Business and Financial Terms

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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 10Q report is filed quarterly.

1099 int: Is a form that reports interest payments made to the taxpayer to the Internal Revenue Service (IRS).

12b 1 fees: A provision of the Investment Company Act of 1940 that allows a Mutual Fund to collect a fee for the promotion, sale, or other activity connected with the distribution of its shares. The fee must be reasonable (typically 1/2 to 1% of net assets managed), up to a maximum of 8.5% of the offering price per share.

403(b) plan: A tax-deferred annuity retirement plan available to employees of public schools and certain nonprofit organizations.

A&l management: Is the analysis and management of the firm's assets and liabilities or balance sheet items. Related to GAP or Bucket operations.

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

Absolute priority: Rule in bankruptcy proceedings whereby senior creditors are required to be paid in full before junior creditors receive any payment.

Accept reject approach: The evaluation of capital expenditure proposals to determine whether they meet the firm's minimum acceptance criterion.

Accounting insolvency: Total liabilities exceed total assets. A firm with a negative net worth is insolvent on the books.

Accounts receivable: Money owed to a business for merchandise or services sold on an open account. It is found on the Balance Sheet under Current Assets. It is used in analyzing a company's liquidity.

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.

Accumulation: Refers to buying often coincident with market bottoms or consolidations. It also refers to purchases by insiders, control people, or major investors.

Ach (automated clearinghouse) debits: Preauthorized electronic withdrawal from the payer's account and deposit into the payee's account via a settlement among banks by the automated clearinghouse.

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

Active portfolio strategy: A strategy that uses available information and forecasting techniques to seek a better performance than a portfolio that is simply diversified broadly. Related:passive portfolio strategy

Ad valorem tax: Is a tax placed on real property. This is a primary revenue source for many municipalities.

Adjusted basis: The value attributed to an asset or security that reflects any deductions taken on, or capital improvements to the asset or security. Adjusted basis is used to compute the gain or loss on the sale or other disposition of the asset or security.

Adr: See American Depository Receipt.

Adverse selection: A situation in which market participation is a negative signal.

After tax real rate of return: Money after-tax rate of return minus the inflation rate.

Agency: Is a security issued by a government organization but not the treasury. These organizations include: the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), the Federal National Mortgage Association (FNMA or Fannie Mae), the Government National Mortgage Association (GNMA or Ginnie Mae).

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").

Aggressive funding strategy: A funding strategy under which the firm finances its seasonal needs, and possibly some of its permanent needs, with short-term debt and its permanent needs with long-term debt.

Aibd: Association of International Bond Dealers.

All in cost: Total costs, explicit and implicit.

Alpha: A measure of selection risk (also known as residual risk) of a mutual fund in relation to the market. A positive alpha is the extra return awarded to the investor for taking a risk, instead of accepting the market return. For example, an alpha of 0.4 means the fund outperformed the market-based return estimate by 0.4%. An alpha of -0.6 means a fund's monthly return was 0.6% less than would have been predicted from the change in the market alone. In a Jensen Index, it is factor to represent the portfolio's performance that diverges from its beta, representing a measure of the manager's performance.

Ambac: Is the holding company that provides financial guarantee insurance for both public and private sector clients. This insurance can improve credit ratings.

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

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.

Amt: See Alternative Minimum Tax.

Annual cleanup: The requirement that for a certain number of days during the year, borrowers under a line of credit carry a zero loan balance (i.e., owe the bank nothing).

Annualized gain: If stock X appreciates 1.5% in one month, the annualized gain for that sock over a twelve month period is 12*1.5% = 18%. Compounded over the twelve month period, the gain is (1.015)^12 = 19.6%.

Annuity due: An annuity for which the payments occur at the beginning of each period.

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

Appraisal: Is an expert evaluation of the current, probable market value for a property. It is not necessarily the market value or transaction price.

Approved carriers: Refers to armored car services which are approved by the exchange for the transportation of precious metals.

Arbitrage pricing theory (apt): An alternative model to the capital asset pricing model developed by Stephen Ross and based purely on arbitrage arguments.

Arch: Is Autoregressive Conditional Heteroskedasticity. It is a time series approach that models volatility as function of previous returns.

Arms index: Also known as a trading index (TRIN)= (number of advancing issues)/ (number of declining issues) (Total up volume)/ (total down volume). An advance/decline market indicator. Less than 1.0 indicates bullish demand, while above 1.0 is bearish. The index often is smoothed with a simple moving average.

Asian option: Option based on the average price of the asset during the life of the option.

Asset: Any possession that has value in an exchange.

Asset and liability management: Is the process for financial institutions and corporations to adjust their funding and usage of funds. Some approaches are the Bucket, GAP, Hedging, Matched Book, Matched Funding, Financial Swaps, and Structured Products. With the lowering of various insurance, investment and commercial banking barriers, the definition is now more inclusive. Previously, it tended to be reserved for non-investment banking and brokerage operations. Broker/dealer institutions tended to describe their hedging activities as risk management.

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

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

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

Assumption of mortgage: Is a provision which allows a new buyer of a property to assume or use an existing mortgage provided such buyer is approved by the lender.

At the opening order: An order that is to be executed at the opening of the market or of trading in that security, or else it is to be canceled. The order does not have to be executed at the opening price.

Auction rate preferred stock (arps): Floating rate preferred stock, the dividend on which is adjusted every seven weeks through a Dutch auction.

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.

Average: An arithmetic mean 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's stocks, and divides the results by a predetermined number, the divisor.

Average collection period: The average amount of time needed to collect accounts receivable.

Average life: In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

Average percent payout: The average of the percentage of a company's profits paid out in dividends to shareholders, typically calculated over the last five years. A high percent payout can be a danger sign. Recent payout figures higher than 50%, and higher than the average payout, may forewarn of a dividend cut. A dividend cut would likely cause the stock price to fall. Generally, the higher the payout ratio, the lower the expected growth rate for the company's EPS in the future. Sometimes, although the dividend payout is more than earnings, the company has strong cash flow and can cover the dividend in the short term. However, a company paying out dividends in excess of earnings on a recurring basis is a risky investment.

Average rate of return (arr): The ratio of the average cash inflow to the amount invested.

B/d: Is a Broker/Dealer or securities firm. Also, refers to Barrels per Day. This measures the flow of oil out of a field or production at a refinery or other facility.

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

Back up: (1) When bond yields and prices fall, the market is said to back-up. (2) When an investor swaps out of one security into another of shorter current maturity he is said to back up.

Balance of payments: 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.

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

Balloon payment: At the maturity of a loan, a large lump-sum payment representing the entire loan principal if the periodic payments represent only interest.

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 market: Is the spot and forward markets for currencies. Here, there are known counterparties to the transactions.

Banker's acceptances: Short-term, low-risk marketable securities arising from bank guarantees of business transactions; are sold by banks at a discount from their maturity value and provide yields slightly below those on negotiable CDs and commercial paper, but higher than those on Government of Canada treasury bills.

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

Bargain purchase price option: Gives the lessee the option to purchase the asset at a price below fair market value when the lease expires.

Barter: Is a process between counterparties who exchange goods or services for other goods and services. Generally, this activity is conducted as a cashless transaction.

Basic earnings per share: There are two kinds of Earning per Share (EPS): basic and diluted. Basic shares are fewer in number than diluted. For Basic EPS, net income is divided by the number of common shares outstanding. This usually produces a larger EPS number than when using a diluted number of shares. Be consistent in the kind of EPS you use. See also: Diluted Earnings Per Share.

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

Bcf or bcf: Refers to Billion Cubic Feet.

Bearer bond: Is a security which does not have the owner's name on the certificate. Interest and principal are paid to the person presenting the attached coupons to the agents for payment. This type of ownership compares to registered or book entry form.

Bellwether issues: Related: Benchmark issues.

Benchmarking: A type of cross-sectional analysis in which the firm's ratio values are compared to those of a key competitor or group of competitors, primarily to identify areas for improvement.

Best pricing: Is a sophisticated pricing algorithm and methodology. It sifts and compares live actual prices when available. If live market prices are not available, then it jumps to a dynamic, sequential and hierarchical pricing module which generates fair price estimates for evaluation and trading purposes.

Beta equation (mutual funds): The beta of a fund is determined as follows: [(n) (sum of (xy))]-[(sum of x) (sum of y)] [(n) (sum of (xx))]-[(sum of x) (sum of x)] where: n = # of observations (36 months) x = rate of return for the S&P 500 Index y = rate of return for the fund.

Bid asked spread: The difference between the bid and asked prices.

Big board: Refers to the New York Stock Exchange.

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

Black market: An illegal market.

Blended trade: Is the combination of two or more bonds or tranches executed as a single position. Often this is done to offset the individual, lopsided risks in two very different instruments. By doing such a trade, an investor or portfolio manager is trying to create a more stable investment.

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

Blue chip company: Large and creditworthy company.

Board of directors: Group elected by the firm's shareholders and having ultimate authority to guide corporate affairs and make general policy.

Bond: A bond is essentially a loan made by an investor to a division of the government, a government agency, or a corporation. The bond is a promissory note to repay the loan in full at the end of a fixed time period. The date on which the principal must be repaid is the called the maturity date, or maturity. In addition, the issuer of the bond, that is, the agency or corporation receiving the loan proceeds and issuing the promissory note, agrees to make regular payments of interest at a rate initially stated on the bond. Interest from bonds is taxable based on the type of bond. Corporate bonds are fully taxable, municipal bonds issued by state or local government agencies are free from federal income tax and usually free from taxes of the issuing jurisdiction, and Treasury bonds are subject to federal taxes but not state and local taxes. Bonds are rated according to many factors, including cost, degree of risk, and rate of income.

Bond equivalent yield: Is the procedure which relates discounted rates such as treasury bills and eurodollars to a bond standard. It is typical for discounted paper to be computed on the basis of a 360-day year whereas bonds are usually based on a 365 day year. If this equivalency is not done then the quoted short-term rates for discounted instruments may be understated.

Bond points: A conventional unit of measure for bond prices set at $10 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.

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 those 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.

Book entry securities: The Treasury and federal agencies are moving to a book-entry system in which securities are not represented by engraved pieces of paper but are maintained in computerized records at the Fed in the names of member banks, which in turn keep 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, engraved securities do exist somewhere in quite a few cases. These securities do not move from holder to holder but are usually kept in a central clearinghouse or by another agent.

Book value per share: See Book Value.

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

Bourse: A term of French origin used to refer to stock markets.

Breadth of a market: A characteristic of a ready market, determined by the number of participants (buyers) in the market.

Break even lease payment: The lease payment at which a party to a prospective lease is indifferent between entering and not entering into the lease arrangement.

Breakeven point: (1) The point at which gains equal losses. (2) The market price that a stock must reach for an option buyer to avoid a loss if the Option is exercised. For a Call, it is the strike price plus the premium paid. For a Put, it is the strike price minus the premium paid.

Bridge loan: Is a type of temporary financing which is extended until permanent financing is secured. At that time, funds from the new permanent financing are used to pay off the bridge loan. Sometimes, investment banks have arranged, if not granted, bridge loans in order to participate in a syndicate mandated to raise long-term or permanent financing.

Broker loan rate: Related: Call money rate.

Bubble theory: Security prices sometimes move wildly above their true values.

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

Bull cd, bear 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. A bear CD pays the holder a fraction of any fall in a given market index.

Bullet: Is a type of credit security which repays the entire principal on the maturity date. Prior to the maturity or prepayment of the bond, interest payments are to be made in accordance with the payment schedule. Treasury and Corporate bonds pay off in lump sum principal amounts whereas many mortgages pay off on an amortization basis.

Bundle: Refers to copper cathodes which are strapped together.

Business cycle: A predictable long-term pattern of alternating periods of economic growth and decline. The cycle passes through four stages: expansion, peak, contraction, and trough.

Butterfly option spread: Is an options strategy which uses three strike prices for the same instrument and same expiration date. It can consist of the sale of two at-the-money options (puts or calls) and the purchase of one (put or call) at a higher strike price and the purchase of one (put or call) at a lower strike price.

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 on close: Is an order to make a purchase on the close. It can be a market or limit order.

Buy stop order: An order to buy a security that is entered at a price above the current offering price and that is triggered when the market price touches or goes through the buy stop price.

Cable: Exchange rate between British pounds sterling and the U.S.$.

Calendar spread: See Horizontal Spread.

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 price (preferred): The repurchase price for a preferred share issue. Generally the stated value plus a call premium.

Callable: A financial security such as a bond with a call option attached to it, i.e., the issuer has the right to call the security.

Cao: Is the Chief Administrative Officer.

Capital appreciation: A rise in the market price of an asset.

Capital budget: A firm's set of planned capital expenditures.

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

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

Capital market line (cml): The line defined by every combination of the risk-free asset and the market portfolio.

Capitalization: Also known as Invested Capital or Capital Structure. The sum of a corporation's stock, long-term debt, and retained earnings.

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

Cards: Certificates of Amortized Revolving Debt. Pass-through securities backed by credit card receivables.

Carrying charge: Is the amount to carry an inventory or carry a position for a set period such as a month. In the case of securities it is the funding with an allowance for dividends or interest income. For commodities, it includes storage, insurance and cost of funds.

Cars: Certificates of Automobile Receivables. Pass-through securities backed by automobile receivables.

Cash and cash equivalents: A section of a company's Balance Sheet reports the value of Cash and Cash Equivalents. These are assets that are cash or can be converted into cash immediately, such as bank accounts, marketable securities, and Treasury Bills.

Cash budget (cash forecast): A statement of the firm's planned inflows and outflows of cash that is used to estimate the timing and magnitude of projected cash surpluses and deficits.

Cash cow: A company that pays out all 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 discount: An incentive offered to purchasers of a firm's product for payment within a specified time period, such as ten days.

Cash equivalent security: Is a term which has several meanings. It often refers to high grade instruments which are very liquid and have very little time to maturity. Among these are treasury bills, commercial paper, and bankers' acceptances. In a somewhat broader sense it can include money market shares and short-term municipal paper.

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 non-cash expenses that were deducted in calculating net income.

Cash flow statement: A summary of cash inflows and cash outflows during an accounting period

Cash offer: A public equity issue that is sold to all interested investors.

Cash settlement: Is the practice of making a final cash payment or adjustment for an open position. This process differs from early or traditional futures markets that required either a futures contract offset or the delivery of a physical commodity. The cash settlement process recognizes the insurability factor of risk management products. This trend towards cash settlements reduces instability due to squeezes, weather, or other disruptive variables.

Cathode: Refers to copper which is in flat bar form and is exchange tradeable.

Cca: Capital Cost Allowance. This is the method of depreciation (amortization) required by Canada Customs and Revenue Agency (CCRA). It is a non-cash expense that increases cash flow.

Century bonds: Are securities with a maturity equal to 100years.

Cf/d or cfd: Refers to Cubic Feet per Day. It measures the rate of flow at gas well or pipeline.

Change in net working capital: The difference between the change in current assets and current liabilities associated with an investment project.

Cheap: Is a term used in relative value analysis. The cash flow characteristics, when analyzed against a benchmark or comparison bond, suggest an under-valued security. This implies that the former security has arbitrage potential against the comparative security.

Chinese wall: A descriptive name for the division within a brokerage firm that prevents insider information from passing from corporate advisers to investment traders, who could use the information to reap illicit profits.

Cio: Is the Chief Investment Officer. Sometimes, the term is used to refer to the Chief Information Officer.

Class: Is the total of all options of the same type, put or call, which have the same expiration date.

Clearing: Is the process of financial guarantee between clearing members. This activity intends to eliminate the risk of contractual or transactional default. For example, two clients execute a trade through two different clearing member firms. The clients are solvent but at the end of the day one of the clearing members is not. This transaction through a clearinghouse would preserve the integrity of the trade.

Clearing house or clearinghouse: Is a facility which serves as a buyer to the seller and a seller to the buyer. It effectively guarantees the performance of transactions between its member participants. Trades processed by a clearinghouse are generally assumed, though not guaranteed, to be free from financial failure.

Close: (1) The price of the last transaction for a particular security on a particular day. (2) The midprice of a closing trading range.

Closed end investment company or fund: Is an investment vehicle that issues shares in a fashion similar to other corporations. The number of shares outstanding is relatively fixed unlike open end investment funds which tend to have variable shares outstanding. Closed End shares can trade at a premium or discount to the net asset value.

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.

Cmbs: Refers to Commercial Mortgage Backed Securities. These securities are verisimilar to Mortgage Backed Securities interms of structure, flexibility, and variety of tranches or tiers. The key difference is that CMBS are collateralized by commercial properties and not residential mortgages.

Coefficient of correlation: See R2 (R-squared).

Coinsurance: Is a hedging or risk management term. It refers to the amount of loss that the investor is positioned to take. When a firm is 85 percent hedged, then it is said that the firm is coinsuring the remainder or 15 percent. When an individual holds 100 shares of stock priced at $80/share and is also long a put with a $75 strike price, the individual is said to be coinsuring for $500 or the difference between the market price and the exercise price.

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 obligation: Is the generic term for a structure that carves up the initial cash flow from a similar set of assets into a new and often unique arrangement. By dividing and redistributing the cash flows, both principal and interest, the structure alters the disbursement of the underlying collateral cash flows into several securities. Some of these securities may experience greater stability whereas others may absorb more of the risky characteristics of the underlying assets. Under various circumstances, these structures can improve the credit rating of some of the deal's components. Specific categories of these structures are Collateralized Bond Obligations, Collateralized Loan Obligations, and Collateralized Mortgage Obligations.

Comanger: A bank that ranks just below a lead manager in a syndicated Eurocredit or international bond issue. Comanagers may assist the lead manger bank in the pricing and issue of the instrument.

Commercial draft: Demand for payment.

Commission: The fee paid to a broker to buy or sell securities. A commission increases the tax basis of the purchased security, thereby reducing the event capital loss or gain. Commissions vary widely from broker to broker.

Commitment fee: A fee paid to a commercial bank in return for its legal commitment to lend funds that have not yet been advanced.

Commodity month alphabetic symbols or codes: Are letters which represent different delivery months for futures and options on futures contracts.

- F -represents the January Delivery Month.
- G -represents the February Delivery Month.
- H -represents the March Delivery Month.
- J -represents the April Delivery Month.
- K -represents the May Delivery Month.
- M -represents the June Delivery Month.
- N -represents the July Delivery Month.
- Q -represents the August Delivery Month.
- U -represents the September Delivery Month.
- V -represents the October Delivery Month.

- X -represents the November Delivery Month.
- Z -represents the December Delivery Month.

There are other symbols for monthly deliveries in different years. The above list are the most common symbols for the nearest deliveries. Sometimes color codes are used to differentiate between delivery years and months. There has been a shift in terminology over the years and across product lines.

Common dividends: Newer companies growing rapidly may pay no or only a modest dividend, preferring to reinvest their profits in order to grow the business. More established companies often pay a dividend quarterly. See also: Dividends.

Common size analysis: The representing of balance sheet items as percentages of assets and of income statement items as percentages of sales.

Common stock market: The market for trading equities, not including preferred stock.

Company specific risk: Related: Unsystematic risk

Competence: Sufficient ability or fitness for ones needs. Possessing the necessary abilities to be qualified to achieve a certain goal or complete a project.

Complete portfolio: The entire portfolio, including risky and risk-free assets.

Compliance: Is the area or the process which has responsibility for firm and employee adherence to the rules and regulations which govern the broker/dealer business. This includes but is not limited to The Powers and Authorities for the firm's position taking and trading limits, guidelines indicated in the employee compliance handbook, registrations, continuing education, sales literature, and employee trading activities. Generally, compliance functions are partitioned between registrations and other rules and guidelines. Non-selling employees are usually in compliance to avoid conflicts-ofinterest. However, there are exemptions for very small organizations.

Compound annual growth rate: Measures the rate of change of a value over a one year period.

Compounding frequency: The number of compounding periods in a year. For example, quarterly compounding has a compounding frequency of 4.

Concentration account: A single centralized account into which funds collected at regional locations (lockboxes) are transferred.

Conditional order: See Contingent Order.

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.

Conflicting rankings: Conflicts in the ranking of a given project by NPV and IRR resulting from differences in the magnitude and timing of cash flows.

Consensus forecast: The mean of all financial analysts' forecasts for a company.

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 payout ratio dividend policy: A dividend policy based on the payment of a certain percentage of earnings to owners in each dividend period.

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

Continuing operations: A term used in an Income Statement to label income of a recurring nature, rather than that caused by sales of assets or discontinued operations.

Contract month: The month in which futures contracts may be satisfied by making or accepting a delivery. Also called value managers, those who assemble portfolios with relatively lower betas, lower price-book and P/E ratios and higher dividend yields, seeing value where others do not.

Controlled disbursing: The strategic use of mailing points and bank accounts to lengthen mail float and clearing float, respectively.

Conventional cash flow pattern: An initial outflow followed by a series of inflows.

Conversion: Is the action of transforming a security into another security. A convertible bond, when exercised, will convert into the stipulated number of common shares.

Conversion feature: An option that is included as part of a long-term debt or a preferred share issue that allows its holder to change the security into a stated number of common shares.

Conversion value: Also called parity value, the value of a convertible security if it is converted immediately.

Convertible eurobond: A eurobond that can be converted into another asset, often through exercise of attached warrants.

Convertible price: The contractually specified price per share at which a convertible security can be converted into shares of common stock.

Cooperative or co op: Refers to a form of real estate ownership. Here, the property is owned by shareholders. Each shareholder owns proprietary rights to a specific unit or dwelling while also owning an interest in the entire property. In many places, loans for such properties are effectively personal loans securitized by the shares of ownership. This is different from the usual real estate mortgage loan which is directly secured by the underlying real property. The term can also refer to a business arrangement whereby parties of similar interest combine their activities. One example of this would be a farmers cooperative to market grain or produce; operate and own storage facilities; or operate and own equipment.

Corporate bond: A certificate indicating that a corporation has borrowed a certain amount of money from an institution or an individual and promises to repay it in the future under clearly defined terms.

Corporate financial planning: Financial planning conducted by a firm that encompasses preparation of both long- and short-term financial plans.

Corporate tax view: The argument that double (corporate and individual) taxation of equity returns makes debt a cheaper financing method.

Correlation: A statistical measure of the relationship, if any, between two series of numbers representing data of any kind. If two series move in the same direction they are said to be positively correlated. If two series move in opposite directions, they are said to be negatively correlated.

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 funds: Interest rate associated with borrowing money.

Cost of limited partner capital: The discount rate that equates the after-tax inflows with outflows for capital raised from limited partners.

Cost yield: The annual income from an investment divided by the purchase cost. Because it does not include the effect of premiums and discounts which may have been included in the purchase cost, it is an incomplete measure of return.

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.

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 rate: See Nominal Yield.

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 warrant: Is a derivative contract written against the underlying stock position. However, these warrants are not issued by the corporation of the underlying security but they are offered by investment underwriters. There are also put and call warrants written against indices, baskets, and other securities.

Cr, cr, or cr: Refers to a credit or the process of crediting an account.

Credible signal: A signal that provides accurate information; a signal that can be distinguished among senders.

Credit monitoring: The ongoing review of a firm's accounts receivable to determine whether customers are paying according to the stated credit terms.

Credit risk: The risk that an issuer of debt securities or a borrower may default on his obligations or that the payment may not be made on a negotiable instrument. Related: Default risk

Credit terms: The terms of sale for customers who have been extended credit by the firm.

Cross border risk: Refers to 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 over rate: The discount rate where NPV profiles intersect meaning the NPVs of the two projects are equal, and where the ranking decision for the projects changes.

Crossed market: Occurs when a broker/dealer's bid is greater than the lowest or best offer made by another. This condition can also occur when a broker/dealer's offer is lower than another's bid. Sometimes, this can occur because of slow updates in a broker/dealer's range of marketing making activities. However, when a crossed market occurs because of intention behavior, then this activity is prohibited by the NASD.

Cse: Is the Chicago Stock Exchange.

Cumulative abnormal return (car): Sum of the differences between the expected return on a stock and the actual return that comes from the release of news to the market.

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.

Curb: Is another name for the American Stock Exchange. The term originated when the early membership literally did transactions on the street curb.

Currency future: A financial future contract for the delivery of a specified foreign currency.

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 coupon issues: Related: Benchmark issues

Current pe ratio: The PE Ratio calculated using the last 4 reported quarters of Earnings Per Share. See also: Price-Earnings Ratio.

Current ratio: Refers to the amount of an entity's current assets divided by the amount of current liabilities.

Custodial fees: Fees charged by an institution that holds securities in safekeeping for an investor.

Cyclic or cyclical analysis: Is the study of recurring, preferably periodic, movements in prices or other time series.

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.

Day loans: Loans made by chartered banks to investment dealers who are major holders of treasury bills.

Days' sales in inventory ratio: The average number of days' worth of sales that is held in inventory.

Dea: Is the Designated Examination Authority.

Dealer options: Over-the-counter options, such as those offered by government and mortgage-backed securities dealers.

Debt: Money borrowed.

Debt equity ratio: Measures the ratio of long-term debt to common equity.

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

Debt security: A security representing a loan by an investor to an issuer such as a corporation, municipality, the federal government, or a federal agency. In return for the loan, the issuer promises to repay the debt on a specified date and to pay interest.

Debt to capital ratio: The ratio of total debt to total capital ([short + long term debt] / capital). For long-term investors, a suggested acceptable percentage is up to 33%. Debt must be funded in good times and bad, so a company going through a bad slump has a better chance of recovering if its debt load is not too high. Keep in mind that debt serves the useful function of helping the company grow. It is up to management to use it wisely and increase the sales and earnings.

Decile rank: Performance over time, rated on a scale of 1-10.1 indicates that a mutual fund's return was in the top 10% of funds being compared, while 3 means the return was in the top 30%. Objective Rank compares all funds in the same investment strategy category. All Rank compares all funds.

Dedicating a portfolio: Related: cash flow matching.

Deep discount bond: A bond that has a Coupon Rate far below rates currently available on investments and whose value is at a significant discount from Par Value.

Deferred annuities: Tax-advantaged life insurance product. Deferred annuities offer deferral of taxes with the option of withdrawing one's funds in the form of life annuity.

Deferred income taxes: On the Balance Sheet, deferred taxes are a liability that result from income already earned and recognized for accounting purposes, but not for tax purposes.

Defined contribution plan: Refers to a retirement plan that has a quantified amount to be invested each year. Depending on the plan, there may be maximum and minimum contributory dollar amounts. Also, there may be years-of-employment and income constraints. Some popular plans are the 401K and IRA plans. Here, there are no guarantees as to eventual value of plan amount or plan benefits. Poor, moderate, or better than average investment performance directly impacts the value of the account and potential benefits. Compare to Defined Benefit Plan.

Degree of operating leverage (dol): The numerical measure of the firm's operating leverage. Measured at a base sales level. The closer the sales level to the breakeven point, the greater the DOL.

Deliverable instrument: The asset in a forward contract that will be delivered in the future at an agree-upon price.

Delivery points: Those points designated by futures exchanges at which the financial instrument or commodity covered by a futures contract may be delivered in fulfillment of such contract.

Delta equivalency: Is used in determining the effective market behavior for combined derivative positions.

Demand line of credit: A bank line of credit that enables a customer to borrow on a daily or on-demand basis.

Depletion: An equivalent of Depreciation for oil and gas reserves; an allowance that reduces taxable income.

Depreciation: Is the charge against revenues which represents a prorated capitalization of the cost of an asset. For example, if a computer is expected to have a useful life of 5 years and cost $6,000 with no salvage value, then the annual, straight-line depreciation would be $1,200 per year. If the same computer had an estimated salvage or residual value of $500, then the annual depreciation would be $1,100 ($6,000 -500 = $5,500 divided by 5 years).

Derivative instruments: Contracts such as options and futures whose price is derived from the price of the underlying financial asset.

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).

Difference from s&p: A mutual fund's return minus the change in the Standard & Poors 500 Index for the same time period. A notation of -5.00 means the fund return was 5 percentage points less than the gain in the S&P, while 0.00 means that the fund and the S&P had the same return.

Diluted earnings per share: Since 1997 U.S. companies have been required to report diluted EPS as well as basic. Diluted EPS account for potential additional shares being distributed from Options, Warrants, or Rights that may be converted or exercised. If there is a choice, choose diluted EPS. See also: Basic Earnings Per Share.

Direct estimate method: A method of cash budgeting based on detailed estimates of cash receipts and cash disbursements category by category.

Direct quote: For foreign exchange, the number of U.S. dollars needed to buy one unit of a foreign currency.

Dirty price: Bond price including accrued interest, i.e., the price paid by the bond buyer.

Discount broker: A stockbroker who charges a reduced commission and provides no investment advice.

Discount securities: Non-interest-bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g. U.S. Treasury bills.

Discounted payback period rule: An investment decision rule in which the cash flows are discounted at an interest rate and the payback rule is applied on these discounted cash flows.

Discretionary: Is an order which given a client gives to the broker. The discretion is in terms of price or time and not in terms of buy or sell, instrument or quantity.

Dispersion: Is a statistical indication of variability, volatility, or risk. Some common measures of dispersion are:

- Coefficient of Variation
- Range
- Standard Deviation
- Variance

There are other measures besides the above some of which refer to shape or skewness.

Distributions: Refers to the various underlying or assumed probabilistic processes. A few distributions are: the Binomial, the Normal, and the Uniform.

Divestiture: The selling of some of a firm's assets for various strategic motives.

Dividend date: Is sometimes used to refer to the Date of Record for entitlement to the dividend or the actual Payment Date.

Dividend or dividends: Refer to distributions made by a corporation to its shareholders. The shareholders can be common or preferred. Dividends are usually paid in cash. However, dividends are sometimes paid in stock. There have been situations where the dividend was paid in product or a processed good such as a precious metal.

Dividend reinvestment plan: Abbreviated DRIP or DRP. Plan offered by many corporations for the reinvestment of cash dividends by purchasing additional shares or fractional shares on the dividend payment date, occasionally at a discount from market price. Many DRIPs also allow the investment of additional cash from the shareholder, known as an Optional Cash Payment or Optional Cash Purchase (OCP). The DRIP is usually administered by the company without charges or only nominal fees to the participants, and many allow additional purchases of as little as $10.

Dividend valuation model (dvm): The value of common shares is dependent upon the sum of the present value of the dividends received over an infinite time horizon.

Dividends per share: Dividends 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.

Do not reduce: Is an instruction on an order that notifies the broker or specialist that the client does not want the price to be adjusted for cash dividends.

Dollar cost averaging: Is the practice of purchasing securities at periodic intervals with fixed dollar amounts regardless of market conditions. The investor does not intend to purchase an equal number of shares at each interval.

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.

Don't know: Is a term used brokers, dealers, and traders when there are transaction comparisons. When a transaction does not match up on a party's books or records then a DK notice is sent to the other party.

Double tax agreement: Agreement between two countries that taxes paid abroad can be offset against domestic taxes levied on foreign dividends.

Down and in: Is an option feature by which a derivative contract becomes active when an indicator, such as price, drops through a trigger point or threshold. Related topics are Downand-Out, Up-and-In, and Up-and-Out.

Downgrade: A classic negative change in ratings for a stock, and or other rated security.

Drop lock: An arrangement whereby the interest rate on a floating rate note or preferred stock becomes fixed if it falls to a specified level.

Dtc: Is the Depository Trust Company.

Due diligence: The process completed by the underwriter to ensure there is no misrepresentation and that the prospectus contains full and true disclosure of all material information that might affect the value of the security offered for sale.

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.

Dynamic analysis: Is the approach to study market conditions over time. This compares to Static Analysis.

Eafe or msci eafe: Refers to Morgan Stanley's Europe, Australasia, Far East index. It reflects a widely followed list of stocks from 20 countries.

Earning power: Earnings before interest and taxes (EBIT) divided by total assets.

Earnings per share (eps): EPS, as it is called, is a company's profit divided by its number of outstanding shares. If a company earned $2 million in one year had 2 million shares of stock outstanding, its EPS would be $1 per share. The company often uses a weighted average of shares outstanding over the reporting term.

Eastern account: Refers to an undivided underwriting account. This compares to the Western Account.

Ecns or ecns: Are Electronic Communications Networks. These platforms, islands or mechanisms serve trading, investing, and risk management purposes.

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 rents: Profits in excess of the competitive level.

Economies of scale: The decrease in the marginal cost of production as a plant's scale of operations increases.

Edge corporations: Specialized banking institutions, authorized and chartered by the Federal Reserve Board in the U.S., which are allowed to engage in transactions that have a foreign or international character. They are not subject to any restrictions on interstate banking. Foreign banks operating in the U.S. are permitted to organize and own and Edge corporation.

Effective convexity: The convexity of a bond calculated with cash flows that change with yields.

Effective rate: A measure of the time value of money that fully reflects the effects of compounding.

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 level of portfolio risk.

Efficient set: Graph representing a set of portfolios that maximize expected return at each level of portfolio risk.

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.

Electronic depository transfers: The transfer of funds between bank accounts through the Automated Clearing House (ACH) system.

Emerging markets: Is a term which broadly categorizes countries in the midst of developing their financial markets and economic infrastructures. This development is viewed in terms of freer, more liquid markets, which facilitate trade. Privitization of former state owned or administered businesses is a key factor in this process.

Employee stock ownership plan (esop): A company contributes to a trust fund that buys stock on behalf of employees.

Endogenous variable: A value determined within the context of a model.

Equilibrium market price of risk: The slope of the capital market line (CML). Since the CML represents the 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 return needed to compensate for a unit change in risk.

Equity: Represents ownership interest in a firm. Also the residual dollar value of a futures trading account, assuming its liquidation at the going market price.

Equity contribution agreement: An agreement to contribute equity to a project under certain specified conditions.

Equity kicker: Used to refer to warrants because they are usually issued attached to privately placed bonds.

Equity run: Is a statement generated every day which lists a customer's positions, equity, margin requirements, and prior day's activity. Point balances, cash balances, and value of marginable securities are other aspects which can be included.

Equivalent annual cost: The equivalent cost per year of owning an asset over its entire life.

Erm: Refers to Enterprise Risk Management. See Risk Management and Analysis Software.

Escrow: Is a fund held by a third-party custodian.

Euro cds: CDs issued by a U.S. bank branch or foreign bank located outside the U.S. Almost all Euro CDs are issued in London.

Euro or euro currency unit: Refers to the new medium of exchange or unified currency which went into effect on January 1, 1999 for financial transactions in member European countries. It will replace those national currencies and coinages on January 1, 2002. For more information, see the following: Barkley's Euro Currency Converter and Exchange Rates Calculator

- LATEST NEWS: What is the Euro?
- SAM's Q+A: Euro Challenges U.S. Dollar
- STOX PLUS: Euro's Impact on Corporate and Banking Profits
- Euro Currency Consulting and Software

Eurocredits: Intermediate-term loans of Eurocurrencies made by banking syndicates to corporate and government borrowers.

Eurodollar bonds: Eurobonds denominated in U.S. dollars.

European currency unit (ecu): An index of foreign exchange consisting of about 10 European currencies, originally devised in 1979.

European style option: An option contract that can only be exercised on the expiration date.

Event: Is the occurrence of some critical action, catalyst or new information.

Ex: Is derived from Latin and refers to "*without*" or "*not included*." This compares to *Cum*.

Ex pit: Refers to a transaction outside the pit or ring. This is permissible for bona fide hedging purposes or to allow for a smooth transfer of accounts between brokerage firms. This type of transaction is under less scrutiny than ordinary transactions because there is no public offering of the positions.

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.

Excess return on the market portfolio: The difference between the return on the market portfolio and the risk less rate.

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

Exchange rate risk: Also called currency risk, the risk of an investment's value changing because of currency exchange rates.

Exclusionary self tender: The firm makes a tender offer for a given amount of its own stock while excluding targeted stockholders.

Exercise (or option) price: The price at which holders of warrants can purchase a specified number of shares of common shares.

Expectations: Is the composite of market sentiment or the forward looking aspect of what traders anticipate to happen within their trading horizons.

Expected excess return: Is equal to the nonmarket or alpha return plus the beta-adjusted market or systematic return. Since beta relates an asset's return to the market, then the alpha distinguishes it from the market. Algebraically, this is presented by the expression for a straight line or excess return equals *a* (alpha) + *b* (beta)*X* (market return).

Expected return on investment: The return one can expect to earn on an investment. See: capital asset pricing model.

Expense ratio: The percentage of the assets that were 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 transaction 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).

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 3rd Friday of the expiration month; however, 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.

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.

Extension: Voluntary arrangements to restructure a firm's debt, under which the payment date is postponed.

External forecast: A sales forecast based on the relationships observed between the firm's sales and certain key external economic indicators.

Extra or special dividends: A dividend that is paid in addition to a firm's “regular” quarterly dividend.

Face value: See: Par value.

Factoring: Sale of a firm's accounts receivable to a financial institution known as a factor.

Fair market price: Amount at which an asset would change hands between two parties, both having knowledge of the relevant facts. Also referred to as market price.

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 as the sale terms are set. The risk is that either of the two parties, borrower or investor, fails to close and the loan “falls out” of the pipeline.

Fast market: Is a trading condition when prices change quickly and volume is dramatic. At these times, the price reports are behind and a trading range of prices is substituted for price dissemination. Often special rules apply at such times.

Fcop: Is a Foreign Currency Options Principal.

Fed: Is the Federal Reserve Bank.

Federal financing bank: A federal institution that lends to a wide array of federal credit agencies funds it obtains by borrowing from the U.S. Treasury.

Federal home loan banks (fhlb): Government sponsored wholesale banks (currently 12 regional banks) that lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

Federal reserve system: The central bank of the U.S., 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 U.S. as well as to supervise Federal Reserve member banks, bank holding companies, international operations of U.S.banks, and U.S.operations of foreign banks.

Ffo: See Funds From Operations.

Fico: Refers to Fair, Isaac credit scoring. This can be the corporation, the credit scoring algorithms, processes or scores.

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.

Final prospectus: The legal document that states the price of a new issue security, the delivery date, the underwriting spread, and other material information. It must be given to every investor who purchases a new issue of registered securities. See also: Prospectus.

Financial accounting standards board: Is the industry organization which provides guidelines for the recording, reporting and presentation of financial market transactions. Included in this work are the requirements for listing off-balance sheet items and hedging transactions for currencies, physicals, and financials.

Financial assets: Claims on real assets.

Financial engineering: Combining or dividing existing instruments to create new financial products.

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

Financial leverage multiplier (flm): The ratio of the firm's total assets to shareholders' equity.

Financial merger: A merger transaction undertaken with the goal of restructuring the acquired company to improve its cash flow and unlock its hidden value.

Financial planning process: Planning that begins with long-term (strategic) financial plans that in turn guide the formulation of short-term (operating) plans and budgets.

Financial statement: generally refers to one of the primary accounting reports: Balance Sheet, Income Statement and Cash Flow Statement

Fineness: Is a measure of the purity of a precious metal such as gold. Three 9s or .999 shows the relative purity of gold. Here, there would be an .001 part of impurity for the specimen.

Firm: Refers to an order to buy or sell that can be executed without confirmation for some fixed period. Also, a synonym for company.

Firrea: Is the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

First pass regression: A time series regression to estimate the betas of securities portfolios.

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.

Fixed annuities: Annuity contracts in which the insurance company or issuing financial institution pays a fixed dollar amount of money per period.

Fixed assets: Tangible resources with long life used in operation of the business: land, buildings, machinery, equipment and vehicles

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 income market: The market for trading bonds and preferred stock.

Fixed rate payer: In an interest rate swap the counterparty who pays a fixed rate, usually in exchange for a floating-rate payment.

Flat price risk: Taking a position either long or short that does not involve spreading.

Flight to quality: The tendency of investors to move towards safer, government bonds during periods of high economic uncertainty.

Floatation costs: The total costs of issuing and selling a security. Includes the underwriters discount, legal, accounting fees and fees paid to regulators.

Floating rate: Refers to the condition whereby exchange rates are relatively free to change. It can also refer to an interest rate which changes relatively quickly or frequently.

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

Floor: Is the lower limit price or interest rate.

Flotation: Is the initial offering of stock to the public.

Flux: Is the Flow Uncertainty Index. It refers to a financial model developed for the National Association of Insurance Commissioners to quantify the relative risk or variability of CMOs over a range of interest rate scenarios.

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

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

Foreign currency option: An option that conveys the right to buy or sell a specified amount of foreign currency at a specified price within a specified time period.

Foreign exchange: Currency from another country.

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 the currency rates.

Foreign subsidiary: An incorporated business established by an MNC that is completely separate from the parent.

Form 10 q: The quarterly report of a company with listed securities, required to be filed with the Securities and Exchange Commission (SEC). It is less comprehensive than the 10-K annual report and does not require that figures be audited. It may cover the specific quarter or it may be cumulative. It should include comparative figures for the same period of the previous year. It is available on the Internet or from the company. See also: 10-K.

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

Forward rate: A projection of future interest rates calculated from either the spot rates or the yield curve.

Fourth market: Direct trading in exchange-listed securities between investors without the use of a broker.

Free cash flow per share: Net income plus all non-cash expenses, minus dividends and capital expenditures, on a per share basis. A measure of a firm's financial flexibility.

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

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.

Front end load: (1) A mutual fund commission or sales fee that is charged at the time shares are purchased. The load is added to the net asset value of the shares when calculating the public offering price. See also back-end load. (2) A system of sales charge for contractual plans that permits up to 50% of the first year's payments to be deducted as a sales charge. Investors have a right to withdraw from the plan, but there are some restrictions if this occurs. See also: Back-End Load.

Full faith and credit obligations: The security pledges for larger municipal bond issuers, such as states and large cities which have diverse funding sources.

Fully diluted eps: Earnings per share (EPS) calculated under the assumption that all contingent securities are converted and exercised and are therefore common stock.

Fundamental analysis: a) A method of evaluating securities by attempting to measure the intrinsic value of a particular stock. The method is based on fundamental factors, such as revenues, earnings, future growth, return on equity, profit margins, and so on, to determine a company's underlying value and potential for future growth. Fundamental analysts study the overall economy, industry conditions and the financial condition and management of particular companies. See also: Technical Analysis; b) A method of security analysis based on fundamental facts found in a company's balance sheet and income statement e.g. sales, earnings, dividends. These past records are examined to attempt to predict the company's future growth of sales and earnings as well as stock price growth, for example.

Funding risk: Related: interest rate risk

Future value: The value of a present amount at a future date found by applying compound interest over a specified period of time.

Futures contract: A standardized, exchange-traded agreement to buy or sell a particular type and grade of commodity for delivery at an agreed-upon place and time in the future. Futures contracts are transferable between parties.

Futures option: An option on a futures contract. Related: options on physicals.

Gaap: See Generally Accepted Accounting Principles.

Garp: Refers to Generally Accepted Risk Principles.

Gems (growing equity mortgages): Mortgages in which annual increases in monthly payments are used to reduce outstanding principal and to shorten the term of the loan.

General obligation bonds: Municipal securities secured by the issuer's pledge of its full faith, credit, and taxing power.

Generally accepted accounting principles: Abbreviated GAAP. The standard guidelines for financial accounting, including rules and standards for summarizing and recording transactions, and for the preparation of financial statements. GAAP accepts various accounting methods, and simply serves as a set of guidelines to help standardize procedures.

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.

Giro system: System through which retail transactions are handled in association with a foreign country's national postal system.

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

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.

Go around: When the Fed offers to buy securities, to sell securities, to do repo, or to do reverses, it solicits competitive bids or offers from all primary dealers.

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 1870-1914.

Good delivery: A delivery in which everything - endorsement, any necessary attached legal papers, etc. - is in order.

Government bond: See: Government securities.

Government security dealer: An institution that purchases for resale various government securities and other money market instruments.

Graduated payment mortgages (gpms): 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 are gradually increased 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.

Grantor: Is the party who initially sells, writes or grants an option.

Green sheet: A document prepared by the underwriter that summarizes key information in the prospectus.

Gross: Is the aggregate, cumulative or total amount is a quantity measure. It can refer to total long position, total short position, the total par position, total market value, the total futures contract equivalency position or other specified categorization.

Gross national product (gnp): Measures and economy's total income. It is equal to GDP plus the income abroad accruing to domestic residents minus income generated in domestic market accruing to non-residents.

Group rotation manager: A top-down manager who infers the phases of the business cycle and allocates assets accordingly.

Growth opportunity: Opportunity to invest in profitable projects.

Gse: Refers to Government Sponsored Enterprise. Two examples are the mortgage agencies - Fannie Mae (FNM) and Freddie Mac (FRE).

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.

Hard capital rationing: Capital rationing that under no circumstances can be violated.

Hedge: Hedging is a strategy of reducing risk by offsetting investments with investments of opposite risk. Risks must be negatively correlated in order to hedge each other; for example, an investment with high inflation risk and low immediate returns with investments with low inflation risk and high immediate returns. Long hedges protect against a short-term position and short hedges protect against a long-term position.

Hedge ratio (delta): The ratio of volatility of the portfolio to be hedged and the return of the volatility of the hedging instrument.

Hedging paradox: Is when favorable basis movements do not guarantee a favorable global result for the hedge. Also, it can occur when the basis behavior is unfavorable yet the hedge is still beneficial.

Heteroskedasticity or heteroscedasticity: Is the condition where the residual variance is nonconstant. This tends to happen in cross-sectional analyses. It also occurs in various consumer, income, risk, and size of firm studies. This compares to Homoskedasticity.

High yield bond: See:junk bond.

Hit: A dealer who agrees to sell at the bid price quoted by another dealer is said to “hit” that bid.

Holders of record: Owners of the firm's shares on the date of record.

Homemade dividend: Sale of some shares of stock to get cash that would be similar to receiving a cash dividend.

Homogenous 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.

Horizontal analysis: The process of dividing each expense item of a given year by the same expense item in the base year. This allows for the exploration of changes in the relative importance of expense items over time and the behavior of expense items as sales change.

Hostile merger: A merger transaction not supported by the target firm's management, forcing the acquiring company to try to gain control of the firm by buying shares in the marketplace.

Hubris: An arrogance due to excessive pride and an insolence toward others.

Hybrid: A package containing two or more different kinds of risk management instruments that are usually interactive.

Ib: Is an Introducing Broker. Depending on the financials and election, Introducing Brokers can be effectively self guaranteeing or Guaranteed by the Clearing Firm with which they are affiliated.

Ifm or ifm: Refers to Internet Fund Manager. This is a software system created by OASIS™ for the development of financial internet sites. It provides methods to create online financial tables, indices, portfolios and more.

Immunization: The construction of an asset and a liability that are subject to offsetting changes in value.

Implied price: Is the price computed by a model which considers a comparable benchmark, volatility, and spread adjustment. It is used in the absence of a current market price.

Import substitution development strategy: A development strategy followed by many Latin American countries and other LDCs that emphasized import substitution - accomplished through protectionism - as the route to economic growth.

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.

Income bond: A bond on which the payment of interest is contingent on sufficient earnings. These bonds are commonly used during the reorganization of a failed or failing business.

Income stock: Common stock with a high dividend yield and few profitable investment opportunities.

Indenture: Agreement between lender and borrower which details specific terms of the bond issuance. Specifies legal obligations of bond issuer and rights of bondholders.

Index and option market (iom): A division of the CME established in 1982 for trading stock index products and options. Related: Chicago Mercantile Exchange (CME).

Index option: A call or put option based on a stock market index.

Indicated yield: The yield that a share of stock would return based on its current Indicated Dividend, calculated by dividing the indicated dividend by the current share price.

Inductive reasoning: The attempt to use information about a specific situation to draw a conclusion.

Inelastic: Refers to the economic concept of the inability to quickly adjust supply or demand despite changes in market conditions.

Information asymmetry: A situation involving information that is known to some, but not all, participants.

Information motivated trades: Trades in which an investor believes he or she possesses pertinent information not currently reflected in the stock's price.

Initial margin: Is the amount of funds and/or securities required to establish a position.

Inside market: The highest bid and the lowest offer prices among all competing Market Makers in a NASDAQ security, i.e., the best bid and offer prices.

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.

Installed cost of new asset: The cost of the asset plus its installation costs; equals the asset's depreciable value.

Institutionalization: The gradual domination of financial markets by institutional investors, as opposed to individual investors. This process has occurred throughout the industrialized world.

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.

Intellectual property: Are assets such as: copyrights, trademarks, and patents. Logos or special colors may also be intellectual properties.

Interest calculations and related formulas: Are quite varied yet interrelated. Some of the standard computations are:

- Interest Compounded Annually
- Interest Compounded Continuously
- Interest Discounted Annually (Present Value of Reversion)
- Interest Discounted Continuously
- Interest Impact on Accumulation of 1 Per Period
- Interest Impact on Instalment to Amortize or Amortization
- Interest Impact on Present Value of Ordinary Annuity of 1 Per Period
- Interest Impact on Sinking Fund Factor

These formulae are predicated on calculating values basis 1 unit of currency. Here, it is one dollar. To adjust for other amounts such as five hundred or one thousand dollars then multiply the resulting factor by 500 or 1,000, respectively. By solving for the appropriate factor based on 1.0000 simplifies the analysis and verification process.

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 impact on accumulation of 1 per period: Is calculated by the following formula:

Amount = $[(1+i)^t-1]/i$ where *i* is the interest rate and *t* is expressed decimally (.05 for 5 percent). Also, *t* is the time and .5 refers to 1/2 of a year, 2 equals 2 years and 7.75 equals 7 3/4 years.

Interest only: Is a security whose value is predicated on a discounted interest rate structure. Typically, this is a CMO type derivative product. Prepayment activity is a dominant evaluation factor.

Interest rate buydowns: One form of government incentive used to encourage corporate capital expenditures involving Government payments of interest on a loan on behalf of a company.

Interest rate parity theorem: Interest rate differential between two countries is equal to the difference between the forward foreign exchange rate and the spot rate.

Intermarket sector spread: The spread between the interest rate offered in two sectors of the bond market for issues of the same maturity.

Intermediate term: Typically 1-10 years.

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

Internally efficient market: Operationally efficient market.

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 regulatory issuing requirements of the foreign country where the stock is to be traded. The U.S. version of the IDR is the American Depository Receipt (ADR).

International fund: A mutual fund that can invest only outside the United States.

Intracompany netting technique: A technique used by multinational firms to minimize their cash requirements by transferring across national boundaries only the net amount of payments owed between them. Sometimes bookkeeping entries are substituted for international payment.

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 turnover: Measures the activity, or liquidity, of a firm's inventory.

Inverted yield curve: A downward-sloping yield curve that indicates generally cheaper long-term borrowing costs than short-term borrowing costs.

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. Underwriters.

Investment flows: Cash flows associated with purchase and sale of both fixed assets and business interests.

Investment manager: Also called a portfolio manager and money manager, the individual who manages a portfolio of investments.

Investment trust: Commonly known as a Closed-End Fund. Closed-end funds invest in other securities (like a Mutual Fund) but have a fixed number of shares and are traded similarly to stocks. The market price may exceed the Net Asset Value (NAV) per share, in which case the fund is selling at a Premium. When the market price falls below the NAV, the fund is selling at a Discount.

Investor relations: The process by which the corporation communicates with its investors.

Invoice billing: Billing system in which the invoices are sent off at the time of customer orders are all separate bills to be paid.

Io: See Interest Only.

Ipo date: Is the date that a security began to trade publicly.

Irrelevance result: The Modigliani and Miller theorem that a firm's capital structure is irrelevant to the firm's value.

Isin: Is the International Securities Identification Number.

Issuer: An entity that issues a financial asset.

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.

Joint tenants by the entirety: Is a method of joint ownership. It is allowed for married couples only. There are issues relating to assets and liabilities. This form of ownership may offer some protection for the innocent spouse against creditor claims.

Jtic also jt tic: See Joint Tenants in Common.

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.

Junk bonds: long-term secured debt securities that are rated double BB or less. Bonds that are not investment quality. Investment quality bonds are BBB or greater.

Kappa: The ratio of the dollar price change in the price of an option to a 1% change in the expected price volatility.

Kill: Cancel a trade or order that has been placed but not filled.

Ladder strategy: A bond portfolio strategy in which the portfolio is constructed to have approximately equal amounts invested in every maturity within a given range.

Last in first out: Is the accounting technique whereby the last items in inventory are paired against the first items sold out of inventory.

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 upon futures contract specifications.

Lead manager: The commercial or investment bank with the primary responsibility for organizing syndicated bank credit or bond issue. The lead manager recruits additional lending or underwriting banks, negotiates terms of the issue with the issuer, and assesses market conditions.

Leaps: Long-term equity anticipation securities. Long-term options.

Least squares: A method used to calculate the slope of a trend line. This growth calculation uses the logarithm of the values. As the log of numbers less than 1.0 is mathematically undefined, the computer tests for this condition and alters the data values so that a calculation can be made. Least squares produce a more conservative result than the mid-point method.

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 discharge fully its obligations under the bond indenture.

Lending: Is the action of a creditor. The lending can be either funds or securities. When it is securities it is usually for short selling purposes. This short selling can be speculative or hedging oriented.

Letter of credit: A letter written by a company's bank to the company's foreign supplier, stating that the bank guarantees payment of an invoiced amount if all the underlying agreements are met.

Level pay: The characteristic of the scheduled principal and interest payments due under a mortgage such that total monthly payment of P&I is the same while characteristically the principal payment component of the monthly payment becomes gradually greater while the monthly interest payment becomes less.

Leverage rebalancing: Making transactions to adjust (rebalance) a firm's leverage ratio back to its target.

Leveraged portfolio: A portfolio that includes risky assets purchased with funds borrowed.

Liability funding strategies: Investment strategies that select assets so that cash flows will equal or exceed the client's obligations.

Lien: A publicly disclosed legal claim on collateral.

Lifo (last in first out): The last-in-first-out inventory valuation methodology. A method of valuing inventory that uses the cost of the most recent item in inventory first.

Limit order book: A record of unexecuted limit orders that is maintained by the specialist. These orders are treated equally with other orders in terms of priority of execution.

Limitation on sale and leaseback: A bond covenant that restricts in some way a firm's ability to enter into sale and lease-back transactions.

Limited partnership: A partnership with one or more general partners with unlimited legal liability and one or more limited partners with legal liability limited to the amount they have invested in the business. The limited partners are ‘silent' in that their financial investment in the business is the total extent of their involvement with the business.

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

Liquidation rights: The rights of a firm's security holders in the event the firm liquidates.

Liquidity diversification: Investing in a variety of maturities to reduce the price risk to which holding long bonds exposes the investor.

Liquidity ratios: Ratios that measure a firm's ability to meet its short-term financial obligations on time.

Lme: Is the London Metal Exchange.

Loan amortization schedule: A schedule of equal payments to repay a loan. It shows the allocation of each loan payment to interest and principal.

Local government investment pool (lgip): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment, I.E., LAIF.

Locked market: A market is locked if the bid = ask price. This can occur, for example, if the market is brokered and brokerage is paid by one side only, the initiator of the transaction.

London international financial futures exchange (liffe): A London exchange where Eurodollar futures as well as futures-style options are traded.

Long hedge: The purchase of a futures contract(s) 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 term: In accounting information, one year or greater.

Long term debt to capitalization: A ratio that indicates a company's financial leverage. It is calculated by dividing long term debt by the capital available to the company. The available capital is the sum of long term debt, preferred stock and stocholders' equity.

Long term liabilities: Amount owed for leases, bond repayment and other items due after 1 year.

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. If a call, the buyer will choose the minimal price, whereas if a put, the buyer will choose the maximum price. This option will always be in the money.

Low price earnings ratio effect: The tendency of portfolios of stocks with a low price-earnings ratio to outperform portfolios consisting of stocks with a high price-earnings ratio.

M1: A category of the money supply that includes all coins, currency, and demand deposits -- that is, checking accounts and NOW accounts. See also: M2; M3; Money Supply.

Macro hedge funds: Are those which are more benchmark or index oriented. They tend to be top-down in approach rather than bottom-up. These Macro Hedge Funds employ strategies using actual securities, commodities, currencies, futures, and derivatives. They also use various degrees of leverage to try to outperform the market or benchmark indices.

Maintenance margin requirement: A sum, usually smaller than -but part of the original margin, which must be maintained on deposit at all times. If a customer's equity in any futures position drops to, or under, 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.

Making delivery: Refers to the seller's actually turning over to the buyer the asset agreed upon in a forward contract.

Management's discussion and analysis (md&a): MD&A is a supplemental report included in the annual report that allows the reader to look at the company through the eyes of management by providing a current and historical analysis of the business of the company.

Mangement's discussion: A report from management to the shareholders that accompanies the firm's financial statements in the annual report. This report explains the period's financial results and enables management to discuss other ideas that may not be apparent in the financial statements in the annual report.

Margin account: A brokerage account in which the broker lends the customer cash to purchase securities. The loan in the account is collateralized by the securities, and if the value of the stock drops sufficiently, the account holder will be required to deposit more cash or sell a portion of the stock. See also: Cash Account; Regulation T.

Margin requirement: Is the amount of funds necessary for a position or a portfolio's entire holdings.

Marginal cost of capital (mcc) schedule: Graph that relates the firm's weighted average cost of capital (WACC) to the level of total new financing.

Markdown: The difference between the highest current bid price among dealers and the lower price that a dealer pays to a customer.

Market cap or market capitalization: Is a value placed on a company. It is computed by multiplying the number of outstanding shares by the current share price.

Market cycle: The period between the 2 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). The dates of the last market cycle are: 12/04/87 to 10/11/90 (low to low).

Market maker: On the NASDAQ system, a broker-dealer willing to accept the risk of holding a particular number of shares of a particular security in order to facilitate trading in that security. There are over 500 member firms that act as NASDAQ Market Makers. One of the major differences between The NASDAQ Stock Market and other major markets in the U.S. is NASDAQ's structure of competing Market Makers. Each Market Maker competes for customer order flow by displaying buy and sell quotations for a guaranteed number of shares. Once an order is received, the Market Maker will immediately purchase for or sell from its own inventory, or seek the other side of the trade until it is executed, often in a matter of seconds.

Market order: This is an order to immediately buy or sell a security at the current trading price.

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 segmentation theory: Theory suggesting that the market for loans is segmented on the basis of maturity and that the sources of supply and demand for loans within each segment determine its prevailing interest rate; the slope of the yield curve is determined by the general relationship between the prevailing rates in each segment.

Market timing: Asset allocation in which the investment in the market is increased if one forecasts that the market will outperform T-bills.

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, with the weights proportional to outstanding market value.

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.

Markowitz efficient set of portfolios: The collection of all efficient portfolios, graphically referred to as the Markowitz efficient frontier.

Matador market: The foreign market in Spain.

Matching orders: Simultaneously entering identical (or nearly identical) buy and sell orders for a security to create the appearance of active trading in that security. This violates the antifraud provisions of the Securities Exchange Act of 1934.

Matif: Marche a Terme International de France.

Maturity phase: A phase of company development in which earnings continue to grow at the rate of the general economy. Related: Three-phase DDM.

Mbs depository: A book-entry depository for GNMA securities. The depository was initially operated by MBSCC and is currently in the process of becoming a separately incorporated, participant-owned, limited-purpose trust company organized under the State of New York Banking Law.

Mean of the sample: The arithmetic average; that is, the sum of the observations divided by the number of observations.

Measurement error: Errors in measuring an explanatory variable in a regression that leads to biases in estimated parameters.

Melt down or meltdown: Is a sudden decline or collapse in financial values. Tends to be used for broader indicators such as market indices or asset classes.

Merchandise: All movable goods such as cars, textiles, appliances, etc. and 'f.o.b.' means free on board.

Mge: Is the Minneapolis Grain Exchange.

Middle office: Is the area or function which relates to risk management. This area measures, monitors and occasionally proactively manages the firm's exposure. This proactive dimension is gradually being implemented in the industry. See Back Office and Front Office for related terms.

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

Mit: See Market if Touched.

Modeling: The process of creating a depiction of reality, such as a graph, picture, or mathematical representation.

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.

Monetary union: The official melding of the national currencies of the EU nations into one currency, the euro, on January 1, 2002.

Money market: The market where debt securities that will mature within one year are traded.

Money market mutual funds: Professionally managed portfolios of various popular marketable securities, having instant liquidity, competitive yields, and low transaction costs.

Monitor: To seek information about an agent's behavior; a device that provides such information.

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 bonds: Long-term debt financing secured by real estate, buildings, manufacturing facilities, or other fixed assets. See Table 6.4.

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.

Mortgagor: Is the borrowing party in a mortgage transaction.

Mtn: Is a Medium Term Note.

Multifamily loans: Loans usually represented by conventional mortgages on multi-family rental apartments.

Multiple issuer pools: Under the GNMA-II program, pools formed through the aggregation of individual issuers' loan packages.

Multiplier: Is a factor which can increase the leverage of an instrument such as a floater or inverse floater. While sometimes the multiplier is less than 1.0, it is usually greater than 1.0. Multipliers are often seen in structured financings such as CMOs and Over-the-Counter derivatives.

Municipal security: See Municipal Bond.

Mutually exclusive investment decisions: Investment decisions in which the acceptance of a project precludes the acceptance of one or more alternative projects.

Naive diversification: A strategy whereby an investor simply invests in a number of different assets and hopes that the variance of the expected return on the portfolio is lowered. Related: Markowitz diversification.

Nasdaq: National Association of Securities Dealers Automatic Quotation System. An electronic quotation system that provides price quotations to market participants about the more actively traded common stock issues in the OTC market. About 4,000 common stock issues are included in the NASDAQ system.

National market: Related: internal market

Nav per share: The value of a mutual fund share. The NAV per share is calculated by dividing the total Net Asset Value of the fund by the number of shares outstanding.

Nearby futures contract: When several futures contracts are considered, the contract with the closest settlement date is called the nearby futures contract. The next 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.

Negative duration: A situation in which the price of the MBS moves in the same direction as interest rates.

Neglected firm effect: The tendency of firms that are neglected by security analysts to outperform firms that are the subject of considerable attention.

Negotiated markets: Markets in which each transaction is separately negotiated between buyer and seller (i.e. an investor and a dealer).

Net adjusted present value: The adjusted present value minus the initial cost of an investment.

Net asset value (nav): NAV is the price of a share in a mutual fund or investment company. This price is calculated once or twice daily. Net asset value is the amount by which the assets' value exceeds the company's liabilities. It is calculated by adding up the market value of all securities owned by the company, subtracting the company's liabilities, and dividing this value by the number of shares of the company outstanding. Thus, the NAV indicates the current buying or selling price of a share in an investment company.

Net cash flow: The mathematical difference between the firm's cash receipts and its cash disbursements in each period.

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 interest margin: A ratio used for evaluating management for bank stocks. Measures the difference between interest paid and interest collected.

Net period: The period of time between the end of the discount period and the date payment is due.

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 profit: Also known as Net Earnings or Net Income. Profits remaining after all expenses and taxes are applied and out of which dividends are payable.

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

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.

New money: In a Treasury auction, the amount by which the par value of the securities offered exceeds that of those maturing.

Nm: Abbreviation for Not Meaningful.

No load mutual fund: An open-end investment company, shares of which are sold without a sales charge. There can be other distribution charges, however, such as Article 12B-1 fees. A true “no load” fund will have neither a sales charge nor a distribution fee.

Nominal annual rate: An effective rate per period multiplied by the number of periods in a year.

Nominal price: Price quotations on futures for a period in which no actual trading took place.

Non cumulative preferred stock: Preferred stock whose holders must forgo dividend payments when the company misses a dividend payment. Related: Cumulative preferred stock

Non reproducible assets: A tangible asset with unique physical properties, like a parcel of land, a mine, or a work of art.

Nonconventional cash flow pattern: A pattern in which an initial outflow is not followed by a series of inflows.

Nonnotification basis: The basis on which a borrower, having pledged an account receivable, continues to collect the account payments without notifying the account customer.

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

Normal deviate: Related: standardized value

Normal random variable: A random variable that has a normal probability distribution.

Not held: Is an instruction which qualifies an order. It states that the client will not hold the broker liable in the event of failing to execute or complete a transaction. Also, the order can give a degree of latitude, pricing or time, to the broker in order to more favorably execute a transaction.

Notice day: A day on which notices of intent to deliver pertaining to a specified delivery month may be issued. Related: delivery notice.

Notional principal amount: In an interest rate swap, the predetermined dollar principal on which the exchanged interest payments are based.

Nscc: Is the National Securities Clearing Corporation.

Nyse: Is the New York Stock Exchange.

Objective (mutual funds): The fund's investment strategy category as stated in the prospectus. There are more than 20 standardized categories.

Odd lot: A trading order for less than 100 shares of stock. Compare round lot.

Offer: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

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

Oid: See Original Issue Discount.

On the run: The most recently issued (and, therefore, typically the most liquid) government bond in a particular maturity range.

One tail test: Is a statistical test which focuses on only one side of a probability distribution. Often this side is the one related to extraordinary losses and not extraordinary gains.

Open contracts: Contracts which have been bought or sold without the transaction having been completed by subsequent sale or purchase, or by making or taking actual delivery of the financial instrument or physical commodity.

Open ended management company: See Mutual Fund.

Open market share repurchases: Company purchases of its own shares on a stock exchange at the market price once approval from the stock exchange is received; termed a normal course issuer bid in Canada.

Opening price: The range of prices at which the first bids and offers were made or first transactions were completed.

Opening, the: The period at the beginning of the trading session officially designated by the exchange during which all transactions are considered made “at the opening”. Related: Close, the

Operating cash inflows: The incremental after tax cash inflows resulting from use of a project during its life.

Operating exposure: Degree to which exchange rate changes, in combination with price changes, will alter a company's future operating cash flows.

Operating margin: Measures the percentage of each sales dollar remaining after all expenses associated with producing and selling the product and operating the company are deducted.

Operating unit: A part of a business, such as a plant, division, product line, or subsidiary, that contributes to the actual operations of the firm.

Opportunity set: The possible expected return and standard deviation pairs of all portfolios that can be constructed from a given set of assets.

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.

Option adjusted spread model: Is an approach whereby securities are evaluated by considering the implied option characteristics. Two key variables are interest rate and prepayment rate behavior. These models incorporate the average spread of the Mortgage Backed Security or CMO tranche to the treasury yield curve. The usual reason for differences in evaluations is due to assumptions and modeling efforts for prepayments.

Option price: Also called the option premium, the price paid by the buyer of the options contract for the right to buy or sell a security at a specified price in the future.

Options clearing corporation: Is the entity through which various securities exchanges clear options transactions. This clearing activity consists of serving as the buyer to all sellers and the seller to all buyers in terms of guaranteeing contractual performance.

Order: Is a set of instructions with the intent of executing a transaction. The following is a list of order types. See: All or None (AON) or All or Nothing, Buy on Close, Buy on Opening, Contingent, Discretionary, Non-Discretionary, Do Not Reduce (DNR) , Exchange for Physicals (EFP) , Fill or Kill (FOK) , Good Till Canceled (GTC) , Immediate or Cancel (IOC) , Limit (LMT) , Market, Market if Touched (MIT), Market on Close (MOC) , Market on Opening, Not Held, One Cancels the Other (OCO), Open Order, Sell on Close, Sell on Opening, Stop (STP), Stop Limit (STP LMT), and various combinations as with spreads, options, and other instruments.

Ordinary annuity: An annuity for which the cash flow occurs at the end of each period. The first cash flow is assumed to occur one period after time zero.

Original face value: The principal amount of the mortgage as of its issue date.

Origination: The making of mortgage loans.

Other assets: Assets other than current and fixed, normally deposits and prepaid expenses

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.

Outlier: A data figure that differs from the normal trend. It is generally caused by extraordinary or non-recurring financial events.

Outstanding shares: Shares that are currently owned by investors.

Over the counter market (otc): A decentralized market (as opposed to an exchange market) where geographically dispersed dealers are linked together 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 U.S. stocks.

Overhanging issue: A convertible security that cannot be forced into conversion by using the call feature.

Overnight repo: A repurchase agreement with a term of one day.

Oversold: A technical analysis term for a market in which more and stronger selling has occurred than the fundamentals justify. See also: Overbought.

P&i: Are principal and income payments or principal and interest.

P/e ratio: 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 10 times earnings. P/E = Current stock price divided by trailing annual earnings per share *or* expected annual earnings per share.

Packs: Are variations of strip trades whereby a trader or risk manager can place a series of calendar month contracts in one transaction. Packs can be bought or sold. There are four contracts in a pack. Eurodollar packs are quoted in minimum half-tick increments.

Paper loss: Is an unrealized loss. When trading commodities, futures, and options on futures, the mark-to-market process effectively equates these losses to realized losses. This is not necessarily the case for securities transactions.

Par value (stocks): Is the accounting term for the capitalization of the equity. It is usually arbitrary.

Parity value: Related: conversion value

Participating preferred stock: Preferred stock that provides for dividend payments based on certain formulas allowing preferred shareholders to participate with common shareholders in the receipt of dividends beyond a specified amount.

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.

Passive investment strategy: See: passive management.

Path dependent: Is a strategy and/or derivative which is predicated on a particular occurrence or direction in price movement.

Payable date: Announced on the Declaration Date. The date on which the Dividend will be paid to

its entitled stockholders.
The date a dividend will be paid to entitled shareholders. This date is set by the company on the declaration date.

Payback period: The length of time in years it takes for a project's yearly incremental after-tax cash inflows to recover the incremental investment in the project.

Payment in kind: Refers to securities that make payments in more securities of the same kind. For example, the hypothetical QWERT Corporation issues bonds due in 20xx with a 10 percent coupon. Then on the interest date, it issues additional securities as payment with terms similar to the initial offering. Generally, it is a technique to reduce temporarily cash outflows.

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.

Peak: The transition from the end of an economic expansion to the start of a contraction.

Penalty bid: Refers to a syndicate's effort to support or stabilize the price of the newly issued security. This activity is executed at or below the initial offering price.

Percent of sales method: A method for developing the pro forma income statement that assumes all expenses remain the same percent of sales in the forecast year as they were in the most recent fiscal year.

Perfect competition: An idealized market environment in which every market participant is too small to affect the market price by acting on its own.

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 the following conditions: 1) trading is costless, and access to the financial markets is free, 2) information about borrowing and lending opportunities is freely available, 3) there are many traders, and no single trader can have a significant impact on market prices.

Performance evaluation: The evaluation of a manager's performance 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).

Permanent financing: Consists of stock or long-term bonds. While most bonds have maturities they are still considered a type of permanent financing.

Personal finance: Refers to income, savings, investments, insurances, speculations, loans, mortgages, budgets, spending, and other financial affairs on an individual basis. This site with its various sections can help you in this area.

Philadelphia stock exchange (phlx): A securities exchange where American and European foreign currency options on spot exchange rates are traded.

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

Pink sheets: A daily publication compiled by the National Quotation Bureau and containing inter-dealer wholesale Quotations for over-the-counter stocks.

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.

Planned amortization class: Is a security which is structured to have a reasonable life expectancy provided the prepayment speeds stay within the defined ranges. The scheduled interest and principal payments tend to be more stable for these tranches relative to the other parts of the deal.

Platykurtic (platykurtosis): Describes the relatively flat condition for a distribution. This condition is evaluated against the normal distribution and its attendant bell-shaped curve.

Plug: A variable that handles financial slack in the financial plan.

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 solely used to record changes in price.

Pool: Is a term used in several ways. From a futures trading perspective, it refers to the amount or size of unfilled orders. This inability to fill orders can occur at a limit up or limit down-market condition. For mortgages or other loans, it refers to the individual collateral underlying the security. For securitized mortgages, it can refer information such as the issuer's name, year of origination, geographic distribution, WAC, WAM and the maturity date.

Portfolio analysis: Is the methodology which quantified systematic and nonsystematic risk for investment holdings. Harry Markowitz is considered the primary influence in this field.

Portfolio opportunity set: The expected return/standard deviation pairs of all portfolios that can be constructed from a given set of assets.

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

Positive float: See: float.

Post audit: A set of procedures for evaluating a capital budgeting decision after the fact.

Potential total return: Suggests the potential compounded return on your investment over 5 years, based on expected growth of EPS. It supposes that you bought the stock at the current price, earned the average dividend yield, and sold at the forecast high price to achieve the potential annual price appreciation.

Ppn: Is the Private Placement Number.

Pre trade benchmarks: Prices occurring before or at the decision to trade.

Precautionary motive: A desire to hold cash in order to be able to deal effectively with unexpected events that require cash outlay.

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 shares: Preferred shares give investors a fixed dividend from the company's earnings. And more importantly: preferred shareholders get paid before common shareholders. See: preferred stock.

Premium bond: A bond that is selling for more than its par value.

Prepayment penalty: Refers to a cost which may be charged against a borrower in the event of a prepayment.

Prequalification: Is an informal assessment of the creditworthiness of a potential borrower. Often it is a quick view of income versus existing obligations and expected obligations. For real estate transactions, it estimates the prospect's potential borrowing and buying capacity.

Present value interest factor for an annuity: The multiplier used to calculate the present value of an annuity at a specified discount rate over a given period of time.

Price appreciation: Growth from the current price to the forecast high price.

Price dividend will support: A company with a large dividend yield will have substantial price support. A large dividend yield is anything larger than ½ the bank interest rate.

Price persistence: Related: Relative strength

Price to cash flow ratio: Price per share divided by Cash Flow Per Share. A measure of the market's expectations regarding a firm's future financial health. Provides an indication of relative value, similar to the Price-Earnings Ratio.

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.

Priced out: The market has already incorporated information, such as a low dividend, into the price of a stock.

Primary market: The first buyer of a newly issued security buys that security in the primary market. All subsequent trading of those securities is done in the secondary market.

Principal: (1) The total amount of money being borrowed or lent. (2) The party affected by agent decisions in a principal-agent relationship.

Principal orders: Refers to activity by a broker/dealer when buying or selling for his or her own account and risk.

Private unrequited transfers: Refers to resident immigrant workers' remittances to their country of origin as well as gifts, dowries, inheritances, prizes, charitable contributions, etc.

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 function: A function that assigns a probability to each and every possible outcome.

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.

Profit and loss statement: Normally an internal company report somewhat similar to an Income Statement

Profitability ratios: Ratios that focus on the profitability of the firm. Profit margins measure performance with relation to sales. Rate of return ratios measure performance relative to some measure of size of the investment.

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

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.

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

Provisional call feature: A feature in a convertible issue that allows the issuer to call the issue during the non-call period if the price of the stock reaches a certain level.

Proxy vote: Vote cast by one person on behalf of another.

Public securities administration (psa): The trade association for primary dealers in U.S. government securities, including MBSs.

Puke: Slang for a trader selling a position, usually a losing position, as in, “When in doubt, puke it out.”

Purchase accounting: Method of accounting for a merger in which the acquirer is treated as having purchased the assets and assumed liabilities of the acquiree, which are all written up or down to their respective fair market values, the difference between the purchase price and the net assets acquired being attributed to goodwill.

Purchase options: Provisions frequently included in both operating and financial leases that allow the lessee to purchase the leased asset at maturity, typically for a prespecified price.

Pure discount bond: A bond that will make only one payment of principal and interest. Also called a zero-coupon bond or a single-payment bond.

Put an option: To exercise a put option.

Put provision: Gives the holder of a floating-rate bond the right to redeem his note at par on the coupon payment date.

Pyramiding: An arrangement among holding companies wherein one holding company controls other holding companies, thereby causing an even greater magnification of earnings and losses.

Quadratic programming: Variant of linear programming whereby the equations are quadratic rather than linear.

Quant: Is a person who is mathematical by training or inclination and applies various numerical approaches in analyzing or trading securities or markets.

Quarterly compounding: Compounding of interest over four periods within the year.

Quick ratio: Also known as the Acid-Test Ratio. A liquidity measure calculated by subtracting inventories from current assets, then dividing by current liabilities. The Quick Ratio is an indicator of a company's financial strength. A ratio of 1 to 1 or higher is usually satisfactory.

Rally (recovery): An upward movement of prices. Opposite of reaction.

Random variable: A function that assigns a real number to each and every possible outcome of a random experiment.

Range forward: A forward exchange rate contract that places upper and lower bounds on the cost of foreign exchange.

Rate of interest: The rate, as a proportion of the principal, at which interest is computed.

Rating service: A company, such as Moody's or Standard & Poor's, that rates various debt and preferred stock issues for safety of payment of principal, interest, or dividends. The issuing company or municipality pays a fee for the rating. See also: Bond Rating; Rating.

Ratio spread: Is position where you sell more options relative to the number of options purchased. Compare to Backspread.

Reaction: A decline in prices following an advance. Opposite of rally.

Real estate limited partnership: A direct participation program formed to build new structures, generate income from existing property, or profit from the capital appreciation of undeveloped land. Growth potential, income distributions, and tax shelter are the most important benefits of such a program.

Real options (capital budgeting): Opportunities that are embedded in capital projects that enable managers to alter their cash flows and risk in a way that affects project acceptability (NPV). Also called strategic options.

Realized compound yield: Yield assuming that coupon payments are invested at the going market interest rate at the time of their receipt and rolled over until the bond matures.

Receivables: Sales that have been booked by the company but not collected.

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.

Red line method: Unsophisticated inventory management technique in which a reorder is placed when sufficient use of inventory items from a bin exposes a red line drawn inside the bin.

Redemption fee: Is a charge assessed against an investor for redeeming shares or interests in a fund. Often this charge is used for early or premature withdrawals. This feature is more common for funds investing in illiquid securities or emerging market funds and annuity products.

Refunding: Using money from the sale of a new offering to retire an outstanding bond issue at maturity.

Registered options principal: Is a person deemed qualified to provide suggestions or recommendations regarding options to the public. Also, Branch Managers are required to be Registered Options Principals. This person is Securities Series 4 licensed.

Registration statement: A legal document that is filed with the SEC to register securities for public offering.

Regular dividend policy: A dividend policy based on the payment of a fixed-dollar dividend in each period.

Regulation q: Fed 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.

Regulatory pricing risk: Risk that arises when regulators restrict the premium rates that insurance companies can charge.

Reinvestment risk: Is the situation whereby prepaid principal amounts will be reinvested in lower yielding securities.

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.

Remainderman: One who receives the principal of a trust when it is dissolved.

Remic (real estate mortgage investment conduit): A pass-through tax entity that can hold mortgages secured by any type of real property and 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.

Reoffering yield: In a purchase and sale, the yield to maturity at which the underwriter offers to sell the bonds to investors.

Replacement cost: Cost to replace a firm's assets.

Replication: Is the approach that assumes derivative instruments can replicate the underlying security, basket of securities, currency, commodity or index. For example, see Synthetic Long and Synthetic Short. It is mostly true but important exceptions occur. For example, there can be differences in final returns due to tax considerations, possible extra transaction costs, and derivative securities do not include the shareholder vote. At times, such as proxy fights or other important issues, the replicated long position would have to be exercised into the actual security in order to be a timely shareholder of record. Expressed differently, increases in synthetic long positions do not increase the total number of votes or the total monetary amount of actual cash dividends.

Repos: Are Repurchase Agreements.

Required reserves: The dollar amounts based on reserve ratios that banks are required to keep on deposit at a Federal Reserve Bank.

Reserve currency: A foreign currency held by a central bank or monetary authority for the purposes of exchange intervention and the settlement of inter-governmental claims.

Reset frequency: The frequency with which the floating rate changes.

Residual losses: Lost wealth of the shareholders due to divergent behavior of the managers.

Residuals: (1) Parts of stock returns not explained by the explanatory variable (the market-index return). They 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.

Resting order: Is an order waiting to be executed. Often it refers to a limit or other conditional order.

Retained earnings: The cumulative total of all earnings, net of dividends, that have been retained and reinvested in the firm since its inception.

Retractable bonds: Bonds that give the bondholder the option to sell the bond back to the issuing company at par ($1,000) either on a specific date, and every 1 to 5 years thereafter, or if the firm is acquired, acquires another company, or issues a large amount of additional debt. Usually carries a lower yield than non-retractable debt of the same quality. See Table 6.4.

Return on equity: Abbreviated ROE. Also known as Earned on Equity. ROE tells how effectively company management is using the shareholders' money to make a profit. This is useful for comparisons among companies.
A simple formula is Net Income divided by Shareholders' Equity. Generally, the higher the ROE, the more efficient the management and the better the return to shareholders.
It is expected that there will be some variation in the ROE numbers over time. For example, issuing more shares increases shareholders' equity. This causes the return on equity to decline until management can invest the new funds and generate new earnings.
Another decline in the ROE trend can occur when a company relies heavily on debt. If interest expenses rise significantly, net income will likely be reduced. Therefore ROE will be less. Return on equity is a balancing act between careful use of debt and good use of assets.

Return on total assets (roa): Measures the overall effectiveness of management in generating profits with its available assets; also called return on investment (ROI).

Revenue bond: A municipal bond supported by the revenue from a specific project, such as a toll road, bridge, or municipal coliseum.

Reverse: See Reverse Conversion.

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 application but sets the note rates when the borrowers close. The lender is thus exposed to the risk of falling rates.

Reverse tac: Is a Targeted Amortization Class (TAC) tranche which has a long average life. This tends to provide some degree of protection against extension risk. However, rapid prepayments, which are greater than those stated in the TAC speed schedule, can quickly reduce the expected average life of the Reverse TAC.

Rho: Is the interest rate sensitivity of an option relative to a change in the interest rate option pricing variable. It measures an optionís change in value for a given change in the interest rate.

Rights: a negotiable, short-lived derivative security that provide shareholders with the privilege to purchase additional shares of stock in direct proportion to their number of owned shares.

Risk: The chance of financial loss, or more formally, the variability of returns associated with a given asset. The chance that actual outcomes may differ from those expected.

Risk adjusted return: Return earned on an asset normalized for the amount of risk associated with that asset.

Risk controlled arbitrage: A self-funding, self-hedged series of transactions that generally utilize mortgage securities as the primary assets.

Risk indifferent: The attitude toward risk in which no change in return would be required for an increase in risk.

Risk premium: The amount by which the required discount rate for a project exceeds the risk-free rate; or, the additional coupon interest investors will demand based on the risk of the issuer and of the debt issue itself.

Risk transformation: Is the result of an effective hedge. Here, price, interest, or currency level risk is transformed into the more manageable and less volatile, basis risk. This volatility is measured in terms of comparative dollar value swings.

Riskless rate: The rate earned on a riskless investment, typically the rate earned on the 90-day U.S. Treasury Bill.

Road show: Presentations, by the issuing company and lead underwriter, promoting the new security issue. These presentations are made to financial analysts, institutional investors and in some cases, the investing public across Canada.

Roll over: Reinvest funds received from a maturing security in a new issue of the same or a similar security.

Rotation: Refers to the movement or flow of investments. Usually, it describes the flow into one sector of stocks and the reduction of positions in another stock sector.

Roundturn: Is a term used in the futures industry to reflect the commissions for a completed purchase and sale of a futures contract. Half of a round turn represents the commission for either the purchase or the sale of a contract. Generally, it is important to specify that options will be charged a half of around turn because they may expire worthless or be exercises. Depending on the arrangement with the FCM, a customer maybe charged for the round turn immediately even though only a purchase or sale was transacted.

Rule 144a: SEC rule allowing qualified institutional buyers to buy and trade unregistered securities.

S&p: See Standard & Poor's Corporation.

Safekeep: For a fee, bankers will hold in their vault, clip coupons on, and present for payment at maturity bonds and money market instruments.

Safety of principal: The ease of salability of a security for close to its initial value.

Sales: See Revenues.

Samurai bond: A yen-denominated bond issued in Tokyo by a non-Japanese borrower. Related: bulldog bond and Yankee bond.

Sbic: Is a Small Business Investment Company.

Scenario analysis: A behavioral approach that evaluates the impact on return of simultaneous changes in a number of variables.

Screening: The process of searching for stocks or funds that fit particular needs in your portfolio.

Seasoned: Is a mortgage industry term that describes the aging process underlying collateral. It refers to mortgages, which are at least 30 months old and are expected to have relatively stable prepayment rates.

Sec: See Securities and Exchange Commission.

Secondary offering: The sale to the public of a large block of common shares held by the founding owners or a controlling company.

Secured: Is a credit instrument which has priority of claim against a specific asset or portfolio of assets. This compares to Unsecured Debt.

Securities & exchange commission: The SEC is a federal agency that regulates the U.S. financial markets.

Securities exchange act of 1934: Is the Federal Law which covers brokers and dealers (B/Ds) and secondary market activities. This compares to the Securities Act of 1933 which focuses on new issues.

Security: According to the Securities Exchange Act of 1934, a security is “any note, stock, treasury stock, bond, debenture, certificate of interest or participation in any profit-sharing agreement or in any oil, gas, or other mineral royalty or lease, any collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit, for a security, any put, call, straddle, option, or privilege on any security, certificate of deposit, or group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, or in general, any instrument commonly known as a ‘security'; or any certificate of interest or participation in, temporary or interim certificate for, receipt for, or warrant or right to subscribe to or purchase, any of the foregoing; but shall not include currency or any note, draft, bill of exchange, or banker's acceptance which has a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace, or any renewal thereof the maturity of which is likewise limited.”
A simpler definition is that a security is a piece of paper that can be assigned a value and sold, or any investment made with the expectation of a profit.

Security deposit (maintenance)related: Maintenance margin security market line (SML). A description of the risk return relationship for individual securities, expressed in a form similar to the capital market line.

Security selection decision: Choosing the particular securities to include in a portfolio.

Sell: Also known as Sale. To convey ownership of a security or other asset for money or value. This includes giving or delivering a security with or as a bonus for a purchase of securities, a gift of assessable stock, and selling or offering a warrant or right to purchase or subscribe to another security. Not included in the definition is a bona fide pledge or loan, or a stock dividend if nothing of value is given by the stockholders for the dividend.

Sell side analyst: Also called a Wall Street analyst, a financial analyst who works for a brokerage firm and whose recommendations are passed on to the brokerage firm's customers.

Sellside or sell side: Refers to the brokerage industry which originates, presents, or sells securities to investors such as money managers and mutual funds.

Senior registered options principal: Is the designated supervisor within a firm who is responsible for the firm and its employees to abide by the rules, regulations, and review process governing options. In particular, this person has oversight on trading and transactions. Generally, the Senior Registered Options Principal can not be the Compliance Registered Options Principal as well. However, an exception is provided for firms do not exceed a certain threshold in terms of revenue. This person is Securities Series 4 licensed.

Separation theorem: The value of an investment to an individual is not dependent on consumption preferences. All investors will want to accept or reject the same investment projects by using the NPV rule, regardless of personal preference.

Serial covariance: The covariance between a variable and the lagged value of the variable; the same as auto covariance.

Series 26: Is the Investment Company and Variable Contracts Principal Examination (License).

Series 5: Is the Interest Rate Options Examination (License).

Series 7: Is the Full Registration for the General Securities Examination (License). See Account Executive.

Series for options: Refers to all options of the same class which have the same strike or exercise price.

Settlement for real estate: Is often synonymous with the Closing. It refers to the concluding financial transactions required to satisfy the deal.

Share: A certificate representing a single unit of ownership in a corporation.

Shareholders' letter: A section of an annual report where one can find jargon-free discussions by management of successful and failed strategies which provides guidance for the probing of the rest of the report.

Shark repellents: Antitakeover amendments to a corporate charter that constrain the firm's ability to transfer managerial control of the firm as a result of a merger.

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.

Short bonds: Bonds with short current maturities.

Short hedge: Refers to the status of the open futures contract equivalent position. Here, it is understood that the hedger is short futures against a long actual position.

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 term debt: All debt due in the next 12 months. This figure is found on the Balance Sheet under current liabilities. See also: Long-Term Debt.

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.

Shortfall risk: The risk of falling short of any investment target.

Side of the market: Refers to the underlying market-driven or market directional position. For example, a long stock position is considered as a long side-of-the-market position. Similarly, a purchased call on the same security is viewed as long the same-side-of-the-market. A sold or short put position in the same security is considered as long the same-side-of-the market. However, a purchased put is viewed as short or short side of the market. This term enables firms, exchanges, and clearinghouses to quantify positions as to market-side or market direction. This is very useful when evaluating complex positions.

Signaling view (on dividend policy): The argument that dividend changes are important signals to investors about changes in management's expectation about future earnings.

Simple linear regression: A regression analysis between only two variables, one dependent and the other explanatory.

Simulations: Are the results or the processes of generating data and outcomes for different paths and scenarios. It provides a statistical framework for what-if conditions. The art of the simulation is trying to construct an elegant, representative model. This model should properly weigh, in a probabilistic sense, the expected behavior of the time series.

Single payment note: A short-term, one-time loan made to a borrower who needs funds for a specific purpose for a short period of time.

Size: Large in size, 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. Context: “I can buy size at 102-22,” means that a trader can buy a significant amount at 102-22.

Slma: The student loan marketing association, also known as "SallieMae," provides liquidity to private lenders who make various types of loans for education. SLMA currently issues floating rate notes. Federally related institutions are arms of the federal government. Most do not issue securities directly into the market. Those, which do issue directly, include the following

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).

Soes: Is the Small Order Execution System.

Sold call: Is a bearish strategy. It requires the grantor of the option to fulfill the contract by accepting a short position in the underlying instrument upon exercise. The risk is unlimited and the reward is limited to the premium received.

Sovereign: Refers to a debt security issued by a government other than the United States. It is often believed that the issuing government via its treasury will fully back the payment of interest and principal in a timely manner. Sometimes, that backing is insufficient and a default occurs. At times of default, there are distinctions. Sometimes, there is a political upheaval and the new regime repudiates the former's obligations. At other times, there can be a lack of specified reserves to honor the obligations but a workout or restructuring of the payment schedule is agreed, bilaterally.

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.

Specific risk: See: unique risk.

Speculator: One who trades a commodity or security with a higher than average risk in return for a higher than average profit potential.

Spinoff: Is a company or division which is separated from the parent. Here, the parent's shareholders receive pro rata ownership shares in the newly free standing organization.

Spontaneous financing / spontaneous liabilities: Financing that rises and falls with the volume of sales activity from the normal operations of the firm without further negotiation with creditors/lenders. The two major short-term sources of which are accounts payable and accruals.

Spot lending: The origination of mortgages by processing applications taken directly from prospective borrowers.

Spot rate curve: The graphical depiction of the relationship between the spot rates and maturity.

Spreadsheet: A computer program that organizes numerical data into rows and columns on a terminal screen, for calculating and making adjustments based on new data.

Staggered funding: A way to play the float by depositing a certain proportion of a payroll or payment into the firm's checking account on several successive days following the actual issuance of checks.

Standard & poor's corporation: Abbreviated S&P. A company that rates stocks and corporate and municipal bonds according to Risk profiles, and that produces and tracks the S&P indexes. The company also publishes a variety of financial and investment reports.

Standard industrial classification code: Abbreviated SIC Code. A series of 4-digit codes that are used to categorize business activities. A company may operate within several SIC codes.

Standby arrangement: A formal guarantee that any shares that are not subscribed or sold publicly will be purchased by the investment banker.

Stated maturity: For the CMO tranche, the date the last payment would occur at zero CPR.

Statement of cash flows method: A method of cash budgeting that is organized along the lines of the statement of cash flows.

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.

Steady state: As the MBS pool ages, or four to six months after it was passed at least once through the threshold for refinancing, the prepayment speed tends to stabilize within a fairly steady range.

Stochastic: Is a condition in finance or economics whereby changes occur on a more abrupt basis than those expected to be “normally” encountered. In some ways stochastic has infinite variance and/or non-converging means implications.

Stock exchanges: Formal organizations, approved and regulated by the Securities and Exchange Commission (SEC), that are made up of members that 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 purchase plans: An employee fringe benefit that allows the purchase of a firm's stock at a discount or on a matching basis with a part of the cost absorbed by the firm.

Stock selection: An active portfolio management technique that focuses on advantageous selection of particular stocks rather than on broad asset allocation choices.

Stock's multiple: See Price-Earnings Ratio.

Stockholder's equity: The residual claims that stockholders have against a firm's assets, calculated by subtracting total liabilities from total assets.

Stop limit: Is a combination of a Stop and Limit order. In the case of a Sell Stop Limit, a Stop Price is given and the same or lower Limit Price is given. The market must decline down to this price or range to become executable. In the case of a Buy Stop Limit, a Stop Price is given and the same or higher Limit Price is given. The market must advance up to this price or range to become executable. Therefore, this type of order can only be executed at one price or a range of prices. Typically, this range is rather narrow.

Stopping curve: A curve showing the refunding rates for different points in time at which the expected value of refunding immediately equals the expected value of waiting to refund.

Straight bond: A bond that is nonconvertible, having no conversion feature.

Straight voting: A shareholder may cast all of his votes for each candidate for the board of directors.

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.

Stretching: Is the increase of the held duration for assets or liabilities. It can be intentional or the result of slowdowns in prepayments, events, or exercised options.

Strip: Is a term in the commodity markets which refers to the placement of contracts in different delivery months. For example, the simultaneous placement of 12 contracts in the January through December calendar months would be a strip. This compares to a Stack.

Stripped mortgage backed securities (smbss): Securities that redistribute the cash flows from the underlying generic MBS collateral into the principal and interest components of the MBS to enhance their use in meeting special needs of investors.

Structured notes: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations that have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

Subject: Refers to a bid or offer that cannot be executed without confirmation from the customer.

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.

Subpart f: Special category of foreign-source “unearned” income that is currently taxed by the IRS whether or not it is remitted to the U.S.

Subsidiaries: The companies controlled by a holding company.

Sum of the years' digits depreciation: Method of accelerated depreciation.

Supermajority: Provision in a company's charter requiring a majority of, say, 80% of shareholders to approve certain changes, such as a merger.

Support for prices: Is a price level where stocks, bonds, currencies, and commodities are expected to receive buy orders. At its simplest application it is the bid side of a quote. On a more complex level it refers to the lower boundary of some described trading range.

Sustainable growth rate: Maximum rate of growth a firm can sustain without increasing financial leverage.

Swap option: See: Swaption. Related: Quality option.

Swarch: Is Switching Regime Autoregressive Conditional Heteroskedasticity (ARCH).

Switch: Is the trading process whereby an open contract position is closed and another contract month is opened. This activity is sometimes called a spread or a rollover.

Synergistic effect: A violation of value-additivity whereby the value of the combination is greater than the sum of the individual values.

Synthetic short call: Is a short position in the underlying instrument or futures combined with a short put position.

Systematic risk: Also called undiversifiable risk or market risk, the minimum level of risk that can be obtained for a portfolio by means of diversification across a large number of randomly chosen assets. Related: unsystematic risk.

T period holding period return: The percentage return over the T-year period an investment lasts.

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 end under a probability curve. (4) The odd amount in a MBS pool.

Take up fee: A fee paid to an underwriter in connection with an underwritten rights offering or an underwritten forced conversion as compensation for each share of common stock he underwriter obtains and must resell upon the exercise of rights or conversion of bonds.

Tan: See Tax Anticipation Note.

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 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.

Tase: Is the Tel Aviv Stock Exchange.

Tax breaks: One form of government incentive used to encourage corporate capital expenditures involving the tax savings associated with being able to claim non-cash expenses like amortization (CCA). The CCA rate can be increased by Order-in-Council in order to increase the tax shield benefits available to companies.

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 haven: A nation with a moderate level of taxation and/or liberal tax incentives for undertaking specific activities such as exporting or investing.

Taxable acquisition: A merger or consolidation that is not a tax-fee acquisition. The selling shareholders are treated as having sold their shares.

Tba: See To Be Announced.

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 capitalize on the expected change.

Technician: Related: technical analysts

Tender: To offer for delivery against futures.

Term bond: Is a newly issued municipal bond with one stated maturity. This compares to Serial Bonds.

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 structure of interest rates: The relationship between the interest rate or rate of return (as measured by the yield to maturity on a bond) and the time to maturity for similar risk debt securities.

Terminal loss: This is a positive balance remaining in a capital cost allowance (CCA) pool (asset class) following the disposal of the last physical asset in the class. A terminal loss is a deductible non-cash expense that gives rise to a tax shield benefit for the firm equal to the amount of the terminal loss multiplied by the corporate tax rate.

Theoretical futures price: Also called the fair price, the equilibrium futures price.

Theta risk: Refers to the time value exposure for an option. Academic literature tends to view it on an instantaneous basis whereas practioners tend to view it on a daily basis. For the later it can calculate the time value difference between 6.7.00 and 6.8.00 all other things being held constant. Then the amounts would be expressed in dollars or other designated currency.

Three phase ddm: A version of the dividend discount model which applies a different expected dividend rate depending on a company's life-cycle phase, growth phase, transition phase, or maturity phase.

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).

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 is of the essence: Is a clause which asserts that there will not be any change in the settlement or timing of a transaction.

Time to maturity: The time remaining until a financial contract expires. Also called time until expiration.

Time weighted rate of return: Related: Geometric mean return.

Title insurance: Is insurance coverage which protects against defects in title. Most lenders require its purchase. Unlike over insurances, it is purchased by a one-time premium payment.

Today's high: The intra-day high trading price.

Tombstone ad or advertisement: Is a pulished announcement of a new issue by the underwriters after the fact.

Total assets: This denotes the financial framework (capital structure) of a company, including Long-Term Debt and all forms of Equity. If you are working from a company's Balance Sheet, add current assets, property, plant equipment, and “other” assets. The accounting formula is:

Total debt to equity ratio: A capitalization ratio comparing current liabilities plus long-term debt to shareholders' equity.

Total quality management (tqm): The application of quality principles to all aspects of a company's operations.

Total risk: The combination of a security's nondiversifiable and diversifiable risk.

Trade: A transaction involving the sale and purchase of a security.

Trade draft: A draft addressed to a commercial enterprise. See: draft.

Trading: Buying and selling securities.

Trading range: The Spread between the high and low prices traded during a period of time.

Transaction demand (for money): The need to accommodate a firm's expected cash transactions.

Transfer agent: Individual or institution appointed by a company to look after the transfer of securities.

Translation exposure: Risk of adverse effects on a firm's financial statements that may arise from changes in exchange rates. Related: transaction exposure.

Treasury bill: A marketable U.S. government debt security with a maturity of less than one year. Treasury bills are issued through a competitive bidding process at a discount from par; there is no fixed interest rate. Also known as T bill.

Treasury notes: All securities issued with initial maturities of two to ten years are called Treasury Notes (T-notes), and pay interest semi-annually.

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.

Tropical products: Refer broadly to the commodity futures markets for Coffee, Cocoa, Sugar and FCOJ (Frozen Concentrated Orange Juice).

True lease: A contract that qualifies as a valid lease agreement under the Internal Revenue code.

Trust receipt inventory loan: A secured short-term loan against inventory under which the lender advances 80 to 100 percent of the cost of the borrower's relatively expensive inventory items in exchange for the borrower's promise to repay the lender, with accrued interest, immediately after the sale of each item of collateral.

Turnaround time: Time available or needed to effect a turnaround.

Two bin method: Unsophisticated inventory-monitoring technique that is typically applied to C group (see ABC inventory system) items and involves reordering inventory when one of the two binds is empty.

Two tail test: Is a statistical test which evaluates both extreme sides, or tails, of a probability distribution. It considers both high rates of return and high rates of loss.

U.s. treasury bill: U.S. government debt with a maturity of less than a year.

U5: Is the Uniform Termination Notice for Securities Industry Registration.

Unbiased predictor: A theory that spot prices at some future date will be equal to today's forward rates.

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. Also called “naked” puts, the writer has pledged to buy the stock at a certain price if the buyer of the options chooses to exercise it. The nature of uncovered options means the writer's risk is unlimited.

Underlying asset: The asset that an option gives the option holder the right to buy or to sell.

Undersubscribed issue: A security issue whose shares are not immediately sold.

Underwriting: The process in which an investment dealer buys a security issue from the issuing firm at a lower price than that for which he or she plans to sell it, thereby guaranteeing the issuer a specified amount from the issue and assuming the risk of price changes between the time of purchase and the time of sale. Through this process new financial securities are created in the primary market.

Undiversifiable risk: Related: Systematic risk

Uniform net capital rule: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

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 above net asset value.

Unlimited funds: The financial situation in which a firm is able to accept all independent projects that provides an acceptable return.

Unsecured: Is a credit instrument which a lower priority of claim against a borrower. This compares to Secured Debt.

Unsterilized intervention: Foreign exchange market intervention in which the monetary authorities have not insulated their domestic money supplies from the foreign exchange transactions.

Up tick: Is a positive change in price after a sequence of flat or down changes. It can also be another positive change in price in a long series of plus changes. It is important for some program trading operations as well as short selling activities in the securities markets.

Uptick: A term used to describe a transaction that took place at a higher price than the preceding transaction involving the same security.

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.

Value added tax: Method of indirect taxation whereby a tax is levied at each stage of production on the value added at that specific stage.

Value dating: A procedure used by non-U.S. banks to delay, often for days or even weeks, the availability of funds deposited with them.

Vanilla issue: A security issue that has no unusual features.

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 rate cds: Short-term certificate 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.

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 Feddie Mac pass-through securities, the accepted variance is plus or minus 2.499999 percent per million of the par value of the TBA quantity.

Vega risk: Refers to the monetary exposure for a change in volatility for an option. It might refer to a change from 6 to 7 or 6 to 5 percent depending on whether a party is short or long the option. Some participants breakdown the vega risks into finer gradients or decimals.

Vertical analysis: The process of dividing each expense item in the income statement of a given year by net sales to identify expense items that rise faster or slower than a change in sales.

Volatility: Volatility is an indicator of expected risk. It demonstrates the degree to which the market price of an asset, rate, or index fluctuates from average. Volatility is calculated by finding the standard deviation from the mean, or average, return.

Voluntary settlement: An arrangement between a technically insolvent or bankrupt firm and its creditors enabling it to bypass many of the costs involved in legal bankruptcy proceedings.

W type bottom: A double bottom where the price or indicator chart has the appearance of a W.

See: technical analysis.

Wal: See Weighted Average Life.

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.

Warrant premium: The difference between the actual market value and theoretical value of a warrant.

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.

Weighted average: An average in which each number to be averaged is assigned a weight that determines the relative importance of each figure on the overall average. Weighted averages are often used to assign greater weight to more recent data, on the assumption that older data may be less applicable to current conditions.

Weighted average maturity: The WAM of a MBS is the weighted average of the remaining terms to maturity of the mortgages underlying the collateral pool at the date of issue, using as the weighting factor the balance of each of the mortgages as of the issue date.

Well diversified portfolio: A portfolio spread out over many securities in such a way that the weight in any security is small. The risk of a well-diversified portfolio closely approximates the systemic risk of the overall market, the unsystematic risk of each security having been diversified out of the portfolio.

Wholesale mortgage banking: The purchasing of loans originated by others, with the servicing rights released to the buyer.

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.

Wire transfer: An electronic communication that, via bookkeeping entries, remove funds from the payer's bank and deposit them in the payee's bank, thereby reducing collection float.

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. Tax levied on dividends paid abroad.

Work out: Is the process to cover a short or liquidate a long position. This activity can be the result of an error transaction, unsold inventory, or closing out a large position.

Workout period: Realignment period of a temporary misaligned yield relationship that sometimes occurs in fixed income markets.

Write down: Decreasing the book value of an asset if its book value is overstated compared to current market values.

Y2k: Refers to the Year 2000. It is often associated with a computer software problem frequently referred to as the Y2K bug. This is the inability of software to recognize dates greater than December 31, 1999.

Year end: The end of the business's financial year. This will be December 31 for most businesses. If your year end is not December, you are considered to have a fiscal year.

Yield curve option pricing models: Models that can incorporate different volatility assumptions along the yield curve, such as the Black-Derman-Toy model. Also called arbitrage-free option-pricing models.

Yield to call, option or event date: Is akin to Yield to Maturity but adjusts for a short life expectancy. It is the rate of return which is measured by the current expected income stream relative to the prevailing market price assuming that the asset is held until the exercise of the first option or termination event. If the instrument is trading at a discount, then the yield to call, option or event date, will be greater than the coupon rate. If the instrument is trading at a premium, then the yield to call, option or event date, will be less than the coupon rate.

Ytm: See Yield to Maturity.

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.

Zero cost collar: Is a transaction which has little or zero cash outlay or cost for the initiating person. Often, a security is held and some protection is sought via a hedging transaction. One example, would be the purchase of an out-of-the-money put (debit) and the sale of an out-of-the-money call (credit). Here, the premiums for the debit and credit are nearly the same. Therefore, there would be little or no cost for the person seeking the hedge. However, this position places a cap on the potential reward for holding the underlying asset. Essentially, the protection does not kick-in until the price of the underlying instrument goes below the exercise price for the put. Generally speaking, it should be noted that if the hedge occurred with both options at-the-money, then the person replicated a synthetic short against an actual long position. For the latter, the hedge would be considered as delta neutral whereas using two out-of-the-money options, the hedge at the origination would not be delta neutral. Rather, it would be computed as a partial hedge when placed.

Zero minus tick: Refers to a trading transaction made at the same price as the preceding one but the preceding one was *lower* than its predecessor.

Zero uptick: Related: tick-test rules.

References:

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