven**
In the context of hedge funds, a style of management that combines many different types of hedge fund investing such as merger arbitrage, distressed securities and high yield investing, in conjunction with an important "event" that is supposed to unlock firm value (like a merger announcement, earnings announcement, or a regulator decision).

**Event risk**
The risk that the ability of an issuer to make interest and principal payments will change because of rare, discontinuous, and very large, unanticipated changes in the market environment such as (1) a natural or industrial accident or some regulatory change or (2) a takeover, or corporate restructuring.

**Event study**
A statistical study that examines how the release of information affects prices at a particular time.

**Events of default**
Contractually specified events that allow lenders to demand immediate repayment of a debt.

**Evergreen credit**
Revolving credit without maturity.

**Evergreen funding**
A British term referring to the gradual injection of capital into a new or existing enterprise.
Ex Works (EXW)
seller's only responsibility is to make the ordered goods available to the buyer at the seller's premises. The buyer bears the cost and risk in transporting the goods from the seller's premises to destination. Since this includes pre-carriage and export clearance in the seller's country, EXW is not a very practical Incoterm for U.S. exports.

Ex-all
The sale of a security without the privileges associated with the security such as dividends, voting rights, or warrants.

Ex ante return
The expected return or anticipated return of an asset or portfolio.

Ex ante value
The forecasted rate of return.

Exception
A proxy which does not authorize the proxy committee to act on its behalf concerning any other business, adjournments or substitutions.

Exceptional Return
Residual return plus benchmark timing return. For a given asset with beta equal to one, if its residual return is 2%, and the benchmark portfolio exceeds its consensus expected returns by 1%, then the asset's exceptional return is 3%.

Excess accumulation
The amount of a required minimum distribution that an IRA holder fails to remove from an IRA in a timely manner. Excess accumulations are subject to a 50% IRS penalty tax.

Excess contribution
The amount by which an IRA contribution exceeds the allowable limits. If an excess contribution is not properly corrected, a 6% IRS penalty applies.

Excess reserves
Amount of reserves held by an institution in excess of its reserve requirement and required clearing balance. Also see reserves.

Exchange Ratio
The number of new shares in an acquiring firm that are timed for each outstanding share of an acquired firm.

Ex-dividend
This literally means "without dividend." The buyer of shares when they are quoted
ex-dividend is not entitled to receive a declared dividend. It is the interval between the record date and the payment date during which the stock trades without its dividend—the buyer of a stock selling ex-dividend does not receive the recently declared dividend. Antithesis of cum dividend (with dividend).

**Ex-dividend date**
The first day of trading when the seller, rather than the buyer, of a stock will be entitled to the most recently announced dividend payment. The date set by the NYSE (and generally followed on other US exchanges) is currently two business days before the record date. A stock that has gone ex-dividend is denoted by an x in newspaper listings on that date.

**Executor**
An individual or trust institution nominated in a will and appointed by a court to settle the estate of a deceased person.

**Ex-legal**
A municipal bond offered without a law firm’s legal opinion. As the majority of bonds are issued with legal opinions.

**Expatriate**
An employee who is a U.S. citizen living and working in a foreign country.

**Ex-pit transaction**
The purchase of commodities off the exchange's floor.

**Ex post return**
Related: Holding-period return

**Ex-rights**
Shares of stock that are trading without rights attached.

**Ex-rights date**
The date on which a share of common stock begins trading ex-rights.

**Ex-stock dividends**
The time period between the announcement of a stock dividend and its actual payment. The buyer of shares during this time period does is not entitled to the dividend.

**Ex-warrants**
Describes a stock sale in which the buyer is not entitled to the warrant accompanying the stock.

**Exact interest**
Interest paid based on the basis of a 365-day/year schedule by a bank or other financial
institution as opposed to a 360-day basis (ordinary interest). Difference can be material when large principal sums of money are involved.

**Exact matching**
A bond portfolio management strategy that involves finding the lowest cost portfolio generating cash inflows exactly equal to cash outflows that are being financed by investment.

**Except for opinion**
An auditor's opinion reflecting the fact that the auditor is unable to audit certain areas of the company's operations because of restrictions imposed by management or other conditions beyond the auditor's control.

**Excepted rate of inflation**
The public's expectations for inflation. These expectations determine how large an effect a given policy action by the Fed will have on economic activity.

**Excess kurtosis**
Kurtosis measures the "fatness" of the tails of a distribution. Excess kurtosis means that distribution has fatter tails than a normal distribution. Fat tails means there is a higher than normal probability of big positive and negative returns realizations.

**Excess margin**
Equity present in an individual's account above the legal minimum required for a margin account or the maintenance requirement at a brokerage firm.

**Excess profits tax**
Additional federal taxes placed on the earnings of a business, used only in time of national emergency such as war.

**Excess reserves**
Actual reserves that exceed required reserves.

**Excess return on the market portfolio**
Difference between the return on the market portfolio and the riskless rate.

**Excess returns**
Difference between asset return and riskless rate. Sometimes confused with abnormal returns, returns in excess of those required by some asset pricing model.

**Exchange**
A marketplace in which shares, options and futures on stocks, bonds, commodities, and indexes are traded. Principal US stock exchanges are: New York Stock Exchange (NYSE), American Stock Exchange (AMEX), and National Association of Securities Dealers Automatic Quotation System
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.
**Exchange rate risk**
Also called currency risk; the risk that an investment's value will change because of currency exchange rates.

**Exchange risk**
The variability of a firm's value that results from unexpected exchange rate changes, or the extent to which the present value of a firm is expected to change as a result of a given currency's appreciation or depreciation.

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

**Exchange Traded Funds**
Also known as ETF. A basket of stocks similar to an index mutual fund. However, there are a number of important differences between ETFs and mutual funds. The ETF can be traded within the day, they can be shorted, purchased on margin and there even exists options on some ETFs.

**Exchangeable**
Applies mainly to convertible securities. Means the issuer, if so stated, may substitute a convertible debenture for an existing convertible preferred with identical terms. Most often used when a corporation has an immediate need for equity capital and a low tax rate, and expects either or both conditions to change. This would make the debenture less attractive if the interest tax-deductibility is lost.

**Exchangeable instrument**
Applies mainly to convertible securities. Bond or preferred stock that may be exchangeable into the common stock of a different public corporation.

**Exchangeable Security**
Investment instrument that grants its holder the right to exchange it for the common stock of a firm other than the issuer of the instrument.

**Excise tax**
Federal or state tax placed on the sale or manufacture of a commodity, typically a luxury item e.g., alcohol.

**Exclusionary self-tender**
A firm's offer to buy a given amount of its own stock while excluding targeted stockholders.

**Exclusive**
In the context of general equities, having sole possession of the customer order/indication; not in competition with other dealers.
**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.
Exercising the option
The act of buying or selling the underlying asset via the option contract.

Exhaust price
The low price at which a broker must liquidate a client’s holding in a stock purchased in a margin account in order to meet a margin call when the client cannot meet the call.

Exim bank
See: Export-Import Bank

Exit fee
See: Back-end load

Exogenous
Describes facts outside the control of the firm. Converse of endogenous.

Exogenous variable
A variable whose value is determined outside the model in which it is used. Related: Endogenous variable

Exotic option
Refers to options that are more complex than simple puts or call options. For example, a Caput is a call option on a put option.

Expansion
Phase of the business cycle as it climbs from a trough toward a peak.

Expectations hypothesis theories
Theories of the term structure of interest rates, which include the pure expectations theory; the liquidity theory of the term structure, and the preferred habitat theory. These theories hold that each forward rate equals the expected future interest rate for the relevant period. These three theories differ, however, on whether other factors also affect forward rates, and how.

Expectations theory of forward exchange rates
A theory of foreign exchange rates that states that the expected future spot foreign exchange rate t periods from now equals the current t-period forward exchange rate.

Expected dividend yield
Total amount of dividends received during the life of a futures contract or total dividends received for holding a particular stock one year. See: Current yield.

Expected future cash flows
Projected future cash flows associated with an asset.

**Expected future return**
The return that is expected to be earned on an asset in the future. Also called the expected return.

**Expected return**
The expected return on a risky asset, given a probability distribution for the possible rates of return. Expected return equals some risk-free rate (generally the prevailing U.S. Treasury note or bond rate) plus a risk premium (the difference between the historic market return, based upon a well diversified index such as the S&P 500 and the historic US Treasury bond) multiplied by the assets beta. The conditional expected return varies through time as a function of current market information.

**Expected return-beta relationship**
Implication of the CAPM that security risk premiums will be proportional to beta.

**Expected return on investment**
The return one can expect to earn on an investment. See: Capital asset pricing model.

**Expected Spot Rate**
The exchange rate between two currencies that is anticipated to prevail in the spot market on a given future date. It differs from the current spot rate primarily by the extent to which inflation expectations in the two currencies differ.

**Expected value**
The weighted average of a probability distribution. Also known as the mean value.

**Expected value of perfect information**
The expected value if the future uncertain outcomes could be known minus the expected value with no additional information.

**Expense ratio**
The percentage of the assets that are spent to run a mutual fund (as of the last annual statement). This includes expenses such as management and advisory fees, overhead costs, and 12b-1 (distribution and advertising) fees. The expense ratio does not include brokerage costs for trading the portfolio, although these are reported as a percentage of assets to the SEC by the funds in a Statement of Additional Information (SAI). The SAI is available to shareholders on request. Neither the expense ratio nor the SAI includes the transactions costs of spreads, normally incurred in unlisted securities and foreign stocks. These two costs can add significantly to the reported expenses of a fund. The expense ratio is often termed an Operating Expense Ratio (OER).

**Expensed**
Charged to an expense account, fully reducing reported profit of that year, as is appropriate for expenditures for items with useful lives under one year.

**Experience rating**
A technique insurance companies use to determine the correct price of a policy premium.

**Expiration**
The time an option contract lapses.

**Expiration cycle**
Dates on which options on a particular security expire. A given option will be placed in one of three cycles: the January cycle, the February cycle, or the March cycle. At any time, an option has contracts with four expiration dates outstanding: two in near-term months and two in far-term months. Last day on which an option may be exercised.

**Expiration date**
The last day (in the case of American-style) or the only day (in the case of European-style) on which an option may be exercised. For stock options, this date is the Saturday immediately following the third Friday of the expiration month; brokerage firms may set an earlier deadline for notification of an option holder's intention to exercise. If Friday is a holiday, the last trading day will be the preceding Thursday.

**Expiration time**
The time of day by which all exercise notices must be received on the expiration date. Technically, the expiration time is currently 5:00PM on the expiration date, but public holders of option contracts must indicate their desire to exercise no later than 5:30PM on the business day preceding the expiration date. The times are Eastern Time. See also Expiration Date.

**Explicit Bankruptcy Costs**
Specific costs incurred during the bankruptcy process such as legal fees, court costs, consultants' fees, and document preparation expenses.

**Explicit tax**
A tax specifically collected by a government; includes income, withholding, property, sales, and value-added taxes and tariffs.

**Exploding term sheet**
Venture capital jargon. Often a proposed term sheet, might explode or be null and void in a fixed period set to negotiate the final contract.

**Export Commodity Control List**
A listing administered by the U.S. Department of Commerce of items requiring validated export licenses for shipment to some or all countries.
Export-import
The US federal government agency that extends trade credits to US companies to facilitate the financing of US exports.

Export financing interest
Interest income derived from goods manufactured in the US and sold outside the US as long as not more than 50% of the value is imported into the US.

Export License
Permission from the exporter's government to export specific merchandise to a particular country.

Export management
A foreign or domestic company that acts as a sales agent and distributor for domestic exporters in international markets.

Export Management Consultant (EMC)
A company serving as the export department of other firms. Normally, EMC's work on a commission basis and do not take title to the goods they export. Also see: Export Trading Company.

Export Trading Company (ETC)
A company serving as the export department of other firms. They usually take title, risk and responsibility for the goods they export.

Exports
Goods or services sold to parties in foreign countries.

Exposure netting
Offsetting exposures in one currency with exposures in the same or another currency, when exchange rates are expected to move in such a way that losses or gains on the first exposed position should be offset by gains or losses on the second currency exposure.

Expost average rate of return
The historical mean percentage an asset has yielded.

Expropriation
The official seizure by a government of private property. Any government has the right to seize such property, according to international law, if prompt and adequate compensation is given.

Expunge
Used in the context of general equities. Remove any trace of an Auto indication's existence.
at any time. See: Cancel.

**Extendable bond**
Bond whose maturity can be extended at the option of the lender or issuer.

**Extendable notes**
Note with maturity that can be extended by mutual agreement between the issuer and investors.

**Extension**
Voluntary arrangements to restructure a firm's debt, under which the payment date is postponed.

**Extension date**
The day on which the first option either expires or is extended.

**Extension swap**
Extending maturity through a swap, e.g. selling a 2-year note and buying one with a slightly longer current maturity.

**External efficiency**
Related: Pricing efficiency

**External finance**
Funding that is not generated by a firm's operations: new borrowing or a stock issue.

**External funds**
Funds originating from a source outside the corporation to increase cash flow and to aid in expansion efforts, e.g., bank loan or bond offering.

**External market**
Also referred to as the international market, the offshore market, or, more popularly, the Euromarket. A mechanism for trading securities that at issuance (1) are offered simultaneously to investors in a number of countries and (2) are issued outside the jurisdiction of any single country. Related: Internal market.

**Extinguish**
Retire or pay off debt.

**Extra Dividend**
A temporary increase in a firm's dividends beyond the normal level.

**Extraordinary call**
Early redemption of a revenue bond because the revenue source paying the interest on the
bond has been eliminated or has disappeared.

**Extraordinary item**
An unusual and unexpected one-time event that must be explained to shareholders in an annual or quarterly report, e.g., write down for a discontinued operation, employee fraud, a lawsuit, or other one-time events. Results are often presented with and without these items. The logic of excluding these items is that investors a better notion of future performance if one-time events are excluded.

**Extra or special dividends**
A dividend that is paid in addition to a firm's established or expected quarterly dividend.

**Extraordinary positive value**
A positive net present value.

**Extrapolative statistical models**
Models that apply a formula to historical data and project results for a future period. Such models include the simple linear trend model, the simple exponential model, and the simple autoregressive model.

**F**
Fifth letter of a Nasdaq stock symbol specifying that the issue is a foreign company.

**FAC**
See: Federal Advisory Council

**FAS**
Abbreviation for the Incoterm Free Alongside Ship.

**FASB**
See: Financial Accounting Standards Board

**FCA**
Abbreviation for the Free Carrier

**FCIA**
See: Foreign Credit Insurance Association

**FCM**
See: Futures commission merchant

**FDI**
See: Foreign direct investment
FDIC
See: Federal Deposit Insurance Corporation

FFO
See: Funds from operations

FIRREA
See: Financial Institutions Reform, Recovery and Enforcement Act of 1989

FI
The two-character ISO 3166 country code for FINLAND.

FIM
The ISO 4217 currency code for the Finnish Markka.

FJ
The two-character ISO 3166 country code for FIJI.

FJD
The ISO 4217 currency code for the Fijian Dollar.

FK
The two-character ISO 3166 country code for FALKLAND ISLANDS (MALVINAS).

FKP
The ISO 4217 currency code for the Falkland Islands Pound.

FO
The two-character ISO 3166 country code for FAROE ISLANDS.

FOK
See: Fill or kill order

FM
The two-character ISO 3166 country code for MICRONESIA, FEDERATED STATES OF.

FPA
Abbreviation for the insurance term Free of Particular Average

FR
The two-character ISO 3166 country code for FRANCE.

FRA
See: Forward rate agreement
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.
Factoring
Sale of a firm's accounts receivable to a financial institution known as a factor.

Fade
Refers to over-the-counter trading. Fill another OTC dealer's bid for or offer of stock.

Fail
A deal is said to fail if on the settlement date either the seller does not deliver securities in proper form or the buyer does not to deliver funds in proper form.

Fair-and-equitable test
A set of requirements for a plan of reorganization to be approved by the bankruptcy court.

Fair game
An investment prospect that has a zero risk premium.

Fair market price
Amount at which an asset would change hands between two parties, that both have knowledge of the relevant facts. Also referred to as market price.

Fair price
The equilibrium price for futures contracts. Also called the theoretical futures price, which equals the spot price continuously compounded at the cost of carry rate for some time interval. In the context of corporate governance, Fair-Price provisions limit the range of prices a bidder can pay in two-tier offers. They typically require a bidder to pay to all shareholders the highest price paid to any during a specified period of time before the commencement of a tender offer and do not apply if the deal is approved by the board of directors or a supermajority of the target's shareholders. The goal of this provision is to prevent pressure on the target's shareholders to tender their shares in the front end of a two-tiered tender offer, and they have the result of making such and acquisition more expensive. A majority of states have fair price laws.

Fair price provision
See: Appraisal rights

Fair rate of return
The rate of return that state governments allow a public utility to earn on its investments and expenditures. Utilities then use these profits to pay investors and provide service upgrades to their customers.

Fair value
In the context of futures, the equilibrium price for futures contracts. Also called the theoretical futures price, which equals the spot price continuously compounded at the cost of carry rate for some time interval. More generally, fair value for any asset simply refers to the
perception that it is neither underpriced (too cheap) nor overpriced (too expensive).

**Fairness opinion**
An investment banker's professional opinion as to the price an acquiring firm is offering in a takeover or merger.

**Fall Down**
In the context of general equities, may not be able to produce as indicated in one's advertised market, due to less help (than anticipated) from other parties or due to changing market conditions.

**Fall out of bed**
A sudden drop in a stock's price resulting from failed or poor business deals gone bad or falling through.

**Fallen angels**
Bonds that at the time of issue were considered investment grade but that have dropped below that rating over time.

**Fallout risk**
A type of mortgage pipeline risk that is generally created when the terms of the loan to be originated are set at the same time the sale terms are established. The risk is that either of the two parties, borrower or investor, fails to close and the loan "falls out" of the pipeline.

**Fama, Eugene F.**
Finance professor at the University of Chicago. Developer of the Efficient Markets Hypothesis.

**Family of funds**
Different mutual funds offered by one investment company.

**Far month**
Used in the context of option or futures to refer to the trading month of the contract that is farthest away. Antithesis of nearest month.

**Farther out; farther in**
Used in the context of options to refer to the relative length of option contract maturities.

**FASB No. 8**
U.S. accounting standard that requires US firms to translate their foreign affiliates' accounts by the temporal method; that is reporting gains and losses from currency fluctuations in current income. It was in effect between 1975 and 1981 and became the most controversial accounting standard in the US. It was replaced by FASB No. 52 in 1981.
**FASB No. 52**
The US accounting standard that replaced FASB No. 8. US companies are required to translate foreign accounts in terms of the current rate and report the changes from currency fluctuations in a cumulative translation adjustment account in the equity section of the balance sheet.

**Fast market**
Excessively rapid trading in a specific security that causes a delay in the electronic updating of its last sale and market conditions, particularly in options.

**Favorable Balance of Trade**
The value of a nation’s exports in excess of the value of its imports.

**Favorable trade balance**
Condition that total exports of a nation exceed total imports, creating a net export.

**Feasible portfolio**
A portfolio that an investor can construct, given the assets available.

**Feasible set of portfolios**
The collection of all feasible portfolios.

**Feasible target payout ratios**
Payout ratios that are consistent with the level of excess funds available to make cash dividend payments.

**FED Pass**
A Federal Reserve action adding more reserves to the banking system, increasing the money available for lending, and making credit easier to attain.

**Federal Advisory Council (FAC)**
Advisory group made up of one representative (in most cases a banker) from each of the 12 Federal Reserve districts. Established by the Federal REserve Act, the council meets periodically with the Board of Governors to discuss business and financial conditions and make recommendations.

**Federal agency bond**
Fixed-income security issued by a government agency such as FNMA.

**Federal agency securities**
Securities issued by corporations and agencies created by the US government, such as the Federal Home Loan Bank Board and Ginnie Mae.
Federal Agricultural Mortgage Corporation (Farmer Mac)
A federal agency chartered in 1988 to provide a secondary market for farm mortgage loans.

Federal credit agencies
Agencies of the federal government set up to supply credit to various classes of institutions and individuals, e.g., S&Ls, small business firms, students, farmers, and exporters.

Federal deficit (surplus)
When federal government expenditures are exceeded by federal government revenue.

Federal Farm Credit Bank
An institution created by the government with the purpose of uniting the financing activities of the federal land banks, the federal intermediate credit banks, and the banks for cooperatives. See: Federal Farm Credit System.

Federal Farm Credit System
A system chartered in 1971 through the farm credit act providing farmers with credit services through a federal land bank, a federal intermediate credit bank, and a bank for cooperatives. See: Federal Farm Credit Bank.

Federal Deposit Insurance Corporation (FDIC)
A federal institution that insures bank deposits.

Federal Financing Bank
A federal institution that lends to a wide array of federal credit agencies funds it obtains by borrowing from the US Treasury.

Federal funds
Noninterest-bearing deposits held in reserve for depository institutions at their district Federal Reserve Bank. Also, excess reserves lent by banks to each other.

Federal funds market
The market in which banks can borrow or lend reserves, allowing banks temporarily short of their required reserves to borrow reserves from banks that have excess reserves.

Federal funds rate
The interest rate that banks with excess reserves at a Federal Reserve district bank charge other banks that need overnight loans. The Fed funds rate, as it is called, often points to the direction of US interest rates. The most sensitive indicator of the direction of interest rates, since it is set daily by the market, unlike the prime rate and the discount rate.

Federal gift tax
A federal tax imposed on assets conveyed as gifts to individuals.
Federal Home Loan Banks
The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

Federal Home Loan Mortgage Corporation (FHLMC)
See: Freddie Mac

Federal Housing Administration (FHA)
Federally sponsored agency chartered in 1934 whose stock is currently owned by savings institutions across the United States. The agency buys residential mortgages that meet certain requirements, sells these mortgages in packages, and insures the lenders against loss.

Federal Housing Finance Board (FHFB)
US government agency chartered in 1989 to assume the responsibilities formerly held by the Federal Home Loan Bank system.

Federal Intermediate Credit Bank
A bank sponsored by the federal government to provide funds to institutions making loans to farmers.

Federal intrafund transactions
Intrabudgetary transactions in which payments and receipts both occur within the same Federal fund group.

Federal Land Bank
A bank administered under the US Farm Credit Administration that provides long-term mortgage credit to farmers for agriculture-related expenditures.

Federal margin call
A broker's demand upon a customer for cash, or securities needed to satisfy the required Regulation T down payment for a purchase or short sale of securities.

Federal Maritime Commission (FMC)
A U.S. government agency that regulates and administers the shipping industry. This agency also grants freight forwarder licenses.

Federal National Mortgage Association (Fannie)
A publicly owned, government-sponsored corporation chartered in 1938 to purchase mortgages from lenders and resell them to investors. Known by the nickname Fannie Mae, it packages mortgages backed by the Federal Housing Administration, but also sells some nongovernment-backed mortgages.
Federal Open Market Committee (FOMC)
The body that is responsible for setting the interest rates and credit policies of the Federal Reserve System.

Federal Reserve Act of 1913
Federal legislation that established the Federal Reserve System.

Federal Reserve Bank
One of the 12 member banks constituting the Federal Reserve System that is responsible for overseeing the commercial and savings banks of its region to ensure their compliance with regulation.

Federal Reserve District (Reserve district or district)
One of the twelve geographic regions served by a Federal Reserve Bank.

Federal Reserve Board (FRB)
The seven-member governing body of the Federal Reserve System, which is responsible for setting reserve requirements, and the discount rate, and making other key economic decisions.

Federal Reserve float
Float is checkbook money that appears on the books of both the check writer (the payor) and the check receiver (the payee) while a check is being processed. Federal Reserve float is float present during the Federal Reserve's check collection process. To promote efficiency in the payments system and provide certainly about the date that deposited funds will become available to the receiving depository institutions (and the payee), the Federal Reserve credits the reserve accounts of banks that deposit check according to a fixed schedule. However, processing certain checks and collecting funds from the banks on which these checks are written may take more time than the schedule allows. Therefore, the accounts of some banks may be credited before the Federal Reserve is able to collect payment from other banks, resulting in Federal Reserve float.

Federal Reserve notes
Issues by the US government to the public through the Federal Reserve Banks and their member banks. They represent money owed by the government to the public. Currently, the item "Federal Reserve notes amounts outstanding" consists of new series issues. The Federal Reserve note is the only class of currency currently issued.

Federal Reserve System
The monetary authority of the US, established in 1913, and governed by the Federal Reserve Board located in Washington, D.C. The system includes 12 Federal Reserve Banks and is authorized to regulate monetary policy in the US as well as to supervise Federal Reserve member banks, bank holding companies, international operations of US banks, and US operations of foreign banks.
Federal Savings and Loan Association
An institution chartered by the federal government whose primary function is to collect savings deposits and to provide mortgage loans.

Federally related institutions
Arms of the federal government exempt from SEC registration whose securities are backed by the full faith and credit of the US government (with the exception of the Tennessee Valley Authority).

Fedwire
A wire transfer system for high-value payments operated by the Federal Reserve System.

Fee table
Schedule found in a mutual fund's prospectus that discloses and illustrates the expenses and fees a shareholder will incur.

Fee-and-commission compensation
See: Fee-based compensation

Fee-based compensation
Payment to a financial adviser of a set hourly rate, or an agreed-upon percentage of assets under management, for a financial plan. When the plan is implemented, the adviser may also receive commission on some or all of the investment products purchased, which would be fee-and-commission compensation.

Fee-only compensation
Payment to a financial adviser of a set hourly rate, or an agreed-upon percentage of assets under management, for a financial plan.

Feedback Systems
An equation where the output becomes the input in the next iteration. This is much like a public address system where the microphone is placed next to the speakers generating feedback as the signal is looped through the PA system.

FHA prepayment experience
The percentage of loans in a pool of mortgages outstanding at the origination anniversary, based on annual statistical historic survival rates for FHA-insured mortgages.

Fiat money
Nonconvertible paper money.

FICO
See: Financing corporation
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, noncancellable rental agreement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Financial ratio**
The result of dividing one financial statement item by another. Ratios help analysts interpret financial statements by focusing on specific relationships.
Financial risk
The risk that the cash flow of an issuer will not be adequate to meet its financial obligations. Also referred to as the additional risk that a firm’s stockholder bears when the firm uses debt and equity.

Financial service income
Income from delivery of financial services such as banking, insurance, leasing, or financial service management fees.

Financial statement
A report of basic accounting data that helps investors understand a firm’s financial history and activities.

Financial statement analysis
Evaluation of a firm’s financial statements in order to assess the firm’s worth and its ability to meet its financial obligations.

Financial strategy
Practices a firm adopts to pursue its financial objectives.

Financial structure
The way in which a company’s assets are financed, such as short-term borrowings, long-term debt, and ownership equity. Financial structure differs from capital structure in that capital structure accounts for long-term debt and equity only.

Financial supermarket
A company offering a wide variety of financial services such as a combination of banking services, stock, and insurance brokerage.

Financial tables
Tables found in newspapers listing prices, dividends, yields, price-earnings ratios, trading volume, and other important data on stocks, bonds, mutual funds, and futures contracts.

Financial Times (F-T)-Actuaries indexes
Share price indexes for U.K. companies The denominator in the index formula is the market capitalization at the base date, adjusted for all capital changes affecting the particular index since the base date. See: Footsie (FTSE) (pronounced footsie).

Financing Corporation (FICO)
A government agency chartered in 1987 to bail out the Federal Savings and Loan Insurance Corporation (FSLIC) by issuing bonds.

Financing decisions
Decisions concerning the liabilities and stockholders' equity side of the firm's balance sheet, such as a decision to issue bonds.

**Financing Intermediaries**
Institutions that effect agreement terms between borrower and lender by reaching separate agreements with the borrower and the lender.

**Financing Cost Savings**
A source of competitive advantage that depends on access to low cost sources of capital.

**Finder's fee**
A fee a person or company charges for service as an intermediary in a transaction.

**FINEX**
The financial futures and options division of the New York Cotton Exchange (NYCE), with a trading floor in Dublin, FINEX Europe, creating a 24-hour market in most FINEX contracts.

**Finish**
Used in the context of general equities. See: Fill.

**Finite-Life Real Estate Investment Trust (FREIT)**
A Real Estate Investment Trust whose priority is to sell its holdings within a specified period to realize capital gains.

**Firewall**
The legal barrier between banking and broker/dealer operations within a financial institution created to prevent the exchange of inside information.

**Firm**
Refers to an order to buy or sell that can be executed without confirmation for some fixed period. Also, a synonym for company.

**Firm anomalies**
Trading strategies that generate abnormal returns based on firm-specific characteristics.

**Firm commitment underwriting**
An underwriting in which an investment banking firm commits to buy and sell an entire issue of stock and assumes all financial responsibility for any unsold shares.

**Firm market**
In the context of general equities, prices at which a security can actually be bought or sold in decent sizes, as compared to an inside market with very little depth. See: Actual market.
Firm order
In the context of general equities, (1) order to buy or sell for the proprietary account of the broker-dealer firm; (2) buy or sell order not conditional upon the customer’s confirmation.

Firm quote
A definite price on a round-lot bid or offer declared by a market maker on a given security and not identified as a nominal quotation (therefore is not negotiable).

Firm-specific news
News that affects only a specific firm. Market news by contrast affects many firms.

Firm-specific risk
See: Diversifiable risk or unsystematic risk

Firm's net value of debt
Total firm value minus total firm debt.

First board
The Chicago Board of Trade's established dates for delivery on futures contracts.

First call
With collateralized mortgage obligation (CMOs), the start of the cash flow cycle for the cash flow window.

First call date
A date stated in an indenture, that is the first date on which the issuer may redeem a bond either partially or completely.

First In, First Out (FIFO)
An accounting method for valuing the cost of goods sold that uses the cost of the oldest item in inventory first.

First market
Exchange-traded securities.

First mortgage
A type of mortgage that through a lien gives precedence to the lender of the first mortgage over all other lenders in case of default.

First notice day
The first day, varying by contracts and exchanges, on which notices of intent to deliver actual financial instruments or physical commodities against futures are authorized.
**First-pass regression**  
A time series regression to estimate the betas of securities portfolios.

**First preferred stock**  
A type of preferred stock that has priority over other preferred issues and common stock when claiming dividends and assets.

**Fiscal agency agreement**  
An alternative to a bond trust deed. Unlike the trustee, the fiscal agent acts as a representative of the borrower.

**Fiscal agency services**  
Services performed by the Federal Reserve Banks for the U.S. government. These include maintaining deposit accounts for the Treasury Department, paying U.S. government checks drawn on the Treasury, and issuing and redeeming savings bonds and other government securities.

**Fiscal policy**  
Government spending and taxing for the specific purpose of stabilizing the economy.

**Fiscal year (FY)**  
Accounting period covering 12 consecutive months over which a company determines earnings and profits. The fiscal year serves as a period of reference for the company and does not necessarily correspond to the calendar year.

**Fiscal year-end**  
The end of a 12-month accounting period.

**Fisher effect**  
A theory that nominal interest rates in two or more countries should be equal to the required real rate of return to investors plus compensation for the expected amount of inflation in each country.

**Fisher's separation theorem**  
The notion that a firm's choice of investments is separate from its owner's attitudes toward investments. Also referred to as portfolio separation theorem.

**Fit**  
The matching of the investor's requirements and needs such as risk tolerance and growth potential preference with a specific investment.

**Fitch sheet**  
Used in the context of general equities. Chronological listing of trades in a security showing the price, size, exchange, and time (to the second) of the trades; obtained by hitting "#M"
on Quotron.

**Five Cs of credit**

Five characteristics that are used to form a judgment about a customer's creditworthiness: character, capacity, **capital**, **collateral**, and conditions.

**Five hundred dollar rule**

A rule of the **Federal Reserve** that excludes deficiencies of $500 or less in **margin requirements** as a necessary reason for the firm to liquidate the client's **account** to cover a **margin call**.

**Five percent rule**

A rule of the **National Association of Securities Dealers** providing ethical guidelines for **spreads** created by **market makers** and **commissions** charged by **brokers**.

**Fixation**

The process of setting a price of a **commodity**, whether in the present or the future. See: **Gold fixing**.

**Fixed asset**

Long-lived property owned by a firm that is used by a firm in the production of its income. **Tangible fixed assets** include real estate, plant, and equipment. **Intangible fixed assets** include patents, trademarks, and customer recognition.

**Fixed asset turnover ratio**

The ratio of sales to **fixed assets**.

**Fixed annuities**

**Contracts** in which an insurance company or issuing financial institution pays a fixed dollar amount of money per period.

**Fixed benefits**

Payments to a **beneficiary** that are paid in fixed preset amounts and are not variable.

**Fixed-charge coverage ratio**

A measure of a firm's ability to meet its fixed-charge obligations: the ratio of (net **earnings** before taxes plus **interest** charges paid plus long-term **lease** payments) to (interest charges paid plus long-term lease payments).

**Fixed cost**

A cost that is fixed in total for a given period of time and for given production levels.

**Fixed dates**

In the **Euromarket**, the standard periods for which **Euros** are **traded** (one month out to a
year out) are referred to as the fixed dates.

**Fixed-dollar obligations**
Conventional bonds for which the coupon rate is set at a fixed percentage of the par value.

**Fixed-dollar security**
A nonnegotiable debt security that can be redeemed at some fixed price or according to some schedule of fixed values, e.g., bank deposits and government savings bonds.

**Fixed exchange rate**
A country’s decision to tie the value of its currency to another country’s currency, gold (or another commodity), or a basket of currencies.

**Fixed for floating swap**
An interest rate swap in which the fixed rate payments are traded for a floating rate.

**Fixed income equivalent**
Also called a busted convertible. Convertible security that is trading like a straight security because the optioned common stock is trading well below the conversion price.

**Fixed income instruments**
Assets that pay a fixed dollar amount, such as bonds and preferred stock.

**Fixed income market**
The market for trading bonds and preferred stock.

**Fixed-income securities**
Investments that have specific interest rates, such as bonds.

**Fixed premium**
Payments of a fixed, equal amounts paid to an insurance company for insurance or an annuity.

**Fixed price basis**
An offering of securities at a fixed price.

**Fixed-price tender offer**
A one-time offer to purchase a stated number of shares at a stated fixed price, usually at a premium over the current market price.

**Fixed rate**
A traditional approach to determining the finance charge payable on an extension of credit. A predetermined and certain rate of interest is applied to the principal.
**Fixed-rate loan**
A loan whose rate is fixed for the life of the loan.

**Fixed-rate payer**
In an interest rate swap, the counterparty who pays a fixed rate, usually in exchange for a floating-rate payment.

**Fixed-term reverse mortgage**
A mortgage in which the lending institution provides payments to a homeowner for a fixed number of years.

**Fixed trust**
A unit investment trust consisting of securities that were agreed upon at the time of investment and do not change.

**Flag**
A pattern reflecting price fluctuations within a narrow range, generating a rectangular area on a graph both prior to and after sharp rises or declines.

**Flash**
Value of a security displayed, or flashed across the tape, when the tape display cannot keep up with volume on an exchange and lags the current price is lagged more than approximately five minutes.

**Flat**
Convertibles: Earning interest on the date of payment only.
General: Having neither a short nor a long position in a stock. Clean.
Market: Characterized by horizontal price movement, usually the result of low activity.
Equities: To execute without commission or markup.

**Flat benefit formula**
Method used to determine a participant’s benefits in a defined benefit plan by multiplying months of service by a flat monthly benefit.

**Flat price (also clean price)**
The quoted newspaper price of a bond that does not include accrued interest. The price paid by the purchaser is the full price.

**Flat price risk**
Taking a position either long or short that does not involve spreading.

**Flat scale**
The pattern for new issues where shorter- and longer-term yields display very little difference over the bond’s maturity range.
Flat tax
A tax which is levied at the same rate on all levels of income. Antithesis of progressive tax.

Flat trades
A bond in default trades flat; that is, the price quoted covers both principal and unpaid accrued interest. Any security that trades without accrued interest or at a price that includes accrued interest is said to trade flat.

Flattening of the yield curve
A change in the yield curve when the spread between the yield on long-term and short-term Treasuries has decreased. Compare steepening of the yield curve and butterfly shift.

FLEX Options
Exchange traded equity or index options, where the investor can specify within certain limits, the terms of the options, such as exercise price Expiration date, exercise type, and settlement calculation.

Flexible budget
A budget that shows how costs vary with different rates of output or at different levels of sales volume and projects revenue based on these different output levels.

Flexible expenses
Expenses for an individual or corporation that can be adjusted or completely dispensed with, e.g., luxury goods.

Flexible mutual fund
Fund that invests in a variety of securities in varying proportions in order to maximize shareholder returns while maintaining a low level of risk.

Flight to quality
The tendency of investors to move toward safer investments (often government bonds) during periods of high economic uncertainty.

Flip-flop note
Note that allows investors to switch between two different types of debt.

Flip side
In the context of general equities, opposite side to a proposition or position (buy, if sell is the proposition and vice versa).

Flipping
Buying shares in an initial public offering (IPO), and then selling the shares immediately after the start of public trading to turn an immediate profit.
**Float**
Currency: *Exchange rate* policy that does not limit the range of the market rate.
Equities: Number of *shares* of a corporation that are *outstanding* and available for trading by the public, excluding *insiders* or restricted stock on a *when-issued* basis. A stock's *volatility* is inversely correlated to its *float*.

**Floater**
A *bond* whose *interest rate* varies with the *interest rate* of another *debt instrument*, e.g., a *bond* that has the *interest rate* of the *Treasury bill* +.25%.

**Floating debt**
Short-term debt that is renewed and refinanced constantly to fund *capital* needs of a firm or institution.

**Floating exchange rate**
A country's decision to allow its *currency* value to change freely. The currency is not constrained by central bank intervention and does not have to maintain its relationship with another currency in a narrow band. The currency value is determined by trading in the *foreign exchange* market.

**Floating exchange rate system**
Purchase or sale of the currencies of other nations by a central bank for the purpose of influencing foreign exchange rates or maintaining orderly foreign exchange markets. Also called foreign-exchange market intervention.

**Floating lien**
General attachment against a company's *assets* or against a particular *class* of *assets*.

**Floating-rate contract**
An *guaranteed investment instrument* whose interest payment is tied to some *variable* (floating) *interest rate benchmark*, such as a specific-maturity Treasury yield.

**Floating-rate note (FRN)**
*Note* whose interest payment varies with short-term *interest rates*.

**Floating-rate payer**
In an *interest rate swap*, the *counterparty* who pays a rate based on a *reference rate*, usually in exchange for a fixed-rate payment.

**Floating-rate preferred**
Preferred stock paying *dividends* that vary with short-term *interest rates*.

**Floating securities**
Securities bought in a broker’s name and resold quickly to attain a profit in a short amount of time.

Floating supply
The aggregate of securities believed to be available for immediate purchase, that is, in the hands of dealers and investors wanting to sell.

Floor
The area of a stock exchange where active trading occurs. Also the price at which a stop order is activated (when the price drops low enough to activate such an order).

Floor broker
Member of an exchange who is an employee of a member firm and executes orders, as agent, on the floor of the exchange for clients.

Floor official
An employee of a stock exchange who settles disputes related to the auction process on the floor of the stock exchange.

Floor picture
Details of the trading crowd for a stock, such as the major players, their sizes, and the outside market +/- an eighth.

Floor planning
Arrangement used to finance inventory. A finance company buys the inventory, which is then held in trust for the user.

Floor ticket
Summary of a stock or commodities exchange order ticket by the registered representative on receipt of a buy or sell order from a client; gives the floor broker the information needed to execute a securities transaction.

Floor trader
A stock exchange member who generally trades only for his own account or for an account controlled by him, or who has such a trade made for him. Also referred to as a "local."

Flotation (rotation)
The costs associated with creating capital through the issue of new stocks or bonds, including the compensation earned by the investment banker plus legal, accounting and printing expenses.

Flow of funds
In the context of municipal bonds, refers to the statement displaying the priorities by which municipal revenue will be applied to the debt.
In the context of mutual funds, refers to the movement of money into or out of a mutual fund 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.
**Foreign corporation**
A corporation conducting business in another country from the one it is chartered in and that abides by the laws of another country. See: *Alien corporation*.

**Foreign Corrupt Practices Act**
An amendment to the Securities Exchange Act created to sanction bribery of foreign officials by publicly held US companies.

**Foreign Credit Insurance Association (FCIA)**
A private consortium of US insurance companies that offers trade credit insurance to US exporters in conjunction with the US Export-Import Bank.

**Foreign crowd**
NYSE members who trade in foreign bonds on the floor.

**Foreign currency**
Money of another country from one's own.

**Foreign currency forward contract**
Agreement that obligates its parties to exchange given quantities of currencies at a prespecified exchange rate on a certain future date.

**Foreign currency futures contract**
Standardized and easily transferable obligation between two parties to exchange currencies at a specified rate during a specified delivery month; standardized contract on specified underlying currencies, in multiples of standard amounts. Purchased and traded on a regulated exchange on which margins are posted.

**Foreign currency option**
An option that conveys the right (but not the obligation) to buy or sell a specified amount of foreign currency at a specified price within a specified time period.

**Foreign currency translation**
The process of restating foreign currency accounts of subsidiaries into the reporting currency of the parent company in order to prepare consolidated financial statements.

**Foreign direct investment (FDI)**
The acquisition abroad of physical assets such as plant and equipment, with operating control residing in the parent corporation.

**Foreign equity market**
Issues floated by foreign companies in the domestic equity market.
Foreign exchange
Currency of another country. Abbreviated Forex.

Foreign exchange broker
Intermediaries in the foreign exchange market that do not put their own money at risk.

Foreign exchange controls
Various forms of controls imposed by a government on the purchase/sale of foreign currencies by residents or on the purchase/sale of local currency by nonresidents.

Foreign exchange dealer
A firm or individual that buys foreign exchange from one party and then sells it to another party. The dealer makes the difference between the buying and selling prices, or the spread.

Foreign exchange market
Largely banks that serve firms and consumers who may wish to buy or sell various currencies.

Foreign exchange risk
The risk that a long or short position in a foreign currency might have to be closed out at a loss due to an adverse movement in exchange rates.

Foreign exchange swap
An agreement to exchange stipulated amounts of one currency for another currency at one or more future dates.

Foreign holdings
The percentage of a portfolio's investments represented by stocks or American Depository Receipts (ADRs) of companies based outside the United States.

Foreign investment risk matrix (FIRM)
Graph that displays financial and political risk by intervals on which countries may be compared according to risk ratings.

Foreign official institutions
Central governments of foreign countries, including all departments and agencies of national governments; central banks, exchange authorities, and all fiscal agents of foreign national governments that undertake activities similar to those of a treasury, central bank, or stabilization fund; diplomatic and consular establishments of foreign national governments; and any international or regional organization, including subordinate and affiliate agencies, created by treaty or convention between sovereign states.

Foreign market
Part of a nation’s internal market, representing the mechanisms for issuing and trading securities of entities domiciled outside that nation. Compare external market and domestic market.

**Foreign market beta**
A measure of foreign market risk that is derived from the capital asset pricing model.

**Foreign public borrower**
Foreign official institutions; the corporations and agencies of foreign central governments, including development banks and institutions, and other agencies that are majority owned by the central government or its departments; and state, provincial and local governments of foreign countries and their departments and agencies.

**Foreign Sales Corporation (FSC)**
A special type of corporation created by the Tax Reform Act of 1984 that is designed to provide a tax incentive for exporting U.S.-produced goods.

**Foreign-source income**
Income earned from international operations.

**Foreign-targeted issue**
Notes sold between October 1984 and February 1986 to foreign institutions, foreign branches of US institutions, foreign central banks or monetary authorities, and to international organizations in which the United States held membership. Sold as companion issues, they could be converted to domestic (normal) Treasury notes with the same maturity and interest rates. Interest was paid annually.

**Foreign tax credit**
Home country credit against domestic income tax. Received in return for foreign taxes paid on foreign derived earnings.

**Foreigner**
All institutions and individuals living outside the United States, including US citizens living abroad, and branches, subsidiaries, and other affiliates abroad of US banks and business concerns; also central governments, central banks, and other official institutions of countries other than the United States, and international and regional organizations, wherever located. Also refers to persons in the United States to the extent that they are known by reporting institutions to be acting for foreigners.

**Forex**
See: Foreign exchange

**Forfater**
Purchaser of promises to pay issued by importers.
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.
Form 3
A form required by the SEC and the stock exchange from all holders of 10% or more of a company’s stock and all directors and officers, which details securities owned.

Formula basis
A method of selling a new issue of common stock in which the SEC declares the registration statement effective on the basis of a price formula rather than on a specific range.

Formula investing
A formula-based investment technique in which investment decisions are made using predetermined timing or asset allocation models, e.g., dollar cost averaging.

Fortune 500
Fortune magazine’s listing of the top 500 US corporations determined by an index of 12 variables.

48-hour rule
PSA Uniform Practices requirement that all pool information in a to be announced (TBA) transaction be communicated by the seller to the buyer before 3 p.m. EST on the business day 48 hours prior to the agreed-upon trade date.

Forward
See: Forward contract

Forward averaging
A method of calculating taxes on a lump-sum distribution from a qualified retirement plan that enables the tax payer to pay less than the current tax rate.

Forward contract
A contract that specifies the price and quantity of an asset to be delivered on in the future. Forward contracts are not standardized and are not traded on organized exchanges.

Forward cover
The purchase in the cash market of the difference between what you are obligated to deliver in a forward contract and the amount of the asset you own. For example, if you agreed to sell 100,000 bushels of corn in September in a forward contract, but you only have 60,000, you need to purchase 40,000 to cover your obligation.

Forward currency contract
An agreement to buy or sell a country’s currency at a specific price, usually 30, 60, or 90 days in the future. This guarantees an exchange rate on a given date.

Forward delivery
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.
**Forward market**
A market in which participants agree to trade some commodity, security, or foreign exchange at a fixed price for future delivery.

**Forward parity**
Notion that the forward rate is an unbiased predictor of future spot exchange rates.

**Forward premium**
A currency trades at a forward premium when its forward price is higher than its spot price.

**Forward pricing**
Practice mandated by the SEC that open-end investment companies establish all incoming buy and sell orders on the next net asset valuation of fund shares.

**Forward rate**
A projection of future interest rates calculated from either spot rates or the yield curve.

**Forward rate agreement (FRA)**
Agreement to borrow or lend at a specified future date at an interest rate that is fixed today.

**Forward sale**
A method for hedging price risk that involves an agreement between a lender and an investor to sell particular kinds of loans at a specified price and future time.

**Forward trade**
A transaction for which settlement will occur on a specified date in the future at a price agreed upon on the trade date.

**Forwarder**
Acts as a travel agent for cargo. A forwarder specializes in arranging the transport and completing required shipping documentation. Some are affiliated with NVOCC services. In the United States they are licensed by the Federal Maritime Commission.

**Foul Bill of Lading**
A bill of lading that contains a notation indicating damage or shortage. Also called clauséd and are the opposite of clean bills of lading.

**401(K)**
Under section 401(K) of the Internal Revenue Code, a deferred compensation plan set up by an employer so that employees can set aside money for retirement on a pre-tax basis. Employers may match a percentage of the amount that employees contribute to the plan. Contributions by both employees and employers as well as investment earnings and interest, are not taxed until the employee withdraws the money; if the employee withdraws the money before retirement age, he or she pays an early
withdrawal penalty tax. Currently, employees are allowed to annually contribute up to 15 percent of their salary but no more than $11,000 ($12,000 for people 50 or older). Many employers now offer these deferred compensation plans in lieu of or in addition to pensions.

**Fourth market**
Refers to the practice of institutional investors trading large blocks of securities directly to avoid brokerage commissions. See: Instinet.

**Fractal**
An object in which the parts are in some way related to the whole. That is, the individual components are "self-similar." An example is the branching network in a tree. While each branch, and each successive smaller branching is different, they are qualitatively similar to the structure of the whole tree.

**Fractal Dimension**
A number that quantitatively describes how an object fills its space. In Euclidean, or Plane geometry, objects are solid and continuous. That is, they have no holes or gaps. As such, they have integer dimensions. Fractals are rough and often discontinuous, like a wiffle ball, and so have fractional, or fractal dimensions.

**Fractal Distribution**
A probability density function that is statistically self-similar. That is, in different increments of time, the statistical characteristics remain the same.

**Fractal Market Hypothesis**
The fractal market hypothesis states that (1) a market consists of many investors with different investment horizons, and (2) the information set that is important to each investment horizon is different. As long as the market maintains this fractal structure, with no characteristic time scale, the market remains stable. When the market's investment horizon becomes uniform, the market becomes unstable because everyone is trading based upon the same information set. Theory due to Ed Peters.

**Fractional Brownian**
A biased random walk. Unlike standard Brownian motion, the odds are biased in one direction or the other. It is like playing with loaded dice.

**Fractional coins**
Metal currency minted in denominations of 50, 25, and 10 cents, and minor coins (5 cents and 1 cent).

**Fractional discretion order**
A type of order that gives the broker discretion to alter the price, up or down, within a specific fractional range in order to guarantee an execution.
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 AS.

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
buyer when the goods are turned over to a carrier at a designated place.

**Free cash flows**
Cash not required for operations or for reinvestment. Often defined as earnings before interest (often obtained from the operating income line on the income statement) less capital expenditures less the change in working capital. In terms of a formula:

\[
\text{Free cash flows} = \\
\text{Sales (Revenues from operations)} - \text{COGS (Cost of goods sold-labor, material, book depreciation)} - \text{SG&A (Selling, general administrative costs)} - \text{EBIT (Earnings before interest and taxes or Operating Earnings)} - \text{Taxes (Cash taxes)} - \text{EBIAT (Earnings before interest after taxes)} + \text{DEP (Book depreciation)} - \text{CAPX (Capital expenditures)} - \text{ChgWC (Change in working capital)} - \text{C (Free cash flows)}
\]

There is an issue as to whether you want to define the FCFs to the firm as a whole (the cash flow to all of its security holders), or the FCFs only to the firm's equity holders. For firm valuation, you want the former; for stock valuation you want the latter.

To value the firm, calculate the stream of FCFs to the firm and discount this stream by the firm's WACC (Weighted average cost of capital). This will give you the value of a levered firm, including the tax benefits of debt financing. Alternatively, you can discount the firm's FCFs by its unlevered cost of capital and add separately the present value of the tax benefits.

To value the firm's equity, you can either take the above number and subtract the market value of all outstanding debt (liabilities) or you can calculate the FCFs to the firm's equity holders and discount this stream by the firm's levered equity cost of capital. Notice that changes in working capital have the same effect on free cash flows as do changes in physical capital, i.e., capital expenditures. For example, suppose you had to spend $XX to increase the capacity of your plant. This expenditure would be a reduction in free cash flow in the year it was made. Likewise, if you had to increase the level of your cash balance, inventory or receivables by $XX to accommodate greater sales, then this too would result in a like reduction in free cash flows in the year the level of working capital was increased. [Definition and discussion courtesy of Professor Michael Bradley.]

**Free delivery**
Securities industry procedure whereby delivery of securities sold is made to the buying customer's bank without requiring immediate payment; thus a credit agreement of sorts. Antithesis of delivery vs. payment.
Free float
An exchange rate system characterized by the absence of government intervention. Also known as clean float.

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

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

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

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

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

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

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

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

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

Freely floating exchange rate system
Monetary system in which exchange rates are allowed to move due to market forces without intervention by country governments.
Freeze out
The action of pressurizing shareholders with relatively minor amounts of stock to sell their shares after a takeover.

Freight
A transportation term meaning either goods being transported, and/or charges incurred for such transport.

Freight Forwarder
See: forwarder.

Freight shippers
Agents who coordinate the logistics of transportation.

FREIT
See: Finite-Life Real Estate Investment Trust

Frequency distribution
The organization of data to show how often certain values or ranges of values occur.

Fresh picture
Updated estimation of a stock or market, usually following recent trading activity or news that has changed the previous look.

Fresh signal
Piece of information (fundamental or technical) leading one to believe a stock will move in a certain manner.

Friction costs
Costs, both implied and direct, associated with a transaction. Such costs include time, effort, money, and associated tax effects of gathering information and making a transaction.

Frictional cost
The difference between an index fund return and the index it represents. The typically lower rate of return from the fund results from transactions costs.

Frictionless market
Ideal trading environment that imposes no costs or restraints on transactions.

Frictions
The "stickiness" involved in making transactions; the total process including time, effort, money, and tax effects of gathering information and making a transaction such as buying a stock or borrowing money.
Friendly Merger
A business combination that the management of both firms believes will be beneficial to stockholders.

Friendly takeover
Merger when the target firm’s management and board of directors is in favor of the takeover. Antithesis of hostile takeover.

Front-end load
The fee applied to an investment at the time of initial purchase, e.g., on a mutual fund purchased from a broker or mutual fund company.

Front fee
The fee initially paid by the buyer upon entering a split-fee option contract.

Front office
Refers to revenue generating sales personnel in a brokerage, insurance, or other financial services operation.

Front running
Entering into options or futures contracts with advance knowledge of a block transaction that will influence the price of the underlying security to capitalize on the trade. This practice is expressly forbidden by the SEC.

Frozen account
A disciplinary action taken by the Federal Reserve Board for some violation of Regulation T, an individual investor cannot sell securities until they are paid for in full and certificates delivered.

Fry a bigger fish
Used in the context of general equities. Work on a trade of larger size than a trade just disclosed.

Full
Handle.

Full compensation
Payment for delivery of goods to one party by buying back more than 100% of the value that was originally sold.

Full coupon bond
A bond with a coupon equal to the going market rate; the bond is therefore selling at par.
**Full disclosure**
Describes exchange and government regulations providing for the release and free exchange of all information pertinent to a given security.

**Full Employment and Balance Growth Act of 1978 (Humphrey-Hawkins Act)**
Federal legislation that, among other things, specifies the primary objectives of U.S. economic policy-maximum employment, stable prices, and moderate long-term interest rates.

**Full faith-and-credit obligations**
The security pledges for larger municipal bond issuers, such as states and large cities that have diverse funding sources.

**Full-payout lease**
See: Financial lease

**Full price**
Also called dirty price; the price of a bond including accrued interest. Related: Flat price.

**Full-service broker**
A broker who provides clients an all-inclusive selection of services such as advice on security selection and financial planning.

**Full-service lease**
Also called rental lease. Arrangement in which lessor promises to maintain and insure the equipment leased.

**Full Set of Bills of Lading**
All originals of an ocean bill of lading.

**Full trading authorization**
Indication that a broker with a discretionary account can operate free of all trading guidelines from the client.

**Fully depreciated**
An asset that has already been charged with the maximum amount of depreciation allowed by the IRS for accounting purposes.

**Fully diluted earnings per shares**
Earnings per share expressed as if all outstanding convertible securities and warrants have been exercised.

**Fully distributed**
A new stock issue that has been completely resold to the investing public and is no longer held by dealers.

**Fully invested**
Used to describe an investor whose assets are totally committed to investments, typically stock.

**Fully modified pass-throughs**
Agency pass-throughs that guarantee the timely payment of both interest and principal. Related: Modified pass-throughs.

**Fully valued**
Used in the context of general equities. Said of a stock that has reached a price at which analysts think the underlying company's fundamental earnings power has been fully recognized by the market.

**Functional currency**
As defined by FASB No. 52, an affiliate's functional currency is the currency of the primary economic environment in which the affiliate generates and expends cash.

**Fund assets**
The total value of a portfolio's securities, cash, and other holdings, minus any outstanding debts.

**Fund family**
Set of funds with different investment objectives offered by one management company. In many cases, investors may move their assets from one fund to another within the family at little or no cost.

**Fund of funds**
A mutual fund or hedge fund that invests in other funds.

**Fund manager**
The person whose responsibility it is to oversee the allocation of the pool of money invested in a particular mutual fund. The fund manager is charged with investing the money to attain the returns and level of risk of the mutual fund investors.

**Fund switching**
Moving money within a mutual fund family from one mutual fund to another.

**Fun money**
Money that can be used to invest in risky investments with high potential return.

**Fundamental analysis**
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.
Funding risk
Related: Interest rate risk

Funds From Operations (FFO)
Used by real estate and other investment trusts to define the cash flow from trust operations; earnings with depreciation and amortization added back. A similar term increasingly used is funds available for distribution (FAD), which is FFO less capital investments in trust property and the amortization of mortgages.

Fungibility
The substitutability of listed options, which is dependent upon their common expiration dates and strike prices. The congruence of expiration dates and strike prices lets investors close positions by offsetting transactions through the options clearing corporation.

Furthest month
Used in the context of commodities or options trading to refer to the month that is away from the contract's date of settlement.

FUTOP
The Danish derivatives market, merged with the Copenhagen Stock Exchange in 1997.

Future
A term used to designate all contracts covering the sale of financial instruments or physical commodities for future delivery on a commodity exchange.

Future investment opportunities
The identification of additional, more valuable, investment opportunities in the future that result from a current opportunity or operation.

Futures
A term used to designate all contracts covering the sale of financial instruments or physical commodities for future delivery on a commodity exchange.

Futures commission merchant (FCM)
A firm or person engaged in soliciting or accepting and handling orders for the purchase or sale of futures contracts, subject to the rules of a futures exchange and, who, in connection with such solicitation or acceptance of orders, accepts any money or securities to provide margin for any resulting trades or contracts. The FCM must be licensed by the CFTC. Related: Commission house, omnibus account.

Futures contract
A legally binding agreement to buy or sell a commodity or financial instrument in a designated future month at a price agreed upon today by the buyer and seller. Futures
contracts are standardized according to the quality, quantity, and delivery time and location for each commodity. A futures contract differs from an option because an option is the right to buy or sell, while a futures contract is the promise to actually make a transaction. A future is part of a class of securities called derivatives, so named because such securities derive their value from the worth of an underlying investment.

**Futures contract multiple**
A constant set by an exchange, which when multiplied by the futures price gives the dollar value of a stock index futures contract.

**Futures market**
A market where contracts for future delivery of a commodity or a security are bought or sold.

**Futures option**
An option on a futures contract. Related: Options on physicals.

**Futures price**
The price at which parties to a futures contract agree to transact upon the settlement date.

**Future value**
The amount of cash at a specified date in the future that is equivalent in value to a specified sum today.

**Fuzzy Logic**
A system which mathematically models complex relationships which are usually handled in a vague manner by language. Under the title of "Fuzzy Logic" falls formal fuzzy logic (a multi-valued form of logic), and fuzzy sets. Fuzzy sets measure the similarity between an object and a group of objects. A member of a fuzzy set can belong to both the set, and its compliment. Fuzzy sets can more closely approximate human reasoning than traditional "crisp" sets. See: Crisp sets.

**FVO (for valuation only)**
See: For your information

**G**
Fifth letter of a Nasdaq stock symbol specifying that the issue is the first convertible bond of the company.

**GA**
The two-character ISO 3166 country code for GABON.

**GAAP**
See: Generally Accepted Accounting Principles
**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.
GP
The two-character ISO 3166 country code for GUADELOUPE.

GPM
See: Graduated Payment Mortgages

GQ
The two-character ISO 3166 country code for EQUATORIAL GUINEA.

GR
The two-character ISO 3166 country code for GREECE.

GS
The two-character ISO 3166 country code for SOUTH GEORGIA AND THE SOUTH SANDWICH ISLANDS.

GT
The two-character ISO 3166 country code for GUATEMALA.

GTC
See: Good 'til cancelled order

GU
The two-character ISO 3166 country code for GUAM.

GW
The two-character ISO 3166 country code for GUINEA-BISSAU.

GY
The two-character ISO 3166 country code for GUYANA.

Gadfly
A nickname for a "professional" securityholder who owns stock in various companies, attends annual meetings and asks senior management hard and often embarrassing questions.

Gaijin
Japanese term used to describe a nonJapanese investor in Japan.

Gain
A profit on a securities transaction recognized by selling a security for more than the security originally cost. The gain is the difference between the cost and the sale.
Gamma
The ratio of a change in the option delta to a small change in the price of the asset on which the option is written.

Gap
Financing that is required, but for which no provision has been made. The difference in total funding needed for a proposal and the amount of funding already made available.

Gap opening
In the context of general equities, opening price that is substantially higher or lower than the previous day’s closing price, usually because of some extraordinarily positive or negative news.

Garage
The floor of the NYSE, which is situated on the north side of the main trading floor.

Garbatrage
Rising stock prices and increased market activity in an entire sector caused by a psychology change stemming from a major takeover involving two companies in the sector. Speculators feel other takeovers are likely in the sector. See: Rumortrage.

Garman-Kohlhagen option pricing model
A model widely used to price foreign currency options.

Gather in the stops
A market strategy in which investors sell stocks to drive prices to a level that breaks through stop orders known to exist. Once the price is low enough, the stop orders become market orders and are executed, to create snowballing.

Gaussian
A system whose probabilities are well described by the normal distribution, or bell shaped curve.

GDP implicit price deflator
An economic technique used to account for inflation by comparing the current-dollar gross domestic product GDP to constant-dollar GDP as a ratio. The ratio accounts for price changes of goods and services that make up GDP and changes in the composite of GDP.

Gearing
Financial leverage.

GEM (growing equity mortgage)
Mortgage in which annual increases in monthly payments are used to reduce outstanding principal and to shorten the term of the loan.
**General Average**
Provision in maritime law where all shippers on a given voyage would reimburse the ship line in the event of vessel sinking or catastrophic damage. It also provides for the reimbursement to those shippers whose cargo was thrown overboard in order to save the vessel.

**General Average Contribution**
The amount of money paid by each shipper involved in a General Average.

**General account**
Federal Reserve Board's term for a margin account provided to a customer by a brokerage firm. Governed by Regulation T of the FED.

**General Agreement on Tariffs and Trade (GATT)**
A treaty adopted by the United Nations aimed at elimination of international trade barriers between member countries.

**General cash offer**
A public offering made to investors at large.

**Generic credit spread**
Refers to the corporate bond spread for a particular credit rating and expiry. For example, 10-year single A corporates were priced or trading at 130 basis points above Treasuries last night, or said differently, 130 is the generic credit spread for 10-year single A corporates.

**General ledger**
Accounting records that show all the financial statement accounts of a business.

**General lien**
An attachment that gives the lender the right to seize the personal property of a borrower who has not fulfilled the obligations of the loan, but prevents the lender from seizing real property.

**General loan and collateral agreement**
The agreement governing the broker-dealer's borrowing against listed securities from a bank for the purpose of carrying on business and making transactions. See: Broker loan rate.

**General mortgage**
A type of obligation that covers all a borrower’s mortgageable properties, not just one specific property.

**General obligation bonds**
Municipal securities secured by the issuer's pledge of its full faith, credit, and taxing power.

**General Order**
A penalty imposed on imported goods that are not promptly cleared through customs.

**General partner**
A participant who has **unlimited liability** for the obligations of a **partnership**.

**General partnership**
A **partnership** in which all participants are **general partners**.

**General revenue**
The sum of taxes, charges, and miscellaneous income taken in at the state and local level while neglecting overlapping revenue which may be erroneously counted twice.

**Generally Accepted Accounting Principles (GAAP)**
The overall conventions, rules, and procedures that define accepted accounting practice at a particular time in the U.S.

**Generation-skipping transfer or trust**
A **trust** in which a **principal amount** is placed in a **trust** on the death of person A and is transferred to A's grandchildren when A's children die. The income from the **trust** goes to the children of person A while they survive.

**Generic**
Describes the characteristics and/or experience of the total universe of a **coupon** of MBS sector type; that is, in contrast to a specific pool or collateral group, as in a specific **CMO** issue.

**Genetic Algorithms**
Models that optimize rules by mimicking the Darwinian Law of survival of the fittest. A set of rules are chosen by those that work the best. The weakest are discarded. In addition, two successful rules can be combined (the equivalent to genetic cross-overs) to produce offspring rules. The offspring can replace the parents, or they will be discarded if less successful than the parents. Mutation is also accomplished by randomly changing elements. Mutation and cross-over occur with low probability, as in nature.

**Geographic risk**
Risk that arises when an **issuer** issues policies concentrated within certain geographic areas, such as the risk of damage from a hurricane or an earthquake.

**Geometric mean return**
Also called the **time-weighted rate of return**, a measure of the compound rate of growth of the initial **portfolio market value** during the evaluation period, assuming that all cash
distributions are reinvested in the portfolio. It is computed by taking the geometric average of the portfolio subperiod returns.

**Gestation repo**
A reverse repurchase agreement between mortgage firms and securities dealers. Under the agreement, the firm sells federal agency-guaranteed MBS and simultaneously agrees to repurchase them at a future date at a fixed price.

**Get hit**
Go lower in price, when bids in the stock or market are hit, causing those bids to vanish and be replaced by lower ones. *Come in. Antithesis of on the take.*

**Get out**
Used in the context of general equities. Sell interest ("We could get out big size in Humana.")

**Ghosting**
The illegal practice that one firm drives a stock's price higher or lower, while other conspiring firms follow its lead to influence up the price of the stock.

**Gift splitting**
A technique used to avoid a gift tax in which a large sum of money to be given by two parents to a child is halved and given to the child separately. For example, a husband and wife each donate $10,000 to their child rather than one parent donating $20,000.

**Gift tax**
A tax assessed on the giver of a property or asset as a gift. A $10,000 federal gift tax exemption exists per recipient. See: Gift splitting.

**Gift inter vivos**
A piece of property or asset given from one living person to another.

**Gilt-edged securities**
British and Irish government securities. Blue Chip.

**Gilts**
British and Irish government securities. Blue Chip.

**Ginnie Mae**
See: Government National Mortgage Association

**Ginnie Mae pass-through**
A security guaranteed by the Government National Mortgage Association that is backed by a collection of mortgages, in which the investor receives the interest and principal payments of
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
interest payments are disbursed on the 20th day of the month. GNMA-II M.B.S. are backed by multiple-issuer pools or custom pools (one issuer but different interest rates that may vary within one percentage point). Multiple-issuer pools are known as "jumbos." Jumbo pools are generally longer and offer certain mortgages that are more geographically diverse than single-issuer pools. Jumbo pool mortgage interest rates may vary within one percentage point.

**GNMA Midget**
A GNMA pass-through certificate backed by fixed-rate mortgages with a 15-year maturity. GNMA Midget is a dealer term and is not used by GNMA in the formal description of its programs.

**Gnomes**
Freddie Mac's 15-year fixed-rate pass-through securities issued under its cash program.

**Go along**
Used for listed equity securities. Buy or sell at prices that randomly occur on the floor, participating in what trades the specialist and other players will allow.

**Go around**
Describes the N.Y. Federal Reserve Bank's trading desk practice of communicating with primary dealers to establish a market of bids and offers on behalf of the Federal Open Market Committee.

**Goal**
An individual's or institution's financial objective.

**Godfather offer**
An aggressive takeover technique in that the proposed offer of the acquiring company is so large that management of the target company cannot refuse, out of fear of lawsuits or shareholder revolt.

**Go-go fund**
A type of mutual fund in highly aggressive growth stocks. The fund has high levels of risk and potential return.

**Go to**
Used in the context of general equities. Sell interest ("we've got 50 IBM to go").

**Goes**
Used in the context of general equities. (1) Trades ("10 IBM goes on at 115"); see Print; (2) indicates a change in the stock's inside market ("Apple goes 3/4 bid").

**Going ahead**
A broker-dealer trades in a personal account prior to filling the orders of his or her clients. Prohibited by the NASD rules of fair practice.

**Going away**
The type of bond purchased by dealers for immediate resale to investors, as opposed to purchasing bond, to hold for some amount of time, and then reselling it at a future date.

**Going-concern value**
The value of a company to another company or individual in terms of an operating business. The difference between a company's going-concern value and its asset or liquidation value is deemed goodwill and plays a major role in mergers and acquisitions.

**Going long**
The investor's purchase of a security for investment or speculation that the price will rise resulting in a profit once the security is sold. See: long position. Antithesis of going short.

**Going out**
Used in the context of general equities. Soliciting/advertising over the SS1, NASDAQ, or Autex.

**Going private**
When publicly owned stock in a firm is replaced with complete equity ownership by a private group. The firm is delisted on stock exchanges and can no longer be purchased in the open markets.

**Going public**
When a private company first offers shares to the public market and investors. See: IPO.

**Going short**
Selling stock that an investor does not own by borrowing shares from a broker. The assumption is that the price will fall. The investor then buys (covers the short) the shares at a lower price than what they were sold for, recognizing the difference as a profit. Antithesis of going long.

**Going into the trade**
Used in the context of general equities. 1) Condition of the traders position in the security and expectations of stock placement with accounts just prior to taking an order to the exchange floor for execution; 2) On the way in. Antithesis of come out of the trade.

**Gold bars**
Bars with a minimum content of 99.5% gold, which may be held by central banks or traded by investors.

**Gold bond**
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.
Goldilocks economy
A term developed in the mid 1990s to describe the positive performance of the economy as "not too hot, not too cold; just right."

Good delivery
A delivery in which everything - order-endorsement, any necessary attached legal papers.

Good delivery and settlement procedures
Refers to PSA Uniform Practices such as cutoff times on delivery of securities and notification, allocation, and proper endorsement.

Good faith deposit
Used in the context of commodities. Refers to the initial margin account deposit needed when buying or selling a futures contract; approximately 2%-10% of the contract value. Used in the context of securities to describe the deposit required by securities firms engaged in transactions on behalf of a new client. Also used to refer to the deposit with a municipal bond issuer by firms competing for the underwriting business.

Good money
Federal funds that clear on the same day, unlike clearinghouse funds, which require three days to clear.

Good-this-Month order (GTM)
An order to buy or sell securities that continues to be a valid order until the end of the current month.

Good through/until date order
Used in the context of general equities. Market or limited price order that remains viable for a stated period of time unless cancelled, executed, or changed, after which such order or the portion thereof not executed is to be treated as cancelled.

Good 'til cancelled order (GTC)
An order to buy or sell stock that is good until you execute or cancel it. Brokerages usually set a limit of 30-60 days, at which the G.T.C. order expires if not restated. (Different from a day order.)

Goodwill
Excess of purchase price over fair market value of net assets acquired under the purchase method of accounting.

Government bond
See: Government securities
Government National Mortgage Association (Ginnie Mae)
A wholly owned U.S. government corporation within the Department of Housing & Urban Development. Ginnie Mae guarantees the timely payment of principal and interest on securities issued by approved servicers that are collateralized by FHA-issued, VA-guaranteed, or Farmers Home Administration (FmHA)-guaranteed mortgages.

Government obligations
U.S. government-backed debt instruments, which are considered among the safest investments possible, including Treasury bonds, bills, and notes, and savings bonds.

Government securities
Negotiable U.S. Treasury securities.

Government sponsored enterprises
Privately owned, publicly chartered entities, such as the Student Loan Marketing Association, created by Congress to reduce the cost of capital for certain borrowing sectors of the economy including farmers, homeowners, and students.

Governments
U.S. government-issued securities, such as Treasury bills, bonds, and notes, and savings bonds. Governments are considered among the safest investments available as they are backed by the U.S. government. Also used to refer to debt issues of federal agencies, which are not directly backed by the U.S. government.

Grace period
The time period stipulated in most loan contracts and insurance policies during which a late payment will not result in default or cancellation.

Graduated call writing
Selling covered call options at incrementally rising exercise prices, so that as the price of the underlying stock rises and the options are exercised, the seller receives a higher average price than the original exercise price.

Graduated lease
A type of long-term lease whose payments are variable rather than fixed, and depend upon a benchmark rate, such as changes in the consumer price index.

Graduated payment
Repayment terms calling for gradual increases in the payments on a closed-end obligation. A graduated payment loan usually involves negative amortization.

Graduated-payment mortgage (GPM)
A type of stepped-payment loan in which the borrower's payments are initially lower than those on a comparable level-rate mortgage. The payments gradually increase over a predetermined period (usually 3, 5, or 7 years), and then are fixed at a level-pay schedule, which will be higher than the level-pay amortization of a level-pay mortgage originated at the same time. The difference between what the borrower actually pays and the amount required to fully amortize the mortgage is added to the unpaid principal balance.

Graduated security
A security that has moved from listing on an exchange of less prominence to one of more prominence.

Graham and Dodd method of investing
An investment strategy based on security analysis and identification. Investors buy stocks with undervalued assets speculating that these assets will appreciate to their true value.

Graham-Harvey Measure 1
Performance measure developed by John Graham and Campbell Harvey. The idea is to lever a fund's portfolio to exactly match the volatility of the S&P 500. The difference between the fund's levered return and the S&P 500 return is the performance measure.

Graham-Harvey Measure 2
Performance measure developed by John Graham and Campbell Harvey. The idea is to lever the S&P 500 portfolio to exactly match the volatility of the fund. The difference between the fund's return and the levered S&P 500 return is the performance measure.

Grandfathered activities
Nonbank activities, some of which would normally not be permissible for bank holding companies and foreign banks in the United States, but which were acquired or engaged in before a particular date. Such activities may be continued under the "grandfather" clauses of the Bank Holding Company Act and the International Banking Act.

Grandfather clause
A provision included in a new rule or regulation that exempts a business that is already conducting business in the area addressed by the regulation from penalty or restriction.

Grant
The issuance of an award under a stock plan, such as a stock option or shares of restricted stock.

Grant Date
The date on which an option or other award is granted.

Grantor
A trader in the options market who makes premium income by selling options.
Grantor Retained Income Trust (GRIT)
A tax-saving trust in which a grantor transfers property to a beneficiary, but receives income until termination, at which time the beneficiary begins receiving the income.

Grantor trust
A mechanism of issuing MBS wherein the mortgages’ collateral is deposited with a trustee under a custodial or trust agreement.

Graveyard market
Bear market in which investors who sell are faced with substantial losses, while potential investors prefer to stay liquid; that is, to keep their money in cash or cash equivalents until market conditions improve.

Gray knight
In a merger or acquisitions, a gray knight is an acquiring company that outbids a white knight in pursuit of its own best interests, although it is friendlier than a hostile bidder.

Gray list
Formal roster of stocks that can be traded by the block desks, but not in risk arbitrage because an investment bank is involved with the company on nonpublic activity (e.g., mergers and acquisitions defense). A stock’s presence on this list should never be conveyed to anyone outside the trading area, much less outside the firm. See: Restricted list.

Gray market
Describes the sale of securities that have not officially been issued to firms other than the underwriting syndicate. This type of market serves as a good indicator of demand for a new issue in the public market.

Great call
Used in the context of general equities. Potential customer who may have an interest in participating in a particular trade if customer's past inquiry or activity is any indication.

Greater fool theory
An investment notion that even when a stock is fully valued by conventional standards, there is room for upward movement because there are enough buyers to push prices farther upward purely on speculation or hype.

Greenmail
The holding of a large block of stock of a target company by an unfriendly company, with the object of forcing the target company to repurchase the stock at a substantial premium to prevent a takeover.

Greenshoe option
Option that allows the underwriter for a new issue to buy and resell additional shares.

**Gross per broker**
The dollar amount of commissions generated by a broker or registered representative over a specific period.

**Gross domestic product (GDP)**
The market value of goods and services produced over time including the income of foreign corporations and foreign residents working in the U.S., but excluding the income of U.S. residents and corporations overseas.

**Gross earnings**
A person's total taxable income prior to adjustments. See: adjusted gross income.

**Gross estate**
The total value of a person's property and assets before accounting for debts, taxes, and liabilities.

**Gross income**
A person's total income prior to exclusions and deductions.

**Gross interest**
Interest earned before taxes are deducted.

**Gross lease**
A type of property lease in which the lessor (owner of the property being leased) pays expenses associated with ownership such as damages, taxes, and insurance.

**Gross National Product (GNP)**
Measures and economy's total income. It is equal to G.D.P. plus the income abroad accruing to domestic residents minus income generated in domestic market accruing to non-residents.

**Gross parity**
Applies mainly to convertible securities and international equities. Antithesis of net parity. For the price of a convertible, including accrued interest. For the price of international security, including commissions, fees, stamp duty, and other transaction costs, translated into U.S. dollar amounts.

**Gross profit**
Sales minus the cost of goods sold.

**Gross profit margin**
Gross profit divided by sales, which is equal to each sales dollar left over after paying for
the cost of goods sold.

**Gross sales**
Total sales calculated by summing all sales at invoice values, neglecting any adjustments such as customer discounts or returns.

**Gross spread**
The fraction of the gross proceeds of an *underwritten* securities offering that is paid as compensation to the *underwriters* of the offering.

**Gross Weight**
The full weight (including goods and packaging) of shipment.

**Ground lease**
A lease of land, as opposed to a lease of a building.

**Group insurance**
Insurance coverage for a group, which can usually be obtained at a cheaper rate than insurance for an individual.

**Group of Eight (G-8)**
The G-7 countries plus Russia.

**Group of Five (G-5)**
The five leading countries (France, Germany, Japan, the U.K., and the U.S.) that meet periodically to achieve some cooperative effort on international economic issues. When currency issues are discussed, the monetary authorities of these nations hold the meeting.

**Group of Seven (G-7)**
The G-5 countries plus Canada and Italy.

**Group of Ten**
A group of the ten major industrialized countries whose mission is to create a more stable world economic trading environment through monetary and fiscal policies. The ten are Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States.

**Group rotation**
The tendency of stocks in one sector of the market to outperform and then underperform other industries, usually as a result of economic cycles or the conditions in a particular industry.

**Group rotation manager**
A top-down manager who deduces the phases of the business cycle and allocates assets
across.

**Group sales**
Block sale (of large amounts) of securities to institutional investors.

**Group Universal Life Policy (GULP)**
Universal life insurance on a group basis. See: Group insurance.

**Growing Equity Mortgage (GEM)**
Mortgage with a fixed interest rate and payments that increase throughout the term of the mortgage.

**Growing perpetuity**
A constant stream of cash flows without end that is expected to rise indefinitely.

**Growth fund**
A mutual fund that invests primarily in stocks with a history of and future potential for capital gains.

**Growth and income fund**
A mutual fund that invests primarily in stocks with a history of capital gains (growth) and consistent dividend payments (income).

**Growth manager**
A money manager who seeks to buy stocks that typically sell at relatively high P/E ratios due to high earnings growth, with the expectation of continued high or higher earnings growth.

**Growth opportunity**
Opportunity to invest in profitable projects.

**Growth phase**
A phase of development during which a company experiences rapid earnings growth as it produces new products and expands market share.

**Growth rates**
Compound annual growth rate for the number of full fiscal years shown. If there is a negative or zero value for the first or last year, the growth is N.M. (not meaningful).

**Growth stock**
Common stock of a company that has an opportunity to invest money and earn more than the opportunity cost of capital.

**Guarantee**
The assumption of responsibility for payment of a debt or performance of some obligation.
if the liable party fails to perform to expectations.

**Guarantee Fee**
A sum paid by the importer to the guarantor, usually as a percentage per annum of the face value of the bills or notes being guaranteed.

**Guarantee letter**
A commercial bank's letter assuring payment of the exercise price of a client's put option.

**Guaranteed bond**
A type of bond for which a firm other than the issuer guarantees its interest and principal payments.

**Guaranteed insurability**
A life and health insurance policy feature that enables the insured to add coverage at future times and at fixed and agreed-upon rates regardless of health conditions.

**Guaranteed insurance contract**
A contract promising a stated nominal interest rate over some specific time period, usually several years.

**Guaranteed investment contract (GIC)**
A pure investment product in which a life company agrees, for a single premium, to pay at a maturity date the principal amount of a predetermined annual crediting (interest) rate over the life of the investment.

**Guaranteed Mortgage Certificates (GMC)**
First issued by Freddie Mac in 1975, G.M.C.s, like PCs, represent undivided interest in specified conventional whole loans and participations previously purchased by Freddie Mac.

**Guardian**
An individual or trust institution appointed by a court to care for a minor or an incompetent person and his or her property.

**Guaranteed renewable policy insurance**
A type of insurance policy that requires the insurer to renew the policy to an individual regardless of health changes. No changes may be made to an individual policyholder unless the same change is applied to all policyholders.

**Guaranteed replacement cost coverage insurance**
A policy that covers the full cost of replacing damaged property without any allowances or deductions, e.g., depreciation.

**Guaranteeing/ Avalising Bank**
The person, bank, or financial entity who gives the guarantee for the importer.

**Guarantor program**
Under the Freddie Mac program, the aggregation by a single issuer (usually an S&L) for the purpose of forming a qualifying pool to be issued as PCs under the Freddie Mac guarantee.

**Gun jumping**
In the context of securities trading, refers to trading in a security on the basis of information that has not been made available to the public. The illegal solicitation of buy orders in an underwriting before completion and finalization of Securities and Exchange Commission registration.

**Gunslinger**
An aggressive portfolio manager who makes risky investments, typically in margin accounts, in search of high returns.

**H**
The fifth letter of a Nasdaq stock symbol specifying that the issue is the second preferred bond of the company.

**HAB**
See: House Air Waybill

**HEX**
See: Helsinki Exchange

**HK**
The two-character ISO 3166 country code for HONG KONG.

**HKD**
The ISO 4217 currency code for the Hong Kong Dollar.

**HKFE**
See: Hong Kong Futures Exchange

**HLT**
See: Highly leveraged transaction

**HM**
The two-character ISO 3166 country code for HEARD ISLAND AND MCDONALD ISLANDS.

**HN**
The two-character ISO 3166 country code for HONDURAS.

**HNL**
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 an other 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.
**Heavy**
An equities market now dominated by sellers, or oversupply, resulting in falling prices. See: Overbought, resistance level, tired.

**Hedge**
A transaction that reduces the risk of an investment.

**Hedge clause**
A clause in a research report or any published document, that attempts to absolve the writer of responsibility for the accuracy of information provided.

**Hedge fund**
A fund that may employ a variety of techniques to enhance returns, such as both buying and shorting stocks according to a valuation model.

**Hedge quality**
Measured by the R-square in a regression of spot rate changes on futures price changes.

**Hedge ratio (delta)**
For options, ratio between the change in an option's theoretical value and the change in price of the underlying stock at a given point in time. For convertibles, percentage of a convertible bond representing the number of underlying common shares sold against the shares into which bonds are convertible. If a preferred is convertible into 2000 common shares, a 75% hedge ratio would be short (long) 1500 common for every 1000 preferred long (short). See: Delta.

**Hedge wrapper**
An options strategy in which an investor with a long position in an underlying stock buys an out-of-the-money put and sells an out-of-the-money call. The hedge wrapper defines a range where the stock will be sold at expiration of the option, which way the stock moves.

**Hedged portfolio**
A portfolio consisting of a long position in the stock and a long position in the put option on the stock, so as to be riskless and produce a return that equals the risk-free interest rate.

**Hedged tender**
An investor sells a portion of a stock holding short a tender offer in the event all shares tendered are not accepted. For example, investor Q has 5000 shares of XYZ. An acquiring company makes a tender offer of $100 a share when the shares are currently worth $80. Investor Q short-sells 2500 shares after the announcement and the price of the stock has approached $100. Company XYZ purchases only 2500 of the original shares at $100. Investor Q has sold all shares at $100 even as the price of the stock drops on a post-news dip.
**Hedgie**
Slang for a hedge fund.

**Hedging**
A strategy designed to reduce investment risk using call options, put options, short-selling, or futures contracts. A hedge can help lock in profits. Its purpose is to reduce the volatility of a portfolio by reducing the risk of loss.

**Hedging demands**
Demands for securities to hedge particular sources of consumption risk, beyond the usual mean-variance diversification motivation.

**Held at the opening**
Used for listed equity securities. Not open for trading because specialists or regulators are not allowing trading to occur until imbalances dissipate or news is disseminated.

**Held order**
Order that must be executed without hesitation (Hit the bid or take the offer in line) or if the stock can be bought or sold at that price (held limit order) in sufficient quantity.

**Hell-or-high-water contract**
A contract that obligates a purchaser of a project’s output to make cash payments to the project in all events, even if no product is offered for sale.

**Helsinki Exchanges (HEX)**
The Helsinki Exchanges (HEX Ltd., Helsinki Securities and Derivatives Exchange and Clearing House) was formed at the beginning of 1998 following the merger of the Helsinki Stock Exchange Ltd. and SOM Ltd., the Securities and Derivatives Exchange, and the Clearing House.

**Hemline theory**
A theory that stock prices move in the same direction as the hemlines of women’s dresses. For example, short skirts (1920s and 1960s) are symbolic of bullish markets and long skirts (1930s and 1940s) are symbolic of bearish markets.

**Herstatt risk**
The risk of loss in foreign exchange trading that one party will deliver foreign exchange but the counterparty financial institution will fail to complete its end of the contract. This is also referred to as settlement risk.

**H-H page**
Quotron display page that shows new listed inquiries/orders received after the block call.
HIBOR
Hong Kong Interbank Offer Rate, the annualized offer rate banks pay to attain Hong Kong three-month deposits in denominated dollars.

Hidden load
A sales charge that is not explicitly disclosed or is buried in the fine print of a mutual fund prospectus or life insurance policy and therefore is not immediately apparent.

Hidden values
Valuable assets owned by a company, that are not accurately reflected in its stock price at a particular time.

High-coupon bond refunding
Replace a high-coupon bond with a new, lower-coupon bond.

High credit
The maximum amount of outstanding loans for a particular customer on a bank's record.

High current income mutual fund
A mutual fund whose primary goal is to produce a high level of income by making higher-risk investments in instruments such as junk bonds.

High flyer
High-priced and highly speculative stock that moves up and down sharply over a short period. Generally glamorous in nature due to the capital gains potential associated with them; also used to describe any high-priced stock. Antithesis of sleeper.

High-grade
Credit quality of AAA or AA.

High-grade bond
A bond with Triple-A or Double-A rating in Standard & Poor's, or Moody's rating system.

High price
The highest (intraday) price of a stock over the past 52 weeks, adjusted for any stock splits.

High-premium convertible debenture
A bond with a long-term, high-premium, common stock conversion feature. It also offers a competitive interest rate. This type of investment vehicle is aimed at bond investors who want to be able to convert into stock to hedge against inflation.

High-tech stock
Stocks of companies operating in high-technology fields.
High withholding tax interest income
Interest income that is subject to a foreign gross withholding tax of 5% or more. Specified in US tax code.

High yield
In the context of hedge funds, a style of management that focuses on low rated fixed income securities.

High-yield bond
See: Junk bond

Highjacking
Japanese term for a takeover.

Highly confident letter
An investment banking firm’s letter indicating that the firm is highly confident it will be able to arrange financing for a securities deal.

Highly leveraged transaction (HLT)
Bank loan to a highly leveraged firm.

Highs
Stocks that have hit an all-time high for the current 52-week time period.

Historical cost
Describes the accounting cost carried in the books for a current cost of the item.

Historical Cost Accounting Convention
An accounting technique that values an asset for balance sheet purposes at the price paid for the asset at the time of its acquisition.

Historical exchange rate
An accounting term that refers to the exchange rate in effect at the time an asset or liability is acquired.

Historical trading range
The range of price over which a security or a commodity has traded since listing on a exchange.

Historical volatility
Fluctuations estimated from a historical time series.

Historical yield
A measure of a mutual fund’s yield over a specific period of time, e.g., 1 year, 2 year, 5 year, or year to date.
Hit the bid
A dealer who agrees to sell at the bid price quoted by another dealer is said to "hit" that bid. Antithesis of take the offer.

Hit the ribbon
Used in the context of general equities. See: Print.

Hold
To maintain ownership of a security over a long period of time. "Hold" is also a recommendation of an analyst who is not positive enough on a stock to recommend a buy, but not negative enough on the stock to recommend a sell.

Holder
The purchaser of an option.

Holder of record date
The date on which holders of record in a firm's stock ledger are designated as the recipients of either dividends or stock rights. Also called date of record.

Holding company
A corporation that owns enough voting stock in another firm to control management and operations by influencing or electing its board of directors.

Holding the market
The illegal practice of maintaining and/or placing a sufficient number of buy orders to create price support for a security or commodity in an amount to of stabilize a downward trend.

Holding period
Length of time a security is held.

Holding-period return
Rate of return on an investment over a given period.

Holding-Period Yield (HPY)
The annual rate of return actually realized on an investment in a bond.

Home asset bias
The tendency of investors to over invest in their own county's assets.

Home run
Large capital gain in a stock in a short period of time.
**Homemade dividend**
Sale of some shares of stock to get cash in an amount similar to that of a cash dividend.

**Homemade leverage**
Idea that as long as individuals borrow (or lend) on the same terms as the firm, they can duplicate the effects of corporate leverage on their own. Thus, if levered firms are priced too high, rational investors will simply borrow on personal accounts to buy shares in unlevered firms.

**Homeowner's equity account**
A credit line offered by mortgage lenders allowing a homeowner a second mortgage that uses the equity present in the customer's account as collateral.

**Homeowner's insurance policy**
An insurance policy protecting a homeowner against damage or loss to property.

**Homogeneity**
The degree to which items are similar.

**Homogeneous**
Exhibiting a high degree of homogeneity.

**Homogeneous expectations assumption**
An assumption of Markowitz portfolio construction that investors have the same expectations with respect to the inputs that are used to derive efficient portfolios: asset returns, variances, and covariances.

**Hong Kong Futures Exchange (HKFE)**
Established in 1976, the Hong Kong Futures Exchange (H.K.F.E.) operates futures and options markets in index, stock, interest rate, and foreign exchange products.

**Horizon analysis**
An analysis of returns using total return to assess performance over some investment horizon.

**Horizon matching strategy**
An income immunization strategy that cash-matches over the next few years and duration-matches the rest.

**Horizon return**
Total return over a given horizon.

**Horizontal acquisition**
Merger between two companies producing similar goods or services.
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)
An air waybill issued by an air freight consolidator.

**House call**
Notification by a brokerage house that a customer's margin account is below the minimum maintenance level. The client must provide more cash or equity, or the account will be liquidated.

**House of issue**
An investment banking firm whose business it is to underwrite stock or bond issues and offer the securities to the public.

**House maintenance requirement**
The internal rules of a brokerage house that govern the minimum amount of equity that must be present in a customer's margin account.

**House poor**
People who are short on cash because most of their money is tied up in their homes are "house poor."

**House rules**
Internal rules of broker-dealer firm that govern the handling of its customers' accounts.

**Housing bond**
Bonds issued by a local housing authority to finance housing projects.

"How are you making XXX?"  
"What is your market in a particular stock?" See: Quotation.

**Hubris**
An arrogance due to excessive pride and an insolence toward others. A classic character flaw of a trader or investor.

**Hulbert rating**
A rating by Hulbert Financial Digest (of Alexandria, Virginia) of how well the recommendations of various investment advisory newsletters have performed.

**Human capital**
The unique capabilities and expertise of individuals.

**Humphrey-Hawkins Act**
Informal name for the Full Employment and Balanced Growth Act of 1978, from the names of the act's original sponsors.

**Hung up**
Used to describe the position of an investor whose stocks or bonds have dropped in value below their original purchase price.

**Hunkering down**
A term used to describe a trader selling off a big position in a stock.

**Hurdle rate**
The required return in capital budgeting. For example, if a project has an expected rate of return higher than the hurdle rate, the project may be accepted.

**Hurst Exponent (H)**
A measure of the bias in fractional Brownian motion. H=0.50 for Brownian motion. 0.50<H<1.00 for persistent, or trend-reinforcing series. 0<H<0.50 for an anti-persistent, or mean-reverting system. The inverse of the Hurst exponent is equal to alpha, the characteristic exponent for Stable Paretian distributions. The fractal dimension of a time series, D, is equivalent to 2-H.

**Hybrid**
A package of two or more different kinds of risk management instruments that are usually interactive.

**Hybrid annuity**
A type of insurance company investment that combines the benefits of both a fixed annuity and a variable annuity.

**Hybrid security**
A convertible security whose optioned common stock is trading in a middle range, causing the convertible security to trade with the characteristics of both a fixed income security and a common stock instrument.

**Hyperinflation**
See: Inflation

**Hypothecation**
In banking, refers to the commitment of property to secure a loan.

In securities, refers to the commitment of securities to serve as collateral for margin loans at the broker-dealer firm.

**Hysteresis**
Used to characterize a lagging effect. Firms may fail to enter markets that appear attractive, or firms that are once invested in a market may persist in operating at a loss. The effect is characteristic of investments with high entry and exit costs along with high
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.

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.
IMF
See: International Monetary Fund

IMM
See: International Monetary Market

IN
The two-character ISO 3166 country code for INDIA.

INR
The ISO 4217 currency code for the Indian Rupee.

IO
The two-character ISO 3166 country code for BRITISH INDIAN OCEAN TERRITORY.

IO
See: Interest-only strip

IOC order
See: Immediate or canceled order

IOM
See: Index and Option Market

IPL
See: Investment Product Line

IPO
See: Initial Public Offering

IQ
The two-character ISO 3166 country code for IRAQ.

IQD
The ISO 4217 currency code for the Iraqi Dinar.

IR
The two-character ISO 3166 country code for IRAN, ISLAMIC REPUBLIC OF.

IRB
See: Industrial Revenue Bond

IRR
The ISO 4217 currency code for the Iranian Rial.

**IRR**  
See: [Internal rate of return](#)

**IS**  
The two-character ISO 3166 country code for ICELAND.

**ISDA**  
See: [International Swap Dealers Association](#)

**ISK**  
The ISO 4217 currency code for the Icelandic Krona.

**ISMA**  
See: [International Security Market Association](#)

**ISO**  
See: [International Organization for Standardization](#).

**IT**  
The two-character ISO 3166 country code for ITALY.

**ITL**  
The ISO 4217 currency code for the Italian Lira.

**ITM**  
See: [In-the-money](#)

**ITS**  
See: [Intermarket Trading System](#)

**IBC's money fund report average**  
Report giving the average yield of all major money market funds.

**I-bonds**  
Treasury savings bonds with a 30-year maturity indexed to account for inflation.

**Identified shares**  
Stock or mutual fund whose purchase date and price may be identified for capital gains and tax purposes when shares sold.

**Idiosyncratic Risk**  
Unsystematic risk or risk that is uncorrelated to the overall market risk. In other words, the
risk that is firm-specific and can be diversified through holding a portfolio of stocks.

**I-I page**
In over-the-counter trading, same as H-H page, but exclusively for OTC stocks.

**Illegal dividend**
A corporation's dividend that is declared in violation of its charter and/or of state laws, typically because of the way it is calculated.

**Illiquid**
In the context of finance, absence of cash flow needed to fulfill financial debts and meet obligations. In the context of investments, describes a lightly traded investment such as a stock or bond that is not easily converted into cash.

**Imbalance of orders**
Used for listed equity securities. Too many market orders of one kind—buy or to sell or limit orders to buy up or sell down, without matching orders of the opposite kind. An imbalance usually follows a dramatic event such as a takeover, research recommendation, or death of a key executive, or a government ruling that will significantly affect the company's business. If it occurs before the stock exchange opens, trading in the stock is delayed. If it occurs during the trading day, the specialist halts and then suspends trading (with floor governor's approval) until enough matching orders can be found to make an orderly market.

**Immediate**
Market or limited price order that is to be executed in whole or in part as soon as such order is represented in the trading crowd. The portion not executed is to be treated as canceled. A stop is considered an execution in this context. See: AON order, FOK order.

**Immediate family**
Term used in the NASD rules of fair practice to refer to one's parents, brothers, sisters, children, relatives supported financially, father-in-law, mother-in-law, sister-in-law, and brother-in-law.

**Immediate payment annuity**
An annuity contract paid by a single payment and with a specified payment plan the starts immediately after the contract is purchased.

**Immediate settlement**
Delivery and settlement of securities within five business days.

**Immunization**
The construction of an asset and a liability match that benefits from offsetting changes in value.
Immunization strategy
A bond portfolio strategy whose goal is to eliminate the portfolio's risk, in case of a general change in the rate of interest, through the use of duration.

Impaired capital
When a company's total capital is less than the par value of all its capital stock.

Impaired credit
Result of a borrower's reduced credit rating.

Imperfect market
Economic environment in which the costs of labor and other resources used for production encourage firms to use substitute inputs that less costly.

Implicit Bankruptcy Costs
Opportunity costs incurred prior to the bankruptcy process such as the loss of sales or financing.

Implicit tax
Lower or higher before-tax required returns on assets that are subject to lower or higher tax rates.

Implied call
The right of the homeowner to prepay, or call, a mortgage at any time.

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. Related: Cheapest to deliver issue.

Implied volatility
The expected volatility in a stock’s return derived from its option price, maturity date, exercise price, and riskless rate of return, using an option pricing model such as Black-Scholes.

Import/export letters of credit
Bank or financial institution issuance’s of funds in a certain amount provided to facilitate international trade.

Import Quota
Puts limits on the quantity of certain products that can be legally imported into a particular country during a particular time frame. There is a Fixed quota, which is a maximum quantity not to be exceeded, and tariff rate surcharge, which permits additional quantities but at much higher duty.
Import substitution development strategy
A development strategy followed by many Latin American countries and other LDCs that emphasize import substitution-accomplished through protectionism-as the route to economic growth.

Imputation tax system
Arrangement by which investors who receive a dividend also receive a tax credit for corporate taxes that the firm has paid.

Imputed interest
Used in accounting to refer to interest that has effectively been paid to a bondholder, even though no money has actually been paid.

Imputed value
Refers to the value of an asset, service, or company that is not physically recorded in any accounts but is implicit in the product, e.g., the opportunity cost of cash remaining in a savings account and not invested.

In between
Used in the context of general equities. Priced higher than the bid price but lower than the offer price. See: In the middle

In the box
Means that a dealer has a wire receipt for securities, indicating that effective delivery on them has been made.

In competition
Indication that the customer has revealed trading interest to multiple brokers and that the trade will take place with the firm having the highest bid or lowest offer. Antithesis of exclusive.

In hand
Used in the context of general equities. Firm indicating control of a bid, offer, or order.

In the hole
Used in the context of general equities. Below the inside market when one is attempting to sell the stock; at a significant discount. Antithesis of premium.

In-house
In the context of general equities, keeping an activity within the firm. For example, rather than go to the marketplace and sell a security for a client to anyone, an attempt is made to find a buyer to complete the transaction with the firm. Although a listed trade must be taken to the floor of the stock exchange, matching supply with demand within the confines of the firm results in higher commissions for the firm.
**In-house processing float**
The time it takes the receiver of a check to process a payment and deposit it in a bank for collection.

**In-line**
Used in the context of general equities. (1) An order or market in a specific security within the inside market; 2) any announcement (earnings) that adheres closely to Wall Street analysts' expectations.

**In the middle**
Used in the context of general equities. At a price exactly in between the bid and offer prices.

**In-the-money**
A put option that has a strike price higher than the underlying futures price, or a call option with a strike price lower than the underlying futures price. For example, if the March COMEX silver futures contract is trading at $6 an ounce, a March call with a strike price of $5.50 would be considered in the money by $0.50 an ounce. Related: Put. Antithesis of out-of-the-money.

**In play**
Often used in risk arbitrage. Company that has become the target of a takeover, and whose stock has now become a speculative issue.

**In-the-money option**
An option that has value.

**In & out**
Refers to over-the-counter trading. Trade in which the trader has both the buyers and sellers lined up for a clean trade. See: Cross.

**In-and-out trader**
A daytrader, or a speculator who buys and sells the same security on the same day.

**In the tank**
Used in the context of general equities. Slang expression meaning market prices are dropping rapidly.

**In touch with**
Used in the context of general equities. Having a sell inquiry in a stock (not a firm customer sell order), often entailing a capital commitment. Antithesis of looking for.

**In-substance defeasance**
Process through which debt is removed from the balance sheet but not canceled.

**Inactive asset**
Asset not used in a productive manner at all times.

**Inactive post**
Trading post on NYSE floor where inactive, lightly traded stocks are traded in 10-share lots as opposed to 100-share lots.

**Inactive stock/bond**
A security that trades in very small volume on a daily basis. See:: Illiquid.

**Incentive fee**
Compensation paid to commodities trading advisers or to any practitioner who achieves above-average returns. Sometimes called performance fee.

**Incentive Stock Option (ISO)**
An Option that has met certain tax requirements entitling the optionee to favorable tax treatment. Such an option is free from regular tax at the date of grant and the date of exercise (when a non-qualified option would become taxable). If two holding period tests are met (two years between grant date and sale date and one year between the exercise date and sale date), the profit on the option qualifies as a long term capital gain rather than ordinary income. If the holding periods are not met, there has been a "disqualifying disposition".

**Incestuous share dealing**
Trading of shares between companies in order to create a tax or financial benefit for the companies involved.

**Income baskets**
Category to which certain income is allocated. Losses in one basket may not be used to offset gains in another basket. Specified in U.S. tax code.

**Income beneficiary**
One who receives income from a trust.

**Income bond**
A bond whose payment of interest is contingent on sufficient earnings. These bonds are commonly used during the reorganization of a failed or failing business.

**Income dividend**
Any payout to mutual fund shareholders resulting from interest, dividends, or other income.

**Income exclusion rule**
The IRS rule that excludes certain types of income from taxation, e.g., welfare payments.

**Income fund**
A mutual fund that seeks to provide to liberal current income from investments.

**Income immunization strategies**
Methodologies adopted to insure adequate future cash flow.

**Income investment company**
A management company focused on managing a mutual fund whose primary purpose is income generation, typically investing in bonds and high dividend yielding stocks.

**Income limited partnership**
A limited partnership whose main goal is income generation, e.g., real estate, oil equipment.

**Income property**
Real estate purchased for the reasons of income generation.

**Income risk**
The possibility that a portfolio's dividends will decline as a result of falling interest rates. Income risk is generally greatest for money market instruments and short-term bonds, and least for long-term bonds.

**Income statement (statement of operations)**
A statement showing the revenues, expenses, and income (the difference between revenues and expenses) of a corporation over some period of time.

**Income stock**
Common stock with a high dividend yield and few profitable investment opportunities.

**Income tax**
A state or federal government's levy on individuals as personal income tax and on the earnings of corporations as corporate income tax.

**Incontestability clause**
Clause in a life insurance contract preventing the insurer from revoking the policy after it has been in force for a year or two if the life insurance company discovers any important facts that the policyholder may have concealed, such as experiencing a stroke.

**Incorporation**
A legal process through which a company receives a charter and the state in which it is based allows it to operate as a corporation.
Incoterm
Trade terms used worldwide to specify seller and buyer obligations in shipments against international sales contracts. These terms are adopted by the International Chamber of Commerce (ICC) for international movement of merchandise. Since they in themselves are not law, they must be specified if desired in quotations, sales contracts, purchase orders and commercial invoices.

Incremental cash flows
Difference between the firm's cash flows with and without a project.

Incremental cost of capital
Average cost applicable to the issue of each additional unit of debt and equity.

Incremental costs and benefits
Costs and benefits that would occur if a particular course of action is taken, compared to those that would have obtained if that course of action had not been taken.

Incremental internal rate of return
Internal rate of return (I.R.R.) on the incremental investment from choosing a larger instead of a smaller project.

Indemnify
Used in insurance policy agreements as to compensation for damage or loss. Hold harmless

Indemnification
Used in insurance policy agreements as to compensation for damage or loss. In the context of corporate governance, Director Indemnification uses the bylaws and/or charter to indemnify officers and directors from certain legal expenses and judgements resulting from lawsuits pertaining to their conduct.

Indenture
Agreement between lender and borrower that details specific terms of the bond issuance. Specifies legal obligations of bond issuer and rights of bondholders. An indenture spells out the specific terms of a bond, as well as the rights and responsibilities of both the issuer of the security and the holder.

Independent auditor
A certified public accountant operating outside the company who can provide an accountant's opinion.

Independent broker
NYSE member who executes orders for floor brokers and firms other than its own.
**Independent investments**
Investments available to a firm that may be selected individually or in groups because each investment is different in its nature and purpose.

**Independent project**
A project whose acceptance or rejection is independent of the acceptance or rejection of other projects.

**Independent variable**
Term used in regression analysis to represent the element or condition that is expected to influence another (so-called dependent) variable.

**Index**
Statistical composite that measures changes in the economy or in financial markets, often expressed in percentage changes from a base year or from the previous month. Indexes measure the ups and downs of stock, bond, and some commodities markets, in terms of market prices and weighting of companies the index.

**Index arbitrage**
An investment/trading strategy that exploits divergences between actual and theoretical futures prices. An example is the simultaneous buying (selling) of stock index futures (i.e., S&P 500) while selling (buying) the underlying stocks of that index, capturing as profit the temporarily inflated basis between these two baskets. Often, the point at which profitability exists is expressed at the block call as the number of points the future must be over or under the underlying basket for an arbitrage opportunity to exist. See: Program trading.

**Index fund**
Investment fund designed to match the returns on a stock market index. Mutual fund whose portfolio matches that of a broad-based index such as the S&P 500 and whose performance therefore mirrors the market as represented by that index.

**Index futures**
A futures contract on an index (such as a foreign stock index) in the futures market.

**Index method**
Technique to calculate rates of return that is based on initial and terminal values.

**Index model**
A model of stock returns using a market index such as the S&P 500 to represent common or systematic risk factors.

**Index option**
A call or put option based on a stock market index.
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
in the underwriting stage and are being registered by the Securities and Exchange Commission.

**Indication pricing schedule**
A statement of rates for an interest rate or currency swap.

**Indicator**
Used in the context of general equities. Technical or fundamental measurement that securities analysts use to forecast the market’s direction, such as investment advisory sentiment, volume of stock trading, direction of interest rates, and buying or selling by corporate insiders.

**Indifference curve**
The expression in a graph of a utility function, where the horizontal axis measures risk and the vertical axis measures expected return. The curve connects all portfolios with the same utility.

**Indirect Claim**
Claim of a financial intermediary; the intermediary relends funds to the deficit unit to enable it to acquire real assets.

**Indirect costs of financial distress**
Costs such as lost business as a result of bankruptcy or liquidation.

**Indirect diversification benefits**
Diversification benefits provided by the multinational corporation that are not available to investors through their portfolio investment.

**Indirect Exchange Rate**
The foreign currency price of one unit of the home currency.

**Indirect method**
Reporting in the statement of cash flow that adjusts or reconciles net income to cash from operations.

**Indirect quote**
For foreign exchange, the number of units of a foreign currency needed to buy one US dollar.

**Indirect terms**
The price of a unit of domestic currency in foreign currency terms. See: Direct terms.

**Individual Retirement Account (IRA)**
A retirement account that may be established by an employed person. IRA contributions are tax deductible according to certain guidelines, and the gains in the account are tax-deferred.
**Individual Retirement Account (IRA) rollover**
A provision of the law governing IRA’s that enables a retiree or anyone receiving a lump-sum payment from a pension, profit-sharing, or salary reduction plan to transfer the amount into an IRA.

**Individual tax return**
A tax return filed by an individual to account for their personal income and taxes payable.

**Inductive reasoning**
The attempt to use information about a specific situation to draw a conclusion.

**Industrial production**
A statistic determined by the Federal Reserve Board focusing on the total output of all US factories and mines on a monthly basis. Used as an economic indicator.

**Industrial revenue bond (IRB)**
A bond issued by local government agencies on behalf of corporations.

**Industrials**
General term used in the financial markets to refer to companies manufacturing, producing, or distributing goods and services.

**Industry**
The category describing a company’s primary business activity. This category is usually determined by the largest portion of revenue.

**Industry allocation**
Investment of certain proportions of a portfolio in certain industries. Sometimes called sector allocation.

**Inefficient portfolio**
Group of assets dominated by at least one other portfolio under the mean variance rule. For example, if A has both lower return and higher volatility than B, we say A is dominated by B.

**Infant industry argument**
Argument that industries in the developing and emerging sectors of the economy need protection against international competition in order to establish themselves.

**Inflation**
The rate at which the general level of prices for goods and services is rising.

**Inflation accounting**
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.
Information-motivated trades
Trades in which an investor believes he or she possesses pertinent information not currently reflected in the stock's price.

Information Ratio
The ratio of annualized expected residual return to residual risk. A central measurement for active management, value added is proportional to the square of the information ratio.

Information services
Organizations that furnish investment and other types of information, such as information that helps a firm monitor its cash position.

Informational efficiency
The speed and accuracy with which prices reflect new information.

Information Signaling
Conveying intelligence through a firm's actions. A firm's dividend policy, for example, provides signals to investors concerning the value of the firm's stock.

Informational efficiency
The degree to which market prices correctly and quickly reflect information and thus the true value of an underlying asset.

Informationless trades
Trades that are the result of either a reallocation of wealth or an implementation of an investment strategy that acts only on existing information.

Infrastructure
A country's fundamental system of transportation, communications, and other aspects of its physical capabilities.

Ingot
A bar of metal such as the type that the Federal Reserve System uses to store gold reserves.

Inheritance tax return
Tax form required to determine the amount of state tax due on an inheritance.

Initial filing
Has various meanings. It could refer to a form that is filed with the Securities and Exchange Commission in advance of a major event, such as a public offering or a share repurchase. It could also refer to filings that occur before legal inside transactions.

Initial margin
(1) Amount of money deposited by both buyers and sellers of futures contracts to ensure performance of the terms of the contract; (2) amount of cash or eligible securities required to be deposited with a broker before engaging in margin transactions.

**Initial margin requirement**
When buying securities on margin, the proportion of the total market value of the securities that the investor must pay for in cash. The Security Exchange Act of 1934 gives the Board of Governors of the Federal Reserve the responsibility to set initial margin requirements, but individual brokerage firms are free to set higher requirements. In futures contracts, initial margin requirements are set by the exchange.

**Initial public offering (IPO)**
A company's first sale of stock to the public. Securities offered in an IPO are often, but not always, those of young, small companies seeking outside equity capital and a public market for their stock. Investors purchasing stock in IPOs generally must be prepared to accept considerable risks for the possibility of large gains. IPOs by investment companies (closed-end funds) usually include underwriting fees that represent a load to buyers.

**Initial Public Offering Spinning**
The practice of an investment bank setting aside portions of a corporation's Initial Public Offering for senior management of that corporation.

**Initiate coverage**
(1) Firm is now followed by analysts at a particular securities house; (2) Indication to cover short position by purchasing the underlying stock (this cancels out the short position).

**Inland Bill of Lading**
A document used as a receipt from the carrier to shipper that covers the transport of goods overland. It also acts as a contract of carriage.

**Input-output tables**
Tables that indicate how much each industry requires of the production of each other industry in order to produce each dollar of its own output.

**Inquiry**
Used in the context of general equities. In-line expression of interest in a particular stock, usually asking the firm to bid for or offer stock.

**In-service withdrawal**
A participant-initiated withdrawal from an employer-sponsored retirement plan while the participant is still employed by the company.

**Inside market**
Refers to over-the-counter trading. Best (highest) bid and best (lowest) offer, often used
in the O.T.C. Market. See: In-line.

**Insider information**
Material information about a company that has not yet been made public. It is illegal for holders of this information to make trades based on it, however received.

**Insider trading**
Trading by officers, directors, major stockholders, or others who hold private inside information allowing them to benefit from buying or selling stock.

**Insider Trading Sanctions Act of 1984**
Act imposing civil and criminal penalties for insider trading violations.

**Insider**
Federal legislation that greatly increased the penalties for trading on material inside information.

**Insiders**
These are directors and senior officers of a corporation-in effect, those who have access to inside information about a company. An insider also is someone who owns more than 10% of the voting shares of a company.

**Insolvency risk**
The risk that a firm will be unable to satisfy its debts. Also known as bankruptcy risk.

**Insolvent**
A firm that is unable to pay debts (its liabilities exceed its assets).

**Inspector(s) of Election**
The person(s) appointed by the Corporation to act as a judge on voting matters brought before a shareholder meeting. The inspector determines which proxies and ballots are in good form, and acceptable to be voted. They also count and record the votes, supervise and inspect the counting process and attest to the final results. They cannot be overruled on these matters, although they have no voice in the procedural aspects of the meeting itself.

**Inspector’s or Judge’s Certificate**
A form provided by the Corporation, and completed by the Inspectors of Election, attesting to the final voting results and percentages of a shareholder meeting.

**Installment payments**
Distribution of plan assets to beneficiaries based upon a regular schedule.

**Installment sale**
The sale of an asset in exchange for a specified series of payments (the installments).

**Instinet (Institutional Networks Corporation)**
Computerized subscriber service that serves as a vehicle for the fourth market. "Instinet" is registered with the SEC As a stock exchange it numbers among its subscribers a large number of mutual funds and other institutional investors linked to each other by computer terminals. The system permits subscribers to display bids and offers (which are exposed system wide for whatever length of time the initiating party specifies) and to consummate trades electronically. Instinet is largely used by market makers, but, nonmarket makers and customers have equal access.

**institution**
An organization, probably very large, engaged in professional investing in securities. Normally a bank, insurance company, or mutual fund.

**Institutional broker**
A broker who buys and sells securities for institutional investors such as banks, and mutual funds, pensions.

**Institutional Brokers' Estimate System (IBES)**
Service that assembles analysts' estimates of future earnings for thousands of publicly traded companies, detailing how many estimates are available for each company and the high, low, and average estimates for each.

**Institutional investors**
Organizations that invest, including insurance companies, depository institutions, pension funds, investment companies, mutual funds, and endowment funds.

**Institutionalization**
The gradual domination of financial markets by institutional investors, as opposed to individual investors. This process has occurred throughout the industrialized world.

**Instrumentality**
Notes issued by a federal agency whose obligations are guaranteed by the full-faith-and-credit of the government, even though the agency's responsibilities are not necessarily those of the US government.

**Instruments**
Financial securities, such as money market instruments or capital market instruments.

**Insurable interest**
An insurance term referring to the relationship between a policy's insured person or property and the potential beneficiary. The beneficiary must have an insurable interest in the insured person or property to receive payment of the policy if the insured died while
the policy was in force.

**Insurance**
Guarding against property loss or damage making payments in the form of premiums to an insurance company, which pays an agreed-upon sum to the insured in the event of loss.

**Insurance agent**
The insurance company representative and adviser who sells insurance policies.

**Insurance broker**
A broker, independent of any insurance company, who represents the interests of the buyer in searching for insurance coverage at the lowest cost and providing the highest benefit to the buyer.

**Insurance claim**
A claim for reimbursement from the insurance company when the insured has suffered a loss that is covered under an insurance policy.

**Insurance dividend**
Money paid annually to policyholders participating in cash value life insurance policies.

**Insurance policy**
A contract detailing an insurance policy and outlining what risks are insured, what insurance premiums are to be paid by the policyholder, what deductibles prevail, and all the details associated with a policy.

**Insurance premium**
Payments calculated by the insurance company based on risk factors that must be made by the insured to guarantee protection of property loss under an insurance policy.

**Insurance principle**
The law of averages. The average outcome for many independent trials of an experiment will approach the expected value of the experiment.

**Insurance settlement**
The payment of proceeds by an insurance company to the insured to settle an insurance claim within the guidelines stipulated in the insurance policy.

**Insured**
The property or persons covered by an insurance policy.

**Insured account**
A bank or financial account that is insured for the benefit of the depositor, protecting
against loss in the event that the savings institution becomes insolvent. See: FDIC.

**Insured bond**
A municipal bond backed both by the credit of the municipal issuer and by commercial insurance policies.

**Insured plans**
Defined benefit pension plans that are guaranteed by life insurance products. Related: Non-insured plans

**Insured Trade Acceptance**
A trade acceptance where the buyer's ability to pay is insured.

**Intangible asset**
A legal claim to some future benefit, typically a claim to future cash. Goodwill, intellectual property, patents, copyrights, and trademarks are examples of intangible assets.

**Integer programming**
Variant of linear programming in which the solution values must be integers.

**Integrated financial market**
A market in which there are no barriers to financial flows, and the same risk asset commands the same expected return, irrespective of domicile.

**Intellectual property rights**
Patents, copyrights, and proprietary technologies and processes that may be the basis of a company's competitive advantage.

**Interbank market**
Financial institutions exchange of currencies between and among themselves.

**Interbank rate**
See: LIBOR

**Interbank spread**
The difference between a bank's offer and bid rates for deposits in the Eurocurrency market.

**Intercommodity spread**
In the commodities market, a spread consisting of a long position and a short position in different but related commodities for example, speculating that the price relationship between the two commodities will change, e.g., platinum and gold.

**Intercompany loan**
Loan made by one unit of a corporation to another unit of the same corporation.

**Intercompany transaction**
Transaction carried out between two units of the same corporation.

**Interdelivery spread**
Used in futures or options market to refer the purchase of one month of a contract and selling another month in the same contract, in the hope that the price difference will widen or narrow, depending on the investment.

**Interfund transactions**
Financial arrangements effected by payments made from one fund group (either Federal funds or trust funds) to another group.

**Interest**
The price paid for borrowing money. It is expressed as a percentage rate over a period of time and reflects the rate of exchange of present consumption for future consumption. Also, a share or title in property.

**Interest coverage ratio**
The ratio of earnings before interest and taxes to annual interest expense. This ratio measures a firm's ability to pay interest.

**Interest coverage test**
A debt limitation that prohibits the issuance of additional long-term debt if the issuer's interest coverage would, as a result of the issue, fall below some specified minimum.

**Interest deduction**
An interest expense, such as interest on a margin account, that is allowed as a deduction for tax purposes.

**Interest equalization tax**
Tax on foreign investment by residents of the US which was abolished in 1974.

**Interest expense**
Interest expense is the money the corporation or individual pays out in interest on loans.

**Interest in Arrears**
Interest that is due only at the maturity date rather than periodically over the life of the loan.

**Interest on interest**
Interest earned on reinvestment of each interest payment on money invested. See: compound interest.
**Interest-only loan**  
A loan in which payment of principal is deferred and interest payments are the only current obligation.

**Interest-only strip (IO)**  
A security based solely on the interest payments from a pool of mortgages, Treasury bonds, or other bonds. Once the principal on the mortgages or bonds has been repaid, interest payments stop, and the value of the IO falls to zero.

**Interest payments**  
Contractual debt payments based on the coupon rate of interest and the principal amount.

**Interest 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.

**Interest rate agreement**  
An agreement whereby one party, for an up-front premium, agrees to compensate the other at specific time periods if a designated interest rate (the reference rate) is different from a predetermined level (the strike rate).

**Interest rate cap**  
An interest rate agreement in which payments are made when the reference rate exceeds the strike rate. Also called an interest rate ceiling.

**Interest rate on debt**  
The firm's cost of debt capital.

**Interest rate ceiling**  
See: Interest rate cap

**Interest rate floor**  
An interest rate agreement in which payments are made when the reference rate falls below the strike rate. Related: Interest rate cap.

**Interest rate futures contract**  
A futures contract based on an interbank deposit rate or an underlying debt security. The value of the contract rises and falls inversely to changes in interest rates.

**Interest rate parity theorem**  
Expression that the interest rate differential between two countries is equal to the difference between the forward foreign exchange rate and the spot rate.

**Interest rate parity line (IRP)**
Diagonal line on a graph that characterizes interest rate parity.

**Interest rate risk**
The chance that a security's value will change due to a change in interest rates. For example, a bond's price drops as interest rates rise. For a depository institution, also called funding risk: The risk that spread income will suffer because of a change in interest rates.

**Interest rate swap**
A binding agreement between counterparties to exchange periodic interest payments on some predetermined dollar principal, which is called the notional principal amount. For example, one party will pay fixed and receive variable.

**Interest-sensitive insurance policy**
A cash value life insurance policy whose insurance dividend rates vary with respect to inflation, enabling the policyholder to avoid the loss of purchasing power associated with inflation.

**Interest-sensitive stock**
Stocks whose earnings are dependent upon and change with the interest rate, e.g., bank stocks.

**Interest subsidy**
The value of a firm's deduction of the interest payments on its debt from its earnings before calculation of its tax bill under current tax law.

**Interest tax shield**
The reduction in income taxes that results from the tax-deductibility of interest payments.

**Interim dividend**
The declaration and payment of a dividend prior to annual earnings determination.

**Interim financing**
A short-term loan made to a company on the condition that a takeout will follow with long-term or intermediate financing.

**Interim rate of return**
The rate of return earned between cash flows.

**Interim statement**
A financial statement that reflects only a limited period of a company's financial statement, not the entire fiscal year.

**Interlocking directorate**
Describes cross-memberships of directors on each other's company Board of Directors.

**Intermarket sector spread**
The spread between the interest rate offered in two sectors of the bond market for issues of the same maturity.

**Intermarket spread swaps**
An exchange of one bond for another based on the manager's projection of a realignment of spreads between sectors of the bond market.

**Intermarket Surveillance Information System (ISIS)**
A database that distributes information from all the major stock exchanges in the United States.

**Intermarket Trading System (ITS)**
Electronic communications network linking the trading floors of seven registered exchanges to permit trading among them in stocks listed on either the NYSE or AMEX and one or more regional exchanges. Through ITS, any broker or market maker on the floor of any participating exchange can reach other participants for an execution whenever the nationwide quote shows a better price available. A floor broker on the exchange can enter an ITS order to assure execution of all of an offering or bid, instead of splitting it with competing brokers.

**Intermediary**
See: Financial intermediary

**Intermediate targets**
An intermediate target is a variable (such as the money supply) that is not directly under the control of the central bank, but that does respond fairly quickly to policy actions, is observable frequently and bears a predictable relationship to the ultimate goals of policy.

**Intermediate-term**
Typically one-ten years.

**Intermediate trend**
General movement in price data that lasts from three weeks to six months.

**Intermediated market**
A financial market in which some financial institution stands between counterparties to financial transactions.

**Intermediation**
Investment through a financial institution. Related: Disintermediation.
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
Simultaneous buying and selling of foreign securities and ADRs to capture the profit potential created by time, currency, and settlement inconsistencies that vary across international borders.

**International Asset Pricing Model (IAPM)**
The international version of the CAPM assuming that investors in each country share the same consumption basket and purchasing power parity holds.

**International Bank for Reconstruction and Development (IBRD)**
IBRD or World Bank makes loans at nearly conventional terms to countries for projects of high economic priority.

**International Banking Facility (IBF)**
A branch that an American bank establishes in the United States to do Eurocurrency business.

**International Bank for Reconstruction and Development (IBRD)**
Also commonly called the World Bank. It is a United Nations affiliated institution that assists in the development of its poorer members by facilitating private investments, and by making and guaranteeing loans.

**International bonds**
A collective term that refers to global bonds, Eurobonds, and foreign bonds.

**International Chamber of Commerce (ICC)**
A business organization with membership from over 80 countries. They work to harmonize trade practices worldwide by establishing agreed upon rules such as Incoterms and Uniform Customs and Procedures for Documentary Credits.

**International Depository Receipt (IDR)**
A receipt issued by a bank as evidence of ownership of one or more shares of the underlying stock of a foreign corporation that the bank holds in trust. The advantage of the IDR structure is that the corporation does not have to comply with all the issuing requirements of the foreign country where the stock is to be traded. The US version of the IDR is the American Depository Receipt (ADR).

**International Development Association (IDA)**
Association established to stimulate country development; it was especially suited for less prosperous nations, since it provided loans at low interest rates.

**International diversification**
The attempt to reduce risk by investing in more than one nation. By diversifying across nations whose economic cycles are not perfectly correlated, investors can typically reduce the variability of their returns.
International Finance Corporation (IFC)
A corporation owned by the World Bank that produces a number of well-known stock indexes for emerging markets. Its major role is to provide financing for projects in less developed countries.

International finance subsidiary
A subsidiary incorporated in the US, usually in Delaware, whose sole purpose once was to issue debentures overseas and invest the proceeds in foreign operations, with the interest paid to foreign bondholders not subject to US withholding tax. Elimination of the corporate withholding tax has ended the need for this type of subsidiary.

International Fisher effect
States that the interest rate differential between two countries should be an unbiased predictor of the future change in the spot rate.

International Fisher relationship
Theory that nominal interest rates and inflation rates in different countries are connected. The Fisher equation says the nominal interest rate is the product of one plus the real interest rate times one plus the expected rate of inflation.

International fund
A mutual fund that can invest only outside the United States.

International market
Related: External market

International market index
An index listed on the American Stock Exchange tracking the performance of 50 American Depository Receipts traded on the AMEX, NYSE, and NASDAQ.

International Monetary Fund (IMF)
An organization founded in 1944 to oversee exchange arrangements of member countries and to lend foreign currency reserves to members with short-term balance of payment problems.

International Monetary Market (IMM)
A division of the CME established in 1972 for trading financial futures. Related: Chicago Mercantile Exchange (CME)

International monetary system
The global network of government and commercial institutions within which currency exchange rates are determined.
**International mutual fund**
A mutual fund that invests strictly in securities markets throughout the world, excluding the United States. A global fund, on the other hand, invests in both foreign and domestic securities.

**International Organization for Standardization**
ISO is not an acronym but the name of a standards setting organization chartered by the United Nations. The name ISO is derived from Greek and connotes equality, i.e. each member country regardless of size or wealth gets only one vote. The ISO 4217 are the standard three letter currency codes. These codes are usually composed of the ISO 3166 two letter country code plus a third letter representing the name of the currency.

**International Petroleum Exchange (IPE)**
Energy futures and options exchange based in London.

**International Security Market Association (ISMA)**
Swiss law association located in Zurich that regroups all the participants on the Eurobond primary and secondary markets. Establishes uniform trading procedures in the international bond markets.

**International Stock Exchange of the U.K. and the Republic of Ireland (ISE)**
Organization that replaced the London stock exchange after its merger with the International Securities Regulatory Organization (ISRO).

**International Swap Dealers Association (ISDA)**
Formed in 1985 to promote uniform practices in the writing, trading, and settlement of swaps and other derivatives.

**Interpolation**
A method of approximating a price or yield that is unknown by using numbers that are known.

**Interpositioning**
The practice of using a second broker in a securities transaction, which is considered illegal it is if used to generate additional commission.

**Inter vivos trust**
A trust created between living persons. Antithesis of a testamentary trust.

**Intrabudgetary transactions**
Effected when payment and receipt both occur within the budget, or when payment is made from off-budget federal entities whose budget authority and outlays are excluded from the budget totals.
Intracommodity spread
Used in the context of futures trading to refer to a trader holding, buying, and selling contracts in the same commodity on the same exchange, but for different months.

Intracompany trade
Transactions between or among subsidiaries that are part of the same parent company.

Intraday
Term meaning "within the day," often to refer to the high and the low price of a stock.

Intramarket sector spread
The spread between two issues of the same maturity within a market sector. For instance, the difference in interest rates offered for five-year industrial corporate bonds and five-year utility corporate bonds.

Intrastate offering
A securities offering limited to just one state in the United States.

Intrinsic value
The value of an option if it were to expire immediately with the underlying stock at its current price; the amount by which an option is in-the-money. For call options, this is the difference between the stock price, if that difference is a positive number, or zero otherwise. For put options it is the difference between the striking price and the stock price, if that difference is positive, and zero otherwise. See also: In-the-Money, Time Value Premium, Parity.

Intrinsic value of an option
The amount by which an option is in the money. An option that is not in the money has no intrinsic value.

Intrinsic value of a firm
The present value of a firm's expected future net cash flows discounted by the required rate of return.

Inventory
For companies: Raw materials, items available for sale or in the process of being made ready for sale. They can be individually valued by several different means, including cost or current market value, and collectively by FIFO (First in, first out), LIFO (Last in, first out) or other techniques. The lower value of alternatives is usually used to preclude overstating earnings and assets. For securities firms: Securities bought and held by a broker or dealer for resale.

Inventory financing
Used in the context of factoring and general finance to refer to loans to consumer product producers that use inventory as collateral. See also: Inventory loan.

**Inventory loan**
A secured short-term loan to purchase inventory. The three basic forms are a blanket inventory lien, a trust receipt, and field warehousing financing.

**Inventory turnover**
The ratio of annual sales to average inventory, which measures the speed at which inventory is produced and sold. Low turnover is an unhealthy sign, indicating excess stocks and/or poor sales.

**Inverse floater**
A derivative instrument whose coupon rate is linked to the market rate of interest in an inverse relationship.

**Inverse floating-rate note**
A variable-rate security whose coupon rate increases as a benchmark interest rate declines.

**Inverted market**
A futures market in which the nearer months are selling at price premiums to the more-distant months. Related: Premium.

**Inverted scale**
A serial bond offering whose bonds with earlier maturity dates have higher yields than bonds with later maturity dates.

**Inverted yield curve**
When short-term interest rates are higher than long-term rates. Antithesis of positive yield curve.

**Investment**
The creation of more money through the use of capital.

**Investment adviser**
A person or an organization that makes the day-to-day decisions regarding a portfolio's investments. Also called a portfolio manager.

**Investment Advisers Act**
Legislation passed in 1940 requiring financial advisers to register with the Securities and Exchange Commission. The measure was enacted to protect the public from fraud or misrepresentation by investment advisers.

**Investment advisory service**
A business that specializes in providing investment advice for a fee. All advisers of an advisory service must be registered with the Securities and Exchange Commission.

**Investment agreement**
An contract specifying the rights and responsibilities of a host government and a corporation in the structure and operation of an investment project.

**Investment analysts**
Related: Financial analysts

**Investment bank**
Financial intermediaries who perform a variety of services, including aiding in the sale of securities, facilitating mergers and other corporate reorganizations, acting as brokers to both individual and institutional clients, and trading for their own accounts. See: Underwriters.

**Investment certificate**
A document that serves as proof that an individual has an investment in a savings and loan association.

**Investment climate**
Factors such as economic, monetary, and other conditions that affect the performance of investments.

**Investment club**
A group of people who combine their money into a larger pool, then invest collectively in stocks and bonds, making decisions as a group.

**Investment company**
A firm that that invests the funds of investors in securities appropriate for their stated investment objectives in return for a management fee. See also: Mutual fund.

**Investment Company Act of 1940**
Legislation that requires investment companies to register with the SEC and that outlines standards by which they must operate.

**Investment Company Institute (ICI)**
A national industry group of investment companies, including mutual funds, founded in 1940.

**Investment decisions**
Decisions concerning the asset side of a firm's balance sheet, such as the decision to offer a new product.
**Investment-grade bonds**
A bond that is assigned a rating in the top four categories by commercial credit rating companies. S&P classifies investment-grade bonds as BBB or higher, and Moody's classifies investment grade bonds as Baa or higher. Related: High-yield bond.

**Investment history**
The history of a member firm that establishes certain norms in respect of its investment practice.

**Investment income**
The revenue from a portfolio of invested assets.

**Investment letter**
A letter of intent between the issuer of new securities and the buyer, in the private placement of these new securities. The letter of intent establishes that the securities are being bought for a minimum time period and are treated as an investment, not for resale. If no such letter exists, the securities must be registered with Securities and Exchange Commission.

**Investment management**
The process of managing money. Also called portfolio management and money management.

**Investment manager**
The individual who manages a portfolio of investments. Also called a portfolio manager or a money manager.

**Investment objective**
The financial objective of an investor. Whether the investor requires income or capital appreciation, for example. The investor's objective governs the investment strategy.

**Investment opportunity set**
The universe of choices as to investments available to an individual or corporation.

**Investment philosophy**
The style and general ideology of investment practiced by an investor. Certain investors favor small-capitalization stocks, while others prefer large blue-chip stocks, for example.

**Investment policy**
Statement of objectives and constraints for an individual's or organization's approach.

**Investment product line (IPL)**
The line of required returns for investment projects as a function of beta (nondiversifiable risk).

**Investment Risk**
Uncertainty about the future benefits to be realized from an investment.

**Investment Valuation Model (IVM)**
The basic mathematical technique of finance that calculates the value of an investment as the present value of all future cash flows expected to be generated by the investment.

**Investments**
As a discipline, the study of financial securities, such as stocks and bonds, from the investor's viewpoint.

**Investment software**
Computer software that helps investors make investment decisions by identifying situations that meet programmed parameters.

**Investment strategy**
A strategy, or plan of attack, an investor uses when deciding how to allocate capital among several options including stocks, bonds, cash equivalents, commodities, and real estate. The strategy should take into account the investor's tolerance for risk as well as future needs for capital.

**Investment strategy committee**
A committee within a brokerage firm that conducts research and makes recommendations on the firm's stated investment strategy.

**Investment Tax Credit**
Proportion of new capital investment that could be used to reduce a company's tax bill (abolished in 1986).

**Investment trust**
A closed-end fund regulated by the Investment Company Act of 1940. These funds have a fixed number of shares that are traded on the secondary markets, like corporate stock. The market price may exceed the net asset value per share, in which case shares are selling at a premium. When the market price falls below the (NAV)/share, shares are selling at a discount. Many closed-end funds are of a specialized nature; the portfolio represents a particular industry or country. These funds are usually listed on US and foreign exchanges.

**Investment value**
Applies mainly to dealer securities. Fixed income value of a convertible, the price at which the convert would have to sell as a straight debt instrument relative to the yield of other bonds of like maturity, or size, and quality; represents a presumed floor to the bond, assuming the continued creditworthiness of the issuer and the general level of interest rates. Bond value. See: conversion value.

**Investor**
The owner of a financial asset.

**Investor fallout**
In the mortgage pipeline, risk that occurs when the originator commits loan terms to the borrowers and gets commitments from investors at the time of application, or if both sets of terms are made at closing.

**Investor relations**
The process by which the corporation communicates with its investors.

**Investor's equity**
The balance of a margin account. Related: Buying on margin, initial margin requirement.

**Investors service bureau**
NYSE service that deals with all general inquiries concerning securities investments.

**Invoice**
Bill written by a seller of goods or services and submitted to a purchaser for payment.

**Invoice billing**
Billing system in which invoices are sent off at the time of customer orders and are all separate bills to be paid.

**Invoice date**
Usually the date when goods are shipped. Payment dates are set relative to the invoice date.

**Invoice price**
The price that the buyer of a futures contract must pay the seller when a Treasury bond is delivered.

**Involuntary liquidation preference**
A premium that must be paid to preferred or preference stockholders if the issuer of the stock is forced into involuntary liquidation.

**IPO Spinning**
See Initial Public Offering Spinning.

**IRA/Keogh accounts**
Special accounts that allow saving taxes deferred until money is withdrawn. These plans are subject to frequent changes in law with respect to the deductibility of contributions. Withdrawals of tax-deferred contributions are taxed as income, including the capital gains from such accounts.
Irredeemable bond
A bond lacking a call feature or a right of redemption. Also refers to a perpetual bond.

Irrational call option
The implied call imbedded in a MBS. Irrational because the call is sometimes not exercised when it is in the money (interest rates are below the threshold to refinance), and sometimes exercised when it is not in the money. Option exercise like this affects payments on the MBS.

Irrelevance result
The Modigliani and Miller theorem that a firm's capital structure is irrelevant to the firm's value.

Irrevocable letter of credit
Assurance of funds issued by a bank that cannot be canceled or amended without the beneficiary's approval.

Irrevocable trust
A trust that is unable to be amended, altered, or revoked.

Issue
A particular financial asset.

Issued share capital
Total amount of shares that have been issued. Related: Outstanding shares.

Issuer
An entity that puts a financial asset in the marketplace.

Issuing bank
Bank that issues a letter of credit.

Istanbul Stock Exchange
The sole securities exchange in Turkey.

Italian Derivatives Market (IDEM)

Italian Exchange (Borsa Italiana)
Italy's major securities exchange.

Italian Stock Exchange (ISE)
The Milan-based stock exchange, which came into effect after the unification of Italy's ten
national exchanges in 1991. All listed securities are traded electronically. The main indexes are the MIB and the MIBTEL, based on the prices of all listed shares, and the MIB 30, based on a sample of the 30 most liquid and highly capitalized shares.

**Itemized deduction**
Specific deductions allowed by the IRS outlined in the tax return.

"It's us,"
Used in the context of general equities. "The firm, and not a customer, is the party involved."

**J**
Fifth letter of a Nasdaq stock symbol specifying the issue is the voting stock of the company.

**JM**
The two-character ISO 3166 country code for JAMAICA.

**JMD**
The ISO 4217 currency code for the Jamaican Dollar.

**JO**
The two-character ISO 3166 country code for JORDAN.

**JOD**
The ISO 4217 currency code for the Jordanian Dinar.

**JP**
The two-character ISO 3166 country code for JAPAN.

**JPY**
The ISO 4217 currency code for the Japanese Yen.

**Jasdaq**
See: Japanese Association of Securities Dealers Automated Quotation System

**JSE**
See: Johannesburg Stock Exchange

**J-curve**
Theory that says a country’s trade deficit will initially worsen after its currency depreciates because higher prices on foreign imports will more than offset the reduced volume of imports in the short run.
Jakarta Stock Exchange
Established in 1977, the largest securities exchange in Indonesia.

January effect
Refers to the historical pattern that stock prices rise in the first few days of January. Studies have suggested this holds only for small-capitalization stocks. In recent years, there is less evidence of a January effect.

Japanese Association of Securities Dealers Automated Quotation System (Jasdaq)
Japanese equivalent of Nasdaq.

Jeep
See: Graduated payment mortgage

Jensen index
An index that uses the capital asset pricing model to determine whether a money manager outperformed a market index. The alpha of an investment or investment manager.

Jobber
A term for a market maker used on the London Stock Exchange.

Johannesburg Stock Exchange (JSE)
Established in 1886, the Johannesburg Stock Exchange is the only stock exchange in South Africa. Gold and mining stocks form the majority of shares listed.

Joint account
An agreement between two or more firms to share risk and financing responsibility in purchasing or underwriting securities, or an account owned jointly by two or more persons at a bank or brokerage house.

Joint and survivor annuity
A type of annuity opened by and intended for two people, that makes payments for the entire lifetime of both beneficiaries, even if one of them dies.

Joint bond
A bond that is guaranteed by the issuer and a party other than the issuer.

Joint clearing members
Firms that clear on more than one exchange.

Joint float
An arrangement by which a group of currencies maintain a fixed relationship relative to each other, but move jointly relative to another currency in response to supply and
demand conditions in the exchange market.

**Joint stock company**
A form of business organization that falls between a corporation and a partnership. The company sells stock, and its shareholders are free to sell their stock, but shareholders are liable for all debts of the company.

**Jointly and severally**
Municipal bond underwriting in which the account is undivided and syndicate members are responsible for unsold bonds in proportion to their participation, regardless of how many bonds they may have already sold. A firm with 20% of the account is responsible for selling 20% of the unsold bonds even if has already sold 25% of the total debt issue, for example. See: Severally but not jointly.

**Joint tax return**
Tax return filed by two people, usually spouses.

**Joint tenants with right of survivorship**
In the case of a joint account, on the death of one account holder, ownership of the account assets is transferred to the remaining account holder or holders.

**Joint venture**
An agreement between two or more firms to undertake the same business strategy and plan of action.

**Jonestown defense**
An extreme defensive tactic employed by the management of a target corporation to prevent a hostile takeover. The defensive tactics are so extreme that they typically lead to the destruction of the target corporation. See: Suicide.

**Joseph Effect**
The tendency for persistent time series (0.50<H<1.00), to have trends and cycles. The term "Joseph Effect" was coined by Mandelbrot in reference to Joseph's interpretation of Pharaoh's dream of seven fat years followed by seven lean years.

**Jumbo certificate of deposit**
A certificate of deposit in increments of $100,000.

**Jumbo loan**
Loans of $1 billion or more. Or, loans that exceed the statutory size limit eligible for purchase or securitization by the federal agencies.

**Jump ball**
Used in the context of general equities. (1) Deal in which no trading house has exclusivity
(each firm is in direct competition for a piece of business); (2) no preference in picking a particular side (buy/sell) of a stock as profile, indicated during the block call, indicate that the sales force could have the stock either way.

**Junior debt (subordinate debt)**
Debt whose holders have a claim on the firm's assets only after senior debtholder's claims have been satisfied. *Subordinated debt.*

**Junior issue**
A debt or equity issue from one corporation over which the issue of another firm takes precedence with respect to dividends, interest, principal, or security in the event of liquidation.

**Junior mortgage**
A mortgage that will be satisfied only after more senior mortgages have been satisfied. E.g., a first mortgage will be satisfied prior to a second or a third mortgage.

**Junior refunding**
Issuing of new securities to refinance government debt that matures in one to five years.

**Junior security**
A security that has a lower-priority claim on a company's assets and income than a senior security. For example common stock is junior to preferred stock.

**Junk bond**
A bond with a speculative credit rating of BB (S&P) or Ba (Moody's) or lower. Junk or high-yield bonds offer investors higher yields than bonds of financially sound companies. Two agencies, Standard & Poors and Moody's Investor Services, provide the rating systems for companies' credit.

**Jury of executive opinion**
A method of forecasting using a composite forecast prepared by a number of individual experts. The experts form their own opinions initially from the data given, and revise their opinions according to the others' opinions. Finally, the individuals' final opinions are combined.

"Just me asking"
Used in the context of general equities. "Not a customer request for information."

**Just-in-time inventory systems**
Systems that schedule materials to arrive exactly when they are needed in the production process.

**Just title**
See: Clear title
Justified price
The fair market price of an asset.

K
Fifth letter of a Nasdaq stock symbol specifying the issue has no voting rights.

KCBT
See: Kansas City Board of Trade

KE
The two-character ISO 3166 country code for KENYA.

KES
The ISO 4217 currency code for the Kenyan Shilling.

KG
The two-character ISO 3166 country code for KYRGYZSTAN.

KGS
The ISO 4217 currency code for the Kyrgyzstan Som.

KH
The two-character ISO 3166 country code for CAMBODIA.

KHR
The ISO 4217 currency code for the Cambodian Riel.

KI
The two-character ISO 3166 country code for KIRIBATI.

KLCE
See: Kuala Lumpur Commodities Exchange

KloffE
See: Kuala Lumpur Options and Financial Futures Exchange

KLSE
See: Kuala Lumpur Stock Exchange

KMF
The ISO 4217 currency code for the Comoros Franc.

KN
The two-character ISO 3166 country code for SAINT KITTS AND NEVIS.

**KP**
The two-character ISO 3166 country code for KOREA, DEMOCRATIC PEOPLE’S REPUBLIC OF.

**KRW**
The ISO 4217 currency code for the North Korean Won.

**KR**
The two-character ISO 3166 country code for KOREA, REPUBLIC OF.

**KRW**
The ISO 4217 currency code for the South Korean Won.

**KW**
The two-character ISO 3166 country code for KUWAIT.

**KWD**
The ISO 4217 currency code for the Kuwait Dinar.

**KY**
The two-character ISO 3166 country code for CAYMAN ISLANDS.

**KYD**
The ISO 4217 currency code for the Cayman Islands Dollar.

**KM**
The two-character ISO 3166 country code for COMOROS.

**KZ**
The two-character ISO 3166 country code for KAZAKSTAN.

**KZT**
The ISO 4217 currency code for the Kazakhstan Tenge.

**Kaffirs**
South African gold mining shares that trade on the London Stock Exchange.

**Kangaroos**
Australian stocks.

**Kansas City Board of Trade (KCBT)**
The U.S.-based futures and options exchange for no. 2 red wheat futures and, options,
Value Line Index futures and Mini Value Line futures and options.

**Kappa**
The ratio of the dollar price change in the price of an option to a 1% change in the expected volatility.

**Karachi Stock Exchange**
The major securities exchange of Pakistan.

**Keiretsu**
A network of Japanese companies organized around a major bank. The term is also used outside of Japan to describe how a large corporation with many subsidiaries and associated firms can manipulate revenues. For example, firm A and B are controlled by firm C. Firm A is forced to buy its input from firm B at a high price. As a result, A is unprofitable and B is very profitable.

**Keogh plan**
A type of pension account in which taxes are deferred. Available to those who are self-employed.

**Key industry**
An industry that plays a critical role in a nation's economy.

**Key man (or woman) insurance**
A life insurance policy purchased by a company to insure the life of a key executive. The company is the beneficiary in case of the executive's death.

**Keynesian economics**
An economic theory of British economist, John Maynard Keynes that active government intervention is necessary to ensure economic growth and stability.

"Kick it out"
Used in the context of general equities. "Liquidate a position (sell a long/cover a short) without regard to price."

**Kickback**
In the context of finance, refers to compensation of dealers by sales finance companies for discounting installment purchase paper.
In the context of contracts, refers to secret payments made to insure that the contract goes to a specific firm.

**Kicker**
An additional feature of a debt obligation that increases its marketability and attractiveness to investors.
Kiddie tax
Tax owed for the investment income of children if the amount is more than $1,400.

Killer bees
Those who aid a company in fending off a takeover bid, usually investment bankers who devise strategies to make the target less attractive or more difficult to acquire.

Kiting
Used in of banking to refer to the practice of depositing and drawing checks at two or more banks and taking advantage of the time it takes for the second bank to collect funds from the first bank.
Also refers to illegally increasing the face value of a check by changing the numbers on the check.
In the context of securities, refers to the manipulation and inflation of stock prices.

Knock-out option
An option that is worthless at expiration if the underlying commodity or currency price reaches a specific price level.

Know your customer
An ethical foundation of securities brokers that an adviser who recommends the purchase or sale of any security to a customer, must believe that the recommendation is suitable for the customer, given the customer's financial situation.

Kondratieff Wave
An economic theory of the Soviet economist Kondratieff stating that the economies of the western world are susceptible to major up-and-down "supercycles" lasting 50 to 60 years.

Korea Stock Exchange
The major securities market of Korea.

Kruggerand
A gold coin minted by the republic of South Africa that typically sells for slightly higher prices than the market value of the gold it contains.

Kuala Lumpur Commodities Exchange (KLCE)
The Malaysian commodity exchange for trading futures in crude palm oil, crude palm kernel oil, tin, rubber, and cocoa.

Kuala Lumpur Options and Financial Futures Exchange (KLOFFE)
Established in 1995, the Kuala Lumpur Options and Financial Futures Exchange offers equity derivative products based on underlying instruments traded on the Kuala Lumpur
Stock Exchange (KLSE).

**Kuala Lumpur Stock Exchange (KLSE)**
Established in 1973, the Kuala Lumpur Stock Exchange (KLSE) is the only stock exchange in Malaysia.

**Kurtosis**
Measures the fatness of the tails of a probability distribution. A fat-tailed distribution has higher-than-normal chances of a big positive or negative realization. Kurtosis should not be confused with skewness, which measures the fatness of one tail. Kurtosis is sometimes referred to as the volatility of volatility.

**K**
Fifth letter of a Nasdaq stock symbol specifying the issue has no voting rights.

**KCBT**
See: Kansas City Board of Trade

**KE**
The two-character ISO 3166 country code for KENYA.

**KES**
The ISO 4217 currency code for the Kenyan Shilling.

**KG**
The two-character ISO 3166 country code for KYRGYZSTAN.

**KGS**
The ISO 4217 currency code for the Kyrgyzstan Som.

**KH**
The two-character ISO 3166 country code for CAMBODIA.

**KHR**
The ISO 4217 currency code for the Cambodian Riel.

**KI**
The two-character ISO 3166 country code for KIRIBATI.

**KLCE**
See: Kuala Lumpur Commodities Exchange

**KLOFFE**
See: Kuala Lumpur Options and Financial Futures Exchange
KLSE
See: Kuala Lumpur Stock Exchange

KMF
The ISO 4217 currency code for the Comoros Franc.

KN
The two-character ISO 3166 country code for SAINT KITTS AND NEVIS.

KP
The two-character ISO 3166 country code for KOREA, DEMOCRATIC PEOPLE’S REPUBLIC OF.

KRW
The ISO 4217 currency code for the North Korean Won.

KR
The two-character ISO 3166 country code for KOREA, REPUBLIC OF.

KRW
The ISO 4217 currency code for the South Korean Won.

KW
The two-character ISO 3166 country code for KUWAIT.

KWD
The ISO 4217 currency code for the Kuwait Dinar.

KY
The two-character ISO 3166 country code for CAYMAN ISLANDS.

KYD
The ISO 4217 currency code for the Cayman Islands Dollar.

KM
The two-character ISO 3166 country code for COMOROS.

KZ
The two-character ISO 3166 country code for KAZAKSTAN.

KZT
The ISO 4217 currency code for the Kazakhstan Tenge.
Kaffirs
South African gold mining shares that trade on the London Stock Exchange.

Kangaroos
Australian stocks.

Kansas City Board of Trade (KCBT)
The U.S.-based futures and options exchange for no. 2 red wheat futures and, options, Value Line Index futures and Mini Value Line futures and options.

Kappa
The ratio of the dollar price change in the price of an option to a 1% change in the expected volatility.

Karachi Stock Exchange
The major securities exchange of Pakistan.

Keiretsu
A network of Japanese companies organized around a major bank. The term is also used outside of Japan to describe how a large corporation with many subsidiaries and associated firms can manipulate revenues. For example, firm A and B are controled by firm C. Firm A is forced to buy its input from firm B at a high price. As a result, A is unprofitable and B is very profitable.

Keogh plan
A type of pension account in which taxes are deferred. Available to those who are self-employed.

Key industry
An industry that plays a critical role in a nation's economy.

Key man (or woman) insurance
A life insurance policy purchased by a company to insure the life of a key executive. The company is the beneficiary in case of the executive's death.

Keynesian economics
An economic theory of British economist, John Maynard Keynes that active government intervention is necessary to ensure economic growth and stability.

"Kick it out"
Used in the context of general equities. "Liquidate a position (sell a long/cover a short) without regard to price."

Kickback
In the context of **finance**, refers to compensation of **dealers** by sales finance companies for discounting installment purchase paper.

In the context of **contracts**, refers to secret payments made to insure that the **contract** goes to a specific firm.

**Kicker**
An additional feature of a **debt** obligation that increases its marketability and attractiveness to **investors**.

**Kiddie tax**
Tax owed for the **investment income** of children if the amount is more than $1,400.

**Killer bees**
Those who aid a company in fending off a **takeover** bid, usually **investment bankers** who devise strategies to make the **target** less attractive or more difficult to acquire.

**Kiting**
Used in of banking to refer to the practice of depositing and drawing checks at two or more banks and taking advantage of the time it takes for the second bank to collect funds from the first bank.

Also refers to illegally increasing the **face value** of a check by changing the numbers on the check.

In the context of **securities**, refers to the manipulation and inflation of **stock prices**.

**Knock-out option**
An **option** that is worthless at expiration if the **underlying commodity** or currency price reaches a specific price level.

**Know your customer**
An ethical foundation of **securities brokers** that an adviser who recommends the purchase or sale of any **security** to a customer, must believe that the recommendation is suitable for the customer, given the customer's financial situation.

**Kondratieff Wave**
An economic theory of the Soviet economist Kondratieff stating that the economies of the western world are susceptible to major up-and-down "supercycles" lasting 50 to 60 years.

**Korea Stock Exchange**
The major securities market of Korea.

**Kruggerand**
A **gold coin** minted by the republic of South Africa that typically sells for slightly higher prices than the **market value** of the gold it contains.
**Kuala Lumpur Commodities Exchange (KLCE)**
The Malaysian commodity exchange for trading futures in crude palm oil, crude palm kernel oil, tin, rubber, and cocoa.

**Kuala Lumpur Options and Financial Futures Exchange (KLOFFE)**
Established in 1995, the Kuala Lumpur Options and Financial Futures Exchange offers equity derivative products based on underlying instruments traded on the Kuala Lumpur Stock Exchange (KLSE).

**Kuala Lumpur Stock Exchange (KLSE)**
Established in 1973, the Kuala Lumpur Stock Exchange (KLSE) is the only stock exchange in Malaysia.

**Kurtosis**
Measures the fatness of the tails of a probability distribution. A fat-tailed distribution has higher-than-normal chances of a big positive or negative realization. Kurtosis should not be confused with skewness, which measures the fatness of one tail. Kurtosis is sometimes referred to as the volatility of volatility.

**L**
Fifth letter of a Nasdaq stock symbol specifying that the issue is a class of stock such as third preferred class of warrants, foreign preferred, sixth class of preferred stock, or preferred when issued stock.

**LA**
The two-character ISO 3166 country code for LAO PEOPLE’S DEMOCRATIC REPUBLIC.

**LAK**
The ISO 4217 currency code for Laos New Kip.

**LB**
The two-character ISO 3166 country code for LEBANON.

**LBO**
See: Leveraged buyout

**LBP**
The ISO 4217 currency code for Lebanese Pound.

**LC**
The two-character ISO 3166 country code for SAINT LUCIA.

**LCL**
See: Less Than Container Load

**LDC**
See: Less developed countries

**LEAPS**
See: Long-Term Anticipation Securities

**LI**
The two-character ISO 3166 country code for LIECHTENSTEIN.

**LIBOR**
See: London Interbank Offered Rate

**LIFFE**
See: London International Financial Futures and Options Exchange

**LIFO**
See: Last in, first out

**LK**
The two-character ISO 3166 country code for SRI LANKA.

**LKR**
The ISO 4217 currency code for Sri Lankan Rupee.

**LOC**
See: Letter of credit

**LR**
The two-character ISO 3166 country code for LIBERIA.

**LRD**
The ISO 4217 currency code for the Liberian Dollar.

**LS**
The two-character ISO 3166 country code for LESOTHO.

**LSL**
The ISO 4217 currency code for the Lesotho Loti.

**LT**
The two-character ISO 3166 country code for LITHUANIA.
LTL
The ISO 4217 currency code for the Lithuanian Litas.

LTV
See: Loan-to-value ratio

LU
The two-character ISO 3166 country code for LUXEMBOURG.

LUF
The ISO 4217 currency code for the Luxembourg Franc.

LV
The two-character ISO 3166 country code for LATVIA.

LVL
The ISO 4217 currency code for the Latvian Lats.

LY
The two-character ISO 3166 country code for LIBYAN ARAB JAMAHIRIYA.

LYD
The ISO 4217 currency code for the Libyan Dinar.

LYON
See: Liquid yield option note

Ladder strategy
A bond portfolio construction strategy that invests approximately equal amounts in every maturity within a given range.

Lady Macbeth Strategy
Strategy in which a third party poses as a white knight in a takeover bid, and then joins forces with an unfriendly bidder.

Laffer curve
A curve conjecturing that economic output will increase if marginal tax rates are cut. Named after economist Arthur Laffer.

Lag
Payment of a financial obligation later than is expected or required, as in lead and lag. Also, the number of periods that an independent variable in a regression model is "held back" in order to predict the dependent variable.
Lag response of prepayments
A delay of typically about three months between the time the weighted-average coupon of an MBS pool crosses the threshold for refinancing and observation of an acceleration in prepayment speed is observed.

Lagging
Strategy used by a firm to stall payments, normally in response to exchange rate projections.

Lagging indicators
Economic indicators that follow rather than precede the country's overall pace of economic activity. See also: Leading indicators and coincident indicators.

Laisse-faire
Doctrine that a government should not interfere with business and economic affairs.

Lambda
The ratio of a change in the option price to a small change in the option volatility. It is the partial derivative of the option price with respect to the option volatility.

Land contract
A method of real estate financing; a mortgage-holding seller finances a buyer by taking a down payment and subsequent payments in installments, but holds the title until the mortgage is fully repaid.

Landlord
A property owner who rents property to a tenant.

Lapsed option
An option that no longer has any value because it has reached its expiration date without being exercised.

Large-cap
A stock with a high level of capitalization, usually at least $5 billion market value.

Lagging indicators
Economic indicators that follow rather than precede the country's overall pace of economic activity. See also: Leading indicators and coincident indicators.

Last in, first out (LIFO)
An accounting method that fixes the cost of goods sold to the most recent purchases. Hence, if prices are generally rising, LIFO will lead to lower accounting profitability.

Last sale
The most recent trade performed in a security.

**Last split**
After a stock split, the number of shares distributed for each share held and the date of the distribution.

**Last trading day**
The final day under an exchange's rules during which trading may take place in a particular futures or options contract. Contracts outstanding at the end of the last trading day must be settled by delivery of underlying physical commodities or financial instruments, or by agreement for monetary settlement, depending futures contract specifications.

**Late charge**
A fee a credit grantor charges a borrower for a late payment.

**Late tape**
A delay in the display of price changes on the tape of an exchange because of heavy trading. In severe instances the first digit of each price is intentionally deleted.

**Launder**
To move illegally acquired cash through financial systems so that it appears to be legally acquired.

**Law of large numbers**
The mean of a random sample approaches the mean (expected value) of the population as sample size increases.

**Law of one price**
An economic rule stating that a given security must have the same price no matter how the security is created. If the payoff of a security can be synthetically created by a package of other securities, the implication is that the price of the package and the price of the security whose payoff it replicates must be equal. If it is unequal, an arbitrage opportunity would present itself.

**Lay off**
In the context of general equities, this eliminates all or part of a position by finding customers or other dealers to take the position.

**Layup**
Used in the context of general equities. Easily executed trade or order. See: Lead pipe.

**Lead**
Payment of a financial obligation earlier than is expected or required.
Lead manager
The commercial or investment bank with the primary responsibility for organizing syndicated bank credit or bond issued. The lead manager recruits additional lending or underwriting banks, negotiates terms of the issue with the issuer, and assesses market conditions.

Lead pipe
Used in the context of general equities. Virtually certain that trade will take place; lead pipe cinch. See: Layup.

Lead regulator
A leading self-regulatory organization that over sees compliance with a particular section of the law, such as the NYSE, ASE, or NASDAQ.

Lead underwriter
The head of a syndicate of financial firms that are sponsoring an initial public offering of securities or a secondary offering of securities. Could also apply to bond issues.

Leader
A stock or group of stocks that is the first to move in a market upsurge or downturn.

Leading
Strategy used by a firm to accelerate payments, normally in response to exchange rate expectations.

Leading economic indicators
Economic series that tend to rise or fall in advance of the rest of the economy.

Leading indicator
A change in a measurable economic factor that is evident before the economy starts to follow a specific trend.

Leading and lagging
Refers to timing of cash flows within a corporation.

Leading the market
In the context of general equities, this is a stock or group of stocks moving with the market as a whole, but moving in advance of the general market.

Leakage
Release of information selectively or not before official public announcement.

Lease
A long-term rental agreement, and a form of secured long-term debt.
**Lease acquisition cost**
The legal fees and other expenses incurred when acquiring a lease.

**Leasehold**
An asset providing the right to use property under a lease agreement.

**Leasehold improvement**
An improvement made to leased property.

**Lease-purchase agreement**
An agreement that allows for portions of lease payments to be used to purchase the leased property.

**Lease rate**
The payment per period stated in a lease contract.

**Leaseback**
A transaction that involves the sale of some property, and an agreement by the seller to lease the property back from the buyer after the sale.

**Leaves**
Used in the context of general equities. Remains to buy or sell of a previously entered order after a report of partial execution has been given. If the floor broker to buy 20M IBM at $115, and he then buys 6M at this price, his report would be, "You bought 6M IBM at $115; leaves 14."

**Ledger cash**
A firm's cash balance as reported in its financial statements. Also called book cash.

**Leg**
A prolonged trend in stock market prices, such as a multiple-period bull market; or, an option that is one side of a spread transaction. See: Lifting a leg.

**Leg up**
Used in the context of general equities. (1) Have a portion of the offsetting side of a trade in your pocket (spoken for) so your capital risk in the transaction is reduced. (Purchase of 10,000 of a 50,000 buy order leaves the trader a "leg up"). (2) Complete one side of a two-sided transaction, as in a swap or contingency order.

**LEGAL**
A computerized database maintained by the NYSE to keep track of enforcement actions, audits, and complaints against member firms. This term is not an acronym but is referred to in capitals.
Legal capital
Value at which a company’s shares are recorded in its books.

Legal bankruptcy
A legal proceeding for liquidating or reorganizing a business.

Legal defeasance
The deposit of cash and permitted securities, as specified in the bond indenture, into an irrevocable trust sufficient to enable the issuer to fully discharge its obligations under the bond indenture.

Legal entity
A person or organization that can legally enter into a contract, and may therefore be sued for failure to comply with the terms of the contract.

Legal investments
Investments that a regulated entity is permitted to make under the rules and regulations that govern its conduct.

Legal list
A list of high-quality debt and equity securities chosen by a state agency that are acceptable holdings for fiduciary institutions.

Legal monopoly
A government-regulated firm that is legally entitled to be the only company offering a particular service in a particular area.

Legal opinion
A statement, usually written by a specialized law firm, required for a new municipal bond issue stating that the issue is legally acceptable.

Legal transfer
A stock transaction that requires special documentation in addition to standard stock or bond power to be legally valid.

Legislative risk
The risk that new or changed legislation will have a large positive or negative effect on an investment.

Legitimate
Used in the context of general equities. Real interest in trading as compared to a profile stance. See: Natural.

Lehman Brothers Adjustable-Rate Mortgage Index
A benchmark index that includes all agency-guaranteed securities with coupons that periodically adjust based on a spread over a published index.

**Lehman Brothers Aggregate Bond Index**
A benchmark index made up of the Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, including securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.

**Lehman Brothers California Municipal Bond Index**
A benchmark index that includes investment-grade, tax-exempt, and fixed-rate bonds issued in California. All securities have long-term maturities (greater than two years) and are selected from issues larger than $50 million.

**Lehman Brothers Corporate Bond Index**
A benchmark index that includes all publicly issued, fixed-rate, nonconvertible, dollar-denominated, SEC-registered, investment-grade corporate debt.

**Lehman Brothers Government Bond Index**
A benchmark index made up of the Treasury Bond Index and the Agency Bond Index as well as the 1-3 Year Government Index and the 20+ Year Treasury Index.

**Lehman Brothers Government/Corporate Bond Index**
A benchmark index made up of the Lehman Brothers® Government and Corporate Bond indexes, including U.S. government Treasury and agency securities as well as corporate and Yankee bonds.

**Lehman Brothers Mortgage-Backed Securities Index**
A benchmark index that includes 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Federal National Mortgage Association (FNMA).

**Lehman Brothers Municipal Bond Index**
A benchmark index that includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than two years) selected from issues larger than $50 million.

**Lehman Brothers New York Municipal Bond Index**
A benchmark index that includes investment-grade, tax-exempt, and fixed-rate bonds issued in the state of New York. All securities have long-term maturities (greater than two years) and are selected from issues larger than $50 million.

**Lemon**
An investment with poor results.
Lemons problem
Named after 2001 Nobel Laureate George Akerlof's 1970 paper "The Market for Lemons". His original example had to do with used cars. Why does the seller want to get rid of the car? It might be a lemon. The buyer and seller have asymmetric information. Hence, the buyer will demand a deep discount on the car because of the possibility it is a lemon.

Lend
To provide money temporarily on the condition that it or its equivalent will be returned, often with an interest fee.

Lendable funds
The pool of funds available to borrows; typically categorized by currency and maturity.

Lender
Businesses that provide loans to others.

Lender of last resort
Traditionally the Federal Reserve Bank in the US, which assists banks that face large withdrawals of funds and in so doing stabilizes the banking system.

Lender liability lawsuits
Legal action of debtor against creditors that alleges unfair enforcement of loan covenants or violation of implied terms of a loan agreement.

Lending agreement
A contract regarding funds transferred between a lender and a borrower.

Lending at a premium
A loan from one broker to another of securities to cover a customer's short position, with a borrowing fee included. A fee is unusual since securities are normally lent freely between brokers.

Lending at a rate
Interest paid to a customer on the credit balance received from a short sale.

Lending securities
Securities borrowed from a broker's inventory, from another customer's margin account, or from another broker, when a customer is required to deliver on a short sale.

Leptokurtosis
The condition of a probability density curve to have fatter tails and a higher peak at the mean than the normal distribution.
**Less-developed countries (LDCs)**
Also known as emerging markets. Countries who's per capita GDP is below a World Bank-determined level.

**Less Than Container Load**
Shipments of less than container load size (<$50,000).

**Lessee**
An entity that leases an asset from another entity.

**Lessor**
An entity that leases an asset to another entity.

**Letter of Administration**
A certificate issued by the Court evidencing the appointment of the Administrator of an Estate.

**Letter of comment**
A communication to the firm from the SEC that suggests changes to its registration statement.

**Letter of credit (LOC)**
A form of guarantee of payment issued by a bank on behalf of a borrower that assures the payment of interest and repayment of principal on bond issues.

**Letter of Guarantee**
A letter from a bank to a brokerage firm which states that a customer (who has written a call option) does indeed own the underlying stock and the bank will guarantee delivery if the call is assigned. Thus the call can be considered covered. Not all brokerage firms accept letters of guarantee. Also: letter issued to Option Clearing Corporation by member firms covering a guarantee of any trades made by one of its customers, (a trader or broker on the exchange floor).

**Letter of intent**
An assurance by a mutual fund shareholder that a certain amount of money will be invested monthly, in exchange for lower sales charges. In mergers, a preliminary merger agreement between companies after significant negotiations.

**Letter stock**
Privately placed common stock, so-called because the SEC requires a letter from the purchaser stating that the stock is not intended for resale.

**Letter of Testamentary**
A certificate issued by the court evidencing the appointment of an executor of estate.
**Letter of Transmittal**
A document used by security holder to accompany certificates surrendered in an exchange or other corporate action.

**Level**
Used in the context of general equities. Price measure of an indication.

**Level-coupon bond**
Bond with a stream of coupon payments that remain the same throughout the life of the bond.

**Level debt service**
A municipal charter provision that debt payments must be relatively equal from year to year so that required revenue projections are easier.

**Level load**
A mutual fund that charges a permanent sales charge, usually at some fixed percentage. See: Front-end loads and back-end loads.

**Level pay**
Scheduling principal and interest payments (P&I) due under a mortgage so that total monthly payment of P&I is the same. Different from the typical mortgage for which the principal payment component of the monthly payment becomes gradually greater while the monthly interest component shrinks.

**Level term insurance**
A life insurance policy with a fixed face value and increasing premiums.

**Leverage**
The use of debt financing, or property of rising or falling at a proportionally greater amount than comparable investments. For example, an option is said to have high leverage compared to the underlying stock because a given price change in the stock may result in a greater increase or decrease in the value of the option.

**Leverage clientele**
A group of shareholders who, because of their personal leverage, seek to invest in corporations that maintain a compatible degree of corporate leverage.

**Leverage ratios**
Measures of the relative value of stockholders, capitalization, and creditors obligations, and of the firm's ability to pay financing charges. Value of firm's debt to the total value of the firm (debt plus stockholder capitalization).
Leverage rebalancing
Making transactions to adjust (rebalance) a firm's leverage ratio to a target ratio.

Leveraged beta
The beta of a leveraged required return; that is, the beta as adjusted for the degree of leverage in the firm's capital structure.

Leveraged buyout (LBO)
A transaction used to take a public corporation private that is financed through debt such as bank loans and bonds. Because of the large amount of debt relative to equity in the new corporation, the bonds are typically rated below investment-grade, properly referred to as high-yield bonds or junk bonds. Investors can participate in an LBO through either the purchase of the debt (i.e., purchase of the bonds or participation in the bank loan) or the purchase of equity through an LBO fund that specializes in such investments.

Leveraged company
A company that has debt in its capital structure.

Leveraged equity
Stock in a firm that relies on financial leverage. Holders of leveraged equity experience the benefits and costs of using debt.

Leveraged investment company
An investment company or mutual fund entitled to borrow capital for its operations. Also, an investment company that issues both income shares and capital shares.

Leveraged lease
A lease arrangement under which the lessor borrows a large proportion of the funds needed to purchase the asset. The lender has a lien on the assets and a pledge of the lease payments to secure the borrowing.

Leveraged portfolio
A portfolio that includes risky assets purchased with funds borrowed.

Leveraged recapitalization
Often used in risk arbitrage. A public company takes on significant additional debt with the purpose of either paying an extraordinary dividend or repurchasing shares, leaving the public shareholders with a continuing interest in a more financially leveraged company. Popular form of shark repellent See: Stub.

Leveraged required return
The required return on an investment when the investment is financed partially by debt.

Leveraged stock
Stocks financed with credit, such as that purchased on a margin account.

**Levered portfolio**
Investment at least partially financed by borrowing.

**Liability**
A financial obligation, or the cash outlay that must be made at a specific time to satisfy the contractual terms of such an obligation.

**Liability funding strategies**
Investment strategies that select assets so that cash flows will equal or exceed the client's obligations.

**Liability insurance**
Insurance guarding against damage or loss that the policyholder, may cause another person in the form of bodily injury or property damage.

**Liability swap**
An interest rate swap used to alter the cash flow characteristics of an institution's liabilities so as to provide a better match with its assets.

**License agreement**
A contract by which a domestic company (the licensor) allows a foreign company (the licensee) to market its products in a foreign country in return for royalties, fees, or other forms of compensation.

**Licensing**
Arrangement in which a local firm in the host country produces goods in accordance with another firm's (the licensing firm's) specifications; as the goods are sold, the local firm can retain part of the earnings.

**Lien**
A security interest in one or more assets that lenders hold in exchange for secured debt financing.

**Life annuity**
An annuity that pays a fixed amount for the lifetime of the annuitant.

**Life cycle**
The lifetime of a product or business, from its creation to its demise or transformation.

**Life expectancy**
The length of time that an average person is expected to live, which is used by insurance companies use to make projections of benefit payouts.
Life insurance
An insurance policy that pays a monetary benefit to the insured person's survivors after death.

Life insurance in force
The dollar amount of life insurance that a company has issued, measured as the sum of policy face values and dividends paid.

Life insurance policy
The contract that sets out the terms of life insurance coverage.

Lifetime reverse mortgage
A type of mortgage in which a homeowner borrows against the value a home, while retaining title, and making no payments while residing in the home. When the owner ceases living in the house, the property is sold, and the loan repaid.

Lift
An increase in securities prices, as shown by some economic indicator.

Lifted
Refers to over-the-counter trading. Having an offer taken in a stock, followed by the market maker raising the offer price.

Lifting a leg
Closing out one side of a long-short arbitrage before the other is closed.

Lighten up
Selling some part of a stock or bond position in a portfolio to realize capital gains or to losses or increase cash assets.

Lima Stock Exchange
Peru's major securities market.

Limit
See Trading Limit.

Limit Cycles
An attractor for non-linear dynamic systems which has periodic cycles or orbits in phase space. An example is an undamped pendulum which will have a closed circle orbit equal to the amplitude of the pendulum's swing. See: Attractor, Phase Space.

Limit on close order
An order to buy or sell stock at the closing price only if the price is at a predetermined level.
Limit order
An order to buy a stock at or below a specified price, or to sell a stock at or above a specified price. For instance, you could tell a broker "buy me 100 shares of XYZ Corp at $8 or less" or "sell 100 shares of XYZ at $10 or better". The customer specifies a price, and the order can be executed only if the market reaches or betters that price. A conditional trading order designed to avoid the danger of adverse unexpected price changes.

Limit order book
A record of unexecuted limit orders maintained by the specialist. These orders are treated equally with other orders in terms of priority of execution.

Limit order information system
The electronic system supplying information about securities traded on participating exchanges so that the best securities prices can be found.

Limit price
See: Maximum price fluctuation

Limit up, limit down
The maximum price change allowed for a commodity futures contract per trading day.

Limitation on asset dispositions
A bond covenant that restricts in some way a firm’s ability to sell major assets.

Limitation on conversion
Applies mainly to convertible securities. Possible delay in convertibility. More frequently, the right to convert may be terminable prior to a redemption date, preventing the holder from receiving a final coupon or dividend. See: Accrued interest.

Limitation on liens
A bond covenant that restricts in some way a firm’s ability to grant liens on its assets.

Limitation on merger, consolidation, or sale
A bond covenant that restricts in some way a firm’s ability to merge or consolidate with another firm.

Limitation on sale-and-leaseback
A bond covenant that restricts in some way a firm’s ability to enter into sale-and-leaseback transactions, financing techniques that could affect creditor thinness.

Limitation on subsidiary borrowing
A bond covenant that restricts in some way a firm’s ability to borrow at the level of firm
subsidiary.

**Limited company**  
A form of business commonly used in the U.K. comparable to incorporation in the U.S.

**Limited discretion**  
Permission by a client that allows a broker to make certain stock and option trades without first consulting the client about the trade.

**Limited flexibility exchange rate system**  
The International Monetary Fund's name for an exchange rate system with a managed float.

**Limited liability**  
Limitation of loss to what has already been invested.

**Limited-liability instrument**  
A security, such as a call option, in which the owner can lose only the initial investment.

**Limited partner**  
A partner who has limited legal liability for the obligations of the partnership.

**Limited partnership**  
A partnership that includes one or more partners who have limited liability.

**Limited payment policy**  
Life insurance providing full life protection but requiring premiums for only part of the customer's lifetime.

**Limited risk**  
The risk inherent in options contracts, which is much lower than that of a futures contract, which has unlimited risk. The maximum loss in buying a call option, for example, is the premium paid for the option.

**Limited price order**  
Used in the context of general equities. See: Limit order.

**Limited-tax general obligation bond**  
A general obligation bond of a government backed by specified or constrained revenue sources.

**Limited warranty**  
A warranty with certain conditions and limitations on the parts covered, type of damage covered, and/or time period for which the agreement is good.
**Line of credit**
An informal loan arrangement between a bank and a customer allowing the customer to borrow up to a prespecified amount.

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

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

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

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

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

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

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

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

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

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

**Liquidation by assignment**
Sale or realization of a debtor firm's assets voluntarily agreed to by its creditors who estimate that the firm's liquidation value exceeds its going-concern value.
**Liquidation rights**
The rights of a firm’s securityholders in the event the firm liquidates.

**Liquidation value**
Net amount that could be realized by selling the assets of a firm after paying the debt.

**Liquidator**
Person appointed by an unsecured creditor in the United Kingdom to oversee the sale of an insolvent firm’s assets and the repayment of its debts.

**Liquidity**
A high level of trading activity, allowing buying and selling with minimum price disturbance. Also, a market characterized by the ability to buy and sell with relative ease. Antithesis of illiquidity.

**Liquidity diversification**
Investing in a variety of maturities to reduce the price risk to which holding long bonds exposes the investor.

**Liquidity Fund**
A California company that buys real estate limited partnership interests at 25% to 35% lower than the current value of the real estate assets.

**Liquidity preference hypothesis**
The argument that greater liquidity is valuable, all else equal. Also, the theory that the forward rate exceeds expected future interest rates.

**Liquidity premium**
Forward rate minus expected future short-term interest rate.

**Liquidity ratios**
Ratios that measure a firm's ability to meet its short-term financial obligations on time, such as the ratio of current assets to current liabilities.

**Liquidity risk**
The risk that arises from the difficulty of selling an asset in a timely manner. It can be thought of as the difference between the "true value" of the asset and the likely price, less commissions.

**Liquidity theory of the term structure**
A biased expectations theory that asserts that the implied forward rates will not be a pure estimate of the market’s expectations of future interest rates because they embody a liquidity premium.
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
event of terminal illness or incapacity.

**Lloyds of London**
A marketplace in London for underwriting syndicates.

**Load**
The sales fee charged to an investor when shares are purchased in a load fund or annuity. See: Bank-end load; front-end load; level load.

**Load fund**
A mutual fund that sells shares with a sales charge—typically 4% to 8% of the net amount indicated. Some no-load funds also levy distribution fees permitted by Article 12b-1 of the Investment Company Act; these are typically 0.25%. A true no-load fund has neither a sales charge nor

**Load-to-load**
Arrangement whereby the customer pays for the last delivery when the next one is received.

**Load spread option**
A method of allocating the annual sales charge on load funds, often through percentage deductions from a customer's periodic fixed payments.

**Loan**
Temporary borrowing of a sum of money. If you borrow $1 million you have taken out a loan for $1 million.

**Loan amortization schedule**
The timetable for repaying the interest and principal on a loan.

**Loan commitment**
Assurance by a lender to make money available to a borrower on specific terms in return for a fee.

**Loan crowd**
Historical term. In the 1920's and 1930's, it refers to the group of member firms that lend or borrow securities needed to cover the positions of customers who have sold short securities. The crowd could be found around the loan post.

**Loan Preference Principle**
The theory that a covered loan is less expensive when its cost is calculated in one currency, it will also be less expensive in all other currencies.

**Loan syndication**
Group of banks sharing a loan. See: Syndicate.

**Loan value**
The maximum percentage of the value of securities that a broker can lend to a margin account customer, as dictated by the Federal Reserve Board in Regulation T.

**Loan-to-value ratio (LTV)**
The ratio of money borrowed on a property to the property's fair market value.

**Loaned flat**
Securities lent interest-free between brokers to cover customers' short sale positions.

**Local**
A futures exchange member who trades securities for his or her own account.

**Local expectations hypothesis (LEH)**
Theory that bonds similar in all aspects except maturity will have the same holding-period rate of return.

**Local expectations theory**
A form of the pure expectations theory that suggests that the returns on bonds of different maturities will be the same over a short-term investment horizon.

**Local taxes**
Property, sewer, school, or other community paid to a locality. Local taxes are usually deductible for federal income tax purposes.

**Location-specific advantages**
Advantages (natural and created) that are available only or primarily in a particular place.

**Locational arbitrage**
Attempt to exploit discrepancies in exchange rates between banks.

**Lock**
Used in the context of general equities. Make a market both ways (bid and offer) either on the bid, offering, or an in-between price only. Locking on the offering occurs to attract a seller, since the trader is willing to pay (and ask) the offering side when others only ask it. Locking on the bid side attracts buyers for similar reasons. Typically, the sell side requires a plus tick to comply with short sale rules.

**Lock in**
To ensure that an individual transacts all his or her business with a sole broker by providing superior services, such as accommodating block buy and sell needs or
preparing excellent research (soft-dollar lock). This usually guarantees a certain volume of business.

**Lock-out**
With PAC bond CMO classes, the period before the PAC sinking fund becomes effective. With multifamily loans, the period of time during which prepayment is prohibited.

**Lock-up CDs**
CDs that are issued with the tacit understanding that the buyer will not trade the certificate. Quite often, the issuing bank will insist that it hold the certificate for safekeeping by it to ensure that the buyer holds the understanding.

**Lockup option**
Often used in risk arbitrage. Privilege offered a white knight (friendly acquirer) by a target company to buy crown jewels or additional equity. The aim is to discourage a hostile takeover. See: Shark repellent.

**Lockbox**
A collection and processing service provided to firms by banks, which collect payments from a dedicated postal box to which the firm directs its customers to send payment to. The banks make several collections per day, process the payments immediately, and deposit the funds into the firm's bank account.

**Locked in**
When an investor is unable to take advantage of preferential tax treatment because of time remaining on a required holding period. Also, a commodities position in which the market has a limit up or limit down day and investors are unable to move in to or out of the market.

**Locked market**
A market is locked if the bid price equals the ask price. This can occur, for example, if the market is brokered and one side pays brokerage only, in over-the-counter trading the initiator of the transaction. Highly competitive market environment with inside bid and offering at the same price. Often occurs when an OTC dealer has not updated the market.

**Log-linear least-squares method**
A statistical technique for fitting a curve to a set of data points. One of the variables is transformed by taking its logarithm, and then a straight line is fitted to the transformed set of data points.

**Lognormal distribution**
Pattern of frequency of occurrence in which the logarithm of the variable follows a normal distribution. Lognormal distributions are used to describe returns calculated over periods of a year or more.
Lombard rate
Applies mainly to international equities. Interest rate the German Bundesbank uses as an upper limit to the day-to-day money rate, since no bank will pay higher rates in the money market than it has to pay for very short-term recourse to Lombard credit.

London Commodity Exchange (LCE)
Merged with the London International Financial Futures and Options Exchange in 1996.

London Interbank Bid Rate (LIBID)
The bid rate that a Euromarket bank is willing to pay to attract a deposit from another Euromarket bank in London. Related: LIBOR.

London Interbank Offered Rate (LIBOR)
The rate of interest that major international banks in London charge each other for borrowings. Many variable interest rates in the US are based on spreads off LIBOR. By contrast with the bid rate LIBID quoted by banks seeking such deposits.

London International Financial Futures and Options Exchange (LIFFE)
A leading market for trading options and futures on euro money market derivatives.

London Metal Exchange (LME)
A market for trading base metals, where traded options contracts are available against the underlying futures contract.

London Stock Exchange (LSE)
The U.K.’s six regional exchanges joined together in 1973 to form the stock exchange of Great Britain and Ireland, later named the LSE. The FTSE 100 index (known as the footsie) is its dominant index.

Long
One who has bought a contract to establish a market position and who has not yet closed out this position through an offsetting sale; the opposite of short.

Long bonds
Bonds with a long current maturity. The "long bond" is the 30-year US Treasury bond.

Long coupons
(1) Bonds or notes with a long current maturity. (2) A bond on which one of the coupon periods, usually the first, is longer than the other periods or the standard period.

Long-term forward contracts
Contracts that state exchange rate at which a specified amount of a particular currency can be exchanged at a future date (more than one year from today).
**Long hedge**
The purchase of a *futures contract* in anticipation of actual purchases in the *cash market*. Used by processors or exporters as protection against an advance in the cash price. Related: hedge, short hedge

**Long leg**
The part of an *option spread* in which an agreement to buy the *underlying security* is made.

**Long market value**
The *market value* of a security, excluding *options*, as of the close of the last business day.

**Long position**
Owning or holding options (i.e., the number of contracts bought exceeds the number of contracts sold). For equities, a long position occurs when an individual owns *securities*. An owner of 1,000 *shares* of stock is said to be "Long the stock." Related: Short position.

**Long position in an option**
Purchase of an *options*.

**Long run**
A period of time in which all costs are *variable*; longer than one year.

**Long straddle**
Taking a long position in both a *put* and a *call option*.

**Long-term**
In accounting terms, one year or longer.

**Long-term assets**
Value of property, equipment, and other capital *assets* minus the *depreciation*. This is an entry in the bookkeeping records of a company. It is usually established on a "cost" *basis*, and thus does not necessarily reflect the *market value* of the *assets*.

**Long-term capital gain**
A *profit* on the sale of a *security* or *mutual fund share* that has been held for more than one year.

**Long-term debt**
An obligation having a *maturity* of more than one year from the date it was *issued*. Also called *funded debt*.

**Long-term debt/capitalization**
Indicator of financial *leverage*. Shows long-term debt as a proportion of the capital
available. Determined by dividing long-term debt by the sum of long-term debt, preferred stock and common stockholder's equity.

**Long-term debt-to-equity ratio**
A capitalization ratio comparing long-term debt to shareholders’ equity.

**Long-term debt ratio**
The ratio of long-term debt to total capitalization.

**Long-Term Anticipation Securities (LEAPS)**
Long-term options.

**Long-term financial plan**
Financial plan covering two or more years of future operations.

**Long-term financing**
Liabilities repayable in more than one year plus equity.

**Long-term gain**
A profit on the sale of a capital asset held longer than 12 months, and eligible for long-term capital gains tax treatment.

**Long-term goals**
Financial goals expected to be accomplished in five years or longer.

**Long-term investor**
A person who makes investments for a period of at least five years in order to finance his or her long-term goals.

**Long-term liabilities**
Amount owed for leases, bond repayment, and other items due after 1 year.

**Long-term loss**
A loss on the sale of a capital asset held less than 12 months that can be used to offset a capital gain.

**Look**
Used for listed equity securities. See: Picture.

**Look-thru**
A method for calculating US taxes owed on income from controlled foreign corporations that was introduced by the Tax Reform Act of 1986.

**Lookback option**
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.
Low
In the context of general equities, this is a specific minimum limit required by a seller in execution an order ("I'll sell 50 with an eighth low."); implies a not-held limit order. Antithesis of top.

Low balance method
A method of calculating interest on the basis of the lowest balance of an account over the applicable period.

Low ball
Slang for making an offer well below the fair value of an asset in hopes that the seller may be desperate to sell.

Low-coupon bond refunding
Refunding of a low-coupon bond with a new, higher-coupon bond.

Low grade
A bond with a rating of B or lower.

Low-load fund
A mutual fund that charges a sales commission of 3.5% or less for the purchase of shares.

Low price
The day's lowest price of a security that has changed hands between a buyer and a seller.

Low price-earnings ratio effect
The tendency of portfolios of stocks with a low price-earnings ratio to outperform portfolios of stocks with high price-earnings ratios.

Lump sum
A large one-time payment of money.

Lump-sum distribution
A single payment that represents 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, and must be made within a single tax year to avoid the federal government's 10% penalty tax.

Lyapunov Exponents
A measure of the dynamics of an attractor. Each dimension has a Lyapunov exponent. A positive exponent measures sensitive dependence on initial conditions, or how much our forecasts can diverge based upon different estimates of starting conditions. Another way to view Lyapunov exponents is the loss of predictive ability as we look forward into time.
Strange Attractors are characterized by at least one positive exponent. A negative exponent measures how points converge towards one another. Point Attractors are characterized by all negative variables. See: Attractor, Limit Cycle, Point Attractor, Strange Attractor.

M
Fifth letter of a NASDAQ stock symbol specifying that the issue is the company’s fourth class of preferred shares.

M1
Measure of the U.S. money stock that consists of currency held by the public, travelers checks, demand deposits and other checkable deposits including NOW (negotiable order of withdrawal) and ATS (automatic transfer service) account balances and share draft account balances at credit unions.

M2
Measure of the U.S. money stock that consists of M1, certain overnight repurchase agreements and certain overnight Eurodollars, savings deposits (including money market deposit accounts), time deposits in amounts of less that $100,000 and balances in money market mutual funds (other than those restricted to institutional investors).

M3
Measure of the U.S. money stock that consists of M2, time deposits of $100,000 or more at all depository institutions, term repurchase agreements in amounts of $100,000 or more, certain term Eurodollars and balances in money market mutual funds restricted to institutional investors.

MA
The two-character ISO 3166 country code for MOROCCO.

MAB
See: Master Air Waybill

MAD
The ISO 4217 currency code for the Moroccan Dirham.

MBO
See: Management buyout

MBSCC
See: Mortgage-Backed Securities Clearing Corporation

MC
The two-character ISO 3166 country code for MONACO.
MD
The two-character ISO 3166 country code for MOLDOVA, REPUBLIC OF.

MDA
See: Multiple discriminant analysis

MDL
The ISO 4217 currency code for the Moldovan Leu.

MG
The two-character ISO 3166 country code for MADAGASCAR.

MGF
The ISO 4217 currency code for the Madagascar Franc.

MH
The two-character ISO 3166 country code for MARSHALL ISLANDS.

MHS
See: Manufactured housing securities

MK
The two-character ISO 3166 country code for MACEDONIA, THE FORMER YUGOSLAV REPUBLIC OF.

MIP
See: Monthly income preferred security

MIT
See: Market-if-touched

MKD
The ISO 4217 currency code for the Macedonian Denar.

ML
The two-character ISO 3166 country code for MALI.

MLP
See: Master limited partnership

MM
The two-character ISO 3166 country code for MYANMAR.
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
MT
The two-character ISO 3166 country code for MALTA.

MTL
The ISO 4217 currency code for the Maltese Lira.

MU
The two-character ISO 3166 country code for MAURITIUS.

MUR
The ISO 4217 currency code for the Mauritius Rupee.

MV
The two-character ISO 3166 country code for MALDIVES.

MVR
The ISO 4217 currency code for the Maldiver Islands Rupee.

MW
The two-character ISO 3166 country code for MALAWI.

MWK
The ISO 4217 currency code for the Malawian Kwacha.

MY
The two-character ISO 3166 country code for MALAYSIA.

MYR
The ISO 4217 currency code for the Malaysian Ringgit.

MX
The two-character ISO 3166 country code for MEXICO.

MXN
The ISO 4217 currency code for the Mexican Peso.

MZ
The two-character ISO 3166 country code for MOZAMBIQUE.

MZM
The ISO 4217 currency code for the Mozambique Metical.

Macaroni defense
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.
**Maintenance call**
A call for additional money or securities when a margin account falls below its exchange-mandated required level.

**Maintenance fee**
A yearly charge to maintain brokerage accounts, such as asset management accounts or IRAs.

**Maintenance margin**
The dollar amount required to be kept at the OCC throughout the life of an option contract; percentage of the dollar amount of securities that must always be kept as margin.

**Maintenance margin requirement**
A sum, usually smaller than but part of the original margin, that must be maintained on deposit at all times. If a customer’s equity in any futures position drops to or below the maintenance margin level, the broker must issue a margin call for the amount at money required to restore the customer’s equity in the account to the original margin level. Related: Margin, margin call.

**Majority shareholder**
A shareholder who is part of a group that controls more than half the outstanding shares of a corporation.

**Majority voting**
Voting system under which corporate shareholders vote for each director separately. Related: Cumulative voting.

**Make a market**
Dealers are said to make a market when they quote bid and offered prices at which they stand ready to buy and sell.

**Make whole provision**
Related to the lump-sum payments made when a loan or bond is called, equal to the NPV of future loan or coupon payments not paid because of the call. The payment can be significant and negate the attractiveness of a call.

**Making delivery**
Refers to the seller’s actually turning over to the buyer the assets agreed upon in a forward contract.

**Malaysia Commodity Exchange**
A subsidiary of the KLSE that trades interest rate futures on the three-month Kuala Lumpur Interbank offered rate.
Maloney Act
1938 legislation amending the Securities Exchange Act that regulates the OTC market.

Managed account
An investment portfolio one or more clients entrusted to a manager who decides how to invest it.

Managed float
Also known as "dirty" float, this is a system of floating exchange rates with central bank intervention to reduce currency fluctuations.

Managed Futures
In the context of hedge funds, a style of management that focuses on short-term trading in the futures market.

Management
The people who administer a company, create policies, and provide the support necessary to implement the owners' business objectives.

Management buying
The acquisition of a controlling interest in a promising business by an outside investment group that retains existing management and places representatives on the board of directors.

Management buyout (MBO)
Leveraged buyout whereby the acquiring group is led by the firm's management.

Management/closely held shares
Percentage of shares held by persons closely related to a company, as defined by the Securities and Exchange Commission. Part of these percentages often are included in "institutional holdings"—making the combined total of these percentages over 100. There is overlap as institutions sometimes acquire enough stock to be considered by the SEC to be closely allied to the company.

Management contract
An agreement by which a company will provide its organizational and management expertise in the form of services.

Management fee
An investment advisory fee charged by the financial adviser to a fund typically on the basis of the fund's average assets, but sometimes determined on a sliding scale that declines as the dollar amount of the fund increases.

Management's discussion and analysis (MD&A)
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)**
A leverageable account in which stocks can be purchased for a combination of cash and a loan. The loan in the margin account is collateralized by the stock; if the value of the stock drops sufficiently, the owner will be asked to either put in more cash, or sell a portion of the stock. Margin rules are federally regulated, but margin requirements and interest may vary among broker/dealers.

**Margin requirement**
A performance bond paid upon purchase of a futures contract that protects the exchange clearinghouse from loss.

**Margin stock**
Any stock listed on a national securities exchange, any over-the-counter security approved by the SEC for trading in the national market system, or appearing on the Board's list of over-the-counter margin stock and most mutual funds.

**Margin trading**
Buying securities, in part, with borrowed money.

**Marginal**
Incremental.

**Margin agreement**
The agreement governing customers’ margin accounts.

**Marginal cost**
The increase or decrease in a firm’s total cost of production as a result of changing production by one unit.

**Marginal efficiency of capital**
The percentage yield earned on an additional unit of capital.

**Marginal revenue**
The change in total revenue as a result of producing one additional unit of output.

**Marginal tax rate**
The tax rate that would have to be paid on any additional dollars of taxable income earned.

**Marginal utility**
The change in total satisfaction as a result of consuming one additional unit of a specific good or service.

**Margin call**
A demand for additional funds because of adverse price movement. Maintenance margin
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
of the stock market dropped that day.

**Market analysis**
An analysis of technical corporate and market data used to predict movements in the market.

**Market-based forecasting**
Analyzing future spot rates on the basis of a market-determined exchange rate (such as the current spot rate or forward rate).

**Market-based corporate governance system**
Organization of a corporation whereby the supervisory board represents a dispersed set of largely equity shareholders.

**Market-book ratio**
Market price of a share divided by book value per share.

**Market break**
See: Break

**Market capitalization**
The total dollar value of all outstanding shares. Computed as shares times current market price. Capitalization is a measure of corporate size.

**Market capitalization rate**
Expected return on a security. The market-consensus estimate of the appropriate discount rate for a firm's cash flow.

**Market clearing**
Total demand for loans by borrowers equals total supply of loans from lenders. The market, any market, clears at the equilibrium rate of interest or price.

**Market conversion price**
Also called conversion parity price, the price that an investor effectively pays for common stock by purchasing a convertible security and then exercising the conversion option. This price is equal to the market price of the convertible security divided by the conversion ratio.

**Market correction**
A relatively short-term drop in stock market prices, generally viewed as bringing overpriced stocks back to a level closer to companies' actual values.

**Market cycle**
The period between the two latest highs or lows of the S&P 500, showing net performance of a fund through both an up and a down market. A market cycle is
complete when the S&P is 15% below the highest point or 15% above the lowest point (ending a down market).

**Market Eye**
A financial information service based in the U.K. sponsored by the ISE (International Stock Exchange of the UK and the Republic of Ireland) that provides current market and statistical information.

**Market failure**
The inability of arm's length markets to deliver goods or services. A multinational corporation's market internalization advantages may take advantage of market failure.

**Market-if-touched (MIT)**
A price order, below market if a buy or above market if a sell, that automatically becomes a market order if the specified price is reached.

**Market impact costs**
The result of a bid/ask spread and a dealer's price concession. Also called price impact costs.

**Market index**
Market measure that consists of weighted values of the components that make up certain list of companies. A stock market tracks the performance of certain stocks by weighting them according to their prices and the number of outstanding shares by a particular formula.

**Market interest rate**
Rates of interest paid on deposits and other investments, determined by the interaction of the supply of and demand for funds in the money market.

**Market internalization advantages**
Conditions that allow a corporation to exploit the failure of an arm's length market to deliver goods or services efficiently.

**Market jitters**
Anxiety among many investors, causing them to sell stocks and bonds, pushing prices down.

**Market letter**
A newsletter analyzing the market that is written by an SEC-registered investment adviser who sells the letter to subscribers. See: Hulbert Rating.

**Market maker**
Used in the context of general equities. One who maintains firm bid and offer prices in a given security by standing ready to buy or sell round lots at publicly quoted prices. See: Agent, dealer, specialist.
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.
Market overhang
The theory that, in certain situations, institutions wish to sell their shares but postpone the sale because large orders under current market conditions would drive down the share price and that the consequent threat of securities sales will tend to retard the rate of share price appreciation. Support for this theory is largely anecdotal.

Market penetration/share
Used in the context of general equities. Percent of trading volume in a stock that a particular market maker trades.

Market Performance Committee (MPC)
A group of NYSE market oversight specialists who monitor specialists' efficiency in maintaining fair prices and orderly markets.

Market price
The last reported price at which a security was traded on an exchange.

Market research
A technical analysis of factors such as volume, price trends, and market breadth that are used to predict price movement.

Marketplace price efficiency
The degree to which the prices of assets reflect the available marketplace information. Marketplace price efficiency is sometimes estimated as the difficulty faced by active management of earning a greater return than passive management would, after adjusting for the risk associated with a strategy and the transactions costs associated with implementing a strategy.

Market portfolio
A portfolio consisting of all assets available to investors, with each asset held in proportion to its market value relative to the total market value of all assets.

Market price of risk
A measure of the extra return, or risk premium, that investors demand to bear risk. The reward-to-risk ratio of the market portfolio.

Market prices
The amount of money that a willing buyer pays to acquire something from a willing seller, when a buyer and seller are independent and when such an exchange is motivated by only commercial consideration.

Market return
The return on the market portfolio.
**Market risk**
Risk that cannot be diversified away. Related: Systematic risk

**Market RRR (required rate of return) Schedule**
A line that indicates the minimum return required by investors at each level of investment risk. The schedule begins at the risk-free interest rate and rises as risk increases.

**Market sectors**
The classifications of bonds by issuer characteristics, such as state government, corporate, or utility.

**Market segmentation theory**
A biased expectations theory that asserts that the shape of the yield curve is determined by the supply of and demand for securities within each maturity sector.

**Market share**
The percentage of total industry sales that a particular company controls.

**Market sweep**
A second offering following a tender offer, allowing institutional investors to obtain a controlling interest at a price higher than the original offer.

**Market timer**
A money manager who assumes he or she can forecast when the stock market will go up and down.

**Market timing**
Asset allocation in which investment in the equity market is increased if one forecasts that the equity market will outperform T-bills and is decreased when the market is anticipated to underperform.

**Market timing costs**
Costs that arise from price movement of a stock during a transaction period but attributable to other activity in the stock.

**Market tone**
The general state of well-being of a securities market, based mostly on trading activity.

**Market value**
(1) The price at which a security is trading and could presumably be purchased or sold. (2) What investors believe a firm is worth; calculated by multiplying the number of shares outstanding by the current market price of a firm’s shares.

**Market value ratios**
Ratios that relate the market price of the firm’s common stock to selected financial statement items.

**Market value-weighted index**
An index of a group of securities computed by calculating a weighted average of the returns on each security in the index, where the weights are proportional to outstanding market value.

**Marketability**
A negotiable security is said to have good marketability if there is an active secondary market in which it can easily be resold.

**Marketable securities**
Securities that are easily convertible to cash because there is high demand allowing them to be sold quickly.

**Marketable title**
A clear, reasonably incontestable title to a piece of real estate that is good for transaction purposes.

**Marketed claims**
Claims that can be bought and sold in financial markets, such as those of stockholders and bondholders.

**Marking to market**
Settling or reconciling changes in the value of futures contracts on a daily basis. Also refers to the practice of reporting the value of assets on a market rather than book value basis.

**Marking up or down**
The amount by which a securities dealer raises or lowers the price of a stock or bond due to changes in demand and supply.

**Markowitz, Harry**
Nobel laureate in economics. Father of modern portfolio theory.

**Markowitz diversification**
A strategy that seeks to combine in a portfolio assets with returns that are less than perfectly positively correlated, in an effort to lower portfolio risk (variance) without sacrificing return. Related: Naive diversification.

**Markowitz efficient frontier**
The graphical depiction of the Markowitz efficient set of portfolios representing the boundary of the set of feasible portfolios that have the maximum return for a given level of risk. Any portfolios above the frontier cannot be achieved. Any below the frontier are dominated
by Markowitz efficient portfolios.

**Markowitz efficient portfolio**
Also called a mean-variance efficient portfolio, a portfolio that has the highest expected return at a given level of risk.

**Markovian Dependence**
The condition where observations in a time series are dependent on previous observations in the near term. Markovian dependence dies quickly, while long-memory effects like Hurst dependence, decay over very long time periods.

**Markowitz efficient set of portfolios**
The collection of all efficient portfolios, which can be graphed as the Markowitz efficient frontier.

**Marks and Numbers**
Identifying symbols and numbers placed by the shipper on each piece of cargo in a shipment.

**Mark-to-market**
Adjustment of the book value or collateral value of a security to reflect current market value.

**Marriage penalty**
A tax that has the effect of penalizing a married couple because they pay more tax on a joint tax return than they would if they file tax returns individually.

**Married put**
A put option bought at the same time as its underlying securities in order to hedge the price paid for the securities.

**Married Put and Stock**
The simultaneous purchase of stock and the corresponding number of put options. This is a limited risk strategy during the life of the puts because the stock can be sold at the strike price of the puts.

**Married Put Strategy**
A put and stock are considered to be married if they are bought on the same day, and the position is designated at that time as a hedge.

**Master Air Waybill (MAB)**
A document issued by the originating airline when and if a shipment involves more than one air carrier.

**Master limited partnership (MLP)**
A publicly traded limited partnership.

**Master pension plan**
See: Prototype plan

**Matador market**
The foreign market in Spain.

**Matched and lost**
The outcome of the flip of a coin used to determine which of two brokers who are locked in competition for equal trades may actually execute the trades.

**Match-fund**
A bank is said to match-fund a loan or other asset when it does so by buying (taking) a deposit of the same maturity. The term is commonly used in the Euromarket.

**Matched book**
A bank runs a matched book when the of maturities of its assets and liabilities is distribution equal.

**Matched maturities**
The coordination by a financial institution of the maturities of its assets (loans) and liabilities (deposits) in order to enable it to meet its obligations at the required times.

**Matched orders**
Used for listed equity securities. Participate in equal amounts of a trade at a certain price, particularly when two parties have the same level of priority on the exchange floor (this requires standing in the trading crowd).

**Matched Sale Purchase Transactions**
Transaction in which the Federal Reserve sells a government security to a dealer or a foreign central bank and agrees to buy back the security to a dealer or a foreign central bank and agrees to buy back the security on a specified date (usually within seven days) at the same price (the reverse of a repurchase agreement). Such transaction allow the Federal Reserve to temporarily absorb excess reserves from the banking system, limiting the ability of banks to make new loans and investments.

**Matched sale transaction**
Applies mainly to convertible securities. Procedure whereby the Federal Reserve Bank of New York sells government securities to a nonbank dealer against payment in federal funds. The agreement requires the dealer to sell the securities back by a specified date, which ranges from 1 to 15 days. The Fed pays the dealer a rate of interest equal to the discount rate. These transactions, also called reverse repurchase agreements, decrease the money supply for temporary periods by reducing dealers’ bank balances and thus excess
reserves.

**Matching concept**
The accounting principle that requires the recognition of all costs that are associated with the generation of the revenue reported in the *income statement*.

**Material Adverse Change or Effect**
Many mergers and acquisitions contracts include a material adverse change clause that allows a company to renegotiate or walk away from a deal if the other company or its subsidiaries announces a significant event that may negatively affect its stock price or operations. See also *materiality*.

**Materiality**
The importance of an event or information in influencing a company’s *stock* price. Companies must report any material events within one month by filing SEC form 8-K.

**Materials requirement planning**
Computer-based systems that plan backward from the production schedule to make purchases in order to manage *inventory* levels.

**Mathematical programming**
An operations research technique that solves problems in which an optimal value is sought subject to specified constraints. Mathematical programming models include *linear programming*, quadratic programming, and dynamic programming.

**Matif SA**
The *futures exchange* of France.

**Matrix trading**
Swapping *bonds* in order to take advantage of temporary differences in the *yield spread* between *bonds* with different *ratings* or different *classes*.

**Mature**
To cease to exist; to expire.

**Mature economy**
The economy of a nation with a stable population and slowing economic growth.

**Matured noninterest-bearing debt**
Outstanding *savings bonds* and *notes* that have reached final maturity and no longer earn *interest*. Includes all Series A-D, F, G, 1, J, and K *bonds*. Series E bonds (issued between May 1941 and November 1965), Series EE (issued since January 1980), Series H (issued from June 1952 through December 1979), and savings notes issued between May 1967 and October 1970 have a final maturity of 30 years. Series HH bonds (issued since
January 1980) mature after 20 years.

**Maturity**
For a bond, the date on which the principal is required to be repaid. In an interest rate swap, the date that the swap stops accruing interest.

**Maturity date**
Usually used for bonds. Date that the bond finishes and is paid off. Date on which the principal amount of a note, draft, acceptance, bond, or other debt instrument becomes due and payable.

**Maturity factoring**
An arrangement that provides collection and insurance of accounts receivable.

**Maturity phase**
A stage of company development in which earnings to grow at the rate of the general economy. Related: Three-phase DDM.

**Maturity spread**
The difference in returns between bonds of different time lengths.

**Maturity value**
Related: Par value

**Maximum capital gains mutual fund**
A mutual fund whose objective is to produce capital gains by investing in small or risky rapid-growth companies.

**Maximum expected return criterion (MERC)**
Standard that one choose the asset with the highest anticipated return.

**Maximum price fluctuation**
The greatest amount by which the contract price can change, up or down, during one trading session, as fixed by exchange rules in the contract specification. Related: Limit price.

**Maximum return criterion (MRC)**
Standard that one choose the asset with the highest return.

**May Day**
The date of May 1, 1975, after which brokers were allowed to charge any brokerage commission, rather than a mandatory rate.

**May expand**
Used in the context of general equities. Warning that the size of the order/total may be increased. See: "more behind it."

**MBS depository**
A book-entry depository for GNMA securities. The depository was initially operated by MBSCC and is now a separately incorporated, participant-owned, limited-purpose trust company organized under the State of New York Banking Law.

**MBS servicing**
The requirement that the mortgage servicer maintain payment of the full amount of contractually due principal and interest payments whether or not actually collected.

**Meals and entertainment expense**
A tax deduction allowed for meals and entertainment expenses incurred in the course of business.

**Mean**
The expected value of a random variable. Arithmetic average of a sample.

**Mean of the sample**
The arithmetic average; that is, the sum of the observations divided by the number of observations.

**Mean return**
See: Expected return

**Mean-variance analysis**
Evaluation of risky prospects based on the expected value and variance of possible outcomes.

**Mean-variance criterion**
The selection of portfolios based on the means and variances of their returns. The choice of the higher expected return portfolio for a given level of variance or the lower variance portfolio for a given expected return.

**Mean-variance efficient portfolio**
Related: Markowitz efficient portfolio

**Measurement error**
Errors in measuring an explanatory variable in a regression, which leads to biases in estimated parameters.

**Measurement Noise**
See: Observational Noise.
Medallion Stamp Program
A program approved by the Securities Transfer Association that enables participating financial institutions to guarantee signatures. The Medallion programs ensure that the individual signing the certificate or stock, power is in fact the registered owner as it appears on the stock certificate or stock power. Any U.S. financial institution that belongs to a Medallion Stamp Program can provide Medallion guarantees. Such institutions include banks, savings and loans, credit unions and U.S. brokerages.

Median market cap
The midpoint of market capitalization (market price multiplied by the number of shares outstanding) of the stocks in a portfolio. Half the stocks in the portfolio will have higher market capitalizations; half will have lower.

Medium-term bond
A bond maturing in two to ten years.

Medium-Term Guarantee Program
Ex-Im Bank effort encouraging commercial lenders to finance the sale of U.S. capital equipment and services to approved foreign buyers. The Ex-IM Bank guarantees the principal and interest on these loans.

Medium-term note
A corporate debt instrument that is continuously offered to investors over a period of time by an agent of the issuer. Investors can select from maturity bands of: 9 months to 1 year, more than 1 year to 18 months, more than 18 months to 2 years, etc., up to 30 years.

Meff Renta Fija
The derivatives exchange in Barcelona, Spain, listing futures and options on fixed-interest securities and on interest rates, including the MIBOR (Madrid Interbank Offered Rate).

Meff Renta Variable
Stock index and equity derivatives market in Spain trading futures and options on the Iberian Exchange (IBEX)-35 index and on individual stocks.

Member bank
A national- or state-chartered bank that is a member of the Federal Reserve System.

Member firm
Used for listed equity securities. Brokerage firm that has at least one membership on a major stock exchange even though, by exchange rules, the membership in the name of an employee and not of the firm itself.

Membership or a seat on the exchange
A limited number of exchange positions that enable the holder to trade for the holder’s own
accounts and charge clients for the execution of trades for their accounts. Related: member firm.

**Member short sale ratio**

The total shares sold short by NYSE members divided by total short sales, which is used to analyze market expectations and bullish or bearish trends.

**Menu**

Used in the context of general equities. Hierarchy of choices concerning price and volume of bids or offers proposed to a customer (e.g. Menu of offerings to a customer buyer - a) 10m @ 24 1/4; b) 25m @ 24 1/2; or c) 50m @ 24 3/4).

**Member short sale ratio**

The total shares sold short by NYSE members divided by total short sales, which is used to analyze market expectations and bullish or bearish trends.

**Mercantile agency**

An organization that supplies credit ratings and reports on firms that are prospective customers.

**Mercato Italiano Futures (MIF)**

The Italian futures market trading Italian >Treasury bond (BTB) futures.

**Merchandise**

All movable goods such as cars, textiles, appliances, etc. and 'f.o.b.' means free on board.

**Merc, the**

Chicago Mercantile Exchange.

**Merchant bank**

A British term for a bank that specializes not in lending out its own funds, but in providing various financial services such as accepting bills arising out of trade, underwriting new issues, and providing advice on acquisitions, mergers, foreign exchange, portfolio management, etc.

**Mercosur**

The "Common Market of the South," which includes Argentina, Brazil, Paraguay, and Uruguay in a regional trade pact that reduces tariffs on intrapact trade by up to 90%.

**Merger**

(1) Acquisition in which all assets and liabilities are absorbed by the buyer. (2) More generally, any combination of two companies. The firm's activity in this respect is sometimes called M&A (Merger and Acquisition)
Merger Arbitrage
In the context of hedge funds, a style of management that involves the simultaneous purchase of stock in a company being acquired and the sale of stock in its acquirer.

Method of payment
The way a merger or acquisition is financed.

Mexican Stock Exchange
The only stock exchange in Mexico. The Indice de Precios y Cotizaciones, or IPC index, consists of the 35 most representative stocks chosen every two months.

Mezzanine bracket
The members of an underwriting group with involvement large enough to be in the second participation tier from the top.

Mezzanine level
The period in a company's development just before it goes public.

Mezzanine financing
The next stage of financing that follows venture capital financing.

Micro-cap stock
See: Penny stock

Micro country risks
Country or political risks that are specific to an industry, company, or project within a host country.

Microassessment
The risk assessment of a country as related to an MNC's type of business.

Microeconomics
Analysis of the behavior of individual economic units such as companies, industries, or households.

Mid cap
A stock with a capitalization usually between $1 billion and $5 billion.

Mid-cap SPDRs
This is the same as a SPDR except the index it tracks is Standard&Poor’s Mid-cap 400. This SPDR also trades on the AMEX, under the symbol MDY.

Middle Market Manufacturing Exporter (MMME)
An exporter with the following traits: 1) Manufacturer with less than 500 employees 2) Ships less than $1 Million per year (on average) overseas.

**Midget**
A 15 year GNMA bond; similar to a Dwarf.

**Midmarket**
Price around which a market maker derives bid and asked prices.

**Milan Stock Exchange**
The largest regional stock exchange in Italy, facilitating more than 90% of the country's trading volume.

**Miller and Modigliani's irrelevance proposition**
Theory that if financial markets are perfect, corporate financial policy (including hedging policy) is irrelevant.

**Miller, Merton**
Nobel Laureate and coauthor of the famous Miller-Modigliani theorems. Finance professor at the University of Chicago.

**Mimic**
An imitation that sends a false signal.

**Mini-manipulation**
Trading in the underwriting security of an option contract in order to manipulate its price so that the options will become in-the-money.

**Minimum maintenance**
The lowest required equity level that must be held with a broker in a margin account. See: margin call.

**Minimum price fluctuation**
Smallest increment of price movement possible in trading a given contract. Also called point or tick.

**Minimum purchases**
For mutual funds, the amount required to open a new account (Minimum Initial Purchase) or to deposit into an existing account (Minimum Additional Purchase). These minimums may be lowered for buyers participating in an automatic purchase plan.

**Minimum-variance frontier**
Graph of the lowest possible portfolio variance that is attainable for a given portfolio expected return.
**Minimum-variance portfolio**
The portfolio of risky assets with lowest variance.

**Minority interest**
An outside ownership interest in a subsidiary that is consolidated with the parent for financial reporting purposes.

**Minus**
The symbol (-) that precedes the change figure in a stock table to indicate a closing sale lower than that of the previous day.

**Minus tick**
See: downtick.

**Misery index**
An index that sums the unemployment and inflation rates, used as a political rating or measure of consumer confidence.

**Mismatch bond**
Floating rate note whose interest rate is reset at more frequent intervals than the rollover period (e.g. a note whose payments are set quarterly on the basis of the one-year interest rate).

**Miss the price/market**
Used for listed equity securities. 1) Have an order in hand but fail to execute a transaction on terms favorable to a customer and, thus, be negligent as a broker; 2) receive an order just after a print has transpired.

**Mixed account**
A brokerage account holding both long and short positioned securities.

**Mixed bag**
Used in the context of general equities. Group of stocks which consists of some which are up, down, and neutral.

**Mixed forecasting**
Development of forecasts using a combination of forecasting techniques.

**Mob spread**
The yield spread between a tax-free municipal bond and a Treasury bond with the same maturity.

**Mock trading**
The simulated trading of securities used as a learning device in training investors and broker.

**Modeling**
The process of creating a depiction of reality, such as a graph, picture, or mathematical representation.

**Modern portfolio theory**
Principals underlying the analysis and evaluation of rational portfolio choices based on risk-return trade-offs and efficient diversification.

**Modified Accelerated Cost Recovery System (MACRS)**
A 1986 act that set out rules for the depreciation of qualifying assets, allowing for greater acceleration over longer periods of time.

**Modified duration**
The ratio of Macaulay duration to \((1 + y)\), where \(y\) = the bond yield. Modified duration is inversely related to the approximate percentage change in price for a given change in yield.

**Modified pass-throughs**
Agency pass-throughs that guarantee (1) timely interest payments and (2) principal payments as collected, but no later than a specified time after they are due. Related: fully modified pass-throughs

**Modigliani and Miller Proposition I**
A proposition by Modigliani and Miller which states that a firm cannot change the total value of its outstanding securities by changing its capital structure proportions. Also called the irrelevance proposition.

**Modigliani and Miller Proposition II**
A proposition by Modigliani and Miller which states that the cost of equity is a linear function of the firm's debt/equity-ratio.

**Momentum**
The amount of acceleration of an economic, price, or volume movement. A trader that follows a movement strategy will purchase stocks that have recently risen in price.

**Momentum indicators**
Indicators used in market analysis to quantify the momentum of upward and downward price movements.

**M-1, M-2 and M-3**
See: money supply.
MONEP (Marche des Options Negociables de Paris)
A subsidiary of the Paris Bourse that trades stock and index options.

Monetarist
An economist who believes that changes in the money supply are the most important determinants of economic activity and economic cycles.

Monetary assets and liabilities
Assets and liabilities with contractual payoffs.

Monetary Control Act of 1980 (MAC)
Act which requires that all banks and all institutions that accept deposits from the public make periodic reports to the Federal Reserve System. Starting in September 1981, the Fed charged banks for a range of services that it had provided free in the past, including check clearing, wire transfer of funds and the use of automated clearinghouse facilities.

Monetary gold
Gold held by governmental authorities as a financial asset.

Monetary indicators
Economic indicators of the effects of monetary policy, such as the condition of the credit market.

Monetary policy
Actions taken by the Board of Governors of the Federal Reserve System to influence the money supply or interest rates.

Monetary/non-monetary method
Under this translation method, monetary items (e.g. cash, accounts payable and receivable, and long-term debt) are translated at the current rate while non-monetary items (e.g. inventory, fixed assets, and long-term investments) are translated at historical rates.

Monetize the debt
Financing the national debt by printing new money, which causes inflation due to a larger money supply.

Money
Currency and coin that are guaranteed as legal tender by the government.

Money base
Composed of currency and coins outside the banking system plus liabilities to the deposit money banks.

Money center banks
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.
Money order
A financial instrument backed by a deposit at a certain firm such as a bank that can be easily converted into cash.

Money rate of return
Annual money return as a percentage of asset value.

Money supply
M1-A: Currency plus demand deposits
M1-B: M1-A plus other checkable deposits.
M2: M1-B plus overnight repos, money market funds, savings, and small (less than $100M) time deposits.
M3: M-2 plus large time deposits and term repos.
L: M-3 plus other liquid assets.

Monitor
To seek information about an agent's behavior; a device that provides such information.

Monopoly
Absolute control of all sales and distribution in a market by one firm, due to some barrier to entry of other firms, allowing the firm to sell at a higher price than the socially optimal price.

Monopsony
The existence of only one buyer in a market, forcing sellers to accept a lower price than the socially optimal price.

Monte Carlo simulation
An analytical technique for solving a problem by performing a large number of trial runs, called simulations, and inferring a solution from the collective results of the trial runs. Method for calculating the probability distribution of possible outcomes.

Monthly
Preferred stock issued by a subsidiary located in a tax haven. The subsidiary relends the money to the parent.

Monthly investment plan
A plan in which a certain amount is invested each month in order to benefit from dollar cost averaging.
Montreal Exchange/Bourse de Montreal
The oldest stock exchange in Canada trading stocks, bonds, futures, and options. The Canadian Market Portfolio Index (XXM) tracks the market performance of the 25 highest capitalized stocks traded on at least two Canadian exchanges.

Moody's investment grade
A rating of one through four assigned by Moody's Investment Service to municipal short-term bonds.

Moody's investors service
A security and bond rating agency publishing six bound manuals and a common stock handbook annually.

Moral hazard
The risk that the existence of a contract will change the behavior of one or both parties to the contract, e.g. an insured firm will take fewer fire precautions.

Moral obligation bond
A tax-exempt bond issued by a municipality or a state financial intermediary that is backed by the moral, but not legal, obligation of a state government to appropriate funds in case of default.

"More behind it"
Used in the context of general equities. More stock exists to be bought or sold by the same buyer or seller, respectively. Often, the buyer or seller does not disclose the full size of his buy or sell interest as not to affect the market adversely. See: May expand.

More flexible exchange rate system
The International Monetary Fund's name for an exchange rate system in which rates float freely.

Morgan
This firm publishes a number of well known benchmarks, such as the MSCI World Index.

Morgan Stanley Capital International Emerging Markets Global Index
A market capitalization-weighted benchmark index made up of equities from 29 developing countries.

Morgan Stanley Capital International Europe, Australia, Far East Index
See: EAFE Index
Morgan Stanley Capital International Europe Index
A market capitalization-weighted benchmark index made up of equities from 15 European countries. France, Germany, and the United Kingdom represent about two-thirds of the index.

Morgan Stanley Capital International Pacific Free Index
A market capitalization-weighted benchmark index made up of equities from Pacific Basin countries. Japan represents about three-fourths of the index.

Morgan Stanley Capital International World Index
A market capitalization-weighted benchmark index made up of equities from 23 countries, including the United States.

Morgan Stanley REIT Index
A capitalization-weighted benchmark index of the most actively traded real estate investment trusts (REITs), designed to measure real estate equity performance.

Morningstar rating system
A system used in rating mutual funds and annuity by Morningstar Incorporated of Chicago.

Mortality tables
Tables of probability that individuals of various ages will die within one year.

Mortgage
A loan secured by the collateral of some specified real estate property which obliges the borrower to make a predetermined series of payments.

Mortgage-Backed
"Founded" in 1979, MBSCC is the sole provider of automated post-trade comparison, netting, risk management and pool notification services to the mortgage-backed securities market. The organization is a registered clearing agency with the Securities and Exchange Commission and majority-owned by its members -- MBS dealers, inter-dealer brokers and other non-broker/dealers. MBSCC provides its specialized services to major market participants active in various Government National Mortgage Association (GNMA), Fannie Mae(FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) MBS programs.

Mortgage-backed
Securities backed by a pool of mortgage loans.

Mortgage banker
A company or individual that originates mortgage loans and sells them to investors, while taking care of borrowers' loan payments, records, taxes, and insurance.
**Mortgage bond**
A bond in which the issuer has granted the bondholders a lien against the pledged assets. See: Collateral trust bonds

**Mortgage broker**
A company or individual that places mortgage loans with lenders, but does not originate or service loans like a mortgage banker.

**Mortgage duration**
A modification of standard duration to account for the impact on duration of MBSs of changes in prepayment speed resulting from changes in interest rates. Two factors are employed: one that reflects the impact of changes in prepayment speed or price.

**Mortgagee**
The lender of a loan secured by property.

**Mortgage interest deduction**
A federal tax deduction for interest paid on a mortgage used to acquire, construct, or improve a residence.

**Mortgage life insurance**
A life insurance policy that pays off the remaining balance of the insured person's mortgage at death.

**Mortgage pass-through security**
Also called a passthrough, a security created when one or more mortgage holders form a collection (pool) of mortgages and sells shares or participation certificates in the pool. The cash flow from the collateral pool is "passed through" to the security holder as monthly payments of principal, interest, and prepayments. This is the predominant type of MBS traded in the secondary market.

**Mortgage pipeline**
The period from the taking of applications from prospective mortgage borrowers to the marketing of the loans.

**Mortgage-pipeline risk**
The risk associated with taking applications from prospective mortgage borrowers who may opt to decline to accept a quoted mortgage rate within a certain grace period.

**Mortgage pool**
A group of mortgages with similar class, interest rate, and maturity characteristics.

**Mortgager**
The borrower of a loan secured by property.
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
Such a clause on a Euro loan permits the borrower to switch from one currency to another currency on a rollover date.

**Multicurrency loans**
Gives the borrower the possibility of drawing a loan in different currencies.

**Multifactor CAPM**
A version of the capital asset pricing model derived by Robert Merton that includes extra-market sources of risk referred to as factors. Related: arbitrage pricing theory

**Multifactorial Loans**
Loans usually represented by conventional mortgages on multi-family rental apartments.

**Multilateral Investment Guarantee Agency (MIGA)**
Agency established by the World Bank that offers various forms of political risk insurance to corporations.

**Multilateral netting system**
Elimination of offsetting cash flows between a parent and several subsidiaries.

**Multinational corporation (MNC)**
A firm that operates in more than one country.

**Multinational netting**
Elimination of offsetting cash flows within a multinational corporation's books.

**Multinational restructuring**
Changing the terms of an MNC's assets or liabilities by mutual agreement.

**Multi-option financing facility**
A syndicated confirmed credit line with attached options.

**Multiperiod immunization**
A portfolio strategy in which a portfolio is created that will be capable of satisfying more than one predetermined future liability regardless of interest rate changes.

**Multiple Arbitrage**
In the context of hedge funds, a style of management where by the fund employs more than one arbitrage strategy. Portfolio manager opportunistically allocates capital among the various strategies in order to create the best risk/reward profile for the overall fund. Common strategies include merger arbitrage, convertible arbitrage, fixed income arbitrage, long/short equities pairs trading, and volatility arbitrage. In the context of equity and private equity investment, this refers to an investment in a firm where by standard multiples (earnings/price, book/price) indicate the price is far cheaper than industry
averages.

**Multiple-discriminant**
Statistical technique for distinguishing between two groups on the basis of their observed characteristics.

**Multiple-issuer pools**
Under the GNMA-II program, pools formed through the aggregation of individual issuers' loan packages.

**Multiple listing**
An agreement used by a broker who is a member of a multiple-listing organization, providing the exclusive right to sell with an additional authority and obligation on the part of the listing broker to distribute the listing to the other brokers.

**Multiple peril insurance**
insurance policy which covers a wide variety of property damage.

**Multiple rates of return**
More than one rate of return from the same project that make the net present value of the project equal to zero. This situation arises when the IRR method is used for a project in which negative cash flows follow positive cash flows. For each sign change in the cash flows, there is a different rate of return.

**Multiple regression**
The estimated relationship between a dependent variable and more than one explanatory variable.

**Multiples**
Another name for price/earnings ratios.

**Multiplier**
The investment multiplier which quantifies the overall effects of investment spending on total income. The deposit multiplier which shows the effects of a change in bank deposits on the total amount of outstanding credit and the money supply.

**Multirule system**
A technical trading strategy that combines mechanical rules, such as the CRISMA (cumulative volume, relative strength, moving average) Trading System of Pruitt and White.

**Municipal bond**
State or local governments offer muni bonds or municipals, as they are called, to pay for special projects such as highways or sewers. The interest that investors receive is exempt
from some income taxes.

**Municipal bond insurance**  
An insurance policy which guarantees payment on municipal bonds in the event of default.

**Municipal bond fund**  
A mutual fund that invests in tax-exempt bonds issued by state, city, and/or local governments. The interest obtained from these bonds is passed through to shareholders and is generally free of federal (and sometimes state and local) income taxes.

**Municipal improvement certificate**  
A certificate used to finance local government projects and services which is financed by a special tax assessment and provides tax-free interest.

**Municipal Investment Trust (MIT)**  
A unit investment trust that buys municipal bonds and usually holds them until maturity, passing the bond income on to shareholders, usually tax-free.

**Municipal notes**  
Short-term notes issued by municipalities in anticipation of tax receipts, proceeds from a bond issue, or other revenues.

**Municipal revenue bond**  
A bond issued to finance a public project that is funded by the revenues of the project.

**Mutilated security**  
A certificate on which the name of the issue, the issuer, or some other identifying detail cannot be read.

**Mutual association**  
A savings and loan association organized as a cooperative, with members purchasing shares, voting on association affairs, and receiving income in the form of dividends.

**Mutual company**  
A corporation that is owned by a group of members and that distributes income in proportion to the amount of business that members do with the company.

**Mutual exclusion doctrine**  
The doctrine that ruled that municipal bond interest is federal tax-free. In return for this federal tax exemption, states and localities cannot tax interest generated by federal government securities.

**Mutual fund**  
Mutual funds are pools of money that are managed by an investment company. They
offer investors a variety of goals, depending on the fund and its investment charter. Some funds, for example, seek to generate income on a regular basis. Others seek to preserve an investor's money. Still others seek to invest in companies that are growing at a rapid pace. Funds can impose a sales charge, or load, on investors when they buy or sell shares. Many funds these days are no load and impose no sales charge. Mutual funds are investment companies regulated by the Investment Company Act of 1940. Related: open-end fund, closed-end fund.

**Mutual fund cash-to-assets ratio**
The portion of the assets of a mutual fund which exists in cash instruments.

**Mutual fund custodian**
A commercial bank or trust company that holds securities owned by a mutual fund and sometimes acts as transfer agent for the mutual fund.

**Mutual savings bank**
A state-chartered savings bank which is owned by its depositors and managed by a fiduciary board of trustees.

**Mutual fund theorem**
A result associated with the CAPM, asserting that investors will choose to invest their entire risky portfolio in a market-index or mutual fund.

**Mutually exclusive investment decisions**
Investment decisions in which the acceptance of a project precludes the acceptance of one or more alternative projects.

**Mutual offset**
A system, such as the arrangement between the Chicago Mercantile Exchange (CME) and Singapore International Monetary Exchange (SIMEX), which allows trading positions established on one exchange to be offset or transferred on another exchange.

**N**
The fifth letter in a Nasdaq stock symbol specifying that the issue is the company's third class of preferred shares.

**NA**
The two-character ISO 3166 country code for NAMIBIA.

**NAD**
The ISO 4217 currency code for the Namibian Dollar.

**NASD**
See: National Association of Securities Dealers
**Nasdaq**
See: National Association of Securities Dealers Automatic Quotation System

**NAV**
See: Net asset value

**NC**
The two-character ISO 3166 country code for NEW CALEDONIA.

**NE**
The two-character ISO 3166 country code for NIGER.

**NF**
The two-character ISO 3166 country code for NORFOLK ISLAND.

**NFA**
See: National Futures Association

**NG**
The two-character ISO 3166 country code for NIGERIA.

**NGN**
The ISO 4217 currency code for the Nigerian Naira.

**NI**
The two-character ISO 3166 country code for NICARAGUA.

**NIF**
See: Note issuance facility

**NIO**
The ISO 4217 currency code for the Nicaraguan Cordoba Oro.

**NL**
The two-character ISO 3166 country code for NETHERLANDS.

**NLG**
The ISO 4217 currency code for the Dutch Guilder.

**NMS**
See: National Market System

**NO**
The two-character ISO 3166 country code for NORWAY.
NOK
The ISO 4217 currency code for the Norwegian Krone.

NOBO (Non-Objecting Beneficial)
A beneficial ("street") security holder who has not objected to his or her name being released to the Corporation, if the Corporation so requests.

NPR
The ISO 4217 currency code for the Nepalese Rupee.

NOW
See: Negotiable Order of Withdrawal

NP
The two-character ISO 3166 country code for NEPAL.

NPV
See: Net present value

NR
The two-character ISO 3166 country code for NAURU.

NTE
Short for Not To Exceed.

NU
The two-character ISO 3166 country code for NIUE0.

NYSE
See: New York Stock Exchange

Naive diversification
A strategy whereby an investor simply invests in a number of different assets in the hope that the variance of the expected return on the portfolio is lowered. In contrast, mathematical programming can be used to select the best possible investment weights. Related: Markowitz diversification.

NZ
The two-character ISO 3166 country code for NEW ZEALAND.

NZD
The ISO 4217 currency code for the New Zealand Dollar.
**Nagoya Stock Exchange**  
Established after World War II, one of the three major securities markets in Japan.

**Naked option strategies**  
An unhedged strategy making exclusive use of one of the following: Short call strategy (selling or writing call options), and short put strategy (selling or writing put options). By themselves, these positions are called naked strategies because they do not involve an offsetting or risk-reducing position in another option or the underlying security. Related: Covered option strategies. Antithesis of covered option.

**Naked strategies**  
Writing an option without owning the underlying asset. Holder is naked because holder may have agreed to sell something not owned.

**Naked writer**  
See Uncovered call writing and Uncovered put writing.

**Named perils insurance**  
An insurance policy that names specific risks covered by the policy.

**NASD form FR-1**  
A form required by the NASD of foreign dealers to ensure that firms participating in a new distribution of securities make a bona fide public offering.

**Narrow-Based**  
Generally referring to an index, it indicates that the index is composed of only a few stocks, generally in a specific industry group. See also broad-based.

**Narrow market**  
An inactive market, which displays large fluctuations in prices due to a low volume of trading.

**Narrowing the spread**  
Reducing the difference between the bid and ask prices of a security.

**Nasdaq small-capitalization companies**  
A group of 2000 companies with relatively small capitalization, which are listed separately and have at least two market makers.

**Nasdaq stock market**  
The first electronic stock market listing over 5000 companies. The Nasdaq stock market comprises two separate markets, namely the Nasdaq National Market, which trades large, active securities and the Nasdaq Smallcap Market that trades emerging growth companies.
National Association of Investors Corporation
A Michigan-based association that helps groups establish investment clubs.

National Association of Securities Dealers (NASD)
Nonprofit organization formed under the joint sponsorship of the investment bankers' conference and the SEC to comply with the Maloney Act, which provides for the regulation of the OTC market.

National Association of Securities Dealers Automatic Quotation System (Nasdaq)
An electronic quotation system that provides price quotations to market participants about the more actively traded common stock issues in the OTC market. About 4000 common stock issues are included in the Nasdaq system.

National bank
A commercial bank approved by the U.S. Comptroller of the Currency, which is required to be a member of and purchase stocks in the Federal Reserve System.

National Credit Union Administration
Federal agency that oversees and insures the federal credit union system, and is funded by its members.

National debt
Treasury bills, notes, bonds, and other debt obligations that constitute the debt owed by the federal government.

National Foundation for Consumer Credit
A nonprofit organization that seeks to help consumers who have taken on too much debt by helping them work out payment plans and supplying credit counseling.

National Futures Association (NFA)
The futures industry self-regulatory organization established in 1982.

National market
Related: Internal market

National Market Advisory Board
Group that advises the SEC on establishing a national exchange market system, which is a highly automated, continuous national exchange, but that preserves the regional exchanges.

National Market System (NMS)
Refers to over-the-counter trading. System of trading OTC stocks under the sponsorship of the NASD. Must meet certain criteria for size, profitability and trading activity. More
A comprehensive information is available for NMS stocks than for non-NMS stocks traded OTC (high, low, and last-sale prices, cumulative volume figures, and bid and ask quotations throughout the day). This is due to the fact that market makers must report the actual price and number of shares in each transaction within 90 seconds verses nonreal-time reporting for non-NMS stocks (thus, last sale prices and minute-to-minute volume updates are not possible).

**National Quotation Bureau**
A service that publishes bid and offer quotes from market makers in OTC transactions.

**National Securities Clearing Corporation (NSCC)**
A clearing corporation that facilitates the settlement of accounts among brokerage firms, exchanges, and other clearing corporations.

**National Stock Exchange (NSE)**
Second-largest stock exchange based in India.

**National tax policy**
The way a country chooses to allocate tax burdens.

**Nationalization**
A government takeover of a private company.

**Natural**
Used in the context of general equities. Customer buyer or seller, versus a principal or profile interest. Legitimate, real.

**Natural logarithm**
Logarithm to the base e (approximately 2.7183).

**Near money**
Assets that are easily convertible into cash, such as money market accounts and bank deposits.

**Nearby**
The nearest active trading month of a financial or commodity futures market. Related: Deferred futures.

**Nearby futures contract**
When several futures contracts are considered, the contract with the closest settlement date is called the nearby futures contract. The next (or the "next out") futures contract is the one that settles just after the nearby futures contract. The contract farthest away in time from settlement is called the most distant futures contract.
Nearest month
The expiration date of an option or future that is closest to the present.

"Need the tick"
Used for listed equity securities. A stock must trade up/down at least one tick (1/8) in order to comply with regulations governing short sales/corporate repurchases.

Negative amortization
A loan repayment schedule in which the outstanding principal balance of the loan increases, rather than amortizing, because the scheduled monthly payments do not cover the full amount required to amortize the loan. The unpaid interest is added to the outstanding principal, to be repaid later.

Negative NPV tie-in project
A negative-NPV infrastructure development project that a local government requires of a company engaged in a positive NPV investment project elsewhere in the country.

Negative carry
Related: Net financing cost

Negative cash flow
Occurs when spending in a business is greater than earnings.

Negative convexity
A bond characteristic such that the price appreciation will be less than the price depreciation for a large change in yield of a given number of basis points. For example, a fixed-rate mortgage may lose value as rates go down because of prepayments.

Negative covenant
A bond covenant that limits or prohibits certain actions unless the bondholders agree.

Negative duration
Occurs when the price of an MBS moves in the same direction as interest rates.

Negative income tax
A proposal to assist taxpayer with below-subsistence-level incomes. After filing a tax return, such persons would receive a subsidy to bring them up above the poverty level.

Negative pledge clause
A bond covenant that requires the borrower to grant lenders a lien equivalent to any liens that may be granted in the future to any other currently unsecured lenders.

Negative working capital
Occurs when current liabilities exceed current assets, which can lead to bankruptcy.
Negative yield curve
When the yield on a short-term security is higher than the yield on a long-term security, partially because high interest rates are creating a greater demand for short-term borrowing.

Neglected firm effect
The tendency of firms that are neglected by security analysts to outperform firms that are the subject of considerable attention.

Negotiable
A security whose title is transferable by delivery. See also: Negotiable instrument.

Negotiable bill of lading
Contract that grants title of merchandise to the holder, which allows banks to use the merchandise as collateral.

Negotiable certificates of deposit
Large-denomination bank certificates of deposit that can be traded.

Negotiable instrument
An unconditional order or promise to pay some amount of money, easily transferable from one party to another.

Negotiable order of withdrawal (NOW)
Demand deposits that pay interest.

Negotiable Order of Withdrawal Account (NOW)
An interest-earning account on which chec ks may be drawn. Withdrawals from NOW accounts may be offered by commercial banks, mutual savings banks, and savings and loan associations and may be owned only by individuals and certain nonprofit organizations and governmental units.

Negotiated certificate of deposit
A large-denomination CD, generally $1MM or more, that can be sold but cannot be cashed in before maturity.

Negotiated commission
An unfixed broker’s commission that is determined through negotiation, depending on the specifics of the trades performed.

Negotiated markets
Markets in which each transaction is separately negotiated between buyer and seller (i.e., an investor and a dealer).
Negotiated offering
An offering of securities for which the terms, including underwriters' compensation, have been negotiated between the issuer and the underwriters.

Negotiated sale
Determining the terms of an offering by negotiation between the issuer and the underwriter rather than through competitive bidding by underwriting groups.

Negotiated underwriting
A securities offering process in which the purchase price paid to the issuer and the public offering price are determined by negotiation rather than through competitive bidding.

NEO
Abbreviation for nonequity options, which are options contracts on foreign currencies, debt issues, commodities, and stock indexes.

Net
The gain or loss on a security sale as measured by the selling price of a security less the adjusted cost of acquisition.

Net adjusted present value
The adjusted present value minus the initial cost of an investment.

Net advantage to leasing
The net present value of entering into a lease financing arrangement rather than borrowing the necessary funds and buying the asset.

Net advantage to merging
The difference in total post- and pre-merger market value minus the cost of the merger.

Net advantage of refunding
The net present value of the savings from a refunding.

Net after-tax gain
Capital gain after income taxes have been paid.

Net asset value (NAV)
The value of a fund's investments. For a mutual fund, the net asset value per share usually represents the fund's market price, subject to a possible sales or redemption charge. For a closed-end fund, the market price may vary significantly from the net asset value.

Net assets
The difference between total assets on the one hand and current liabilities and...
noncapitalized long-term liabilities on the other hand.

**Net benefit to leverage factor**
A linear approximation of a number, that enables one to operationalize the total impact of leverage on firm value in the capital market imperfections view of capital structure.

**Net book value**
The current book value of an asset or liability; that is, its original book value net of any accounting adjustments such as depreciation.

**Net capital requirement**
SEC requirement that member firms and nonmember securities broker-dealers maintain a maximum ratio of indebtedness to liquid capital of 15 to 1.

**Net cash balance**
Beginning cash balance plus cash receipts minus cash disbursements.

**Net change**
This is the difference between a day's last trade and the previous day's last trade.

**Net currency exposure**
Exposure to foreign exchange risk after netting all intracompany cash flows.

**Net current assets**
The difference between current assets and current liabilities, also known as working capital.

**Net errors and omissions**
In balance of payments accounting, net errors and omissions record the statistical discrepancies that arise in gathering balance of payments data.

**Net exposed assets**
Exposed assets less exposed liabilities. This term is used with market values or, in translation accounting, with book values.

**Net financing cost**
Also called the cost of carry or, simply, carry, the difference between the cost of financing the purchase of an asset and the asset's cash yield. Positive carry means that the yield earned is greater than the financing cost; negative carry means that the financing cost exceeds the yield earned.

**Net float**
Sum of disbursement float and collection float.

**Net income**
The company's total earnings, reflecting revenues adjusted for costs of doing business, depreciation, interest, taxes and other expenses.

**Net income per share of common stock**  
See: Earnings per share

**Net interest cost (NIC)**  
The total amount of interest that will be paid on a debt obligation by a corporate or municipal bond issuer.

**Net investment**  
Gross, or total, investment minus depreciation.

**Net investment income per share**  
Income received by an investment company from dividends and interest on investments less administrative expenses, divided by the number of outstanding shares.

**Net lease**  
A lease arrangement under which the lessee is responsible for all property taxes, maintenance expenses, insurance, and other costs associated with keeping the asset in good working condition.

**Net monetary assets**  
See: Monetary assets less monetary liabilities.

**Net operating loss carrybacks**  
The application of losses to offset earnings in previous years.

**Net operating loss carryforwards**  
Application of losses to offset earnings in future years.

**Net operating losses**  
Losses that a firm can take advantage of to reduce taxes.

**Net operating margin**  
The ratio of net operating income to net sales.

**Net parity**  
Antithesis of gross parity.  
Convertibles: Price of a convertible security including accrued interest.  
International: Price of international security including commissions, fees, stamp duty, and other transaction costs, translated into U.S. dollar amounts.

**Net period**
The period of time between the end of the discount period and the date payment is due.

**Net position**
The value of the position subtracting the initial cost of setting up the position. For example, if 100 options were purchased for $1 each and the option is currently trading for $9, the value of the net position is $900 - $100 = $800.

**Net present value (NPV)**
The present value of the expected future cash flows minus the cost.

**Net proceeds**
Amount received from the sale of an asset after deducting all transaction costs.

**Net present value of future investments**
The present value of the total sum of NPVs expected to result from all of the firm's future investments.

**Net present value of growth opportunities**
A model valuing a firm in which net present value of new investment opportunities is explicitly examined.

**Net present value rule**
An investment is worth making if it has a positive NPV. Projects with negative NPVs should be rejected.

**Net profit margin**
Net income divided by sales; the amount of each sales dollar left over after all expenses have been paid.

**Net quick assets**
Cash, marketable securities, and accounts receivable less current liabilities.

**Net realized capital gains per share**
Capital gains realized by an investment company minus any capital losses divided by the total number of the company’s outstanding shares.

**Net sales**
Gross sales less returns and allowances, freight out, and cash discounts allowed.

**Net sales transaction**
Refers to over-the-counter trading. Securities deal in which the quoted prices include commissions (i.e., OTC); looked at another way, the buyer and seller do not pay fees or commissions in addition to the print or quotation prices.
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
of price change in any part of the hedge securities. For any convertible trading at a premium, this ratio is less than 100%. The higher the convertible premium, the lower a ratio must be to be neutral. See: Delta.

**Neural Nets**
Models which mimic the massive parallel processing that occurs in the brain.

**Neutral period**
In the Euromarket, a period over which Eurodollars are sold is said to be neutral if it does not start or end on either a Friday or the day before a holiday.

**Neutral stock**
A stock with a beta of 1.0.

**New account report**
A broker's document including information about a new client. See: Know your customer.

**New European Exchange (NEWEX)**
A trading market for Central and East European securities established by the Deutsche Börse (German Stock Market) and the Wiener Börse (Austrian Stock Market) in 2000.

**New high/new low**
A stock valued at its highest or lowest price in the last year.

**New issue**
Securities that are publicly offered for the first time, whether in an IPO or as an additional issue of stocks or bonds by a company that is already public.

**New-issues market**
The market in which a new issue of securities is first sold to investors. This is not a separate market but refers to a niche of the overall market.

**New listing**
A security that has just been entered on a stock or bond exchange for trading.

**New money**
In a Treasury auction, the amount by which the par value of the securities offered exceeds that of those maturing.

**New York Cotton Exchange (NYCE)**
Commodities exchange in New York trading futures and options on cotton, frozen concentrated orange juice, and potatoes, as well as interest rate, currency, and index futures and options.

**New York Futures Exchange (NYFE)**
A wholly owned subsidiary of the NYSE that trades futures and futures options on the NYSE composite index.

**New York Mercantile Exchange (NYMEX)**
The world's largest physical commodity futures exchange.

**New York Stock Exchange (NYSE)**
Also known as the Big Board or the Exchange.

**NYSE composite index**
Composite index covering price movements of all new world common stocks listed on the New York Stock Exchange. It is based on the close of the market on December 31, 1965, at a level of 50.00, and is weighted according to the number of shares listed for each issue. Print changes in the index are converted to dollars and cents so as to provide a meaningful measure of changes in the average price of listed stocks. The composite index is supplemented by separate indexes for four industry groups: industrial, transportation, utility, and finance.

**New Zealand Stock Exchange**
Automated, screen-based national trading system based in Wellington.

"News out"
Refers to over-the-counter trading. A news story concerning the stock being considered has recently been posted on one of the news services, such as the Dow Jones News Service or Reuters. A courtesy standard in trading is to mention that "news is out," in case the other party is unaware of the new development.

**Next day settlement**
Transaction in which the contract is settled the day after the trade is executed. See: Settlement date.

**Next futures contract**
The contract settling immediately after the nearby futures contract.

**Nexus (of contracts)**
A set or collection of something.

**NICs**
Newly Industrialized Countries, which are countries with high-growth industrial economies, such as Hong Kong and Malaysia.

**Nifty Fifty**
Institutional investor’s 50 most popular stocks.
Nikkei stock average

Nine-bond rule
An NYSE rule requiring that orders for nine bonds or fewer stay on the floor for one hour to seek a market.

19c3 stock
A stock listed on a national securities exchange after April 26, 1979, that is exempt from the Securities and Exchange Commission rule that prohibits exchange members from participating in off-board trading.

No-action letter
A letter from the Securities and Exchange Commission agreeing that the commission will take no civil or criminal action against a party, regarding a specific activity.

No Adjournment
Within the text on the proxy, card are the words: "Shares will be voted at this annual meeting or at any adjournment thereof." If a securityholder strikes out this phrase, the proxy cannot be counted at any adjournment (reconvening) of the meeting.

"No Autex"
Used in the context of general equities. "No buy or sell interest should be entered into the Autex (advertising) system." Inquirers do not want exposure of an inquiry to affect the price at which they hope to ultimately transact the trade, hence disturbing the customer's picture.

No book
Used for listed equity securities. Not much, if any, stock is being bid for or offered at the present time by customers or the specialist.

No-brainer
A market in which it does not take very complex analysis to figure out how securities are going to perform, such as a strong bull market.

No-load fund
A mutual fund that does not impose a sales commission. Related: Load fund, no-load mutual fund.

No-load mutual fund
An open-end investment company whose shares are sold without a sales charge. There can be other distribution charges, however, such as Article 12B-1 fees. A true no-load fund has
neither a sales charge nor a distribution fee.

**No-load stock**
Shares that can be purchased from the issuing companies themselves, so that broker fees and commissions can be avoided.

**NM**
Abbreviation for "not meaningful".

**Noah Effect**
The tendency of persistent time series (0.50<\(H<1.00\)) to have abrupt, and discontinuous changes. The normal distribution assumes continuous changes in a system. However, a time series which exhibits Hurst statistics may abruptly change levels, skipping values either up or down. Mandelbrot coined the term "Noah effect" after the biblical story of the deluge. See: Joseph Effect, Hurst Exponent, Persistence, Anti-persistence.

**NOB spread**
Notes over bonds spread. This is the difference in yield between Treasury notes (maturing in 2 to 10 years) and Treasury bonds (maturing in 15 or more years), which is traded using Treasury note and bond futures.

**No Substitution**
Within the text on a proxy card are the words: "The shareholder appoints certain people (collectively, the proxy committee) with full power of substitution to vote the shares." If the security holder strikes out this phrase, the proxy cannot be voted if there is a change in the designated proxy committee.

**Noise**
Price and volume fluctuations that can confuse interpretation of market direction. Used in the context of general equities. Stock market activity caused by program trades, dividend rolls, and other phenomena not reflective of general sentiment. Antithesis of real.

**Noisy Chaos**
A chaotic dynamical system with either observational or system noise added. See: Chaos, Dynamical Systems, Observational Noise, System Noise.

**No-par-value stock**
A stock with no par value given in the charter or stock certificate.

**Nominee Name**
A name that is used by the Corporation as a generic registered owner on a stock or bond certificate. The use of nominee names makes the processing of security transfers easier.
Nominal
In name only. Differences in compounding cause the nominal rate to differ from the effective interest rate. Inflation causes the purchasing power of money to differ from one time to another.

Nominal annual rate
An effective rate per period multiplied by the number of periods in a year. Same as annual percentage rate.

Nominal cash flow
A cash flow expressed in nominal terms if the actual dollars to be received or paid out are given.

Nominal dollars
Dollars that are not adjusted for inflation.

Nominal exchange rate
The actual foreign exchange quotation in contrast to the real exchange rate, which has been adjusted for changes in purchasing power.

Nominal exercise price
The exercise price of a GNMA option contract, which equals the unpaid principal balance multiplied by the adjusted exercise price.

Nominal income
Income that has not been adjusted for inflation and decreasing purchasing power.

Nominal interest rate
The interest rate unadjusted for inflation.

Nominal price
Price quotations on futures for a period in which no actual trading took place.

Nominal quotation
Used in the context of general equities. Bid and offer prices given by a market maker for the purpose of valuation, not as an invitation to trade; must be specifically identified as such by prefixing the quotes FYI (for your information) or FVO (for valuation only).

Nominal yield
The income received from a fixed income security in one year divided by its par value. See also: Coupon rate.

Nominee
A person or firm to whom securities or other properties are transferred to facilitate
transactions, while leaving the customer as the actual owner.

**Nonaccredited investor**
Wealthy, sophisticated investors who do not meet SEC net worth requirements. These investors require less protection because of large financial resources, but only 35 nonaccredited investor can be included per investment.

**Noncallable**
A preferred stock or bond that cannot be redeemed whenever desired by the issuer.

**Noncash charge**
A cost, such as depreciation, depletion, and amortization, that does not involve any cash outflow.

**Nonclearing member**
An exchange member firm that is not able to clear transactions, and must pay another member firm to carry out its clearing operations.

**Noncompete**
A provision in a number of employment contracts that prohibits an employee from working for a competing firm for a specified number of years after the employee leaves the firm.

**Noncompetitive bid**
In a Treasury auction, bidding for a specific amount of securities at the price, whatever it may turn out to be, equal to the average price of the accepted competitive bids.

**Noncompetitive tender**
Offer by an investor to purchase Treasury securities at a price equivalent to the weighted average discount rate or yield of accepted competitive bids in a Treasury auction. Noncompetitive tenders are always accepted in full.

**Noncontributory pension plan**
A pension plan that is fully paid for by the employer, requiring no employee contributions.

**Noncumulative**
Applies mainly to convertible securities. Type of preferred stock on which unpaid or omitted dividends do not accrue. Omitted dividends are, as a rule, gone forever.

**Noncumulative preferred stock**
Preferred stock whose holders must forgo dividend payments when the company misses a dividend payment. Related: Cumulative preferred stock.

**Noncurrent asset**
Any asset that is expected to be held for the whole year, not sold or exchanged, such as real estate, machinery, or a patent.

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

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

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

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

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

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

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

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

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

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

**Noninsured plans**
Defined benefit pension plans that are not guaranteed by life insurance products.
Related: Insured plans.

**Noninterest-bearing note**
A note without periodic interest payment, but selling at a discount and maturing at face value.
See: Zero-coupon bond.

**Nonmarketed claims**
Claims that cannot be easily bought and sold in the financial markets, such as those of the government and litigants in lawsuits.

**Nonintermediated debt market**
A financial market in which borrowers (government and large corporations) appeal directly to savers for debt capital through the securities markets without using a financial institution as intermediary.

**Nonmarketable security**
Securities that cannot be easily bought and sold.

**Nonmember bank**
Depository institution that is not a member of the Federal Reserve System. Specifically, a state-chartered commercial bank that has elected not to join the System.

**Nonmember firm**
Used for listed equity securities. Brokerage firm that is not a member of an organized exchange (NYSE). Such firms execute trades either through member firms, or on regional exchanges where they are members, or in the third market.

**Nonmonetary assets and liabilities**
Assets and liabilities with noncontractual payoffs.

**Nonparallel shift in the yield curve**
A shift in the yield curve in which yields do not change by the same number of basis points for every maturity. Related: Parallel shift in the yield curve.

**Nonparticipating life insurance policy**
Life insurance policy whose policyholders do not receive dividends, because they are not participants in the interest, dividends, and capital gains earned by the insurer on premiums paid.

**Nonperforming asset**
An asset that is not effectively producing income, such as an overdue loan.

**Nonproductive loan**
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**
A **tangible asset** with unique physical properties, like a parcel of land, a mine, or a work of art.

**Nonsterilized intervention**
Taking an action in the foreign exchange **market** without adjusting for changes in money supply.

**Nonsystematic risk**
Nonmarket or **firm-specific risk** factors that can be eliminated by **diversification**. Also called **unique risk** or **diversifiable risk**. **Systematic risk** refers to risk factors common to the entire economy.

**Nontradables**
Goods and services produced and consumed domestically that are not close substitutes to import or export goods and services.

**Non Vessel Operating Common Carriers (NVOCC)**
An ocean carrier that does not own or operate their own vessels. They use less than full containerloads which they ship on actual ship lines. They issue their own **bills of lading** which are backed up by actual **on board ocean bills of lading** issued to them by the other carrier.

**Nonvoting stock**
A **security** that does not entitle the holder to vote on the corporation's resolutions or elections.

**No Protest**
Instructions given to a **collecting bank** not to protest a specific item in the event of non payment or non acceptance.

**Normal annuity form**
The manner in which retirement benefits are paid out.

**Normal backwardation theory**
Holds that the **futures** price will be **bid** down to a level below the expected **spot price**.

**Normal deviate**
Related: **Standardized value**

**Normal Distribution**
The well known bell shaped curve. According to the **Central Limit Theorem**, the probability density function of a large number of independent, identically distributed random numbers will approach the normal distribution. In the **fractal** family of distributions, the normal distribution only exists when alpha equals 2, or the **Hurst exponent** equals 0.50.
Thus, the normal distribution is a special case which in time series analysis is quite rare. See: Alpha, Central Limit Theorem, Fractal Distribution.

**Normal growth firms**
Companies whose *earnings* grow at a constant rate.

**Normal investment practice**
The *investment history* of a customer, which is used as a benchmark to test the *bona fide public offerings* requirement of the allocation of a *hot issue*.

**Normal Market Size (NMS)**
A system that categorizes the size of *transactions* that are normal for a particular *security* and forces *market makers* to deal within these sizes.

**Normal portfolio**
A customized *benchmark* that includes all the *securities* from which a manager normally chooses, weighted as the manager would weight them in a *portfolio*.

**Normal probability distribution**
A *probability distribution* for a continuous *random variable* that forms a symmetrical bell-shaped curve around the mean. This distribution has no *skewness* or *excess kurtosis*.

**Normal random variable**
A *random variable* that has a *normal probability distribution*.

**Normal retirement**
The age or number of working years after which a *pension plan* beneficiary can retire and receive unreduced benefits immediately.

**Normal trading unit**
See: *Round lot*.

**Normalized earnings**
*Earnings* that have been adjusted in order to take into account the effect of cycles in the economy.

**Normalizing method**
Making a change in the income account equivalent to the tax savings realized through the use of different *depreciation* methods for *shareholder* and income tax purposes, thus washing out the benefits of the tax savings reported as final *net income* to shareholders.

**North American Free Trade Agreement (NAFTA)**
A regional trade pact among the United States, Canada, and Mexico.
Not a name with us
Refers to over-the-counter trading. Not a registered market maker in the security, especially in OTC and convertibles, or having nothing real to do.

Not-for-profit
An organization established for charitable, humanitarian, or educational purposes that is exempt from some taxes and in which no one in profits or losses.

Not rated
A rating service indicator, neither positive nor negative, showing that a security or company has not been rated.

Not-sufficient-funds check
A bank check having insufficient funds to back it.

Not held order (NH order)
Applies mainly to international equities. Market or limit order in which the customer does not desire to transact automatically at the inside market (market held) but instead has given the trader or floor broker (listed stock) time and price discretion in transacting on a best-efforts basis. This will not hold the broker responsible for missing the price within the limits (limit not held) or obtaining a worse price (market not held). The order is marked "not held, disregard tape/DRT, take time" or bears any such qualifying notation, excluding "or better." See: Held order.

Note
Debt instruments with initial maturities longer than one year and shorter than 10 years.

Note agreement
A contract for privately placed debt.

Note issuance facility (NIF)
An agreement by which a syndicate of banks indicates a willingness to accept short-term notes from borrowers and resell these notes in the Eurocurrency markets.

Notes to the financial statements
A detailed set of notes immediately following the financial statements in an annual report that explain and expand on the information in the financial statements.

Notice day
A day on which notices of intent to deliver pertaining to a specified delivery month may be issued. Related: Delivery notice.

Notice of Meeting
The legal one-page notice to security holders stating the date, time and place of the
shareholder meeting. This page is normally attached to the front of the proxy statement.

**Notice Period**
The time during which the buyer of a futures contract can be called upon to accept delivery. Typically, the 3 to 6 weeks preceding the expiration of the contract.

**Notification date**
The day the option is either exercised or expires.

**Notifying Bank**
See: Advising Bank

**Notional principal amount**
In an interest rate swap, the predetermined dollar principal on which the exchanged interest payments are based.

**Nouveau Marche**
An equity market unit of the Paris Bourse that deals solely in innovative, high-growth companies.

**Novation**
Defeasance whereby the firm's debt is cancelled.

**NPV profile**
A graph of NPV as a function of the discount rate.

**NRA (Non-Resident Alien) Tax**
The tax which must be withheld by the corporation or its disbursing agent (usually 15% or 30%, depending on the holder's citizenship).

**Nugget**
A 15 year Gold FHLMC (Freddie Mac) bond; similar to a Dwarf.

**Numismatist**
Collector of historical coins and currencies.

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

**OAS**
See: Option adjusted spread

**OCC**
See: Options Clearing Corporation

OECD
See: Organization for Economic Cooperation and Development

OID
See: Original issue discount debt

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

OMR
The ISO 4217 currency code for the Oman Rial.

OTC
See: Over-the-counter.

OTM
See: Out of the money.

OPEC
See: Organization of Petroleum Exporting Countries

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

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

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

Obligation
A legal responsibility, such as to repay a debt.

Obligation bond
A municipal bond with a face value greater than the value of the underlying property. The difference is designed to compensate the lender for costs exceeding the mortgage value.

Obligor
A person who has an obligation to pay off a debt.
**Observational Noise**
The error between the true value in a system and its observed value due to imprecision in measurement. Also called Measurement Noise. See: Dynamical Noise.

**Ocean bill of lading**
Receipt for a shipment by boat, that includes freight charges and title to the merchandise.

**Odd lot**
A trading order for less than 100 shares of stock. Compare round lot.

**Odd-Lot Buy Back**
An offer made by the corporation or its agent to purchase shares from odd-lot shareholders.

**Odd-lot dealer**
A broker who combines odd lots of securities from multiple buy or sell orders into round lots and executes transactions in those round lots.

**Odd-Lot Resale**
An offer made by the corporation or its agent to purchase shares from odd-lot shareholders and immediately resell them in the market, usually in round-lots to institutions, thus saving the corporation the expense of merely buying shares back.

**Odd-lot short-sale ratio**
The percentage of total odd-lot sales that is composed of short sales.

**Odd-lot theory**
The theory that profits can be made by making trades contrary to odd-lot trading patterns, since odd-lot investors have poor timing. This theory is no longer popular.

**OEX index**
Applies to derivative products. Quotron symbol for the S&P 100 index option.

**Off-balance-sheet financing**
Financing that is not shown as a liability on a company’s balance sheet.

**Off-board**
Used for listed equity securities. Transacted away from a national securities exchange even though the stock itself is listed, such as on the NYSE, and instead of on the OTC market, a regional exchange, or in the third or fourth markets (between customers directly). After 9:30 a.m., if the stock has not opened due to the exchange's discretion, trading can occur elsewhere, but the trader must assume the role of a quasi-specialist in the process.
**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
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** because transactor is not a **principal** in the transaction."

**Old-line**
Factoring arrangement that provides collection, insurance, and finance for **accounts receivable**.

**Oligopoly**
A **market** characterized by a small number of producers who often act together to control the supply of a particular good and its **market price**.

**Oligopsony**
A **market** characterized by a small number of large buyers who control all purchases and therefore the market price of a good or service.

**OM Stockholm**
The derivatives market of Sweden, trading a wide variety of interest rate and bond futures. The exchange trades futures and options on the OMX equity index.

**Omitted dividend**
A dividend that was scheduled to be declared, but that is not voted by the board of directors probably because the company is experiencing financial difficulties.

**Omnibus account**
An account carried by one futures commission merchant with another futures commission merchant in which the transactions of two or more persons are combined and carried in the name of the originating broker, rather than designated separately. Related: Commission house.

**Omnibus Proxy**
A list issued by depositaries detailing their participants, and their holdings, and authorizing the participants to vote their proxies directly. This type of proxies are issued by Cede & Co. and by certain bank custodians.

**On**
Used in the context of general equities. Conjunction that denotes trade execution/indication, usually during a pre-opening look. "Looks 6 on 6000 shares at opening." See: for/at.

**On balance**
Used for listed equity securities. Left over after pairing off other market buy and sell orders, usually before the opening of a stock or market but at times at the close (especially during index expirations). See: Imbalance of orders.

**On board**
Used in the context of general equities. Long.

**On Board Ocean Bill of Lading**
An ocean bill of lading bearing an on board notation, or words indicating that the merchandise is located aboard the vessel for transportation. These notations must be initialed or signed by an authorized employee or agent of the ship line.

**On Carriage**
Freight costs arising after the cost of principal international freight costs. These are usually inland freight charges for delivery within the buyer's country.

**On a clean up**
Used in the context of general equities. Willingness to participate in part of a trade if all of the stock available is spoken for except for the "clean up amount."

**On the close order**
A market order that is to be executed as close as possible to the closing price of the day.

**On-floor order**
Used for listed equity securities. Security order originating with a member on the floor of an exchange when dealing with his or her own account, versus an upstairs order. Antithesis of off-floor order.

**On the money**
Used in the context of general equities. In-line, or at the same price, as the last sale.

**On the opening order**
A market order that is to be executed at the price of the first trade of the day.

**On the print**
Used in the context of general equities. To participate in a block trade that has already transpired, as if that customer had been part of the trade originally; often used by a new party looking to participate in a trade that has just happened. See: Open on the print.

**On the run**
The most recently issued (and typically the most liquid) government bond in a particular maturity range.

**On the sidelines**
An investor who decides not to invest due to market uncertainty.

**On the take**
Used in the context of general equities. Price moving upward, because more buyers are taking offerings, causing offerings to vanish and be replaced by higher ones. Antithesis of come in, get hit.

**On the tape**
Used in the context of general equities. (1) Trade printed on the ticker tape; (2) news displayed on Reuters or the Dow Jones News Service.

**One-decision stock**
A quality stock that is not actively traded, but rather held for its growth potential.

**One-factor APT**
A special case of the arbitrage pricing theory that is derived from the one-factor model by using diversification and arbitrage. It shows that the expected return on any risky asset is a linear function of a single factor.

**144 stock**
Used in the context of general equities. Restricted stock.
One-man picture
When both bid and the offered prices of a broker come from the same source.

1/f Noise
See: Anti-Persistence

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 has three descriptive variables, we plot the phase space in three dimensions, with each variable taking one dimension.

One-share-one-vote rule
The principle that all shareholders should have equal voting rights in public companies and each shareholder should have one vote.

One-way market
(1) A market in which only one side, the bid or asked, is quoted or firm. (2) A market that is moving strongly in one direction.

OPD
Tape symbol showing either the first transaction of the day in a security after a delayed opening or the opening transaction in a security whose price has experienced a large rise or fall from the previous day’s closing price.

Open
Used in the context of general equities. Having either buy or sell interest at the indicated price level and side of a preceding trade. “Open on the buy/sell side” means looking for buyers/sellers (for someone who is a seller/buyer). Antithesis of clean.

Open account
Arrangement whereby sales are made with no formal debt contract. The buyer signs a receipt, and the seller records the sale in the sales ledger.

Open book
See: Unmatched book

Open contracts
Contracts that have been bought or sold without completion of the transaction by subsequent sale or purchase, or by making or taking actual delivery of the financial instrument or physical commodity.

Open depending on the floor
Used for listed equity securities. Having room for a customer buyer or seller contingent on the results of a trade being executed on the floor (i.e., satisfying the specialist book and the orders the trader opened up). See: Open on the print, subject.

**Open-end credit**
Revolving line of credit that is extended with every purchase or cash advance.

**Open-end fund**
Used in the context of general equities. Mutual fund that continually creates new shares on demand. Mutual fund shareholders buy the funds at net asset value and may redeem them at any time at the prevailing market prices. Antithesis of closed-end fund.

**Open-end lease**
A lease agreement that provides for an additional payment at the expiration of the lease to adjust for any change in the value of the property.

**Open-end mortgage**
Mortgage against which additional debts may be issued. Related: Closed-end mortgage.

**Open interest**
The total number of derivatives contracts traded that have not yet been liquidated either by an offsetting derivative transaction or by delivery. Related: Liquidation.

**Open-market operation**
Purchase or sale of government securities by the monetary authorities to increase or decrease the domestic money supply.

**Open-market purchase operation**
A systematic program of repurchasing shares of stock in market transactions at current market prices, in competition with other prospective investors.

**Open-market rates**
Interest rates that are determined in the open market by supply and demand, as opposed to being set by the Federal Reserve Board.

**Open (good-till-cancelled) order (GTC order)**
Order to buy or sell a security that stays active until it is completed or the investor cancels it.

**Open-outcry**
The method of trading used at futures exchanges, typically involving calling out the specific details of a buy or sell order, so that the information is available to all traders.

**Open Policy**
A marine cargo insurance policy issued to cover various unspecified exports over the life of the
policy.

**Open position**
A net long or short position whose value will change with a change in prices.

**Open on the print**
Used in the context of general equities. Block trader's term for a block trade that has been completed with an institutional client and printed on the consolidated tape, but leaves the block trader with stock available (because the trader has taken a long or short position to complete the trade) for new customers who are on the opposite side of the market to the initiating customer.

**Open repo**
A repurchase agreement with no definite term. The agreement is made on a day-to-day basis, and either the borrower or the lender may choose to terminate. The rate paid is higher than on overnight repo and is subject to adjustment if rates move.

**Open up**
Used in the context of general equities. Disclose more information (e.g., the exact price and quantity of one's potential interest). See: Put pants on it.

**Opening**
The period at the beginning of the trading session officially designated by an exchange, during which all transactions are considered made "at the opening." Related: Close.

**Opening Bank**
A bank which establishes a letter of credit.

**Opening price**
The range of prices at which the first bids and offers are made or the first transactions are completed on an exchange.

**Opening purchase**
Creation of or increase in a long position in a given series of options.

**Opening sale**
Creation of or increase in a short position in a given series of options.

**Opening transaction**
Applies to derivative products. (1) Buy or sell transaction that creates a position out of a flat one (writing an option short or buying an option long). Antithesis of closing transaction. (2) First transaction of the day in a stock.

**Operating Assets**
Another term for working capital.

**Operating cash flow**
Earnings before depreciation minus taxes. Measures the cash generated from operations, not counting capital spending or working capital requirements.

**Operating cycle**
The average time between the acquisition of materials or services and the final cash realization from that acquisition.

**Operating expenses**
The amount paid for asset maintenance or the cost of doing business. Earnings are distributed after operating expenses are deducted.

**Operating exposure**
Degree to which exchange rate changes, in combination with price changes, will alter a company's future operating cash flows.

**Operating lease**
Short-term, cancelable lease. A type of lease in which the contact period is shorter than the life of the equipment, and the lessor pays all maintenance and servicing costs.

**Operating leverage**
Fixed operating costs, which are characterized as leverage because they accentuate variations in profits.

**Operating profit (or loss)**
Revenue from a firm's regular activities less costs and expenses and before income deductions.

**Operating profit margin**
The ratio of operating profit to net sales.

**Operating rate**
The percentage of total production capacity of a company, industry, or country that is being used.

**Operating ratio**
A ratio that measures a firm's operating efficiency.

**Operating in the red**
Doing business while losing money.

**Operating risk**
The inherent or fundamental risk of a firm, without regard to financial risk. The risk that is created by operating leverage. Also called business risk.

**Operationally efficient market**
Market in which investors can obtain transactions services that reflect the true costs associated with furnishing those services. Also called an internally efficient market.

**Operations department**
See: Back office.

**Opinion shopping**
Attempts by a corporation to attain reporting objectives by following questionable accounting principles, with the help of an auditor willing to sanction the practices. Prohibited by the SEC.

**OPM**
Stands for "other people's money," which refers to borrowed funds used to increase the return on invested capital.

**Oporto**
Portugal's derivatives exchange (Bolsa de Derivados do Oporto) trading futures on the ten-year government bond, Portuguese stock index, and three-month interbank deposit rate LISBOR (Lisbon Interbank Offered Rate).

**Opportunity cost of capital**
Expected return that is forgone by investing in a project rather than in comparable financial securities.

**Opportunity costs**
The difference in the actual performance of a particular investment and some other desired investment adjusted for fixed costs and execution costs. It often refers to the most valuable alternative that is given up.

**Opportunity line**
Slope of a graph representing portfolios achieved by combining different levels of borrowing and lending with a single risky portfolio. Sometimes called investment opportunity set.

**Opportunity set**
The possible expected return and standard deviation pairs of all portfolios that can be constructed from a given set of assets.

**Optimal contract**
The contract that balances the three types of agency costs (contracting, monitoring, and misbehavior) against one another to minimize the total cost.
Optimal portfolio
An efficient portfolio most preferred by an investor because its risk/reward characteristics approximate the investor’s utility function. A portfolio that maximizes an investor’s preferences with respect to return and risk.

Optimal redemption provision
Provision of a bond indenture that governs the issuer’s ability to call the bonds for redemption prior to their scheduled maturity date.

Optimization approach to indexing
An approach to indexing that seeks to optimize some objective, such as to maximize the portfolio yield, to maximize convexity, or to maximize expected total returns.

Optimum capacity
The amount of manufacturing output that creates the lowest cost per unit.

Optimum Leverage Ratio
The borrowing level that maximizes the value of the firm. The cost of capital to the firm is minimized at that same level.

Option
Gives the buyer the right, but not the obligation, to buy or sell an asset at a set price on or before a given date. Investors, not companies, issue options. Buyers of call options bet that a stock will be worth more than the price set by the option (the strike price), plus the price they pay for the option itself. Buyers of put options bet that the stock’s price will drop below the price set by the option. An option is part of a class of securities called derivatives, which means these securities derive their value from the worth of an underlying investment.

Option account
A brokerage account that is approved to hold option positions or trades.

Option-adjusted spread (OAS)
(1) The spread over an issuer’s spot rate curve, developed as a measure of the yield spread that can be used to convert dollar differences between theoretical value and market prices. (2) The cost of the implied call embedded in an MBS, defined as additional basis-yield spread. When added to the base yield spread of an MBS without an operative call produces the option-adjusted spread.

Option agreement
A form that an options investor opening an option account fills out guarantees the investor will follow trading regulations and has the financial resources to settle possible losses.

Option cycle
The cycle of option expiration months. The most common cycles are: January, April, July, and October (JAJO); February, May, August, and November (FMAN); and March, June, September, and December (MJSD).

**Option elasticity**
The percentage increase in an option’s value, given a 1 percentage point change in the value of the underlying security.

**Option holder**
A person who has an option that has not been exercised.

**Option margin**
The margin requirement for options described in Regulation T and in brokers’ individual policies.

**Option mutual fund**
A mutual fund that buys and sells options for aggressive or conservative investment.

**Option not to deliver**
In the mortgage pipeline, an additional hedge placed in tandem with the forward or substitute sale.

**Option premium**
The option price.

**Option price**
Also called the option premium; the price the buyer of the options contract pays for the right to buy or sell a security at a specified price in the future.

**Option Pricing Curve**
A graphical representation of the projected price of an option at a fixed point in time. It reflects the amount of time value premium in the option for various stock prices, as well. The curve is generated by using a mathematical model. The delta (or hedge ratio) is the slope of a tangent line to the curve at a fixed stock price. See also Delta and Hedge Ratio.

**Option seller**
Also called the option writer; the party who grants a right to trade a security at a given price in the future.

**Option series**
A group of options on the same underlying security with the same exercise price and maturity month.

**Option spread**
The trading of options of the same class at the same time in order to profit from changes in
the size of the spread between different options.

**Option writer**
See: Option seller

**Optional dividend**
A dividends that the shareholder can elect to receive either in cash or in stock.

**Optional payment bond**
A bond whose principal and/or interest may be paid in foreign or domestic currency at the discretion of the bondholder.

**Options Clearing Corporation (OCC)**
Applies to derivative products. Financial institution that is the actual issuer and guarantor of all listed option contracts.

**Options contract**
A contract that, in exchange for the option price, gives the option buyer the right, but not the obligation, to buy (or sell) a financial asset at the exercise price from (or to) the option seller within a specified time period, or on a specified date (expiration date).

**Options contract multiple**
A constant, set at $100, that when multiplied by the cash index value gives the dollar value of the stock index underlying an option. That is the dollar value of the underlying stock index = Cash index value x $100 (the options contract multiple).

**Options on physicals**
Interest rate options written on fixed income securities, as opposed to those written on interest rate futures contracts.

**Or better**
Used in the context of general equities. Indication on the order ticket of a limit order to buy or sell securities at a price better than the specified limit price if a better price can be obtained. Does not imply a not-held order, but rather puts more emphasis on executing at the limit if available.

**Oral contract**
A contract not recorded on paper or on computer, buy made vocally which is usually enforceable.

**Order**
Instruction to a broker/dealer to buy, sell, deliver, or receive securities or commodities that commits the issuer of the "order" to the terms specified. See: indication, inquiry, bid wanted, offer wanted.
Order Book Official
The exchange employee in charge of keeping a book of public limit orders on exchanges utilizing the "marker-maker" system, as opposed to the "specialist system", of executing orders. See also Market-Marker and Specialist.

Order imbalance
Orders of one kind for a stock not offset by the opposite orders, which causes a wide spread between bid and offer prices.

Order Parameter
In a nonlinear dynamic system, a variable-acting link a macrovariable, or combination of variables-that summarizes the individual variables that can affect a system. In a controlled experiment, involving thermal convection, for example, temperature can be a control parameter; in a large complex system, temperature can be an order parameter, because it summarizes the effect of the sun, air pressure, and other atmospheric variables. See: Control parameter.

Order room
The brokerage firm department receives and processes all orders to buy and sell securities.

Order splitting
Breaking up orders so that they can be processed as small orders for execution by SOES. Prohibited by NASD.

Order ticket
A form detailing an order instruction that a customer gives an account executive.

Ordering Costs
Costs that occur when an order is placed regardless of the size of the order.

Ordinary income
The income derived from the regular operating activities of a firm or individual.

Ordinary interest
Interest based on a 360-day year instead of a 365-day year, resulting in what can be a significant difference.

Ordinary shares
Apples mainly to international equities. Shares of non-U.S. companies traded in their individual home markets. Usually cannot be delivered in the US See: ADR.

Organization chart
A chart showing the hierarchical interrelationships of positions within an organization.
Organization
A cartel of oil-producing countries.

Organized exchange
A securities marketplace where purchasers and sellers regularly gather to trade securities according to the formal rules adopted by the exchange.

Original face value
The principal amount of a mortgage as of its issue date.

Original issue discount debt (OID debt)
Debt that is initially offered at a price below par.

Original Issue Discount securities (OIDS)
Bonds on which the coupon rate is set considerably below the yield to maturity at the time of issuance so that the bonds are issued at a discount from a par value.

Original margin
The margin needed to cover a specific new position. Related: Margin, security deposit (initial).

Original maturity
Maturity at issue. For example, a five-year note has an original maturity of five years; one year later it has a maturity of four years.

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.

Other income
Income from activities that are not undertaken in the ordinary course of a firm's business.

Other long-term liabilities
Value of leases, future employee benefits, deferred taxes, and other obligations not requiring interest payments that must be paid over a period of more than one year.

Other sources
Amount of funds generated during the period from operations by sources other than depreciation or deferred taxes. Part of free cash flow calculation.

Out
Used in the context of general equities. (1) No longer obligated to an order, as it has already been canceled: (2) advertised on Autex.

Out-of-favor industry or stock
An unpopular industry or stock that usually has a low price-earnings ratio.

Out of line
A stock price that is too high or too low in comparison with similar-quality stocks in the same industry, according to its price/earnings ratio.

**Out-of-the-money option**
A call option is out of the money if the strike price is greater than the market price of the underlying security. That is, you have the right to purchase a security at a price higher than the market price, which is not valuable. A put option is out of the money if the strike price is lower than the market price of the underlying security.

**Out of the name**
Used in the context of general equities. To no longer have an active trading profile/position in the stock.

**Out of print**
Not open on the print. See: Clean.

**Out there**
Used in the context of general equities. Indication gained from their trading and inquiry activity that buyers and/or (more often) sellers are in the market and should be found to get their order. "Feels like IBM is 'out there'."

**Out with**
Used in the context of general equities. Showing of an inquiry to another broker by a customer ("he's out with....").

**Outlays**
Payments on obligations in the form of cash, checks, the issuance of bonds or notes, or the maturing of interest coupons.

**Outright quote**
A quote in which all the digits of the bid and offer prices are quoted. See: Points quote.

**Outright rate**
Actual forward rate expressed in dollars per currency unit, or vice versa.

**Outside director**
A director of a company who is not an employee of that company and brings in outside experience to help make board decisions.

**Outside market**
Used in the context of general equities. Outside the inside market (above the lowest offering and below the highest bid).

**Outside of you**
Used for listed equity securities. Another order bidding for or offering stock at the same price that the trader has put on the floor himself, represented by another broker in the trading crowd. These orders may have different price limits (possible top or low on floor mentioned to floor broker but not announced in the crowd). See: Matching orders.

**Outsourcing**

Purchasing a significant percentage of intermediate components from outside suppliers.

**Outstanding**

Used in the context of general equities. Stock held by shareholders (verses the company’s treasury stock).

**Outstanding Dividends**

Dividend checks which have been mailed to shareholders of record but not yet cashed. Funds are held until the check is paid, reissued or escheated to the state as abandoned property.

**Outstanding share capital**

Issued share capital less the par value of shares that are held as the company’s treasury stock.

**Outstanding shares**

Shares that are currently owned by investors.

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-versus-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**

A pension plan that has a positive surplus (i.e., assets exceed liabilities).

**Overhang**

Used in the context of general equities. Sizable block of securities or commodities contracts that, if released on the market, would put downward pressure on prices; prohibits buying activity that would otherwise translate into upward price movement. Examples include shares held in a dealer's inventory, a large institutional holding, a secondary distribution still in registration, and a large commodity position about to be liquidated.

**Overhanging Bond**

A convertible bond issue that investors do not convert into common stock because the stock has not appreciated in value.

**Overhead**

The expenses of a business that are not attributable directly to the production or sale of goods.

**Overheating**

An economy that is growing very quickly, with the risk of high inflation.

**Overinvestment**
In corporate finance, this refers to managers not acting in the best interests of the shareholders and investing too much (potentially in negative net present value projects).

**Overissue**
An excess of issued shares over authorized shares.

**Overlap the market**
Used in the context of general equities. Create a crossed market by expressing a willingness to sell on the bid side of the market and buy on the offer side.

**Overlapping debt**
The portion of debt of political subdivisions or neighboring special districts that a municipality is responsible for.

**Overlay strategy**
A strategy of using futures for asset allocation by pension sponsors to avoid disrupting the activities of money managers.

**Overnight delivery risk**
A risk brought about because differences in time zones between settlement centers require that payment or delivery on one side of a transaction be made without knowing until the next day whether the funds have been received in an account on the other side. Particularly apparent when delivery takes place in Europe for payment in dollars in New York.

**Overnight position**
A broker-dealer's position in a security at the end of a trading day.

**Overnight repo**
A repurchase agreement with a term of one day.

**Overperform**
To appreciate at a rate faster than appreciation of the overall market.

**Overreaching**
Used in the context of general equities. Creating artificial volume in a stock through activity not generated by normal/natural buyers and sellers in the market.

**Overreaction hypothesis**
The supposition that investors overreact to unanticipated news, resulting in exaggerated movements in stock prices followed by corrections.

**Overshooting**
The tendency of a pool of MBS to reflect an especially high rate of prepayments the first time
it crosses the threshold for refinancing, specially if two or more years have passed since the date of issue without the weighted average coupon of the pool crossing the refinancing threshold.

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

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

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

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

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

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

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

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

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

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

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

OAS
See: Option adjusted spread

OCC
See: Options Clearing Corporation

OECD
See: Organization for Economic Cooperation and Development

OID
See: Original issue discount debt

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

OMR
The ISO 4217 currency code for the Oman Rial.

OTC
See: Over-the-counter.

OTM
See: Out of the money.

OPEC
See: Organization of Petroleum Exporting Countries

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

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

Objective probability
The true unobservable underlying odds that something is so.
Obligation
A legal responsibility, such as to repay a debt.

Obligation bond
A municipal bond with a face value greater than the value of the underlying property. The difference is designed to compensate the lender for costs exceeding the mortgage value.

Obligor
A person who has an obligation to pay off a debt.

Observational Noise
The error between the true value in a system and its observed value due to imprecision in measurement. Also called Measurement Noise. See: Dynamical Noise.

Ocean bill of lading
Receipt for a shipment by boat, that includes freight charges and title to the merchandise.

Odd lot
A trading order for less than 100 shares of stock. Compare round lot.

Odd-Lot Buy Back
An offer made by the corporation or its agent to purchase shares from odd-lot shareholders.

Odd-lot dealer
A broker who combines odd lots of securities from multiple buy or sell orders into round lots and executes transactions in those round lots.

Odd-Lot Resale
An offer made by the corporation or its agent to purchase shares from odd-lot shareholders and immediately resell them in the market, usually in round-lots to institutions, thus saving the corporation the expense of merely buying shares back.

Odd-lot short-sale ratio
The percentage of total odd-lot sales that is composed of short sales.

Odd-lot theory
The theory that profits can be made by making trades contrary to odd-lot trading patterns, since odd-lot investors have poor timing. This theory is no longer popular.

OEX index
Applies to derivative products. Quotron symbol for the S&P 100 index option.
**Off-balance-sheet financing**
Financing that is not shown as a liability on a company's balance sheet.

**Off-board**
Used for listed equity securities. Transacted away from a national securities exchange even though the stock itself is listed, such as on the NYSE, and instead of on the OTC market, a regional exchange, or in the third or fourth markets (between customers directly). After 9:30 a.m., if the stock has not opened due to the exchange's discretion, trading can occur elsewhere, but the trader must assume the role of a quasi-specialist in the process.

**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 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
because transactor is not a principal in the transaction."

**Old-line**
Factoring arrangement that provides collection, insurance, and finance for accounts receivable.

**Oligopoly**
A Market characterized by a small number of producers who often act together to control the supply of a particular good and its market price.

**Oligopsony**
A Market characterized by a small number of large buyers who control all purchases and therefore the market price of a good or service.

**OM Stockholm**
The derivatives market of Sweden, trading a wide variety of interest rate and bond futures. The exchange trades futures and options on the OMX equity index.

**Omitted dividend**
A dividend that was scheduled to be declared, but that is not voted by the board of directors probably because the company is experiencing financial difficulties.

**Omnibus account**
An account carried by one futures commission merchant with another futures commission merchant in which the transactions of two or more persons are combined and carried in the name of the originating broker, rather than designated separately. Related: Commission house.

**Omnibus Proxy**
A list issued by depositories detailing their participants, and their holdings, and authorizing the participants to vote their proxies directly. This type of proxies are issued by Cede & Co. and by certain bank custodians.

**On**
Used in the context of general equities. Conjunction that denotes trade execution/indication, usually during a pre-opening look. "Looks 6 on 6000 shares at opening." See: for/at.

**On balance**
Used for listed equity securities. Left over after pairing off other market buy and sell orders, usually before the opening of a stock or market but at times at the close (especially during index expirations). See: Imbalance of orders.

**On board**
Used in the context of general equities. Long.

**On Board Ocean Bill of Lading**
An ocean bill of lading bearing an on board notation, or words indicating that the merchandise is located aboard the vessel for transportation. These notations must be initialed or signed by an authorized employee or agent of the ship line.

**On Carriage**
Freight costs arising after the cost of principal international freight costs. These are usually inland freight charges for delivery within the buyer's country.

**On a clean up**
Used in the context of general equities. Willingness to participate in part of a trade if all of the stock available is spoken for except for the "clean up amount."

**On the close order**
A market order that is to be executed as close as possible to the closing price of the day.

**On-floor order**
Used for listed equity securities. Security order originating with a member on the floor of an exchange when dealing with his or her own account, versus an upstairs order. Antithesis of off-floor order.

**On the money**
Used in the context of general equities. In-line, or at the same price, as the last sale.

**On the opening order**
A market order that is to be executed at the price of the first trade of the day.

**On the print**
Used in the context of general equities. To participate in a block trade that has already transpired, as if that customer had been part of the trade originally; often used by a new party looking to participate in a trade that has just happened. See: Open on the print.

**On the run**
The most recently issued (and typically the most liquid) government bond in a particular maturity range.

**On the sidelines**
An investor who decides not to invest due to market uncertainty.

**On the take**
Used in the context of general equities. Price moving upward, because more buyers are taking offerings, causing offerings to vanish and be replaced by higher ones. Antithesis of
come in, get hit.

**On the tape**
Used in the context of general equities. (1) Trade printed on the ticker tape; (2) news displayed on Reuters or the Dow Jones News Service.

**One-decision stock**
A quality stock that is not actively traded, but rather held for its growth potential.

**One-factor APT**
A special case of the arbitrage pricing theory that is derived from the one-factor model by using diversification and arbitrage. It shows that the expected return on any risky asset is a linear function of a single factor.

**144 stock**
Used in the context of general equities. Restricted stock.

**One-man picture**
When both bid and the offered prices of a broker come from the same source.

**1/f Noise**
See: Anti-Persistence

**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 has three descriptive variables, we plot the phase space in three dimensions, with each variable taking one dimension.

**One-share-one-vote rule**
The principle that all shareholders should have equal voting rights in public companies and each shareholder should have one vote.

**One-way market**
(1) A market in which only one side, the bid or asked, is quoted or firm. (2) A market that is moving strongly in one direction.

**OPD**
Tape symbol showing either the first transaction of the day in a security after a delayed opening or the opening transaction in a security whose price has experienced a large rise or fall from the previous day’s closing price.

**Open**
Used in the context of general equities. Having either buy or sell interest at the indicated
price level and side of a preceding trade. "Open on the buy/sell side" means looking for buyers/sellers (for someone who is a seller/buyer). Antithesis of clean.

Open account
Arrangement whereby sales are made with no formal debt contract. The buyer signs a receipt, and the seller records the sale in the sales ledger.

Open book
See: Unmatched book

Open contracts
Contracts that have been bought or sold without completion of the transaction by subsequent sale or purchase, or by making or taking actual delivery of the financial instrument or physical commodity.

Open depending on the floor
Used for listed equity securities. Having room for a customer buyer or seller contingent on the results of a trade being executed on the floor (i.e., satisfying the specialist book and the orders the trader opened up). See: Open on the print, subject.

Open-end credit
Revolving line of credit that is extended with every purchase or cash advance.

Open-end fund
Used in the context of general equities. Mutual fund that continually creates new shares on demand. Mutual fund shareholders buy the funds at net asset value and may redeem them at any time at the prevailing market prices. Antithesis of closed-end fund.

Open-end lease
A lease agreement that provides for an additional payment at the expiration of the lease to adjust for any change in the value of the property.

Open-end mortgage
Mortgage against which additional debts may be issued. Related: Closed-end mortgage.

Open interest
The total number of derivatives contracts traded that have not yet been liquidated either by an offsetting derivative transaction or by delivery. Related: Liquidation.

Open-market operation
Purchase or sale of government securities by the monetary authorities to increase or decrease the domestic money supply.

Open-market purchase operation
A systematic program of repurchasing shares of stock in market transactions at current market prices, in competition with other prospective investors.

**Open-market rates**
Interest rates that are determined in the open market by supply and demand, as opposed to being set by the Federal Reserve Board.

**Open (good-till-cancelled) order (GTC order)**
Order to buy or sell a security that stays active until it is completed or the investor cancels it.

**Open-outcry**
The method of trading used at futures exchanges, typically involving calling out the specific details of a buy or sell order, so that the information is available to all traders.

**Open Policy**
A marine cargo insurance policy issued to cover various unspecified exports over the life of the policy.

**Open position**
A net long or short position whose value will change with a change in prices.

**Open on the print**
Used in the context of general equities. Block trader’s term for a block trade that has been completed with an institutional client and printed on the consolidated tape, but leaves the block trader with stock available (because the trader has taken a long or short position to complete the trade) for new customers who are on the opposite side of the market to the initiating customer.

**Open repo**
A repurchase agreement with no definite term. The agreement is made on a day-to-day basis, and either the borrower or the lender may choose to terminate. The rate paid is higher than on overnight repo and is subject to adjustment if rates move.

**Open up**
Used in the context of general equities. Disclose more information (e.g., the exact price and quantity of one's potential interest). See: Put pants on it.

**Opening**
The period at the beginning of the trading session officially designated by an exchange, during which all transactions are considered made "at the opening." Related: Close.

**Opening Bank**
A bank which establishes a letter of credit.
Opening price
The range of prices at which the first bids and offers are made or the first transactions are completed on an exchange.

Opening purchase
Creation of or increase in a long position in a given series of options.

Opening sale
Creation of or increase in a short position in a given series of options.

Opening transaction
Applies to derivative products. (1) Buy or sell transaction that creates a position out of a flat one (writing an option short or buying an option long). Antithesis of closing transaction. (2) First transaction of the day in a stock.

Operating Assets
Another term for working capital.

Operating cash flow
Earnings before depreciation minus taxes. Measures the cash generated from operations, not counting capital spending or working capital requirements.

Operating cycle
The average time between the acquisition of materials or services and the final cash realization from that acquisition.

Operating expenses
The amount paid for asset maintenance or the cost of doing business. Earnings are distributed after operating expenses are deducted.

Operating exposure
Degree to which exchange rate changes, in combination with price changes, will alter a company's future operating cash flows.

Operating lease
Short-term, cancelable lease. A type of lease in which the contact period is shorter than the life of the equipment, and the lessor pays all maintenance and servicing costs.

Operating leverage
Fixed operating costs, which are characterized as leverage because they accentuate variations in profits.

Operating profit (or loss)
Revenue from a firm's regular activities less costs and expenses and before income deductions.

**Operating profit margin**
The ratio of operating profit to net sales.

**Operating rate**
The percentage of total production capacity of a company, industry, or country that is being used.

**Operating ratio**
A ratio that measures a firm's operating efficiency.

**Operating in the red**
Doing business while losing money.

**Operating risk**
The inherent or fundamental risk of a firm, without regard to financial risk. The risk that is created by operating leverage. Also called business risk.

**Operationally efficient market**
Market in which investors can obtain transactions services that reflect the true costs associated with furnishing those services. Also called an internally efficient market.

**Operations department**
See: Back office.

**Opinion shopping**
Attempts by a corporation to attain reporting objectives by following questionable accounting principles, with the help of an auditor willing to sanction the practices. Prohibited by the SEC.

**OPM**
Stands for "other people's money," which refers to borrowed funds used to increase the return on invested capital.

**Oporto**
Portugal's derivatives exchange (Bolsa de Derivados do Oporto) trading futures on the ten-year government bond, Portuguese stock index, and three-month interbank deposit rate LISBOR (Lisbon Interbank Offered Rate).

**Opportunity cost of capital**
Expected return that is forgone by investing in a project rather than in comparable financial securities.
**Opportunity costs**
The difference in the actual performance of a particular investment and some other desired investment adjusted for fixed costs and execution costs. It often refers to the most valuable alternative that is given up.

**Opportunity line**
Slope of a graph representing portfolios achieved by combining different levels of borrowing and lending with a single risky portfolio. Sometimes called investment opportunity set.

**Opportunity set**
The possible expected return and standard deviation pairs of all portfolios that can be constructed from a given set of assets.

**Optimal contract**
The contract that balances the three types of agency costs (contracting, monitoring, and misbehavior) against one another to minimize the total cost.

**Optimal portfolio**
An efficient portfolio most preferred by an investor because its risk/reward characteristics approximate the investor's utility function. A portfolio that maximizes an investor's preferences with respect to return and risk.

**Optimal redemption provision**
Provision of a bond indenture that governs the issuer's ability to call the bonds for redemption prior to their scheduled maturity date.

**Optimization approach to indexing**
An approach to indexing that seeks to optimize some objective, such as to maximize the portfolio yield, to maximize convexity, or to maximize expected total returns.

**Optimum capacity**
The amount of manufacturing output that creates the lowest cost per unit.

**Optimum Leverage Ratio**
The borrowing level that maximizes the value of the firm. The cost of capital to the firm is minimized at that same level.

**Option**
Gives the buyer the right, but not the obligation, to buy or sell an asset at a set price on or before a given date. Investors, not companies, issue options. Buyers of call options bet that a stock will be worth more than the price set by the option (the strike price), plus the price they pay for the option itself. Buyers of put options bet that the stock's price will drop
below the price set by the option. An option is part of a class of securities called derivatives, which means these securities derive their value from the worth of an underlying investment.

**Option account**
A brokerage account that is approved to hold option positions or trades.

**Option-adjusted spread (OAS)**
(1) The spread over an issuer’s spot rate curve, developed as a measure of the yield spread that can be used to convert dollar differences between theoretical value and market prices.
(2) The cost of the implied call embedded in an MBS, defined as additional basis-yield spread. When added to the base yield spread of an MBS without an operative call produces the option-adjusted spread.

**Option agreement**
A form that an options investor opening an option account fills out guarantees the investor will follow trading regulations and has the financial resources to settle possible losses.

**Option cycle**
The cycle of option expiration months. The most common cycles are: January, April, July, and October (JAJO); February, May, August, and November (FMAN); and March, June, September, and December (MJSD).

**Option elasticity**
The percentage increase in an option’s value, given a 1 percentage point change in the value of the underlying security.

**Option holder**
A person who has an option that has not been exercised.

**Option margin**
The margin requirement for options described in Regulation T and in brokers’ individual policies.

**Option mutual fund**
A mutual fund that buys and sells options for aggressive or conservative investment.

**Option not to deliver**
In the mortgage pipeline, an additional hedge placed in tandem with the forward or substitute sale.

**Option premium**
The option price.
Option price
Also called the option premium; the price the buyer of the options contract pays for the right to buy or sell a security at a specified price in the future.

Option Pricing Curve
A graphical representation of the projected price of an option at a fixed point in time. It reflects the amount of time value premium in the option for various stock prices, as well. The curve is generated by using a mathematical model. The delta (or hedge ratio) is the slope of a tangent line to the curve at a fixed stock price. See also Delta and Hedge Ratio

Option seller
Also called the option writer; the party who grants a right to trade a security at a given price in the future.

Option series
A group of options on the same underlying security with the same exercise price and maturity month.

Option spread
The trading of options of the same class at the same time in order to profit from changes in the size of the spread between different options.

Option writer
See: Option seller

Optional dividend
A dividend that the shareholder can elect to receive either in cash or in stock.

Optional payment bond
A bond whose principal and/or interest may be paid in foreign or domestic currency at the discretion of the bondholder.

Options Clearing Corporation (OCC)
Applies to derivative products. Financial institution that is the actual issuer and guarantor of all listed option contracts.

Options contract
A contract that, in exchange for the option price, gives the option buyer the right, but not the obligation, to buy (or sell) a financial asset at the exercise price from (or to) the option seller within a specified time period, or on a specified date (expiration date).

Options contract multiple
A constant, set at $100, that when multiplied by the cash index value gives the dollar value of the stock index underlying an option. That is the dollar value of the underlying stock
index = Cash index value x $100 (the options contract multiple).

**Options on physicals**
*Interest rate* options written on fixed income securities, as opposed to those written on interest rate futures contracts.

**Or better**
Used in the context of general equities. *Indication* on the *order* ticket of a *limit order* to buy or sell securities at a price better than the specified *limit price* if a better price can be obtained. Does not imply a *not-held order*, but rather puts more emphasis on *executing* at the limit if available.

**Oral contract**
A *contract* not recorded on paper or on computer, buy made vocally which is usually enforceable.

**Order**
Instruction to a *broker/dealer* to buy, sell, deliver, or receive securities or commodities that commits the *issuer* of the "order" to the terms specified. See: indication, inquiry, *bid wanted*, *offer wanted*.

**Order Book Official**
The exchange employee in charge of keeping a book of public limit orders on exchanges utilizing the "marker-maker" system, as opposed to the "specialist system", of executing orders. See also *Market-Marker* and *Specialist*.

**Order imbalance**
Orders of one kind for a *stock* not offset by the opposite orders, which causes a wide *spread* between bid and offer prices.

**Order Parameter**
In a nonlinear *dynamic system*, a *variable*-acting link a macrovariable, or combination of variables-that summarizes the individual variables that can affect a system. In a controlled experiment, involving thermal convection, for example, temperature can be a control parameter; in a large complex system, temperature can be an order parameter, because it summarizes the effect of the sun, air pressure, and other atmospheric variables. See: *Control parameter*.

**Order room**
The brokerage firm department receives and processes all orders to buy and sell securities.

**Order splitting**
Breaking up orders so that they can be processed as small orders for execution by SOES. Prohibited by NASD.
Order ticket
A form detailing an order instruction that a customer gives an account executive.

Ordering Costs
Costs that occur when an order is placed regardless of the size of the order.

Ordinary income
The income derived from the regular operating activities of a firm or individual.

Ordinary interest
Interest based on a 360-day year instead of a 365-day year, resulting in what can be a significant difference.

Ordinary shares
Apples mainly to international equities. Shares of non-U.S. companies traded in their individual home markets. Usually cannot be delivered in the US See: ADR.

Organization chart
A chart showing the hierarchical interrelationships of positions within an organization.

Organization
A cartel of oil-producing countries.

Organized exchange
A securities marketplace where purchasers and sellers regularly gather to trade securities according to the formal rules adopted by the exchange.

Original face value
The principal amount of a mortgage as of its issue date.

Original issue discount debt (OID debt)
Debt that is initially offered at a price below par.

Original Issue Discount securities (OIDS)
Bonds on which the coupon rate is set considerably below the yield to maturity at the time of issuance so that the bonds are issued at a discount from a par value.

Original margin
The margin needed to cover a specific new position. Related: Margin, security deposit (initial).

Original maturity
Maturity at issue. For example, a five-year note has an original maturity of five years; one year later it has a maturity of four years.
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.
**Other income**
Income from activities that are not undertaken in the ordinary course of a firm's business.

**Other long-term liabilities**
Value of leases, future employee benefits, deferred taxes, and other obligations not requiring interest payments that must be paid over a period of more than one year.

**Other sources**
Amount of funds generated during the period from operations by sources other than depreciation or deferred taxes. Part of free cash flow calculation.

**Out**
Used in the context of general equities. (1) No longer obligated to an order, as it has already been canceled: (2) advertised on Autex.

**Out-of-favor industry or stock**
An unpopular industry or stock that usually has a low price-earnings ratio.

**Out of line**
A stock price that is too high or too low in comparison with similar-quality stocks in the same industry, according to its price/earnings ratio.

**Out-of-the-money option**
A call option is out of the money if the strike price is greater than the market price of the underlying security. That is, you have the right to purchase a security at a price higher than the market price, which is not valuable. A put option is out of the money if the strike price is lower than the market price of the underlying security.

**Out of the name**
Used in the context of general equities. To no longer have an active trading profile/position in the stock.

**Out of print**
Not open on the print. See: Clean.

**Out there**
Used in the context of general equities. Indication gained from their trading and inquiry activity that buyers and/or (more often) sellers are in the market and should be found to get their order. "Feels like IBM is 'out there'."

**Out with**
Used in the context of general equities. Showing of an inquiry to another broker by a customer ("he's out with....").
Outlays
Payments on obligations in the form of cash, checks, the issuance of bonds or notes, or the maturing of interest coupons.

Outright quote
A quote in which all the digits of the bid and offer prices are quoted. See: Points quote.

Outright rate
Actual forward rate expressed in dollars per currency unit, or vice versa.

Outside director
A director of a company who is not an employee of that company and brings in outside experience to help make board decisions.

Outside market
Used in the context of general equities. Outside the inside market (above the lowest offering and below the highest bid).

Outside of you
Used for listed equity securities. Another order bidding for or offering stock at the same price that the trader has put on the floor himself, represented by another broker in the trading crowd. These orders may have different price limits (possible top or low on floor mentioned to floor broker but not announced in the crowd). See: Matching orders.

Outsourcing
Purchasing a significant percentage of intermediate components from outside suppliers.

Outstanding
Used in the context of general equities. Stock held by shareholders (verses the company's treasury stock).

Outstanding Dividends
Dividend checks which have been mailed to shareholders of record but not yet cashed. Funds are held until the check is paid, reissued or escheated to the state as abandoned property.

Outstanding share capital
Issued share capital less the par value of shares that are held as the company's treasury stock.

Outstanding shares
Shares that are currently owned by investors.
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**
A pension plan that has a positive surplus (i.e., assets exceed liabilities).

**Overhang**

Used in the context of general equities. Sizable block of securities or commodities contracts that, if released on the market, would put downward pressure on prices; prohibits buying activity that would otherwise translate into upward price movement. Examples include shares held in a dealer’s inventory, a large institutional holding, a secondary distribution still in registration, and a large commodity position about to be liquidated.

**Overhanging Bond**

A convertible bond issue that investors do not convert into common stock because the stock has not appreciated in value.

**Overhead**

The expenses of a business that are not attributable directly to the production or sale of goods.

**Overheating**

An economy that is growing very quickly, with the risk of high inflation.

**Overinvestment**

In corporate finance, this refers to managers not acting in the best interests of the shareholders and investing too much (potentially in negative net present value projects).

**Overissue**

An excess of issued shares over authorized shares.

**Overlap the market**

Used in the context of general equities. Create a crossed market by expressing a willingness to sell on the bid side of the market and buy on the offer side.

**Overlapping debt**

The portion of debt of political subdivisions or neighboring special districts that a municipality is responsible for.

**Overlay strategy**

A strategy of using futures for asset allocation by pension sponsors to avoid disrupting the activities of money managers.

**Overnight delivery risk**

A risk brought about because differences in time zones between settlement centers require that payment or delivery on one side of a transaction be made without knowing until the next day whether the funds have been received in an account on the other side. Particularly apparent when delivery takes place in Europe for payment in dollars in New
York.

**Overnight position**
A broker-dealer's position in a security at the end of a trading day.

**Overnight repo**
A repurchase agreement with a term of one day.

**Overperform**
To appreciate at a rate faster than appreciation of the overall market.

**Overreaching**
Used in the context of general equities. Creating artificial volume in a stock through activity not generated by normal/natural buyers and sellers in the market.

**Overreaction hypothesis**
The supposition that investors overreact to unanticipated news, resulting in exaggerated movements in stock prices followed by corrections.

**Overshooting**
The tendency of a pool of MBS to reflect an especially high rate of prepayments the first time it crosses the threshold for refinancing, specially if two or more years have passed since the date of issue without the weighted average coupon of the pool crossing the refinancing threshold.

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

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

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

**Overtrading**
Excessive broker trading in a discretionary account. Underwriters persuade brokerage clients to purchase some part of a new issue in return for the purchase by the underwriter of other securities from the clients at a premium. This premium is offset by the underwriting spread.
Overvalued
A stock price that is seen as too high according to the company's price-earnings ratio, expected earnings, or financial condition.

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

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

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

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

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

P
Fifth letter of Nasdaq stock symbol specifying issue is the company's first class of preferred shares.

P2P
Business slang, usually used in reference to startups or internet startup, refers to "path to profitability."

PA
The two-character ISO 3166 country Code for PANAMA.

PAB
The ISO 4217 currency code for the Panama Balboa.

PAC
See: Planned amortization class

PAC
See: Preauthorized checks
PAD
See: Preauthorized electronic debits

PBGC
See: Pension Benefit Guaranty Corporation

PC
See: Participation certificates

PE
The two-character ISO 3166 country code for PERU.

PEFCO
See: Private Export Funding Corporation

PEG Ratio
See: Prospective earnings growth ratio

PEN
The ISO 4217 currency code for the Peruvian Nuevo Sol.

PERC
See: Preferred equity redemption stock

PERLS
Principal Exchange-Rated-Linked Securities.

PF
The two-character ISO 3166 country code for FRENCH POLYNESIA.

PG
The two-character ISO 3166 country code for PAPUA NEW GUINEA.

PGK
The ISO 4217 currency code for the Papua New Guinea Kina.

PH
The two-character ISO 3166 country code for PHILIPPINES.

PHP
The ISO 4217 currency code for the Philippines Peso.

PHLX
See: Philadelphia Stock Exchange
PIBOR
See: Paris Interbank Offer Rate

PIK
See: Payment-in-kind bond

PK
The two-character ISO 3166 country code for PAKISTAN.

PKR
The ISO 4217 currency code for the Pakistani Rupee.

PL
The two-character ISO 3166 country code for POLAND.

PLC
See: Project loan certificate

PLN
The ISO 4217 currency code for the Polish Zloty.

PM
The two-character ISO 3166 country code for SAINT PIERRE AND MIQUELON.

PN
The two-character ISO 3166 country code for PITCAIRN.

PN
See: Project notes

PO
See: Principal only

PR
The two-character ISO 3166 country code for PUERTO RICO.

PS
The two-character ISO 3166 country code for PALESTINIAN TERRITORY, OCCUPIED.

PT
The two-character ISO 3166 country code for PORTUGAL.

PTE
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.
Painting the Illegal practice by traders who manipulate the market by buying and selling a security to create the illusion of high trading activity and to attract other traders who may push up the price.

Paired off
Used for listed equity securities. Matched buy and sell market orders, usually pertaining to the pre-opening market picture in a stock, or MOC orders (especially relating to futures/options expirations).

Paired shares
Stock of two companies under the same management that are sold as one unit with one certificate.

Pair off
A buyback to offset and effectively liquidate a prior sale of securities.

Panic
Rapid trading of stocks or bonds in high volume in anticipation of sharply rising or falling prices, usually after unexpected news is released.

Paper
Money market instruments, commercial paper, and other.

Paper dealer
A brokerage firm that buys and sells commercial paper to make a profit.

Paper gain (loss)
Unrealized capital gain (loss) on securities held in a portfolio based on a comparison of current market price to original cost.

Par
Equal to the nominal or face value of a security. A bond selling at par is worth an amount equivalent to its original issue value or its value upon redemption at maturity—typically $1000/bond. See: Discount, premium.

Par bond
A bond trading at its face value.

Par value
Also called the maturity value or face value; the amount that an issuer agrees to pay at the maturity date.
**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
Parking
Putting money into safe investments such as money market investments while deciding where to invest the money.

Parking violation
Often used in risk arbitrage. Illegal holding of stock by a third party, or the financing of such a stock, in which the third party's sole reason for holding the stock is to conceal ownership or control of a raider, thus sidestepping the Williams Act requirements of 5% holding limits. See: Rule 13d.

Part B prospectus
See: Statement of Additional Information

Partial
Used in the context of general equities. Trade whose size is only part of the total customer indication/order, usually made to avoid a compromise in price and also to get some business instead of losing the customers inquiry/order to a competitor.

Partial compensation
Incomplete payment for the delivery of goods to one party by buying back a certain amount of product from the same party.

Partial Vote
When only a portion of the total shares in an account is voted. For example, a broker has 1,000 shares and sends out a card to each of four shareholder clients. If only three of the four client cards are returned to the broker, the broker will submit only 3/4ths(750 shares) of the total 1,000 shares to vote. If the fourth card arrives later, an additional vote can be counted.

"Participate but do not initiate"
Used for listed equity securities. "Participate in the side of the market indicated by the order, but do not initiate the interest that causes the trade to take place." This kind of order can cause one to "miss stock" because the broker of investor is at the mercy of the player who does initiate the trade. See: Market order go along, percentage order.

Participating buyer/seller
Used for listed equity securities. (1) Customer willing to buy/sell in line with market. (2) Buyer/seller who goes along with another buyer/seller in a percentage order.

Participating convertible preferred stock
Preferred stock that can be converted into common stock at the option of the holder. In contrast, to the usual preferred stock, the value of the preferred stock is refunded to the holder. That is, one gets conversion plus the value of the stock.
Participating dividend
Dividend received from ownership of participating preferred stock.

Participating fees
The portion of total fees in a syndicated credit that go to the participating banks.

Participating GIC
A guaranteed investment contract whose policyholder is not guaranteed a crediting rate, but instead receives a return based on the actual experience of the portfolio managed by the life insurance company.

Participating
Life insurance that pays dividends to policyholders depending on the company’s success as provided by few claims and profitable underwritings and investments.

Participating preferred stock
Preferred stock that provides the holder with a specified dividend plus the right to additional earnings under specified conditions.

Participation certificates (PC)
Used in the context of general equities. Investments representing an interest in a pool of funds or in other instruments, such as foreign securities, that allow participation in the rise or fall of a security or group of securities.

Participation loan
A large loan made by a group of lenders, that enables a borrower to obtain financing above the legal lending limit of an individual lender.

Partner
Business associate who shares equity in a firm.

Partnership
Shared ownership among two or more individuals, some of whom may, but do not necessarily, have limited liability with respect to obligations of the group. See: General partnership, limited partnership, and master limited partnership.

Partnership agreement
A written agreement among partners detailing the terms and conditions of participation in a business ownership arrangement.

Party in interest
An ERISA-specified individual—such as an administrator, officer, fiduciary, trustee, custodian, or counsel—who is prohibited from making certain transactions involving a
retirement plan. A trustee, for example, would be prohibited from using an IRA as collateral for a loan.

**Pass the book**
The process of transferring responsibility for a brokerage firm's trading account from one office to another around the world in order to benefit from trading 24 hours a day.

**Pass-through coupon rate**
The interest rate paid on a securitized pool of assets, which is less than the rate paid on the underlying loans by an amount equal to the servicing and guaranteeing fees.

**Pass-through rate**
The net interest rate passed through to investors after deducting servicing, management, and guarantee fees from the gross mortgage coupon.

**Pass-through securities**
A pool of fixed income securities backed by a package of assets (i.e., mortgages) where the holder receives the principal and interest payments. Related: Mortgage pass-through security

**Passive**
Income or loss from business activities in which a person does not materially participate, such as a limited partnership.

**Passive Activity Loss (PAL)**
A loss incurred in participating in passive investing.

**Passive bond**
A bond without any interest yield.

**Passive income**
Income (such as investment income) that does not come from active participation in a business. Specified by the U.S. tax code.

**Passive Income Generator (PIG)**
An investment that favors passive income, such as an income-oriented real estate limited partnership.

**Passive investing**
Putting money into a profitable business opportunity that is deemed passive by the IRS and thus benefits from tax deductions.

**Passive investment management**
Buying a well diversified portfolio to represent a broad-based market index without attempting to search out mispriced securities.
Passive investment strategy
See: Passive investment management.

Passive management
See: Indexing

Passive portfolio
A market index portfolio.

Passive portfolio strategy
A strategy that involves minimal expectational input, and instead relies on diversification to match the performance of some market index. A passive strategy assumes that the marketplace will reflect all available information in the price paid for securities, and therefore, does not attempt to find mispriced securities. Related: Active portfolio strategy.

Patent
The exclusive right to use documented intellectual property in producing or selling a particular product or using a process for a designated period of time.

Path-dependent option
An option whose value depends on the sequence of prices of the underlying asset rather than just the final price of the asset.

Pattern
A technical chart formation used to make market predictions by following the price movements of securities.

Pay-as-you-go basis
A method of paying income tax in which the employer deducts a portion of an employee’s monthly salary to remit to the IRS.

Pay-to-play
Attempts by municipal bond underwriting businesses to gain influence with political officials who decide which underwriters are awarded the municipality's business.

Pay-up
The loss of cash resulting from a swap into higher-priced bonds or the need/willingness of a bank or other borrower to pay a higher rate of interest to get funds. Used in the context of general equities. (1) When an investor who wants to buy a stock at a particular price hesitates and the stock begins to rise; instead of letting the stock go, he "pays up" to buy the shares at the higher prevailing price. (2) Buy shares in a high-quality company at what is felt to be a high, but supportable, price due to its quality.
Payable through drafts
A method of making payment that is used to maintain control over payments made on behalf of the firm by personnel in noncentral locations. The payer’s bank delivers the payable through draft to the payer, which must approve it and return it to the bank before payment can be received.

Payable date
The date when dividends or capital gains are paid to shareholders or reinvested in additional shares.

Payables
Related: Accounts payable

Payback
The length of time it takes to recover the initial cost of a project, without regard to the time value of money.

Pay-down
In a Treasury refunding, the amount by which the par value of the securities maturing exceeds that of those sold. In the context of general equities, paying a lower price in an accumulation of stock. Antithesis of pay-up.

Payee
A person receiving payment through any form of money transfer method.

Payer
The person making a payment to a payee.

Paying agent
An agent who makes principal and interest payments to bondholders on behalf of the issuer.

Payment date
The date on which shareholders of record will be sent a check for the declared dividend.

Payment float
Company-written checks that have not yet cleared.

Payment-in-kind (PIK) bond
A bond that gives the issuer an option (during an initial period) either to make coupon payments in cash or in the form of additional bonds.

Payments netting
Reducing fund transfers between affiliates to only a netted amount. Netting can occur on a bilateral basis (between pairs of affiliates), or on a multi-lateral basis (taking all
Payments pattern
Describes the collection pattern of receivables. The pattern might describe the probability that a 72-day-old account will still be unpaid when it is 73 days-old.

Payments System
Collective term for mechanisms (both paper-backed and electronic) for moving funds, payments and money among financial institutions throughout the nation. The Federal Reserve plays a major role in the nation's payments system through distribution of currency and coin, processing of checks, electronic transfer of funds and the operation of automated clearinghouses that transfer funds electronically among depository intitutions; various private organizations also perform payments system functions.

Payoff diagram
In option pricing, a graph of the value of the option position at expiration as a function of the underlying asset price.

Payoff profile
The slope of a line graphed according to the value of an underlying asset on the x-axis and the value of a position taken to hedge against risk exposure on the y-axis. Also used with changes in value. See: Risk profile.

Payout period
The time period during which withdrawals from a retirement account or annuity are paid.

Payout ratio
Generally, the proportion of earnings paid out to the common stockholders as cash dividends. More specifically, the firm's cash dividend divided by the firm's earnings in the same reporting period.

P-coast
Refers to west coast listed equity securities. See: Pacific Stock Exchange.

P/E
See: Price/earnings ratio

P/E effect
That portfolios with low P/E stocks exhibit higher average risk-adjusted returns than those with high P/E stocks. Related: Value manager.

P/E ratio
Current stock price divided by trailing annual earnings per share or expected annual earnings per share. Assume XYZ Co. sells for $25.50 per share and has earned $2.55 per
share this year; $25.50 = 10 times $2.55. XYZ stock sells for ten times earnings.

Peak
The high point at the end of an economic expansion until the start of a contraction.

Pecking-order view (of capital structure)
The argument that external financing transactions costs, especially those associated with the problem of adverse selection, create a dynamic environment in which firms have a preference, or pecking-order of preferred sources of financing, when all else is equal. Internally generated funds are the most preferred, followed by new debt, and debt-equity hybrids. Finally, new equity is at the least preferred source.

Pegged exchange rate
Exchange rate whose value is pegged to another currency's value or to a unit of account.

Pegging
Making transactions in a security, currency, or commodity in order to stabilize or target its value through market intervention.

Penalty clause
A clause found in contract agreements that provides for a penalty in the event of default.

Penalty tax
A federal tax that can be applied if a plan holder does not meet certain requirements when making withdrawals from a tax-advantaged retirement plan (for instance, if the plan holder has not reached age 59-1/2). This penalty tax is owed in addition to any income taxes due.

Pennant
A chart pattern resembling a pointed flag, with the point facing to the right, which shows a diminishing variance of price.

Penny stock
Used in the context of general equities. Stock that typically sells for less than $1 a share, although it may rise to as much as $10/share after the initial public offering, usually because of heavy promotion. All are traded OTC, many of them in the local markets of Denver, Vancouver, or Salt Lake City.

Pension Benefit Guaranty Corporation (PBGC)
A federal agency that insures the vested benefits of pension plan participants (established in 1974 by the ERISA legislation).

Pension fund
A fund set up to pay the pension benefits of a company’s workers after retirement.
Pension liabilities
Future liabilities resulting from pension commitments made by a corporation. Accounting for pension liabilities varies widely by country.

Pension parachute
A form of poison pill providing that in the event of a hostile takeover attempt, any excess pension plan assets can be used to benefit pension plan participants. This prevents the raiding firm from using the pension assets to finance the takeover. In the context of corporate governance, these provisions prevent an acquirer from using surplus cash in the pension fund of the target in order to finance an acquisition. Surplus funds are required to remain the property of the pension fund and to be used for plan participants' benefits.

Pension plan
A fund that is established for the payment of retirement benefits.

Pension reversion
Termination of an overfunded defined benefit pension plan and replacement of it with a life insurance company-sponsored fixed annuity plan.

Pension sponsors
Organizations that have established a pension plan.

Penultimate profit prospect (PPP)
The second-lowest-priced of the ten highest-yielding stocks in the Dow Jones Industrial Average that is said (by authors O'Higgins and Downes) to be the Dow stock with the best possibility of outperforming the average as a whole.

People pill
A form of poison pill providing that the entire management threatens to resign in the event of a takeover.

Per capita debt
The total bonded debt of a municipality divided by the population of the municipality.

Per stirpes
A method for distributing the assets of an individual who dies without a valid will. The Latin means for each descendant.

Percent to double
Percentage that the stock price has to rise (fall) to double the price of the call (put).

Percentage financial statement
Balance sheet and income statement represented as percentages.

**Percentage order**
Used for listed equity securities. Market limited price order to buy/sell a specified percentage (usually 50%) of shares traded (sometimes after a fixed number of shares of the stock have already traded). See: participating buyer/seller, ”Participate but do not initiate.”

**Percentage premium**
Applies mainly to convertible securities. Premium over parity of a convertible bond divided by parity.

**Perfect capital market**
A market in which there are never any arbitrage opportunities.

**Perfect competition**
An idealized market environment in which every market participant is too small to affect the market price by acting on its own.

**Perfect forecast line**
Graph of a slope that matches the forecast of an exchange rate with the actual exchange rate.

**Perfect hedge**
A situation in which the profit and loss from the underlying asset and the hedge position are equal.

**Perfect market assumptions**
Conditions under which the law of one price holds. The assumptions include frictionless markets, rational investors, and equal access to market prices and information.

**Perfect market view (of capital structure)**
Analysis of a firm’s capital structure decision, which shows the irrelevance of capital structure in a perfect capital market.

**Perfect market view (of dividend policy)**
Analysis of a decision on dividend policy, in a perfect capital market environment, that shows the irrelevance of dividend policy.

**Perfected first lien**
A first attachment on an asset that is duly recorded with the relevant government body so that the lender will be able to act on it should the borrower default.

**Perfectly competitive financial markets**
Markets in which no trader has the power to change the price of goods or services. Perfect capital markets are characterized by certain conditions: (1) Trading is costless, and access to the financial markets is free; (2) information about borrowing and lending opportunities is freely available; and (3) there are many traders, and no single trader can have a significant impact on market prices.

Performance
Also known as performance-accelerated restricted stock ("PARS") and time-accelerated restricted stock award plans ("TARSAPs"). Grants of restricted stock or restricted stock units which may vest early upon attainment of specified performance objectives. Otherwise, a time-vesting schedule would remain in effect.

Performance attribution analysis
The decomposition of a money manager's performance results to explain the reasons why those results were achieved. This analysis seeks to answer questions such as: (1) What were the major sources of added value? (2) Was short-term factor timing statistically significant? (3) Was market timing statistically significant? and (4), was security selection statistically significant?

Performance bond
A surety bond between two parties, insuring one party against loss if the terms of a contract are not fulfilled.

Performance evaluation
The assessment of a manager's results, which involves, first, determining whether the money manager added value by outperforming the established benchmark (performance measurement) and, second, determining how the money manager achieved the calculated return (performance attribution analysis).

Performance fund
A growth-oriented mutual fund investing in growth stock and performance stock with low dividends and high risk.

Performance index
A risk-adjusted measure of how well a portfolio has performed.

Performance measurement
Calculation of the return a money manager realizes over some time interval.

Performance shares
Shares of stock given to managers on the basis of performance as measured by earnings per share and similar criteria. A control device shareholders sometimes use to tie management to the self-interest of shareholders.
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.

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

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

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

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

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

**Perpetuity**
A constant stream of identical cash flows 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
securities. Bid and ask prices and quantity information from a specialist or from a dealer regarding a particular security (i.e., "IBM's 1/4 to 1/2, 5m by 10m").

Piece
Apply mainly to convertible securities. Increment of bonds that trade in portions of $1000 minimum. Not all bonds can be traded in "pieces," and the increments can vary.

Pie model of capital structure
A model of the debt-equity ratio of the firms, graphically depicted in slices of a pie that represent the value of the firm in the capital markets.

Pier
A man made structure extending from the shore against which vessels may lie to load or unload cargo.

Piggyback registration
When a securities underwriter allows existing holdings of shares in a corporation to be sold in combination with an offering of new public shares.

Piggybacking
A broker who trading stocks, bonds or commodities in a personal account following a trade just made for a customer. The broker assumes that the customer is making the trade on valuable inside information.

PIK (Payment-in-kind) securities
Highly speculative bonds or preferred stock that pay interest or dividends through additional bonds or preferred stock.

Pink sheets
Refers to over-the-counter trading. Daily publication of the national quotation bureau that reports the bid and ask prices of thousands of OTC stocks, as well as the market makers who trade each stock.

Pip
Used for listed equity securities. Smallest unit of a currency (i.e., cents for US dollars).

Pipeline
The underwriting process that must be completed with the SEC before a security can be offered for sale to the public.

Pit
A specific area of the trading floor that is designed for the trading of commodities, individual futures, or option contracts.
**Pit committee**
A committee of the exchange that determines the daily settlement price of futures contracts.

**PITI**
Stands for principal, interest, taxes, and insurance, the four main parts of monthly mortgage obligations.

**Pivot**
Price level established as being significant by market's failure to penetrate or as being significant when a sudden increase in volume accompanies the move through the price level.

**P&L**
Profit and loss statement for a trader.

**Place**
The marketing of new securities, usually through sales to institutional investors. See: Float.

**Placement**
A bank depositing Eurodollars with (selling Eurodollars to) another bank is often said to be making a placement.

**Placement ratio**
The percentages of last week's new municipal bond offerings that have been bought from the underwriters, according to the Bond Buyer newspaper.

**Plain vanilla**
A term that refers to a relatively simple derivative financial instrument, usually a swap or other derivative that is issued with standard features.

**Plain vanilla swap**
See: Fixed for floating swap

**Plan agreement**
A document detailing the terms and conditions of a retirement plan such as an IRA.

**Plan participants**
Employees or other beneficiaries who are eligible to receive benefits from a company's employee benefit plan.

**Plan for reorganization**
A plan for reorganizing a firm during the Chapter 11 bankruptcy process.
The entities that establish pension plans, including private business entities acting for their employees; state and local entities operating on behalf of their employees; unions acting on behalf of their members; and individuals representing themselves.

Planned amortization class (PAC)
(1) The class of CMO that has the most stable cash flows and the lowest prepayment risk of any class of CMO. Because of a stable cash flow, it is considered the least risky CMO. (2) A CMO bond class that stipulates cash flow contributions to a sinking fund. A PAC directs principal payments to the sinking fund on a priority basis in accordance with a predetermined payment schedule, with prior claim to the cash flows before other CMO classes. Similarly, cash flows received by the trust in excess of the sinking fund requirement are also allocated to other bond classes. The prepayment experience of the PAC is therefore very stable over a wide range of prepayment experience.

Planned capital expenditure program
Budgeted or projected outlays for major expenditures on permanent or fixed assets as outlined in the corporate financial plan.

Planned financing program
Budgeted or projected ways need for reasons or to obtain short-term and long-term financing as outlined in the corporate financial plan.

Planning horizon
The length of time a model or investor or plan projects into the future.

Plant
The assets of a business including land, buildings, machinery, and all equipment permanently employed.

Player
Used in the context of general equities. Customer or trader who is actively involved in a particular stock or the market in general.

Playing the
Trading in high, uncalculated risk usually refers to actions of amateur investors.

Plaza Accord
Agreement among country representatives in 1985 to implement a coordinated program to weaken the dollar.

Pledging
See: Hypothecation

Plow back
To reinvest earnings in a business rather than pay them out as dividends. Common practice in high-growth companies.

**Plowback rate**
Related: Retention rate

**Plug**
A variable that handles financial slack in the financial plan.

**Plus**
Used to quote a price in 64ths. Dealers in government bonds normally give price quotes in 32nds. To quote a bid or offer in 64ths, they use pluses; a dealer who bids 4+ is bidding the handle plus 4/32 + 1/64, which equals the handle plus 9/64.

**Plus a match**
Used for listed equity securities. Floor indication that someone is on the floor with equal priority standing who wants to buy/sell at least the same number of shares at the same price as one's own order. Outside. See: Matched orders. Compare to ahead.

**Plus tick**
Used in the context of general equities. Trade occurring at a price higher than the previous sale. Uptick. Antithesis of minus tick. See: Short sale.

**Plus tick seller**
Used for listed equity securities. A short seller (referring to the regulation requiring a plus tick to short).

**Point**
The smallest unit of price change quoted, or one one-hundredth of a percent. Related: Minimum price fluctuation and tick.

**Point and figure chart**
A price-only chart that takes into account only whole integer changes in price, i.e., a 2-point change. Point and figure charting disregards the element of time and is used solely to record changes in price.

**Point Attractor**
In non-linear dynamics, an attractor where all orbits in phase space are drawn to one point, or value. Essentially, any system which tends to a stable, single valued equilibrium will have a point attractor. A pendulum which is damped by friction will always stop, so its phase space will always be drawn to the point where velocity and position are equal to zero. See: Attractor, Phase Space.

**Points quote**
An abbreviated form of the outright quote used by traders in the interbank market.

**Poison pill**
Anti-takeover device that gives a prospective acquiree's shareholders the right to buy shares of the firm or shares of anyone who acquires the firm at a deep discount to their fair market value. Named after the cyanide pill that secret government agents are said to be instructed to swallow if capture is imminent.

**Poison put**
A covenant allowing the bondholder to demand repayment in the event of a hostile takeover.

**Policy**
Way in which an investor seeks to assess an appropriate long-term "normal" mix of assets that represents an ideal blend of controlled risk and enhanced return.

**Policy limit**
The maximum dollar amount of coverage provided by an insurance company for a certain policy.

**Policy loan**
A loan often made at a below-market interest rate from an insurance company to a policyholder that is secured by the cash surrender value of a life insurance policy.

**Policyholder**
An individual who owns an insurance policy.

**Policyholder loan bonds**
Packaged loans acquired by policyholders that are secured by the cash surrender value of the policies, and are offered by a broker/dealer as bonds.

**Political risk**
Possibility of negative events such as expropriation of assets, changes in tax policy, restrictions on the exchange of foreign currency, or other changes in the business climate of a country.

**Pool**
In capital budgeting, the concept that investment projects are financed out of a pool of bonds, preferred stock, and common stock, and a weighted-average cost of capital must be used to calculate investment returns. In insurance, a group of insurers who share premiums and losses in order to spread risk. In investments, the combination of funds for the benefit of a common project, or a group of investors who use their combined influence to manipulate prices.
Pool factor
The outstanding principal balance divided by the original principal balance with the result expressed as a decimal. Pool factors are published monthly by the Bond Buyer newspaper for Ginnie Mae, Fannie Mae, and Freddie Mac (Federal Home Loan Mortgage Corporation) MBSs.

Pooling
An accounting method for reporting acquisitions accomplished through the use of equity. The combined assets of the merged entity are consolidated using book value, as opposed to the purchase method, which uses market value. The merging entities' financial results are combined as though the two entities have always been a single entity.

Porcupine
Often used in risk arbitrage. See: Shark repellent.

Portability
The character of benefits that may be carried from a previous job to the next.

Portfolio
A collection of investments, real and/or financial.

Portfolio allocation by region
The distribution, by geographic region, of a portfolio's holdings.

Portfolio asset allocation
The distribution, by type of asset, of a portfolio's holdings.

Portfolio beta
Used in the context of general equities. The beta of a portfolio is the weighted sum of the individual asset betas, According to the proportions of the investments in the portfolio. E.g., if 50% of the money is in stock A with a beta of 2.00, and 50% of the money is in stock B with a beta of 1.00, the portfolio beta is 1.50. Portfolio beta describes relative volatility of an individual securities portfolio, taken as a whole, as measured by the individual stock betas of the securities making it up. A beta of 1.05 relative to the S&P 500 implies that if the S&P's excess return increases by 10% the portfolio is expected to increase by 10.5%.

Portfolio diversification
Investing in different asset classes and in securities of many issuers in an attempt to reduce overall investment risk and to avoid damaging a portfolio's performance by the poor performance of a single security, industry, (or country).

Portfolio expected return
A weighted average of individual assets' expected returns.
Portfolio
A strategy using a leveraged portfolio in the underlying stock to create a synthetic put option. The strategy's goal is to ensure that the value of the portfolio does not fall below a certain level.

Portfolio internal rate of return
The rate of return computed by first determining the cash flows for all the bonds in the portfolio and then finding the interest rate that will make the present value of the cash flows equal to the market value of the portfolio.

Portfolio management
Related: Investment management

Portfolio manager
Used in the context of general equities. Professional responsible for the securities portfolio of an individual or institutional investor, such as a mutual fund, pension fund, profit-sharing plan, bank trust department, or insurance company. In return for a fee, the manager has the fiduciary responsibility to manage the assets prudently and choose which asset types are most appropriate over time. Related: Investment manager.

Portfolio opportunity set
The expected return/standard deviation pairs of all portfolios that can be constructed from a given set of assets.

Portfolio R
Used in the context of general equities. Number between 0 and 1 that measures the strength of correlation of movement between the portfolio/stock and the index. Indeed, the R2 is the square of the correlation. For hedging purposes, the higher the R2, the better.

Portfolio restructuring
Applies to derivative products. Recomposition of a portfolio's asset mix by selling off undesired asset types (equities, debt, or cash) or specific securities within that class, while simultaneously buying desired types or securities. Often a firm is asked to bid on an old portfolio and give an offering of the desired portfolio. See: Program trading.

Portfolio separation theorem
Theory that an investor's choice of a risky investment portfolio is separate from his attitude towards risk. Related: Fisher's separation theorem.

Portfolio theory
See: Modern portfolio theory.

Portfolio transaction costs
The expenses associated with buying and selling securities, including commissions, purchase and redemption fees, exchange fees, and other miscellaneous costs. In a mutual fund prospectus, these expenses are listed separately from the fund’s expense ratio.

**Portfolio turnover rate**
For an investment company, an annualized rate found by dividing the lesser of purchases and sales by the average of portfolio assets.

**Portfolio variance**
Weighted sum of the covariance and variances of the assets in a portfolio.

**Position**
A market commitment; the number of contracts bought or sold for which no offsetting transaction has been entered into. The buyer of a commodity is said to have a long position, and the seller of a commodity is said to have a short position. Related: Open contracts.

**Position building**
Buying shares to build up a long position or selling shares to create a short position in a particular security or group of securities.

**Position diagram**
Diagram showing the possible payoffs from a derivative investment.

**Position limits**
Applies to derivative products. Maximum position available in any one future or option contract for a given institution. For "bona fide" futures hedgers, there are no position limits.

**Position self**
Used in the context of general equities. Going long or short in anticipation of a stock’s movement.

**Position sheet**
Used in the context of general equities. List of long and short positions for an individual trader or desk, at times accompanied by the trades from the previous trading session that brought these closing positions.

**Position trader**
A commodities trader who takes a long-term approach in maintaining positions in the market and does not close out of these positions until close to the delivery date.

**Positive carry**
Related: Net financing cost

**Positive convexity**
A property of option-free bonds that the price appreciation for a large downward change in interest rates will be greater (in absolute terms) than the price depreciation for the same downward change in interest rates.

Positive covenant (of a bond)
A bond covenant that specifies certain actions the firm must take. Also called an affirmative covenant.

Positive float
See: Float

Positive
When long-term debt interest rates are higher than short-term debt rates (because of the increased risk involved with long-term debt security).

Possessions corporation
A type of corporation permitted under the US tax code whose branch operation in a US possession can obtain tax benefits as though it were operating as a foreign subsidiary.

Post
Particular place on the floor of an exchange where transactions in stocks listed on the exchange occur.

Post-audit
A set of procedures for evaluating a capital budgeting decision after the fact.

Post-dated check
A check that becomes payable and negotiable on a future date specified.

Postponement
The option of deferring a project without eliminating the possibility of undertaking it.

Postponing
Purposely delaying receipt of income to a later year in order to reduce current tax liability.

Post-trade benchmarks
Prices after the decision to trade.

Pot
The portion of stock or bond issue that is returned to the managing underwriter by the participating investment bankers for sale to institutional investors.

Pot is clean
Phrase used when managing underwriter has sold the entire pot.
**Power of attorney**
A written authorization allowing a person to perform certain acts on behalf of another, such as moving of assets between accounts or trading for a person's benefit.

**Prearranged trading**
Possibly fraudulent practice whereby commodities dealers carry out risk-free trades at predetermined prices to acquire tax advantages.

**Preauthorized checks (PAC)**
Checks that are authorized by a payer in advance, and written either by the payee or by the payee's bank and then deposited in the payee's bank account.

**Preauthorized electronic debits (PAD)**
Debits to a bank account in advance by the payer. The payer's bank sends payment to the payee's bank through the Automated Clearing House (ACH) system.

**Preauthorized payment**
Accelerating cash inflows by directly charging a customer's bank account with permission.

**Pre Carriage**
Usually freight charges for port or airport delivery arising before the principal international carriage.

**Precautionary demand (for money)**
The need to meet unexpected or extraordinary contingencies with a buffer stock of cash.

**Precautionary motive**
A desire to hold cash in order to be able to deal effectively with unexpected events that require cash outlay.

**Precedence**
The established system of priorities of trades in an exchange. For example, the highest bid and lowest offer have highest precedence; the first bid or first offer at a price has highest priority, and large orders have priority over smaller orders.

**Precious metals**
Gold, silver, platinum, and palladium, which are used for their intrinsic value or for their value in production. These may be traded either in their physical state or by way of futures and options contracts, mining company stocks, bonds, mutual funds, or other instrument.

**Precompute**
Method of charging interest in which the annual interest is either deducted from the face amount of the loan when the funds are distributed or is added to the total amount and
divided into the regular payments.

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

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

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

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

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

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

**Preferred habitat theory**
A biased expectations theory that 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
Preferred stock agreement
A contract for preferred stock.

Preferred stock ratio
Preferred stock at par value divided by total capitalization, which gives the portion of capitalization that consists of preferred stock.

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

Preliminary estimate
The second estimate of GDP released about two months after the measurement period.

Preliminary prospectus
An initial or tentative version of a prospectus.

Premature distribution
A distribution from an IRA before the owner reaches age 59-1/2. Generally, a 10% penalty tax is owed on such a distribution. Also known as an early distribution or an early withdrawal.

Premium
(1) A bond sold above its par value. (2) The price of an option contract; also, in futures trading, the amount by which the futures price exceeds the price of the spot commodity. (3) For convertibles, amount by which the price of a convertible exceeds parity, and is usually expressed as a percentage. Suppose a stock is trading at $45, and the bond is convertible at a $50 stock price and the convertible bond trading at 105. A similar bond without the conversion feature trades at $90. In this case, the premium is $15, or 16.66%=(105-90)/90. If the premium is high, the bond trades like any fixed income bond; if low, like a stock. See: Gross parity, net parity. (4) For futures, excess of fair value of future over the spot index, which in theory will equal the Treasury bill yield for the period to expiration minus the expected dividend yield until the future’s expiration. (5) For options, price of an option in the open market (sometimes refers to the portion of the price that exceeds parity). (6) For straight equity, price higher than that of the last sale or inside market. Related: Inverted market premium payback period. Also called break-even time; the time it takes to recover the premium per share of a convertible security.

Premium bond
A bond that is selling for more than its par value.

Premium income
The income received by an investor who sells an option.

**Premium raid**
An attempt to acquire a large portion of a company's stock to gain control by offering stockholders a premium over the market value for their shares.

**Prepackaged bankruptcy**
A bankruptcy in which a debtor and its creditors pre-negotiate a plan of reorganization and then file it along with the bankruptcy petition.

**Prepaid interest**
An asset account showing interest that has been paid in advance, which is expensed and charged to the borrower's P & L statement.

**Prepayment penalty**
A fee a borrower pays a lender when the borrower repays a loan before its scheduled time of maturity.

**Prepayment speed**
Also called speed, the estimated rate at which mortgagors pay off their loans ahead of schedule, critical in assessing the value of mortgage pass-through securities.

**Prepayments**
Payments made in excess of scheduled mortgage principal repayments.

**Prerefunded bond**
Refunded bond.

**Prerefunding**
Procedure of floating a second bond at a lower interest rate in order to pay off the first bond at the first call date and to reduce overall borrowing costs.

**Presale order**
An order to purchase part of a new municipal bond issue that is accepted by an underwriting syndicate before an official public offering.

**Present value**
The amount of cash today that is equivalent in value to a payment, or to a stream of payments, to be received in the future. To determine the present value, each future cash flow is multiplied by a present value factor. For example, if the opportunity cost of funds is 10%, the present value of $100 to be received in one year is $100 x [1/(1 + 0.10)] = $91.

**Present Value Components Analysis**
An analytical tool that establishes a base NPV for a project that can then be adjusted for the incremental NPV effect of separate elements of the project’s overall potential sales.

**Present value factor**
Factor used to calculate an estimate of the present value of an amount to be received in a future period. If the opportunity cost of funds is 10% over next year, the factor is \( \frac{1}{1 + 0.10} \).

**Present value of growth opportunities**
Net present value (NPV) of investments the firm is expected to make in the future.

**Present Value Index (PVI)**
The ratio of the NPV of a project to the initial outlay required for it. The index is an efficiency measure for investment decisions under capital rationing.

**President**
Highest-ranking officer in a corporation after the chief executive officer.

**Pre shipment Finance**
Short term funding for inventory and production costs associated with manufacturing goods being exported.

**Presidential election cycle theory**
A theory that stock market trends can be predicted and explained by the four-year presidential election cycle.

**Pre-sold issue**
An issue that is sold out before the coupon announcement.

**Pre-tax contribution**
Payment to an account made with funds from a worker's paycheck before federal income taxes are deducted.

**Pretax earnings or profits**
Net income before federal income taxes are subtracted.

**Pretax rate of return**
Gain on a security before taxes.

**Pre-trade benchmarks**
Prices occurring before or at the decision to trade.

**Previous balance method**
Method of calculating finance charges based on the account balance at the end of the
previous month.

**Price of admission**
Used in the context of general equities. Cost to become a player in a stock in an inordinately aggressive market (i.e., locking on one side, size or price concessions); trader becomes aggressive in order to break the domination of customer activity by another dealer.

**Price-book ratio**
Compares a stock's market value to the value of total assets less total liabilities (book value). Determined by dividing current stock price by common stockholder equity per share (book value), adjusted for stock splits. Also called Market-to-Book.

**Price change**
Increase or decrease in the closing price of a security compared to the previous day's closing price.

**Price compression**
The limitation of the price appreciation potential for a callable bond in a declining interest rate environment, based on the expectation that the bond will be redeemed at the call price.

**Price continuity**
Minimal price changes due to transactions.

**Price discovery process**
The process of determining the prices of assets in the marketplace through the interactions of buyers and sellers.

**Price-earnings ratio**
Shows the multiple of earnings at which a stock sells. Determined by dividing current stock price by current earnings per share (adjusted for stock splits). Earnings per share for the P/E ratio are determined by dividing earnings for past 12 months by the number of common shares outstanding. Higher multiple means investors have higher expectations for future growth, and have bid up the stock's price.

**Price effect**
Impact of a change in interest rates on bond prices.

**Price elasticities**
The percentage change in quantity divided by a percentage change in the price. Answers the question: How much will the demand for my product decrease if I raise prices by 10%?

**Price gap**
A term used when the price of a stock rockets or dives in a direction away from its last price range, such as a stock with a trading range of $10-$12 that closes at $12 and climbs to $14 the next day.

**Price give**

Used in the context of general equities. Willingness of a buyer or seller to negotiate on price, within reason, from the price at the last sale or the indicated level. See: Takes price.

**Price immunization**

Portfolio protection strategy that focuses on the current market value of assets and liabilities.

**Price impact costs**

Related: Market impact costs

**Price indexes**

See: Consumer price index and producer price index

**Price leadership**

A price charged by the dominant producer that becomes the price adopted by all the other producers.

**Price momentum**

Related: Relative strength

**Price persistence**

Related: Relative strength

**Price range**

The interval between the high and low prices over which a stock has traded over a particular period of time.

**Price risk**

The risk that the value of a security (or a portfolio) will decline in the future. Or, a type of mortgage pipeline risk created in the production segment when loan terms are set for the borrower in advance of setting terms for secondary market sale. If the general level of rates rises during the production cycle, the lender may have to sell the originated loans at a discount.

**Price-sales ratio**

Determined by dividing current stock price by revenue per share (adjusted for stock splits). Revenue per share for the P/S ratio is determined by dividing revenue for past 12 months by number of shares outstanding.

**Price-specie flow mechanism**
Adjustment mechanism under the classic gold standard allowing disturbances in the price level in one country to be wholly or partly offset by a countervailing flow of specie (gold coins) that would act to equalize prices across countries and automatically bring international payments into balance.

**Price spread**
An options strategy that involves buying and selling two options on the same security with the same expiration month, but with different exercise prices.

**Price support**
Government intervention to set an artificially high price through the use of a price floor designed to aid producers.

**Price takers**
Individuals who respond to rates and prices by acting as though prices have no influence on them.

**Price uncertainty**
Chance that the future price of an asset will change.

**Price value of a basis point (PVBP)**
Also called the dollar value of a basis point; a measure of the change in the price of a bond if the required yield changes by one basis point.

**Price-volume relationship**
A relationship espoused by some technical analysts that signals continuing rises or falls in security prices that are related to changes in volume traded.

**Price-weighted index**
An index giving a greater influence to higher-valued stocks by weighting all component stocks by their price.

**Prices (of equity)**
Price of a share of common stock on the date shown. Highs and lows are based on the highest and lowest intraday trading price.

**Priced out**
The market has already incorporated information, such as a low dividend, into the price of a stock.

**Pricey**
Term used for an unrealistically low bid price or unrealistically high offer price.

**Pricing efficiency**
Also called external efficiency; a market characteristic that prices at all times fully reflect all available information that is relevant to the valuation of securities.

**Primary dealer**
Usually refers to the select list of securities firms that are authorized to deal in new issues of government bonds.

**Primary distribution**
Sale of a new issue of stock or bonds, as distinguished from a secondary distribution.

**Primary earnings per (common) share**
Earnings available for the payment of dividends to common stockholders divided by the number of common shares outstanding.

**Primary market**
Where a newly issued security is first offered. All subsequent trading of this security occurs is done in the secondary market.

**Primary offering**
Direct/Sale of a firm’s newly issued shares by the firm to investors.

**Primary trend**
General movement in price data that lasts 4 to 4 1/2 years.

**PRIME**
Stands for prescribed right to income and maximum equity, a certificate that entitles the owner to the dividend/income from an underlying security, but not to the capital appreciation of that security.

**Prime paper**
The highest-quality, investment-grade debt of corporations as decided by rating agencies such as Moody’s.

**Prime rate**
The interest rate at which banks lend to their best (prime) customers. More often than not, a bank’s most creditworthy customers borrow at rates below the prime rate.

**Prime rate fund**
A mutual fund that buys portions of corporate loans from banks and pays the interest to shareholders.

**Primitive security**
An instrument such as a stock or bond for which payments depend only on the financial status of the issuer.
Principal
(1) The total amount of money being borrowed or lent. (2) The party affected by agent decisions in a principal-agent relationship.

Principal-agent relationship
Occurs when one person, an agent, acts on the behalf of another person, the principal.

Principal amount
The face amount of debt; the amount borrowed or lent. Often called principal.

Principal Exchange-Rated-Linked Securities (PERLS)
A debt instrument with its principal and interest denominated in U.S. dollars, but with principal repayment depending on the exchange rate of the U.S. dollar against a foreign currency.

Principal-only (PO)
A mortgage-backed security (MBS) whose holder receives only principal cash flows on the underlying mortgage pool. All the principal distribution due from the underlying collateral pool is paid to the registered holder of the stripped MBS on the basis of the current face value of the underlying collateral pool.

Principal stockholder
A stockholder who owns 10% or more of the voting stock of a company. Such stockholders must report all trading in the stock to the SEC pursuant insider trading rules.

Principle of diversification
That portfolios of different sorts of assets differently correlated with one another will have negligible unsystematic risk. In other words, unsystematic risks disappear in diversified portfolios, and only systematic risks persist, those related to particular assets.

Print
Used in the context of general equities. As a verb execute a trade, evidenced by its printing on the ticker tape. As a noun, a trade.

Prior-lien bond
A bond usually arising from reorganization with precedence over another bond of the same issuing company that is equally secured.

Prior-preferred stock
Preferred stock that has a higher claim on all dividends and assets in liquidation than claims of other preferred stock.

Priority
Used for listed equity securities. System used in an auction market, in which the first bid or offer price is executed before other bid and offer prices, even if subsequent orders are larger. NYSE rules stipulate that the bid made first should be executed first, or if two bids came in at once, the bid for the large number of shares receives "priority." The bid not executed is then turned to the broker, who informs the customer that the trade was not completed because there was stock ahead. See: Standing.

**Private Export Funding Corporation (PEFCO)**
Company that mobilizes private capital for financing the export of big-ticket items by US firms by purchasing at fixed interest rates the medium- to long-term debt obligations of importers of US products.

**Private-label pass-throughs**
Related: Conventional pass-throughs.

**Private letter ruling**
A ruling by the IRS in response to a request for interpretation of a tax law.

**Private limited partnership**
A limited partnership with no more than 35 participants that is not registered with the SEC.

**Private market value (PMV)**
The break-up market value of all divisions of a company if divisions were each independent and established their own market stock prices.

**Private Mortgage Insurance (PMI)**
Policy protecting the holder against loss resulting from default on a mortgage loan.

**Private placement**
The sale of a bond or other security directly to a limited number of investors. For example, sale of stocks, bonds, or other investments directly to an institutional investor like an insurance company, avoiding the need for SEC registration if the securities are purchased for investment as opposed to resale. Antithesis of public offering.

**Private-purpose bond**
A municipal bond allowing more than 10% of the proceeds go to private activities.

**Private unrequited transfers**
Resident immigrant workers' remittances to their country of origin as well as, e.g., gifts, dowries, inheritances, prizes, charitable contributions.

**Privatization**
The transfer of government-owned or government-run companies to the private sector, usually by selling them.
**Pro forma capital structure analysis**
A method of analyzing the impact of alternative possible *capital structure* choices on a firm's credit statistics and reported financial results, especially to determine whether the firm will be able to use projected tax shield benefits fully.

**Pro forma financial statements**
A firm's financial statements as adjusted to reflect a projected or planned transaction. "What-if" analysis.

**Pro forma statement**
A financial statement showing the forecast or projected operating results and *balance sheet*, as in pro forma *income statements*, *balance sheets*, and *statements of cash flows*.

**Probability**
The relative likelihood of a particular outcome among all possible outcomes.

**Probability density function**
The function that describes the change of certain realizations for a continuous random variable.

**Probability distribution**
A function that describes all the values a random variable can take and the probability associated with each. Also called a *probability function*.

**Probability function**
A measure that assigns a likelihood of occurrence to each and every possible outcome.

**Proceeds**
Money received by the seller of an *asset*.

**Proceeds sale**
*OTC securities* sale whose revenue is used to buy another *security*.

**Processing Delay**
Time a selling firm takes to record receipt of a payment and deposit it.

**Producer Price Index (PPI)**

**Product cycle**
The time it takes to bring new and/or improved products to *market*.
**Product cycle theory**
Theory suggesting that a firm initially establish itself locally and expand into foreign markets in response to foreign demand for its product; over time, the MNC will grow in foreign markets; after some point, its foreign business may decline unless it can differentiate its product from competitors.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Program trading
Trades based on signals from computer programs, usually entered directly from the trader's computer into 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.
**Proportional representation**
A method of stockholder voting that allows minority shareholders and groups of small shareholders to have a better chance of getting representation on a board of directors than under statutory voting.

**Proprietary trading**
Principal trading in which firm seeks direct gain rather than commission dollars.

**Proprietorship**
An unincorporated business that is owned and operated by only one person who has complete liability for all assets, and complete rights to all profits.

**Prospective Earnings Growth (PEG Ratio)**
Based on forecasts from proprietary sources such as Institutional Brokers' Estimate System (IBES), First Call, or Zach's. Growth is forecast of earnings minus current earnings divided by current earnings. Forward-looking measure rather than typical earnings growth measures, which look back in time (historical).

**Prospectus**
Formal written document to sell securities that describes the plan for a proposed business enterprise, or the facts concerning an existing one, that an investor needs to make an informed decision. Prospectuses are used by mutual funds to describe fund objectives, risks, and other essential information.

**Protect**
Assure the salesperson or trader that interest, buy or sell, will be attended to, given any change in the trading circumstances, as follows:
At a price: If the stock trades at a certain price or price range, the trader will show this market to the salesperson and thus allow participation under these favorable circumstances.
Floor protection: Representation of a client on the floor of the exchange-so that if size were to trade at his price or a better price, salesperson would participate.
Volume (OTC): If a certain amount of volume trades (that parallels the protectee's interest), trader assures salesperson of reasonable participation in the trading activity. The extent of this protection depends on liquidity, number of market makers, and other aspects of the stock.

**Protected Strategy**
A position that has limited risk. A protected short sale (short stock, long call) has limited risk, as does a protected straddle write (short straddle, long out-of-the-money combination). See also Combination and Straddle.

**Protectionism**
Notion that governments should protect domestic industry from import competition by
means of tariffs, quotas, and other trade barriers.

**Protective covenant**
A part of an indenture or loan agreement that limits certain actions a company may take during the term of the loan to protect the lender’s interests.

**Protective put buying strategy**
A strategy that involves buying a put option on the underlying security that is held in a portfolio. Related: Hedge option strategies.

**Protest**
Instructions given to a collecting bank that drafts falling due for payment are to be formally presented to the drawee by a notary, who is to formally record any default.

**Prototype plan**
A qualified retirement plan sponsored by a financial institution. It may be adopted by executing a written agreement. A prototype is generally more flexible than the IRS Form 5305 or 5305-A and may have additional special features. Also called a master pension plan.

**Provision for income taxes**
An amount on the P & I statement that estimates a company’s total income tax liability for the year.

**Provisional call feature**
A stipulation in a convertible issue that allows the issuer to call the issue during the noncall period if the price of the stock reaches a certain level. In the case of convertible securities, right of an issuer to accelerate the first redemption date if the underlying common should trade at or above a certain level for a sustained period. Most typical terms are 150% of conversion price for 20 consecutive days. Note that under these circumstances the security has appreciated, at a minimum, 50% since being issued.

**Proxy**
Authorization, whether written or electronic, that shareholders' votes may be cast by others. Shareholders can and often do give management their proxies, delegating the right and responsibility to vote their shares as specified.

**Proxy Committee**
A group of individuals appointed by the board of directors of the company to formally represent the shareholders who send in proxy cards, to vote the represented shares in accordance with the shareholders' instructions.

**Proxy Committee Ballot**
The ballot signed and submitted at the meeting by the Proxy Committee. It is the legal voting of shares represented by proxies assigned to the Proxy Committee and should
always be completed.

**Proxy contest**
A battle for the control of a firm in which a dissident group seeks, from the firm's other shareholders, the right to vote those shareholders' shares in favor of the dissident group's slate of directors. Also called proxy fights.

**Proxy fight**
Often used in risk arbitrage. Technique used by an acquiring company to attempt to gain control of a takeover target. The acquirer tries to persuade the shareholders of the target company that the present management of the firm should be ousted in favor of a slate of directors favorable to the acquirer, thus enabling the acquiring company to gain control of the company without paying a premium price.

**Proxy Fight**
Competition of outside group with management for stockholders' proxies in order to accumulate votes to elect a new board of directors.

**Proxy Solicitor**
A specialist (firm) hired to gather proxy votes.

**Proxy statement**
Document intended to provide shareholders with information necessary to vote in an informed manner on matters to be brought up at a stockholders' meeting. Includes information on closely held shares. Information required by the SEC that must be provided to shareholders who wish to vote for directors and on other company decisions by proxy.

**Proxy vote**
Vote cast by one person or entity on behalf of another.

**Prudent-man**
A common law standard against which those investing the money of others (fiduciaries) are judged.

**P&S**
Purchase and sale statement. A statement provided by the broker showing change in the customer's net ledger balance after the offset of any previously established positions.

**PSA Prepayment Rate**
The Bond Market Trade Association's Mortgaged Asset-Backed Securities Division's prepayment model based on an assumed rate of prepayment each month of the then unpaid principal balance of a pool of mortgages. PSA is used primarily to derive an implied prepayment speed of new production loans. 00% PSA assumes a prepayment rate of 2%
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.
Public-purpose bond
A specific type of municipal bond used to finance public projects such as roads or government buildings. Interest on municipal bonds is federal income tax-free.

Public Securities Administration (PSA)
The trade association for primary dealers in US government securities, including MBSs.

Public securities offering
A securities issue placed with the public through an investment or commercial bank.

The Public
Individual investors who trade single securities independently or invest in intermediaries such as mutual funds, as opposed to professional investors.

Public Utility Holding Company Act of 1935
Legislation intended to eliminate many holding company abuses by reorganizing the financial structures of holding companies in the gas and electric utility industries and regulating their debt and dividend policies.

Public warehouse
Storage facility operated by an independent warehouse company on its own premises.

Publicly held
Describes a company whose stock is held by the public, whether individuals or business entities.

Publicly traded assets
Assets that can be traded in a public market, such as the stock market.

Puke
Slang for a trader selling a position, usually a losing position, as in, "When in doubt, puke it out."

Pull
Used in the context of general equities. See: Cancel.

Pullback
The downward reversal of a prolonged upward price trend.

Pulling
Investors selling off positions after a stock or bond market has increased sharply or setting up hedging positions to guard against a negative turn of the market.

Purchase
Buy; be long; have an ownership position.

**Purchase**
Method of accounting for a merger that treats the acquirer as having purchased the assets and assumed the liabilities of the acquiree, which are then written up or down to their respective fair market values. The difference between the purchase price and the net assets acquired is attributed to goodwill.

**Purchase**
Used in connection with project financing; an agreement to purchase a specific amount of project output per period.

**Purchase fee**
A charge assessed by an intermediary, such as a broker-dealer or a bank, for assisting in the sale or purchase of a security.

**Purchase fund**
Resembles a sinking fund, except that money is used to purchase bonds only if they are selling below their par value.

**Purchase group**
See: Underwriting syndicate

**Purchase loan**
A consumer loan taken to finance a purchase.

**Purchase method**
Accounting for an acquisition using market value for the consolidation of the two entities' net assets on the balance sheet. Generally, depreciation/amortization will increase for this method (due to the creation of goodwill) compared to the pooling method resulting in lower net income.

**Purchase-money mortgage**
A mortgage given by a buyer in lieu of cash when the buyer is unable to borrow commercially for the purchase of property.

**Purchase order**
A written order to buy specified goods at a stipulated price.

**Purchase and**
A method of securities distribution in which a firm purchases securities from the issuer for its own account at a stated price and then resells them, as contrasted with a best-efforts sale.
**Purchasing**  
The amount of credit available for securities trading in a margin account, after taking margin requirements into consideration.

**Purchasing power of the dollar**  
The amount of goods and services that can be exchanged for a dollar as compared with amount of a previous time period.

**Purchasing power parity**  
The notion that the ratio between domestic and foreign price levels should equal the equilibrium exchange rate between domestic and foreign currencies.

**Purchasing**  
Related: Inflation risk

**Pure discount**  
A bond that will make only one payment of principal and interest. Also called a zero-coupon bond or a single-payment bond.

**Pure**  
A theory that asserts that forward rates exclusively represent the expected future rates. In other words, the entire term structure reflects the market's expectations of future short-term rates. For example, an increasing slope to the term structure implies increasing short-term interest rates. Related: Biased expectations heories.

**Pure index fund**  
A portfolio that is managed so as to perfectly replicate the performance of the market portfolio.

**Pure monopoly**  
A market in which only one firm has total control over the entire market for a product due to some sort of barrier to entry for other firms, often a patent held by the controlling firm.

**Pure play**  
A company involved in only one line of business.

**Pure**  
Moving to higher yield-bonds.

**Purpose credit**  
Credit used for the purpose of buying, carrying or trading in securities.

**Purpose loan**  
A loan that is backed by securities and that is used to buy other securities under certain
government regulations.

**Purpose statement**
A form filed by a borrower that describes the use of a loan backed by securities, and guarantees that the funds lent will not be used illegally to buy securities against Federal Reserve regulations.

**Put**
An option granting the right to sell the underlying futures contract. Opposite of a call.

**Put bond**
A bond that the holder may choose either to exchange for par value at some date or to extend for a given number of years. If the price is above par, the put is a "premium put."

**Put-call parity**
Applies to derivative products. Option pricing principle that says, given a stock's price, a put and call of the same class must have a static price relationship because arbitrage opportunities or activities will always reestablish such a relationship.

**Put-call parity relationship**
The relationship between the price of a put and the price of a call on the same underlying security with the same expiration date, which prevents arbitrage opportunities. Holding the underlying stock and buying a put will deliver the exact payoff as buying one call and investing the present value (PV) of the exercise price. The call value equals \( C = S + P - PV(k) \).

**Put-call ratio**
The ratio of the volume of put options traded to the volume of call options traded, which is used as an indicator of investor sentiment (bullish or bearish).

**Put guarantee letter**
A bank's letter certifying that the person writing a put option has sufficient funds in an account to cover the exercise price if required.

**Put on**
Used for listed equity securities. Trade, or cross, a block of stock at the designated price and quantity. See: Print.

"Put it on"
Used for listed equity securities. "Go to the floor to transact." See: Print.

**Put option**
This security gives investors the right to sell (or put) a fixed number of shares at a fixed price within a given period. An investor, for example, might wish to have the right to sell shares of a stock at a certain price by a certain time in order to protect, or hedge, an existing
investment.

**Put an option**
To exercise a put option.

**"Put pants**
Used in the context of general equities. "Elaborate on your intentions or your inquiry," especially with respect to size, side, and price. See: Open up.

**Put price**
The price at which an asset will be sold if a put option is exercised. Also called the strike or exercise price of a put option.

**Put provision**
Gives the holder of a floating-rate bond the right to redeem the note at par on the coupon payment date.

**Put ratio**
A complex options strategy adopted when one believes a stock price will decline but wants to protect against it rising.

**Put to seller**
Exercise a put option; require that the option writer to purchase the stock at the strike price.

**Put swaption**
A financial instrument giving the buyer the right, or option, to enter into a swap as a floating-rate payer. The writer of the swaption therefore becomes the floating-rate receiver/fixed-rate payer.

**Put up**
See: Print

**Pyramid scheme**
An illegal, fraudulent scheme in which a con artist convinces victims to invest by promising an extraordinary return but instead simply uses newly invested funds to pay off any investors who insist on terminating their investment.

**Pyramiding**
A type of stock swap option exercise in which a small number of previously-owned shares is surrendered to the company to pay a portion of the exercise price, for which a slightly larger number of option shares may be purchased, which are then immediately surrendered back to the company to pay additional amounts of the exercise price, and so on until the full option price has been paid and the optionee is left with just the number of shares equal to the option spread. With the advent of broker-assisted "Cashless
Exercise/Same Day Sale” programs (see above), pyramiding has fallen out of favor.

**Q**
Fifth letter of a Nasdaq stock symbol specifying that it is in bankruptcy proceedings.

**QA**
The two-character ISO 3166 country code for QATAR.

**QAR**
The ISO 4217 currency code for the Qatar Rial.

**Q ratio or Tobin’s Q ratio**
Market value of a firm’s assets divided by replacement value of the firm’s assets. Named after James Tobin of Yale University.

**Quadratic programming**
Variant of linear programming in which the objective function is quadratic rather than linear. In portfolio selection, we often minimize the variance of the portfolio (which is a quadratic function) subject to constraints on the mean return of the portfolio.

**Qualification period**
A period of time during the first few months or weeks of a new policy when an insurance company will not reimburse a policyholder for a claim in order to allow the insurance company time to find any fraudulent information in the application.

**Qualified Domestic Relations Order (QDRO)**
A judgment, decree, or order that gives a pension plan participant access to retirement assets that must be used to pay an ex-spouse or dependent children.

**Qualified endorsement**
A signature on the back of a negotiable instrument transferring the amount to some other party but that includes wording that limits the endorser’s liability.

**Qualified opinion**
An auditor's opinion expressing certain limitations of an audit.

**Qualified plan or trust**
A tax-deferred plan allowing employer and employee contributions that build up savings, which are paid out at retirement or on termination of employment. Tax is paid only when amounts are drawn from the trust.

**Qualified retirement plan**
A retirement plan established by employers for their employees that meets the requirements of Internal Revenue Code Section 401(a) or 403(a) and is eligible for
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.
**Quantitative analysis**
An assessment of specific measurable securities or investment factors, such as cost of capital, value of assets; and projections of sales, costs, earnings, and profits. Combined with more subjective or qualitative considerations (such as management effectiveness), quantitative analysis can enhance investment decisions and portfolios.

**Quantity risk**
Occurs when the quantity of an asset to be hedged is uncertain.

**Quality spread**
Difference between Treasury securities and non-Treasury securities that are identical in all respects except for quality rating. For instance, the difference between yields on Treasuries and those on single A-rated industrial bonds. Also called credit spread.

**Quant**
A person with numerical and computer skills who carries out quantitative analyses of companies.

**Quantize**
To convert an asset or liability into a currency other than the regular trading currency.

**Quantitative analysis**
An analysis of the mathematically measurable figures of a company, such as the value of assets or projected sales.

**Quantitative research**
Use of advanced econometric and mathematical valuation models to identify the firms with the best possible prospects. Antithesis of qualitative research.

**Quanto swap**
See: Differential swap

**Quantos**
Currency options with a guaranteed exchange rate that enable buyers who like an asset, German bonds for example, but not the asset’s pricing currency, to arrange payment in a different currency for a fee.

**Quarter stock**
Stock with a par value of $25 per share.

**Quarterly**
Occurring every three months.

**Quarterly financing**
February 15, May 15, August 15 and November 15, or next working day offerings of several "coupon" security issues. Quarterly issues currently consist of a 3-year note, a 10-year note, and a 30-year bond. The Treasury sometimes offers additional amounts of outstanding long-term notes or bonds, rather than selling new security issues. See: Reopening.

**Quasi-public corporation**
A corporation that is operated privately, but is supported by the government in its operations and that often traded publicly.

**Quay**
A landing place or pier, usually of solid construction, where vessels berth to load or unload cargo.

**Quick assets**
Current assets minus inventories.

**Quick ratio**
Indicator of a company's financial strength (or weakness). Calculated by taking current assets less inventories, divided by current liabilities. This ratio provides information regarding the firm's liquidity and ability to meet its obligations. Also called the Acid test ratio.

**Quid pro quo**
An arrangement allowing a firm to use research from another firm at no cost in exchange for executing all of its trades with the firm that provides the research.

**Quiet period**
Time period an issuer is "in registration" with the SEC and may not promote its forthcoming issue.

**Quorum**
The minimum number of people who must be present or must provide a proxy to vote at a meeting in order to make a valid decision.

**Quota**
See Import Quota

**Quotation**
Highest bid and lowest offer (asked) price currently available on a security or a commodity.

**Quotation board**
The electronic board at a brokerage firm displaying prices other financial data.

**Quote rule**
Rule requiring market makers to publish quotations for any listed security when a quotation represents more than 1% of the aggregate trading volume for that security.

**Quoted price**
The price at which the last trade of a particular security or commodity took place.

**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**
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**
In banking, the risk that profits may drop or losses occur because a rise in interest rates forces up the cost of funding fixed-rate loans or other fixed-rate assets.

**Ratings**

**Ratio analysis**
A way of expressing relationships between a firm's accounting numbers and their trends over time that analysts use to establish values and evaluate risks.

**Ratio Calendar Combination**
A strategy consisting of a simultaneous position of a ratio calendar spread using "calls" and a similar position using puts, where the striking price of the "calls" is greater that the striking price of the "puts".

**Ratio Calendar Spread**
Selling more near-term options than longer-term ones purchased, all with the same strike; either puts or calls.

**Ratio Spread**
Constructed with either puts or calls, the strategy consists of buying a certain amount of options and then selling a larger quantity of more out-of-the-money options.

**Ratio Strategy**
A strategy in which one has an unequal number of long securities and short securities. Normally, it implies a preponderance of short options over either long options or long stock.

**Ratio writer**
An **option writer** who does not own the number of shares required to cover the call options he or she writes.

**Rational expectations**
The idea that people rationally anticipate the future and respond today to what they see ahead. This concept was pioneered by Nobel Laureate, Robert E. Lucas, Jr.

**Raw material**
Materials a manufacturer converts into a finished product.

**Raw material supply agreement**
As used in connection with **project financing**, an agreement to furnish a specified amount per period of a specified raw material.
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 piece of land and whatever physical property is on it.

**Real estate appraisal**
An estimate of the value of property using various methods.

**Real estate broker**
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**
The actual payback on an investment after removing the effect of inflation.

**Real time**
A real-time stock or bond quote is one that states a security's most recent offer to sell or bid (buy). Different from a delayed quote, which shows the same bid and ask prices 15 minutes and sometimes 20 minutes after a trade takes place.

**Realistic on price**
In trading, and indication that the size under consideration requires price give, especially with illiquid stocks. See: Takes price.

**Realized compound yield**
Yield assuming that coupon payments are invested at the going market interest rate at the time of their receipt and held thus until the bond matures.

**Realized profit (or loss)**
A capital gain or loss on securities held in a portfolio that has become actual by the sale or other type of surrender of one or many securities.

**Realized return**
The return that is actually earned over a given time period.

**Realized yield**
The holding-period return actually generated from an investment in a bond.

**Realtor**
A specific designation given to members of real estate firms affiliated with the National Association of Realtors (NAR) who are trained and licensed to assist clients in buying and selling real estate.

**Rebalancing**
Realigning the proportions of assets in a portfolio as needed.

**Rebate**
Negotiated return of a portion of the interest earned by the lender of stock to a short seller. When a stock is sold short, the seller borrows stock from an owner or custodian and delivers it to the buyer. The proceeds are delivered to the lender. The borrower, who is short, often wants a rebate of the interest earned on the proceeds under the lender's
control, especially when the stock can be borrowed from many sources. Note: The seller must pay the lender any dividends paid out or, in the case of bonds, interest that accrues daily during the term of the loan.

**Recalculation method**
A method of calculating required minimum distributions from a retirement plan using life expectancy tables. Unisex data tables allow a plan holder to determine the applicable life expectancy each year a distribution is required.

**Recapitalization proposal**
Often used in risk arbitrage. Plan by a target company to restructure its capitalization (debt and equity) in a way to ward off a hostile or potential suitor.

**Recapture**
A provision in a contract that allows one party to recover (recapture) some degree of possession of an asset, such as a share of the profits derived from some property.

**Receipts**
Funds collected from selling land, capital, or services, as well as collections from the public (budget receipts), such as taxes, fines, duties, and fees.

**Receive fixed counterparty**
The transactor in an interest rate swap who receives payments based on the fixed rate and makes payments based on the floating rate.

**Receive floating counterparty**
The transaction in an interest rate swap who receives payments based on the floating rate and makes payments based on the fixed rate.

**Receive versus payment**
An instruction that only cash will be accepted in exchange for delivery of securities.

**Receivables balance fractions**
The percentage of a month’s sales that remains uncollected (and part of accounts receivable) at the end of succeeding months.

**Receivables turnover ratio**
Total operating revenues divided by average receivables. Used to measure how effectively a firm is managing its accounts receivable.

**Received for Shipment Bill of Lading**
A document issued by a carrier that looks like a bill of lading as evidence of receipt of goods for shipment. This type of document is issued prior to the vessel loading and is therefore not an on board bill of lading.
**Receiver**
A bankruptcy practitioner appointed by secured creditors to oversee the repayment of debts.

**Receiver's certificate**
A debt instrument issued by a receiver and serving as a lien on the property, which provides funding to continue operations or to protect assets in receivership.

**Recession**
A temporary downturn in economic activity, usually indicated by two consecutive quarters of a falling GDP.

**Recharacterization**
The reversal of a traditional IRA contribution or conversion into a Roth IRA, or vice versa.

**Reciprocal marketing agreement**
A strategic alliance in which two companies agree to comarket each other’s products. Production rights may or may not be transferred.

**Reclamation**
A claim for the right to return or the right to demand the return of a security that has been previously accepted as a result of bad delivery or other irregularities in the delivery and settlement process.

**Record date**
(1) Date by which a shareholder must officially own shares in order to be entitled to a dividend. For example, a firm might declare a dividend on Nov. 1, payable Dec. 1 to holders of record Nov. 15. Once a trade is executed, an investor becomes the “owner of record” on settlement, which currently takes five business days for securities and one business day for mutual funds. Stocks trade ex-dividend the fourth day before the record date, since the seller will still be the owner of record and is thus entitled to the dividend.
(2) The date that determines who is entitled to payment of principal and interest due to be paid on a security. The record date for most MBS is the last day of the month, although the last day on which an MBS may be presented for the transfer is the last business day of the month. The record dates for CMOs and asset-backed securities vary with each issue.

**Recordholder**
The individual or institution listed on the Corporation’s books as a securityholder as of a specified record date.

**Record Owner**
The stockholder of record as distinguished from the beneficial owner.
Recourse
Term describing a type of loan. If a loan is with recourse, the lender has a general claim against the parent company if the collateral is insufficient to repay the debt.

Recovery
The use of depreciation of assets to offset costs; or a new period of rising securities prices 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.

**Rediscout**
To discount short-term negotiable debt instruments for a second time, after they have been discounted with a bank.

**Red-lining**
Illegal discrimination in making loans, insurance coverage, or other financial services available to people or property in certain areas because of poor economic conditions, high levels of fraudulent transaction, or frequent defaults.

**Reduction-Option Loan (ROL)**
A hybrid of a fixed-rate and adjustable-rate mortgage. An ROL the borrower to match the current mortgage rate, which then becomes fixed for the rest of the term. This reduction is usually allowed if rates drop more than 2% in a year.

**Reference rate**
A benchmark interest rate (such as LIBOR) used to specify conditions of an interest rate swap or an interest rate agreement.

**Refinancing**
An extension and/or increase in amount of existing debt.

**Reflation**
Government monetary action that causes a reversal of deflation.

**Refund**
To retire existing bond issues through the sale of a new bond issue, usually to reduce the interest rate being paid.

**Refundable**
Eligible for refunding under the terms of a bond indenture.

**Refunded bond**
Also called a prerefunded bond, a bond that originally may have been issued as a general obligation or revenue bond but that is now secured by an escrow fund consisting entirely of direct U.S. government obligations that are sufficient for paying the bondholders.

**Refunding**
Redeeming a bond with proceeds received from issuing lower-cost debt obligations with ranking equal to or superior to the debt to be redeemed.

**Refunding Escrow Deposits (REDS)**
A financial instrument involving a forward purchase contract that obligates investors to buy
bonds at a certain rate when issued. The future date coincides with the first optional call date on an existing high-rate bond. In the interim, investors’ money is invested in secondary market Treasury bonds. The Treasuries mature around the call date on the existing bonds, providing the money to buy the new issue and redeem the old one.

**Regional bank**
A bank operating in a specific region of the country, taking deposits and offering loans.

**Regional Check Processing Center (RCPC)**
A Federal Reserve check processing operation that clears checks drawn on depository institutions located within a specified area. RCPCs expedite collection and settlement of checks within the area on an overnight basis.

**Regional fund**
A mutual fund that invests in a specific geographic area overseas, such as Asia or Europe.

**Regional stock exchanges**
Organized national securities exchanges located outside of New York City and registered with the SEC. They include: the Boston, Cincinnati, Intermountain (Salt Lake City-dormant, owned by COMEX), Midwest (Chicago), Pacific (Los Angeles and San Francisco), Philadelphia (Philadelphia and Miami), and Spokane (local mining and Canadian issues, non-reporting trades) Stock Exchanges.

**Registered bond**
A bond whose issuer records ownership and interest payments. Differs from a bearer bond, which is traded without record of ownership and whose possession is the only evidence of ownership.

**Registered check**
A check issued and guaranteed by a bank for a customer who provides funds for payment of the check.

**Registered company**
A company that is listed with the SEC after submission of a required statement and compliance with disclosure requirements.

**Registered competitive market maker**
An NASD-registered dealer who acts as a market maker for a designated over-the-counter stock by buying and selling that stock to maintain stability.

**Registered equity market maker**
Member firm of the American Stock Exchange registered as a trader to make stabilizing trades for its own account in particular securities.
Registered investment adviser  
SEC-registered individual or firm that substantiates completion of education and work experience in the field, and pays an annual membership fee.

Registered investment company 
An investment firm which is registered with the SEC and complies with certain stated legal requirements.

Registered options trader 
An American Stock Exchange specialist who monitors a certain group of options to help maintain a fair and orderly market.

Registered Owner 
An individual or organization to whom certificates are directly issued and who, as a result, is recorded on the Corporation's securityholder records (as maintained by the transfer agent).

Registered Retirement Savings Plan (RRSP)  
Tax-sheltered retirement plan for Canadian citizens, much like an American IRA.

Registered representative 
A person registered with the CFTC who is employed by and solicits business for a commission house or futures commission merchant.

Registered secondary offering 
A reoffering of a large block of securities, previously publicly issued, by the holder of a large portion of some corporation through an investment firm.

Registered security 
Used in the context of general equities. Securities whose owner's name is recorded on the books of the issuer or the issuer's agent, called a registrar.

Registered Shares 
Shares that are issued in a shareholder's name as the holder of record.

Registered trader 
A member of the exchange who executes frequent trades for his or her own account.

Registrar 
Financial institution appointed to record issue and ownership of company securities.

Registration 
In the securities market describes process set up pursuant to the Securities Exchange Acts of 1933 and 1934 whereby securities that are to be sold to the public are reviewed by
the SEC.

**Registration statement**
A legal document filed with the SEC to register securities for public offering that details the purpose of the proposed public offering. The statement outlines financial details, a history of the company's operations and management, and other facts of importance to potential buyers. See: Registration.

**Regression**
A mathematical technique used to explain and/or predict. The general form is $Y = a + bX + u$, where $Y$ is the variable that we are trying to predict; $X$ is the variable that we are using to predict $Y$, $a$ is the intercept; $b$ is the slope, and $u$ is the regression residual. The $a$ and $b$ are chosen in a way to minimize the squared sum of the residuals. The ability to fit or explain is measured by the R-square.

**Regression analysis**
A statistical technique that can be used to estimate relationships between variables.

**Regression coefficient**
Term yielded by regression analysis that indicates the sensitivity of the dependent variable to a particular independent variable. See: Parameter.

**Regression equation**
An equation that describes the average relationship between a dependent variable and a set of explanatory variables.

**Regression toward the mean**
The tendency that a random variable will ultimately have a value closer to its mean value.

**Regressive tax**
A tax system that provides that average tax rates decrease with increases in individuals' income brackets.

**Regular settlement**
Transaction in which a stock contract is settled and delivered on the fifth full business day following the date of the transaction (trade date). In Japan, regular settlement occurs three business days following the trade date; in London, two weeks following the trade date (at times, three weeks); in France, once per month.

**Regular way settlement**
In the money and bond markets, the standard basis on which some security trades are settled is that the delivery of the securities purchased is made against payment in Fed funds on the day following the transaction.
Regulated commodities
The group of registered commodity futures and options contracts traded on organized U.S. futures exchanges.

Regulated investment company
An investment company allowed to pass capital gains, dividends, and interest earned on fund investments directly to its shareholders so that it is taxed only at the personal level, and double taxation is avoided.

Regulation A
A Federal Reserve Board regulation that exempts small public offerings, valued at less than $1.5MM from most registration requirements with the SEC.

Regulation D
Federal Reserve Board regulation that currently requires member banks to hold reserves against their net borrowings from foreign offices of other banks over a 28-day averaging period. Regulation D has been merged with Regulation M.

Regulation FD (fair disclosure)
U.S. SEC regulation whose purpose is to ensure that select groups of investors are not privy to firm-specific information before other investors. Executives are not allowed to reveal nonpublic information during their communications with analysts and select shareholders. If information is inadvertently released, they must take steps to broaden the dissemination of the information within 24 hours of discovering the disclosure.

Regulation G
Federal Reserve Board regulation of lenders other than commercial banks, brokers, or dealers that provide credit for the purchase of or carrying of securities. This regulation was discontinued by a 1998 amendment.

Regulation M
Federal Reserve Board regulation that currently requires member banks to hold reserves against their net borrowings from their foreign branches over a 28-day averaging period. Reg M has also required member banks to hold reserves against Eurodollars lent by their foreign branches to domestic corporations for domestic purposes.

Regulation Q
Federal Reserve Board regulation imposing caps on the rates that banks may pay on savings and time deposits. Currently time deposits with a denomination of $100,000 or more are exempt from Reg Q.

Regulation T
Federal Reserve Board regulation that deals with granting credit to customers by securities brokers, dealers, and exchange member as far as initial margin requirements and securities that
are covered under the rules.

**Regulation T Calls**
Federal Reserve Board Regulation T margin calls are issued when a customer makes a transaction in a margin account and does not meet the minimum initial requirement of 50% cash or loan available. This margin call is referred to as a Fed Call. The customer must increase the equity in the account by depositing additional funds and/or marginable securities. If the necessary amount of cash or securities is not deposited into the account within the specified time period, securities may be sold to meet the call, and the account may become restricted.

**Regulation U**
Federal Reserve Board limit on how much credit a bank can allow a customer for the purchase and carrying of margin securities.

**Regulations**
Rules specifying the appropriate behavior of agencies, organizations or individuals in the securities industry.

**Regulatory accounting procedures (RAP)**
Accounting principles required by the FHLB that allow S&Ls to elect annually to defer gains and losses on the sale of assets and amortize these deferrals over the average life of the asset sold.

**Regulatory pricing risk**
Risk that arises when insurance companies are subject to regulation of the premium rates that can they charge.

**Regulatory surplus**
The surplus as measured using regulatory accounting principles (RAP), which may allow the nonmarket valuation of assets or liabilities and which may be materially different from economic surplus.

**Rehypothecation**
Pledging to banks by securities brokers of the amount in customers’ margin account as collateral for broker loans, which are used to cover margin loans to customers for margin purchases and selling short.

**Reimbursement**
Payment made to someone for out-of-pocket expenses has incurred.

**Reinstatement**
The restoration of an insurance policy after it has lapsed for nonpayment of premiums.
Reinsurance
The spreading of risk and division of client premiums among insurance companies allowing the sharing of the burden of a large risk.

Reinvestment
Use of investment income to buy additional securities. Many mutual fund companies and investment services offer the automatic reinvestment of dividends and capital gains distributions as an option investors.

Reinvestment date
The date on which an investment’s dividend or capital gains income is reinvested, if requested by the shareholder, to purchase additional shares. Also known as the ex-dividend date.

Reinvestment effect
The impact of a change in interest rates on the reinvestment rate.

Reinvestment privilege
A shareholder’s right to reinvest dividends and buy more shares in the corporation or mutual fund.

Reinvestment rate
The rate at which an investor assumes interest payments made on a debt security can be reinvested over the life of that security.

Reinvestment risk
The risk that proceeds received in the future may have to be reinvested at a lower potential interest rate.

Re invoicing center
A central financial subsidiary an MNC uses to reduce transaction exposure by billing all home country exports in the home currency and reinvoicing to each operating affiliate in that affiliate’s local currency. It can also be used as a netting center.

Rejection
Refusal by a bank to grant credit, usually because of the applicants financial history, or refusal to accept a security presented to complete a trade, usually because of a lack of proper endorsements or violation of rules of a firm.

Relative form of purchasing power parity
Theory that the rate of change in the prices of products should be somewhat similar, but not absolutely the same when measured in a common currency, as long as transportation costs and trade barriers are unchanged.
Relative purchasing power parity (RPPP)
Idea that the rate of change in the price level of commodities in one country relative to the price level in another determines the rate of change of the exchange rate between the two countries' currencies.

Relative strength
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.

**Remit**
To pay for purchases by cash, check, or electronic transfer.

**Remote disbursement**
Technique that involves writing checks drawn on banks in remote locations so as to maximize disbursement float.

**Renegotiable rate**
A type of variable rate involving a renewable short-term "balloon" note. The interest rate on the loan is generally fixed during the term of the note, but when the balloon comes due, the lender may refinance it at a higher rate. In order for the loan to be fully amortized, periodic refinancing may be necessary.

**Renewal**
Placement of a day order identical to one not completed on the previous day.

**Renewable term life insurance**
A policy for a stated period that may be renewed if desired at the end of the term.

**Rent**
Regular payments to an owner for the use of some leased property.

**Rental lease**
See: Full-service lease

**Rent control**
Municipal regulation restricting the amount of rent that a building owner can charge.

**Reoffering yield**
In a purchase and sale, the yield to maturity at which an underwriter offers to sell bonds to investors.

**Reopen an issue**
The Treasury, when it wants to sell additional securities, will occasionally sell more of an existing issue (reopen it) rather than offer a new issue.

**Reopening**
Treasury offerings of additional amounts of outstanding issues, rather than an entirely new issue. A reopened issue will always have the same maturity date, CUSIP number, and interest rate as the original issue.

**Reorg (or Corporate Action or Reorganization)**
Any transaction involving the issuance of stock or cash, or the cancellation of stock tendered by a shareholder, such as in the case of a merger, acquisition or tender offer.

**Reorganization**
Creation of a plan to restructure a debtor's business and restore its financial health.

**Reorganization bond**
A bond issued by a company undergoing a reorganization process.

**Repatriation**
The return from abroad of the financial assets of an organization or individual.

**Replacement Chain**
A concept that views a capital investment as an indefinite commitment to a specific type of technology. The replacement chain concept can be used to allow the comparison of mutually exclusive investments with unequal lives.

**Replacement cost**
Cost to replace a firm's assets.

**Replacement cost accounting**
An accounting method that includes as part of depreciation the difference between the original purchase price of an asset and the current replacement cost.

**Replacement cost insurance**
Insurance that pays out the full amount required to replace damaged property with new property, without taking into account the depreciated value of the property.

**Replacement cycle**
The frequency with which an asset is replaced by an equivalent asset.

**Replacement value**
Current cost of replacing the firm's assets.

**Replacement-chain problem**
Idea that future replacement decisions must be taken into account in selecting among projects.

**Replicating portfolio**
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.
**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)**
The minimum expected yield by investors require in order to select a particular investment.

**Required reserves**
The dollar amounts, based on reserve ratios, that banks are required to keep on deposit at a Federal Reserve Bank.

**Required return**
The minimum expected return you would need in order to purchase an asset, that is, to make the investment.

**Required yield**
Generally referring to bonds; the yield required by the marketplace to match available expected returns for financial instruments with comparable risk.

**Rescaled Range (R/S)**
The analysis developed by H.E. Hurst to determine long-memory effects and fractional Brownian motion. Rescaled range analysis measures how the distance covered by a particle increases as we look at longer and longer time scales. For Brownian motion, the distance covered increases with the square root of time. A series which increases at a different rate is not random. See: Anti-persistence, Fractional Brownian Motion, Hurst Exponent, Persistence, Joseph Effect, Noah Effect.

**Rescheduled loans**
Bank loans that are usually altered to have longer maturities in order to assist the borrower in making the necessary repayments.

**Rescind**
To cancel a contract because of misrepresentation, fraud, or illegal procedure.

**Research and development (R"D)**
Development of new products and services by a company in order to obtain a competitive advantage.

**Research and development limited partnership**
A partnership whose investors put up money to finance new product R&D in return for profits generated from the products.

**Research department**
The office in an institutional investing organizations that analyzes markets and securities.

Research portable
Service offered to clients that transmits investment bank research electronically by computers.

Reserve
An accounting entry that properly reflects contingent liabilities.

Reserve currency
A foreign currency held by a central bank or monetary authority for the purposes of exchange intervention and the settlement of intergovernmental claims.

Reserve ratios
Specified percentages of deposits, established by the Federal Reserve Board, that banks must keep in a noninterest-bearing account at one of the twelve Federal Reserve Banks.

Reserve requirements
The percentage of different types of deposits that member banks are required to hold on deposit at the Fed.

Reservation price
The price below or above which a seller or purchaser is unwilling to go.

Reset bonds
Bonds that allow the initial interest rates to be adjusted on specific dates in order that the bonds trade at the value they had when they were issued.

Reset frequency
The frequency with which the floating rate changes.

Residential mortgage
Mortgage on a residential property, tax-deductible for individuals up to $1 million.

Residential property
Property that consists of homes, apartments, townhouses, and condominiums.

Residual assets
Assets that remain after sufficient assets are dedicated to meet all senior debtholders’ claims in full.

Residual claim
Related: Equity claim
Residual dividend approach
An approach that suggests that a firm pay dividends if and only if acceptable investment opportunities for those funds are currently unavailable.

Residual method
A method of allocating the purchase price for the acquisition of another firm among the acquired assets.

Residual Return
Return independent of the benchmark. The residual return is the return relative to beta times the benchmark return. To be exact, an asset's residual return equals its excess return minus beta times the benchmark excess return.

Residual risk
Related: Unsystematic risk

Residuals
(1) Part of stock returns not explained by the explanatory variable (the market index return). Residuals measure the impact of firm-specific events during a particular period. (2) Remainder cash flows generated by pool collateral and those needed to fund bonds supported by the collateral.

Residual value
Usually refers to the value of a lessor's property at the time the lease expires.

Resiliency
Speed with which new orders respond to a change in prices.

Resistance
An effective upper bound on prices achieved because of many willing sellers at that price level.

Resistance level
A price level above which it is supposedly difficult for a security or market to rise. Price ceiling at which technical analysts note persistent selling of a commodity or security. Antithesis of support level.

Resolution
A document that records a decision or action by a board of directors, or a bond resolution by a government entity authorizing a bond issue.

Resolution Funding Corporation (RefCorp)
A government agency established by Congress in 1989 to issue bailout bonds and raise funds for the activities of the Resolution Trust Corporation, as well as to administer
struggling institutions inherited from the disbanded Federal Savings and Loan Corporation.

**Resolution Trust Corporation (RTC)**
A government agency established in 1989 and disbanded in 1996 that administered federal savings and loan institutions that were insolvent between 1989 and August 1992 by either bailing them out or merging them.

**Restricted**
Placed on a list that dictates that the trader may not maintain positions, solicit business, or provide indications in a stock, but may serve as broker in agency trades after being properly cleared. Traders are so restricted due to investment bank involvement with the company on nonpublic activity (i.e., mergers and acquisitions defense), affiliate ownership, or underwriting activities; signified on the Quotron by a flashing "R." A restricted list and the stocks on it should never be conveyed to anyone outside of the trading areas, much less outside the firm. See: Grey list.

**Restricted account**
A margin account without enough equity to meet the initial margin requirement that is restricted from any purchases until the requirement is fulfilled.

**Restricted Securities**
The term used under Rule 144 for securities issued privately by the company, without the benefit of a registration statement. Restricted securities are subject to a holding period before they can be sold under Rule 144.

**Restricted surplus**
A portion of retained earnings not allowed by law to be used for the payment of dividends.

**Restricted stock**
Stock that must be traded in compliance with special SEC regulations concerning its purchase and resale. These restrictions generally result from affiliate ownership, M&A activity, and underwriting activity.

**Restricted Stock Award**
Grants of shares of stock subject to restrictions on sale and risk of forfeiture until vested by continued employment. Restricted stock typically vests in increments over a period of several years. Dividends or dividend equivalent rights may be paid, and award holders may have voting rights, during the restricted period.

**Restrictive covenants**
Provisions that place constraints on the operations of borrowers, such as restrictions on working capital, fixed assets, future borrowing, and payment of dividends.

**Restrictive endorsement**
An endorsement signature on the back of a check that specifies the conditions under which the check can be transferred or paid out.

**Restructuring**
The reorganization of a company in order to attain greater efficiency and to adapt to new markets. Major corporate restructuring transactions include mergers, acquisitions, tender 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.

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).
Return on investment (ROI)
Generally, book income as a proportion of net book value.

Return on sales
A measurement of operational efficiency equaling net pre-tax profits divided by net sales expressed as a percentage.

Return on total assets
The ratio of earnings available to common stockholders to total assets.

Return-to-maturity expectations
A variant of pure expectations theory that suggests that the return an investor will realize by rolling over short-term bonds to some investment horizon will be the same as holding a zero-coupon bond with a maturity that is the same as that investment horizon.

Reuters
International news and quotation service based in London.

Revaluation
An increase in the foreign exchange value of a currency that is pegged to other currencies or gold.

Reversal Arbitrage
A riskless arbitrage that involves selling the stock short, writing a put, and buying a call. The options have the same terms.

Revenue Anticipation Note (RAN)
A short-term municipal debt issue that will be repaid with anticipated revenues, such as sales taxes, from the project.

Revenue bond
A bond issued by a municipality to finance either a project or an enterprise in which the issuer pledges to the bondholders the revenues generated by the operation of the projects financed. Examples are hospital revenue bonds and sewer revenue bonds.

Revenue fund
A fund accounting for all revenues from an enterprise financed by a municipal revenue bond.

Revenue Reconciliation Act of 1993
Legislation created to reduce the federal budget deficit by cutting spending and increasing taxes.

Revenue sharing
The percentage split between the general partner and limited partners of profits and losses resulting from the operation of the involved business.

**Reversal**
Turn, unwind. For convertible reversal, selling a convertible and buying the underlying common, usually effected by an arbitrageur. For market reversal, change in direction in the stock or commodity futures markets, as charted by technical analysts in trading ranges. For options reversal, closing the positions of each aspect of an options spread or combination strategy.

**Reverse a swap**
Reswap of bonds to gain the advantage of a yield spread or tax loss and restore a bond portfolio to its position before the original swap.

**Reverse conversion**
A technique in which brokerage firms earn interest on the stocks they hold for their customers by selling the short and investing the proceeds in money market accounts. The short positions are hedged to protect against adverse market conditions.

**Reverse leverage**
Occurs when the interest on borrowings exceeds the return on investment of the funds that were borrowed.

**Reverse leveraged buyout**
Bringing back into publicly traded status a company that had been privatized by way of a leveraged buyout.

**Reverse mortgage**
A mortgage agreement allowing a homeowner to borrow against home equity and receive tax-free payments until the total principal and interest reach the credit limit of equity, and the lender is either repaid in full or takes the house.

**Reverse price risk**
A type of mortgage pipeline risk that occurs when a lender commits to sell loans to an investor at rates prevailing at the time of mortgage application but sets the note rates when the borrowers closes. The lender is thus exposed to the risk of falling rates.

**Reverse repo**
In essence, refers to a repurchase agreement. From the customer's perspective, the customer provides a collateralized loan to the seller.

**Reverse stock split**
A proportionate decrease in the number of shares, but not the total value of shares of stock held by shareholders. Shareholders maintain the same percentage of equity as before the
split. For example, a 1-for-3 split would result in stockholders owning one share for every three shares owned before the split. After the reverse split, the firm's stock price is, in this example, three times the pre-reverse split price. A firm generally institutes a reverse split to boost its stock's market price. Some think this supposedly attracts investors.

**Reversing trade**
Entering the opposite side of a currently held futures position to close out the position.

**Revised estimate**
The third estimate of GDP released about three months after the measurement period.

**Revisionary trust**
An irrevocable trust that becomes a revocable trust after a certain amount of time.

**Revocable letter of credit**
Assurance of funds issued by a bank that can be canceled at any time without prior notification to the beneficiary.

**Revocable trust**
A trust that may altered as many times as desired in which income-producing property passes directly to the beneficiaries at the time of the grantor's death. Since the arrangement can be altered at any time, the assets are considered part of the grantor's estate and they are taxed as such.

**Revolving credit agreement**
A legal commitment in which a bank promises to lend a customer up to a specified maximum amount during a specified period.

**Revolving line of credit**
A bank line of credit on which the customer pays a commitment fee and can take and repay funds at will. Normally a revolving LOC involves a firm commitment from the bank for a period of several years.

**Reward-to-volatility ratio**
Ratio of excess return to portfolio standard deviation.

**Rich**
Term for a security whose price seems too high in light of its price history.

**RICO**
Stands for Racketeer Influenced and Corrupt Organization Act. Legislation under/which inside traders may be convicted.
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"

**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**
Often we subtract from the rate of return on an asset a rate of return from another asset that has similar risk. This gives an abnormal rate of return that shows how the asset performed over and above a benchmark asset with the same risk. We can also use the beta against the benchmark to calculate an alpha, which is also risk-adjusted performance.

**Risk arbitrage**
Traditionally, the simultaneous purchase of stock in a company being acquired and the sale of stock of the acquirer. Modern risk arbitrage focuses on capturing the spreads between the market value of an announced takeover target and the eventual price at which the acquirer will buy the target's shares.

**Risk-averse**
Describes an investor who, when faced with two investments with the same expected return but different risks, prefers the one with the lower risk.

**Risk-based capital ratio**
Bank requirement that there be a minimum ratio of estimated total capital to estimated risk-weighted asset.

**Risk classes**
Groups of projects that have approximately the same amount of risk.

**Risk controlled arbitrage**
A self-funding, self-hedged series of transactions that generally use mortgage securities (MBS) as the primary assets.

**Risk factor**
In arbitrage pricing theory or the multibeta capital asset pricing model, the set of common factors that impact returns, e.g., market return, interest rates, inflation, or industrial production.

**Risk-Free Interest Rate**
Describes return available to an investor in a security somehow guaranteed to produce that return. The risk-free interest rate compensates the investor for the temporary sacrifice of consumption.

**Risk indexes**
Categories of risk used to calculate fundamental beta, including (1) market variability, (2) earnings variability, (3) low valuation, (4) immaturity and smallness, (5) growth orientation, and (6) financial risk.

**Risk profile**
The slope of a line graphed according to the value of an underlying asset on the x-axis and the value of a position exposed to risk in the underlying asset on the y-axis. Also used with
changes in value. See: Payoff profile.

**Risk-return trade-off**
The tendency for potential risk to vary directly with potential return, so that the more risk involved, the greater the potential return, and vice versa.

**Risk tolerance**
An investor's ability or willingness to accept declines in the prices of investments while waiting for them to increase in value.

**Riskless arbitrage**
The simultaneous purchase and sale of the same asset to yield a profit.

**Riskless or risk-free asset**
An asset whose future return is known today with certainty. The risk-free asset is commonly defined as short-term obligations of the US government.

**Riskless rate**
The rate earned on a riskless investment, typically the rate earned on the 90-day US Treasury Bill.

**Riskless rate of return**
The rate earned on a riskless asset.

**Riskless transaction**
A transaction that is guaranteed a profit, such as the arbitrage of a temporary differential between commodity prices in two different markets. The evaluation of whether dealer markups and markdowns in OTC transactions are reasonable. According to NASD, markups or markdowns should not exceed 5%.

**Risk lover**
A person willing to accept lower expected returns on prospects with higher amounts of risk.

**Risk management**
The process of identifying and evaluating risks and selecting and managing techniques to adapt to risk exposures.

**Risk-neutral**
Insensitive to risk.

**Risk-prone**
Willing to pay money to assume risk from others.

**Risk premium**
The reward for holding the risky equity market portfolio rather than the risk-free asset. The spread between Treasury and non-Treasury bonds of comparable maturity.

**Risk premium approach**
A common approach for tactical asset allocation to determine the relative valuation of asset classes based on expected returns.

**Risk profile**
A mapping of the change in value or profits and losses to which an organization has exposure.

**Risk-return**
The basic concept that higher expected returns accompany greater risk, and vice versa.

**Risk-reward ratio**
Relationship of substantial reward corresponding to the amount of risk taken; mathematically represented by dividing the expected return by the standard deviation.

**Risk seeker**
Investor who likes to take risk and is even willing to pay for it. Also called risk lover.

**Risk transfer**
The shifting of risk through insurance or securitization of debt because of risk aversion.

**Risky asset**
An asset whose future return is uncertain.

**Risk-adjusted return**
Return earned on an asset normalized for the amount of risk associated with that asset.

**Risk-free asset**
An asset whose future normal return is known today with certainty.

**Risk-free rate**
The rate earned on a riskless asset.

**Road show**
A promotional presentation by an issuer of securities to potential buyers about the desirable qualities of the investments.

**Rotation**
An active asset management strategy that tactically overweighted and underweighted certain sectors, depending on expected performance. Sometimes called sector rotation.
**Rocket scientist**
An employee of an investment firm (often having a Ph.D. in physics or mathematics) that works on highly mathematical models of derivative pricing.

**Roll down**
To move to an option position with a lower exercise price.

**Roll forward**
To move to an option position with a later expiration date.

**Roll, Richard**
Author of path-breaking work on asset pricing including the famous Roll critique. Finance professor at UCLA.

**Roll order**
(1) Dividend roll; (2) Replacement of a maturing position with an identical one in the new maturity; (3) Recognition of capital gain or loss while reestablishing the position at the risk of the market.

**Roll over**
To reinvest funds received from a maturing security in a new issue of the same or a similar security.

**Roll up**
To move to an option position with a higher exercise price. In venture capital, refers to the venture capitalist forcing small firms to merge operations in order to reduce costs.

**Rolling of Futures**
As financial futures have short-term maturities, often 3-9 months, before or at maturity, the future must be sold and a new future (for the same asset but with a new maturity) must be repurchased.

**Rollover**
Means that a loan is periodically repriced at an agreed spread over the appropriate, currently prevailing rate. Most term loans in the Euromarket are made on a rollover basis as to current LIBOR rate.

**Rollover IRA**
A traditional individual retirement account holding money from a qualified plan or 403(b) plan. These assets, as long as they are not mixed with other contributions, can later be rolled over to another qualified plan or 403(b) plan. Also known as a conduit IRA.

**Roll’s Critique**
That the CAPM holds by construction when performance is measured against a mean-variance
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
the way the shares were acquired, the purchaser's background, and future plans regarding the target company. The law is designed to protect against insidious takeover attempts and to keep the investing public aware of information that could affect the price of their stock. See: Williams Act.

**Rule 14-d**
Often used in risk arbitrage. Regulations and restrictions covering public tender offers and related disclosure requirements.

**Rule 144**
Restricts solicitation of buyers to complete the sell order of an insider (unless the firm is already a buyer); signified by a flashing "E" on Quotron.

**Rule 144a**
SEC rule allowing qualified institutional buyers to buy and trade unregistered securities.

**Rule 405**
NYSE codification of "know your customer" rules, which require that a customer's situation is suitable for any investment being made.

**Rule 415**
Permits corporations to file a registration for securities they intend to issue in the future when market conditions are favorable. See: Shelf registration.

**Rule of Absolute Priority**
A condition of bankruptcy proceedings under which junior (subordinated) claim holders can receive no payment until senior (priority) claim holders are paid in full.

**Rule of 72**
A formula used to determine the amount of time it will take for invested money to double at a given compound interest rate, which is 72 divided by the interest rate.

**Rules of fair practice**
Rules established by the NASD that lay down guidelines for just and equitable principles of trade and business in securities markets.

**Rumortrage**
A term combining the words "rumor" and arbitrage, used to describe trading that occurs on the basis of rumors of a takeover.

**Rump**
Usually used in the context of a merger or acquisition. A group of shareholders who refuse to tender their shares for a merger or acquisition. In a merger of Company A and Company B for example, if a sufficient number of Company B shareholders do not tender
their shares, the new company will not be able to access the cash flows of Company B.

**Run**
A run consists of a series of bid and offer quotes for different securities or maturities. Dealers give and ask for runs from each other.

**Rundown**
A summary of the amount and prices of a serial bond issue that is still available for purchase.

**Running ahead**
The illegal practice of trading in a security for a broker's personal account before placing an order for the same security for a customer.

**Runoff**
Used for listed equity securities. Series of trades printed on the ticker tape that occur on the NYSE before 4:00 p.m., but are not reported until afterwards due to heavy trading that makes the tape late.

**Russell Indexes**
US equity index widely used by pension and mutual fund investors that are weighted by market capitalization and published by the Frank Russell Company of Tacoma, Washington. For example, the Russell 3000 index includes the 3,000 largest US companies according to market capitalization.

**Russell 1000**
A market capitalization-weighted benchmark index made up of the 1000 highest-ranking US stocks in the Russell 3000.

**Russell 2000**
A market capitalization-weighted benchmark index made up of the 2000 smallest US companies in the Russell 3000.

**Russell 3000**
A market capitalization-weighted benchmark index made up of the 3000 largest US stocks, which represent about 98% of the US equity market.

**Russian Exchange**
Russia's major securities market.

**Russian Trading System (RTS)**
An electronic system in Russia, like the Nasdaq system on which the majority of Russian equities trading is conducted.
**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

**REMIE**
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**
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**
In banking, the risk that profits may drop or losses occur because a rise in interest rates forces up the cost of funding fixed-rate loans or other fixed-rate assets.

**Ratings**
An evaluation of credit quality of a company's debt issue by Thomson Financial BankWatch, Moody's, S&P, and Fitch Investors Service. Investors and analysts use ratings to assess the
riskness of an investment.

**Ratio analysis**
A way of expressing relationships between a firm's accounting numbers and their trends over time that analysts use to establish values and evaluate risks.

**Ratio Calendar Combination**
A strategy consisting of a simultaneous position of a ratio calendar spread using "calls" and a similar position using puts, where the striking price of the "calls" is greater that the striking price of the "puts".

**Ratio Calendar Spread**
Selling more near-term options than longer-term ones purchased, all with the same strike; either puts or calls.

**Ratio Spread**
Constructed with either puts or calls, the strategy consists of buying a certain amount of options and then selling a larger quantity of more out-of-the-money options.

**Ratio Strategy**
A strategy in which one has an unequal number of long securities and short securities. Normally, it implies a preponderance of short options over either long options or long stock.

**Ratio writer**
An option writer who does not own the number of shares required to cover the call options he or she writes.

**Rational expectations**
The idea that people rationally anticipate the future and respond today to what they see ahead. This concept was pioneered by Nobel Laureate, Robert E. Lucas, Jr.

**Raw material**
Materials a manufacturer converts into a finished product.

**Raw material supply agreement**
As used in connection with project financing, an agreement to furnish a specified amount per period of a specified raw material.

**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 piece of land and whatever physical property is on it.

**Real estate appraisal**
An estimate of the value of property using various methods.

**Real estate broker**
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**
The actual payback on an investment after removing the effect of inflation.

**Real time**
A real-time stock or bond quote is one that states a security's most recent offer to sell or bid (buy). Different from a delayed quote, which shows the same bid and ask prices 15 minutes and sometimes 20 minutes after a trade takes place.

**Realistic on price**
In trading, an indication that the size under consideration requires price give, especially with illiquid stocks. See: Takes price.

**Realized compound yield**
Yield assuming that coupon payments are invested at the going market interest rate at the time of their receipt and held thus until the bond matures.

**Realized profit (or loss)**
A capital gain or loss on securities held in a portfolio that has become actual by the sale or other type of surrender of one or many securities.

**Realized return**
The return that is actually earned over a given time period.

**Realized yield**
The holding-period return actually generated from an investment in a bond.

**Realtor**
A specific designation given to members of real estate firms affiliated with the National Association of Realtors (NAR) who are trained and licensed to assist clients in buying and selling real estate.

**Rebalancing**
Realigning the proportions of assets in a portfolio as needed.

**Rebate**
Negotiated return of a portion of the interest earned by the lender of stock to a short seller. When a stock is sold short, the seller borrows stock from an owner or custodian and delivers it to the buyer. The proceeds are delivered to the lender. The borrower, who is short, often wants a rebate of the interest earned on the proceeds under the lender's control, especially when the stock can be borrowed from many sources. Note: The seller must pay the lender any dividends paid out or, in the case of bonds, interest that accrues daily during the term of the loan.

**Recalculation method**
A method of calculating required minimum distributions from a retirement plan using life
expectancy tables. Unisex data tables allow a plan holder to determine the applicable life expectancy each year a distribution is required.

**Recapitalization proposal**
Often used in risk arbitrage. Plan by a target company to restructure its capitalization (debt and equity) in a way to ward off a hostile or potential suitor.

**Recapture**
A provision in a contract that allows one party to recover (recapture) some degree of possession of an asset, such as a share of the profits derived from some property.

**Receipts**
Funds collected from selling land, capital, or services, as well as collections from the public (budget receipts), such as taxes, fines, duties, and fees.

**Receive fixed counterparty**
The transactor in an interest rate swap who receives payments based on the fixed rate and makes payments based on the floating rate.

**Receive floating counterparty**
The transaction in an interest rate swap who receives payments based on the floating rate and makes payments based on the fixed rate.

**Receive versus payment**
An instruction that only cash will be accepted in exchange for delivery of securities.

**Receivables balance fractions**
The percentage of a month’s sales that remains uncollected (and part of accounts receivable) at the end of succeeding months.

**Receivables turnover ratio**
Total operating revenues divided by average receivables. Used to measure how effectively a firm is managing its accounts receivable.

**Received for Shipment Bill of Lading**
A document issued by a carrier that looks like a bill of lading as evidence of receipt of goods for shipment. This type of document is issued prior to the vessel loading and is therefore not an on board bill of lading.

**Receiver**
A bankruptcy practitioner appointed by secured creditors to oversee the repayment of debts.

**Receiver's certificate**
A debt instrument issued by a receiver and serving as a lien on the property, which provides funding to continue operations or to protect assets in receivership.

**Recession**
A temporary downturn in economic activity, usually indicated by two consecutive quarters of a falling GDP.

**Recharacterization**
The reversal of a traditional IRA contribution or conversion into a Roth IRA, or vice versa.

**Reciprocal marketing agreement**
A strategic alliance in which two companies agree to comarket each other's products. Production rights may or may not be transferred.

**Reclamation**
A claim for the right to return or the right to demand the return of a security that has been previously accepted as a result of bad delivery or other irregularities in the delivery and settlement process.

**Record date**
(1) Date by which a shareholder must officially own shares in order to be entitled to a dividend. For example, a firm might declare a dividend on Nov. 1, payable Dec. 1 to holders of record Nov. 15. Once a trade is executed, an investor becomes the "owner of record" on settlement, which currently takes five business days for securities and one business day for mutual funds. Stocks trade ex-dividend the fourth day before the record date, since the seller will still be the owner of record and is thus entitled to the dividend.

(2) The date that determines who is entitled to payment of principal and interest due to be paid on a security. The record date for most MBS is the last day of the month, although the last day on which an MBS may be presented for the transfer is the last business day of the month. The record dates for CMOs and asset-backed securities vary with each issue.

**Recordholder**
The individual or institution listed on the Corporation's books as a securityholder as of a specified record date.

**Record Owner**
The stockholder of record as distinguished from the beneficial owner.

**Recourse**
Term describing a type of loan. If a loan is with recourse, the lender has a general claim against the parent company if the collateral is insufficient to repay the debt.

**Recovery**
The use of depreciation of assets to offset costs; or a new period of rising securities prices.
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.
Red-lining
Illegal discrimination in making loans, insurance coverage, or other financial services available to people or property in certain areas because of poor economic conditions, high levels of fraudulent transaction, or frequent defaults.

Reduction-Option Loan (ROL)
A hybrid of a fixed-rate and adjustable-rate mortgage. An ROL the borrower to match the current mortgage rate, which then becomes fixed for the rest of the term. This reduction is usually allowed if rates drop more than 2% in a year.

Reference rate
A benchmark interest rate (such as LIBOR) used to specify conditions of an interest rate swap or an interest rate agreement.

Refinancing
An extension and/or increase in amount of existing debt.

Reflation
Government monetary action that causes a reversal of deflation.

Refund
To retire existing bond issues through the sale of a new bond issue, usually to reduce the interest rate being paid.

Refundable
Eligible for refunding under the terms of a bond indenture.

Refunded bond
Also called a prerefunded bond, a bond that originally may have been issued as a general obligation or revenue bond but that is now secured by an escrow fund consisting entirely of direct U.S. government obligations that are sufficient for paying the bondholders.

Refunding
Redeeming a bond with proceeds received from issuing lower-cost debt obligations with ranking equal to or superior to the debt to be redeemed.

Refunding Escrow Deposits (REDs)
A financial instrument involving a forward purchase contract that obligates investors to buy bonds at a certain rate when issued. The future date coincides with the first optional call date on an existing high-rate bond. In the interim, investors’ money is invested in secondary market Treasury bonds. The Treasuries mature around the call date on the existing bonds, providing the money to buy the new issue and redeem the old one.
A bank operating in a specific region of the country, taking deposits and offering loans.

**Regional Check Processing Center (RCPC)**
A Federal Reserve check processing operation that clears checks drawn on depository institutions located within a specified area. RCPCs expedite collection and settlement of checks within the area on an overnight basis.

**Regional fund**
A mutual fund that invests in a specific geographic area overseas, such as Asia or Europe.

**Regional stock exchanges**
Organized national securities exchanges located outside of New York City and registered with the SEC. They include: the Boston, Cincinnati, Intermountain (Salt Lake City-dormant, owned by COMEX), Midwest (Chicago), Pacific (Los Angeles and San Francisco), Philadelphia (Philadelphia and Miami), and Spokane (local mining and Canadian issues, non-reporting trades) Stock Exchanges.

**Registered bond**
A bond whose issuer records ownership and interest payments. Differs from a bearer bond, which is traded without record of ownership and whose possession is the only evidence of ownership.

**Registered check**
A check issued and guaranteed by a bank for a customer who provides funds for payment of the check.

**Registered company**
A company that is listed with the SEC after submission of a required statement and compliance with disclosure requirements.

**Registered competitive market maker**
An NASD-registered dealer who acts as a market maker for a designated over-the-counter stock by buying and selling that stock to maintain stability.

**Registered equity market maker**
Member firm of the American Stock Exchange registered as a trader to make stabilizing trades for its own account in particular securities.

**Registered investment adviser**
SEC-registered individual or firm that substantiates completion of education and work experience in the field, and pays an annual membership fee.

**Registered investment company**
An investment firm which is registered with the SEC and complies with certain stated legal
Registered options trader
An American Stock Exchange specialist who monitors a certain group of options to help maintain a fair and orderly market.

Registered Owner
An individual or organization to whom certificates are directly issued and who, as a result, is recorded on the Corporation’s securityholder records (as maintained by the transfer agent).

Registered Retirement Savings Plan (RRSP)
Tax-sheltered retirement plan for Canadian citizens, much like an American IRA.

Registered representative
A person registered with the CFTC who is employed by and solicits business for a commission house or futures commission merchant.

Registered secondary offering
A reoffering of a large block of securities, previously publicly issued, by the holder of a large portion of some corporation through an investment firm.

Registered security
Used in the context of general equities. Securities whose owner's name is recorded on the books of the issuer or the issuer's agent, called a registrar.

Registered Shares
Shares that are issued in a shareholder's name as the holder of record.

Registered trader
A member of the exchange who executes frequent trades for his or her own account.

Registrar
Financial institution appointed to record issue and ownership of company securities.

Registration
In the securities market describes process set up pursuant to the Securities Exchange Acts of 1933 and 1934 whereby securities that are to be sold to the public are reviewed by the SEC.

Registration statement
A legal document filed with the SEC to register securities for public offering that details the purpose of the proposed public offering. The statement outlines financial details, a history of the company's operations and management, and other facts of importance to
potential buyers. See: Registration.

Regression
A mathematical technique used to explain and/or predict. The general form is \( Y = a + bX + u \), where \( Y \) is the variable that we are trying to predict; \( X \) is the variable that we are using to predict \( Y \), \( a \) is the intercept; \( b \) is the slope, and \( u \) is the regression residual. The \( a \) and \( b \) are chosen in a way to minimize the squared sum of the residuals. The ability to fit or explain is measured by the R-square.

Regression analysis
A statistical technique that can be used to estimate relationships between variables.

Regression coefficient
Term yielded by regression analysis that indicates the sensitivity of the dependent variable to a particular independent variable. See: Parameter.

Regression equation
An equation that describes the average relationship between a dependent variable and a set of explanatory variables.

Regression toward the mean
The tendency that a random variable will ultimately have a value closer to its mean value.

Regressive tax
A tax system that provides that average tax rates decrease with increases in individuals' income brackets.

Regular settlement
Transaction in which a stock contract is settled and delivered on the fifth full business day following the date of the transaction (trade date). In Japan, regular settlement occurs three business days following the trade date; in London, two weeks following the trade date (at times, three weeks); in France, once per month.

Regular way settlement
In the money and bond markets, the standard basis on which some security trades are settled is that the delivery of the securities purchased is made against payment in Fed funds on the day following the transaction.

Regulated commodities
The group of registered commodity futures and options contracts traded on organized U.S. futures exchanges.

Regulated investment company
An investment company allowed to pass capital gains, dividends, and interest earned on fund
investments directly to its shareholders so that it is taxed only at the personal level, and double taxation is avoided.

**Regulation A**
A Federal Reserve Board regulation that exempts small public offerings, valued at less than $1.5MM from most registration requirements with the SEC.

**Regulation D**
Federal Reserve Board regulation that currently requires member banks to hold reserves against their net borrowings from foreign offices of other banks over a 28-day averaging period. Regulation D has been merged with Regulation M.

**Regulation FD (fair disclosure)**
U.S. SEC regulation whose purpose is to ensure that select groups of investors are not privy to firm-specific information before other investors. Executives are not allowed to reveal nonpublic information during their communications with analysts and select shareholders. If information is inadvertently released, they must take steps to broaden the dissemination of the information within 24 hours of discovering the disclosure.

**Regulation G**
Federal Reserve Board regulation of lenders other than commercial banks, brokers, or dealers that provide credit for the purchase of or carrying of securities. This regulation was discontinued by a 1998 amendment.

**Regulation M**
Federal Reserve Board regulation that currently requires member banks to hold reserves against their net borrowings from their foreign branches over a 28-day averaging period. Reg M has also required member banks to hold reserves against Eurodollars lent by their foreign branches to domestic corporations for domestic purposes.

**Regulation Q**
Federal Reserve Board regulation imposing caps on the rates that banks may pay on savings and time deposits. Currently time deposits with a denomination of $100,000 or more are exempt from Reg Q.

**Regulation T**
Federal Reserve Board regulation that deals with granting credit to customers by securities brokers, dealers, and exchange member as far as initial margin requirements and securities that are covered under the rules.

**Regulation T Calls**
Federal Reserve Board Regulation T margin calls are issued when a customer makes a transaction in a margin account and does not meet the minimum initial requirement of 50% cash or loan available. This margin call is referred to as a Fed Call. The customer
must increase the equity in the account by depositing additional funds and/or marginable securities. If the necessary amount of cash or securities is not deposited into the account within the specified time period, securities may be sold to meet the call, and the account may become restricted.

**Regulation U**

Federal Reserve Board limit on how much credit a bank can allow a customer for the purchase and carrying of margin securities.

**Regulations**

Rules specifying the appropriate behavior of agencies, organizations or individuals in the securities industry.

**Regulatory accounting procedures (RAP)**

Accounting principles required by the FHLB that allow S&Ls to elect annually to defer gains and losses on the sale of assets and amortize these deferrals over the average life of the asset sold.

**Regulatory pricing risk**

Risk that arises when insurance companies are subject to regulation of the premium rates that can they charge.

**Regulatory surplus**

The surplus as measured using regulatory accounting principles (RAP), which may allow the nonmarket valuation of assets or liabilities and which may be materially different from economic surplus.

**Rehypothecation**

Pledging to banks by securities brokers of the amount in customers' margin account as collateral for broker loans, which are used to cover margin loans to customers for margin purchases and selling short.

**Reimbursement**

Payment made to someone for out-of-pocket expenses has incurred.

**Reinstatement**

The restoration of an insurance policy after it has lapsed for nonpayment of premiums.

**Reinsurance**

The spreading of risk and division of client premiums among insurance companies allowing the sharing of the burden of a large risk.

**Reinvestment**

Use of investment income to buy additional securities. Many mutual fund companies and
investment services offer the automatic reinvestment of dividends and capital gains distributions as an option investors.

**Reinvestment date**
The date on which an investment’s dividend or capital gains income is reinvested, if requested by the shareholder, to purchase additional shares. Also known as the ex-dividend date.

**Reinvestment effect**
The impact of a change in interest rates on the reinvestment rate.

**Reinvestment privilege**
A shareholder’s right to reinvest dividends and buy more shares in the corporation or mutual fund.

**Reinvestment rate**
The rate at which an investor assumes interest payments made on a debt security can be reinvested over the life of that security.

**Reinvestment risk**
The risk that proceeds received in the future may have to be reinvested at a lower potential interest rate.

**Re invoicing center**
A central financial subsidiary an MNC uses to reduce transaction exposure by billing all home country exports in the home currency and reinvoicing to each operating affiliate in that affiliate’s local currency. It can also be used as a netting center.

**Rejection**
Refusal by a bank to grant credit, usually because of the applicant’s financial history, or refusal to accept a security presented to complete a trade, usually because of a lack of proper endorsements or violation of rules of a firm.

**Relative form of purchasing power parity**
Theory that the rate of change in the prices of products should be somewhat similar, but not absolutely the same when measured in a common currency, as long as transportation costs and trade barriers are unchanged.

**Relative purchasing power parity (RPPP)**
Idea that the rate of change in the price level of commodities in one country relative to the price level in another determines the rate of change of the exchange rate between the two countries’ currencies.

**Relative strength**
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.
**Remit**
To pay for purchases by cash, check, or electronic transfer.

**Remote disbursement**
Technique that involves writing checks drawn on banks in remote locations so as to maximize disbursement float.

**Renegotiable rate**
A type of variable rate involving a renewable short-term "balloon" note. The interest rate on the loan is generally fixed during the term of the note, but when the balloon comes due, the lender may refinance it at a higher rate. In order for the loan to be fully amortized, periodic refinancing may be necessary.

**Renewal**
Placement of a day order identical to one not completed on the previous day.

**Renewable term life insurance**
A policy for a stated period that may be renewed if desired at the end of the term.

**Rent**
Regular payments to an owner for the use of some leased property.

**Rental lease**
See: Full-service lease

**Rent control**
Municipal regulation restricting the amount of rent that a building owner can charge.

**Reoffering yield**
In a purchase and sale, the yield to maturity at which an underwriter offers to sell bonds to investors.

**Reopen an issue**
The Treasury, when it wants to sell additional securities, will occasionally sell more of an existing issue (reopen it) rather than offer a new issue.

**Reopening**
Treasury offerings of additional amounts of outstanding issues, rather than an entirely new issue. A reopened issue will always have the same maturity date, CUSIP number, and interest rate as the original issue.

**Reorg (or Corporate Action or Reorganization)**
Any transaction involving the issuance of stock or cash, or the cancellation of stock tendered
by a shareholder, such as in the case of a merger, acquisition or tender offer.

**Reorganization**  
Creation of a plan to restructure a debtor's business and restore its financial health.

**Reorganization bond**  
A bond issued by a company undergoing a reorganization process.

**Repatriation**  
The return from abroad of the financial assets of an organization or individual.

**Replacement Chain**  
A concept that views a capital investment as an indefinite commitment to a specific type of technology. The replacement chain concept can be used to allow the comparison of mutually exclusive investments with unequal lives.

**Replacement cost**  
Cost to replace a firm's assets.

**Replacement cost accounting**  
An accounting method that includes as part of depreciation the difference between the original purchase price of an asset and the current replacement cost.

**Replacement cost insurance**  
Insurance that pays out the full amount required to replace damaged property with new property, without taking into account the depreciated value of the property.

**Replacement cycle**  
The frequency with which an asset is replaced by an equivalent asset.

**Replacement value**  
Current cost of replacing the firm's assets.

**Replacement-chain problem**  
Idea that future replacement decisions must be taken into account in selecting among projects.

**Replicating portfolio**  
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 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)
The minimum expected yield by investors require in order to select a particular investment.

**Required reserves**
The dollar amounts, based on reserve ratios, that banks are required to keep on deposit at a Federal Reserve Bank.

**Required return**
The minimum expected return you would need in order to purchase an asset, that is, to make the investment.

**Required yield**
Generally referring to bonds; the yield required by the marketplace to match available expected returns for financial instruments with comparable risk.

**Rescaled Range (R/S)**
The analysis developed by H.E. Hurst to determine long-memory effects and fractional Brownian motion. Rescaled range analysis measures how the distance covered by a particle increases as we look at longer and longer time scales. For Brownian motion, the distance covered increases with the square root of time. A series which increases at a different rate is not random. See: Anti-persistence, Fractional Brownian Motion, Hurst Exponent, Persistence, Joseph Effect, Noah Effect.

**Rescheduled loans**
Bank loans that are usually altered to have longer maturities in order to assist the borrower in making the necessary repayments.

**Rescind**
To cancel a contract because of misrepresentation, fraud, or illegal procedure.

**Research and development (R"D)**
Development of new products and services by a company in order to obtain a competitive advantage.

**Research and development limited partnership**
A partnership whose investors put up money to finance new product R&D in return for profits generated from the products.

**Research department**
The office in an institutional investing organizations that analyzes markets and securities.

**Research portable**
Service offered to clients that transmits investment bank research electronically by computers.
Reserve
An accounting entry that properly reflects contingent **liabilities**.

Reserve currency
A **foreign currency** held by a central bank or monetary authority for the purposes of exchange intervention and the settlement of intergovernmental claims.

Reserve ratios
Specified percentages of deposits, established by the **Federal Reserve Board**, that banks must keep in a noninterest-bearing account at one of the twelve Federal Reserve Banks.

Reserve requirements
The percentage of different types of deposits that member banks are required to hold on deposit at the **Fed**.

Reservation price
The price below or above which a seller or purchaser is unwilling to go.

Reset bonds
**Bonds** that allow the initial **interest rates** to be adjusted on specific dates in order that the **bonds trade** at the value they had when they were issued.

Reset frequency
The frequency with which the **floating rate** changes.

Residential mortgage
**Mortgage** on a residential property, tax-deductible for individuals up to $1 million.

Residential property
Property that consists of homes, apartments, townhouses, and condominiums.

Residual assets
**Assets** that remain after sufficient assets are dedicated to meet all **senior debtholders’** claims in full.

Residual claim
Related: **Equity claim**

Residual dividend approach
An approach that suggests that a firm pay **dividends** if and only if acceptable investment opportunities for those funds are currently unavailable.

Residual method
A method of allocating the **purchase** price for the **acquisition** of another firm among the
acquired assets.

**Residual Return**
Return independent of the benchmark. The residual return is the return relative to beta times the benchmark return. To be exact, an asset's residual return equals its excess return minus beta times the benchmark excess return.

**Residual risk**
Related: Unsystematic risk

**Residuals**
(1) Part of stock returns not explained by the explanatory variable (the market index return). Residuals measure the impact of firm-specific events during a particular period.
(2) Remainder cash flows generated by pool collateral and those needed to fund bonds supported by the collateral.

**Residual value**
Usually refers to the value of a lessor's property at the time the lease expires.

**Resiliency**
Speed with which new orders respond to a change in prices.

**Resistance**
An effective upper bound on prices achieved because of many willing sellers at that price level.

**Resistance level**
A price level above which it is supposedly difficult for a security or market to rise. Price ceiling at which technical analysts note persistent selling of a commodity or security. Antithesis of support level.

**Resolution**
A document that records a decision or action by a board of directors, or a bond resolution by a government entity authorizing a bond issue.

**Resolution Funding Corporation (RefCorp)**
A government agency established by Congress in 1989 to issue bailout bonds and raise funds for the activities of the Resolution Trust Corporation, as well as to administer struggling institutions inherited from the disbanded Federal Savings and Loan Corporation.

**Resolution Trust Corporation (RTC)**
A government agency established in 1989 and disbanded in 1996 that administered federal savings and loan institutions that were insolvent between 1989 and August 1992 by either bailing them out or merging them.
**Restricted**
Placed on a list that dictates that the trader may not maintain positions, solicit business, or provide indications in a stock, but may serve as broker in agency trades after being properly cleared. Traders are so restricted due to investment bank involvement with the company on nonpublic activity (i.e., mergers and acquisitions defense), affiliate ownership, or underwriting activities; signified on the Quotron by a flashing "R." A restricted list and the stocks on it should never be conveyed to anyone outside of the trading areas, much less outside the firm. See: Grey list.

**Restricted account**
A margin account without enough equity to meet the initial margin requirement that is restricted from any purchases until the requirement is fulfilled.

**Restricted Securities**
The term used under Rule 144 for securities issued privately by the company, without the benefit of a registration statement. Restricted securities are subject to a holding period before they can be sold under Rule 144.

**Restricted surplus**
A portion of retained earnings not allowed by law to be used for the payment of dividends.

**Restricted stock**
Stock that must be traded in compliance with special SEC regulations concerning its purchase and resale. These restrictions generally result from affiliate ownership, M&A activity, and underwriting activity.

**Restricted Stock Award**
Grants of shares of stock subject to restrictions on sale and risk of forfeiture until vested by continued employment. Restricted stock typically vests in increments over a period of several years. Dividends or dividend equivalent rights may be paid, and award holders may have voting rights, during the restricted period.

**Restrictive covenants**
Provisions that place constraints on the operations of borrowers, such as restrictions on working capital, fixed assets, future borrowing, and payment of dividends.

**Restrictive endorsement**
An endorsement signature on the back of a check that specifies the conditions under which the check can be transferred or paid out.

**Restructuring**
The reorganization of a company in order to attain greater efficiency and to adapt to new markets. Major corporate restructuring transactions include mergers, acquisitions, tender
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**.
**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).

**Return on investment (ROI)**
Generally, book income as a proportion of net book value.

**Return on sales**
A measurement of operational efficiency equaling net pre-tax profits divided by net sales
expressed as a percentage.

**Return on total assets**
The ratio of earnings available to common stockholders to total assets.

**Return-to-maturity expectations**
A variant of pure expectations theory that suggests that the return an investor will realize by rolling over short-term bonds to some investment horizon will be the same as holding a zero-coupon bond with a maturity that is the same as that investment horizon.

**Reuters**
International news and quotation service based in London.

**Revaluation**
An increase in the foreign exchange value of a currency that is pegged to other currencies or gold.

**Reversal Arbitrage**
A riskless arbitrage that involves selling the stock short, writing a put, and buying a call. The options have the same terms.

**Revenue Anticipation Note (RAN)**
A short-term municipal debt issue that will be repaid with anticipated revenues, such as sales taxes, from the project.

**Revenue bond**
A bond issued by a municipality to finance either a project or an enterprise in which the issuer pledges to the bondholders the revenues generated by the operation of the projects financed. Examples are hospital revenue bonds and sewer revenue bonds.

**Revenue fund**
A fund accounting for all revenues from an enterprise financed by a municipal revenue bond.

**Revenue Reconciliation Act of 1993**
Legislation created to reduce the federal budget deficit by cutting spending and increasing taxes.

**Revenue sharing**
The percentage split between the general partner and limited partners of profits and losses resulting from the operation of the involved business.

**Reversal**
Turn, unwind. For convertible reversal, selling a convertible and buying the underlying common, usually effected by an arbitrageur. For market reversal, change in direction in the
stock or commodity futures markets, as charted by technical analysts in trading ranges. For options reversal, closing the positions of each aspect of an options spread or combination strategy.

**Reverse a swap**
Reswap of bonds to gain the advantage of a yield spread or tax loss and restore a bond portfolio to its position before the original swap.

**Reverse conversion**
A technique in which brokerage firms earn interest on the stocks they hold for their customers by selling the short and investing the proceeds in money market accounts. The short positions are hedged to protect against adverse market conditions.

**Reverse leverage**
Occurs when the interest on borrowings exceeds the return on investment of the funds that were borrowed.

**Reverse leveraged buyout**
Bringing back into publicly traded status a company that had been privatized by way of a leveraged buyout.

**Reverse mortgage**
A mortgage agreement allowing a homeowner to borrow against home equity and receive tax-free payments until the total principal and interest reach the credit limit of equity, and the lender is either repaid in full or takes the house.

**Reverse price risk**
A type of mortgage pipeline risk that occurs when a lender commits to sell loans to an investor at rates prevailing at the time of mortgage application but sets the note rates when the borrowers closes. The lender is thus exposed to the risk of falling rates.

**Reverse repo**
In essence, refers to a repurchase agreement. From the customer's perspective, the customer provides a collateralized loan to the seller.

**Reverse stock split**
A proportionate decrease in the number of shares, but not the total value of shares of stock held by shareholders. Shareholders maintain the same percentage of equity as before the split. For example, a 1-for-3 split would result in stockholders owning one share for every three shares owned before the split. After the reverse split, the firm's stock price is, in this example, three times the pre-reverse split price. A firm generally institutes a reverse split to boost its stock's market price. Some think this supposedly attracts investors.
Reversing trade
Entering the opposite side of a currently held futures position to close out the position.

Revised estimate
The third estimate of GDP released about three months after the measurement period.

Revisionary trust
An irrevocable trust that becomes a revocable trust after a certain amount of time.

Revocable letter of credit
Assurance of funds issued by a bank that can be canceled at any time without prior notification to the beneficiary.

Revocable trust
A trust that may altered as many times as desired in which income-producing property passes directly to the beneficiaries at the time of the grantor's death. Since the arrangement can be altered at any time, the assets are considered part of the grantor's estate and they are taxed as such.

Revolving credit agreement
A legal commitment in which a bank promises to lend a customer up to a specified maximum amount during a specified period.

Revolving line of credit
A bank line of credit on which the customer pays a commitment fee and can take and repay funds at will. Normally a revolving LOC involves a firm commitment from the bank for a period of several years.

Reward-to-volatility ratio
Ratio of excess return to portfolio standard deviation.

Rich
Term for a security whose price seems too high in light of its price history.

RICO
Stands for Racketeer Influenced and Corrupt Organization Act. Legislation under/which inside traders may be convicted.

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"

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
Often we subtract from the rate of return on an asset a rate of return from another asset that has similar risk. This gives an abnormal rate of return that shows how the asset performed over and above a benchmark asset with the same risk. We can also use the beta against the benchmark to calculate an alpha, which is also risk-adjusted performance.

Risk arbitrage
Traditionally, the simultaneous purchase of stock in a company being acquired and the sale of stock of the acquirer. Modern risk arbitrage focuses on capturing the spreads between the market value of an announced takeover target and the eventual price at which the acquirer will buy the target’s shares.

**Risk-averse**
Describes an investor who, when faced with two investments with the same expected return but different risks, prefers the one with the lower risk.

**Risk-based capital ratio**
Bank requirement that there be a minimum ratio of estimated total capital to estimated risk-weighted asset.

**Risk classes**
Groups of projects that have approximately the same amount of risk.

**Risk controlled arbitrage**
A self-funding, self-hedged series of transactions that generally use mortgage securities (MBS) as the primary assets.

**Risk factor**
In arbitrage pricing theory or the multibeta capital asset pricing model, the set of common factors that impact returns, e.g., market return, interest rates, inflation, or industrial production.

**Risk-Free Interest Rate**
Describes return available to an investor in a security somehow guaranteed to produce that return. The risk-free interest rate compensates the investor for the temporary sacrifice of consumption.

**Risk indexes**
Categories of risk used to calculate fundamental beta, including (1) market variability, (2) earnings variability, (3) low valuation, (4) immaturity and smallness, (5) growth orientation, and (6) financial risk.

**Risk profile**
The slope of a line graphed according to the value of an underlying asset on the x-axis and the value of a position exposed to risk in the underlying asset on the y-axis. Also used with changes in value. See: Payoff profile.

**Risk-return trade-off**
The tendency for potential risk to vary directly with potential return, so that the more risk involved, the greater the potential return, and vice versa.
Risk tolerance
An investor's ability or willingness to accept declines in the prices of investments while waiting for them to increase in value.

Riskless arbitrage
The simultaneous purchase and sale of the same asset to yield a profit.

Riskless or risk-free asset
An asset whose future return is known today with certainty. The risk-free asset is commonly defined as short-term obligations of the US government.

Riskless rate
The rate earned on a riskless investment, typically the rate earned on the 90-day US Treasury Bill.

Riskless rate of return
The rate earned on a riskless asset.

Riskless transaction
A transaction that is guaranteed a profit, such as the arbitrage of a temporary differential between commodity prices in two different markets. The evaluation of whether dealer markups and markdowns in OTC transactions are reasonable. According to NASD, markups or markdowns should not exceed 5%.

Risk lover
A person willing to accept lower expected returns on prospects with higher amounts of risk.

Risk management
The process of identifying and evaluating risks and selecting and managing techniques to adapt to risk exposures.

Risk-neutral
Insensitive to risk.

Risk-prone
Willing to pay money to assume risk from others.

Risk premium
The reward for holding the risky equity market portfolio rather than the risk-free asset. The spread between Treasury and non-Treasury bonds of comparable maturity.

Risk premium approach
A common approach for tactical asset allocation to determine the relative valuation of asset classes based on expected returns.
Risk profile
A mapping of the change in value or profits and losses to which an organization has exposure.

Risk-return
The basic concept that higher expected returns accompany greater risk, and vice versa.

Risk-reward ratio
Relationship of substantial reward corresponding to the amount of risk taken; mathematically represented by dividing the expected return by the standard deviation.

Risk seeker
Investor who likes to take risk and is even willing to pay for it. Also called risk lover.

Risk transfer
The shifting of risk through insurance or securitization of debt because of risk aversion.

Risky asset
An asset whose future return is uncertain.

Risk-adjusted return
Return earned on an asset normalized for the amount of risk associated with that asset.

Risk-free asset
An asset whose future normal return is known today with certainty.

Risk-free rate
The rate earned on a riskless asset.

Road show
A promotional presentation by an issuer of securities to potential buyers about the desirable qualities of the investments.

Rotation
An active asset management strategy that tactically overweighted and underweighted certain sectors, depending on expected performance. Sometimes called sector rotation.

Rocket scientist
An employee of an investment firm (often having a Ph.D. in physics or mathematics) that works on highly mathmatic models of derivative pricing.

Roll down
To move to an option position with a lower exercise price.
**Roll forward**
To move to an option position with a later expiration date.

**Roll, Richard**
Author of path-breaking work on asset pricing including the famous Roll critique. Finance professor at UCLA.

**Roll order**
(1) Dividend roll; (2) Replacement of a maturing position with an identical one in the new maturity; (3) Recognition of capital gain or loss while reestablishing the position at the risk of the market.

**Roll over**
To reinvest funds received from a maturing security in a new issue of the same or a similar security.

**Roll up**
To move to an option position with a higher exercise price. In venture capital, refers to the venture capitalist forcing small firms to merge operations in order to reduce costs.

**Rolling of Futures**
As financial futures have short-term maturities, often 3-9 months, before or at maturity, the future must be sold and a new future (for the same asset but with a new maturity) must be repurchased.

**Rollover**
Means that a loan is periodically repriced at an agreed spread over the appropriate, currently prevailing rate. Most term loans in the Euromarket are made on a rollover basis as to current LIBOR rate.

**Rollover IRA**
A traditional individual retirement account holding money from a qualified plan or 403(b) plan. These assets, as long as they are not mixed with other contributions, can later be rolled over to another qualified plan or 403(b) plan. Also known as a conduit IRA.

**Roll's Critique**
That the CAPM holds by construction when performance is measured against a mean-variance 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 the way the shares were acquired, the purchaser's background, and future plans regarding the target company. The law is designed to protect against insidious takeover attempts and to keep the investing public aware of information that could affect the price of their stock. See: Williams Act.

**Rule 14-d**
Often used in risk arbitrage. Regulations and restrictions covering public tender offers and related disclosure requirements.

**Rule 144**
Restricts solicitation of buyers to complete the sell order of an insider (unless the firm is already a buyer); signified by a flashing "E" on Quotron.

**Rule 144a**
SEC rule allowing qualified institutional buyers to buy and trade unregistered securities.

**Rule 405**
NYSE codification of "know your customer" rules, which require that a customer's situation is suitable for any investment being made.

**Rule 415**
Permits corporations to file a registration for securities they intend to issue in the future when market conditions are favorable. See: Shelf registration.

**Rule of Absolute Priority**
A condition of bankruptcy proceedings under which junior (subordinated) claim holders can receive no payment until senior (priority) claim holders are paid in full.

**Rule of 72**
A formula used to determine the amount of time it will take for invested money to double at a given compound interest rate, which is 72 divided by the interest rate.

**Rules of fair practice**
Rules established by the NASD that lay down guidelines for just and equitable principles of trade and business in securities markets.

**Rumortrage**
A term combining the words "rumor" and arbitrage, used to describe trading that occurs on the basis of rumors of a takeover.

**Rump**
Usually used in the context of a merger or acquisition. A group of shareholders who refuse to tender their shares for a merger or acquisition. In a merger of Company A and Company B for example, if a sufficient number of Company B shareholders do not tender their shares, the new company will not be able to access the cash flows of Company B.

**Run**
A run consists of a series of bid and offer quotes for different securities or maturities. Dealers give and ask for runs from each other.
Rundown
A summary of the amount and prices of a serial bond issue that is still available for purchase.

Running ahead
The illegal practice of trading in a security for a broker's personal account before placing an order for the same security for a customer.

Runoff
Used for listed equity securities. Series of trades printed on the ticker tape that occur on the NYSE before 4:00 p.m., but are not reported until afterwards due to heavy trading that makes the tape late.

Russell Indexes
US equity index widely used by pension and mutual fund investors that are weighted by market capitalization and published by the Frank Russell Company of Tacoma, Washington. For example, the Russell 3000 index includes the 3,000 largest US companies according to market capitalization.

Russell 1000
A market capitalization-weighted benchmark index made up of the 1000 highest-ranking US stocks in the Russell 3000.

Russell 2000
A market capitalization-weighted benchmark index made up of the 2000 smallest US companies in the Russell 3000.

Russell 3000
A market capitalization-weighted benchmark index made up of the 3000 largest US stocks, which represent about 98% of the US equity market.

Russian Exchange
Russia's major securities market.

Russian Trading System (RTS)
An electronic system in Russia, like the Nasdaq system on which the majority of Russian equities trading is conducted.

S
Fifth letter of a Nasdaq stock symbol specifying a beneficial interest.

SA
The two-character ISO 3166 country code for SAUDI ARABIA.
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.
**SHP**
The ISO 4217 currency code for the Saint Helena Pound.

**SIAC**
See: Security Industry Automated Corporation

**SIC**
See: Standard Industrial Classification

**SIMEX**
See: Singapore International Monetary Exchange

**SG**
The two-character ISO 3166 country code for SINGAPORE.

**SGD**
The ISO 4217 currency code for the Singapore Dollar.

**SH**
The two-character ISO 3166 country code for SAINT HELENA.

**SI**
The two-character ISO 3166 country code for SLOVENIA.

**SIT**
The ISO 4217 currency code for the Slovenian Tolar.

**SJ**
The two-character ISO 3166 country code for SVALBARD AND JAN MAYEN.

**SK**
The two-character ISO 3166 country code for SLOVAKIA.

**SKK**
The ISO 4217 currency code for the Slovak Republic Koruna.

**SL**
The two-character ISO 3166 country code for SIERRA LEONE.

**SLL**
The ISO 4217 currency code for the Sierra Leone Leone.

**SM**
The two-character ISO 3166 country code for SAN MARINO.

**SMBS**
See: Stripped mortgage backed securities

**SN**
The two-character ISO 3166 country code for SENEGAL.

**SO**
The two-character ISO 3166 country code for SOMALIA.

**SOES**
See: Small Order Execution System

**SOS**
The ISO 4217 currency code for the Somalian Shilling.

**SR**
The two-character ISO 3166 country code for SURINAME.

**SRG**
The ISO 4217 currency code for the Surinam Guilder.

**ST**
The two-character ISO 3166 country code for SAO TOME AND PRINCIPE.

**STD**
The ISO 4217 currency code for the Sao Tome & Principe Dobra.

**SV**
The two-character ISO 3166 country code for EL SALVADOR.

**SVC**
The ISO 4217 currency code for the El Salvador Colon.

**SWIFT**
See: Society for Worldwide Interbank Financial Telecommunications

**SY**
The two-character ISO 3166 country code for SYRIAN ARAB REPUBLIC.

**SYP**
The ISO 4217 currency code for the Syrian Pound.
**SZ**
The two-character ISO 3166 country code for SWAZILAND.

**SZL**
The ISO 4217 currency code for the Swaziland Lilangeni.

**Safe harbor**
Often used in risk arbitrage as a form of shark repellent. A target company acquires a business so onerously regulated that it makes the target less attractive, giving it, in effect, a safe harbor.

**Safe harbor lease**
A lease to transfer tax benefits of ownership (depreciation and debt tax shield) from the lessee, if the lessee could not use them, to a lessor that could use them.

**Safekeep**
Holding by a bank of bonds and money market instruments. For a fee, the bank clips coupons and presents for payment at maturity.

**Safety cushion**
In a contingent immunization strategy, the difference between the initially available immunization level and the safety-net return.

**Safety-net return**
The minimum available return that will trigger an immunization strategy in a contingent immunization strategy.

**Salary**
Regular wages and benefits an employee receives from an employer.

**Salary freeze**
A temporary halt to increases in salary due to financial difficulties experienced by a company.

**Salary reduction plan**
A plan allowing employees to contribute pre-tax income to a tax-deferred retirement plan.

**Salary**
A low-cost, no-frills version of a 401(k) employee savings plan available to companies with 25 or fewer employees. It allows employees to make pretax contributions to their IRAs through salary reduction each year. The Small Business Job Protection Act of 1996 replaced SARSEPs with SIMPLE (Savings Incentive Match Plan for Employees) plans. Existing SARSEPs were allowed to add new participants, but new plans could not be formed after December 31, 1996.
Sale
An agreement between a buyer and a seller on the price to be paid for a security, followed by delivery.

Sale and lease-back
Sale of an existing asset to a financial institution that then leases it back to the user. Related: Lease.

Sales charge
The fee charged by a mutual fund at purchase of shares, usually payable as a commission to a marketing agent, such as a financial adviser, who is thus compensated for assistance to a purchaser. It represents the difference, if any, between the share purchase price and the share net asset value.

Sales Contract
Contract between a seller and buyer for the sale of goods, services, or both.

Sales forecast
A key input to a firm’s financial planning process. External sales forecasts are based on historical experience, statistical analysis, and consideration of various macroeconomic factors.

Sales literature
Material written by an institution selling a product, which informs potential buyers of the product and its benefits.

Sales load
See: Sales charge

Sales tax
A percentage tax on the selling price of goods and services.

Sales-type lease
The leasing out of a firm’s own equipment, such as a printing company leasing its own presses, thereby competing with an independent leasing company.

Sallie Mae
See: Student Loan Marketing Association

Salomon Brothers World Equity Index (SBWEI)
A top-down, float capitalization-weighted index used to measure the performance of fixed-income and equity markets. It includes approximately 6000 companies in 22 countries.
Salomon
A benchmark index that includes institutionally traded bonds other than U.S. issues that have a fixed rate and a remaining maturity of one year or longer.

Salvage value
Scrap value of plant and equipment.

Same-Day Funds Settlement (SDFS)
A method of settlement used in trading between well-collateralized parties in good-the-same-day federal funds used by the Depository Trust Company for transactions in US government securities, short-term municipal notes, medium-term commercial paper notes, CMOs, and other instruments.

Same-day substitution
Offsetting changes in a margin account during the day that result in no overall change in the balance of the account.

Samurai bond

Samurai market
The foreign market in Japan.

Santa Claus Rally
Seasonal rise in stock prices in the last week of the calendar year, between Christmas and New Year’s Day.

Sao Paulo Stock Exchange
See: Bolsa de Valores de Sao Paulo

S&P
Standard & Poor’s Corporation.

S&P 500 Composite Index
Index of 500 widely held common stocks that measures the general performance of the market.

S&P phenomenon
Tendency of stocks newly added to the S&P composite index to rise in price due to a large number of buy orders as S&P-related index funds add the stock to their portfolios.

S&P Rating
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**
Personal savings as a percentage of disposable personal income.

**Scale**
Payment of different rates of interest on CDs of varying maturities. A bank is said to "post a scale." Commercial paper dealers also post scales.

**Scale-enhancing**
Describes a project that is in the same risk class as the whole firm. That is, the project allows the firm to grow larger in the context of their current business rather than diversify into new businesses.

**Scale in**
Gradually taking a position in a security or market over time.

**Scale order**
Order to buy (sell) a security that specifies the total amount to be bought (sold) and the amount to be bought (sold) at successively decreasing (increasing) price intervals; often placed in order to average the price.

**Scaling**
How the characteristics of an object change as you change the size of your measuring device. For a three dimensional object, it could be the volume of an object covered as you increase the radius of a covering sphere. In a times series, it could be the change in the amplitude of the time series as you increase the increment of time.

**Scalp**
To trade for small gains. Scalping normally involves establishing and liquidating a position quickly, usually within the same day.

**Scalping**
Buying up the good IPOs.

**Scattered**
Used for listed equity securities. Unconcentrated buy or sell interest.

**Scenario analysis**
The use of horizon analysis to project total returns under different reinvestment rates and future market yields.

**Schedule C**
Describes membership requirements and procedures of NASD, in its bylaws.

**Schedule 13d**
Disclosure form required when more than 5% of any class of equity securities in a publicly
held corporation is purchased.

**Scheduled cash flows**
The mortgage **principal** and **interest payments** due to be paid under the terms of the mortgage, not including possible **prepayments**.

**Scorched-earth policy**
Often used in risk arbitrage. Any technique a company that has become the **target** of a **takeover** attempt uses to make itself unattractive to the **acquirer**. For example, it may agree to sell off its **crown jewels**, or schedule all **debt** to become due immediately after a **merger**.

**SCORE**
Stands for **Special Claim on Residual Equity**, a certificate that entitles the owner to the **capital appreciation** of an **underlying security**, but not to the **dividend** income from the security.

**S Corporation**
A corporation that elects not to be taxed as a corporation. That is, the corporation does not directly pay federal income tax on its earnings. Similar to a partnership, it passes its income or losses and other tax items on to its shareholders.

**Screen stocks**
To analyze various **stocks** in search of stocks that meet predetermined criteria. For example, a simple value screen would sort all **stocks** by their price-to-book ratio and pick the **stocks** with the lowest ratios as candidates for the value **portfolio**.

**Scrip**
A temporary document that represents a portion of a **share** of **stock**, often issued after a **stock split** or **spin-off**.

**Scripophily**
Collecting **stock** and **bond** certificates for their scarcity, rather than for their value as **securities**.

**Search costs**
Costs associated with locating a **counterparty** to a **trade**, including explicit costs (such as advertising) and implicit costs (such as the value of time). Related: **Information costs**.

**Seasonally adjusted**
Mathematically adjusted by moderating a macroeconomic indicator (e.g., oil prices/imports) so that relative comparisons can be drawn from month to month all year.

**Seasoned**
In the case of equity, having gained a reputation for quality with the investing public and
enjoying liquidity in the secondary market; in the case of convertibles, having traded for at least 90 days after issue in Europe, and thus available for sale legally to U.S. investors.

**Seasoned datings**
Extended credit for customers who order goods in periods other than peak seasons.

**Seasoned issue**
Issue of a security for which there is an existing market. Related: Unseasoned issue.

**Seasoned new issue**
A new issue of stock after the company’s securities have previously been issued. A seasoned new issue of common stock can be made using a cash offer or a rights offer.

**Seat**
Position of membership on a securities or commodity exchange, bought and sold at market prices.

**SEC fee**
Small fee the SEC charges to sellers of equity securities on an exchange.

**Second market**
The OTC market.

**Second pass regression**
A cross-sectional regression of portfolio returns on betas. The estimated slope is the measurement of the reward for bearing systematic risk during the period analyzed.

**Second-preferred stock**
Preferred stock issue that has less priority in claiming dividends and assets in liquidation than another issue of preferred stock.

**Second round**
Stage of venture capital financing following the start-up and first round stages and before the mezzanine level stage.

**Second-to-die insurance**
Insurance policy that, on the death of the spouse dying last, pays a death benefit to the heirs that is designed to cover estate taxes.

**Secondary distribution/offering**
Public sale of previously issued securities held by large investors, usually corporations or institutions, as distinguished from a primary distribution, where the seller is the issuing corporation. The sale is handled off the NYSE, by a securities firm or a group of firms, and the shares are usually offered at a fixed price related to the current market price of the
Secondary issue
(1) Procedure for selling blocks of seasoned issues of stocks. (2) More generally, sale of already issued stock.

Secondary Offering
An IPO in which privately held shares in a corporation are sold to the public.

Secondary market
The market in which securities are traded after they are initially offered in the primary market. Most trading occurs in the secondary market. The New York Stock Exchange, as well as all other stock exchanges and the bond markets, are secondary markets. Seasoned securities are traded in the secondary market.

Secondary mortgage market
Buying and selling existing mortgage loans, which are often pooled and traded as mortgage-backed securities.

Secondary stocks
Stocks with smaller market capitalization, less quality and more risk than blue chip issues that behave differently than larger corporations' stocks.

Second mortgage lending
Loans secured by real estate previously pledged in a first mortgage.

Secert Ballot
In the context of corporate governance, this is also known as confidential voting. An independent third party or employees sworn to secrecy are used to count proxy votes, and the management usually agrees not to look at individual proxy cards. This can help eliminate potential conflicts of interest for fiduciaries voting shares on behalf of others, or can reduce pressure by management on shareholder-employees or shareholder-partners.

Section 16(a)
Provision of the Securities Exchange Act of 1934 that requires company insiders to file periodic reports disclosing their holdings and changes in beneficial ownership of the company's equity securities.

Section 16(b)
Provision of the Securities Exchange Act of 1934 that requires that any profit realized by a company insider from the purchase and sale, or sale and purchase, of the company's equity securities within a period of less than six months must be returned to the company. It is also known as the "short-swing profit" rule.
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
Debt that has first claim on specified assets in the event of default.

**securities**
Paper certificates (definitive securities) or electronic records (book-entry securities) evidencing ownership of equity (stocks) or debt obligations (bonds).

**Securities Act of 1933**
First law designed to regulate securities markets, requiring registration of securities and disclosure.

**Securities Acts Amendments of 1975**
Legislation to encourage the establishment of a national market system together with a system for nationwide clearing and settlement of securities transactions.

**Securities analysts**
Related: Financial analysts

**Securities and commodities exchanges**
Exchanges on which securities, options, and futures contracts are traded by members for their own accounts and for the accounts of customers.

**Securities & Exchange Commission (SEC)**
A federal agency that regulates the US financial markets. The SEC also oversees the securities industry and promotes full disclosure in order to protect the investing public against malpractice in the securities markets.

**Securities and Exchange Commission Rules**
Rules enacted by the SEC to assist in the regulation of US financial markets.

**Securities Exchange Act of 1934**
Legislation that created the SEC, outlawing dishonest practices in the trading of securities.

**Securities Exchange of Thailand (SET)**
The only stock market in Thailand, based in Bangkok.

**Securities Industry Association (SIA)**
An association of broker-dealers who sell taxable securities, which lobbies the government, records industry trends, and keeps records of broker profits.

**Securities Industry Committee on Arbitration (SICA)**
A private group that provides mediation services in case of customer complaints against securities firms.

**Securities Investor Protection Corporation (SIPC)**
A nonprofit corporation that insures customers' securities and cash held by member brokerage firms against the failure of these firms.

**Securities loan**
The loan of securities between brokers, often to cover a client’s short sale; or a loan secured by marketable securities.

**Securities markets**
Organized exchanges plus over-the-counter markets in which securities are traded.

**Securitization**
Creating a more or less standard investment instrument such as the mortgage pass-through security, by pooling assets to back the instrument. Also refers to the replacement of nonmarketable loans and/or cash flows provided by financial intermediaries with negotiable securities issued in the public capital markets.

**Security**
Piece of paper that proves ownership of stocks, bonds, and other investments.

**Security characteristic line**
A plot on a graph of the excess return on a security over the risk-free rate as a function of the excess return on the market. The slope of this line is the security’s beta.

**Security deposit (initial)**
Synonymous with the term margin. A cash amount that must be deposited with the broker for each contract as a guarantee of fulfillment of the futures contract. It is not considered as part payment or purchase. Related: Margin.

**Security deposit (maintenance)**
Related: Maintenance margin

**Security Industry Automated Corporation (SIAC)**
Entity that executes automated DOT orders.

**Security interest**
The creditor’s right to take property or a portion of property offered as security.

**Security market line**
Line representing the relationship between expected return and market risk or beta. The slope of this line is the risk premium for beta.

**Security Market Line**
The linear relationship between expected asset returns and betas posited by the Capital Asset Pricing Model.
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
Mortgage whose entire principal is paid off in a specified period of time with regular interest and principal payments.

**Self-directed IRA**
An IRA that the account holder can after appointing a custodian manager to carry out investment instructions.

**Self-employed income**
Taxable income of a person involved in a sole proprietorship or other sort of free-lance work.

**Self-employment tax**
A tax self-employed people must pay to qualify them to receive Social Security benefits at retirement.

**Self-liquidating loan**
Loan to finance current assets. The sale of the current assets provides the cash to repay the loan.

**Self-regulatory organization (SRO)**
Organizations that enforce fair, ethical, and efficient practices in the securities and commodity futures industries, including all national securities and commodities exchanges and the NASD.

**Self-selection**
Consequence of a contract that induces only one group to participate.

**Self-Similar**
When small parts of an object are qualitatively the same, or similar to the whole object. In certain deterministic fractals, like the Sierpinski Triangle, small pieces look the same as the entire object. In random fractals, small increments of time will be statistically similar to larger increments of time. See: Fractal.

**Self-supporting debt**
Bonds sold to finance a project that will produce enough revenue through tolls or other charges to retire the debt. See: revenue bond.

**Self Tender**
A company buys back a certain percentage of its own shares through a tender offer.

**Self-tender offer**
A company that tenders for its own shares.

**Sell the book**
Used for listed equity securities. **Order to a broker** by the holder of a large quantity of **shares** of a **security** to sell all that can be absorbed at the current **bid** price. The term derives from the **specialist's book** - the record of all the **buy** and sell orders **members** have placed in the stock one handles. In this scenario, the buyers potentially include those in the specialist's book, the specialist for its own account, and broker-dealers.

**Sell hedge**
Related: short hedge.

**Sell limit order**
Conditional trading **order** that indicates that a **security** may be sold at the designated price or higher. Related: Buy limit order.

**Sell off**
Sale of securities under pressure. See: Dumping.

**Sell order**
An **order** that may take many different forms by an **investor** to a broker to sell a particular **stock**, bond, option, future, mutual fund, or other holding.

**Sell out**
**Liquidation** of a margin account after a customer has failed to bring an account to a required level by producing additional **equity** after a margin call. The selling of **securities** by a **broker** when a customer fails to pay for them. The complete sale of all **securities** in a new issue.

**Sell plus order**
**Market** or **limit order** to sell a stated amount of **stock** provided that the price to be obtained is not lower than the last sale if the last sale was a plus, or **zero plus tick**, and is not lower than the last sale plus the minimum fractional change in the stock if the last sale was a minimum or zero minimum tick. (In a **limit order**, sale cannot be lower than the limit, regardless of tick.)

**Sell price**
See: Redemption price

**Sell-side analyst**
A financial **analyst** who works for a brokerage firm and whose recommendations are passed on to the brokerage firm's customers. Also called a Wall Street **analyst**.

**Seller financing**
Funding a purchase by a seller's loan to the buyer, the buyer takes full title to the property when the loan is fully repaid.
**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
in safekeeping. The seller borrows securities needed to cover as the stock in the box may be inaccessible, or the seller may not wish to disclose ownership.

**Selling the spread**
A spread whose option to be sold is trading at a higher premium than the option to be bought.

**Selling Syndicate**
A group of underwriters that issues a firm's securities by buying them from the issuing firm and reselling them to a group of smaller brokerage firms for eventual sale to individual investors.

**Semistrong-form efficiency**
A form of pricing efficiency that profits the price of a security fully reflects all public information (including, but not limited to, historical price and trading patterns). Compare weak-form efficiency and strong-form efficiency.

"Send it in"
Market language: "I bought your stock - 'send it in' (and possibly more)."

**Senior debt**
Debt whose terms in the event of bankruptcy, require it to be repaid before subordinated debt receives any payment.

**Senior mortgage bond**
A bond that, in the event of bankruptcy, will be redeemed before any other bonds are repaid.

**Senior refunding**
Replacement by the issuer of securities with 5-to 12-year maturities with securities of 15-year or longer maturities, in order to delay, reduce, or consolidate payment.

**Senior security**
A security that, in the event of bankruptcy, will be redeemed before any other securities.

**Seniority**
The order of repayment. In the event of bankruptcy, senior debt must be repaid before subordinated debt is repaid.

**Sensitive market**
A market that reacts to a great extent to good or bad news.

**Sensitivity analysis**
Analysis of the effect on a project's profitability of changes in sales, cost, and so on.
**Sentiment indicators**
The general feeling of investors about the state of the market, such as whether they are bullish or bearish.

**Separate customer**
Method of allocating insurance by the Securities Investor Protection Corporation. Each account that is under the name of a different person or group of people is entitled to maximum protection.

**Separate tax returns**
Tax returns of married persons who choose to file their returns individually, usually because this approach produces lower overall tax payments.

**Separate Trading of Registered Interest and Principal Securities (STRIPS)**
Long-term notes and bonds divided into principal and interest-paying components, which may be transferred and sold in amounts as small as $1000. STRIPS are sold at auction at a minimum par amount, varying for each issue. The amount is an arithmetic function of the issue's interest rate.

**Separation property**
The property that portfolio choice can be divided into two independent tasks: (1) Determination of the optimal risky portfolio, which is a purely mathematical problem, and (2) the personal choice of the best mix of the optimal risky portfolio and the risk-free asset, which depends on a person's degree of risk aversion.

**Separation theorem**
Theory that the value of an investment to an individual is not dependent on consumption preferences. That is, investors will want to accept or reject the same investment projects by using the NPV rule, regardless of personal preference.

**Serial bonds**
Corporate bonds arranged so that specified principal amounts become due on specified dates. Related: Term bonds.

**Serial covariance**
The covariance between a variable and the lagged value of the variable; the same as autocorrelation.

**Serial entrepreneur**
Business person that successfully starts (does not kill) a number of different businesses.

**Serial redemption**
The redemption of a serial bond.
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.
Settlement date
The date on which payment is made to settle a trade. For stocks traded on US exchanges, settlement is currently three business days after the trade. For mutual funds, settlement usually occurs in the US the day following the trade. In some regional markets, foreign shares may require months to settle.

Settlement options
The various possibilities open to a beneficiary under a life insurance policy as to how the benefit will be paid out.

Settlement price
A figure determined by the closing range that is used to calculate gains and losses in futures market accounts. Settlement prices are used to determine gains, losses, margin calls, and invoice prices for deliveries. Related: Closing range.

Settlement rate
The rate suggested in Financial Accounting Standards Board (FASB) 87 for discounting the obligations of a pension plan. The rate at which the pension benefits could be effectively settled if the company sponsoring the pension plan wishes to terminate its pension obligation.

Settlement risk
The risk that one party will deliver and the counterparty will not be able to pay and vice versa.

Severally but not jointly
An agreement between members of an underwriting group buy a new issue (severally), but not to assume joint liability for shares left unsold by other members.

Severance
A settlement received after being released from a corporation. In the context of corporate governance, an agreement that assures high-level executives of their positions or some compensation and are not contingent upon a change in control.

Segmented market
A market that is partially or wholly isolated from other markets by one or more market imperfections.

Shadow calendar
A backlog of securities issues registered with the SEC, awaiting the determination of an offer date.

Shadow stock
First, a public company may create a stock that strips out the market wide movements
for the purpose of rewarding managers. That is, the management might have done a
great job - but the traded stock plummets because the market as a whole plummets. A
second interpretation of shadow stock is a phantom stock that is created by a private
company (i.e. that does not have stock traded either on exchange or over the counter)
again for the purpose of performance evaluation and rewards.

**Shadows**
The thin lines above and below the real body on a candlestick line.

**Shakeout**
A dramatic change in market conditions that forces speculators to sell their positions, often
at a loss.

**Sham**
A business transaction, such as a limited partnership, that is entered into for the sake of
avoiding tax.

**Shanghai Stock Exchange**
One of two major securities markets in China.

**Share broker**
A discount broker who charges per share traded, and reduces the per unit charge as the
number of shares traded increases, as opposed to a dealer who charges a percentage of the
dollar amount of the trade.

**Share repurchase**
Program by which a corporation buys back its own shares in the open market. It is usually
done when shares are undervalued. Since repurchase reduces the number of shares
outstanding and thus increases earnings per share, it tends to elevate the market value of the
remaining shares held by stockholders.

**Shared Appreciation Mortgage (SAM)**
A mortgage with a low rate of interest, offset by giving the lender some portion of the
appreciation in the value of the underlying property.

**Shareholder**
Person or entity that owns shares or equity in a corporation.

**Shareholders' equity**
This is a company's total assets minus total liabilities. A company's net worth is the same
thing.

**Shareholders' letter**
A section of an annual report where one can find general overall discussion by
management of successful and failed strategies. Provides guidance for looking at specific parts of the report.

**Shares**
Certificates or book entries representing ownership in a corporation or similar entity.

**Shares authorized**
The maximum number of shares of stock of a company allowed in the articles of incorporation, which may be changed only by a shareholder vote. See: Issued and outstanding.

**Shark repellant**
Often used in risk arbitrage. Examples are golden parachutes, poison pills, safe harbor, and scorched-earth policy. Porcupine provision. Amendment to company charter intended to protect it against takeover.

**Shark watcher**
Often used in risk arbitrage. Firm specializing in the early detection of takeover activity. Such a firm, whose primary business is usually the solicitation of proxies for client corporations, monitors trading patterns in a client’s stock and attempts to determine the identity of parties accumulating shares.

**Sharpe benchmark**
A statistically created benchmark that adjusts for a manager’s index-like tendencies. Named after William Sharpe, Nobel Laureate, and developer of the capital asset pricing model.

**Sharpe ratio**
A measure of a portfolio's excess return relative to the total variability of the portfolio. Related: Treynor index. Named after William Sharpe, Nobel Laureate, and developer of the capital asset pricing model.

**Shelf offering**
Offering of registered securities covered by a prospectus whose distribution is not underwritten on a firm commitment basis. The shares may be sold in one block or in small amounts from time to time in agency or principal transactions. See: Rule 415.

**Shelf registration**
A procedure that allows firms to file one registration statement covering several issues of the same security. SEC Rule 415, adopted in the 1980s, allows a corporation to comply with registration requirements up to two years prior to a public offering of securities. With the registration "on the shelf," the corporation, by simply updating regularly filed annual, quarterly, and related reports to the SEC, can go to the market as conditions become favorable with a minimum of administrative preparation and expense.
Shell corporation
An incorporated company with no significant assets or operations, often formed to obtain financing before beginning actual business, or as a front tax evasion.

Shenzhen Stock Exchange
One of two major securities markets in China.

Shipper's Export Declaration (SED)
Document required by the U.S. Department of Commerce for exports of certain controlled items, and/or shipments to certain countries, and/or shipments anywhere that exceed certain dollar amounts. This document is used to monitor shipments of controlled goods.

Shipping Documents
A generic term for the various types of forms required for overseas shipments, such as commercial invoices, transport documents, packing lists, origin certificates, etc.

Shirking
The tendency to do less work when the return is smaller. Owners may have more incentive to shirk if they issue equity as opposed to debt, because they retain less ownership interest in the company and therefore may receive a smaller return. Thus, shirking is considered an agency cost of equity.

Shock absorbers
See: Circuit breakers

Shogun bond
Dollar bond issued in Japan by a nonresident.

Shootout
Venture capital jargon. Refers to two or more venture capital firms fighting for the startup.

Shop
Wall Street slang for a firm.

Shopped stock
Sell inquiry that has been seen by or shown to other dealers before coming to an investment bank.

Shopping
Seeking to obtain the best bid or offer available by calling a number of dealers and/or brokers.
Short
One who has sold a contract to establish a market position and who has not yet closed out this position through an offsetting purchase; the opposite of a long position. Related: Long.

Short against the box
A short sale of a stock is where the seller actually owns the stock, but does not want to close out the position.

Short Bias
In the context of hedge funds, a style of management where part or all of the fund consists of short sales.

Short bonds
Bonds with short (not much time to maturity) current maturities.

Short book

Short coupon
A bond payment covering less than six-months' interest, because the original issue date is less than six months from the first scheduled interest payment. A bond with a short time to maturity, usually two years or less.

Short covering
Used in the context of general equities. Actual purchase of securities by a short seller to replace those borrowed at the time of a short sale.

Short exempt
Used for listed equity securities. A special trading situation where a short sale is allowed on a minustick. The owners of a convertible trading at parity can sell the equivalent amount of common short on a minus tick, assuming they have the firm intention to convert.

Short hedge
The sale of futures contracts to eliminate or lessen the possible decline in value of an approximately equal amount of the actual financial instrument or physical commodity. Related: Long hedge.

Short interest
Total number of shares of a security that investors have sold short and that have not been repurchased to close out the short position. Usually, investors sell short to profit from price declines. As a result, the short interest is often an indicator of the amount of pessimism in the market about a particular security, although there are other reasons to short that
are not related to pessimism. For example, hedging strategies for mergers and acquisition as well as derivative positions may involve short sales.

**Short interest theory**
The theory that a large interest in short positions in stocks will precede a rise in the market prices, because the short positions must eventually be covered by purchases of the stock.

**Short-Form Registration**
A procedure that allows a firm to condense its registration statement and prospectus by referencing financial data already on file with the SEC.

**Short position**
Occurs when a person sells stocks he or she does not yet own. Shares must be borrowed, before the sale, to make "good delivery" to the buyer. Eventually, the shares must be bought back to close out the transaction. This technique is used when an investor believes the stock price will drop.

**Short ratio**
Number of shares of a security that investors have sold short divided by average daily volume of the security (measured over 30 days or 90 days). There are various interpretations of this ratio. When people short, it is usually (but not always) because they are pessimistic about the security’s future performance. Shorting involves buying at at some point however. Hence, some would interpret a high short ratio as an indicator that there will be some buying pressure on the security that would increase its price.

**Short-run operating activities**
Events and decisions concerning the short-term finance of a firm, such as how much inventory to order and whether to offer cash terms or credit terms to customers.

**Short sale**
Selling a security that the seller does not own but is committed to repurchasing eventually. It is used to capitalize on an expected decline in the security’s price.

**Short-sale rule**
An SEC rule requiring that short sales be made only in a market that is moving upward; this means either on an uptick from the last sale, or showing no downward movement.

**Short selling**
Establishing a market position by selling a security one does not own in anticipation of the price of that security falling.

**Short settlement**
Trade settlement made prior to the standard five-day period due to customer request.
**Short-short test**
A repealed IRS restriction, that used to limit profits from short-term trading, which three months, to 30% of gross income. The penalty for exceeding this limit would be the loss of certain tax-free benefits.

**Short squeeze**
When a lack of supply tends to force prices upward. In particular, when prices of a stock or commodity futures contracts start to move up sharply and many traders with short positions are forced to buy stocks or commodities in order to cover their positions and prevent (limit) losses. This sudden surge of buying leads to even higher prices, further aggravating the losses of short sellers who have not covered their positions.

**Short straddle**
A straddle involves both purchase and sale. In short straddle one put and one call are sold.

**Short-term capital gain**
A profit on the sale of a security or mutual fund share that has been held for one year or less. A short-term capital gain is taxed as ordinary income.

**Short-term interest rates**
Interest rates on loan contracts-or debt instruments such as Treasury bills, bank certificates of deposit or commercial paper-having maturities of less than one year. Often called money market rates.

**Short-term reserves**
Investments in interest-bearing bank deposits, money market instruments, U.S. Treasury bills, and short-term bonds.

**Short tender**
Practice prohibited by SEC that involves the use of borrowed stock to respond to a tender offer.

**Short-term**
Any investments with a maturity of one year or less.

**Short-term bond fund**
A bond mutual fund holding short to intermediate-term bonds that have maturities of three to five years.

**Short-term debt**
Debt obligations, recorded as current liabilities, requiring payment within the year.

**Short-term financial plan**
A financial plan that covers the coming fiscal year.
Short-term gain (or loss)
A profit or loss realized from the sale of securities held for less than a year that is taxed at normal income tax rates if the net total is positive.

Short-term investment services
Services that assist firms in making short-term investments.

Short-term solvency ratios
Ratios used to judge the adequacy of liquid assets for meeting short-term obligations as they come due, including (1) the current ratio, (2) the acid test ratio, (3) the inventory turnover ratio, and (4) the accounts receivable turnover ratio.

Short-term tax exempts
Short-term securities issued by states, municipalities, and quasi-government entities such as local housing and urban renewal agencies.

Short-term trend
Erratic price movements that last less than three weeks.

Shortage cost
Costs that fall with increases in the level of investment in current assets.

Shortfall risk
The risk of falling short of any investment target.

Show me buyer/seller
Used in the context of general equities. Customer who has not placed a firm order to buy stock but has requested that the salesperson propose available stock for sale or purchase, along with the asking/bid price. See: Bidding buyer.

Show stopper
A legal barrier, such as a scorched-earth policy or shark repellant system, that firms use to prevent a takeover.

Show and tell list
Used in the context of general equities. Block list which is full of real customer indications (rather than profile).

Shrinkage
Discrepancy between a firm’s actual inventory and its recorded inventory due to theft, deterioration, loss, or clerical problems.

Shut out the book
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 good faith loan that is unsecured and requires only the borrower's signature on the loan application.

**Signatures on Proxies**
The basic rule of acceptability is that if the signature reads as the proxy is printed, it is acceptable. If an individual signs on behalf of another individual and states a legal representation, it is acceptable. Examples: executor, guardian, power of attorney; but not husband, wife, next of kin, etc. On corporate registrations, a manual signature in the name of the Corporation is acceptable. A facsimile signature is also acceptable, but a rubber-stamp signature with a signature line is acceptable only if signed on that line. With joint tenancy, one signature is sufficient, as in the case of one trustee signing for two or more.

**Significant influence**
The holding of a large portion of the equity of a corporation, usually at least 20%, which gives the holder a significant amount of control over the corporation. This degree of holding must be recorded in a firm's financial statements.

**Significant order**
An order to buy or sell a large enough quantity of securities that the price of the security may be affected. Institutional investors usually spread out such an order over a few days or weeks to avoid adverse pressures on the buy or sell price.

**Significant order imbalance**
A large number of buy or sell orders for a stock that cause an abnormally wide spread between bid and offer prices, and often causes the exchange to halt the sale of the stock until significant balance has been reestablished.

**Silent partner**
A partner in a business who has no role in management but shares in the liability, tax responsibility, and cash flow.

**Silver Parachutes**
These provisions are similar to Golden Parachutes in that they provide severance payments upon a change in corporate control, but unlike Golden Parachutes, a large number of a firm's employees are eligible for these benefits.

**Single-buyer policy**
Ex-Im Bank practice allows the exporter to insure certain transactions selectively.

**Single European Act**
Act intended to eliminate barriers on trade and capital flows between and among European countries.
Simple compound growth method
Calculating a growth rate by relating terminal value to initial value and assuming a constant percentage annual rate of growth between the two values.

Simple interest
Interest calculated as a simple percentage of the original principal amount. Compare to compound interest.

Simple IRA
A salary deduction plan for retirement benefits provided by some small companies with no more than 100 employees.

Simple linear regression
A regression analysis between only two variables, one dependent and the other explanatory.

Simple linear trend model
An extrapolative statistical model that asserts that earnings have a base level and grow at a constant amount each period.

Simple moving average
The mean, calculated at any time over a past period of fixed length.

Simple prospect
An investment opportunity in which only two outcomes are possible.

Simple rate of return
The return from investments figured by dividing income plus capital gains by the amount of capital invested. The effect of compounding is not taken into account.

Simplified Employee Pension (SEP) plan
A pension plan in which both the employee and the employer contribute to an individual retirement account. Also available to the self-employed.

Simulation
The use of a mathematical model to imitate a situation many times in order to estimate the likelihood of various possible outcomes. See: Monte Carlo simulation.

Singapore International Monetary Exchange (SIMEX)
A leading futures and options exchange in Singapore.

Single-country fund
A mutual fund that invests in individual countries outside the United States.

Single-factor model
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
maturity.

**Sit tight**
Directive from the trader to the customer to be patient, emphasizing that one's piece of business will be executed.

**Size**
Refers to the magnitude of an offering, an order, or a trade. Large as in the size of an offering, the size of an order, or the size of a trade. Size is relative from market to market and security to security. "I can buy size at 102-22," means that a trader can buy a significant amount at 102-22. Small is <10,000 shares. Medium is 15,000-25,000 shares. Good is 50,000 shares. Size is 100,000 shares. Good six-figure size is 200,000-300,000 shares. Multiple six-figure size is >300,000 shares. Size of the market is actual number of shares represented in one's market, or bid and offering; unless specified, assumed to be at least 500 to 1000 shares, depending on the stock.

**Size out the book**
Overt action to exclude a public bid or offer from participation in a print through trading a larger size in the book. Can never size out a market order. See: Priority, shut out the book.

**Skewed distribution**
Probability distribution in which an unequal number of observations lie below (negative skew) or above (positive skew) the mean.

**Skewness**
Negative skewness means there is a substantial probability of a big negative return. Positive skewness means that there is a greater-than-normal probability of a big positive return.

**Skill**
The ability to accurately forecast returns. We measure skill using the information coefficient.

**Skip-day settlement**
Settling a trade one business day beyond what is normal.

**Skip-payment privilege**
A mortgage contract clause giving borrowers the right to skip payments if they are ahead of schedule.

**Skort-Swing Transaction**
Any purchase and sale, or sale and purchase, of the issuer's equity securities by an insider within a period of less than six months, See: Section 16(b) above.

**SLD last sale**
Shortened version of "sold last sale," which shows up on the consolidated tape when a large change (one point for lower priced securities and two points for higher-priced securities) occurs between transactions.

**Sleeper**
Stock in which there is little investor interest but that has significant potential to gain in price once its attractions are recognized. Antithesis of high flyer.

**Sleeping beauty**
Often used in risk arbitrage. Potential takeover target that has not yet been approached by an acquirer. Such a company usually has particularly attractive features, such as a large amount of cash, or undervalued real estate or other assets.

**Slippage**
The difference between estimated transactions costs and actual transactions costs. The difference usually represents revisions to price difference or spread and commission costs.

**Slump**
A temporary fall in performance, often describing consistently falling security prices for several weeks or months.

**Small business policy**
Insurance coverage available to new exporters and small businesses.

**Small-cap**
A stock with a small capitalization, meaning a total equity value of less than $500 million.

**Small-capitalization (small-cap)**
A mutual fund that invests primarily in stocks of companies whose market value is less than $1 billion. Small-cap stocks historically have been more volatile than large-cap stocks, and often perform differently from the overall market.

**Small-capitalization (small cap)**
The stocks of companies whose market value is less than $1 billion. Small-cap companies tend to grow faster than large-cap companies and typically use any profits for expansion rather than pay dividends. They also are more volatile than large-cap companies, and have a higher failure rate.

**Small-firm effect**
The tendency of small firms (in terms of total market capitalization) to outperform the stock market (consisting of both large and small firms).

**Small investor**
An individual person investing in small quantities of stock or bonds. This group of investors
makes up a minimal fraction of total stock ownership.

**Small issues exemption**
Securities issues that involve less than $1.5 million are not required to file a registration statement with the SEC. Instead, they are governed by Regulation A, for which only a brief offering statement is needed.

**Small Order Execution System (SOES)**
Three-tiered system of automatic execution of an order at the best price. Size is either 200, 500, or, most often, 1000 shares.

**Smart money**
Investors who make consistent profits in the market, regardless of the investing environment, by making wise, educated moves.

**Smidge**
Small amount of price, usually +/- 1/8 or 1/4.

**Smithsonian Agreement**
A revision to the Bretton Woods international monetary system that was signed at the Smithsonian Institution in Washington, D.C., in December 1971. Included were a new set of par values, widened bands to +/- 2.25% of par, and an increase in the official value of gold to US$38.00 per ounce.

**Snake**
Arrangement established in 1972, that ties European currencies to each other within specified limits.

**Snowballing**
Used in the context of general equities. Process by which the exercise of stop orders in a declining or advancing market causes further downward or upward pressure on prices, thus triggering more stop orders and more price pressure, and so on.

**Social Security benefits**
Monthly government payments to retired workers or their families who have paid Social Security taxes for a total of 40 quarters or 10 years.

**Social Security Disability Income Insurance**
Program financed by the Social Security tax to provide assistance to disabled individuals with disabilities expected to last at least one year, to compensate for lost income.

**Socially conscious mutual fund**
A mutual fund that does not invest in companies that have interests in socially unacceptable markets or produce harmful products or by-products, such as high levels of
environmental pollution.

**Society for Worldwide Interbank Financial Telecommunications (SWIFT)**
A dedicated computer network to support funds transfer messages internationally between over 900 member banks world-wide.

"Soft" capital rationing
Constraints on spending that under certain circumstances can be violated or even viewed as constituting targets rather than absolute limits.

**Soft currency**
A money of a country that is expected to drop in value relative to other currencies.

**Soft dollars**
The value of research services that brokerage houses supply to *investment managers* "free of charge" in exchange for the investment manager's business *commissions*.

**Soft landing**
A term describing a growth rate high enough to keep the economy out of recession, but also slow enough to prevent high *inflation* and *interest rates*.

**Soft market**
A buyer's *market* in which supply exceeds demand, causing little *trading* activity and wide *bid-ask spreads*.

**Soft spot**
*Stocks* or groups of stocks that remain weak in a strong *market*.

**Softs**
Tropical *commodities* such as coffee, sugar, and cocoa.

**Sold away**
Refers to over-the-counter trading. Having sold *stock* to another *dealer* before making the present *offering*.

**Sold-out market**
Unavailability of a *futures contract* in a particular *commodity* or *maturity date* because of *contract executions* and limited *offerings*.

**Sole proprietorship**
A business owned by a single individual. A sole proprietor pays no corporate income tax but has unlimited *liability* for business *debts* and obligations.
Solvency
Ability to meet obligations.

Sour bond
A bond issue that has defaulted on interest or principal payments, and will thus trade at a large discount and a poor credit rating.

Source of funds seller
Customer seller of stock for the purpose of raising cash for other purchases. Such a seller will sell only at advantageous prices, and not aggressively.

Sources and applications of funds statement
See: Statement of cash flows

South African Futures Exchange (SAFEX)
Electronic futures and options exchange based in South Africa.

Sovereign risk
The risk that a central bank will impose foreign exchange regulations that will reduce or negate the value of FX contracts. Also refers to the risk of government default on a loan made to a country or guaranteed by it.

Span
To cover all contingencies within a specified range.

SPDRs
SPDRs (Spiders) are designed to track the value of the Standard & Poor's 500 Composite Price Index. Stands for Standard & Poor's Depositary Receipt. They trade on the American Stock Exchange under the symbol SPY. SPDRs are similar to closed-end funds but are formally known as, a unit investment trust. One SPDR unit is valued at approximately one-tenth (1/10) of the value of the S&P 500. Dividends are disbursed quarterly, and are based on the accumulated stock dividends held in trust, less any expenses of the trust. See: Mid-cap SPDR.

Special arbitrage account
A margin account with lower cash requirements, reserved for transactions that are hedged by an offsetting position in futures or options.

Special assessment bond
A municipal bond with interest paid by the taxes of the community benefiting from the bond-funded project.

Special bid
A method of purchasing a large block of stock on the NYSE by advertising a client’s large
buy order, and matching it up with a number of other traders’ smaller sell orders.

**Special bond account**
A special broker margin account used only for transactions in US government bonds, municipals, and eligible listed and unlisted non-convertible corporate bonds.

**Special dividend**
Also referred to as an extra dividend. Dividend that is unlikely to be repeated.

**Special Drawing Rights (SDR)**
A form of international reserve assets, created by the IMF in 1967, whose value is based on a portfolio of widely used currencies.

**Special Meeting**
Refers to a meeting of shareholders outside the usual annual general meeting. In the context of corporate governance, some limitations either increase the level of shareholder support required to call a special meeting beyond that specified by state law or eliminate the ability to call one entirely. Such provisions add an extra time delay to many proxy fights, since bidders must wait until the regularly scheduled annual meeting to replace board members or dismantle takeover defenses.

**Special-Purpose Entity**
A financing technique in which a company decreases its risk by creating separate partnerships, rather than subsidiaries, for certain holdings and solicits outside investors to take on the risk. In order to qualify as a special-purpose entity, whose financial results are not carried on the company’s books, the unit must meet strict accounting guidelines. Compare to subsidiary.

**Specialist**
On an exchange, the member firm that is designated as the market maker (or dealer for a listed common stock). Member of a stock exchange who maintains a “fair and orderly market” in one or more securities. Only one specialist can be designated for a given stock, but dealers may be specialists for several stocks. In contrast, there can be multiple market makers in the OTC market. Major functions include executing limit orders on behalf of other exchange members for a portion of the floor broker’s commission, and buying or selling for the specialist’s own account to counteract temporary imbalances in supply and demand and thus prevent wide swings in stock prices.

**Specialist block purchase and sale**
Purchase of a large number of securities by a specialist for himself or to pass on to another floor trader or block buyer.

**Specialist market**
Market in a stock made solely by the specialist, as no public orders, and henceforth no depth,
exist in the market.

**Specialist unit**
A specialist who maintains a stable market by acting as a principal and agent for other brokers in one or many stocks.

**Specialist's book**
Chronological record maintained by a specialist that includes the specialist's own inventory of securities, market orders to sell short, and limit orders and stop orders that other stock exchange members have placed with the specialist.

**Specialist's short-sale ratio**
The percentage of the total short sales of stock sold short by specialists.

**Specific issues market**
The market in which dealers reverse in securities they wish to short.

**Specific Return**
The part of the excess return not explained by common factors. The specific return is independent of (uncorrelated with) the common factors and the specific returns to other assets. It is also called the idiosyncratic return.

**Specific risk**
See: Unique risk

**Spectail**
A dealer doing business with retail but concentrating more on acquiring and financing its own speculative positions.

**Speculation**
Purchasing risky investments that present the possibility of large profits, but also pose a higher-than-average possibility of loss. A profitable strategy over the long term if undertaken by professionals who hedge their portfolios to control the amount of risk.

**Speculative**
Securities that involve a high level of risk.

**Speculative demand (for money)**
The need for cash to take advantage of investment opportunities that may arise.

**Speculative-grade bond**
Bond rated Ba or lower by Moody's, or BB or lower by S&P, or an unrated bond.

**Speculative motive**
A desire to hold **cash** in order to be poised to exploit any attractive **investment** opportunity requiring a cash expenditure that might arise.

**Speculative stock**

Very risky stock.

**Speculator**

One who attempts to anticipate price changes and, through buying and selling contracts, aims to make **profits**. A **speculator** does not use the **market** in connection with the production, processing, marketing, or handling of a product. See: **Trader**.

**Speed**

Related: **Prepayment speed**

**Spider**

See: **SPDRs**

**Spike**

**Order** ticket that shows the **stock**, price, number of **shares**, type, and account of the **order**. Origin: Practice of placing the ticket on a metal spike upon **execution** or **cancellation**. Spike is also a sudden, drastic increase in a company's share price.

**Spin-off**

A company can create an independent company from an existing part of the company by selling or distributing new **shares** in the so-called spin-off.

**Spinning**

In investment banking, the practice of an investment bank setting aside portions of a corporation's Initial Public Offering for senior management of that corporation. Ethically questionable practice which appears to be a form of bribery.

**SPINs**

Stands for Standard & Poor's 500 Index Subordinated Notes.

**Split**

Sometimes, companies split their outstanding **shares** into more shares. If a company with 1 million shares executes a two-for-one split, the company would have 2 million shares. An **investor** with 100 shares before the split would hold 200 shares after the split. The investor's percentage of **equity** in the company remains the same, and the share price of the **stock** owned is one-half the price of the stock on the day prior to the split.

**Split commission**

A **commission** shared between a **broker** and a financial adviser or other professional who brought the customer to the **broker**.
Split-coupon bond
A bond that begins as a zero-coupon bond paying no interest and converts to an interest paying bond on a future date.

Split-fee option
An option on an option. The buyer generally executes the split fee with first an initial fee, with a window period at the end of which (upon payment of a second fee) the original terms of the option may be extended to a later predetermined final notification date.

Split offering
A municipal bond issue that is made up of serial bonds and term maturity bonds.

Split order
A large securities transaction that is divided into smaller orders that are spread out over some period of time to avoid large fluctuations in the market price.

Split print
Block trade printed at two different prices. Often used in dividend rolls to get an average price equal to the dividend.

Split-rate tax system
A tax system that taxes retained earnings at a higher rate than earnings that are distributed as dividends.

Split rating
Two different ratings given to the same security by two important rating agencies.

Split stock
(1) Purchases or sales shared with others. (2) Division of the outstanding shares of a corporation into a large number of shares. Ordinarily, splits must be proposed by directors and approved by shareholders.

Spoken for
Amount of opposite demand (placement) or supply (availability) the trader has in efforts to cross the stock. Not open.

Sponsor
An underwriting investment company that offers shares in its mutual funds, or an influential institution that highly values a particular security and thus creates additional demand for the security.

Spontaneous Current Liabilities
Short-term obligations that automatically increase and decrease in response to financing
needs, such as accounts payable.

**Spontaneous Liabilities**
Obligations that arise automatically in the course of operating a business when a firm buys goods and services on credit.

**Spot commodity**
A commodity that is traded with the expectation of actual delivery, as opposed to a commodity future that is usually not delivered.

**Spot exchange rates**
Exchange rate on currency for immediate delivery. Related: Forward exchange rate.

**Spot futures parity theorem**
Describes the theoretically correct relationship between spot and futures prices. Violation of the parity relationship gives rise to arbitrage opportunities.

**Spot interest rate**
Interest rate fixed today on a loan that is made today. Related: Forward interest rates.

**Spot lending**
Originating mortgages by processing applications taken directly from prospective borrowers.

**Spot markets**
Related: Cash markets

**Spot month**
The nearest delivery month on a futures contract.

**Spot price**
The current market price of the actual physical commodity. Also called cash price. Current delivery price of a commodity traded in the spot market, in which goods are sold for cash and delivered immediately. Antithesis of futures price.

**Spot rate**
The theoretical yield on a zero-coupon Treasury security.

**Spot rate curve**
The graphical depiction of the relationship between the spot rates and maturity.

**Spot secondary**
Secondary distribution that may not require an SEC registration statement and may be attempted without delay. An underwriting discount is normally included in these offerings.
**Spot trade**
The purchase and sale of a foreign currency, commodity, or other item for immediate delivery.

**Spot transaction**
A foreign exchange transaction in which each party promises to pay a certain amount of currency to the other on the same day or within one or two days.

**Spousal IRA**
An individual retirement account in the name of an unemployed spouse.

**Spousal remainder trust**
A fixed-term trust from which income is distributed to the beneficiary (such as a child of the grantor) to take advantage of a lower tax bracket, and that at the end of the term passes to the grantor's spouse.

**Spread**
(1) The gap between bid and ask prices of a stock or other security. (2) The simultaneous purchase and sale of separate futures or options contracts for the same commodity for delivery in different months. Also known as a straddle. (3) Difference between the price at which an underwriter buys an issue from a firm and the price at which the underwriter sells it to the public. (4) The price an issuer pays above a benchmark fixed-income yield to borrow money.

**Spread income**
Also called margin income, the difference between income and cost. For a depository institution, the difference between the assets it invests in (loans and securities) and the cost of its funds (deposits and other sources).

**Spread option**
A position consisting of the purchase of one option and the sale of another option on the same underlying security with a different exercise price and/or expiration date.

**Spread order**
An order listing the series of options that the customer wants to buy and sell and the desired spread between the premiums paid and received for the options.

**Spread position**
The status of an account after a spread order has been carried out.

**Spread strategy**
A strategy that involves a position in one or more options so that the cost of buying an option is funded entirely or in part by selling another option in the same underlying. Also called spreading.
**Spreadsheet**
A computer program that organizes numerical data into rows and columns in order to calculate and make adjustments based on new data.

**Sprinkling trust**
A trust in which the trustee decides how to distribute trust income among a group of designated people.

**SPX**
Applies to derivative products. Symbol for the S&P 500 index.

**Squeeze**
Period when stocks or commodities futures increase in price and investors who have sold short must cover their short positions to prevent loss of large amounts of money.

**SS1**
Securities sales speaker box that transmits to all investment banks' regional trading and sales desks.

**Stabilization**
The action undertakes a country when it buys and sells its own currency to protect its exchange value.
Actions registered competitive traders undertake by on the NYSE to meet the exchange requirement that 75% of their traded be stabilizing, meaning that sell orders follow a plus tick and buy orders a minus tick.
Actions a managing underwriter undertake so that the market price does not fall below the public offering price during the offering period.

**Stable Paretian, or Fractal Hypothesis**
In the characteristic function of the fractal family of distributions, the characteristic exponent alpha can range between one and two. See: Alpha, Fractal Distributions, Gaussian.

**Stability**
The relative steadiness or safety of a security or fund compared to the market as a whole. For example, money market funds and other short-term investments offer more stability than funds that invest in growth stocks.

**Stag**
Speculator who buys and sells stocks to hold for short intervals to make quick profits.

**Stagflation**
A period of slow economic growth and high unemployment with rising prices (inflation).
**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.
**Standard deduction**
The IRS-specified amount by which a taxpayer is entitled to reduce income an alternative to itemizing deductions.

**Standard deviation**
The square root of the variance. A measure of dispersion of a set of data from its mean.

**Standard error**
In statistics, a measure of the possible error in an estimate. Plus or minus 2 standard errors usually provides a 95% confidence interval.

**Standard Industrial Classification (SIC)**
A code system that designates a unique business activity classified by industry.

**Standard & Poor's**
A market capitalization-weighted benchmark index made up of 400 securities with market values between $200 million and $5 billion.

**Standard & Poor's**
A small-capitalization benchmark index made up of 600 domestic stocks chosen for market size, liquidity, and industry group representation.

**Standardized normal distribution**
A normal distribution with a mean of 0 and a standard deviation of 1.

**Standardized value**
Also called the normal deviate, the distance of one data point from the mean, divided by the standard deviation of the distribution.

**Standby agreement**
In a rights issue, agreement that the underwriter will purchase any stock not purchased by investors.

**Standby commitment**
An agreement between a corporation and investment firm that the firm will purchase whatever part of a stock issue that is offered in a rights offering that is not subscribed to in the two- to four- week standby period.

**Standby fee**
Amount paid to an underwriter who agrees to purchase any stock that is not purchased by public investors in a rights offering.

**Standby letter of credit**
Agreement to guarantee invoice payments to a supplier; a standby LOC promises to pay the seller if the buyer fails to pay.

**Standing**
Level of priority in the trading crowd.

**Standstill agreement**
Contract by which the bidding firm in a takeover attempt agrees to limit its holdings of another firm.

**Start-up**
The earliest stage of a new business venture.

**State bank**
A bank authorized in a specific state by a state-based charter, with generally the same functions as a national bank.

**State and local government series (SLUGs)**
Special nonmarketable certificates, notes, and bonds offered to state and local governments as a means to invest proceeds from their own tax-exempt financing. Interest rates and maturities comply with IRS arbitrage provisions. Slugs are offered in both time deposit and demand deposit forms. Time deposit certificates have maturities of up to one year. Notes mature in one to ten years and bonds mature in more than ten years. Demand deposit securities are one-day certificates rolled over with a rate adjustment daily.

**State tax-exempt income**
A mutual fund that seeks current income exempt from federal and a specific state's income taxes.

**Stated annual interest rate**
The interest rate expressed as a per year percentage, by which interest payments are determined. See: Annual percentage rate.

**Stated conversion price**
At the time of issuance of a convertible security, the price the issuer effectively grants the securityholder to purchase the common stock, equal to the par value of the convertible security divided by the conversion ratio.

**Stated maturity**
For the CMO tranche, the date the last payment would occur at zero CPR.

**Stated value**
A monetary worth figure that bears no relation to market value that is assigned, for accounting purposes, to stock for use instead of par value.
Statement of Additional
A document provided as a supplement to a mutual fund prospectus. It provides more detailed information about fund policies, operations, and risks. Also known as a Part B prospectus.

Statement billing
Billing method in which the sales for a period such as a month (for which a customer also receives invoices) are collected into a single statement, and the customer must pay all the invoices represented on the statement.

Statement of Cash Flows
A financial statement showing a firm’s cash receipts and cash payments during a specified period.

Statement-of-Cash-Flows
A method of cash budgeting that is organized along the lines of the statement of cash flows.

Statement of condition
A document describing the status of assets, liabilities, and equity of a person or business at a particular time.

Statement of Financial Accounting Standards No. 8
The is a currency translation standard once used by U.S. accounting firms. See: Statement of Accounting Standards No. 52.

Statement of Financial Accounting Standards No. 52

"Static" Return
The return that an investor would make on a particular position if the underlying stock were unchanged in price at the expiration of the options in the position.

Static theory of capital structure
Theory that the firm’s capital structure is determined by a trade-off of the value of tax shields against the costs of bankruptcy.

Stationary time series
A longitudinal measure in which the process generating returns is identical over time.

Statistical Arbitrage
In the context of hedge funds, a style of management that employs complex statistical models that try to capture small abnormalities in a security’s intraday return.

专业来自百分百的投入
**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*. 
Step aside
Allow a block to trade at a price at which you do not care to participate in the trade.

Step-down note
A floating-rate note whose interest rate declines after a specified period of time.

Step up
To increase, as in step up the tax basis of an asset.

Step-up bond
A bond that pays a lower coupon rate for an initial period, and then increases to a higher coupon rate. Related: Deferred-interest bond, payment-in-kind bond.

Step-up swap
An interest rate swap on which the notional principal increases according to a predetermined schedule.

Sterilized intervention
Foreign exchange market activity by which monetary authorities insulate their domestic money supplies from the foreign exchange transactions with offsetting sales or purchases of domestic assets.

Sticky deal
A new securities issue that may be difficult to sell because of problems in the market or underlying problems with the corporation.

Stochastic models
Liability-matching models that assume that the liability payments and the asset cash flows are uncertain. Related: Deterministic models.

Stochastics index
A computerized tool measuring overbought and oversold conditions in a stock over a certain period.

Stock
Ownership of a corporation indicated by shares, which represent a piece of the corporation's assets and earnings.

Stock ahead
When two or more orders for a stock at a certain price arrive about the same time, and the exchange's priority rules take effect. NYSE rules stipulate that the bid made first should be executed first, or, if two bids come in at once, the bid for the larger number of shares receives priority. The bid that is not executed is then turned to the broker, who informs the customer that the trade was not completed because there was "stock ahead."
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
(SEC), that are made up of members who use the facilities to exchange certain common stocks. The two major national stock exchanges are the New York Stock Exchange (NYSE) and the American Stock Exchange (ASE or AMEX). Five regional stock exchanges include the Midwest, Pacific, Philadelphia, Boston, and Cincinnati. The Arizona Stock Exchange is an after-hours electronic marketplace where anonymous participants trade stocks via personal computers.

**Stock index**
Index like the Dow Jones Industrial Average that tracks a portfolio of stocks.

**Stock Index Future**
A security that uses composite stock indexes to allow investors to speculate on the performance of the entire market, or to hedge against losses in long or short positions. The settlement of the contracts is in cash.

**Stock index option**
An option in which the underlying is a common stock index.

**Stock index swap**
A swap involving a stock index. The other asset involved in a stock index swap can be another stock index (a stock-for-stock swap), a debt index (a debt-for-stock swap), or any other financial asset or financial price index.

**Stock insurance company**
An insurance company owned by a group of stockholders, who are not necessarily policyholders.

**Stock jockey**
A stock broker who frequently buys and sells shares in a client’s portfolios.

**Stock list**
The department within a stock exchange that oversees compliance with listing requirements and exchange regulations.

**Stock market**
Also called the equity market, the market for trading equities.

**Stock option**
An option whose underlying asset is the common stock of a corporation.

**Stock power**
A power of attorney form giving ownership of a security to another person, brokerage firm, bank, or lender after it has been sold or pledged to that party.
Stock purchase plan
A plan allowing employees of a company to purchase shares of the company, often at a discount or with matching employer funds.

Stock rating
An evaluation by a rating agency of the expected financial performance or inherent risk of common stocks.

Stock record
The accounting a brokerage firm keeps of all securities held in inventory.

Stock replacement strategy
A strategy for enhancing a portfolio’s return, used when the futures contract is expensive according to its theoretical price. The strategy involves a swap between the futures and a Treasury bill and stock portfolio.

Stock repurchase
A firm's repurchase of outstanding shares of its common stock.

Stock right
Another terminology for a stock option.

Stock selection
An active portfolio management technique that focuses on advantageous selection of particular stock rather than on broad asset allocation choices.

Stock split
Occurs when a firm issues new shares of stock and in turn lowers the current market price of its stock to a level that is proportionate to pre-split prices. For example, if IBM trades at $100 before a two-for-one split, after the split it will trade at $50, and holders of the stock will have twice as many shares as they had before the split. See: Split.

Stock symbol
See: Ticker symbol

Stock ticker
A letter designation assigned to securities and mutual funds that trade on US financial exchanges.

StockWatch
A stock surveillance program offered by proxy solicitation firms, and selected transfer agents, to track and monitor sales and purchases of a corporation's shares and provide valuable information at the beneficial owner level.
**Stock watcher (NYSE)**
A computerized service that monitors and investigates trading activity on the NYSE in order to identify any unusual activity or security movement that might be caused by rumors or illegal activities.

**Stockholder**
See: Shareholder.

**Stockholder books**
Set of books kept by firm management for its annual report that follows Financial Accounting Standards Board rules. The tax books follow IRS tax rules.

**Stockholder equity**
Balance sheet item that includes the book value of ownership in the corporation. It includes capital stock, paid-in surplus, and retained earnings.

**Stockholder of record**
Stockholder whose name is registered on the books of a corporation and thus will receive dividends from the corporation.

**Stockholder's equity**
The residual claims that stockholders have against a firm's assets, calculated by subtracting all current liabilities and debt liabilities from total assets.

**Stockholder's report**
The annual report and other reports given to stockholders to inform them of the company's financial standing and developments.

**Stockholm Stock Market (Stockholm Borsen)**
The major securities market of Sweden.

**Stockout**
Running out of inventory.

**Stop basis**
Refer to over-the-counter trading. Method of entering an OTC trade into the trader's position without reporting the trade on the OTC tape.

**Stop-limit order**
A stop order that designates a price limit. Unlike the stop order, which becomes a market order once the stop is reached, the stop-limit order becomes a limit order.

**Stop-loss order**
An order to unwind a position when the price moves against you. For example, you had
purchased a stock, the stop-loss order would be to sell the stock when the price falls to a specified level. If you were short the asset, the stop-loss would trigger a purchase.

**Stop order (or stop)**
An order to buy or sell at the market when a definite price is reached, either above (on a buy) or below (on a sell) the price that prevailed when the order was given.

**Stop-out price**
The lowest auction price at which Treasury bills are sold.

**Stop payment**
An order given a depository institution not to pay out cash for a check; often used when the check has been stolen or lost.

**Stop Transfer**
A block placed against a security reported lost or stolen (an adverse claim), so it cannot be transferred.

**Stopped**
Guaranteed a specific price on the customer's working order while the dealer tries to obtain a better one. Stopped against one's self involves a customer order and a firm's own account, not two customers. One can cancel an order even after being stopped by another party.

**Stopped out**
A purchase or sale that is executed under a stop order at the stop price specified by the customer.

**Stopping curve**
A curve showing the refunding rates for different times at which the expected value of refunding immediately equals the expected value of waiting to refund.

**Stopping curve refunding rate**
A refunding rate that falls on the stopping curve.

**Story stock/bond**
A highly complex security that requires a long "story" so that investors may understand the corporation and be persuaded of its merits.

**Straddle**
Purchase or sale of an equal number of puts and calls with the same terms at the same time. Related: Spread.

**Straight**
Direct telephone line, compared to an outside line that requires a telephone number to be dialed.

**Straight Bill of Lading**
A bill of lading that is cosigned to a specific party and is therefore non negotiable.

**Straight Discount**
The rate applied to the face value of the promissory note to calculate present value without compounding. For example, a note with a face value in three years of 100, with a straight discount of 10% per annum has a present value of 70.

**Straight-line depreciation**
Amortizing or apportioning an equal dollar amount of depreciation in each accounting period.

**Straight term insurance policy**
Term life insurance policy providing a fixed-amount death benefit over a certain number of years.

**Straight value**
Also called investment value, the value of a convertible security without the conversion option.

**Straight voting**
Allows shareholder to cast all of the shareholder's votes for each candidate for the board of directors.

**Strange Attractor**
An attractor in phase space, where the points never repeat themselves, and orbits never intersect, but they stay within the same region of phase space. Unlike limit cycles or point attractors, strange attractors are non-periodic, and generally have a fractal dimension. They are a picture of a non-linear, chaotic system. See: Attractor, Chaos, Limit Cycle, Point Attractor.

**Strangle**
Buying or selling an out-of-the-money put option and call option on the same underlying instrument, with the same expiration. Profits are made only if there is a drastic change in the underlying instrument's price.

**Strategic alliance**
Collaboration between two or more companies designed to achieve some corporate objective. May include international licensing agreements, management contracts, or joint ventures.

**Strategic buyout**
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
The distance between striking prices on a particular underlying security. Normally, the interval is 2-1/2 points for stocks under $25, 5 points for stocks selling over $25 per share, and 10 points (or greater) is acceptable for stocks over $200 per share. There are, however, exceptions to this general guideline.

**Strip**
Variant of a straddle. A strip is two puts and one call on a stock. A strap is two calls and one put on a stock. The puts and calls have the same strike price and expiration date. See: Strap.

**Strip mortgage participation certificate (strip PC)**
Ownership interests in specified mortgages purchased by Freddie Mac from a single seller in exchange for separate instruments representing interests in the same mortgages.

**Stripped bond**
Bond that can be subdivided into a series of zero-coupon bonds.

**Stripped mortgage-backed securities (SMBS)**
Securities that redistribute the cash flows from the underlying generic MBS collateral into the principal and interest components of the MBS to enhance their attractiveness to different groups of investors.

**Stripped yield**
Applies mainly to convertible securities. Return on the debt portion of a bond/warrant unit after subtracting the value of the issued warrant segment.

**Strong Currency**
A currency whose value compared to other currencies is improving, as indicated by a decrease in the direct exchange rates for the currency.

**Strong dollar**
When the dollar can be exchanged for a large amount of foreign currency, benefiting travelers but hurting exporters.

**Strong-form efficiency**
A form of pricing efficiency, that posits that the price of a security reflects all information, whether or not it is publicly available. Related: Weak-form efficiency, semi-strong form efficiency.

**Strong form of the EMT**
Theory that market prices reflect all relevant publicly and privately available information. Defined by Eugene F. Fama in 1970.

**Structural Adjustment Loan Facility (SAL)**
World Bank program established in 1980 to enhance a country’s long-term economic
growth through financing projects.

**Structured arbitrage transaction**
A self-funding, self-hedged series of transactions that usually use mortgage-backed securities (MBS) as the primary assets.

**Structured debt**
Debt that has been customized for the buyer, often by incorporating unusual options.

**Structured note**
A derivative investment that will change in value with movements of an underlying index; or a note whose issuer makes swap arrangements to alter its required cash flows.

**Structured portfolio strategy**
Designing a portfolio to achieve a level of performance that matches some predetermined liabilities that must be paid out in the future.

**Structured settlement**
An agreement in settlement of a lawsuit involving specific payments made over a period of time. Property and casualty insurance companies often buy life insurance products to pay the costs of such settlements.

**Stub**
Often used in risk arbitrage. Piece of equity security left over from a major cash or security distribution from a recapitalization.

**Student Loan Marketing Association (SLMA)**
A publicly traded corporation established by federal action that increases availability of educational loans by guaranteeing student loans traded in the secondary market. Also known as Sallie Mae.

**Subchapter M**
An IRS regulation dealing with investment companies and real estate investment trusts that avoid double taxation by distributing interest, dividends, and capital gains directly to shareholders, who are taxed individually.

**Subchapter S**
IRS regulation that gives a corporation with 35 or fewer shareholders the option of being taxed as a partnership to escape corporate income taxes.

**Subject**
Refers to a bid or offer that cannot be executed without confirmation from the customer. In other words, not firm, but a bid/offer that needs additional information/confirmation before becoming firm and is therefore still negotiable.
Subject market
Quote in which prices are subject to confirmation. See: Fast market.

Subject to a (NY) can
Contingent upon trader's ability to cancel an order (on the indicated exchange).

Subject to opinion
An auditor’s opinion reflecting acceptance of a company's financial statements subject to pervasive uncertainty that cannot be adequately measured, such as information relating to the value of inventories, reserves for losses, or other matters open to judgment.

Subject to a print/execution/trading
Contingent on execution of a trade because the picture in the stock has not been materially altered.

Subjective probabilities
Probabilities that are determined subjectively (for example, on the basis of judgment rather than statistical sampling).

Subordinated
A claim ranked lower in priority than other claims. Common stock claims are always subordinated to debt.

Subordinated bonds
Securities that fall after others in priority of claims on the entity in the case of financial distress.

Subordinated debenture bond
An unsecured bond that ranks after secured debt, after debenture bonds, and often after some general creditors in its claim on assets and earnings. Related: Debenture bond, mortgage bond, collateral trust bonds.

Subordinated debt
Debt over which senior debt takes priority. In the event of bankruptcy, subordinated debtholders receive payment only after senior debt claims are paid in full.

Subordination clause
A provision in a bond indenture that restricts the issuer's future borrowing by subordinating future lenders' claims on the firm to those of the existing bondholders.

Subpart F
Special category of foreign-source "unearned" income that is currently taxed by the IRS whether or not it is remitted to the US
Subperiod return
The return of a portfolio over a shorter period of time than the evaluation period.

Subrogation
An insurance process whereby a company that has paid out to a policyholder for a loss incurred recovers the amount of the loss from the party that is legally liable.

Subscription
Agreement to buy new issue of securities.

Subscription agreement
An application reviewed by the general partner to join a limited partnership.

Subscription price
Price that current shareholders pay for a share of stock in a rights offering.

Subscription privilege
The right of current shareholders of a corporation to buy newly issued shares before they are available to the public.

Subscription right
See: Subscription privilege

Subscription warrant
Applies to derivative products. Type of security, usually issued with another security, such as a bond or stock, that entitles the holder to buy a proportionate amount of common stock at a specified price, usually higher than the market price at the time of issuance. Warrant.

Subsidiary
A wholly or partially owned company that is part of a large corporation. A foreign subsidiary is a separately incorporated entity under the host country's law. A subsidiary's financial results are carried on the parent company's books.

Subsidized financing
Funding provided by a government or other entity that is available at a below-market interest rate.

Substitute sale
A method for hedging price risk that uses debt market instruments, such as interest rate futures, or that involves selling borrowed securities as the primary assets.

Substitution swap
A swap in which a money manager exchanges one bond for another bond that is similar in
terms of coupon, maturity, and credit quality, but that offers a higher yield.

Substantially equal
A method of distribution from IRA account assets that under certain conditions is not subject to the IRS's 10% premature withdrawal penalty for those under age 59-1/2.

Success tax
A 15% excise tax on "excess" distributions from tax-deferred retirement plans that was repealed by the Taxpayer Relief Act of 1997. In essence, the tax had penalized "successful" investors who accumulated large retirement accounts and took distributions that exceeded an annual limit deemed excessive by the tax code.

Suicide pill
A hostile takeover prevention tactic that could destroy the target company. Taking on a large amount of debt to prevent the takeover might cause bankruptcy, for example.

Suitability
A requirement that any investing strategy fall within the financial means and investment objectives of an investor.

Suitability rules
Policies and guidelines that brokers must use to ensure that investors have the financial means to assume risks that they wish to undertake. These are enforced by the NASD and other self-regulatory organizations.

Suitable
Describing a strategy or trading philosophy in which the investor is operating in accordance with his(her) financial means and investment objectives.

Summary plan description (SPD)
A document that explains the fundamental features of an employer's defined benefit or defined contribution plan, including eligibility requirements, contribution formulas, vesting schedules, benefit calculations, and distribution options. ERISA requires that the SPD be easy to understand and that each participant receive a copy within 90 days of joining the plan.

Sum-of-the-years'-digits depreciation
Method of accelerated depreciation.

Sunk costs
Costs that have been incurred and cannot be reversed.

Sunrise industries
Growth industries in an economy that may become leaders in the market in the future.
Super Bowl indicator
A theory that if a team from the old American Football League pre-1970 wins the Super Bowl, the stock market will decline during the coming year. If a team from the old pre-1990 National Football League wins the Super Bowl, stock prices will increase in the coming year.

Super DOT
Super DOT provides faster execution than regular DOT and focuses on large-size trades and baskets. See: Program trading.

Super Majority
A proposal requiring more than a simple majority of the votes eligible to be cast at an annual or special meeting. A super majority is often a 2/3 (66.66%) vote, but it can be as high as 3/4 (75%) or 4/5 (80%).

Super message
See: Autex

Super sinker bond
Usually a home financing bond, but also any other bond that has long-term coupons but short maturity; the mortgages may be prepaid, and the holders may receive the long-term yield after a short period of time.

Supermajority
Provision in a company’s charter requiring a majority of, say, 80% of shareholders to approve certain changes, such as a merger.

Supermajority amendment
Often used in risk arbitrage. Corporate amendment requiring that a substantial majority (usually 67% to 90%) of stockholders approve important transactions, such as mergers.

Supervisory analyst
An analyst who is qualified to approve publicly distributed research reports on the NYSE.

Supervisory board
The board of directors that represents stakeholders in the governance of the corporation.

Supplemental Security Income
A Social Security program established to help the blind, disabled, and poor.

Supplier credit
Self-financing of a supplier’s operations.
Supply shock
An event that influences production capacity and costs in an economy.

Supply-side economics
A theory of economics that reductions in tax rates will stimulate investment and in turn will benefit the entire society.

Support
An effective lower bound on prices supported because of many willing buyers at that price level.

Support level
A price level below which it is supposedly difficult for a security or market to fall. That is, the price level at which a security tends to stop falling because there is more demand than supply; can be identified on a technical basis by seeing where the stock has bottomed out in the past.

Surcharge
An additional levy added to some charge.

Surety
An individual or corporation that guarantees the performance or actions of another.

Surplus funds
Cash flow available after payment of taxes in a project.

Surplus management
Related: Asset management

Surtax
A tax added to the normal tax paid by corporations or individuals who have earned income above a certain level.

Surveillance department of exchanges
A department that monitors trading activity on an exchange in order to identify any unusual activity that may indicate illegal practices.

Sushi bond
A Eurobond issued by a Japanese corporation.

Suspended trading
Temporary halt in trading in a particular security, in advance of a major news announcement or to correct an imbalance of orders to buy and sell.
**Suspense account**  
An account used temporarily to record receipts and disbursements that have yet to be classified.

**Sustainable growth rate**  
Maximum rate of growth a firm can sustain without increasing financial leverage.

**Swap**  
An arrangement in which two entities lend to each other on different terms, e.g., in different currencies, and/or at different interest rates, fixed or floating.

**Swap arrangements**  
Short-term reciprocal lines of credit between the Federal Reserve and 14 foreign central banks as well as the Bank for International Settlements. Through a swap transaction, the Federal Reserve can, in effect, borrow foreign currency in order to purchase dollars in the foreign exchange market. In doing so, the demand for dollars and the dollar's foreign exchange value are increased. Similarly, the Federal Reserve can temporarily provide dollars to foreign central banks through swap arrangements.

**Swap assignment**  
Related: Swap sale

**Swap book**  
A swap bank's portfolio of swaps, usually arranged by currency and maturity.

**Swap buy back**  
The sale of an interest rate swap by one counterparty to the other, effectively ending the swap.

**Swap fund**  
See: Exchange fund

**Swap option**  

**Swap rate**  
The difference between spot and forward rates expressed in points, e.g., $0.0001 per pound sterling.

**Swap reversal**  
An interest rate swap designed to end a counterparty's role in another interest rate swap, accomplished by counterbalancing the original swap in maturity, reference rate, and notional amount.

**Swap sale**
Also called a swap assignment, a transaction that ends one counterparty's role in an interest rate swap by substituting a new counterparty whose credit is acceptable to the other original counterparty.

**Swaption**
Options on interest rate swaps. The buyer of a swaption has the right to enter into an interest rate swap agreement by some specified date in the future. The swaption agreement will specify whether the buyer of the swaption will be a fixed-rate receiver or a fixed-rate payer. The writer of the swaption becomes the counterparty to the swap if the buyer exercises.

**Sweat equity**
An increase in equity created by the labor of the owner.

**Sweep account**
Account providing that a bank invest all the excess available funds at the close of each business day for the firm.

**Sweetener**
A feature of a security that makes it more attractive to potential purchasers.

**Swingline facility**
Bank borrowing facility to provide finance while the firm replaces US commercial paper with eurocommercial paper.

**Swiss Electronic Bourse (EBS)**
Computer linking system between the former stock exchange trading floors in Zurich, Geneva, and Basel, Switzerland so that trades can be carried out among traders on all three of the trading floors.

**Swiss Options and Financial Futures Exchange (SOFFEX)**
The Swiss derivatives market with the first fully electronic trading system in the world, now called Eurex Zurich AG.

**Swiss Exchange**
The major securities market of Switzerland.

**Swissy**
Slang for the Swiss franc.

**Switch order**
Order for the purchase (sale) of one stock and the sale (purchase) of another stock at a stipulated price difference. Contingent order, swap.
Liquidating a position and simultaneously reinstating a position in another futures contract of the same type.

**Switching options**
A sequence of transactions in which exercise of one option creates one or more additional options. Investment-disinvestment, entry-exit, expansion-contraction, and suspension-reactivation decisions are switching options.

**Sydney Futures Exchange (SFE)**
The derivatives market of Australia.

**Symbol**
Letters used to identify companies on the consolidated tape and other locations.

**Symbol book special**
Illiquid, inactively traded stock not familiar market

**Symmetric cash matching**
An extension of cash flow matching that allows for the short-term borrowing of funds to satisfy a liability prior to the liability due date, reducing the cost of funding liabilities.

**Synchronous data**
Information available at the same time. To test option-pricing models, the price of the option and of the underlying should be synchronous and reflect the same moment in the market.

**Syndicate**
A group of banks that acts jointly, on a temporary basis, to loan money in a bank credit (syndicated credit) or to underwrite a new issue of bonds.

**Syndicate manager**
See: Managing underwriter

**Syndicated Eurocredit**
Funding provided by a group (or syndicate) of banks in the Eurocredit market.

**Syndicated Loan**
A large Eurocurrency loan from a group of international banks.

**Synergistic effect**
A violation of value-additivity in that the value of a combination is greater than the sum of the individual values.

**Synergy**
Describes a combination whose value is greater than the sum of the separate individual parts.

**Synthetic convertible**
Combination of usable bonds and warrants (that expire on or after the bonds' maturity) that resembles convertible bond.

**Synthetic forward position**
A forward position constructed through borrowing in one currency, lending in another currency, and offsetting these transactions in the spot exchange market.

**Synthetic Lease**
When a company creates a special-purpose entity to arrange for a loan to purchase property, and then leases the property from the entity. The synthetic lease therefore keeps the loan off the company's balance sheet, while the company provides enough income to the special-purpose entity to cover the interest rate on the loan.

**Synthetic put**
A strategy equivalent in risk to purchasing a put option where an investor sells stock short and buys a call.

**Synthetic stock**
An option strategy that is equivalent to the underlying stock. A long call and a short put is synthetic long stock. A long put and a short call is synthetic short stock.

**Synthetics**
Customized hybrid instruments created by blending an underlying price on a cash instrument with the price of a derivative instrument. It is a combination of security holdings that mimics the price movement of another single security (i.e., synthetic call: long position in a stock combined with a put on that position; a protected long sale; synthetic put: short position in a stock combined with a call on that position; a protected short sale).

**System Noise**
See: Dynamical Noise

**Systematic**
Common to all businesses.

**Systematic investment plan**
An approach involving regular investments in order to take advantage of dollar-cost averaging.

**Systematic Return**
The part of the return dependent on the benchmark return. We can break excess returns into
two components: systematic and residual. The systematic return is the beta times the benchmark excess return.

**Systematic risk**
Also called undiversifiable risk or market risk.

**Systematic risk principle**
Only the systematic portion of risk matters in large, well-diversified portfolios. Thus, expected returns must be related only to systematic risks.

**Systematic withdrawal plan**
A provision of certain mutual funds to pay out to the shareholder specified amounts after specified periods of time.

**Systemic Risk**
Risk common to a particular sector or country. Often refers to a risk resulting from a particular "system" that is in place, such as the regulator framework for monitoring of financial institutions.

**T**
Fifth letter of a Nasdaq stock symbol indicating that the stock has warrants or rights.

**TAA**
See: Tactical asset allocation

**TABs**
See: Tax anticipation bill

**TANs**
See: Tax anticipation notes

**TBA**
See: To be announced

**TC**
The two-character ISO 3166 country code for TURKS AND CAICOS ISLANDS.

**TD**
The two-character ISO 3166 country code for CHAD.

**TEFRA (Tax Equity**
The law requiring federal income tax withholding on payments of dividend and interest to accounts without a certified tax identification number on file. See: W-9.
**TF**
The two-character ISO 3166 country code for FRENCH SOUTHERN TERRITORIES.

**TG**
The two-character ISO 3166 country code for TOGO.

**TH**
The two-character ISO 3166 country code for THAILAND.

**THB**
The ISO 4217 currency code for the Thai Baht.

**TITAL**
See: Transaction insured trade acceptance locator

**TJ**
The two-character ISO 3166 country code for TAJIKISTAN.

**TJR**
The ISO 4217 currency code for the Tajikistan Rouble.

**TK**
The two-character ISO 3166 country code for TOKELAU.

**TM**
The two-character ISO 3166 country code for TURKMENISTAN.

**TMM**
The ISO 4217 currency code for the Turkmenistan Manet.

**TN**
The two-character ISO 3166 country code for TUNISIA.

**TND**
The ISO 4217 currency code for the Tunisian Dinar.

**TO**
The two-character ISO 3166 country code for TONGA.

**TOP**
The ISO 4217 currency code for the Tonga Pa‘anga.

**TP**
The two-character ISO 3166 country code for EAST TIMOR.
**TR**
The two-character ISO 3166 country code for TURKEY.

**TRL**
The ISO 4217 currency code for the Turkish Lira.

**TT**
The two-character ISO 3166 country code for TRINIDAD AND TOBAGO.

**TTD**
The ISO 4217 currency code for the Trinidad and Tobago Dollar.

**ttm**
Trailing 12 months. Often used with Earnings Per Share.

**TV**
The two-character ISO 3166 country code for TUVALU.

**TW**
The two-character ISO 3166 country code for TAIWAN, PROVINCE OF CHINA.

**TWD**
The ISO 4217 currency code for the Taiwan Dollar.

**TZ**
The two-character ISO 3166 country code for TANZANIA, UNITED REPUBLIC OF.

**TZS**
The ISO 4217 currency code for the Tanzania Shilling.

**T-period**
The percentage return over the T-year period an investment is held.

**T+3**
The settlement date for securities transactions such as a stock sale. It refers to the obligation in the brokerage business to settle securities trades by the third day following the trade date. The settlement occurs when the seller receives the sales price (the broker's commission) and the buyer receives the shares.

**Tabulation Report**
A proxy tally report detailing the current quorum and vote figures on each proposal.

**TAC bonds**
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**
**Buy stock** by accepting a floor broker's (listed) or dealer's (OTC) offer at an agreed-upon volume. Antithesis of hit the bid.

**Take-out**
A cash surplus generated by the sale of one block of securities and the purchase of another, e.g., selling a block of bonds at 99 and buying another block at 95. Also, a bid made to a seller of a security that is designed (and generally agreed) to take the seller out of the market.

**Take-or-pay contract**
An agreement that obligates the purchaser to take any product that is offered (and pay the cash purchase price) or pay a specified amount if the product is not taken.

**Take a position**
To buy or sell short; that is to own or to owe some amount on an asset or derivative security.

**Take a powder**
Temporarily cancel an order or indication in a stock, while unrepresented interest still exists. See: Back on the shelf, sidelines.

**Take a swing**
Execute a trade at a price that the trader feels is higher or more risky than would normally be acceptable, in order to gain market share in the institutional arena.

**Takedown**
The share of securities of each participating investment banker in a new or a secondary offering, or the price at which the securities are distributed to the different members of an underwriting group.

**Takeover**
General term referring to transfer of control of a firm from one group of shareholders to another group of shareholders. Change in the controlling interest of a corporation, either through a friendly acquisition or an unfriendly, hostile, bid. A hostile takeover (with the aim of replacing current existing management) is usually attempted through a public tender offer.

**Takeover target**
A company that is the object of a takeover attempt, friendly or hostile.

**Take-up fee**
A fee paid to an underwriter in connection with an underwritten rights offering or an underwritten forced conversion. Represents compensation for each share of common stock the underwriter obtains and must resell upon the exercise of rights or conversion of bonds.
**Takes a call**
Requires a phone call to an account in order for a trade to be completed. See: Show me.

**Takes price**
Requiring some price movement or concession on behalf of the initiating party before a trade can be consummated. See: Price give.

**Taking delivery**
When the buyer actually assumes possession from a seller of assets agreed upon in a forward contract or a futures contract.

**Taking a view**
A London expression; means forming an opinion as to where market prices are headed and acting on it.

**Tandem programs**
Ginnie Mae mortgage funds provided at below-market rates to residential MBS buyers with FHA Section 203 and 235 loans and to developers of multifamily projects with Section 236 loans initially and later with Section 221(d)(4) loans.

**Tangible asset**
An asset whose value depends on particular physical properties. These include reproducible assets such as buildings or machinery and non-reproducible assets such as land, a mine, or a work of art. Also called real assets. Converse of: Intangible asset

**Tangible net worth**
Total assets minus intangible assets, which include patents and copyrights, and total liabilities.

**Tangibility**
Characteristic that an assets can be used as collateral to secure debt.

**Tape**
(1) Service that reports prices and sizes of transactions on major exchanges-ticker tape. (2) Dow Jones and other news wires. See: Consolidated tape.

**Tape is late**
When the trading volume is so heavy that trades appear on the tape more than a minute behind the timer they actually take place.

**Tare Weight**
The weight of an empty container and any packaging materials used in the container.

**Tariff**
A tax on imports or exports.
**Target cash balance**
Optimal amount of cash for a firm to hold, considering the trade-off between the opportunity costs of holding too much cash and the trading costs of holding too little cash.

**Target company**
Often used in risk arbitrage. Firm chosen as an attractive takeover candidate by a potential acquirer. The acquirer may buy up to 5% of the target’s stock without public disclosure, but it must report all transactions and supply other information to the SEC, the exchange the target company is listed on, and the target company itself once the 5% threshold is hit. See: Raider.

**Target firm**
A firm that is the object of a takeover by another firm.

**Target investment mix**
The percentage mix of stocks, bonds, and short-term reserves that an investor considers appropriate based on his/her personal objectives, time horizon, risk tolerance, and financial resources.

**Target Leverage Ratio**
The ratio of the market value of debt to the total market value of the firm that management seeks to maintain.

**Target payout ratio**
A firm’s long-run dividend-to-earnings ratio. The firm’s policy is to attempt to pay out a certain percentage of earnings, but it pays a stated dollar dividend and adjusts it to the target as base line increases in earnings occur.

**Target price**
In the context of takeovers, the price at which an acquirer aims to buy a target firm. In the context of options, the price of the underlying security at which an option will become in the money. In the context of stocks, the price that an investor hopes a stock will reach in a certain time period.

**Target zone arrangement**
A monetary system under which countries pledge to maintain their exchange rates within a specific margin around agreed-upon, fixed central exchange rates.

**Target zones**
Implicit boundaries on exchange rates established by central banks.

**Targeted registered offerings**
Securities issues sold to "targeted" foreign financial institutions according to U.S. Securities and Exchange Commission guidelines. These foreign institutions then maintain a secondary market in the foreign market.

**Targeted repurchase**
Buying back of a firm's stock from a potential acquirer, usually at a substantial premium, to forestall a takeover attempt. Related: Greenmail.

**Targeted Amortization Class (TAC) bonds**
Bonds offered as a tranche class of some CMOs, according to a sinking fund schedule. They differ from PAC bonds whose amortization is guaranteed as long as prepayments on the underlying mortgages do not exceed certain limits. A TAC's schedule is met at only one prepayment rate.

**Tax anticipation**
Special bills that the Treasury occasionally issues that mature on corporate quarterly income tax dates and can be used at face value by corporations to pay their tax liabilities.

**Tax Anticipation Notes**
Notes issued by states or municipalities to finance current operations in anticipation of future tax receipts.

**Tax arbitrage**
Trading that takes advantage of a difference in tax rates or tax systems as the basis for profit.

**Tax audit**
Audit by the IRS or other tax-collecting agency to determine whether a taxpayer has paid the correct amount of tax.

**Tax avoidance**
Minimizing tax burden through legal means such as tax-free municipal bonds, tax shelters, IRA accounts, and trusts. Compare with tax evasion.

**Tax base**
The assessed value of the taxable property, assets, and income within a specific geographic area.

**Tax basis**
In the context of finance, the original cost of an asset less depreciation that is used to determine gains or losses for tax purposes.

In the context of investments, the price of a stock or bond plus the broker's commission.
**Tax books**
Records kept by a firm's management that follow IRS rules. The books follow Financial Accounting Standards Board rules.

**Tax bracket**
The percentage of tax obligation for a particular taxable income.

**Tax clawback agreement**
An agreement to contribute as equity to a project the value of all previously realized project-related tax benefits not already clawed back. Exercised to the extent required to cover any cash deficiency of the project.

**Tax clientele**
Categories of investors who have specific preferences for debt or equity because of differences in their personal tax rates.

**Tax credit**
A direct dollar-for-dollar reduction in tax allowed for expenses such as child care and R&D for building low-income housing. Compare tax deduction.

**Tax-deductible**
The effect of creating a tax deduction, such as charitable contributions and mortgage interest.

**Tax deduction**
An expense that a taxpayer is allowed to deduct from taxable income.

**Tax-deferred income**
Dividends, interest, and unrealized capital gains on investments in an account such as a qualified retirement plan, where income is not subject to taxation until a withdrawal is made.

**Tax deferral option**
Allowing the capital gains tax on an asset to be payable only when the gain is realized by selling the asset.

**Tax-deferred**
Employer-sponsored and other plans that allow contributions and earnings to be made and accumulate tax-free until they are paid out as benefits.

**Tax differential view (of dividend policy)**
The view that shareholders prefer capital gains over dividends, and hence low payout ratios, because capital gains are effectively taxed at lower rates than dividends.
**Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA)**
Legislation to increase tax revenue by eliminating various taxation loopholes and instituting tougher enforcement procedures in collecting taxes.

**Tax-equivalent yield**
The pre-tax yield required from a taxable bond in order to equal the tax-free yield of a municipal bond.

**Tax evasion**
Illegal by reducing tax burden by underreporting income, overstating deductions, or using illegal tax shelters.

**Tax-exempt bond**
A bond usually issued by municipal, county, or state governments whose interest payments are not subject to federal and, in some cases, state and local income tax.

**Tax-exempt income**
Dividends and interest not subject to federal and, in some cases, state and local income taxes.

**Tax-exempt income fund**
A mutual fund that seeks income that is exempt from federal and, in some cases, state and local income taxes.

**Tax-exempt money market fund**
A money market fund that invests in short-term tax-exempt municipal securities.

**Tax-exempt sector**
The municipal bond market where state and local governments raise funds. Bonds issued in this sector are exempt from federal income taxes.

**Tax-exempt security**
An obligation whose interest is tax-exempt, often called a municipal bond, offered by a country, state, town, or any political district.

**Tax free acquisition**
A merger or consolidation in which (1) the acquirer's tax basis on each asset whose ownership is transferred in the transaction is generally the same as the acquiree's, and (2) each seller who receives only stock does not have to pay any tax on the gain realized until the shares are sold.

**Tax haven**
A nation with a moderate level of taxation and/or liberal tax incentives for undertaking specific activities such as exporting or investing.
**Tax haven affiliate**
A wholly owned entity in a low-tax jurisdiction that is used to channel funds to and from a multinational’s foreign operations. The tax benefits of tax haven affiliates were largely removed in the US by the Tax Reform Act of 1986.

**Tax holiday**
A reduced tax rate that a government provides as an inducement to foreign direct investment.

**Tax liability**
The amount in taxes a taxpayer to the government.

**Tax lien**
The right of the government to enforce a claim against the property of a person owing taxes.

**Tax and loan account**
An account at a private bank, held in the name of the district Federal Reserve Bank, which holds operating cash for the business of the US Treasury.

**Tax loss carryback, carryforward**
A tax benefit that allows business losses to be used to reduce tax liability in previous and or following years.

**Tax-neutrality**
Characteristic that taxes do not interfere with the natural flow of capital toward its most productive use.

**Tax planning**
Devising strategies throughout the year in order to minimize tax liability, for example, by choosing a tax filing status that is most beneficial to the taxpayer.

**Tax preference item**
Items that must be included when calculating the alternative minimum tax.

**Tax preparation services**
Firms that prepare tax returns for a fee.

**Tax rate**
The percentage of tax paid for different levels of income.

**Tax Reduction Strategy**
A source of competitive advantage that depends on differences in the tax rates imposed
in different locations.

**Tax Reform Act of 1976**
Legislation aimed at tightening provisions relating to taxation, including changes in the *capital gains* tax laws.

**Tax Reform Act of 1984**
Legislation enacted as part of the Deficit Reduction Act of 1984 to reduce the federal budget deficit. Among its provisions are a decrease in the minimum holding period for *assets* to qualify for *long-term* *capital gains* treatment from one year to six months.

**Tax Reform Act of 1986**
A 1986 law involving a major overhaul of the US tax code.

**Tax Reform Act of 1993**
See: Revenue Reconciliation Act of 1993

**Tax refund**
Money back from the government when too much tax has been paid or withheld from a salary.

**Tax schedules**
Tax forms used to report itemized *deductions*, dividend and interest income, *profit* or loss from a business, *capital gains* and losses, supplemental income and loss, and self-employment tax.

**Tax selling**
Selling of *securities* to realize losses that will offset *capital gains* and reduce tax liability. See: *Wash sale*.

**Tax shelter**
Legal methods taxpayers can use to reduce tax liabilities. An example is the use of *depreciation* of assets.

**Tax-sheltered annuity**
A type of retirement plan under Section 403(b) of the Internal Revenue Code that permits employees of public educational organizations or tax-exempt organizations to make before-tax contributions via a salary reduction agreement to a tax-sheltered retirement plan. Employers are also allowed to make direct contributions on behalf of employees.

**Tax shield**
The reduction in income taxes that results from taking an allowable deduction from taxable income.
**Tax software**
Computer software designed to assist taxpayers in filling out tax returns and minimizing tax liability.

**Tax status election**
The decision of the status under which to file a tax return. For example, a corporation may file as a C corporation or an S corporation.

**Tax straddle**
Technique used in futures and options trading to create tax benefits. For example, an investor with a capital gain takes a position creating an artificial offsetting loss in the current tax year and postponing a gain from the position until the next tax year.

**Tax swap**
Swapping two similar bonds to receive a tax benefit.

**Tax-timing option**
The option to sell an asset and claim a loss for tax purposes or not sell the asset and defer the capital gains tax.

**Tax umbrella**
Tax loss carryforwards from previous business losses that form a tax shelter for profits earned in current and future years.

**Taxpayer Relief Act of 1997**
Legislation forming part of a larger act designed to balance the federal budget. Some of the legislation's provisions included tax credits for taxpayers supporting children, an increase in the amount that could be excluded from estate taxes, and a lower capital gains tax rate.

**Taxable acquisition**
A merger or consolidation that is not a tax-fee acquisition. The selling shareholders are treated as having sold their shares.

**Taxable equivalent yield**
The return from a higher-paying but taxable investment that would equal the return from a tax-free investment. This depends on the investor's tax bracket.

**Taxable estate**
That portion of a deceased person's estate that is subject to transfer tax.

**Taxable event**
An event or transaction that has a tax consequence, such as the sale of stock holding that
is subject to capital gains taxes.

**Taxable income**
Gross income less a variety of deductions.

**Taxable municipal bond**
Taxed private-purpose bonds issued by the state or local government to finance prohibited projects such as sports stadiums.

**Taxable transaction**
Any transaction that is not tax-free to the parties involved, such as a taxable acquisition.

**Taxable year**
The 12-month period an individual uses to report income for income tax purposes. For most individuals, their tax year is the calendar year.

**Tear sheet**
A page from an S&P stock that provides information on thousands of stocks, often sent to prospective purchasers.

**Teaser rate**
A low initial interest rate on an adjustable-rate mortgage to entice borrowers, that is later eliminated and replaced by a market-level rate.

**Technical analysis**
Security analysis that seeks to detect and interpret patterns in past security prices.

**Technical analysts**
Also called chartists or technicians, analysts who use mechanical rules to detect changes in the supply of and demand for a stock, and to capitalize on the expected change.

**Technical condition**
Demand and supply factors affecting price, in particular, the net position, either long or short, of the dealer community.

**Technical descriptors**
Variables that are used to describe the market in terms of patterns in historical data.

**Technical forecasting**
A forecasting method that uses historical prices and trends.

**Technical Information**
Information related to the momentum of a particular variable. In market analysis, technical information is information related to market dynamics and crowd behavior only.
Technical insolvency
Default on a legal obligation of the firm. Technical insolvency occurs when a firm doesn't pay a bill on time.

Technical rally
Short rise in securities or commodities futures prices in the face of a general declining trend. Such a rally may result because investors are bargain hunting or because analysts have noticed a particular support level at which securities usually bounce up. Antithesis of correction.

Technical sign
A short-term trend in the price movement of a security that analysts recognize as significant.

Technician
Related: Technical analysts

TED spread
Difference between US Treasury bill rate and Eurodollar rate; used by some traders as a measure of investor/trader anxiety or credit quality.

Teeny
1/16 or 0.0625 of one full point in price. Steenth.

Tel Aviv Stock Exchange
Israel's only stock exchange.

Telephone switching
Moving one's assets from one mutual fund or variable annuity to another by telephone.

Temporal method
A currency translation method under which the choice of exchange rate depends on the underlying method of valuation. Assets and liabilities valued at historical cost (market cost) are translated at the historical (current market) rate.

Temporary Assets
That portion of a firm's current assets that fluctuates in response to seasonal or anticipated short-term.

Temporary Financing
The sum of negotiated current liabilities and temporary spontaneous current liabilities.

Temporary investment
A short-term investment, such as a money market fund, Treasury bills, or short-term CD, which is usually held a year or less.

**Ten largest holdings**
The percentage of a portfolio's total net assets or equity holdings in its ten largest securities positions. As this percentage rises, a portfolio's returns are likely to be more volatile because they are more dependent on the fortunes of fewer companies.

**10% guideline**
The standard analysts' principle that funded debt over 10% of the assessed valuation of taxable property for a municipality is excessive.

**10-K**
Annual report required by the SEC each year. Provides a comprehensive overview of a company's state of business. Must be filed within 90 days after fiscal year-end. A 10-Q report is filed quarterly.

**10-Q**
Quarterly report required by the SEC each quarter. Provides a comprehensive overview of a company's state of business.

**1040 form**
The standard individual tax return form of the IRS.

**1099**
A statement sent to the IRS and taxpayers by the payers of dividends and interest and by issuers of taxable original issue discount securities.

**1099 B**
The tax statement used for reporting proceeds resulting from the sale, redemption or liquidation of shares.

**1099 DIV**
The tax statement used for reporting dividends paid to registered shareholders.

**Ten-Day Rule**
The New York Stock Exchange rule permitting member firms (brokers) to vote in favor of management ten days or less before the meeting, provided that the member firm mailed proxy material to beneficial owners at least 15 business days before the meeting. The rule allows many shares to be voted, which would otherwise not be, to reach a quorum, approve the choice of directors and auditors and handle other routine matters. This rule does not apply to banks, their nominees or their depository positions, nor to non-routine proposals such as approval for the corporation to issue more shares.
**Tenant**
A partial owner of a security, or the holder of some property. See: Lessee.

**Tenants by Entireties (TEN ENT)**
Joint ownership of property or securities by a husband and wife where, upon the death of one, the property goes to the survivor.

**Tenants in common**
Account registration in which two or more individuals own a certain proportion of an account. Each tenant's proportion is distributable as part of the owners estate, so that if one of the account holders dies, that owner's heirs are entitled to that proportional share of the account.

**Tenbagger**
A stock that grows in value ten-fold.

**Tender**
To offer for delivery against futures.

**Tender offer**
General offer made publicly and directly to a firm’s shareholders to buy their stock at a price well above the current market price.

**Tender offer premium**
The premium offered above the current market price in a tender offer.

**Tenor**
Maturity of a loan.

**Term**
The period of time during which a contract is in force.

**Term bonds**
Bonds whose principal is payable at maturity. Often referred to as bullet-maturity bonds or simply bullet bonds. Related: Serial bonds.

**Term certificate**
A certificate of deposit with a longer time to maturity.

**Term Fed funds**
Fed funds sold for a period of time longer than overnight.

**Term insurance**
Provides a death benefit only, no build up of cash value.
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.
Terms of trade
The weighted average of a nation's export prices relative to its import prices.

Territorial tax system
A tax system that taxes domestic income but not foreign income. Territorial tax regimes are found in Hong Kong, France, Belgium, and the Netherlands.

Test
The event of a price movement that approaches a support level or a resistance level established earlier by the market. A test is passed if prices do not go below the support or resistance level, and the test is failed if prices go on to new lows or highs.

Testamentary trust
A trust created by a will, that is scheduled to occur after the maker's death.

The Desk
The trading desk at the Federal Reserve Bank of New York through which open market purchases and sales of government and federal agency securities are made. The desk maintains direct telephone communication with major government securities dealers. A "foreign desk" at the Federal Reserve Bank of New York conducts transactions in the foreign exchange market.

Theoretical
The equilibrium futures price. Also called the fair price.

Theoretical spot rate
A curve derived from theoretical considerations as applied to the yields of actually traded Treasury debt securities, because there are no zero-coupon Treasury debt issues with a maturity greater than one year. Like the yield curve, this is a graphic depiction of the term structure of interest rates.

Theoretical value
Applies to derivative products. Mathematically determined value of a derivative instrument as dictated by a pricing model such as the Black-Scholes model.

Theta
The ratio of the change in an option price to the decrease in time to expiration. Also called time decay.

Thin market
A market in which trading volume is low, and consequently bid and asked quotes are wide and the instrument traded is not very liquid. Very little stock to buy or sell. Illiquid.
Thinly traded
Infrequently traded.

Third market
Exchange-listed securities trading in the OTC market.

Thirty-day visible supply
The total volume in dollars of municipal bonds with maturities of 13 months or more that should reach the market within 30 days.

Thirty-day wash rule
IRS rule stating that losses on a sale of stock may not be used as tax shelter if equivalent stock is purchased 30 days or less before or after the sale of the stock.

Three-phase DDM
A version of the dividend discount model that applies a different expected dividend rate depending on a company's life-cycle phase: growth phase, transition phase, or maturity phase.

Three steps and a stumble rule
A rule predicting that stock and bond prices will fall following three increases in the discount rate by the Federal Reserve. This is a result of increased costs of borrowing for companies and the increased attractiveness of money market funds and CDs over stocks and bonds as a result of the higher interest rates.

Threshold for refinancing
The point when the weighted-average coupon of an MBS is at a level to induce homeowners to prepay the mortgage in order to refinance to a lower-rate mortgage, generally reached when the weighted-average coupon of the MBS is 2 percentage points or more above currently available mortgage rates.

Thrift institution
An organization formed as a depository for primarily consumer savings. Savings and loan associations and savings banks are thrift institutions.

Thrift Institution Advisory Council (TIAC)
A council, established following the passage of the Monetary Control Act of 1980, whose purpose is to provide information and views on the special needs and problems of thrifts. The group is comprised of representatives of savings banks, savings and loan associations, and credit unions.

Thrift plan
A defined contribution plan in which an employee contributes, usually on a before-tax basis, toward the ultimate benefits that will be provided. The employer usually agrees to match all or a portion of the employee's contributions.
Throughput agreement
An agreement to put a specified amount of product per period through a particular facility. An example is an agreement to ship a specified amount of crude oil per period through a particular pipeline.

Tick
Refers to the minimum change in price a security can have, either up or down. Related: Point.

Tick indicator
A market indicator based on the number of stocks whose last trade was an uptick or a downtick. Used as an indicator of market sentiment or psychology to try to predict the market’s trend.

Tick-test rules
SEC-imposed restrictions on when a short sale may be executed, intended to prevent investors from destabilizing the price of a stock when the market price is falling. A short sale can be made only when either (1) the sale price of the particular stock is higher than the last trade price (referred to as an uptick trade) or (2) if there is no change in the last trade price of the particular stock, the previous trade price must be higher than the trade price that preceded it (referred to as a zero uptick).

Ticker symbol
An abbreviation assigned to a security for trading purposes.

Ticker tape
Computerized device that relays to investors around the world the stock symbol and the latest price and volume on securities as they are traded.

Ticket
An abbreviation of order ticket.

Tier 1 and Tier 2
Descriptions of the capital adequacy of banks. Tier 1 refers to core capital while Tier 2 refers to items such as undisclosed resources.

TIGER
Acronym for Treasury Investors Growth Receipt. US government-backed bonds without coupons, meaning that the bondholders do not receive the periodic interest payments. The principal of the bond and the individual coupons are sold separately.

Tight
In line with or extremely close to the inside market or last sale in a stock (+/- 1/8). On the
money.

**Tight market**
A market in which *volume* is high, trading is active and highly competitive, and consequently *spreads* between *bid* and *ask* prices are narrow.

**Tight money**
When a restricted money supply makes credit difficult to secure. The antithesis of tight money is easy money.

**Tiki**
*Tick of* Dow Jones Industrial Average component *issues*.

**Tilted portfolio**
An *indexing* strategy that is linked to active management through the emphasis of a particular *industry* sector, selected performance *factors* such as *earnings* momentum, dividend yield, price-earnings ratio, or selected economic factors such as *interest* rates and inflation.

**Time decay**
Related: *Theta*

**Time deposit**
Interest-bearing deposit at a *savings institution* that has a specific *maturity*. Related: *Certificate of deposit*.

**Time draft**
Demand for payment at a stated future date.

**Time horizon**
The period, usually expressed in years, for which an *investor* expects to hold an investment.

**Time Letter of Credit**
See: *Usance Letter of Credit*.

**Time to maturity**
The time remaining until a financial *contract* expires. Also called *time until expiration*.

**Time order**
*Order* that becomes a *market* or *limited price order* or is *canceled* at a specific time.

**Time premium**
Also called *time value*, the amount by which an *option* price exceeds its *intrinsic value*. The
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 premium**
The amount by which an option's total premium exceeds its intrinsic value.

**Times-interest-earned ratio**
Earnings before interest and tax, divided by interest payments.

**Time-weighted**
Related: Geometric mean return

**Timeliness**
A source of competitive advantage that depends on being the first to enter a given market with a product or service.
Timing
See: Market timing

Timing option
The seller’s choice of when in the delivery month to deliver. A Treasury Bond or note futures contract.

Tip
Information given by one trader to another, which is used in making buy or sell decisions but is not available to the general public.

Tired
Has been strong for a while and will probably fall due to increased supply at current price level (due to e.g. profit taking, technical analysis). Heavy.

Title insurance
Insurance policy that protects a policyholder from future challenges to the title claim a property that may result in loss of the property.

To be announced (TBA)
A contract for the purchase or sale of an MBS to be delivered at an agreed-upon future date but does not include a specified pool number and number of pools or precise amount to be delivered.

Tobin’s Q
Market value of assets divided by replacement value of assets. A Tobin’s Q ratio greater than 1 indicates the firm has done well with its investment decisions. Named after James Tobin, Yale University economist.

Toehold purchase
Often used in risk arbitrage. Accumulation by an acquirer of less than 5% of the shares of a target company. Once 5% is acquired, the acquirer must file with the SEC and other agencies to explain its intentions and notify the acquiree. See: Rule 13d.

Tokyo Commodity Exchange (TOCOM)
Tokyo exchange for trading futures on gold, silver, platinum, palladium, rubber, cotton yarn, and woolen yarn.

Tokyo International Financial Futures Exchange
Exchange that trades Euroyen futures and options, and futures on the one-year Euroyen, three-month eurodollar, and US dollar/Japanese yen currency.

Tokyo Stock Exchange (TSE)
The largest stock exchange in Japan with the some of the most active trading in the world.

**Toll revenue bond**
A municipal bond that is repaid with revenues from tolls that are paid by users of the public project built with the bond revenue.

**Tolling agreement**
An agreement to put a specified amount of raw material per period through a particular processing facility. For example, an agreement to process a specified amount of alumina into aluminum at a particular aluminum plant.

**Tom next**
Means to "tomorrow next.". In the interbank market in Eurodollar deposits and the foreign exchange market, the value (delivery) date on a tom next transaction is the next business day.

**Tombstone**
Advertisement listing the underwriters of a security issue.

**Ton**
$100 million in bond trader's terms.

**too-big-too-fail**
Government practices that protect large banking organizations from the normal discipline of the marketplace because of concerns that such institutions are so important to markets and their positions so intertwined with those of other banks that their failure would be unacceptably disruptive, financially and economically.

**Top**
Indicates the higher price one is willing to pay for a stock in an order; implies a not held order.

**Top-down approach**
A method of security selection that starts with asset allocation and works systematically through sector and industry allocation to individual security selection.

**Top-down**
Investment style that begins with an assessment of the overall economic environment and makes a general asset allocation decision regarding various sectors of the financial markets and various industries. The bottom-up manager, in contrast, selects specific securities within the particular sectors.

**Top-heavy**
At a price level where supply is exceeding demand. See: Resistance level.
Topping out
Denoting a market or a security that is at the end of a period of rising prices and can now be expected to stay on a plateau or even to decline.

Toronto Stock Exchange (TSE)
Canada’s largest stock exchange, trading approximately 1,200 company stocks and 33 options.

Total
Complete amount of buy or sell interest, as opposed to having more behind it. See: Partial.

Total asset turnover
The ratio of net sales to total assets.

Total capitalization
The total long-term debt and all types of equity of a company that constitutes its capital structure.

Total cost
The price paid for a security plus the broker’s commission and any accrued interest that is owed to the seller (in the case of a bond).

Total debt-to-equity
A capitalization ratio comparing current liabilities plus long-term debt to shareholders’ equity.

Total dollar return
The dollar return on a nondollar investment, which includes the sum of any dividend/interest income, capital gains or losses, and currency gains or losses on the investment. See also: Total return.

Total Market Capitalization
The total market value of all of a firm’s outstanding securities.

Total return
In performance measurement, the actual rate of return realized over some evaluation period. In fixed income analysis, the potential return that considers all three sources of return (coupon interest, interest on coupon interest, and any capital gain/loss) over some investment horizon.

Total return for calendar year
The profit or loss realized by an investment at the end of a specified calendar year, stated as the percentage gained or lost per dollar invested on January 1.
Total revenue
Total sales and other revenue for the period shown. Known as "turnover" in the U.K.

Total risk
The sum of systematic and unsystematic risk.

Total volume
The total number of shares or contracts traded on national and regional exchanges in a stock, bond, commodity, future, or option on a certain day.

Touch, the
Mainly applies to international equities. Inside market in London terminology.

Tough on price
Firm price mentality at which one wishes to transact stock, often at a discount/premium that is not available at the time.

Tout
To promote a security in order to attract buyers.

Tracking error
In an indexing strategy, the standard deviation of the difference between the performance of the benchmark and the replicating portfolio.

Tracking stock
Best defined with an example. Suppose Company A purchases a business from Company B and pays B with 1 million shares of A's stock. The agreement provides that B cannot sell the 1 million shares for 60 days, and also prohibits B from hedging by purchasing put options on A's shares or short-selling A's shares. B is worried that the market may fall in the next 60 days. B could hedge by purchasing put options or selling the futures on the S&P 500. However, it is possible that A's business is much more cyclical than the S&P 500. One solution to this problem is to find a tracking stock. This is a stock that has high correlation with A. Let us call it Company C. The solution is to sell short or buy protective put options on this tracking stock C. This protects B from fluctuations in the price of A's stock over the next 60 days. Because the degree of the protection is related to the correlation of A and C's stock, it is extremely unlikely that the protection is perfect. Tracking stock is also used for internal evaluation. A firm with four divisions, for example, might set up four tracking stocks. The value-weighted sum of the four stocks exactly equals the firm's stock price observed in the market. This is a way to reward managers for good divisional performance with an equity that is tied to their division—rather than potentially penalizing them compensation for bad performance in a division they have no control over.

Trade
An oral (or electronic) transaction involving one party buying a security from another party. Once a trade is consummated, it is considered "done" or final. Settlement occurs 1-5 business days later.

**Trade acceptance**  
Written demand that has been accepted by an industrial company to pay a given sum at a future date. Related: Banker's acceptance.

**Trade away**  
Trade execution by another broker/dealer.

**Trade balance**  
Overall result of a country's exports.

**Trade credit**  
Credit one firm grants to another firm for the purchase of goods or services.

**Trade date**  
The date that the counterparties in an interest rate swap commit to the swap. Also, the day on which a security or a commodity future trade actually takes place. Trades generally settle (are paid for) 1-5 business days after a trade date. With stocks, settlement is generally 3 business days after the trade. The settlement date usually follows the trade date by five business days, but varies depending on the transaction and method of delivery used.

**Trade debt**  
Accounts payable.

**Trade deficit or surplus**  
The difference in the value of a nation's imports over exports (deficit) or exports over imports (surplus).

**Trade draft**  
A draft addressed to a commercial enterprise. See: Draft.

**Trade flat**  
For convertibles, trade without accrued interest. Preferred stock always "trades flat," as do bonds on which interest is in default or is in doubt. In general, trade in and out of a position at the same price, neither making a profit nor taking a loss.

**Trade house**  
A firm that deals in actual commodities.

**Trade Lanes**  
The direction of trade, e.g. US to Europe.
"Trade me out"
Work out of one's long position (usually created by committing firm principal to complete a trade block trade) by selling stock. Antithesis of "buy them back."

**Trade on the wire**
Immediately give a bid or offer to a salesperson without checking the floor conditions (listed), dealer depth (OTC) or customer interest. An aggressive trading posture.

**Trade on top of**
Trade at a narrow speed or no spread in basis points relative to some other bond yield, usually Treasury bonds.

**Trade reporting**
Dealer: In a trade between two registered Market Participants (MP), only the sell side reports the trade. Auction: In a trade between two member firms, only the sell side reports the trade. Dealer: In a trade between a registered MP and a non-registered MP (Market Maker not registered in a particular stock, an ECN, etc.), the registered MP reports the trade as a buy or sell. Auction: Trading can occur ONLY between two member firms. (Thus, a buy is never reported.)

**Trade Surplus**
A nation's excess of exports over imports during a given time frame.

**Trade-weight value of the dollar**
The value of the dollar pegged to, a market basket of selected foreign currencies. The Federal Reserve calculates a trade-weighted value of the dollar based on the weighted-average exchange value of the dollar against the currencies of 10 industrial countries.

**Trademark**
A distinctive name or symbol used to identify a product or company and build recognition. Trademarks may be registered with the US Patent and Trademark Office.

**Traders**
Individuals who take positions in securities and their derivatives with the objective of making profits. Traders can make markets by trading the flow. When they do this, their objective is to earn the bid/ask spread. Traders can also take proprietary positions in which they seek to profit from the directional movement of prices or spread positions.

**Trades by appointment**
A stock that is very difficult to trade to because of illiquidity.
Buying and selling securities.

**Trading authorization**
A document (power of attorney) a customer gives to a broker in order that the broker may buy and sell securities on behalf of the customer.

**Trading costs**
Costs of buying and selling marketable securities and borrowing. Trading costs include commissions, slippage, and the bid/ask spread. See: Transactions costs.

**Trading desk (dealing desk)**
Personnel at an international bank who trade spot and forward foreign exchange.

**Trading dividends**
Maximizing a firm's revenues by purchasing stock in other firms in order to collect the maximum amount of dividends of which 70% is tax-free.

**Trading halt**
When trading of a stock, bond, option or futures contract is stopped by an exchange while news is being broadcast about the security. See: Suspended trading.

**Trading limit**
The exchange-imposed maximum daily price change that a futures contract or futures option contract can undergo.

**Trading paper**
CDs purchased by accounts that are likely to resell them. The term is commonly used in the Euromarket.

**Trading pattern**
Long-range direction of a security or commodity futures price, charted by drawing one line connecting the highest prices the security has reached and another line connecting the lowest prices at which the security has traded over the same period. See: Technical analysis.

**Trading posts**
The positions on the floor of a stock exchange where the specialists stand and securities are traded.

**Trading price**
The price at which a security is currently selling.

**Trading profit**
The profit earned on short-term trades of securities held for less than one year, subject to tax at normal income tax rates.
Trading range
The difference between the high and low prices traded during a period of time; for commodities, the high/low price limit an exchange establishes for a specific commodity for any one day's trading.

Trading symbol
See: Ticker symbol

Trading unit
The number of shares of a particular security that is used as the acceptable quantity for trading on the exchanges.

Trading variation
The increments to which securities prices are rounded up or rounded down.

Trading volume
The number of shares transacted every day. As there is a seller for every buyer, one can think of the trading volume as half of the number of shares transacted. That is, if A sells 100 shares to B, the volume is 100 shares.

Traditional IRA
A tax-deferred individual retirement account that allows annual contributions of up to $2000 for each income earner. Contributions are fully deductible for all individuals who are not active participants in 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
offering usually have different risk, reward, and/or maturity characteristics.

**Transaction**
The delivery of a security by a seller and its acceptance by the buyer.

**Transaction account**
A checking or similar account from which transfers can be made to third parties. Demand-deposit accounts, negotiable order of withdrawal NOW accounts, automatic transfer service (ATS) accounts, and credit union share draft accounts are examples of transaction accounts at banks and other depository institutions.

**Transactions costs**
The time, effort, and money necessary, including such things as commission fees and the cost of physically moving the asset from seller to buyer. Transactions costs should also include the bid/ask spread as well as price impact costs (for example a large sell order could lower the price). Related: Round-trip transactions costs, information costs, search costs.

**Transaction**
The money needed to accommodate a firm's expected cash transactions.

**Transaction exposure**
Risk to a firm with known future cash flows in a foreign currency, that arises from possible changes in the exchange rate. Related: Translation exposure.

**Transaction fee**
A charge an intermediary, such as a broker-dealer or a bank, assesses for assisting in the sale or purchase of a security.

**Transaction Insured Trade Acceptance Locator (TITAL)**
A trade acceptance through an insurance entity (rather than a bank) which is conditional upon exporter performance.

**Transaction loan**
a loan extended by a bank for a specific purpose. Lines of credit and revolving credit agreements involve by contrast loans that can be used for various purposes.

**Transaction tax**
Applies mainly to international equities. Levies on a deal that foreign governments sometimes charge.

**Transaction Risk**
The risk of changes in the home currency value of a specific future foreign currency cash flow.

**Transactions motive**
A desire to hold cash in order to conduct cash-based transactions.

**Transcript of Account**
A listing of all prior and present registered securityholder account information.

**Transfer**
A change of ownership from one person or party to another.

**Transfer agent**
Individual or institution a company appoints to look after the transfer of securities.

**Transfer On Death (TOD)**
The process of changing title of a security from one name to another upon the death of one of the titleholders.

**Transfer payments**
Payments from a government to its citizens, such as welfare and other government benefits.

**Transfer price**
The price at which one unit of a firm sells goods or services to another unit of the same firm.

**Transfer tax**
A small federal tax on the movement of ownership of all bonds (except obligations of the US, foreign governments, states, and municipalities) and all stocks.

**Transferable letter of credit**
Document that allows the first beneficiary on a standby bank assurance of funds to transfer all or part of the original letter of credit to a third party.

**Transferable Stock Options**
Options that provide by their terms that they may be transferred by the optionee, generally only to a family member or to a trust, limited partnership or other entity for the benefit of family members, or to a charity.

**Transferable put right**
An option issued by a firm to its shareholders to sell the firm one share of its common stock at a fixed price (the strike price) within a stated period (the time to maturity). The put right is "transferable" because it can be traded in the capital markets.

**Transferee**
The party who has received the benefits of a letter of credit by action of a transfer.
**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
difference between the portfolio's return and the risk-free rate of return over the same evaluation period and where the unit of risk is the portfolio's beta. Named after Jack Treynor.

**T-Rex Fund**
A large venture capital fund (over one billion dollars). Such funds are known for imposing strong discipline on the firms they fund.

**Triangular arbitrage**
Striking offsetting deals among three markets simultaneously to obtain an arbitrage profit.

**Trickle down**
An economic theory that the support of businesses that allows them to flourish will eventually benefit middle- and lower-income people, in the form of increased economic activity and reduced unemployment.

**TRIN**
Name derived from TRading INdex. Also known as an ARMS index. The index is usually calculated as the number of advancing issues divided by the number of declining issues. This, in turn, is divided by the advancing volume divided by the declining volume. If there is considerably more advancing volume relative to declining volume this will tend to reduce the index (i.e. increase the denominator). Hence, a value less than 1.0 is bullish while values greater than 1.0 indicate bearish demand. The index often is smoothed with a simple moving average.

**Triple net lease**
A lease providing that the tenant pay for all maintenance expenses, plus utilities, taxes, and insurance. This results in lower risk for investors, who usually form a limited partnership.

**Triple tax-exempt**
Municipal bonds featuring federal, state, and local tax-free interest payments.

**Triple witching hour**
The four times a year that the S&P futures contract expires at the same time as the S&P 100 index option contract and option contracts on individual stocks. It is the last trading hour on the third Friday of March, June, September, and December, when stock options, futures on stock indexes, and options on these futures expire concurrently. Massive trades in index futures, options, and underlying stock by hedge strategists and arbitrageurs cause abnormal activity (noise) and volatility.

**Trough**
The transition point between economic recession and recovery.

**True interest cost**
For a security such as commercial paper that is sold on a discount basis, true interest cost is
the coupon rate required to provide an identical return assuming a coupon-bearing instrument of like maturity that pays interest in arrears.

**True lease**
A contract that qualifies as a valid lease agreement under the Internal Revenue Code.

**Trust**
A fiduciary relationship calling for a trustee to hold the title to assets for the benefit of the beneficiary. The person creating the trust, who may or may not also be the beneficiary, is called the grantor.

**Trust company**
An organization that acts as a fiduciary and administers trusts.

**Trust deed**
Agreement between trustee and borrower setting out terms of a bond.

**Trust fund transaction**
An intra budgetary financial arrangement in which both payments and receipts occur within the same trust fund group.

**Trust Indenture Act of 1939**
A law that requires all corporate bonds and other debt securities to be issued subject to indenture agreements and comply with certain indenture provisions approved by the SEC.

**Trust receipt**
Receipt for goods that are to be held in trust for the lender.

**Trustee**
Agent of a bond issuer who handles the administrative aspects of a loan and ensures that the borrower complies with the terms of the bond indenture.

**Trustee in bankruptcy**
An appointed trustee who supervises and administers the affairs of a bankrupt company or individual.

**TSE 300 (Toronto Stock Exchange 100 index)**
Canadian form of a S&P 500.

**Truth in lending law**
Legislation governing the granting of credit, that requires lenders to disclose the true cost of loans and the actual interest rates and terms of the loans in a manner that is easily understood.
**TT&L account**  
Treasury tax and loan account at a bank.

**Turkey**  
A losing investment.

**Turn**  
In the equities market, a reversal; unwind.

**Turnaround**  
Securities bought and sold for settlement on the same day. Also describes a firm that has been performing poorly, but changes its financial course and improves its performance.

**Turnaround time**  
Time available or needed to effect a turnaround.

**Turnkey construction**  
A type of construction contract under which the construction firm is obligated to complete a project according to prespecified criteria for a price that is fixed at the time the contract is signed.

**Turnover**  
For mutual funds, a measure of trading activity during the previous year, expressed as a percentage of the average total assets of the fund. A turnover rate of 25% means that the value of trades represented one-fourth of the assets of the fund. For finance, the number of times a given asset, such as inventory, is replaced during the accounting period, usually a year. For corporate finance, the ratio of annual sales to net worth, representing the extent to which a company can grow without outside capital. For markets, the volume of shares traded as a percent of total shares listed during a specified period, usually a day or a year. For Great Britain, total revenue. Percentage of the total number of shares outstanding of an issue that trades during any given period.

**Turnover rate**  
Measures trading activity during a particular period. Portfolios with high turnover rates incur higher transaction costs and are more likely to distribute capital gains, which are taxable to nonretirement accounts.

**12B-1 fees**  
The percent of a mutual fund’s assets used to defray marketing and distribution expenses. The amount of the fee is stated in the fund’s prospectus. The SEC has recently proposed that 12B-1 fees in excess of 0.25% be classed as a load. A true no load fund has neither a sales charge nor a 12b-1 fee.

**12B-1 funds**
Mutual funds that do not charge an up-front or back-end commission, but instead take out up to 1.25% of average daily fund assets each year to cover the costs of selling and marketing shares, an arrangement allowed by the SEC's Rule 12B-1 (passed in 1980).

**Twenty bond index**
A benchmark indicator of the level of municipal bond yields. It consists of the yields on 20 general obligation municipal bonds with 20-year maturities with an average rating equivalent to a1l.

**Twenty-day period**
The period during which the SEC inspects registration statement and preliminary prospectus prior to a new issue or secondary distribution.

**20% cushion rule**
Guideline that revenues from facilities financed by municipal bonds should exceed the operating budget plus maintenance costs and debt service by at least 20% to allow for unforeseen expenses.

**25% rule**
The guidelines that bonded debt over 25% of a municipality's annual budget is excessive.

**Twisting**
Convincing a customer that trades are necessary in order to generate a commission. This is an unethical practice.

**Two dollar broker**
Floor broker of the NYSE, who executes orders for other brokers having more business at that time than they can handle with their own private floor brokers or who do not have their exchange member on the floor.

**Two-factor model**
Usually, Fischer Black’s zero-beta version of the capital asset pricing model. It may also refer to another type of model whereby expected returns are generated by any two factors.

**Two-fund separation theorem**
The theoretical result that all investors will hold a combination of the risk-free asset and the market portfolio.

**Two-sided market**
A market in which both bid and asked prices, good for the standard unit of trading, are quoted. When customers or market makers are lined up on both sides (buy and sell) of a stock.
Two-state
A pricing equation allowing an underlying asset to assume only two possible (discrete) values in the next time period for each value it can take on in the preceding time period. Also called the binomial option pricing model.

Two-tier bid
Takeover bid in which the acquirer offers to pay more for the shares needed to gain control than for the remaining shares, or to pay the same price but at different times in the merger period; contrasts with any-or-all bid.

Two-tier tax system
Taxation system that results in taxing the income going to shareholders twice.

Type
The classification of an option contract as either a put or a call.

UA
The two-character ISO 3166 country code for UKRAINE.

UAH
The ISO 4217 currency code for the Ukraine Hryvnia.

UG
The two-character ISO 3166 country code for UGANDA.

UGX
The ISO 4217 currency code for the Uganda Shilling.

UM
The two-character ISO 3166 country code for UNITED STATES MINOR OUTLYING ISLANDS.

US
The two-character ISO 3166 country code for UNITED STATES.

USD
The ISO 4217 currency code for the USA Dollar.

UY
The two-character ISO 3166 country code for URUGUAY.

UYU
The ISO 4217 currency code for the Uruguay Peso Uruguayo.
**UZ**
The two-character ISO 3166 country code for UZBEKISTAN.

**UZS**
The ISO 4217 currency code for the Uzbekistan Sum.

**Ultra vires activities**
Corporate actions and operations that are not sanctioned by corporate charter, sometimes leading to shareholder lawsuits.

**Ultradot**
Applies to derivative products. Firm proprietary software that stores, and sends baskets of stock through SEAQ to either the NYSE or the curb for program trading.

**Ultra-short-term bond fund**
A mutual fund that invests in bonds with very short maturity periods, usually one year or less.

**Umbrella personal liability policy**
A liability insurance policy that provides protection against damages not covered by standard liability policies, such as large jury awards in lawsuits.

**Umbrella policy**
Insurance for exports of an exporter whose issuer handles all administrative requirements.

**Unamortized bond discount**
Par value of a bond less the proceeds received from the sale of the bond, less whatever portion has been amortized.

**Unamortized premiums on investments**
The unexpensed portion of the difference between the price paid for a security and its par value.

**Unbiased expectations hypothesis**
Theory that forward exchange rates are unbiased predictors of future spot rates. See Forward parity.

**Unbiased predictor**
A theory that spot prices at some future date will be equal to today's forward rates.

**Unbundling**
Separation of a multinational firm's transfers of funds into discrete flows for specific purposes. See: Bundling.
**Uncollected funds**
The amount of bank deposits in the form of checks that have not yet been paid by the banks on which the checks are drawn.

**Uncollectible account**
An account which cannot be collected by a company because the customer is not able to pay or is unwilling to pay.

**Unconfirmed Letter of Credit**
A letter of credit which has not been guaranteed or confirmed by any bank other than the bank that opened it. The advising bank merely informs the beneficiary of the letter of credit terms and conditions.

**Uncovered call**
A short call option position in which the writer does not own shares of underlying stock represented by the option contracts. Uncovered calls are much riskier for the writer than a covered call, where the writer of the uncovered call owns the underlying stock. If the buyer of a call exercises the option to call, the writer would be forced to buy the asset at the current market price. Also called a “naked” asset.

**Uncovered call writing**
A short call option position in which the writer does not own an equivalent position in the underlying security represented by his option contracts.

**Uncovered options**
See: Naked options

**Uncovered put**
A short put option position in which the writer does not have a corresponding short stock position or has not deposited, in a cash account, cash or cash equivalents equal to the exercise value of the put. The writer has pledged to buy the asset at a certain price if the buyer of the option chooses to exercise it. Uncovered put options limit the writer’s risk to the value of the stock (adjusted for premium received.) Also called “naked” puts.

**Uncovered Put writing**
A short put option position in which the writer does not have a corresponding short position in the underlying security or has not deposited, in a cash account,

**Under the belt**
Long position in a stock.

**Underbanked**
When an originating investment banker cannot find enough firms to underwrite a new issue.
**Underbooked**
Describes limited interest by prospective buyers in a new issue of a security during the preoffering registration period.

**Undercapitalized**
A business has insufficient capital to carry out its normal functions.

**Underfunded pension plan**
A pension plan that has a negative surplus (i.e., liabilities exceed assets).

**Underinvestment problem**
The mirror image of the asset substitution problem, in that stockholders refuse to invest in low-risk assets to avoid shifting wealth from themselves to debtholders.

**Underlying**
What supports the security or instrument that parties agree to exchange in a derivative contract.

**Underlying asset**
The security or property or loan agreement that an option gives the option holder the right to buy or to sell.

**Underlying debt**
Municipal bonds issued by government entities but under the control of larger government entities and for which the larger entity shares the credit responsibility.

**Underlying futures contract**
A futures contract that supports an option on that future, which is executed if the option is exercised.

**Underlying security**
For options, the security that is subject to purchase or sold upon exercise of an option contract. For example, IBM stock is the underlying security for IBM options. For Depository receipts, the class, series, and number of the foreign shares represented by the depository receipt.

**Undermargined account**
A margin account that no longer meets minimum maintenance requirements, requiring a margin call on the investor.

**Underperform**
When a security is expected to, or does, appreciate at a slower rate than the overall market rate of performance.
**Underpricing**
Issuing securities at less than their market value.

**Undervalued**
A stock price perceived to be too low or cheap, as indicated by a particular valuation model. For instance, some might consider a particular company’s stock price cheap if the company’s price-earnings ratio is much lower than the industry average. To refer to undervaluation or overvaluation implicitly assumes some model of valuation. It is always possible that the security is valued correctly and that model applied is wrong.

**Undervalued security**
A security selling below its market value or liquidation value.

**Underwithholding**
When a taxpayer has withheld too little tax from salary and will therefore owe tax when filing a return.

**Underwrite**
To guarantee, as to guarantee the issuer of securities a specified price by entering into a purchase and sale agreement. To bring securities to market.

**Underwriter**
A firm, usually an investment bank, that buys an issue of securities from a company and resells it to investors. In general, A party that guarantees the proceeds to the firm from a security sale, thereby in effect taking ownership of the securities.

**Underwriter's discount**
See: Gross spread

**Underwriting**
Acting as the underwriter in the issue of new securities for a firm.

**Underwriting agreement**
The contract between a corporation issuing new publicly offered securities and the managing underwriter as agent for the underwriting group. Compare to agreement among underwriters.

**Underwriting Commission**
The fee investment bankers charge for underwriting a security issue.

**Underwriting fee**
The portion of the gross underwriting spread that compensates the securities firms that underwrite a public offering for their services.
Underwriting income
For an insurance company, the difference between the premiums earned and the costs of settling claims.

Underwriting spread
The income that is generated by the underwriting syndicate and the selling group, which is essentially the difference between the amount paid to the issuer of securities in a primary distribution and the public offering price.

Underwriting syndicate
A group of investment banks that work together to sell new security offerings to investors. The underwriting syndicate is led by the lead underwriter. See also: Lead underwriter.

Underwritten offering
A purchase and sale.

Undigested securities
Newly issued securities that are not purchased because of lack of demand during the initial public offering.

Undiversifiable risk
Related: Systematic risk

Unearned income (revenue)
Income received in advance of the time at which it is earned, such as prepaid rent.

Unearned interest
Interest that has been received on a loan, but that cannot be treated as a part of earnings yet, because the principal of the loan has not been outstanding long enough.

Unemployment rate
The percentage of the people classified as unemployed as compared to the total labor force.

Unencumbered
Property that is not subject to any claims by creditors. For example, securities bought with cash instead of on margin and homes with mortgages paid off.

Unequal Voting
These provisions limit the voting rights of some shareholders and expand those of others. Under time-phased voting, shareholders who have held the stock for a given period of time are given more votes per share than recent purchases. Another variety is the substantial shareholder provision, which limits the voting power of shareholders who
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.
**Unilateral transfers**
Items in the current account of the balance of payments of a country's accounting books that correspond to gifts from foreigners or pension payments to foreign residents who once worked in the particular country.

**Uninsured motorist insurance**
Insurance that covers the policyholder and family if they are injured by a hit-and-run or uninsured motorist, assuming the other driver is at fault.

**Unique Diversification Benefit**
Reduction in the likelihood of financial distress for a conglomerate firm that comes with its diversified investments.

**Unique risk**
Also called unsystematic risk or idiosyncratic risk. Specific company risk that can be eliminated through diversification. See: Diversifiable risk and unsystematic risk.

**Unissued stock**
Shares authorized in a corporation's charter, but not issued.

**Unit**
More than one class of securities traded together (e.g., one common share and three subscription warrants).

**Unit benefit formula**
Method used to determine a participant's benefits in a defined benefit plan. Involves multiplying years of service by the percentage of salary.

**Unit investment trust**
Money invested in a portfolio whose composition is fixed for the life of the fund. Shares in a unit trust are called redeemable trust certificates, and they are sold at a premium to net asset value.

**Unit Share Investment Trust (USIT)**
A unit investment trust comprising one unit of prime and one unit of score.

**Unit of trading**
See: Trading unit.

**Unit trust**
In the United Kingdom and other foreign markets, an open-end mutual fund.

**United States Customs Service**
An agency of the Treasury Department charged with enforcing laws relative to imports.

**United States government securities**
Debt issues of the U.S. government, as distinguished from government-sponsored agency issues.

**Universal life**
A whole life insurance product whose investment component pays a competitive interest rate rather than the below-market crediting rate.

**Universe of securities**
A group of stocks having a common feature, such as similar outstanding market capitalization or same product line.

**Unleveraged beta**
The beta of an unleveraged required return (i.e., no debt) on an investment when the investment is financed entirely by equity.

**Unleveraged program**
The use of borrowed funds to finance less than 50% of a purchase of assets. In a leveraged program borrowed funds are used to finance more than 50%.

**Unleveraged**
The required return on an investment when the investment is financed entirely by equity (i.e., no debt).

**Unlevered cost of equity**
The discount rate appropriate for an investment that it is financed with 100% equity.

**Unlimited liability**
Full liability for the debt and other obligations of a legal entity. The general partners of a partnership have unlimited liability.

**Unlimited marital deduction**
An Internal Revenue Service provision that allows an individual to transfer an unlimited amount of assets to a spouse, during life or at death, without incurring federal estate or gift tax.

**Unlimited tax bond**
A municipal bond secured by the pledge to levy taxes until full repayment at an unlimited rate.

**Unlisted security**
A security traded in the over-the-counter market that is not listed on an organized exchange.
Unlisted trading
Trading in unlisted securities that occurs on an organized exchange to accommodate members. This practice is not permitted at the NYSE.

Unloading
Selling securities or commodities whose prices are dropping to minimize loss.

Unmargined account
A cash account held at a brokerage firm.

Unmatched book
If the average maturity of a bank’s liabilities is shorter than that of its assets, it is said to be running an unmatched book. The term is commonly used with the Euromarket. Also refers to entering into OTC derivatives contracts and not hedging by making trades in the opposite direction to another financial intermediary. In this case, the firm with an unmatched book usually hedges its net market risk with futures and options. Related expressions: Open book and short book.

Unpaid dividend
A dividend declared by the directors of a corporation that has not yet been paid.

Unqualified opinion
An independent auditor’s opinion that a company’s financial statements comply with accepted accounting procedures. Antithesis of qualified opinion.

Unrealized capital gain/loss
An increase/decrease in the value of a security that is not "real" because the security has not been sold. Once a security is sold by the portfolio manager, the capital gains/losses are "realized" by the fund, and any payment to the shareholder is taxable during the tax year in which the security is sold.

Usance
The time allowed for settlement of a draft.

Usance Draft
See: Time Draft

Usance Letter of Credit
A letter of credit payable at a determined future date after presentation of conforming documents.

Unseasoned issue
Issue of a security for which there is no existing market. See: Seasoned issue.
Unsecured debt
Debt that does not identify specific assets that the debtholder is entitled to in case of default.

Unsterilized intervention
Foreign exchange market intervention in which the monetary authorities have not insulated their domestic money supplies from the foreign exchange transactions.

Unsystematic risk
Also called the diversifiable risk or residual risk. The risk that is unique to a company such as a strike, the outcome of unfavorable litigation, or a natural catastrophe that can be eliminated through diversification. Related: Systematic risk.

Unwind a trade
Reverse a securities transaction through an offsetting transaction in the market.

Up
Market indication; willingness to go both ways (buy or sell) at the mentioned volume and market. Print; up on the ticker tape, confirming that the trade has been executed.

Up tick
Plus tick.

Upgrading
Raising the quality rating of a security because of new optimism about the prospects of a firm due to tangible or intangible factors. This can increase investor confidence and push up the price of the security.

Upset price
The minimum price at which a seller of property will accept a bid at an auction.

Upside potential
The amount by which analysts or investors expect the price of a security may increase.

Upstairs market
A network of trading desks for the major brokerage firms and institutional investors, which communicate with each other by means of electronic display systems and telephones to facilitate block trades and program trades.

Upstairs order
Used for listed equity securities. Off-floor order.

Upswing
An upward turn in a security’s price after a period of falling prices.
**Uptick rule**
SEC rule that selling short is allowed only on an up tick.

**Uptick trade**
A transaction that takes place at a higher price than the preceding transaction involving the same security. Related: Tick test rules.

**Useful life**
The expected period of time during which a depreciating asset will be productive.

**US Treasury bill**
US government debt with a maturity of less than a year.

**US Treasury bond**
US government debt with a maturity of more than 10 years.

**US Treasury note**
US government debt with a maturity of one to 10 years.

**U.S. Treasury securities**
Interest-bearing obligations if the U.S. government issued by the U.S. Department of the Treasury as a means of borrowing money to meet government expenditures not covered by tax revenues. There are three types of marketable Treasury securities-bills, notes and bonds.

**Usury laws**
Laws limiting the amount of interest that can be charged on loans.

**Utility**
A power company that owns or operates facilities used for the generation, transmission, or distribution of electric energy, which is regulated at state and federal levels.

**Utility function**
A mathematical expression that assigns a value to all possible choices. In portfolio theory, the utility function expresses the preferences of economic entities with respect to perceived risk and expected return.

**Utility revenue bond**
A municipal bond issued to finance the construction of public utility services. These bonds are repaid from the operating revenues the project produces after the utility is finished.

**Utility value**
The welfare a given investor assigns to an investment with a particular expected return and
risk.

V
Fifth letter of a Nasdaq stock symbol indicate that it is when-issued or when-distributed.

VA
The two-character ISO 3166 country code for HOLY SEE (VATICAN CITY STATE).

VaR
See: Value-at-risk model

VC
The two-character ISO 3166 country code for SAINT VINCENT AND THE GRENADINES.

VE
The two-character ISO 3166 country code for VENEZUELA.

VEB
The ISO 4217 currency code for the Venezuelan Bolivar.

VG
The two-character ISO 3166 country code for VIRGIN ISLANDS, BRITISH.

VI
The two-character ISO 3166 country code for VIRGIN ISLANDS, U.S..

VN
The two-character ISO 3166 country code for VIET NAM.

VND
The ISO 4217 currency code for the Vietnamese Dong.

VRDB
See: Variable-rated demand bond

VU
The two-character ISO 3166 country code for VANUATU.

VUV
The ISO 4217 currency code for the Vanuatu Vatu.

VWAP
The volume-weighted average price.
**Validated Export License**
Document issued by the U.S. government (BXA), authorizing the export of specific commodities to a specified foreign country within a specified time period.

**Valuation**
Determination of the value of a company’s stock based on earnings and the market value of assets.

**Valuation Clause**
Stipulates a fixed sum for insured property in the event of loss when included in a marine cargo insurance policy.

**Valuation Opportunity Cost**
The potential increase in firm value associated with investments that are for gone due to capital rationing.

**Valuation reserve**
An allowance to provide for changes in the value of a company’s assets, such as depreciation.

**Value Added**
Value added is the risk adjusted return generated by an investment strategy: the return of the investment strategy minus the return of the benchmark.

**Value-added tax**
Method of indirect taxation that levies a tax is at each stage of production on the value added at that specific stage.

**Value additivity principal**
When the value of a whole group of assets exactly equals the sum of the values of the individual assets that make up the group of assets. Or, the principle that the net present value of a set of independent projects is just the sum of the net present values of the individual projects.

**Value broker**
A discount broker whose rates are a percentage of the dollar value of each transaction.

**Value date**
In the market for Eurodollar deposits and foreign exchange, the delivery date of funds traded. For spot transactions, it is normally on spot transactions two days after a transaction is agreed upon. In the case of a forward foreign exchange trade, it is the future date.

**Value dating**
When value or credit is given for funds transferred between banks.
**Value investing**  
In the context of asset management, mutual funds, and hedge funds, the a style of  
investment that focuses on securities with low price to earnings ratios or low price to  
book ratios. Some of these securities are deemed cheap and are viewed by manager as  
having a lot of profit potential.

**Value Line investment survey**  
A proprietary service that ranks stocks for timeliness and safety.

**Value manager**  
A manager who seeks to buy stocks that are at a discount to their "fair value" and to sell  
them at or in excess of that value. Often a value stock is one with a low price-to-book value  
ratio. Opposite of to growth stock.

**Value Maximization**  
Increases in owners' wealth achieved by maximizing of the value of a firm's common stock.

**Value-at-risk model (VaR)**  
Procedure for estimating the probability of portfolio losses exceeding some specified  
proportion based on a statistical analysis of historical market price trends, correlations, and  
voltalities.

**Value stocks**  
Stocks with low price/book ratios or price/earnings ratios. Historically, value stocks have  
enjoyed higher average returns than growth stocks (stocks with high price/book or P/E ratios)  
in a variety of countries.

**Value stock fund**  
A mutual fund that emphasizes stocks of companies whose growth opportunities are  
generally regarded as subpar by the market. A value stock company often pays regular  
dividend income to shareholders and sells at relatively low prices in relation to its earnings or  
book value.

**Vancouver Stock Exchange (VSE)**  
A securities and options exchange in Vancouver, British Columbia, (Canada), specializing in  
venture capital companies.

**Vanilla issue**  
A security issue that has no unusual features.

**Variable**  
An element in a model. For example, in the model RS&Pt+1 = a + b Tbill t + et, where  
RS&Pt+1 is the return on the S&P in month t+1 and Tbill is the Tbill return at month t,
both RS&P and Tbill are "variables" because they change through time; i.e., they are not constant.

**Variable annuities**
Investment contracts whose issuer pays a periodic amount linked to the investment performance of an underlying portfolio.

**Variable cost**
A cost that is directly proportional to the volume of output produced. When production is zero, the variable cost is equal to zero.

**Variable interest rate**
See: Adjustable rate

**Variable life insurance policy**
A whole life insurance policy that provides a death benefit dependent on the insured's portfolio market value at the time of death. Typically the company invests premiums in common stocks, so variable life policies are referred to as equity-linked policies.

**Variable Plan**
A plan in which either the number of shares and/or the price at which they will be issued is not known on the grant date.

**Variable-price security**
A security that sells at a fluctuating market-determined price. Stocks and bonds are example.

**Variable-rate**
A variable-rate agreement, as distinguished from a fixed-rate agreement, calls for an interest rate that may fluctuate over the life of the loan. The rate is often tied to an index that reflects changes in market rates of interest. A fluctuation in the rate causes changes in either the payments or the length of the loan term. Limits are often placed on the degree to which the interest rate or the payments can vary.

**Variable-rate CDs**
Short-term certificates of deposits that pay interest periodically on roll dates. On each roll date, the coupon on the CD is adjusted to reflect current market rates.

**Variable-rate demand note**
A note that is payable on demand and bears interest tied to a money market rate.

**Variable-rate loan**
Loan made at an interest rate that fluctuates depending on a base interest rate, such as the prime rate or LIBOR.
Variable rated demand bond (VRDB)
Floating-rate bond that periodically can be sold back to the issuer.

Variable Ratio Write
An option strategy in which the investor owns 100 shares of the underlying security and writes two call options against it, each option having a different striking price.

Variance
A measure of dispersion of a set of data points around their mean value. The mathematical expectation of the average squared deviations from the mean. The square root of the variance is the standard deviation.

Variance-minimization approach to tracking
An approach to bond indexing that uses historical data to estimate the variance of the tracking error.

Variance rule
Specifies the permitted minimum or maximum quantity of securities that can be delivered to satisfy a TBA trade. For Ginnie Mae, Fannie Mae, and Freddie Mac pass-through securities, the accepted variance is plus or minus 2.499999 % per million of the par value of the TBA quantity.

Variation margin
An additional required deposit to bring an investor's equity account up to the initial margin level when the balance falls below the maintenance margin requirement.

Vault cash
Cash kept on hand in a depository institution's vault to meet day-to-day business needs, such as cashing checks for customers; can be counted as a portion of the institution's required reserves.

Velda Sue
Stands for Venture Enhancement and Loan Development Administration for Smaller Undercapitalized Enterprises. A federal agency that buys and pools small business loans made by banks, and then issues securities that are bought by large institutional investors.

Velocity
The number of times a dollar is spent, or turns over, in a specific period of time. Velocity affects the amount of economic activity generated by a given money supply.

Vendor
Seller or supplier.

Venture capital
An investment in a start-up business that is perceived to have excellent \textit{growth prospects} but does not have access to \textit{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 \textit{capital} for the new business in return for \textit{stock} in the company and a share of the \textit{profits}.

**Vertical acquisition**
Buying or taking over a firm in the same industry in which the \textit{acquired firm} and the \textit{acquiring firm} represent different steps in the production process.

**Vertical analysis**
Dividing each \textit{expense} item in the \textit{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 \textit{stock} or a \textit{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 \textit{firm being acquired} serves as a supplier to the \textit{firm doing the acquiring}.

**Vertical spread**
Simultaneous purchase and sale of two \textit{options} that differ only in their \textit{exercise price}. See: \textit{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 \textit{employee stock ownership} or \textit{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
their years of service—full vesting in five years or 20% vesting per year starting by the end of the third year.

**Vesting Schedule**
Schedule setting forth when, and to what extent, options become exercisable or **restricted stock** or stock units are no longer subject to forfeiture (for example, 20% per year over five years).

**Veterans Administration (VA) mortgage**
A home mortgage loan granted by a lending institution to U.S. veterans and guaranteed by the Veterans Administration.

**V formation**
A technical chart pattern that follows a letter V form, indicating that the security price has bottomed out, and is now in a **bullish trend**.

**Vienna Convention**
Common name for the United Nations Convention on Contracts for the International Sale of Goods. They are a body of law governing the international sale of goods between parties domiciled in member countries.

**Vienna Stock Exchange (VSX)**
One of the world’s oldest exchanges, which accounts for approximately 50% of Austrian stock transactions; the balance are traded OTC.

**Vignette**
A symbol or pictorial representation of the corporation on a stock certificate. Usually a complicated and artistic design, it is meant to make the counterfeiting of stock certificates as difficult as possible.

**Virtual currency option**
A new option contract introduced by the PHILX in 1994 that is settled in US dollars rather than in the underlying currency. These options are also called 3-Ds (dollar-denominated delivery).

**Visible supply**
New muni bond issues scheduled to come to market within the next 30 days.

**VIX**
The implied volatility on the S&P 100 (OEX) option. This volatility is meant to be a forward looking volatility. It is calculated from both calls and puts that are near the money. The VIX is a popular measure of market risk.

**Volatility**
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.
**Voting Instruction Card**
The voting card sent to participants in an employee plan giving the trustee of the plan the authority to vote the shares as indicated on a proxy card.

**Volume**
This is the daily number of shares of a security that change hands between a buyer and a seller.

**Voting certificate**
Certificates issued by a voting trust to stockholders in exchange for their common stock, which represent all the rights of common stock except voting rights.

**Voting rights**
The right to vote on matters that are put to a vote of security holders. For example the right to vote for directors.

**Voting stock**
The shares in a corporation that entitle the shareholder to vote.

**Voting trust certificate**
A trust in which control of a corporation is given to a few individuals, usually to support reorganization of a corporation without interference.

**VXN**
The implied volatility on the Nasdaq 100 (NPX) option. This volatility is meant to be a forward looking volatility. It is calculated from both calls and puts that are near the money.

**W**
Fifth letter of a Nasdaq stock symbol indicating that this particular stock is a warrant.

**WACC**
See: Weighted average cost of capital

**WEBS**
See: World Equity Benchmark Series

**WF**
The two-character ISO 3166 country code for WALLIS AND FUTUNA.

**WI**
See: When issued
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.
**Wall Street analyst**  
Related: Sell-side analyst

**Wallflower**  
Stock that has fallen out of favor with investors; stock that tends to have a low P/E (price-to-earnings ratio).

**Wallpaper**  
A security with no monetary value.

**Wanted for cash**  
A statement displayed on market tickers indicating that a bidder will pay cash for same-day settlement of a block of a specified security.

**War babies**  
Slang term for the stocks and bonds of corporations in the defense industry.

**War chest**  
Cash kept aside for a takeover or for defense against a takeover bid.

**War Risk Insurance**  
Separate insurance coverage against loss or damage due to acts of war (including objects left over from previous wars).

**Warehouse receipt**  
Evidence that a firm owns goods stored in a warehouse.

**Warehousing**  
The interim holding period from the time of the closing of a loan to its subsequent marketing to capital market investors.

**Warrant**  
A security entitling the holder to buy a proportionate amount of stock at some specified future date at a specified price, usually one higher than current market price. Warrants are traded as securities whose price reflects the value of the underlying stock. Corporations often bundle warrants with another class of security to enhance the marketability of the other class. Warrants are like call options, but with much longer time spans-sometimes years. And, warrants are offered by corporations, while exchange-traded call options are not issued by firms.

**Warranty**  
A guarantee by a seller to a buyer that if a product requires repair or remedy of a problem within a certain period after its purchase, the seller will repair the problem at no cost to the buyer.
Warsaw Stock Exchange
The major securities market of Poland.

Wash
Gains equal losses.

Wash sale
Purchase and sale of a security either simultaneously or within a short period of time, often in order to recognize a tax loss without altering one's position. See: Tax selling.

Wasting asset
An asset that has a limited life and thus decreases in value (depreciates) over time. Also applies to consumed assets, such as oil or gas, and termed "depletion."

Watch list
A list of securities selected for special surveillance by a brokerage, exchange, or regulatory organization; firms on the list are often takeover targets, companies planning to issue new securities, or stocks showing unusual activity.

Watered stock
A stock representing ownership in a corporation that is worth less than the actual invested capital, resulting in problems of low liquidity, inadequate return on investment, and low market value.

Waybill
A document (that looks like a bill of lading) issued by a carrier that describes the goods to be transported and that details the shipping particulars. Waybills are issued by both air carriers (air waybills) and ship lines (sea waybills). They merely indicate that the stated goods were received by the carrier for transport, they do not convey title.

Weak dollar
A depreciated dollar with respect to other currencies, meaning that more dollars are needed to buy a unit of foreign currency. Antithesis of strong dollar.

Weak-form efficiency
A pricing theory that the price of a security reflects the past price and trading history of the security. Theory implies that security prices follow a random walk. Related: Semistrong-form efficiency, strong-form efficiency.

Weak market
A market with few buyers and many sellers and a declining trend in prices.

Wedge
A chart pattern composed of two converging lines connecting peaks and troughs. In the case of falling wedges, the pattern indicates temporary interruptions of upward price rallies. In the case of rising wedges, indicates interruptions of a falling price trend.

**Weekend effect**
The common recurrent low or negative average return from Friday to Monday in the stock market.

**Weight**
Either Gross Weight, Net Weight, or Tare Weight.

**Weighted average cost of capital (WACC)**
Expected return on a portfolio of all a firm's securities. Used as a hurdle rate for capital investment. Often the weighted average of the cost of equity and the cost of debt. The weights are determined by the relative proportions of equity and debt in a firm's capital structure.

**Weighted average Coupon**
The weighted average of the gross interest rates of mortgages underlying a pool as of the pool issue date; the balance of each mortgage is used as the weighting factor.

**Weighted average life**
See: Average life

**Weighted average maturity**
The weighted average maturity of an MBS is the weighted average of the remaining terms to maturity of the mortgages underlying the collateral pool at the date issue, using as the weighting factor the balance of each of the mortgages as of the issue date.

**Weighted average**
The weighted average of the yield of all the bonds in a portfolio.

**Weighted**
The average remaining term of the mortgages underlying a MBS.

**Well-diversified portfolio**
A portfolio that includes a variety of securities so that the weight of any security is small. The risk of a well-diversified portfolio closely approximates the systematic risk of the overall market, and the unsystematic risk of each security has been diversified out of the portfolio.

**When distributed**
When issued.
When issued (W.I.)
Refers to a transaction made conditionally, because a security, although authorized, has not yet been issued. Treasury securities, new issues of stocks and bonds, stocks that have split, and in-merger situations after the time the proxy has become effective but before completion are all traded on a when-issued basis. With ice.

Whipsawed
Buying stocks just before prices fall and selling stocks just before prices rise in a volatile market, often as the result of misleading signals.

Whisper number or forecast
An unofficial earnings estimate of a company given to clients by a security analyst if there is more optimism or pessimism about earnings than shown in the published number. These are often found on the Internet.

Whisper stock
A stock rumored to be the target of a takeover bid, drawing speculators who hope to make a profit after the takeover is completed.

Whistle blower
A person who has knowledge of fraudulent activities inside a firm or government agency, who is protected from the employer's retribution by federal law.

White knight
A friendly potential acquirer sought out by a target firm that is threatened by a less welcome suitor.

White Noise
The audio equivalent of Brownian motion. Sounds that are unrelated and sound like a hiss. The video equivalent of white noise is "snow" in television reception.

White sheets
Lists of prices published by the National Quotation Bureau for Market Makers.

White-shoe firm
Broker-dealer firms that disdain practices such as hostile takeovers.

White squire
White knight who buys less than a majority interest.

White's rating
A rating of municipal securities, that uses market factors rather than credit considerations to find appropriate yields.
Whitemail
Sale of a large amount of stock by a company that is the target of a takeover bid to a friendly party at below-market prices, so that the raider is forced to buy more of highly priced shares to accomplish the takeover.

Whole life insurance
A contract with both insurance and investment components: (1) It pays off a stated amount upon the death of the insured, and (2) it accumulates a cash value that the policyholder can redeem or borrow against.

Whole loan
A term that distinguishes an investment representing an original mortgage loan from a loan representing a participation with one or more lenders.

Wholesale mortgage banking
The purchasing of loans originated by others, for the acquisition of the servicing rights.

Wholesaler
An underwriter or a broker-dealer who trades with other broker-dealers, rather than with the retail investor.

Wholly owned subsidiary
A subsidiary whose parent company owns virtually 100% of its common stock.

Whoops
A nickname for the Washington Public Power Supply System, which in the 1970s raised billions of dollars through municipal bond offerings, the projects that never materialized. WPPSS defaulted on the payments to bondholders.

Wi WI
Come from when issued. Treasury bills trade on a WI basis between the day they are auctioned and the day settlement is made. Bills traded before they are auctioned are said to be traded WI WI.

Wide opening
Abnormally wide spread between the bid and asked prices of a security at the opening of a trading session.

Widow-and-orphan stock
A stock paying high dividends with a low beta and noncyclical business, that is an extremely safe investment.

Wiener Börse (Austrian Stock Exchange)
Established in 1771, the major securities market of Austria.
**Wild card option**
The right of the seller of a Treasury bond futures contract to give notice of intent to deliver at or before 8:00 p.m. Chicago time after the closing of the exchange (3:15 p.m. Chicago time) when the futures settlement price has been fixed. Related: Timing option.

**Williams Act**
Federal legislation enacted in 1968 (and now constituting Rules 13d and 14d of the Security Exchange Act of 1934) that imposes requirements with respect to public tender offers.

**Wilshire indexes**
Widely followed performance measurement indexes measuring performance of all U.S.-headquartered equity securities with readily available price data, created by Wilshire Associates, Inc.

**Windfall profit**
A sudden unexpected profit uncontrolled by the profiting party.

**Window**
A brokerage firm's cashier department, where delivery of securities and settlement of transactions take place.

**Window contract**
A guaranteed investment contract purchased with deposits over some future designated time period (the "window"), usually between 3 and 12 months. All deposits made are guaranteed the same credit rating. Related: Bullet contract.

**Window dressing**
Trading activity near the end of a quarter or fiscal year that is designed to improve the appearance of a portfolio to be presented to clients or shareholders. For example, a portfolio manager may sell losing positions so as to display only positions that have gained in value.

**Winnipeg Commodity Exchange**
Canada's only agricultural futures and options exchange, located in Manitoba.

**Winner's curse**
Problem faced by uninformed bidders. For example, in an initial public offering uninformed participants are likely to receive larger allotments of issues that informed participants know are overpriced.

**Wire house**
A firm operating a private wire to its own branch offices or to other firms, commission houses, or brokerage houses.
**Wire room**
A department within a brokerage firm that receives customers' orders and transmits the orders to the exchange floor or the firm's trading department.

**Wire transfer**
Electronic transfer of funds; usually involves large dollar payments.

**With Average (W.A.)**
Marine cargo insurance coverage providing for partial loss or damage to goods, either with or without a deductible. Also called With particular average.

**With dividend**
Purchase of shares that entitle the buyer to the forthcoming dividend. Related: Ex-dividend.

**With ice**
When issued.

**With rights**
Shares sold accompanied by entitlement the buyer to buy additional shares in the company's rights issue.

**Withdrawal plan**
Agreement that a mutual fund will disburse automatic periodic redemptions to the investor.

**Withholding**
Used in the context of securities, the illegal practice of a public offering participant keeping some shares in a private account or with a family member, employee, or dealer to profit from the higher market price of a hot issue.
Used in the context of taxes, the withholding by an employer of a certain amount of an employee's income in order to cover the employee's tax liability. Also used to refer to the withholding by corporations and financial institutions of a flat 10% of interest and dividend payments due to security holders.

**Withholding tax**
A tax levied by a country of source on income paid, usually on dividends remitted to the home country of the firm operating in a foreign country.

**Without**
Indicates a one-way market if 70 were bid in the market and there was no offer, the quote would be "70 bid without."

**With Particular Average (WPA)**
See: With Average

**Without recourse**
Giving the lender no right to seek payment or seize assets in the event of nonpayment from anyone other than the party specified in the debt contract (such as a special-purpose entity).

**Without Recourse Financing**
Financing in which the right of recourse to the party receiving funds is forfeited to the party advancing funds. This may be evidenced by conditions added to the endorsement of a draft being sold by an exporter in order to protect the exporter, if the instrument is not paid at maturity by the original obligor.

**Woody**
Slang to describe a market moving strongly upward, as in, "This market has a woody."

**Working**
Attempting to complete the remaining part of a trade, by finding either buyers or sellers for the rest.

**Working away**
Transacting with another broker/dealer.

**Working capital**
Defined as the difference between current assets and current liabilities (excluding short-term debt). Current assets may or may not include cash and cash equivalents, depending on the company.

**Working capital management**
The deployment of current assets and current liabilities so as to maximize short-term liquidity.

**Working capital ratio**
Working capital expressed as a percentage of sales.

**Working control**
Control of a corporation by a shareholder or shareholders having less than 51% voting interest because of the wide dispersion of share ownership.

**Working order**
Standing order in the marketplace, through which a broker bids or offers to fill the order in a series of lots at opportune times in hopes of obtaining the best price.

**Workout**
Informal repayment or loan forgiveness arrangement between a borrower and creditors.

**Workout market**
*Market indicating* prices at which it is believed a *security* can be bought or sold within a reasonable length of time.

**Workout period**
Realignment of a temporarily misaligned *yield* relationship that sometimes occurs in fixed income *markets*.

**World Bank**
A multilateral development finance agency created by the 1944 *Bretton Woods*, (New Hampshire) negotiations. It makes loans to developing countries for social overhead capital projects that are guaranteed by the recipient country. See: *International Bank for Reconstruction and Development*.

**World Equity Benchmark Series (WEBS)**
The World Equity Benchmark Series are similar to *SPDRs*. WEBS trade on the *AMEX*, and track the Morgan Stanley Capital International (*MSCI*) country indexes. WEBS are available for: Australia, Austria, Belgium, Canada, France, Germany, Hong Kong, Italy, Japan, Malaysia Free, Mexico, the Netherlands, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

**World investible wealth**
The part of world wealth that is *traded* and is therefore accessible to investors.

**World Trade Organization (WTO)**
A multilateral agency that administers world trade agreements, fosters trade relations among nations, and solves trade disputes among member countries.

**Wrap account**
An *investment* consulting relationship for management of a client’s funds by one or more money managers, that bills all fees and *commissions* in one comprehensive fee charged quarterly.

**Wraparound**
A financing device that permits an existing loan to be refinanced and new money to be advanced at an interest rate between the rate charged on the old loan and the current market interest rate. The creditor combines or "wraps" the remainder of the old loan with the new loan at the intermediate rate.

**Wraparound annuity**
An investment that allows the annuitant the choice of *underlying investments* tax-deferred.
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.
**Written-down value**  
The book value of an asset after allowing for depreciation and amortization.

**W-type bottom**  
A double bottom pattern in a price history that looks like the letter W. See: Technical analysis.

**X**  
Fifth letter of a Nasdaq stock symbol indicating that listing is a mutual fund.

**XAF**  
The ISO 4217 currency code for the CFA Franc.

**XBA**  
The ISO 4217 currency code for the European Composite Unit (EURCO).

**XBB**  
The ISO 4217 currency code for the European Monetary Unit (EMU).

**XCD**  
The ISO 4217 currency code for the East Caribbean Dollar.

**XDR**  
The ISO 4217 currency code for the Special Drawing Rights (SDR).

**XEU**  
The ISO 4217 currency code for the European currency Unit (ECU).

**XMI**  
Applies to derivative products. Quotron symbol for the Major Market Index (MMI).

**XOF**  
The ISO 4217 currency code for the CFA Franc.

**XPF**  
The ISO 4217 currency code for the CFP Franc.

**X or XD**  
Symbol that indicating that stock is trading ex-dividend, with no dividend.

**XR**  
Symbol indicating that a stock is trading ex-rights, with no rights attached.

---

专业来自百分百的投入
XW
Symbol indicating that a stock is trading ex-warrants, with no warrants attached.

Y
Fifth letter of a Nasdaq stock symbol specifying that it is an ADR

YE
The two-character ISO 3166 country code for YEMEN.

YER
The ISO 4217 currency code for the Yemen Rial.

YT
The two-character ISO 3166 country code for MAYOTTE.

YU
The two-character ISO 3166 country code for YUGOSLAVIA.

YUM
The ISO 4217 currency code for the Yugoslavia New Dinar.

Yankee bonds
Foreign bonds denominated in U.S. dollars and issued in the United States by foreign banks and corporations. These bonds are usually registered with the SEC. Such as, bonds issued by originators with roots in Japan are called Samurai bonds.

Yankee CD
A CD issued in the domestic market, typically New York, by a branch of a foreign bank.

Yankee market
The foreign market in the United States.

Yard
Slang for one billion currency units. Used particularly in currency trading, e.g., for Japanese yen since one billion yen equals approximately US$10 million. It is clearer to say, "I'm a buyer of a yard of yen," than to say, "I'm a buyer of a billion yen," which could be misheard as "I'm a buyer of a million yen."

Year-end dividend
A special dividend declared at the end of a fiscal year that usually represents distribution of higher-than-expected company profits.

Year-to-date (YTD)
The period beginning at the start of the calendar year up to the current date.
Yellow sheets
Sheets published by the National Quotation Bureau that detail bid and ask prices, plus those firms that are making a market in over-the-counter corporate bonds.

Yen bond
Any bond denominated in Japanese yen currency.

Yield
The percentage rate of return paid on a stock in the form of dividends, or the effective rate of interest paid on a bond or note.

Yield advantage
The advantage gained by purchasing convertible securities instead of common stock, which equals the difference between the rates of return of the convertible security and the common shares.

Yield burning
A municipal bond financing method. Underwriters in advance refundings add large markups on US Treasury bonds bought and held in escrow to compensate investors while waiting for repayment of old bonds after issuance of the new bonds. Since bond prices and yields move in opposite directions, when the bonds are marked up, they "burn down" the yield, which may violate federal tax rules and diminishes tax revenues.

Yield curb
Applies mainly to convertible securities. Difference in current yield between the convertible and the underlying common.

Yield curve
The graphic depiction of the relationship between the yield on bonds of the same credit quality but different maturities. Related: Term structure of interest rates. Harvey (1991) finds that the inversions of the yield curve (short-term rates greater than long term rates) have preceded the last five US recessions. The yield curve can accurately forecast the turning points of the business cycle.

Yield curve strategies
Investments that position a portfolio to capitalize on expected changes in the shape of the Treasury yield curve.

Yield differential/pickup
Mainly applies to convertible securities. Graph showing the term structure of interest rates by plotting the yield of all bonds of the same quality with maturities ranging from the shortest to the longest available.

**Yield equivalence**

The interest rate at which a tax-exempt bond and a taxable security of similar quality give the investor the same rate of return.

**Yield ratio**

The quotient of two bond yields.

**Yield spread**

The difference in yield between different security issues usually securities of different credit quality.

**Yield spread strategies**

Investments that position a portfolio to capitalize on expected changes in yield spreads between sectors of the bond market.

**Yield to average life**

A yield calculation in which bonds are retired routinely during the life of the issue. Since the issuer buys its own bonds on the open market because of sinking fund requirements, if the bonds are trading below par, this action provides automatic price support for these bonds and they will usually trade on a yield to average life basis.

**Yield to call**

The percentage rate of a bond or note if the investor buys and holds the security until the call date. This yield is valid only if the security is called prior to maturity. Generally bonds are callable over several years and normally are called at a slight premium. The calculation of yield to call is based on coupon rate, length of time to call, and market price.

**Yield to maturity**

The percentage rate of return paid on a bond, note, or other fixed income security if the investor buys and holds it to its maturity date. The calculation for YTM is based on the coupon rate, length of time to maturity, and market price. It assumes that coupon interest paid over the life of the bond will be reinvested at the same rate.

**Yield to warrant call**

Applies mainly to convertible securities. Effective yield of usable or synthetic convertible bonds determined against the first date at which the warrants can be called.

**Yield to warrant expiration**

Applies mainly to convertible securities. Effective yield of usable convertible bonds determined by the expiration date of the applicable warrants.
**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**
Large family-owned conglomerates that controlled much of the economy of Japan prior to World War II.

**Z bond**
A bond on which interest accrues but is not currently paid to the investor but rather is added to the principal balance of the Z bond and becoming payable upon satisfaction of all prior bond classes.

**Zero-balance account (ZBA)**
A checking account in which zero balance is maintained by transfers of funds from a master account in an amount only large enough to cover checks presented.

**Zero-base budgeting (ZBB)**
Budgeting method that disregards the previous year’s budget in setting a new budget, since circumstances may have changed. Each and every expense must be justified in this system.

**Zero-beta portfolio**
A portfolio constructed to have zero systematic risk, similar to the risk-free asset, that is, having a beta of zero.

**Zero-bracket amount**
The standard deduction portion of income which is not taxed for taxpayers choosing not to itemize deductions.

**Zero-coupon bond**
A bond in which no periodic coupon is paid over the life of the contract. Instead, both the principal and the interest are paid at the maturity date.

**Zero-coupon convertible security**
A zero-coupon bond convertible into the common stock of the issuing company after the stock reaches a certain price, using a put option inherent in the security. Also refers to zero-coupon bonds, which are convertible into an interest bearing bond at a certain time before maturity.

**Zero-investment portfolio**
A portfolio of zero net value established by buying and shorting component securities, usually in the context of an arbitrage strategy.

**Zero-minus tick**
Sale that takes place at the same price as the previous sale, but at a lower price than the last different price. Antithesis of zero-plus tick.

**Zero-one integer programming**
An analytical method that can be used to determine the solution to a capital rationing problem.

**Zero prepayment assumption**
The assumption of payment of scheduled principal and interest with no payments.

**Zero-plus tick**
Used for listed equity securities. Transaction at the same price as the preceding trade, but higher than the preceding trade at a different price. Antithesis of zero-minus tick. See: Short sale.

**Zero-sum game**
A type of game wherein one player can gain only at the expense of another player.

**Zero uptick**
Related: Tick-test rules

**Zombies**
Companies that continue operation while they await merger or closure, even though they are insolvent and bankrupt.

**Z score**
Statistical measure that quantifies the distance (measured in standard deviations) a data point is from the mean of a data set. Separately, Z score is the output from a credit-strength test that gauges the likelihood of bankruptcy.