

A Financial Glossary

**By
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A

Abandonment option

The option of terminating an investment earlier than originally planned.

Account balance

Credits minus debits at the end of a reporting period.

Account executive

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

Account statement

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

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

Accountant's opinion

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

Accounting liquidity

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

Accrual basis

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

Accrual bond

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

Accrued interest

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

Accrued market discount

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

Accumulated dividend

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

Acquisition

When a firm buys another firm.

Active portfolio strategy

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

Adjustable rate

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

Adjusted basis

Price from which to calculate and derive capital gains or losses upon sale of an asset. Account actions such as any stock splits that have occurred since the initial purchase must be accounted for.

Adjusted exercise price

Term used in options on Ginnie Mae (Government National Mortgage Association) contracts. The final exercise price of the option accounts for the coupon rates carried on Ginnie Mae mortgages.

For example, if the standard GNMA mortgage has an 9% yield, the price of GNMA pools with 13% mortgages in them is altered so that the investor receives the same yield.

Adjusted present value (APV)

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

Adjustment bond

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

Advance

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

Advance refunding

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

Adverse opinion

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

Agency

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

Agency bank

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

Agency basis

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

Agency cost view

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

Aggressively

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

Alligator spread

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

Alpha

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

Alpha equation

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

American option

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

American shares

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

American Stock Exchange (AMEX)

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

American-style option

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

Amortization

The repayment of a loan by installments.

Amortization factor

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

Amortizing interest rate swap

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

Amsterdam Exchange (AEX)

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

Analyst

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

Angel

An investment-grade bond. Antithesis to fallen angel. In the context of venture capital, the first investor.

Annual basis

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

Annual effective yield

See: Annual percentage yield.

Annual percentage rate (APR)

The periodic rate times the number of periods in a year. For example, a 5% quarterly return has an A.P.R. of 20%.

Annual percentage yield (APY)

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

Annual rate of return

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

Annual report

Yearly record of a publicly held company's financial condition. It includes a description of the firm's operations, as well as balance sheet, income statement, and cash flow statement information.

SEC rules require that it be distributed to all shareholders. A more detailed version is called a 10-K.

Annualized gain

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

Annualized holding-period return

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

Annual meeting

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

Annuitant

An individual who receives benefits from an annuity.

Annuity

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

Annuity factor

Present value of \$1 paid for each of t periods.

Annuity in arrears

An annuity with a first payment one full period hence, rather than immediately.

Annuity starting date

The date when an annuitant starts receiving payments from an annuity.

Anticipated holding period

The period of time an individual expects to hold an asset.

Anticipation

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

Appraisal ratio

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

Appraisal rights

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

Appreciation

Increase in the value of an asset.

Approved list

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

Arbitrage

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

Arbitrage bonds

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

Arbitrage-free option-pricing models

Yield curve option-pricing models.

Arbitrage Pricing Theory (APT)

An alternative model to the capital asset pricing model developed by Stephen Ross and based purely on arbitrage arguments. The APT implies that there are multiple risk factors that need to be taken into account when calculating risk-adjusted performance or alpha.

Arbitrageur

One who profits from the differences in price when the same, or extremely similar, security, currency, or commodity is traded on two or more markets. The Arbitrageur profits by simultaneously purchasing and selling these securities to take advantage of pricing differentials

(spreads) created by market conditions. See: Risk arbitrage, convertible arbitrage, index arbitrage, and international arbitrage.

Arithmetic average (mean) rate of return

Arithmetic mean return.

Arithmetic mean return

An average of the sub period returns, calculated by summing the sub period returns and dividing by the number of sub periods.

Asian option

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

Ask

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

Asked price

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

Asked to bid/offer

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

Aspirin

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

Assessed valuation

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

Asset

Any possession that has value in an exchange.

Asset pricing model

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

Asset stripper

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

Asset swap

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

Assignment

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

Assimilation

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

Assumed interest rate

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

Asymmetric volatility

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

At par

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

At risk

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

At the figure

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

At the full

Used in context of general equities. At the figure.

At the market

See: Market order.

At-the-money

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

At the opening order

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

Attribute bias

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

Athens Stock Exchange (ASE)

Greece's principal stock exchange.

Australian Stock Exchange (ASX)

Established in 1987 following the amalgamation of the six independent stock exchanges operating in the Australian state capitals. The ASX is the tenth-largest stock exchange in the world on the basis of domestic capitalization.

Authentication

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

Authority bond

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

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.

Automatic withdrawal

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

Autoquote

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

Autoregressive

Using past data or variable of interest to predict future values of the same variable.

Availability float

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

Average

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

Average cost

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

Average daily balance

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

B**Baby bond**

A bond with a par value of less than \$1000.

Back office

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

Backwardation

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

Bailing out

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

Balance sheet

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

Balloon interest

In the context of serial bond issues, the elevated coupon rate on bonds with late maturities.

Balloon maturity

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

Bank anticipation notes (BAN)

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

Bank collection float

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

Bank discount basis

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

Bankruptcy

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

Bankruptcy risk

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

Bar

Slang for one million dollars.

Barbell strategy

A fixed income strategy in which the maturities of the securities included in the portfolio are concentrated at two extremes.

Barrier options

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

Base

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

Base currency

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

Base interest rate

Related: Benchmark interest rate.

Base market value

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

Base period

A particular period of time used for comparative purposes when measuring economic data.

Base probability of loss

The probability of not achieving a portfolio expected return. Related: Value at risk.

Base rate

British equivalent of the U.S. prime rate.

Basic IRR rule

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

Basis

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

Basis point

In the bond market, the smallest measure used for quoting yields is a basis point. Each percentage point of yield in bonds equals 100 basis points. Basis points also are used for interest rates. An interest rate of 5% is 50 basis points higher than an interest rate of 4.5%.

Basis price

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

Basis risk

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

Basket

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

Basket options

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

Basket trades

Related: Program trades.

Bear

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

Bear CD

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

Bear hug

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

Bear market

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

Bear spread

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

Bear trap

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

Bearer bond

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

Bearer form

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

Bearer share

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

Bearish

Words used to describe investor attitude.

Below par

Less than the nominal or face value of a security.

Benchmark

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

Benchmark interest rate

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

Benchmark issue

Also called on-the-run or current-coupon issue or bellwether issues. In the secondary market, the benchmark issue is the most recently auctioned Treasury issues for each maturity.

Beta

The measure of a fund's or a stock's risk in relation to the market or to an alternative benchmark. A beta of 1.5 means that a stock's excess return is expected to move 1.5 times the market excess returns. E.g., if market excess return is 10%, then we expect, on average, the stock return to be 15%. Beta is referred to as an index of the systematic risk due to general market conditions that cannot be diversified away.

Beta equation (security)

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

Beta=

$$\frac{(n) (\text{sum of } [xy]) - (\text{sum of } x) (\text{sum of } y)}{(n) (\text{sum of } [xx]) - (\text{sum of } x) (\text{sum of } x)}$$

$$\frac{(n) (\text{sum of } [xy]) - (\text{sum of } x) (\text{sum of } y)}{(n) (\text{sum of } [xx]) - (\text{sum of } x) (\text{sum of } x)}$$

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

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

y = rate of return for the security

Related: Alpha

Bid

The price a potential buyer is willing to pay for a security. Sometimes also used in the context of takeovers where one corporation is bidding for (trying to buy) another corporation. In trading, we

- have the bid-ask spread which is the difference between what buyers are willing to pay and what sellers are asking for in terms of price.
- Bid away**
Refers to over-the-counter trading. Bid from another dealer exists at the same (listed) or higher (O.T.C.) price.
- Bid-asked spread**
The difference between the bid and the asked prices.
- Bid price**
This is the quoted bid, or the highest price an investor is willing to pay to buy a security. Practically speaking, this is the available price at which an investor can sell shares of stock. Related: Ask, offer.
- Bid-to-cover ratio**
The ratio of the number of bids received in a Treasury security auction compared to the number of accepted bids.
- Bid wanted**
Used in the context of general equities. Announcement that a holder of securities wants to sell and will entertain bids.
- Bidder**
A firm or person that wants to buy a firm or security.
- Bidding buyer**
In the context of general equities, a non-aggressive buyer who prefers to await a natural seller in the hope of paying a lower price.
- Bidding through the market**
In the context of general equities, aggressive willingness to purchase a security at a premium to the inside market. Contrast with bidding buyer.
- Bidding up**
Moving the bid price higher.
- Big Bang**
The term applied to the liberalization in 1986 of the London Stock Exchange (L.S.E.) when trading was automated.
- Binomial option pricing model**
An option pricing model in which the underlying asset can assume one of only two possible, discrete values in the next time period for each value that it can take on in the preceding time period.
- Black Friday**
A precipitous drop in a financial market. The original Black Friday occurred on September 24, 1869, when prospectors attempted to corner the gold market.
- Black Monday**
Refers to October 19, 1987, when the Dow Jones Industrial Average fell 508 points on the heels of sharp drops the previous week. On Monday, October 27, 1997, the Dow dropped 554 points. While the point drop set a new record, the percentage decline was substantially less than in 1987.
- Black-Scholes option-pricing model**
A model for pricing call options based on arbitrage arguments. Uses the stock price, the exercise price, the risk-free interest rate, the time to expiration, and the expected standard deviation of the stock return. Developed by Fischer Black and Myron Scholes in 1973.
- Blank check**
A check that is duly signed, but the amount of the check is left blank to be supplied by the drawee.
- Blank check offering**
An initial public offering by a company whose business activities are undefined and therefore speculative.
- Block**
Large quantity of stock or large dollar amount of bonds held or traded. As a rule of thumb, 10,000 shares or more of stock and \$200,000 or more worth of bonds would be described as a block.
- Block call**

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

Block house

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

Block list

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

Block trade

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

Block trader

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

Block voting

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

Blocked currency

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

Blow-off top

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

Blue list

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

Blue-chip company

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

Board of Directors

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

Bolsa

Spanish for stock exchange.

Bond

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

Bond agreement

A contract for privately placed debt.

Bond anticipation note (BAN)

A short-term debt instrument issued by a state or municipality to borrow against the proceeds of an upcoming bond issue.

Bond broker

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

Bond Buyer

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

Bond Buyer's municipal bond index

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

Bond crowd

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

Bond discount

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

Bond-equivalent basis

The method used for computing the bond-equivalent yield.

Bond equivalent yield

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

Bond indenture

Contract that sets forth the promises of a corporate bond issuer and the rights of investors.

Bond indexing

Designing a bond portfolio so that its performance will match the performance of some bond index.

Bond market association

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

Bond mutual fund

A mutual fund holding bonds.

Bond points

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

Bond premium

See: Bond discount

Bond rating

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

Bond ratio

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

Bond swap

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

Bond value

With respect to convertible bonds, the value the security would have if it were not convertible. That is the market value of the bond minus the value of the conversion option.

Bondholder

The firm often has stockholders and bondholders. In a liquidation, the bondholders have first priority.

Book-entry securities

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

Bootstrap

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

Bootstrapping

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

Borrow

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

Borrowed reserves

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

Borrower fallout

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

Bot

Shorthand for bought. Antithesis of SL, meaning sold.

Bottom

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

Bought deal

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

Bounce

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

Bourse

French for a stock market.

Boutique

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

Box

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

Bracket

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

Bracket creep

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

Brady bonds

Bonds issued by emerging countries under a debt reduction plan.

Break price

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

Break-even analysis

An analysis of the level of sales at which a project would make zero profit.

Break-even point

Refers to the price at which a transaction produces neither a gain nor a loss. In the context of options, the term has the additional definitions:

1. Long calls and short uncovered calls: strike price plus premium.
2. Long puts and short uncovered puts: strike price minus premium.
3. Short covered call: purchase price minus premium.
4. Short put covered by short stock: short sale price of underlying stock plus premium.

Breakout

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

Bridge financing

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

British clearers

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

Broken up

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

Broker

An individual who is paid a commission for executing customer orders. Either a floor broker who executes orders on the floor of the exchange, or an upstairs broker who handles retail customers

and their orders. Also, person who acts as an intermediary between a buyer and seller, usually charging a commission. A "broker" who specializes in stocks, bonds, commodities, or options acts as an agent and must be registered with the exchange where the securities are traded. Antithesis of dealer.

Brokered CD

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

Brokered market

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

Brussels Stock Exchange (BSE)

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

Bubble theory

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

Budget

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

Budget deficit

The amount by which government spending exceeds government revenues.

Buck

Slang for one million dollars.

Bull

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

Bull-bear bond

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

Bull CD

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

Bull market

Any market in which prices are in an upward trend.

Bull spread

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

Bulldog bond

Foreign bond issue made in London.

Bulldog market

The foreign market in the United Kingdom.

Bullet contract

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

Bullet loan

A bank term loan that calls for no amortization.

Bullet strategy

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

Bullish

Words used to describe investor attitudes. Bullish refers to an optimistic outlook, while bearish means a pessimistic outlook.

Bump-up CD

A certificate of deposit granting the owner the right to increase its yield one time for the remaining term of the CD. The power is exercised by the owner in the event of an interest rate hike.

Bunching

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

Bundling, unbundling

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

Burn rate

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

Business cycle

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

Business day

A day in which financial markets are open for trading.

Busted convertible

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

Butterfly

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

Butterfly shift

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

Butterfly spread

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

Buy

To purchase an asset; taking a long position.

Buy-and-hold strategy

A passive investment strategy with no active buying and selling of stocks from the time the portfolio is created until the end of the investment horizon.

Buy-and-write strategy

An options strategy that calls for the purchase of stocks and the writing of covered call options on them.

Buy hedge

See: Long hedge

Buy on margin

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

C

Cabinet security

A stock or bond listed on a major exchange with low daily traded volume.

Cable

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

CAC 40 index

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

Calendar effect

- Describes the tendency of stocks to perform differently at different times, including performance anomalies like the January effect, month-of-the-year effect, day-of-the-week effect, and holiday effect.
- Calendar spread**
Applies to derivative products. A strategy in which there is a simultaneous purchase and sale of options of the same class at different strike prices, but with the same expiration date.
- Call**
An option that gives the holder the right to buy the underlying futures contract.
- Call date**
A date before maturity, specified at issuance, when the issuer of a bond may retire part of the bond for a specified call price.
- Call loan**
A loan repayable on demand. Sometimes used as a synonym for broker loan or broker overnight loan.
- Call option**
An option contract that gives its holder the right (but not the obligation) to purchase a specified number of shares of the underlying stock at the given strike price, on or before the expiration date of the contract.
- Call an option**
To exercise a call option.
- Call premium**
Premium in price above the par value of a bond or share of preferred stock that must be paid to holders to redeem the bond or share of preferred stock before its scheduled maturity date.
- Call price**
The price, specified at issuance, at which the issuer of a bond may retire part of the bond at a specified call date.
- Call protection**
A feature of some callable bonds that establishes an initial period when the bonds may not be called.
- Call provision**
An embedded option granting a bond issuer the right to buy back all or part of an issue prior to maturity.
- Call risk**
The combination of cash flow uncertainty and reinvestment risk introduced by a call provision.
- Call swaption**
A swaption in which the buyer has the right to enter into a swap as a fixed-rate payer. The writer therefore becomes the fixed-rate receiver/floating-rate payer.
- Callable**
Applies mainly to convertible securities. Redeemable by the issuer before the scheduled maturity under specific conditions and at a stated price, which usually begins at a premium to par and declines annually. Bonds are usually called when interest rates fall so significantly that the issuer can save money by issuing new bonds at lower rates.
- Called away**
Convertible: Redeemed before maturity.
Option: Call or put option exercised against the stockholder.
Sale: Delivery required on a short sale.
- Cancel**
To void an order to buy or sell from (1) the floor, or (2) the trader/salesperson's scope. In Autex, the indication still remains on record as having once been placed unless it is expunged.
- Cap**
An upper limit on the interest rate on a floating-rate note (FRN) or an adjustable-rate mortgage (ARM).
- Capital**
Money invested in a firm.
- Capital account**
Net result of public and private international investment and lending activities.

Capital allocation decision

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

Capital asset

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

Capital asset pricing model (CAPM)

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

Capital gain

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

Capital gains yield

The price change portion of a stock's return.

Capital International Indexes

Market indexes maintained by Morgan Stanley that track major stock markets worldwide.

Capital market

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

Capital shares

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

Capital stock

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

Capital structure

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

Capital surplus

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

Capital turnover

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

Capitalization

The debt and/or equity mix that funds a firm's assets.

Capitalization method

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

Capitalization rate

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

Capitalization ratios

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

Capitalized

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

Capitalized interest

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

Caput

An exotic option. It represents a call option on a put option. That is, you

Carrying charge

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

Carrying costs

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

Cartel

A group of businesses or nations that act together as a single producer to obtain market control and to influence prices in their favor by limiting production of a product. The United States has laws prohibiting cartels.

Cash

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

Cash and equivalents

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

Cash & carry

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

Cash commodity

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

Cash conversion cycle

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

Cash delivery

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

Cash discount

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

Cash dividend

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

Cash earnings

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

Cash-equivalent items

Examples include Treasury bills and Banker's Acceptances.

Cash flow

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

Cash sale/settlement

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

Ceiling

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

Central bank

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

Certificate

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

Certificate of Accrual on Treasury Securities (CATS)

Refers to a zero-coupon U.S. Treasury issue that is sold at a deep discount from the face value and pays no coupon interest during its lifetime, but returns the full face value at maturity.

Certificate of deposit (CD)

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

Certificates of Amortized Revolving Debt (CARD)

Pass-through securities backed by credit card receivables.

Certificates of Automobile Receivables (CAR)

Pass-through securities backed by automobile loan receivables.

Chair of the board

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

Chartered Financial Analyst (CFA)

An experienced financial analyst who has passed examinations in economics, financial accounting, portfolio management, security analysis, and standards of conduct given by the institute of Chartered Financial Analysts.

Chartists

A technical analyst who charts the patterns of stocks, bonds, and commodities to find trends in patterns of trading used to advise clients. Related: Technical analysts.

Chasing the market

Purchasing a security at a higher price than expected because prices are rapidly climbing, or selling a security at a lower level when prices are quickly falling.

Chastity bonds

Bonds redeemable at par value in the case of a takeover.

Cheapest to deliver issue

The acceptable Treasury security with the highest implied repo rate; the rate that a seller of a futures contract can earn by buying an issue and then delivering it at the settlement date.

Chicago Board Options Exchange (CBOE)

A securities exchange created in the early 1970s for the public trading of standardized option contracts. Primary place stock options, foreign currency options, and index options (S&P 100, 500, and O.T.C. 250 index)

Chicago Board of Trade (CBOT)

The largest futures exchange in the U.S., and was a pioneer in the development of financial futures and options.

Chicago Mercantile Exchange (CME)

A not-for-profit corporation owned by its members. Its primary functions are to provide a location for trading futures and options, to collect and disseminate market information, to maintain a clearing mechanism, and to enforce trading rules. Applies to derivative products. Primary place futures (O.T.C. 250 industrial stock price index, S&P 100 and 500 index) and futures options (S&P 500 stock index) are traded.

Chicago Stock Exchange (CHX)

A major exchange trading only stocks, with 90% of trades taking place on an automated execution system, called MAX.

Chief Executive Officer (CEO)

A title held often by the Chairperson of the Board, or the president. The person principally responsible for the activities of a company.

Chief Financial Officer (CFO)

The officer of a firm is responsible for handling the financial affairs of a company.

Chief Operating Officer (COO)

The officer of a firm responsible for day-to-day management, usually the president or an executive vice-president.

Chinese hedge

Applies mainly to convertible securities. Trading hedge in which one is short the convertible and long the underlying common, in the hope that the convertible's premium will fall. Antithesis of set-up.

Chinese wall

Communication barrier between financiers at a firm (investment bankers) and traders. This barrier is erected to prevent the sharing of inside information that bankers are likely to have.

Cincinnati Stock Exchange (CSE)

Stock exchange based in Cincinnati that is the only fully automated stock exchange in the U.S. It has no trading floor, but handles all members' transactions using computers.

Circus swap

A fixed-rate currency swap against floating U.S. dollar LIBOR payments.

Citizen bonds

Certificateless municipals that can be registered on stock exchanges and are listed in newspapers.

Claim dilution

A decrease in the likelihood that one or more of a firm's claimants will be fully repaid, including time value of money considerations.

Class

In the case of derivative products, options of the same type-put or call-with the same underlying security. See: Series. In general, refers to a category of assets such as: domestic equity, fixed income, etc.

Class A/Class B shares

See: Classified stock

Classified stock

The division of stock into more than one class of common stock, usually called Class A and Class B. The specific features of each class, which are set out in the charter and bylaws, usually give certain advantages to the Class A shares, such as increased voting power.

Clean

In the context of general equities, block trade that matches buy or sell orders/interests, sparing the block trader any inventory risk (no net position and hence none available for additional customers). Natural. Antithesis of open.

Clean opinion

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

Clean price

Bond price excluding accrued interest.

Clear

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

Clear a position

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

Clearing corporations

Organizations that are affiliated with exchanges and are used to complete securities transactions by taking care of validation, delivery, and settlement.

Clearinghouse

An adjunct to a futures exchange through which transactions executed on its floor are settled by a process of matching purchases and sales. A clearing organization is also charged with the proper conduct of delivery procedures and the adequate financing of the entire operation.

Clearing member

A member firm of a clearing house. Each clearing member must also be a member of the exchange. Not all members of the exchange, however, are members of the clearing organization.

All trades of a non-clearing member must be registered with, and eventually settled through, a clearing member.

Clientele effect

Describes the tendency of funds or investments to be followed by groups of investors who have a similar preferences that the firm follow a particular financing policy, such as the amount of leverage it uses.

Clone fund

A new fund set up in a fund family to emulate another successful fund.

Close

The close is the period at the end of the trading session. Sometimes used to refer to closing price. Related: Opening.

Close a position

In the context of general equities, eliminate an investment from one's portfolio, by either selling a long position or covering a short position.

Close market

An active market in which there is a narrow spread between bid and offer prices, due to a high volume of trading and many competing market makers.

Closed-end fund

An investment company that sells shares like any other corporation and usually does not redeem its shares. A publicly traded fund sold on stock exchanges or over the counter that may trade above or below its net asset value. Related: Open-end fund.

Closed fund

A mutual fund that is no longer issuing shares, mainly because it has grown too large.

Closed out

Position that is liquidated when the client does not meet a margin call or cover a short sale.

Closely held

A corporation whose voting stock is owned by only a few shareholders.

Closing costs

All the expenses involved in transferring ownership of real estate.

Closing price

Price of the last transaction of a particular stock completed during a day's trading session on an exchange.

Closing purchase

A transaction in which the purchaser's intention is to reduce or eliminate a short position in a stock, or in a given series of options.

Closing quote

The last bid and offer prices of a particular stock at the close of a day's trading session on an exchange.

Closing range

Also known as the range. The high and low prices, or bids and offers, recorded during the period designated as the official close. Related: Settlement price.

Closing sale

A transaction in which the seller's intention is to reduce or eliminate a long position in a stock, or a given series of options.

Closing tick

The net of the number of stocks whose closing prices are higher than their previous trades (uptick) against the number of stocks whose closing prices were lower than their previous trades (downtick). A positive closing tick indicates "buying at the close", or a bullish market; a negative closing tick indicates "selling at the close," or a bearish market. See: TRIN.

Closing transaction

Applies to derivative products. Buy or sell transaction that eliminates an existing position (selling a long option or buying back a short option). Antithesis of opening transaction.

Cluster analysis

A statistical technique that identifies clusters of stocks whose returns are highly correlated within each cluster and relatively uncorrelated across clusters. Cluster analysis has identified groupings such as growth, cyclical, stable, and energy stocks.

Coincident indicators

Economic indicators that give an indication of the status of the economy.

Collar

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

Collateral

Asset than can be repossessed if a borrower defaults.

Collateralized Bond Obligation (CBO)

Investment-grade bonds backed by a collection of junk bonds with different levels of risk, called tiers, that are determined by the quality of junk bond involved. CBOs backed by highly risky junk bonds receive higher interest rates than other CBOs.

Collateralized mortgage obligation (CMO)

A security backed by a pool of pass-through rates , structured so that there are several classes of bondholders with varying maturities, called tranches. The principal payments from the underlying pool of pass-through securities are used to retire the bonds on a priority basis as specified in the prospectus. Related: mortgage pass-through security.

Collection

The presentation of a negotiable instrument for payment, or the conversion of any accounts receivable into cash.

Collection float

The period between the time is deposited a check in an account and the time funds are made available.

Collection fractions

The percentage of a given month's sales collected during the month of sale and each month following the month of sale.

Collection policy

Procedures a firm follows in attempting to collect accounts receivables.

COMEX

A division of the New York Mercantile Exchange (NYMEX). Formerly known as the Commodity Exchange, COMEX is the leading U.S. market for metals futures and options trading.

Commercial Mortgage Backed Securities

Similar to MBS but backed by loans secured with commercial rather than residential property. Commercial property includes multi-family, retail, office, etc., They are not standardized so there are a lot of details associated with structure, credit enhancement, diversification, etc., that need to be understood when valuing these instruments.

Commercial paper

Short-term unsecured promissory notes issued by a corporation. The maturity of commercial paper is typically less than 270 days; the most common maturity range is 30 to 50 days or less.

Commercial risk

The risk that a foreign debtor will be unable to pay its debts because of business events, such as bankruptcy.

Commission

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

Commitment

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

Commitment fee

A fee paid to a commercial bank in return for its legal commitment to lend funds that have not yet been advanced. Often used in risk arbitrage. Payment to institutional investors in the U.K. (pension funds and life insurance companies) by the lead underwriter of a takeover that takes place when the underwriter provides the target company's shareholders with a cash alternative for a target company's shares in exchange for the bidding companies' shares. The payment is typically

0.5% for the first 30 days, 1.25% for each week thereafter, and a final 0.75% acceptance payment when the takeover is completed.

Commodity

A commodity is food, metal, or another fixed physical substance that investors buy or sell, usually via futures contracts.

Commodity-backed bond

A bond with interest payments tied to the price of an underlying commodity.

Commodity futures contract

An agreement to buy a specific amount of a commodity at a specified price on a particular date in the future, allowing a producer to guarantee the price of a product or raw material used in production.

Commodity index

Indexes measuring the price and performance of physical commodities, often by the price of futures contracts for the commodities that are listed on commodity exchanges.

Commodity paper

A loan or advance secured by commodities.

Common shares

In general, a public corporation has two types of shares, common and preferred. The common shares usually entitle the shareholders to vote at shareholders meetings. The common shares have a discretionary dividend.

Common stock

Securities that represent equity ownership in a company. Common shares let an investor vote on such matters as the election of directors. They also give the holder a share in a company's profits via dividend payments or the capital appreciation of the security. Units of ownership of a public corporation with junior status to the claims of secured/unsecured creditors, bondholders and preferred shareholders in the event of liquidation.

Compound growth rate

The rate of growth of a figure, compounded over some period of time.

Compound interest

Interest paid on previously earned interest as well as on the principal.

Compound option

Option on an option.

Compounding

The process of accumulating the time value of money forward in time. For example, interest earned in one period earns additional interest during each subsequent time period.

Compounding frequency

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

Compounding period

The length of the time period that elapses before interest compounds (a quarter in the case of quarterly compounding).

Concave

Property that a curve is below a straight line connecting two end points. If the curve falls above the straight line, it is called convexity.

Conditional call

Applies mainly to convertible securities. Circumstances under which a company can effect an earlier call, usually stated as percentage of a stock's trading price during a particular period, such as 140% of the exercise price during a 40-day trading span.

Conditional call options

A protective guarantee that, in the event a high yield bond is called, the issuing corporation will replace the bond with a noncallable bond of the same life and terms as the bond that is being called.

Conditional sales contracts

Similar to equipment trust certificates, except that the lender is either the equipment manufacturer or a bank or finance company to which the manufacturer has sold the conditional sales contract.

Condor

- Applies to derivative products. Option strategy consisting of both puts and calls at different strike prices to capitalize on a narrow range of volatility. The payoff diagram takes the shape of a bird.
- Confidence level**
In risk analysis, the degree of assurance that a specified failure rate is not exceeded.
- Confirmation**
The written statement that follows any "trade" in the securities markets. Confirmation is issued immediately after a trade is executed. It spells out settlement date, terms, commission, etc.
- Consol**
A government bond with no maturity . Popular in Great Britain. The formula for valuing these bonds is simple. The consol payment divided by yield to maturity is the price of the bond.
- Consolidated mortgage bond**
A bond that covers several units of property, sometimes refinancing mortgages on the properties.
- Consolidation**
The combining of two or more firms to form an entirely new entity.
- Consortium**
A group of companies that cooperate and share resources in order to achieve a common objective.
- Consortium banks**
A merchant banking subsidiary set up by several banks that may or may not be of the same nationality. Consortium banks are common in the Euromarket and are active in loan syndication.
- Contagion**
Excess correlation of equity or bond returns. For example, under usual conditions we might observe a certain level of correlation of market returns. A period of contagion would be associated with much higher-than-expected correlation. Some examples are the conjectured contagion in East Asian markets beginning in July 1997 when the Thai currency devalued and the impact across many emerging markets of the Russian default. Contagion is difficult to identify because you need some sort of measure of the expected correlation. It is complicated because correlations are known to change through time, for example, see Erb, Harvey and Viskanta's article in the 1994 Financial Analysts Journal. In periods of negative returns, correlations (and volatility) are known to increase, so what might appear to be excessive may not be contagion.
- Contango**
A market condition in which futures prices are higher in the distant delivery months.
- Contingent claim**
A claim that can be made only if one or more specified outcomes occur.
- Continuous compounding**
The process of accumulating the time value of money forward in time on a continuous, or instantaneous, basis. Interest is earned constantly, and at each instant, the interest that accrues immediately begins earning interest on itself.
- Continuous random variable**
A random value that can take any fractional value within specified ranges, as contrasted with a discrete variable.
- Contra broker**
The broker on the buy side of a sell order or the sell side of a buy order.
- Contract**
A term of reference describing a unit of trading for a financial or commodity future. Also, the actual bilateral agreement between the buyer and seller of a transaction as defined by an exchange.
- Controller**
The corporate manager responsible for the firm's accounting activities.
- Convenience yield**
The extra advantage that firms derive from holding the commodity rather than a future position.
- Convention statement**
An annual statement filed by a life insurance company in each state where it does business in compliance with that state's regulations. The statement and supporting documents show, among other things, the assets, liabilities, and surplus of the reporting company.
- Conventional mortgage**
A loan based on the credit of the borrower and on the collateral for the mortgage.
- Conventional option**

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

Convergence

The movement of the price of a futures contract toward the price of the underlying cash commodity. At the start, the contract price is higher because of time value. But as the contract nears expiration, and time value decreases, the futures price and the cash price converge.

Conversion

In the context of securities, refers to the exchange of a convertible security such as a bond into stock.

In the context of mutual funds, refers to the free exchange of mutual fund shares from one fund to another in a single family.

Conversion factors

Rules set by the Chicago Board of Trade for determining the invoice price of each acceptable deliverable Treasury issue against the Treasury Bond futures contract.

Conversion feature

Specification of the right to transform a particular investment to another form of investment, such as switching between mutual funds or converting preferred stock or bonds to common stock.

Conversion premium

The extent by which the conversion price of a convertible security exceeds the prevailing common stock price at the time the convertible security is issued.

Conversion price

Applies mainly to convertible securities. Dollar value at which convertible bonds, debentures, or preferred stock can be converted into common stock, as specified when the convertible is issued.

Conversion ratio

Applies mainly to convertible securities. Relationship that determines how many shares of common stock will be received in exchange for each convertible bond or preferred stock when a conversion takes place. It is determined at the time of issue and is expressed either as a ratio or as a conversion price from which the ratio can be figured by dividing the par value of the convertible by the conversion price.

Conversion value

The value of a convertible security if it is converted immediately. Also called parity value.

Convertibility

The ability to exchange a currency without government restrictions or controls.

Convertible adjustable preferred stock (Caps)

The interest rate on caps is adjustable and is pegged to Treasury security rates. They can be exchanged at par value for common stock or cash after the next period's dividend rates are revealed.

Convertible arbitrage

A practice, usually of buying a convertible bond and shorting a percentage of the equivalent underlying common shares, to create a positive cash flow position (with expected returns above the riskless rate) in a static environment and benefit from capital appreciation should the convertible's premium. This form of investing is far from riskless and requires constant monitoring. See: Chinese hedge and set-up.

Convertible bond

General debt obligation of a corporation that can be exchanged for a set number of common shares of the issuing corporation at a prestated conversion price.

Convertible eurobond

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

Convertible exchangeable preferred stock

Convertible preferred stock that may be exchanged, at the issuer's option, into convertible bonds that have the same conversion features as the convertible preferred stock.

Convertible 100

Goldman Sachs index of the 100 convertibles of greatest institutional importance. Weighted by issue size, it measures the performance of its components against that of their underlying common stock and against other broad market indexes as well.

Convertible preferred stock

- Preferred stock that can be converted into common stock at the option of the holder. See also: participating convertible preferred stock.
- Convertible price**
The contractually specified price per share at which a convertible security can be converted into shares of common stock.
- Convertible security**
A security that can be converted into common stock at the option of the security holder; includes convertible bonds and convertible preferred stock.
- Convex**
Curved, as in the shape of the outside of a circle. Usually referring to the price/required yield relationship for option-free bonds.
- Convexity**
Property that a curve is above a straight line connecting two end points. If the curve falls below the straight line, it is called concave.
- Cooperative**
An organization owned by its members. Examples are agriculture cooperatives that assist farmers in selling their products more efficiently and apartment buildings owned by the residents who have full control of the property.
- Copenhagen Stock Exchange**
The only securities exchange in Denmark. It features electronic trading of stocks, bonds, futures, and options.
- Corporate equivalent yield**
A comparison of the after-tax yield of government bonds selling at a discount and corporate bonds selling at par.
- Corporate finance**
One of the three areas of the discipline of finance. It deals with the operation of the firm (both the investment decision and the financing decision) from the firm's point of view.
- Corporate financial management**
The application of financial principles within a corporation to create and maintain value through decision-making and proper resource management.
- Corporate financial planning**
Financial planning conducted by a firm that encompasses preparation of both long-and short-term financial plans.
- Correlation**
Statistical measure of the degree to which the movements of two variables (stock/option/convertible prices or returns) are related. See: Correlation coefficient.
- Correlation coefficient**
A standardized statistical measure of the dependence of two random variables, defined as the covariance divided by the standard deviations of two variables.
- Correspondent**
A financial organization that performs services (acts as an intermediary) in a market for another organization that does not have access to that market.
- Cost of capital**
The required return for a capital budgeting project.
- Cost of carry**
Out-of-pocket costs incurred while an investor has an investment position. Examples include interest on long positions in margin account, dividend lost on short margin positions, and incidental expenses. Related: Net financing cost.
- Cost-of-carry market**
Applies to derivative products. Futures contracts trade in a "cost-of-carry market" where the underlying commodity can be stored, insured, and converted into the future easily and inexpensively. Arbitrageurs, because of the ease of switching from the spot commodity to futures, will keep these markets in line with prevailing interest rates.
- Counterparties**
The parties to an interest rate swap.
- Counterparty**

- Party on the other side of a trade or transaction.
- Counterparty risk**
The risk that the other party to an agreement will default. In an options contract, the risk to the option buyer that the option writer will not buy or sell the underlying as agreed.
- Country beta**
Covariance of a national economy's rate of return and the rate of return of the world economy divided by the variance of the world economy.
- Country economic risk**
Developments in a national economy that can affect the outcome of an international financial transaction.
- Country financial risk**
Centers around the ability of a national economy to generate enough foreign exchange to meet payments of interest and principal on its foreign debt.
- Country risk**
General level of political, financial, and economic uncertainty in a country affect which the value of loans or investments in that country.
- Country selection**
A type of active international management that measures the contribution to performance attributable to investing in the better-performing stock markets of the world.
- Coupon**
The periodic interest payment made to the bondholders during the life of the bond.
- Coupon bond**
A bond featuring coupons that must be presented to the issuer in order to receive interest payments.
- Coupon-equivalent rate**
See: Equivalent bond yield
- Coupon equivalent yield**
True interest cost expressed on the basis of a 365-day year.
- Coupon pass**
Canvassing by the desk of primary dealers to determine the inventory and maturities of their Treasury securities. The desk then decides whether to buy or sell certain issues (coupons) in order to add or withdraw reserves.
- Coupon payments**
A bond's interest payments.
- Coupon rate**
In bonds, notes, or other fixed income securities, the stated percentage rate of interest, usually paid twice a year.
- Covariance**
A statistical measure of the degree to which random variables move together. A positive covariance implies that one variable is above (below) its mean value when the other variable is above (below) its mean value.
- Covenants**
Provisions in a bond indenture or preferred stock agreement that require the bond or preferred stock issuer to take certain specified actions (affirmative covenants) or to refrain from taking certain specified actions (negative covenants).
- Cover**
The purchase of a contract to offset a previously established short position.
- Covered call**
A short call option position in which the writer owns the number of shares of the underlying stock represented by the option contracts. Covered calls generally limit the risk the writer takes because the stock does not have to be bought at the market price, if the holder of that option decides to exercise it.
- Covered call writing strategy**
A strategy that involves writing a call option on securities that the investor owns. See: Covered or hedge option strategies.
- Covered option**

Option position that is offset by an equal and opposite position in the underlying security.
Antithesis of naked option.

Covered put

A put option position in which the option writer also is short the corresponding stock or has deposited, in a cash account, cash or cash equivalents equal to the exercise of the option. This limits the option writer's risk because money or stock is already set aside. In the event that the holder of the put option decides to exercise the option, the writer's risk is more limited than it would be on an uncovered or naked put option.

Covered writer

An investor who writes options only on stock that he or she owns, so that option positions may be collected.

CPI

A measure of inflation. See: Consumer Price Index.

Crash

Dramatic loss in market value. The last great crash was in 1929. Some refer to October 1987 as a crash but the market return was positive.

Crawling peg

An automatic system for revising the exchange rate. It involves establishing a par value around which the rate can vary up to a given percent. The par value is revised regularly according to a formula determined by the authorities.

Credit

Money loaned.

Credit analysis

Evaluating information on companies and bond issues in order to estimate the ability of the issuer to live up to its future contractual obligations. Related: Default risk.

Credit balance

The surplus in a cash account with a broker after purchases have been paid for, plus the extra cash from the sale of securities.

Credit bureau

An agency that researches the credit history of consumers so that creditors can make decisions about granting of loans.

Credit enhancement

Purchase of the financial guarantee of a large insurance company to raise funds.

Credit insurance

Insurance against abnormal losses due to unpaid accounts receivable.

Credit period

The length of time for which a firm's customer is granted credit.

Credit rating

An evaluation of an individual's or company's ability to repay obligations or its likelihood of not defaulting. See: Creditworthiness.

Credit risk

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

Credit scoring

A statistical technique that combines several financial characteristics to form a single score to represent a customer's creditworthiness.

Credit spread

Applies to derivative products. Difference in the value of two options, when the value of the one sold exceeds the value of the one bought. One sells a "credit spread." Antithesis of a debit spread. Related: Quality spread.

Credit union

A not-for-profit institution that is operated as a cooperative and offers financial services such as low-interest loans, to its members.

Credit watch

A warning by a bond rating firm indicating that a company's credit rating may change after the current review is concluded.

Crediting rate

The interest rate offered on an investment type insurance policy.

Creditor

Lender of money.

Creditor's committee

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

Creditworthiness

Eligibility of an individual or firm to borrow money.

Cross

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

Cross-border risk

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

Cross hedging

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

Cross-holdings

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

Cross rates

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

Cross-sectional approach

A statistical methodology applied to a set of firms at a particular time.

Cross-share holdings

Often used in risk arbitrage. Corporations' or governments' equity share ownership in another corporation's shares.

Crossed market

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

Crossed trade

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

Crossover rate

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

Crowd trading

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

Crowding out

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

Cum dividend

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

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.

Currency

Money.

Currency arbitrage

Taking advantage of divergences in exchange rates in different money markets by buying a currency in one market and selling it in another market.

Currency basket

The value of a portfolio of specific amounts of individual currencies, used as the basis for setting the market value of another currency. It is also referred to as a currency cocktail.

Currency future

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

Currency hedge

Applies mainly to international equities. Hedging technique to guard against foreign exchange fluctuations (i.e., short Euro 100 mm when holding a long position of Euro 100 mm in stocks).

Currency option

An option to buy or sell a foreign currency.

Currency overvaluation

Applies mainly to international equities: (1) consideration that a currency is overvalued if private demand for the currency at the going exchange rate is less than total private supply (i.e., central banks are buying up the difference, supporting the value of the currency through foreign exchange intervention); (2) currency value exceeding purchasing power parity.

Currency risk

Related: Exchange rate risk

Currency selection

Asset allocation in which the investor chooses among investments denominated in different currencies.

Currency swap

An agreement to swap a series of specified payment obligations denominated in one currency for a series of specified payment obligations denominated in a different currency.

Current account

Net flow of goods, services, and unilateral transactions (gifts) between countries.

Current assets

Value of cash, accounts receivable, inventories, marketable securities and other assets that could be converted to cash in less than 1 year.

Current coupon

A bond selling at or close to par, that is, a bond with a coupon close to the yields currently offered on new bonds of a similar maturity and credit risk.

Current income

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

Current issue

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

Current liabilities

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

Current market value

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

Current maturity

Current time to maturity on an outstanding debt instrument.

Current yield

For bonds or notes, the coupon rate divided by the market price of the bond.

Cushion

The minimum period between the time a bond is issued and the time it is called.

Cushion bonds

High-coupon bonds that sell at only a moderate premium because they are callable at a price below that at which a comparable noncallable bond would sell. Cushion bonds offer considerable downside protection in a falling market.

Cushion theory

The theory that a stock with many short positions taken in it will rise, because these positions must be covered by the stock.

Custodial fees

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

Custodian bank

Applies mainly to international equities. Bank or other financial institution that keeps custody of stock certificates and other assets of a mutual fund, individual, or corporate client. See: Depository Trust Company (DTC)

D**Daily price limit**

The level at which many commodity, futures, and options markets are allowed to rise or fall in a day. Exchanges usually impose a daily price limit on each contract.

Date of issue

Used in the context of bonds to refer to the date on which a bond is issued and when interest accrues to the bondholder. Used in the context of stocks to refer to the date trading begins on a new stock issued to the public.

Date of payment

Date dividend checks are mailed.

Date of record

Date on which holders of record in a firm's stock ledger are designated as the recipients of either dividends or stock rights.

Dated date

The date one uses to calculate accrued interest on various debt instruments, specifically bonds.

Dates convention

Treating cash flows as being received on exact dates—date 0, date 1, and so forth—as opposed to the end-of-year convention.

Day loan

A loan from a bank to a broker prior to the delivery of securities. Upon the delivery of the securities, a day loan becomes a regular broker call loan for which securities serve as collateral.

Day order

In the context of general equities, request from a customer to either buy or sell stock, that, if not cancelled or executed the day it is placed, expires automatically. All orders are day orders unless otherwise specified. Traders often make calls before the opening to check for renewals.

Day trading

Establishing and liquidating the same position or positions within one day's trading.

Dead cat bounce

A small upmove in a bear market.

Deal flow

In investment banking, the rate at which new deals are referred to a brokerage firm.

Deal stock

Stock subject to merger or acquisition, either publicly announced or rumored.

Dealer

An entity that stands ready and willing to buy a security for its own account (at its bid price) or sell from its own account (at its ask price). Individual or firm acting as a principal in a securities transaction. Principals are market makers in securities, and thus trade for their own account and risk. Antithesis of broker. See: Agency.

Dealer loan

Overnight, collateralized loan from a money market bank made to a dealer financing his position by borrowing.

Dealer market

Where traders specializing in particular commodities buy and sell assets for their own accounts.

Dealer options

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

Death-backed bonds

Bonds backed by loans of a policyholder against a life insurance policy. The policyholder will repay the loans while alive or with the benefits from the insurance policy upon death.

Death play

A stock strategy that buys stock on the belief that a key executive will die, the company will be dissolved, and shares will command a higher price at their private market value.

Death Valley Curve

In venture capital, refers to the period before a new company starts generating revenues, when it is difficult for the company to raise money.

Debenture

Any debt obligation backed strictly by the borrower's integrity, e.g. an unsecured bond. A debenture is documented in an indenture.

Debenture bond

An unsecured bond whose holder has the claim of a general creditor on all assets of the issuer not pledged specifically to secure other debt. Compare subordinated debenture bond and collateral trust bonds.

Debenture stock

A type of stock that makes fixed payments at scheduled intervals of time. Debenture stock differs from a debenture in that it has the status of equity, not debt, in liquidation.

Debit balance

The amount that is owed to a broker by a margin customer for loans the customer uses to buy securities.

Debit spread

Applies to derivative products. Difference in the value of two options, when the value of the option bought exceeds the value of the one sold. One buys a "debit spread." Antithesis of a credit spread.

Debt

Money borrowed.

Debt capacity

Ability to borrow. The amount a firm can borrow up to the point where the firm value no longer increases.

Debt displacement

The amount of borrowing that leasing displaces. Firms that do a lot of leasing are curtailed in their debt capacity.

Debt/equity ratio

Indicator of financial leverage. Compares assets provided by creditors to assets provided by shareholders. Determined by dividing long-term debt by common stockholder equity.

Debt limit

The maximum amount that a municipality can borrow.

Debt limitation

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

Debt securities

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

Debt swap

A set of transactions in which a firm buys a country's dollar bank debt at a discount and swaps this debt with the central bank for local currency that it can use to acquire local equity. Also called a debt-equity swap.

Debtor

Borrower of money.

Declare

The Board of Directors motion to authorize dividend payments.

Deep-discount bond

A bond issued with a very low coupon or no coupon that sell at a price far below par value. A bond that has no coupon is called a zero-coupon bond.

Deep in/out of the money

A call option with an exercise price substantially below the underlying stock's market price (deep in the money) or substantially above the market price (deep out of the money). Also put option with an exercise price substantially above the underlying stock's market price (deep in the money) or substantially below the underlying stock's market price (deep out of the money).

Default

Failure to make timely payment of interest or principal on a debt security or to otherwise comply with the provisions of a bond indenture.

Default premium

A differential in promised yield that compensates the investor for the risk inherent in purchasing a corporate bond that entails some risk of default.

Default risk

The risk that an issuer of a bond may be unable to make timely principal and interest payments. Also referred to as credit risk (as gauged by commercial rating companies).

Defeasance

The setting aside by a borrower of cash or bonds sufficient to service the borrower's debt. Both the borrower's debt and the offsetting cash or bonds are removed from the balance sheet.

Defensive securities

Low-risk stocks or bonds that will provide a predictable and safe return on an investor's money.

Deferred equity

A common term for convertible bonds, which recognizes their equity component and the expectation that the bond will ultimately be converted into shares of common stock.

Deferred interest bond

A bond that pays interest at a later date, usually in one lump sum, effectively reinvesting interest earned over the life of the bond. See: Zero coupon bond.

Deflation

Decline in the prices of goods and services. Antithesis of inflation.

Delinquency

Failure to make a payment on a debt or obligation by the specified due date.

Delisting

Removal of a company's security from listing on an exchange because the firm has not abided by specific regulations.

Deliver

The sale of a futures or forward contract may require the seller to deliver the commodity.

Deliverable bills

The Treasury bills that fulfill a set of guidelines set forth by the exchange on which the bills are traded.

Deliverable instrument

The asset in a forward contract that will be delivered in the future at an agreed-upon price.

Delivery

The tender and receipt of an actual commodity or financial instrument in settlement of a futures contract.

Delivery date

Date by which a seller must fulfill the obligations of a forward or futures contract.

Delivery notice

The written notice given by the seller of its intention to make delivery against an open, short futures position on a particular date. Related: Notice day.

Delivery options

The options available to the seller of an interest rate futures contract, including the quality option, the timing option, and the wild card option. Delivery options mean that the buyer is uncertain of which Treasury bond will be delivered or when it will be delivered.

Delivery price

The price fixed by the clearinghouse at which deliveries on futures are invoiced; also the price at which the futures contract is settled when deliveries are made.

Delta

The ratio of the change in price of a call option to the change in price of the underlying stock. Also called the hedge ratio. Applies to derivative products. Measure of the relationship between an option price and the underlying futures contract or stock price. For a call option, a delta of 0.50 means a half-point rise in premium for every dollar that the stock goes up. As options near expiration, in-the-money call option contracts approach a delta of 1.0, while in the money put options approach a delta of -1. See: hedge ratio, neutral hedge.

Delta hedge

A dynamic hedging strategy using options that calls for constant adjustment of the number of options used, as a function of the delta of the option.

Delta neutral

Describes value of a portfolio not affected by changes in the value of the asset on which the options are written.

Denomination

Corresponds to the face value of currency units, coins, and securities. Applies mainly to convertible securities.

Depreciate

To allocate the purchase cost of an asset over its life.

Depreciated cost

In terms of economics: The measure of cost of capital consumption during production, e.g., machine and equipment wear.

In terms of finance: The process of amortization of fixed assets (equipment) to spread the cost over the depreciable life of the assets.

Deregulation

The reduction of government's role in controlling markets, which lead to freer markets, and presumably a more efficient marketplace.

Derivative instruments

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

Derivative markets

Markets for derivative instruments.

Derivative security

A financial security such as an option or future whose value is derived in part from the value and characteristics of another security, the underlying asset.

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).

Deterministic models

Liability-matching models that assume that the liability payments and the asset cash flows are known with certainty. Related: Stochastic models.

Detrend

To remove the general drift, tendency, or bent of a set of statistical data as related to time. Often accomplished by regressing a variable or a time index and perhaps time-squared and capturing the residuals.

Deutsche Börse AG (DBAG)

Deutsche Börse AG (DBAG) is the operating company for the German cash and derivatives markets. It has four subsidiaries: Deutsche Börse Clearing AG, Deutsche Börse Systems AG, Frankfurter Wertpapierbörse (FWB), and the derivatives market, EUREX Deutschland (formerly the Deutsche Terminbörse).

Devaluation

A decrease in the spot price of a currency. Often initiated by a government announcement.

Diagonal spread

An options strategy requiring a long and a short position in the same class of option at different strike prices and different expiration dates. For example, two puts or two calls in the same stock. See: Calendar spread; vertical spread.

Dialing for dollars

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

Diamonds

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

Differential

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

Differential swap

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

Diffusion process

A conception of the way a stock's price changes that assumes that the price takes on all intermediate values.

Digits deleted

Designation on securities exchange tape meaning that because the tape has been delayed, some digits have been dropped (e.g., 26 1/2 becomes 6 1/2).

Dilution

Diminution in the proportion of income to which each share is entitled.

Dilution protection

Standard provision that changes the conversion ratio in the case of a stock dividend or extraordinary distribution to avoid dilution of a convertible bondholder's potential equity position. Adjustment usually requires a split or stock dividend in excess of 5% or issuance of stock below book value.

Dilutive effect

Result of a transaction that decreases earnings per common share (EPS).

Dip

Slight drop in securities prices after a sustained uptrend. Analysts often advise investors to buy on dips, meaning to buy when a price is momentarily weak. See: Correction, break, crash.

Direct investment

The purchase of a controlling interest in a company or at least enough interest to have enough influence to direct the course of the company.

Dirty float

A system of floating exchange rates in which a government may intervene to change the direction of the value of the country's currency.

Dirty price

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

Dirty stock

A stock that fails to fulfill prerequisites to attain good delivery status.

Disability income insurance

An insurance policy that insures a worker in the event of an occupational mishap resulting in disability. Insurance benefits compensate the injured worker for lost pay.

Discharge of bankruptcy

The termination of bankruptcy proceedings, resulting in cancellation of the debtor's obligations.

Disclaimer of opinion

An auditor's statement that does not express any opinion regarding the company's financial condition.

Disclosure

A company's release of all information pertaining to the company's business activity, regardless of how that information may influence investors.

Discontinued operations

Divisions of a business that have been sold or written off and that no longer are maintained by the business.

Discount

Convertible: Difference between gross parity and a given convertible price. Most often invoked when a redemption is expected before the next coupon payment, making it liable for accrued interest. Antithesis of premium.

General: Information that has already been taken into account and is built into a stock or market.

Straight equity: Price lower than that of the last sale or inside market.

Discount bond

Debt sold for less than its principal value. If a discount bond pays no coupon, it is called a zero coupon bond.

Discount broker

A brokerage house featuring relatively low commission rates in comparison to a full-service broker.

Discount factor

Present value of \$1 received at a stated future date.

Discount period

The period during which a customer can deduct the discount from the net amount of the bill when making payment.

Discount rate

The interest rate that the Federal Reserve charges a bank to borrow funds when a bank is temporarily short of funds. Collateral is necessary to borrow, and such borrowing is quite limited because the Fed views it as a privilege to be used to meet short-term liquidity needs, and not a device to increase earnings.

Discount securities

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

Discount yield

The yield or annual interest rate on a security sold to an investor at a discount. A bond that is sold at \$4875 that matures to \$5000 has a discount of \$125. To calculate the discount yield: (discount divided by the face value of the security) multiplied by the (number of days in the year divided by the number of days to maturity).

Discounted cash flow (DCF)

Future cash flows multiplied by discount factors to obtain present values.

Discounted dividend model (DDM)

A formula to estimate the intrinsic value of a firm by figuring the present value of all expected future dividends.

Discounting

Calculating the present value of a future amount. Discounting is opposite to compounding.

Discrete compounding

Compounding the time value of money for separate time intervals.

Discretionary cash flow

Cash flow that is available after the funding of all positive net present value (NPV) capital investment projects; it is available for paying cash dividends, repurchasing common stock, retiring debt, and so on.

Dishonor

A refusal to pay.

Disinflation

A decrease in the rate of inflation.

Disposable income

The amount of personal income an individual has after taxes and government fees, which can be spent on necessities, or non-essentials, or be saved.

Distress sale

The selling of assets under adverse conditions, e.g., an investor may have to sell securities to cover a margin call.

Distributions

Payments from fund or corporate cash flow. May include dividends from earnings, capital gains from sale of portfolio holdings and return of capital. Fund distributions can be made by check or

by investing in additional shares. Funds are required to distribute capital gains (if any) to shareholders at least once per year. Some corporations offer Dividend Reinvestment Plans (DRP).

Divergence

When two or more averages or indexes fail to show confirming trends.

Diversification

Dividing investment funds among a variety of securities with different risk, reward, and correlation statistics so as to minimize unsystematic risk.

Dividend

A portion of a company's profit paid to common and preferred shareholders. A stock selling for \$20 a share with an annual dividend of \$1 a share yields the investor 5%.

Dividend clawback

An arrangement under which sponsors of a project agree to contribute as equity any prior dividends received from the project to the extent necessary to cover any cash deficiencies.

Dividend Discount Model (DDM)

A method to value the common stock of a company that is based on the present value of the expected future dividends.

Dividend growth model

An approach that assumes dividends grow at a constant rate in perpetuity. The value of the stock equals next year's dividends divided by the difference between the required rate of return and the assumed constant growth rate in dividends.

Dividend limitation

A bond covenant that restricts in some way the firm's ability to pay cash dividends.

Dividend payout ratio

Percentage of earnings paid out as dividends.

Dividend policy

Standards by which a firm determines the amount of money it will pay as dividends.

Dividend rate

The fixed or floating rate paid on preferred stock based on par value.

Dividend requirement

The annual earnings minimum required for payment of dividends on a preferred stock.

Dividend rights

A shareholder's rights to receive per-share dividends identical to those other shareholders receive.

Dividend rollover plan

An investment strategy that entails the purchase and selling of a stock right before its ex-dividend date in order to collect the dividends paid out by the stock and capture a trade profit.

Dividend yield (Funds)

Indicated yield represents return on a share of a mutual fund held over the past 12 months. Assumes fund was purchased a year ago. Reflects effect of sales charges (at current rates), but not redemption charges.

Dividend yield (Stocks)

Indicated yield represents annual dividends divided by current stock price.

Dividends payable

The declared dividend dollar amount that a company is obligated to pay.

Dividends per share

Dividend paid for the past 12 months divided by the number of common shares outstanding, as reported by a company. The number of shares often is determined by a weighted average of shares outstanding over the reporting term.

Dividends-received deduction

A corporate tax deduction on income allowed by company A that is in ownership of shares of company B and receives dividends on the shares of company B.

Deutsche Terminbörse (DTB)

Formerly the German financial futures and options market. Merged with the Swiss Options and Financial Futures Exchange (SOFFEX) in 1998 to form EUREX, the European derivatives exchange.

Divisor

Used in construction of stock indices. Suppose you have 10 stocks in an index, each worth \$10 and the index is at 100. Now suppose you want to replace one of the stocks with another stock (reshuffling happens). Suppose that the new stock to be included is worth \$20. So the total value of the index is 110 after the swapping. But we really shouldn't have an increase in value because nothing has happened - other than switching two constituents. So, what people do is to change the divisor. In this case, the divisor goes from 1 to 1.10. Notice that the value of the index, $110/1.1$ is now exactly 100 - which is where we began from.

Dollar bears

Traders who capitalize on a falling dollar by buying other foreign currencies directly.

Dollar bonds

Municipal revenue bonds for which quotes are given in dollar prices. Not to be confused with "U.S. Dollar" bonds, a common term of reference in the Eurobond market.

Dollar drain

The impact of importing from foreign countries more than exporting to them. The money required to finance the import purchases removes dollars from the importing nation.

Dollar duration

The product of modified duration and the initial price.

Dollar price of a bond

Percentage of face value at which a bond is quoted.

Dollar return

The return realized on a portfolio for any evaluation period, including (1) the change in market value of the portfolio and (2) any distributions made from the portfolio during that period.

Dollar roll

Similar to the reverse repurchase agreement-a simultaneous agreement to sell a security held in a portfolio with purchase of a similar security at a future date at an agreed-upon price.

Dollar safety margin

The dollar equivalent of the safety cushion for a portfolio in a contingent immunization strategy.

Dollar-weighted rate of return

Also called the internal rate of return; the interest rate that makes the present value of the cash flows from all the sub periods in an evaluation period plus the terminal market value of the portfolio equal to the initial market value of the portfolio.

Domestic market

A nation's internal market representing the mechanisms for issuing and trading securities of entities domiciled within that nation. Compare external market and foreign market.

Double-barreled

Describes backing of the principal and interest of a smaller municipal revenue bond the large municipal entity.

Double bottom

A term used in technical analysis to refer to the drop of a stock's price, a rebound, and then a drop back to the same level as the original drop.

Double dip

Used for listed equity securities. Dividend roll in which the "dividend capturer" already owns the stock cum dividend .

Double taxation

Government taxation of the same money twice; specifically, taxation of earnings at the corporate level and dividends at the stockholder level.

Double top

A term used in technical analysis to refer to the rise of a stock's price, a drop, and then a rise back to the same level as the original rise.

Double up

A stock buying strategy that doubles the risk when the price moves in the opposite direction from the direction the investor hoped for. For example, an investor with confidence in ABC buys 1000 shares at \$100 and another 1000 shares when the price declines to \$90.

Double witching day

A trading day when of two related classes of options and futures expire, resulting in a variety of arbitrage strategies to close out positions.

Doubling option

A sinking fund provision that may allow repurchase of twice the required number of bonds at the sinking fund call price.

Dow Jones Industrial Average

The best known U.S. index of stocks. A price-weighted average of 30 actively traded blue-chip stocks, primarily industrials including, stocks that trade on the New York Stock Exchange. The Dow, as it is called, is a barometer of how shares of the largest U.S. companies are performing. There are hundreds of investment indexes around the world for stocks, bonds, currencies, and commodities.

Dow Theory

Used in the context of general equities. Technical theory that a major trend in the stock market must be confirmed by simultaneous movement of the Dow Jones Industrial Average and the Dow Jones Transportation Average to new highs or lows.

Down-and-in option

Barrier option that comes into existence if asset price hits a predetermined price level.

Down-and-out option

Barrier option that expires if asset price hits a predetermined price level.

Downgrade

A negative change in ratings for a stock, or other rated security.

Downside risk

The risk that a security will decline in value including the implications of risk.

Downsizing

A company's reduction in the number of employees, number of bureaucratic levels, and overall size in an attempt to increase efficiency and profitability.

Downtick

Move down in a particular stock. On U.S. stock exchanges, you cannot sell a stock short on a downtick.

Duration

A common gauge of the price sensitivity of a fixed income asset or portfolio to a change in interest rates.

Duty

A tax on imports, exports, or consumption goods.

Dynamic asset allocation

An asset allocation strategy in which the asset mix is shifted in response to changing market conditions, as in a portfolio insurance strategy, for example.

Dynamic hedging

A strategy that involves rebalancing hedge positions as market conditions change; a strategy that seeks to insure the value of a portfolio using a synthetic put option.

E**EUREX**

The European derivatives exchange formed in 1998 by a merger of the Deutsche Terminbörse (DTB) and the Swiss Options and Financial Futures Exchange (SOFFEX).

Earnings

Net income for the company during a period.

Earnings per share (EPS)

A company's profit divided by its number of outstanding shares. If a company earning \$2 million in one year had \$2 million shares of stock outstanding, its EPS would be \$1 per share. In calculating EPS, the company often uses a weighted average of shares outstanding over the reporting term.

Earnings yield

The ratio of earnings per share, after allowing for tax and interest payments on fixed interest debt, to the current share price. The inverse of the price-earnings ratio. It is the total twelve months, earnings divided by number of outstanding shares, divided by the recent price, multiplied by 100.

- The end result is shown in percentage terms. We often look at earnings yield because this avoids the problem of zero earnings in the denominator of the price-earning ratio.
- Economic income**
Cash flow plus change in present value.
- Economic surplus**
For any entity, the difference between the market value of all its assets and the market value of its liabilities.
- Effective annual interest rate**
An annual measure of the time value of money that fully reflects the effects of compounding.
- Effective annual yield**
Annualized interest rate on a security computed using compound interest techniques.
- Effective call price**
The strike price in a market redemption provision plus the accrued interest to the redemption date.
- Effective convexity**
The convexity of a bond calculated using cash flows that change with yields.
- Effective date**
In an interest rate swap, the date the swap begins accruing interest.
- Effective debt**
The total debt owed by a firm to its creditors.
- Effective duration**
The duration calculated using the approximate duration formula for a bond with an embedded option, reflecting the expected change in the cash flow caused by the option. Measures the responsiveness of a bond's price-taking into account that expected cash flows will change as interest rates change due to the embedded option.
- Effective margin (EM)**
Used with SAT performance measures, the amount equal to the net earned spread, or margin of income, on assets in excess of financing costs for a given interest rate and prepayment rate scenario.
- Effective rate**
A measure of the time value of money that fully reflects the effects of compounding.
- Effective sale**
A sale based on the most recent round-lot price, which determines the price of the next odd lot. The difference created between the last round-lot price and the odd-lot price is referred to as the odd-lot differential.
- Effective spread**
The gross underwriting spread adjusted for the impact that a common stock offering's announcement has on the firm's share price.
- Effective tax rate**
The net rate a taxpayer pays on income that includes all forms of taxes. It is calculated by dividing the total tax paid by taxable income.
- Efficiency**
The degree and speed with which a market accurately incorporates information into prices.
- Efficient capital market**
A market in which new information is very quickly reflected accurately in share prices.
- Efficient diversification**
The organizing principle of modern portfolio theory, which maintains that any risk-averse investor will search for the highest expected return for any particular level of portfolio risk.
- Elasticity of an option**
Percentage change in the value of an option given a 1% change in the value of the option's underlying stock.
- Elliott Wave Theory**
Technical market timing strategy that predicts price movements on the basis of historical price wave patterns and their underlying psychological motives. Robert Prechter is a famous Elliott Wave theorist.
- Embedded option**

- An option that is part of the structure of a bond that gives either the bondholder or the issuer the right to take some action against the other party, as opposed to a bare option, which trades separately from any underlying security.
- Emergency fund**
A reserve of cash kept available to meet the costs of any unexpected financial emergencies.
- Employee stock fund**
A firm-sponsored program that enables employees to purchase shares of the firm's common stock on a preferential basis.
- End-of-year convention**
Treating cash flows as if they occur at the end of a year as opposed to the date convention. Under the end-of-year convention, the present is time 0, the end of year 1 occurs one year hence; and so on.
- Endogenous variable**
A value determined within the context of a model. Related: Exogenous variable.
- Enterprise**
A business firm.
- EPS**
See: Earnings per share
- Equal dollar swap**
Selling common stock/convertibles in one company and reinvesting the proceeds in as many shares of (1) another type of security issued by the company, or (2) another security of the same type but of another company -- as can be bought with the proceeds of the sale. See: Equal shares swap.
- Equal shares swap**
Applies mainly to convertible securities. Selling the underlying common and reinvesting the proceeds in as much of the convertible as can be converted into the number of shares of common just sold. See equal dollar swap.
- Equalizing dividend**
Special dividends received by investors of a firm for income the investor lost because the firm altered the dividends payment schedule.
- Equilibrium market price of risk**
The slope of the capital market line (CML). Since the C.M.L. represents the expected return offered to compensate for a perceived level of risk, each point on the line is a balanced market condition, or equilibrium. The slope of the line determines the additional expected return needed to compensate for a unit change in risk. The equation of the CML is defined by the capital asset pricing model.
- Equilibrium price**
The price when the supply of goods matches demand.
- Equilibrium rate of interest**
The interest rate that clears the market. Also called the trade-clearing interest rate.
- Equity**
Ownership interest in a firm. Also, the residual dollar value of a futures trading account, assuming its liquidation is at the going trade price. In real estate, dollar difference between what a property could be sold for and debts claimed against it. In a brokerage account, equity equals the value of the account's securities minus any debit balance in a margin account. Equity is also shorthand for stock market investments.
- Equity cap**
An agreement in which one party, for an up-front premium, agrees to pay the other at specific time periods if a designated stock market benchmark tops a predetermined level.
- Equity claim**
Also called a residual claim; a claim to a share of earnings after debt obligations have been satisfied.
- Equity collar**
The simultaneous purchase of an equity floor and sale of an equity cap.
- Equity floor**

- An agreement in which one party agrees to pay the other at specific time periods if a specific stock market benchmark falls below a predetermined level.
- Equity funding**
An investment consisting of a life insurance policy and a mutual fund. The insurance policy is paid by the collateral value of fund shares, give the investor the advantages of insurance protection with the growth potential of a mutual fund.
- Equity kicker**
Stock warrants issued attached to privately placed bonds.
- Equity market**
Related: stock market
- Equity options**
Securities that give the holder the right (but not the obligation) to buy or sell a specified number of shares of stock, at a specified price for a certain (limited) time period. Typically one option equals 100 shares of stock.
- Equity REIT**
A Real Estate Investment Trust that assumes ownership status in the property it invests in enabling investors of the REIT to earn dividends on rental income from the property and appreciation in property resale. Antithesis of a Mortgage REIT.
- Equity swap**
A swap in which the cash flows exchanged are based on the total return on some stock market index and an interest rate (either a fixed rate or floating rate). Related: Interest rate swap.
- Equityholders**
Stockholders; those holding shares of the firm's equity.
- Equivalent annual annuity**
The amount per year for some number of years that has a present value equal to a given amount.
- Equivalent annual benefit**
The annual annuity with the same value as the net present value of an investment project.
- Equivalent annual cash flow**
Annuity with the same net present value as the company's proposed investment.
- Equivalent annual cost**
The cost per year of owning an asset over its entire life.
- Equivalent bond yield**
Annual yield on a short-term, noninterest-bearing security calculated for comparison to yields quoted on coupon securities.
- Equivalent loan**
Given the after-tax stream associated with a lease, the maximum amount of conventional debt that the same period-by-period after-tax debt service stream is capable of supporting.
- Equivalent taxable yield**
The yield that must be offered on a taxable bond issue to give the same after-tax yield as a tax-exempt issue.
- 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.
- Eurobond**
A bond that is (1) underwritten by an international syndicate, (2) issued simultaneously to investors in a number of countries, and (3) issued outside the jurisdiction of any single country.
- Eurocredits**
Intermediate-term loans of Eurocurrencies made by banking syndicates to corporate and government borrowers.
- Eurocurrency**
Instrument issued outside your country, but denominated in your currency. A Eurodollar is a Certificate of Deposit in U.S. dollars in some other country (though mainly traded in London). A Euroyen is a CD in yen outside Japan.
- Eurodollar**
Refers to a certificate of deposit in U.S. dollars in a bank that is not located in the U.S. Most of the Eurodollar deposits are in London banks, but Eurodeposits may be anywhere other than the U.S.

Similarly, a Euroyen or Euro DM deposit represents a CD in yen or DM outside Japan and Germany, respectively.

Eurodollar bonds

Eurobonds denominated in U.S. dollars.

Eurodollar certificate of deposit

A certificate of deposit paying interest and principal in dollars, but issued by a bank outside the United States, usually in Europe.

Euroequity issues

Securities sold in the Euromarket. That is, securities initially sold to investors simultaneously in several national markets by an international syndicate. Related: External market.

Euro-note

Short- to medium-term debt instrument sold in the Eurocurrency market.

Euroyen bonds

Eurobonds denominated in Japanese yen.

European Association of Securities Dealers Automated Quotation (EASDAQ)

European equivalent of NASDAQS.

European Central Bank (ECB)

Bank created to monitor the monetary policy of the 11 countries that have converted to the Euro from their local currencies. The 11 countries are: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain.

European Currency Unit (ECU)

An index of foreign exchange consisting of European currencies, originally devised in 1979. See also: Euro.

European option

Option that may be exercised only at the expiration date. Related: American option.

European-style exercise

A method of exercising options contracts in which the buyer can exercise the contract on the last day before expiration.

European-style option

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

Evaluation period

The time interval over which funds assess a money manager's performance.

Event risk

The risk that the ability of an issuer to make interest and principal payments will change because of rare, discontinuous, and very large, unanticipated changes in the market environment such as (1) a natural or industrial accident or some regulatory change or (2) a takeover, or corporate restructuring.

Ex ante return

The expected return or anticipated return of an asset or portfolio.

Ex-dividend

This literally means "without dividend." The buyer of shares when they are quoted ex-dividend is not entitled to receive a declared dividend. It is the interval between the record date and the payment date during which the stock trades without its dividend-the buyer of a stock selling ex-dividend does not receive the recently declared dividend. Antithesis of cum dividend (with dividend).

Ex-dividend date

The first day of trading when the seller, rather than the buyer, of a stock will be entitled to the most recently announced dividend payment. The date set by the NYSE (and generally followed on other U.S. exchanges) is currently two business days before the record date. A stock that has gone ex-dividend is denoted by an x in newspaper listings on that date.

Ex-legal

A municipal bond offered without a law firm's legal opinion. As the majority of bonds are issued with legal opinions.

Ex-pit transaction

The purchase of commodities off the exchange's floor.

Exact interest

Interest paid based on the basis of a 365-day/year schedule by a bank or other financial institution as opposed to a 360-day basis (ordinary interest). Difference can be material when large principal sums of money are involved.

Exact matching

A bond portfolio management strategy that involves finding the lowest cost portfolio generating cash inflows exactly equal to cash outflows that are being financed by investment.

Except for opinion

An auditor's opinion reflecting the fact that the auditor is unable to audit certain areas of the company's operations because of restrictions imposed by management or other conditions beyond the auditor's control.

Excess kurtosis

Kurtosis measures the "fatness" of the tails of a distribution. Excess kurtosis means that distribution has fatter tails than a normal distribution. Fat tails means there is a higher than normal probability of big positive and negative returns realizations.

Excess margin

Equity present in an individual's account above the legal minimum required for a margin account or the maintenance requirement at a brokerage firm.

Exchange

A marketplace in which shares, options and futures on stocks, bonds, commodities, and indexes are traded. Principal U.S. stock exchanges are: New York Stock Exchange (NYSE), American Stock Exchange (AMEX), and National Association of Securities Dealers Automatic Quotation System (NASDAQ).

Exchange rate

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

Exchange rate risk

Also called currency risk; the risk that an investment's value will change because of currency exchange rates.

Exchange risk

The variability of a firm's value that results from unexpected exchange rate changes, or the extent to which the present value of a firm is expected to change as a result of a given currency's appreciation or depreciation.

Exchangeable

Applies mainly to convertible securities. Means the issuer, if so stated, may substitute a convertible debenture for an existing convertible preferred with identical terms. Most often used when a corporation has an immediate need for equity capital and a low tax rate, and expects either or both conditions to change. This would make the debenture less attractive if the interest tax-deductibility is lost.

Execution

The process of completing an order to buy or sell securities. Once a trade is executed, it is reported by a Confirmation Report; settlement (payment and transfer of ownership) occurs in the U.S. between one (mutual funds) and five (stocks) days after an order is executed. Settlement times for exchange-listed stocks are in the process of being reduced to three days in the U. S. The time varies greatly across countries. In France, for example settlements are only once per month.

Execution costs

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

Exercise

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

Exercise limit

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

Exercise price

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

Exercise value

The amount of advantage over a current market transaction provided by an in-the-money option.

Exercising the option

The act of buying or selling the underlying asset via the option contract.

Exogenous variable

A variable whose value is determined outside the model in which it is used. Related: Endogenous variable

Exotic option

Refers to options that are more complex than simple puts or call options. For example, a Caput is a call option on a put option.

Expected dividend yield

Total amount of dividends received during the life of a futures contract or total dividends received for holding a particular stock one year. See: Current yield.

Expected future cash flows

Projected future cash flows associated with an asset.

Expected future return

The return that is expected to be earned on an asset in the future. Also called the expected return.

Expected return

The expected return on a risky asset, given a probability distribution for the possible rates of return. Expected return equals some risk-free rate (generally the prevailing U.S. Treasury note or bond rate) plus a risk premium (the difference between the historic market return, based upon a well diversified index such as the S&P 500 and the historic U.S. Treasury bond) multiplied by the assets beta. The conditional expected return varies through time as a function of current market information.

Expected value

The weighted average of a probability distribution. Also known as the mean value.

Expense ratio

The percentage of the assets that are spent to run a mutual fund (as of the last annual statement). This includes expenses such as management and advisory fees, overhead costs, and 12b-1 (distribution and advertising) fees. The expense ratio does not include brokerage costs for trading the portfolio, although these are reported as a percentage of assets to the SEC by the funds in a Statement of Additional Information (SAI). The SAI is available to shareholders on request. Neither the expense ratio nor the SAI includes the transactions costs of spreads, normally incurred in unlisted securities and foreign stocks. These two costs can add significantly to the reported expenses of a fund. The expense ratio is often termed an Operating Expense Ratio (OER).

Expensed

Charged to an expense account, fully reducing reported profit of that year, as is appropriate for expenditures for items with useful lives under one year.

Experience rating

A technique insurance companies use to determine the correct price of a policy premium.

Expiration

The time an option contract lapses.

Expiration cycle

Dates on which options on a particular security expire. A given option will be placed in one of three cycles; the January cycle, the February cycle, or the March cycle. At any time, an option has contracts with four expiration dates outstanding: two in near-term months and two in far-term months. Last day on which an option may be exercised.

Expiration date

The last day (in the case of American-style) or the only day (in the case of European-style) on which an option may be exercised. For stock options, this date is the Saturday immediately following the third Friday of the expiration month; brokerage firms may set an earlier deadline for notification of an option holder's intention to exercise. If Friday is a holiday, the last trading day will be the preceding Thursday.

Extendable bond

Bond whose maturity can be extended at the option of the lender or issuer.

Extendable notes

Note with maturity that can be extended by mutual agreement between the issuer and investors.

Extension date

The day on which the first option either expires or is extended.

Extension swap

Extending maturity through a swap, e.g. selling a 2-year note and buying one with a slightly longer current maturity.

External market

Also referred to as the international market, the offshore market, or, more popularly, the Euromarket. A mechanism for trading securities that at issuance (1) are offered simultaneously to investors in a number of countries and (2) are issued outside the jurisdiction of any single country. Related: Internal market.

Extrapolative statistical models

Models that apply a formula to historical data and project results for a future period. Such models include the simple linear trend model, the simple exponential model, and the simple autoregressive model.

F

Face value

See: Par value

Factor analysis

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

Factor model

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

Factor portfolio

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

Fade

Refers to over-the-counter trading. Fill another OTC dealer's bid for or offer of stock.

Fail

A deal is said to fail if on the settlement date either the seller does not deliver securities in proper form or the buyer does not to deliver funds in proper form.

Fair game

An investment prospect that has a zero risk premium.

Fair market price

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

Fair price

The equilibrium price for futures contracts. Also called the theoretical futures price, which equals the spot price continuously compounded at the cost of carry rate for some time interval.

Fair rate of return

The rate of return that state governments allow a public utility to earn on its investments and expenditures. Utilities then use these profits to pay investors and provide service upgrades to their customers.

Fair value

In the context of futures, the equilibrium price for futures contracts. Also called the theoretical futures price, which equals the spot price continuously compounded at the cost of carry rate for some time interval. More generally, fair value for any asset simply refers to the perception that it is neither under priced (too cheap) nor overpriced (too expensive).

Fallen angels

Bonds that at the time of issue were considered investment grade but that have dropped below that rating over time.

FIFO

See: First in, first out

Figure

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

Financial analysis

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

Financial analysts

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

Financial engineering

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

Financial future

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

Financial market

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

Financial position

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

Financial risk

The risk that the cash flow of an issuer will not be adequate to meet its financial obligations. Also referred to as the additional risk that a firm's stockholder bears when the firm uses debt and equity.

Financing decisions

Decisions concerning the liabilities and stockholders' equity side of the firm's balance sheet, such as a decision to issue bonds.

First preferred stock

A type of preferred stock that has priority over other preferred issues and common stock when claiming dividends and assets.

Fiscal year (FY)

Accounting period covering 12 consecutive months over which a company determines earnings and profits. The fiscal year serves as a period of reference for the company and does not necessarily correspond to the calendar year.

Fixed exchange rate

A country's decision to tie the value of its currency to another country's currency, gold (or another commodity), or a basket of currencies.

Fixed income equivalent

Also called a busted convertible. Convertible security that is trading like a straight security because the optioned common stock is trading well below the conversion price.

Fixed income instruments

Assets that pay a fixed dollar amount, such as bonds and preferred stock.

Fixed income market

The market for trading bonds and preferred stock.

Fixed premium

Payments of a fixed, equal amounts paid to an insurance company for insurance or an annuity.

Flat

Convertibles: Earning interest on the date of payment only.

General: Having neither a short nor a long position in a stock. Clean.

Market: Characterized by horizontal price movement, usually the result of low activity.

Equities: To execute without commission or markup.

Flat price (also clean price)

The quoted newspaper price of a bond that does not include accrued interest. The price paid by the purchaser is the full price.

Flat price risk

Taking a position either long or short that does not involve spreading.

Float

Currency: Exchange rate policy that does not limit the range of the market rate.
Equities: Number of shares of a corporation that are outstanding and available for trading by the public, excluding insiders or restricted stock on a when-issued basis. A stock's volatility is inversely correlated to its float.

Floater
A bond whose interest rate varies with the interest rate of another debt instrument, e.g., a bond that has the interest rate of the Treasury bill +.25%.

Floating debt
Short-term debt that is renewed and refinanced constantly to fund capital needs of a firm or institution.

Floating exchange rate
A country's decision to allow its currency value to change freely. The currency is not constrained by central bank intervention and does not have to maintain its relationship with another currency in a narrow band. The currency value is determined by trading in the foreign exchange market.

Floating-rate contract
An guaranteed investment instrument whose interest payment is tied to some variable (floating) interest rate benchmark, such as a specific-maturity Treasury yield.

Floating-rate note (FRN)
Note whose interest payment varies with short-term interest rates.

Floating securities
Securities bought in a broker's name and resold quickly to attain a profit in a short amount of time.

Floating supply
The aggregate of securities believed to be available for immediate purchase, that is, in the hands of dealers and investors wanting to sell.

Floor
The area of a stock exchange where active trading occurs. Also the price at which a stop order is activated (when the price drops low enough to activate such an order).

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

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

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

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

Foreign exchange
Currency of another country. Abbreviated Forex.

Forex
See: Foreign exchange

Forward
See: Forward contract

Forward contract
A contract that specifies the price and quantity of an asset to be delivered on in the future. Forward contracts are not standardized and are not traded on organized exchanges

Forward delivery
A transaction in which the settlement will occur on a specified date in the future at a price agreed upon on the trade date.

Forward differential
Annualized percentage difference between spot and forward rates.

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

Forward exchange rate
Exchange rate fixed today for exchanging currency at some future 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 interest rate**
Interest rate fixed today on a loan to be made at some future date.
- Forward rate**
A projection of future interest rates calculated from either spot rates or the yield curve.
- Forward rate agreement (FRA)**
Agreement to borrow or lend at a specified future date at an interest rate that is fixed today.
- Frankfurt Stock Exchange**
The largest of Germany's eight securities exchanges, operated by Deutsche Börse AS.
- Free delivery**
Securities industry procedure whereby delivery of securities sold is made to the buying customer's bank without requiring immediate payment; thus a credit agreement of sorts. Antithesis of delivery vs. payment.
- Free float**
An exchange rate system characterized by the absence of government intervention. Also known as clean float.
- Free stock**
A stock that is paid for in full and is not pledged in any way as collateral.
- Front office**
Refers to revenue generating sales personnel in a brokerage, insurance, or other financial services operation.
- Full coupon bond**
A bond with a coupon equal to the going market rate; the bond is therefore selling at par.
- Full price**
Also called dirty price; the price of a bond including accrued interest. Related: Flat price.
- Future**
A term used to designate all contracts covering the sale of financial instruments or physical commodities for future delivery on a commodity exchange.
- Futures**
A term used to designate all contracts covering the sale of financial instruments or physical commodities for future delivery on a commodity exchange.
- Futures contract**
Agreement to buy or sell a set number of shares of a specific stock in a designated future month at a price agreed upon today by the buyer and seller. The contracts themselves are often traded on the futures market. A futures contract differs from an option because an option is the right to buy or sell, while a futures contract is the promise to actually make a transaction. A future is part of a class of securities called derivatives, so named because such securities derive their value from the worth of an underlying investment.
- Futures market**
A market where contracts for future delivery of a commodity or a security are bought or sold.
- Futures option**
An option on a futures contract. Related: Options on physicals.
- Futures price**
The price at which parties to a futures contract agree to transact upon the settlement date.
- Future value**
The amount of cash at a specified date in the future that is equivalent in value to a specified sum today.

G

- Gain**
A profit on a securities transaction recognized by selling a security for more than the security originally cost. The gain is the difference between the cost and the sale.

Gamma

The ratio of a change in the option delta to a small change in the price of the asset on which the option is written.

Garman-Kohlhagen option pricing model

A model widely used to price foreign currency options.

Gilts

British and Irish government securities. Blue Chip.

Government bond

See: Government securities

Government obligations

U.S. government-backed debt instruments, which are considered among the safest investments possible, including Treasury bonds, bills, and notes, and savings bonds.

Government securities

Negotiable U.S. Treasury securities.

H

Haircut

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

Hedge

A transaction that reduces the risk of an investment.

Hedge clause

A clause in a research report or any published document, that attempts to absolve the writer of responsibility for the accuracy of information provided.

Hedge fund

A fund that may employ a variety of techniques to enhance returns, such as both buying and shorting stocks according to a valuation model.

Hedge ratio (delta)

For options, ratio between the change in an option's theoretical value and the change in price of the underlying stock at a given point in time. For convertibles, percentage of a convertible bond representing the number of underlying common shares sold against the shares into which bonds are convertible. If a preferred is convertible into 2000 common shares, a 75% hedge ratio would be short (long) 1500 common for every 1000 preferred long (short). See: Delta.

Hedge wrapper

An options strategy in which an investor with a long position in an underlying stock buys an out-of-the-money put and sells an out-of-the-money call. The hedge wrapper defines a range where the stock will be sold at expiration of the option, which way the stock moves.

Hedged portfolio

A portfolio consisting of a long position in the stock and a long position in the put option on the stock, so as to be riskless and produce a return that equals the risk-free interest rate.

Hedged tender

An investor sells a portion of a stock holding short a tender offer in the event all shares tendered are not accepted. For example, investor Q has 5000 shares of XYZ. An acquiring company makes a tender offer of \$100 a share when the shares are currently worth \$80. Investor Q short-sells 2500 shares after the announcement and the price of the stock has approached \$100. Company XYZ purchases only 2500 of the original shares at \$100. Investor Q has sold all shares at \$100 even as the price of the stock drops on a post-news dip.

Hedgie

Slang for a hedge fund.

Hedging

A strategy designed to reduce investment risk using call options, put options, short-selling, or futures contracts. A hedge can help lock in profits. Its purpose is to reduce the volatility of a portfolio by reducing the risk of loss.

Helsinki Exchanges (HEX)

The Helsinki Exchanges (HEX Ltd., Helsinki Securities and Derivatives Exchange and Clearing House) was formed at the beginning of 1998 following the merger of the Helsinki Stock Exchange Ltd. and SOM Ltd., the Securities and Derivatives Exchange, and the Clearing House.

HIBOR

Hong Kong Interbank Offer Rate, the annualized offer rate banks pay to attain Hong Kong three-month deposits in denominated dollars.

High-grade bond

A bond with Triple-A or Double-A rating in Standard & Poor's, or Moody's rating system.

High price

The highest (intraday) price of a stock over the past 52 weeks, adjusted for any stock splits.

Historical yield

A measure of a mutual fund's yield over a specific period of time, e.g., 1 year, 2 year, 5 year, or year to date.

Hold

To maintain ownership of a security over a long period of time. "Hold" is also a recommendation of an analyst who is not positive enough on a stock to recommend a buy, but not negative enough on the stock to recommend a sell.

Holding period

Length of time a security is held.

I**I-bonds**

Treasury savings bonds with a 30-year maturity indexed to account for inflation.

Implied call

The right of the homeowner to prepay, or call, a mortgage at any time.

Implied repo rate

The rate that a seller of a futures contract can earn by buying an issue and then delivering it at the settlement date. Related: Cheapest to deliver issue.

Implied volatility

The expected volatility in a stock's return derived from its option price, maturity date, exercise price, and riskless rate of return, using an option pricing model such as Black-Scholes.

Imputed interest

Used in accounting to refer to interest that has effectively been paid to a bondholder, even though no money has actually been paid.

In the box

Means that a dealer has a wire receipt for securities, indicating that effective delivery on them has been made.

In the middle

Used in the context of general equities. At a price exactly in between the bid and offer prices.

In-the-money

A put option that has a strike price higher than the underlying futures price, or a call option with a strike price lower than the underlying futures price. For example, if the March COMEX silver futures contract is trading at \$6 an ounce, a March call with a strike price of \$5.50 would be considered in the money by \$0.50 an ounce. Related: Put. Antithesis of out-of-the-money.

In & out

Refers to over-the-counter trading. Trade in which the trader has both the buyers and sellers lined up for a clean trade. See: Cross

Income bond

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

Index

Statistical composite that measures changes in the economy or in financial markets, often expressed in percentage changes from a base year or from the previous month. Indexes measure the ups and downs of stock, bond, and some commodities markets, in terms of market prices and weighting of companies the index.

Index arbitrage

An investment/trading strategy that exploits divergences between actual and theoretical futures prices. An example is the simultaneous buying (selling) of stock index futures (i.e., S&P 500) while selling (buying) the underlying stocks of that index, capturing as profit the temporarily inflated basis between these two baskets. Often, the point at which profitability exists is expressed at the block call as the number of points the future must be over or under the underlying basket for an arbitrage opportunity to exist. See: Program trading.

Index fund

Investment fund designed to match the returns on a stock market index. Mutual fund whose portfolio matches that of a broad-based index such as the S&P 500 and whose performance therefore mirrors the market as represented by that index.

Index model

A model of stock returns using a market index such as the S&P 500 to represent common or systematic risk factors.

Index option

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

Index warrant

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

Indexed bond

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

Indexing

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

Indicator

Used in the context of general equities. Technical or fundamental measurement that securities analysts use to forecast the market's direction, such as investment advisory sentiment, volume of stock trading, direction of interest rates, and buying or selling by corporate insiders.

Inflation

The rate at which the general level of prices for goods and services is rising.

Inflation hedge

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

Inflation-indexed securities

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

Inflation risk

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

Infrastructure

A country's fundamental system of transportation, communications, and other aspects of its physical capabilities.

Initial margin

(1) Amount of money deposited by both buyers and sellers of futures contracts to ensure performance of the terms of the contract; (2) amount of cash or eligible securities required to be deposited with a broker before engaging in margin transactions.

Initial margin requirement

When buying securities on margin, the proportion of the total market value of the securities that the investor must pay for in cash. The Security Exchange Act of 1934 gives the Board of Governors of the Federal Reserve the responsibility to set initial margin requirements, but individual brokerage firms are free to set higher requirements. In futures contracts, initial margin requirements are set by the exchange.

Instruments

Financial securities, such as money market instruments or capital market instruments.

Insurance

Guarding against property loss or damage making payments in the form of premiums to an insurance company, which pays an agreed-upon sum to the insured in the event of loss.

Interbank rate

See: LIBOR

Interest

The price paid for borrowing money. It is expressed as a percentage rate over a period of time and reflects the rate of exchange of present consumption for future consumption. Also, a share or title in property.

Interest rate

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

Interest rate agreement

An agreement whereby one party, for an up-front premium, agrees to compensate the other at specific time periods if a designated interest rate (the reference rate) is different from a predetermined level (the strike rate).

Interest rate cap

An interest rate agreement in which payments are made when the reference rate exceeds the strike rate. Also called an interest rate ceiling.

Interest rate on debt

The firm's cost of debt capital.

Interest rate ceiling

See: Interest rate cap

Interest rate floor

An interest rate agreement in which payments are made when the reference rate falls below the strike rate. Related: Interest rate cap.

Interest rate futures contract

A futures contract based on an interbank deposit rate or an underlying debt security. The value of the contract rises and falls inversely to changes in interest rates.

Interest rate parity theorem

Expression that the interest rate differential between two countries is equal to the difference between the forward foreign exchange rate and the spot rate.

Interest rate risk

The chance that a security's value will change due to a change in interest rates. For example, a bond's price drops as interest rates rise. For a depository institution, also called funding risk: The risk that spread income will suffer because of a change in interest rates.

Interest rate swap

A binding agreement between counterparties to exchange periodic interest payments on some predetermined dollar principal, which is called the notional principal amount. For example, one party will pay fixed and receive variable.

Internal market

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

Interpolation

A method of approximating a price or yield that is unknown by using numbers that are known.

Intraday

Term meaning "within the day," often to refer to the high and the low price of a stock.

Intrinsic value of an option

The amount by which an option is in the money. An option that is not in the money has no intrinsic value.

Inverse floater

A derivative instrument whose coupon rate is linked to the market rate of interest in an inverse relationship.

Inverse floating-rate note

A variable-rate security whose coupon rate increases as a benchmark interest rate declines.

Inverted yield curve

When short-term interest rates are higher than long-term rates. Antithesis of positive yield curve.

Investment bank

Financial intermediaries who perform a variety of services, including aiding in the sale of securities, facilitating mergers and other corporate reorganizations, acting as brokers to both individual and institutional clients, and trading for their own accounts. See: Underwriters.

Investment strategy

A strategy, or plan of attack, an investor uses when deciding how to allocate capital among several options including stocks, bonds, cash equivalents, commodities, and real estate. The strategy should take into account the investor's tolerance for risk as well as future needs for capital.

Issue

A particular financial asset.

Issuer

An entity that puts a financial asset in the marketplace.

J

Joint bond

A bond that is guaranteed by the issuer and a party other than the issuer.

Joint clearing members

Firms that clear on more than one exchange.

Joint venture

An agreement between two or more firms to undertake the same business strategy and plan of action.

Junk bond

A bond with a speculative credit rating of BB (S&P) or Ba (Moody's) or lower. Junk or high-yield bonds offer investors higher yields than bonds of financially sound companies. Two agencies, Standard & Poors and Moody's Investor Services, provide the rating systems for companies' credit.

Justified price

The fair market price of an asset.

K

Kappa

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

Knock-out option

An option that- is worthless at expiration if the underlying commodity or currency price reaches a specific price level.

Kurtosis.

Measures the fatness of the tails of a probability distribution. A fat-tailed distribution has higher-than-normal chances of a big positive or negative realization. Kurtosis should not be confused with skewness, which measures the fatness of one tail. Kurtosis is sometimes referred to as the volatility of volatility.

L

LIBOR

See: London Interbank Offered Rate

LIFFE

See: London International Financial Futures Exchange

LIFO

See: Last in, first out

Ladder strategy

A bond portfolio construction strategy that invests approximately equal amounts in every maturity within a given range.

Laissez-faire

Doctrine that a government should not interfere with business and economic affairs.

Lambda

The ratio of a change in the option price to a small change in the option volatility. It is the partial derivative of the option price with respect to the option volatility.

Lapsed option

An option that no longer has any value because it has reached its expiration date without being exercised.

Large-cap

A stock with a high level of capitalization, usually at least \$5 billion market value.

Law of large numbers

The mean of a random sample approaches the mean (expected value) of the population as sample size increases.

Leg

A prolonged trend in stock market prices, such as a multiple-period bull market; or, an option that is one side of a spread transaction. See: Lifting a leg.

Legal capital

Value at which a company's shares are recorded in its books.

Letter of intent

An assurance by a mutual fund shareholder that a certain amount of money will be invested monthly, in exchange for lower sales charges. In mergers, a preliminary merger agreement between companies after significant negotiations.

Liability

A financial obligation, or the cash outlay that must be made at a specific time to satisfy the contractual terms of such an obligation.

Liability swap

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

Linear programming

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

Linear regression

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

Liquid asset

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

Liquid yield option note (LYON)

Zero-coupon, callable, puttable, convertible bond developed by Merrill Lynch & Co.

Liquidation

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

Liquidity

A high level of trading activity, allowing buying and selling with minimum price disturbance. Also, a market characterized by the ability to buy and sell with relative ease. Antithesis of illiquidity.

Liquidity diversification

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

Liquidity premium

Forward rate minus expected future short-term interest rate.

Liquidity ratios

Ratios that measure a firm's ability to meet its short-term financial obligations on time, such as the ratio of current assets to current liabilities.

Liquidity risk

The risk that arises from the difficulty of selling an asset in a timely manner. It can be thought of as the difference between the "true value" of the asset and the likely price, less commissions.

Liquidity theory of the term structure

A biased expectations theory that asserts that the implied forward rates will not be a pure estimate of the market's expectations of future interest rates because they embody a liquidity premium.

Lisbon Stock Exchange (LSE)

Stock exchange trading stocks, bonds, and unit trusts. The BVL general index is the exchange's official index.

Lock-up CDs

CDs that are issued with the tacit understanding that the buyer will not trade the certificate. Quite often, the issuing bank will insist that it hold the certificate for safekeeping by it to ensure that the buyer holds the understanding.

Lock-up option

Often used in risk arbitrage. Privilege offered a white knight (friendly acquirer) by a target company to buy crown jewels or additional equity. The aim is to discourage a hostile takeover. See: Shark repellent.

Log-linear least-squares method

A statistical technique for fitting a curve to a set of data points. One of the variables is transformed by taking its logarithm, and then a straight line is fitted to the transformed set of data points.

Lognormal distribution

Pattern of frequency of occurrence in which the logarithm of the variable follows a normal distribution. Lognormal distributions are used to describe returns calculated over periods of a year or more.

London Commodity Exchange (LCE)

Merged with the London International Financial Futures and Options Exchange in 1996.

London Interbank Offered Rate (LIBOR)

The rate of interest that major international banks in London charge each other for borrowings. Many variable interest rates in the U.S. are based on spreads off LIBOR. By contrast with the bid rate LIBID quoted by banks seeking such deposits.

London International Financial Futures Exchange (LIFFE)

A London exchange where Eurodollar futures as well as futures-style options are traded.

London Metal Exchange (LME)

A market for trading base metals, where traded options contracts are available against the underlying futures contract.

London Stock Exchange (LSE)

The U.K.'s six regional exchanges joined together in 1973 to form the stock exchange of Great Britain and Ireland, later named the LSE. The FTSE 100 index (known as the footsie) is its dominant index.

Long

One who has bought a contract to establish a market position and who has not yet closed out this position through an offsetting sale; the opposite of short.

Long bonds

Bonds with a long current maturity. The "long bond" is the 30-year U.S. Treasury bond.

Long coupons

(1) Bonds or notes with a long current maturity. (2) A bond on which one of the coupon periods, usually the first, is longer than the other periods or the standard period.

Long hedge

The purchase of a futures contract in anticipation of actual purchases in the cash market. Used by processors or exporters as protection against an advance in the cash price. Related: hedge, short hedge

Long leg

The part of an option spread in which an agreement to buy the underlying security is made.

Long position

Owning or holding options (i.e., the number of contracts bought exceeds the number of contracts sold). For equities, a long position occurs when an individual owns securities. An owner of 1,000 shares of stock is said to be "Long the stock." Related: Short position.

Long straddle

Taking a long position in both a put and a call option.

Lookback option

An option that allows the buyer to choose as the option strike price any price of the underlying asset that has occurred during the life of the option. For a call option, the buyer will choose the minimum price; for a put option, the buyer will choose the maximum price. This option will always be in the money.

Loss

The opposite of profit.

M

Macaulay duration

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

Madrid Stock Exchange (Bolsa de Madrid)

The largest of Spain's four stock exchanges.

Maintenance fee

A yearly charge to maintain brokerage accounts, such as asset management accounts or IRAs.

Maintenance margin requirement

A sum, usually smaller than but part of the original margin, that must be maintained on deposit at all times. If a customer's equity in any futures position drops to or below, the maintenance margin level, the broker must issue a margin call for the amount at money required to restore the customer's equity in the account to the original margin level. Related: Margin, margin call.

Make a market

Dealers are said to make a market when they quote bid and offered prices at which they stand ready to buy and sell.

Malaysia Commodity Exchange

A subsidiary of the KLSE that trades interest rate futures on the three-month Kuala Lumpur Interbank offered rate.

Management

The people who administer a company, create policies, and provide the support necessary to implement the owners' business objectives.

Mandatory convertibles

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

Margin

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

Margin account (stocks)

A leverageable account in which stocks can be purchased for a combination of cash and a loan. The loan in the margin account is collateralized by the stock; if the value of the stock drops sufficiently, the owner will be asked to either put in more cash, or sell a portion of the stock. Margin rules are federally regulated, but margin requirements and interest may vary among broker/dealers.

Margin agreement

The agreement governing customers' margin accounts.

Margin call

A demand for additional funds because of adverse price movement. Maintenance margin requirement, security deposit maintenance.

Margin requirement (options)

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

Margin security

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

Marginal

Incremental.

Marginal cost

The increase or decrease in a firm's total cost of production as a result of changing production by one unit.

Mark-to-market

Adjustment of the book value or collateral value of a security to reflect current market value.

Marked-to-market

An arrangement whereby the profits or losses on a futures contract are settled each day.

Market

Usually refers to the equity market. "The market went down today" means that the value of the stock market dropped that day.

Market price

The last reported price at which a security was traded on an exchange.

Market price of risk

A measure of the extra return, or risk premium, that investors demand to bear risk. The reward-to-risk ratio of the market portfolio.

Market risk

Risk that cannot be diversified away. Related: Systematic risk

Market sectors

The classifications of bonds by issuer characteristics, such as state government, corporate, or utility.

Market value

(1) The price at which a security is trading and could presumably be purchased or sold. (2) What investors believe a firm is worth; calculated by multiplying the number of shares outstanding by the current market price of a firm's shares.

Markowitz diversification

A strategy that seeks to combine in a portfolio assets with returns that are less than perfectly positively correlated, in an effort to lower portfolio risk (variance) without sacrificing return. Related: Naive diversification.

Markowitz efficient frontier

The graphical depiction of the Markowitz efficient set of portfolios representing the boundary of the set of feasible portfolios that have the maximum return for a given level of risk. Any portfolios above the frontier cannot be achieved. Any below the frontier are dominated by Markowitz efficient portfolios.

Markowitz efficient portfolio

Also called a mean-variance efficient portfolio, a portfolio that has the highest expected return at a given level of risk.

Markowitz efficient set of portfolios

The collection of all efficient portfolios, which can be graphed as the Markowitz efficient frontier.

Matched maturities

The coordination by a financial institution of the maturities of its assets (loans) and liabilities (deposits) in order to enable it to meet its obligations at the required times.

Matched orders

Used for listed equity securities. Participate in equal amounts of a trade at a certain price, particularly when two parties have the same level of priority on the exchange floor (this requires standing in the trading crowd).

Matched sale transaction

Applies mainly to convertible securities. Procedure whereby the Federal Reserve Bank of New York sells government securities to a nonbank dealer against payment in federal funds. The agreement requires the dealer to sell the securities back by a specified date, which ranges from 1 to 15 days. The Fed pays the dealer a rate of interest equal to the discount rate. These transactions, also called reverse repurchase agreements, decrease the money supply for temporary periods by reducing dealers' bank balances and thus excess reserves.

Matrix trading
Swapping bonds in order to take advantage of temporary differences in the yield spread between bonds with different ratings or different classes.

Mature
To cease to exist; to expire.

Mature economy
The economy of a nation with a stable population and slowing economic growth.

Maturity
For a bond, the date on which the principal is required to be repaid. In an interest rate swap, the date that the swap stops accruing interest.

Maturity date
Usually used for bonds. Date that the bond finishes and is paid off. Date on which the principal amount of a note, draft, acceptance, bond, or other debt instrument becomes due and payable.

Maturity spread
The difference in returns between bonds of different time lengths.

Maturity value
Related: Par value

Mean
The expected value of a random variable. Arithmetic average of a sample.

Mean-variance analysis
Evaluation of risky prospects based on the expected value and variance of possible outcomes.

Medium-term bond
A bond maturing in two to ten years.

Medium-term note
A corporate debt instrument that is continuously offered to investors over a period of time by an agent of the issuer. Investors can select from maturity bands of: 9 months to 1 year, more than 1 year to 18 months, more than 18 months to 2 years, etc., up to 30 years.

Meff Renta Fija
The derivatives exchange in Barcelona, Spain, listing futures and options on fixed interest securities and on interest rates, including the MIBOR (Madrid Interbank Offered Rate).

Member bank
A national- or state-chartered bank that is a member of the Federal Reserve System.

Mercantile agency
An organization that supplies credit ratings and reports on firms that are prospective customers.

Mercato Italiano Futures (MIF)
The Italian futures market trading Italian Treasury bond (BTF) futures.

Merger
(1) Acquisition in which all assets and liabilities are absorbed by the buyer. (2) More generally, any combination of two companies. The firm's activity in this respect is sometimes called M&A (merger and acquisition)

Mexican Stock Exchange
The only stock exchange in Mexico. The Indice de Precios y Cotizaciones, or IPC index, consists of the 35 most representative stocks chosen every two months.

Microeconomics
Analysis of the behavior of individual economic units such as companies, industries, or households.

Midcap
A stock with a capitalization of usually between \$1 billion and \$5 billion.

Milan Stock Exchange

The largest regional stock exchange in Italy, facilitating more than 90% of the country's trading volume.

Modified duration

The ratio of Macaulay duration to $(1 + y)$, where y = the bond yield. Modified duration is inversely related to the approximate percentage change in price for a given change in yield.

Momentum

The amount of acceleration of an economic, price, or volume movement. A trader who follows a movement strategy will purchase stocks that have recently risen in price.

Monetary indicators

Economic indicators of the effects of monetary policy, such as the condition of the credit market.

Money

Currency and coin that are guaranteed as legal tender by the government.

Money base

Composed of currency and coins outside the banking system plus liabilities to the deposit money banks.

Money market

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

Money market hedge

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

Money market notes

Publicly traded issues that may be collateralized by mortgages and mortgage backed securities (MBS).

Money purchase plan

A defined benefit contribution plan in which the participant contributes some part and the firm contributes at the same or a different rate. Also called an individual account plan.

Money rate of return

Annual money return as a percentage of asset value.

Monopoly

Market characterized by absolute control of all sales and distribution in the market by one firm, due to some barrier to entry of other firms, allowing the firm to sell at a higher price than the societally optimal price.

Monte Carlo simulation

An analytical technique for solving a problem by performing a large number of trial runs, called simulations, and deducing a solution from the collective results of the trial runs. Method for calculating the probability distribution of possible outcomes.

Montreal Exchange/Bourse de Montreal

The oldest stock exchange in Canada trading stocks, bonds, futures, and options. The Canadian Market Portfolio Index (XXM) tracks the market performance of the 25 highest-capitalization stocks traded on at least two Canadian exchanges.

Mortgage

A loan secured by the collateral of some specified real estate property that obliges the borrower to make a predetermined series of payments.

Mortgage-backed securities (MBS)

Investment instruments backed by a pool of mortgage loans.

Mortgage bond

A bond whose issuer has granted bondholders a lien against pledged assets. See: Collateral trust bonds.

Mortgage broker

A company or individual that places mortgage loans with lenders, but does not originate or service loans like a mortgage banker.

Mortgage duration

A modification of standard duration to account for the impact on duration of MBS of changes in prepayment speed resulting from changes in interest rates.

Mortgage interest deduction

A federal tax deduction for interest paid on a mortgage used to acquire, construct, or improve a residence.

Mortgagee

The lender of a loan secured by property.

Moscow Interbank Currency Exchange (MICEX)

Established in 1992, the most liquid and best organized financial exchange in Russia.

Moving average

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

Multiplier

In the case of an investment a factor that quantifies the overall effects of investment spending on total income. In the case of deposit, a factor that shows the effects of a change in bank deposits on the total amount of outstanding credit and the money supply.

Municipal bond

Represents borrowing by state or local governments to pay for special projects such as highways or sewers. The interest that investors receive is exempt from some income taxes.

Municipal notes

Short-term notes issued by municipalities in anticipation of tax receipts, proceeds from a bond issue, or other revenues.

Municipal revenue bond

A bond issued to finance a public project that is funded by receipts from the project's operation.

Mutual fund

Mutual funds are pools of money that are managed by an investment company and regulated by the Investment Company Act of 1940. They offer investors a variety of goals, depending on the fund and its investment charter. Some funds seek to generate income on a regular basis. Others seek to preserve an investor's money. Still others seek to invest in companies that are growing at a rapid pace. Funds can impose a sales charge, or load, on investors when they buy or sell shares. No-load funds impose no sales charge. Related: Open-end fund, closed-end fund.

N

NASDAQ

See: National Association of Securities Dealers Automatic Quotation System

NYSE

See: New York Stock Exchange

Naive diversification

A strategy whereby an investor simply invests in a number of different assets in the hope that the variance of the expected return on the portfolio is lowered. In contrast, mathematical programming can be used to select the best possible investment weights. Related: Markowitz diversification.

Naked option strategies

An unhedged strategy making exclusive use of one of the following: Short call strategy (selling or writing call options), and short put strategy (selling or writing put options). By themselves, these positions are called naked strategies because they do not involve an offsetting or risk-reducing position in another option or the underlying security. Related: Covered option strategies.

Antithesis of covered option.

Naked strategies

Writing an option without owning the underlying asset. Holder is naked because holder may have agreed to sell something not owned.

Narrow market

An inactive market, which displays large fluctuations in prices due to a low volume of trading.

National bank

A commercial bank approved by the U.S. Comptroller of the Currency, which is required to be a member of and purchase stocks in the Federal Reserve System.

National Stock Exchange (NSE)

Second-largest stock exchange based in India.

Nationalization

A government takeover of a private company.

Negative convexity

A bond characteristic such that the price appreciation will be less than the price depreciation for a large change in yield of a given number of basis points. For example, a fixed-rate mortgage may lose value as rates go down because of prepayments.

Negative duration

Occurs when the price of an MBS moves in the same direction as interest rates.

Negative yield curve

When the yield on a short-term security is higher than the yield on a long-term security, partially because high interest rates are creating a greater demand for short-term borrowing.

Net

The gain or loss on a security sale as measured by the selling price of a security less the adjusted cost of acquisition.

Net adjusted present value

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

Net income per share of common stock

See: Earnings per share

Net period

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

Net position

The value of the position subtracting the initial cost of setting up the position. For example, if 100 options were purchased for \$1 each and the option is currently trading for \$9, the value of the net position is $\$900 - \$100 = \$800$.

Netting

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

Neutral hedge

Hedge that is expected to yield a dollar-neutral result of the combined position, regardless of price change in any part of the hedge securities. For any convertible trading at a premium, this ratio is less than 100%. The higher the convertible premium, the lower a ratio must be to be neutral. See: Delta.

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 York Cotton Exchange (NYCE)

Commodities exchange in New York trading futures and options on cotton, frozen concentrated orange juice, and potatoes, as well as interest rate, currency, and index futures and options.

New York Futures Exchange (NYFE)

A wholly owned subsidiary of the NYSE that trades futures and futures options on the NYSE composite index.

New York Mercantile Exchange (NYMEX)

The world's largest physical commodity futures exchange.

New York Stock Exchange (NYSE)

Also known as the Big Board or the Exchange.

NYSE composite index

Composite index covering price movements of all new world common stocks listed on the New York Stock Exchange. It is based on the close of the market on December 31, 1965, at a level of 50.00, and is weighted according to the number of shares listed for each issue. Point changes in the index are converted to dollars and cents so as to provide a meaningful measure of changes in the average price of listed stocks. The composite index is supplemented by separate indexes for four industry groups: industrial, transportation, utility, and finance.

New Zealand Stock Exchange

Automated, screen-based national trading system based in Wellington.

Noise

Price and volume fluctuations that can confuse interpretation of market direction. Used in the context of general equities. Stock market activity caused by program trades, dividend rolls, and other phenomena not reflective of general sentiment. Antithesis of real.

Nominal

In name only. Differences in compounding cause the nominal rate to differ from the effective interest rate. Inflation causes the purchasing power of money to differ from one time to another.

Nominal annual rate

An effective rate per period multiplied by the number of periods in a year. Same as annual percentage rate.

Nominal cash flow

A cash flow expressed in nominal terms if the actual dollars to be received or paid out are given.

Nominal dollars

Dollars that are not adjusted for inflation.

Nominal exchange rate

The actual foreign exchange quotation in contrast to the real exchange rate, which has been adjusted for changes in purchasing power.

Nominal exercise price

The exercise price of a GNMA option contract, which equals the unpaid principal balance multiplied by the adjusted exercise price.

Nominal income

Income that has not been adjusted for inflation and decreasing purchasing power.

Nominal interest rate

The interest rate unadjusted for inflation.

Nominal price

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

Nominal quotation

Used in the context of general equities. Bid and offer prices given by a market maker for the purpose of valuation, not as an invitation to trade; must be specifically identified as such by prefixing the quotes FYI (for your information) or FVO (for valuation only).

Nominal yield

The income received from a fixed income security in one year divided by its par value. See also: Coupon rate.

Noncallable

A preferred stock or bond that cannot be redeemed whenever desired by the issuer.

Normalized earnings

Earnings that have been adjusted in order to take into account the effect of cycles in the economy.

Note

Debt instruments with initial maturities longer than one year and shorter than 10 years.

Note agreement

A contract for privately placed debt.

O**OPEC**

See: Organization of Petroleum Exporting Countries

Obligation

A legal responsibility, such as to repay a debt.

Obligation bond

A municipal bond with a face value greater than the value of the underlying property. The difference is designed to compensate the lender for costs exceeding the mortgage value.

Obligor

- A person who has an obligation to pay off a debt.
- Off-board**
Used for listed equity securities. Transacted away from a national securities exchange even though the stock itself is listed, such as on the NYSE, and instead of on the OTC market, a regional exchange, or in the third or fourth markets (between customers directly). After 9:30 a.m., if the stock has not opened due to the exchange's discretion, trading can occur elsewhere, but the trader must assume the role of a quasi-specialist in the process.
- Offer**
Indicates a willingness to sell at a given price. Related: Bid.
- Offer price**
See: Offer.
- Offering date**
Date on which a new set of stocks or bonds will first be sold to the public.
- Offset**
Elimination of a long or short position by making an opposite transaction. Related: Liquidation.
- OM Stockholm AB**
The derivatives market of Sweden, trading a wide variety of interest rate and bond futures. The exchange trades futures and options on the OMX equity index.
- On the money**
Used in the context of general equities. In-line, or at the same price, as the last sale. previous day's closing price.
- Open**
Used in the context of general equities. Having either buy or sell interest at the indicated price level and side of a preceding trade. "Open on the buy/sell side" means looking for buyers/sellers (for someone who is a seller/buyer). Antithesis of clean.
- Open contracts**
Contracts that have been bought or sold without completion of the transaction by subsequent sale or purchase, or by making or taking actual delivery of the financial instrument or physical commodity.
- Open position**
A net long or short position whose value will change with a change in prices.
- Open repo**
A repurchase agreement with no definite term. The agreement is made on a day-to-day basis, and either the borrower or the lender may choose to terminate. The rate paid is higher than on overnight repo and is subject to adjustment if rates move.
- Opening price**
The range of prices at which the first bids and offers are made or the first transactions are completed on an exchange.
- Operating profit (or loss)**
Revenue from a firm's regular activities less costs and expenses and before income deductions.
- Operating profit margin**
The ratio of operating profit to net sales.
- Operating risk**
The inherent or fundamental risk of a firm, without regard to financial risk. The risk that is created by operating leverage. Also called business risk.
- Oporto**
Portugal's derivatives exchange (Bolsa de Derivados do Oporto) trading futures on the ten-year government bond, Portuguese stock index, and three-month interbank deposit rate LISBOR (Lisbon Interbank Offered Rate).
- Option**
Gives the buyer the right, but not the obligation, to buy or sell an asset at a set price on or before a given date. Investors, not companies, issue options. Buyers of call options bet that a stock will be worth more than the price set by the option (the strike price), plus the price they pay for the option itself. Buyers of put options bet that the stock's price will drop below the price set by the option. An option is part of a class of securities called derivatives, which means these securities derive their value from the worth of an underlying investment.

Option-adjusted spread (OAS)

(1) The spread over an issuer's spot rate curve, developed as a measure of the yield spread that can be used to convert dollar differences between theoretical value and market prices. (2) The cost of the implied call embedded in an MBS, defined as additional basis-yield spread. When added to the base yield spread of an MBS without an operative call produces the option-adjusted spread.

Option agreement

A form that an options investor opening an option account fills out guarantees the investor will follow trading regulations and has the financial resources to settle possible losses.

Option cycle

The cycle of option expiration months. The most common cycles are: January, April, July, and October (JAJO); February, May, August, and November (FMAN); and March, June, September, and December (MJSD).

Option elasticity

The percentage increase in an option's value, given a 1 percentage point change in the value of the underlying security.

Option holder

A person who has an option that has not been exercised.

Option margin

The margin requirement for options described in Regulation T and in brokers' individual policies.

Option premium

The option price.

Option price

Also called the option premium; the price the buyer of the options contract pays for the right to buy or sell a security at a specified price in the future.

Option series

A group of options on the same underlying security with the same exercise price and maturity month.

Option spread

The trading of options of the same class at the same time in order to profit from changes in the size of the spread between different options.

Option writer

See: Option seller

Optional dividend

A dividends that the shareholder can elect to receive either in cash or in stock.

Optional payment bond

A bond whose principal and/or interest may be paid in foreign or domestic currency at the discretion of the bondholder.

Options contract

A contract that, in exchange for the option price, gives the option buyer the right, but not the obligation, to buy (or sell) a financial asset at the exercise price from (or to) the option seller within a specified time period, or on a specified date (expiration date).

Order

Instruction to a broker/dealer to buy, sell, deliver, or receive securities or commodities that commits the issuer of the "order" to the terms specified. See: indication, inquiry, bid wanted, offer wanted.

Order splitting

Breaking up orders so that they can be processed as small orders for execution by SOES. Prohibited by NASD.

Ordinary shares

Applies mainly to international equities. Shares of non-U.S. companies traded in their individual home markets. Usually cannot be delivered in the U.S. See: ADR.

Original margin

The margin needed to cover a specific new position. Related: Margin, security deposit (initial).

Original maturity

Maturity at issue. For example, a five-year note has an original maturity of five years; one year later it has a maturity of four years.

Originator

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

Oslo Stock Exchange

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

Out-of-the-money option

A call option is out of the money if the strike price is greater than the market price of the underlying security. That is, you have the right to purchase a security at a price higher than the market price, which is not valuable. A put option is out of the money if the strike price is lower than the market price of the underlying security.

Outsourcing

Purchasing a significant percentage of intermediate components from outside suppliers.

Over-the-counter (OTC)

A decentralized market (as opposed to an exchange market) where geographically dispersed dealers are linked by telephones and computer screens. The market is for securities not listed on a stock or bond exchange. The NASDAQ market is an OTC market for U.S. stocks. Antithesis of listed.

Overnight delivery risk

A risk brought about because differences in time zones between settlement centers require that payment or delivery on one side of a transaction be made without knowing until the next day whether the funds have been received in an account on the other side. Particularly apparent when delivery takes place in Europe for payment in dollars in New York.

Overnight position

A broker-dealer's position in a security at the end of a trading day.

Overnight repo

A repurchase agreement with a term of one day.

P**PIBOR**

See: Paris Interbank Offer Rate

PVBP

See: Price value of a basis point

Paper

Money market instruments, commercial paper, and other.

Par

Equal to the nominal or face value of a security. A bond selling at par is worth an amount equivalent to its original issue value or its value upon redemption at maturity-typically \$1000/bond. See: Discount, premium.

Par bond

A bond trading at its face value.

Par value

Also called the maturity value or face value; the amount that an issuer agrees to pay at the maturity date.

Par value of currency

The official exchange rate between two countries' currencies.

Parallel shift in the yield curve

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

Paris Interbank Offer Rate (PIBOR)

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

Parity

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

Parity value

Related: Conversion value

Partial

Used in the context of general equities. Trade whose size is only part of the total customer indication/order, usually made to avoid a compromise in price and also to get some business instead of losing the customers inquiry/order to a competitor.

Passive bond

A bond without any interest yield.

Payment date

The date on which shareholders of record will be sent a check for the declared dividend.

P/E

See: Price/earnings ratio

P/E effect

That portfolios with low P/E stocks exhibit higher average risk-adjusted returns than those with high P/E stocks. Related: Value manager.

P/E ratio

Current stock price divided by trailing annual earnings per share *or* expected annual earnings per share. Assume XYZ Co. sells for \$25.50 per share and has earned \$2.55 per share this year; $\$25.50 = 10 \text{ times } \2.55 . XYZ stock sells for ten times earnings.

Pension fund

A fund set up to pay the pension benefits of a company's workers after retirement.

Pension plan

A fund that is established for the payment of retirement benefits.

Perfect hedge

A situation in which the profit and loss from the underlying asset and the hedge position are equal.

Performance bond

A surety bond between two parties, insuring one party against loss if the terms of a contract are not fulfilled.

Periodic rate

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

Perpendicular spread

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

Philadelphia Board of Trade (PBOT)

A subsidiary of the Philadelphia Stock Exchange that trades currency futures.

Philadelphia Stock Exchange (PHLX)

A securities exchange trading American and European foreign currency options on spot exchange rates.

Philippine Stock Exchange

Stock exchange based in the Philippines, which operates two trading floors, at Manila and Makati.

Picture

Describes bid and asked prices a broker quotes for a given security. Used for listed equity securities. Bid and ask prices and quantity information from a specialist or from a dealer regarding a particular security (i.e., "IBM's 1/4 to 1/2, 5m by 10m").

P&L

Profit and loss statement for a trader.

Plain vanilla

A term that refers to a relatively simple derivative financial instrument, usually a swap or other derivative that is issued with standard features.

Pledging

See: Hypothecation

Point

The smallest unit of price change quoted, or one one-hundredth of a percent. Related: Minimum price fluctuation and tick.

Point and figure chart

A price-only chart that takes into account only whole integer changes in price, i.e., a 2-point change. Point and figure charting disregards the element of time and is used solely to record changes in price.

Portfolio

A collection of investments, real and/or financial.

Portfolio beta

Used in the context of general equities. The beta of a portfolio is the weighted sum of the individual asset betas, according to the proportions of the investments in the portfolio. E.g., if 50% of the money is in stock A with a beta of 2.00, and 50% of the money is in stock B with a beta of 1.00, the portfolio beta is 1.50. Portfolio beta describes relative volatility of an individual securities portfolio, taken as a whole, as measured by the individual stock betas of the securities making it up. A beta of 1.05 relative to the S&P 500 implies that if the S&P's excess return increases by 10% the portfolio is expected to increase by 10.5%.

Portfolio insurance

A strategy using a leveraged portfolio in the underlying stock to create a synthetic put option. The strategy's goal is to ensure that the value of the portfolio does not fall below a certain level.

Portfolio internal rate of return

The rate of return computed by first determining the cash flows for all the bonds in the portfolio and then finding the interest rate that will make the present value of the cash flows equal to the market value of the portfolio.

Portfolio management

Related: Investment management

Portfolio manager

Used in the context of general equities. Professional responsible for the securities portfolio of an individual or institutional investor, such as a mutual fund, pension fund, profit-sharing plan, bank trust department, or insurance company. In return for a fee, the manager has the fiduciary responsibility to manage the assets prudently and choose which asset types are most appropriate over time. Related: Investment manager.

Portfolio R^2

Used in the context of general equities. Number between 0 and 1 that measures the strength of correlation of movement between the portfolio/stock and the index. Indeed, the R^2 is the square of the correlation. For hedging purposes, the higher the R^2 , the better.

Position

A market commitment; the number of contracts bought or sold for which no offsetting transaction has been entered into. The buyer of a commodity is said to have a long position, and the seller of a commodity is said to have a short position. Related: Open contracts.

Position building

Buying shares to build up a long position or selling shares to create a short position in a particular security or group of securities.

Position limits

Applies to derivative products. Maximum position available in any one future or option contract for a given institution. For "bona fide" futures hedgers, there are no position limits.

Positive convexity

A property of option-free bonds that the price appreciation for a large downward change in interest rates will be greater (in absolute terms) than the price depreciation for the same downward change in interest rates.

Positive yield curve

When long-term debt interest rates are higher than short-term debt rates (because of the increased risk involved with long-term debt security).

Preference

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

Preference 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 entitle them to be paid before common shareholders. See: Preferred stock.

Preferred stock

A security that shows ownership in a corporation and gives the holder a claim, prior to the claim of common stockholders, on earnings and also generally on assets in the event of liquidation. Most preferred stock pays a fixed dividend that is paid prior to the common stock dividend, stated in a dollar amount or as a percentage of par value. This stock does not usually carry voting rights. Preferred stock has characteristics of both common stock and debt.

Premium

(1) A bond sold above its par value. (2) The price of an option contract; also, in futures trading, the amount by which the futures price exceeds the price of the spot commodity. For convertibles, amount by which the price of a convertible exceeds parity, and is usually expressed as a percentage. If a stock is trading at \$45, and the bond convertible at \$50 is trading at 105, the premium is \$15, or 16.66% (15/90). If the premium is high, the bond trades like any fixed income bond; if low, like a stock. See: Gross parity, net parity. For futures, excess of fair value of future over the spot index, which in theory will equal the Treasury bill yield for the period to expiration minus the expected dividend yield until the future's expiration. For options, price of an option in the open market (sometimes refers to the portion of the price that exceeds parity). For straight equity, price higher than that of the last sale or inside market. Related: Inverted market premium payback period. Also called break-even time; the time it takes to recover the premium per share of a convertible security.

Premium bond

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

Present value

The amount of cash today that is equivalent in value to a payment, or to a stream of payments, to be received in the future. To determine the present value, each future cash flow is multiplied by a present value factor. For example, if the opportunity cost of funds is 10%, the present value of \$100 to be received in one year is $\$100 \times [1/(1 + 0.10)] = \91 .

President

Highest-ranking officer in a corporation after the chief executive officer.

Price-earnings ratio

Shows the multiple of earnings at which a stock sells. Determined by dividing current stock price by current earnings per share (adjusted for stock splits). Earnings per share for the P/E ratio are determined by dividing earnings for past 12 months by the number of common shares outstanding. Higher multiple means investors have higher expectations for future growth, and have bid up the stock's price.

Price elasticity

The percentage change in quantity divided by a percentage change in the price. Answers the question: How much will the demand for my product decrease if I raise prices by 10%?

Price gap

A term used when the price of a stock rockets or dives in a direction away from its last price range, such as a stock with a trading range of \$10-\$12 that closes at \$12 and climbs to \$14 the next day.

Price range

The interval between the high and low prices over which a stock has traded over a particular period of time.

Price risk

The risk that the value of a security (or a portfolio) will decline in the future. Or, a type of mortgage pipeline risk created in the production segment when loan terms are set for the borrower in advance of setting terms for secondary market sale. If the general level of rates rises during the production cycle, the lender may have to sell the originated loans at a discount.

Price spread

An options strategy that involves buying and selling two options on the same security with the same expiration month, but with different exercise prices.

Price value of a basis point (PVBP)

Also called the dollar value of a basis point; a measure of the change in the price of a bond if the required yield changes by one basis point.

Prices (of equity)

Price of a share of common stock on the date shown. Highs and lows are based on the highest and lowest intraday trading price.

Primary earnings per (common) share

Earnings available for the payment of dividends to common stockholders divided by the number of common shares outstanding.

Primary market

Where a newly issued security is first offered. All subsequent trading of this security occurs is done in the secondary market.

Prime rate

The interest rate at which banks lend to their best (prime) customers. More often than not, a bank's most creditworthy customers borrow at rates below the prime rate.

Principal

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

Principal amount

The face amount of debt; the amount borrowed or lent. Often called principal.

Principal stockholder

A stockholder who owns 10% or more of the voting stock of a company. Such stockholders must report all trading in the stock to the SEC pursuant insider trading rules.

Probability

The relative likelihood of a particular outcome among all possible outcomes.

Probability density function

The function that describes the change of certain realizations for a continuous random variable.

Probability distribution

A function that describes all the values a random variable can take and the probability associated with each. Also called a probability function.

Probability function

A measure that assigns a likelihood of occurrence to each and every possible outcome.

Producer Price Index (PPI)

Index measuring changes in wholesale prices, published by the U.S. Bureau of Labor Statistics every month.

Profit

Revenue minus cost. The amount one makes on a transaction.

Profit margin

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

Protective put buying strategy

A strategy that involves buying a put option on the underlying security that is held in a portfolio. Related: Hedge option strategies.

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 granting the right to sell the underlying futures contract. Opposite of a call.

Put bond

A bond that the holder may choose either to exchange for par value at some date or to extend for a given number of years. If the price is above par, the put is a "premium put."

Put-call parity

Applies to derivative products. Option pricing principle that says, given a stock's price, a put and call of the same class must have a static price relationship because arbitrage opportunities or activities will always reestablish such a relationship.

Put-call parity relationship

The relationship between the price of a put and the price of a call on the same underlying security with the same expiration date, which prevents arbitrage opportunities. Holding the underlying stock and buying a put will deliver the exact payoff as buying one call and investing the present value (PV) of the exercise price. The call value equals $C = S + P - PV(k)$.

Put-call ratio

The ratio of the volume of put options traded to the volume of call options traded, which is used as an indicator of investor sentiment (bullish or bearish).

Put option

This security gives investors the right to sell (or put) a fixed number of shares at a fixed price within a given period. An investor, for example, might wish to have the right to sell shares of a stock at a certain price by a certain time in order to protect, or hedge, an existing investment.

Put an option

To exercise a put option.

Put price

The price at which an asset will be sold if a put option is exercised. Also called the strike or exercise price of a put option.

Put swaption

A financial instrument giving the buyer the right, or option, to enter into a swap as a floating-rate payer. The writer of the swaption therefore becomes the floating-rate receiver/fixed-rate payer.

Q

Quality option

Gives the seller choice of deliverables in Treasury bond and Treasury note futures contracts. Also called the swap option. Related: Cheapest to deliver issue.

Quality spread

Difference between Treasury securities and non-Treasury securities that are identical in all respects except for quality rating. For instance, the difference between yields on Treasuries and those on single A-rated industrial bonds. Also called credit spread.

Quant

A person with numerical and computer skills who carries out quantitative analyses of companies.

Quantize

To convert an asset or liability into a currency other than the regular trading currency.

Quantitative analysis

An analysis of the mathematically measurable figures of a company, such as the value of assets or projected sales.

Quantitative research

Use of advanced econometric and mathematical valuation models to identify the firms with the best possible prospectives. Antithesis of qualitative research.

Quanto swap

See: Differential swap

Quantos

Currency options with a guaranteed exchange rate that enable buyers who like an asset, German bonds for example, but not the asset's pricing currency, to arrange payment in a different currency for a fee.

Quorum

The minimum number of people who must be present or must provide a proxy to vote at a meeting in order to make a valid decision.

Quotation

Highest bid and lowest offer (asked) price currently available on a security or a commodity.

Quotation board

The electronic board at a brokerage firm displaying prices other financial data.

Quoted price

The price at which the last trade of a particular security or commodity took place.

R

Random variable

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

Random walk

Theory that stock price changes from day to day are accidental or haphazard; changes are independent of each other and have the same probability distribution. Many believers in the random walk theory believe that it is impossible to outperform the market consistently without taking additional risk.

Randomized strategy

A strategy of introducing into the decision-making process a chance element that is designed to confound the information content of the decision-maker's observed choices.

Range

The high and low prices, or high and low bids and offers, recorded during a specified time.

Range forward

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

Rate of interest

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

Rate of return

Calculated as the (value now minus value at time of purchase) divided by value at time of purchase. For equities, we often include dividends with the value now. See also: Return, annual rate of return.

Rate of return ratios

Ratios that measure the profitability of a firm in relation to various measures of investment in the firm.

Rate risk

In banking, the risk that profits may drop or losses occur because a rise in interest rates forces up the cost of funding fixed-rate loans or other fixed-rate assets.

Ratings

An evaluation of credit quality of a company's debt issue by Moody's, S&P, and Fitch Investors Service. Investors and analysts use ratings to assess the riskiness of an investment.

Ratio analysis

A way of expressing relationships between a firm's accounting numbers and their trends over time that analysts use to establish values and evaluate risks.

Real

Used in the context of general equities. (1) natural, (2) not dividend roll-or program trading-related; (3) not tax-related. "Real" indications have three major repercussions: a) pricing will be more favorable to the other side of the trade since an investment bank is not committing any capital; b) price pressure will be stronger if real since a natural buyer/seller may have information leading to his decision or more behind it, and c) an uptick may be required for the trader to transact if the indication is not real and the trader has no long position.

Real income

The income of an individual, group, or country adjusted for inflation.

Real interest rate

The rate of interest excluding the effect of expected inflation; that is, the rate that is earned in terms of constant-purchasing-power dollars. Interest rate expressed in terms of real goods, i.e. nominal interest rate adjusted for expected inflation.

Realized profit (or loss)

A capital gain or loss on securities held in a portfolio that has become actual by the sale or other type of surrender of one or many securities.

Real time

A real-time stock or bond quote is one that states a security's most recent offer to sell or bid (buy). Different from a delayed quote, which shows the same bid and ask prices 15 minutes and sometimes 20 minutes after a trade takes place.

Realized compound yield

Yield assuming that coupon payments are invested at the going market interest rate at the time of their receipt and held thus until the bond matures.

Realized return

The return that is actually earned over a given time period.

Recapitalization proposal

Often used in risk arbitrage. Plan by a target company to restructure its capitalization (debt and equity) in a way to ward off a hostile or potential suitor.

Record date

(1) Date by which a shareholder must officially own shares in order to be entitled to a dividend. For example, a firm might declare a dividend on Nov. 1, payable Dec. 1 to holders of record Nov. 15. Once a trade is executed, an investor becomes the "owner of record" on settlement, which currently takes five business days for securities and one business day for mutual funds. Stocks trade ex-dividend the fourth day before the record date, since the seller will still be the owner of record and is thus entitled to the dividend. (2) The date that determines who is entitled to payment of principal and interest due to be paid on a security. The record date for most MBS is the last day of the month, although the last day on which an MBS may be presented for the transfer is the last business day of the month. The record dates for CMOs and asset-backed securities vary with each issue.

Redemption date

The date on which a bond matures or is redeemed.

Redemption price

See: Call price

Redemption

Repayment of a debt security or preferred stock issue, at or before maturity, at par or at a premium price.

Redemption charge

The commission a mutual fund charges an investor who is redeeming shares. For example, a 2% redemption charge (also called a back end load) on the sale of shares valued at \$1000 will result in payment of \$980 (or 98% of the value) to the investor. This charge may decline or be eliminated as shares are held for longer time periods.

Reference rate

A benchmark interest rate (such as LIBOR) used to specify conditions of an interest rate swap or an interest rate agreement.

Refinancing

An extension and/or increase in amount of existing debt.

Reflation

Government monetary action that causes a reversal of deflation.

Refund

To retire existing bond issues through the sale of a new bond issue, usually to reduce the interest rate being paid.

Refunding

Redeeming a bond with proceeds received from issuing lower-cost debt obligations with ranking equal to or superior to the debt to be redeemed.

Refunding Escrow Deposits (REDs)

A financial instrument involving a forward purchase contract that obligates investors to buy bonds at a certain rate when issued. The future date coincides with the first optional call date on an existing high-rate bond. In the interim, investors' money is invested in secondary market Treasury bonds. The Treasuries mature around the call date on the existing bonds, providing the money to buy the new issue and redeem the old one.

Registered competitive market maker

An NASD-registered dealer who acts as a market maker for a designated over-the-counter stock by buying and selling that stock to maintain stability.

Registered equity market maker

Member firm of the American Stock Exchange registered as a trader to make stabilizing trades for its own account in particular securities.

Registered security

Used in the context of general equities. Securities whose owner's name is recorded on the books of the issuer or the issuer's agent, called a registrar.

Regression

A mathematical technique used to explain and/or predict. The general form is $Y = a + bX + u$, where Y is the variable that we are trying to predict; X is the variable that we are using to predict Y, a is the intercept; b is the slope, and u is the regression residual. The a and b are chosen in a way to minimize the squared sum of the residuals. The ability to fit or explain is measured by the R-square.

Regression analysis

A statistical technique that can be used to estimate relationships between variables.

Regression equation

An equation that describes the average relationship between a dependent variable and a set of explanatory variables.

Regression toward the mean

The tendency that a random variable will ultimately have a value closer to its mean value.

Regulation A

A Federal Reserve Board regulation that exempts small public offerings, valued at less than \$1.5MM from most registration requirements with the SEC.

Regulation D

Federal Reserve Board regulation that currently requires member banks to hold reserves against their net borrowings from foreign offices of other banks over a 28-day averaging period. Regulation D has been merged with Regulation M.

Regulation G

Federal Reserve Board regulation of lenders other than commercial banks, brokers, or dealers that provide credit for the purchase of or carrying of securities.

Regulation M

Federal Reserve Board regulation that currently requires member banks to hold reserves against their net borrowings from their foreign branches over a 28-day averaging period. Reg M has also required member banks to hold reserves against Eurodollars lent by their foreign branches to domestic corporations for domestic purposes.

Regulation Q

Federal Reserve Board regulation imposing caps on the rates that banks may pay on savings and time deposits. Currently time deposits with a denomination of \$100,000 or more are exempt from Reg Q.

Regulation T

Federal Reserve Board regulation that deals with granting credit to customers by securities brokers, dealers, and exchange member as far as initial margin requirements and securities that are covered under the rules.

Regulation U

Federal Reserve Board limit on how much credit a bank can allow a customer for the purchase and carrying of margin securities.

Remaining maturity

The length of time remaining until a bond comes due

Repo

An agreement in which one party sells a security to another party and agrees to repurchase it on a specified date for a specified price. See: Repurchase agreement.

Repurchase agreement

An agreement with a commitment by the seller (dealer) to buy a security back from the purchaser (customer) at a specified price at a designated future date. Also called a repo, it represents a collateralized short-term loan for which, where the collateral may be a Treasury security, money market instrument, federal agency security, or mortgage-backed security. From the purchaser's (customer's) perspective, the deal is reported as a reverse repo.

Repurchase of stock

Technique to pay cash to firm's shareholders that provides more preferential tax treatment for shareholders than dividends. Treasury stock is the name given to previously issued stock that has been repurchased by the firm. A repurchase is achieved through either a Dutch auction, open market, purchase, or tender offer.

Required return

The minimum expected return you would need in order to purchase an asset, that is, to make the investment.

Required yield

Generally referring to bonds; the yield required by the marketplace to match available expected returns for financial instruments with comparable risk.

Reserve

An accounting entry that properly reflects contingent liabilities.

Reserve currency

A foreign currency held by a central bank or monetary authority for the purposes of exchange intervention and the settlement of intergovernmental claims.

Reset bonds

Bonds that allow the initial interest rates to be adjusted on specific dates in order that the bonds trade at the value they had when they were issued.

Reset frequency

The frequency with which the floating rate changes.

Residential mortgage

Mortgage on a residential property, tax-deductible for individuals up to \$1 million.

Residential property

Property that consists of homes, apartments, townhouses, and condominiums.

Residual assets

Assets that remain after sufficient assets are dedicated to meet all senior debtholders' claims in full.

Residual risk

Related: Unsystematic risk

Residuals

(1) Part of stock returns not explained by the explanatory variable (the market index return). Residuals measure the impact of firm-specific events during a particular period. (2) Remainder cash flows generated by pool collateral and those needed to fund bonds supported by the collateral.

Residual value

Usually refers to the value of a lessor's property at the time the lease expires.

Retail

Individual and institutional customers as opposed to dealers and brokers.

Return

The change in the value of a portfolio over an evaluation period, including any distributions made from the portfolio during that period.

Return of capital

A cash distribution resulting from the sale of a capital asset, or securities, or tax breaks from depreciation.

Reuters

International news and quotation service based in London.

Revenue bond

A bond issued by a municipality to finance either a project or an enterprise in which the issuer pledges to the bondholders the revenues generated by the operation of the projects financed. Examples are hospital revenue bonds and sewer revenue bonds.

Revenue fund

A fund accounting for all revenues from an enterprise financed by a municipal revenue bond.

Reversal

Turn, unwind. For convertible reversal, selling a convertible and buying the underlying common, usually effected by an arbitrageur. For market reversal, change in direction in the stock or commodity futures markets, as charted by technical analysts in trading ranges. For options reversal, closing the positions of each aspect of an options spread or combination strategy.

Reverse a swap

Reswap of bonds to gain the advantage of a yield spread or tax loss and restore a bond portfolio to its position before the original swap.

Reverse conversion

A technique in which brokerage firms earn interest on the stocks they hold for their customers by selling the short and investing the proceeds in money market accounts. The short positions are hedged to protect against adverse market conditions.

Reverse leverage

Occurs when the interest on borrowings exceeds the return on investment of the funds that were borrowed.

Reverse mortgage

A mortgage agreement allowing a homeowner to borrow against home equity and receive tax-free payments until the total principal and interest reach the credit limit of equity, and the lender is either repaid in full or takes the house.

Reverse price risk

A type of mortgage pipeline risk that occurs when a lender commits to sell loans to an investor at rates prevailing at the time of mortgage application but sets the note rates when the borrowers closes. The lender is thus exposed to the risk of falling rates.

Reverse repo

In essence, refers to a repurchase agreement. From the customer's perspective, the customer provides a collateralized loan to the seller.

Reverse stock split

A proportionate decrease in the number of shares, but not the total value of shares of stock held by shareholders. Shareholders maintain the same percentage of equity as before the split. For example, a 1-for-3 split would result in stockholders owning one share for every three shares owned before the split. After the reverse split, the firm's stock price is, in this example, three times the pre-reverse split price. A firm generally institutes a reverse split to boost its stock's market price. Some think this supposedly attracts investors.

Reversing trade

Entering the opposite side of a currently held futures position to close out the position.

Risk

Often defined as the standard deviation of the return on total investment. Degree of uncertainty of return on an asset. In context of asset pricing theory. See: Systematic risk.

Risk-adjusted discount rate

The rate established by adding an expected risk premium to the risk-free rate in order to determine the present value of a risky investment.

Risk-adjusted profitability

A probability used to determine a "sure" expected value (sometimes called a certainty equivalent) that would be equivalent to the actual risky expected value.

Risk-adjusted return

Often we subtract from the rate of return on an asset a rate of return from another asset that has similar risk. This gives an abnormal rate of return that shows how the asset performed over and above a benchmark asset with the same risk. We can also use the beta against the benchmark to calculate an alpha, which is also risk-adjusted performance.

Risk arbitrage

Traditionally, the simultaneous purchase of stock in a company being acquired and the sale of stock of the acquirer. Modern risk arbitrage focuses on capturing the spreads between the market value of an announced takeover target and the eventual price at which the acquirer will buy the target's shares.

Risk factor

In arbitrage pricing theory or the multibeta capital asset pricing model, the set of common factors that impact returns, e.g., market return, interest rates, inflation, or industrial production.

Risk indexes

Categories of risk used to calculate fundamental beta, including (1) market variability, (2) earnings variability, (3) low valuation, (4) immaturity and smallness, (5) growth orientation, and (6) financial risk.

Riskless arbitrage

The simultaneous purchase and sale of the same asset to yield a profit.

Riskless rate

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

Riskless rate of return

The rate earned on a riskless asset.

Riskless transaction

A transaction that is guaranteed a profit, such as the arbitrage of a temporary differential between commodity prices in two different markets. The evaluation of whether dealer markups and markdowns in OTC transactions are reasonable. According to NASD, markups or markdowns should not exceed 5%.

Risk management

The process of identifying and evaluating risks and selecting and managing techniques to adapt to risk exposures.

Risk-neutral

Insensitive to risk.

Risk-prone

Willing to pay money to assume risk from others.

Risk premium

The reward for holding the risky equity market portfolio rather than the risk-free asset. The spread between Treasury and non-Treasury bonds of comparable maturity.

Risk premium approach

A common approach for tactical asset allocation to determine the relative valuation of asset classes based on expected returns.

Risk transfer

The shifting of risk through insurance or securitization of debt because of risk aversion.

Risky asset

An asset whose future return is uncertain.

Risk-adjusted return

Return earned on an asset normalized for the amount of risk associated with that asset.

Risk-free asset

An asset whose future normal return is known today with certainty.

Risk-free rate

The rate earned on a riskless asset.

Roll down

To move to an option position with a lower exercise price.

Roll forward

To move to an option position with a later expiration date.

Roll up

To move to an option position with a higher exercise price. In venture capital, refers to the venture capitalist forcing small firms to merge operations in order to reduce costs

Royalty

Payment for the right to use intellectual property or natural resources.

R square (R^2)

Square of the correlation coefficient. The proportion of the variability in one series that can be explained by the variability of one or more other series a regression model. A measure of the quality of fit. 100% R-square means perfect predictability.

S

Salomon Brothers World Equity Index (SBWEI)

A top-down, float capitalization-weighted index used to measure the performance of fixed-income and equity markets. It includes approximately 6000 companies in 22 countries.

Samurai bond

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

Samurai market

The foreign market in Japan.

S&P

Standard & Poor's Corporation.

S&P 500 Composite Index

Index of 500 widely held common stocks that measures the general performance of the market.

S&P Rating

Rating service provided by S&P that indicates the amount of risk involved with different securities.

Scenario analysis

The use of horizon analysis to project total returns under different reinvestment rates and future market yields.

Secondary market

The market in which securities are traded after they are initially offered in the primary market. Most trading occurs in the secondary market. The New York Stock Exchange, as well as all other stock exchanges and the bond markets, are secondary markets. Seasoned securities are traded in the secondary market.

Secondary stocks

Stocks with smaller market capitalization, less quality and more risk than blue chip issues that behave differently than larger corporations' stocks.

Sector

Used to characterize a group of securities that are similar with respect to maturity, type, rating, industry, and/or coupon.

Secured bond

A bond backed by the pledge of collateral, a mortgage, or other lien, as opposed to an unsecured bond, called a debenture .

Securities and commodities exchanges

Exchanges on which securities, options, and futures contracts are traded by members for their own accounts and for the accounts of customers.

Securities loan

The loan of securities between brokers, often to cover a client's short sale; or a loan secured by marketable securities.

Securities markets

Organized exchanges plus over-the-counter markets in which securities are traded.

Security

Piece of paper that proves ownership of stocks, bonds, and other investments.

Sensitivity analysis

Analysis of the effect on a project's profitability of changes in sales, cost, and so on.

Serial redemption

The redemption of a serial bond.

Series

Options: All option contracts of the same class that also have the same unit of trade, expiration date, and exercise price. Stocks: shares that have common characteristics, such as rights to ownership and voting, dividends, or par value. In the case of many foreign shares, one series may be owned only by citizens of the country in which the stock is registered.

Series bond

Bond that may be issued in several series under the same indenture document.

Settlement

When payment is made for a trade.

Settlement date

The date on which payment is made to settle a trade. For stocks traded on U.S. exchanges, settlement is currently three business days after the trade. For mutual funds, settlement usually occurs in the U.S. the day following the trade. In some regional markets, foreign shares may require months to settle.

Settlement options

The various possibilities open to a beneficiary under a life insurance policy as to how the benefit will be paid out.

Settlement price

A figure determined by the closing range that is used to calculate gains and losses in futures market accounts. Settlement prices are used to determine gains, losses, margin calls, and invoice prices for deliveries. Related: Closing range.

Settlement rate

The rate suggested in Financial Accounting Standards Board (FASB) 87 for discounting the obligations of a pension plan. The rate at which the pension benefits could be effectively settled if the company sponsoring the pension plan wishes to terminate its pension obligation.

Settlement risk

The risk that one party will deliver and the counterparty will not be able to pay and vice versa.

Shareholder

Person or entity that owns shares or equity in a corporation.

Shares

Certificates or book entries representing ownership in a corporation or similar entity.

Shogun bond

Dollar bond issued in Japan by a nonresident.

Short

One who has sold a contract to establish a market position and who has not yet closed out this position through an offsetting purchase; the opposite of a long position. Related: Long.

Short bonds

Bonds with short (not much time to maturity) current maturities.

Short coupon

A bond payment covering less than six-months' interest, because the original issue date is less than six months from the first scheduled interest payment. A bond with a short time to maturity, usually two years or less.

Short hedge

The sale of futures contracts to eliminate or lessen the possible decline in value of an approximately equal amount of the actual financial instrument or physical commodity. Related: Long hedge.

Short interest

Total number of shares of a security that investors have sold short and that have not been repurchased to close out the short position. Usually, investors sell short to profit from price declines. As a result, the short interest is often an indicator of the amount of pessimism in the market about a particular security, although there are other reasons to short that are not related to pessimism. For example, hedging strategies for mergers and acquisition as well as derivative positions may involve short sales.

Short interest theory

The theory that a large interest in short positions in stocks will precede a rise in the market prices, because the short positions must eventually be covered by purchases of the stock.

Short position

Occurs when a person sells stocks he or she does not yet own. Shares must be borrowed, before the sale, to make "good delivery" to the buyer. Eventually, the shares must be bought back to close out the transaction. This technique is used when an investor believes the stock price will drop.

Short ratio(or short interest ratio)

Number of shares of a security that investors have sold short divided by average daily volume of the security (measured over 30 days or 90 days). There are various interpretations of this ratio. When people short, it is usually (but not always) because they are pessimistic about the security's future performance. Shorting involves buying at some point however. Hence, some would interpret a high short ratio as an indicator that there will be some buying pressure on the security that would increase its price.

Short 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 straddle

A straddle involves both purchase and sale. In short straddle one put and one call are sold.

Simple linear regression

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

Simple moving average

The mean, calculated at any time over a past period of fixed length.

Simple prospect

An investment opportunity in which only two outcomes are possible.

Simple rate of return

The return from investments figured by dividing income plus capital gains by the amount of capital invested. The effect of compounding is not taken into account.

Simulation

The use of a mathematical model to imitate a situation many times in order to estimate the likelihood of various possible outcomes. See: Monte Carlo simulation.

Singapore International Monetary Exchange (SIMEX)

A leading futures and options exchange in Singapore.

Single option

A single put option or call option, as opposed to a spread or straddle, which involves multiple puts and calls.

Single-payment bond

A bond that makes only one payment of principal and interest.

Sinker

A bond with interest and principal payments coming from the proceeds of a sinking fund.

Sinking fund

A fund to which money is added on a regular basis that is used to ensure investor confidence that promised payments will be made and that is used to redeem debt securities or preferred stock issues.

Size

Refers to the magnitude of an offering, an order, or a trade. Large as in the size of an offering, the size of an order, or the size of a trade. Size is relative from market to market and security to security. "I can buy size at 102-22," means that a trader can buy a significant amount at 102-22. Small is <10,000 shares. Medium is 15,000-25,000 shares. Good is 50,000 shares. Size is 100,000 shares. Good six-figure size is 200,000-300,000 shares. Multiple six-figure size is >300,000 shares. Size of the market is actual number of shares represented in one's market, or bid and offering; unless specified, assumed to be at least 500 to 1000 shares, depending on the stock.

Skewed distribution

Probability distribution in which an unequal number of observations lie below (negative skew) or above (positive skew) the mean.

Skewness

Negative skewness means there is a substantial probability of a big negative return. Positive skewness means that there is a greater-than-normal probability of a big positive return.

South African Futures Exchange (SAFEX)

Electronic futures and options exchange based in South Africa.

Sovereign risk

The risk that a central bank will impose foreign exchange regulations that will reduce or negate the value of FX contracts. Also refers to the risk of government default on a loan made to a country or guaranteed by it.

Special assessment bond

A municipal bond with interest paid by the taxes of the community benefiting from the bond-funded project.

Special bid

A method of purchasing a large block of stock on the NYSE by advertising a client's large buy order, and matching it up with a number of other traders' smaller sell orders.

Special bond account

A special broker margin account used only for transactions in U.S. government bonds, municipals, and eligible listed and unlisted non-convertible corporate bonds.

Speculator

One who attempts to anticipate price changes and, through buying and selling contracts, aims to make profits. A speculator does not use the market in connection with the production, processing, marketing, or handling of a product. See: Trader.

Spin-off

A company can create an independent company from an existing part of the company by selling or distributing new shares in the so-called spin-off.

Split

Sometimes, companies split their outstanding shares into more shares. If a company with 1 million shares executes a two-for-one split, the company would have 2 million shares. An investor with 100 shares before the split would hold 200 shares after the split. The investor's percentage of equity in the company remains the same, and the share price of the stock owned is one-half the price of the stock on the day prior to the split.

Split stock

(1) Purchases or sales shared with others. (2) Division of the outstanding shares of a corporation into a large number of shares. Ordinarily, splits must be proposed by directors and approved by shareholders.

Spot exchange rates

Exchange rate on currency for immediate delivery. Related: Forward exchange rate.

Spot futures parity theorem

Describes the theoretically correct relationship between spot and futures prices. Violation of the parity relationship gives rise to arbitrage opportunities.

Spot interest rate

Interest rate fixed today on a loan that is made today. Related: Forward interest rates.

Spot lending

Originating mortgages by processing applications taken directly from prospective borrowers.

Spot markets

Related: Cash markets

Spot month

The nearest delivery month on a futures contract.

Spot price

The current market price of the actual physical commodity. Also called cash price. Current delivery price of a commodity traded in the spot market, in which goods are sold for cash and delivered immediately. Antithesis of futures price.

Spot rate

The theoretical yield on a zero-coupon Treasury security.

Spot rate curve

The graphical depiction of the relationship between the spot rates and maturity.

Spot trade

The purchase and sale of a foreign currency, commodity, or other item for immediate delivery.

Spread

(1) The gap between bid and ask prices of a stock or other security. (2) The simultaneous purchase and sale of separate futures or options contracts for the same commodity for delivery in different

months. Also known as a straddle. (3) Difference between the price at which an underwriter buys an issue from a firm and the price at which the underwriter sells it to the public. (4) The price an issuer pays above a benchmark fixed-income yield to borrow money.

Spread option

A position consisting of the purchase of one option and the sale of another option on the same underlying security with a different exercise price and/or expiration date.

Spread position

The status of an account after a spread order has been carried out.

Spread strategy

A strategy that involves a position in one or more options so that the cost of buying an option is funded entirely or in part by selling another option in the same underlying. Also called spreading.

Staggering maturities

Hedging against interest rate movements by investment in short-, medium-, and long-term bonds.

Stagnation

A period of slow economic growth, or, in securities trading, a period of inactive trading.

Stakeholders

All parties that have an interest, financial or otherwise, in a firm—stockholders, creditors, bondholders, employees, customers, management, the community, and the government.

Standard deviation

The square root of the variance. A measure of dispersion of a set of data from its mean.

Standard error

In statistics, a measure of the possible error in an estimate. Plus or minus 2 standard errors usually provides a 95% confidence interval.

Standardized normal distribution

A normal distribution with a mean of 0 and a standard deviation of 1.

Stated annual interest rate

The interest rate expressed as a per year percentage, by which interest payments are determined.

See: Annual percentage rate.

Stochastic models

Liability-matching models that assume that the liability payments and the asset cash flows are uncertain. Related: Deterministic models.

Stochastic index

A computerized tool measuring overbought and oversold conditions in a stock over a certain period.

Stock

Ownership of a corporation indicated by shares, which represent a piece of the corporation's assets and earnings.

Stock ahead

When two or more orders for a stock at a certain price arrive about the same time, and the exchange's priority rules take effect. NYSE rules stipulate that the bid made first should be executed first, or, if two bids come in at once, the bid for the larger number of shares receives priority. The bid that is not executed is then turned to the broker, who informs the customer that the trade was not completed because there was "stock ahead." See: Ahead.

Stock certificate

A document representing the number of shares of a corporation owned by a shareholder.

Stock dividend

Payment of a corporate dividend in the form of stock rather than cash. The stock dividend may be additional shares in the company, or it may be shares in a subsidiary being spun off to shareholders. Stock dividends are often used to conserve cash needed to operate the business.

Unlike a cash dividend, stock dividends are not taxed until sold.

Stock Exchange of Hong Kong (SEHK)

Only stock exchange located in Hong Kong.

Stock Exchange, Mumbai (BSE)

Formerly the Bombay stock exchange, the BSE accounts for more than one-third of Indian trading volume.

Stock Exchange of Singapore (SES)

The only stock exchange in Singapore.

Stock Exchange of Thailand (SET)

The only stock exchange in Thailand.

Stock exchanges

Formal organizations, approved and regulated by the Securities and Exchange Commission (SEC), that are made up of members who use the facilities to exchange certain common stocks. The two major national stock exchanges are the New York Stock Exchange (NYSE) and the American Stock Exchange (ASE or AMEX). Five regional stock exchanges include the Midwest, Pacific, Philadelphia, Boston, and Cincinnati. The Arizona Stock Exchange is an after-hours electronic marketplace where anonymous participants trade stocks via personal computers.

Stock Index Future

A security that uses composite stock indexes to allow investors to speculate on the performance of the entire market, or to hedge against losses in long or short positions. The settlement of the contracts is in cash.

Stock index option

An option in which the underlying is a common stock index.

Stock index

Index like the Dow Jones Industrial Average that tracks a portfolio of stocks.

Stock market

Also called the equity market, the market for trading equities.

Stock option

An option whose underlying asset is the common stock of a corporation.

Stock rating

An evaluation by a rating agency of the expected financial performance or inherent risk of common stocks.

Stock record

The accounting a brokerage firm keeps of all securities held in inventory.

Stock repurchase

A firm's repurchase of outstanding shares of its common stock.

Stock split

Occurs when a firm issues new shares of stock and in turn lowers the current market price of its stock to a level that is proportionate to pre-split prices. For example, if IBM trades at \$100 before a two-for-one split, after the split it will trade at \$50, and holders of the stock will have twice as many shares as they had before the split. See: Split.

Stock ticker

A letter designation assigned to securities and mutual funds that trade on U.S. financial exchanges.

Stockholder

See: Shareholder.

Stockholm Stock Exchange

The only official equity trading market in Sweden.

Straddle

Purchase or sale of an equal number of puts and calls with the same terms at the same time. Related: Spread.

Strangle

Buying or selling an out-of-the-money put option and call option on the same underlying instrument, with the same expiration. Profits are made only if there is a drastic change in the underlying instrument's price.

Strike index

For a stock index option, the index value at which the buyer of the option can buy or sell the underlying stock index. The strike index is converted to a dollar value by multiplying by the option's contract multiple. Related: Strike price.

Strike price

The stated price per share for which underlying stock may be purchased (in the case of a call) or sold (in the case of a put) by the option holder upon exercise of the option contract.

Strip

Variant of a straddle. A strip is two puts and one call on a stock. A strap is two calls and one put on a stock. The puts and calls have the same strike price and expiration date. See: Strap.

Stripped bond

Bond that can be subdivided into a series of zero-coupon bonds.

Stripped mortgage-backed securities (SMBS)

Securities that redistribute the cash flows from the underlying generic MBS collateral into the principal and interest components of the MBS to enhance their attractiveness to different groups of investors.

Stripped yield

Applies mainly to convertible securities. Return on the debt portion of a bond/warrant unit after subtracting the value of the issued warrant segment.

Structured note

A derivative investment that will change in value with movements of an underlying index; or a note whose issuer makes swap arrangements to alter its required cash flows.

Structured portfolio strategy

Designing a portfolio to achieve a level of performance that matches some predetermined liabilities that must be paid out in the future.

Sushi bond

A Eurobond issued by a Japanese corporation.

Swap

An arrangement in which two entities lend to each other on different terms, e.g., in different currencies, and/or at different interest rates, fixed or floating.

Swap option

See: Swaption. Related: Quality option.

Swap rate

The difference between spot and forward rates expressed in points, e.g., \$0.0001 per pound sterling.

Swap reversal

An interest rate swap designed to end a counterparty's role in another interest rate swap, accomplished by counterbalancing the original swap in maturity, reference rate, and notional amount.

Swap sale

Also called a swap assignment, a transaction that ends one counterparty's role in an interest rate swap by substituting a new counterparty whose credit is acceptable to the other original counterparty.

Swaption

Options on interest rate swaps. The buyer of a swaption has the right to enter into an interest rate swap agreement by some specified date in the future. The swaption agreement will specify whether the buyer of the swaption will be a fixed-rate receiver or a fixed-rate payer. The writer of the swaption becomes the counterparty to the swap if the buyer exercises.

Swiss Electronic Bourse (EBS)

Computer linking system between the former stock exchange trading floors in Zurich, Geneva, and Basel, Switzerland so that trades can be carried out among traders on all three of the trading floors.

Swiss Options and Financial Futures Exchange (SOFFEX)

The Swiss derivatives market with the first fully electronic trading system in the world, now called Eurex Zurich AG.

Sydney Futures Exchange (SFE)

The derivatives market of Australia.

Symbol

Letters used to identify companies on the consolidated tape and other locations.

Systematic risk

Also called undiversifiable risk or market risk.

T

Taiwan Stock Exchange

Exchange of the Republic of China in Taipei.

Takeover

General term referring to transfer of control of a firm from one group of shareholders to another group of shareholders. Change in the controlling interest of a corporation, either through a friendly acquisition or an unfriendly, hostile, bid. A hostile takeover (with the aim of replacing current existing management) is usually attempted through a public tender offer.

Tax base

The assessed value of the taxable property, assets, and income within a specific geographic area.

Tax basis

In the context of finance, the original cost of an asset less depreciation that is used to determine gains or losses for tax purposes.

In the context of investments, the price of a stock or bond plus the broker's commission.

Technical analysis

Security analysis that seeks to detect and interpret patterns in past security prices.

Technical analysts

Also called chartists or technicians, analysts who use mechanical rules to detect changes in the supply of and demand for a stock, and to capitalize on the expected change.

Tel Aviv Stock Exchange

Israel's only stock exchange.

Term structure of interest rates

Relationship between interest rates on bonds of different maturities, usually depicted in the form of a graph often called a yield curve. Harvey shows that inverted term structures (long rates below short rates) have preceded every recession over the past 30 years.

Theoretical futures price

The equilibrium futures price. Also called the fair price.

Theoretical spot rate curve

A curve derived from theoretical considerations as applied to the yields of actually traded Treasury debt securities, because there are no zero-coupon Treasury debt issues with a maturity greater than one year. Like the yield curve, this is a graphic depiction of the term structure of interest rates.

Theoretical value

Applies to derivative products. Mathematically determined value of a derivative instrument as dictated by a pricing model such as the Black-Scholes model.

Theta

The ratio of the change in an option price to the decrease in time to expiration. Also called time decay.

Tick

Refers to the minimum change in price a security can have, either up or down. Related: Point.

Tick indicator

A market indicator based on the number of stocks whose last trade was an uptick or a downtick. Used as an indicator of market sentiment or psychology to try to predict the market's trend.

Time decay

Related: Theta

Time deposit

Interest-bearing deposit at a savings institution that has a specific maturity. Related: Certificate of deposit.

Time draft

Demand for payment at a stated future date.

Time to maturity

The time remaining until a financial contract expires. Also called time until expiration.

Time order

Order that becomes a market or limited price order or is cancelled at a specific time.

Time premium

Also called time value, the amount by which an option price exceeds its intrinsic value. The value of an option beyond its current exercise value representing the optionholder's control until expiration, the risk of the underlying asset, and the riskless return.

Time spread strategy

Buying and selling puts and calls with the same exercise price but different expiration dates, and trying to profit from the different premiums of the options.

Time until expiration

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

Time value

Applies to derivative products. Portion of an option price that is in excess of the intrinsic value, due to the amount of volatility in the stock; sometime referred to as premium. Time value is positively related to the length of time remaining until expiration.

Time value of money

The idea that a dollar today is worth more than a dollar in the future, because the dollar received today can earn interest up until the time the future dollar is received.

Time value of an option

The portion of an option's premium that is based on the amount of time remaining until the expiration date of the option contract, and the idea that the underlying components that determine the value of the option may change during that time. Time value is generally equal to the difference between the premium and the intrinsic value. Related: In the money.

Tokyo Commodity Exchange (TOCOM)

Tokyo exchange for trading futures on gold, silver, platinum, palladium, rubber, cotton yarn, and woolen yarn.

Tokyo International Financial Futures Exchange

Exchange that trades Euroyen futures and options, and futures on the one-year Euroyen, three-month eurodollar, and U.S. dollar/Japanese yen currency.

Tokyo Stock Exchange (TSE)

The largest stock exchange in Japan with the some of the most active trading in the world.

Tom next

Means to "tomorrow next.". In the interbank market in Eurodollar deposits and the foreign exchange market, the value (delivery) date on a tom next transaction is the next business day.

Total dollar return

The dollar return on a nondollar investment, which includes the sum of any dividend/interest income, capital gains or losses, and currency gains or losses on the investment. See also: Total return.

Total return

In performance measurement, the actual rate of return realized over some evaluation period. In fixed income analysis, the potential return that considers all three sources of return (coupon interest, interest on coupon interest, and any capital gain/loss) over some investment horizon.

Trade

An oral (or electronic) transaction involving one party buying a security from another party. Once a trade is consummated, it is considered "done" or final. Settlement occurs 1-5 business days later.

Trade date

The date that the counterparties in an interest rate swap commit to the swap. Also, the day on which a security or a commodity future trade actually takes place. Trades generally settle (are paid for) 1-5 business days after a trade date. With stocks, settlement is generally 3 business days after the trade. The settlement date usually follows the trade date by five business days, but varies depending on the transaction and method of delivery used.

Trade flat

For convertibles, trade without accrued interest. Preferred stock always "trades flat," as do bonds on which interest is in default or is in doubt. In general, trade in and out of a position at the same price, neither making a profit nor taking a loss.

Traders

Individuals who take positions in securities and their derivatives with the objective of making profits. Traders can make markets by trading the flow. When they do this, their objective is to earn

- the bid/ask spread. Traders can also take proprietary positions in which they seek to profit from the directional movement of prices or spread positions.
- Trading**
Buying and selling securities.
- Trading costs**
Costs of buying and selling marketable securities and borrowing. Trading costs include commissions, slippage, and the bid/ask spread. See: Transactions costs.
- Trading dividends**
Maximizing a firm's revenues by purchasing stock in other firms in order to collect the maximum amount of dividends of which 70% is tax-free.
- Trading profit**
The profit earned on short-term trades of securities held for less than one year, subject to tax at normal income tax rates.
- Trading range**
The difference between the high and low prices traded during a period of time; for commodities, the high/low price limit an exchange establishes for a specific commodity for any one day's trading.
- Trading volume**
The number of shares transacted every day. As there is a seller for every buyer, one can think of the trading volume as half of the number of shares transacted. That is, if A sells 100 shares to B, the volume is 100 shares.
- Transaction**
The delivery of a security by a seller and its acceptance by the buyer.
- Transactions costs**
The time, effort, and money necessary, including such things as commission fees and the cost of physically moving the asset from seller to buyer. Related: Round-trip transactions costs, information costs, search costs.
- Treasurer**
The corporate officer responsible for designing and implementing a firm's financing and investing activities.
- Treasuries**
Related: Treasury securities
- Treasury**
U.S. Department of the Treasury, which issues all Treasury bonds, notes, and bills as well as overseeing agencies. Also, the department within a corporation that oversees its financial operations including the issuance of new shares.
- Treasury bills**
Debt obligations of the U.S. Treasury that have maturities of one year or less. Maturities for T-bills are usually 91 days, 182 days, or 52 weeks.
- Treasury bonds**
Debt obligations of the U.S. Treasury that have maturities of 10 years or more.
- Treasury notes**
Debt obligations of the U.S. Treasury that have maturities of more than 2 years but less than 10 years.
- Treasury securities**
Securities issued by the U.S. Department of the Treasury.
- Treasury stock**
Common stock that has been repurchased by the company and held in the company's treasury.
- Trend line**
A technical chart line that depicts the past movement of a security and that is used in an attempt to help predict future price movements.
- Triangular arbitrage**
Striking offsetting deals among three markets simultaneously to obtain an arbitrage profit.
- TSE 300 (Toronto Stock Exchange 100 index)**
Canadian form of a S&P 500.
- Type**

The classification of an option contract as either a put or a call.

U

Uncovered call

A short call option position in which the writer does not own shares of underlying stock represented by the option contracts. Uncovered calls are much riskier for the writer than a covered call, where the writer of the uncovered call owns the underlying stock. If the buyer of a call exercises the option to call, the writer would be forced to buy the asset at the current market price. Also called a "naked" asset.

Uncovered put

A short put option position in which the writer does not have a corresponding short stock position or has not deposited, in a cash account, cash or cash equivalents equal to the exercise value of the put. The writer has pledged to buy the asset at a certain price if the buyer of the option chooses to exercise it. Uncovered put options limit the writer's risk to the value of the stock (adjusted for premium received.) Also called "naked" puts.

Underlying

What supports the security or instrument that parties agree to exchange in a derivative contract.

Underlying asset

The security or property or loan agreement that an option gives the option holder the right to buy or to sell.

Underlying futures contract

A futures contract that supports an option on that future, which is executed if the option is exercised .

Underlying security

For options, the security that is subject to purchase or sold upon exercise of an option contract. For example, IBM stock is the underlying security for IBM options. For Depository receipts, the class, series, and number of the foreign shares represented by the depository receipt.

Undiversifiable risk

Related: Systematic risk

Unit

More than one class of securities traded together (e.g., one common share and three subscription warrants).

Up

Market indication; willingness to go both ways (buy or sell) at the mentioned volume and market. Print; up on the ticker tape, confirming that the trade has been executed.

Up tick

Plus tick.

V

VaR

See: Value-at-risk model

Valuation

Determination of the value of a company's stock based on earnings and the market value of assets.

Value date

In the market for Eurodollar deposits and foreign exchange, the delivery date of funds traded. For spot transactions, it is normally on spot transactions two days after a transaction is agreed upon. In the case of a forward foreign exchange trade, it is the future date.

Value-at-risk model (VaR)

Procedure for estimating the probability of portfolio losses exceeding some specified proportion based on a statistical analysis of historical market price trends, correlations, and volatilities.

Vancouver Stock Exchange (VSE)

A securities and options exchange in Vancouver, British Columbia, (Canada), specializing in venture capital companies.

Vanilla issue

A security issue that has no unusual features.

Variance

A measure of dispersion of a set of data points around their mean value. The mathematical expectation of the average squared deviations from the mean. The square root of the variance is the standard deviation.

Vendor

Seller or supplier.

Vertical spread

Simultaneous purchase and sale of two options that differ only in their exercise price. See: Horizontal spread.

Vienna Stock Exchange (VSX)

One of the world's oldest exchanges, which accounts for approximately 50% of Austrian stock transactions; the balance are traded OTC.

Virtual currency option

A new option contract introduced by the PHLX in 1994 that is settled in U.S. dollars rather than in the underlying currency. These options are also called 3-Ds (dollar-denominated delivery).

Volatility

A measure of risk based on the standard deviation of the asset return. Volatility is a variable that appears in option pricing formulas, where it denotes the volatility of the underlying asset return from now to the expiration of the option. There are volatility indexes. Such as a scale of 1-9; a higher rating means higher risk.

Volatility risk

The risk in the value of options portfolios due to the unpredictable changes in the volatility of the underlying asset.

Std Deviation	Rating	Std Deviation	Rating
up to 7. 99	1	20. 00-22. 99	6
8. 00-10. 99	2	23. 00-25. 99	7
11. 00-13. 99	3	26. 00-28. 99	8
14. 00-16. 99	4	29. 00 and up	9
17. 00-19. 99	5		

Volume

This is the daily number of shares of a security that change hands between a buyer and a seller.

W**Warrant**

A security entitling the holder to buy a proportionate amount of stock at some specified future date at a specified price, usually one higher than current market price. Warrants are traded as securities whose price reflects the value of the underlying stock. Corporations often bundle warrants with another class of security to enhance the marketability of the other class. Warrants are like call options, but with much longer time spans-sometimes years. And, warrants are offered by corporations, while exchange-traded call options are not issued by firms.

Warranty

A guarantee by a seller to a buyer that if a product requires repair or remedy of a problem within a certain period after its purchase, the seller will repair the problem at no cost to the buyer.

Weighted average Coupon

The weighted average of the gross interest rates of mortgages underlying a pool as of the pool issue date; the balance of each mortgage is used as the weighting factor.

Weighted average maturity

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

Weighted average portfolio yield

The weighted average of the yield of all the bonds in a portfolio.

Weighted average remaining maturity

The average remaining term of the mortgages underlying a MBS.

Working capital

Defined as the difference between current assets and current liabilities (excluding short-term debt). Current assets may or may not include cash and cash equivalents, depending on the company.

Write

Sell an option. Applies to derivative products.

Writer

The seller of an option, usually an individual, bank, or company that issues the option and consequently has the obligation to sell the asset (if a call) or to buy the asset (if a put) on which the option is written if the option buyer exercises the option.

Y

Yankee bonds

Foreign bonds denominated in U.S. dollars and issued in the United States by foreign banks and corporations. These bonds are usually registered with the SEC. Such as, bonds issued by originators with roots in Japan are called Samurai bonds.

Yankee CD

A CD issued in the domestic market, typically New York, by a branch of a foreign bank.

Yankee market

The foreign market in the United States.

Yield

The percentage rate of return paid on a stock in the form of dividends, or the effective rate of interest paid on a bond or note.

Yield advantage

The advantage gained by purchasing convertible securities instead of common stock, which equals the difference between the rates of return of the convertible security and the common shares.

Yield burning

A municipal bond financing method. Underwriters in advance refundings add large markups on U.S. Treasury bonds bought and held in escrow to compensate investors while waiting for repayment of old bonds after issuance of the new bonds. Since bond prices and yields move in opposite directions, when the bonds are marked up, they "burn down" the yield, which may violate federal tax rules and diminishes tax revenues.

Yield curve

The graphic depiction of the relationship between the yield on bonds of the same credit quality but different maturities. Related: Term structure of interest rates. Harvey (1991) finds that the inversions of the yield curve (short-term rates greater than long term rates) have preceded the last five U.S. recessions. The yield curve can accurately forecast the turning points of the business cycle.

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 curve strategies

Investments that position a portfolio to capitalize on expected changes in the shape of the Treasury yield curve.

Yield equivalence

The interest rate at which a tax-exempt bond and a taxable security of similar quality give the investor the same rate of return.

Yield ratio

The quotient of two bond yields.

Yield spread

The difference in yield between different security issues usually securities of different credit quality.

Yield spread strategies

Investments that position a portfolio to capitalize on expected changes in yield spreads between sectors of the bond market.

Yield to average life

A yield calculation in which bonds are retired routinely during the life of the issue. Since the issuer buys its own bonds on the open market because of sinking fund requirements, if the bonds are trading below par, this action provides automatic price support for these bonds and they will usually trade on a yield to average life basis.

Yield to call

The percentage rate of a bond or note if the investor buys and holds the security until the call date. This yield is valid only if the security is called prior to maturity. Generally bonds are callable over several years and normally are called at a slight premium. The calculation of yield to call is based on coupon rate, length of time to call, and market price.

Yield to maturity

The percentage rate of return paid on a bond, note, or other fixed income security if the investor buys and holds it to its maturity date. The calculation for YTM is based on the coupon rate, length of time to maturity, and market price. It assumes that coupon interest paid over the life of the bond will be reinvested at the same rate.

Yield to warrant call

Applies mainly to convertible securities. Effective yield of usable or synthetic convertible bonds determined against the first date at which the warrants can be called.

Yield to warrant expiration

Applies mainly to convertible securities. Effective yield of usable convertible bonds determined by the expiration date of the applicable warrants.

Yield to worst

The bond yield computed by using the lower of either the yield to maturity or the yield to call on every possible call date.

Z

Z bond

A bond on which interest accrues but is not currently paid to the investor but rather is added to the principal balance of the Z bond and becoming payable upon satisfaction of all prior bond classes.

Zero-coupon bond

A bond in which no periodic coupon is paid over the life of the contract. Instead, both the principal and the interest are paid at the maturity date.

Zero-coupon convertible security

A zero-coupon bond convertible into the common stock of the issuing company after the stock reaches a certain price, using a put option inherent in the security.

Also refers to zero-coupon bonds, which are convertible into an interest bearing bond at a certain time before maturity.