

Harriman's Financial Dictionary

Edited by Simon Briscoe & Jane Fuller

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Over 2,600 essential financial terms

Edited by Simon Briscoe & Jane Fuller

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Before that he worked in the Central Statistical Office, the Treasury and the EU in Brussels and then for over 12 years in the research departments of three investment banks – finally as Managing Director of Research, at Nikko Europe. He is author of '*Interpreting the Economy*', published in 2000 by Penguin, and '*Britain in Numbers*', a statistical review of the UK and how figures are used in politics, published by Politico's in 2005.

He has sat on the Council of the Royal Statistical Society and chaired its Official Statistics Section. He sat on the ONS Statistics Advisory Committee (between 1996 and 1999), has been an adviser for the Treasury Committee (of the House of Commons), sat on the Council of the Society of Business Economists and was inaugural Chairman of Financial Statistics Users' Group.

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Jane spent more than 18 years at the *Financial Times*, culminating in the role of Financial Editor, head of the Companies & Markets section. In that post, 2000-2005, she launched the FTfm fund management supplement and was part of the paper's senior management team. She has been a Leader writer, a Lex writer and a Lombard columnist.

A graduate of Cambridge University, Jane worked on provincial newspapers and launched an equestrian magazine before joining the FT. Her main interests are horse riding and visiting France, where she and her husband have a second home.

Preface

Set up in 1999, www.Finance-Glossary.com is the leading online reference for finance and investment terms, with more than 2,600 cross-referenced dictionary definitions and acronyms covering the stock, options, futures and capital markets, as well as personal finance. Every year, scores of new terms are added and definitions revised to keep the glossary up to date with changes in the market and the emergence of new financial products. Users of the online glossary regularly asked us if we had a hard copy version so, with the help of editors Simon Briscoe and Jane Fuller, we decided to produce one.

Finance-Glossary.com is part of the Global-Investor.com group of sites, managed by Harriman House, which aim to educate investors.

Aa

90/10 strategy

A conservative option strategy in which an investor buys government bills (or other liquid assets) with 90% of funds, and buys call options (or put options or a mixture of both) with the balance. The proportions of this strategy are subject to change based on prevailing interest rates.

A, AA, AAA

Credit ratings measure the creditworthiness of a borrower. AAA (the precise naming and designation varies between agencies) is the highest rating and means that there is next to no risk that the borrower will default. The best-known credit ratings agencies are Moody's, Standard and Poor's and Fitch.

A-Day

6th April 2006, when wide-ranging pension reforms, designed to simplify and streamline the whole system, were introduced. The changes covered issues such as retirement age, the size of the tax-sheltered pension pot, contribution levels and what pension money can be invested in.

abandoned option

Where an option is neither sold nor exercised but allowed to lapse at expiry.

See also: option

abandonment

1. Generally in law, the voluntary relinquishing of all rights, title or possession of property such as trademarks, copyrights and patents.

2. Specifically in options trading, the situation where an option holder allows ownership of an option to expire unexercised.

See also: option

acceptance

The writing of the word 'accepted' on the face of a bill of exchange by the drawee together with his/her signature indicating that the bill will be paid when due.

See also: bill of exchange

accepting house

An organisation, usually a merchant bank, that accepts or guarantees bills of exchange and so finances trade deals and goods being shipped. It accepts the bills by agreeing to pay it at a discounted rate at some point in the future.

See also: bill of exchange, merchant bank

Access

A former credit card system that was sold to Mastercard and discontinued.

See also: Mastercard

accident insurance

Insurance that pays out in the event of an accident. Items typically covered are medical expenses and loss of earnings. If, for example, the insured sustains the loss of a limb or an eye, a specified lump sum is payable.

See also: insurance

accidental death insurance

Insurance that pays a lump sum when the death of the insured has been caused by an accident.

See also: insurance

account payee

Also 'account payee only'. Words written on the face of a cheque between two parallel lines. The purpose is to ensure that the cheque may only be paid into an account in the name of the payee – the person to whom the cheque is made payable. This means that the payee cannot sign it in favour of another person.

account sale

A statement by a commodity broker to a client when a futures transaction is closed out. Sometimes referred to as a P&S (Purchase and Sale Statement), it shows the net profit or loss on the transaction, with commissions and

other charges detailed and taken.

accounting reference date

When a company is incorporated, it will usually have an accounting reference date that is the last day of the month in which the anniversary of its incorporation falls. Directors can change the accounting reference date by filing an appropriate form with the Registrar of Companies. It marks the end of the annual accounting period and is also known as the balance sheet date.

See also: Registrar of Companies

Accounting Standards Board

ASB

UK body that sets accounting standards. It is recognised for that purpose under the Companies Act 1985 and took over the task of setting accounting standards from the Accounting Standards Committee (ASC) in 1990. The ASB also collaborates with accounting standards setters from other countries and the International Accounting Standards Board (IASB) both in order to influence the development of international standards and in order to ensure that its standards are developed with due regard to international developments. It's a subsidiary of the Financial Reporting Council (FRC).

accounts payable

Amounts owed by an organisation or individual to another for goods or services it has received.

See also: accounts receivable

accounts receivable

Amounts due to an organisation or individual from another for goods or services it has supplied.

See also: accounts payable

accrual

A term used in company accounts where income is due or a cost is incurred during an accounting period but has not been received or paid.

accrual rate

The rate of build-up of a pension in a scheme where the calculation is based on salary. The accrual rate is generally expressed as some fraction – for example, sixtieths – of final pay.

See also: personal pension plan

accrued benefits

Benefits earned by an employee in respect of his/her pension based on years of service with his/her employer.

See also: personal pension plan

accumulated dividend

A dividend due to holders of cumulative preference shares which has not yet been paid. The amount is carried forward on the company's books as a liability until it is paid.

See also: dividend, cumulative preference shares, liabilities, preference shares

accumulation

1. Regular investment of a fixed dollar amount in a mutual fund with dividends reinvested.

2. In charting, the period before a sustainable price rise when the so-called smart money starts to buy stock.

3. Purchase of a large number of shares over a period of time in a manner designed to avoid pushing the price up.

See also: dividend, mutual fund

accumulation and maintenance trust

A tax-efficient trust, used to pass assets to your children while still retaining some control over those assets. Money is only paid out to the beneficiaries when certain conditions are met.

See also: inheritance tax

accumulation units

Units in a unit trust where the income from the trust's investments is reinvested in the trust rather than being paid out to investors as dividends. This is effected either through enhancing the unit price or issuing additional units. Unit holders get the benefit of the dividends through the increased value of the fund's assets (and their share of those assets).

See also: dividend, unit trust

Association Cambiste Internationale – The Financial Markets Association

ACI Founded in France in 1955 following an agreement between foreign exchange dealers in Paris and London. In the years that followed, other national associations were formed and there are now affiliated financial markets associations in more than 60 countries. ACI has the largest membership of any of the international associations in the wholesale financial markets.

accumulation/distribution Indicator

ADI

One of a number of indicators available to measure volume and the flow of money for a particular stock, index or security. The basic premise behind volume indicators is that volume precedes price. Volume reflects the amount of shares traded in a particular stock, and is a direct reflection of the money flowing into and out of a stock.

See also: volume

acid ratio

See 'acid test ratio'.

acid test ratio

A financial ratio similar to the current ratio or working capital ratio, defined as: current assets minus stocks divided by current liabilities. It shows whether a company would be able to pay its debts if it needed to satisfy creditors but it had no time to sell any of its assets.

If the acid test ratio is 1 or higher, a company passes the test. If the acid test ratio is much lower than the working capital ratio, it means current assets are highly dependent on inventory. Retail stores are examples of this type of business. The term derives from the way gold miners would test that their finds were gold, which is non-corroding in acid, by submerging them in acid.

See also: current ratio

acquisition

A term used to describe the takeover of a company by another which might be by agreement or hostile.

Rules on mergers and acquisitions involving listed companies are governed by the City Code on Takeovers.

See also: takeover

across the board

All the months of a particular futures contract or futures option contract. For example, if all the gold contracts open limit up, they were limit up 'across the board'.

See also: futures

Act of God

An unpreventable and unpredictable event that could cause loss or damage to buildings, land, vehicles, etc.

acting in concert

A group of investors are said to be acting in concert when they work together to achieve the same goal, often the purchase of a certain amount of a company's stock with a view to launching a takeover. They can be said to be working as a concert party.

active fund

A fund in which the objective is to outperform the market average by actively picking stocks that will provide superior total returns. Fund managers have access to extensive research and analysis to help them make the right choices, and one of the consequences of this effort is that the management charges passed on to investors in the fund tend to be high.

Contrast this with passive funds, such as tracker and index funds, where the aim is not to beat the index but simply to match it by investing in companies

precisely in accordance with the constituents of an index. Since this is a mechanical process, the managers of the fund have far fewer expenses and the charges to investors are lower than for active funds, which helps fund performance.

Advocates of passive funds point out that many actively managed funds fail to match the index. Advocates of active funds argue that the more investors pile into index funds, the more opportunity for active investment. The only way to better the index is to manage actively.

See also: passive fund

active management

See 'active fund'.

active market

A loose term denoting that there is a high degree of liquidity in a stock market, which in turn usually means that bid-offer spreads are narrow.

See also: bid-offer spread, liquidity

activities of daily living

ADL

An insurance term which refers to the basic things that people need to be able to do in order to look after themselves – e.g. wash and feed themselves. People who are not able to carry out ADLs unaided may be eligible for long-term care under their insurance policy.

See also: life assurance

actuals

Commodities such as metals, coffee and grain that are bought and sold for

use as opposed to hedging or speculation by trading on a futures contract. Also called physicals.

See also: futures contract, hedging

actuary

A person trained and specialising in risk, mathematics, statistics and finance who gives advice on the management of assets mainly in the insurance and pension business. Calculations made by actuaries include such items as premiums, bonus payments and life expectancy. These factors must be taken into account for long-term fund management and planning.

See also: pension forecast, premium

ADB

See 'Asian Development Bank'.

ad valorem duties

Taxes charged as a percentage of the value of an asset. Stamp duty, which is charged on transfers of shares and property, is an example.

See also: stamp duty

adaptive filter

Continuously updating the weighting of past prices for smoothing or forecasting purposes.

See also: index

additional pension

See 'State Second Pension'.

additional personal allowance

An income tax allowance for single people, including widows/widowers and separated spouses, who are not entitled to the married couple's allowance and are supporting a child under the age of 16 at their own expense. This allowance also applies where a man's wife is living with him and she is totally incapacitated and they have a child living with them.

See also: income tax, tax allowances

additional rate tax

A term which applies to trusts without an interest in possession (for example a discretionary trust) and defines the additional rate of tax on income.

See also: trust

additional voluntary contributions

AVC

Additional payments to a tax deferred savings account or an occupational pension scheme by an employee to boost a pension at retirement. 'Free-Standing AVCs' or 'FSAVCs' are essentially a private version of an AVC and can be used to top up contributions independently of the employer.

See also: occupational pension scheme, pension fund

adjustable rate mortgage

ARM

A mortgage on which the interest rate changes over the term of the loan. The main influence on this is changes in short-term interest rates.

adjustable rate preferred stock

ARPS

Preferred stock that pays a dividend in line with interest rates generally rather than a fixed dividend. The changes in the dividend are determined by a pre-set formula.

See also: dividend, dividend yield, preferred stock

adjusted earnings

If a company's earnings figures are distorted either positively or negatively by exceptional one-off occurrences in the year, its directors can choose to clarify the performance by releasing adjusted earnings. In other words, earnings with the exceptional items stripped out which they believe are more representative of its underlying performance.

See also: Earnings per share

adjusted gross income

In the US, a person's income on which federal income tax is calculated. This is gross income less adjustments such as Individual Retirement Account, Simplified Employee Pension Plan, Keogh Plan and alimony payments but before itemised deductions such as state and local income taxes, interest expenses and medical expenses.

See also: gross income

administration

An insolvency procedure, in which a company is in severe trouble, but still with some hope of recovery, may be put into the charge of a court-appointed administrator. Going into administration means the company cannot be wound up without the court's permission.

See also: administrative receiver, insolvency, receiver

administrative receiver

An insolvency practitioner appointed when a company goes into receivership. If a company is unsalvageable, it may go straight to administrative receivership, presided over by an administrative receiver, usually known simply as the receiver. The receiver sells the assets and the net proceeds go to the creditors.

See also: receiver

administrator

An individual legally appointed by a court to settle the affairs of a deceased person who failed to make a will. An administrator is also appointed in cases where the deceased person made a will but failed to name an executor or the executor predeceased or fails to act for some other reason.

Feminine form: administratrix.

See also: executor, intestate, will

ADR

See 'American depositary receipt'.

advance corporation tax

ACT

Tax payable by companies on dividend payments – but abolished on 5th April 1999 – which was offset against the company's mainstream corporation tax liability.

advisory broker

A broker who not only deals in stocks and shares on behalf of his client, but also advises on what shares should be bought and sold for the portfolio. The broker will contact the client to suggest changes in the composition of the portfolio, but does not have authority to trade on a completely discretionary basis. The client pays a commission on dealing and may pay charges based on the value of the portfolio.

See also: discretionary broker, execution only broker, full-service broker

Affarsvarlden index

AFGX

One of the Swedish stock market indices, similar to the UK's FTSE100 index.

See also: FTSE 100 Index

affidavit

A written statement signed on oath and witnessed by a commissioner for oaths, usually a qualified solicitor.

affiliate

Companies are affiliates if they are both subsidiaries of a third, or they own shares in each other.

affinity cards

Credit cards branded with the name of a charity or trade union. Generally, a

small donation goes to the chosen organisation every time they are used.

affluenza

A ‘disease’ said to be sweeping modern Britain, thanks to business success, inheritance, rising property values and the Lottery. It refers to the sense of confusion and disorientation that the newly rich feel when they find they are suddenly millionaires.

after hours deals

Dealings made on a stock exchange after its official closure time. These deals are rolled over and included in the following day’s transactions.

See also: stock exchange, stockbroker

Aktiengesellschaft

AG

A German joint stock company.

See also: Stockmarkets, European Markets

age admitted

A term used on occasions in life assurance policy documents, which indicates that the assured has proven his/her age by showing a birth certificate to the insurance company. This means that no further evidence of age will be needed in the event of a subsequent claim that is triggered by the death of the assured or maturity of the policy.

See also: life assurance

age allowance

An additional personal allowance and

additional married couple’s allowance for people aged 65 to 74 that reduces their income tax. A further increase in age allowance is applicable for people aged 75 and over.

See also: tax allowances

agency

A business operated by an agent in conjunction with his/her principal.

See also: principal

agency securities

In the US, these are securities issued by federal government agencies.

See also: bond

agent

A person appointed by a principal to act on the latter’s behalf in business.

See also: principal

AGM

See ‘annual general meeting’.

agricultural property relief

A deduction of either 50% or 100% which can be made from the value of agricultural property and land in the UK, Channel Islands or Isle of Man when it is assessed for inheritance tax purposes.

See also: business property relief, inheritance tax, potentially exempt transfer

AIM

See ‘Alternative Investment Market’.

alimony

Money paid to a divorced or separated spouse following a divorce order.

all or none

An order to a broker to buy or sell the entire amount of the order in one transaction or not deal at all.

See also: fill or kill

all or nothing

See 'all or none'.

all-paper deal

When one listed company bids for another company (listed or private), it may offer to pay in one of three ways:

all cash: the shareholders of the target company get cash for their shares

cash and paper: the shareholders of the target company get a mixture of cash and shares in the bidding company

all paper: the shareholders of the target company only get shares in the bidding company

The attractions of an all-paper deal to shareholders in the target company will depend on how much confidence they have in the bidding company (do they want to own its shares?) and whether they think the relative valuations of the two companies' shares are fair.

There can be some tax advantages to taking shares from a bidding company, rather than cash. The swap of shares is not deemed to be a disposal of the target company shares, so there is no immediate capital gains tax (CGT) liability. If you take cash for your shares, it is a disposal and there may be CGT to pay.

See also: capital gains tax

allocation notice

A formal notification to the writer of an option from a clearing house that an option has been exercised by an option holder and that the writer is obliged to buy/sell the underlying instrument at the exercise price to meet his/her obligations.

See also: exercise price, holder, option, underlying (instrument), writer

allotment

The distribution of shares to applicants in a new issue. Applicants may get all the shares they applied for or, if the new issue is oversubscribed, the allotment will be scaled down either pro rata to the amount applied for or, in some cases, using a random ballot.

See also: initial public offering, new issue, oversubscribed

allotment notice/letter

A confirming document from a company that newly issued shares have been allotted to an applicant.

See also: allotment, initial public offering, new issue

allowable expenses

Expenses incurred by a person while carrying out duties at work, which are 'approved' by the tax authorities and can be offset against income to reduce income tax liability.

allowances

Tax allowances are concessions by HM Revenue & Customs, which can be

used to reduce a person's taxable income. The main allowance for UK taxpayers is the 'personal allowance', which is an amount of income that is tax free. In the tax year 2006-2007 the personal allowances are £5,035 for people under 65, rising to a higher figure at the age of 65 and again at 75.

Other allowances include the Married Couple's Allowance (available to couples where one person is 65 or over) and the Blind Person's Allowance.

See also: benefits in kind, gross income, tax free pay

alpha

The premium that an investment portfolio, or a stock, earns above its performance benchmark or the market as a whole. Stocks that rise when the market as a whole is falling have 'positive alphas'. Stocks that fall when the market as a whole is rising have 'negative alphas'.

See also: volatility

alpha shares

A term previously given to the most actively traded shares on the London Stock Exchange along with beta, gamma and delta shares. This classification was replaced by the normal market size classification in January 1991.

See also: beta shares, bid-offer spread, delta shares, gamma shares, liquidity, London Stock Exchange, normal market size

alternative investment

Investment in items other than stocks, bonds or other securities. Wine, art and antiques are examples.

Alternative Investment Market

AIM

A market created for small, young and growing companies, operated by the London Stock Exchange as a regulated market of a Recognised Investment Exchange (RIE) and set up in June 1995. It replaced the Unlisted Securities Market (USM). The market provides an opportunity for companies to raise capital for expansion, a trading facility and a way of establishing a market value for their shares. The admission criteria for AIM are less stringent than for the main market.

There are over 1,000 companies listed on AIM. The market cap of the index varies quite widely. AIM companies tend to trade on wider spreads than companies on the main market and liquidity can be a problem.

See also: bid-offer spread, liquidity, London Stock Exchange, Recognised Investment Exchange, Unlisted Securities Market

alternative minimum tax

AMT

A US tax that targets high-wealth individuals, ensuring that they pay a minimum amount of tax. The tax is calculated on the sum of adjusted gross income and tax preference items less exemptions.

See also: exemption, gross income

American Association of Individual Investors

AAII

An association based in Chicago whose purpose is to provide information and education regarding stocks,

mutual funds, bonds, etc. to individual investors.

See also: bond, mutual fund, stock

American depositary receipt

ADR

American depositary receipts (ADRs) are a convenient way for Americans to own shares in foreign companies. Rather than buying non-American shares direct, they buy ADRs. ADRs are receipts for the shares of a foreign company. The share certificates themselves are held by an American bank which issues the ADRs, then collects dividends and distributes them to ADR-holders after converting them into dollars. The holders of ADRs normally have all the rights of normal shareholders, including voting rights. The ADRs are tradable instruments in their own right. Although intended for American investors, ADRs can also be bought by non-Americans. In some cases it can be cheaper (in terms of costs) for someone in London to buy ADRs in a UK company than to buy the shares on the London markets.

Most foreign companies that want to list in the US use ADRs.

American Express

An international company whose services include travel and financial products and which is best known for the American Express charge card that enables the holder to obtain goods and services without the need to pay cash. Invoices of transactions are tendered monthly and must be settled in full.

See also: charge card

American Stock Exchange

AMEX

A stock exchange located in Manhattan where stocks of small to medium-sized companies, options and exchange traded funds are traded.

See also: stock exchange

American-style option

An option that can be exercised at any time until expiry (unlike European style options, which can only be exercised at expiry).

See also: European-style option, option

American-style exercise

See 'American-style option'.

American-style warrant

A warrant that can be exercised at any time until final expiry.

amortisation

An annual charge made in a company's profit and loss account to reduce the value of an intangible asset to zero over a period of years. A common example has been goodwill amortisation, but that has been abolished under international accounting standards. The goodwill, acquired through a takeover, is instead subjected to an annual impairment test.

See also: assets, depreciation

AMOS

American Stock Exchange Options Switching System.

analyst

A professional working for a fund manager or broker whose job is to analyse industry sectors (e.g. retail, oil, pharmaceuticals) and determine the prospects for the companies operating in them.

Research done by a broker's analyst, known as the 'sell side', will be made available to the firm's clients (e.g. fund managers – the 'buy side') in an attempt to persuade those clients to place orders with the brokers.

See also: fund manager

angel

A provider of venture capital, traditionally used in relation to backers of theatrical productions, but now used more widely. Angels put up capital to get a show into production and in return they get 'units'. If the show is successful, they get their capital repaid and earn a share of profits in proportion to the number of units they own. If the show is unsuccessful, they lose the lot.

See also: venture capital

annual bonus

See 'reversionary bonus'.

annual equivalent rate

AER

A figure quoted in loan advertisements to help people compare one product with another. It indicates what the rate would be if interest was compounded and paid just once a year. The annual equivalent rate will typically be higher than the actual annual rate calculated without compounding as many investment products are not compounded annually.

annual exemption

Each taxpaying individual in the UK is entitled to an annual exemption on capital gains for the current tax year. This means that they can make this level of gains (on for instance share sales) without paying capital gains tax.

See also: capital gains tax, inheritance tax

annual general meeting

AGM

An annual meeting called by the directors of a company, which shareholders are invited to attend. Subjects normally discussed include audited accounts, election or re-election of directors, dividend payments to shareholders and, recently, companies have been obliged to put remuneration policy to the vote at their AGMs. The meeting is the main opportunity for shareholders to put questions to the directors of the company. They can also put forward their own motions, though some companies have criteria for motions that may restrict this – e.g. they may require that only shareholders with a certain number of shares can put forward motions.

The equivalent US term is 'annual meeting'.

See also: dividend, shareholder, extraordinary general meeting

annual percentage rate

APR

Where interest on loans is expressed as other than a yearly rate, for example 1.5% per month, APR is the equivalent rate over a year, in this case 19.56%.

The Consumer Credit Act 1974 requires companies that advertise loans or credit cards to state what the APR

rate is. This enables would-be borrowers to compare rates and to see the true rate of interest repayment they would incur over the full year. The APR should also take into account any other charges that the borrower has to pay.

See also: interest rate

annual report

All quoted companies have a legal obligation to send shareholders annual results within six months of their financial year-end. The document, called the annual report and accounts, includes a narrative on company performance and financial results with footnotes. Several components are stipulated either by the listing authority or by accounting standards setters. The company will also have sent out interim results at the half-year stage, or quarterly.

The annual report and accounts typically contains five sections that offer hard information.

- The directors' report

This tells what the company does, usually broken down by business segment, who its directors are and what their stake in the company is. There is also a remuneration and corporate governance report. The narrative should cover any significant business or financial developments during the year and provides a review of the year's trading.

- Profit and loss statement (P&L)

This summarises the result of last year's trading in figures. It tells what the company sold, what its costs were, how much profit it made, what the tax charge was, what was left for shareholders, how much of this is being paid out to them in dividends

and how much ploughed back into the company. It gives comparable figures for the previous year.

- Balance sheet

This provides a snapshot of everything the company owes and owns at the end of the financial year in question. It tells what its assets are and how they are financed. Where the profit and loss account tells you how the company has performed over one year, the balance sheet reveals its fundamental health.

- Cash flow statement

This compares the amount of cash coming into the company from trading profits, investment, more efficient debt collection and so on, with the amount flowing out from trading losses, tax and dividends. Then it adds or subtracts the cash produced by capital raising or spent on capital repayment.

- Auditors' report

This tells you whether the accounts prepared by management reflect a true and fair view of affairs and meet the legal and regulatory requirements.

See also: balance sheet, fundamental analysis, profit and loss statement

annual return

1. The total annual return on an investment, which includes dividend payments and capital gains/losses. Transaction costs and taxes are not included.

2. An obligatory return, submitted annually to the Registrar of Companies, detailing information about a company's operations including business description, details of directors and company secretary, share capital, etc.

annuitant

A person in receipt of an annuity.

See also: annuity, annuitise

annuitise

The commencement of regular payments from capital that has accumulated in an annuity.

See also: annuity

annuity

The payment of a regular income by a life company to an annuitant either for life or shorter periods in exchange for a lump sum.

Annuities are typically used for pensions and the individual receiving the annuity is known as an annuitant. In the UK they can broadly be classified into two types:

- A compulsory purchase annuity, which is bought from the proceeds of a pension fund and is taxable as earned income.
- A purchased life annuity, which is bought with an individual's own capital and taxed at a lower rate than a compulsory purchase annuity.

There are three different types of pension annuities, commonly referred to as standard annuities, with-profits annuities and unit-linked annuities.

Standard pension annuities are the most commonly purchased and account for over ninety per cent of the UK market. The income from a standard pension annuity is guaranteed for the rest of the annuitant's life whereas the income from a with-profits or unit-linked annuity will fluctuate depending on the investment performance of the underlying assets.

annuity deferral

It used to be the case that you could only receive your pension from a personal pension plan by buying an annuity. You can now also choose to defer (up to age 75) the purchase of an annuity with your pension fund and take an income directly from the fund.

See also: annuity

annuity starting date

The date on which annuity benefit payments start to be paid to an annuitant.

See also: annuity

antitrust laws

US legislation to prevent monopolies and restraint of trade. Trusts and monopolies are concentrations of wealth in the hands of a few and such conglomerations of economic resources are thought to be injurious to the public and individuals because they reduce normal marketplace competition. To prevent trusts from creating restraints on trade or commerce and reducing competition, Congress passed the law in 1890, which was designed to maintain economic liberty, and to eliminate restraints on trade and competition.

appropriate personal pension plan

A pension plan in which employer and employee pay full rate National Insurance contributions equivalent to the employee contracting into S2P. This rate will be greater than the rate paid by contracting out of the state second pension S2P.

The difference between these rates, the

contracted-out rebate, is paid by the Government into a scheme known as an appropriate personal pension plan, which buys pension benefits at retirement age known as protected rights. Provided an employee qualifies, incentive payments may also be paid by the Government into the scheme.

The contracted-out rebate plus any incentive payments are known as minimum contributions. Payment of minimum contributions into an appropriate personal pension plan results in a reduction of S2P benefit at retirement age as though the employee had contracted out through a final salary related scheme.

See also: contracting out, National Insurance, personal pension plan, State Second Pension

approved delivery facility

Any bank, stockyard, warehouse, depository or other facility that is authorised by an exchange for the delivery of commodities tendered on futures contracts.

approved investment trust

An investment trust that satisfies certain conditions set by the tax authorities and accordingly is exempt from tax on capital gains made on profits from sales of investments within its portfolio.

This ability of investment trusts to trade in and out of shares gives them an advantage over private investors who, in considering whether to sell shares, are bound to have one eye on the capital gains tax liability that they might incur.

See also: capital gains tax, investment trust

approved list

A list of investments in which a financial institution, such as a mutual fund, is authorised to invest.

See also: mutual fund

arbitrage

The simultaneous purchase and sale of two different, but closely related, securities to take advantage of a disparity in their prices. Alternatively, the purchase and sale of the same security in different markets.

Originally, most arbitrage occurred in the currency markets: arbitrageurs would buy in one market and sell in another. Nowadays, the practice applies equally to commodities, futures and stocks. For instance, if a company is dual-listed on two stock exchanges and the prices are at variance, an arbitrageur has an opportunity to buy in one market and sell in another before the disparity is closed. In a perfect market, such opportunities should not arise; when they do, they are usually closed quickly.

arbitrageur

A person or firm carrying out arbitrage.

See also: arbitrage

arithmetic mean

The correct term for what most people call the 'average'. Often shortened to 'mean'. Calculated by adding up a series of values and dividing the total by the number of values. For example, $1+2+3+4+5+6+7=28$. The mean is 28 divided by 7, which equals 4. The mean is in contrast to the mode and

median, which are other measures of central tendency.

Arms index

A contrary indicator, based on volumes, moving in the opposite direction of the market and useful in spotting short-term extremes for intra-day trading. A ratio of 1 means the market is in balance. Above 1 indicates that more volume is moving into declining and below 1 indicates that more volume is moving into advancing stocks. The indicator was developed by Richard Arms.

See also: day trading, technical analysis

arrearage

In general, the amount of an obligation which is past. More specifically, the amount of interest due on bonds and dividends due on cumulative preferred stock but as yet unpaid. Whilst dividends on cumulative preferred stock remain unpaid, dividends on common stock are not payable.

See also: cumulative preferred stock

articles of association

The document that lists the regulations that govern the running of a company. Articles of association will cover such things as: main business and purposes of the company; shareholders' voting rights; directors' duties; and general working and management practices. They are registered with the memorandum of association when the company is formed.

See also: articles of incorporation

articles of incorporation

In the US, the document that the founders of a corporation submit to the relevant state for approval, after which a certificate of incorporation is issued. These two documents form the corporation's charter, which endorses its legality. Information listed in the charter includes the name of the corporation, purpose, the number of authorised shares, and details of directors. The rules under which the corporation's internal management operates are listed in the bylaws.

See also: articles of association

Asian Development Bank

ADB

A multilateral development finance institution, established in 1966, owned by its 64 member countries and aiming to reduce poverty in the region.

ask

The lowest price at which a dealer or market maker will sell a specified number of shares of a stock at any given time. The term 'bid' refers to the highest price a market maker will pay to purchase the stock. The ask price (also known as the 'offer' price) will be higher than the bid price as market makers make money on the difference between the bid price and the ask price, the difference being called the 'spread'.

See also: bid price, market maker, offer price

assay

The testing of a metal to determine its degree of purity or to establish the constituents of an alloy (a mixture of metals).

See also: commodity

asset allocation

The process of deciding how to apportion investment capital between the various possible asset classes: bonds, stocks, property, cash, etc. Having decided the asset classes, professional fund managers will also try to achieve the right risk/reward profile by choosing which geographical areas to invest in (UK, continental Europe, Asia, America, etc.).

asset play

An investment strategy seeking to identify companies whose net assets per share are worth significantly more than the current share price – essentially a type of value investing. Asset plays are difficult because assets are notoriously hard to value. Plant and machinery may have a substantial value if a business is a going concern, but if a factory is closed down and its plant has to be sold at auction, it may be worth very little. The valuation of brands and other intangible assets is also difficult to pin down, partly because some of the judgments are subjective and partly because of the uncertainty involved in forecasting future cashflows.

See also: value investing

asset stripping

The practice of acquiring a company, then selling parts of it, in the hope that the cash realised from these sales will match the entire acquisition cost, meaning that the asset stripper is left with the remaining parts at nil cost.

asset turnover

The ratio of annual sales divided by net assets employed in the business. Asset turnover measures a company's efficiency at using its assets to generate sales or revenue. The higher the number the better.

assets

The main sense in which the term asset is used is to describe anything owned by an individual or business that has a monetary value. Some assets are relatively easy to measure – debtors, cash, stock and so on. Others are more difficult – goodwill, intellectual property and brand values. In the context of a company's balance sheet, an asset is also a deferred cost. Equipment valued at £1m in a balance sheet represents £1m that the company has spent and which is being depreciated as the equipment exhausts its usable life. The question of whether that equipment is actually an asset or a liability is really whether that asset generates more in after-tax revenues than it costs. If not, it is hardly something accruing to the benefit of the company and its shareholders.

More generally, 'asset' is used to describe a class of investment product. So, shares, property and bonds are all asset classes. Hence the phrase used in portfolio management – asset allocation.

See also: liabilities

assignee

A person to whom an asset, title, claim or right is assigned.

See also: assets, liabilities

assignment (assign)

The transfer of ownership of an item from one person to another. The item may be tangible or intangible – for instance the benefit of a contract can be assigned from one of the contracting parties to another (unless the contract forbids assignment).

assignment form/notice

See ‘allocation notice’.

See also: option, writer

assignor

A person who assigns an asset or right to another party.

See also: assets

Association of Investment Trust Companies

AITC

An association formed in 1932 to represent the interests of investment trust companies. Its main aims are the protection and promotion of the interests of its members and their shareholders. It also provides information on the composition and performance of investment trusts.

See also: investment trust

Association of Private Client Investment Managers and Stockbrokers

APCIMS

An association formed in 1990 to represent the interests of stockbroking and investment management firms specialising in the provision of services to private investors (also known as private

clients). Member stockbrokers (currently about 220) are members of the London Stock Exchange and regulated by the Financial Services Authority (FSA). Investment management firms are also regulated by the FSA.

See also: advisory broker, discretionary broker, execution only broker, London Stock Exchange

Association of Unit Trusts and Investment Funds

AUTIF

A trade association formed in 1959, known then as the Unit Trust Association, to represent the interests of unit trusts and mutual funds. The Association was renamed AUTIF in April 1993 and merged with the Fund Manager's Association in February 2002 to form the Investment Management Association (IMA), a trade body for the UK's £2,000bn asset management industry. Its stated objectives are: to make representations to the UK Government on legislative, regulatory and taxation matters; to liaise with the Financial Services Authority and other organisations in the UK and Europe on regulatory matters and other important issues; to increase public awareness and understanding of investment funds; to seek to improve standards of training in the industry; to seek to integrate personal finance education into the school curriculum; to add value to member companies by providing them with information, guidance and assistance; to offer an information service to external parties interested in the activities of the UK investment funds industry.

See also: unit trust

assurance

In the UK the term ‘assurance’ tends to be used where insurance is taken out against something that will inevitably occur, an example being death and thus life assurance. The term ‘insurance’ is used when insuring against an event that may occur such as damage to a motor vehicle.

See also: insurance, endowment insurance

assured

In the UK the assured is a person (or people) who has entered into a life assurance contract with a life office and is the policyholder. The person on whose life the policy is taken out is known as the life assured. The assured and the life assured are often the same person but not always. In the US the expression ‘insured’ is used. On the death of the insured the face amount of the policy passes to the beneficiary.

See also: beneficiary, insurance, life assurance, ombudsman

at best

An ‘at best’ order is an order given by a client to a broker where no particular instruction is given on the price. Also referred to as a ‘market’ order. So, an instruction to “buy 500 shares in company X at best” means that the broker will complete the purchase at the best price available at the time, and the client cannot be sure what that price is going to be.

In contrast when a client places a limit order he actually dictates the price at which he is willing to buy or sell, and the broker can only make a deal within the limit given.

See also: at quote, execute and eliminate, fill or kill, limit order

at limit

An order to buy shares up to a maximum price or sell down to a minimum price. For example, an investor may place an order to buy shares at limit £12 when the current price is £15 and falling. If the price levels at £13 and goes up again the order would not be placed. If the price fell to £12 or below, the investor’s order would be placed and the maximum he/she would pay would be £12. The point about a limit order is that the client knows what his exposure is. This is in contrast to a client who places an at best order, when the client cannot be sure what that price is going to be.

See also: at best, at quote, execute and eliminate, fill or kill

at par

The sale of a security, typically a bond, at a price equal to its face value.

at quote

The instruction a client gives a broker to obtain a quote from a market maker on the price for a particular share. For example, “3,000 shares in HBOS at quote”. The broker will report back to the client who then has thirty seconds or so to place an order. If he fails to do so the quotes lapse and the market maker will not be held to them.

See also: at limit, at best, execute and eliminate, fill or kill

at the money

A situation where the exercise price of a call/put option or a warrant is equal to

the current market price of the underlying instrument.

See also: call option, exercise price, put option, underlying (instrument)

ATM card

A plastic card enabling the holder to access an automated teller machine to obtain cash and statements.

See also: cash card, cash dispenser

auction

A public sale of a security, typically a bond, where the issuer invites authorised dealers to bid in yield or price terms for the security.

audit

The official examination of a company's accounts by a qualified accountant external to the company.

auditor

A person appointed by a company to perform an audit. In the UK auditors are Chartered Accountants.

Auditors are required to certify that the accounts produced by their client companies have been prepared in accordance with accounting standards and represent a true and fair view of the company. If they do not feel able to certify as such, they may qualify the accounts by saying that they were not able to perform the checks they would have liked to make. The qualification of a set of accounts by an auditor is a serious matter for a quoted company and will concern investors.

auditor's report

The report produced by a firm of Chartered Accountants, which is part of a company's annual report and accounts.

See also: auditor

authorised share capital

The total number of shares a company is authorised to issue by reference to its memorandum and articles of association. The amount of issued share capital must be lower or equal to the authorised share capital – i.e. a company cannot issue more shares than it is authorised to issue in its articles.

See also: articles of association, memorandum of association

authorised stock

In the US, the total number of shares a corporation may issue, in accordance with the limits stipulated in its articles of incorporation.

See also: articles of incorporation

authority

The concept in technical analysis that a trend in a share price is more meaningful if the number of shares traded (the 'volume') is high. A trend with low volume has less authority.

See also: technical analysis, trend

automated pit trading

A computer-based trading system operating in futures markets incorporating the features of open outcry transactions.

See also: futures, open outcry

automated teller machine

ATM

Also known as a cash dispenser. A computerised self-service machine allowing the holder of an ATM card and authorised personal identification number (PIN) to obtain cash and statements etc.

See also: ATM card, personal identification number

automatic trade

A term used by the London Stock Exchange to denote a trade generated by the system through automatic execution.

See also: London Stock Exchange, Stock Exchange Electronic Trading Service

autoregressive

Using historical data to predict future figures.

Average Directional Movement

ADX

A charting term that indicates when a trend or momentum in a price movement is present. The ADX measures the strength of the trend, regardless of direction.

See also: technical analysis

average price

A term used by the London Stock Exchange to denote that a transaction was effected at a price based on the average over a given period.

See also: Stock Exchange Electronic Trading Service, volume weighted average price

average true range bands

An envelope consisting of support and resistance lines of the average true price range, calculated by the exponential average of the difference between highs and lows.

See also: technical analysis

averaging

The purchase of additional shares in a company when the price has fallen.

The point of averaging (also known as pound cost averaging) is that it lowers the average price of the shares you own in the company. For example, if 1,000 shares are purchased on 1st January at 150p (average cost of all shares owned on 1st Jan is 150p) and another 1,000 shares are purchased a month later at 100p, the average cost of all shares owned on 1st February is 125p.

Bb

back-end load

A charge imposed when investors redeem (sell) shares in mutual funds, which has the effect of discouraging withdrawals. Traditionally, the earlier you redeem, the higher the back-end load. After holding for five years or so, there will usually not be a back-end load. In the UK these charges are known as an exit charge.

See also: mutual fund

back office

Brokerage house administrative operations that support the trading of stocks and other securities. Includes all written confirmation and settlement of trades, record keeping and regulatory compliance.

See also: settlement

back taxes

Taxes that have not been paid on the due date or were underreported either by accident or by intention on a past tax return. The tax authorities can demand payment of back taxes plus a penalty and/or interest.

See also: Internal Revenue Service

back-to-back inheritance tax plan

The combination of a life assurance policy and an annuity on the same life, the purpose of which is to reduce inheritance tax. The annuitant seeks to more than replace capital expended for the annuity by paying premiums on a life policy, the proceeds of which pass to his/her dependants on death and outside the estate.

See also: annuity, capital gains tax, estate, inheritance tax, life assurance

back-to-back loan

A situation where an investment organisation, such as an investment trust, deposits sterling with a UK bank which subsequently arranges with a foreign associate bank to lend the equivalent amount of foreign currency to the investment organisation. The purpose of this transaction is to hedge against currency fluctuations affecting the portfolio.

See also: currency, investment trust

backspread

A delta-neutral spread composed of more long options than short options on the same underlying instrument. This position generally profits from a

large movement in either direction in the underlying instrument.

backtesting

Uses a large historical price database to evaluate a trading system's profitability.

See also: technical analysis

backwardation

In the futures market, a condition in which a price is lower in the distant delivery months than in the near delivery months. Normally, the price of a contract for future delivery of a commodity trades above the spot price because the owner of the contract is deemed to have the advantage of holding cash until the time of delivery and is assumed to be able to earn interest on that cash. When the spot price exceeds the futures price, it is known as backwardation, or an inverted market.

See also: forward pricing, spot price

balance of payments

BOP

A country's financial position vis-à-vis other countries of the world, made up of its current account and capital account (or capital movement) over a given period of time. The current account covers the balance of imports and exports and the capital account covers the difference between the capital that the country has invested in other countries, and the capital invested by other countries in it.

See also: balance of trade, current account

balance of trade

BOT

The difference between a country's exports and imports over a given period of time. Exports and imports come in two kinds: visible products and goods, and invisible services. The UK's invisible earnings from financial services are an important part of its international trade and help to offset deficits on the visible side.

balance sheet

One of the main components of a company's report and accounts, the balance sheet provides a snapshot of everything the company owes and owns at the end of the financial year in question. On a specific date it lists: tangible assets, intangible assets, stock, debtors, cash, bank creditors, trade creditors, share capital and reserves. The profit and loss account tells you how the company has performed in the previous year, while the balance sheet is more revealing about its fundamental health, indicating whether it can pay its debts and how good its cash management is. A 'strong' balance sheet is one where liabilities (including borrowings) are considerably outweighed by assets (including cash). If a company is having problems, the balance sheet (together with the cash flow statement) will tell you whether it can stand the strain.

See also: assets, capital, gearing, liabilities

balanced mutual fund

A mutual fund which invests in a balance of common stock, bonds and preferred stock with an objective of income provision and some capital appreciation with low risk.

See also: common stock, mutual fund, preferred stock

balloon

The final payment on a loan that is significantly larger than those preceding it. A balloon loan is one with a large final payment.

Baltic Exchange

A self regulated London exchange serving worldwide interests in the global maritime business. It is the world's premier maritime market for ship chartering and sale and purchase. The exchange publishes a range of market information, such as freight derivatives price settlements.

bancassurance

A combination of banking and insurance businesses. A high street bank, for example, might sell both mortgages and the life insurance policies that must go with them. Also applies to pension sales by banks.

band earnings

Pay between the lower earnings limit and upper earnings limit, used to determine National Insurance Contributions.

See also: National Insurance, State Earnings Related Pension Scheme

bank

An institution, usually a corporation, chartered by a state or federal government, which takes deposits from individuals, companies and other organisations and provides them with

various financial services. The interest paid on deposits may be fixed or variable: the rate usually depends on the amount of money deposited and the amount of time it stays in the account. A bank also makes loans and charges interest on them. Banks operating in the UK, formerly regulated by the Bank of England, are now authorised and supervised by the Financial Services Authority. In the US, banks are regulated under the Federal Reserve System.

See also: Federal Reserve System, Financial Services Authority

bank bill

A bill of exchange issued or accepted by a bank. As the risk is less than with a normal trade bill, so is the discount.

bank credit

The maximum credit an individual may secure from his/her bank.

See also: credit

Bank for International Settlements

BIS

The central bankers' bank, based in Basle, Switzerland. It aims to foster co-operation between central banks and other agencies to promote monetary and financial stability.

bank giro credit

A system operated by the clearing banks in which a paper slip/document instructs a bank branch to credit a sum of money to a specified account at that branch.

bank insurance fund

In the US, a fund held by a section of the Federal Deposit Insurance Corporation as deposit insurance for banks excluding thrifts.

See also: Federal Deposit Insurance Corporation, thrift institution

bank line

A moral, rather than a contractual, commitment by a bank to provide a loan to a borrower up to a stated total amount over a stated period, typically one year. Because a bank line, also known as a line of credit, is not a legal commitment, it is not usual for a commitment fee to be charged. However, it is often necessary to keep compensating balances on deposit, typically 10% of the bank line plus an additional 10% of actual borrowings. Where customers are officially notified in respect of a line, the term is advised line or confirmed line. In cases where the bank sets an internal guide and the customer is not notified the term is guidance line.

See also: credit

Bank of England

BoE

The central bank of the United Kingdom, sometimes known as the 'Old Lady' of Threadneedle Street. The Bank was founded in 1694, nationalised on 1st March 1946, and given operational independence for interest rates in 1997. Standing at the centre of the UK's financial system, the Bank is committed to promoting and maintaining monetary and financial stability as its contribution to a healthy economy. It is similar to the Federal Reserve in the United States and the Bundesbank in Germany. Its main functions are: to

ensure the stability and promote the efficiency and competitiveness of the financial system, to set the official interest rate in order to achieve the government's inflation target, to manage the government's foreign currency borrowing programme, to act as banker to the banks (and to act as the lender of last resort to banks facing liquidity problems), to support the government's exchange rate policy by intervening in the currency markets, to control the design, production and issue of banknotes in England and Wales.

bank statement

A document issued by a bank to its customers, listing details of debit and credit transactions over a given period with a resultant balance of the account. These statements are issued to cover a range of accounts including current accounts, loan accounts and deposit accounts.

See also: credit, debit

banker's acceptance

A short-term credit investment created by a non-financial firm and guaranteed by a bank as to payment. Acceptances are traded at discounts to face value in the secondary market. These instruments have been a popular investment for money market funds.

banker's draft

In situations where a person owes money to a creditor and the creditor is not prepared to accept a personal cheque because he thinks it might bounce, a banker's draft can provide a solution. It is simply a cheque made out to the creditor by the debtor's bank, and therefore more secure.

banker's reference

A reference sought from a bank by a company or individual regarding the creditworthiness of another company or individual, in order to assess whether or not credit trading terms should be offered.

Bankers Automated Clearing Services

BACS

BACS Payment Schemes Limited is a membership-based industry body whose role is to develop, enhance and promote the use and integrity of automated clearing service for payments originated by Settlement Members or those they sponsor.

Banking Ombudsman

See 'ombudsman'.

bankruptcy

A situation where an individual is incapable of settling his/her debts and has been served a bankruptcy order by a court. The petition can either be filed by the individual concerned, or by his/her creditors. An inquiry into the debtor's affairs is made by the official receiver and the debtor's assets are realised and distributed among creditors. Personal pension assets are not included under the bankrupt's distributable assets for petitions made after May 29th 2000, unless the bankrupt has deliberately put assets into a personal pension specifically to avoid paying creditors. Money in occupational pensions schemes is also excluded. The

equivalent process for companies is 'liquidation'.

See also: debt

bar chart

Bar charts have a wide variety of applications and in the financial markets are used by technical analysts to plot share price histories of companies. The chart is similar to a line chart in having time along the X-axis and price along the Y-axis. But instead of a single point being put on the chart for each time period (say each day) a vertical bar is drawn. The top of the bar is drawn at the highest price reached by the instrument during the day and the bottom of the bar is at the lowest price. A variation on the simple bar chart is made when opening and closing prices are available. As well as the main bar, the opening price is represented by a tick on the left side of the bar and the closing price by a tick on the right side of the bar.

See also: line chart, point and figure, technical analysis

bare trust

A trust which allows parents to give capital to a child and have the income from that capital treated as the child's rather than their own. This can save tax by using the child's personal income tax allowance.

See also: income tax

bargain

A term used on the London Stock Exchange to describe a share purchase or sale. The term does not imply that the transaction was a 'special price' in the normal sense of the word. Note that

some exchanges report a single transaction as two bargains (one buy and one sell) so care needs to be taken when comparing the number of bargains of different exchanges.

See also: London Stock Exchange, ordinary shares, stockbroker

bargain conditions apply

A term used by the London Stock Exchange to denote that certain conditions were agreed between the two participants at the time of trading.

See also: London Stock Exchange, Stock Exchange Electronic Trading Service

bargain issue

A term used by value investors to describe the issue of shares in a company at a price below the per share book value of the company. In other words, the shares are undervalued from the word go.

See also: new issue

barrels

Volume measurement of liquid, typically oil, equal to 42 US gallons or 35 imperial gallons. Barrels per day, bpd, is a measure of the flow of crude oil production from a field, company or country.

barrier warrant

A warrant with an additional 'barrier' clause in the terms. Usually the warrant will expire when a barrier level is breached.

barter

An exchange of products or services between individuals without the involvement of money.

base currency

The currency that forms the base of a quotation, i.e. the denominator expressed as a unit of one. Sterling is the base currency in the dollar/pound rate.

base metals

The main industrial non-ferrous metals excluding precious metals and minor metals. These are copper, primary aluminium, lead, nickel, tin and zinc.

See also: London Metal Exchange

base rate

The lowest rate at which a bank will charge interest, also known as the repo rate. The rate is set in the UK by the monetary policy committee of the Bank of England, with a view to controlling inflation over the medium-term. Banks usually charge interest at a stipulated figure 'above base rate', with the figure depending on all sorts of circumstances to do with the loan and the borrower. If the base rate rises, then usually the rate of interest charged on the loan will rise to preserve the differential. If it falls, so will the rate on the loan. Thus, a loan at '4% above base rate' will be 10% if the base rate is 6%, and will rise to 11% if the base rate rises to 7%.

See also: Interest, Prevailing interest rate, Interest rate

base rate tracker mortgage

A mortgage on which the rate of interest paid by the borrower follows movements in the base rate.

See also: base rate

base year

Base year or date is that chosen to set an index to 100.

Basel Committee, rules and accord

The Basel Committee of the Bank of International Settlements determines the broad standards for best banking practice and supervision, including setting the minimum capital levels required by banks. It was once known as the Cooke Committee, after a former chairman.

See also: Capital Adequacy

basic pension

See 'state pension'.

See also: State Earnings Related Pension Scheme, State Second Pension

basic rate tax

The main rate of income tax in the UK, which for the year 2006-2007 is 22%. The rate is applied to each individual's taxable income, which is calculated as: income less reliefs and allowances. The basic rate is only applied to the income between £2,151 and £33,300 (for the tax year 2006-2007). For income from £1-£2,150, the tax rate is 10% (starting rate); from £2,151-£33,300, the tax rate is 22% (basic rate); and over £33,300, the tax rate is 40% (higher rate).

See also: income tax, lower rate tax, higher rate tax

basic state pension

See 'state pension'.

basic sum assured

A term used in conjunction with policies such as low cost endowment assurance and low start endowment assurance.

These sorts of policies operate on a 'with profits' basis and often in conjunction with repayment of a loan or mortgage. If the policyholder dies during the term, a guaranteed death benefit repays the loan.

However, to guarantee to pay the entire loan at maturity would incur very high premiums. Accordingly, a policy with lower premiums guarantees to repay only a proportion of the loan amount at maturity (the basic sum assured). The expectancy then is that the balance will be repaid out of reversionary and (possibly) terminal bonuses.

See also: assurance, endowment, loan, mortgage

basis

The difference between the price of a futures contract and the spot or cash price, normally quoted as the latter deducted from the former. The item being traded may be a commodity or a financial instrument.

See also: commodity, futures

basis point

Usually one hundredth of a percentage point, used in quoting movements in interest rates or yields on securities.

basis risk

The risk that the price of a futures contract will be different from the price of the underlying cash instrument as expiry approaches.

basket trade

A contract or other instrument for the purchase or sale of a group of shares or currencies, all of which are traded together. Sometimes used to refer to a UK share trade involving every share in the FTSE 100.

basket warrant

A warrant over a group of securities, often within a sector.

Basle Committee

See 'Basel Committee'.

bear

An investor who believes that share prices are going to fall. He therefore sells shares, which sometimes he does not own, in anticipation of buying them back at a lower price and making a profit. The antonym is a bull – someone who believes prices are going to rise.

See also: bear hug, bear market, bull

bear call spread

The purchase of a call with a high strike price against the sale of a call

with a lower strike price. The maximum profit is the net premium received (premium received – premium paid), while the maximum loss is calculated by subtracting the net premium received from the difference between the high strike price and the low strike price (high strike price – low strike price net premium received). A bear call spread should be entered when lower prices are expected.

See also: call option, put option, strike price

bear hug

A takeover bid pitched at a generous enough level to prompt shareholder pressure on the directors to accept, rather than face the wrath of the company's owners.

bear market

A market in which sellers outnumber buyers and where the trend of share prices is consequently downwards.

The UK's longest running bear market lasted from 1972 to 1974. From a height of 530 points in 1972 the FT 30 Index fell consistently for more than two years, only reversing its downward trend at the start of 1975. It took almost five years – until the middle of 1977 – before it regained its mid-1972 level. After Black Monday in October 1987, the FTSE 100 took until July 1989 to regain its pre-crash high of 2,250 points. The index had, at end 2005 yet to regain the level seen at the end of 1999.

See also: bear, ordinary shares

bear put spread

The purchase of a put with a high strike price against the sale of a put with a lower strike price in expectation of declining prices. The maximum profit is calculated: $(\text{high strike price} - \text{low strike price}) - \text{net premium received}$ where $\text{net premium received} = \text{premiums paid} - \text{premiums received}$.

See also: call option, put option, strike price

bear spread

A strategy in options trading in which an option is purchased at an exercise price above that of the underlying instrument and simultaneously an option is sold at an exercise price below that of the underlying instrument, both with reference to the same expiry month. This applies to either call options or put options.

See also: call option, expiry date, put option, underlying instrument

bear trap

In charting, a short-lived reversal of an upward trend, catching out bears and shorters who were hoping to profit from a fall in the share price.

See also: bear

bearer bond

A bond that does not record its owner's name. Possession of the bond certificate is therefore the only proof of ownership. Dividends are claimed by submitting a detachable coupon to the paying agent.

See also: bond, dividend

bearer stocks/shares

Stocks or shares that do not record the owner's names and for which the companies do not keep a register of ownership. Possession of the certificate is therefore the only proof of ownership.

See also: ordinary shares, stock

bed and breakfast

The practice of selling shares on one day and buying them back on the next. The purpose for UK taxpayers was to crystallise a gain (or loss) in a share, which could then be either offset against gains on other shares in the same tax year or used against an annual capital gains tax allowance. The anti-avoidance provisions of the 1998 Budget effectively ended the practice of bed and breakfasting by making it impossible to get the tax advantage.

See also: capital gain, capital gains tax

bells and whistles

Extra bits added on to a derivatives instrument or securities issue with the intention of attracting investors or reducing issue costs.

For instance, some share issues come with accompanying warrants that are 'free' and designed to excite investor interest.

See also: Warrant

beneficial loan

A loan made by an employer to an employee on which interest is either not charged or is less than the official rate. The difference between the interest charged and the official rate is taxable.

See also: interest, loan

beneficial owner

The true owner of a security or property that may be registered in another name. Many clients of stockbrokers, particularly those of online execution-only brokers, have 'nominee' accounts. With nominee accounts, the shares are registered in the name of the broker, but the client is the beneficial owner.

See also: nominal account, property, security, stockbroker

beneficiary

A person who stands to benefit from a contractual or fiduciary relationship, such as a trust set up on his/her behalf or the proceeds of a will or life insurance policy.

See also: trust

benefit amount

The amount that will be paid out by the policy.

Benefits Agency

A now-defunct executive agency within the now-defunct Department of Social Security (DSS). The Benefits Agency was replaced by Jobcentre Plus in April 2002 and is now part of The Department of Work and Pensions (DWP). Jobcentre Plus issues benefits to those of a working age, and helps the unemployed to find a job.

benefits in kind

These are benefits, excluding salaries, given to employees. Examples are cars and car fuel, medical insurance and gifts. These are taxed as employment income.

bequest

The making of a gift by will.

See also: legacy, will

best advice

A requirement of the 1986 Financial Services Act and in turn the Financial Services Authority that a financial adviser, whether independent or tied, must provide best advice regarding the most suitable product for a client, having first established a full understanding of the client's financial background. An additional requirement is that recommendations should not be influenced by any commissions the agent receives on products sold.

See also: financial adviser, Financial Services Act 1986

best execution

The Stock Exchange rule that requires brokers to carry out a deal on behalf of a client at the best price available in the market. The concept of best price is hard to define. If a broker thinks that the market is falling, should they hang on before buying? Brokers have some discretion but, generally speaking, they execute deals immediately (as much for their own protection as anything else). 'Timely execution' means carrying out the deal within 20 minutes of receiving the client's instruction.

See also: liquidity, normal market size, stockbroker

Best's Ratings

Ratings of financial reliability given by Best's Rating Service to insurance companies with a top rating of A+. A. M. Best is a worldwide agency focusing on the US, Canada and the UK,

covering more companies than any other. This information is of importance to both buyers of insurance and investors in insurance stocks.

See also: insurance

beta shares

A term previously given to the shares of listed companies, basically second in line to, and traded with less activity than, alpha shares on the London Stock Exchange, along with gamma and delta shares. These terms were replaced by the normal market size classification in January 1991.

See also: alpha shares, bid-offer spread, delta shares, gamma shares, liquidity, listed company, London Stock Exchange, normal market size

beta value

A measurement of the movement of the price of a particular stock compared with the movement of the market as a whole over the same period. If a stock has a beta value of less than 1, it is regarded as low risk and if it has a beta of more than 1, it is regarded as more risky, but there is a greater chance that it will outperform the market. Low beta stocks are generally known as defensive stocks, such as food retailers, and high beta stocks are more cyclical, in sectors such as consumer durables. Betas are usually plotted on a scatter diagram which shows the movement of the market as a whole and the return on a particular stock daily, weekly, monthly or quarterly. Note that betas for any individual company do change, so you can't rely on historical betas as a guide to future betas, and a stock's beta varies according to the direction of the market – some stocks are riskier in a falling market.

See also: FTSE 100 Index, volatility

bid-offer spread

The difference between the selling price and the purchase price for investments. When you ask a broker what price the shares of a company are trading at in the market, he will quote two prices: the bid price is the price at which you can sell your shares, and the offer price is the price at which you can buy them. The first is always lower than the second, and the difference between them is the spread. Market makers, who act like wholesalers in the stock market, make their profit from the spread – buying shares at the bid price and selling them at the offer price.

See also: bid price, initial charge, market maker, offer price, stockbroker

bid price

The price at which a market maker will buy a security – which could be shares, warrants or, in the case of unit trusts, the price at which units will be bought back from their holders. Bid prices for shares are quoted on the London Stock Exchange's SEAQ system, and displayed live on brokers' computer screens. The prices are only 'firm' for quantities within the 'normal market size' of a stock, limiting the ability to sell a large quantity of shares in, for example, a small AIM stock.

See also: bid-offer spread, market maker, normal market size, offer price, stockbroker, unit trust

bid-only warrant

A bid-only warrant is a warrant that is 'sold-out': it may not be possible to buy any more.

big bang

A reference to the major operational changes on the London Stock Exchange that took place on 27th October 1986. These included: the introduction of market makers to combine the functions of stockbrokers and stockjobbers; the ending of fixed commissions; the introduction of the Stock Exchange Automated Quotation system (SEAQ) (which replaced the trading floor of the Stock Exchange with a screen-based quotation system used by brokers); and the abolition of the restrictions on ownership of UK stockbrokers.

See also: London Stock Exchange, market maker

Big Board

Nickname for the New York Stock Exchange.

See also: New York Stock Exchange

big figure

If a bond is priced at 105.45, the big figure is 105. When quoting a price, market makers might just refer to the figure after the decimal point, ignoring the big figure. Also known as the handle in the US.

Big Four

Traditionally a reference to the UK's four largest clearing banks: National Westminster, Lloyds, Midland and Barclays. There are now five large banks (in size order): HSBC (which took over Midland), Royal Bank of Scotland (which took over NatWest), Barclays, HBOS and Lloyds TSB. The big four is sometimes still used, excluding HBOS, formed from the former building society, Halifax, and the

Bank of Scotland. It also refers to the four biggest accounting firms.

See also: Big Six

Big Mac index

A crude but entertaining analysis, originated by the *The Economist* magazine, comparing the price of the ubiquitous snack, designed to show relative price levels around the world and judge whether a currency might be over or undervalued.

Big Six

Traditionally the six big accountancy firms: KPMG, PriceWaterhouse, Coopers & Lybrand, Ernst & Young, Deloitte & Touche and Arthur Andersen. The number fell to five with the creation of PricewaterhouseCoopers following the merger of Price Waterhouse and Coopers & Lybrand. It then fell to four with the demise of Arthur Andersen (Accenture, initially called Andersen Consulting, was created in 1989).

bill of exchange

An old-fashioned term relating to a non-interest-bearing order in writing by one person to another to pay a specified sum to a specified person or bearer on a particular date. Bills of exchange are similar to cheques and promissory notes. They can be drawn by individuals or banks and are generally transferable by endorsements. The difference between a promissory note and a bill of exchange is that this product is transferable. The person making the order or drawing the bill is known as the drawer. The person to whom the bill is addressed is the drawee (for ex-

ample a bank). The person to whom the bill is payable is the payee. Also know as commercial bills, trade bills and eligible bills.

bill of sale

A formal document for the transference of title to goods from the seller to buyer.

billing cycle

The time between periodic billings for goods and services, typically one month.

BIS

See 'Bank for International Settlements'.

biweekly mortgage loan

A mortgage whereby the borrower makes a half monthly payment every two weeks instead of the usual 12 monthly payments. This arrangement results in 26 half monthly payments per year and a significant reduction in interest since an extra monthly payment is made.

See also: Mortgage

black economy

A hidden segment of a country's economy that operates on barter and numerous unreported private cash transactions with the aim of avoiding tax. Also known as the cash economy. By definition, it is of unknown size but suspected to be a very significant minority of developed countries' activity, and of larger importance in developing countries.

black knight

A company (or person) making an unwanted, hostile bid for another company.

See also: grey knight, hostile takeover, white knight

Black Monday

Monday 19th October 1987 when stock market values around the world fell heavily triggered by a large fall in the Dow Jones Industrial Average in the US.

See also: Black Tuesday

Black Tuesday

Tuesday 29th October 1929 when stock prices on Wall Street crashed.

See also: Black Monday, New York Stock Exchange

Black Wednesday

September 16th 1992: the day the pound was driven out of the Exchange Rate Mechanism. Known as White Wednesday by those who were happy to see the currency leave the ERM, and marking the start of a prolonged period of economic growth.

See also: exchange rate mechanism

Black-Scholes option pricing model

A pricing model devised by Fischer Black and Myron Scholes in 1973. Its key element is the assumption that option prices have maximum and minimum values. The maximum value a call option can ever reach is the value of the share itself, because no one would ever pay more than the share

price to acquire a right to buy the share. The minimum will be the difference between the share price and the option's exercise price. The model puts this assumption into a formula and adjusts it to account for: interest rates; the time left before the option expires; and the volatility of the underlying share price. The formula was devised for call options but its principles apply equally to put options.

See also: option

block trade (or order)

A large amount of securities being traded, normally only undertaken by institutional investors. Block trades can affect the market price of the security, depending on the liquidity of the market. The term can also refer to a privately negotiated futures transaction executed apart from the public auction market, either on or off the exchange trading floor. On the London Stock Exchange, the term denotes that a transaction was reported which is at least 75 times the normal market size (NMS) for a security with an NMS of 2,000 shares or above 50 times the NMS for a security with an NMS of 1,000 shares.

See also: London Stock Exchange, normal market size, Stock Exchange Automated Quotation system, Stock Exchange Electronic Trading Service

blow off

The volume of selling increasing rapidly and peaking abruptly at market tops during the last stage of an advance.

See also: bull market

blue chip

A company with a large market capitalisation, stable earnings, consistent dividend record, and reputation as a reliable investment. There are no formal rules for joining the ranks of blue chips, and not necessarily any agreement about which companies belong to the club, but the companies that make up a country's leading stock index would commonly be regarded as blue chips. The term is believed to come from the gambling chip used in casinos.

See also: London Stock Exchange

blue sky laws

In the US, this is a popular name for various state laws enacted to protect the public against securities fraud. The term is believed to have originated when a judge ruled that a particular stock had about the same value as a patch of blue sky.

board of directors

The directors are a company's most senior managers and are elected to run the company by shareholders. Directors of public companies generally have to be re-elected by shareholders every three years - usually a formality, but there are occasional upsets.

BOBL

Bundesobligationen. German government bonds with short-term, two to six year, maturities. Pronounced 'bobbles'.

bollinger bands

Bollinger bands, named after their founder John Bollinger, have been a

popular method of technical analysis for several years. They measure the support for, and resistance to, price changes of any particular stock by plotting the standard deviation of the moving average of a price. The longer a period of low volatility, the closer the bands are together, and the more likely it is that there will be a price breakout from the established price pattern.

See also: Technical analysis

bolsa

Spanish and Portuguese term for a stock exchange.

bona fide

A term meaning 'in good faith'. For example a person entering into an insurance contract is required to divulge all pertinent information in good faith. Failure to do so could result in a breach of the contract, making it void.

See also: insurance, uberrimae fidei

bond

The generic name for a tradable loan security issued by governments and companies as a means of raising capital. The bond guarantees its holder both the repayment of capital at a future specified date (the maturity date) and a fixed rate of interest (also known as the coupon). Government bonds are known as gilts or Treasury Stock. Bonds offer the greatest certainty of income, (some bond issuers might default on payments) but may fail to keep pace with inflation. You only know exactly how much your bond is worth if you plan to hold it to maturity (when you will be paid back the face value). But in the time between issue and ma-

turity, a bond's value can be volatile, so if you plan to sell before maturity you run the risk of capital erosion. When a bond's price falls, the yield – the income expressed as a percentage of the capital value – rises, and vice versa. In general: bond prices fall when interest rates go up (because the interest rate rise attracts money out of bonds into cash) and when inflation rises (as investors worry that bonds will not bring enough income to keep pace with inflation).

See also: bond interest yield, debenture, gilt-edged stock

bond anticipation note

A short-term interest-bearing security issued in anticipation of larger future bond issues, used as short-term financing. In the US, it is a short-term municipal or state note which is repaid from the proceeds of a forthcoming issue.

bond discount

The difference between a bond's face value and the lower market price. If the market price is higher than the face value, the difference is known as the bond premium.

See also: amount (face value), bond face, market price

bond interest yield

Yield calculations on bonds aim to show the return on a gilt or bond as a percentage of either its nominal value or its current price. There are three types of yield calculation that are commonly used: nominal, running/current and redemption yield. Nominal yield is calculated by dividing the annual in-

come on the bond by its nominal or 'par' value. So the nominal yield on a £100 bond paying 5% interest per year is $5/100 \times 100 = 5\%$. Current or 'running yield' is calculated by dividing the annual income on the bond by its current market price. So if the market price of the £100 bond dropped to £95, the current yield on the bond at that time would be $5/95 \times 100 = 5.36\%$. The redemption yield shows what the total return on a bond would be if held to its maturity date. It reflects not only the interest payments a bondholder will receive, but also the gain/loss he will make when it matures.

bond mutual fund

A mutual fund that invests in bonds, which may be government, municipal or corporate.

See also: mutual fund

bond rating

Corporate and government bonds are generally considered a safe form of investment compared with shares, in the sense that you are 'guaranteed' to get repayment of the principal and interest payments. But the value of the 'guarantee' depends substantially on who has issued the bond – a financially healthy issuer, or one that is struggling to meet its borrowing obligations.

Credit rating agencies, such as Moody's, Standard & Poor's (S&P) and Fitch IBCA, provide a service to the investment community by grading bonds according to how likely it is that the issuer will default either on interest or capital payments. For S&P the ratings vary from AAA (the most secure) to D which means the issuer is already in default. For Moody's the ratings go

from Aaa to D. Only bonds with a rating of BBB or better are considered 'investment grade' – that is, secure enough for institutions to invest in. Anything below that grade is 'non-investment grade' or 'junk'. The ratings that S&P and Moody's give a bond are continually checked and revised in the light of new research done by those firms. When a bond is downgraded it is a serious event for the issuer because it makes it harder (or more expensive) to raise new borrowings. It is also bad news for holders of the bonds because the market invariably marks down their value.

See also: bond

bond washing

The sale of a bond with interest due and its repurchase after coupon payment, to convert the interest income into a capital gain. It is a way for some investors to avoid tax.

bond yield

Yield calculations on bonds aim to show the return on a gilt or bond as a percentage of either its nominal value or its current price.

See also: bond interest yield, return on investment

bonus

Money paid by life insurance companies to policyholders based on endowment policies and with-profit bonds. The amount of the bonus is calculated by actuaries based on the insurance company's investments in the past and future, and the insurer's overall financial strength. Reversionary bonuses are normally paid annually and could typically be in the region of 2% to 5%.

Terminal bonuses (payable at maturity or prior death) tend to vary much more from, say, 10% to 100% at maturity depending on the term of the policy, for example 10 and 25-year terms. The bonus is declared each year and at the end of the policy's life. As a policyholder you have no way of knowing what the bonus is going to be until it is declared, and no real way of knowing how it has been calculated.

See also: insurance, reversionary bonus

bonus issue

See 'scrip issue'.

book

A record maintained by a trading specialist of buy and sell orders for a given security. Talking the book refers to the practice of a trader commenting favourably or unfavourably on a stock according to whether he is long or short of it. "The book" refers to the accounts of a company.

See also: stockbroker

book building

See 'bookbuilding'.

book runner

The investment bank that is responsible for the sale of a new bond, including tasks such as allocating bonds among those bidding.

book transfer

Transfer of title from seller to buyer without physical movement of product.

book value

The value of an asset as entered in a company's balance sheet or an organisation's accounts. Applied to the whole company it means its net assets. One way of valuing a bank, for instance, is to look at its book value and, if it is quoted, to compare that with its market value.

See also: books of account

bookbuilding

When a company is about to have a new issue of shares (possibly an IPO), its advisers assess the demand from fund managers to establish how many shares they are interested in taking and at what price. Known as bookbuilding, its purpose is to help the company find an offer price that ensures the new issue is successful. The bookbuilding process can begin several months before the company floats, but starts in earnest in the week or two prior to launch.

See also: new issue

booking the basis

A forward pricing sales arrangement in which the cash price is determined, either by the buyer or seller, within a specified time at a previously agreed-upon basis applied to the then-current futures price.

books of account

The books in which the transactions of a business are recorded.

See also: book value

book value per share

BVPS

A company's total assets minus total liabilities, or net assets, divided by the number of shares outstanding. Equivalent to shareholders' funds per share.

Boston Exchange Automated Communications and Order Routing Network

BEACON

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

bottom fishing

An approach to stockpicking that focuses on the search for shares whose prices have dropped so low that they appear to represent excellent value, even if the prospects for the company are not great in the short-term. The risk, however, is that the cheapness of the stock indicates that the company may not recover.

See also: value investing

bottom up

An investment strategy that looks at the performance of individual companies to build a portfolio rather than starting with the sectoral allocation. Opposite of top down.

bought deal

The purchase of new shares by an underwriter who subsequently attempts to resell to the market for a profit.

See also: underwriter

bourse

A French or continental European stock exchange.

box spread

A dual option position involving a bull and bear spread with identical expiry dates, offering minimal investment risk. It is an advanced strategy designed to exploit discrepancies in the market.

Brady bond

A type of bond devised by the US Treasury secretary, Nicholas Brady, in 1989, and issued by a number of (originally) Latin American sovereign borrowers to reschedule their international debt. The idea was that heavily indebted governments, struggling to cope with existing borrowings, would have their debt rescheduled and be allowed to issue new bonds, typically with 10 to 30 year maturity, on the condition that they adopted sensible monetary policies. Brady bonds, which originated as syndicated bank credits, were the result. Brady bonds are traded on over-the-counter markets and are high-risk investments because of the risk of default.

See also: bond

breadth

The number of stocks participating in either a rally or a decline.

See also: rally

break even

The level of a company's sales at which sales match costs and neither a profit nor a loss is made. Or a level in the market at which an existing holding will make neither a loss nor a gain.

See also: profit and loss statement (P&L)

break-up value

The total value of a company's separate operations, if sold separately. The term is used most often when contrasted with the market capitalisation (number of shares times share price) of the company as a whole. The implication is that if the sum of the parts is greater than the whole, the company should be split up to release the extra value to shareholders.

See also: asset stripping

break even rate on warrant

The annual percentage growth rate required from the underlying instrument to break even (avoid a loss) on a warrant.

breakout

Technical analysis term for the point at which a price breaks out either above or below a stable, established range or trendline, normally above a previous high or below a previous low. Once the price breaks above its resistance or below its support level, it is likely to continue in the same direction. Also referred to as a 'trendline violation'.

See also: resistance level, support level, trend

brent

A type of sweet crude oil that is used as a benchmark for the prices of other crude oils. The brent blend is a mix of crude oil from several facilities in the Ninian and Brent fields in the North Sea.

Bretton Woods agreement

An agreement made in Bretton Woods, in the US, in 1944 which established a post-war fixed currency rate between countries and subsequently the International Monetary Fund (IMF) and World Bank. The fixed exchange rate functioned until the early 1970s when the US dollar ceased to be convertible into gold and was replaced by a floating exchange rate.

See also: International Monetary Fund

bridge loan (bridging loan)

A short-term loan pending the arrangement of longer-term financing.

British government stock

See 'gilt-edged stock'.

broad money

See 'money supply M4'.

broad tape

Largely traditional term, applying to the expanded version of the ticker tape from news wires carrying price and background information on securities and futures markets.

broker

See 'stockbroker'.

broker to broker

A term used to denote that a transaction was between two firms where neither is registered as a market maker in the security in question and neither is a designated fund manager.

See also: London Stock Exchange, market maker, Stock Exchange Automated Quotation system, Stock Exchange Electronic Trading Service

brokerage fee

Commission or fees charged by a broker for conducting transactions for its clients. Brokerage fees can be structured in lots of different ways. Some brokers charge a percentage of the contract value, others charge a flat fee whatever the value of the contract, and others have a mixture of these two methods.

See also: commission, stockbroker

BTAN

Bons à taux annuel normalisés. French coupon-bearing, fixed rate government bonds, normally issued with two or five year maturities.

bubble

The phenomenon of rising share prices amid a mood of general euphoria, leading (inevitably, according to wiser heads) to a 'bursting' and a reversal of the prices and the mood.

bucket shop

Slang term for a disreputable brokerage firm.

bucketing

Directly or indirectly taking the opposite side of a customer's order into the handling broker's own account or into an account in which he has an interest, without execution on an exchange.

Budget

See 'The Budget'.

budget account

A bank account set up to control a person's regular expenditure. The account would typically include the payment of such items as mortgage, utilities, telephone and other similar items. Annual expenditure for each item is divided by 12 and paid into the account monthly. The bills are then paid from the budget account as they become due.

budget deficit and surplus

The deficit is the shortfall between government revenue and spending, and thus the amount that needs to be borrowed. Definition varies between countries. Opposite of budget surplus.

See also: public sector borrowing requirement, public sector net cash requirement

Building Societies Investor Protection Scheme

A scheme set up to give limited protection to people with share and/or deposit accounts in authorised building

societies that fail. Building societies are regulated and supervised by the Financial Services Authority and the Investor Protection Scheme was replaced by the Financial Services Compensation Scheme (FSCS) in December 2001. In the case of an authorised building society being wound up there is a provision to pay compensation of 90% of a person's shares and/or deposits up to a set maximum.

See also: building society, Financial Services Compensation Scheme, first mortgage

building society

'Mutual' non-profit-making institutions set up to lend money to their members for house purchase. Building societies are 'mutual' because they are owned by their members, who are entitled to their profits and benefits. The Building Societies Act 1986 enabled building societies to provide a much wider range of services to their members, including unsecured personal loans, insurance policies, house-selling and pensions. This was designed to put them on a level playing field with banks. In recent years some of the UK's largest building societies have demutualised and effectively turned themselves into profit-making banks, with their profits being distributed to shareholders rather than their customers. Building societies are regulated by the Financial Services Authority (FSA). Their trade association is the Building Societies Association.

See also: demutualisation

buildings insurance

Insurance that covers the policyholder against certain building losses or dam-

ages which may occur. The insurers will usually specify a maximum claim limit (the sum insured) which is the full rebuilding cost of the home. It is the owner's responsibility to ensure the sum insured is correct and to regularly update this cover, and failure to do so may invalidate the policy.

See also: contents insurance

bull, bullish

An investor who believes that share prices are going to rise is bullish. A bullish investor buys in anticipation of selling at a higher price. Opposite of bear.

See also: bear, ordinary shares

bull market

A market in which prices are rising and in which investor confidence in the continuation of rising prices is high.

See also: bear market, bubble, bull

bull spread

A strategy in options trading in which an option is purchased at an exercise price below that of the underlying instrument and simultaneously an option is sold at an exercise price above that of the underlying instrument, both with reference to the same expiry month. This applies to both call options and put options.

See also: call option, expiry date, put option, underlying instrument

bulldog bond

A bond issued in sterling by a foreign institution or government.

See also: bond

bullet

A bond with a single maturity date and no opportunities for early redemption.

bulletin board

A facility on a website that allows users to write messages on a particular subject and 'post' them on the site. Other users read the message and post a reply, which in turn is visible to anyone else. The idea is to generate a discussion on a particular subject through the thread of messages.

Financial bulletin boards come with a health warning because of the 'pump and dump' messages - that is, messages promoting the virtues of a stock which the poster just happens to hold in his portfolio - and may want to sell. As messages can be posted using a pseudonym, the temptation for some people to do this is irresistible. All in all, tips on bulletin boards are to be treated with extreme caution. Some bulletin boards are monitored by an editor to ensure a quality threshold.

bullion

Gold or silver in the form of ingots for bulk use.

bullion coins

Coins made from gold or silver. They can be easily traded.

Bundesbank

The Frankfurt-based German central bank, sometimes known as the Buba.

burn rate

The rate at which a company is spending its cash reserves. The term was strongly associated with dotcom companies, many of which were launched with venture capital money and, in some cases, raised more by coming to the stockmarket. Few of them had revenues anywhere near their monthly outgoings. Boo.com, the online fashion retailer that went spectacularly bust in mid-2000, extended new reach to the burn rate measurement. In 16 months it went through £91 million put up by investors.

business cycle

More or less regular fluctuations in aggregate economic activity, between peaks and troughs, typically over a five to ten year period.

Business Expansion Scheme

BES

A tax-efficient investment vehicle, available to 'qualifying individuals' who subscribe for 'eligible shares' in 'qualifying companies' undertaking 'a qualifying business activity', designed to provide venture capital funds for small businesses. Replaced in the UK by the Enterprise Investment Scheme in 1994.

See also: Enterprise Investment Scheme, venture capital trust

business property relief

A deduction made from the value of business property when it is assessed for inheritance tax purposes.

See also: agricultural property relief, inheritance tax, potentially exempt transfer

butterfly

Traders use the butterfly strategy when they feel a particular stock will remain neutral during a certain period. By entering into a butterfly trade, the trader is essentially betting that the underlying stock price will remain close to where it is currently. It involves, in one single transaction, the simultaneous purchase of a call at one exercise price, the sale of two calls at a higher exercise price, close to the expected stock price, and the purchase of a call at an equally higher exercise price.

See also: call option, put option

Buttonwood Agreement

A 1792 trade agreement banding the original 24 brokers in New York together into an investment community. The agreement was named after a Buttonwood tree that served as their informal meeting place on Wall Street.

buy back

The purchase by a listed company of its own shares either in the open market or by tender offers. Companies do this for several reasons: to increase the share price; to rationalise the capital structure; to sustain a higher debt-equity ratio; to prevent the dilution of earnings caused, for example, by the issue of new shares to meet the exercise of stock option grants; and to deploy excess cash flow by returning it to shareholders. In the last sense it can be regarded as an alternative to dividend payments. The distribution is less certain but can have tax advantages over dividends, which are treated as income.

buy on the rumour, sell on the fact

An axiom whose underlying message is that stock market prices rise in anticipation of positive events, but often fail to sustain high levels when the facts actually become known.

Buy side

Institutions whose main business is to make investments either on their own behalf or for other investors, such as members of a company pension scheme. Opposite to sell side, typically investment banks.

buy-write

Purchase of stock and simultaneous writing of call options against the stock position.

See also: call option, hedging

buyers guide

A document, relevant to life assurance, personal pension and unit trust products, which is given to prospective clients at the initial interview. It indicates that the adviser is either independent or a tied agent (company representative) and how they differ. The guide subsequently states the identity of the issuer: which type of adviser he/she is and his/her obligations to the investor. Also the company whose products may be purchased will provide full product details and indications of charges or commissions payable in writing. It is a mandatory requirement, whether advisers are independent or tied agents, that a buyers guide be given to a prospective client (prospect) prior to any product discussions.

See also: life assurance, personal pension plan, prospect, tied agent, unit trust

buying price

The price at which units in a unit trust are bought by investors. Also known as the offer price.

See also: selling price, unit trust

BVPS

See ‘book value per share’.

bylaws

In the US, the rules under which a corporation’s internal management operates. They include details such as election of directors, duties of officers and how share transfers can be conducted.

See also: articles of association

cabinet bid**CAB**

A facility enabling holders of deep out-of-the-money options to close their positions at a nominal figure, such as £1/\$1 per contract or 1 cent per option.

See also: call option, option, put option

cable

Foreign exchange term for the UK Pound v US Dollar exchange rate. The name alludes to the cable laid under the Atlantic, which used to link the ticker-tape machines in New York and London.

CAC 40

The main index of the French stock market introduced in 1988 with a base value of 1,000 and made up of France's largest 40 companies by market capitalisation. It is the basis for futures and options trading. During trading hours the value of the index is calculated on a live basis, changing every time the price of one of its component companies changes. The broader CAC general covers 100 stocks.

See also: Dow Jones Industrial Average, FTSE 100 Index

Cadbury Committee

A committee chaired by Adrian Cadbury which produced the first Code of Best Practice on corporate governance, in 1992. Its stated objective was "to help raise the standards of corporate governance and the level of confidence in financial reporting and auditing by setting out clearly what it sees as the respective responsibilities of those involved and what it believes is expected of them." It has since been followed by the Greenbury report on Directors' Remuneration (1995), the Hampel Committee on Corporate Governance (1998), which produced The Combined Code, and the Higgs Review of the Role and Effectiveness of Non-Executive Directors (2003), which led to further revisions.

The code lays down rules which the UK Listing Authority – part of the Financial Services Authority – requires companies to follow. The rules include the composition of the board, such as the ratio of non-executive to executive directors, board committees, the role of the chairman and the NEDs, directors' remuneration, relations with shareholders, and accountability and audit.

cafeteria employee benefit plan

In the US, a plan enabling employees to withhold a portion of their pre-tax income to cover a variety of benefits such as medical or child care, depending on their own particular circumstances. Also known as a section 125 plan.

CAGR

Compound annual growth rate.

calendar effect

The theory that certain days of the week, weeks of the month, and months of the year are more likely to produce rises/falls in share prices than others. 'Sell in May and go away' is an example. One stock market commentator has claimed that the 6th June is the best trading day of the year, that 26th September is the worst, prices more often than not fall during the last week of October, and that the UK stock market usually rises in January in US presidential election years.

See also: technical analysis

calendar spread

The sale (purchase) of a near month call option (put option) and the simultaneous purchase (sale) of a longer dated call option (put option) at the same exercise price.

See also: call option, option, put option

call

In options, the right to buy a number of shares at a specified price by a fixed date, and in bonds, the right to redeem outstanding unmatured bonds before

the maturity date. More generally, it is a demand by a company to shareholders to pay a further instalment on partly-paid shares or a demand by a bank for the full repayment of a secured loan when the borrower has failed to meet his/her obligations, such as interest payments, under the terms of the loan agreement.

See also: partly paid shares

callable

A security that is callable gives the holder the right to earlier redemption at a given call date.

call date

The date on which a bond may be redeemed by the issuer before maturity that may be at par or at a higher value. The difference is known as the call premium.

call option

An option that gives the holder the right but not the obligation to purchase a stated quantity of the underlying instrument (for example shares, indices, commodities etc) at a specified price on or before a given date.

See also: expiry date, put option, underlying instrument

call payment

A payment made by investors for new shares. The term would apply to payments made when a company first floats on the stock exchange and also when it has a rights issue. Call payments can be staged. For instance, if you subscribe to an offer on flotation, the terms may require you to pay in

two instalments - the first at the time of your subscription and the second six months later. Issuing companies use this as a device to attract shareholders, and it was widely used when the UK government privatised state-owned industries in the 1980s and 1990s.

call price

The price at which a bond or preferred stock can be redeemed by the issuer. The call price will usually be greater than the par value to compensate the holder for loss of income and ownership. The difference is known as the call premium.

See also: preferred stock

call provision

A provision of a bond or preferred stock issue, listed in its indenture (the formal agreement between the bond issuer and the holder) that allows the issuer to redeem the bond before the maturity date either at par or at a premium to par.

See also: indenture, maturity, preferred stock

call spread

The simultaneous purchase (sale) of a call at one exercise price and sale (purchase) of another call at a higher exercise price.

See also: call option

call warrant

Warrants that give their owner the right to buy an underlying instrument (e.g. a share), which would therefore normally be used by an investor who thought the price of the underlying

asset was due to rise.

Calmar ratio

A risk/return measurement that divides the average annual compounded rate of return by the maximum drawdown. It calculates the historical return for an investment made over a given period of time. Unless otherwise indicated the ratio is calculated using a 3-year time period. The higher the Calmar Ratio, the better the investment's risk-adjusted performance over the time period indicated.

cancel

The voiding of a buy or sell order.

cancel former order

CFO

Type of order given to a broker.

cancellation notice

See 'cancellation period'.

cancellation period

In financial services, the period after signing a contract during which customers are entitled to cancel their purchase of a financial product.

cancellation price

The lowest possible bid price of units in a unit trust under FSA regulations, which is usually lower than the quoted bid price. The cancellation price may be applied in the event of heavy selling. Also applies to the repurchase of a company's shares by directors.

See also: Financial Services Authority, unit trust

cap and collar rate

A loan, typically a mortgage, which guarantees that the interest rate charged will remain sandwiched between two specified levels.

See also: mortgage

capex

See ‘capital expenditure’.

capital

Funds invested in a firm by means of share capital or loans. Also used to refer to the overall assets of an individual less liabilities.

See also: assets, loan capital, retained earnings, share capital

capital account

The account in a country’s balance of payments that records the flows of capital between domestic residents and foreigners.

capital adequacy

A measure of the financial strength of a bank or securities firm, usually expressed as a ratio of its capital to its assets. For banks, there is now a worldwide capital adequacy standard, drawn up by the Basel Committee of the Bank for International Settlements. The Basel Capital Accord, introduced from 1988, requires banks to have capital equal to a minimum of 8 per cent of their assets. In 2004, a revised framework, known as Basel II, was is-

sued. Among its proposals are that capital requirements should be more risk sensitive and that greater use should be made of risk assessments produced by banks’ internal systems. The revisions, which have sparked controversy, are being considered by national banking supervisors and implementation is due at the end of 2007.

See also: Bank for International Settlements

capital allowance

A tax allowance that takes account of the depreciation of certain types of business assets such as plant and machinery and motor vehicles.

See also: assets, depreciation

capital asset pricing model

A model for calculating expected equity returns. It is based on the premise that returns are the reward for taking on risk, and that risk can be split into two types: stock-specific risk and market risk. Since stock-specific risk can be mitigated by diversification policies, investors should not be compensated for taking this on. Expected returns should only be a function of the share’s response to returns on the market as a whole, which is given by the share’s beta.

See also: beta value, capital market theory

capital assets

Assets, purchased as a long-term investment for generating profit, such as buildings, plant and machinery and fixtures.

See also: assets

capital employed

The value of all the assets employed in a business, including equity and preference share capital, fixed and current assets, and gross borrowings plus current assets and less current liabilities. The most common use of capital employed is in the calculation of 'Return on Capital Employed' which measures the operating profit of a company as a percentage of capital employed. In effect, ROCE is telling you how efficient a company is at squeezing profit out of capital. A company that gets £20m of profit out of £200m capital employed is doing much better than one that gets £20m of profit out of £800m of capital employed.

See also: return on capital employed

capital expenditure

A company's expenditure to acquire capital assets.

See also: capital assets

capital fulcrum point

CFP

The CFP measures the annual percentage growth rate required from an underlying instrument for you to do equally well in terms of capital appreciation from its associated warrants or options.

capital gain

The amount chargeable to capital gains tax (CGT) from gains made on the disposal of an asset. In the case of stocks and shares, the gain is the difference between the proceeds of selling the shares and the amount you paid for them adjusted for indexation. In calcu-

lating the acquisition cost, broker commissions and stamp duty can be included. In calculating the disposal proceeds, commissions and other charges incurred in the process of selling can be deducted. The calculation of Capital Gains Tax will depend on the annual exemption, the level of other gains or losses in the tax year, and taper relief.

See also: capital gains tax, indexation, taper relief

capital gains tax

CGT

Capital gains tax arises as a result of a 'chargeable event' - in the case of stock market investment, the disposal of shares at a profit. Just because a capital gain is made does not mean a tax on the gain must be paid. That depends on the personal tax position, and on whether total gains for the year are within the annual exemptions. The annual exemption per spouse are £8,800 for the 2006-2007 tax year and £9,200 for 2007-2008. The essential information required for each asset is: base or original cost, date of acquisition, date of disposal, and disposal proceeds.

See also: capital gain, indexation, taper relief

capital growth

In general terms, the increase in value of an asset. As far as shares are concerned, capital growth is an increase in the share price compared to the price paid, and is one of the elements of 'total return', the other component being income through dividends. Research has shown that investing in shares over the last 50 years produced a better total return than investments in

bonds or deposits, and capital growth has been a major part of that superior performance. There is certainly no guarantee that shares will continue to outperform other investments and they frequently fail to do so over shorter periods.

capital market

The general term for the market in which medium to long-term capital is raised, including stock and bond markets. It also refers to the intermediaries at investment banks and brokerages who make the markets.

capital market theory

The generic term for models designed to price assets, usually shares or baskets of them, in terms of the trade-off between risk and return that investors seek. The best known and most influential of these is the Capital Asset Pricing Model.

See also: capital asset pricing model

Capital movement

See 'balance of payments'.

capital shares

Shares that entitle the holder to receive the capital appreciation from a split capital investment trust. The other type of shares in such a fund are income shares which receive the fund's income.

See also: dual purpose fund, income shares, investment trust, mutual fund, split capital investment trust

capital structure

The components forming a company's capital: ordinary shares, preference shares, debentures and loan stock. In the US, the equivalent components are: common stock, long-term debt and preferred stock.

See also: capital, common stock, long-term debt, ordinary shares, preference shares, preferred stock

capital transfer tax

CTT

A UK tax on gifts made by an individual, whether made during their life or after death. Replaced by inheritance tax in 1986.

See also: inheritance tax

capitalisation

The injection of capital into a company. For example, the process by which a company converts its cash reserves into new shares and issues them to existing shareholders on a pro rata basis. Also known as a scrip issue, or bonus issue. Note that since the effect of a capitalisation issue is to increase the number of shares in the company, the market price of the shares will typically fall to reflect the dilution.

See also: bonus issue, capital structure, scrip issue

capitalisation issue

See 'scrip issue'.

capped rate mortgage

A mortgage which guarantees the interest rate charged will not rise above a certain level. But it may fall in line with variable rates.

See also: cap and collar rate, mortgage

car benefit

Where a company provides an employee with a company car that is used privately as well as on company business, the individual may incur a tax liability. The level of the liability will depend on a number of factors including salary and motor car details such as cost, age, engine capacity etc.

carat

A measurement unit defining the purity of gold. Pure gold is 24 carat, whilst 18 carat gold comprises 18/24 gold and 6/24 alloy. Also spelt karat.

carpetbagger

Someone who becomes an account holder with a building society in the hope of benefiting from a windfall handout when the building society demutualises (turns itself into a public company). Originally an American term for a northerner who went to the south after the Civil War for political or financial advantage and, more generally, a term for an outsider, especially a politician, who seeks a position or success in a new locality.

See also: demutualisation

carry back

A term applicable to personal pensions regarding tax rules that allow contributions made in the current tax year to be treated as though they were paid in the preceding tax year. If there were no net relevant earnings in the preceding year, the contribution can be carried back a further year. The advantage of taking

up this choice is that tax relief is obtained at the highest rate applicable in that previous year. For example, if an individual's earnings have fallen such that he/she is no longer a higher rate taxpayer, carry back of contributions will obtain tax relief at the highest rate.

See also: net relevant earnings

carry forward

A technique for applying a loss or credit from the current year to a future year.

See also: carry back

carrying broker

A member of a commodity exchange, usually a commission house broker, through whom another broker or customer, who is not a member of the exchange, elects to clear all or part of his trades.

carrying charges

The cost of storing a physical commodity, consisting of interest on the invested funds, insurance, storage fees, and other incidental costs. Carrying costs are usually reflected in the difference between futures prices for different delivery months. When futures prices for deferred contract maturities are higher than for nearby maturities, it is a carrying charge market. A full carrying charge market reimburses the owner of the physical commodity for its storage until the delivery date.

See also: commodity (commodities), futures

cash

Money, in the form of notes and coin, which constitutes payment for goods at the time of purchase.

cash and carry

An arbitrage transaction applied on a futures market where the cash or spot price of, for example, a commodity is less than the futures contract price. Under these circumstances a purchase of the cash commodity with borrowed money and the simultaneous sale of the futures contract can provide a profit.

See also: arbitrage, futures, futures contract, spot price

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 bankers' acceptances. Cash equivalents on balance sheets include securities that mature within ninety days.

See also: balance sheet, current assets

cash card

See 'ATM card'.

See also: cash dispenser

cash cow

A product or a business unit that generates unusually high amounts of free cash flow and is responsible for a disproportionately high proportion of a group's cash flow. The amount of cash being thrown off far exceeds the level necessary to maintain the mature cash-cow business, and the excess is used by the group for other purposes, such as investing in less mature subsidiaries.

See also: cash flow

cash dispenser

See 'automated teller machine'.

cash equivalents

Highly liquid, accessible, safe investments, such as bills, short-dated triple-A bonds and money market funds that can easily be converted into cash.

cash extraction

A defensive strategy using warrants to replace the exposure to assets at a lower price, thereby releasing cash.

cash flow

The amount of money that flows in and out of a business, the difference between the two being the important number. If more money flows into a business than out of it, it is cash positive. If more money flows out than in, it is cash negative. Cash flow is a key test of financial health. Profit figures are easier than cash to massage: it is said that profit is a matter of opinion and cash is a matter of fact. The cash flow position of a company can be seen in the cash flow statement in its annual report and accounts.

See also: annual report, balance sheet, profit and loss statement (P&L)

cash flow statement

The cash flow or flow of funds statement shows how an operation has been financed in the latest accounting period and how resources have been used.

See also: cash flow

cash market

An expression used to describe the market in the underlying instrument (for example, shares, indices, commodities) on which a futures or options contract is based. Also known as spot or physical market. In a cash market the commodity or financial instrument is actually transferred from seller to buyer.

cash settlement

Deals on an exchange where investors are obliged to settle immediately rather than on account. An expression used in futures and options trading which applies when physical delivery is impractical or undesirable and contracts are settled by attaching a monetary value.

See also: futures, option

cash surrender value

The value of funds returnable to the insured from the insurer upon the surrender of a cash value life insurance policy.

See also: cash value life insurance, insurer, insured

cash value life insurance

A life insurance policy that pays a benefit on the death of the insured but also provides a savings element where benefits are payable before death.

See also: insured

cash-settled warrant

Cash-settled warrants are warrants that are not exercised in exchange for a

physical asset, but for a cash amount equal to their intrinsic value.

See also: stock-settled warrant

cash-to-cash cycle

A financial ratio showing for how long a company has to finance its own stock/inventory. It measures the number of days between the initial cash outflow (when the company pays its suppliers) to the time it receives cash from its customers and is calculated as: stock days + debtor days - creditor days. So a company which keeps its stock for on average of 20 days, which gets paid by its debtors on average within 30 days and which pays its creditors on average within 45 days, has a cash-to-cash cycle of 5 days. Companies that receive cash from their customers at the time of sale and that have their stock under good control, will have a short cash-to-cash cycle.

cashback

A sales incentive, commonly used on mortgages, giving customers a cash sum as soon as the deal is signed. Typically linked to heavy redemption fees.

See also: mortgage, redemption fees

casualty insurance

Insurance that gives protection to a business or homeowner against property loss or liability, arising from an unexpected event.

CAT mark

See 'CAT standard'.

CAT standard

Cat standards were set by the government to signify that a financial product, normally an ISA, met certain standards on Charges, Access and Terms. The standards varied according to the product. The fact that a financial product offered by an institution had a CAT mark was not a guarantee of its performance or a recommendation by the government. It simply indicated that it satisfied the objective criteria. Equally the absence of a CAT mark did not mean it should be avoided. They were abolished in 2005.

See also: individual savings account

caveat emptor

Latin for 'let the buyer beware'. This implies it is up to the buyer to ensure that goods they purchase are free from defects, and makes it clear that he/she bears the risk. It is particularly relevant in property transactions, where the seller is legally obliged not to mislead the buyer, but other than that the onus is on the buyer to satisfy himself that the property is in the condition he wants. For most consumer goods, the concept of caveat emptor does not apply, because consumers enjoy the protection of the Sale of Goods Act entitling them to return goods for a refund if they have a defect, are not of merchantable quality, or are not fit for purpose.

CBOE

The Chicago Board Options Exchange, the largest market for options.

www.cboe.com

CBOT

The Chicago Board of Trade, the world's oldest and one of the largest futures exchanges. Founded in 1848, CBOT trades both financial and commodity futures, with US Treasury bond futures being the most frequently traded instrument. Its big US rival is the Chicago Mercantile Exchange, which is particularly strong in agricultural futures contracts (and was called the Chicago Butter and Egg Board until 1919). Eurex and Euronext-Liffe are the largest European exchanges.

www.cbot.com

www.futuresindustry.org

CD

Certificate of Deposit. A certificate issued as a receipt for funds deposited at a bank or other financial institution for a specified term which also stands as a promise to repay interest on the funds and to repay the capital amount.

central bank

The major regulatory bank in a country or group of countries (in a single monetary system), usually government controlled. Typically central banks issue notes, control the credit system and commercial banks, manage foreign exchange reserves and act as the banks' bank. The UK central bank is the Bank of England; Germany's is the Bundesbank; in the US it is the Federal Reserve System. The European Central Bank covers the Euro area.

central register

A computerised database of around 50,000 investment firms which have

been authorised to conduct investment business. The Register, required under the Financial Services Act 1986, is maintained by the senior investment regulator, the Financial Services Authority (FSA), and enables the public to check whether a firm is authorised. If a firm is authorised, it means that it has met standards of honesty, financial soundness and competence that are set and monitored by the regulator.

www.fsa.gov.uk

www.thecentralregister.co.uk

See also: Financial Services Authority, independent financial adviser, investment trust, mutual fund, Personal Investment Authority

Central Warrants Trading Service

CWTS

The Central Warrants Trading Service is the automatic execution order book system on the London Stock Exchange and is used for the trading of some warrants. It is a new segment on SETS, the exchange's electronic order book, and provides for fully automated trading.

certificate of deduction of tax

A certificate, issued by a building society or bank (in accordance with Section 352 of the Income and Corporation Taxes Act 1988) to its customers with interest bearing accounts, in which gross interest, tax deducted and net interest are itemised. This is then used by the account holder when filing a self assessment tax return.

See also: corporation tax, income tax, self assessment

certificate of deposit

See 'CD'.

CFTC

The Commodity Futures Trading Commission is a US body aiming "to protect market users and the public from fraud, manipulation, and abusive practices related to the sale of commodity and financial futures and options, and to foster open, competitive, and financially sound futures and option markets." Futures contracts for agricultural commodities have been traded in the US for more than 150 years and have been under Federal regulation since the 1920s.

www.cftc.gov

See also: futures, options

channel lines

Lines on a technical analysis chart connecting high and low points in a market over time. If a line is broken it might indicate an imminent move to a new level – either higher or lower – and the trader using the chart would position himself to make a profit from that move.

See also: technical analysis

Chapter 11

In the US a company can file for protection against creditors under Chapter 11 of the country's bankruptcy laws. The company continues to operate under existing management while working with its creditors to reorganise the business. Note that there are different Chapters, with different implications.

See also: bankruptcy, insolvency

charge card

A plastic payment card enabling the holder to obtain goods and services without having to pay cash. Accounts are normally submitted to the card holder monthly and must be settled in full. In addition to obtaining goods, the charge card can be used to obtain cash. Examples of charge cards are American Express, Diners Club and a number of gold cards.

See also: credit card, debit card

chargeable event

A transaction leading to a chargeable gain, which in turn promotes the issuing of a chargeable event certificate.

See also: chargeable event certificate, chargeable gain

chargeable event certificate

A certificate issued on the occurrence of a chargeable event. Details listed include the amount of the gain, number of years over which the gain has occurred, the date the transaction took place and that the certificate should be sent to the tax office to establish if a higher rate tax liability exists. Proceeds are free from basic rate tax liability.

See also: chargeable event, chargeable gain

chargeable gain

The amount chargeable to capital gains tax (CGT) from gains made on the disposal of an asset. In the case of stocks and shares, the gain is the difference between the proceeds of selling the shares and the amount you paid for them, adjusted for inflation by a process known as 'indexation'.

See also: capital gains tax, chargeable event, indexation, taper relief

chargeable transfer

A gift or other transfer of value made by an individual which is not covered by any of the various exemptions and which is therefore a transfer for inheritance tax purposes.

See also: inheritance tax

charitable trust

A trust created for the purpose of providing charity, or educational, religious or social benefits, that has been registered with the appropriate authority and which enjoys income tax advantages. Unlike most trusts, a charitable trust does not require definite beneficiaries and may exist in perpetuity.

See also: Charity Commission, income tax, trust

Charities Aid Foundation

A central clearing house for charities, available in many countries. Allows supporters to make tax-efficient donations to many different charities via a single chequebook or credit card.

www.cafonline.org

charity

An organisation whose aim is to provide help for the needy. Charities that are registered with the appropriate authority (e.g. The Charity Commission) can receive legacies from a deceased person's estate free of inheritance tax.

See also: trust

Charity Commission

The regulator and registrar for charities in England and Wales.

www.charity-commission.gov.uk

charting

A set of techniques, used by a chartist, to plot price movements and other financial market data on a graph. The theory is that by looking at historical movements of a stock or commodity or other tradeable asset, patterns can be spotted, and these patterns can be used to anticipate future price movements. There are many different strands of charting, also known as technical analysis.

See also: fundamental analysis, technical analysis

chartist

An investor who plots information about share prices and trading volumes on a chart, looking for patterns. Chartists, or technical analysts, believe they can see recurring patterns on charts that enable them to predict future price movements.

See also: technical analysis

chattels

A term used in wills that refers to the personal possessions of the testator. Such items would typically be jewellery, furniture, books and motor cars. Buildings and land do not count as chattels but are known as 'real property'.

See also: will

cheap

Rich and cheap analysis refers to the market pricing of a security. A new, primary market issue is considered cheap if it is inexpensive compared with the existing secondary market.

See also: new issues

cheapest to deliver

The security or commodity in the cash market that is the cheapest possible means of delivering on a futures commitment.

See also: futures

cheque account

An account with a bank or a building society from which payments can be made by cheque.

See also: cheque card

cheque card

A card issued by a bank or building society which guarantees the payment of a cheque to the recipient and which supports a cheque for obtaining cash, both up to a stated value. Can also typically be used to withdraw money from an ATM.

See also: ATM, charge card, credit card

cheque clearing

A system enabling cheques to be transmitted between banks (and between branches) in order to transfer funds.

Chicago Board of Trade

See 'CBOT'.

Chicago Mercantile Exchange

The Chicago Mercantile Exchange (or CME) was called the Chicago Butter and Egg Board until 1919 and is one of the world's largest futures exchanges.

www.cme.com

See also: Chicago Board of Trade

child deferred endowment

An endowment assurance on the life of a child which can be taken as cash at maturity or converted to a full endowment or whole life assurance.

See also: assurance, endowment

Child Trust Fund

CTF

A savings and investment account for children born on or after 1st September 2002. The child receives a £250 voucher from the government to start the account, which cannot be accessed until they turn 18, supposedly ensuring that they start adult life with some money behind them.

www.childtrustfund.gov.uk

children's bonus bond

See 'baby bond'.

children's tax credit

Replaced by the similarly-named 'child tax credit' in April 2003, children's tax credit is aimed at anyone with a child under 16, regardless of their marital status and is worth up to £545 per year. It has been criticised as 'anti family' because a household in which one person stays at home to look after the children will be excluded if

the other goes out to work and earns more than £50,000. By contrast, a household in which both work and in which each earns £30,000 - bringing total household income to £60,000 - will still be eligible.

Chinese wall

An internal 'wall' between two departments of a bank or other financial institution which is meant to ensure that conflicts of interest do not arise and in particular that price sensitive information does not move between different departments. For instance, a bank might have a corporate finance department, which advises on takeovers and mergers, and a fund management division which invests client money in shares. If the fund managers were to hear about an impending deal, that would be insider dealing. Chinese walls, enforced by a bank's compliance department, are meant to ensure that the corporate financiers don't talk to the fund managers about their work.

See also: compliance, insider dealing

churning

Unjustified overtrading by a stockbroker or fund manager. Private clients have long claimed that brokers 'churn' their portfolios, switching in and out of different stocks for no reason other than to generate commission income for themselves.

See also: advisory broker, discretionary broker, execution only broker, stockbroker

circuit breaker

A defensive regulation imposed by some stock exchanges to limit the dam-

age of a sharp fall in prices. The reasoning is that downward price movements attain their own dangerous momentum and can lead to panic selling. Circuit breakers allow the exchange to suspend trading to stop things getting out of hand. On the New York Stock Exchange, for instance, there are rules allowing the exchange to stop trading for the rest of the day if the Dow index falls 30% from the previous day's close.

circular

An analyst's report that recommends that certain shares be bought, held or sold, based on his or her projections of the company's future earnings and its future share price.

See also: consensus forecast

Citizens Advice Bureau

CAB

An office, represented in most towns in the UK, where members of the public can obtain free advice on an extensive range of civil matters including: social security, consumer matters, loan and rental arrears, employment, housing issues such as mortgage and rent arrears, legal aid, family law, taxation and many other subjects.

www.citizensadvice.org.uk

See also: loan, mortgage, social security tax

City Code

The rules governing the management and timing of takeover bids involving companies listed on the London Stock Exchange, written and enforced by the Panel on Takeover and Mergers. The objective of the City Code is to ensure

that high standards of integrity and fairness are maintained, and that shareholders in both the bidding and the target company are treated equitably. The Panel is not concerned with the financial or commercial advantages or disadvantages of a takeover, nor with competition issues. The City Code does not have the force of law, but, as the Code says "those who seek to take advantage of the facilities of the securities markets in the United Kingdom should conduct themselves in matters relating to takeovers in accordance with best business standards and so in accordance with the Code." It goes on to say: "Those who do not so conduct themselves may find that, by way of sanction, the facilities of those markets are withheld."

www.thetakeoverpanel.org.uk

See also: Panel on Takeovers and Mergers, takeover

claim

A demand by an insurance policy holder for a benefit to be paid by his/her insurer under the conditions of the policy.

See also: insurance, insured, premium

class (of options)

All listed options of a particular type (i.e. call or put) or style (American or European) on a particular underlying instrument.

See also: option

Class 1, 2, 3 and 4 National Insurance Contributions

See 'National Insurance contributions'.

clawback

In general, previously-given money or benefits that are taken back due to special circumstances. More specifically, an arrangement in which the sponsors of a project agree to use their prior dividends received from the project to cover any subsequent cash deficiencies. A largely defunct term used in life assurance where, under certain conditions, life assurance premium relief (LAPR) given under a life policy could be recovered (or clawed back) by the Inland Revenue. Also where a life company advances indemnity commission to an agent, the company does so on the understanding it will be entitled to recover some or all of the commission paid if the relevant policy is cancelled within a given period.

See also: Inland Revenue, life assurance

clearing

The process of moving payments between accounts from different banks or branches. Also a term used on futures and options exchanges that refers to the process of registration, settlement and provision of a guarantee of exchange-traded transactions.

See also: futures, option, settlement

clearing house

An independent organisation, appointed by an exchange, which guarantees securities transactions. A clearing house may be a division of an exchange, an adjunct or affiliate, or a freestanding entity. An automatic clearing house is a nationwide electronic funds transfer network enabling participating financial institutions to distribute electronic credit and debit entries

to bank accounts and to settle such entries. CHAPS is one example.

See also: clearing, settlement

clearing house automated payment system

CHAPS

A computerised payment system for clearing cheques in the UK that began operations in 1984. It includes 14 member banks, nearly 450 participating banks, and is one of the clearing companies within the structure of the Association for Payment Clearing Services.

clearing house interbank payment system

Chips

A computerised, real-time, final payment system for US dollars for clearing cheques in New York.

www.chips.org

client agreement

A document issued by an adviser/broker to a client outlining the basis of the relationship and the services for which the adviser/broker is authorised. In particular the client agreement will state: the client's investment objectives; the client's attitude to risk; and how much discretion the broker has in portfolio management. Client agreements are legally required before a broker starts acting on behalf of a client.

See also: stockbroker

close company

A company in which the directors control more than half the voting shares,

or where such control is exercised by five or fewer people and their associates.

close market

A securities market in which the difference between bid and offer prices is narrow and which reflects high volume trading in a 'liquid' stock.

See also: bid/offer spread, bid price, liquidity, normal market size, offer

close out

A futures transaction where an equal and opposite trade closes an open position. This leaves a trader with what is known as a zero net position.

See also: futures

closed end fund

A collective fund with a fixed number of issued shares traded on a stock exchange. Because the supply of shares is limited, they will rise and fall in value according to supply and demand, like ordinary company shares. In the UK, this is equivalent to an investment trust. In contrast, open end funds are allowed to accommodate demand by issuing new shares, so the value of their units does not rise and fall in response to demand, but is more or less equal to the value of the fund's underlying assets. In the UK, this is equivalent to a unit trust.

See also: investment trust, open end fund, unit trust

closed period

The two months before a company announces its results in which directors are prohibited from dealing in its

shares. This is to prevent them from taking advantage of inside information about the company's performance. Also, the period of time during the term of a mortgage loan when it cannot be prepaid.

See also: directors dealings, insider dealing

closely held corporation

In the US, this refers to a corporation with only a small number of shareholders. Although a public company, shares would not normally be available for trading because of a lack of liquidity.

See also: liquidity

closing 52-week high

The highest closing price for a specific security over the last 52 weeks. The closing price could be intra-day or end of day prices.

See also: closing 52-week low

closing 52-week low

The lowest closing price for a specific security over the last 52 weeks. The closing price could be intra-day or end of day prices.

See also: closing 52-week high

closing price

The closing price is the price of a tradable instrument at the time the market closes and is officially designated as the "close". On the London Stock Exchange, for shares traded on the automated SETS platform, the closing price is the last automatic trade price, or the uncrossing trade price at which orders execute during an auction, or a Volume

Weighted Average Price (VWAP); for SEAQ, SEATS and AIM securities the closing price is the best bid, offer and mid price calculated from market maker quotes at the end of the mandatory quote period.

See also: Stock Exchange Electronic Trading Service, Stock Exchange Automated Quotation system, Volume weighted average price

closing purchase

The purchase of an option, by a writer, which has the same terms as an option that has previously been sold. This transaction terminates his/her obligations as a writer.

See also: option, option writer

closing range

A futures expression referring to a range of closely allied prices at which transactions were conducted at the close of a trading day.

See also: futures

closing sale

The sale of an option, by a holder, identical to the option which is held. This transaction terminates his/her rights as a holder.

See also: option, holder

CME

See 'Chicago Mercantile Exchange'.

co-operative

A business owned and operated by its members.

codicil

A document which effects changes or additions to a person's will. Both the will and the codicil must be read in conjunction with one another.

See also: will

cold calling

An approach by a salesperson to a prospect (prospective buyer) either by telephone or in person where no previous contact has been made. In the UK, cold calling in respect of life assurance, pensions and unit trusts is subject to a code of practice which must be followed by the salesperson. It requires the salesperson to open the call by declaring their name, their company and the purpose of the call.

collar

A protective options strategy which fixes payments within a certain range by combining a written call and a long put against a previously owned long stock position. The options may have the same strike price or different strike prices and the expiration months may or may not be the same. Also called a fence.

collateral

An asset pledged by a borrower as a guarantee to a lender until a loan or bond is repaid. If the borrower defaults, the lender has a right to sell the collateral asset. An example of a type of financial collateral that can be offered is a life insurance policy which has a cash surrender value equal to or greater than the loan amount. This could be pledged as security.

See also: surrender value

collecting branch

A banking term referring to the branch that accepts cheques to be credited to its customers' accounts and subsequently obtains the proceeds from the issuing banks, usually by a clearing arrangement.

combination

A term used in options trading. It is a straddle using options with different exercise prices, where both the call and put options used are out of the money.

See also: in the money, option, out of the money, straddle, strangle

COMEX

An abbreviation for the Commodity Exchange in New York which is now a division of the New York Mercantile Exchange following its merger with NYMEX. It is the main US market for energy and metals futures and options trading. Trading is conducted through two divisions, the NYMEX Division, home to the energy, platinum and palladium markets; and the COMEX Division, on which all other metals trade www.nymex.com

See also: NYMEX

commercial bank

A retail, clearing or money-centre bank, such as Barclays, Lloyds TSB or HSBC, which provides services to companies and individuals in the form of current, deposit and loan accounts plus a variety of other financial services including mortgages, insurance and financial planning. Commercial banks contrast with investment banks, which focus on raising funds for com-

panies rather than lending and money transmission.

See also: merchant bank

commercial mortgage

A mortgage on a non-residential building occupied by a business.

See also: mortgage

commercial paper

A short-term, discounted, unsecured note issued by banks and corporations with shorter maturities than certificates of deposit, typically around 30 days. Such notes are a negotiable instruments in bearer form.

See also: note

commission

In general, a fee paid to a broker or agent for facilitating a transaction. More specifically, a payment made to a stockbroker when you buy or sell shares. In general, the level of commission is either a flat fee (possibly going up in stages according to the size of the deal) or a percentage based on the size of the deal. An important determinant of the amount of commission you pay will be the kind of service you get from your broker. This may be discretionary (the broker has general discretion as to how he manages your portfolio); advisory (the broker suggests changes in the composition of the portfolio, but does not have the authority to trade on a completely discretionary basis); or execution-only (the broker's primary function is to execute the buy/sell instructions which you give him). As a rule, execution-only brokers are the cheapest for transaction costs.

commission house

A term used to describe brokerage firms that earn their living by charging their customers commissions for buying and selling contracts.

See also: stockbroker

commitment fee

A fee paid by a borrower to a lender in return for the commitment to make funds available.

commodity (commodities)

Basic raw materials and foodstuffs such as metals, petroleum, plantation crops, “softs” (such as coffee and sugar) and grains and oilseeds. Commodities are traded on a commodity exchange both by the companies that use them (e.g. chocolate manufacturers) and by speculators. Futures contracts allow commodity producers and commodity users to bring some predictability and stability to pricing. By buying futures contracts, they can hedge against underlying price changes in the commodity. The largest commodity exchanges are in the US and UK. In the US, the main exchanges are the New York Mercantile Exchange, Chicago Board of Trade, Chicago Mercantile Exchange, Kansas City Board of Trade and Mid America Commodity Exchange. In the UK, commodities are traded on the London Metal Exchange, the International Petroleum Exchange and Euronext Liffe which incorporates the former London Commodity Exchange.

See also: futures, spot market

Commodity Credit Corporation

CCC

A US government-owned corporation established in 1933 to support prices through purchases of excess crops, to control supply through acreage reduction programmes, and to devise export programmes.

See also: commodity (commodities)

Commodity Futures Trading Commission

CFTC

Created by the US Congress in 1974 to regulate exchange trading in futures. www.cftc.gov

See also: futures

commodity trading adviser

CTA

In the US, an individual or firm who directly or indirectly advises others about buying or selling futures or futures options. Reports, newsletters or pieces of analysis concerning futures may be issued by a CTA. They may also engage in placing trades for other people's accounts. CTAs have to be registered with the CFTC and to belong to the NFA.

See also: CFTC, futures

common stock

Securities representing equity ownership in a corporation, providing voting rights, and entitling the holder to a share of the company's success through dividends and/or capital appreciation. In the event of liquidation, common stockholders have rights to company assets but only after bondholders, other debt holders and preferred stockhold-

ers have been satisfied. Typically, common stockholders receive one vote per share to elect the company's board of directors. The US equivalent of the term 'ordinary share' used in the UK.

See also: ordinary shares

common stock fund

A mutual fund that invests solely in common stocks of companies.

See also: investment trust, mutual fund, unit trust

Company Announcements Office

CAO

The department in a stock exchange (for example the London Stock Exchange) which must be notified without delay by a listed company or its advisers of any major new developments affecting its assets and liabilities, financial position or the general course of its business which may lead to a substantial movement in the price of its listed securities. Announcements are submitted to the CAO, where they are processed and released to the market via the Exchange's data feed - the London Market Information Link (LMIL) and Regulatory News Service (RNS). Information vendors - newspapers and online vendors - subscribe to the LMIL and pick up the news from there.

See also: London Stock Exchange, London Market Information Link, Regulatory News Service

company doctor

A business person who specialises in turning round companies in deep trouble. The term was fashionable in the 1980s when there were some high pro-

file examples of companies in terminal condition that were rescued by having a company doctor parachuted in. Usually a visit from a company doctor is accompanied by much bloodletting in the form of employee 'downsizing'.

company pension scheme

See 'occupational pension scheme'.

company representative (tied agent)

A financial services sales representative, authorised to give financial advice on life assurance, pensions and unit trusts, but only allowed to recommend products from his/her employer. Unlike, IFAs, therefore, tied agents cannot be assumed to give impartial advice. Under the Financial Services Act 1986 all financial advisers must tell prospective clients whether they are tied agents or independent so that the client knows what kind of advice he is getting. Tied agents are regulated by the Financial Services Authority (FSA).

See also: Financial Services Act 1986, independent financial adviser, life assurance, Personal Investment Authority, personal pension plan, unit trust

compensating balance

The balance required to be kept on non-interest bearing deposit at a bank by a borrower when receiving other free services or taking out a loan. Should the borrower fail to repay the loan either in full or in part, this balance would be forfeited.

See also: collateral

Competition Commission

The Competition Commission is an independent public body established by the Competition Act 1998. It replaced the Monopolies and Mergers Commission in April 1999. The Commission conducts inquiries into mergers, markets and the regulation of the major regulated industries. Inquiries are undertaken in response to a reference made to it by another authority – usually by the Office of Fair Trading (OFT) the Secretary of State, or by the regulators under sector-specific legislative provisions relating to regulated industries. The Commission has no power to conduct inquiries on its own initiative.

See also: collateral

Compliance

Literally, the act of complying with the rules and regulations of the relevant authorities. In the financial markets, compliance with the rules of the SEC (in the US) and FSA (in the UK) is a major issue for banks, brokers and fund managers. Companies have dedicated compliance staff whose job is to make sure that the procedures used in the company's operations follow the prescribed rules. Penalties for breach can be severe, both in pecuniary terms and in damage to reputation. Within banks, one of the jobs of the compliance officer is to make sure that people working in the broking department do not find out about deals being worked on by people in the corporate finance department. If they did, and they acted on that information by buying or selling shares, they would be in breach of insider dealing laws.

See also: Financial Services Act 1986, Securities and Exchange Commission

compound annual growth rate

CAGR

The average rate at which a particular financial parameter compounds up over a period of years.

compound interest

Interest earned on an original investment and the accumulated interest. It is in contrast to simple interest which is interest earned only on the original investment. Compounding is sometimes described as the miracle of investing, because if you add the interest which you earn on a capital sum to that sum, you will end up with a much larger amount than if you take the income out and spend it as you go. To allow compounding to work its magic, you have to give it time. Albert Einstein, when asked what he considered to be mankind's greatest invention, replied 'compound interest!'

See also: interest, principal

compound option

An option on an option which gives the owner the right to buy (or sell) an option at a set date at a set price.

See also: option

compound reversionary bonus

A with-profits life assurance bonus, normally added annually to the policy, which is based on the profits of the life company's investments. The compound reversionary bonus is normally calculated on the sum assured (or basic sum assured) plus bonuses to date and is payable at the maturity of the policy or prior death. Once declared, reversionary bonuses are guaranteed.

See also: basic sum assured, life assurance, sum assured

comprehensive insurance

A term used to describe an insurance policy in which a wide range of risks are covered. In car insurance, this sort of coverage pays for repairs or the replacement of the policy owner's vehicle and personal property damaged or lost due to events affecting the car, such as fire, theft, flood, or vandalism. Conversely, 'third party only' insurance would only compensate the insured for losses which he/she inflicts on another driver's car, and not for losses on the insured car.

See also: insurance policy

compulsory liquidation

The liquidation of a company brought about by a court order, usually as the result of a petition by an unpaid creditor.

See also: insolvency

compulsory purchase annuity

CPA

See 'annuity'.

Computer Assisted Execution System

CAES

A NASD inter-dealer automated execution system for listed securities. CAES is the NASD link to ITS (Inter-market Trading System). If an NASD dealer wishes to make markets in listed securities, he or she must register as an ITS/CAES market maker for those securities.

conditionality

Economic conditions relating to economic policy, taxation and exchange rate setting imposed on a country when it draws on funds (especially at the IMF).

condor spread

An options strategy, similar to a butterfly spread, involving four strike prices that has both limited risk and limited profit potential. A long call condor spread is established by buying one call at the lowest strike, writing one call at the second strike, writing another call at the third strike, and buying one call at the fourth (highest) strike. This strategy is often undertaken when an increase in volatility is expected, since it allows for positive pay-offs over a relatively large range of underlying prices. Also referred to as a 'flat-top butterfly'.

See also: volatility

Confederation of British Industry

CBI

An independent non-profit making, non-party political organisation which represents the interests of companies in the UK, promoting the conditions where companies can compete and prosper. The CBI was founded in 1965 by the merger of the Federation of British Industries, the British Employers' Confederation and the National Association of British Manufacturers.

www.cbi.org.uk

conglomerate

A company that owns a number of other companies with widely diversified activities. Conglomerates have tended to lose favour with investors since the 1980s because most institutions believe they can diversify risk themselves through portfolio management. Companies that lack focus, or fail to justify having diverse businesses under one roof, may be subject to calls for a break up – to release shareholder value – if the sum of the parts is greater than the whole. GE, based in the US, is the best enduring example of a conglomerate.

See also: break-up value

consensus forecast (or estimate)

Aggregated forecasts drawn from a number of different brokers about the likely future earnings of a company or performance of an economy. Broking firms publish forecasts of the future earnings of the companies, sectors or countries they follow. Their analysts specialise in certain industry sectors, and often have access to directors and CEOs which private investors do not have. Using their knowledge of the sector, the company, and general economic conditions, they forecast the profits of the companies for the coming year. The value of these forecasts for investors is that, if correct, they allow rational judgement about how much to pay for the shares now – but, of course, they are not always correct. Consensus forecasts may provide a safety net. The idea is basically that instead of relying on the forecast of one broker, you look at the estimates from a cross-section of brokers, and find a consensus. The assumption is that a

consensus is more likely to be right than any one forecast.

See also: price earnings growth factor

consideration

The basis of a contract – something of value given by one party to another in return for entering into a contract. It is a benefit or right which can be financial, a promise to do something or not to do something. One of the requirements for a contract to be enforceable in law is that both parties have given consideration. If one has not given consideration (however small), the contract is not enforceable.

consolidated accounts

A parent or holding company's accounts are made up by consolidating the accounts of its subsidiaries and other investments that it controls.

Consolidated Quote System

CQS

A US system which collects and disseminates, electronically, current bid and ask quotations along with volume, from and to all market centres trading listed stocks.

consolidated tape

A US high-speed system that continuously provides the last sale price and volume of any securities transaction in listed stocks to the public. All trades in NYSE and Amex-listed securities, regardless of the market centre on which such trades occur, are reported to and disseminated on the ticker system.

Consolidated Tape Association

CTA

The CTA oversees the operations of the US consolidated tape, which it developed, under a formal 'CTA Plan' filed with the Securities and Exchange Commission. CTA is an independent, industry-wide organisation.

Consolidated Trade System

CTS

The CTS receives and disseminates, electronically, listed stock last-sale prices in all markets in which they trade. CTS is under the operational guidance of the Consolidated Tape Association (CTA).

consolidation

The process by which a company changes the structure of its share capital by reducing the number of shares it has in issue and increasing the par value of each. For instance, a company with 100,000,000 shares in issue having a nominal value of 10p might consolidate on a 1-for-10 basis, reducing the number of shares to 10,000,000 and changing the nominal value to £1. As a shareholder, the number of shares you own would be reduced, but their nominal value would rise to compensate, and the market price of the shares should rise pro rata to reflect the greater ownership which each share represents in the company. The overall market value should not be affected. A consolidation is the opposite of a scrip issue, in which the number of shares rises, and their nominal value and market price falls.

See also: scrip issue

consolidation phase

A broadly sideways move in a market following a large rise or fall, often with lower and more stable volumes.

consols

See: 'irredeemable securities'.

consortium bank

A bank jointly owned by a number of other banks in which no single owner has a controlling interest.

constant dollar plan

A plan that enables investors to accumulate shares in a mutual fund by purchasing them on a regular basis (for example monthly) with a fixed dollar amount. The dollar amount buys more shares when the price is low than when it is high and, over time, the investor will have accumulated shares at a cost which is average for the period in question. Hence the other name for this process - 'dollar cost averaging'. In the UK, the same principles apply to savings plans for unit trusts and the process is called 'pound cost averaging'.

See also: mutual fund, pound cost averaging, unit trust

consumer confidence

Often expressed in the form of a numerical index and the result of a survey, consumer confidence measures the optimism of consumers in an attempt to forecast their future spending, which is a major influence on an economy's well-being. Forecasts about consumer confidence feed through into

stockmarket prices, as analysts make predictions about the volume of goods which retailers will sell, and the prices they can get for them.

consumer durables

A product such as a car or appliance which is not destroyed by its use and whose life expectancy is at least three years, in contrast to some other consumer goods such as food.

consumer price index

CPI

An index that tracks the prices of a variety of goods purchased by an average consumer. The goods typically include food, clothing, utilities and medical care. Also known as the cost of living index which is used as a reference for wage increases and other items linked to inflation, or index-linked, such as social security payments, pensions and savings products.

See also: retail price index

contango

The normal situation in futures trading where the future delivery price is greater than the cash or nearby price, to reflect the costs of storage, insurance and delivery. The opposite of backwardation.

See also: futures, futures contract

contents insurance

Insurance providing cover in respect of the contents of a home. This includes damage, theft or loss of items such as carpets, furniture, freezer contents, jewellery and cash etc. It is usual for

the insurers to specify a maximum claim limit for each section of items covered and any excesses. This information is listed on the policy schedule issued by the insurers. Contents insurance can be linked with buildings insurance in a combined policy provided by a single company.

See also: buildings insurance, household insurance

contingency order

An order to execute a transaction in one security that depends on the price of another security. Example: 'Buy the XYZ May 50 call at 3, contingent upon XYZ stock being at or above \$52'.

contingent assurance

Life assurance where payment of the sum assured depends on an event or events additional to the death of the life assured. For example the policy may specify the prior death of the spouse of the life assured.

See also: assurance, assured

contingent liabilities

Liabilities that may or may not be incurred by a company and which depend on the outcome of, say, a forthcoming event such as a court case.

These are recorded in a company's accounts as contingent liabilities.

See also: debt, liabilities

contingent order

See: 'contingency order'.

continuous linked settlement

CLS

A process enabling simultaneous foreign exchange settlement across the globe, eliminating counterparty settlement risk.

contra

An entry made in an account or statement to nullify a previous entry.

contra trade

A term used to denote that a trade was reported for a transaction previously automatically executed through the order book. A contra broker is on the buy side of a sell order or the sell side of a buy order.

See also: order book, London Stock Exchange, Stock Exchange Automated Quotation system, Stock Exchange Electronic Trading Service

contract month

The specified month to which a futures or options contract refers. This is the month when the specified instrument is delivered in exchange for cash settlement.

See also: futures contract, option

contract note

A confirming note, containing details of a stock exchange deal, which is sent by a broker to a client. The contract note shows: the date and time of deal, the title of the security, the number bought/sold, the price paid/received, the total value of the deal, the stamp duty (if a purchase of shares), and the amount of commission charged by the

broker. Traditionally, contract notes were posted, but are now often emailed.

See also: stockbroker

contract of insurance

A contract between an insurer and the insured. The insurer agrees to pay money to the insured upon the occasion of given events in return for a single premium or regular premiums.

See also: insured, insurer

contract size

The minimum amount of a commodity or financial instrument which can be traded in a futures or option market. Also known as a lot size.

contracted out money purchase scheme

COMPS

See 'pension plan'.

contracted-out salary-related scheme

COSRS

See 'pension plan'.

contracting out

A UK term that refers to contracting out of S2P (State Second Pension). A person can contract out by joining an employer's pension scheme which itself is contracted out or through an appropriate personal pension plan. The result of making this choice is that the person's S2P pension will be reduced at retirement but there will now be the proceeds from the alternative pension plan selected.

See also: appropriate personal pension plan, State Second Pension

contracts for difference

CFD

CFDs are a derivative product designed for active traders who want to have extra leverage in their share trading. Instead of paying for purchases in full, they deposit a 'margin' with their broker (typically 20% of the total purchase value) and that margin requirement goes up and down in line with the rise and fall in value of their portfolio. In effect, the investor is able to speculate with much more money than he actually has by borrowing from his broker. The geared nature of the trade means that if an investment performs well, the returns will be higher through trading on margin. If they perform badly, the broker will require more margin payments which have to be paid in cash. Margin requirements vary and most brokers will ask for a large deposit before allowing a new client to trade on margin.

See also: margin, leverage

contrarian

Someone who thinks money is to be made in the market by doing the opposite of what the majority are doing. So, if the market in general is bullish, the contrarian will be selling stock. When market sentiment is at its most depressed, the contrarian will be buying stock.

Contributions Agency

An executive agency merged into the Inland Revenue (now HM Revenue & Customs) in 1999 and renamed the Na-

tional Insurance Contributions Office. The office deals with all aspects of NI (National Insurance) contributions, notably keeping records of all credits.

contributions waiver benefit

See 'waiver of premium'.

See also: insurance

convergence

The movement of a futures price towards that of the underlying instrument as the contract date approaches. Also now a term used for the closer behaviour of economies due to globalisation or as they join or want to join a currency union such as the Euro zone.

See also: futures, underlying instrument

conversion

The process by which a mutual organisation such as a building society changes itself into a company. Quite often accompanied by payouts to members of the building society, which has attracted the interest of carpetbaggers. Also known as 'demutualisation'. Can also refer to, the process of converting convertible loan stock in a company (or a bond) into ordinary shares. The right to convert, usually only on a particular date, is inherent in the convertible loan stock. The company will issue a notice to shareholders telling them of the process and the applicable conversion ratio, namely how many ordinary shares will be exchanged for each unit of convertible loan stock.

See also carpetbagger

conversion arbitrage

The simultaneous purchase of a put and the sale of a call – creating a risk-less transaction.

See also: call option, put option

conversion terms

The terms that apply when convertible loan stock, for example, a bond or a debenture, is converted into ordinary shares or preference shares. These would include the price and date of conversion which are fixed at the issue date. Also, the terms which apply when a warrant is converted into shares. These would include the exercise price, the date or period of conversion and the number of shares (normally one per warrant) which the warrant holder would be entitled to purchase.

See also: bond, debenture, ordinary shares, warrant

convertible bonds

Convertibles, or convertible bonds, are bonds issued by companies that can be converted into ordinary shares or preference shares at a given price at a future date. They are a popular means of raising capital when interest rates are high, because the interest that the company has to pay on them is lower than on an unconvertible bond (the option to convert is deemed to be worth something to the holder). From an investor's point of view, convertible bonds can be attractive if the company's stock is volatile because they provide some of the security of a bond while at the same time allowing the investor to convert to shares if the company's stock rises.

See also: bond, ordinary shares, preferred stock, preference shares

convertible term insurance

Term life insurance which can be converted into cash value insurance. In the UK the equivalent (convertible term assurance) is conversion of term assurance into endowment assurance.

See also: cash value life insurance, convertible term insurance, endowment assurance

conveyancing

The legal transfer of real property (i.e. land and buildings) from one owner to another. Traditionally handled by solicitors, although conveyancing can be done by individuals acting personally.

See also: real property

cooling off period

The period (often 14 days) during which a new policy holder can cancel an insurance/assurance policy. This is referred to in the cancellation notice that must be sent to people entering into long-term policies. The period starts from receipt of the cancellation notice.

See also: assurance, cancellation notice, insurance policy

Coppock Indicator

A technical analysis indicator named after Edwin Coppock, an economist who was asked by the American Episcopalian Church to identify cheap buying opportunities for long-term investors. It is meant to identify the start of a bull market. Coppock thought setbacks in the stock market were like bereavements and required a period of mourning before normal spirits revived. So he asked the bishops how long it took people to get over the death

of a loved one. The answer was between 11 and 14 months. From this Coppock developed a series of calculations – based on 11 and 14 month rates of price change - designed to signal when stock market mourning could be said to be over. The indicator's signal does not emerge at the bottom, but comes as a rally is established. Supporters of the indicator claim that it has signalled rallies to the benefit of investors. A number of other indicators are based on this measure.

See also: technical analysis

corner a market

To purchase enough of the available supply of a commodity or stock to manipulate its price.

See also: commodity (commodities)

corp

Widely used US abbreviation for corporation.

corporate actions

A rather grand term referring to various things that companies can do which affect the number of shares in issue. Examples are: takeovers, bonus/scrip issues, share splits, buy-backs, rights issues and consolidations. Most corporate actions will in some way change the number of shares in issue, or the ratio of a holding to the total number in issue, or the acquisition cost of shares for tax purposes.

See also: rights issue, scrip issue, bonus issue

corporate bond

Corporate bonds are issued by companies to raise capital. They are an alter-

native to issuing new shares on the stock market (equity finance) and are a form of debt finance. A bond is basically an IOU - a promise to pay back the original investment (the 'principal') at a maturity date, plus interest payments (the 'yield' or 'coupon') at regular intervals between now and then. The bond is a tradable instrument in its own right, which means that you can buy and sell it during its life, and its value will tend to rise and fall as interest rates change. For private investors, the safest way into corporate bonds is to invest in a corporate bond fund which spreads the money from lots of investors across many corporate bonds, thus diversifying the risk. Some bond funds aim for 'high yield' (i.e. high income) but normally invest in riskier companies. Other bond funds will aim for more modest income, and will only buy bonds issued by governments or the most dependable blue-chip companies.

See also: gilt-edged stock

corporate finance

The department in a bank that advises firms on balance sheet risk management and all types of financial exposure, including funding for takeovers and other transactions.

corporate raider

An individual or organisation who seeks to control or take over a company by purchasing a significant proportion of its shares. Takeovers can be hostile or friendly. The connotation of the word 'raider' is that the interest of the share purchaser is not welcomed by existing management (though it may be welcomed by existing shareholders).

See also: City Code, dawn raid, takeover

corporate warrant

Warrants issued directly by companies or investment trusts, exercisable into their own shares. Also known as 'traditional' or 'equity' warrants.

corporation tax

A tax payable by a company on its profits. The full rate is 30% (in the UK in 2007) having fallen from over 50% in the 1970s. There is a lower rate for small companies.

correction

A technical analysis term for a price movement in a security in the opposite direction, up or down, to the recent trend. Such a change, often a fall, in the price of shares, either of one company or a sector or the whole market, is something less than a crash but nevertheless fairly steep. Sometimes corrections are seen as beneficial in taking some of the heat out of overheated bull markets. For example, they might take P/E ratios down to lower levels.

See also: P/E ratio

correlation

In general, a measure of the degree to which changes in two variables are related. When calculated using the appropriate statistical formula, a correlation of +1 indicates that the two variables are perfectly correlated i.e. when variable A rises by X%, variable Y rises by X%. A correlation of zero means that the pair behave independently of each other and -1 implies they move in the opposite direction.

corridor warrant

A warrant designed to pay out a fixed amount for as long as an underlying asset price trades within a specified range, or 'corridor'.

cost basis

The cost price of an asset used to establish capital gains tax liability.

See also: assets, capital gain, capital gains tax

cost of sales

The cost to a company of producing goods. Similarly with a retailer or distributor, cost of sales is the cost of purchasing goods or services up to the point of sale. Also known as operating cost.

cost of carry

The difference between the interest earned on a security and the cost of funds to finance the position.

cost to close

Term, common in forward foreign exchange transactions, referring to the cost of liquidating an outstanding contract at prevailing market prices.

council tax

A local taxation system introduced in April 1993 to replace the previous and unpopular community charge (poll tax). The tax is based on the property value and the assumption that there are two or more adults in residence. There are eight bands of property value (A to

H) and the tax incurred by each dwelling increases in increments from band A to band H. There is no further charge if there are more than two people resident but if the dwelling is only occupied by one individual, there is a discount on the normal charge.

See also: poll tax

counter-cyclical stock

A stock whose price tends not to be affected by the overall direction of the economy. Companies that produce basic goods such as food tend to weather economic downturns more effectively.

counter trade

Counter trade is a sale that encompasses more than an exchange of goods or services for money. Counter trade transactions have tended to arise when economic circumstances made it more acceptable to exchange goods directly rather than to use money as an intermediary. Conditions that favour counter trade include the lack of money, or the lack of value or faith in money.

country-specific risk

The risk inherent in holding shares, bonds or other securities whose fortunes are closely allied with a particular country. If the country goes into an economic downturn, or its debt is subject to a credit re-rating, or international investor sentiment turns against it, investments may well lose value, even though the underlying fundamentals are unchanged. Generally speaking, sovereign risk, as it is also known, is more of a problem for investors in

emerging markets than in developed economies.

coupon

The annual rate of interest paid by the issuer of a bond until maturity. So, for instance, a corporate 5-year bond paying 7% interest per year is said to have a coupon of 7%. The phrase dates from the time when the bonds had a tear-off coupon that guaranteed the holder's right to be paid by the issuer.

See also: bond, maturity

coupon strip or stripping

Coupons on a bond can often be detached from the principal, creating zero coupon bonds, which can then be traded separately.

See also: bond

court of protection

An office whose function is to manage and administer the property and affairs of people who, through mental disorder, are incapable of managing their own financial affairs. Applications to the court may become necessary within the course of a receivership, for example for selling and buying property, tax planning, gifts, settlements and wills.

covenant

A formal agreement that some act will or will not be carried out, made in a deed., hence 'deed of covenant'. In a financial context, a covenant might be a promise to pay interest or make dividend payments.

See also: deed

cover

The details of insurance provided by an insurance company to a policyholder. Sometimes cover is used as shorthand for 'dividend cover'.

See also: dividend cover, net asset value

cover note

A document confirming that recently-purchased insurance is in force. Used if a claim should be necessary before the full contract arrives.

cover ratio

The number of warrants required to exercise into one share, or one unit of the underlying asset. Also known as the subscription ratio, exercise ratio, conversion ratio, entitlement ratio, parity ratio, multiplier, or set. The terminology is not clear as some issuers express the ratio as an inverse, so that a cover ratio of 100 may be written as 0.01.

covered combination

The covered combination is a strategy that allows the investor to receive premium income in exchange for being willing to double his stock position in the event of a downward price move, enhance his rate of return on the upside, and lower his breakeven price in a static market.

covered straddle

A straddle constructed on shares of stock already owned by the holder. A covered straddle consists of writing a call and a put with the same strike price and expiry date against the stocks that the holder owns. A covered straddle is

not a true covered position, since assignment on the short put would require purchase of additional stock.

See also: option, straddle, strike price

covered warrant

A security that gives the holder the right to acquire a share or bond at a specific price and date. Covered warrants are created by an investment bank or some other financial institution, and are not issued by the company itself. They are covered in the sense that the issuer will hold some of the underlying stock.

See also: bond, option, warrant

covered writing

In the case of call writing, covered means having a holding of shares at least equal to that implied by the short call option position, and in the case of put writing, covered means having a cash sum sufficient to take up the underlying security if assigned on the short put position.

See also: call option

CP

See 'commercial paper'.

CPI

See 'consumer price index'.

crack spread

A type of commodity-product spread involving the purchase of crude oil futures and the sale of gasoline and heating oil futures. It is a largely theoretical value showing the value to be obtained

from crude oil after it has been refined or cracked.

See also: commodity (commodities), futures

crash

A steep fall in share prices or economic conditions.

crawling peg

A semi-fixed currency system that allows gradual changes in the value of one currency against another, often to adjust for differential inflation rates.

credit

In trading between two parties, credit is the value of goods which one will supply to another before payment is necessary. So Company A might extend credit of £10,000 to Company B and allow 60 days from the contract date before payment is due. If Company B orders goods worth £15,000, Company A would request payment of £5,000 to bring the account within the credit terms, even if the 60 days are not yet up.

credit card

A plastic payment card that allows the owner to obtain goods and services without the requirement to pay cash, on credit terms. Transactions during a month are totalled and presented to the card holder for settlement on a monthly basis. Alternatively a percentage of the outstanding amount can be paid and the balance extended to the next month and so on. This will normally incur a much higher annual rate of interest than usual, for example, 2% per month

is equivalent to an annual percentage rate (APR) of 26.8%, when standard secured loan rates are much lower. In addition to obtaining goods, credit cards can be used to obtain cash.

See also: annual percentage rate, cheque card, charge card, debit card

credit clearing

A system for the distribution of bank giro credits and other credits between banks to enable funds to be transferred into specified accounts.

See also: bank giro credit

credit control

Methods used by companies to try to ensure that their customers settle their accounts within the agreed credit period.

See also: credit

credit crunch

A situation occurring when the supply of money cannot keep pace with demand, causing interest rates to rise. A credit crunch is an extreme credit squeeze. A government might sometimes impose such conditions to restrain the growth of an economy.

credit derivative

A credit derivative is a financial instrument used to mitigate or to assume specific forms of credit risk, often to separate the credit risk of a borrower from overall market risk. The purchase of a credit derivative might be seen as insurance to cover the risk of bond issuer default, bankruptcy, insolvency, or a widening of the bond's yield against government securities.

See also: futures, option, underlying instrument, derivatives

credit insurance

Insurance that covers the monthly payments on an outstanding debt for a fixed period, in the event of illness or unemployment.

credit line

An agreement by a bank to lend money for a certain time up to a certain limit, the credit limit.

credit note

A note issued to a person or company when goods are returned by them which cancels the original invoice. If the invoice has been settled before the goods are returned the credit note will then entitle the holder to alternative goods (or sometimes cash) at the original value.

See also: invoice

credit rating

A rating used by banks, insurance companies, mortgage companies and other financial institutions making loans. They use it to judge an individual's or company's credit worthiness. There are several agencies that issue ratings for large companies and countries. In personal finance, depending on how many "points" the applicant gets when his/her personal details are run through the rating system, the financial institution will either accept or reject the risk. Financial institutions rely on highly computerised credit rating systems and co-operate with each other in provid-

ing details of bad credit risks. Hence the concept of the 'black list'.

See also: AAA

credit ratings agency

An agency that rates the creditworthiness of companies, countries and other organisations that borrow money, based on detailed financial information. Some of the data is acquired directly by the agency and added to information available from public sources, such as the annual accounts. The rating may be sought and paid for by the organisation as part of a fund-raising exercise, or initiated by the agency. The biggest agencies for corporate borrowers are: Standard & Poor's, Moody's and Fitch.

credit reference agency

An agency that holds information about the credit reliability of consumers and makes the information available at a fee to companies offering credit terms (e.g. credit card companies, mail order companies).

credit risk

The risk, also known as counter party risk, that an issuer might default on a payment or go into liquidation.

credit spread

A spread strategy that increases the account's cash balance when it is established as the price of the option sold is greater than the price of the option bought. A bull spread with puts and a bear spread with calls are examples of credit spreads.

See also: bear spread, bull spread, debit spread

credit union

A mutual association or non-profit financial institution formed by people with a common affiliation such as employees, a trade union or religious group in which pooled saving are made. The funds are invested for appreciation and members may borrow at competitive rates.

credit watch

If a borrower is put on credit watch by a credit ratings agency it means that the agency is giving notice that it expects to change its rating.

creditor days

A ratio measuring how long on average it takes a company to pay its creditors. Calculated by dividing the trade creditors shown in its accounts by its cost of sales, or sales, and then multiplying by 365. For example, a company with creditors of £900,000 and sales of £12m, takes on average just over 27 days to pay its bills. Within reason, the higher the number the better, although if a company is very slow in paying its creditors (say 100 days plus) it is worth asking if this is because it has problems generating enough cash quickly enough to pay them. Also the UK government has shown concern over slow payment of suppliers, often small companies, by big groups, notably the supermarket chains. The typical number of days will vary between sectors and industries.

creditors

People or companies who are owed money by debtors.

See also: debtor

CREST

Crest is an electronic system of settlement for the equities market in the UK and Ireland which was set up in 1996 to replace the Stock Exchange's Talisman system. For the largest companies on the London and Irish markets, Crest matches trades against payments and tells the company's registrars what names to add to the share register and which ones to delete. It did away with the need for the transfer of paper certificates. To avoid holding share certificates, shares can be registered in Crest in the name of a nominee service offered by a broker. Many online brokers will only deal with clients who are willing to adopt the nominee system. It is possible to become a personal member of Crest which enables direct dealing with Crest without having to use a nominee account.

See also: settlement

critical illness cover

Insurance covering the insured against specified critical illnesses such as cancer, heart attack and multiple sclerosis etc. In the event that the insured contracts one of the specified illnesses, the insurers would pay a lump sum rather than an income as in the case of permanent health insurance.

See also: insurance, insured, insurer

cross listing

Shares that are traded on more than one exchange are said to have a cross or dual listing.

cross rate

The exchange rate between two currencies, other than those that form a market's principal rates. Thus, in London, the Danish Krone/Swiss Franc rate is a cross rate.

cross trade

A term used to denote that a trade was an agency cross or a riskless principal trade between two member firms at the same price and on the same terms. It is also used to describe the situation where one broker acts for both the buyer and seller in the same deal. Also known as a put through in the UK. Sometimes the trade is not registered on the exchange – generally an unlawful practice.

See also: London Stock Exchange

crown

A term sometimes used in wills that effectively means HM Treasury or the government. In the event of a deceased person not having made a will (intestacy), the proceeds from the estate pass to the Crown.

See also: will

CTD

See 'cheapest to deliver'.

cum dividend

When a share is said to be 'cum dividend', it means that it is offered for sale

with an entitlement to the next dividend payment attached. This dividend will already have been declared (but not paid) by the company, so the market knows how much it is worth and the share price will reflect this. At some point shortly before payment of the dividend is actually due, the share will go 'ex dividend', meaning that it is being offered for sale without the dividend. If the current owner sells an 'ex div' share, he will keep the dividend payment. But again, the price of the share will reflect this - it will have dropped from its 'cum dividend' price.

See also: dividend, ex dividend

cum rights

When a company announces a rights issue, existing shareholders get the right to buy new shares, usually at a discount to the current share price. That right attaches to the existing shares and it has a value. In the period after the announcement of an impending issue and before it has been completed, the question is whether the purchaser of existing shares also gets the right to participate in the rights issue or whether that right stays with the vendor. Accordingly, the market has developed the system of 'cum rights' and 'ex rights'. When a share is cum rights, it means that it is offered for sale with any associated rights. When it is ex rights it is offered for sale without the rights. The share price of the shares will be higher cum rights than it will be ex rights. The phrase cum all means that all supplementary advantages will be included.

See also: ex rights, rights issue

cumulative preference shares

When a company fails to pay a dividend, holders of cumulative preference shares are entitled to receive this missed payment when a dividend is next declared. This rule is cumulative and they are also entitled to the current dividend provided sufficient cash is available. These payments receive priority over the claims of ordinary shareholders.

See also: dividend, ordinary shares, preference shares

cumulative preferred stock

See 'cumulative preference shares'.

See also: dividend, preferred stock

curb

The American Stock Exchange, which was originally known as the Curb Exchange until the 1920s.

See also: American Stock Exchange

currency

Cash and cheques that circulate in an economy as an accepted means of exchange.

currency basket

A bundle of foreign currencies, often weighted by the amount of trade conducted with each country, against which an exchange rate can be set.

currency board

An exchange rate system that means a country has pegged its currency to another, with the board guaranteeing convertibility at a fixed rate into the

reference currency.

currency conversion

A term used to denote that a trade was executed in one currency but converted for trade reporting.

See also: London Stock Exchange

currency fixings

Some currencies have a daily point where the currency is fixed for reference purposes. In a market that trades around the clock it is useful to have a commonly agreed point for use in, for example, legal contracts.

currency loan

A term used when money is borrowed in a foreign currency.

currency risk

The potential for losses arising from adverse moves in a currency.

currency swap

An arrangement in which two parties exchange a series of cashflows in one currency for a series of cashflows in another currency, at agreed intervals over an agreed period. Companies would do this where they have existing borrowings in a currency which they want to convert into a borrowing in another currency. If the borrowing is at a fixed rate, and is being exchanged for another fixed rate borrowing, the swap is a 'fixed rate currency swap'. Unlike an interest rate swap, a currency swap usually does involve an exchange of the principal borrowed amount as well as the interest payments.

See also: arbitrage, hedging

current account

In banking, a bank account that offers a number of facilities including cheque book for debt settlement, deposits, direct debits and, where applicable, overdrafts. This type of account is normally used for ongoing transactions (for example monthly direct debits and writing of cheques etc.) as opposed to a deposit account. In economics, a current account is a balance of payments account listing visible and invisible trade transactions and excluding flows produced by borrowing and investments which are in the capital account. In corporate affairs, it is an account listing transactions between trading companies.

See also: balance of payments, overdraft

current assets

Assets of a company that are regularly turned over and can readily be converted into cash, including stocks, work in progress, marketable securities and debtors.

See also: assets, liabilities

current cost accounting

A valuation method whereby assets and goods used in production are valued at their actual or estimated current market prices at the time the production takes place (it is sometimes described as “replacement cost accounting”). The more usual convention is historical cost accounting.

current income

Interest, dividend or other income payments received regularly from an investment source.

current liabilities

A balance sheet item that equals the debts owed by a company that are due for settlement within 12 months. These include trade creditors, taxes due and bank overdrafts and are sometimes referred to as payables or current debt.

See also: settlement, creditors, assets

current ratio

A financial ratio indicating how easily a company could pay its bills if all its creditors demanded payment at once. Calculated as: current assets divided by current liabilities. A ratio lower than 1 means that the company does not have the liquidity to pay all its creditors straight away, but some companies happily survive on current ratios of less than 0.5. Accordingly, it is best to compare the ratio of one company with others in its sector. A high ratio might suggest excessive caution on the part of management.

See also: acid test

current yield

The annual interest rate paid by a bond, expressed as a percentage of its current market price.

See also: bond yield

CUSIP

Committee on Uniform Securities Identification Procedures. CUSIP is the trademark for a system that uniquely

identifies securities trading in the US. It was developed in the late 1960s by The American Bankers Association as a way to standardise the identification and tracking of securities and to facilitate clearing and settlement. The CUSIP number consists of nine digits: the first six identify the issuer, with seven to nine identifying the issue. CUSIP numbers are a trademark of the American Bankers Association.

of cyclical companies just before an upturn. Non-cyclical sectors include pharmaceuticals, tobacco and health.

Custodian institution

A financial institution that holds securities and other assets for safe keeping and record keeping on behalf of corporate or individual investors.

Customs and Excise

Short name for the department that was called Her Majesty's Customs and Excise until 2005, but has now merged with Inland Revenue to form HM Revenue & Customs. HMRC is responsible for collecting the bulk of tax revenue as well as paying tax credits and child benefit, and strengthening the UK's frontiers.

See also: Her Majesty's Customs and Excise

Cyclical stocks and sectors

Cyclical stocks and sectors are those whose earnings tend to ebb and flow with the fortunes of the economy. They do disproportionately well in prosperous times and are highly vulnerable to recessions. Sectors such as retailers (particularly those that sell discretionary items such as furniture), hotels, entertainment and holiday companies are considered cyclical. Some investors specialise in buying the shares

Dd

daily change

The change in the price of a share or other security during a day. This is normally taken to be the difference between the most recent price of a security (or the closing price on the day in question) and the previous day's closing price, though it is sometimes used to refer to the change from the first traded price, which can be different from the previous day's close.

See also: closing price

daily close

The settled price at which a traded instrument is last traded at on a particular trading day. Also known as closing price.

daily high

The highest price traded by a security or currency during a given day. It can also refer to the highest point reached by an index.

See also: closing price, daily change

daily low

The lowest price traded by a security or currency during a given day. It can also refer to the lowest point reached by an index.

See also: closing price, daily change

Daily Official List

DOL

The daily record setting out the prices of all trades in shares and other securities conducted on the London Stock Exchange. A Stock Exchange Daily Official List (SEDOL) code is a 7 digit alphanumeric reference for a listed security.

See also: closing price, daily change

daily price limit

The maximum amount that prices on an exchange are permitted by the exchange to rise or fall in one day before trading is suspended.

date of record

The date by which a shareholder must own shares in order to qualify for a dividend.

See also: cum dividend, dividend

dated security

A fixed interest security that has a specified date for repayment (redemption date).

See also: redemption date, security

dawn raid

The practice of buying shares in a potential target, with view to a possible takeover, at the beginning of a trading day in the hope that the rest of the market will be slow to react to the buying spree and that the price will therefore not rise until after the raid is complete. The “raider” will often instruct several brokers to be part of the act. Term is most commonly used in the UK.

See also: takeover

DAX 30

The most widely quoted German stock index, containing 30 blue chip stocks. Abbreviation for Deutscher Aktienindex. An MDAX index covers mid market stocks.

day order

An order placed with a broker to purchase or sell stock, a commodity or financial instrument at specified price limits. If not executed that day the order becomes invalid and the broker will not process it.

See also: limit order, stockbroker

day trader

See 'day trading'.

day trading

In the simplest terms, the purchase and sale, or sale and purchase, of a security on the same day. Day traders aim to make (often small) profits on a large number of 'intra-day' transactions. They follow the markets, use technical analysis to spot price trends, and get 'in and out' very quickly. Day trading be-

came synonymous during the bull run in the late 1990s with the trend for private investors to abandon their normal jobs, set themselves up with a computer, some software and a data feed, and trade the markets for a living. One difficulty for UK day traders is that dealing costs are still relatively high. In the US, where charges on trades tend to be lower than in Europe, and traders can link direct to the markets, it is more practicable. Day traders are sometimes known as scalpers.

See also: technical analysis

days of grace

Additional days which may be allowed by a company to a debtor over and above the due date for payment. For example, a life insurance company may allow days of grace for a policy to be kept in force after the date the premium is due for payment.

de minimis limit

In general, meaning lacking significance or importance, in other words the amount is so small that it does not matter and is not taken into account. It has several possible applications in finance. If a pension pays less than this limit, the whole of the member's share of the pension fund can be taken as a one-off amount.

See also: pension plan

dead cat bounce

A phrase used by traders to describe the phenomenon whereby a stock rallies modestly after a large fall, and often before dropping to new lows. The analogy is to a dead cat dropped out of the window. Even though completely

dead, the cat will bounce a little bit before falling back to earth.

dead cross

In technical analysis, what happens when the short moving average price of a stock (say, its 20-day moving average) falls below a longer moving average (say, its 50-day average). For chartists, this cross is a sign that sentiment in the market might have turned against the stock, especially if up to that point the two moving averages have been moving roughly in parallel.

See also: golden cross, moving average

deal

A transaction on a stock exchange by a broker or institution etc. or a proposal for financing a business transaction.

dealer

A person or company that trades financial instruments and takes positions in them on their own account.

dealing cost

The cost of trading in an asset or security. This should be expected to vary according to the broker used and the tax jurisdiction in which the trade is carried out. For UK stock market investors, the costs break down into broker commission and Stamp Duty, the tax chargeable on purchases.

death and superannuation benefit

An income tax allowance which can be claimed if certain small payments are

being made to friendly societies, trade union contributions and life insurance on combined sickness and life insurance policies.

www.hmrc.gov.uk

See also: insurance, superannuation

death benefit

The amount payable by a life insurance company to the beneficiaries on the death of the insured (the policyholder), typically a close relative.

See also: beneficiary, insurance, insured

death duties

Tax payable on a deceased person's estate. In the UK, inheritance tax (currently 40%) will be paid by those inheriting on the value of all assets, including investments, the home and life assurance policies, above a limit set each year by the government.

See also: estate, estate tax, potentially exempt transfer

death in service

A life insurance policy that often attaches to a company pension scheme. The member is typically covered for around three times his/her salary while remaining in the employ of the company and should death occur during this period (death in service), his/her dependants would receive the insured sum free of tax.

debenture

A type of long-term unsecured bond (loan), taken out by a company, which it agrees to repay at a specified future

date. The company will usually pay a fixed rate of interest to debenture holders each year until maturity, and if it fails to pay either the interest or the principal amount of the loan when the time comes, the debenture holders can force the company into liquidation and try to recover, along with other creditors, their money from a sale of its assets.

See also: bond, gilt-edged stock

debit

An outflow of funds from an account with a bank or financial institution. For example: When a person writes a cheque, his/her account will subsequently be debited with the amount.

debit card

A plastic payment card, issued by a bank or other financial institution, which enables the holder to obtain goods and services without the requirement to pay cash. The debiting procedure commences directly after the transaction with the result that the holder's account is debited within a few days. In addition to obtaining goods, the card can be used to obtain cash either from the retailer in the form of "cash back" or from an ATM machine. Unlike a credit card, it does not allow the holder to make purchases on borrowed money.

See also: charge card, credit card

debit note

A note, issued to a person or company indicating an amount owed, similar to an invoice.

See also: invoice

debit spread

An option position in which the price of the option bought is greater than the price of the option sold, decreasing the account's cash balance when it is established. A bull spread with calls and a bear spread with puts are examples of debit spreads.

See also: bear spread, bull spread, credit spread

debt

Money owed by an individual or company to another individual or company. Debt can be represented by a loan note, bond, mortgage or other form stating repayment terms and, if applicable, interest payments to be made. All forms of debt all imply intent to repay an amount owed by a specific date. Bad debts are likely to remain uncollectable and be written off.

debt consolidation

Borrowers who have a number of debts on different credit cards, store cards, overdrafts and loans may consider arranging a single loan and using the cash to clear the balances outstanding. The aim would be to consolidate all the debts into a single loan that could be cleared in a more disciplined fashion typically with lower monthly repayments and a longer repayment period.

debt financing

The raising of capital by the issuance/sale of debt instruments such as bonds.

debt instrument

A promise in writing to repay a debt. For example a bond, bill, commercial paper, banker's acceptance or note.

Debt Management Office

DMO

An Executive Agency of the Treasury, established on 1 April 1998, which has responsibility for issuing gilts to fund the Government's borrowing activities. Formally, it describes its brief as to "carry out the Government's debt management policy of minimising financing costs over the long-term, taking account of risk, and to manage the aggregate cash needs of the Exchequer in the most cost-effective way, in both cases consistently with the objectives of monetary and any wider policy considerations."

www.dmo.gov.uk

See also: gilt-edged stock

debt refinancing

The raising of new money by a company in order to pay off existing debt. This is something that borrowers do all the time, and it does not necessarily signify that the company is in financial trouble. Debt restructuring is a more fundamental process, often involving the conversion of debt into equity.

debt security

A security such as a bond or note with specified interest, representing a loan that is repayable at some future date.

See also: bond, loan, security

debt to equity ratio

Net borrowings of a company divided by shareholders' funds. The ratio shows the amount of financing that is provided by sources other than the shareholders. Net borrowings means the total borrowings of the company from banks, other financial institutions, debenture holders and preference shareholders, less any cash that is readily available and any short-term cash holdings. Both figures can be found in a company's balance sheet. The ratio is often multiplied by 100 and expressed as a percentage. The higher the percentage, the more risky for lenders to the company. Most lenders like the percentage to be below 50%. If it is above 100%, the company is said to be highly geared.

See also: equity, liabilities

debtor

A person or company owing money to another person or company. A company is therefore owed money by its debtors and the people it owes money to are its creditors.

See also: creditors

debtor days

A ratio used to work out how many days on average it takes a company to get paid for what it sells. Calculated by dividing the figure for trade debtors shown in its accounts by its sales, and then multiplying by 365. For example, a company with debt of £700,000 and sales of £12m, takes an average of just over 21 days to collect its debts. The lower the number of debtor days, the better. An abnormally high figure suggests inefficiency, potential bad debts, window-dressing of the sales figures,

or deliberate bullying by large customers trying to improve their own cash management. Cash businesses, including most retailers, should have very low debt collection multiples, because they get their money at the same time as they sell the goods.

deck

All orders in a floor broker's possession that have not yet been executed.

declaration date

The date on which a dividend is declared by a company's directors. Once declared the dividend becomes a liability of the company.

See also: dividend

decreasing term assurance

Life insurance in which the death benefit decreases over the term of the policy although the premiums remain fixed.

See also: life assurance

deductible

The amount (normally fixed) which a policyholder is obliged to pay prior to an insurance company paying a claim. Often also called excess. For instance, if a company insures its assets up to \$100m with a deductible of \$10 million, and it has a loss of \$100 million, the company has to take care of \$10 million, and the insurance company's liability is \$90 million. Exactly the same principle may apply to personal insurance. The term can also refer to an item, such as charitable donations or tax allowances, deducted from gross

income to reduce the amount of income subject to tax.

See also: excess

deduction

In the US, an expense allowed by the Internal Revenue Service which is deducted from adjusted gross income to establish taxable income. These include interest payments and state and local taxes. The equivalent term in the UK is 'tax allowance', and the main one is the 'personal allowance' of tax-free income which every individual is entitled to.

See also: adjusted gross income, Internal Revenue Service,

deed

A document which legally transfers ownership of property from one party to another, most commonly related to real property

See also: real estate

deed of covenant

A legal document which records the obligation of one individual to pay a specified sum to another for a specified number of years. The individual making the payment deducts tax at the basic rate and thus pays a net amount on which tax relief is obtained. If the recipient is a registered charity the payer can obtain tax relief up to his/her higher rate whilst the charity can claim back the amount deducted. In other words, it is a tax effective way for individuals to give to charity.

deed of variation

A document allowing beneficiaries to vary the gifts specified in someone's will even after the giver's death.

deep discount

A security that sells at a discount of, say one-fifth or more, from face value. In the context of a rights issue, the issue of shares at a price much lower than the current trading price. In most rights issues, the new shares are priced at 10-15 per cent below the current price which is thought to be enough to ensure that existing shareholders take up the rights and buy the new shares. With a deep discount rights issue, the discount can be anything up to 50%. A deep discount broker is one that offers lower than normal commissions in return for a no frills execution service.

See also: rights issue

deep in-the-money

An option is deep in-the-money when it is so far in-the-money that it is unlikely to go out-of-the-money prior to expiration.

See also: in the money, option, out of the money

deep out-of-the-money

Used to describe an option or warrant that is unlikely to go in-the-money prior to expiration.

See also: in the money, option, out of the money

default

Failure by a debtor to meet the terms of a loan either by not paying interest due or not repaying the capital due. Default risk is the possibility that the issuer of a bond might fail to repay its principal or interest as required under the terms of the agreement. Corporates tend to have higher default risks than governments.

See also: debtor

defeasance

The process of rendering a contract or deed null and void following a specified act.

See also: deed

defensive securities

See 'defensive stocks'.

defensive stocks

Securities that are considered to be more stable in price in a market where prices are falling. For example, some shares are well-positioned to withstand recession, because the goods and services they sell are essential items rather than luxuries. Food groups, utilities, tobacco companies and banks are traditionally regarded as good defensive stocks, and when the market turns bearish there will be talk about a 'flight' to these kinds of stocks. Defensive stocks tend to lag behind the rest of the market during economic expansion because demand does not increase as dramatically in an upswing.

deferment period

A term used in permanent health insurance which refers to a period, prior to payment by the insurers to the policyholder after a claim, during which no payments are made. For example, a typical deferment period could be six months so if a policyholder made a claim after contracting an illness which qualified, it would be six months later that payments would commence. Sometimes an employee's company will continue paying his/her salary during this period so it would be important to ensure that the permanent health insurance co-ordinates with the company's payment commitments. Also, as the deferment period increases so the premiums decrease.

See also: insurance, insured, insurer

deferred annuity

See 'annuity'.

See also: annuitant, annuity

deferred income

Also known as income drawdown and flexible pension.

See also: flexible pension, personal pension plan

deferred state pension

When reaching retirement age, a person can elect to defer payment of his/her state pension. The result of this is to increase the value of the pension by one seventh of one percent for every week deferred. The maximum deferment period is five years and no further contributions are required.

See also: deferment period, State Earnings Related Pension Scheme

defined benefit pension plan

A pension plan in which an employee's pension benefit is related to number of years service and final salary with each employer.

See also: final salary, personal pension plan

defined contribution pension plan

A pension plan in which benefits are dependent on contributions to and the growth of the pension fund.

See also: pension plan, personal pension plan

deflation

Similar to negative inflation. An economic situation in which there is a general fall in the level of prices. Deflation is often associated with very weak economic growth and sometimes recession. Disinflation is a reduction in the rate of inflation.

See also: inflation

deflator

A factor used to convert current prices into inflation-adjusted prices, in order to make comparisons over time after factoring out the overall effects of inflation. For example, an economy might have grown by 4 per cent in one year but half of the growth could have been due to higher prices (inflation), in which case, real economic growth could be derived by deflating the total figure by the inflation rate, to give growth of 2 per cent.

delinquency/delinquent

Failure to make payment on a loan obligation on the due date.

See also: default

delist

To remove a stock from an exchange, typically due to a failure to meet certain financial requirements, merger or takeover, or bankruptcy.

delivery

In general, the transfer of title, or ownership rights, of a security such as stock from buyer to seller. More specifically, the settlement of a futures contract by receipt or tender of a financial instrument (for example stock) or a commodity or by cash settlement.

See also: commodity (commodities), futures contract, security, settlement

delivery month

See 'contract month'.

delivery notice

Notification of delivery by a clearing house to a buyer. The notice is initiated by the seller in the form of a 'Notice of Intention to Deliver'.

delta

The measure of the rate of change of an option or warrant's price compared to the change of price of the underlying instrument. A delta of 0.5 on a call option (the right to buy a share) means that the option price rises by 30p if the share price rises by 60p. The delta on a put option (the right to sell) will always

be negative because the option price falls as the share price rises.

See also: commodity (commodities), option, ordinary shares, underlying instrument

delta hedging

An options strategy designed reduce the risk associated with price movements in the underlying security, achieved through offsetting long and short positions.

delta neutral

A position where the sum of the deltas of the component legs adds up to 0.

See also: delta

delta shares

A term previously given to the shares of smaller companies least traded on the London Stock Exchange, along with alpha, beta and gamma shares. These terms were replaced by the other market size classifications in 1991.

See also: alpha shares, beta shares, gamma shares, normal market size

demand deposit

A bank account balance to which the holder has instant access. The holder can withdraw funds by cheque or cash.

demand loan

A loan which the lender can recall at any time. There is no specific maturity date.

demerger

A corporate restructuring in which one part of a company is spun off as a new company, often with quoted status of its own. Examples in the UK include Zeneca which was spun out of ICI, and Argos which was spun out of British American Tobacco. Like their opposite - mergers - demergers tend to go in and out of fashion. When share prices are rising, companies like to use their 'paper' (i.e. shares) to acquire other companies, so their advisers encourage merger activity. In a market of falling prices, mergers and IPOs are less popular, and the merchant banks who earn their fees from corporate activity will start to look at demerger possibilities for their clients.

See also: merger

demutualisation

The process by which building societies and mutual insurers convert themselves from mutual organisations (owned by their members/customers) to profit-making companies which distribute profits to their shareholders.

See also: building society, carpetbagger

denationalise

The conversion, by a government, of a state-owned or nationalised industry or business to private ownership. This flotation would normally be done with view to raising money and to trying to have the services provided more efficiently. This is the opposite of nationalisation.

See also: nationalisation, privatisation

denomination

The face value of currency, coins, and stocks and bonds.

Department of Social Security

DSS

A UK government department responsible for benefit payments that was subsumed into the Department of Work and Pensions, when it was created in 2002.

www.dwp.gov.uk.

deposit

A deposit account with a bank or financial institution which earns interest normally proportional to and below current base rates. The notice period for withdrawal will also affect the interest rate. In contrast to a current account, no cheque book is issued with a deposit account. A deposit can also refer to money transferred in advance to show intention to complete the purchase of a property – and the deposit in this case is forfeited if the purchaser fails to complete on the contract.

See also: base rate, interest rate

deposit insurance

In the US, financial protection of certain bank and credit union accounts by way of insurance provided by a federal agency. Bank insurance up to specified limits is provided for funds on deposit in member banks by the Federal Deposit Insurance Corporation. Credit unions which are federally chartered are insured by the National Credit Union Administration. The FDIC was established in 1933 to prevent a repetition of the losses incurred during the

depression when bankrupt banks could not return the money deposited in them.

See also: credit union, Federal Deposit Insurance Corporation, National Credit Union Administration

Deposit Protection Scheme

A scheme, since replaced by the Financial Services Compensation Scheme, designed to give limited financial protection to people with deposits in authorised banks which fail. Banks are authorised and supervised by the Financial Services Authority (FSA) and they are obliged to provide details of their deposit protection scheme and their claim procedures if requested by depositors. The FSCS brought together the Deposit Protection Scheme, the Building Society Investor Protection Scheme, the Policyholders Protection Scheme, the Friendly Societies Protection Scheme, the Investors Compensation Scheme and the Section 43 Scheme (which covered business transacted with listed money-market institutions).

See also: Financial Services Compensation Scheme

depository bank

A bank organised in the US that provides all the stock transfer and agency services in connection with a depository receipt program. This function includes arranging for a custodian to accept deposits of ordinary shares, issuing the negotiable receipts that back up the shares, maintaining the register of holders to reflect all transfers and exchanges, and distributing dividends in US dollars.

See also: American depository receipt

Depository Trust Company

DTC

In the US, the Depository Trust Company (DTC) is a national clearing house for the settlement of trade in corporate and municipal securities and performs securities custody-related services for its participating banks and broker-dealers. DTC is owned by members of the financial industry and by their representatives who are its users.

depreciation

The charge in a company's accounts which reflects the reduction in value of an asset over time as its useable life is exhausted. Depreciation is charged before calculation of profit, on the grounds that the use of capital assets is one of the costs of being in business and one of the contributors to profit. There are several methods of calculating depreciation. Depreciation can also refer to the decline in the value of a currency in relation to another. When the pound depreciates against the Euro, buyers would have to spend more pounds to obtain a given amount of Euros.

See also: assets

depression

A severe recession over a lengthy period, often associated with business failures and rising unemployment.

See also: recession

depth of market

A market is said to be deep if a large number of the securities can be bought or sold without an appreciable impact on the price.

derivatives

A collective term for securities whose prices are based on the prices of an underlying investment, such as cash, commodities, bonds or equities. The main derivatives are: futures, options, swaps, warrants, convertibles. The attractions of derivatives from an investor's point of view are: large profits (but also losses) can be made on a small stake, because they offer 'leverage'; money can be made whether the market goes up or down, which is not true if you invest in shares where you only make a profit if the share price rises; they can be used to reduce the risk (or hedge) of an investment in the underlying instrument. In general, derivatives are high-risk investments and not suitable for the ordinary investor.

See also: bonds, equities, commodities, futures, options, swaps

Deutsche Aktienindex

DAX

The index for the largest 30 German companies quoted on the Frankfurt Stock Exchange. The index was launched in 1987 with a base value of 1,000 and replaced the Borsen Zeitung Index.

See also: CAC 40, Dow Jones Industrial Average, FTSE 100 Index

Deutsche Terminbörse

DTB

Formally the German derivatives exchange, where the bund, Euromark futures and Dax futures and options contracts were traded. Merged with the Swiss Options and Financial Futures Exchange (SOFFEX) in 1998 to form EUREX, the European derivatives exchange.

See also: Deutsche Aktienindex

devaluation

A formal reduction in the value of a currency with respect to another, often from a pegged level, and normally sanctioned by a government or monetary authority. Opposite of revaluation. It contrasts with the depreciation of a currency over time, which is generally a steady or more modest change in value of a freely traded currency.

devise

A freehold property given as a gift in a will.

See also: freehold, will

diagonal spread

An options strategy involving two options of the same type that have different strike prices and different expiration dates.

diluted net asset value

A method of calculating the net asset value of a company, for example an investment trust, after taking into consideration any outstanding convertible loan stock, warrants or options which are assumed to be exercised by the holders, so increasing the number of shares among which the assets are divided. Example: an investment trust which has assets of £100 million and 10 million shares in issue has a net asset value of £10 per share. If there are also warrants which, if exercised, would increase the number of shares in issue to 11 million, the net asset value is £9.09. Diluted earnings per share are calculated in a similar way and also

give a more accurate measure of a company's real earning power.

See also: investment trust, loan stock, net asset value, option, warrant

dilution

The change in earnings per share or book value per share that would result if all warrants and stock options were exercised and all convertible securities were converted. Diluted earnings per share are calculated in this way and give a more accurate measure of a company's real earning power.

Diners Club

An international charge card – the first ever, established in 1950 - enabling the holder to obtain goods and services without the need to pay cash. Invoices of transactions are tendered monthly which must be settled in full. There is no preset spending limit. The card was conceived by a businessman who entertained guests in a New York restaurant, only to discover that he had forgotten his wallet. The restaurant owner, who knew him, let him leave his business card as an IOU. This inspired the creation of a card to prove the holder's identity and ability to pay. At launch the Diners Club Card had an initial membership of 200 with the card being accepted in 27 restaurants. There are now millions of members and the card is accepted at a similar number of locations.

See also: charge card, debit card

dip

A small and temporary drop in the price of a security, financial instrument.

direct debit

A payment system in which the payer authorises the payee to take funds from his bank account. Typical examples are monthly premiums for an insurance policy, or electricity bill payments.

See also: standing order

Direct Input Provider

DIP

A company which makes use of the London Stock Exchange service which allows it to deliver price sensitive announcements electronically to the Exchange's Regulatory News Service via a modem link.

See also: Regulatory News Service

direct purchase

The purchase of shares in an open end mutual fund directly from the fund company rather than through a broker.

See also: open end fund

direct taxation

Taxes which are imposed directly on the individual paying them. Examples of direct taxation are income tax, capital gains tax and inheritance tax. They are in contrast to indirect taxes, such as VAT which is a tax on expenditure.

See also: capital gains tax, income tax, indirect taxation

directors' dealings

The purchases and sales made by directors of shares in the publicly quoted companies for which they work. It is perfectly legal for directors to buy or sell shares in their own company provided certain rules are observed. Di-

rectors are not allowed to use unpublished price sensitive information which they have got from their job to reach a decision about buying and selling shares (known as insider dealing). Directors are not allowed to buy or sell shares in their company for two months before the announcement of results (the 'closed period'). The process of tracking directors' dealings has become a more accepted means of identifying stocks with potential - if the directors are buying, they think the shares are undervalued; if they are selling, they think the shares are overvalued.

See also: insider dealing

disability income insurance

Insurance that provides an income to policyholders when they are unable to work due to an illness or injury. Disability payments to insured people, which normally commence after a set period (the elimination period), are usually tax free provided the premium payments are up to date.

See also: elimination period, insurance, insured, elimination period

disclosure

The providing of information by a company to a third party in accordance with the requirements of a regulatory authority (e.g. the FSA or SEC) or in accordance with the rules of a contract or deal.

See also: Financial Services Authority, Securities and Exchange Commission

discount

In general, the extent to which anything is selling below its normal price. There are a number of contexts in which the term is used. In the context of investing, the discount is the difference between the net asset value (NAV) per share of an investment trust and the share price, expressed as a percentage of the net asset value per share (for example, if the NAV is £3.00, and the share price of the trust is £2.70, the trust is trading at a 10% discount to its NAV). In the bond markets, it is the difference between a bond's par and its market price, and the difference between the gross proceeds received on the sale of a convertible bond and the convertible's price.

See also: investment trust, net asset value, premium

discount rate

The interest rate at which the US Federal Reserve lends money to member banks. The discount rate is one of the two interest rates set by the Fed, the other being the Federal funds rate.

See also: Federal Reserve System, interest rate

discount yield

The yield on a security purchased at a price below its face value.

See also: bond yield, yield

discounted cashflow

DCF

A method of evaluating an investment by estimating future cash flows and taking into consideration the time value of money. It is a formula closely related

to Net Present Value which springs from the idea that £1 received in ten years' time is not worth as much as £1 received now because the £1 received now could be invested for those ten years and compound into a higher value. Discounted cash flow applies a discount rate to future cash flows to establish their present worth. Added to the company's terminal value (i.e. what you'd get if you sold its assets), this gives you a total value for the whole asset.

See also: net present value, internal rate of return

discounted rate mortgage

A mortgage which guarantees the interest rate charged will remain a set number of percentage points below the lender's standard variable rate. The rate changes as the base rate moves up and down, but the relationship between the base rate and the rate you pay remains constant.

discretionary broker

A broker who not only deals in stocks and shares on behalf of his client, but who also makes the decisions about what should be bought and sold for the portfolio and has authority to execute those decisions without getting prior approval from the client. Also known as a full-service broker. Contrast with advisory brokers and execution-only brokers. The website of The Association of Private Client Investment Managers and Stockbrokers - www.apcims.co.uk - provides a list of brokers and the services which they offer.

See also: advisory broker, execution only broker

discretionary trust

A private trust which empowers trustees to use their discretion in investing and distributing funds to beneficiaries. Typically set up by parents for their children, and often designed so that trustees can decide not to pay money out to children who are not responsible enough to handle the money.

See also: beneficiary, trust, trustee

disinflation

Disinflation is a reduction in the rate of inflation. Not to confused with negative inflation or deflation which is a general fall in the level of prices.

Disintermediation

The removal of an intermediary, or middleman, from a transaction. For example, a business might want to be able to sell its product directly to consumers as opposed to retailers. The internet is often cited as a disintermediating technology because it allows manufacturers of goods to sell direct to consumers, thus disintermediating traditional retailers.

disposable income

The amount of money which an individual has available to spend or save after tax bills have been met. More colloquially, the amount they have left after their regular outgoings (mortgage payments, insurance premiums, etc) have been met.

See also: income, income tax, National Insurance (NI) Contributions

dissolution

The end of the legal existence of a business, by shareholder vote, liquidation or acquisition.

distribution

The payment of a dividend by a company out of its profits. Can also refer to the distribution of assets to the beneficiaries of a will.

See also: dividend, stock, probate

distribution period

The period following the dividend declaration date to the date of record during which a stockholder must officially own shares to be entitled to the dividend.

See also: cum dividend, dividend, ex dividend

diversification

Investment jargon for not keeping all your eggs in one basket. Diversification implies a distribution of capital among various assets on the assumption that they do not all move in the same direction at the same time. Areas of risk to think about include: asset allocation (spreading investments among different classes of asset (bonds, equities, property etc); shares (spreading stock investments over a sufficient number of shares); sector (making sure the invested shares are in companies operating in a variety of sectors); and, countries (getting some exposure to economies outside the UK as well as in the UK). It is widely agreed, though not universally accepted, that diversification is essential to reduce risk. Opponents argue that it is better to have just one basket, but to watch that bas-

ket very carefully. There is a consensus that if you want to make exceptional returns, you have to concentrate investments because a balanced and widely-spread portfolio with gravitate towards average performance.

See also: risk/reward

divest

To divest assets is to sell them off. Often referred to in the context of a company selling off divisions that are either a poor fit within the overall corporate strategy, or showing poor financial performance.

dividend

The distribution of part of a company's earnings to shareholders, usually twice a year (quarterly in the US). In the UK, there is traditionally a main dividend and an interim dividend during a company's accounting year. Normally, the dividend is expressed on a 'per share' basis, for instance - 3p per share. This makes it easy to see how much of the company's profits are being paid out, and how much are being retained by the company to plough back into the business. So a company that has earnings per share in the year of 6p, and pays out 3p per share as a dividend, is passing half of its profits on to shareholders and retaining the other half. Directors of a company have discretion as to how much of a dividend to declare, and they do not have to pay a dividend at all. Indeed, for young growth companies making no profits dividends are not generally expected.

Dividends are nearly always paid in cash, but they can also be in the form of stock (scrip dividend).

See also: dividend yield, scrip dividend

dividend cover

The ratio between a company's earnings (net profit after tax) and the net dividend paid to shareholders, calculated as earnings per share divided by the dividend per share. So if a company has earnings per share of 8p and it pays out a dividend of 2.1p, the dividend cover is $8 / 2.1 = 3.80$.

See also: dividend, dividend yield, P/E ratio

dividend discount model

A model valuing the net present value of the dividends expected to be received in the future by investing in a company. A simple version of the model assumes that the company's dividend rate remains constant. A more complex model assumes that the dividends of the company grow at a consistent rate.

See also: discounted cashflow, internal rate of return, net present value

dividend growth

The amount by which a company's yearly dividends grow compared with the previous year.

See also: dividend

dividend reinvestment plan

DRP

A plan which allows private investors to reinvest cash dividends from their investments cheaply and easily back into the market, and so obtain the benefits of compounding. The Plan is managed by an administrator appointed by the company. On the dividend date, shareholders who join the plan are still paid the cash dividend, but the admin-

istrator then uses the cash to buy shares in the company on behalf of the shareholder.

See also: dividend, pound cost averaging

dividend yield

The annual dividend income per share received from a company, divided by its current share price. Put simply - how much income is a shareholder getting out of the company for the capital locked up in it? Dividend yields are calculated on the net dividend paid over the course of a year divided by the stock's price. For example, if a company declares a net dividend of 2.1p per share and has a share price of 150p, the dividend yield is $2.1/150 = 1.4\%$. Note that the higher the share price, the lower the dividend yield.

See also: dividend, dividend cover

dollar cost averaging

A plan which enables investors to accumulate shares in stock or a mutual fund by purchasing on a regular basis (for example monthly) with a fixed dollar amount. When the price is low, more shares will be purchased and fewer when the price is high. Also known as constant dollar plan. Known as pound cost averaging in the UK.

See also: mutual fund, pound cost averaging, unit trust

domestic market

The part of a country's market that trades the securities of entities located within that nation.

domicile

The country in which a person lives, for tax purposes. The choice of domicile can have a large impact on tax paid. Many foreigners in a country will be “resident non-domiciled”.

See also: residency

double bottom

A reversal pattern in technical analysis. A decline to one price level, followed by a small rally which represents the cleft between the bottoms, followed by a decline to roughly the same level as the first bottom, followed by a clear up-trend. It makes the shape of a “W” on the chart. It is the opposite of the double top. On a chart a double top looks like the letter ‘M’.

See also: technical analysis

double entry bookkeeping

An accounting technique that records each transaction as both a credit and a debit. Credit entries represent the sources of financing, and the debit entries represent the uses of that financing. Since each credit has one or more corresponding debits (and vice versa), the system of double entry bookkeeping always leads to a set of balanced ledger credit and debit accounts.

double indemnity

A term normally associated with accident insurance. Under certain conditions – for example, a road accident – a policy will pay twice the normal sum to the insured.

See also: insurance, insured

double taxation

Taxation of the same earnings at two levels. For example, when a company makes a profit, its profits are taxed, then any dividends which it pays to its shareholders out of its post-tax profits are taxed in the hands of the shareholders. Thus the profits are subject to double taxation. The term can also refer to the situation in which money is taxed in two different countries. Some countries have signed double taxation agreements so that if income has been taxed in one country it will not be taxed again on repatriation.

See also: domicile, residency

double taxation relief

People resident and domiciled in the UK are liable to income tax from their worldwide income payable to the British tax authorities. Other countries operate similar taxation rules so that there could arise a situation where an individual is subjected to double taxation. Double taxation relief can be obtained when agreements exist between countries whereby tax already paid on income in a foreign country is offset against the same tax liability in the home country or vice versa.

See also: domicile, HM Revenue & Customs

double top

A reversal pattern in technical analysis. An advance to one price level, followed by a small decline which represents the valley between the tops, followed by a rally to roughly the same level as the first top, followed by a clear downtrend. On a chart a double top looks like the letter ‘M’. It is the opposite of a double bottom.

See also: technical analysis

Dow Jones Industrial Average

DJIA, known as the “Dow”. One of the main US share indices which monitors the movement of 30 blue chip companies traded on the New York Stock Exchange. The index is a simple average (hence its name) of the share prices, not allowing for market capitalisation. The sum of the DJ utilities, transport and industrials indices is the composite – a broader measure of 65 stocks. The S&P 500 and Nasdaq indices are at least as important and have the advantage of being market capitalisation weighted.

See also: CAC 40, FTSE 100

downgrade

A negative change in ratings for a security typically referring to an analyst's downgrading a stock (such as from "buy" to "sell") or a rating agency's downgrading of a bond. It is the opposite of an upgrade.

downside (risk)

The potential for loss in a given investment or security.

Dow theory

In 1887 Charles Dow (as in 'The Dow Jones') wrote a series of articles noting that the direction of prices in each average appeared to be based on a set of rules. Collectively, these became known as The Dow Theory. The key precepts are: a share price reflects everything that is known about a stock; at any given time, there are 3 trends unfolding in the stock market (the primary trend lasting for more than one year, the secondary trend which is a corrective reaction to the primary trend

and usually lasts from one to three months, and the tertiary or minor trend which is a short-term movement lasting from one day to three weeks); primary trends have three phases (aggressive, general and headlong buying); volume confirms the trend; and a trend continues until a reversal signal.

See also: efficient market theory, technical analysis

down tick

Refers to a transaction made at a price lower than the preceding transaction. Can also refer to a quote at a fractionally lower price than the preceding one.

draft

An order in writing by one party to another party to pay a specified sum to a third party or bearer on a particular date. The party making the order or drawing the draft is known as the drawer. The party to whom the bill is addressed is the drawee (for example a bank). The party to whom the bill is payable is the payee.

driver

An aspect of a business that causes a change in another aspect of the business. A driver is usually a factor that contributes to the growth of a particular business. It can apply equally to a market trend.

dual capital trust

See 'split capital investment trust'.

dual listing

The situation that arises when a secu-

urity, typically a stock, is registered for trading on more than one exchange. Dual listing is often pursued by large or ambitious companies originating or domiciled in a country with a small stock market, in an attempt to increase the stock's liquidity.

dual purpose fund

In the US, a closed end fund with a limited life and two main classes of shares, income and capital shares. Holders of preferred, or income, shares receive all the income, while common shareholders receive all the fund's assets at expiry after preferred shareholders have been paid their fixed redemption price. Similar to a split capital investment trust in the UK.

See also: closed end fund, investment trust, split capital investment trust

due diligence

The process that investors and companies, or more often their lawyers and accountants, carry out prior to an acquisition. Due diligence involves checking as much as possible about a company's financial performance and its liabilities before a deal is done, to reduce the risk of nasty surprises afterwards. If, despite due diligence, there are some unforeseen surprises, the lawyers and accountants can expect heavy criticism from their client and possibly a lawsuit for negligence.

durable goods

Products that are consumed over a long period of time such as several years. A computer or a car would be examples, in contrast to food. They can also be called hard goods, consumer durables, or simply durables.

durable power of attorney

In the US, a power of attorney which, subject to conditions and safeguards, continues in force even after the maker of the durable power of attorney (the principal) may become mentally incapable or otherwise incapacitated of conducting his/her affairs. Equivalent to an enduring power of attorney in the UK.

See also: enduring power of attorney, power of attorney

duration

The weighted average of the maturity of all the income streams, including capital repayment, from a bond or portfolio of bonds, stated in years. Duration also indicates the change in the value of a security that will result from a 1% change in interest rates. For example, a 5 year duration means the bond will decrease in value by 5% if interest rates rise 1% and increase in value by 5% if interest rates fall 1%. Unlike maturity, duration takes into account interest payments that occur throughout the course of holding the bond. Duration is used by investors to measure the volatility of a bond. The higher the duration, the longer an investor needs to wait for the bulk of the payments, and the more its price will drop as interest rates rise.

See also: volatility

Dutch auction

An auction where the auctioneer starts with a high asking price that is lowered until a bidder accepts the auctioneer's price. This is a quick way of auctioning goods, since a sale only requires one bid. Named after the Dutch tulip auctions.

See also: Yankee auction

Ee

each way

Commission earned by a broker on both the sale and purchase end of a trade.

See also: commission, stockbroker

ear stroking

A twist on the phrase 'ear bending' which is used to describe the way that a monetary authority or government might let the financial markets know what action it would like the industry to take, without actually forcing it to do so. Stroking is meant to denote gentle as opposed to crude persuasion.

ear-marking

In general, the practice of setting aside for a particular purpose. The term might be used in a pension context to refer to that proportion of the main earner's pension fund which on divorce would ultimately go to his or her partner. All defined contributions are, by definition, ear-marked.

early exercise

A feature of American-style options that allows the owner to exercise an option at any time prior to its expiration date.

early redemption charge

A charge made by the mortgage lender if the borrower terminates a mortgage in advance of the terms of that particular mortgage. ERCs are generally imposed on fixed or discounted mortgages which offer a relatively cheap deal for an initial period. They usually run only until the end of the initial cheap deal period, though some mortgages impose extended redemption penalties which continue even though the borrower has moved back onto the lender's standard variable rate.

early retirement

Company pension schemes generally have a provision that allows an employee to retire before he or she reaches the company's official retirement age, provided they get prior authorisation from the company. The amount of pension payable to an employee who retires early is, of course, lower than the amount payable at normal retirement age.

See also: occupational pension scheme, personal pension plan

early withdrawal penalty

A charge imposed on holders of fixed term investments if they withdraw before the set maturity date.

See also: fixed income securities, maturity

earned income

Income that comes from work - such as a salary or wages. As distinct from unearned income - bank interest and company dividends etc. Income from pensions is also classified as earned income.

See also: income, personal pension plan

earning asset

Any asset that produces income.

See also: assets, income

earnings

The annual profits (revenues less cost of sales and operating expenses) of a company after deduction of tax, dividends to preference shareholders and bondholders. Earnings are important as they indicate the potential for growth, share price appreciation and future dividends payments. Earnings are usually expressed on a per-share basis (e.g. 7p), and the earnings per share (EPS) figure is calculated by dividing total earnings by the average number of shares in issue for the relevant accounting period. For example, earnings of £2m, with 10m shares in issue would give an EPS of 20p. Earnings, which can be referred to as income, come in several forms: reported earnings (the figure in the company's accounts), underlying earnings (the figure excluding any one-off items such as the sale of land that is not part of the company's normal business), diluted earnings (earnings after adjustment has been made for shares that may be issued in the future if holders

of options, warrants and convertibles choose to exercise their rights).

See also: profit and loss statement (P&L)

earnings cap

A ceiling on the contributions that can be paid to, and the benefits that can be paid by, tax-approved pension schemes.

See also: final salary, net relevant earnings, personal pension plan,

earnings factor

This is a theoretical earnings figure that is used for working out state pensions or guaranteed minimum pensions.

See also: basic pension

earnings per share

EPS

Total earnings divided by the number of shares in issue. EPS is a key ratio used in share valuations. It shows how much of the company's profits, after tax, each shareholder owns. For example, if a company makes a post-tax profit of £1.2 million and there are 20 million shares in issue, the EPS would be £0.6, or 60 pence. Earnings are normally shown for the previous year, based on actual data, but can be estimated for the current year or a future year. What is theoretically an easy calculation becomes complicated because the rules on what constitute earnings are fuzzy, especially when it comes to 'extraordinary' items. Various Financial Reporting Standards (FRS) have tried to regularise treatment of one-offs, with limited success. Often when newspapers report EPS they use 'adjusted' EPS (also known as 'headline

earnings') which strip out all profits/losses attributable to non-core activities.

See also: common stock, earnings, ordinary shares, price earnings ratio (P/E ratio), price earnings growth factor

earnings yield

The earnings yield is the earnings per share (EPS) as a percentage of the current market price of the share. So if the EPS is 7p and the current market price is 116p, the earnings yield would be $7 / 116 \times 100 = 6.03\%$. Earnings yield is not used as commonly as its reciprocal measure, the P/E ratio. On the same figures, the P/E would be $116 / 7 = 16.6$.

See also: earnings, price earnings ratio (P/E ratio), price earnings growth factor

EBIT

Earnings before interest and taxes. A commonly used measure of the earning power of a company from ongoing operations, i.e. its profitability. Calculated by taking the pre-tax profit of a company and adding back only the total interest charges paid on debt.

EBITDA

Earnings before interest, tax, depreciation and amortisation. It is a measure of a company's operating cash flow based on data in the company's income statement. Since it excludes the effect of accounting and financing choices on earnings, EBITDA is commonly used to compare the profitability of companies across industries. This earnings measure is of particular interest where a company has a high value of fixed as-

sets subject to heavy depreciation (in manufacturing for example) or a high value of acquired intangible assets on its books and is thus subject to large amortisation charges (such as a company that has purchased a brand or a company that has recently made a large acquisition).

EBRD

See 'European Bank for Reconstruction and Development'.

econometrics

The use of statistical and mathematical methods to test and develop economic theories.

economic cycle

Medium to long-term fluctuations in the pattern of economic output. Business traditionally undergoes periods of expansion followed by contraction and sometimes recession. Stock and other asset prices are affected by the cycle, with different assets performing best at different stages.

economic growth

An increase in the level of production of goods and services by a country over a certain period of time. In most countries growth data are available quarterly, with monthly or annual data available elsewhere. Nominal growth is defined as economic growth including inflation, while real growth is nominal growth minus inflation.

economic value added

EVA

A measure of corporate performance which reveals whether a company is earning more or less than the amount which its capital is costing. If value is being added to the enterprise – in other words post-tax earnings less the opportunity cost of the capital is positive – it is good news for shareholders. If not, shareholders have cause for grievance because their capital would be better employed in a bank account earning interest. EVA can also be seen as the monetary value of an entity at the end of a time period minus the monetary value of that same entity at the beginning of that time period.

economics

The study of how the forces of supply and demand allocate scarce resources in the economy, more particularly, how the manufacturing, distribution and consumption of products and services are managed in an economy. This is broadly divided into macroeconomics and microeconomics. Macroeconomics is the study of the aggregate economy including such elements as unemployment, price levels, government spending, interest rates, productivity and the influence of government policy on them. In contrast, microeconomics is the study of economic elements at the level of the household or the company.

ECU

The European Currency Unit was a composite monetary unit consisting of a basket of European Union country currencies that served as the predecessor to the Euro.

EDGAR

See ‘Electronic Data Gathering, Analysis and Retrieval System’.

EDSP

See ‘Exchange Delivery Settlement Price’.

efficient market theory or hypothesis

EMH

The theory that the current price of a share reflects the information currently available about the company. The hypothesis comes in a weak form, in which the assumption is that all past market data and prices are incorporated in the price, through to stronger forms in which the assumption is that all possible information about its future earnings potential is included (so that even insider information is of little use). Efficient market theory suggests that it is impossible to beat the market consistently and that actively managing portfolios are a futile exercise because all information is rapidly transmitted around the market, and share prices instantly reflect the common knowledge. The logical extension of this is that passive funds - tracker and index funds - are the best place to invest, because their management costs are much lower and they are mathematically structured to match the performance of their chosen index.

efficient portfolio

A portfolio that provides the greatest expected return for a given level of risk, or the lowest risk for a given expected return. Also called an optimal portfolio.

Electronic Data Gathering, Analysis and Retrieval System

EDGAR

In the US, EDGAR, the Electronic Data Gathering, Analysis, and Retrieval system, performs automated collection, validation, indexing, acceptance, and forwarding of submissions by companies and others who are required by law to file forms with the US Securities and Exchange Commission (SEC). Its primary purpose is to increase the efficiency and fairness of the securities market for the benefit of investors, corporations, and the economy by accelerating the receipt, acceptance, dissemination, and analysis of time-sensitive corporate information filed with the agency.

electronic funds transfer

EFT

A payment system initiated by electronic means such as telephone, computer or ATM.

See also: charge card, debit card

electronic public offering

EPO

An initial public offering, or new issue of shares, in which the process of applying for shares is handled electronically (i.e. online).

See also: initial public offering

elimination period

In the US, the period between the time a policyholder makes an insurance claim and the time it is paid, also known as waiting period. Known as deferment period in the UK.

See also: insurer, waiting period, deferment period

Elliott wave

A technical analysis theory, based on work by Ralph Elliott, an accountant who lived from 1871 to 1948, which asserts that markets advance and decline in a pattern of 8 waves - 5 waves take the market up and 3 waves bring it down.

embargo

Generally temporary action, normally by one country, to halt shipment of specified goods into or out of another country for economic or political reasons.

EMBI

A benchmark emerging markets bond index established by the investment bank JP Morgan.

www.jpmorgan.com

emergency fund

Cash set aside in a dedicated interest account to cover unanticipated emergencies such as property repairs, medical expenses and car repairs.

emergency tax

A special coding used by employers when an employee's tax code is unknown. Individuals allocated this code will only receive a single person's allowance and as such may pay excessive tax. However, this is corrected with a refund once the correct code becomes known and applied.

See also: tax codes

emerging markets

Countries that have a low per head income compared with the developed world, often with small or unsophisticated stock exchanges with relatively short-term histories. For investors in developed countries, emerging markets are attractive because the potential for rapid economic growth is better than in more mature markets. However, the risks, both economic and political, are higher.

See also: investment trust, unit trust

EMI

See 'European Monetary Institute'.

emoluments

Total remuneration of an employee or director which includes salary and bonuses etc.

Employee Retirement Income Security Act

ERISA

In the US, a federal law introduced for the protection of participants in private pension plans.

employee stock ownership plan

ESOP

A plan devised to encourage employees to purchase stock in their company usually at a price below the market price. The company benefits from increased cash flow, tax savings, and a more motivated workforce. The employees benefit from the ability to share in the company's success while saving in a tax-efficient way. Due to

the tax benefits, the administration of ESOPs is regulated, and restrictions apply. Also known as a stock purchase plan.

See also: stock, market price

endowment

A gift such as money or property to an institution, such as a museum, university or hospital, for a given purpose.

endowment insurance

A cash value life insurance policy with a fixed term. Premiums are applied to give life insurance cover for the face amount and at the end of the term the cash value is supposed to equate to the face amount and be payable, either to the insured, or to a beneficiary in the case of death.

See also: cash value life insurance, life assurance, premium

endowment mortgage

An interest-only mortgage ultimately repaid by the proceeds of an endowment policy that is assigned to the lender providing the mortgage. The policyholder pays the lender's interest only, for the term of the mortgage. The sum assured, which is payable on maturity or prior death of the policyholder, is used to repay the mortgage. Policies are usually with profits (or low cost endowment), unit linked or unitised with profits and sometimes this provides some additional capital for the policyholder after the lender has been repaid.

See also: endowment assurance, interest only mortgage, low cost endowment assurance, unit linked, unitised with profits

endowment policy

See 'endowment insurance'.

enduring power of attorney

A power of attorney which, subject to conditions and safeguards continues in force even after the maker of the enduring power of attorney (the 'donor') may become mentally incapable of conducting his/her affairs. Equivalent to durable power of attorney in the USA.

See also: durable power of attorney, power of attorney

enfranchisement

The granting of voting rights to holders of non-voting shares in a company. Non-voting shares are more common in Continental European markets than they are in the UK, where most shares have voting rights.

Enterprise Investment Scheme

EIS

The Enterprise Investment Scheme is a UK tax incentive scheme designed to encourage investors to invest in unquoted companies by offering tax reliefs to investors who subscribe in qualifying companies. EIS is appropriate for those investors who wish to include in their portfolio some high risk companies.

www.eisa.org.uk

See also: venture capital trust

enterprise value

A measure of the worth of a company's ongoing operations. A company's value is sometimes measured in terms of the

total funds being used to finance it. This investment ratio is used in place of the price/earnings ratio in the analysis of certain types of companies. It indicates the economic rather than accounting return that the company is generating on the total value of the capital supporting it. Typical companies for which this ratio is appropriate are those that have borrowed heavily to finance growth or those that have paid large premiums for acquisitions or assets.

See also: price earnings ratio (P/E ratio)

enterprise zone

A region in which businesses get special tax advantages (including exemption from business rates) as an incentive to set up business there. Designation normally lasts for 10 years.

enterprise zone trust

A property trust which invests in enterprise zones.

See also: enterprise zone

entitlement issue

An entitlement issue, also known as an open offer, is an offer made by a quoted company to its shareholders inviting them to buy new shares in the company at a set price, which is normally lower than the current market price. The purpose, as with a rights issue, is to raise new capital for the company. Unlike a rights issue, an entitlement issue cannot be traded or sold on by the shareholder - this usually means that investors are allocated subscription shares, not nil paid shares.

See also: capital gains tax, rights issue

Equipment Trust Certificate

In the US, a type of security, generally issued by a railroad, to pay for new equipment. Title to the equipment, such as a locomotive, is held by a trustee until the notes are paid off. An equipment trust certificate is usually secured by a first claim on the equipment.

equitable owner

The beneficiary designated to receive property held in trust.

See also: beneficiary, trust

equities

Instruments that signify an ownership position, or equity, in a corporation, and represent a claim on its proportionate share in the corporation's assets and profits.

See also: equity, ordinary shares

equity

Equity has a number of meanings including fairness in law and the value of a property less outstanding debts on the property. Most commonly, it is the amount that shareholders own, in the form of common or preferred stock, in a publicly quoted company. Equity is the risk-bearing part of the company's capital and contrasts with debt capital which is usually secured in some way and which has priority over shareholders if the company becomes insolvent and its assets are distributed. For most companies there are two types of equity: ordinary shares, which have voting rights, and preference shares which do not. Owners of preference shares rank ahead of ordinary shareholders in a liquidation.

See also: assets, creditors, ordinary shares, preference shares

equity options

Options on the shares of companies giving the owner the right to buy the underlying stock at a specified price by a specified date. Equity options are traded in the UK at Euronext.liffe and at many other exchanges around the world.

See also: London International Financial Futures and Options Exchange, London Securities and Derivatives Exchange, option, ordinary shares

equity release scheme

A scheme designed to allow homeowners to 'release' cash from the value of their property as income, a lump sum or as a mixture of both. They typically come in two varieties: home income plans and home reversion schemes.

See also: home income plan, home reversion plan

equity risk premium

The extra return that stocks provide over government bonds to compensate for the short to medium-term market risk. It is the concept that justifies investment in stocks, where the capital is at risk, rather than gilt-edged bonds, the safest investment available, where the capital is not at risk provided the bonds are held until maturity. The theory goes that it is only worth investing in stocks if the return exceeds the return on gilts - otherwise, who would take on the extra risk?

equivalent pension benefit

EPB

The benefit which an employer must give an employee who was contracted out of the old graduated pension scheme.

equivalent strategy

An options strategy that has the same risk-reward profile as another strategy. For example, a long May 60-65 call vertical spread is equivalent to a short May 60-65 put vertical spread.

See also: synthetic position

ERNIE

An abbreviation for Electronic Random Number Indicator Equipment that selects the prizes in the premium bonds monthly draw. There have been four “Ernie” machines since the first was introduced in 1957 to keep up with technological change.

www.nsandi.com

See also: National Savings and Investments, premium bonds

escalating annuity

See 'annuity'.

escrow

An account held by a lender or neutral third party into which either a homeowner might pay money for taxes or insurance, or assets can be deposited to be delivered upon fulfilment of certain conditions.

estate

The total value of a deceased person's assets to be distributed according to the person's will.

See also: inheritance tax

estate agent

An agent who acts in the arrangements of property sales and purchases in return for a commission based on the selling price.

estate duty

A tax on a deceased person's estate, superseded in 1975 by capital transfer tax which itself was superseded by inheritance tax in 1986.

See also: inheritance tax

estate tax

In the US, a tax imposed by the federal government or state on the net value of a deceased person's estate after deduction of an exclusion. The net proceeds, after estate tax has been paid, pass to the beneficiaries. If the sole beneficiary is a spouse, no tax is payable.

See also: beneficiary

ethical investment

The policy of selecting stocks for a portfolio partly on the grounds of the ethical or environmental code pursued by the companies in question. The major exclusions tend to be arms, alcohol, tobacco, gambling, animal testing, environmental damage and the payment of exploitative wages in developing countries. In 2000 FTSE International launched a set of stock indices called FTSE4Good. This is a tradeable, benchmark index that re-

quires member companies to meet certain ethical standards for inclusion.

See also: Ethical Investment Research Service

Ethical Investment Research Service

EIRIS

The Ethical Investment Research Service (EIRIS) maintains a database of research into corporate behaviour that might be helpful in selecting an 'ethically sound' portfolio of stocks.

www.eiris.org.

See also: ethical investment

Eurex

The European derivatives exchange created in 1998.

www.eurexchange.com

Euribor

Euro denominated interbank offered rate. The Europe-wide version of London's Libor and the rate at which banks lend to each other in the money markets. Euribor is a benchmark for short-term Euro interest rates.

euro

The successor to the European Currency Unit (ECU) as the European currency. The euro was introduced in 11 member states on 1st January 1999. They were Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain. The notes and coin entered general circulation on 1st January 2002.

See also: European Community, European Currency Unit

Euro Depositary Receipt

EDR

As with other depositary receipts, the EDR is a certificate representing ownership of the issuer's underlying shares. The EDR is denominated and quoted in euros. EDRs make it easier for individuals to invest in foreign companies that are not traded locally.

See also: American depositary receipt

Euro.nm

A pan-European grouping of regulated stock markets, established in 1996 and since disbanded, dedicated to high growth companies. Euro.nm members included: Le Nouveau Marche (France), Neuer Markt (Germany), Euro.nm Amsterdam (Netherlands), Euro.nm (Belgium), and Nuovo Mercato (Italy).

eurobond

A bond, issued and underwritten by international syndicates of banks and issuing houses and sold to investors outside the country in whose currency it is denominated. A eurobond is normally payable to the bearer, issued by non-European companies for sale in Europe, and is free of tax.

See also: bond

eurocheque scheme

A European payment scheme in which a person could use eurocheques and a guarantee card where the EC sign was displayed to purchase goods and obtain cash in the local currency of a European country outside his/her country of residence. The eurocheque was debited from the person's current account after

currency conversion. The UK withdrew from the system in 2001.

Euroclear

The largest settlement system for domestic and international securities transactions, covering bonds, equities and investment funds. Market owned and market governed, Euroclear provides securities services to financial institutions located in more than 80 countries. In addition to its role as the leading International Central Securities Depository (ICSD), Euroclear also acts as the Central Securities Depository (CSD) for Dutch, French, Irish and UK securities.

Eurocurrency

A currency that is deposited in banks outside its country of origin, typically a non-European currency deposited in Europe.

Eurodollar

US dollar currency held by a non-US institution in a bank outside the US, typically in Europe, often the result of international trade.

Euroland

See 'Eurozone'.

Euromarkets

The markets in which eurocurrencies are traded, the largest being London.

Euronext

Euronext is a cross-border exchange organisation in Europe providing services

for regulated stock and derivatives markets in Belgium, France, the Netherlands and Portugal, as well as in the UK (derivatives only). It is Europe's leading stock exchange based on trading volumes on the central order book.

www.euronext.com

European Association of Securities Dealers Automated Quotation

EASDAQ

EASDAQ was set up in 1996 as a pan-European stock market for technology and growth stocks. Around 60 companies were listed at the market's peak raising Euro 60 billion before the market closed in 2003 following the bursting of the internet stock bubble.

www.easdaq.be

European Bank for Reconstruction and Development

EBRD

The European Bank for Reconstruction and Development was established in 1991 when communism was crumbling in central and eastern Europe and ex-soviet countries needed support to nurture a new private sector in a democratic environment. Today the EBRD uses the tools of investment to help build market economies and democracies in over 20 countries from central Europe to central Asia. The EBRD is the largest single investor in the region and mobilises significant foreign direct investment beyond its own financing. It is owned by 60 countries and two inter-governmental institutions. But despite its public sector shareholders, it invests mainly in private enterprises, usually together with commercial partners.

www.ebrd.com

European Central Bank

ECB

The bank created to look after the financial affairs of the countries that have joined the euro.

European Community/Union

EC/EU

An economic and political alliance designed to foster trade and co-operation among its members. (See European Economic Community for the origins of the organisation.) The “original” 15 members (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom) were joined by ten new members in 2004.

European Currency Unit

ECU

A weighted average of European Community currencies with weighting proportional to a country's economy. The ecu was superseded by the euro.

European Economic Community

EEC

The original economic community set up in 1957 by the 6 founder members (France, West Germany, Belgium, Luxembourg, Holland and Italy) and more commonly known as the Common Market. The since expanded Community is currently known as the European Union.

See also: European Community

European Free Trade Association

EFTA

An association of countries (originally comprising Denmark, United Kingdom, Austria, Switzerland, Portugal and Sweden, but now comprising Iceland, Liechtenstein, Norway and Switzerland), formed in 1960 mainly to encourage free trade between members.

See also: European Community/Union

European Monetary Institute

EMI

The EMI was the precursor to the European Central Bank, ECB.

European Monetary System

EMS

EMS was the monetary system of the EU which attempted to reduce the currency variations between members. The EMS became operational on March 13th, 1979, as the successor to the 'snake in a tunnel'. Its aim was to create a zone of monetary stability in Europe. Its general principles were outlined at the Bremen Summit in July 1978, and the system was presented in detail at the Brussels Summit in December. The EMS consists of three mechanisms: the ERM; accounting and transaction mechanisms related to the ECU; and credit mechanisms to enable central banks to intervene in the currency markets. All the EU countries belonged to the EMS, although not all of them participated in the ERM. It was superseded by the ECU and the Euro.

See also: Euro

European-style option

An option which can only be exercised by the holder at expiry (unlike American style options which can be exercised at any time until expiry).

See also: American style option, expiry date, option

European-style exercise

See 'European-style option'.

European-style warrant

A warrant which can be exercised only at the final maturity date or at other fixed times.

Euro STOXX

A benchmark equity index compiled by Dow Jones used for tracking 50 of Europe's blue chip stocks.

Euroyen

Japanese yen traded in the eurocurrency markets.

Eurozone

The collective name given to the countries that have adopted the Euro as their currency.

Ex all

Purchase of a security without entitlement to current dividends, rights issues or scrip issues. This entitlement remains with the seller of the security.

See also: ex dividend, ex rights

ex coupon

A bond sold without the right to the next interest payment.

ex dividend

Purchase of shares without entitlement to recently declared dividends. This entitlement remains with the seller of the shares. In general, a stock's price drops the day the ex-dividend period starts, since the buyer will not receive the benefit of a dividend payout until the next dividend date.

See also: cum dividend, dividend

ex gratia

A payment made out of a sense of moral rather than legal obligation.

ex rights

Purchase of shares without entitlement to current rights issues. This entitlement remains with the seller of the shares.

See also: cum rights, rights issue

ex scrip

Purchase of shares without entitlement to current scrip issues. This entitlement remains with the seller of the shares.

See also: security, scrip issue

exceptional items

Costs which affect a company's profit (or loss) that are associated with normal activities but are exceptional in magnitude.

See also: earnings, extraordinary items, profit and loss statement (P&L)

excess

The specified amount a policyholder must bear before the insurers pay a claim. The inclusion of an excess, whether compulsory or voluntary or both, lowers the premium.

See also: insurance, insurer, claim

exchange controls

Regulations designed to prevent or restrict certain foreign currency transactions usually to protect a country's financial position or the value of its currency.

exchange delivery settlement price

EDSP

The price for physical delivery of the underlying instrument or the price at which contracts are cash settled, often derived by the exchange from an average of traded prices over a set period.

exchange for physical(s)

EFP

A transaction in which one party buys the physical commodity and simultaneously sells futures and the other party does the opposite - sells the physical commodity and simultaneously obtains a long futures position.

Exchange Price Input Computer code

EPIC

EPIC codes are the three or four letter abbreviations given to company share quotations (e.g. the EPIC code for Vodafone is VOD). They are unique to

each company and serve the same function as 'ticker symbols' in the US. In the US, almost any newspaper or web article about a quoted company refers to its ticker symbol, and because of this investors are familiar with them. This makes it very easy for investors when they are using websites and need to search for a company. In the UK, the stock exchange now uses Tradable Instrument Display Mnemonic (TIDM) codes in place of EPIC codes. SEDOL and ISIN codes are also used.

See also: Stock Exchange Daily Official List code, Tradable Instrument Display Mnemonic

Exchange Rate Mechanism

ERM

The mechanism by which members of the EC formerly operated their currency exchange rates within given upper and lower limits. In January 1999 certain members of the EC adopted the euro for their currency and the ERM effectively ceased to exist.

See also: Euro, European Community

exchange traded fund

ETF

A fund that tracks an index, but can be traded like a stock. ETFs bundle together the securities that are members of an index and never track actively-managed mutual fund portfolios, not least because actively managed funds only disclose their holdings a few times a year. Investors can do just about anything with an ETF that they can do with a normal stock, such as short selling. Because ETFs are traded on stock exchanges, they can be bought and sold at any time during the day (unlike most mutual funds). Like unit trusts, ETFs

are open ended, which means that new units can be issued in response to demand. The advantage of this is that they trade at a price which is close to the net asset value of the fund (i.e. the value of its investments) - something that cannot be said of investment trusts which are closed funds. But unlike unit trusts, ETFs do not usually have initial charges and their annual management charges are much lower (averaging 0.35%). Broking commission has to be paid, but some ETFs are exempt from Stamp Duty. The UK's first ETF was launched in.

See also: investment trust, open ended investment company, unit trust

excise duty

A tax imposed on certain types of generally non-essential products including alcohol and tobacco which are produced in the UK. Customs duties apply to products imported to the UK. www.hmrc.gov.uk

See also: HM Revenue & Customs

excise taxes

In the US, federal and state taxes on the sale or production of certain types of products such as alcohol and tobacco.

See also: HM Revenue & Customs

exclusion

A clause in an insurance policy which specifies items or conditions not covered. In the US, an item which is excluded from taxation such as contributions to an individual retirement account.

See also: insurance policy

execute and eliminate

A particular type of order which a client gives to his broker when buying shares. The client specifies the company he wants to buy shares in, a price, and the number of shares he is prepared to buy at that price. When the price of the share matches the price specified by the client, the broker will execute the order up to the number of shares specified. If he cannot get the required number of shares at that price, he will buy what he can and 'eliminate' the shortfall. Execute and eliminate orders may also be used on the Stock Exchange's Electronic Trading Service (SETS).

See also: at limit, at best, at quote, fill or kill, Stock Exchange Electronic Trading Service

execution only broker

A broker who buys and sells shares on the instructions of clients but who offers no advice about what to buy and sell. Self-directed investors who want to make their own decisions are most suited to this service, and will probably be attracted by the lower dealing costs. Investors who want advice will need to use the services of an advisory or discretionary broker. The website of The Association of Private Client Investment Managers and Stockbrokers provides a list of brokers and the services that they offer.

www.apcims.co.uk

See also: advisory broker, discretionary broker

executive insurance

In the US, an insurance policy taken out on the life of a company executive or senior employee whose death would

cause significant loss to the company. In the event of such a death the proceeds would be payable to the company. Known as 'keyman insurance' in the UK.

See also: insurance policy, keyman / keywoman insurance

executive pension plan

EPP

A pension plan that is tailored for directors and senior executive staff.

See also: pension plan

executor

A person or institution appointed in a will to ensure that the wishes of the deceased are duly carried out.

Feminine form: executrix

See also: will

exemption

An allowable expense subtracted from gross income to reduce income tax liability. An exemption can be classified as either personal or dependency and might cover: individual taxpayers, the elderly and disabled, dependent children, total or partial blindness, and a taxpayer's spouse.

exercise

When an option or warrant holder takes up his or her option to buy or sell the underlying instrument (for example shares, commodities, an index etc) he/she is said to exercise the option or warrant.

See also: option, underlying instrument

exercise notice

A formal notice to the writer of an option from a clearing house that an option has been exercised by an option holder and that the writer is obliged to buy/sell the underlying instrument at the exercise price to meet his/her obligations.

See also: exercise price, option, underlying instrument

exercise price

The price at which an option or warrant holder can buy or sell the underlying instrument (for example, shares, an index, commodities etc). Also known as the strike price. Alternatively, the price at which a new issue of shares is sold to investors where the issue has taken place as a tender offer. The exercise price is calculated as the maximum price at which all the shares being issued can be sold, bearing in mind the bids put in by investors.

See also: option, ordinary shares, strike price, underlying instrument, warrant

exit charge

Instead of making an initial charge, some unit trust companies (particularly PEP managers) make a charge if units are cashed in, for example, within five years. In the US this is known as a back end load.

See also: initial charge, unit trust

exit P/E ratio

The price/earnings ratio of a company at the time when it is taken over by another company.

See also: price earnings ratio (P/E ratio)

exotic warrant

A warrant with complex or unusual exercise terms. Exotic instruments are the opposite to vanilla instruments.

expenses in employment

If an employee incurs expenses wholly on behalf of his company that are not reimbursed, such expenses can be offset against tax. Examples are accommodation, meals and fees to professional organisations.

expert investor

A legal term given to an investor whose experience is such that members of the FSA are entitled to assume that he fully understands the nature of the investment he is making.

See also: Financial Services Authority, stockbroker

expiry date

The date on which an option or right becomes worthless if not exercised. For 'American-style' options and warrants, the holder can exercise rights at any time up to the 'expiry date'. For 'European-style' options/warrants, exercise can only take place on the expiry date and not before.

See also: American style option, European style option, exercise, option

exponential moving average

EMA

A moving average that gives extra weight to more recent price data.

See also: moving average

Export Credits Guarantee Department

ECGD

The UK government department which helps companies finance exports, mainly by insuring them against the possibility of non-payment by their customers. It is a separate government department reporting to the Secretary of State for Trade and Industry.

www.ecgd.gov.uk

exposure

The proportion of a share portfolio at risk in a certain area. So if you have half of your portfolio invested in high-tech stocks, you have 50% exposure to that market.

See also: asset allocation, diversification, risk/reward

extended coverage

Insurance which extends the term of a warranty, typically covering repairs on appliances and cars, the premium usually being a one-off payment.

See also: insurance, warranty

externality

The side effect on an individual or entity due to the actions of another individual or entity.

extra dividend

A dividend paid which is in addition to the normal dividend when profits of a company are particularly high.

See also: dividend

extraordinary general meeting

EGM

An EGM is a special meeting of a company and its shareholders that can be called by company directors or anyone with at least 10% of the voting rights on the company's shares. EGMs have to be called in order for certain special resolutions to be passed (for example, to approve a takeover or merger or break-up of the company) and for the resolution to be passed, 75% of more of the shareholders have to vote for it.

See also: annual general meeting

extraordinary items

Costs associated with a non-recurring event, and not arising from normal activities, which materially affect a company's profit (or loss) in a reporting period and need to be explained in the report.

See also: earnings, exceptional items, profit and loss statement (P&L)

extrinsic value

The difference between an option's price and its intrinsic value. For example, an option that has a premium price of £10 and an intrinsic value of £5 would have an extrinsic value of £5. Denoting the amount by which the option's price is greater than its intrinsic value, the extrinsic or time value of the option declines as the expiration date of an option draws closer.

See also: intrinsic value, option, time to expiry, warrant

face amount (face value)

The value of a bond, note or other security as printed on the document. Throughout the life of a security, its market price will fluctuate but at maturity the face amount is payable. It can also refer to the value denominated on a coin, banknote or stamp etc. and the amount to be paid out on an insurance policy on death or maturity.

See also: bond, security, maturity

factoring

The sale of a company's debts to a factor at a discount. A company that is owed money by trade debtors and faces the risk of slow payment or default on those debts, putting strain on its cash flow, can mitigate this danger by 'factoring' them. Special companies exist (factors) which will pay the company a high proportion of the amount it is owed, in return for the right to collect the debts from the debtors. The company gets a high percentage of the amount it is owed direct from the factor. The factors chase the money and keep the difference. Many banks offer factoring services.

fair market value

The traded value of an asset agreed by seller and buyer where neither party is

desperate to sell and all other terms of the sale are normal and reasonable.

fair value

In general, a valuation that is in accordance with standard methodology and is deemed reasonable to all parties involved in a transaction in light of the pre-existing conditions and circumstances. In the case of futures, it is the theoretical price at which a futures contract should trade to be equivalent to the value of the underlying instrument and the cost of carry (allowing for the net effect of interest and dividends). In options trading the term is also used when referring to intrinsic value. In accounting terms, it refers to a current valuation (as opposed to the historic cost), derived either from a market value or by a calculation of present value, for instance, by using a discounted cash flow model.

See also: futures, intrinsic value, underlying instrument

fallen angel

A bond that was issued at a rating of AAA to BBB (investment grade) that has since fallen in rating to BB or below.

See also: bond, rating

family income benefit (family income assurance)

A type of term assurance in which, following the death of the life assured, instalments, rather than a lump sum, are paid to the beneficiary for the remainder of the policy term. If the life assured lives to the end of the term, no benefit is payable.

See also: assured, beneficiary, life assurance

Fannie Mae

See 'Federal National Mortgage Association'.

far month

The month of an option or futures contract that has the latest delivery date.

fat cat

A disparaging term used to describe executives who earn high salaries and bonuses. Fat cats came in for visceral press criticism soon after the UK government privatisations of the 1980s when managers who had previously been paid modest civil servant salaries by state-owned enterprises found themselves in charge of private sector companies and very quickly awarded themselves large pay increases and stock options.

Fed

See 'Federal Reserve System'.

Federal agency security

In the US, a debt instrument with a high level of safety issued by a federal agency.

See also: bond, note, debt instrument

Federal Deposit Insurance Corporation

FDIC

In the US, the federal agency that acts as guarantor for funds (of modest size) deposited in member banks.

Federal gift tax

In the US, a federal tax levied on gifted property, money or securities. The tax is payable by the donor and based on fair market value of the gift. The tax applies to the transfer by gift of any property (including money), or the use of or income from property, without expecting to receive something of at least equal value in return. If something is sold at less than its full value or an interest-free or reduced interest loan is made, it may count as making a gift. Exceptions include gifts that are not more than the annual exclusion for the calendar year, tuition or medical expenses, gifts to a spouse, or gifts to a political organisation for its use.

www.irs.gov

FHLMC

See 'Freddie mac'.

Federal Insurance Contributions Act

FICA

In the US, the federal law directing employers to withhold a proportion of employees' salaries for payment to the government in order to provide future pension and other social security benefits.

Federal National Mortgage Association

FNMA

In the US, a government sponsored enterprise, commonly known as Fannie Mae, that purchases mortgages from lenders, pools them and resells them to investors as mortgage-backed securities. It operates under a congressional charter that directs it to increase the availability and affordability of homeownership for low and middle-income Americans. GSE status enables it to borrow at favourable rates of interest, although it has no government funding. Fannie Mae is shareholder owned and trades on the New York Stock Exchange.

See also: New York Stock Exchange

Federal Reserve Board

In the US, the seven member board of directors that directs the federal banking system, appointed by the President of the United States and confirmed by the Senate. Its functions include formulating and executing monetary policy, overseeing the Federal Reserve Banks, and regulating and supervising member banks. Monetary policy is implemented through the purchase or sale of securities, and by raising or lowering the discount rate - the interest rate at which banks borrow from the Federal Reserve.

Federal Reserve System

The American central banking system which comprises 12 regional Federal Reserve Banks, their branches and all national and state banks within the system. The Federal Reserve sets monetary policy, regulating the flow of

money and credit, in the US and regulates the banking system. Established in 1913.

Federation Internationale des Bourses de Valeurs

FIBV

The International Federation of Stock Exchanges - a Paris-based organisation that encourages co-operative policies designed to stimulate a freer flow of capital across national boundaries.

www.fibv.com

Fed funds

Funds deposited by commercial banks at the Federal Reserve banks. To allow those organisations temporarily short of reserve requirements to borrow from those that have excess reserves. The rate of interest on fed funds, influenced though not set by the Fed, is a key short-term interest rate, changing daily.

Fedwire

In the US, a computerised high speed communication system linking the banks within the Federal Reserve System. The network enables transfers to be conducted at high speed for inter-bank dealings and customer transfers.

See also: Federal Reserve System

fee-based adviser

An independent financial adviser whose income is derived from fees charged to customers, on a flat fee or hourly basis, rather than commissions from provider companies. Any commission received can be rebated to the

customer as a cash sum, reduced fee or improved set of benefits.

See also: independent financial adviser

fence

See ‘collar’.

Fibre Digital Data Interface

FDDI

Trading floor network and protocols connecting all trading floor terminals for the NYSE.

See also: New York Stock Exchange

Fibonacci (numbers)

An Italian mathematician, Leonardo Pisano, who lived from 1170-1250. Most famous for the Fibonacci numbers, a sequence of numbers in which each number is the sum of the two preceding numbers. Thus: 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89 etc. The sequence has proved useful in many different areas of mathematics and science.

See also: technical analysis

Fibonacci ratio

The relationship between two successive numbers in the Fibonacci sequence. The sequence for the early numbers is 1, 2, 1.5, 1.6666, 1.6, 1.625, 1.61538, eventually settling down to close to 1.618034, known as the golden number, which crops up in many different applications.

See also: Fibonacci (numbers)

fictitious trading

Wash trading, bucketing, cross trading, or other types of trade which are de-

signed to give the appearance of trading even though no competitive trade has occurred.

fiduciary

A person or body entrusted to hold and manage the assets and interests of another. For example, an executor in a will would be so described.

See also: executor

fill or kill

FOK

A type of order given to a broker when buying shares, when the client specifies the company to buy shares in, a price to buy them at, and the number of shares to buy at that price. When the price of the share matches the specified price, the broker attempts to ‘fill’ the whole order at that price. If he cannot, he ‘kills’ it (i.e. cancels it) and does not buy any. If he can fill the whole order, he goes ahead with the transaction.

See also: at best, at quote, at limit, execute and eliminate

FIMBRA

See ‘Financial Intermediaries Managers and Brokers Regulatory Association’.

final dividend

The end of year dividend. In the UK, companies normally pay dividends twice per year, an interim and a final dividend, the latter normally being the larger of the two. The final dividend is announced by the company with the full-year results. At the annual general meeting, shareholders have the option

of voting to accept the dividend or to reduce it, but they cannot increase it.

See also: annual general meeting, dividend

final results

The results reported by a company for a full financial year. Results are usually reported within three months of the financial year-end. Sometimes final results are referred to as 'preliminary' results on the grounds that the full detail has yet to be published in the company's annual report and accounts.

See also: annual report, earnings, interim results

final salary

The basis of determining a person's pension entitlement in a final salary scheme. It is generally defined as one of: the total emoluments in a year, in any of the five years immediately preceding retirement, or the average of total emoluments for periods of three consecutive years or more ending within ten years of retirement.

See also: earnings cap, emoluments, final salary scheme (defined benefit scheme)

final salary scheme (defined benefit scheme)

A pension scheme in which an employee's pension is based on the number of years of service and final salary with each employer. In this type of scheme employees are typically provided with 1/60 of final salary for each year of service up to a maximum of 40/60 that is, two thirds of final salary. At retirement a tax-free lump sum may be taken at the expense of a reduced

pension. Sponsored by the employer, its popularity as a form of remuneration has waned as liabilities have increased due to such factors as increased longevity.

See also: final salary, personal pension plan

finance house

A company whose main purpose is the financing of hire purchase transactions and other loans to individuals or businesses.

See also: hire purchase

financial adviser

A professional person qualified to give advice to clients regarding investments such as life insurance, pensions, mutual funds/unit trusts and taxation etc. A financial adviser may charge a fee and/or receive a commission on a product recommended. In the UK a financial adviser is either independent - an independent financial adviser (IFA), or a company representative (tied agent) or, since depolarisation in December 2004, a multi-tied agent selling products from a panel of selected providers. An IFA is free to recommend products from a number of companies and his selection will be based on which company and product best suits the needs of the client. A company representative recommends only the products of the company he represents, so will offer only limited advice. In between comes the multi-tied agent, who offers more choice. The reforms also insisted on better disclosure of commissions and other charges.

See also: independent financial adviser, insurance, mutual fund, personal pension plan, tied agent, unit trust

financial futures

Futures contracts where the underlying instruments are financial such as shares, interest rates, currencies and indexes etc.

See also: futures, interest rate, underlying instrument

financial institution

An institution that accepts funds from the public and reinvests in financial assets such as bank deposits, bonds and stocks etc. These include banks and insurance companies, and, in the UK, building societies.

Financial Intermediaries Managers and Brokers Regulatory Association

FIMBRA

The self-regulating organisation originally responsible for governing financial advisers. Became part of the Personal Investment Authority (PIA) in 1994, which in turn merged into the Financial Services Authority (FSA) in 2001.

See also: Personal Investment Authority

financial pager

A pocket sized pager with data screen, used in the 1980s and 1990s, which could display a variety of financial information including prices for equities, bonds, futures and market news.

financial planner

A professional person qualified to give clients financial planning service related to, for example, investments, tax, asset allocation and retirement planning, with the aim of increasing the client's net worth or to achieve other objectives.

See also: company representative (tied agent), independent financial adviser

financial planning

The service provided by a financial planner. This is a long-term service provided for clients that considers all their financial affairs and develops a plan to achieve their financial objectives. The plan would be regularly reviewed to ensure goals remain on target with modifications being made as necessary.

See also: independent financial adviser, company representative (tied agent)

Financial Reporting Council

FRC

The UK's independent regulator for corporate reporting and governance. Its five key objectives are to promote: high quality corporate reporting; high quality auditing; high standards of corporate governance; the integrity, competence and transparency of the accountancy profession; and its own effectiveness as a unified independent regulator. In April 2006 it added the Board for Actuarial Standards to its stable.

Financial Services Act 1986

A Government Act introduced primarily to provide increased protection for investors and to regulate investment business conducted in the UK.

See also: Financial Services Authority

Financial Services Authority

FSA

The replacement regulating body for the Securities and Investments Board

(SIB) and carrying all regulatory responsibilities for the UK financial services industry. The FSA came into being on 28th October 1997 and has overall objectives focused on: the protection of consumers of financial services, the promotion of clean and orderly markets, and the maintenance of confidence in the financial services system. It took over banking supervision from the Bank of England in 1998 and two years later became the UK's listing authority, superseding the London Stock Exchange. In 2001, under the Financial Services and Markets Act of 2000, it took over the regulation of several sectors, mainly replacing self-regulatory bodies. It is a criminal offence to conduct investment business without authorisation and the FSA is empowered to prosecute those who break this rule. A Central Register is held which lists firms with authorisation.

www.fsa.gov.uk

See also: Financial Services Act 1986, central register

Financial Services Compensation Scheme

FSCS

The Financial Services Compensation Scheme is the UK's statutory fund of last resort for customers of authorised financial services firms. It was set up by the Financial Services Authority (FSA) in December 2001, and replaced: the Building Societies Investor Protection Scheme, Deposit Protection Scheme, Friendly Societies Protection Scheme, Investors Compensation Scheme, PIA Indemnity Scheme, and the Policyholders Protection Board.

www.fscs.org.uk

financial strength

The measure of a company's solvency, looking at the relationship between its assets and its liabilities.

Financial Times indices

A wide range of indices including shares, stocks and fixed interest securities published in the Financial Times and on www.ft.com. The indices serve as indicators of trends of prices on the global and London markets. All bar the FT30 stock index are run by FTSE international.

www.ftse.com

See also: FTSE 350 Index, FTSE MID 250 Index, FTSE Actuaries All-Share Index, London Stock Exchange, FTSE 100 Index

financial year

Every company has an 'accounting reference date'. This is a date which it chooses itself, and which determines its financial year. It must produce accounts showing how it has performed during the year which ends on that date, and file them with Companies House. The format of the accounts depends on whether it is a private company or a public listed company. Note that a company's financial year can be quite independent of both the calendar year (1st Jan to 31st Dec) and the tax year (6th April to 5th April).

first closing date

The first closing date is one of the milestones in the process by which one company takes over another. Takeover bids involving companies quoted on the London Stock Exchange are gov-

erned by a code laid down by the City's Panel on Takeovers and Mergers. One of the most important functions of the code is to set a timetable for the bid that the parties have to adhere to. Once a bid has been launched, the bidding company must send its offer document to the target company, and then the offer has to be left open for a number of days. That point is the first closing date.

See also: takeover

first death insurance

A joint-life insurance policy that pays money to a surviving partner on the first partner's death.

See also: insurance

first mortgage

A mortgage which carries priority over any subsequent mortgages if the borrower goes into default and his/her assets have to be sold to pay creditors.

See also: default, mortgage, mortgagee, mortgagor, second mortgage

first notice day

The first day that notice of intention to deliver a commodity in fulfilment of an expiring futures contract can be given to the clearing house by a seller (and assigned by the clearing house to a buyer). First notice days differ depending on the commodity.

fiscal policy

The use of spending and taxation by the government in order to achieve its economic objectives, such as economic growth, higher employment and low inflation. Higher taxation tends to re-

duce people's disposable income, and suppress spending which is supposed to make inflation less likely.

See also: monetary policy

fiscal year

For tax in the UK, it is the twelve-month period commencing 6th April and ending 5th April the following year.

See also: fiscal policy, tax year

fixed annuity

In the US, an annuity which guarantees payments to an annuitant that are fixed for life or a specific period. Similar to a level annuity in the UK.

See also: annuity, level annuity

fixed assets

Assets of a company such as buildings and machinery which are regularly used over a long period of time for the purpose of generating profits.

See also: depreciation

fixed income securities

Securities that pay a fixed rate of interest. Government bonds (gilts, in the UK) are the best known example. Compared to shares, fixed income securities have the attraction of certainty - you know what income you will get in advance - and they are less risky than shares. But the potential financial upside is not as good as with equities.

See also: bond, corporate bond, gilt-edged stock, preferred stock

fixed premiums

Premiums paid to an insurance company that are fixed throughout the life of the policy.

fixed rate mortgage

A type of mortgage in which interest repayments to the lender are fixed until maturity or for a specified term.

See also: maturity, mortgage

flag

A pattern seen on a chart of a futures price. If a price rises (or falls) sharply and then iterates sideways it will draw a pattern like a flag. Bear flags, bull flags and pennants, where the period of stability is more pointed picture, are possible.

flat yield

See 'bond yield'.

flat-top butterfly

See 'condor spread'.

Flexible mortgage account

A combined mortgage and current account. Any savings each month earn the mortgage rate, which is a relatively high and tax-free rate of return.

Flight to quality

A trend on the part of investors to switch from riskier assets to safer assets, typically from equities to bonds, when economic circumstances are becoming more unsure.

Flotation

When a company decides to list its shares on a stock market it is said to embark on a flotation, also known as an initial public offering (IPO). As part of this process, the company publishes a prospectus describing its business, its directors, its financial position, and what profits it expects to make. The information it includes has to conform to strict guidelines so that potential investors are not misled. The prospectus announces the issue of new shares, sets an offer price for the shares, and invites subscriptions. In a flotation a company raises money by issuing new shares in what is known as the 'primary market'. Once the shares are listed, further trading in them occurs in the 'secondary market' - secondary in the sense that it is a second stage market between investors that does not involve the company itself.

See also: initial public offering, new issue, prospectus

Footsie

A familiar term for the UK's main share index – the FTSE 100 Index.

See also: FTSE 100 Index

force majeure

Unforeseeable events, beyond the control of participants in a contract, which may excuse either side from fulfilling its liabilities.

foreclosure

The procedure by which a homeowner forfeits his property to a lender (mortgagee) following default. This could

be failure to pay interest on the loan. A foreclosure order is given by a court.

See also: default, mortgagee, mortgagor

foreign direct investment

Investment in tangible assets such as land and capital involving cross border flows.

foreign exchange

Forex

Currencies issued by foreign countries.

Fortune 500

A list of 500 American corporations, published annually by Fortune Magazine, ranking companies on the basis of revenues, profits and market capitalisation.

forward buying contract

A forward contract is an agreement between a buyer and a seller, calling for delivery of a specified amount of a specified asset at a specified future date – at a price agreed at the time of the trade.

forward dealing

The buying or selling of underlying instruments such as commodities, securities and currencies etc for delivery at a specified future date and a fixed price.

See also: commodity (commodities), forward pricing, futures, swap

forward pricing

The setting of the price (which then remains fixed) for forward dealing. This occurs at the time the contract is established.

See also: forward dealing

forward rate agreement

See FRA.

fourth market

The market of securities trading without the participation of brokers, thus obviating commission costs. The market, which is computer based, mainly comprises large institutional investors such as mutual funds and insurance companies.

See also: broker, mutual fund

FRA

Forward rate agreement. An interest rate derivative that allows the interest rate on short-term loan to be set for a pre-determined period.

franchise

A licence granted by one company (franchisor) to another company or person (franchisee), entitling the franchisee to produce or market a product or service in a specific area. The licence is usually reviewed periodically, typically every 6 months or annually.

franchisee

See 'franchise'.

franchisor

See: 'franchise'.

franked income

Dividends paid by UK companies to other companies (for example, investment trusts), with a tax credit reflecting the fact that the company which has paid the dividend has done so out of post-tax profits. Therefore the 'franked income' will be free of further tax to the receiving company.

See also: dividend

Freddie Mac

Abbreviation for Federal Home Loan Mortgage Corporation (FHLMC). Like the Federal National Mortgage Association, or Fannie Mae, it is a government sponsored enterprise that buys mortgage loans from the lenders, securitises them, and distributes the securities through the dealer community. The securities are not backed by the US government and their market value prior to maturity will fluctuate. GSE status does enable it to borrow at favourable rates of interest.

free asset ratio

FAR

The amount by which a company's assets outweigh its liabilities, expressed as a percentage, typically referring to an insurance company's assets and its policy liabilities. For example, a company with assets of £100,000 and liabilities of £80,000 would have a free asset ratio of 20%.

free assets

The amount by which a company's assets outweigh its liabilities, expressed as an absolute sum.

See also: free asset ratio

free cash flow

The amount of money that a business has at its disposal at any given time after paying all of its expenses including investments. More formally, it is the operating cash flow less capital expenditure and dividends. Negative free cash flow often arises at young companies that invest heavily prior to building up substantial revenues.

See also: cash flow

free float

The shares of a public quoted company that are freely available to the investing public. A free float of 75% means that three-quarters of the company is on the market, typically with the remainder held by the founders government or in trust.

free standing additional voluntary contributions

FSAVC

An employee's pension scheme that is additional to but independent from the occupational pension scheme. Ceased to be applicable after the so-called "A-day" in April 2006. The maximum amount which could be contributed to an employee's pension fund was 15% of salary (including benefits in kind). For example if an employee contributed 10% of salary to a company scheme, a further 5% could be paid by that employee in each tax year into FSAVCs or AVCs.

See also: personal pension plan

freehold

The permanent ownership of land or buildings that can be legally passed on to heirs and the most usual form of

ownership for houses. Gives the owner the right to control, use and transfer the property at will. Also known as property that is held in 'fee simple'.

friendly takeover

A takeover that is supported by the existing management of the target company, and the opposite of a hostile takeover.

friendly society

A mutual organisation or benevolent society whose funds, after the deduction of running costs, are owned by its policyholders. The main purpose of a friendly society is to provide life assurance and to assist members during sickness and unemployment. They were first formed around the sixteenth century in order to provide protection for the families of working individuals in the event of their death or illness and to encourage self-reliance. Some of these societies grew into large mutual insurance companies and still exist today. Friendly societies are regulated by the Financial Services Authority (FSA).

See also: mutual company

fringe benefits

Benefits to employees additional to salary, such as company cars, expense accounts and private medical insurance. Typically, non-taxable in the US and liable for tax in the UK.

front end load

A charge paid by an individual when buying a mutual fund, insurance policy, annuity or unit trust to cover administration and transaction costs and

commission at the time of purchase. Such charges tend to discourage asset turnover.

See also: mutual fund, open ended investment company, unit trust

front running

An activity, illegal in many instances, in which an employee takes a position in a stock in advance of actions he expects his company to take that will have the consequence of moving the price in a way that delivers a profit.

See also: insider dealing

FSA

See 'Financial Services Authority'.

FRS3

The standard promulgated by the Accounting Standards Board, effective from 1993, which attempted to be the lynchpin of accounting standards. It effectively outlawed extraordinary items, making such events as restructuring costs and the sale or closure of non-core businesses, part of the profit and loss account and, therefore, included in earnings per share. It also stipulated that there should be a statement of total recognised gains and losses showing the profit or loss for the period plus movements in reserves. It prompted the creation of "headline" or "adjusted" earnings figures that excluded some of the one-off or volatile numbers that companies or analysts felt obscured the underlying trading performance.

See also: earnings per share

FTSE Eurotop 300

A FTSE index of the share prices of the 300 largest European companies, by

market capitalisation. Commonly used until 2005 when it was surpassed by the FTSE Eurofirst series of indices.

See also: FTSE 100 Index

FT Government Securities

An index of a range of Government Securities (gilts) prices produced by the *Financial Times* newspaper. The index ceased publication at the end of 2006 being superseded by FTSE indices.

FT 30 Index (FT Ordinary Share Index)

The FT30 index is based on the share prices of 30 British companies from a wide range of industries. The index, which began in July 1935, is the oldest continuous index in the UK and one of the oldest in the world. It was designed to test the feel and changing moods of the equity market as reflected in prices of the leading and most actively traded shares. The index was started by the "Financial News", one of the modern FT's parents. It was the barometer of investor sentiment in the City of London until the FT Actuaries series was launched in 1962 and the FTSE 100 "Footsie" in 1984. It was originally called the FN (then the FT) Ordinary index.

www.ft.com/ft30

See also: CAC 40, FTSE 100 Index, Hang Seng Index

FTSE 100 Index

Footsie

An index of the share prices of the 100 largest companies (by market capitalisation, updated quarterly) in the UK that is updated throughout the trading day in real time. The index was started

in 1984 with a base of 1,000. Stock Exchange indices are designed to give investors an idea of the general movement of the stock market and its overall value. By comparing the performance of their own portfolios with the performance of an index, investors can see how well they have done from a comparative point of view. In particular they can see whether they would have been better off putting their money in an index tracker fund. *See also* FTSE Actuaries All-Share Index. The main sub-indices of the FTSE Actuaries All-Share are: FTSE 100: the 100 largest quoted companies in the UK; FTSE 250: the next largest 250 companies; FTSE 350: combination of FTSE 100 and FTSE 250; FTSE Small cap: the remaining companies listed in the FTSE Actuaries All-Share index. The FTSE Fledgling index includes those companies too small to qualify for the FTSE All-Share, while the FTSE AIM includes companies trading on the Alternative Investment Market. www.ftse.com

See also: CAC 40, Dow Jones Industrial Average

FTSE 350 Index

A combined index of the FTSE 100 and the FTSE 250.

See also: CAC 40, FTSE Actuaries All-Share Index, Hang Seng Index

FTSE Fledgling

The index of the share prices of the companies listed on the London Stock Exchange that are too small to qualify for the FTSE Actuaries All-Share Index.

See also: CAC 40, Dow Jones Industrial Average

FTSE Actuaries All-Share Index

The index of the share prices of nearly 700 leading companies and investment trusts on the London Stock Exchange. The companies are split into smaller sub indices according to size, such as the FTSE 100, and industrial sector. Figures are published each day in the Financial Times and on www.ftse.com.

See also: CAC 40, Dow Jones Industrial Average

FTSE International

A company jointly owned by the London Stock Exchange and FT which creates and compiles financial indices showing the performance of stock markets.

www.ftse.com

See also: FTSE Actuaries All-Share Index

FTSE 250 Index

An index of the share prices of the 250 largest companies (by market capitalisation) immediately following the largest 100 (FTSE 100).

See also: CAC 40, FTSE Actuaries All-Share Index, FTSE Actuaries All-Share Index, Hang Seng Index

FTSE Small cap

The index of the share prices of the companies which are listed in the FTSE Actuaries All-Share Index but which are not large enough to appear in the FTSE 350 Index.

See also: CAC 40, Dow Jones Industrial Average, FTSE Actuaries All-Share Index

full endowment

An endowment policy in which the savings element is significantly increased and the plan is guaranteed to repay the loan.

See also: endowment

full faith and credit

An unconditional commitment to meet the payment of interest and repayment of principal of a bond issued by a government authority.

See also: Government securities, Gilt-edged stock

full structural

An extensive property survey.

full-service broker

See 'discretionary broker'.

fully invested

When all money in a portfolio is invested in securities as opposed to retaining some cash, it is said to be fully invested.

See also: portfolio

fully paid policy

A life insurance policy which remains in force where the insured has paid premiums over part of the term of the policy but is unable to make further payments. In these circumstances the cash or surrender value is used to purchase a single premium policy which pays a reduced amount either on the death of the insured or on maturity if a term is specified other than life.

See also: insurer, level annuity

fully valued

If the market feels that a quoted company's value is already reflected in its share price, it is said to be fully valued and the price is not expected to rise further.

fund

A pool of money normally set apart for a purpose, for example, a pension fund to provide pensions. Can also refer to a mutual fund or investment company.

See also: pension fund

fund manager

The person responsible for deciding how fund money is invested. Fund managers work for investment trusts, unit trusts and pension funds. Large fund managers have considerable influence in the financial markets because of the weight of money behind them. If they decide to move funds out of a sector, or out of a company in a sector, their decision can affect the price of shares in a way that the decisions of private investors rarely do (except for the smallest stocks). Some fund managers run active funds that aim to beat the market index by picking the best performing shares. Others run passive funds, which aim to match the performance of an index by tracking it.

See also: efficient market theory, index fund, investment trust, passive fund, tracker fund, unit trust

fund of funds

A unit trust or mutual fund that invests in other unit trusts. These funds are designed to achieve greater diversification than traditional mutual funds but the expense fees on fund of funds are

typically higher than those on regular funds because they include part of the expense fees charged by the underlying funds. Often a fund of funds will invest in trusts run by the same group, but some of them will invest in funds run by other groups too.

See also: active fund, passive fund, unit trust

fund supermarket

A firm, typically a website, that provides information on a variety of collective investment funds from several providers, and facilitates the purchase of those funds often by transacting online. Fund supermarkets do not provide advice, but may provide educational tools to help users reach a decision. They often provide discounts on fund charges, and have the advantage of making it easier to invest in a number of funds from different providers.

fund switching

The movement of assets in one mutual fund or unit trust to another within a range of funds with differing objectives, all managed by the same investment company.

See also: asset allocation, mutual fund, unit trust

fund value

The monetary value of a fund, calculated by adding up the value of its underlying assets. The price of units in a unit trust, for instance, is worked out from the value of all its holdings in other quoted companies, adding them together, and dividing the sum by the number of units issued.

See also: unit trust

fundamental analysis

An approach to investment that focuses on analysis of a company's financial and business strengths, and how its performance has been converted into share price movements in the past. Fundamental analysis is primarily concerned with information on variables such as turnover, profitability, assets, cash flow, earnings and dividends. Fundamental analysis is often contrasted with technical analysis that focuses less on the business performance than on pure share price movements and how they are influenced by market sentiment.

See also: technical analysis

Funded unapproved retirement benefits scheme

FURBS

A Funded Unapproved Retirement Benefit Scheme, is a trust with trustees who make investment decisions for the benefit of the member(s). The scheme is funded (contributions are paid into it) but unapproved (it does not qualify for certain tax exemptions and advantages available to approved pension schemes). Despite the lack of approved status, a FURBS is still recognised by HM Revenue and Customs (HMRC) as a retirement benefit scheme.

See also: pension plan

fungibility

Interchangeability usually resulting from standardisation. Futures and options contracts for the same commodity and delivery month are fungible due to their standardised specifications for quality, quantity, delivery date and delivery locations. Over-the-counter

products such as swaps and forwards are generally not fungible. New government bonds issues are often designed to be fungible with existing issues to increase the appeal and marketability of the bonds.

fungible

See 'fungibility'.

further advance

The raising of capital by a borrower from an existing lender. In the case of a mortgage, this might happen if the value of the borrower's property has increased, the borrower's salary has increased, or the borrower wants to have a higher mortgage. Lenders are happy to lend more money to the borrower provided the higher repayments can be afforded.

See also: mortgage

furthest month

The month of a futures or options contract that has the latest delivery date.

futures

See 'futures contract'.

futures commission merchant

FCM

In the US, an individual or organisation accepting orders to buy or sell futures contracts or futures options, and accepting payment for his services. FCMs must be registered with the Commodities and Futures Trading Commission.

futures contract

A legal agreement to make or take delivery of a specified instrument (for example, a commodity such as coffee or a financial instrument such as a bond, currency or share) at a fixed future date at a price determined at the time of dealing. Futures are a zero-sum game in the sense that the financial gain of one party equates to the loss of the other. In contrast to options, there is an obligation to complete the transaction. Futures contracts are forward contracts, meaning they represent a pledge to make a certain transaction at a future date. By making an offsetting trade, selling goods that had been bought in a previous contract, futures contracts can be closed.

Futures Industry Association

FIA

The futures industry's national trade association in the US representative of organisations that have an interest in the futures market. FIA has more than 180 corporate members, and estimates that its members are responsible for more than 80% of the customer business transacted on U.S. futures exchanges.

www.futuresindustry.org

Gg

G7, G8

A grouping of the world's leading industrial nations – US, Canada, UK, France, Germany, Italy and Japan. In recent years, Russia has joined the meetings, leading to the creation of the G8. There are also occasional meetings of the G3 and G24.

GAAP

Generally Accepted Accounting Principles are the rules, conventions and standards that set out accounting practices for US companies, established by the Financial Accounting Standard Board.

gain

The increase in the value of an asset that had been bought. More specifically, it is the amount chargeable to capital gains tax (CGT) from gains made on the disposal of an asset. In the case of stocks and shares, the gain is the difference between the proceeds of selling the shares and the amount paid for them, adjusted for indexation and allowing for transaction costs.

See also: capital gains tax, indexation, taper relief

gamma

The speed of change in an option or warrant's delta (the change in the price of an option for every one point move in the underlying asset) given a unit change in the [price of the] underlying asset. Calculated by dividing the delta by the change in the price of the underlying share.

See also: option, delta

gamma shares

A term previously given to the shares of smaller companies traded far less frequently on the London Stock Exchange than alpha and beta shares. These terms were replaced in January 1991.

See also: alpha shares, beta shares, normal market size

gap (price gap)

When the stock market (or the price of any individual stock) opens above or below the close on the previous day, this is known as a gap. This means that the trading ranges for two days will have no overlap. It can happen in the London stock market, for instance, when there is heavy trading in the US after the UK market has closed.

garnishee

The recipient (typically a bank) to whom a garnishee order has been delivered. A garnishee order is a court order instructing a bank that funds held on behalf of a debtor (the judgement debtor) should not be released until directed by the court. The order may also instruct the bank to pay a given sum to the judgement creditor (the person to whom a debt is owed by the judgement debtor) from these funds.

garnishee order

A court order instructing a garnishee (a bank) that funds held on behalf of a debtor (the judgement debtor) should not be released until directed by the court. The order may also instruct the bank to pay a given sum to the judgement creditor (the person to whom a debt is owed by the judgement debtor) from these funds.

See also: garnishee

GATT

See 'General Agreement on Tariffs and Trade'.

GDP, GNP

See 'gross domestic product' and 'gross national product'.

gearing

The most common use of the term 'gearing' is to describe the level of a company's net debt (net of cash or cash equivalents) compared with its equity capital, and usually it is expressed as a percentage. So a company with gearing of 60 per cent has levels of debt that are 60 per cent of its equity capital.

The gearing ratio shows how encumbered a company is with debt. Depending on the industry, a gearing ratio of 15% would be considered prudent while anything over 100% would be considered risky or 'highly geared'. 'Gearing' is also used in a related sense to refer to borrowings by an investment trust that boosts the return on capital and income via additional investment. When the trust is performing well shareholders enjoy an enhanced or 'geared profit'. However if the trust performs poorly then the loss is similarly exaggerated. Gearing can also refer to the ratio between a company's share price and its warrant price.

See also: investment trust, leverage, warrant

gearing of warrant

The degree of additional exposure gained by buying a warrant compared to buying its underlying asset. Gearing is calculated by dividing the asset price by the warrant price.

General Agreement on Tariffs and Trade

GATT

A trade agreement between a large number of countries, dating back to 1948, which was set up to improve trading worldwide and to work towards the reduction of tariff barriers. The encouragement of international trade is overseen by the World Trade Organisation that also administers global trade agreements and resolves disputes when they arise.

general lien

The legal right for a creditor to seize the assets, excluding land and property, of a debtor, known as the *lienee*, to satisfy an outstanding debt.

See also: creditors, debtor

general mortgage bond

In the US, this refers to a bond that is secured by a blanket mortgage on the issuing company's property, though it may be outranked by one or more other mortgages.

general obligation bond

A municipal bond whose interest and principal payments are supported by the full faith and credit of the issuing authority.

See also: full faith and credit

general personal equity plan

See 'personal equity plan'.

geometric average

An alternative measure of the mean from the more common arithmetic average. It is calculated by multiplying all the observations together and dividing by the *n*th root.

gift

A transfer of an asset such as property or money etc from one person to another where no payment of any kind is given by the receiving person to the donor. Transfers of this kind may be subject to inheritance tax if the value is above a certain amount and to capital gains tax in certain circumstances.

gift tax

In the US, a tax imposed by the federal government or state on the donor of a gift, above a certain limit, when a transfer of money or property passes from one individual to another. A parent or parents making gifts to children are allowed to make transfers up to a specified amount without paying tax. In the UK there is currently no gift tax in operation although there is a potential liability for inheritance tax when gifts are made.

See also: inheritance tax, potentially exempt transfer

gilt-edged market makers

GEMMs

See 'market maker'.

gilt-edged stock

gilts

A stock of high quality companies or countries. More specifically, gilts are fixed income or index-linked bonds issued by the UK Government. The purchaser of a gilt is lending the government money in return for regular interest payments and the promise that the nominal value of the gilt will be repaid (redeemed) on a specified later date. It is not necessary to hold a gilt until its redemption as, like shares, they are tradable instruments their prices move in line with supply and demand, and fluctuations in the main influences on the market such as future interest rates and inflation.

www.dmo.gov.uk

See also: bond, equity risk premium

Ginnie Mae

See 'Government National Mortgage Association'.

Girobank

Girobank was established in 1968 and was known then as National Girobank. It was set up by the Royal Mail and provided a public banking facility for people without bank accounts who could access their money in the large number of post offices around the country. Girobank merged with Alliance & Leicester in 2003. Some of the facilities once offered by Girobank are now provided through another government agency, National Savings and Investments.

Give as you earn

GAYE

The description used for tax-efficient schemes, managed by the Charities Aid Foundation, where a donation to a chosen charity is automatically deducted from an individual's pay by the employer.

Global Depositary Receipt

GDR

A negotiable certificate which represents ownership of a given number of a company's shares and which can be listed and traded independently from the underlying shares. It is most commonly used to make it easier and cheaper for investors in one country to invest in the shares of a company located in another country.

See also: American depositary receipt, Euro Depositary Receipt

global fund

A mutual fund that invests in securities in countries around the world. This is subtly different from an international fund that normally does not invest in the investments of the home country.

See also: emerging markets, mutual fund, security

go long

The purchase of a security, commodity or financial instrument (e.g. shares) in the belief that the price will increase. The purchaser hopes to sell the shares at a higher price than they were bought at and thus make a profit. It is the opposite of going short.

See also: go short

go public

See 'flotation' and 'going public'.

go short

See 'short selling' and 'go long'.

going private

The repurchase of all of a company's outstanding stock by the management, a private investor or a private equity firm. The management may be backed by a private equity firm in taking the company private, or new management may be put in. As a result of such an initiative, the company stops being publicly traded. The deals are sometimes described as MBOs (management buy-outs) or LBOs (leveraged buy-outs, referring to the high levels of debt often taken on by the purchaser).

going public

The process through which a company goes when it has decided to list its shares on a stock market. Prior to going public, the company must publish a prospectus describing its business, directors and its financial position in a form that meets strict guidelines so that potential investors are not misled

gold card

A plastic charge card or credit card that normally allows the holder higher spending limits than the standard card. Also loan facilities are sometimes available. People holding such a card are often required to be earning a minimum salary level.

See also: charge card, credit card

gold fix

The setting of the price of gold by a small group of London-based dealers. The fix is the fundamental worldwide price for deriving the prices of gold bullion and other gold-related contracts and products.

gold standard

A currency fixing regime used by many countries before the Second World War where parities were set in relation to gold and countries had to be able to exchange gold for their currency.

golden cross

In technical analysis, what happens when the short moving average price of a stock (say, its 20-day moving average) cuts above a longer moving av-

erage (say, its 50-day average). For chartists, this cross is a sign that sentiment in the market has turned in favour of the stock, especially if up to that point two moving averages have been moving roughly in parallel.

See also: dead cross, moving average

golden handcuffs

A financial incentive, often in the form of payments made over a period of years, given to an employee if the employer wishes to retain the individual.

golden share

A share of a company that confers sufficient voting rights so that the company is in effect protected from takeover in a hostile bid. The UK government, for instance, retained a golden share in some privatised businesses where it thought that their ownership was a matter of national interest.

Goldilocks economy

An economy whose growth is believed to be neither too 'hot' (i.e. too fast) or too 'cold' (too slow), but just right. The term was coined for the US economy in the mid- to late- 1990s. It is arguably an ideal state as it means the government does not have to use fiscal or monetary devices to artificially stimulate or restrain economic activity.

good till cancelled

GTC

An order to a broker to buy or sell shares at a specified price that remains valid until executed or cancelled by the client.

See also: broker, stockbroker

goodwill

The value of a business to a purchaser over and above its net asset value. It reflects the value of intangible assets such as reputation, brand name, good customer relations, high employee morale and other factors that improve the company's business. Acquired goodwill is normally given a value in a company's balance sheet. It used to be amortised over a period of time, but changes in accounting standards mean that it now remains unaltered, subject to an annual impairment test which may lead to a writedown in the carrying value.

See also: depreciation

Government National Mortgage Association

GNMA

The US government owned corporation that buys mortgages from lending institutions, securitises them and on-sells to investors. As it guarantees payment of interest and principal of the mortgage-backed securities they pay a slightly lower rate of interest than non-government-backed bonds. The corporation is nicknamed Ginnie Mae.

See also: municipal bond

government securities

Securities, most typically bonds, issued by a government to raise the funds to meet its public expenditure payments not covered by taxation and other revenues.

See also: gilt-edged stock

grace period

The period, normally 30 days, during which an insurance policy remains in force even though the premium has not been paid. Can also apply to the length of time that a lender will allow an interest payment to lapse for without penalty.

See also: insurance policy, premium

graduated payment mortgage

GPM

A mortgage scheme in which monthly payments commence at a lower level and increase over a period of a few years to a higher level which is subsequently maintained.

See also: mortgage

graduated pension

See 'National Insurance (NI) Basic Pension'.

graduated retirement benefit

See 'National Insurance (NI) Pension'.

granny bonds

In the UK, bonds issued by the government targeted at pensioners. National Savings Pensioners Guaranteed Income Bonds, also known as 'pensioners bonds' or 'granny bonds', can be bought by people aged 60 or over. They are similar to NS Income Bonds but the interest rate is fixed for either one, two or five years. Interest is gross and paid monthly.

See also: index linked, retail price index,

grant of probate

See 'probate'.

See also: executor, will

grantee

The recipient of a grant and a term, used by some assurance companies, as an alternative to assured.

See also: assured, life assurance

greenmail

A US term which describes the situation in which a takeover target buys back its own shares from a predator at a premium price, in return for the predator not pursuing a bid. The premium is the price to be paid to ensure that the raider ends the take-over attempt.

See also: City Code, takeover

grey knight

A company (or person) making an unwanted counter bid for another company, whose intentions are unclear.

See also: black knight, white knight

grey market

The unofficial trading of securities before their formal issue. A good example of a grey market is the spread betting that takes place before the launch of a new issue, as investors try to predict which way the price of the newly issued shares will go.

gross

The total amount before any deductions, particularly tax deductions. Can also refer to a dozen dozens, i.e. 144.

See also: deduction

gross domestic product

GDP

The value of all goods and services created within an economy in a given year, equal to total consumer and government spending, and investment plus the value of exports, minus the value of imports. It equals gross national product minus income from abroad. In most countries GDP figures are released quarterly. The figures can be in nominal or real, inflation adjusted, terms.

See also: gross national product

gross income

For a company, it is pre-tax net sales less the cost of sales, and is also called gross profit. In personal finances, it is the total income of a person before deductions. This for example could be a person's salary plus bonuses, plus benefits in kind (e.g. company car and medical insurance) plus income from shares etc.

See also: exclusion, deduction, net income, tax allowances

gross interest

Interest earned by deposits at banks and financial institutions, or on gilts etc. before deduction of tax. Interest charged on bank loans etc before any tax relief is taken into account.

gross margin

In a micro context, it is the difference between the selling price of an item and the purchase or manufacturing cost, expressed as a percentage of the selling price. For example, if it costs a company £6 to manufacture an item

and the selling price is £10, the gross margin is 40%. In corporate accounting, the gross margin of a business is its turnover, or gross income, less the cost of sales, divided by the turnover, also expressed as a percentage.

gross national product

GNP

The total value of all goods and services produced by a country. It is equal to GDP plus the income accruing to domestic residents as a result of investments abroad, minus the income earned in domestic markets accruing to foreigners abroad. Real growth in GNP measures the increase in output after making adjustments for inflation.

See also: gross domestic product

gross profit

The difference between the price at which a product or service is sold and the direct cost of making or providing it. What is included as a direct cost varies from industry to industry. In retailing, for instance, it is the difference between the amount the shop receives for the product and the cost of acquiring it, so it excludes raw material and labour costs. The gross profit margin is the gross profit as a percentage of turnover.

See also: net profit

gross rate

The interest rate earned on money placed on deposit with banks and financial institutions before deduction of tax. The interest rate charged to lenders by banks, mortgage providers and other lenders before any tax relief is taken into account.

See also: interest

gross redemption yield

See 'redemption yield'.

See also: bond, coupon

gross yield

The yield on a security before the deduction of tax. Yield is a measure of the return on an investment, through dividends or interest, compared with its price. The higher the yield, the greater the return you are making on an investment relative to its price.

See also: dividend yield

grossing up

UK shareholders receive dividends with a tax credit of 10%. This means that a notional 10% tax has already been paid by the company paying the dividend and the amount received as a shareholder is 'net' of that tax payment. But in order to calculate an individual tax liability on the income, which may be higher than 10%, it is necessary to 'gross up' the dividend - that is add back the tax deducted - and work out your tax liability from the gross figure.

ground rent

Rent payable by the owner of a leasehold property to the freehold owner.

See also: leasehold land

group insurance

Insurance provided for company employees by employers, or by any other group such as a trade association. Items covered may include health insurance, disability insurance and term

life insurance. This is attractive to the individuals as it would generally be more expensive for them to obtain such insurance individually.

See also: disability income insurance, health insurance, insurance, life assurance

Group of Seven

G7

The seven foremost industrial countries - US, Germany, Japan, United Kingdom, France, Canada and Italy. The main objectives are the discussions of economic and political issues of common interest to the group.

growth and income fund

A mutual fund or unit trust that aims to provide investors with a balance of income and capital growth.

See also: dividend, investment trust, mutual fund, unit trust

growth bond

A bond that gives capital growth at maturity. Most bonds return the capital originally invested having paid interest during the period of the loan.

See also: bond, capital growth, maturity

growth fund

A unit or investment fund that aims to achieve capital appreciation by investing in the stocks of so-called growth companies. Since growth companies often do not pay dividends, the income of the funds that invest in them is correspondingly low. Also known as maximum capital gains funds or capital appreciation funds.

See also: investment trust, income fund, unit trust

growth investing

The approach to investing which aims to invest in fast-growing companies which are rapidly increasing their turnover and profits, and where the expectation is to make money from a rising share price (rather than income).

See also: price earnings growth factor, price earnings ratio (P/E ratio)

growth stocks

Stocks whose earnings have grown at an above average rate over a number of years and which are expected to continue to grow at a high rate for some time to come. Growth stocks usually trade on higher P/E ratios than non-growth stocks, but their share prices also tend to be more volatile, which means they are inherently more risky. Because their primary attraction is capital growth, growth stock companies are often not expected to pay dividends. The reasoning is that the shareholders are better served by the money being invested back into the company.

See also: growth investing, price earnings growth factor, price earnings ratio (P/E ratio)

guarantee

A commitment made by a person to be answerable for the debts or liabilities of another. Can also be a document, supplied by a manufacturer, indicating that in the event of product failure it will be repaired or replaced. This usually involves a specified time period. Also known as a warranty.

See also: warranty

guaranteed death benefit

A life policy in which there is a minimum sum payable on the death of the life assured.

See also: life assurance

guaranteed income bond

GIB

A bond in which a single premium secures a guaranteed regular income until maturity at which time the original premium is returned.

See also: bond

guaranteed minimum pension

GMP

The minimum pension payable by a pension scheme in order that members may contract out of S2P (State Second Pension).

See also: State Second Pension

guaranteed minimum period

The period during which an annuity is paid irrespective of whether the annuitant dies during that period. If the annuitant lives beyond this period, payments continue until death. An annuity with such a guarantee could benefit people with dependants who require the income to continue after their death. This means that the sum of money paid for the annuity would not be wasted in the event of early death.

See also: annuity, annuitant

guaranteed renewable policy

An insurance policy that is guaranteed renewable provided premiums are paid. The policy conditions remain un-

changed although the insurers may review premium rates.

See also: insurance, insured

guaranteed sum assured

A term used by some life companies which refers to the minimum sum payable by a life policy either on the death of the life assured or on maturity.

See also: assured, life assurance, maturity

guaranteed trust

Some unit trusts offer a floor price and guarantee their bid price will not be allowed to fall below that level provides reassurance to the investors about the value of their investment. They also 'lock in' any growth achieved every few months. Even if the value of the trust's assets falls well below the floor, the bid price (the amount that an investor can sell his units for) will remain at the guaranteed level.

See also: unit trust

guarantor

A person who commits to guarantee an obligation, typically the debts of another. For example if an individual fails to meet his/her obligations on say hire purchase repayments, the guarantor will be obliged to make those repayments.

guilder shares (New York Shares)

Dutch regulations do not permit their companies to issue ADRs linked to active home-country shares, even if those shares are held by a depository bank,

which is the normal procedure. Instead, the appropriate quantity of underlying home-country shares are cancelled and the equivalent amount of New York Shares (guilder shares) are issued.

See also: American depositary receipt

Hh

haircut

The initial margin in a repo transaction, namely the difference between the market value and the value ascribed to collateral used in the transaction, generally expressed as a percentage of the market price. It is also used to describe realised investor losses in a debt restructuring.

Hang Seng Index

The benchmark indicator of stock market performance in Hong Kong based on 33 companies with an aggregate market capitalisation accounting for about 70% of the total market capitalisation of all eligible stocks listed on the Main Board of the Stock Exchange of Hong Kong (SEHK). The index is arithmetically calculated and weighted by market capitalisation. The Hang Seng composite index aims to cover about 90% of the market capitalisation. www.hsi.com.hk

See also: CAC 40, FTSE Actuaries All-Share Index, FTSE 100 Index

hard currency

A currency generally traded and exchanged throughout the world, such as the euro, US dollar, sterling and Swiss franc. It also indicates, in economics, a currency of a stable country with low

inflation and robust fiscal and monetary policies, which is unlikely to devalue significantly, i.e. is the opposite of a soft currency.

head and shoulders top

In technical analysis, a common chart formation in which a share price reaches a peak and declines, rises above its former peak and again declines and rises again but not to the second peak and then again declines. The first and third peaks are 'shoulders', while the second peak is the formation's 'head'. When the price falls from the right shoulder and breaks through the neckline the head and shoulders top formation has been confirmed and is regarded by technical analysts as a signal to sell the share.

See also: technical analysis

headroom check

A limit on how much money can be paid into a saving scheme. A headroom check may be carried out to make sure that these limits are abided by. Typically used for free-standing additional voluntary contribution saving schemes.

See also: additional voluntary contributions

health insurance

Generic term for insurance covering costs incurred due to illness, injury and disability.

See also: insurance

heavily indebted poor countries

HIPC

Countries targeted for financial assistance from the IMF and World Bank to help them reduce external debt.

heavy market

A market in which there are more sellers than buyers resulting in falling prices.

See also: bear, bear market

hedge

See 'hedging'.

hedge funds

A specialist leveraged investment fund that engages in trading and hedging strategies, frequently using leverage. It is managed 'aggressively' to get maximum rates of return by using derivatives and swaps, selling short and employing arbitrage techniques. Because of the high risk, and relative lack of regulation, investors in hedge funds have traditionally been drawn from the ranks of high-net-worth private investors or institutions, which have well diversified portfolios and can afford to take on the extra risk. They are now becoming more accessible for private investors in general. The rewards of hedge fund managers are usually heavily geared towards the performance of their funds.

hedge ratio

The number of futures or options contracts required to hedge/counteract the exposure in the underlying instrument (for example shares, commodities, etc).

See also: futures, hedging, option

hedging

A strategy employed in the futures, options and warrants markets to reduce risk by making a transaction in one market to protect against a loss in another. Traditionally a commodity producer (say, a cocoa grower) would agree to sell his goods at a stated price at a stated time in the future, and the user of the commodity (say, a chocolate manufacturer) would agree to buy them. By agreeing on a price, quantity and delivery date, they introduce certainty into their operations and reduce risk. For the producer, the risk would be that prices drop, and for the processor that they would rise. In the financial markets, options and warrants can be used to hedge a portfolio position. In the case where shares have been sold, for example, the purchase of equivalent call options (the option to buy shares) means that if the shares rise in price, a corresponding rise in the value of the option will offset the notional loss expected on the underlying shares.

See also: futures, underlying instrument

Her Majesty's Revenue & Customs (HMRC)

The government department responsible for collecting the bulk of UK tax revenue, as well as paying tax credits and child benefits, and strengthening the UK's frontiers. HMRC was formed

in April 2005, following the merger of the Inland Revenue and HM Customs and Excise Departments.

www.hmrc.gov.uk

hidden values

In the US, assets owned by a company but undervalued on the balance sheet and accordingly not reflected in the share price. Similar to hidden reserves in the UK.

See also: assets, balance sheet

high current income fund

A fund that aims to pay a high dividend to its shareholders by investing in bonds or other companies which themselves produce good income, either through high rates of interest or high dividend yields. The focus of such a fund is on income and does not seek capital appreciation. Of course, really high income can sometimes only come from accepting more risk in investments.

See also: dividend, income fund, junk bonds, shareholder

high grade security

A bond, issued by a highly-regarded country, company or municipal authority with a rating of AAA or AA.

See also: bond

high lending charge

A one-off insurance premium charged by lenders to cover themselves in high risk lending situations, usually where lending is over 90% of the property's value.

high-tech shares

The shares of companies participating in high technology fields such as computers, semiconductors and electronics, and research-intensive industries such as pharmaceuticals.

See also: growth stocks, growth investing, high-tech shares

high-yield debt

High-yield debt (non-investment grade or junk bond) is corporate debt, usually a bond, that has a higher yield (compared with investment grade debt) because of a high perceived credit risk (default risk). Debt is bought and sold in the form of bonds traded on markets where the price is determined by factors, including the interest rate and the degree of risk associated with the underlying assets.

high-yield stocks

Stocks whose dividend payouts are high as a proportion of their share price. This could either be because the sector in which they operate is out of favour in the market (hence depressing their share price), or it could be because the company itself is seen to be in difficulty. From an investment point of view, high-yielders have a superficial attraction in paying a high rate of income, but investors need to consider why the shares are cheap in relation to the income and whether there is a risk of serious capital loss on the value of the shares which would negate any gain on the income.

higher rate adjustment

An income tax coding allocated to people who pay tax at the higher rate. For

interest received from banks or dividends from shares etc, the higher rate adjustment enables the tax authorities to collect the additional tax due over and above the basic rate.

See also: higher rate tax, income tax

higher rate tax

The highest rate of income tax in the UK which in the 2007-2008 tax year was 40%. The rate is applied to each individual's taxable income, which is calculated as: income less reliefs less allowances. The higher rate is only applied to taxable income above a set threshold.

See also: higher rate adjustment, income tax

HIPC

See 'heavily indebted poor countries'.

hire purchase

A transaction in which the purchaser of goods pays an initial deposit and takes possession, paying subsequent instalments over a specified time after which ownership passes to the purchaser.

historic volatility

A measure of the price or yield changes of a security over a specific period of time. Defined as the standard deviation of the continuously compounded returns on the security.

See also: volatility

hit

Word used in the market meaning the acceptance of a bid or offer price.

hold-over relief

The practice of deferring capital gains tax liability on a gift by transferring the liability to the recipient. When the recipient eventually sells the gift, the full CGT bill will normally fall due then, and the recipient will have to pay it, not the donor. Normally a gift of, say, shares to anyone other than a spouse is deemed to have been made at fair market value and will be liable to capital gains tax if a gain has been made. This can be unattractive to the donor because he/she will not actually have made a gain, and will not have received any money if the asset was given freely. Holdover relief puts the tax burden on the recipient rather than the donor, and postpones the time when it has to be paid.

See also: capital gains tax, inheritance tax, potentially exempt transfer

holder

A person in possession of a negotiable instrument such as a bill of exchange or promissory note. That person may be the payee or the endorsee. Or a person who has made an opening purchase of an option and thus has acquired the rights to them.

See also: bill of exchange, negotiable instrument, option, promissory note

holder of record

The owner of securities whose name is registered by the issuing company or its transfer agent as from a particular date.

See also: security

holding company

A company that controls one or more other companies often by holding the majority of the subsidiaries' shares. Also known as the parent company.

holding period

The length of time an individual retains an investment. In the UK there is an annual capital gains tax (CGT) allowance after which a tapering of CGT applies. This allows a gradual reduction of tax rates over the longer term.

See also: capital gains tax, indexation, taper relief

holiday insurance

A policy that covers the insured and usually his/her family for the duration of their holiday. Items covered normally include travel delays, unavoidable cancellation, baggage loss and damage, loss of personal items including cash and credit cards, personal accident and medical expenses abroad etc.

See also: insured

home income plan

HIP

A plan, sometimes called equity release, enabling the (normally elderly) owner of a property to utilise its capital value to their advantage (by providing an income) whilst still remaining in residence. Typically a building society or insurance company provides a loan of up to 80% of the property value and this loan is used to purchase an annuity or joint life annuity in the case of joint owners. The annuity payments are used to pay interest on the loan and provided

the bulk of the loan is invested in this way tax relief can be claimed. (The remaining part of the loan can usually be taken in cash with no restrictions.) Thus after making interest payments net of tax relief there will be a surplus available to the owner or owners. Safe Home Income Plans (SHIP) is a self-regulatory body, formed in 1991, to promote fairer schemes after problems in the early days.

www.ship-ltd.org

See also: annuity, building society

home responsibilities protection

HRP

A scheme preserving an individual's rights to a basic state pension during periods when he/she is caring for children, an elderly relative or other dependants.

See also: basic pension

home reversion plan

See 'Home Income Plan'.

homeowners equity account

A credit line offered by banks and mortgage lenders that grants the homeowner the opportunity to borrow against the built-up equity in the property.

homeowners insurance

A form of property insurance that provides cover against such items as damage to the building, personal property, theft, personal liability etc.

See also: household insurance

horizontal spread

An options strategy that involves buying and selling contracts with the same strike price but different maturities. Also known as a calendar spread.

See also: calendar spread

hospital cash plan

An insurance policy that pays a specified amount to the insured in the event that he/she goes to hospital. This is usually to compensate for lost income.

hostile takeover (or bid)

A takeover bid by one company for another, in which the directors of the target company oppose the bid. Their opposition may be temporary – in effect, a negotiating ploy to encourage a better offer from the bidder – and hostile bids can turn ‘friendly’ after a period of public posturing. Some countries, and indeed some companies, are more accepting of hostile takeovers than others. American and British companies tend to consider them part of the cut and thrust of public status, while business leaders elsewhere consider them bad form even if they are unable to prevent them.

See also: takeover, white knight

house call

The notification to a client by a brokerage house that more funds are required to bring a margin account balance up to the required level.

See also: margin account

household insurance

Insurance covering the structure or contents of a house. This type of insurance now tends to include the option of cover for additional items such as legal expenses. Some companies offer no claims bonuses similar to those given by motor insurance companies.

See also: buildings insurance, contents insurance

housing starts

Economic data, usually released by a country’s official statisticians, showing the number of housing units that have been started over a given period. Used as a leading indicator of the economic outlook as it is thought that companies would only build new homes if people’s personal prospects were good enough to enable them to make the commitment.

human capital

The knowledge, skills and abilities that people have, enabling them to work and produce goods and services. Companies are increasingly being encouraged to report on their ‘human capital’.

hyperinflation

An economic condition in which prices increase extremely rapidly as a currency loses its value. In essence, inflation is out of control.

See also: deflation, inflation

hypothecation

The pledging of securities as collateral, for example, to secure the debit balance in a margin account. People will often pledge their property as security

against a loan and they do so without giving up possession or title to the property. In tax terms, hypothecation refers to a tax earmarked for a specific purpose as opposed to one going into general government funds.

See also: contracts for difference

IBRD

The International Bank for Reconstruction and Development, part of the World Bank, aims to reduce poverty in middle-income countries with poor credit records by promoting sustainable development through loans and guarantees, providing capital more readily than could be obtained in the market. The International Development Association (IDA) is the part of the World Bank that helps the earth's poorest countries.

www.worldbank.org

ICMA

See 'International Capital Market Association'.

IFA Association, AIFA

The Association of Independent Financial Advisors was formed in September 1994 by a merger of the National Federation of Independent Financial Advisers (NFIFA) and the financial services arm of the British Insurance and Investment Brokers Association (BIIBA). The association represents IFA firms covering about 70% of the market in discussions with regulators and policy makers.

www.aifa.net

See also: independent financial adviser

IDB

See 'interdealer broker'.

IFA Promotion

IFAP

An organisation established in 1989 to improve the image of Independent Financial Advisers (IFAs) and their work and to encourage consumers to seek independent financial advice.

www.unbiased.co.uk

See also: Financial Services Authority, independent financial adviser, Law Society, Personal Investment Authority, recognised professional body, self-regulatory organisation

IFC

The IFC (International Finance Corporation) is a private sector arm of the World Bank and has a mission to promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people's lives.

www.ifc.org

IFO

A German business climate index closely watched as a barometer of near-term economic conditions.

IIF

The Institute of International Finance (IIF) is a global association of financial institutions. Created in 1983 in response to the international debt crisis, the IIF evolved to meet the changing needs of the financial community. Members include most of the world's largest commercial banks and investment banks, as well as a growing number of insurance companies and investment management firms. It aims to support the financial industry in managing risks; in developing best practices and standards; and in advocating regulatory, financial and economic policies that are in the broad interest of our members and foster global financial stability.

www.iif.com

illiquid

Markets or products are illiquid, or lacking depth, if there is a shortage of buyers and sellers. It is the opposite of liquid and means it is difficult to know the true price of the security.

IMF

The International Monetary Fund is an agency of the United Nations comprising 184 countries, working to foster global monetary cooperation, secure financial stability (notably of exchange rates), facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty.

www.imf.org

immediate annuity

See 'annuity'.

immediate-or-cancel order

IOC

A type of futures or options order that gives the market one opportunity to take the other side of the trade. After being announced, the order will be either be partially or totally filled with any remaining balance immediately cancelled. The difference between fill-or-kill (FOK) orders and IOC orders is that an IOC order may be partially executed.

See also: fill or kill

impact day

The day on which the availability of a prospectus is advertised and a flotation is officially announced, along with the pricing of the shares. This comes at the end of an often long pre-flotation process involving the issuing company, its sponsor, its broker, reporting accountant, PR adviser and regulators.

See also: new issue

implied volatility

The volatility of the underlying instrument implied by the option's market price. It is a measure of how much the market thinks prices will move given a known option price, and is expressed as an annualised percentage.

See also: option

IMRO

The Investment Management Regulatory Organisation aimed to protect investors by setting and promoting

standards of “integrity, competence and solvency” for the regulated firms. It was established under the 1986 Financial Services Act and was subsumed into the FSA in 2001, producing its last annual report in 2000.

www.fsa.gov.uk

in-house

A banking term referring to the settlement of payments between accounts both held at the same branch.

in the money

Options or warrants with ‘positive intrinsic value’. In other words, a call option/warrant with an exercise price below the price of the underlying instrument, or a put option/warrant with an exercise price above the price of the underlying instrument. In either case they are said to be in the money.

See also: call option, exercise price, intrinsic value, put option, warrant

incapacity benefit

A state benefit payable after the expiry of state sickness benefit if a person is still unfit to work. This replaced invalidity benefit and carried a reduced level of benefit.

incentive stock option

A stock option that specifies a set number of shares at a specified option price extending over a given period, which is free of tax when granted and when exercised. If the share is subsequently sold after a certain period after either the grant date or the date of the transfer to an employee, a reduced capital gains tax liability on profits will apply.

income

Money received by an individual as a salary, or from investments between any two points in time. Cash deposits and bonds will provide income in the form of interest. Shares will, in most but not all cases, provide income in the form of twice-yearly dividends. This income is subject to income tax.

See also: income tax

income bond

A bond providing income over its life and at maturity the original investment is returned.

See also: bond, guaranteed income bond, maturity

income dividend

In the US, a distribution of interest or dividends to the shareholders of a mutual fund.

See also: mutual fund

income drawdown

A facility that allows a delay in buying an annuity if rates are low when retirement age is reached. Drawdown allows the purchase of an annuity to be postponed until a maximum age of 75, giving an income directly from the pension fund in the meantime.

See also: annuity

income endowment

An endowment plan that carries an option at maturity for the proceeds to be paid in the form of a regular income.

See also: endowment

income from property

Income received from property letting is subject to income tax. The amount taxable is the amount receivable in the tax year. If an owner-occupier or tenant rents out a room he may receive up to a certain annual income without incurring a tax liability. Income property is property owned to produce an income.

See also: income tax, tax year

income fund

A unit or investment trust, or other collective fund, that aims to pay a high dividend to its shareholders by investing in bonds or shares which themselves produce good income, either through high rates of interest or high dividend yields. The focus of such a fund is resolutely on income and it does not seek capital appreciation. Of course, really high income can sometimes only come from accepting more risk in investments.

See also: credit rating, growth fund, investment trust, unit trust

income limit for age related allowances

In the UK, people aged 65 to 74 are entitled to an additional personal tax allowance provided total earnings do not exceed a given amount. This allowance is further increased for people aged 75 and over. Also a married man, living with his wife where either person is over the age of 65, is entitled to an additional married couple's allowance provided his total earnings do not exceed that same given amount.

See also: earnings, tax allowances

income protection insurance

Also known as accident, sickness and unemployment cover, income protection insurance provides a regular income, up to retirement age, if you become unable to work as a result of accident, sickness or disability. The amount paid out is linked to your overall level of income.

income pure endowment

An endowment plan that carries an option at maturity for the proceeds to be paid in the form of a regular income. In the event of the policyholder's death before maturity no benefit is payable.

See also: endowment

income shares

The term can refer to shares bought in anticipation of an above average income being produced. Also referred to as high yield shares. This normally means that the investor has chosen shares in companies that have a history of paying consistently high dividends. There is no guarantee that the companies will continue to provide the same level of dividends in the future. The term also refers to those shares in a split capital investment trust which receive most or all of the trust's income. The other class of shares (capital shares) get the benefit of the trust's capital growth.

See also: capital shares, split capital investment trust

income stock

In the US, a reputable stock with a record of consistently high dividend payments to shareholders.

See also: dividend, dividend yield
1736

income tax

A compulsory tax on employment (salaries, wages, commissions) and investment (interest and dividends) income. It will be levied on both individuals and businesses. In most countries income tax is progressive on successive slices of income, so that the more you earn the higher the incremental rates of tax you pay. In the UK, everyone is allowed to make a certain amount of income, known as the 'personal allowance', before any tax is payable.

income tax allowances

See 'tax allowances'.

increasing basis

Cover goes up every year without any medical checks, and so do the premiums. This caters for people who need more cover as their income increases.

increasing life annuity

See 'escalating annuity'.

increasing term assurance

See 'term assurance'.

incubator

A facility designed to encourage entrepreneurship and minimise obstacles to new business formation and growth, particularly for high technology firms, by housing a number of fledgling enterprises that share services such as

meeting areas, secretarial and accounting services, financial and management counselling and word processing facilities.

indemnity

An agreement in which one person is answerable for compensating the losses of another. Indemnities are common features of many commercial contracts where one party is buying goods or a service from another, and wants to be sure that it will be compensated if the seller has misled it about something.

indemnity commission

Where a life company pays commission to an agent, the company does so on the proviso it will be entitled to take back some or all of the commission if the policy is cancelled within a given period. Also known as 'clawback'.

See also: clawback

indemnity insurance

A policy that covers the insured against the loss of an asset. The purpose of the insurance is to place the insured in exactly the same financial state after a loss as he was in before the loss occurred.

indenture

A written agreement (also called a deed of trust) between a bond issuer and a purchaser that includes, for example, a description of the bond, amount of the issue, working capital and redemption rights or privileges. More generally it can refer to a deed or written contract. The term derives from an old practice

of indenting the deed by cutting or tearing it in half with a jagged or indented edge so that the two parts could subsequently be matched by the grantor and the grantee.

independent financial adviser

IFA

A person qualified to give financial advice to clients on life assurance, pensions, funds, and other financial products, who is not tied to any one financial institution. A financial adviser may charge his clients a fee for his advice and, depending on his contract with product providers, may also receive a commission on the products that the client buys. In contrast, a company representative or tied agent is a financial adviser who is authorised to recommend only the products of the company he represents, so his advice is partial. A multi-tied agent offers products from a limited panel of providers.

index

In the stock market, an index is a device that measures changes in the prices of a basket of shares, and represents the changes using a single figure. The purpose is to give investors an easy way to see the general direction of the market or shares in the index. The FTSE 100, for example, is calculated by taking a weighted average of the share prices of the largest 100 companies on the London Stock Exchange. Launched in 1984 with a base figure of 1000, the FTSE is calculated continuously throughout the trading day. When the media report that 'FTSE climbed 37 points today' you don't know exactly which shares in the index climbed and which fell, but you get an immediate idea of the direction of the

market. Index funds base their investment decisions on tracking the companies in a particular index.

See also: FTSE 100 Index, fund

index fund

See 'tracker fund'.

index linked

The coupling of salaries, savings and pensions to the retail price index in order to make sure that the income from them keeps pace with inflation.

See also: gilt-edged stock, inflation, retail price index

index-linked bonds

Bonds that have coupons, or interest payments, linked to a retail or consumer price index.

index linked term assurance

Term assurance in which premiums are increased in line with the retail price index and hence the sum assured is increased.

See also: retail price index

index options

Call or put options on an index such as the Standard and Poor's 500 Index or the FTSE 100 Index. Index options are exercisable into cash rather than the underlying shares in the index. This differentiates them from equity options that are exercisable into the shares to which the option relates. Index options are traded on a number of exchanges including the Chicago Board Options Exchange in the US and Euronext.liffe in the UK.

See also: call option, equity options, London International Financial Futures and Options Exchange, put option

index tracking

A system whereby the fund manager tries to reproduce the performance of a given stock market index by buying shares that make up the index in the relevant proportions.

indexation

A technique to adjust income payments by means of a price index to keep up the purchasing power of the public after inflation. Indexation is also an allowance that reduces the taxable gain on an investment by increasing its base cost. It does this by applying a percentage uplift to the acquisition cost which increases according to the length of time that the investment has been held and the rates of inflation rates during those years.

See also: capital gains tax, taper relief

indirect taxation

Taxation that is levied in an indirect way rather than being charged directly on an individual's income or estate. A significant example is sales or value added tax (VAT) charged on goods and services and paid by consumers.

See also: direct taxation, value added tax

Individual Investor Express Delivery Service

IIEDS

A service for individual investors on NYSE that puts their orders at the head of any Tandem Systems Queue.

individual retirement account

IRA

In the US, a tax-deferred retirement savings account which may be set up by people in employment. IRA contributions are tax deductible irrespective of income if neither spouse is a member of a qualified plan or trust. A person who is a member of a qualified plan may still deduct IRA contributions providing adjusted gross income is below a certain level. Although savings grow tax free over the term of the plan, when pension benefits are taken, they will be liable to tax.

See also: adjusted gross income, qualified plan

individual savings account

ISA

An individual savings account (ISA) is a financial product available in the UK, designed for the purpose of investment and savings with a favourable tax status. ISAs were introduced on 6 April 1999, replacing the earlier Personal Equity Plans (PEPs) and Tax Exempt Special Savings Accounts (TESSAs), which continued to exist only for money already invested in them. ISAs were explicitly designed to appeal to a broader range of the population than these earlier products, which were sometimes claimed to be exclusively for the benefit of the middle class. ISAs are not an investment in their own right, but a tax-free wrapper in which investments can be sheltered. People over the age of 18 living in the UK can invest a maximum of £7,000 per year in each tax year. Investment may be made in two components: equities and cash with limits on how much can be put in each component.

See also: cat standard, maxi ISA, mini ISA, personal equity plan, tax exempt special savings account

individual turnover report

ITR

The London Stock Exchange's report provides historic turnover data for individual equity and fixed interest securities, in a report format, on a daily, monthly or yearly basis, covering any period from 1986.

industrial life assurance

A now virtually extinct assurance policy on the life of an individual where weekly or monthly premiums were regularly paid to the assurance company by way of their agent who collected directly from the policyholder's home. This method of collection originated in industrial areas as a means of saving for a future lump sum or protection against industrial accidents, etc.

See also: life assurance

inflation

The increase of prices in an economy over a period of time, usually annualised for comparative purposes. It is often thought to be caused by too much money chasing too few goods – an expansion in the money supply – or too strong rises in government spending. A small amount of inflation, say up to 2 or 3%, is thought to be acceptable but policy makers will normally respond to the threat of higher rates. In the UK, the benchmark of inflation is either the Retail Price Index (RPI) or the consumer price index (CPI). They are both measures of the cost of a 'basket of goods and services' representing the

average household's purchases. Inflation is a persistent threat to savers, partly because the erosive effect it has on savings is 'unseen'. In order to make 'real' gains on your investments, the first task is to make sure your returns beat the rate of inflation. Index-linked products, which pay an interest rate that keeps pace with inflation, are one solution.

See also: deflation, retail price index

inheritance tax

IHT

A tax on gifts made by an individual in the seven years before death, and on the value of assets when he or she dies. The UK tax rate in 2007-08 on the value of the estate at death was 40%, and applied to any amount over £300,000 to be paid by the deceased's estate. Certain types of gift are exempt from IHT. The most important of these are gifts between spouses either during life or on death, which are tax-free and gifts to charities.

See also: potentially exempt transfer

initial charge

A charge imposed by a fund management company to cover administrative and marketing costs, and to pay for any commission that had to be paid to an intermediary like an IFA. Also known as front end load.

See also: front end load, unit trust

initial margin

The payment investors have to make to a broker to trade on margin, commonly used in trading futures and contracts for difference. Initial margin is usually set at a percentage of the value of the

contracts being traded, for example, a trader might be required to make a deposit of 20% with the broker as initial margin. The attraction of margin trading for traders is that they are effectively using the broker's money to speculate, and if successful can get a higher return on investment than by only using their own money. The flip side is that margin trading magnifies losses as well as profits, so if the trader is unsuccessful it can be very risky.

See also: contracts for difference, margin account, variation margin

initial public offering

IPO

The first offering of a company's shares to the public known in the UK as a flotation. IPO was originally an American term but is now used across all world markets. The shares offered may be existing ones held privately, or the company may issue new shares to offer to the public. Companies choose to offer shares to the public to raise new capital for the company; to widen the shareholder base of the company; to give the shareholders a liquid market in which to trade their shares; achieve the publicity that a public listing brings. Companies might choose to list on the market by a private placing of shares to institutions rather than a public offering. There have been several online flotations sometimes referred to as EPOs (Electronic Public Offerings).

See also: flotation

Inland Revenue

See 'Her Majesty's Revenue & Customs'.

input tax

When a company that is registered for value added tax (VAT) buys goods or services from another supplier, VAT is charged and is currently 17.5% of the purchase cost. This is known as input tax. Similarly, when the company sells its own goods or services it charges its customers VAT at the same rate. This is output tax. Once a quarter, the company has to complete a VAT return, giving details of its input tax and output tax. The difference between output tax and input tax is payable to HM Revenue & Customs. If input tax is greater than output tax the company can claim back money from HMRC.

www.hmrc.gov.uk

See also: Her Majesty's Revenue & Customs, output tax, value added tax

insider dealing

Normally illegal share dealings by employees of a company where they have used confidential price-sensitive information for their own gain or the gain of their associates. The inside dealer does not have to work for the company for his dealing to be an offence. So a stockbroker, or merchant banker, who knows about an impending takeover offer who buys shares in the target company with the intention of making a profit, is guilty. If he gets a friend to buy the shares, he is still guilty.

See also: directors' dealings

insider information

Price-sensitive information about a company that has not yet been made public. People who use the information either to make a profit for themselves or for someone else are committing a criminal offence (insider dealing).

See also: directors' dealings, insider dealing

insolvency

The inability of a person or company to settle debts when they become payable or the point at which a company's liabilities exceed its assets.

Instinet

Instinet is a global agency broker founded in 1969 to launch the first electronic block-crossing capability for institutions. It develops trading technologies that connect portfolio managers and traders directly to equity markets around the world and provides other trading services.

Institute of Financial Planning

IFP

The UK professional body committed to the development of financial planning. The Institute was set up in 1986 and draws its members from accountancy, insurance, taxation, stock-broking, education and legal professions. It aims to promote the profession and practice of financial planning, increase public awareness of the need for financial planning, ensure professional standards through a Code of Ethics and screening of new members and encourage education in the theory and practice of financial planning.

www.financialplanning.org.uk

See also: financial planning

institutional investor

A financial institution, such as a pension fund, insurance fund or investment company that invests large

amounts of money in the stock, bond and other financial markets on behalf of its clients. Contrast with an individual or 'retail' investor investing his or her own money.

insurable interest

A term meaning that any person entering into an insurance contract must stand to lose financially following the loss or damage of an insured item, or an insured event. For example a person may insure his/her property and contents since a financial loss would be incurred if damage were to be sustained.

See also: insurance, insured

insurance

A contract in which payment of premiums covers the insured against something that may, or may not occur. Insurance is designed to protect the financial well-being of an individual, company or other entity in the case of unexpected loss. Some forms of insurance are required by law, while others are optional. For example, motor insurance covers the insured against accidents that may occur. In the UK insurance is differentiated from assurance (life assurance) that is protection against something that will inevitably occur.

See also: household insurance, life assurance, motor insurance

insurance broker

A person specialising in insurance matters and who gives advice to buyers on the subject as well as arranging cover that is most appropriate. Remuneration would normally be by way of commission from the insurer.

See also: insurer

insurance ombudsman

See ‘ombudsman’.

insurance policy

The document that specifies the details of cover of an insurance contract, such as term and what is covered, together with the premium payable.

See also: insured, insurance premium, insurer

insurance premium

The amount payable by the insured in return for indemnification against specified risks, often paid in instalments.

See also: insured

insurance premium tax

IPT

A tax imposed on most insurance premiums where the risk is located in the UK. The rates – currently 5% or 17% – are reviewed by HMRC.

See also: insurance, insurance premium

insured

A person or company acquiring insurance.

See also: insurance, insured

insurer

An authorised company that provides insurance.

See also: insurance, insured

intangible assets

Assets that are in non-physical form, that is, which cannot be seen. Examples are patents, goodwill, trademarks and copyrights.

See also: tangible assets

intellectual property

IP

IP treats certain intangible products similarly to physical things. In most countries, IP laws grant certain kinds of exclusive rights over these intangibles on the analogy of property rights, some expiring after a set period of time and others lasting indefinitely.

See also: real property

interbank clearing

The process of payment clearance between two banks.

See also: clearing

interbank market

Professional markets between banks, often referred to as the wholesale markets.

interbank rate

The interbank rate or London Inter-Bank Offer Rate (LIBOR) is the rate that the banks charge each other for loans and applies to very large loans borrowed for periods between one day and several years. Banks short of liquidity can borrow quickly from other banks, enabling them to avoid holding excessively large amounts of their asset base as liquid assets. LIBOR is officially fixed once a day by a small group of large London banks, but the rate changes throughout the day.

inter branch clearing

The process of payment clearance between two branches of the same bank.

See also: clearing

interdealer broker

IDB

Agent or intermediary who is paid a commission to bring buyers and sellers together. The broker's commission may be paid either by the initiator of the transaction or by both counterparts.

interest

The charge you pay if you borrow money, and the income you receive if you lend it or invest it in an income-producing bank account or in a fixed-income security like a bond or a gilt, usually expressed as a percentage per year. For example, borrowing £1,000 at an interest rate of 10% per year, gives interest payable of £100 per year. Loans are sometimes made at fixed rates of interest, and sometimes at variable rates.

See also: compound interest

interest bearing

The term describing securities that pay a given rate of interest in one or a series of payments over its life. Sometimes called coupon bearing.

interest cover

Compares the amount of interest paid by a company on its borrowings (net of any income from interest-bearing deposits) with its operating profit in the same period. It is calculated by dividing operating profits by net interest

payments. For example, a company that has operating profits of £4m and pays net interest of £1m has interest cover of 4. The ratio shows the impact of gearing on a company's profit and loss account. If the figure is low, a small reduction in operating profits, or a rise in the cost of borrowing, can wipe out pre-tax profits.

interest in possession

The legal right to receive income from, or occupy, trust property.

interest only mortgage

A mortgage where regular payments (usually monthly) only meet the interest requirements. The interest rate is usually variable and linked to prevailing rates but can be fixed for a given period. The capital amount outstanding remains approximately the same and the borrower will need to make additional provision for repaying this amount at the end of the term of the loan.

See also: interest rate, mortgage

interest payable

An accounting term which refers to the amount a company pays in the form of interest on cash borrowings. The figure for interest payable can be found in the balance sheet. Its opposite is 'interest receivable' – the amount a company receives as interest on its cash deposits.

interest rate

The percentage rate at which interest is charged on a loan or paid on savings etc, amounting to the cost of borrowing. It covers the lender for sacrificing

the immediate use of their money, the inflationary erosion of their buying power and any risk in lending.

interest rate futures

Futures contracts traded on fixed income securities such as government bonds, or based on the levels of specified (official) interest rates.

interest rate swap

IRS

An arrangement in which two parties agree to exchange interest rate flows (periodic interest payments), at agreed intervals, over an agreed period, but without any principal being paid. The most common and simple deal involves one party paying a fixed rate of interest and the other paying a floating rate. IRSs are used for hedging, speculation or arbitrage. The interest rates are paid on a specified principal amount called the notional principal.

See also: arbitrage, hedging

interest receivable

An accounting term referring to the amount of income a company receives in the form of interest payments on its cash. The figure for interest receivable can be found in the balance sheet. Its opposite is 'interest payable' – the amount a company pays on its borrowings.

interim

A term that means in the meantime.

See also: interim bonus, interim dividend

interim bonus

A bonus declared by life companies when maturity of a with-profits policy or death of the assured occurs between normal bonus declaration dates.

See also: maturity

interim dividend

The dividend – the distribution of company earnings to shareholders – declared part-way through the financial year, before annual earnings are established. Companies in the UK usually pay two dividends per year, the interim dividend and the final dividend. The interim dividend is usually the smaller of the two. In the USA, a dividend is usually paid quarterly.

See also: dividend, final dividend

interim results

The results reported by a company for the first six months of its financial year. In general, interim results are made public within three months of the end of the interim period.

See also: final results, interim dividend

Intermarket Surveillance Group

ISG

This organisation aims to provide a framework for sharing information and coordinating regulatory efforts among exchanges trading securities and related products to address potential intermarket manipulation and trading abuses. The ISG was created in 1983 by the major US securities exchanges in response to the growing need of marketplaces to share information regarding securities and related products to facilitate the conduct of routine markets.

Intermarket Trading System

ITS

ITS facilitates trades between members located in different markets. Through it, a member in any participating market may send orders to trade at the bid or offer on any other participating market. The ITS Plan governs the participation of the current nine member markets – American Stock Exchange, Boston Stock Exchange, Chicago Board Options Exchange, Chicago Stock Exchange, National Association of Securities Dealers, National Stock Exchange, New York Stock Exchange, Philadelphia Stock Exchange and Pacific Exchange. It is administered by the participating markets, and is filed with and approved by the Securities and Exchange Commission.

www.itsplan.com

intermediary

An agent, broker or financial institution that can give advice and act as a middle person between a company and a client conducting investment business.

See also: agent, financial institution, stockbroker

internal rate of return

IRR

A measure of the return on investment taking into account both the size and timing of cash flows; alternatively, the interest rate which, when used as the discount rate for a series of cash flows, gives a net present value of zero. To understand this, remember that £1 received in ten years' time is not worth as much as £1 received now because £1 received now can be invested for

ten years and compound into a higher amount.

See also: discounted cashflow, net present value

Internal Revenue Service

IRS

The US agency responsible for the collection of federal taxes including personal and corporate income taxes, excise and gift taxes.

www.irs.gov

International Accounting Standards Board

IASB

An independent, privately funded accounting standards-setter based in London, UK. It is committed to developing, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements. In addition, the IASB co-operates with national accounting standards-setters to achieve convergence in accounting standards around the world.

www.iasb.org

international bank account number

IBAN

An international standard for numbering bank accounts. Originally adopted by the European Committee for Bank Standardisation, the IBAN consists of a two-letter country code, followed by two check digits, and up to thirty alphanumeric characters for the domestic bank account number. Each country's

national banking community decides on the length of the accounts in that country, but the length must be fixed for any given country.

International Capital Market Association

ICMA

The ICMA was formed in July 2005 by the merger of the International Securities Market Association (ISMA) and the International Primary Market Association (IPMA) to create an organisation with a broad franchise to represent the interests of the investment banking industry in maintaining and developing an efficient and cost-effective international market for capital.

www.icma-group.org

international fund

A fund with a portfolio comprising a range of securities from markets around the world.

See also: emerging markets, mutual fund

International Monetary Fund

See 'IMF'.

International Organization of Securities Commissions

IOSCO

In the US, this organisation encourages co-operative policies on market regulation, surveillance and enforcement at the domestic and international levels in order to maintain just and efficient securities markets.

www.iosco.org

International Petroleum Exchange

IPE

Once Europe's leading energy futures and options exchange and the second largest in the world, IPE was founded in 1980. In 2001, the IPE became part of the US company Intercontinental Exchanges (ICE), the world's leading electronic marketplace for energy futures. Since the abolition of the open outcry system, the contracts have been traded under the brand name 'ICE Futures'.

www.theice.com

See also: Financial Services Authority, futures, London Clearing House, option, recognised investment exchange

international securities identification number

ISIN

International code for a listed security.

See also: exchange price input computer code

International Securities Lending Association

ISLA

A trade association established in 1989 to represent the interests of the securities lending industry. ISLA assists in the orderly, efficient and competitive development of the international securities lending market, working closely with regulators. ISLA has more than 50 members comprising insurance companies, pension funds, asset managers, banks and custodians representing more than 4,000 clients.

www.isla.co.uk

International Securities Market Association

ISMA

ISMA was created in 1991 when the Association of International Bond Dealers (AIBD) changed its name. The success of the international capital market had been threatened in its early days by the limited scope of communications facilities, coupled with a shortage of experienced back office staff. By the late 1960s, the market found itself unable to cope with the increasing volume of primary issuance and secondary market activity, a backlog of failed or late deliveries of securities and a lack of standard settlement procedures. In 1969, a group of senior bond dealers representing banks and securities houses from the markets' principal financial centres formed a new association, the AIBD, which oversaw the formation of rules and recommendations governing issuance, trading and settlement in the market.

International Swap and Derivatives Association

ISDA

ISDA represents participants in the privately negotiated derivatives industry and is the largest global financial trade association, by number of member firms. ISDA was chartered in 1985, and has around 700 member institutions from 50 countries. It tries to identify and reduce the sources of risk in the derivatives and risk management business.

www.isda.org

internet banking

A facility provided by banks enabling customers to conduct banking transac-

tions through their personal computer and telephone line, linked via a modem. This system allows instant access to bank balances and the provision for transferring funds.

interpolation

The process of determining a figure or rate that lies between other known data.

intestacy

See 'intestate'.

intestate

The situation that exists when a person dies without leaving a valid will. The person is then said to have died intestate.

See also: will

intraday

A term meaning 'within the day' and referring to stock prices. The intraday price can be higher or lower than the day's opening and closing price. An intraday chart plots a stock's price and/or volume on a minute-by-minute basis.

intrinsic value

An expression used in options and warrants trading which indicates the difference between the exercise price of the option/warrant and current price of the underlying instrument (shares, an index, commodity, etc). As such it shows how much the options or warrants would be worth if exercised immediately. If it is 'in the money' it has intrinsic value. For value investors, intrinsic value has a slightly different

meaning. It is an estimate of the true worth of a company based on an analysis of its current and projected future earnings and how that relates to its share price.

See also: call option, exercise price, in the money, out of the money, time value, underlying instrument, warrant

introducing broker

IB

An individual or firm who can perform all the functions of a broker, such as soliciting or accepting orders for the purchase or sale of any commodity for future delivery on an exchange, except one. An introducing broker is not permitted to accept money, securities, or property from a customer.

invalidity benefit

A former state benefit payable after the expiry of state sickness benefit if a person was still unfit to work. This benefit was replaced by incapacity benefit in April 1995.

inventory

A company's finished goods, stored for future sale, work in progress and raw materials.

See also: assets

inverse floater

An asset, such as a mortgage-backed bond, paying an adjustable interest rate that rises or falls in the opposite direction of the movement of general market interest rates.

inverted yield curve

A situation where the yields on short-term instruments are higher than those on long-term securities. This is a reversal of the traditional pattern, the normal yield curve, where long-term rates are higher to reflect the risk of holding securities for a longer time. The inversion often arises due to a glut of short-dated paper or a shortage, or feared shortage, of longer term paper. It could also reflect expectations that inflation will be lower in the future. Also called a negative yield curve.

investment

In general, the outlay of a sum of money that is to be used in such a way that a profit or increase in capital may be expected. Examples might include the buying of shares in individual companies or units in collective funds or the placing of money with banks and other financial institutions in order to earn interest. In the UK, the Financial Services Act 1986 defined investments to include shares, debentures and other securities such as government securities, certain options and warrants, unit trusts and other forms of collective investment schemes, futures contracts and some long-term life insurance contracts.

See also: Financial Services Act 1986, mutual fund, ordinary shares, unit trust

investment bank

A label for banks that specialise in financial market activities such as raising funds for companies by issuing bonds and equities, rather than lending activity or money transmission. The traditional, though now less used, European equivalent of this American term is 'merchant bank'.

investment bond

A unit linked single premium whole life assurance policy. Part of the premium gives life cover whilst the balance is invested in unitised funds. Under some circumstances, since the bond is a life policy, certain tax advantages may be enjoyed. For example if the capital and annual interest are reinvested in full, there is no immediate liability to higher rate tax. If the proceeds of the bond are subsequently taken when a former higher rate taxpayer has become a basic rate payer, there is no higher rate tax liability.

See also: life assurance, unit linked policy

investment business

The Financial Services Act 1986 defined investment business to include dealing, arranging deals in, managing and advising on investments in addition to the setting up and operation of collective investment schemes.

See also: Financial Services Act 1986, investment

investment club

A group of individuals who combine their capital and invest it collectively. The advantage of these clubs is that members' funds are invested in a range of securities thus reducing risk and fees. There are also educational advantages. In the UK, one driving force behind the investment club movement is ProShare.

www.proshareclubs.co.uk

See also: ProShare

investment company

A company that invests the funds of small private investors in a range of securities, mainly other companies. This enables fund shareholders to partake in ownership of a diversified portfolio of shares. Investment companies are classified as either open end (mutual fund) or closed end (investment trust).

See also: closed end fund, investment trust, mutual fund, open-end fund

investment company with variable capital

ICVC

An open-ended collective investment vehicle, similar to a unit trust. As with unit trusts, the money invested by savers is pooled, and then invested in the markets by professional fund managers appointed by the ICVC. The advantage to savers is that by putting their savings together with savings of other individuals, they get the benefits of diversification, and also of professional fund management. The difference between an ICVC and a unit trust is that an ICVC is a company rather than a trust. If you put savings into it, you have shares, not units.

See also: investment trust

investment grade

A credit rating given to a government or corporate bond that indicates that the agency giving the rating (for example, Standard & Poor's, Moody's or Fitch) thinks the issuer has strong creditworthiness and is unlikely to default. The grades used by two of the leading agencies are as follows: Moody's AAA / S&P AAA for the highest quality, lowest risk bonds, down to Moody's

Baa / S&P BBB for quality bonds with an adequate capacity to pay interest and principal but which are more vulnerable to adverse economic conditions. All those at Baa/BBB or above are adjudged 'investment grade'.

See also: bond, credit reference agency, rating

investment income

Income, paid from an investment, such as dividends and interest, and rental income. The income might be taxable or tax-exempt.

See also: dividend, income, interest

Investment Management Regulatory Organisation

See 'IMRO'.

investment ombudsman

See 'ombudsman'.

investment trust

A company quoted on the London Stock Exchange that invests its shareholders' funds in the shares of other companies, known as closed-end publicly quoted funds in the US. They enable private investors with limited funds to get diversified share ownership without incurring heavy dealing costs and enable investors to get exposure to markets that they may not be able to reach themselves (e.g. to emerging countries). Unlike unit trusts, investment trusts are closed end funds. That is, there is a fixed number of shares in circulation, and the price of those shares is determined like other quoted shares - by supply and demand.

See also: closed end fund, discount, exchange traded fund, net asset value, open ended investment company premium

Investors Compensation Scheme

ICS

A compensation scheme for investors, with operating rules set by the Financial Services Authority (FSA), which was replaced by the Financial Services Compensation Scheme (FSCS) in December 2001.

See also: central register, Financial Services Authority, Financial Services Compensation Scheme, recognised professional body

invisibles

Invisibles, or invisible income, are international transactions in services, as opposed to goods, such as shipping, insurance, banking and tourism. They form part of a country's current account.

invoice

A document, issued by a person or company, indicating to the recipient the amount of money owed to that person or company for goods and/or services supplied. When a number of transactions occur during a month between companies, it is usual for a summary of invoices to be sent on a statement at the end of the month for overall settlement.

IPO

See 'initial public offering'.

iron butterfly

An option strategy with limited risk and limited profit potential that involves both a long (or short) straddle, and a short (or long) combination.

See also: combination, straddle

irrational exuberance

A phrase used by ex-Federal Reserve Board Chairman Alan Greenspan in a speech given in December 1996 during a stock market boom. The phrase was interpreted by financial pundits as a typically cryptic warning that the market might be overvalued. In the event, the bull market ran for another four years.

irredeemable securities

Securities, such as some debentures (perpetual debentures) and certain government loan stock (Consols or War Loan in the UK) that do not have a redemption date. That is, there is no date specified for repayment of capital.

See also: Consols, debenture, redeemable, security

ISLA

See 'International Securities Lending Association'.

Islamic banking

Islamic banking refers to a system of banking that is consistent with Islamic law, or Sharia, and guided by Islamic economics. In particular, Islamic law prohibits the collection of interest. One form of the argument against interest is that money is not a good and that profit should be earned on goods and services only, not on control of money itself. Is-

lamic law does allow a seller to resell an item at a higher price than it was bought for, as long as there are clearly two transactions.

ISMA

See 'International Securities Market Association'.

issue

The number of securities (shares or bonds) of a company or government entity on sale to the public at a given time.

See also: authorised share capital

issue price

The price at which a company's shares are offered to the market for the first time, which might be at par or at a premium or discount. When they begin to be traded, the market price may be above or below the issue price.

See also: initial public offering, market price, new issue

issued share capital

The amount of authorised share capital in a company that shareholders have actually subscribed to own.

See also: authorised share capital, new issue

issuer

A company or public sector entity that has shares, bonds or other securities listed on a stock exchange.

See also: new issue

issuing house

An old term for a financial institution, such as a merchant or investment bank, that provides its services to launch the shares of new companies on a stock exchange. It also ensures that the listing of such issues complies with exchange, or listing, regulations.

See also: financial institution, merchant bank, new issue

Japanese candlestick chart

A charting technique in technical analysis that, among other things, indicates the range of a day's prices, the opening and closing prices and whether the market moved up or down during the trading session. Developed in Japan in the 1600-1700s for predicting changes in the price of rice.

JGB

The Japanese government bond market – the second largest Treasury bond market in the world.

jobber

A dealer in shares prior to the UK market reform event known as Big Bang in October 1986. Jobbers dealt with investors only via stockbrokers who advised their clients on share transactions. After Big Bang, jobbers were replaced by market makers.

See also: Big Bang, market maker

joint account

Typically a bank or brokerage account in the names of two (or more) people. Arrangements can be made such that either individual or all signatures are required when drawing cheques.

joint and several liability

An undertaking by a group of two or more people to be responsible, either individually or jointly, for any liability which may exist after any member or members have failed to meet their obligations. For example if a group of four people enter into a joint and several liability on a bank loan, then in the event of two of the members reneging on their obligations the remaining two members become fully responsible for the repayment of the loan.

joint liability

The legal liability of two or more people for claims against or debts incurred by them jointly. If three people have joint liability and are indebted to another party, they may only be sued as a group and not individually.

joint life and survivor annuity

Income usually relevant to two people (for example man and wife) that continues until the death of the second person.

joint life annuity

Income usually relevant to two people (for example man and wife) that con-

tinues until the death of the first person only.

See also: annuity

joint life assurance

An assurance policy usually taken out on two lives, typically husband and wife. Under this type of policy, the sum assured is payable at the event of the first death.

See also: sum assured

joint ownership

Equal ownership of property by two or more people. In the event of the death of one of the owners, title passes to the survivor (or survivors in equal amounts).

joint tax return

A tax return completed and signed by two people, usually a husband and wife. They have equal responsibility for taxes due. Filing a joint tax return can result in lower taxes than filing individually.

See also: tax return

joint tenants

Two or more people owning property. In the event of the death of one of the tenants, the property passes to the survivor(s).

judgement

A ruling by a court of law. An example is an ordering from a court to one person to settle a debt to another.

junk bonds

Bonds offering relatively high rates of interest but with correspondingly higher risk attached to the capital. They carry a credit rating of BB and below. Junk bonds fell into disrepute in the late 1980s but became popular again as 'high yield bonds'.

See also: interest

Kk

kaffirs

An old London Stock Exchange term for South African shares, typically gold mining companies.

See also: London Stock Exchange

kangaroos

A term for Australian shares with an emphasis on mining, tobacco and land companies.

kappa

A measure of the rate of change in an option's theoretical value for a one-unit change in the volatility assumption.

See also: volatility

keogh pension plan

In the US, a tax deferred retirement savings plan for the self-employed. Contributions are based on a percentage of earned income and are tax deductible. Investment growth is tax deferred until the withdrawal of capital.

See also: earned income

kerb market

A term to describe trading of a security outside official market hours, derived from a time when deals might have

been made on the kerb outside an exchange.

keyman/keywoman insurance

An insurance policy taken out on the life of a company executive or senior employee whose death would cause significant loss to the company. In the event of such a death the proceeds of the policy would be payable to the company.

kick back

An illegal payment made secretly to someone in order to ensure a contract or sale is awarded to a particular company.

kicker

An added feature of a debt obligation, such as a warrant, designed to enhance marketability.

kiddie tax

In the US, a tax imposed on the investment income of children under the age of 14 where such income exceeds a certain level. The tax level is at the parents' highest rate.

See also: investment income

knock for knock agreement

Although it rarely applies nowadays, this is a motor insurance term describing an agreement between insurance companies where each pays the claims of its own client following an accident. This principle applies irrespective of blame and seeks to save time and expense. One of the parties involved in such circumstances may, however, seek to sue the other and if successful may claim from the other's insurer.

See also: motor insurance

knockout option

An option that is knocked out or nullified when the underlying instrument reaches a certain price.

know your client

The ethical principle relating to broker dealers and financial advisers that all reasonable steps have been taken to gather sufficient relevant financial and personal information regarding the customer and that subsequent investment recommendations will take full account of that information.

See also: financial adviser, stockbroker

Krugerrand

A coin minted in South Africa containing one ounce of pure gold and originally intended as an investment item.

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 realisation.

laddering

The allocation of shares in an IPO to subscribers who agree to buy more of an issue at a higher price once the issue is public.

See also: new issue

ladder option

An option on which the strike price can be raised to a higher level when the original strike price is reached or overtaken by the spot price.

See also: strike price

lagging indicators

Economic indicators that follow the trends that are already apparent in the broader economy, including, for example, many labour market series. They are in contrast to leading indicators, such as sentiment surveys, housing starts or investment orders, which tend to predict changes in the economy, or coincident indicators.

lambda

A measurement of the leverage of an option, showing the relationship between a percentage change in the price of the underlying instrument and a percentage change in the option premium.

land value tax

A tax that charges each landholder a portion of the assessed site-only value of unimproved land in their possession. The tax is said to be justified for economic reasons because, if it is implemented properly, it distorts markets and the economy less than other taxes.

landlord

A property owner who rents property to another party called a tenant.

See also: tenancy agreement, tenant

lapse

In insurance terminology, a policy is deemed to have lapsed when the policyholder fails to pay the renewal premiums. Also, it may be that the insurers do not invite renewal. A takeover offer may also lapse if insufficient acceptances are received.

See also: insured, insurer

lapsed option

The expiry of an option without being exercised by the holder. In the UK this is known as abandonment.

See also: expiry date, option

large cap

One of a trio of terms in common use, the others being 'small cap' and 'mid cap' referring to market capitalisation of firms. While the thresholds are variable, the phrase large caps refers to the very largest companies with the highest market capitalisations, so companies in the FTSE 100 would certainly be large caps. In some markets, large caps might be companies valued at more than \$1bn.

last notice day

The final day on which notices of intent to deliver on futures contracts may be issued.

last trading day

An expression used in futures and options trading which refers to the last day for trading in a contract for a particular delivery or expiry month. Any outstanding at the end of the last trading day must be settled by asset delivery or cash payment.

See also: delivery, expiry date, futures, option

late charge

A charge imposed by a lender on a borrower when the borrower fails to make payment on the due date.

See also: lender

late reported trade

A term used by a stock exchange to denote that a trade was not reported in accordance with the exchange's rules on trade reporting.

See also: London Stock Exchange

late trading

Late trading, or 'after-hours', trading involves placing orders for shares after the official market close.

laundering

The covert manipulation of money often obtained in a wrongful manner, for example theft, drug trading or gambling, so as to seem to have originated from a lawful source. An example is to pass the unlawful money through a chain of overseas banks and subsequently transfer it back to the country where it will be spent.

Law Society

The regulatory and representative body for solicitors in England and Wales. Its aims and objectives are defined in the 1845 Royal Charter as having a responsibility to promote 'professional improvement and facilitate the acquisition of legal knowledge'. The primary responsibility is to train and support solicitors to ensure they 'offer access to justice for all'. Also to enhance the reputation of the legal system by developing and maintaining standards in training and continuing education, admission of solicitors, professional ethics and investigation of complaints.

www.lawsociety.org.uk

LBMA

See 'London Bullion Market Association'.

LBO

See 'leveraged buyout'.

LDC

Less (or lesser) developed countries – a term to describe countries still primarily dependent on agriculture, now largely supplanted in financial circles by the term emerging markets.

lead manager

The institution awarded the mandate by a client/borrower to raise money via a bond or equity issue. Sometimes called the underwriter, it is responsible for the liquidity of the issued stock, syndication, underwriting and distribution of the deal.

leading indicators

Economic indicators which tend to predict changes in the economy, such as sentiment surveys, housing starts or investment orders.

lease

A contract in which the legal owner of property or other asset agrees to another person using that property or asset in return for a regular specified payment (known as rent) over a set term. In addition to buildings, other items such as cars and computers are often leased in order to avoid capital costs in the running of a business.

See also: rent

lease back

A situation whereby a property is sold by its owner to another person or company on condition that the purchaser leases the property back to the original owner for an agreed rent over a set term. This enables the original owner to raise capital that can be used for

other purposes.

leasehold land

Leasehold is a form of property tenure where one party buys the right to occupy land or a building for a given length of time. A lease is a legal estate leasehold that can be bought and sold on the open market and differs from a tenancy where a property is let on a periodic basis such as weekly or monthly. At the expiry of the term the land reverts back to the owner.

See also: freehold, lease

ledger

A book in which the accounts of a business are kept. In the UK the main ledgers operating within a business are the nominal ledger, the sales ledger and the purchase ledger. The nominal ledger contains the nominal accounts that list revenue and operating expenses (for example building costs, vehicles, etc.) and the real accounts which detail the company's assets and capital. The sales ledger contains the sales accounts of customers and the purchase ledger contains the purchase accounts of suppliers. The sales accounts and purchase accounts are also known as personal accounts.

See also: assets, capital, nominal ledger, nominal account, operating costs, purchase ledger revenue account, sales ledger

leg

A term describing one side of a position with two or more sides. When a trader legs into a spread, they establish one side first, hoping for a favourable price movement so the other side can

be executed at a better price. This is, of course, a higher-risk method of establishing a spread position.

legacy

Another term for bequest, that is, the making of a gift by will. There are three main types of legacy: pecuniary legacy – a gift of a fixed sum of money left for example to an individual or a charity; a specific legacy – a gift of a specific item (such as a set of books) left for example to a friend; a residuary legacy – a gift consisting of the residue of an estate after all other conditions of the will have been met, or part of such residue.

See also: inheritance tax, pecuniary legacy, residuary legacy, specific legacy

legal expenses insurance

Insurance, taken out by individuals or companies, for protection against defending civil actions brought about by other individuals or companies or alternatively to pursue them, where legal expenses (for example lawyer's fees) will be incurred.

legal list

A list of approved securities in which institutions such as savings banks, life insurance companies and pension funds may invest.

legal tender

Money that is legally valid and must be accepted for the payment of debts when offered.

lend

To grant the temporary use of something with the understanding that it will be returned. Lend – past tense lent – is the verb, and loan is the noun.

lender

A person or company that offers to lend money to a borrower for a given period of time. The borrower is obliged to repay the loan either by instalments or single payment together with specified interest.

lender of last resort

A prime function of a country's central bank – to lend money to troubled financial institutions to maintain confidence in the financial system. In the US the lender of last resort is the Federal Reserve Bank and in the UK the Bank of England fulfils this role.

See also: Bank of England, Federal Reserve System

lending margin

A fixed spread that borrowers agree to pay above an agreed base rate for calculating interest payable, for example, 2% above the official base/repo rate.

lessee

A person to whom a lease is granted, known as a tenant.

See also: lease, tenant

lessor

A person who grants a lease, known as a landlord.

See also: landlord, lease, tenant

letter of credit

A document issued by a financial institution on behalf of a buyer stating the amount of credit the buyer has available, and that the institution will honour drafts up to that amount written by the buyer.

letter of renunciation

In a rights issue of shares, a letter of renunciation is the form attached to an allotment letter that the holder completes should he wish to transfer entitlement to another person or to renounce his rights absolutely.

See also: allotment notice/letter, rights issue

letter of wishes

See 'memorandum of wishes'.

See also: executor, testator, will

letters of administration

An order made by the court empowering the administrator to settle the affairs of a deceased person in accordance with his/her will where an executor has not been named or has predeceased (or fails to act for some other reason) and similarly when a person has died intestate that is, a deceased person who has failed to make a will.

See also: administrator (feminine form administratrix), executor, will

level 2

Level 2 is the term given to enhanced market information that was once only available to the professional investment market, but which is now avail-

able to private investors through some websites. Level 1 screens just show Bid/Offer/Volume information but do not show how the prices are arrived at. Level 2 screens provide much more information about the stock, including details of the current bid and offers of individual market makers.

level annuity

See 'annuity'.

level basis

Fixed premiums for a fixed number of years, and a full payout on a claim at any point. This is often the choice for family protection and "interest-only" mortgages.

level term insurance

See 'life assurance'.

leverage

The use of borrowed funds at a fixed rate of interest in an effort to boost the rate of return from an investment. Increased leverage also causes the risk on an investment to increase. In the US, the ratio of a company's long-term debt, typically bonds and preferred stock, to its equity in its capital structure. The greater the long-term debt, the greater the leverage.

See also: gearing, long-term debt

leverage on a warrant

A measure of 'true gearing' that measures how much more a warrant will move in percentage terms against the underlying asset. Calculated by multi-

plying the delta by gearing. Also known as elasticity, or omega.

See also: delta, gearing of warrant

leveraged buyout

LBO

The takeover of a company by investors who use the company's own assets as collateral to raise the money that finances the bid. Normally the loans are then repaid either from the company's cash flow, or by selling some of its assets.

See also: asset stripping, takeover

liabilities

The debts of a person or company.

See also: contingent liabilities, liabilities, long-term liabilities

liability insurance

Insurance against legal liability to pay compensation and court costs where the insured has been found negligent in respect of injuries sustained by another person or damage to his/her property.

See also: insured, insurer

liberty dollar

The liberty dollar, found in the US, is a legal private currency but not legal tender. It is issued by NORFED, which is a partial acronym for 'National Organization for the Repeal of the Federal Reserve and the Internal Revenue Service', described as a non-profit company (based in Indiana) founded to promote the liberty dollar.

Libid

The London Interbank Bid Rate – the rate of interest at which banks take deposits from each other.

Libor

See 'London Inter Bank Offered Rate'.

lien

The right of an individual to take possession of the goods of another until the latter fulfils his/her obligations such as the payment of an outstanding debt. A lien gives the lienholder the right to sell the property to satisfy the debt if it is not otherwise paid.

life assurance

An insurance policy that, in return for the payment of regular premiums, pays a lump sum on the death of the insured. In the case of policies limited to investments which have a cash value, in addition to life cover, a savings element provides benefits which are payable before death. In the UK, endowment assurance provides life cover or a maturity value after a specified term, whichever is the sooner.

See also: endowment assurance, insurance, insured

life assurance premium relief

LAPR

A tax relief on the premiums paid into long-term insurance policies lasting for more than 10 years. Abolished in 1984.

life of another

A life assurance policy taken out on the life of another person by the policyholder. For example a man may take out a life assurance policy (where he is the policyholder that is, the assured) on the life of his wife (the life assured) in order to cover various expenditures (for example a nanny for children) should the death of his wife occur.

See also: assured, life assurance

lifelong individual savings account

LISA

See 'individual savings account'.

LIFFE

The London International Financial Futures and Options Exchange acquired by Euronext at the beginning of 2002. LIFFE was established in 1982, following the removal of foreign exchange controls in the UK. Originally focusing on foreign exchange and interest rate products, LIFFE expanded into a wide range of derivatives, including short-term interest rates (STIRs), bonds, swaps, equities and commodities, through a merger (in 1992) with the London Traded Options Market (LTOM) and (in 1996) with the London Commodity Exchange (LCE). Trading on LIFFE was originally conducted by 'open outcry' with traders meeting in the Exchange building to transact their business, with each product in a designated area or 'pit', prior to becoming an electronic platform in the late 1990s.

light industry

Light industry is usually less capital intensive than heavy industry, is more consumer-oriented than business-oriented, probably has less environmental impact than heavy industry and is more tolerated in residential areas. It has been defined as manufacturing activity that uses moderate amounts of partially processed materials to produce items of relatively high value per unit weight.

like-for-like sales

Sales achieved through activities of the company that were being carried on in the same period in the year before the one being studied. In other words, if you are trying to compare the turnover of Company X this year and last year, it makes sense to exclude from the calculation any sales this year that were achieved by bolting on acquisitions. What you want to find out is whether the businesses the company was in last year have increased their sales, and the only way to do that is to compare 'like-for-like'. It is a popular measure in retailing, where the portfolio of shops – or square footage from which sales are made – is often expanding.

See also: fundamental analysis

Limean

The London interbank mean price – the average of Libid and Libor.

limit moveday

A price that has advanced or declined the permissible amount during one trading session, as fixed by the rules of a contract market.

limit order

An order to buy shares up to a maximum price or sell down to a minimum price. Can also be called ‘good till cancelled’, remaining valid until the limit is reached or the trade cancelled. For example, an investor may place a limit order to buy shares at £12 where the current price is say £15 and falling. If the price were to fall to £12 or below, the investor’s order would be placed and the maximum he/she would pay would be £12. The point about a limit order is that the client knows what his exposure is. In contrast, when a client places an ‘at best’ order, the broker will complete the purchase at the best price available on the order book at the time, and the client cannot be sure what that price is going to be.

See also: at best, broker

limit price

The maximum buying price or minimum selling price a client is prepared to respectively pay or accept for shares or commodities etc.

See also: limit order

limit up (and down)

The maximum advance or decline that is allowed in a single day’s trading. Markets often suspend trading temporarily or for the remainder of the day when a limit is met.

limited company

A company whose shareholders’ maximum liability is limited to their share capital in the event of winding up.

limited liability

The principle that the liability of shareholders for debts of a corporation or limited company is limited to the nominal value of their shares. In other words, their personal assets are not at risk if the company becomes insolvent and is liquidated.

See also: insolvency, liabilities

limited partnership

A partnership comprising a general partner and limited partners. The general partner operates the partnership and is fully liable for the debts of the firm. Limited partners receive some of the profits and have no influence on management. However their liabilities are limited to their original investment.

line chart

This is the simplest form of chart available to the technical analyst. An example would have time presented along the X-axis and price on the Y-axis. The actual time function that you plot will depend on your position in the market – a market maker will be interested in price fluctuations on a minute-by-minute basis, whilst the average investor will only be interested in a price on a daily or even weekly basis. Any price may be plotted on a line chart, but the most common is the closing, mid-price. Line charts are simple, present an uncluttered picture of price movements and are very easy to understand.

See also: technical analysis

liquid assets

A company’s cash plus assets, such as cheques, that can readily be converted into cash.

liquid market

A market in which large quantities of shares (or commodities, etc.) are being bought and sold daily, allowing the securities to be bought and sold with relative ease. This situation could also reduce the spread: the difference between the buying and selling price of shares. The share price is less likely to be affected by any one trade.

See also: bid-offer spread, liquidity

liquidation

The sale of the assets of a bankrupt company to pay creditors. When a company's debts and other liabilities exceed its assets, it is technically insolvent. If the company's directors are unable to shore up its finance by, for example, raising new equity or debt finance, one of its creditors may appoint a receiver to the company. The receiver's job is to take over the running of the company, doing whatever he thinks best to help the appointing creditor get its money back. This may result in the company being sold as a going concern, or in the company going into liquidation. When a company goes into liquidation, the receiver will sell its assets as best he can and distribute the cash proceeds in a strict order. Ordinary shareholders of the company come very low down the pecking order, behind trade and bank creditors, but they may eventually recover some or all of their investment. The process of liquidation can last several years.

See also: creditors, insolvency

liquidator

An official appointed to supervise the liquidation of a company.

liquidity

In financial markets, 'liquidity' refers to the ease of dealing in a security – whether shares, options, warrants or some other instrument – and turning them into cash. Another way of looking at it is – how easily can the shares be bought and sold without significantly distorting the price? In general, large companies, with hundreds of millions of shares in issue and high numbers of shares changing hands every day, have good liquidity. In contrast, small companies with few shares in issue and thin trading volumes can have very poor liquidity. Associated with liquidity is the concept of the 'spread' – the difference between the bid and offer price quoted by market makers. The bid price is what the market maker will pay for your shares if you want to sell them. The offer is the price at which you can buy them from him. Large, liquid, stocks have narrow spreads (a good thing). Small, illiquid, stocks have wide spreads (a bad thing). The opposite is illiquid. Liquidity also refers to the ease and rate with which an asset can be converted into a medium of exchange. Liquidity is considered to be advantageous. Money is the most liquid due to the fact that it does not need to be converted into anything in order to make purchases.

See also: Alternative Investment Market, bid-offer spread, market maker, OFEX

liquidity ratio

See 'acid test'.

liquidity trap

In economics, a liquidity trap is a situation when the economy is stagnant and the interest rate is close to 0 per-

cent. At such times, people tend to keep their money in their bank accounts instead of investing it, aggravating the recession. Normally the monetary authorities could stimulate the economy by lowering interest rates but as it is already so low, it cannot be decreased any further and the economy is 'caught' in this trap.

listed company

A company that has satisfied the requirements for its shares to be listed on a recognised investment exchange (RIE), such as NYSE or Euronext. In the case of the London Stock Exchange, a company that has obtained permission for its shares is admitted to the Daily Official List.

See also: Alternative Investment Market, Daily Official List, London Stock Exchange, Recognised Investment Exchange

listed securities

Securities such as shares, stocks, bonds, etc., which are quoted on a stock exchange such as the New York Stock Exchange (NYSE) and the London Stock Exchange in the UK.

See also: American Stock Exchange, London Stock Exchange, New York Stock Exchange

listing

The process by which a company's shares become tradable on a stock exchange. Also known as a flotation. An unlisted company's shares are tradable privately between the shareholders and the pricing of the shares is difficult to determine. In contrast, shares listed on an exchange get a daily price quota-

tion, any member of the public can buy and sell the shares through brokers and market makers, and if the company wishes to raise new capital it has the option of issuing new shares.

See also: initial public offering, listing particulars, placing

listing particulars

Details a company is obliged to publish about itself together with any securities it issues before it obtains a listing on a recognised stock exchange, usually published in a prospectus prior to flotation.

See also: flotation, initial public offering, new issue

listing rules

The rules which determine what information a company is obliged to publish about itself before it obtains a listing on a recognised stock exchange. Once listed, the company must continue to abide by the listing rules as set by the listing authority, which, in the UK, is the Financial Services Association.

See also: Financial Services Association, flotation, initial public offering, new issue

litigation

The process of a person or company taking legal action against another.

Lloyd's of London

Lloyd's is the oldest and largest insurance market providing specialist insurance services to businesses in more than 200 countries and territories. Lloyd's is not an insurance company but a society of members,

both corporate and individual, who underwrite in syndicates on whose behalf professional underwriters accept risk. Supporting capital is provided by investment institutions, specialist investors, international insurance companies and individuals. Business is obtained via Lloyd's brokers and other intermediaries dealing with the public and is underwritten by syndicates of Lloyd's underwriters so organised as to spread risk. Members of syndicates have traditionally been known as Names. Most risk types are covered, including marine, aviation and catastrophe, but not life assurance.

www.lloyds.com

LME

See 'London Metal Exchange'.

loading/load

A term for the administration charges imposed by institutions on mutual funds, unit trusts and pension plans. Charges that are incurred when you buy units in a fund are known as front-end or initial charges, and those incurred when you sell are known as back-end or exit charges.

See also: back end load, front end load, mutual fund, personal pension plan, unit trust

loan

An advance of money from a lender to a borrower over a period of time. The borrower is obliged to repay the loan either at intervals during or at the end of the loan period. Interest is usually charged.

loan account

An account, opened for a customer by a bank, following the granting of a loan. The amount of the loan is credited to the customer's current account and similarly debited to the loan account. An arrangement is subsequently made for the customer to repay the loan, usually over a stated period of time, with interest additionally being paid on the outstanding amount.

loan capital

That part of a company's capital structure that is raised by loans. Such loans (typically debentures) are usually over a stated period of time and pay fixed interest to the person making the loan. At the end of the period the capital is repaid. This contrasts with share capital where shareholders are entitled to a proportion of the company's profits usually by way of dividends.

See also: dividend, gearing, ordinary shares

loan origination

The steps taken by a lending institution up to the time a loan is made and placed on its books, including solicitation and processing of applications and loan closing.

loan protection policy

An insurance policy in which the insured pays regular premiums in return for insurance against being unable to repay a loan due to accident, sickness or unemployment. In such an event the policy pays a benefit to assist the insured in making the repayments.

See also: insurance policy, insured

loan stock

A security bearing a fixed rate of interest. The capital (the amount loaned) is repaid after a given period of time.

See also: debenture

loan to value

LTV

The amount borrowed expressed as a percentage of the value of the property used as security for the loan, usually expressed as a ratio in percentage terms.

local

A trader with exchange trading privileges, traditionally in the pit of a commodity or other exchange, who buys or sells for his own account, and who provides extra liquidity to the market.

local authority investment

A bond issued by a local authority in order to raise capital for its budget.

See also: municipal bond

local taxes

In the US, taxes paid by an individual to a local state or county that are deductible on the person's federal tax return. In the UK the nearest equivalent is the tax paid by homeowners to their local council (council tax). There is no tax relief on such payments but reductions can be claimed from the local council in cases where homeowners receive low income.

See also: council tax

lock-in

A specified time period that an investor is locked into an investment. An example would be a period following a flotation when major shareholders agree not to sell their holdings. The objective is to give investors confidence that the management and key shareholders do not intend to cash in their stock the moment the market opens. Most flotation prospectuses have get-out clauses, the most common being that if the company is the subject of a takeover bid, shareholders are allowed to sell.

See also: initial public offering, new issue

locked in

Investors are said to be 'locked in' when a security they own is trading at a higher price than they paid for it, but they choose not to sell in order to avoid having their profit become subject to capital gains tax. The term also refers to the situation in which a shareholder is legally obliged not to sell shares for a given period. The most common instance is in initial public offerings (IPOs) where investors are comforted by knowing that directors and founding shareholders are locked in for a period after flotation.

See also: initial public offering

log scale

A scale that illustrates changes in proportion. So if a share doubles in price from £1 to £2, and then doubles again from £2 to £4, the distance between 1 and 2 will be the same as the distance from 2 to 4 because in both cases the increase was a doubling.

Lombard banking

An historical term for a type of banking developed in the Middle Ages, especially in the prosperous northern Italian region of Lombardy (hence the name). It was based on the principle of the pawn shop, with the origin being the then catholic prohibition on making profit from money 'without working' (which was considered to be a sin). As economies cannot prosper without credit, various ways around the prohibitions were found.

London Bullion Market

LBM

A two way market place, loosely overseen by the Bank of England, through which investors can sell or buy both gold and silver. Most of the market members are major international banks or bullion dealers and refiners. Five members of the LBMA meet twice daily to 'fix' the gold price in a process known as the London Gold Fixing. Market makers mainly quote prices in US dollars per troy ounce for spot and forward delivery. Forward prices and options quoted by market makers enable producers and industrial consumers to hedge their future commitments and provide access for investors and speculators. Spot gold is traded for settlement two business days following the trade date, with a business day defined as a day when both New York and London are open for business. London holds a dominant position, thanks to a mix of market flexibility, commercial freedom and historical chance.

See also: forward pricing, hedging, market maker, option

London Bullion Market Association

LBMA

The trade association for the London bullion market acting as the principal point of contact between the market and regulators, promoting refining standards and good trading practices, co-ordinating market clearing and vaulting, and developing standard documentation.

www.lbma.org.uk

London Clearing House

LCH

The organisation founded in 1888 to clear sugar and coffee trades in London, originally known as the London Produce Clearing House. Once a clearing house has registered a trade, it becomes the buyer to every seller and seller to every buyer, thereby guaranteeing that the financial obligations of trades are met. The London Clearing House Limited and Clearnet S.A. merged at the end of 2003 to form the LCH.Clearnet Group to become the leading Central Counterparty Clearing House (CCPs) in Europe.

www.lchclearnet.com

See also: Recognised Clearing House,

London Club

The London Club is an informal group of commercial banks that join together to negotiate their claims against a sovereign debtor.

London Commodity Exchange

LCE

Formerly known as London Fox (London Futures and Options Exchange), the exchange was renamed London Commodity Exchange and was a futures and options exchange, dealing in soft commodities including cocoa, sugar, coffee, wheat, barley, potatoes, and also dry cargo freight futures as a result of its merger with BIFFEX (Baltic International Freight Futures Exchange) in 1991. In September 1996, the LCE merged with the London International Financial Futures and Options Exchange (LIFFE).

See also: futures, London Clearing House, London International Financial Futures and Options Exchange, option

London Inter Bank Offered Rate

LIBOR

The rate of interest at which banks lend money to each other – in a sense, the wholesale price of cash rather than the retail price (which is what individuals pay if they want to borrow money). The base rate that banks charge their retail customers changes in response to changes made by the Bank of England to the Official Rate. LIBOR, on the other hand, changes continuously to reflect supply and demand within the cash and currency markets. A fix rate is calculated each morning by the British Bankers Association.

See also: Bank of England

London International Financial Futures and Options Exchange

See 'LIFFE'.

London Market Information Link

LMIL

The London Stock Exchange's main source of UK financial data for market professionals and information vendors.

London Metal Exchange

LME

A leading international market, located in London, for the trading of non-ferrous metals, namely copper, primary aluminium, aluminium alloy, lead, nickel, tin and zinc, primarily for industrial use. LME's origins can be traced as far back as the opening of the Royal Exchange in 1571 where metal traders first began to meet on a regular basis. In 1877, the London Metal Market and Exchange Company was formed as a direct result of the industrial revolution that led to a massive increase in the UK's consumption of metal, in turn requiring the import of enormous tonnages from abroad. Trading now can be by open outcry, telephone and electronically. Its prime function is hedging with the bulk of turnover originating from trade clients. Other dealings include futures and options contracts and arbitrage trading. The LME is a recognised investment exchange (RIE), and the market participants are regulated by the Financial Services Authority (FSA).

www.lme.co.uk

London Stock Exchange

LSE

The world's third largest stock exchange by market capitalisation of domestic stocks listed, after the New York Stock Exchange and Tokyo Stock Exchange. It is itself quoted on the Exchange. The LSE also lists foreign companies, and its turnover of foreign shares is the largest in the world. In order for a company to be admitted to the Exchange it must make application for a place on the Official List. This involves providing extensive data regarding its financial status and trading history. As well as the Official List of companies (the main market), the LSE also runs AIM, the Alternative Investment Market, for smaller, usually younger, companies, for which the regulation is lighter. Trading in securities is done through the Stock Exchange Electronic Trading System (SETS) and the Stock Exchange Automated Quotation system (SEAQ). The LSE is no longer the UK's listing authority. That role passed to the Financial Services Authority in 2000. The LSE is one of the world's oldest stock exchanges and traces its history back more than 300 years, starting life in the coffee houses of 17th century London.

www.londonstockexchange.com

See also: listed securities, market maker, Official List, recognised investment exchange

long

Investors are said to be long when they have bought a security in the expectation that the price will rise. A long position can be closed out by selling an equivalent amount of the stock.

long bond

In the US, a bond with a maturity of ten years or more. The US 30 year Treasury bond is a benchmark long bond.

See also: bond, maturity

long position

The purchase of a security, commodity or financial instrument (e.g. shares) in the belief that the price will increase. The purchaser hopes to sell the shares at a higher price than he bought at and thus make a profit. The opposite of a short position.

long-term

The expressions 'short-term', 'medium-term' and 'long-term' mean different things in different contexts and different things to different people. In general, long-term refers to anything over one to two years.

long-term care insurance

The planning, by way of suitable insurance, for covering partially or in full, the cost of long-term care in old age. The place of care may be the insured's own residence or a nursing home. In order to claim benefit, the insured must be disabled to the extent that he/she is unable to perform daily activities such as washing, dressing and eating/drinking.

See also: insured, insurer

long-term debt

Debt liabilities due in one year or more.

See also: liabilities

long-term incentive plan

Any remuneration plan for directors or employees that provides compensation intended to serve as an incentive for performance to occur over a period longer than one year, where performance is measured by reference to financial performance of the company, the company's stock price or some other measure, possibly including personal performance,

long-term liabilities

Debts of a company that are not due for repayment in the next accounting period.

See also: debt

long-term equity anticipation securities

LEAPS

LEAPS are long-term stock or index options. Like all options, they are available in two types, calls and puts, with expiration dates up to three years in the future.

See also: option

longs

Redeemable gilts or bonds with a distant redemption date, say beyond fifteen years.

See also: bond, gilt-edged stock, redeemable

loss adjuster

An independent assessor called in by an insurance company to check the validity of claims.

loss of income insurance

Insurance in which the insured is covered against loss of income.

See also: insurer, insured

loss limit

The maximum loss permitted on a trade before the trader or investor cuts their losses and closes the position.

lot

The amount of a commodity or financial instrument that can be traded in a futures or option market. Also known as contract size. More generally, it refers to a portion of a trade in the equity market or a plot of land in real estate.

low cost endowment assurance

See 'endowment assurance'.

low earnings threshold

The level of earnings used in the calculation of the state second pension. Many on a lower income and some who are not earning at all, such as carers, are treated for the purposes of calculating the pension as if they had earnings at this level, so they get an uplift in their pensions.

low start endowment assurance

See 'endowment assurance'.

low earnings limit

The level of income at which employees start to pay Class 1 National Insurance contributions.

See also: Class 1, 2, 3 and 4 National Insurance Contributions

lower rate tax

The lowest rate of income tax, 10% in 2007/08 in the UK.

See also: income tax, Class 1, 2, 3 and 4 National Insurance Contributions

LSE

See 'London Stock Exchange'.

Ltd

Abbreviation of limited. 'Ltd' after a company name indicates that the company is privately owned with 'limited liability' status. This means that the directors of the company are not liable for the company's debts if it goes bust. Nearly all newly formed companies in the UK are incorporated as Ltd companies. If the number of shareholders in the company grows to 50 or more, the company changes to a 'plc' (public limited company), though this does not mean that their shares are publicly tradeable. Only companies that formally list their shares on the Stock Exchange are fully tradeable.

lump sum

A sum of money paid in a single instalment rather than smaller periodic payments. An individual who has a lump sum to invest must decide

whether to invest it in one go or drip-feed it into the market.

See also: pound cost averaging

luxury tax

A tax on goods considered to be luxury items. Such explicitly named taxes have now been eliminated in most developed countries.

See also: direct taxation, indirect taxation

Mm

M0, M1, M2, M3, M4.

See 'money supply'.

Maastricht criteria

Criteria, set out in the Maastricht Treaty, relating to inflation, budget deficits and public debt, that needed to be met by countries if they wanted to become members of European Monetary Union and adopt the euro. The Maastricht Treaty was signed in 1991 and established the European Union to replace the European Community.

macaroni defence

A tactic used by a company as defence against a hostile takeover bid involving the issue of a large number of bonds that must be redeemed at a higher value if the company is taken over. So-called because the bonds' redemption price is said to expand like macaroni when cooked.

See also: takeover

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. An alternative measure of duration is modified duration.

See also: bond

MACD

See 'Moving Average Convergence/Divergence'.

macroeconomics

The study of aggregate economic behaviour using such elements as output, unemployment, price levels, government spending, interest rates, national productivity and the influence of government policy on them.

See also: gross domestic product, gross national product, national debt

main market

The market for larger companies of the London Stock Exchange, also known as the Official List. The LSE also has a junior market called AIM (Alternative Investment Market), for smaller, younger companies. The listing requirements are more rigorous for the main market than for AIM.

See also: Alternative Investment Market, listing rules, OFEX

maintenance margin

The lowest balance of funds that a broker will allow a counterparty to maintain when trading on margin.

maintenance payments

Money paid by a divorced person to his/her partner to assist with living expenses.

See also: alimony

major medical expenses insurance

MME

Insurance that pays out a lump sum if you have certain specified surgery.

Categories: Personal Insurance, Personal Finance

making a price

A trading term used to refer to the obligation of a market maker to quote a bid and offer price on the shares for which he acts as a 'wholesaler'. In the London stock market, market makers' prices are quoted on the Stock Exchange Automatic Quotation Service (SEAQ) which brokers access by computer. Market makers also indicate the number of shares in which they are willing to deal (the 'normal market size' or 'NMS') which will vary from share to share. They are obliged to honour the prices quoted as long as the deal size is within the NMS. Also called making a market.

See also: bid-offer spread, market maker, normal market size, Stock Exchange Automated Quotation system

managed account

An investment account, managed by the investment department of a bank or other investment professional, for a client, who has given prior instructions about how it should be managed including authority to buy and sell securities.

managed currency

A currency whose rate is not determined solely by market forces, but also by intervention from the monetary authorities, such as the central bank or finance ministry.

managed fund

A fund managed for a number of independent investors by an investment company. The fund is invested in a wide range of securities so as to keep risk to a minimum.

See also: life assurance, unit linked

management buy in

MBI

The purchase of a company by outside investors who bring in new management.

See also: leveraged buy out, management buy out, private equity, takeover

management buy out

MBO

The purchase of some or all of a company's shares by its managers, often with backing from a venture capitalist, in order to run the company independently.

See also: management buy in, takeover, venture capital

management fee/charges

Charges made by the managers of, for example, a mutual fund or unit trust that cover investment management and administration costs. Charges usually take the form of a percentage fee based on the value of the fund. The charges for unit trusts tend to be higher than for

investment trusts. Tracker funds, which are passively managed to follow an index, are much cheaper to run, and the costs passed on to investors are correspondingly lower. Exchange-traded funds also have lower charges than conventional unit trusts.

See also: exchange traded fund, mutual fund, tracker fund, unit trust

management group

A group of financial institutions that co-ordinates with the lead manager in the pricing and distribution of the issue of new securities.

mandate

An official order from an authority to implement an action.

mandatory quote period

A term used on the London Stock Exchange which refers to the period of time during which market makers in a security are obliged to display their prices. For SEAQ (Stock Exchange Automated Quotations Service), the period is from 8.00a.m. to 4.30p.m.

See also: market maker, normal market size, Stock Exchange Automated Quotation system

margin

In general, the difference between the cost price of a product and the selling price. More specifically, in trading, it is the amount deposited with a broker in order to obtain credit for purchase of shares or futures. The margin is the price of a security less credit advanced by the broker.

See also: bid-offer spread, contracts for difference, gross margin, market maker, stockbroker

margin account

An account with a broker where a client is able to purchase securities on credit after margin has been deposited and without having the full amount of funds available.

See also: contracts for difference, margin, stockbroker

margin call

A demand from a clearing house or broker to a client to provide more funds to bring a margin account balance up to a required level. Also called maintenance call.

See also: contracts for difference, margin, margin account, stockbroker

margin of safety

The term given to the idea that shares bought for less than two thirds of their net asset value offer a cushion against any deterioration in the company's trading position.

See also: value investing

margin securities

Securities that may be bought or sold on margin. In the US, an approved list of margin securities is published by the Federal Reserve Board.

See also: margin

marginal cost

The marginal cost, or incremental cost, of one extra unit of production. Such costs are in contrast to fixed costs such

as buildings that do not change when production is raised fractionally.

marginal tax rate

The tax rate paid on the last unit of a person's taxable income. In a graduated tax system (which most countries use), this rate will be equal to or higher than the tax rate paid on the person's entire income, since the tax rate is lower for the first portion of income than for subsequent income. In the UK the tax bands for 2007-08 tax year are 10% on the first slice of earnings, rising to 40% on the top slice.

mark-to-market

An accounting process by which the price of securities held in an account are valued each day to reflect the closing price, or market quote if the last sale is outside of the market quote. The result of this process is that the equity in an account is updated daily to properly reflect current security prices, giving the current worth of a portfolio reflecting any profit or loss as yet unrealised.

mark-down

The act of market makers reducing the prices of stock to reflect changing market conditions. The opposite of mark-up. Also refers to an amount taken off the bid price, regarded as a form of commission, when a customer sells a security to a broker or market maker in an over-the-counter market.

market capitalisation

The market value of a quoted company, calculated by multiplying its share

price as quoted on an exchange by the number of shares in issue. For example, company A has 120m shares in issue. The current market price is 96p. The market capitalisation is a shade over £115m. Market caps are important as some of the most important indices have their constituent companies based on them. The FTSE 100, for example, includes the UK's largest 100 companies at each quarterly cut-off point. The FT30 is the UK's oldest index dating back to 1935.

See also: FTSE 100 Index

market indices

In the financial markets, an index is a way of measuring changes in the prices of a basket of stocks, and represents the changes using a single figure. The purpose is to give investors an easy way to see the general direction of stocks in the index. The FTSE 100, for example, is calculated by taking a weighted average of the share prices of the largest 100 companies on the London Stock Exchange. Launched in 1984 with a base figure of 1,000, the FTSE is calculated continuously throughout the trading day. The phrase, 'FTSE climbed 37 points today' gives an immediate idea of the direction of the market without indicating what happened to individual stocks. Index funds track the companies in a particular index.

Categories: Stockmarkets

See also: FTSE 100 Index

market maker

A market maker is a dealer who acts as a wholesaler (i.e. quotes buy and sell prices to brokers and other clients) for the shares in which he is registered to trade as a principal, creating a market-

place for shares to match supply and demand. The market maker makes a profit by committing his company's capital, aiming to buy low and sell high.

See also: normal market size, stock-broker

market maker to market maker

A term used to denote that a transaction was between two market makers registered in the security in question. This may also include those executed through an inter-dealer broker or a public display system.

See also: London Stock Exchange, market maker, Stock Exchange Automated Quotation system, Stock Exchange Electronic Trading Service

market neutral

A trade or investment strategy that aims to produce a profit regardless of market trends, often by taking a combination of long and short positions.

market not held order

This is a market order, an order to buy or sell securities, but one that gives the broker discretion to execute the order when he feels it is best. If the broker feels that the market will decline, he may hold the order to try to get a better fill.

market order

An order to buy or sell securities or commodities at the best price with immediate effect.

See also: commodity (commodities), security

market price

The price for a security as last reported or currently quoted on an exchange. As far as stocks are concerned, there are two market prices, the bid price (the price at which shares can be sold) and the offer price (the price at which shares can be bought). Market prices are quoted on the financial pages of most newspapers and on many websites, sometimes live, sometimes delayed by a few minutes. In the newspapers, the price quoted is the mid price at the time the market closed on the previous day.

See also: bid-offer spread, margin, mid price

market sector

Listed securities are normally split into market sectors to improve analysis of trends. Stock market index companies, such as FTSE or MSCI, will offer sector indices, covering for example, forestry, manufacturing or telecoms, in addition to the main market indices.

market trend

The general direction of overall price movements in a market.

market supervision and surveillance department

The department of an exchange that ensures that trading in listed companies takes place in an orderly and fair manner. It will monitor trading patterns and ensures compliance with the exchange's trading rules, investigating possible abuses such as fraud, market manipulation and insider dealing.

See also: insider dealing

market value

A listed security's last quoted or reported price. Often it is the middle market quotation for that security but could be the bid or offer price. Also a synonym for the market capitalisation of the whole company.

market value weighted index

A stock market index that gives greater weight to shares with a larger market capitalisation, so that large companies have more impact on index moves than smaller companies. In the UK, the FTSE100 is weighted while the FT30 is not.

market-if-touched

MIT

An order that becomes a market order when a particular price is reached. A sell MIT is placed above the market; a buy MIT is placed below the market.

market-on-close

MOC

An order to buy or sell at the end of the trading session at a price within the closing range of prices.

market-on-opening

MOO

An order to buy or sell at the beginning of the trading session at a price within the opening range of prices.

married couples allowance

A UK tax allowance, withdrawn in April 2000, for all spouses except those over 65 on that date.

married put strategy

The simultaneous purchase of stock and put options representing an equivalent number of shares. This is a limited risk strategy during the life of the puts because the stock can always be sold for at least the strike price of the purchased puts.

master agreement

The initial agreement signed between parties hoping to enter into a swap, or other financial agreement, defining criteria such as fixing rates.

Mastercard

An international payment services and card scheme.

See also: American Express, charge card, credit

matched bargain

A system of share trading that relies on matching sale orders with corresponding orders to buy. Because there needs to be a buyer for every seller, and vice versa, the marketability of shares that are traded on a matched bargain basis can be poor. In other words, you may not be able to buy when you want to buy, and if you own shares you may not be able to sell when you want to sell.

See also: Stock Exchange Automated Quotation system, Stock Exchange Electronic Trading Service

matched book

A portfolio where the dates on the trader's liabilities match those of the assets, or where borrowing costs equal the interest earned on investments.

Matif

Marché à Terme Internationale de France, France's financial futures exchange, now part of Euronext.com.

maturity

The length of time between the issue of a security and the date on which it becomes payable. Sometimes also the capital repayment date of a bond. Most bonds are issued with fixed repayment dates but some, called irredeemables or perpetuals, are not. Can also refer to the end of the term of an endowment assurance policy.

See also: bond, cash value life insurance, endowment assurance

maxi ISA

An individual savings account that places all ISA money for the tax year with a single plan manager. A maxi ISA must offer investment in shares, including unit and investment trusts, and may offer the cash ISA component, but does not have to. It has an overall subscription limit of £7,000 in any one tax year.

See also: individual savings account

MBO

See 'management buy out'.

MBS

See 'mortgage backed security'.

mean

Another word for the average, calculated by adding together all the values and dividing by the number of values.

means test

An appraisal of a person's income and assets to establish if he or she qualifies for state benefits.

See also: income

median

The middle ranking value of a set of values set out in numerical order.

See also: mean, mode

medical insurance

See 'private medical insurance' (UK) and 'health insurance' (US).

medium-term

The expressions 'short-term', 'medium-term' and 'long-term' mean different things in different contexts and different things to different people. In general, medium-term refers to anything over six months.

medium-term bond

A bond with a maturity from 2 to between 7 and 10 years. Often known as 'mediums'.

See also: maturity, mediums

medium-term note

MTN

An unsecured note issued in a euro-currency with a maturity of three to six years.

mediums

Redeemable gilts or bonds with a redemption date (maturity date) that is

neither short nor long, typically between 2 and 10 years.

See also: redeemable

member bank

A bank that is a member of the US Federal Reserve System, or more generally part of a central clearing or banking system.

See also: Federal Reserve System

member firm

A trading firm of brokers or market makers that is a member of an exchange. Member firms may deal in shares on behalf of itself or on behalf of its clients.

See also: London Stock Exchange, market maker, stockbroker

memorandum of association

The Memorandum of Association is the first constitutional document of a company containing fundamentals such as the name, the company's objects and powers, and its original share capital.

See also: articles of association, registrar of companies

memorandum of wishes (letter of wishes)

A memorandum or letter addressed to the executors of a will by the testator (feminine: testatrix), that is, the maker of the will, specifying additional wishes to be carried out. For example a woman may leave her jewellery to her executor with a letter of wishes requesting that they pass certain items to named individuals.

See also: executor, testator, testatrix, will

merchant bank

See 'investment bank'.

merger

The process by which two companies of similar size become one by agreement. 'Mergers of equals' used to be popular to avoid unfavourable accounting treatment of goodwill. They also satisfied the interests of the two sets of managers who might prefer not to be seen as being on the end of a takeover bid. Changes in accounting standards for mergers, or pooling of assets in the US, have made this type of deal less popular. In contrast, a hostile bid, in which directors of the target company reject the approach, invariably involves a takeover by one company of the other, rather than the more friendly merger combination. The predator company obtains control if enough of the target's shareholders accept its offer. Takeovers can also be friendly, with the target's management approving the offer and conceding control of the company without a fight.

See also: takeover

merger arbitrage

A trading strategy that tries to profit from an expected merger of two companies, usually by going long in the shares of the target company and short in the shares of the bidding company. The bidding company's shares might fall due to the risk and expense of making the acquisition.

mezzanine finance

A funding type between equity and debt that offers higher interest rates than senior debt but provides a lower long-term return than pure equity.

Mibtel

An all-share benchmark for the Italian stock market.

microeconomics

The study of the behaviour of small units, for example, the economics of the household or the company. In contrast, macroeconomics focuses on economics at the aggregate or country level.

See also: macroeconomics

mid cap

One of a trio of terms in common use, the others being 'small cap' and 'large cap'. The terms refer to market capitalisation, but there are no fixed thresholds.

mid price

The average of the bid price and offer price of a security. If, for example, the closing prices of a share are 107p (bid) and 109p (offer), the mid price, often the one quoted in the newspaper the next day, will be 108p.

See also: market maker

mine

A word used by dealers to indicate that they have accepted the offer quoted by the counterparty.

mini ISA

An individual savings account in which UK residents over 18 years of age can shelter up to £3,000 of cash and £4,000 of stocks and shares in each year.

See also: individual savings account, maxi ISA

minimum contributions

See 'personal pension plan'.

minimum funding requirement

MFR

A rule introduced as part of the 1995 Pensions Act, coming into force in 1997, in the wake of the Maxwell pensions scandal that was intended to ensure that company pensions funds always held enough assets to meet their liabilities (i.e. pensions to retired members of the scheme). The legislation used the yield from long-term gilts as the yardstick by which a pension fund's liabilities were measured and to stay within the rules, funds felt obliged to buy these long-term bonds, with the result that their price rose sharply. The rule was subsequently reviewed.

minimum income guarantee

MIG

MIG topped up UK pensioners' incomes from the basic state pension but was replaced by Pension Credits in October 2003.

See also: pension credit, state pension

minimum lending rate

The minimum rate of interest at which the Bank of England was willing to

lend to the money markets. Discontinued in 1981.

See also: Bank of England

minimum maintenance

The minimum amount of cash or equity that must be kept in a margin account to fulfil the margin requirements of an exchange.

See also: margin account, National Association of Securities Dealers, New York Stock Exchange

minimum price fluctuation

Smallest increment of market price movement possible in a given futures or options contract.

See also: tick

minimum quote size

A London Stock Exchange term that refers to the minimum number of shares in which market makers must display prices on the SEAQ for those securities for which they are registered.

See also: London Stock Exchange, Market maker, Normal market size, Stock Exchange Automated Quotation system

minority interest

An important but non-controlling stake in a company.

mixed economy

An economy that is somewhere between a planned and full market economy where the state runs, or heavily regulates, some sectors while leaving much to market forces.

mode

The most frequently recurring value in a set of values.

modified duration

A measure of the price sensitivity of a bond to interest rate movements. It is inversely proportional to the approximate percentage change in price for a given change in yield. This is one of two ways to calculate duration, the other being Macaulay duration.

momentum

Momentum is the perceived strength behind a price movement. Momentum investors seek to take advantage of upward or downward trends in stock prices, believing that these stocks will continue to head in the same direction because of the momentum that is already behind them. The idea relies on the belief that there is a large number of investors who will buy whichever stock is performing well.

monetarism

A theory that advocates the strict control of the money supply as a key tool of economic policy in the fight against inflation. It was popular in the 1980s when developed countries were trying to reduce their rates of inflation.

monetary policy

The control of the money supply and interest rates by a government, or more commonly now a largely independent central bank, in order to achieve its economic objectives, in particular the restraining of inflation.

See also: fiscal policy, inflation, interest rate

Monetary Policy Committee

MPC

Often established by central banks, such as the Bank of England, in order to set interest rates.

monetising debt

The paying off of government debt by printing money, leading to higher inflation.

money

A financial asset, store of wealth and a medium of exchange. In economics, money can be referred to as narrow money, such as cash and other liquid assets used in everyday transactions, and broad money, which includes savings accounts and time deposits.

money broker

An agent who arranges short-term loans between banks (which are seeking to lend money) and borrowers such as institutions. The money broker is not involved in the process of lending/borrowing but merely acts as an intermediary earning a commission.

See also: liquid assets, loan, money market

money flow index

MFI

A technical analysis term, which is a volume indicator that tracks the flow of money into or out of a market. A divergence between the money flow

index and price trend can warn of a possible trend reversal.

See also: trend, volume

money laundering

See 'laundering'.

money market

A market in which money and other liquid assets such as bills of exchange and Treasury bills, generally of less than 12 months maturity, can be lent and borrowed in order to satisfy the short-term (from overnight to several months) cash flow requirements of banks and other institutions. Personal investors with large sums of money to deposit can also gain access to the money market via the commercial banks.

See also: bill of exchange, treasury bill

money purchase scheme (defined contributions scheme)

A pension scheme in which the benefits will be dependent on contributions to, and growth of, the fund allowing for the fund manager's costs.

See also: occupational pension scheme

money supply

The total stock of money in an economy at a given time, including notes, coin, loans and bank accounts. There are many definitions of money supply that vary in detail between countries. In general, they range from narrow money, often called M0, comprising notes and coin in circulation, to broad money, such as M4, which includes all deposits at monetary sector financial

institutions held in the private sector. The money supply has at times been considered a very important instrument for controlling inflation as unrestrained growth in the money supply is widely thought to lead to inflation.

See also: fiscal policy, monetary policy, M0, M1, M2, M3, M4.

monopoly

The state when a single company or person controls the market for a given service or product. In the UK, the Monopolies and Mergers Commission, usually working on references from the Office of Fair Trading, used to investigate such instances of market dominance. It was replaced by the Competition Commission in 1999. Lack of competition, or customer choice, is often regarded as being detrimental to the public interest.

money transmission

The process of transferring funds and making payments.

monopsony

A situation occurring when there is only one customer for a company's product.

Monte Carlo

An analytical technique in which a large number of simulations are run using random quantities for uncertain variables and looking at the distribution of results to infer which values are most likely. The name comes from the city of Monte Carlo, which is known for its casinos.

Moody's

Moody's Investors Service is one of the widely used sources for credit ratings, research and risk analysis. Changes in the ratings that it gives a business can affect its share and debt prices.

www.moody's.com

moratorium

The suspension or delay of payments of principle and/or interest by a borrower on a loan.

mortgage

A loan in which the borrower (the mortgagor) offers a property and land as security to the lender (the mortgagee) until the loan is repaid. Repayments of the loan are usually made on a monthly basis over a long period of time, typically 25 years. In the UK, the most common forms of mortgage are the repayment mortgage and the interest only mortgage. Mortgage rates might be fixed for a period of time or floating.

See also: interest only mortgage, repayment mortgage

mortgage agreement in principle

An expression of a mortgage lender's willingness to enter into an agreement subject to other conditions being met, such as credit checks and a satisfactory property valuation.

See also: mortgage

mortgage backed security

A security, backed or secured by one or, more typically, a pool of mortgage loans. Interest payments from the mortgage loans are passed on to the bond holders.

See also: mortgage, security

mortgage broker

A person or company engaged in the arrangement of mortgages for buyers. The broker is usually paid a commission by the lender.

mortgage indemnity

A mortgage indemnity allows a mortgage lender to recover the costs incurred from a repossession by pursuing the former owner for the difference between what the property was sold for and what the former owner still owes under the mortgage. In effect, someone unable to pay a mortgage will see the property repossessed and sold, after which the lender can still chase the mortgagor for a shortfall if the amount raised by the sale does not cover the debt. MIGs have had a lot of bad publicity, and are not as common as they used to be, with some lenders abandoning them altogether.

See also: mortgage

mortgage interest relief at source

MIRAS

The UK mechanism by which income tax relief was extended to a borrower on the interest paid on the first £30,000 of a mortgage on their main home. The system was operated by most building societies, banks and insurance compa-

nies, who would reduce the amount of interest eligible borrowers had to pay every month, and then claim the tax relief back from the Inland Revenue. The relief available on MIRAS was gradually scaled down to 10% and ended altogether from April 2000.

See also: income tax

mortgage life insurance

A life insurance policy that pays off the outstanding balance of a mortgage in the event of the death of the insured.

See also: insured, life assurance

mortgage protection

Term assurance to cover the repayment of a mortgage in the event of the death of the mortgagor during the period of the loan. In the case of a repayment mortgage the capital sum outstanding is gradually reduced over the term of the loan so that decreasing term assurance would be incorporated in the policy. For an endowment mortgage where the sum assured and the death benefit are at least equal to the amount of the loan throughout the term of the loan, level term assurance is appropriate.

See also: endowment mortgage, level term insurance, life assurance, repayment mortgage

mortgage protection insurance

This covers the loan repayments made by borrowers in the event that they are unable to meet them, for example, through illness or redundancy.

mortgagee

A company or institution such as a bank or building society that makes loans secured by property and the land on which it is built.

See also: mortgage, mortgagor

mortgagor

A person or company who takes out a loan and offers a property and the land on which it is built as security. Sometimes spelt mortgager.

See also: mortgage, mortgagee

most active

The stocks on an exchange that had the highest volumes over a given period, usually a single trading session.

motor insurance

The insurance of motor vehicles covering damage or loss and liabilities for injuries to other people and damage to property. Drivers in the UK are obliged to insure against third party claims. Under this type of insurance, if it is proven that the insured is the cause of an accident, the insurance company will pay only for injury or repairs for damage to the property of the third party.

Motor Insurers' Bureau

MIB

An organisation formed in 1946 that provides a means of compensating victims of road accidents caused by uninsured or untraceable drivers. People who are the victims of accidents caused by uninsured motorists may claim for bodily injury and property

damage. People who are the victims of accidents caused by untraced motorists may claim for bodily injury only. Every insurer underwriting compulsory motor insurance is obliged, by virtue of the Road Traffic Act 1988, to be a member of MIB and to contribute to its funding.

www.mib.org.uk

moving average

A way of smoothing data to give a clearer indication of the trend in a variable stock or instrument. Moving averages are one of the oldest and most popular of technical analysis tools. A simple moving average is calculated by adding together the closing prices of a financial instrument over a certain number of days and then dividing the sum by the number of days involved. So, for example, the seven day average for a share price would be calculated by taking seven days worth of data, adding them together and dividing by seven. There are lots of ways of interpreting moving averages. The most basic is to treat a change of direction in the moving average as a signal to buy or sell, so if the moving average has been consistently rising and then it falls, that is a signal to sell. The classical interpretation is to compare the moving average with the price of the underlying share and to plot them both on the same graph – before the share price rises above its moving average, buy the share; when it falls below its moving average, sell the share.

See also: technical analysis

moving average convergence/divergence

MACD

A technical analysis indicator developed in the 1960s that uses moving averages to indicate buy and sell opportunities. Two exponential moving averages are plotted on a chart, producing two lines that oscillate above and below a zero line, generating buy and sell indications when the lines cross.

See also: moving average, technical analysis

MPC

See ‘Monetary Policy Committee’.

MSCI indices

Morgan Stanley International indices of stock market movements are widely used by fund managers to compare markets and assess their performance.

MTN

See ‘medium-term note’.

multinational

A company that operates in several countries in addition to its home country and might have multiple share listings.

municipal bond

In the US, a bond issued by a state, city or local government to raise money sometimes for day-to-day activities but often to pay for special projects such as infrastructure development of road, hospitals or sewerage systems. In certain cases, interest is tax exempt.

municipal bond insurance

In the US, an insurance policy that guarantees a mutual bond in the case of default, issued by private insurers.

See also: municipal bond

municipal note

In the US, a municipal debt obligation, issued by state or local government and agencies, with a maturity of two years or less. Typically known as Munis.

mutual company

See ‘mutual organisation’.

mutual fund

A collective investment scheme operated by an investment company that enables small private investors to invest in a diversified portfolio of shares, bonds and other securities. Known as an open-ended fund since there is no fixed amount of capital in the fund. If new investors want to invest, the fund can issue new units, accepting the money into the pool. Funds are managed by professional fund managers who invest in securities to achieve the trust’s objectives such as capital growth, income or a combination of the two. There is a wide range of funds with a variety of objectives available in which to invest including capital growth and income. It is traditionally a US term, with a unit trust being the equivalent in the UK.

See also: net asset value, no load fund, unit trust

mutual fund custodian

In the US, a commercial bank or trust company that safeguards securities held by a mutual fund.

See also: mutual fund

mutual savings bank

In the US, a savings bank that is owned by and operated for the benefit of its depositors.

Myners Report

A report produced in March 2001 by Paul Myners that reviewed institutional investment and identified a series of distortions to effective decision-making. It made proposals to tackle them such as recommending a voluntary code of practice for the pension fund industry in the face of challenges including an ageing population, unrecognisably different labour markets, and shifting employer attitudes. The central proposal of the review, which was modelled on the approach taken on corporate governance by the Cadbury (and subsequent) committees, is a short set of clear principles of investment decision-making to apply to pension funds. The principles are not mandatory, but where a pension fund chose not to comply with them, it would have to explain to its members why not.

Nn

naked position/option

A position, sometimes called an uncovered position, such as the position of a writer of an option that is not covered by an opposite position in the underlying instrument (for example shares, commodities, etc).

See also: option, underlying instrument, writer

NAPM

National Association of Purchasing Management, now known as the Institute of Supply Management, that produces the purchasing managers index, a popular leading indicator. Founded in 1915, the Institute for Supply Management is the largest supply management association in the world.

www.ism.ws

narrow market

A market in which the trading of shares is only light, characterised by low liquidity and wide spreads. Modest activity can result in exaggerated price fluctuations.

See also: thin market

narrow money

A restrictive definition of money supply – another name for M1 in the US and M0 in the UK.

See also: M1, money supply

NASD

See ‘National Association of Securities Dealers’.

NASDAQ

National Association of Securities Dealers’ Automated Quotations System. The first electronic stock market, which uses computers and telecommunications to trade shares rather than a traditional trading floor, NASDAQ was formerly owned and operated by the National Association of Securities Dealers (NASD). In August 2006 it became a national securities exchange, operating independently of the NASD as a self-regulatory organisation. It is the largest electronic stock market in the US with approximately 3,200 companies listed. Market makers compete to buy and sell NASDAQ-listed stocks of US and non-US based companies via a worldwide computer network for large and small investors.

www.nasdaq.com

national accounts

The official income and cash flow accounts and balance sheet for an economy, giving a breakdown of GDP and the financial accounts for the main sec-

tors of the economy. Normally prepared by a country's national statistics office.

National Association of Investors Corporation

NAIC

A non-profit, tax exempt organisation located in Michigan, US, also known as BetterInvesting, whose membership consists of investment clubs and individual investors. NAIC was founded in the 1950s with a mission to provide a programme of sound investment information, education and support for investors.

See also: investment club, ProShare

National Association of Securities Dealers

NASD

A leading private sector regulator of the US securities industry, overseeing the activities of more than 5,000 brokerage firms with more than 650,000 registered personnel. NASD also provides regulatory products and services to other exchanges, as well as professional examinations.

www.nasd.com

See also: NASDAQ

National Credit Union Administration

In the US, the National Credit Union Administration is a federal agency that supervises federal credit unions and insures members' deposits.

www.ncua.gov

national debt

The sum indebtedness of a country's public sector (i.e. its government) following cumulative annual budget deficits and surpluses. The debt is normally financed through the issue of government bonds, Treasury bills and Treasury notes. The government has to pay interest on its borrowings, and this obligation is one of the major budget items for many governments.

See also: balance of payments, gross domestic product, gross national product

National Futures Association

NFA

A US self-regulatory group for the futures industry, established in the early 1980s, similar to the National Association of Securities Dealers (NASD) in the securities industry.

National Girobank

See 'Girobank plc'.

National Insurance

NI

National insurance is a UK scheme where people in work make payments towards benefits, such as those for pensions, sickness, unemployment and maternity. The payments are called national insurance contributions and certain benefits are only payable if you meet the national insurance contribution conditions. National insurance contributions also go towards the costs of the National Health Service. The national insurance scheme is administered by HM Revenue and Customs (HMRC).

See also: Benefits Agency, Contributions Agency

National Insurance Pension (State Pension)

Regular income from the state paid to retired people who have made contributions during their life. In the UK, the retirement age for men is 65 and for women is 60, although by 2020 it will be 65 for women too. To qualify individuals must have made full National Insurance (NI) contributions. Men must have worked for 44 years and women for 39 years, or have received a special waiver such as invalid care allowance. In April 1978 the government introduced another pension scheme (the State Earnings Related Pensions Scheme or SERPS) to provide a pension related to the earnings of employed people only. SERPS was replaced by the Second State Pension or S2P in April 2002.

See also: pension forecast, State Earnings Related Pension Scheme, State Second Pension

National Market System

A US stock trading system, called the national market system, was mandated by the Securities Act Amendments of 1975. At the heart of the national market is the electronic linking of nine markets – the American, Boston, Cincinnati, Chicago, New York, Pacific, and Philadelphia and NASD over-the-counter market. This allows traders at any exchange to seek the best available price on all other exchanges that a particular security is eligible to trade on. The national market system also includes a consolidated electronic tape, which combines last-sale prices

from all markets into a single stream of information.

National Savings and Investments

NS&I

NS&I run a variety of savings schemes, backed by the UK government, in which the public can participate. The savings schemes currently include: capital bonds, income bonds, guaranteed equity bonds, children's bonus bonds, investment accounts and savings certificates.

www.nsandi.com

See also: gilt-edged stock, income bond, premium bonds

National Savings Bank

The name of the savings bank originally called the Post Office Savings Bank, now called National Savings and Investments, set up in 1861 to provide a safe home for working people's money and cheap finance for the government.

See also: gilt-edged stock, National Savings and Investments, Post Office Savings

National Savings Certificates

See 'National Savings and Investments'.

See also: gilt-edged stock

National Savings Stock Register

A register of government stocks (gilts) that can be purchased by the public through NS&I and the Post Office at favourable rates of commission for

moderate purchases and sales. Transactions are conducted by mail and interest is paid gross and is taxable. Despite the name, the Register is now administered by the Bank of England.

See also: Bank of England, gilt-edged stock

National Securities Clearing Corporation

NSCC

A central counterparty that provides centralised clearance, settlement and information services for virtually all broker-to-broker equity, corporate bond and municipal bond, exchange-traded funds and unit investment trust trades in the US. It is a wholly owned subsidiary of the Depository Trust and Clearing Corporation.

www.nsccl.com

National Security Traders Association

NSTA

Professional trade organisation whose purpose is to improve the ethics, business standards and working environment of its members, who are engaged in the buying, selling and trading of securities.

NAV

See 'Net Asset Value'.

near money

Assets such as money market instruments, bonds near maturity and time deposits which are readily convertible into cash.

near month

The nearest delivery month of a futures or options market.

nearbys

See 'near month'.

negative carry

A term describing the situation where the financing cost of a financial position is greater than the return. The opposite of positive carry.

negative equity

A situation where the purchaser of a property has taken out a mortgage and some time after the purchase, the value of the property falls below the mortgage amount. For example, consider a situation where the purchase price of a property is £180,000, and it is bought with a deposit of £10,000 and a mortgage of £170,000. If the value of the property falls below £170,000 and the mortgage holder has yet to repay any of the capital, he/she has negative equity in the property.

See also: mortgage

negotiable instrument

An instrument, such as a cheque or a bill of exchange, which can be freely transferred by one person to another, traditionally by first signing his name on the back of the instrument.

See also: bill of exchange

Nellie Mae

The largest non-profit provider of parent and student education loan funds in the US.

www.nelliemae.com

net

The return on investments, such as savings accounts and fixed interest securities, after deduction of tax.

See also: gross, return on investment

net asset value

NAV

The total assets of a company less all its liabilities including loan capital and preference shares. NAV is usually expressed on a per share basis. For people-based businesses NAV is not particularly relevant. An advertising agency, for instance, would have a very low NAV because it has little invested in plant and equipment, and its profitability is driven by people and ideas. Elsewhere, NAV is interesting to value investors who want to know what underpins a company's share price. If a company has a NAV of 120p and its share price is 100p, there is a 20p cushion. The most common use of NAV is in assessing the share price of investment trusts – collective funds that invest in other companies. It is fairly easy to calculate the NAV of investment trusts because their assets are for the most part quoted companies. Investment trusts trade at a discount or premium to their NAV.

See also: investment trust

net assets

The total assets of a company (current assets plus fixed assets) less its current liabilities, known as net worth.

See also: assets, current assets, current liabilities, fixed assets

net book value

NBV

See 'book value'.

net cash flow

A measure of a company's financial well-being, equivalent to cash receipts less cash payments over a given period of time.

See also: operating cash flow

net earnings

Net earnings is one of the most important measures of a company's performance. It is the company's profit once all the costs of business and other charges, including debt servicing and taxes, have been paid. Sometimes called net income or the bottom line. When divided by the number of shares in issue to give earnings per share, it is then used to calculate the popular price/earnings, or P/E, ratio for quoted companies.

net income

See 'net earnings'.

See also: gross income

net present value

NPV

The present value of an investment's future net cash flows minus the initial investment. If positive, the investment should be considered (unless an even better investment exists), otherwise it should not. It is a calculation based on the idea that £1 received in ten years' time is not worth as much as £1 received now because the £1 received now could be invested for those ten

years and compound into a higher value. The NPV calculation establishes what the value of future earnings is in today's money. To do the calculation you apply a discount % rate to the future earnings. The further out the earnings are (in years) the more reduced their present value is. NPV is at the heart of securities analysis. Analysts use predictions of a company's future earnings and dividend payments, appropriately discounted back to current value, to establish a 'fundamental' value for the shares. Simplistically, if the current share price is below that value, then the shares are, on the face of it, attractive. If above it, they are 'overvalued'.

See also: discounted cashflow, internal rate of return

net profit

The gross profit of a company less all expenses such as tax, depreciation and fees. In company accounts, the word 'net' is often dropped, so that you simply have 'Profit before tax' and 'Profit after tax'.

See also: gross profit, net profit before tax

net profit before tax (pre-tax profit)

The net profits of a company before they are reduced by corporation tax.

See also: net profit

net relevant earnings

A person's pensionable income (that is, income from employment) plus taxable benefits in kind, less any allowable business expenses but before deduction of personal allowances. For self-em-

ployed people these are taxable profits less capital allowances or losses from previous years.

See also: benefits in kind, capital allowance, personal allowance

net worth

A measure of the difference between the total value of assets and total indebtedness. Also known as net assets.

net yield

The yield on a security (such as shares, bonds, etc) after the deduction of tax and other expenses such as commissions and the cost of purchase.

See also: dividend yield

Neuer Markt

Germany's junior stock market, equivalent to the LSE's AIM and TechMARK, which was launched in 1997 to provide a means for smaller companies, especially technology companies, to raise capital and list their shares. Following a very steep loss of value after 2001, the Neuer Markt was closed in June 2003.

www.deutsche-boerse.com

See also: Alternative Investment Market, Nouveau Marche, TechMARK

new economy

A term describing the new and fast growing industries such as information technology and telecommunications.

new issue

The issue by a company of new bonds or shares, enlarging its share or loan capital and, if the former, probably the

number of shareholders on its register. New issue is often used to refer to an initial public offering (IPO) – the process in which a company is admitted to an exchange for the first time, issuing new shares to the public as part of that exercise.

See also: flotation, initial public offering

news ticker

Machine providing scrolling, up-to-the-minute news stories.

New York Board of Trade

See ‘NYBOT’.

New York Mercantile Exchange

NYMEX

The New York Mercantile Exchange is the world’s largest physical commodity futures exchange, especially for energy and precious metals, having been established over 130 years ago. Trading is conducted through two divisions, the NYMEX, home to the energy, platinum and palladium markets; and the COMEX, on which all other metals trade. The Exchange pioneered the development of energy futures and options contracts.

www.nymex.com

See also: COMEX

New York Stock Exchange

NYSE

The world’s largest stock exchange, based in New York and with a history traced back to 1792, with 2,700 companies, closed-end funds and exchange traded funds listed and a market capi-

talisation of trillions of dollars. The NYSE is an international exchange, with many non-American companies listed.

www.nyse.com

Nikkei 225

A benchmark index of the average value of the shares of 225 Japanese companies reflecting share price movements on the Tokyo Stock Exchange. The index is unweighted, being a simple arithmetic average of the movements in the largest stocks, so smaller companies can influence the index as much as the larger ones.

See also: Dow Jones Industrial Average, FTSE 100 Index

nil paid

A new issue of shares where no payment has yet been made. This normally applies following the issue of allotment letters during a rights issue.

See also: new issue, rights issue

no claim bonus

A bonus awarded to a policyholder when no claims have been made on an insurance policy during the period of insurance, usually one year. The bonus is subsequently applied to reduce the renewal premium. The motor insurance business uses this approach extensively and companies will usually increase no claim bonuses annually up to a maximum, typically 60%, after four or five years. This method of rewarding policyholders with no claims is sometimes used in household insurance.

See also: household insurance, motor insurance

no load fund

A mutual fund where investors deal directly with the investment company rather than through a broker. Investors are accordingly not charged a sales commission.

See also: mutual fund

no par value

NPV

The shares of a company that carry no nominal value or par value.

See also: par value

noise

Stock price movements that cannot be explained by changes in the underlying economic or financial fundamentals. One popular axiom of investing is to avoid making decisions based on noise.

no limit order

An order to buy or sell a given quantity of a given security, without any price restrictions.

nominal

Unadjusted for inflation. Nominal GDP, as opposed to real-term GDP, makes no allowance for the rise in the figures due to inflation.

nominal value

The price of a security (stocks, shares, bonds, etc) when originally issued and bearing no relation to the market price. Also known as face value or par value.

nominal yield

See 'bond yield'.

See also: coupon, par value

nominated adviser

NOMAD

An exchange-approved adviser that helps companies to list and continues to advise them after flotation.

See also: Alternative Investment Market

nominated broker

NOMBRO

The broking firm for companies listed on the stock exchange that brings buyers and sellers of the company's shares together and comments on the prospects for the business.

See also: Alternative Investment Market

nominee

A person or company nominated by another to hold shares on his behalf. The most common use of nominee accounts is where execution-only brokers act as nominees for their clients. The shares are registered in the name of the broker, but the client has beneficial ownership of them. The advantage of nominee accounts is that they make settlement quicker and more streamlined.

See also: beneficial owner, execution only broker

nominee account

An account in which the named holder holds the assets in it on behalf of another (the beneficiary). In the stock

market, the most common use of nominee accounts is where execution-only brokers act as nominees for their clients. The shares are registered in the name of the broker, but the client has beneficial ownership of them.

See also: nominee company

nominee company

A company formed by a bank or other organisation that operates nominee accounts, which hold shares for the beneficial owner.

See also: beneficial owner, nominee

non-competitive bid auction

A method of purchasing government bonds in which the bidders (often private investors) agree to buy a specified number of securities at the average price determined by the competitive bidders.

non-callable

Not able to be redeemed prior to maturity. A non-callable security is usually more expensive than a callable security, due to the added risk the holder of a callable security is subject to.

non-contributory pension plan

A pension plan in which an employee does not make contributions. The plan is funded totally by the employer.

See also: personal pension plan

non-farm payrolls

The official US monthly report on labour market trends closely followed by the markets.

non-forfeiture clause

A clause in a life insurance policy that lays out the conditions under which the policy may remain in force for a limited period if the premium remains unpaid after the expiry of the days of grace.

See also: days of grace, life assurance

non-negotiable

A transaction where the terms of the contract are fixed.

non-participating life insurance policy

Life insurance that does not participate in the profits of the insurance fund.

non-performing loan

A loan or lease that is not meeting its stated principal and interest payments. Banks usually classify as non-performing assets any commercial loans that are more than 90 days overdue and any consumer loans that are more than 180 days overdue. Banks will write down the value of such non-performing loans and make a provision for these loan losses in their accounts.

non-qualifying life policy

A UK life assurance policy that does not satisfy the requirements of the tax authorities to qualify for certain tax relief.

See also: HM Revenue & Customs, qualifying policy, tax relief

non taxpayer

Someone whose income falls below their annual personal tax allowance –

in the UK, £5,225 in the tax year 2007-08 for individuals under 65 years old.

See also: income tax

non-regular way

A trade made with stated conditions, such as a cash sale, that may have delivery and settlement terms that are different from the standard procedures.

normal market size

NMS

When shares are traded, the market makers have to quote a bid price and offer price at which they will deal. But the prices they quote only have to be honoured up to a certain size of order – the normal market size – based on a percentage of the share's average daily turnover in the previous year. The NMS can normally be purchased or sold without moving the market.

See also: bid-offer spread, liquidity, market maker

normal pension age

NPA

See 'basic state pension'.

See also: pension plan

normal retirement age

NRA

The age at which an individual normally retires (60 to 70 for men and 55 to 70 for women). Men qualify for the state pension at 65 and women currently qualify at 60, but each firm can set its own policy on its retirement age. The age at which women will qualify for the state pension is due to increase to 65 by 2020.

See also: personal pension plan, retirement annuity contract

normal yield curve

A normal, or positive, yield curve is one that shows yields on longer-dated bonds being higher than those on shorter dated bonds, reflecting the extra risk of holding them for a longer period. Opposite to an inverted yield curve.

normative economics

A branch of economics that incorporates value judgments about what the economy should be like or what policy actions should be recommended to achieve a desired goal, including expressions of support for particular policies. It contrasts with positive economics, also known as value-free economics.

nostro account

A banking term to describe an account one bank holds with a bank in a foreign country, usually in the currency of that foreign country.

not negotiable

Words written on a bill of exchange or cheque that should prevent encashment following theft. For example if A writes a cheque to B and marks it 'not negotiable', then in the event that the cheque is stolen by C, it could not be cashed since no one can have a good title to it other than B.

See also: bill of exchange

note

A short-dated debt instrument whereby the issuer promises repayment on or before a specified date.

See also: debt instrument

notice of assignment

See ‘allocation notice’.

See also: exercise price, holder, option, underlying instrument, writer

Nouveau Marche

Originally the junior market of the Paris bourse, Euronext Paris, for smaller companies designed for start-up companies, often in the high-tech sector.

See also: Alternative Investment Market, Neuer Markt, TechMARK

NV

A Dutch company title short for Naamloze Vennootschap.

New York Board of Trade

NYBOT

The New York Board of Trade runs the world’s premiere futures and options markets for several internationally traded agricultural commodities such as sugar, coffee, cotton and cocoa. Its origins lie in the New York Cotton Exchange, founded in 1870. In 1985 the NYCE began trading currency futures on its FINEX division and later opened a FINEX trading floor in Dublin. The Coffee, Sugar & Cocoa Exchange (CSCE) and NYCE formed the Board of Trade of the City of New York as a parent company in 1998; a merger process was completed in June 2004

when the two exchanges became the New York Board of Trade (NYBOT).
www.nybot.com

NYMEX

See ‘New York Mercantile Exchange’.

NYSE

See ‘New York Stock Exchange’.

Obligations Assimilables du Trésor

OAT

French government bonds with a maturity of at least seven years at issue.

occupational pension scheme

A pension scheme generated by a company or organisation for the benefit of its employees. In ‘contributory’ schemes both the employer and employee contribute to a fund which grows free of tax during the savings period. In ‘non-contributory’ schemes, only the employer contributes. The amount paid out to the employee on retirement will depend on the type of scheme and reflect either the contributions put in or the number of years service and the final salary of the employee.

See also: defined benefit pension plan, defined contribution pension plan

Occupational Pensions Board

OPB

The Occupational Pensions Board is the renamed ‘Office of the Registrar of Non-participating Employments’ (RONPE), set up in the wake of changes in 1958, to control the employers’ pension schemes that appeared following legislation for an

earnings related ‘Graduated Pension’ supplement to the basic state pension. The OPB protects both employees contracted-out of the State Earnings Related Pension Scheme (SERPS) and the state’s interests in underwriting a minimum level of benefit provided by such schemes. Its other tasks include applying certain controls to contracted-out money purchase pension schemes.

See also: pension plan

Occupational Pensions Regulatory Authority

OPRA

The Authority set up under the Pensions Act 1995 to make occupational pensions more secure and closed in April 2005 when its responsibilities were taken over by the Pensions Regulator, the new regulatory body for work-based pension schemes in the UK.

www.thepensionsregulator.gov.uk

See also: occupational pension scheme

odd lot

The trading of securities in blocks that are more or less than the normal trading unit, with the consequence that the price might be adrift from the market quote.

See also: normal trading unit

OECD

See 'Organisation for Economic Co-operation and Development'.

OFEX

An unregulated, independent, over-the-counter market established in 1995, and authorised by the Financial Services Authority. There are around 200 companies listed on London-based OFEX, many of them small, young companies with a high-tech bent. Admission to OFEX is decided by a panel of 'wise men' and the only requirement is that companies must publish financial reports twice a year. Liquidity of OFEX companies is lower than in the main London market as trades are carried out on a matched bargain basis. The market converted into Plus in 2006.

www.plusmarketsgroup.com

See also: bid-offer spread, liquidity

off balance sheet financing

Financing arranged from sources other than debt and equity offerings, such as joint ventures, R&D partnerships and operating leases.

offer

In the stock market, an offer, or an ask, means that a seller is willing to sell a share or other financial instrument at a given price. It is the opposite of a bid. In contract law, an offer is one half of the contract equation, the other being 'acceptance'. Once an offer is accepted, whether verbally or in writing, both buyer and seller are bound by an agreement, provided that 'consideration' has been provided. Contracts for the sale of land have to be in writing.

See also: consideration, offer price

offer for sale

A public invitation by a sponsoring intermediary, such as bank or broker, to buy new or existing securities. It contrasts with an offer for subscription which is an invitation to subscribe direct from the issuer.

See also: initial public offering, new issue, placing, secondary market

offer price

Generally, the price at which securities are offered for sale, but more specifically, the price at which a new issue of shares is offered to the public, the price at which a market maker offers to sell shares, or the price at which units can be purchased from an institution in a unit trust.

See also: bid price, bid-offer spread, market maker

offer-only warrant

A warrant is offer-only if the holder is unable to sell it back to the issuer.

Office of Thrift Supervision

OTS

In the US, an agency of the US Treasury Department, established in 1989, with responsibility for overseeing the savings and loans industry.

www.ots.treas.gov

Official List

The daily record setting out the prices of all trades in securities conducted on the London Stock Exchange. A SEDOL code is allocated to each listed

stock to aid identification. The FSA, acting as the competent authority for listing, is referred to as the UK Listing Authority (UKLA), and maintains the Official List.

www.fsa.gov.uk/ukla

See also: Alternative Investment Market, London Stock Exchange

offset

Liquidating a purchase of futures or options through the sale of an equal number of contracts of the same delivery month, or the covering of a sale of futures or options through the purchase of an equal number of contracts of the same delivery month.

offshore company

A company incorporated in a country where there is little government control and/or low tax rates.

offshore funds

Funds based outside the tax system of the country where the intended investor is residing. A fund that is legally based in the Channel Islands, the Bahamas or Cayman Islands, for instance, is an offshore fund for British residents.

See also: domicile

off the run issue

Securities that are not – or are no longer – benchmark stocks, which tend to trade with wider spreads than benchmarks.

old economy stocks

Stocks in sectors unrelated to telecommunications, the internet, software or any other technology-driven industry. ‘New economy’ stocks are conventionally seen as offering the most potential for capital growth.

Old Lady of Threadneedle Street

A traditional, affectionate name for the Bank of England, the UK’s central bank, located in Threadneedle Street, London.

See also: Bank of England

oligopoly

The situation where a small number of firms control the supply, and strongly influence the price, of a good or service.

ombudsman

An independent official who investigates the complaints of individuals against companies or public authorities. In the UK, the Financial Ombudsmen deals with all complaints concerning banking, building societies, insurance, pensions and investments. Complaints about a financial services company can only be dealt with by the ombudsman after discussion with the senior management of the company has failed to resolve the situation. The ombudsman is not a regulator (“watch-dog”), trade body or a consumer champion; its role is just to settle disputes, as an alternative to the courts. It is impartial and its decisions do not have to be accepted, but if accepted, the decision is binding on both the individual and the firm.

omega

The currency risk attached to an options deal that is made in a different currency.

omnibus account

In the US, an account carried by one Futures Commission Merchant (FCM) with another. The transactions of two or more individual accounts are combined in this type of account. The identities of the individual account holders are not disclosed to the holding FCM. A brokerage firm may have an omnibus account including all the customers with its clearing firm.

O/N

Abbreviation of over night.

on account

The application of a payment to reduce the outstanding principal of a loan.

on-balance volume indicator

OBV

A technical analysis term based on the trend in the volume of shares traded compared with the trend in the price. The principle is that changes in volumes might precede changes in price.

See also: volume

one cancels other

OCO

A qualifier used when multiple orders (either to buy or to sell) are entered and the execution of one order cancels the second or alternative orders.

on-the-run issue

The most recently launched stock or bond, which is likely to have greater liquidity than equivalent securities issued at some point in the past.

OPAS

An abbreviation for Occupational Pensions Advisory Service, now known as the Pensions Advisory Service. It is a non-profit independent organisation that provides free information, advice and guidance on the whole spectrum of UK pensions covering state, company, personal and stakeholder schemes.

www.opas.org.uk

OPEC

Organisation of Petroleum Exporting Countries. Founded in 1960, a group of 11 countries that collaborate in order to manage the exportation of their crude oil. Because of their ability to adjust production levels and export quotas, they have at times possessed considerable influence on the price of oil.

open end fund

A mutual fund, unit trust or open-ended investment company (OEIC), with no fixed amount of capital (i.e. is 'open ended'), that raises money from shareholders and invests in a group of assets, in accordance with a stated set of objectives. This means that the fund managers can issue new units and cancel old ones in accordance with the supply and demand of investors. The significance of this is that the price of units is not buffeted by market forces, but stays fairly closely aligned with the net asset value of the underlying assets of the fund. That contrasts with closed end

funds, such as investment trusts, whose share prices do go up and down according to supply and demand, and which often trade below their net asset value.

See also: exchange traded fund, mutual fund, open ended investment company, unit trust

open ended investment company

OEIC

Hybrid investment funds that have some of the features of an investment trust and some of a unit trust. Like investment trusts, OEICs are companies that issue shares on the London Stock Exchange, and that use the money raised from shareholders to invest in other companies. Unlike investment trusts, they are open-ended which means that when demand for the shares rises the manager just issues more shares. With an investment trust, if demand exceeds supply, the response may be a rise in the share price. The price of OEIC shares is determined rather differently, with the key factor being the value of the underlying assets of the fund. But in contrast to unit trusts, there is no bid/offer spread with OEICs, so the price of the shares should be the same whether you are buying or selling. OEICs have been popular on the continent but were only launched in the UK in 1997.

See also: individual savings account, investment trust, unit trust

open interest

The net amount of outstanding open positions, either long or short, in a given futures or options contract, re-

flecting the degree of liquidity in a given contract.

See also: futures, option

open market operations

Routine operations by central banks in the financial markets in order to influence the volume and price of credit in the economy. Normally such intervention takes the form of dealing in short-term securities with commercial banks, increasing or decreasing the credit in the system.

open offer

An open offer, also known as an entitlement issue, is an offer made by a quoted company to its shareholders inviting them to buy new shares in the company at a set price, which is normally lower than the current market price. The purpose, as with a rights issue, is to raise new capital for the company. Unlike a rights issue, an open offer cannot be traded or sold on by the shareholder – usually, if you do not take up your entitlement, it lapses. Because of this, when an open offer is announced, you will be allocated sub shares, not nil paid shares.

See also: capital gains tax, rights issue

open outcry

An auction system used for futures trading on the floors of futures exchanges where communication is by shouting and hand signals between traders. Commodity futures and some stock exchanges used to run an open outcry method of trading, but many of these are now computerised.

See also: futures

open position

A position that has not yet closed, fulfilled or been offset by a matching contract in the opposite direction.

Opening Automated Report Service

OARS

Provides information about orders sent before trading opens, allowing some to be executed against each other and against marketable limit orders at a single price, and providing the information required to set the opening price. OARS receives, stores, and continuously tabulates market orders routed through the common message switch. It matches buy and sell interest in each stock, calculates imbalances and reports them.

opening bell

A bell that is rung at the start of a trading day on a securities exchange, most famously on the New York Stock Exchange.

opening sale

A transaction where the seller of an option becomes the writer.

See also: option, writer

operating cash flow

Cash generated by a company's operations during the year. Similar to earnings before interest, tax, depreciation and amortisation (EBITDA), but with changes in working capital also deducted.

operating costs

Also known as overheads, these are the costs, such as sales and administration, that are in addition to the direct costs of manufacturing or of providing services.

operating income

See 'operating profit'.

operating margin

Operating profit expressed as a percentage of turnover; also known as return on sales.

See also: gross margin, turnover

operating profit

The turnover of a company (its sales) minus its operating expenses (direct costs, depreciation and overheads), but before deduction of interest payments and taxes. Also known as EBIT and operating income.

See also: gross profit, operating costs

opportunity cost

In general, the cost of an alternative that must be forgone in order to pursue a certain action, or the benefits you could have received by taking an alternative action. In investment, the difference in return between a chosen investment and one that is necessarily passed up.

option

An option is a contract that gives its holder the right but not the obligation to buy or sell a fixed number of shares (or other instrument) at a fixed price on

or before a given date. A call option is an option to buy shares and a put option is an option to sell shares. The date by which the option must be exercised is known as the expiry date.

See also: call option, London International Financial Futures and Options Exchange, put option

option premium

The 'price' of the option, paid by the buyer.

See also: option

option pricing model

A mathematical model used to calculate the theoretical value of an option using inputs such as the price of the underlying instrument, the option strike price, the time remaining till the expiration date, the volatility of the underlying instrument, and the risk-free interest rate.

option series

A specific option defined by its underlying stock, exercise price, expiry date and type.

See also: exercise price, expiry date, option

option to redeem

Some stocks, in particular loan notes, give their holders the right to convert the stock into cash at particular times during the stock's life. In the case of loan notes, the opportunity will often occur at the time the interest payments are made which may be half-yearly or quarterly. Holders of stock who want to redeem will know in advance when the dates are, and have to give formal

notice to the company in advance of their wish to redeem. Government bonds (gilts) also carry an option to redeem sometimes.

option writer

The person or institution who is the initial 'seller' of an option who has to fulfil the terms of the option contract if the holder chooses to exercise it. So if the holder exercises a call option to buy some shares, the option writer has to deliver the shares. The option writer has an obligation, but no rights. It is not up to him whether the option is exercised.

See also: exercise, option

Options Clearing Corporation OCC

In the US, the OCC is the body that clears options transactions for the various options exchanges and regulates the listing of new options. Founded in 1973, OCC is the largest clearing organisation in the world for financial derivatives instruments. It operates under the jurisdiction of the Securities and Exchange Commission.

www.optionsclearing.com

order book

In the context of the London Stock Exchange, the automated trading system, called SETS, introduced in 1997 for the largest companies quoted on the LSE. Trades through SETS cut out the need for market makers theoretically meaning a narrower bid-offer spread. Smaller companies on the LSE continue to use the SEAQ system.

See also: Stock Exchange Automated Quotation system

ordinary shares

Ordinary shares represent the ownership of a limited company. Companies are incorporated with an authorised share capital – for instance 1,000 ordinary £1 shares. They do not have to issue all the authorised shares, but can issue as many as they like up to the authorised number. Once issued the shares can be traded either privately or on an exchange if the company has listed them. The price at which they trade will have nothing to do with the par value, but will be determined by market forces. Shares usually come with a right to vote at the company's Annual General Meeting, and an entitlement to a share of dividends declared. They are, however, unsecured, meaning that shareholders are last in the queue if a company goes into liquidation. Known as common stock in the US.

See also: preference shares

organic growth

A company is said to be growing organically when it is increasing the turnover of its existing business. Contrast this with a company that is growing by acquiring other companies.

See also: acquisition

Organisation for Economic Co-operation and Development

OECD

A group of 30 or so developed countries, based in Paris, that promotes democratic government and the market economy.

www.oecd.org

organised securities exchange

A stock exchange where trading of listed securities takes place, such as the New York Stock Exchange. Contrast with 'over the counter trading'.

See also: New York Stock Exchange, over the counter

orphan stock

A stock that has been largely ignored by analysts usually because it is small or in an out-of-favour sector. Value investors often believe that some orphan stocks are undiscovered bargains.

oscillator

In technical analysis, an indicator that moves up and down within a band, indicating buy and sell signals by graphing the difference between a short and long-term moving average.

OTC

See 'over the counter'.

out of the money

An option or warrant with negative intrinsic value. For example, a call option/warrant whose exercise price is higher than the price of its underlying asset has no intrinsic value and is out of the money. The only value that is out of the money options/warrants can have is their time value. Put another way, while there is still some time before the expiry of the option or warrant, there is always a chance that the price of the underlying asset will move in favour of the option/warrant holder.

See also: expiry date, intrinsic value, time value

output tax

The amount of value added tax a company adds to the price of its product or service. Companies registered with HMRC for VAT have to charge VAT on their goods and services (with some exceptions). Every quarter they have to submit a VAT return that shows all their VAT outputs (where the company has received VAT from its customers) and all their VAT inputs (where the company has paid VAT on its purchases). If outputs exceed inputs, the company has to pay the difference to the government. If inputs exceed outputs, the company can claim a refund.

See also: HM Revenue & Customs, input tax, value added tax

over the counter

OTC

A market that is conducted between dealers by telephone and computer and not on a listed exchange. OTC stocks tend to be those of companies that do not meet the listing requirements of an exchange, although some companies that do meet the listing requirements choose to remain as OTC stocks. The deals and instruments are generally not standardised and there is no public record of the price associated with any transaction.

See also: National Association of Securities Dealers

overbought

A term describing a market in which excessive buying has created an artificially high level when judged by fundamentals. By implication, someone who thinks the market (or a particular company) has been overbought, also

believes that it is due for a downward correction. The opposite of oversold.

See also: correction

overcapitalised

A term describing a company that has more equity capital than it needs. This is a subjective judgement. The more common problem is for a company to be undercapitalised. Many small companies have a business that is essentially healthy, but they run into trouble when growing rapidly without adequate capital backing.

See also: loan capital, share capital

overdraft

A facility (usually at a bank or other financial institution) enabling an account holder to borrow up to an agreed amount and often for an agreed time.

overheads

See 'operating costs'.

overnight trade

A term used to denote that a transaction was reported after the close of a stock exchange trading session, in the case of the London Stock Exchange, after 17:15 on one day and before 7:15 on the following day.

See also: London Stock Exchange, Stock Exchange Automated Quotation system, Stock Exchange Electronic Trading Service

oversold

A term used to describe the situation following a decline in share prices gen-

erally or of a particular share, in which some investors believe that prices have fallen too far, i.e. shares are undervalued relative to fundamentals. The opposite of oversold.

oversubscribed

A term referring to an offer for sale where applications for shares exceed the number of shares available. When this happens, the allocation of shares will depend on the rules set out in the company's prospectus, but a common solution is to scale back all applications so that everyone gets a smaller slice of the available new issue than they applied for.

See also: new issue, offer for sale

overvalued

A term used to describe a security that is trading at a higher price than it should be in relation to fundamentals. The opposite of undervalued.

overweight

A fund is said to be overweight in an asset when it holds more than the appropriate index or benchmark weight.

See also: index fund

Pp

P/E ratio

See 'price earnings ratio'.

paid in (up) capital

Capital subscribed by shareholders for a company's stock or shares when paid in full. In the UK, known as paid up capital. Callable capital would be that part for which the company has yet to receive payment.

paid up policy

A policy, often a life insurance policy, where all premiums have been paid. This may be a policy where premiums are paid for a set number of years after which it is deemed paid up although continuing in force.

See also: insured, insurer, life assurance

Panel on Takeovers and Mergers

POTAM

A UK, non-statutory watchdog responsible for overseeing the conduct of takeovers involving companies listed on the London Stock Exchange, ensuring that all shareholders are treated equally. Commonly called the Takeover Panel, it writes and enforces the City Code on Takeovers and Merg-

ers, which sets out in detail the management and timing of takeover bids.

www.thetakeoverpanel.org.uk

paper

A loose term referring to any securities.

paper loss

A loss that would become real if the shares held were sold at their current price, having fallen in value since they were purchased. Also known as an unrealised loss.

paper profit

A profit that would become real if the shares held were sold at their current price, having risen in price since purchase. Also known as an unrealised gain.

parent company

A company that owns enough voting stock in another firm to control management and operations by influencing or electing its directors. Sometimes called a holding company.

par value

The issue price of a security (stock, share, bond etc). Par value is the same

as ‘nominal value’ and bears no relation to the market price. Gilts and other bonds are normally issued with a par value of 100 and as they are traded on the market throughout their lives their value can vary above or below 100 depending on their popularity at the time. When they reach their redemption date they will be redeemed at their par value of 100.

See also: nominal value, redemption date

pari passu

Ranking equally, meaning literally ‘with equal step’. For example, in a new issue of shares which carry equal rights with existing shares they are said to rank *pari passu*.

Paris Club

An ad hoc forum of creditor governments, which meet to discuss the (renegotiation of) debt owed to them.

parity

A term used to describe an option contract’s total premium when that premium is the same amount as its intrinsic value. For example, when an option’s theoretical value is equal to its intrinsic value, it is said to be ‘worth parity’. When an option is trading for only its intrinsic value, it is said to be ‘trading at parity’. Parity may be measured against the stock’s last sale, bid, or offer. The term is also used loosely to describe two currencies that are trading at one-for-one. For example, the euro has sometimes traded at parity with the US dollar when one euro equals one dollar.

parity ratio

A measure of a warrant’s ‘moneyness’ or intrinsic value.

partial intestacy

A situation where a will does not cover the whole estate of a deceased person.

See also: will

participating life insurance

Life insurance that pays bonuses, effectively a dividend, to policyholders based on the company’s investment performance. The policyholder can sometimes choose whether to take the dividend in the form of cash, reinvest in the policy or pay a reduced premium.

participating plan

A with profits life assurance policy that participates in the bonuses of the company.

participating preference shares

Preference shares which, in addition to paying a specified dividend, entitle preference shareholders to participate in receiving an additional dividend if ordinary shareholders are paid a dividend above a stated amount.

See also: preference shares

partly paid shares

A system of payment, common in flotations, that allows shareholders to pay for their shares in two or three instalments. Until the final instalment is made the shares are only partly paid.

See also: privatisation

partner

A person who is a member of a partnership.

partnership

Generally, two or more individuals or entities conducting business for mutual benefit. Specifically, two or more people who jointly own an unincorporated business. There are two types of partners: general partners and limited partners. General partners are fully responsible for the debts of the business and have unlimited liability. Limited partners are liable only to the extent of their original investment and are not allowed to participate in its management.

pass book

A book of recorded transactions in a savings account, issued by banks and building societies in which a customer's deposits, withdrawals and interest are entered. The book is retained by the customer to give an indication of the running balance.

See also: postal account

passed dividend

The failure of a company to pay a scheduled dividend, usually because of reduced profits. When a company passes a dividend, institutional investors are usually very unforgiving, and the company can expect to see its share price marked down sharply.

See also: dividend, dividend yield

passive fund

A collective fund that tracks rather than

trying to beat the index by investing in companies in accordance with the constituents of an index. The managers of the fund have far lower expenses, and the charges to investors are lower than for active funds. Active funds aim to outperform the market average by seeking out stocks that will provide superior total return using research and analysis. Advocates of passive funds note that many actively managed funds fail to match the index, let alone beat it. Advocates of active funds argue that the more investors there are investing in index funds, the more opportunity there is for active investors to be selective and invest in outperforming shares.

See also: active fund, exchange traded fund, investment trust, open ended investment company, unit trust

pathfinder prospectus

A prospectus published by a company prior to flotation on the stock market that contains information about the company and the offer, but which leaves out details of the offer price, prospective yield and P/E ratio. The missing information is filled in just before the full prospectus is published. Companies send out pathfinder prospectuses to potential investors to build interest in the flotation.

See also: new issue, offer for sale, tender offer

payables

A US term for creditor.

pay as you earn

PAYE

UK residents who earn income from employment or who receive a pension are liable for income tax under the PAYE system. Taxable pay (gross salary less pension contributions less allowances) is used by the employer to calculate a person's income tax (according to his/her notice of coding).

See also: HM Revenue & Customs, income, National Insurance contributions, taxable earnings

pay as you go basis

PAYG

A system of tax payment by which an employer deducts a proportion of an employee's salary for onward remittance to the tax authorities.

payback

The length of time needed for an investment to recover its costs.

paydown

The state reached when a company or government is repaying more debt than it is borrowing.

payee

A person to whom a payment is made.

payer

A person who makes a payment to a payee.

payer of fixed

A term in the interest rate swap market referring to the person who pays the fixed interest rate and receives the floating rate from the counterparty.

payment card

A plastic card, such as a charge card, credit card or debit card, used by the owner to purchase goods or services or to obtain cash.

See also: charge card, credit card, debit card

payment protection insurance

A type of insurance sold alongside unsecured loans to cover monthly repayments in the case of unemployment, accident, sickness or death.

payout ratio

The proportion of earnings or net profits paid out by a company in dividends to shareholders. The dividend payment is divided by earnings in the same period.

See also: dividend, dividend yield, earnings

PBIT

Profit before interest and tax. Operating or trading profits.

peak

Technical analysis term to describe the point at which selling pressure starts to dominate over buying pressure, halting the rise in the security's value, and perhaps becoming a resistance point. The opposite of a trough.

pecuniary legacy

See 'legacy'.

See also: will

pegging

The act of keeping a security's price, often an exchange rate, fixed for some time.

penny shares/stocks

In the US, stocks that normally sell for \$1 or less and are more speculative since a relatively small increase or decrease in price can result in significant gains or losses. In the UK, traditionally any share costing less than 100p, but the term sometimes also applies to shares with limited liquidity.

Pension Benefit Guaranty Corporation

PBGC

A US federal corporation, set up in conjunction with the Employee Retirement Income Security Act (ERISA) of 1974, to guarantee basic benefits to participants in underfunded pension plans.

www.pb.gc.gov

See also: Employee Retirement Income Security Act, personal pension plan

pension credit

A state benefit introduced in 2003 that is intended to give people living in Britain a minimum income for their retirement. In 2007-08, it guaranteed everyone over 60 an income of £119.05 per week for a single pensioner.

www.thepensionsservice.gov.uk

See also: basic pension, State Second Pension

pension forecast

Upon request, a written forecast may be obtained from UK's Pensions Service outlining a person's estimated entitlement to the National Insurance Pension (State Pension) at retirement age (Form BR19), based on certain assumptions and total NI contributions paid over the person's working life to date.

www.thepensionsservice.gov.uk

See also: Benefits Agency, graduated retirement benefit, National Insurance basic pension, National Insurance contributions, State Second Pension

pension fund

A fund set up by a company, union, or other organisation to invest the pension contributions of members and employees, and pay out pensions to those people when they reach retirement age. Pension funds accumulate pools of capital, which they invest in the stock and bond markets. Because of the weight of money, they exert considerable influence on the markets, and their decisions on which shares to hold in which sectors have a substantial impact on prices. Pension funds can employ their own fund managers or delegate responsibility to external fund managers.

See also: fund manager

Pension Schemes Registry

The UK Register of all occupational and personal pension schemes, and their predecessors, used to carry out searches on request by members of the public.

www.thepensionsregulator.gov.uk

See also: personal pension plan, occupational pension scheme

pension tax relief at source

PTRAS

A way to give pension scheme members a tax incentive to save. Those in occupational schemes have the contributions taken from their pre-tax, gross income.

See also: personal pension plan

Pensions Advisory Service

See ‘OPAS’.

See also: occupational pension scheme

Pensions Compensation Board

PCB

An executive non-departmental public body established in 1997 that pays compensation to individuals where money has been taken dishonestly from occupational pension scheme funds and the employer had become insolvent.

See also: occupational pension scheme

Pensions Ombudsman

The UK’s Pensions Ombudsman can investigate and decide complaints and disputes about the way that occupational and personal pension schemes are run.

www.pensions-ombudsman.org.uk

See also: ombudsman

PEP

See ‘Personal Equity Plan’.

See also: individual savings account

peppercorn rent

A nominal rent intended to demonstrate that a property is leasehold and not freehold. Traditionally, it might have been as little as one peppercorn per year.

See also: freehold, leasehold land

perfect market

A market in which no one participant can influence prices. It is characterised by a free flow of information, no barriers to entry, and a large number of buyers and sellers.

performance bond

A form of guarantee or bond from an insurance company, given by the seller in a contract, that in the event of the terms of the contract not being fulfilled, the buyer will be able to claim compensation in the form of money.

performance fund

A fund with an objective of capital growth with little or no dividend payments.

See also: growth fund, growth investing

performance share

A share whose price is anticipated to grow at an above average rate but with little or no dividend payments.

performing loan

A loan where the borrower is still keeping up with interest payments.

periodic payment plan

A plan or mutual fund in which capital is accumulated by regular investments, typically on a monthly or quarterly basis.

See also: mutual fund

permanent health insurance

PHI

In return for regular premiums, PHI provides an income in the event of the policyholder contracting a long-term illness or injury. There is no payment on death. Benefits are paid usually after a waiting period of several months or even a year known as the deferment period, during which time the employer will often pay the employee's salary.

permanent interest bearing shares

PIBS

PIBS are shares issued by building societies that pay a fixed rate of interest rather than a dividend. For the building societies concerned, they are a way of raising money without demutualising. As an investor, the rate of interest you receive will be the rate in effect at the time you bought your shares. Even though the rate on the PIBS may change, your income will always be the same. Although PIBS are 'safe' in the sense that there is a quantifiable, regular and certain income, there is a risk of capital erosion if the share price falls below the price you paid. If PIBS make a capital gain, there is no CGT to pay.

perpetual bond

A bond without a maturity date and no arrangement for repaying the principal that pays interest indefinitely.

See also: bond

perquisite (perk)

A benefit given to an employee in addition to his/her salary such as a company car, pension contributions and free products.

personal accident and sickness insurance

An insurance policy similar to personal accident insurance with the additional benefit of cover against disablement due to sickness.

See also: insurance

personal accident insurance

An insurance policy which, in return for regular premiums, pays a specific sum in the event of death, loss of sight or limbs or other permanent disablement due to an accident.

See also: insurance

per se

By itself.

personal allowance

UK tax allowances that can be used to reduce a person's taxable income. The main allowance is the 'personal allowance', an amount of income that is tax-free, which stood at £5,225 in the tax year 2007-08.

See also: deductible, gross income

personal equity plan

PEP

A plan, discontinued in April 1999 and replaced by individual savings accounts (ISAs), where people over the age of 18 could invest in company shares via an approved plan manager or through qualifying unit trusts and investment trusts and receive both income and capital gains free of tax. The maximum investment amounts were £6,000 for a general PEP and £3,000 for a single company PEP per tax year.

See also: individual savings account, investment trust, unit trust

personal exemption

In the US, the amount a person may subtract from personal income when computing federal and state income tax.

See also: income tax, personal income

personal identification number

PIN

A set of numbers (usually four) that the owner of a payment card uses when withdrawing cash from an automated teller machine (cash dispenser).

See also: automated teller machine, charge card, credit card, debit card

personal income

A person's total income which includes salary, transfer payments, dividend and interest income etc.

See also: dividend, interest

Personal Investment Authority

PIA

The UK's PIA used to regulate the majority of the 4,000 plus companies conducting investment business with private investors in the financial services market. The PIA replaced FIMBRA and LAUTRO and some activities of IMRO and the SFA in 1994, and was itself taken over by the Financial Services Authority (FSA) in December 2001.

See also: Financial Services Authority, self-regulatory organisation

personal loan

Loans available from banks and other financial institutions to private individuals for personal use such as the purchase of a motor vehicle, holiday or similar item. Repayment periods vary from one year to five years. No collateral is asked for or given for the loan.

See also: collateral

personal pension plan

PPP

A savings scheme introduced by the UK government in 1985 to enable the self employed, and employees working for companies not operating a group pension scheme, to build up a pension fund for retirement. PPPs are money purchase schemes and contributions to PPPs receive tax relief. An employer may contribute to a person's PPP but this is not obligatory. Personal pensions can move with individuals when they change jobs.

See also: annuity, money purchase scheme, net relevant earnings, retirement annuity contract (RAC), unit linked

personal possessions

The personal possessions of a deceased person that pass to the beneficiary or beneficiaries of the residue of estate unless otherwise stated in the will.

See also: beneficiary, estate, will

petrodollars

A term referring to the dollars held by oil producing countries when oil prices rose sharply in the 1970s. After a period in which it was rarely used, high oil prices since about 2004 have made the term more common again.

petty cash

Cash held by a company on its premises to cover small items of expense. A record of such transactions is usually kept in a petty cash book.

See also: cash

Pfandbriefe

German bonds issued by mortgage banks that are collateralised by long-term assets. These bonds represent the largest segment of the German private debt market and are considered to be the safest debt instruments in the private market.

PFI

See private finance initiative

phased retirement

The arrangement of a personal pension plan in segments to enable the policyholder to take a pension in stages. The lump sum entitlement is also phased. The policyholder may elect to phase

the purchase of an annuity or to phase income drawdown.

See also: personal pension plan

physicals

The actual commodity that is delivered to the buyer of a contract in a spot market or on expiry of a futures contract.

See also: actuals, futures contract, hedging

PIBOR

Paris Interbank Offered Rate – the rate at which French banks lend funds to each other.

PIBS

See permanent interest bearing shares

PIN (number)

See ‘personal identification number’.

See also: charge card, credit card, debit card

pip

A small price movement in a security, the precise meaning of which varies between markets but is often the smallest possible movement, i.e. one penny in the UK or one cent in the US. The word point is also sometimes used.

pit

An area within an open outcry exchange where trading in a particular futures or options contract is conducted.

See also: futures, open outcry, option

placing

When a company has a new issue of its shares, either as part of an IPO (flotation) or after listing, it has two choices. It can have an 'offer for sale' to the public at large or it can 'place' the shares with institutions. In the 1980s there were lots of high profile new issues involving offers for sale, and some of them were done as tender offers where investors effectively had to bid for the shares. The costs of a placing are far lower than an offer for sale.

See also: flotation, new issue

plain vanilla

A financial derivative or security with fairly standard exercise terms and no special clauses.

See also: exotic warrant

Plaza Agreement

An agreement following a meeting in New York in 1985 that set up the G5 group of nations and led to a devaluation of the dollar.

PLC

See 'public limited company'.

ploughed back

Corporate earnings that are reinvested rather than distributed to the owners or shareholders (as dividends). Sometimes written as plow back.

Plus

See Ofex

PMI

See 'purchasing managers index'.

point

A small price movement in a security.

See also: pip

poison pill

A tactic employed by a target company to make a hostile takeover less attractive by, for example, giving bond holders certain rights to redemption at a premium in the event of a takeover.

point and figure

A type of charting used by technical analysts that plots price changes without regard for time or volume. A point and figure chart has price on the Y-axis and time on the X-axis, but the time function is not regular because prices are only plotted on the chart when there is a change. Whenever a price rise occurs, an X is marked on the chart. The Xs are marked vertically as long as the changes are heading in the same direction (i.e. up). When the prices start falling, a new line on the X axis is used and marked with an O. The idea behind point and figure is that you see on the chart a clear pattern of significant price movements up and down.

See also: line chart, technical analysis

polarisation

A principle of UK financial regulation stating that salesmen and advisers have to choose between being either completely independent or tied to the products of a single supplier. The aim is to make it clear to the customer on what basis someone is trying to sell them a

financial product. Depolarisation, in 2004, allows an in-between arrangement, where a 'multi-tied' distributor offers products and services from a panel of selected providers.

See also: independent financial adviser, tied agent

policy document

The document that forms the contract between the insured, that is, the person taking out insurance, and the insurer (the insurance company).

See also: insurance, insured, insurer

policy loan

A loan granted by a life assurance company to a policyholder. The extent of the loan is based on a percentage of the surrender value (typically up to 90%) of a whole life or endowment policy.

See also: life assurance

poll tax

See 'council tax'.

Ponzi scheme

A fraudulent investment scheme that promises high returns that are achieved only by using the inflow of new money rather than wise investment decisions. Also known as a pyramid scheme. Charles Ponzi was an Italian immigrant to the US who, in 1919, promised to double investors' money in 90 days.

portability

The ability of an employee to retain benefits, such as a pension or insurance, when changing jobs. Also refers to a mortgage that can be transferred

from one property to another.

See also: personal pension plan

portfolio

A group of investments held by an institution or individual. The process of choosing which investments go into a portfolio is known as portfolio management or 'asset allocation', with decisions based on the investor's objectives relating to income, growth and risk.

See also: asset allocation, diversification, fund manager

position limit

The maximum position, either net long or net short, in a financial market instrument that may be held by one person or a group of dealers in a trading room.

positive carry

A situation where the financing cost of a position is less than the return. The opposite of negative carry.

post dated cheque

A cheque with a future date entered. The cheque cannot be cashed until that date is reached.

Post Office Savings

See 'National Savings and Investments'.

postal account

In the UK, a bank or building society account in which all transactions are conducted via post. In some cases a

pass book is used to record deposits and withdrawals although institutions increasingly acknowledge each transaction with a single statement sheet.

See also: building society, pass book

posting

The recording of an entry in a ledger.

See also: ledger

potentially exempt transfer

PET

A gift from one person to another that is not liable to inheritance tax provided the person making the gift lives for a minimum period after the transfer is made.

See also: gift, inheritance tax

pound cost averaging

In the UK, the investing of amounts over regular periods, typically monthly, in order to accumulate holdings in securities such as shares, unit trusts and investment trusts. When, for example, a unit trust price or investment trust price has fallen then more units or shares can be purchased for that month. Similarly when the price rises then fewer units or shares can be purchased. Over a period of a few years, the average price paid will be lower than the average share price for that period since more shares are bought at the lower price and fewer at the higher price.

See also: investment trust, ordinary shares, unit trust

power of attorney

A document that authorises a person,

called the attorney in fact, to act on behalf of another.

PPP

See ‘purchasing power parity’ or ‘public private partnership’

pre-tax profit

See ‘profit before tax’.

pre-emption rights

See ‘pre-emptive rights’.

pre-emptive rights

Rights given to existing shareholders that entitle them to buy additional shares in a new issue before it is offered to other potential investors, so that they can maintain their fractional ownership of the company.

See also: new issue

precious metals

Most notably gold, silver, palladium and platinum, but also including rhodium, iridium, osmium and ruthenium.

See also: London Bullion Market

preference shares

Shares in a company that give their holders an entitlement to a dividend but which do not usually carry voting rights. The important difference between preference and ordinary shares are: the dividend on ordinary shares is uncertain and variable; each ordinary share usually carries a vote; and in the event of a winding up, preference shares are usually repayable at par

value, and rank above the claims of ordinary shareholders. Preference shares issued with the right of conversion into ordinary shares are called convertibles.

See also: convertible, dividend, ordinary shares

preferred debt

Debt that takes precedence over other debts.

preferential form

Companies listed on the London Stock Exchange offering shares to the public are allowed to set aside a proportion of the issue for application from employees and from shareholders of a parent company floating a subsidiary via a preferential form.

See also: London Stock Exchange, new issue

preferred stock

See 'preference shares'.

preliminary results

See 'final results'.

premium

The extra amount you pay for a security over and above its intrinsic value. For example the premium on a warrant is calculated as the price of the warrant minus the difference between the exercise price and the price of the underlying asset. So if a warrant costing 8 gives you the right to buy a share at 75, and that share was currently trading at 70, the premium would be 3 (8-5). For investment trusts, the premium is the amount by which the share price of the

investment trust exceeds its net asset value per share.

See also: discount, investment trust, net asset value

premium bonds

The bonds, part of the range offered by the government's National Savings and Investments agency, do not pay interest but are put into a monthly prize draw.

See also: National Savings and Investments

prepayment fee

In the US, a fee charged to a borrower by a lender when a loan or mortgage is repaid ahead of schedule. In the UK, building societies impose a similar charge, typically binding the borrower to at least three years of repayments if such a charge is to be avoided.

See also: building society, mortgage

prevailing interest rate

Banks decide the rates of interest that they will pay on deposits, and the rates of interest they will charge their borrowers, on the basis of the prevailing base interest rate, which is in turn decided by the monetary authorities or central bank, the Bank of England in the case of the UK. Commercial rates will be affected by the term of the loan/deposit and the credit rating of the borrower/lender.

See also: Bank of England

price cash flow ratio

A financial ratio calculated as: current share price divided by cash flow per share.

price data

Virtually all the charts and indicators used by technical analysts are based on price data – a record of the day-to-day share price over a period. Of course share prices move during the day, so the share price figure on any one day could be any one of: the opening price, the high, the low, the close, the bid, the ask, or the mid. Many financial websites provide price data and charts free of charge.

See also: technical analysis

price earnings growth factor

PEG

The PEG of a company is calculated by dividing its prospective P/E ratio by the estimated future growth rate in earnings per share of the company. By itself the P/E ratio is a useful ratio because it shows how many times current earnings the shares cost – in a sense, how many years you would have to wait to get your money back if the company paid out all its earnings to shareholders. But the P/E ratio looks at historical information and does not, as does the PEG ratio, relate the price of the shares to its future performance. The lower the PEG, the less you are being asked to pay for estimated future earnings.

See also: consensus forecast, growth investing, price earnings ratio

price earnings ratio

P/E

The P/E equals the current share price of a company divided by its earnings per share in the latest reported period. For example, a company with a share price of 100 and earnings per share

(EPS) of 5 has a P/E ratio of $100/5 = 20$. A company's P/E (also known as its multiple) shows how high its shares are priced in relation to its historic earnings, and it is one of the most commonly used tests of market value. Although mathematically it relates share price to past performance, the reality is that P/Es are more about forward expectations than the past. A high P/E indicates that markets expect the company's earnings to grow rapidly in the future.

See also: fundamental analysis, price earnings growth factor

price high

The highest price achieved by a particular share during some period in the past, typically in the past 12 months.

price low

The lowest price achieved by a particular share during some period in the past, typically in the past 12 months.

price sensitive information

Information that, if made public, would be likely to have a significant effect on the price of a company's securities. Such information must, in connection with a listed company, be released to the market in a fashion that is fair to all investors. Any person who uses price sensitive information to make a profit either for themselves or a third party in the shares of a company is in breach of insider trading laws.

See also: insider dealing

price to book value

See 'net asset value'.

See also: market capitalisation

price to sales ratio

PSR

A financial ratio calculated as the current share price divided by sales per share, or market capitalisation divided by total sales. A low ratio of market cap to sales is appealing to some investors because a small increase in the company's profit margins could leverage into large increases in earnings per share.

primary market

A market in which new issues are traded. In other words, the trading of shares directly between a company and investors. By contrast, the secondary market involves investors buying and selling with other investors, with market makers and brokers facilitating trade. The companies whose shares are being traded are not directly involved in the secondary market, unless they engage in a share buyback.

See also: buy back, new issue, secondary market

prime rate

The interest rate which banks offer to their prime customers, that is, those with the most creditworthy records. The UK equivalent is base rate.

See also: bank, base rate, interest rate

principal

A person or company, usually the prime mover in a deal, for whom an agent or broker acts. Can also mean the face value of a debt instrument such as a bond or a note.

See also: agent, debt instrument, note

printing money

A term used loosely for a government that is increasing the money supply either by printing money or issuing new government debt.

prior charges

Charges liable on a company's senior debt such as debentures and loans that rank ahead of ordinary shares. More specifically, the fixed liabilities of an investment trust including loan capital and usually preference shares, the subtraction of which from total assets gives the net asset value of the trust. Prior charges may be expressed either at par value or current market value.

See also: investment trust, loan capital, net asset value, value

private company

A company that is not listed on an exchange and has not issued shares to the public.

private equity

An equity share of a company not listed on a public exchange. To sell private equity, an investor has to find a buyer in the absence of a marketplace. Returns on private equity generally occur as a result of a merger or sale, an initial public offering, or a recapitalisation.

See also: venture capital

PFI

See 'private finance initiative'

private medical insurance

An insurance policy that provides cover for the cost of private medical treatment. The policy may be taken out personally or individuals may benefit from a company-wide policy taken out by their employer.

See also: insurance policy

private placement

Typically a bond issue that has been placed directly with investors, often without a publicly available prospectus and stock listing.

privatisation

The sale of government-owned equity in nationalised industries or other state-owned commercial enterprises to private investors. The sale may either transfer all the equity to private ownership, or the government may retain some shares, or even a majority shareholding in order to prevent the company falling into the hands of an unwelcome bidder (a golden share also serves this purpose). Privatisation's heyday in the UK was in the mid-1980s and early 1990s when many nationalised industries, such as British Telecommunications, British Gas, British Rail, electricity and water companies were privatised.

See also: fat cat, offer for sale

pro forma invoice

An invoice presented by one company to another for payment for goods prior to their despatch. This method of invoicing is to ensure payment is received and is often the case when two companies have not traded before. If future trading is anticipated it will then

be usual for an account to be set up for the purchasing company with credit facilities.

probate

The legal procedure by which a will is authenticated and which confirms the authority of the executors to administer its contents.

See also: executor, will

profit and loss statement

P&L

A set of accounts, usually prepared annually, which depict a company's trading performance and are normally read in conjunction with the balance sheet and cash flow data. Sometimes called an income statement. Part of the net profit after tax may be used to pay a dividend with the balance being retained within the business for future investment.

See also: balance sheet, cash flow, dividend, operating costs

profit before tax

PBT

A company's net profit before deduction of corporation tax.

See also: corporation tax, net profit

profit margin

Operating profit as a percentage of sales (or turnover). Profit margin tells you about the underlying profitability of a company's trading activities, and is calculated before taking account of interest charges or tax. Sometimes known as return on sales.

See also: profit and loss statement

profit sharing scheme

A scheme where part of a company's profits are paid to employees as a reward for loyalty and contribution to the company's success. The reward may be given via cash, shares or a combination of the two, and might be immediate or deferred.

profit taking

The selling of shares when the price has risen, or the closing of a financial position, in order to crystallise trading profits.

profits warning

An announcement to be made by a quoted company when it expects its profits figure to be lower than the consensus forecast of analysts who follow the stock. The warning is released via the stock exchange to ensure that all investors have access to the news at the same time.

See also: consensus forecast

programme trading

A generic term for a variety of stock market strategies often aiming to take advantage of arbitrage possibilities between indices, futures and options, and the underlying stocks. Programme trades are so called because they are triggered and implemented automatically, once the parameters have been set. The method is controversial because some people believe that it injects instability into the financial markets, being liable to create sudden and steep share price movements.

promissory note

A signed statement promising to pay to a specified person or the bearer a particular sum of money on a fixed date or on demand.

proof of title

In the UK, a claimant making a claim in respect of life assurance will have to provide evidence of identity and that he/she is entitled to the proceeds, invariably by submitting the policy document. In the event of a claim following the death of the life assured, the death certificate will also need to be submitted to the insurers by the legal representatives of the deceased.

See also: assured, claim, insurer, life assurance

property

Anything owned by an individual or entity, including personal property, buildings and land, and intangible items such as a patent, trademark or copyright.

property bond

A bond issued by life insurance companies to investors whose premiums are invested in property.

property income taxation

See 'income from property'.

property tax

A tax charged on real property and assessed according to whether it is used for residential, commercial or industrial purposes. In the UK a form of property tax is council tax.

See also: council tax

proposal form

A form completed by a person applying for a life policy, which forms the basis of the contract.

proprietary trading

Transactions made by a securities firm that affect the firm's account but not the accounts of its clients.

ProShare

An independent not-for-profit company set up in 1992 with funding from the government, the London Stock Exchange and a number of other companies to encourage wider share ownership, including employee share ownership, for private individuals and employees. ProShare seeks to make share investing more accessible to everyone and to promote the advantages of share ownership as an integral part of long-term savings and investment. It was acquired by the Institute of Financial Services, a provider of financial education, in 2005.

www.ifsproshare.org

See also: London Stock Exchange

prospect

A person who is not currently a client or customer who may (or may not) purchase a product from the seller. If such a person subsequently does buy, he/she becomes a client.

prospectus

The document published by companies before they issue new shares to the public, setting out the company's business, its financial history, performance,

capital structure and future prospects, with the content complying with stock exchange rules.

See also: new issue, offer for sale

protected investment products

PIPs

PIPs are designed to give a guaranteed return on an investment but at the same time an opportunity to benefit from rises in the stock market. The protected return might, for instance, be 4% per year fixed for 5 years, so that even if the product's underlying index performs badly, that return is guaranteed. If the index performs better than the minimum return, the investor gets a bonus payment at the end of the period. They appeal to medium-term investors who want to avoid being completely exposed to the gyrations of the stock market.

protected rights

Pension benefits payable at retirement age that are derived from funds built from minimum contributions paid into an appropriate personal pension plan by the Government.

See also: appropriate personal pension plan

provisions

Liabilities that appear on a balance sheet estimating costs that are as yet not precisely known.

proxy

A person who acts on behalf of a member of a company for the purpose of voting at a company meeting. The

proxy can also take the form of a written authorisation used, for example, to cast a vote at a shareholders' meeting.

See also: annual general meeting

prudent man rule

An investment standard. In some US states, the law requires that a fiduciary, such as a trustee, may invest the fund's money only in a list of securities designated by the state, the so-called legal list. In other states, the trustee may invest in a security if it is one that would be bought by a prudent man of 'discretion' and 'intelligence', who is seeking a reasonable income and preservation of capital.

prudential supervision

A term sometimes used to describe the supervision/regulation of institutions such as banks, building societies and friendly societies where the supervising authority seeks to ensure that the depositors are protected by the institution in question being financially sound.

See also: building society, friendly society

PTM levy

A charge automatically imposed on investors, and collected by their brokers, when they sell or buy shares with an aggregate value in excess of £10,000. The charge is £1, and the money raised goes to the Panel of Takeovers and Mergers. The Panel writes and enforces the rules by which takeovers of companies listed on the London Stock Exchange are conducted.

See also: commission, Panel on Takeovers and Mergers

public limited company

plc

A company registered as a public company that has an unlimited number of shareholders and can offer its shares to the public. Most UK companies are incorporated as limited companies. Some grow to the point where they want to expand their shareholder base and have the capacity to raise additional capital. While many plcs are listed on a stock exchange, it is not essential to float the company to gain plc status.

See also: listed company, London Stock Exchange

public offering

An offering of new securities to the public.

See also: new issue, offer for sale

public private partnerships

PPP

Medium to long-term relationships between the public and private sectors, varying in scope, but using private sector expertise and capital to run public sector entities or build infrastructure. Popular with governments as they can shift responsibilities and sometimes save costs, or at least reduce capital investment.

Public Sector Borrowing Requirement

PSBR

See 'Public Sector Net Cash Requirement'.

Public Sector Net Cash Requirement

PSNCR

A UK term formerly known as Public Sector Borrowing Requirement (PSBR), PSNCR is the difference between the expenditure of the public sector and its income. Where there is a deficit it is financed by borrowing, principally via the sale of government gilt edged stocks (gilts). Public sector net borrowing also measures the difference between the expenditure and income of the public sector but differs from the net cash requirement in that it is measured on an accruals basis.

See also: gilt-edged stock, national debt

pump and dump

A fraudulent practice by investors that involves publishing overly optimistic forecasts for a company, raising the security's price, prior to then selling the shares before the price drops when the truth is known.

purchase and sale statement

P&S

See 'account sale'.

purchase ledger

See 'ledger'.

purchased life annuity

See 'annuity'.

purchasing managers index

PMI

A monthly survey of purchasing managers that records various aspects of corporate activity and is closely watched by financial markets as a leading indicator of economic activity.

purchasing power

The amount of goods and services that can be purchased by a given unit of currency. Purchasing power can be assessed by tracking an index of consumer prices and comparing the change between two different periods. Inflation will result in reduced purchasing power over a period of time.

See also: inflation

purchasing power parity

PPP

The theory that, in the long run, identical products and services in different countries should cost the same in different countries. This is based on the belief that exchange rates will adjust to eliminate the arbitrage opportunity of buying a product or service in one country and selling it in another. The theory only applies to tradable goods and services, not to immobile goods or local services. The theory also discounts several real world factors, such as transportation costs, taxes and transaction costs, and assumes that there is a competitive market for the goods and services in both countries.

pure endowment

A life assurance policy where the sum assured is paid if the life assured survives the term but in the event of prior death nothing is payable.

See also: assured, life assurance, sum assured

put/call ratio

The number of puts traded in a market in relation to the number of calls. Used as an indicator of market sentiment.

put option

An option that gives the buyer or holder the right but not the obligation to sell shares (or other financial instruments) at a fixed price on or before a given date. The seller or writer has the obligation to buy. Every put option has an exercise price, the price at which the holder is entitled to sell the shares to the option writer. If the price of the share falls below the exercise price, the option is said to be 'in the money' and to have an intrinsic value that is equal to the difference between the two.

See also: call option, option, time value

put spread

The simultaneous purchase (sale) of a put at one exercise price and the sale (purchase) of a put at a lower exercise price.

See also: put option

puttable

A bond is described as puttable, or having a put feature, when the holder has the right to sell the bond back to the issuer at a specific date and price prior to maturity.

put warrant

A warrant that gives its holder the right to sell an underlying instrument (e.g. a

share), and which would therefore normally be used by an investor who thought the price of the underlying asset was due to fall.

pyramid scheme

See 'Ponzi scheme'.

pyramiding

The use of profits on existing (futures) positions as margin to increase the size of the position. Or, more generally, the expansion of a business through leverage.

Qq

qualification period

That period of time, as stated in an insurance policy, during which benefits are not payable to the insured following a claim. This period is to enable the insurance company to confirm that the claim is genuine and is standard in health insurance.

See also: health insurance, insurance policy, insured

qualified accounts/opinion

Company accounts on which the auditor has expressed reservations about whether they represent a true and fair view of the company's financial condition.

qualified plan

A tax deferred pension plan set up by an employer to enable employees to accumulate tax-free savings for retirement benefits. Usually, contributions are made by employer and employee and when income is taken at retirement it is taxable.

qualified stock option

A US stock option, given to executives and employees, that complies with the requirements of the Internal Revenue Service. A qualified stock option is not

subject to tax at the grant date or when exercised.

See also: Internal Revenue Service

qualifying annuity

An annuity that is purchased within a qualified plan and receives favourable tax status.

See also: qualified plan

qualifying policy

The proceeds from a life assurance policy to an individual are free of tax provided the policy is qualifying. The rules that govern qualification relate to the length of time that premiums have been payable, the regularity of premium payment and the sum assured.

qualitative analysis

Determining the value of an investment, especially a stock, by examining its non-numeric characteristics, such as management, employee morale, customer loyalty and brand value.

quant

A person who conducts quantitative analysis in the financial markets.

quantitative analysis

The process of determining the value of a security by examining its numerical, measurable characteristics such as sales, margins and market share.

quartile

The investment industry ranks the performance of stocks and funds and might divide the rankings into four 'quartiles'. The best performing 25% are in the '1st quartile', the next best performing 25% are in the '2nd quartile', and so on.

See also: investment trust, unit trust

quick ratio

A financial ratio, sometimes called the acid test, which is similar to the current ratio, but more stringent. It indicates how readily a company can meet its short-term liabilities and is defined as the total of a company's cash plus accounts receivable, plus short-term investments, divided by current liabilities. The higher the number the healthier the company's position and a figure of 1 or higher means a company passes the test.

See also: acid test, current ratio

quote/quotation

The bid price and the offer price of a security quoted in a market at a particular time, but not necessarily the price at which a deal will be done.

See also: market maker, Stock Exchange Automated Quotation system

quoted company

See 'listed company'.

R85

The HMRC form required for non-tax-payers to receive the return from their bank or building society savings free of tax.

rally

An upturn in a share or a market's performance, following a fall or on breaking upwards out of a trading range.

random walk

The economic theory that posits that market price movements are random and that past share prices are of no use in predicting future prices. According to the theory, the market is efficient and share prices reflect reactions of the market to information that is assumed to reach the market completely randomly.

See also: technical analysis

rate of return

The measure of profitability of an investment. For a security, it measures the income obtained from an investment compared with its purchase or market price. For a company, it would be expressed as net profits divided by the capital employed.

rating

The classification of the quality of bonds by various independent, professional rating services. A bondholder expects to receive back the original investment, plus interest payments. But the likelihood of this and the rate of interest received will depend on the credit-worthiness of the borrower. Governments of leading nations, for example, can be relied on to honour their obligations to bondholders while companies and governments of developing nations sometimes default. Rating agencies such as Standard & Poor's, Moody's and Fitch give ratings to bonds to help analysis.

See also: bond rating

ratio spread

Option strategy using either puts or calls. The trader purchases a certain number of options and then sells a larger number at another strike price.

See also: call option, put option

ratio write

An investment strategy in which stock is purchased and call options are written on a greater than one-for-one basis; i.e. more calls written than the equivalent number of shares purchased.

real

The act of adjusting for the rate of inflation. If an economy's output has increased by 5% over a year and half of that reflects higher prices, half would be real growth.

real account

A ledger account detailing assets and capital (such as buildings and machinery).

See also: assets, capital, ledger

real estate

Property comprising land, including the air above it and the ground below it, and any buildings or structures on it.

See also: real property

real estate broker

One who arranges the sale and purchase of property in return for a commission. Known as an estate agent in the UK.

See also: estate agent, real estate

real estate investment trust

REIT

A publicly traded investment trust that invests the capital of its shareholders in real estate. Some REITs, called 'Equity REITs', take equity positions in real estate, receiving income from rents and capital growth from selling buildings. Others specialise in lending money to property developers, their income coming from interest payments on those loans, or buying mortgage loans. REITs are more liquid than investing in traditional real estate and they make it easier to invest in non-residential

property such as hotels and shops. REITs enjoy special tax advantages provided the bulk of their income comes from property and their earnings are distributed to shareholders.

See also: investment trust, real estate

real interest rate

The rate of return or interest after deducting the current inflation rate from the actual interest rate.

real property

See 'real estate'.

real return

The return provided by an investment after inflation has been taken into account.

See also: discounted cashflow, inflation, net present value

real time

Real-time prices are the live prices of shares made available on a computer screen the moment they are updated on the stock exchange systems, as opposed to delayed prices.

receivables

Outstanding debts owed to a company.

receiver

A person appointed by a court or creditors to wind up the affairs of a bankrupt or insolvent company, utilising assets to pay its creditors.

See also: creditors

receivership

When a company cannot meet its financial commitments, one or more of its main creditors may appoint a receiver. The receiver takes over running of the company, along with a court appointed trustee, doing whatever can be done to help the creditors get their money back.

recession

A period of general economic decline, normally with stagnating or declining economic activity (usually measured in terms of gross national or domestic product). Some countries have precise definitions – in the US, a recession occurs after two consecutive quarters of falling economic output.

See also: depression, gross domestic product, gross national product

recognised clearing house

In the UK, a clearing house that meets the requirements for recognition under the Financial Services Act 1986 and is approved by the Financial Services Authority (FSA).

www.fsa.gov.uk

See also: Financial Services Act 1986, Financial Services Authority

recognised investment exchange

RIE

In the UK, an investment exchange that meets the requirements for recognition under the Financial Services Act 1986 and is approved by the Financial Services Authority (FSA).

See also: Financial Services Act 1986, Financial Services Authority

recognised professional body

RPB

In the UK, a body that regulates the practice of a profession such as the Institute of Chartered Accountants in England and Wales, The Law Society and the Institute of Actuaries. They are typically involved in administering professional qualifications and fostering high professional standards, and have the power to discipline members. In the financial world, there has generally been a shift away from self-regulation by industry bodies towards independent supervision by the Financial Services Authority (FSA) or the Financial Reporting Council (FRC).

See also: Financial Services Authority, Law Society

recovery shares

Shares that have fallen in value but are considered to be capable of recovering especially when the broader economy picks up.

See also: bottom fishing, value investing

Red Book

Informal, and now largely historic, name for the detailed government spending and revenue forecasts in the UK that accompany each Budget speech. Formally known as the Financial Statement.

See also: The Budget

redeemable

A callable security that can be bought back by the original issuer from the purchaser prior to maturity subject to certain conditions.

redeemable preference shares

Preference shares that the issuing company reserves the right to redeem. The shares may, or may not have a specific redemption date or dates.

See also: preference shares, redeemable, redemption date, reserves

redemption

The repurchase of a security, such as a bond or preferred stock, by the issuing company at maturity, or before if it is cancelled by the company.

See also: debt security, maturity, preferred stock

redemption date

The date on which repayment or maturity of a bond or loan stock takes place.

See also: redeemable, redemption

redemption fees

Fees, designed to discourage withdrawals, imposed by a mutual fund on shareholders who dispose of shares within a relatively short period after purchase.

See also: mutual fund

redemption price

The price, specified at issuance, and sometimes called the call price, at which a bond or preferred stock can be redeemed by the issuer.

See also: preferred stock, redemption, redemption date

redemption yield

The return on a bond if it is held to its maturity date, reflecting not only the

interest payments a bondholder will receive, but also the gain/loss made when it matures. Yield calculations on bonds aim to show the return as a percentage of either its nominal value or its current price. The three main types of yield calculation commonly used are nominal, current or running, and redemption yield.

See also: gilt-edged stock

refer to drawer

A phrase used by banks in the UK when a cheque is dishonoured or 'bounced'.

refinancing

The issuance of new debt to replace old debt. The use of newly borrowed money from one, possibly the same, lender to repay an existing debt.

reflation

The pursuit of policy by a government or monetary authority to end a period of deflation when the price of goods has tended to fall in a sluggish economy.

refunding

The replacement of government debt, often debt that is about to mature, with new longer-dated debt.

registered competitive market maker

RCMM

Identifies US exchange members with an obligation to enhance the quality of markets by injecting their own or their firms' capital into difficult market-

making situations to improve market stability.

See also: market maker

registered form

A security that is registered in the books of the owner or custodian under the name of the owner. Securities are now commonly registered but are occasionally, and often used to be, in bearer form.

registered representative

RR

Also known as account executive, customers' broker, or similar title. Describes people who work in financial markets who have met the particular exchanges' requirements regarding background and industry knowledge, often passing relevant exams.

registered securities

Shares and bonds where holders have their names kept in a register maintained by the issuing company, in contrast to, for example, a bearer bond.

registrar

Registrars are commercial companies that maintain the register of shareholders for quoted companies. Traditionally, they would have to deal with the cancellation and reissue of share certificates, but as increasing numbers of shareholders use nominee accounts this burden is reducing. Registrars may be paid by their client companies to send out company communications with shareholders and process responses.

Registrar of Companies

The official body, called Companies House in the UK, with responsibility for the registration of limited companies, storing appropriate information and making it available.

www.companieshouse.gov.uk

See also: annual return

regression analysis

Statistical analysis that examines the correlation between two or more variables in a mathematical model and attempting to indicate whether the past relationships will be the same in the future. Regression analysis is used in the Black-Scholes option pricing model, portfolio theory and the capital asset pricing model.

See also: Black-Scholes option pricing model, capital asset pricing model, option

Regulations A, D, G, T, U (and others)

In the US, SEC federal regulations governing various aspects of the activities in financial markets.

See also: contracts for difference, margin account

Regulatory News Service

RNS

The London Stock Exchange's service that ensures that price sensitive information from listed companies, and certain other bodies, is disseminated to all RNS subscribers at the same time.

See also: direct input provider

regulatory pyramid

A network of safeguards that surrounds the US securities industry – from individual brokerages all the way up to the US Congress.

reimbursement

The repayment to a person who has incurred expenses on behalf of another. For example the reimbursement of an employee who has paid money on business related expenses (such as travel expenses) on behalf of his/her employer.

reinsurance

The mitigation or spreading of all or some of an insurance risk by an insurer by sharing it with other insurers in return for the payment or part payment of premiums.

See also: insurer

reinsurer

A company that accepts part of other insurer's risks in return for a share of premium income.

See also: reinsurance

relative strength

Relative strength compares the performance of a share to the percentage gain of a chosen index over the same period.

See also: fundamental analysis

relative strength index

RSI

A widely used technical analysis tool that compares the rises in a company's

share price or other financial instrument with the falls over a number of days, designed to identify signs of a stock being overbought or oversold.

See also: FTSE Actuaries All-Share Index

remortgage

The arranging of alternative finance for the purchase of a property that is already mortgaged. For example obtaining a mortgage with a lower interest rate or different term to replace the existing mortgage.

replacement cost

The current terms cost of replacing one fixed asset with another.

renewable

A short-term policy, which is cheaper initially, but more expensive in the long-term that can normally be renewed without medical checks. Renewables are also natural resources that can replenish over time.

renewable term assurance

Term life insurance with a term of, for example, three years, at the end of which the policy can be renewed for a further three years and similarly thereafter for an overall specified length of time.

See also: term assurance

renounceable documents

Documents that provide temporary evidence of ownership of unregistered shares. These include a company's offer of shares to the public, a rights

issue and a capitalisation or scrip issue. In each case instructions are given regarding action to be taken if the holder wants to have the shares registered in his/her name or to renounce them in favour of another person.

See also: rights issue, scrip issue

rent

Regular payment by a tenant to an owner for the use of land or buildings.

See also: landlord, tenancy agreement, tenant

rental yield

The yield that a landlord can expect to receive in rent, expressed as a percentage of the purchase price of the property.

renunciation

The relinquishing of shares by one person to another by the completion of a renunciation form usually attached to the allotment letter.

See also: allotment notice/letter

repayment charges

Most fixed, capped and discounted mortgages, and those offering cash incentives, impose a financial penalty on customers who redeem their mortgages before the special deal comes to an end. This may be a percentage of the total advance, the sum repaid or the balance outstanding.

repayment mortgage

A mortgage where throughout the term, regular payments (usually monthly) are

made partly to repay interest on the capital and partly to repay the capital itself (the amount of the loan). Initially the largest proportion of the repayments are used to pay interest since the capital amount outstanding is at its highest value. As the years proceed, more and more of the monthly repayments will be applied to reducing the capital until towards the end of the term the large proportion will be paying off capital and a small proportion paying interest.

See also: life assurance, mortgage, term

repo market

The repo market is one in which two participants agree that one will sell securities to another and make a commitment to repurchase equivalent securities on a future specified date, or on call, at a specified price. In effect, it is a way of borrowing or lending stock for cash, with the stock serving as collateral. Central banks use the repo market as part of their money market operations.

See also: swap

repo rate

The interest rate used in repo transactions, often set by the central bank.

reporting level

Sizes of positions set by the exchanges at or above which traders and brokers must report the size and detail of the position.

reporting limit

See 'reporting level'.

reserve currency

An internationally accepted currency used to settle commitments between all countries.

reserve requirements

The percentage of deposits that commercial lenders must by law have available as liquid assets or keep with the central bank. An increase in reserves forces lending to be reduced.

reserves

The retained profits of a company that form part of its capital.

See also: balance sheet

residence status

The definition of a person's status when living or working abroad with regard to his/her taxation liabilities. In the UK, a person can be resident in the UK, ordinarily resident in the UK, or domiciled in the UK.

See also: domicile

residuary estate

The remainder of an estate after the payment of debts, expenses and taxes and the distribution of legacies. Also known as residue of estate in the UK.

See also: estate, legacy

residuary legacy

See 'legacy'.

resistance level

A price level identified by technical analysts at which persistent selling of a

share or commodity takes place. If the share price history of one company is plotted on a chart, and the chart shows that the share never seems able to rise above 4 or fall below 3, then the resistance level is 4 and the support level is 3. If the share price does break through those barriers, a change of market sentiment towards the share may be indicated as it enters a new trading range.

See also: support level, technical analysis

restructuring

A process that sees a borrower replacing debt of one type or maturity with another form of debt. Also used more broadly to refer to the restructuring of a troubled company. Its remedial action may include selling non-core units, contracting or closing others and writing down inflated asset values, often accompanied by a refinancing to help cover the cash costs and other charges associated with the restructuring.

result of exercising option

A term used by the London Stock Exchange to denote that a transaction was reported as a result of exercising a traditional or a negotiated option.

See also: London Stock Exchange, option, Stock Exchange Electronic Trading Service

result of stock swap

A term used by the London Stock Exchange to denote that a trade was reported as a result of a stock swap or stock switch.

See also: London Stock Exchange, Stock Exchange Electronic Trading Service

retail investor

A private investor who buys shares through a stockbroker for his/her private portfolio, as opposed to an institutional investor.

See also: stockbroker

retail price index

RPI

A UK index of the prices of a basket of consumer goods and services used to measure the rate of inflation and index various benefits, savings products and other contracts. The equivalent in many other countries, including the US, is the consumer price index (CPI). The UK has also introduced a CPI, similar to the RPI, but based on the harmonised EU measure, for monetary policy targeting.

See also: inflation

retailer card

A plastic payment card issued by a specific retailer or group of retailers for limited use at their own outlets.

See also: payment card

retained earnings

The proportion of a company's profits after tax that is not paid out as dividends but reinvested in the company or used to pay off debt.

See also: capital, net profit after tax

retirement annuity contract

RAC

Tax relief was available for contributions made to a pension scheme known as a retirement annuity prior to the introduction of personal pension plans in 1988.

See also: annuity, personal pension plan, tax relief

retirement pension forecast

See 'pension forecast'.

retirement relief

A special relief for UK capital gains tax purposes that applies when an individual aged 55 or over disposes of his business or an interest in a business.

See also: capital gains tax, taper relief

retracement

A measure used by technical analysts to quantify the partial reversal of a stock's price move. Markets often retrace by 33%, 50% or 66%.

See also: technical analysis, trend

return on capital employed

ROCE

A measure of a company's profitability. It may be defined as: earnings before interest and tax divided by total capital employed. ROCE takes the financial assets employed in the business, including borrowings and shareholders' funds, and measures the return the company makes on them. If a company has a low ROCE, it is using its resources inefficiently. The difficulty lies in defining capital employed. Intangible assets are often excluded, for instance, even though items such as patents and the goodwill of an acquired company do represent investments on which a return is expected.

See also: capital employed, operating profit

return on equity

ROE

The profit of a company divided by its equity, sometimes known as book value. For instance, if the adjusted profit of a company is 1m and equity is 10m, the ROE is 10%. It is a benchmark that is popular with banks and other institutions whose book value is a fair reflection of the capital base, and where it is not misleading to ignore the role of debt financing in increasing returns but with significantly more risk. Similar to return on net assets (RONA).

See also: balance sheet

return on investment

ROI

The overall profit (or loss) on an investment, including both dividends and price appreciation, expressed as a percentage of the total invested.

See also: return on capital employed, return on total assets

return on assets

A measure of how good a company is at using the assets employed in its business. There are various measures of assets, including total assets, fixed assets and capital employed.

See also: return on capital employed

revaluation

The formal upward adjustment of a currency's official value or exchange rate.

reversal

A technical analysis term to describe a change in trend.

reverse annuity mortgage

RAM

A mortgage that permits elderly people who own their home outright to receive an income for life in return for gradually relinquishing ownership of the property.

See also: mortgage

reverse leverage

The investment of borrowed money where the return fails to match the interest payable on the loan. Also known as negative cash flow or negative carry.

reverse mortgage

A mortgage, also known as equity withdrawal, that permits elderly people who own their home outright to receive a loan, which can then produce an income with the home as collateral. The loan is repaid plus interest either at the end of the term or on the death of the borrower when the property would be sold.

See also: collateral, loan, mortgage

reverse takeover

The takeover of a larger company by a smaller one, or the takeover by a listed firm by one that is unlisted.

reversionary bonus

A bonus added to the sum assured (or basic sum assured) of a with profits life assurance policy out of a life company's surplus profits usually on an annual basis. These bonuses are payable at the end of the term of the policy (that is, at maturity), or on prior death of the life assured. Once allocated, their val-

ues are guaranteed provided premiums are paid up to maturity or death.

See also: life assurance, maturity, sum assured, term, terminal bonus

reversionary interest

The right to receive the property held in a trust at some future date. For instance, a person might establish a trust of shares that pays all income to his/her spouse until her/his death, and then when the spouse dies splits the capital equally between their children. In such a case, the children have a reversionary interest in the share portfolio.

revolving line of credit

A line of credit that, once arranged, can be drawn on by the customer according to need.

rho

A measure of the sensitivity of an option or warrant price to a change in interest rates.

See also: option

right of redemption

The right to recover property forfeited by foreclosure by paying the outstanding principal owed plus interest.

See also: debt security, foreclosure, maturity, preference shares

right of survivorship

The right of a joint owner to full title of a property when the death of the other joint owner occurs.

rights issue

An offer made by a quoted company to its shareholders to enable them to buy new shares in the company at a discount to the market price. Existing shareholders are usually offered shares in proportion to their existing holding. For example in a one for five rights issue, a shareholder would be invited to buy one new share for every five shares already owned. The new shares are offered at a discount to the current market price and because of that the rights have a value in themselves and can be sold separately.

See also: cum rights, deep discount, ex rights, scrip issue

rights offering

See ‘rights issue’.

Riksbank

The Swedish central bank.

ring fence

The practice of isolating a designated pot of money from outside risk.

risk

The possible downside on an investment can take many forms including, for example, currency risk, country risk, inflation risk, market risk, political or settlement risk.

risk capital

See ‘venture capital’.

risk management

A middle office function in an investment house that revalues positions to estimate possible future losses, and ensures that risks are kept within agreed limits.

risk reversal

An option strategy that comprises the purchase of a put and the sale of a call, or vice versa, with different strike levels, with the premium generated from the option sale at least partly financing the option purchase.

risk/reward

Comparison of the returns that can be earned from different types of financial instrument (bank deposits, bonds, shares, unit trusts, investment trusts, property) and the risks that are attached to them. Government bonds are the safest investment as a government is most unlikely to default but the interest payable is relatively low. In contrast, investment in equities will normally give greater returns over the long-term but the risk is much higher as in the short-term they could easily fall in value.

See also: equity risk premium, inflation, portfolio

riskless asset

A term used for an asset where the return is known with certainty.

See also: London Stock Exchange, market maker, Stock Exchange Automated Trading System PLUS

ROCE

See ‘return on capital employed’.

rolling settlement

Settlement is the process by which investors pay for shares they have bought and receive payment for shares they have sold. In some markets, this process has been done by means of an ‘account period’, normally ten working days. All the transactions during that period were balanced against each other to produce a single figure that was either paid to the investor or by him. It is more common to have rolling settlement, meaning that each transaction is settled a given number, say three to ten, days after the transaction date. The significance of rolling settlement and of shortened settlement times is that when investors sell shares, the proceeds get paid into their account more quickly.

See also: CREST, nominal account

rollover

The transfer of funds from one investment to another such as rolling over the proceeds from a bond that has matured into another bond, or the rolling over of a loan. It can also refer to the movement of a futures or options position from one delivery/expiry month to a further dated month by trading out of the existing position and simultaneously trading into the further dated month.

See also: expiry date, futures, option

rollover relief

A capital gains tax relief which applies when an individual disposes of a business or an asset used in a business and spends the proceeds on acquiring replacement assets during a qualifying period (normally up to one year before and up to three years after the date of the disposal of the original asset).

See also: capital gains tax, Enterprise Investment Scheme

round lot

A reference to the normal trading unit on a securities exchange. A round lot on an exchange might be \$100 for shares and \$1,000 face value for a bond.

See also: trading unit

round trip

The opening purchase or sale of a futures or options contract and the subsequent closing sale or purchase in the same contract. It is usual for transaction costs to be quoted on a round trip basis.

See also: futures contract, option

Royal Mint

The UK organisation, an executive agency located in Llantrisant, south Wales, which possesses the sole right to manufacture the country's coins and notes. It has also produced coins for more than 100 other countries.

www.royalmint.com

See also: Bank of England

royalty

Payment made for the use of property such as a copyright or patent.

RPI

See 'retail price index'.

RSP Gateway

A centralised routing system in the London stock exchange of electronic

links between stockbrokers and Retail Service Providers (RSPs), providing electronic pricing and execution services.

rule of 113

An arithmetic equation used to calculate how many years it would take for an investment to triple in value, given knowledge of its annual rate of return and reinvestment (compounding) of income. The rule says that if you divide the compound growth rate of any investment into 113, you get the approximate number of years it takes to triple your money.

See also: rule of 72

rule of 72

An arithmetic equation used to calculate how many years it would take for an investment to double in value, given knowledge of its annual rate of return and reinvestment (compounding) of income. The rule says that if you divide the compound growth rate of any investment into 72, you get the approximate number of years it takes to double your money. A return of 12% would double the investment in 6 years, while a return of 2% would double the money in 36 years.

See also: compound interest

rule of twenty

An investing axiom that was perhaps more relevant in times of higher inflation rates suggesting that if the domestic inflation rate plus the P/E ratio of the stock market as a whole is less than 20, the market is cheap; if more, it's expensive.

run

A sustained period of either selling that drives down the price of a security or commodity or withdrawals from a savings institution.

See also: bear

runners

Liquid benchmark bonds. Traditionally, messengers or clerks who delivered orders received by phone clerks to brokers for execution in the pit.

Russell 1000/2000/3000

Stock indices of US companies constructed by the Russell Company and now used by many fund managers.

www.russell.com

Ss

safe haven

Term, normally reserved for a currency such as the US dollar or Swiss franc, into which fund managers will put assets in times of market, often political, uncertainty.

salary

Wages in return for work that are received regularly, usually weekly or monthly, possibly including other benefits such as insurance and pension contributions.

salary reduction plan

A tax deferred retirement plan that provides for an employee to have a certain amount of gross salary withheld and invested in a choice of stocks and bonds, possibly for inclusion in a retirement plan. Contributions and fund growth are free of tax until withdrawal.

sale and leaseback

The sale of assets with an agreement to lease them back for an agreed period of time. The seller welcomes the cash injection while the buyer secures a cash flow into the future.

sales

Total value of goods or services sold by a company in a period of time, often called turnover or revenue. Sales are recognised in the accounts at the point when the company either has received payment or is very likely to do so.

sales charge

A brokerage fee charged to a buyer of securities, shares in a mutual fund or property. In the case of securities, the charge is deducted prior to the balance being invested in the fund.

See also: mutual fund

sales ledger

See 'ledger'.

sales tax

In the US, a state or local government tax levied on goods and services. The amount of tax is based on a percentage of the selling price. An item costing \$100 with a sales tax of 5% will cost in total \$105.

Sallie Mae

Familiar name for the SLM Corporation (formerly the Student Loan Marketing Association), a US body that

guarantees student loans traded in the secondary market. Originally government-owned but now privatised.

www.salliemae.com

samurai bond

A bond issued by a foreign borrower in Japan. Denominated in yen, it can be bought by non-residents of Japan.

See also: bond

S&P500

See 'Standard & Poor's 500 Index'.

Sarbanes-Oxley Act

US legislation that tightened up corporate financial reporting, introducing a federal accounting supervision board and criminal liability for executives who are shown to have falsified accounts.

save as you earn

SAYE

A former UK government scheme that allowed tax concessions to people making regular savings from their salaries into certain building society, bank and National Savings accounts. Maximum SAYE savings per month were only £20 and the scheme was abolished after the November 1994 Budget.

See also: National Savings & Investments

savings account

An account with a bank or financial institution which pays interest on the balance held, usually monthly or annually, with the amount of interest usually de-

pending on the amount of money in the account and the country's 'base rate' set by the central bank. There is often a notice period required for withdrawals and in most cases the longer the notice period, the higher the interest rate.

See also: Building Societies Investor Protection Scheme, Deposit Protection Scheme

savings and loan (association)

S&L

In the US, a federal or state financial institution that takes depositors' savings in return for dividends and provides home mortgage loans.

savings element

The cash value that accumulates in a life insurance policy. The premium is applied to give both life cover plus a savings element that grows tax-free until withdrawn.

See also: cash value life insurance

savings rate/ratio

The amount saved by a country's population divided by disposable income, expressed as a percentage.

scalp/scalper

A trader, normally in the futures and options markets, who buys and sells quickly to take advantage of small price fluctuations. Usually a scalper is ready to buy at the bid and sell at the ask price, providing liquidity to the market. The term 'scalper' is used because these traders attempt to 'scalp' a small amount on a trade.

See also: day trading, liquidity

schatz

German government debt with a short, two-year maturity.

schedule

That part of an insurance or assurance policy that sets out the particular details relevant to a contract. Details listed typically include the policy name and number, the policyholder's name, the commencement and maturity dates, the benefits payable, the life or lives assured in the case of life assurance and the premiums payable etc.

See also: assured, maturity

schedule A, B, C, etc

Various tax schedules in the UK and US.

screen trading

Trading conducted via an electronic system, in contrast to face-to-face trading on an exchange floor.

scrip dividend

The issue of additional shares by a company to shareholders in lieu of a dividend. The shares have an equivalent cash value to the dividend. No dealing charges or stamp duty is payable on the issue of the new shares.

See also: dividend, issue, shareholder

scrip issue

A free issue of shares to shareholders, in proportion to their existing holdings, prompted when a company transfers money from its reserves to permanent capital. Also known as a capitalisation

issue, scrip issues are born out of an accounting quirk. If the company has been trading profitably for some time, the reserves can far outweigh the ordinary share capital of the company as a proportion of total shareholders' funds.

See also: corporate actions, liquidity

scripophily

A term describing the hobby of collecting antique bonds, stocks and other financial instruments. Values are affected by beauty of the certificate and the issuer's role in world finance and economic development.

SDR

See 'special drawing rights'.

SEAQ trade

Stock Exchange Automated Quotation is a continuously updated electronic notice board at the London Stock Exchange containing price quotations of UK securities. A SEAQ trade denotes a single uncrossing trade, detailing the total executed volume and uncrossing price as a result of a SEAQ auction.

See also: London Stock Exchange, Stock Exchange Automated Quotation system

seasonal adjustment

An adjustment made to many economic data series to remove peaks and troughs caused by seasonal patterns. The data within a year can be heavily affected by such fluctuations and the adjustment makes interpretation much easier. Retail sales, for example, are much higher around Christmas than at other times of the year, so a factor is

subtracted to make the month-to-month comparison more valid.

seasoned issue/offer

A security issued by a well established and sound performing company with generally high liquidity. If a company already listed on the exchange issues additional shares it will be called a seasoned offer, in contrast to an IPO.

See also: liquidity, security

seat

Membership of a securities or commodities exchange giving the right to trade on the exchange. A seat can normally be traded.

SEC

See 'Securities and Exchange Commission'.

second hand endowment

See 'traded endowment policy'.

second mortgage

The taking out of a mortgage on a property that is already mortgaged. This can be used to raise capital if the property has significantly increased in value or the original mortgage has been largely reduced. It tends predominantly to involve finance companies more than banks or building societies. Since the first mortgagee (lender) usually holds the deeds of the property, the second mortgagee will carry a higher risk and thus charges a considerably higher rate of interest.

See also: capital, mortgage

secondary market

The trading of shares that have already been issued in the primary market among investors. When people talk about trading on the stock market, they are generally referring to the secondary market, which involves brokers, market makers and an exchange providing a technical platform for trades to take place. The companies and their shares are the subject of the trading, but they are not directly involved as participants. The primary market refers to the sale of newly issued shares to investors, possibly in an IPO, or via a placement with institutions.

See also: initial public offering, new issue, primary market

secondary offering

The offering of a large block of shares, often by the institution that sponsored the initial deal, to the general public.

sector

A sub-set of companies operating in the same industry with similar characteristics. In order to help investors compare the performance of similar companies, the share prices and financial ratios of these companies are reported together in newspapers. Example sectors might include: entertainment and hotels, general retailers, or electrical and electronic equipment. Each sector will have its own characteristics, being, for example, defensive or cyclical in nature. In deciding whether a share price is good or bad value, it can help to compare companies in the same sector. Data such as the P/E of a company can be compared to the average P/E of the whole sector using indices such as those produced

by FTSE International and published in the *FT*. The sectors are updated from time to time, with the latest FTSE sectors being launched at the start of 2006.

www.icbenchmark.com, www.ftse.com

See also: diversification, exchange traded fund, sector fund

sector fund

A mutual fund or unit trust that invests predominantly in a specific industrial sector, such as gold, chemicals or telecommunications.

See also: sector, unit trust

secular trend

A persistent or underlying trend in any direction of a longer-term nature than a temporary, cyclical or seasonal movement.

secured bond

A bond that is secured or backed by the guarantee of assets or collateral, such as property or mortgages.

See also: collateral

secured creditor

A creditor who has a charge over the assets of a debtor in the event of the debtor failing to meet his/her obligations.

See also: creditors, debtor

secured loan

A loan where the borrower offers an asset to which the lender has access in the event of the borrower failing to make the loan repayments. A mortgage backed by the property is a common example.

Securities and Exchange Commission

SEC

The US federal agency empowered to regulate and oversee US financial markets in order to protect investors and maintain the integrity of the markets. All quoted American companies have to comply with SEC rules and regulations, including the filing of quarterly results statements.

www.sec.gov

Securities and Futures Authority

SFA

A self-regulating organisation (SRO) that had responsibility for the regulation of firms engaged in the securities and futures sectors of the financial services market. Companies regulated by the SFA were those engaged in dealing or advising in securities or derivatives including shares, bonds, traded options, corporate finance and futures. All regulatory functions of the SFA were taken over by the Financial Services Authority in December 2001.

See also: bond, derivatives, Financial Services Authority, futures, ordinary shares, security, self-regulatory organisation, traded options

Securities and Investments Board

SIB

A private limited company formerly reporting to the Chancellor of the Exchequer with responsibility for the regulation of the UK investment market in accordance with the Financial

Services Act 1986. It was replaced by the Financial Services Authority (FSA) in October 1997.

See also: Financial Services Act 1986, Financial Services Authority

Securities Industry Association

SIA

Established in 1972 following the merger of the Association of Stock Exchange Firms (1913) and the Investment Banker's Association (1912), representing the interests of more than 600 securities firms. It includes firms from US and Canadian exchanges, and the OTC market.

www.sia.com

Security Industry Authority

SIA

A UK organisation that manages the licensing of the private security industry as set out in the Private Security Industry Act 2001 and aims to raise standards of professionalism and skills within the private security industry and to promote and spread best practise.

www.the-sia.org.uk

Securities Industry Automation Corporation

SIAC

In the US, SIAC operates the New York and American Stock Exchanges automation and communications systems to support trading, market data reporting and surveillance activities. SIAC supports the NSCC's nationwide clearance and settlement systems and is jointly owned by the NYSE and AMEX.

www.siac.com

Securities Investor Protection Corporation

SIPC

In the US, a non-profit organisation that provides insurance for cash and securities in customer accounts held by approved brokerage firms. Brokers and dealers registered with the Securities and Exchange Commission are obliged to be members of SIPC. In the event that such a firm fails, investors are covered up to certain limits.

www.sipc.org

See also: Securities and Exchange Commission

Securities Masterfile

SMF

Provides up-to-date information on securities traded on UK and international markets (from the London Stock Exchange).

securitisation

The creation of financial assets by combining other similar assets, ranging from mortgages to royalties, and selling them in the new, tradable form to investors.

securitised derivative

A derivative that is freely traded and listed on a stock exchange.

security

A financial asset such as a share or bond of a company, government body or other organisation, that is evidence of debt or equity, and that has been bought as an investment by investors. Can also refer to an asset that is offered

by a borrower to a lender to safeguard a loan.

See also: assets, bond, futures, option, ordinary shares, stock

SEDOL code

See 'Stock Exchange Daily Official List code'.

seed capital

Money used for the initial investment in a new company for proof-of-concept work and initial product development.

seignorage

The profit that results from the difference in the cost of printing money and the face value of the money.

self assessment

All UK taxpayers are obliged by law to maintain records of their income of all types and capital gains so as to enable annual tax returns to be completed. This is known as self assessment. In April each year HM Revenue & Customs sends out millions of self assessment forms to employees, the self employed, business partners, company directors and other taxpayers.

www.hmrc.gov.uk/sa

See also: capital gain, HM Revenue & Customs, income, tax return

self-regulatory organisation

SRO

SROs are non-government bodies that have been set up in several countries to regulate their own members through the adoption of certain rules and prac-

tices. Examples of SROs dealing with companies in the investment business include NASD in the US.

See also: Financial Services Authority, Investment Management Regulatory Organisation, Personal Investment Authority, Securities and Futures Authority

self-administered pensions scheme

A UK pension scheme with no more than 12 members where one or more of the members is a trustee or the company that established the scheme is a trustee.

See also: personal pension plan

self-invested personal pension

SIPP

A type of UK personal pension that gives the policyholder more choice about the investments held. With a traditional personal pension, choice is limited to funds run by the insurance company. A SIPP holder can invest in the shares of any company listed on a stock exchange and certain other assets, bringing them all within the SIPP tax wrapper. SIPPs tend to incur higher charges than normal personal pensions making them more suitable for those with larger sums to invest.

See also: personal pension plan

self-select ISA

An ISA in which the investor makes decisions about what investments go into the tax-free shelter, rather than relying on advice from a broker or IFA. Many self-select ISAs are run by stockbrokers and are designed for di-

rect investment in shares and investment trusts.

See also: individual savings account

seller's market

A market that has more buyers than sellers. It is attractive to sellers as it often leads to higher prices reflecting the excess of demand over supply.

sell off

The sale of shares, or any other financial instrument, in an attempt to avoid further losses when negative market sentiment depresses prices that can lead to a sharp drop in prices.

sell side

A financial institution that sells expertise in research, order execution or any other service to an individual or institution. It has trading as its primary business in contrast to a buy-side organisation that makes investments for itself or on behalf of others.

selling price

The price at which shares or units in a unit trust are sold by investors. Also known as the bid price.

See also: buying price, unit trust

senior debt

A debt, secured or unsecured, that receives priority, ahead of other secured or unsecured debt, for repayment in the event of a corporation's liquidation.

See also: debt

senior mortgage bond

A mortgage bond that receives priority on the assets of a company over other bonds in the event of liquidation.

See also: assets, bond, mortgage

serial bond

A bond that is arranged to be repaid in instalments over a period of time or a set of bonds issued simultaneously but with different maturity dates.

See also: bond

series

Options contracts on the same instrument (for example an index such as the FTSE 100 Index) having the same exercise price and expiry date are known as the same series. Put options and call options having the same exercise price and expiry date are two different series. Can also refer to a run of data which might be weekly, monthly or quarterly.

See also: call option, exercise price, expiry date, option, put option

SETS

London Stock Exchange's order-driven electronic trading system.

settlement

Settlement is what happens after you or your broker have bought or sold shares. There are two aspects to it: transfer of ownership (i.e. the delivery of what has been bought and sold) and the payment for the shares or other security. The timing of payment will depend on the settlement time of the transaction. The industry standard varies between security type – it used to be T+5 for equities

but this was cut to T+3 in February 2001, with the '5' and '3' indicating the number of working days after the transaction date by which settlement must be complete.

See also: CREST, nominee

settlement day/date

The day on which purchased securities are due for delivery to the buyer and payment is due to be made to the seller. The standard settlement day in most markets is between one and three days after the dealing day.

See also: settlement

settlement options

The various options available to the beneficiaries of a life insurance policy in the event of the death of the insured, for example a lump sum or an income.

See also: life assurance, lump sum

settlor

A person who sets up a trust or makes a settlement by means of money or property.

See also: settlement, trust

SGX

Singapore Exchange Limited. SGX is Asia-Pacific's first demutualised and integrated securities and derivatives exchange. It was inaugurated in December 1999, following the merger of two financial institutions – the Stock Exchange of Singapore (SES) and the Singapore International Monetary Exchange (SIMEX). In November 2000, SGX was listed via a public offer and a private placement.

www.ses.com.sg

shakeout

The consolidation of an industry or sector leading to weaker companies being taken over or going out of business.

share

A share or stock is the part ownership of a company or mutual fund with a right to receive a pro-rata share of the profits of the company.

See also: corporate actions, ordinary shares, preference shares, rights issue, scrip issue

share account

A UK building society account where there is no chequebook facility. Interest is usually variable and sometimes there is a notice period for withdrawals. Share account holders are members of the society and are entitled to vote and attend annual general meetings.

See also: building society

share buyback

The purchase by a listed company of its own shares either in the open market or by tender offers. Companies do it for several reasons including: a desire to increase the share price, to rationalise the capital structure, to substitute tax-favoured interest payments for dividend payouts, and to prevent the dilution of earnings.

share capital

The proportion of a company's capital, sometimes called issued capital, which has been issued to shareholders in the

form of ordinary and preference shares. It falls within authorised share capital which is the maximum amount of shares that a company's charter allows it to issue.

See also: capital, capital structure, common stock, ordinary shares, preferred stock

share certificate

A certificate denoting ownership of shares in a company. The current trend is away from paper certificates towards nominee accounts, in which the shares are registered in the name of a nominee company (usually a broker) but held beneficially for the investor client. The advantages of nominee registration are that settlement is quicker, easier and, supposedly, cheaper. In particular, the investor does not have to send in a paper share certificate every time he sells a share.

See also: CREST, execution only broker, nominee, settlement

share discount

The amount by which the market value of a share drops below its par value. The concept rarely has any significance as shares tend to trade at prices far above the nominal value of the share, which is printed on the certificate.

share exchange

A facility offered by some investment trusts enabling investors to convert individual shares, which they hold, into shares in the investment trust cheaply and easily.

See also: investment trust

share option

An incentive given to company directors and employees to promote loyalty and commitment. The employee is offered an option to buy shares in the company at a fixed price, which may be below the then market price. The option specifies the time during which the employee can exercise the right, and often this will be a period of years. If the company's share price rises in that period, the employee can exercise the option, acquire the shares at the option price and immediately sell them for a capital gain.

share perks

Some companies give their shareholders a discounted price on the company's goods and services. Ferry companies, for instance, might offer reduced travel prices, and restaurant chains reduced prices on meals. These discounts are known as share perks. Conventional wisdom is that perks should not be taken into account when buying shares, because the value of the perks is seldom significant, and most companies require you to hold a minimum number of shares to qualify.

See also: perquisite

share to buy

A scheme that enables small groups of young professionals to jointly buy a house, borrowing up to three times their individual incomes, and get on to the first rung of the property ladder.

shared appreciation mortgage

SAM

A mortgage in which a borrower pays a below normal rate of interest to the

lender on the understanding that the latter shares a proportion of the appreciation of the property value.

See also: mortgage

shared ownership schemes

With shared ownership an affordable share of a property is purchased and rent is paid on the remaining share, which is owned by a housing association. Gradually, further shares may be bought until the home is owned outright.

shareholder

The owner of shares or stock in a company or organisation.

See also: dividend, ordinary shares

shareholders' funds

The net assets of a company less any minority interests, also known as shareholders' equity.

share register

The register showing who owns the shares in a company. It is usually kept by a bank or other organisation acting as the official registrar and in most jurisdictions is open to inspection by the public and other shareholders.

shell company

A company that exists in name only and which has either ceased to trade or has yet to start trading. Shell companies are often most interesting when they are listed on a stock exchange, because they provide a cheap way for another company to acquire a listing by 'reversing' into the shell.

See also: flotation, listed company

shogun bond

A publicly offered non-yen bond in Japan by a foreign borrower.

short

An investor is short when he/she has sold (borrowed) assets that they do not own in the hope that the price will fall allowing them to buy them back at a cheaper price. Being short is in contrast to the position of most investors who are long, in the hope that the price will rise.

short bond

A bond with a near maturity date, generally under two years.

See also: maturity

short covering

Buying back a security to liquidate an existing short position. Sometimes known as bear covering.

short selling

A strategy that involves selling borrowed shares in the expectation that the price will fall and they can be bought back at a lower price later (thus making a profit).

See also: go long

short squeeze

Situation in which investors who are short want to repurchase their equities or contracts, in the face of higher prices. As they do so, the price rises further forcing others who are short to buy the stock, in turn raising the price.

short-term

The expressions 'short-term', 'medium-term' and 'long-term' mean different things in different contexts and to different people. Short-term is normally anything up to a year but might be as short as a week.

short-term debt

Debts (or current liabilities) due soon, typically within one year.

See also: current liabilities, debt

shorts

Redeemable gilts or bonds with a redemption date within five years. Could also refer to securities, commodities or financial instruments held in a short position.

See also: gilt-edged stock, redemption

SICOVAM

Société Interprofessionnelle pour la Compensation des Valeurs Mobilières are investment or mutual funds in Luxembourg and France.

sickness benefit

A UK benefit, now called incapacity benefit, payable by the state to employed people who become sick and unable to work and are not entitled to statutory sick pay (payment by the employer for the first 28 weeks of sickness). Where employers pay their employees statutory sick pay, the state benefit becomes applicable if the illness continues beyond the qualifying period. The extent of the benefit is dependent on the person's national insurance contributions.

See also: statutory sick pay

sickness insurance

See 'permanent health insurance', 'personal accident' and 'sickness insurance'.

sideways movement

A trendless or flat market where price moves are negligible and restricted in a narrow range.

simple interest

Interest, normally paid annually, which is earned on deposited capital. Unlike compound interest, the annual interest is not added to the capital. For example, if the capital deposited is £1,000 and the interest rate is 8%, you would receive £80 at the end of the first year and the same amount at the end of the second year. This contrasts with compound interest, where the £80 interest earned on the first year would be added to the original capital, and the amount of money earning interest in the second year would be £1,080, delivering interest of £86.40.

See also: compound interest, interest

simple reversionary bonus

A with profits life assurance bonus, normally declared annually, which is based on the profits of the life company's investments. The simple reversionary bonus is calculated on the sum assured (or basic sum assured) only and is payable at the maturity of the policy or prior death. Once reversionary bonuses are declared, they cannot be withdrawn by the life company provided the policy conditions are fulfilled

until a claim is made (that is, at maturity or previous death).

See also: reversionary bonus, sum assured

single company PEP

See ‘personal equity plan’.

single premium life insurance

A single payment for an insurance policy rather than regular premiums.

See also: insurance policy

single price

Units in unit trusts are priced by dividing the value of the trust’s underlying investments by the number of units in issue. But most unit trusts have a bid price (at which an investor can sell units) and an offer price (at which the investor can sell units) and the first is lower than the second. OEICs, however, have single pricing, based on the mid-market valuation of the underlying investments. The buying and selling price of units is the same. The fund provider’s charges are shown separately.

See also: open ended investment company, unit trust

sinking fund

Money regularly set aside by a company or other borrower to redeem its bonds, debentures or preferred stock from time to time as specified in the indenture or charter, reducing the amount due at redemption or maturity.

slump

A period of economic recession or financial weakness.

See also: recession

small cap

One of a trio of terms commonly used to rank companies according to their size, the others being ‘mid cap’ and ‘large cap’. ‘Cap’ is short for ‘market capitalisation’, which is calculated by multiplying the number of a company’s shares in issue by the market price. So a company with 500m shares in issue and a share price of 50p has a market cap of £250m. There are no fixed rules about where the thresholds lie. Small cap, for instance, might refer to companies with market capitalisations of just £50m or as much as £500m.

small self-administered scheme

SSAS

A UK self-administered occupational pension scheme with no more than 12 members. The scheme will normally be run for a family business. These schemes must meet special conditions, such as having a pensioner trustee, before they can be approved.

See also: personal pension scheme

small traders

Traders who are not required to file reports of their futures transactions or positions with an exchange because their positions are smaller than the reporting level thresholds of the exchange.

See also: reporting level

smart money

The experienced traders/investors who tend to spot trends before the rest of the market.

social security tax

In the US, a federal tax imposed on income and paid equally by employer and employee up to a maximum income level, to fund social security programmes.

Society for Worldwide Interbank Financial Telecommunications

SWIFT

An international financial industry-owned co-operative body that sets protocols and standards for international payment systems, such as electronic money transfers, to 7,800 financial institutions in more than 200 countries.

www.swift.com

Soffex

The Swiss options and financial futures market which merged in 1998 with DTB, the German derivatives markets to form Eurex.

www.eurexchange.com

soft currency

A currency that is not normally accepted in exchange for others due to a fear of depreciation. Opposite of hard currency.

soft dollars

Payment to a broker by a customer by way of commission charges for serv-

ices provided rather than a fee (known as hard dollars).

softs/soft commodity

Commodities such as sugar, cocoa and coffee, as opposed to others such as metals and livestock.

solvent

A company is said to be solvent when it can meet all its debts when they fall due.

sovereign debt

Debt guaranteed by a government.

sovereign risk

See 'country-specific' risk.

special bonus

An additional bonus (that is, over and above the normal reversionary bonus) applied to a with profits life assurance policy when the life company's profits are exceptional.

See also: reversionary bonus

special drawing rights

SDR

A currency created by the IMF to use as a unit of account. The value of an SDR moves according to the fluctuations of the composite traded currencies, including the dollar, yen and euro.

specialised mutual fund

See 'sector fund'.

specialist

A member of a stock exchange, a market maker, who provides a market in one or more securities. A specialist, which can be an individual, partnership or corporation, executes limit orders and buys and sells securities when abnormal fluctuations occur to maintain stability and makes money either by charging a commission or from the spread when acting as a broker.

See also: limit order

specific legacy

See 'legacy'.

speculation

The buying and/or selling of securities, commodities, currencies etc with a view to making relatively quick profits as opposed to long-term investment. This type of trading is normally high risk and is particularly prevalent in markets such as commodity futures and options.

speculative limits

See 'position limit'.

spike

A large, rapid and short-lived rise or fall in the price of a security.

split

The issuing of additional shares by a company to its shareholders in proportion to their existing holdings but resulting in a correspondingly lower market price and as such no change in the value of the shareholders' equity. In

a one for one split, original ownership of 1,000 shares at \$10 per share changes to 2,000 shares at \$5 per share. One reason for a share split is if the company feels that the price has risen too high for small investors to afford them.

split capital investment trust

An investment trust that sells shares and uses the pooled proceeds to buy shares in other companies, in which the equity capital is divided into at least two classes – such as income shares and capital shares. Holders of income shares receive the majority of the trust's income throughout its life and a specified capital amount on liquidation while holders of capital shares receive virtually no income during the trust's life but on liquidation receive all the assets after repayment of capital to holders of income shares, benefiting from the capital growth. The *raison d'être* of split capital investment trusts is that a single trust can accommodate the requirements of different types of investor in one fund, and provide better performance than they would be able to achieve if they invested in separate funds. In the UK, some split capital trusts ran into trouble after the stock market falls of 2000-2002 because of a collapse in the value of the underlying assets, exacerbated by trusts being invested in each other and high gearing.

See also: capital shares, investment trust

spot market

A market in the underlying instrument (for example, shares, commodities, etc) on which a futures or options contract is based. This market is for immediate

delivery, typically with settlement in two days, as opposed to future delivery. Also known as cash market or physical market.

See also: futures contract, option, underlying instrument

spot price

The price for a currency, index, commodity or share for immediate settlement or delivery (as opposed to a futures price) as traded on a spot market.

spousal IRA

An individual retirement account set up on behalf of a non-working spouse.

See also: individual retirement account

spread

The difference between the bid price and the offer price for shares and for units in a unit trust. Market makers make their profit from the spread. They buy shares at the lower bid price and sell at the higher offer one. Illiquid stocks will have wider spreads. Spread is also used to describe the difference in yield between two bonds. For example, a higher risk corporate or emerging market bond might be sold at a spread of 300 basis points over a lower risk government issued bond.

See also: bid price, initial charge, market maker, offer price, stockbroker

spread betting

A form of investing which is more akin to betting, and can be applied either to sporting events or to the financial markets. At its core is the maxim 'the more right you are, the more you win'. In the

simplest terms, a spread betting firm quotes two figures for, say, the position of a stock index at close of trading on a certain day. If its 'spread' is 6005-6011 and you think that the market is going to end up higher on the day than 6011, you might buy (go high) at 6011 and choose a stake per point of £5.00 (the 'tick value'). If you think that it is going to end lower on the day than 6005, you might sell (go low) at 6005 and choose a stake per point of £5.00. If it actually closes at 6034, and you bought at 6011 you were right by a margin of 23 points, and therefore win £115; 23 times your stake. If, however, you were a seller at 6005, you were wrong by 29 points and would lose £145. Spread betting is risky because the movement of the underlying index (or share, or football score) can mean you lose a high multiple of your stake. The spreads offered by firms move all the time during the course of the trading day (or during a football match). Another key feature of spread betting is that there are no brokerage costs, commissions or charges to pay, and gains are tax free.

stag

A person who applies for shares in a new issue with the intention of selling them soon after trading begins. The stag hopes that the price will rise high enough in early trading to allow a quick profit to be made. Some new issues are structured in a way to frustrate stags, for example, by including a special provision favouring shareholders who keep their shares for a period of time.

See also: new issue

stagflation

Economic stagnation (very slow growth, rising unemployment or recession) combined with high rates of inflation.

See also: recession

stakeholder pension

Available in the UK from April 2001, stakeholder pensions aim to provide a low-cost, transparent and flexible way for people on low incomes to make additional provisions for their retirement. Money invested in stakeholder pensions is invested in the stock market. On retirement a quarter of the accumulated capital can be taken as a tax-free cash sum, and the rest must be used to buy an annuity.

See also: occupational pension scheme, personal pension scheme

stamp duty

A UK tax imposed on the buying of shares and property. As far as shares are concerned, the tax is collected by brokers on behalf of their clients, and appears on the contract note sent out to clients. There is no stamp duty in the US.

Standard & Poor's 500 Index

S&P500

The main barometer of the US stock market. A capitalisation weighted arithmetic index of 500 stocks, mainly traded on the NYSE. S&P500 represents the price trend movements of the major common shares of US public companies and has a number of options and futures based on it.

standard deviation

A statistical measure of the extent to which one value is distributed about the mean value. It has many applications but can be used to indicate how volatile a price might be – a large standard deviation means that the stock is more volatile.

See also: volatility

standard variable rate

SVR

A mortgage lender's main interest rate, which fluctuates with changes in the base rate.

See also: base rate

standing order

An order by a customer to his/her banker to pay a specified amount usually on or around a particular day of the month regularly to another account. For example, this could be to a bank or building society for regular payment of mortgage interest or for premiums for life assurance.

See also: direct debit

State Earnings Related Pension Scheme

SERPS

A UK government scheme introduced in 1978 that enabled employees to top up the basic pension received on retirement with additional pension payments based on their earnings. SERPS was replaced in 2002 with the state second pension (S2P), designed to give more to the lower paid and middle earners, carers and the long-term disabled with broken work records. Whereas with SERPS, the more you

earned, the higher your pension, S2P operates a flat rate which means that high earners will be better off opting for private pension schemes.

See also: National Insurance basic pension, National Insurance contributions, occupational pension scheme, personal pension plan, State Second Pension

state pension

Regular income from the state paid to retired people who have made contributions during their life. In the UK, the retirement age is currently 65 for men and 60 for women. The basic state pension rises in line with price inflation.

See also: pension forecast, State Earnings Related Pension Scheme, State Second Pension

state pension age

Currently 60 for women and 65 for men, but between 2010 and 2020 the state pension age for women will gradually be raised to 65, in line with that for men.

State Second Pension

S2P

In April 2002, the UK State Second Pension replaced the State Earnings Related Pension Scheme (SERPS) to pay a top-up pension based on employed people's earnings.

See also: National Insurance Pension (State Pension), personal pension plan, State Earnings Related Pension Scheme

statement

See 'statement of account' and 'bank statement'.

statement of account

A document, issued by a supplier to its customer, listing transactions over a given period, normally monthly. It will include details of invoices, payments received and any credits approved with a resultant balance payable by the customer.

See also: credit, invoice

statutory sick pay

SSP

Sick pay made by an employer to an employee when the latter suffers an illness or injury and is unable to work for more than three consecutive days. SSP is payable for the first 28 weeks of absence after which incapacity benefit becomes payable. SSP payments to employees are taxable and employers can reclaim these amounts from the DWP.

See also: sickness benefit

stepped interest debenture stocks

A debenture stock where the rate of interest payable to lenders is increased in stages over the initial life until a certain rate is reached. Thereafter, the rate remains fixed until the redemption date. This type of debenture is advantageous to an investment trust in that interest payments will be lower than the norm in the initial years (whilst the trust consolidates its growth) and above the norm in the later years (when it will be expected that the trust's assets can afford the extra interest).

See also: debenture, investment trust, redemption date

stepped preference shares

Preference shares with dividends that increase annually by a specified amount and with a predetermined capital return.

See also: dividend, preference shares

sterling

The currency of the UK (the British pound).

See also: currency

stochastic oscillator

The stochastic oscillator compares a security's closing price to its price range over a given time period. In a rising market, stocks normally close nearer the top of the range.

stochastics

A technical analysis technique measuring momentum used to help identify the next movement in markets. Closing levels near the top of a range suggest buying pressure while those near the bottom of a range might suggest selling pressure. More generally, pertaining to a series of random processes.

See also: stochastic oscillator

stock

There are two commonly used meanings; first, it is the (traditionally American) term for shares, i.e. the ownership stake in a company that represent a proportional claim on the profits of the company. The two main types of stock are common stock and preferred stock. The equivalent terms in the UK are ordinary shares and preference shares. In the UK, stock was traditionally used to mean fixed interest securities like gilts

(e.g. Treasury Stock). Secondly, in accounting terms, stock refers to inventory – that is, goods that a company has produced but not yet sold.

See also: common stock, dividend, gilt-edged stock, preferred stock, redemption date

stock broker

See 'stockbroker'.

stock dividend

The payment of a dividend to shareholders in the form of stock instead of cash. If a company declares a 5% stock dividend, a shareholder with 1,000 shares will receive an additional 50 shares. Known as a scrip dividend in the UK. Unlike a cash dividend, payment by stock does not normally attract an immediate tax liability.

See also: dividend, scrip dividend, shareholder

stock exchange

An electronic screen-based or trading floor-based market where securities are bought and sold. The New York Stock Exchange is the largest stock exchange in the world, while the London Stock Exchange is the largest in Europe.

See also: London Stock Exchange, New York Stock Exchange

Stock Exchange Automated Quotation

SEAQ

See 'SEAQ'.

See also: London Stock Exchange, Stock Exchange Electronic Trading Service

Stock Exchange Automated Trading System PLUS

SEATS Plus is a trading system that handles the trading of all AIM and listed UK equities whose turnover is insufficient for the market making system or the Stock Exchange Electronic Trading Service (SETS).

See also: Stock Exchange Automated Quotation system, Stock Exchange Electronic Trading Service

Stock Exchange Daily Official List code

SEDOL code

A seven digit unique alphanumeric code used as an identifier for a security listed on the London Stock Exchange.

See also: Exchange Price Input Computer code

Stock Exchange Electronic Trading Service

SETS

The automated trading system introduced in 1997 for the largest companies quoted on the main list of the London Stock Exchange. Trades through SETS match buyers and sellers automatically, cutting out the need for a market maker, theoretically meaning a narrower bid-offer spread. Smaller companies continue to use the SEAQ 'quote' book system, with market makers quoting prices to brokers and trades being done on a semi-automatic rather than fully-automatic basis.

See also: market maker, Stock Exchange Automated Quotation

Stock Exchange Pool Nominee

SEPON

The nominee company where all stocks and shares are held during the course of settlement on the London Stock Exchange.

See also: London Stock Exchange, nominee company

stock future

An agreement between a buyer and a seller to exchange an amount of cash at a fixed future date (the settlement date) that reflects the difference between the initial traded price and the price of the stock on the settlement date. For instance, buying one stock future contract of a company at 230p represents 1,000 shares. If the shares are at 240p on the settlement date, the owner of the stock future would have made a profit of £100 (1,000 x 10p). The main feature of stock futures is leverage – it being much cheaper and requiring much less capital to buy the contract than the actual shares.

stock index

An index of the prices of a particular group of stocks used to give an indication of the overall performance of an equity market or sector. Examples include the FTSE 100 in the UK and S&P 500 in the US.

stock in trade

Raw materials and finished products carried in stock by a company. These would be included in the company's assets on the balance sheet.

See also: assets, balance sheet

stock option

An option, also called an equity option, in a company's shares giving the holder the right to buy or sell the stock at an agreed price at some point in the future.

stock rating

An assessment of a stock that may be done by a ratings agency to assess its risk of default or by research analysts, perhaps attached to a bank, to assess its likely future market performance.

stock situation notices

SSN

Notices from the London Stock Exchange containing extensive details of a corporate action (e.g. of a rights issue, or takeover bid).

See also: corporate actions, rights issue

stock transfer form

The form that the seller of shares signs when transferring a holding to a new owner, who also signs.

See also: stamp duty

stock-settled warrant

A warrant is stock-settled if it is exercisable in exchange for a physical security such as a share, rather than for cash. Also known as 'physically settled'.

See also: cash-settled warrant

stockbroker

A broker dealing in stocks and shares on behalf of a private or institutional client and possibly offering investment advice. Private investors need to use a

broker for most share dealing.

See also: broker, market maker

stockturn

A financial ratio that shows how fast a company sells its goods, calculated as: sales divided by year-end stocks. If, for example, a company has sales of £60m and a year-end stock figure of £3.2m its stockturn multiple is 18.85. Stockturn is particularly relevant for manufacturing or retailing businesses. The higher the figure, the more efficient the company is in processing stock. Another way of looking at stock is to calculate the number of days on average that a company keeps its stock. This is expressed as the year-end stock figure divided by the sales, and multiplied by 365. Using the figures above, £3.2m divided by £60m, then multiplied by 365 = 19.46 days.

See also: turnover

stop loss

A stop loss is a simple concept designed to limit losses on shares. The investor sets a rule that when a share price falls to a certain level, the shares will be sold. The stop loss could be specified in percentage terms, being triggered by a price fall to, say, 90% of the purchase price or of its highest value.

See also: technical analysis

stop order

An order that becomes a market order when at a specified price level, the stop price, is reached. A sell stop is placed below the market; a buy stop is placed above the market.

See also: stop loss

stop-limit order

An order to buy or sell that goes into force as soon as there is a trade at the specified price. The order, however, can be filled only at the limit price or better.

See also: stop order

stopped out

When a stop order is activated and a position is offset, the trader has been ‘stopped out’.

straddle

The simultaneous buying of a call and a put option or warrant in the same underlying instrument with the same expiry month and the same exercise price. This strategy is designed to benefit when a sharp price movement is expected but the direction is unknown. The main risk is that the price moves are so modest that the return is not enough to cover the cost of the options.

See also: exercise price, option, underlying instrument

stranded asset

An asset with a lower market value than that recorded on the balance sheet as it has become obsolete in advance of complete depreciation.

strangle

A term used in options and warrants trading. A straddle is the simultaneous purchase of a put and a call option/warrant in the same underlying instrument, with the same expiry date, but where the exercise prices are different. The strategy makes a profit if the stock

price is volatile.

See also: combination, in the money, option, straddle

street name

The term to describe securities of an individual held in the name of a broker or other nominee rather than the name of the individual.

See also: nominee

strike price

See ‘exercise price’.

structural deficit

That part of a country’s budget or trade deficit that is not due to cyclical economic fluctuations.

structured finance

Non-standard, generally non-fungible, lending arrangements structured to meet the needs of each client.

subordinated debt

Higher risk than senior debt as it will only be repaid in the event of corporate default after other debt has been repaid.

subscription price

The fixed price an investor pays for shares in a new issue.

See also: new issue

subscription terms

The terms under which an investor can subscribe for shares in a new issue.

See also: new issue

subsidiary

A company in which more than half of the voting stock is owned by a parent company.

suicide pill

The activity that a company might engage in that would cause it great damage if it were to be taken over is called poison pill defence, or in extreme cases, suicide pill defence.

sum assured

In a life assurance policy (for example, whole life assurance or endowment assurance), the sum assured is the minimum amount payable to the assured or his/her dependants on the death of the life assured.

See also: assured, endowment assurance, life assurance

sunk costs

Costs incurred that cannot be recovered regardless of future events.

sunrise industry

A rapidly growing and promising industry for the future, in contrast to a sunset industry.

Super Designated Order Turn-around System

SuperDot

The system, superseding DOT, that transmits New York Stock Exchange (NYSE) member firms' market and day limit orders, up to specified sizes in virtually all listed stocks, through the common message switch to the proper

trading floor workstation. The orders are executed by people in the trading crowd at their posts as quickly as market interest and activity permit. Return reports are sent to the originating firm's offices via the same electronic circuit that brought them to the floor.

superannuation

Sometimes abbreviated to 'super', it is a tax-efficient way of saving for retirement that is linked to employment, often called an occupational pension scheme.

See also: occupational pension scheme

support level

The price level at which technical analysts note persistent buying of a share or commodity. If the share price of XYZ company is plotted on a chart, and the chart shows that over the period the price always seems to bounce back whenever it falls to, say, 320p, technical analysts would see that price as a 'support level'. The significance of the support level is that if the share price does break below it, that might indicate a change of sentiment in the market towards the share, and may indicate the arrival of a new trading range.

See also: resistance level, technical analysis

supranational

Agencies, such as the World Bank and EBRD, that raise money in the world's capital markets to fund investment in developing countries with poor access to capital, and are owned by a consortium of national banks.

surety

A pledge or guarantee to back the performance of an individual or company.

surrender

The encashment of a life policy, for example an endowment assurance policy, by the assured, prior to its maturity.

See also: assured, endowment assurance, life assurance, maturity

surrender value

The cash value of, for example, an endowment assurance or other insurance policy at any time throughout the term prior to its maturity. During the early years of the term the surrendering of endowment policies results in very little return compared with premiums paid.

See also: cash value life insurance, endowment assurance, paid up policy

suspension

A company's shares can be suspended by an exchange for many reasons, notably when it fails to meet the listing requirements. Temporary suspension, or a trading halt, lasting for just minutes at the request of the exchange or the company might occur if a key announcement is expected.

swap

The exchange between two counterparties of one cash flow for another to change the nature of a portfolio to match assets and liabilities more effectively or by offsetting risk. The most common form of swaps are for currencies, which involve the purchase/sale

of a currency in the spot market against the simultaneous purchase/sale of the same amount of the currency in the forward market, and interest rates. In the latter, two parties agree to exchange periodic interest payments, at agreed intervals, over an agreed period – the most common deal involves one party paying a fixed rate of interest and the other paying a floating rate.

swaption

An option on a swap – giving the holder the right to enter into, say, an interest rate swap at some future point in time.

SWIFT

See 'Society for Worldwide Interbank Financial Telecommunications'.

sweeper account

A bank account that offsets the cash held in a depositor's account against credit card, loan and mortgage debts to reduce the debit interest payable on them. Often it will automatically transfer surplus funds held in a depositor's current account to his or her deposit account where the money will earn higher rates of interest. Some brokers will treat cash balances as an interest bearing investment.

switch/switching

The transfer of assets, normally from one mutual fund or unit trust to another within a range of funds with differing objectives, all managed by the same mutual fund company or unit trust institution, designed to improve yield or quality. In the US, switching can nor-

mally be conducted with no charge in a no load range of funds. In a range of load funds a charge is usually incurred.

See also: no load fund

cannot be avoided through diversification.

symbol

An identity code, or ticker, allocated to a company by the exchange on which its stock is traded. Usually the code is an abbreviation of the company's name, e.g. VOD = Vodafone Group, in London. Unfortunately all exchanges and symbol systems do not use the same codes. Knowledge of the symbols can speed up the search for stock prices on the internet.

syndicate

Generally a group of investors acting together. More specifically, a group of institutions, usually investment banks, who together underwrite and distribute a new issue of securities or a large block of an outstanding issue. The creation of a syndicate shares the risk across several institutions.

synthetic

A financial instrument made from two or more other instruments to create a new asset with distinct features.

systematic risk

A risk that is associated with a whole asset class or market section that can be guarded against in part by diversification.

systemic risk

The risk of an adverse change in the overall financial system or market that

tailgating

Occurs when a broker places an identical order to one of his customers hoping to profit from whatever knowledge or research is driving the client's actions.

take a bath

Lose a large amount of money on an investment.

take home pay

The amount of money available after all deductions from salary, including bonuses and overtime. In the US, the most significant deductions are federal, state and local taxes, pension plan and health insurance. In the UK, the main deductions are income tax, national insurance, pension plan and medical insurance.

takeover

The acquisition of a controlling interest in one business or company, the target, by another, either on an agreed or hostile basis. Private companies can defend themselves relatively easily because their shares tend to be closely held. Public companies are more vulnerable because a predator can go out into the market and build up its hold-

ing by buying shares so long as it acknowledges the rules about the conduct and timing of a takeover bid.

See also: city code, Panel on Takeovers and Mergers

taking a position

The act of buying or selling securities and thereby building a long or short position.

tangible assets

Physical assets owned by a company or individual that can be seen or touched such as stock and machinery. Opposite of intangible assets.

See also: intangible assets

Tankan

The Bank of Japan's quarterly corporate survey of companies that is closely watched by markets.

taper relief

Taper relief was introduced into the UK tax regime from April 1998. Its purpose is similar to indexation, in that it aims to reduce the amount of capital gains tax paid when shares are sold, to account for the effect of inflation. But while indexation increases the base

cost of an asset, taper relief reduces the gain by 5% a year for every year the asset was held regardless of the base cost.

See also: capital gains tax, indexation

tax

An amount levied by a government body on an income, product or activity, and used to finance public services and goods. It may be direct on an income or indirect.

tax allowances

Tax allowances are concessions by the government that can be used to reduce a person's taxable income. The main allowance for UK taxpayers is the personal allowance, which is an amount of income that is tax-free, £5,225 in the tax year 2007-08. Others include age-related allowances and the blind person's allowance.

See also: benefits in kind, gross income, tax free pay

tax avoidance

The minimising of tax liability using legal methods. To be contrasted with tax evasion that has a similar objective but uses illegal means and is therefore a criminal offence.

See also: tax evasion

tax brackets

The rates of income tax payable on taxable income (they apply above the personal allowance), known as tax rates or bands. For the tax year 2007-08 in the UK, the brackets are: £1-£2,230 attracts a tax rate of 10% (the starting rate); £2,231-£34,600, a tax rate of

22% (the basic rate); above £34,600 the tax rate is 40% (the higher rate).

See also: income tax

tax codes

Under the UK PAYE system of taxing income, tax codes are allocated annually to employees. These codes enable the employer to deduct tax at the correct rate from salaries or wages on a monthly (or weekly) basis for remittance to the authorities. Most codes depict a number followed by a letter, referring to the amount of salary payable free of tax and the various personal and other allowances that are included.

See also: HM Revenue & Customs

tax evasion

The minimising of tax liability by failing to declare taxable income or taxable capital gains or by submitting false information to the tax authorities. This is a criminal offence that sometimes has severe penalties.

See also: tax avoidance

tax exempt special savings account

TESSA

A five-year, tax-free savings scheme for people aged 18 and over, introduced by the UK government in 1991 and terminated in 1999, when independent savings accounts (ISAs) were introduced. The maximum amount that could be paid in over the five-year life of the TESSA was £9,000.

See also: individual savings account, tessa-only ISA

tax exile

A wealthy person who lives outside his/her own country in order to minimise taxes. Countries that operate a low rate of tax are known as tax havens.

See also: domicile, tax haven

tax free pay

A person's allowances less deductions.

See also: deduction, tax allowances

tax haven

A country where companies or individuals may legally take advantage of lower taxation levels.

See also: domicile, tax exile

tax relief

Amounts that can be deducted from a person's annual income to reduce the amount on which tax is paid. For instance, a pension contribution of £1,000 could be deducted from taxable income of £20,000 to reduce the taxable element to £19,000.

See also: deduction

tax return

A form on which certain taxpayers annually list their salary (including pensions), or income from self-employment together with benefits in kind, other income and capital gains. This information is used by the tax authorities to assess tax liability.

See also: capital gain, benefits in kind, self assessment

tax shelter

A technique that legally reduces or avoids taxes.

tax voucher

A paper advice slip issued by UK companies when paying dividends to shareholders. The voucher indicates a number of items including the date, the dividend rate in pence per share, whether the dividend is interim or final, the number of shares held by the shareholder, the net dividend payable and the tax credit.

See also: dividend, interim, shareholder

tax year

In the UK, the 12-month period commencing 6th April and ending 5th April the following year.

taxable earnings

The amount of an individual's annual income on which tax is payable defined as: gross income less reliefs and allowances.

See also: gross income, tax allowances

taxable income

See 'taxable earnings'.

taxable pay

See 'taxable earnings'.

taxation risk

Risk associated with the possible change of laws relating to the taxation of dividend income and capital gains

that could make investments more or less attractive.

tear sheet

Nickname for a page of company and financial information.

TechMARK

A FTSE index launched in 1999 with a base figure of 2,300 points by the London Stock Exchange to reflect the growth at that time in internet and technology stocks. To be included, a company must be committed to technological innovation and listed on the exchange. It includes biotechnology companies as well as internet stocks and software companies. The TechMARK 100 is a subset of the TechMARK all-share and both have an upper market cap limit so as to exclude the largest companies.

See also: London Stock Exchange, Neuer Markt

technical analysis

Technical analysis focuses on past price movements and attempts to identify trends that indicate future price movement. The successful technical analyst, or chartist, buys and sells on the basis of his preferred technical indicators, believing that share prices move in patterns and that the patterns repeat themselves, and hopes to make a profit when the share price fulfils his predictions. Chartists are not interested in why a market movement has occurred.

See also: chartist, fundamental analysis

technical rally

A short-term rise in share price generated by a particular stock or sector against a background of general decline in prices motivated by broader economic or market fundamentals.

See also: correction

TED spread

Treasury Eurodollar Spread. The yield difference between US Treasury bills and eurodollar futures contracts. An increasing spread indicates greater risk.

telegraphic transfer

A method of transferring money abroad from one bank to another by telegraphy.

See also: bank

temporary annuity

See 'annuity'.

tenancy agreement

An agreement (lease) whereby land/property is leased by the owner (lessor) to a tenant (lessee) for their use.

See also: landlord, lease, tenant

tenancy at will

The occupancy of property by a tenant for an unspecified period. The tenancy can be terminated by either the landlord or tenant at any time.

See also: landlord, tenancy agreement, tenant

tenancy in common

A situation where two or more people own land/property. In the event of the death of one of the owners, his/her interest passes to his/her estate and not the other tenants.

See also: landlord, tenancy agreement, tenancy at will, tenant

tenant

A person who occupies land/property on a lease basis.

See also: landlord, lease, tenancy agreement

tender

Tender can have different meanings in different contexts. When a company decides to list its shares on an exchange, it can either offer its shares to the public at a price which it stipulates, or it can make an 'offer by tender', inviting investors to bid for the shares. In the money market it can mean an offer to buy bills.

term

A specified period of time for a contract or policy.

term assurance

A life insurance policy in which cover is provided for a specified period of time (the term). The sum assured is paid if the death of the insured occurs during the term. If the insured survives the term, the contract ceases and no benefit is payable when the individual subsequently dies.

See also: assurance, assured, life assurance

terminal bonus

An additional bonus paid to reflect the overall performance of a with profits life assurance policy at maturity or prior death of the life assured.

See also: assured, maturity, reversionary bonus

term sheet

A document that legally defines the details of how a financial deal will operate, signed by all parties.

tessa-only ISA

TOISA

An ISA into which the capital, but not the income, from a matured TESSA can be moved.

See also: individual savings account, tax exempt special savings account

testament

A legally enforceable will or codicil that determines the disposal of a dead person's assets.

See also: executor, will

testate

The situation that exists when a person dies having made a will. Opposite of intestate.

See also: intestate, will

testator

A person who makes a will.

Feminine form: testatrix

See also: executor, will

The Budget

The announcement made by the UK Chancellor of the Exchequer (normally) once a year to outline his government's taxation and spending plans for the forthcoming financial year. Pre-Budget announcements are made in November, with the real Budget in March of each year. Budgets are given Parliamentary authority by the Finance Act that is passed each year.

The City

The financial community in London that traditionally operated out of 'the Square Mile' although many of the big securities firms are now based east of the City in Docklands.

theoretical value

In options pricing, the hypothetical value of an option calculated by a model.

theta

The rate of change of an option or warrant premium for a given change in the number of days to expiry. Usually expressed in pence per day or per week, and sometimes called time decay, the theta measures the loss of time value as the option/warrant nears its expiry date.

See also: expiry date, intrinsic value, warrant premium

thin market

A market in which there are few bids and offers and few transactions occur, characterised by high spreads and volatility. This may apply to the shares

of a specific company or the market as a whole. Sometimes called a narrow market.

third market

The trading of exchange-listed securities in the over-the-counter market among institutional investors.

See also: over the counter, security

third party

Generally, refers to someone other than the principals directly involved in an agreement. In insurance, the person who claims against an insured person when loss or damage to property or injury has occurred as a result of the insured person's negligence.

See also: third party insurance

third party fire and theft

See 'motor insurance'.

third party insurance

Insurance that covers against a liability that the insured may incur to another person. Every driver in the UK has to be covered for third party motor insurance. If a driver damages someone else's car, or injures someone, the third party insurance will pay for any damages to the third party, but not for damage to the driver's own car. That would only be covered by comprehensive insurance.

See also: comprehensive insurance, insured, insurer, motor insurance, third party

thrift institution

A depository or savings organisation for the purpose of holding people's deposits. Includes savings and loan associations and mutual savings banks in the US and building societies in the UK. Deposits are in the main used for home mortgage loans.

See also: mutual savings bank, savings and loan association

tick

The minimum upward or downward movement in the price of a security or a futures or options contract. A tick is one-hundredth of a percentage point for bond yields and interest rates.

See also: futures contract, option, security

ticker

Traditionally a telegraphic system that continuously provides the last sale prices and volume of securities transactions on exchanges. Information is either printed or displayed on a moving tape after each trade.

ticker symbol

An abbreviation used to identify securities whether on the exchange floor, a screen, or a newspaper page. The symbols were originally developed in the US in the 1800s by telegraph operators to save bandwidth. One-letter symbols were therefore assigned to the most active stocks. Railroads were the dominant issues at the time, so they retain a majority of the one-letter designations. Each exchange allocates symbols for companies within its purview, working closely to avoid duplication.

ticker tape

The machine, sometimes abbreviated to tape, that traditionally displayed stock symbols, prices and volumes, and transmitted them worldwide.

ticket

A form completed by a broker on receipt of an instruction from a client listing the relevant details such as the security, type of order and number of shares.

tied agent

See 'company representative'.

tier one

A certain proportion of banks' capital set against assets must be tier one capital, or core capital, namely equity, disclosed reserves and retained earnings. Supplementary, tier two, capital constitutes the remainder of the capital.

TIFFE

The Tokyo International Financial Futures Exchange.

tiger economy

A term originally used to describe rapidly growing economies in the Far East. Now applied to any relatively undeveloped country where growth prospects are thought to be high.

tight market

A market, in aggregate or for a security, with high volumes and small spreads.

time decay

The process whereby the value of an option premium is eroded as expiry approaches.

See also: option, theta

time deposit

A savings account or certificate of deposit whose funds are subject to notice (such as 30 days) prior to withdrawal. In the event of early withdrawal a penalty will normally be incurred.

See also: certificate of deposit

time to expiry

The time remaining before an option or warrant is due to expire. After the expiry date the security has no value because it can no longer be exercised.

See also: expiry date, warrant

time series

A series of values over consecutive time periods used to describe price, yield or return histories.

time value

The concept that money now is worth more than money in the future, because money now can earn a return by being lent out. In valuing companies, stock analysts use the concept of the time value of money to discount back the estimated future earnings of a company to their present value. This enables comparison of different companies whose future earnings may come at different times. By discounting, the value of those earnings is assessed on their present value, so like can be compared with like. In options, the time

value is the amount by which an option's price exceeds its intrinsic value. Options have a time value to reflect the fact that, in the time until expiry, the option holder has the opportunity to make profits if the underlying share price moves in his favour. As that expiry date approaches, the time value will decrease until it reaches zero.

See also: expiry date, intrinsic value, option, option premium, warrant

timely execution

The principle that stockbrokers should transact the sell/buy orders of their clients within a reasonable time – 20 minutes from the time the order is taken is deemed to be the appropriate period. If a broker is unable to transact the order within that time, he or she should consult the client to make sure that the instructions are still valid.

See also: liquidity, normal market size, stockbroker

TIPS

See 'treasury inflation protected security'.

tipsheet

A newsletter that makes specific recommendations on which shares to buy, sell and hold.

title

The right to legal ownership of property or other asset.

See also: property

Tokyo Stock Price Index

Topix

A market cap weighted index of the largest companies quoted on the Tokyo Stock Exchange. Although the Nikkei 225 Index is quoted often, Topix is a more representative index.

www.tse.or.jp

tombstone

A public notice, usually a newspaper advertisement, appearing as a record rather than an invitation to subscribe, announcing a new bond or equity issue detailing the issue and the banks and advisers involved.

See also: new issue

ton

Jargon for 100, typically \$100m bonds.

top down

An investment strategy that starts by selecting the country, sector or industry before looking at individual equities or securities. The opposite of bottom up.

Topix

See Tokyo stock price index

top line

Total net sales or revenues of a company. In contrast to the bottom line – a company's profit or loss after all expenses and charges have been allowed for.

top slicing

A method of assessing the income tax liability on the proceeds of life assurance policies.

See also: chargeable event, chargeable gain, income tax, life assurance, non qualifying life policy, paid up policy, premium, qualifying policy

total return

The gain or loss on an investment that is made up of two components: income (dividends or interest) and capital growth (increase in the share price or bond price) and usually expressed as an annualised percentage in relation to the amount invested.

See also: bond, dividend

touch

Jargon for the best (highest) bid and (lowest) offer quote for a given stock offered by competing market makers.

See also: bid-offer spread, market maker, Stock Exchange Automated Quotation system

tracker fund

A fund that aims to achieve the same returns as a chosen share index by investing in all the companies in the index according to a market value weighting. Proponents of tracker funds argue that: although active funds try to beat the index many actually underperform it, a fund that can guarantee to do as well as the index may not be the most ambitious, but its results will be better than many more ambitious funds, and costs are lower because a tracker fund invests in a programmatic way and does not need analysts and researchers determining portfolio selection.

See also: exchange traded fund, FTSE Actuaries All-Share Index, index fund, Standard and Poor's Composite Index (S&P 500)

tracker mortgage

A mortgage interest rate that follows an agreed rate, such as the Bank of England base rate.

tracking error

A portfolio following a benchmark will never exactly mirror the benchmark, leading to a, typically small, tracking error.

trade

A transaction involving buying or selling a security or commodity.

Tradable Instrument Display Mnemonic

TIDM

A mnemonic code allocated by the London Stock Exchange and used to identify a tradable instrument. Used to be called an EPIC code.

See also: Exchange Price Input Computer code

trade balance

A country's exports minus its imports, a part of the balance of payments.

See also: balance of payments

trade barrier

Imposed restraints on free trade of goods and services, usually in the form of quotas, subsidies and tariffs.

trade figures

The statistics recording a country's trade with other countries. The figures show exports and imports and a breakdown between visible and invisible goods and services. They are less important now than they used to be when foreign exchange markets, in particular, paid very close attention.

trade reference

A reference given by one company to another regarding the creditworthiness of another company that it supplies with goods. It is usual for two or more trade references together with a bank reference to be requested by companies prior to supplying goods or services on credit.

traded options

See 'option'.

Tradepoint (Investment Exchange)

A London-based stock exchange that opened in September 1995 but changed its name to virt-x in 2001. It is a market for Swiss and pan-European blue chip stocks that has been developed in conjunction with the SWX Swiss Exchange and the Tradepoint Consortium. It is a recognised investment exchange (RIE) regulated by the Financial Services Authority (FSA).

See also: CREST, Financial Services Authority, London Clearing House, London Stock Exchange, market maker, recognised investment exchange

trader

A person who buys and sells securities for his/her own personal account, not on behalf of clients. It is also a term, along with proprietary trader, used for those working in investment banks who trade on behalf of the bank. Short-term own-account traders are often called day traders.

trader's remorse

A term used in technical analysis to describe the situation where a trader thinks a support or resistance price has been broken, and he/she buys/sells on the strength of the break, only to discover that the share price rebounds to its old level shortly afterwards.

See also: resistance level, support level, technical analysis

trade weighted

Trade weighted indices or foreign exchange rates are calculated in accordance with each currency's importance to that country's overseas trade. For example, if a nation does 20% of its trade with another country, that country's currency will have a weight of 20% in the trade-weighted index.

trading band

Formal exchange rate limits, known as an intervention band, within which a government or central bank will allow its exchange rate to fluctuate. The exchange rate mechanism (ERM) in the run-up to European monetary union was one example of such a system.

trading index

TRIN

See 'Arms index'.

trading posts

The 17 horseshoe-shaped counters manned by clerks and specialists on the trading floor of the New York Stock Exchange (NYSE). Each trading post is responsible for over 100 stocks. The actual buying and selling takes place around each post.

trading range

The highest and lowest trading points, of a price or yield, of a security over a given period, keenly watched by chartists. Sometimes known as the hi/lo.

trading session

The period from when a market or exchange opens until it closes.

trading unit

The minimum number of shares, bonds or commodities that are traded in a transaction on an exchange. This number is usually 100 for shares.

trading volume

The total number of securities or contracts traded in a given period.

traditional options

Options on shares that, unlike traded options, are not transferable and must be exercised on specific dates. In order to make a profit, the owner of the options

has to purchase them (assuming the option price is attractive on the relevant date) and then sell them on the market.

See also: exercise, option, traded options

tranche

The French word for slice widely used to mean a part of an allocation or instalment of, say, a new issue.

See also: maturity, privatisation, risk/reward, security

transaction fees

Charges such as commissions payable, usually by the investor, on the purchase and sale of securities.

transfer payments

A transfer of money from the government to individuals, typically social security, disability payments and unemployment benefits.

transfer value

TV

The value of a pension fund that would be available for transfer into an alternative type of plan either with the same or an alternative pension provider.

See also: pension fund

transparent market

A market in which the price and volume figures are readily available.

travel insurance

Insurance that gives cover to people travelling usually to foreign countries

on holidays or business travel. Some of the benefits include reimbursement for medical expenses, loss of luggage and money, cancellation or curtailment, departure delay and loss of passport.

See also: insurance, insured, insurer

travellers cheques

Cheques issued by financial institutions that enable the holder to obtain cash or pay for goods and services when visiting a foreign country. The cheques are signed by the traveller on their receipt and again when payment is being made. They are covered against loss provided the issuing company is notified within a specified period.

See also: bank, charge card, credit card

treasury

The part of a company that is responsible for managing the financial operations. The US Treasury is the US government department with responsibility for economic and financial policy and the issuance of securities. Her Majesty's Treasury is the UK finance ministry.

treasury bill

A domestic government security usually with a life of 3 months but also up to one year maturity and considered to be a money market instrument. Such bills are issued at a discount and redeemable at par with no interest payable. They provide a principle way of financing borrowing. Other methods of government borrowing include the issuing of bonds or gilt-edged stocks (gilts) usually fixed interest, with a variety of redemption dates.

See also: gilt-edged stock, par value, redeemable, redemption date

treasury bonds

Long-term, negotiable, coupon-bearing US securities with maturities of ten years or more and paying interest semi-annually. The 30-year bond is called the long bond.

See also: maturity, security

Treasury Inflation Protected Security

TIPS

An inflation (CPI) linked US Treasury bond, similar in concept to an index-linked gilt issued by the British authorities.

treasury notes

Medium-term US government negotiable securities with maturities of one to ten years.

See also: maturity, security

treasury securities (treasuries)

General name for debt obligations issued by the US government. Income from treasuries is subject to federal tax but not state and local taxes. They fall into three categories, treasury bills, treasury bonds and treasury notes.

trend/trendline

A trend in a security's price or rate, normally upwards or downwards, indicating an imbalance in the supply and demand for the share, or sometimes flat. When there are more sellers than buyers the trend will be downwards and when there are more buyers than

sellers the trend will be upwards. If the number of buyers and sellers is roughly equal, the market will move sideways, on a flat trend, and the share price will stay within a 'trading range'. Once a trend comes to an end, it is usually reversed. As well as being classified by direction (upwards, downwards), trends are also classified by duration with minor trends lasting from a few days to several weeks, and major trends lasting for anything from several months to several years.

See also: bar chart, line chart, point and figure, technical analysis, volume data

trendline violation

See 'breakout'.

See also: resistance level, support level

trigger warrant

A form of warrant that triggers a one-off payout in the event of an underlying asset reaching a specified level.

triple witching hour

The last trading hour on the third Friday of March, June, September and December when options and futures on stock indices and options on individual stocks expire concurrently. The markets can be volatile at this time. Double witching is when any two of the three contract types expire at the same time.

trust

An arrangement that empowers one or more people (the trustees) to safeguard and administer the assets such as property and money of another person or persons (the beneficiaries).

See also: assets, beneficiary, trustee

trust deed

A trust deed is a legal document for setting up a trust. In order for a unit trust to be UK-authorised by the FSA, the trustees and fund managers must submit a draft trust deed and scheme particulars. The fund may only be promoted to the public once authorisation has been obtained.

See also: beneficiary, unit trust

trustee

A person or institution appointed to manage and safeguard the assets of a trust, ensuring that the governing rules are adhered to.

See also: assets, beneficiary, trust

turnover

The volume of shares or securities traded in a specific period (e.g. a day) either for the market as a whole or for a specific company/stock. Can also refer to a company's total sales figure or revenues for a given period.

See also: volume

two-way market

A liquid market where the dealer or broker participants are actively quoting buying and selling rates. Also the requirement on market makers in some markets to offer a bid and ask price in securities at all times.

See also: market makers

Uu

uberrimae fidei

All contracts of insurance are subject to *uberrimae fidei*, meaning in 'utmost good faith' in that applicants for insurance are obliged to disclose any detail that may be of importance to the insurers whether or not it is requested.

See also: utmost good faith

UCITS

See 'Undertakings for the Collective Investment of Transferable Securities'.

UK Listing Authority

UKLA

The body, part of the FSA, that decides on the rules for the listing of public companies, reviews and approves the prospectuses of companies that want to list, and which in consultation with various departments of the London Stock Exchange, enforces those rules.

www.fsa.gov.uk

See also: Financial Services Authority

ultra vires

Actions by a body that fall outside the remit of its charter and might lead to legal action by affected parties.

umbrella fund

A collective fund containing several sub-funds, each of which invests in a different market or country. The umbrella fund structure makes it cheaper for savers to move from one sub-fund to another.

See also: open ended investment company, unit trust

umbrella personal liability insurance

In the US, liability insurance giving excess cover over and above that provided by other policies. For example, if general policies give total liability insurance cover of \$400,000, an umbrella policy could provide cover of \$1 million. If a claim of \$700,000 were made, the umbrella policy would pay out only after the \$400,000 had been exhausted.

See also: liability insurance

uncovered

See 'naked'.

undated stocks

Fixed interest stocks with no redemption date. War Loan is an example of such a bond issued by the UK government.

See also: bond, redemption date

undercapitalised

A term used to describe a business with inadequate funds to support its activities and make the appropriate investment.

underlying (instrument)

The instrument, such as shares and commodities, on which a futures or options contract is based and would be delivered if the contract was exercised.

See also: commodity, derivatives, futures contract, option, ordinary shares

underperform(er)

An investment that has delivered a return worse than other investments.

undersubscribed

The opposite of oversubscribed and describing a situation when a new stock issue is not fully bought up by investors.

See also: new issue

Undertakings for Collective Investment in Tradable Securities

UCITS

Collective funds that can be sold across national borders within the EU in accordance with the UCITS Directive. For UK investors, one of their attributes is that they can be sheltered from tax within the stocks and shares component of an ISA.

See also: individual savings account

undervalued

The opposite to overvalued and describing a situation when a stock is trading at a price below that suggested by fundamental factors and analysis.

underweight

A portfolio will normally have less of some assets and more of others compared to some benchmark. It would be described as being underweight or overweight.

underwriter

A financial institution which, in return for a fee or commission, acts as an intermediary between a company and investors and agrees to purchase unsold shares in a new issue, if the issue is not fully subscribed. From the company's point of view, having its new issue underwritten is a form of insurance. It means that if an issue is priced too high and the market shuns it, the company can still be sure that it will raise the funds expected from the new issue. Security comes at a price and underwriters charge a fee for the back-up they provide.

See also: insurance, new issue

underwriting

The procedure, using an underwriter, that allows a company to bring a new security issue to investors. A bank or other financial institution will guarantee to a company that it will buy shares in a company's new issue or rights issue, should the issue not be fully subscribed by other investors.

See also: deep discount, new issue, rights issue

unearned income

Income received from sources other than employment such as dividends from shares and bonds, or income from property – income that has not been earned by working.

See also: bond, dividend, income, ordinary shares

unemployment benefit

Benefit received from a government department when a previously employed person becomes unemployed. The claimant must be able to verify previous employment and that he/she is actively seeking new employment. Unemployment benefit payments are liable to income tax.

See also: income tax

unfunded pension plan

A pension plan that is funded by an employer from current income for the benefit of retirees. An example would be the pensions of government workers that are funded from taxes.

See also: personal pension plan

unfunded unapproved retirement benefits scheme

UURBS

A type of top-up arrangement to the UK occupational pension scheme offered by some employers. They are set up under trust, as an individual arrangement between employee and employer. The employer acts as the trustee.

www.pensionsadvisoryservice.org.uk

See also: personal pension plan

unified tax credit

A US federal tax credit that may be deducted from estate tax and gift tax liability.

See also: estate tax, gift tax

uninsured motorist insurance

Car insurance that gives cover to the insured and passengers in the event of vehicle damage and personal injury caused by an uninsured motorist.

See also: insured, motor insurance

unissued stock

A company's authorised stock that has not yet been issued.

See also: authorised stock, issue, new issue

unit linked

See 'unit linked policy'.

unit linked endowment assurance

See 'endowment assurance'.

unit linked life assurance

See: 'unit linked policy'.

unit linked policy

A life assurance policy in which a portion of the premium is used to purchase life cover (the sum assured) with the balance invested in an authorised unit trust/trusts. The return on the policy is thus linked to the performance of the units in the unit trust.

See also: endowment assurance, in-

vestment bond, life assurance, personal pension plan, premium, premium bonds, sum assured, unit trust

unit of trading

The minimum, indivisible number of shares, bonds or commodities that are traded in a transaction on an exchange. This number is usually 100 for shares.

See also: bond, commodity, ordinary shares

unit trust

Unit trusts are collective funds that allow private investors to pool their money in a single fund, thus spreading their risk across a range of investments, getting the benefit of professional fund management, and reducing their dealing costs. Unit trusts are open-ended in contrast to investment trusts, which are closed funds. Different trusts have different investment objectives: investing for income or growth, in small companies or large, and in different geographical regions.

See also: bid-offer spread, exchange traded fund, fund manager, investment trust, open end fund, open ended investment company

unitisation

The conversion of an investment trust into a unit trust.

See also: investment trust, unit trust

unitised with profits

With-profits and investment-linked funds combined in the same contract with the choice of switching between them.

universal life insurance

Life insurance that is a combination of low-cost term life insurance and a savings element that is invested to provide a cash value build up. The policy is flexible in that the death benefit, savings element and premiums can be reviewed and altered from time to time as a policyholder's circumstances change. Additionally, the inner workings of the investment process are openly displayed to the holder, in contrast to the case of whole life investments.

See also: life assurance

universal stock futures

USF

A range of standardised futures contracts on the shares of individual companies. The futures contract is an agreement between buyer and seller to buy or sell a given quantity of shares at some time in the future at a pre-determined price. The contract is cash-settled, which means that the stock does not actually have to be delivered, but the parties reconcile accounts based on the difference between the share price at the time of settlement and the contract price. Investors can go long or short, there is no stamp duty to pay, and there is access to a wide range of global equities.

See also: contracts for difference, margin, stamp duty

unlimited liability

A business where the owner has no limit to his losses should the company fail. This is in contrast to a company with limited liability where the loss is restricted to the capital invested.

unlisted securities

Shares (usually in small companies) that are not listed on a recognised investment exchange. A number of unlisted securities were traded in the UK between 1980 and 1996 on the Unlisted Securities Market (USM). The USM was replaced by the Alternative Investment Market (AIM), and several other markets in the UK and elsewhere have been established that have less onerous listing requirements than main markets. The market for unlisted securities is normally less liquid as deals are negotiated between brokers and bid-offer spreads are wider.

See also: Alternative Investment Market, New York Stock Exchange, over the counter, recognised investment exchange, Unlisted Securities Market

Unlisted Securities Market

USM

A market set up by the London Stock Exchange in 1980 for the trading of shares of small to medium sized companies that did not qualify for a full listing. The USM was discontinued at the end of 1996 and replaced by AIM.

See also: Alternative Investment Market

unmatched book

An investment portfolio in which the maturities of the assets and liabilities do not correspond. In the case of a bank, it might have made long-term loans but have only short-term deposits.

unpaid dividend

A dividend that has been declared by a corporation but has not yet been paid.

See also: dividend

unrealised profit/loss

The profit or loss that would be reported if a position were to be closed. Sometimes called a paper loss/gain.

unsecured loan

A loan where the lender has no entitlement to any of the borrower's assets in the event of the borrower failing to make the loan repayments. Such a loan normally carries a higher interest rate than a secured loan.

See also: secured loan

unsecured loan stock

Loan stock issued by a company but without security. The holder of the loan stock does not have entitlement to any of the company's assets in the event of non-repayment of the loan.

See also: assets, convertible, unsecured loan

unweighted/weighted indices

Stock indices can be weighted or unweighted. The unweighted indices are simple arithmetic or geometric averages while weighted indices take account of the size, or market capitalisation, of the stocks. Most indices are weighted but some, normally older indices, such as the DJ Industrials in the US and the FT30 in the UK are unweighted.

unwind a position

The act of reversing or closing a market position, often by making an equal but opposite transaction.

upgrade

An upward reassessment of the credit status of an institution or its bonds by a credit ratings agency. The opposite of a downgrade. It usually means that the value of the bonds will rise in the secondary market and that the institution will be able to borrow more cheaply in the future.

upside

The potential for gain or appreciation in price.

up tick

A transaction made at a price higher than the preceding transaction.

upper earnings level

UEL

The UK earnings level of an employee above which no further Class 1 National Insurance contributions are payable.

See also: earned income, earnings, National Insurance contributions

uptrend/downtrend

A technical analysis term. An uptrend line or rising trend is defined by successively higher prices for a share. There will be dips in the price throughout the uptrend, but each time the price drops, due to a small correction such as profit taking, the 'bottom' will be higher than the previous bottom. So on a chart of price against time you can draw a line connecting the successive bottoms.

See also: bar chart, line chart, point and figure, technical analysis

Uruguay Round

The world trade negotiations that led to the creation of the Geneva-based World Trade Organisation in 1995. It is the only global international organisation dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters and importers conduct their business.

www.wto.org

US Federal Reserve

See 'Federal Reserve'.

See also: Federal Reserve System

US Treasury

The Department of the Treasury is responsible for the US economic and financial systems, and is an important influence on the global economic outcome. It aims to create economic and employment opportunities by raising the rate of sustainable growth in the US and globally. It issues treasury bills, notes and longer-term bonds that are widely traded in international markets.

www.treasury.gov

usury

Charging an unacceptably, and sometimes illegally, high rate of interest on a loan.

utilities

Traditionally state-owned or regulated companies that provide essential services such as electricity, gas and waste.

utmost good faith

All contracts of insurance are subject to 'utmost good faith' in that people are obliged to disclose any detail that may be of importance to the insurers whether or not it is requested.

See also: insurer, uberrimae fidei



valuation

The value or worth of a portfolio of investments (or an asset or company) recorded on a statement. A valuation will normally be partially subjective in the absence of perfect data.

See also: portfolio, value

value

The worth or desirability of something expressed as an amount of money.

value added tax

VAT

An indirect tax levied on goods and services at each stage of production in many countries. A company or trader registered for VAT pays its suppliers VAT additionally to the cost of goods or services purchased – this is known as an input tax. Also VAT is added to the sales cost of their product when invoicing customers – known as output tax. The difference between output tax and input tax is payable to the appropriate government department – HM Revenue & Customs (HMRC) in the UK.

See also: HM Customs and Excise, indirect taxation, input tax, output tax

VDAX

See VIX

value at risk

VAR

A statistical analysis technique that estimates the maximum percentage of value likely to be gained or lost as the result of normal price movement, based on past movements, typically over one day.

value date

The date on which a security is settled following a trade.

value investing

Value investing is something of a misnomer in many ways as investors would not knowingly buy shares in a company unless they thought that the shares were good value. However, value investing has come to mean the purchase of shares that look cheap according to particular criteria. Historically, this has meant the purchase of shares in companies that have low price earnings ratios (P/Es), a high level of asset backing, or high dividend yields, or a mixture of all three. This is in contrast to growth investing, where the investor focuses on the potential for

future earnings growth and is prepared to pay a much higher P/E multiple.

See also: price earnings ratio

valued policy

An insurance policy in which the value of the insured item is defined and agreed at the commencement of the policy. In the event of a total loss the agreed amount is paid by the insurer without the need for further proof of value.

See also: insurance policy, insured, insurer

vanilla

The term – derived from vanilla or ‘plain’ ice cream – is applied to a bond or other security that has no unusual features, paying interest in a standard way and redeemable on maturity.

variable annuity

See ‘annuity’.

variable cost

A producer’s cost that varies as production varies, in contrast to fixed costs. Rent is an example of a fixed cost and raw materials of a variable cost.

variable interest rate

Interest rates offered by banks and financial institutions on loans or deposits that are liable to change according to circumstances. For example a movement in the base interest rate set by the central bank would usually be an influ-

ence. Changes might occur at set times, say annually.

See also: interest rate, loan

variable life insurance

A form of cash value life insurance in which the cash value of the policy is determined by the performance of the underlying investment, in shares and bonds etc., as chosen by the policy holder.

See also: cash value life insurance, insured, insurer

variable rate certificate

A certificate of deposit whose interest rate varies and is dependent on an influence such as prime rate.

variable rate mortgage

VRM

A mortgage where the interest rate is not fixed and which is dependent on influences such as long or short-term interest rates, for example treasury securities in the US or the base/repo rate in the UK.

See also: base rate, interest rate, mortgage, treasury securities

variance

Statistically, it is a measure of the average distance between each set of data points and their mean value, equal to the sum of the squares of the deviation from the mean value. In accounting it is the difference between budgeted or standard costs and actual costs for inputs such as materials or labour.

variation margin

Based on the daily valuation of profits and losses on open futures contracts, payments will be paid to or received from the clearing house in order to keep the margin at the required level.

See also: clearing house, futures contract

VAT

See 'value added tax'.

vega

A measure of the sensitivity of an option or warrant price to changes in the volatility of the underlying asset.

See also: volatility

vendor

A person or company, sometimes called a supplier, selling goods, services or property.

vendor placing

An arrangement in which the vendor (seller) of a business who receives shares in the acquiring company as part of the deal immediately sells them on to an institutional investor. The point of this is that if the vendor sold the shares on the open market it would depress the share price, which would be bad both for the vendor and for the company. The vendor gets what he really wants (cash), the acquiring company is able to pay for its acquisition the way it wants (shares) and the institutional investor gets shares in a company that it likes at a price that is likely to be below the market price.

venture capital

Capital invested into small and young companies, generally in return for equity ownership. Venture capitalists (VCs) normally supply capital to companies that are small, maybe high risk start-ups, and cannot raise additional funds by listing on the stock market or borrowing from banks. In return for taking the extra risk, the VCs look for substantial equity and other benefits such as a seat on the board. Sometimes, they provide management and financial support to their investee companies. They typically look for an exit through a trade sale or a flotation of the company within 2-5 years. Also called 'risk capital'.

See also: equity, capital, high-tech shares

venture capital trust

VCT

A type of investment trust that invests in small, unquoted companies with modest assets, and which is designed, in the UK, to attract risk capital from higher rate taxpayers by giving them tax concessions. Like investment trusts, UK VCTs are quoted on the London Stock Exchange. VCTs are only allowed to invest in companies under a certain size, and there is a limit on how much they can invest in any one company, as they must apply their funds to genuinely risky entrepreneurial ventures.

See also: venture capital

vertical integration

The inclusion within one company of several stages in the production or distribution of goods with the aim of increasing its market power.

vesting

Conversion. For example the vesting of a pension fund is its conversion into a pension. An investment is said to be vested if the investor has ownership of the assets, such as shares, but does not have control, for example the ability to sell the shares, which might be delayed until some point in the future.

See also: pension fund

virt-x

A London-based, pan-European stock exchange, owned by SWX, the Swiss stock exchange. Virt-x (short for virtual exchange) launched in 2001 when trading in Swiss blue-chips switched to virt-x in London. The previous year, SWX had combined with Tradepoint, an electronic trading platform set up in the 1990s as a rival to the London Stock Exchange. Tradepoint and SWX then set up virt-x, which is regulated by the FSA.

Visa

An international card scheme providing a range of payment services.

See also: American Express, charge card, credit card, payment card

VIX

A market volatility/sentiment index based on option activity in the S&P 500 index. Similar indices apply to other stock market indices such as the VDAX for the German market..

void periods

Void means not in force. In the context of property, void periods are those 'between tenants' when a rental property

is generating no rental income but the landlord still has to cover overhead costs, such as mortgage repayments.

volatility

A measure of a security's propensity, compared to other securities, to go up and down in price. A volatile share is one that has a tendency to move sharply through a wide share price range. Mathematically, this is expressed as the average standard deviation of daily price change from the average. In general, high volatility means high unpredictability, and therefore greater risk – but also greater opportunity to make money. Generally speaking, the higher the volatility of a share, the higher the price of option/warrants on the share will be. Historical volatility is a measure based on past performance while implied volatility is derived from the price of an option.

See also: historic volatility, implied volatility

volume

The number of shares, bonds or contracts traded for a security or on a whole exchange for a given period, also known as market turnover. Low volume is sometimes referred to as 'thin' trading. One significance of volume, particularly for technical traders, is that the higher it is, the more reliable the closing price is as a barometer of market sentiment. Conversely, when the volume is low the price may not be totally representative of the true value.

See also: technical analysis

volume weighted average price

VWAP

A measure of the price at which most of a day's trading took place. It is calculated as the value of trades divided by the volume over a given period. It may also be used to measure the efficiency of institutional trading or the performance of traders and is a calculation performed by the London Stock Exchange, for example, to set closing prices for shares traded on the SETS order book system. The LSE uses a closing 10 minute VWAP to set closing prices on SETS.

See also: closing price, Stock Exchange Electronic Trading Service, volume

voluntary deductible employee contribution plan

A type of pension plan in which an employee elects to have regular payments deducted from each salary payment.

See also: personal pension plan

voluntary liquidation

The liquidation of a company approved by its shareholders.

voting right

The entitlement of the owner of common stock or ordinary shares to vote in person or by proxy at annual general meetings or other shareholder meetings. Votes might be held to appoint directors or decide other matters of corporate policy.

See also: annual general meeting, common stock, ordinary shares, proxy

voting stock

Voting stock, typically common stock, which confers on the owner the right to vote on election of directors and other corporate matters.

See also: common stock, voting right

voucher

A document that authorises the payment of a debt or the receipt for the payment of money.

Ww

WACC

See 'weighted average cost of capital'.

waiting period

The period after a company prospectus has been filed but prior to the IPO date, and during which contacts with investors are limited. In insurance, the waiting or deferment period refers to the first period of insurance cover during which no claims can be made.

See also: claim, deferment period, disability income insurance, elimination period, insurer

waiver of premium

Used to continue an insurance policy in the event of becoming disabled or ill, and unable to work for longer than (usually) six months. The insurance company will pay the premiums for the insured until they are able to return to work.

See also: deferment period, elimination period, insurer, life assurance, waiting period

wallflower

A stock, sometimes called an orphan stock, that has been largely ignored as it is small or otherwise out of favour.

wallpaper

A worthless stock that might as well be used to decorate the walls.

Wall Street

Colloquial name for the financial markets in New York, in particular the area in lower Manhattan where a number of exchanges and banks are located. Sometimes called 'The Street'.

warehousing

A process in which a number of investors each buy shares in a company. Yet each keeps their individual holding below a level at which notification to the exchange would be required, making it easier to secretly build a stake in advance of a potential takeover.

warrant

Warrants are financial instruments attached to securities issued by a company (often an investment trust) with a separate life and value, that give their owners the right to purchase shares in the company at a specific price either at a future date or in perpetuity. The warrants are usually transferable and tradable in their own right, and their value will go up and down as the price of the shares to which they relate goes

up and down. The owner of a warrant has a right, not an obligation to buy the shares. The value of a warrant can drop to zero (if the exercise price is higher than the share price) and that it will definitely be zero once the time for exercise has passed. Covered warrants are issued by banks for shares in other companies, for use as trading instruments.

See also: exercise price, option

warrant bond

A bond with an attached warrant giving the right to buy shares in the company in the future.

warrant premium

The warrant premium measures the extra cost incurred by buying a warrant and exercising the warrant into the shares, over simply buying the shares directly in the market.

See also: intrinsic value, theta, time value

warranty

An agreement between a seller and a buyer in which the former agrees to put right any faulty workmanship or product failure occurring within a specified period at no cost to the buyer. Typical products covered by warranty include electrical appliances, cars and machinery. Can also be a statement about a company's financial position.

wash sales

A process in which simultaneous purchases and sales are made in the same commodity futures contract, on the same exchange, and in the same

month. No actual position is taken, although it appears that trades have been made. The intention is that the apparent activity will induce legitimate trades, thus increasing trading volume and commissions.

wasting asset

An asset with a limited expected useful life with a decreasing value over time.

See also: depreciation

weak market

A stock market where either the price trend is down – sellers outnumber buyers – or where volume is low and the spread is high.

See also: bid-offer spread, volume

weather derivatives

A financial instrument used by companies to reduce the risks associated with adverse or unexpected weather.

wedding insurance

Insurance to give protection against financial loss in relation to a wedding. Items typically covered include costs arising out of unavoidable cancellation (such as the venue being unable to hold the ceremony, wedding transport failing to arrive), damage to hired costumes such as bridal gown, bridesmaids' dresses and morning suits, loss/damage to or retaking of photographs and loss of or damage to wedding presents and wedding rings.

See also: deductible

wedge

A technical analysis term used to describe a chart on which lines that connect tops and bottoms converge towards each other but are both moving in the same direction. Similar to a triangle, except that in a triangle, the trends move in opposite directions, with the tops decreasing and the bottoms increasing. In a wedge, both lines have the same trend (upward or downward) but have different slopes, leading to the convergence.

weekend effect

A theory of stock market growth, claiming that traders' optimism normally fades between Friday and Monday.

weighted average cost of capital

WACC

This calculation adds together the costs of a company's equity and debt and then averages them out according to the proportions of equity and net debt in its capital structure. So if a company has an enterprise value of 100 made up of 75% equity and 25% debt, and its cost of equity is 8% and post-tax cost of debt 4%, its WACC is 7%. The cost of equity is the sum of the risk free rate (typically a 10-year government bond) plus the equity risk premium adjusted to include the company's beta – the riskiness of its shares compared with the market benchmark. The equity risk premium is the additional return investors require to compensate for the additional risk of holding the stock rather than government bonds. The WACC is used as a minimum required rate of return for company investments.

weighted average maturity

The weighted average maturity of the loans in a portfolio or the underlying collateral of a mortgage pool.

weighted/unweighted indices

Stock indices can be weighted or unweighted. The unweighted indices are simple arithmetic or geometric averages while weighted indices take account of the size, or market capitalisation, of the stocks. Most indices are weighted but some, normally older indices, such as the DJ Industrials in the US and the FT30 in the UK are unweighted.

when issued

WI

A conditional price or transaction as the relevant security has been authorised/promised but not yet issued.

whipsaw

When a share price moves in one direction and then abruptly reverses direction. Whipsaws are dangerous to traders because the first movement may throw up a buy signal, completely wrong-footing the trader when the price subsequently tumbles.

See also: technical analysis

white knight

A company that comes to the rescue of another listed company when it is under siege from an unwelcome bidder (sometimes called a black knight), often at the request of the target's management. The white knight may make an improved offer, or it may just be a

more acceptable predator than the first bidder, as far as the management is concerned.

See also: black knight, City Code, grey knight, Panel on Takeovers and Mergers, takeover

whole life insurance

A life insurance policy, with level premiums, which provides a stated benefit on the death of the life insured and a savings element that accumulates a cash value. The dividends or interest are allowed to build up tax-deferred. The insured is able to redeem the cash value or borrow against it in what is known as a policy loan. Any part of a loan that is unpaid at the death of the insured is deducted from the face value.

See also: cash value life insurance, insured, insurer, life assurance, policy loan

wholesale

Goods sold in large quantities, or the intermediate stage in distribution. Wholesale banking is banking services for other financial institutions. Wholesale, or producer prices, are one measure of inflation.

will

A document that sets out how a person wishes his/her estate or property to be dispersed after his/her death. The document must be signed by the testator/testatrix (the person making the will) in the presence of two witnesses who must also sign. An executor (female form executrix) or executors are appointed by the testator to ensure that his/her wishes are carried out.

See also: estate, executor, executrix, testament, testator, testatrix

Wilshire 5000

A capitalisation weighted index of US companies that provides the broadest measure of US stock market performance. The Federal Reserve regards the Wilshire 5000 as the best indicator of wealth effects and consumer confidence.

See also: index

windfall shares

A term coined in the 1990s for free shares issued to members of demutualised societies. A general term for money received that was not expected and often not a direct result of something the recipient did.

See also: privatisation

windfall profit

A one-off, large and unusual profit.

windfall tax

A one-off tax imposed by government. The UK government applied such a measure in the budget of July 1997 on the profits of privatised utilities companies.

See also: privatisation

winding up

See 'liquidation'.

window dressing

A company might engage in window dressing to make its accounts look particularly good at some points of the

year. A mutual fund might buy recently well performing stocks just prior to making its holdings public and a company might deploy accounting tricks to make its balance sheet look better than it really is at the end of the accounting period.

win-win

A deal or arrangement in which all parties do, or seem to, benefit.

withdrawal

The removal of funds from an account.

with-profits bond

A lump sum investment into a with-profits fund of a life insurance company. With-profits bond funds are designed to be low risk investments that produce growth, but also allow the investor to take out income if desired. The insurance company invests the fund's money in a variety of assets including shares, gilts, property and cash.

See also: lump sum

with-profits policy

A UK savings plan, often an endowment linked to a mortgage, that is sold as low risk because the money is invested in a mix of shares, property and bonds. Each year, the insurance company running the plan announces a bonus that is added to the policy and cannot be taken away. There is normally a terminal bonus when the plan matures. The bonuses are based on the performance of the company's investments, and are intended to smooth out the ups and downs of the stock market, because the company holds back

money in good years to boost poor returns in bad years.

See also: life assurance, reversionary bonus, terminal bonus, with-profits bond

withholding

In the US, this refers to a deduction from an employee's salary by an employer for the partial payment of federal, state and local tax liabilities.

withholding tax

Tax deducted at source in earnings, including dividends and interest payments.

without prejudice

The basic meaning is 'without loss of any rights'. It is a term used when two parties are in dispute, and one makes a settlement offer to the other. It puts 'without prejudice' on its offer to make it clear that the settlement offer should not be construed as a waiver of rights. Importantly, communication marked 'without prejudice' cannot be used in evidence in court proceedings if the attempts at settlement fail.

worked principle trade

A term used by the London Stock Exchange to denote that a reported trade was from a worked principle agreement for a single security.

See also: London Stock Exchange, Stock Exchange Automated Quotation system, Stock Exchange Electronic Trading Service

working capital

A company's liquid assets, i.e. current assets (cash, debtors, work in progress) less its current liabilities (creditors, taxes due), used to run its day-to-day operations.

See also: capital, cash, creditors, current assets, current liabilities, debtor

working control

A proportion of a company's shares, theoretically 50% but potentially less depending on the nature of the other shareholdings, that gives control of the company.

working life

In the UK, working life is counted by the government from the start of the tax year in which a person reaches the age of 16 to the end of the tax year before reaching state pension age.

See also: state pension age

World Bank, The

The World Bank is not a bank in the common sense but a source of financial and technical assistance to developing countries around the world aimed at global poverty reduction and the improvement of living standards. It comprises two development institutions – the International Bank for Reconstruction and Development (IBRD) and the International Development Association – owned by 184 member countries. The IBRD focuses on middle income and creditworthy poor countries, while IDA focuses on the poorest countries in the world. They provide low-interest loans, interest-free credit and grants for education, health,

infrastructure, communications and other purposes.

www.worldbank.org

World Trade Organisation

WTO

World trade negotiations led to the creation of the Geneva-based World Trade Organisation in 1995. It is the only global international organisation dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters and importers conduct their business.

www.wto.org

wrap account

Sometimes known as a fund of funds, it is an account where a brokerage helps an investor find a money manager in return for flat fees.

writ

A written order issued by a court instructing the defendant to appear in court to answer charges made by the plaintiff.

write down

Accounting action that reduces the value of an asset on a balance sheet.

See also: asset

writer

A person, also called a grantor or option writer, who makes an opening sale

of an option contract. Upon notification of exercise by the option holder (the buyer), the writer is obliged to deliver or take delivery of the underlying instrument (for example, shares, commodities, etc).

See also: exercise, holder, option, underlying instrument

write off

Accounting action that removes an asset from a balance sheet.

See also: asset

WTO

See 'World Trade Organisation'.



xa

Another way of writing ex all. This means that shares bought in a company are without entitlement to current dividends, rights issues or scrip issues. Such entitlement remains with the seller of the shares.

See also: ex all, security

xc

Another way of writing ex scrip or ex capitalisation. Shares bought in a company are without entitlement to current scrip issues. Such entitlement remains with the seller of the shares.

See also: ex scrip, scrip issue

xd

Another way of writing ex dividend, and sometimes abbreviated to just x. Shares bought in a company are without entitlement to current dividends, and bonds are without entitlement to interest. Such entitlement remains with the seller of the shares.

See also: ex dividend, security

xr

Another way of writing ex rights. Shares bought in a company are without entitlement to current rights issues.

Such entitlement remains with the seller of the shares.

See also: ex rights, rights issue

xw

Another way of writing ex warrants. Shares bought in a company are without entitlement to warrants.

See also: warrant



yankee

A dollar denominated bond issued in the US by a foreign corporate or government borrower.

See also: bond

yankee auction

An auction of multiple identical items in which the winning bidders pay the prices that they have bid.

See also: Dutch auction

yard

Currency market term for one thousand million units of a currency.

year-end dividend

An additional dividend paid at the end of the trading year and based on company profits.

See also: dividend

yearling

Traditionally, a local authority bond normally issued for one year.

year-on-year rate

yoy

A rate, sometimes year-over-year, that compares the latest period – day, week,

month or quarter – with the same period in the previous year, in percentage terms.

year-to-date

YTD

The period from 1 January to today.

Yellow Book

See ‘Listing Rules’.

yellow strip

The yellow band on a SEAQ or SETS screen used by brokers which displays the highest bid and the lowest offered prices that competing market makers are offering in a share. They are known colloquially as the ‘touch’ or ‘yellow strip’ prices.

See also: bid price, market maker, offer price, spread, Stock Exchange Automated Quotation system, Stock Exchange Electronic Trading Service

yield

See ‘dividend yield’ and ‘bond yield’.

yield curve

A graphical representation that plots current yields of a set of bonds or fixed

interest securities against their times to redemption (maturity). Yield is plotted on the vertical axis and time on the horizontal. This enables investors to compare the yields of short, medium and long-term securities at a given time. A 'normal' yield curve is upward sloping, with yields rising as maturity increases. An inverted curve is the reverse.

See also: coupon, current yield, debt instrument, gilt-edged stock, maturity, redemption

yield gap

A comparison, also known as the yield ratio, between the average dividend yield from shares (dividend yield) and the average current yield from long-dated (15 years or more to redemption) government bonds, known as gilts in the UK. The ratio helps to assess whether equities are cheap or dear compared with bonds. Normally, equities yield less than long-dated government bonds, so if the gap is narrow or even positive on the equity side, equities are regarded as cheap.

See also: debt instrument, dividend yield, redemption

yield spread

The difference between yields on different types of bonds reflecting factors such as creditworthiness and supply and demand.

yield to maturity

YTM

The yield that would be realised on a bond if it were held until the maturity date. It will be greater than the current yield if the bond is selling at a discount and less if it is selling at a premium.

yours

Jargon used on a dealing floor to confirm the act of selling. The seller will say 'yours' and confirm the amount of the bid when a counterparty has accepted an offer.

yuppie

A word that became popular in the 1980s meaning young, upwardly mobile professional.

Zz

zero coupon bond

A bond that pays no interest through its life but instead provides a capital gain by being issued at a substantial discount to the face/maturity value. There can be tax consequences resulting from investing in a deep discounted bond. The large capital gain boosts the effective yield to market levels but investors do not have to worry about reinvesting the interest payments. The market for such bonds tends to be thin.

See also: capital gains tax, thin market

zero coupon yield curve

A yield curve, known as a spot yield curve, of zero coupon bonds that can be derived from the par yield curve and is used to derive discount factors.

zero dividend preference shares (zeros)

Preference shares that receive no dividends throughout their lives. Instead a fixed known amount is paid at maturity.

See also: maturity, preference shares

zero rated

Relating to value added tax (VAT), it refers to goods (for example, food and books in the UK) that are taxable but

at a zero rate. The significance of this rating is that businesses selling such goods may claim back their input tax (the VAT that they have paid to their suppliers). Businesses which provide goods and services that are VAT exempt (for example, stamps and postal services) are not able to reclaim input tax.

See also: input tax, value added tax

- More than 2,600 essential financial terms and acronyms covering the stock, options, futures and capital markets, as well as personal finance.
- Based on content taken from the popular website, www.Finance-Glossary.com.
- Terms are cross-referenced and relevant URLs are also provided.
- Edited by two highly experienced financial writers.