

A

Fifth letter of a [Nasdaq](#) stock symbol specifying Class A shares.

AAII

See: [American Association of Individual Investors](#)

ABCP

See: [Asset Backed Commercial Paper \(ABCP\)](#)

ABO

See: [Accumulated Benefit Obligation](#)

ABS (1)

See: [Automated Bond System](#)

ABS (2)

See: [Asset backed securities](#)

ABW

The three-character [ISO](#) 3166 country code for ARUBA.

ABX index

[Index](#) created by the firm Markit. It is based on the price of credit default swaps on the index's constituent [mortgage backed securities](#). A decline in the the ABX Index indicates that the [market](#) associates more [risk](#) with subprime mortgages.

ACAT

See: [Automated Customer Account Transfer](#)

ACES

See: [Advance Computerized Execution System](#)

ACH

See: [Automated Clearing House](#)

ACRS

See: [Accelerated cost recovery system](#)

ACU

See: [Asian currency units](#)

AD

The two-character [ISO](#) 3166 country code for ANDORRA.

ADB (1)

See: [Adjusted Debit Balance](#)

ADB (2)

See: [Asian Development Bank](#)

ADP

See: [Automatic Data Processing, Inc.](#)

ADR

See: [American Depository Receipt](#)

ADS

See: [American Depository Share](#)

AE

The two-character [ISO](#) 3166 country code for UNITED ARAB EMIRATES.

AED

The [ISO](#) 4217 currency code for United Arab Emirates Dirham.

AEX

See: [Amsterdam Exchange](#)

AF

The two-character [ISO](#) 3166 country code for AFGHANISTAN.

AFA

The [ISO](#) 4217 currency code for Afghan Afghani.

AFG

The three-character [ISO](#) 3166 country code for AFGHANISTAN.

AFM (1)

See: [Amman Financial Market](#)

AFM (2)

See: [Autoriteit Financiële Markten](#).

AFS

See: [Available for Sale](#)

AG

The two-character [ISO](#) 3166 country code for ANTIGUA AND BARBUDAAG.

AGO

The three-character [ISO](#) 3166 country code for ANGOLA.

AI

The two-character [ISO](#) 3166 country code for ANGUILLAAL.

AIA

The three-character [ISO](#) 3166 country code for ANGUILLAAL.

AIBD

Association of International Bond Dealers

AL

The two-character [ISO](#) 3166 country code for ALBANIA.

ALA

The three-character [ISO](#) 3166 country code for ALAND ISLANDS.

ALB

The three-character [ISO](#) 3166 country code for ALBANIA.

ALCO

See: [Asset-Liability Committee](#).

ALL

The [ISO](#) 4217 currency code for Albanian Lek.

ALLL

See [Allowance for loan and lease losses](#).

ALT

Alternative Trading System. This term is defined under section 301 of the U.S. [Securities Act](#).

AM

The two-character [ISO](#) 3166 country code for ARMENIA.

AMD

The [ISO](#) 4217 currency code for Armenian Dram.

AMEX

See: [American Stock Exchange](#)

AMF

See: [Autorité des Marchés Financiers](#).

AMLF

See: [The Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility](#).

AMPS

See: [Auction Market Preferred Stock](#)

AN

The two-character [ISO](#) 3166 country code for NETHERLANDS ANTILLES.

AND

The three-character [ISO](#) 3166 country code for ANDORRA.

ANG

The [ISO](#) 4217 currency code for Netherlands Antilles Guilder.

ANT

The three-character [ISO](#) 3166 country code for NETHERLANDS ANTILLES.

AO

The two-character [ISO](#) 3166 country code for ANGOLA.

AOCI

See: [Accumulated Other Comprehensive Income](#).

AON

See: [All or none order](#)

AOR

The [ISO](#) 4217 currency code for Angolan Reajustado Kwanza.

AOS

See: [Automated Order System](#)

APR

See: [Annual Percentage Rate](#)

APT (1)

See: [Arbitrage Pricing Theory](#)

APT (2)

See: [Automated Pit Trading](#)

APV

See: [Adjusted Present Value](#)

APY

See: [Annual Percentage Yield](#)

AR

1) See: [Auto-Regressive](#)

2) The two-character [ISO](#) 3166 country code for ARGENTINA.

ARCH

See: [Auto-Regressive Conditional Heteroskedasticity](#)

ARE

The three-character [ISO](#) 3166 country code for UNITED ARAB EMIRATES.

ARG

The three-character [ISO](#) 3166 country code for ARGENTINA.

ARM

1) The three-character [ISO](#) 3166 country code for ARMENIA.

2) See: [Adjustable-rate mortgage](#)

ARS

See: [Auction Rate Securities \(ARS\)](#)

AQ

The two-character [ISO](#) 3166 country code for ANTARCTICA.

AR

The two-character [ISO](#) 3166 country code for ARGENTINA.

ARG

The three-character [ISO](#) 3166 country code for ARGENTINA.

ARS

The [ISO](#) 4217 currency code for Argentinian Peso.

ARM

See: [Adjustable-rate mortgage](#)

ARMS

See: [Adjustable-rate mortgage securities](#)

ARPS (1)

See: [Adjustable-rate preferred stock](#)

ARPS (2)

See: [Auction rate preferred stock](#)

ARR

See: [Average rate of return](#)

AS

The two-character [ISO](#) 3166 country code for AMERICAN SAMOA.

ASM

The three-character [ISO](#) 3166 country code for AMERICAN SAMOA.

ASE

See: [Athens Stock Exchange](#).

ASX

See: [Australian Stock Exchange](#)

AT

The two-character [ISO](#) 3166 country code for AUSTRIA.

ATA

The three-character [ISO](#) 3166 country code for ANTARCTICA.

ATF

The three-character [ISO](#) 3166 country code for FRENCH SOUTHERN TERRITORIES.

ATG

The three-character [ISO](#) 3166 country code for ANTIGUA AND BARBUDAAG.

ATP

See: [Arbitrage Trading Program](#)

ATS

The [ISO](#) 4217 currency code for Austrian Schilling.

AU

The two-character [ISO](#) 3166 country code for AUSTRALIA.

AUD

The [ISO](#) 4217 currency code for Australian Dollar currency.

AUM

See: [Assets under management](#)

AUS

The three-character [ISO](#) 3166 country code for AUSTRALIA.

AUT

The three-character [ISO](#) 3166 country code for AUSTRIA.

AW

The two-character [ISO](#) 3166 country code for ARUBA.

AWG

The [ISO](#) 4217 currency code for Aruban Guilder.

AX

The two-character [ISO](#) 3166 country code for ALAND ISLANDS.

AZ

The two-character [ISO](#) 3166 country code for AZERBAIJAN.

AZE

The three-character [ISO](#) 3166 country code for AZERBAIJAN.

AZM

The [ISO](#) 4217 currency code for Azerbaijani Manat. In 2005, the Manat was changed to AZN.

AZN

The [ISO](#) 944 currency code for Azerbaijani Manat. Before 2005, the Manat was designated AZM.

A1

The fifth highest rating in [Moody's Long-term Corporate Obligation Rating](#). Obligations rated A1 are considered upper-medium grade and are subject to low credit risk. Rating one notch higher is [Aa3](#). Rating one notch lower is [A2](#)

A2

The sixth highest rating in [Moody's Long-term Corporate Obligation Rating](#). Obligations rated A2 are considered upper-medium grade and are subject to low credit risk. Rating one notch higher is [A1](#). Rating one notch lower is [A3](#)

A3

The seventh highest rating in [Moody's Long-term Corporate Obligation Rating](#). Obligations rated A3 are considered upper-medium grade and are subject to low credit risk. Rating one notch higher is [A2](#). Rating one notch lower is [Baa1](#)

Aa1

The second highest rating in [Moody's Long-term Corporate Obligation Rating](#). Obligations rated Aa1 are judged to be of high quality and are subject to very low credit risk. Rating one notch higher is [Aaa](#). Rating one notch lower is [Aa2](#)

Aa2

The third highest rating in [Moody's Long-term Corporate Obligation Rating](#). Obligations rated Aa2 are judged to be of high quality and are subject to very low credit risk. Rating one notch higher is [Aa1](#). Rating one notch lower is [Aa3](#)

Aa3

The fourth highest rating in [Moody's Long-term Corporate Obligation Rating](#). Obligations rated Aa3 are judged to be of high quality and are subject to very low credit risk. Rating one notch higher is [Aa2](#). Rating one notch lower is [A1](#)

Aaa

The highest rating in [Moody's Long-term Corporate Obligation Rating](#). Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk. Rating one notch lower is [Aa1](#).

AAA+ Bank

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

Abandonment

[Controlling](#) party giving up rights to property voluntarily.

Abandonment option

The [option](#) of terminating an [investment](#) earlier than originally planned.

ABC agreement

A [contract](#) between an employee and a brokerage firm outlining the rights of the firm purchasing an [NYSE](#) membership for that employee.

Ability to pay

Refers to the [borrower's](#) ability to make [interest](#) and [principal](#) payments on [debts](#). See: [Fixed charge coverage ratio](#).

In context of [municipal bonds](#), refers to the [issuer's](#) present and future ability to create sufficient tax revenue to fulfill its contractual [obligations](#), accounting for municipal income and property values.
In context of taxation, notion that tax rates should be determined according to income or wealth.

Abnormal returns

The component of the [return](#) that is not due to [systematic](#) influences ([market](#)-wide influences). In other words, the abnormal returns is the difference between the actual return and that is expected to result from market movements (normal return). Related: [excess returns](#).

Above par

See: [Par](#).

Absolute advantage

A person, [company](#) or country has an absolute advantage if its output per [unit](#) of input of all goods and services produced is higher than that of another person, company or country.

Absolute form of purchasing power parity

A theory that prices of products of two different countries should be equal when measured by a common [currency](#). Also called the "[law of one price](#)."

Absolute Physical Life

The period of use after which an [asset](#) has deteriorated to such an extent that it can no longer be used.

Absolute priority

Rule in [bankruptcy](#) proceedings requiring senior [creditors](#) to be paid in full before junior creditors receive any payment.

Absorbed

Used in context of general equities. [Securities](#) are "absorbed" as long as there are [corresponding orders](#) to [buy](#) and sell. The [market](#) has reached the absorption point when further assimilation is impossible without an adjustment in price. See: [Sell the book](#).

Abusive tax shelter

A [limited partnership](#) that the [IRS](#) judges to be claiming [tax deductions](#) illegally.

Accelerated cost recovery system (ACRS)

Schedule of [depreciation](#) rates allowed for tax purposes.

Acceleration clause

A [contract](#) stating that the unpaid balance becomes due and payable if specific actions transpire, such as failure to make [interests](#) payments on time.

Accelerated depreciation

Any [depreciation](#) method that produces larger [deductions](#) for depreciation in the early years of an [asset's](#) life. [Accelerated cost recovery system \(ACRS\)](#), which is a depreciation schedule allowed for tax purposes, is one such example.

Accelerator acquisitions

Buying a firm very early on in its life cycle and, usually, at an inexpensive price

Acceptance

Contractual agreement instigated when the drawee of a [time draft](#) "accepts" the [draft](#) by writing the word "accepted" thereon. The drawee assumes responsibility as the acceptor and for payment at [maturity](#). See: [Letter of credit](#) and [banker's acceptance](#).

Accommodation

A form of [loan](#) in which the [borrower](#) is not obligated to compensate the [lender](#). These [loans](#) are often accompanied by [accommodation bills](#), which guarantee that a third party compensates the [lender](#), should the [borrower](#) be unable. Troubled financial institutions frequently use [accommodation loans](#).

Accommodation loan

A legal agreement signed by two parties whereby one of the co-signers [guarantees credit liability](#) for the other co-signer. Accommodation loans, often called accommodation endorsements or bills, allows the [guarantor](#) to add strength to the [creditworthiness](#) of the other party. If the receiving party [defaults](#) on its [debt](#), the [guarantor](#) is then responsible for the [debt](#) of the other party.

See: [Covenant](#)

Accommodative monetary policy

[Federal Reserve System](#) policy to increase the amount of [money](#) available to banks for [lending](#).

See: [Monetary policy](#).

Account

In the context of bookkeeping, refers to the ledger pages upon which various [assets](#), [liabilities](#), income, and [expenses](#) are represented.

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

Account Ad Valorem Duty

An imported merchandise tax expressed as a percentage.

Account balance

[Credits minus](#) debits at the end of a [reporting](#) period.

Account executive

The brokerage firm employee who handles [stock orders](#) for clients. See: [Broker](#).

Account in trust

[Account](#) managed by the [account](#) holder for another person, called the [beneficiary](#). For example, an [account](#) opened by parents to give money to their minor children.

Account Party

Party who applies to open a bank for the issuance of a [letter of credit](#).

Account reconciliation

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

Account statement

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

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

Accountant's opinion

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

Accounting earnings

[Earnings](#) of a firm as [reported](#) on its [income statement](#).

Accounting exposure

The change in the value of a firm's [foreign currency-denominated](#) accounts due to a change in [exchange rates](#).

Accounting insolvency

Total [liabilities](#) exceed total [assets](#). A firm with a negative [net worth](#) is [insolvent](#) on the [books](#).

Accounting liquidity

The ease and quickness with which [assets](#) can be converted to [cash](#).

Accounts payable

[Money](#) owed to suppliers.

Accounts receivable

[Money](#) owed by customers.

Accounts receivable financing

A [short-term financing](#) method in which [accounts receivable](#) are [collateral](#) for [cash](#) advances.

See: [Factoring](#).

Accounts receivable turnover

The ratio of [net credit sales](#) to [average accounts receivable](#), which is a measure of how quickly customers pay their bills.

Accredited investor

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

Accreting Swap)

An interest rate [swap](#) in which the notional principal amount increases over time, for example as with a construction loan provided in tranches as each stage of the project is completed.

Accretion (of a discount)

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

Accrual Accounting Convention

An accounting system that tries to match the recognition of revenues earned with the [expenses](#) incurred in generating those revenues. It ignores the timing of the [cash flows](#) associated with revenues and [expenses](#).

Accrual basis

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

Accrual bond

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

Accrued benefits

The [pension](#) benefits earned by an employee according to the years of the employee's service.

Accrued discount

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

Accrued interest

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

Accrued market discount

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

Accumulate

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

Accumulated Benefit Obligation (ABO)

An approximate measure of the liability of a pension plan in the event of a termination at the date the calculation is performed. Related: Projected benefit obligation.

Accumulated dividend

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

Accumulated Other Comprehensive Income (AOCI)

A balance sheet account that reports the total of all comprehensive income items except Net Income.

Accumulated profits tax

A tax on earnings retained in a firm as a way for the principals to defer personal income taxes.

Accumulation

In the context of corporate finance, refers to profits that are added to the capital base of the company rather than paid out as dividends. See: Accumulated profits tax.

In the context of investments, refers to the purchase by an institutional broker of a large number of shares over a period of time in order to avoid pushing the price of that share up.

In the context of mutual funds, refers to the regular investing of a fixed amount while reinvesting dividends and capital gains.

Accumulation area

A [range](#) within which a buyer [accumulates shares](#) of a [stock](#). See: [On-balance](#) volume and [distribution area](#).

Acid test ratio

Also called the [quick ratio](#), the ratio of [current assets minus inventories, accruals](#), and prepaid items to [current liabilities](#).

Acquired surplus

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

Acquiree

A firm that is being acquired.

Acquirer

A firm or individual that is purchasing another firm or asset.

Acquisition

When a firm [buys](#) another firm.

Acquisition cost

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

Acquisition of assets

A [merger](#) or [consolidation](#) in which an [acquirer purchases](#) the selling firm's [assets](#).

Acquisition of stock

A [merger](#) or [consolidation](#) in which an [acquirer purchases](#) the [acquiree's stock](#).

Acquittance

A written document which releases a second party from any financial or other [liability](#). An example of an acquittance would be a [receipt](#) indicating payment in full.

Across the board

Movement or [trend](#) in the [stock market](#) that causes all stocks in all [sectors](#) to move in the same direction.

Acting in concert

[Investors](#) working together and performing identical actions to attain the same [investment](#) goal.

Act of state doctrine

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

Active

A [market](#) in which there is frequent [trading](#).

Active account

Refers to a brokerage [account](#) in which many [transactions](#) occur. Brokerage firms may levy a fee if an account generates an inadequate level of activity.

Active bond crowd

Refers to members of the [bond](#) department of the [NYSE](#) who [trade](#) the most [bonds](#). Antithesis of [cabinet crowd](#).

Active box

[Securities](#) that are held in safekeeping and are available as [collateral](#) for securing [brokers' loans](#) or customers' [margin positions](#).

Active commitments

In the context of [private equity](#), active commitments is an investment that has not reached the end of its legal term.

Active fund management

An [investment](#) approach that purposely shifts funds either between [asset classes](#) (asset allocation), sectors (sector rotation), or between individual [securities](#) ([security selection](#)) in order to seek superior returns.

Active income

Income from an active business as opposed to [passive investment income](#) according to the U.S. tax code.

Active Management

The opposite of [passive management](#). The passive manager simply minimizes the [tracking error](#) of their [portfolio](#) and a well known [index](#) (e.g. S&P 500 index [mutual funds](#)). The active manager will deviate from the [benchmark](#) weights by (i) varying the weights from the benchmark weights on the [securities](#); (ii) adding securities outside the benchmark or choosing not to hold securities included in the benchmark and (iii) time-varying [asset allocation](#) where weights on certain [asset classes](#) change

through time. The goal of active management is to produce a [return](#) that exceeds the passive return with minimal [risk](#).

Active portfolio strategy

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

Active Return

[Return](#) relative to a [benchmark](#). If a [portfolio's return](#) is 5%, and the benchmark's return is 3%, then the portfolio's [active](#) return is 2%.

Active Risk

The [risk \(annualized standard deviation\)](#) of the [active return](#). Also called the [tracking error](#).

Activist Investor

A minority [shareholder](#) who seeks to influence decision making at a company by voicing concerns, engaging in a dialogue with management, or lobbying other shareholders for support. The demands could relate to changes in management, representation on the board, [acquisitions](#) or [divestitures](#), salaries, bonus payments, use of [retained earnings](#) etc.

Act of Bankruptcy

An action by a [debtor](#) that can be a basis for [creditors](#) to file a [bankruptcy](#) petition against the debtor. Examples of such actions are concealing assets, defrauding creditors, favoring one creditor over another, or admitting in written a willingness to be adjudged bankrupt.

Actual/360

[Day count convention](#) for calculating interest accrued on U.S. [Treasury bills](#) and other [money market instruments](#). Uses actual number of days in a month and 360 days in a year for calculating interest payments. Also see [Day count convention](#).

Actual/Actual

[Day count convention](#) for calculating interest accrued on U.S. [Treasury bonds](#). Uses actual number of days in a month and actual number of days in a year for calculating interest payments. Also see [Day count convention](#).

Actual Cash Value

Cost of replacing a property with another of the same kind and in similar condition. Calculated as the [replacement cost](#) less [depreciation](#).

Actual market

Used in context of general equities. [Firm market](#). Antithesis of [Subject market](#).

Actuals

The [physical commodities underlying](#) a [futures contract](#). [Cash commodity](#), [physical asset](#).

A-D

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

Ad valorem tax

A type of tax calculated based on percentage of gross or [stated value](#). For example, VAT.

Additional bonds test

A test for ensuring that [bond issuers](#) can meet the [debt service](#) requirements of issuing any new additional bonds.

Additional hedge

A protection against [fallout risk](#) in the [mortgage pipeline](#).

Adequacy of coverage

A test that measures the extent to which the value of an [asset](#) is protected from potential [loss](#) either through [insurance](#) or [hedging](#).

Adjustable rate

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

Adjustable-rate mortgage (ARM)

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

Adjustable-rate mortgage securities (ARMS)

[Mortgage-backed securities](#) where the [underlying asset](#) is a pool of [Adjustable rate mortgages](#).

Adjustable-rate preferred stock (ARPS)

Publicly [traded issues](#) that may be [collateralized](#) by [mortgages](#) and [MBS](#)

Adjusted balance method

Method of calculating [finance](#) charges that uses the [account balance](#) remaining after adjusting for all [transactions](#) posted during the given [billing period](#) as its [basis](#). Related: [Average daily balance](#) method, [previous balance method](#), past due balance method.

Adjusted basis

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

Adjusted debit balance (ADB)

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

Adjusted exercise price

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

Adjusted gross income (AGI)

[Gross income](#) less allowable adjustments, which is the income on which an individual is taxed by the federal government.

Adjusted present value (APV)

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

Adjustment bond

A [bond issued](#) in exchange for [outstanding](#) bonds when a [corporation](#) facing [bankruptcy](#) is [recapitalized](#).

Administrative pricing rules

IRS rules used to allocate income on export [sales](#) to a [foreign sales corporation](#).

Advance

Increase in the [market price](#) of [stocks](#), [bonds](#), [commodities](#), or other [assets](#).

Advance commitment

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

Advance Computerized Execution System (ACES)

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

Advance Decline Ratio

Ratio of the number of [stocks](#) that advance in value to the number of stocks that decline in value over a given time period. An increasing advance-decline ratio signals a [bullish](#) trend while a decreasing advance-decline ratio signals a [bearish](#) trend.

Advance funded pension plan

A [pension plan](#) in which funds are set aside in advance of the date of [retirement](#).

Advance refunding

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

Advance tax ruling

A written statement sought by a taxpayer from the tax authorities about the tax implications of a [transaction](#). It is often a precondition for closing the transaction because an adverse tax ruling may make the transaction (e.g. a [merger](#)) financially unviable.

Advancement

[Money](#) or property given to a person by the deceased before death and intended as an advance against the [beneficiary's](#) share in the will.

Adverse opinion

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

Adverse selection

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

Advising bank

[Corresponding](#) bank in the [beneficiary's](#) country to which an [issuing bank](#) sends a [letter of credit](#).

Advisory letter

A newsletter offering financial advice to its readers.

Affidavit of Loss

A sworn statement describing the particulars and circumstances of the [loss of securities](#). This affidavit is required before a [Bond of Indemnity](#) can be [issued](#) and the securities replaced.

Affiliate

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

Affiliated corporation

A [corporation](#) that is an [affiliate](#) to the [parent company](#).

Affiliated person

An individual who possesses enough influence and control in a [corporation](#) as to be able to alter the actions of the corporation.

Affirmative covenant

A [bond covenant](#) that specifies certain actions the [firm](#) must take.

Affirmative obligation

A New York Stock Exchange rule that governs the behavior of specialists. Affirmative obligation is the mandate of the specialists to step in and act as either the buyer or the seller when public investor orders exist do not match up naturally. Also known as [positive obligation](#).

Related: [negative obligation](#).

Affordability index

An [index](#) that measures the financial ability of consumers to [purchase](#) a home.

After acquired clause

A contractual clause in a [mortgage](#) agreement stating that any additional mortgageable property attained by the [borrower](#) after the [mortgage](#) is signed will be regarded as additional [security](#) for the [obligation](#) addressed in the [mortgage](#).

After-hours dealing or trading

[Securities trading](#) after regular trading hours on [organized exchanges](#).

Aftermarket

See: [Secondary market](#).

After-tax basis

The [comparison basis](#) used to analyze the net after-tax returns on a corporate taxable [bond](#) and a [municipal tax-free bond](#).

After-tax profit margin

The ratio of [net income](#) to [net sales](#).

After-tax real rate of return

The after-tax rate of return [minus](#) the [inflation](#) rate.

Against the box

See: [Selling short against the box](#).

Aged fail

An account between two [broker/dealers](#) that remains intact 30 days after the [settlement date](#). The receiving [firm](#) must adjust its [capital](#) as it can no longer treat this account as an [asset](#).

Agencies

See: [Federal agency securities](#).

Agency

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

Agency bank

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

Agency basis

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

Agency cost view

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

Agency costs

The [incremental costs](#) of having an [agent](#) make decisions for a [principal](#).

Agency incentive arrangement

A means of [compensating](#) the [broker](#) of a [program trade](#) using [benchmark prices](#) for [issues](#) to be traded in determining [commissions](#) or fees.

Agency pass-throughs

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

Agency problem

Conflicts of interest among [stockholders](#), [bondholders](#), and [managers](#).

Agency securities

[Securities issued](#) by [federally related institutions](#) and [U.S. government-sponsored entities](#).

Such [agencies](#) were created to reduce [borrowing costs](#) for certain [sectors](#) of the economy, such as agriculture.

Agency theory

The analysis of [principal-agent relationships](#), in which one person, an [agent](#), acts on behalf of another person, a [principal](#).

Agent

A party appointed to act on behalf of a principal entity or person. In context of project [financing](#), refers to the bank in charge of administering the project financing.

Aggregate exercise price

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

Aggregation

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

Aggressive Growth Hedge Fund

In the context of [hedge funds](#), a style of management that focuses primarily on equities that are expected to have strong [earnings](#) growth.

Aggressive growth mutual fund

A [mutual fund](#) designed for maximum [capital appreciation](#) that places its [money](#) in [companies](#) with high [growth rates](#).

Aggressively

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

Aging schedule

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

Agreement among underwriters

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

Agreement corporation

[Corporation chartered](#) by a state to engage in international banking: so named because the corporation enters into an "agreement" with the Fed's Board of Governors that it will limit its activities to those permitted by an [Edge Act Corporation](#).

Ahead of itself

In context of general equities, refers to equities that are [overbought](#) or [oversold](#) on a fundamental basis.

Ahead of you

Used for listed equity securities. At the same price but entered ahead of your [order/interest](#), usually referring to the [specialist's book](#). See: [Behind, matched orders, priority, stock ahead](#).

AIMR Performance Presentation Standards Implementation Committee

The Association for Investment Management and Research (AIMR) Performance Presentation Standards Implementation Committee is charged with the responsibility to interpret, revise, and update the AIMR Performance Presentation Standards (AIMR-PPS(TM) for [portfolio](#) performance presentations.

Air Freight Consolidator

An air freight carrier that does not own or operate its own aircraft but ships its cargo with actual equipment operating carriers. Consolidators issue [house air waybills](#) to their customers and receive master air waybills from the actual carriers.

Air pocket stock

A [stock](#) whose price drops precipitously, often on the unexpected news of poor results.

ALCO package

Reporting package that contains financial information related to the [Asset-Liability Committee](#) e.g. [yield curve](#) assumptions, net interest income projections, and economic value of equity assessments made by the firms as part of their business planning processes.

Alien corporation

A [company](#) incorporated under the laws of a foreign country regardless of where the company conducts its operations.

Algo or Algorithmic Trading

Refers to computerized trading using proprietary algorithms. There are two types algo trading. Algo execution trading is when an order (often a large order) is executed via an algo trade. The algo program is designed to get the best possible price. It may split the order into smaller pieces and execute at different times. The second type of algo trading is not executing a set order but looking for small trading opportunities in the market. It is estimated that 50 percent of stock trading volume in the U.S. is currently being driven by algo trading. Also known as high-frequency trading.

All equity rate

The [discount rate](#) that reflects only the [business risks](#) of a project, distinct from the effects of [financing](#).

All in

Refers to an [issuer's interest rate](#) after accounting for [commissions](#) and various related [expenses](#).

All-in-rate

Rate used in charging customers for accepting [banker's acceptances](#), consisting of the [discount interest rate](#) plus the [commission](#).

All Ordinaries Index

The major stock price [index](#) in Australia. The capitalization weighted index is made up of the largest 500 companies as measured by market capitalization that are listed on the [Australian Stock Exchange](#). The index was developed with a base value of 500 as of 1979.

All or none order (AON)

Used in context of general equities. A [limited price order](#) that is to be [executed](#) in its entirety or not at all (no partial [transaction](#)), and thus is testing the strength/conviction of the [counterparty](#). Unlike an [FOK order](#), an AON order is not to be treated as [cancelled](#) if not executed as soon as it is represented in the [trading crowd](#), but instead remains alive until executed or cancelled. The making of "all or none" [bids](#) or [offers](#) in [stocks](#) is prohibited, and the making of "all or none" [bids](#) or [offers](#) in [bonds](#) is subject to the restrictions of Rule 61. AON orders are not shown on the [specialist's book](#) because they cannot be traded in pieces. Antithesis of [any-part-of order](#). See: [FOK order](#).

All-in cost

Total [costs](#), explicit and implicit.

All-or-none underwriting

An arrangement whereby a [security issue](#) is [cancelled](#) if the [underwriter](#) is unable to resell the entire issue.

All Risk Insurance

[Marine cargo insurance](#) which covers most perils except strikes, riots, civil unrest, capture, war, seizure, civil war, piracy, [loss](#) of [market](#), and inherent vice.

Allied member

A [partner](#) or [stockholder](#) of a [firm](#) that is a member of the [NYSE](#), the [partner](#) or stockholder is not personally a member of the NYSE.

Alligator spread

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

Allocation-of-income rules

US tax provisions that define how income and [deductions](#) are to be allocated between domestic source and foreign source income.

Allocational efficiency

The effectiveness with which a [market](#) channels [capital](#) toward its most productive uses.

Allotment

The number of [securities](#) assigned to each of the participants in an [underwriting syndicate](#).

Allowance for Loan and Lease Losses

A contra-account on the [balance sheet](#) used for offsetting losses on loan and lease assets.

Alpha

Measure of [risk](#)-adjusted performance. Some refer to the alpha as the difference between the investment return and the benchmark return. However, this does not properly adjust for risk. More appropriately, an alpha is generated by regressing the [security](#) or [mutual fund's excess return](#) on the benchmark (for example [S&P 500](#)) excess return. The [beta](#) adjusts for the [risk](#) (the slope coefficient). The alpha is the intercept. Example: Suppose the mutual fund has a return of 25%, and the [short-term interest rate](#) is 5% (excess return is 20%). During the same time the [market](#) excess return is 9%. Suppose the beta of the mutual fund is 2.0 (twice as risky as the S&P 500). The [expected excess return](#) given the risk is $2 \times 9\% = 18\%$. The actual excess return is 20%. Hence, the alpha is 2% or 200 [basis points](#). Alpha is also known as the [Jensen Index](#). The alpha depends on the benchmark used. For example, it may be the intercept in a multifactor model that includes risk factors in addition to the S&P 500. Related: [Risk-adjusted return](#).

Alpha equation

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

Alphabet stock

Categories of [common stock](#) of a [corporation](#) associated with a particular [subsidiary](#) resulting from [acquisitions](#) and [restructuring](#). The various alphabetical categories have different [voting](#)

[rights](#) and pay [dividends](#) tied to the operating performance of the particular divisions. See also: [Tracking stocks](#).

Alt-A

Short for Alternative-A paper. Alt-A are loans that are considered riskier than [prime loans](#) but less risky than [subprime loans](#). Generally made to individuals with a good credit score but some aspect of the loan (e.g. limited documentation or high [loan-to-value ratio](#)) makes the loan riskier than prime. Also see [A paper, No docs](#).

Alternative investments

Usually refers to [investments](#) in [hedge funds](#). Many hedge funds pursue [strategies](#) that are uncommon relative to [mutual funds](#). Examples of alternative investment strategies are: [long](#)-short equity, event driven, statistical arbitrage, fixed income arbitrage, [convertible arbitrage](#), short bias, global macro, and equity market neutral. May also refer to the high frequency style of commodity trading advisors who often employ technical and quantitative tools for intraday investments

Alternative Minimum Tax (AMT)

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

Alternative mortgage instruments

Variations of [mortgage instruments](#) such as [adjustable-rate](#) and variable-rate mortgages, [graduated-payment mortgages](#), [reverse-annuity mortgages](#), and several seldom-used variations.

Alternative order

Used in context of general equities. [Order](#) giving a [broker](#) a choice between two courses of action, either to [buy](#) or sell, never both. [Execution](#) of one course automatically eliminates the other. An example is a combination [buy limit](#)/ [buy stop order](#), where the buy limit is below the current [market](#) and the buy stop is above. If the order is for one [unit](#) of [trading](#), when one part of the order is executed on the occurrence of one alternative, the order on the other alternative is to be treated as [cancelled](#). If the order is for an amount of more than one [unit](#) of trading, the number of units executed determines the amount of the alternative order to be treated as [cancelled](#). Sometimes known as One Cancels the Other. Also see: [Either-or order](#).

American Association of Individual Investors (AAII)

A [not-for-profit](#) organization to educate individual [investors](#) about [stocks](#), [bonds](#), [mutual funds](#), and other financial [instruments](#).

American Depository Receipt (ADR)

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

American Depository Receipt Fees

Fees associated with the creating or releasing of [ADRs](#) from [ordinary shares](#), charged by the commercial banks with [correspondent](#) banks in the international sites.

American Depository Receipt Ratio

The number of [ordinary shares](#) into which an [ADR](#) can be converted.

American Depository Share (ADS)

Foreign stock [issued](#) in the US and [registered](#) in the [ADR](#) system.

American option

An [option](#) that may be [exercised](#) at any time up to and including the [expiration date](#).

Related: [European option](#)

American shares

[Securities certificates issued](#) in the US by a [transfer agent](#) acting on behalf of the foreign [issuer](#).

The [certificates](#) represent claims to foreign equities.

American Stock Exchange (AMEX)

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

American-style option

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

Amman Financial Market (AFM)

Established in 1976, the AFM is the only [stock exchange](#) in Jordan.

Amman Stock Exchange

The only [agency](#) authorized as a formal [market](#) for [trading securities](#) in Jordan.

Amortization

The repayment of a [loan](#) by [installments](#).

Amortization factor

The [pool factor](#) implied by the scheduled [amortization](#) assuming no [prepayments](#).

Amortizing interest rate swap

[Swap](#) in which the [principal](#) or [notional amount](#) declines over time.

Amount outstanding and in circulation

All [currency](#) issued by the Bureau of the Mint and intended as a medium of exchange. Coins sold by the Bureau of the Mint at [premium](#) prices are not included; uncirculated coin sets sold at [face value](#) plus handling charge are included.

Amsterdam Exchange (AEX)

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

AMTEL

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

Analyst

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

And interest

An [indication](#) that the buyer will receive [accrued interest](#) in addition to the [price quoted](#) for a [bond](#).

Andean Pact

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

Angel

An [investment-grade bond](#). Antithesis to [fallen angel](#). In the context of [venture capital](#), the first [investor](#).

Angels

Individuals providing [venture capital](#).

Ankle biter

[Stock](#) issued with a [market capitalization](#) of less than \$500 million.

Announcement date

Date on which particular news concerning a given [company](#) is announced to the [public](#). Used in [event studies](#), which researchers use to evaluate the economic impact of events of interest.

Annual basis

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

Annual effective yield

See: [Annual percentage yield](#).

Annual exclusion

A tax rule allowing the [deduction](#) of certain income from taxation.

Annual fund operating expenses

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

Annual meeting

Meeting of [stockholders](#) held once a year at which the managers of a [company report](#) to the [stockholders](#) on the year's results.

Annual percentage rate (APR)

In the context of credit cards, the [periodic rate](#) times the number of periods in a year. For example, a 1.5% [monthly](#) rate has an APR of 18%. In the context of consumer lending, the APR takes into account more than the interest rate applied to the principal per period. Under the Truth in Lending Act, it has a specific definition and includes all the costs paid by a non-exempt consumer borrower that are considered a "finance charge," including fees paid to third parties by the lender if not properly disclosed and excluded from the finance charge (such as credit insurance).

Annual percentage yield (APY)

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

Annual rate of return

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

Annual renewable term insurance

See: [Term insurance](#).

Annual report

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

Annualized gain

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

Annualized holding-period return

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

Annualizing

See: [Annual basis](#).

Annuitant

An individual who receives benefits from an [annuity](#).

Annuitize

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

Annuity

A regular [periodic payment](#) made by an insurance company to a [policyholder](#) for a specified period of time.

Annuity certain

An [annuity](#) that pays a specific amount on a monthly [basis](#) for a set amount of time.

Annuity due

An [annuity](#) with n payments, where the first payment is made at time $t = 0$, and the last payment is made at time $t = n - 1$.

Annuity factor

[Present value](#) of \$1 paid for each of t periods.

Annuity in arrears

An [annuity](#) with a first payment one full period hence, rather than immediately.

Annuity starting date

The date when an [annuitant](#) starts receiving payments from an [annuity](#).

Anticipated holding period

The period of time an individual expects to [hold](#) an [asset](#).

Anticipation

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

Antidilutive effect

Result of a [transaction](#) that increases [earnings per common share](#) (e.g., by decreasing the number of [shares outstanding](#)).

Anti-Persistence

In [R/S Analysis](#), an anti-persistent [time series](#) reverses itself more often than a random series would. If the system had been up in the previous period, it is more likely that it will be down in the next period and vice versa. Also called pink noise, or [1/f noise](#). See: Persistence, [R/S Analysis](#), [Hurst Exponent](#), [Joseph Effect](#), [Noah Effect](#).

Antigreenmail

[Greenmail](#) refers to the agreement between a large shareholder and a [company](#) in which the shareholder agrees to sell his stock back to the company, usually at a premium, in exchange for the promise not to seek control of the company for a specified period of time. Antigreenmail provisions

prevent such arrangements unless the same [repurchase offer](#) is made to all shareholders or approved by shareholder vote. There are some states that have antigreenmail laws.

Antitrust laws

Legislation established by the federal government to prevent the formation of [monopolies](#) and to regulate [trade](#).

Autoriteit Financiële Markten (AFM)

Dutch supervisory authority for the Dutch financial markets. The Netherland's financial regulator.

Any-interest-date

A [call provision](#) in a [municipal bond indenture](#) that establishes the right of [redemption](#) for the [issuer](#) on any [interest payment](#) due date.

Any-or-all bid

Often used in [risk arbitrage](#). [Takeover bid](#) in which the [acquirer offers](#) to pay a set price for all [outstanding shares](#) of the [target company](#), or any part thereof; contrasts with [two-tier bid](#).

Any-part-of order

In context of general equities, [order](#) to [buy](#) or [sell](#) a quantity of [stock](#) in pieces if necessary. Antithesis of an [all-or-none order \(AON\)](#).

A paper

Another name for [prime paper](#).

Applied mathematics

The study of the application of mathematical principles to domains outside of mathematics itself. Although the branches of mathematics within this categorization change with time, applied mathematics typically involves the use of differential equations, numerical analysis, and statistics with areas of knowledge such as engineering, biology, physics, computer science, [economics](#), and [finance](#).

Appraisal ratio

The [signal-to-noise](#) ratio of an [analyst's forecasts](#). The ratio of [alpha](#) to [residual standard deviation](#).

Appraisal rights

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

Appreciation

Increase in the value of an [asset](#).

Appropriation request

Formal request for funds for [capital investment](#) project.

Approved list

A list of [equities](#) and other [investments](#) that a [financial institution](#) or [mutual fund](#) is allowed to invest in. See: [Legal list](#).

APS

Auction [Preferred Stock](#). A type of [Dutch Auction Preferred Stock](#) (Goldman Sachs product).

Arbitrage

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

Arbitrage bonds

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

Arbitrage-free option-pricing models

[Yield curve option-pricing models](#).

Arbitrage Pricing Theory (APT)

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

Arbitrage Trading Program (ATP)

See: [Program trading](#).

Arbitrageur

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

Arbs

Short for [Arbitrageurs..](#)

Are you open?

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

Arithmetic average (mean) rate of return

[Arithmetic mean return.](#)

Arithmetic mean return

An [average](#) of the [subperiod returns](#), calculated by summing the subperiod returns and dividing by the number of subperiods.

Arizona Stock Exchange

A single price auction exchange for equity [trading](#) that allows anonymous [buyers](#) and sellers to trade at low [transaction costs](#).

Arm's length price

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

Arms index

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

Around us

Used in context of general equities. See: [Away from you](#).

Arranger

The senior tier of a [syndication](#). This implies the entity that agreed and negotiated the project [financing](#) structure. Also refers to the bank or [underwriter](#) entitled to syndicate the [loan](#) or [bond issue](#). Also known as the lead underwriter.

Arrearage

In the context of [investments](#), refers to the amount by which [interest](#) on [bonds](#) or [dividends](#) on [cumulative preferred stock](#) is due and unpaid.

Articles of incorporation

Legal document establishing a [corporation](#) and its structure and purpose.

Artificial currency

A [currency](#) substitute, e.g., [special drawing rights](#) (SDRs).

Artificial Intelligence

The creation of models that mimic thought processes. See: [Neural Networks](#), [Fuzzy Logic](#), and [Genetic Algorithms](#).

Ascending tops

A chart [pattern](#) that depicts that each [peak](#) in a [security's](#) price over a period of time is higher than the preceding peak. Antithesis of [descending tops](#).

Asia-Pacific Economic Cooperation Pact (APEC)

A loose economic affiliation of Southeast Asian and Far Eastern nations. The most prominent members are China, Japan, and Korea.

Asian Currency Units (ACU)

Dollar deposits held in Singapore or other Asian centers.

Asian Development Bank

A [financial institution](#) established in 1966 to reduce poverty in the Asia-Pacific region. The bank is headquartered in Manila, Philippines and consists of 61 member countries.

Asian dollar market

Asian banks that collect deposits and make [loans denominated](#) in US dollars.

Asian option

[Option](#) based on the [average](#) price of the [underlying assets](#) during the life of the option.

Ask

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

Asked price

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

Asked to bid/offer

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

Aspirin

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

Assay

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

Assessed valuation

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

Asset

Any possession that has value in an [exchange](#).

Asset activity ratios

[Ratios](#) that measure how effectively the [firm](#) is managing its [assets](#).

Asset allocation decision

The decision regarding how an [institution's](#) funds should be distributed among the major [classes of assets](#) in which it may invest.

Asset allocation mutual fund

A [mutual fund](#) that rotates among [stocks](#), [bonds](#), and [money market securities](#) to maximize [return](#) on [investment](#) and minimize [risk](#).

Asset Backed Commercial Paper (ABCP)

Short term debt secured by assets.

The Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF)

Launched by the Federal Reserve on September 2008, this program was designed to restore confidence to the market for asset-backed commercial paper. Money-market funds, fearing they couldn't sell

these securities to meet redemptions, had stopped buying asset-backed commercial paper. Under AMLF, the Fed loaned money to banks to buy up all of the asset-backed commercial paper that a money-market fund wanted to sell.

Asset-backed security

A [security](#) that is [collateralized](#) by [loans](#), [leases](#), receivables, or [installment contracts](#) on [personal property](#), not [real estate](#).

Asset-based financing

Methods of [financing](#) in which [lenders](#) and equity [investors](#) look principally to the [cash flow](#) from a particular [asset](#) or set of assets for a [return](#) on, and the return of, their financing.

Asset classes

Categories of [assets](#), such as [stocks](#), [bonds](#), [real estate](#), and foreign [securities](#).

Asset-coverage test

A [bond indenture](#) restriction that permits additional [borrowing](#) if the ratio of [assets](#) to [debt](#) does not fall below a specified minimum.

Asset Depreciation Range System

A range of [depreciable](#) lives the [IRS](#) allows for particular [classes](#) of [assets](#).

Asset/equity ratio

The ratio of [total assets](#) to [stockholder equity](#).

Asset for asset swap

[Creditors](#) exchange the [debt](#) of one [defaulting borrower](#) for the debt of another defaulting borrower.

Asset impairment

See [Impairment](#).

Asset/Liability Committee (ALCO)

A [risk management](#) committee in a bank that evaluates the [risk](#) associated with the bank's [assets](#) and [liabilities](#). It manages [interest rate risk](#) while ensuring adequate [returns](#) and [liquidity](#).

Asset/liability management

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

Asset management account

Account at a brokerage house, bank, or [savings institution](#) that integrates banking services and brokerage features.

Asset play

A [company](#) with [assets](#) that are not believed to be accurately reflected in its [stock](#) price, making it an attractive [buy](#) or play.

Asset pricing model

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

Asset stripper

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

Asset substitution

Occurs when a [firm](#) invests in [assets](#) that are [riskier](#) than those that the [debtholders](#) expected.

Asset substitution problem

Arises when the [stockholders](#) substitute [riskier assets](#) for the [firm's](#) existing assets and expropriate value from the [debtholders](#).

Asset swap

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

Asset turnover

The ratio of [net sales](#) to total [assets](#).

Asset value

The net [market value](#) of a [corporation's assets](#) on a per-share [basis](#), not the [market value](#) of the [shares](#). A [company](#) is undervalued in the market when [asset value](#) exceeds [market value](#).

Assets

A [firm's](#) productive resources.

Assets-in-place

Property in which a [firm](#) has already invested.

Assets requirements

A common element of a [financial plan](#) that describes projected [capital](#) spending and the proposed uses of [net working capital](#).

Assets under management

The market value of assets that an investment company manages on behalf of investors. For investment managers, assets under management is viewed as a measure of success.

Assignment

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

Assignment of proceeds

Arrangement that allows the original [beneficiary](#) of a [letter of credit](#) to pledge or turn over [proceeds](#) to another, typically end supplier.

Assimilation

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

Association of Southeast Asian Nations (ASEAN)

A loose economic and geopolitical affiliation that includes Singapore, Brunei, Malaysia, Thailand, the Philippines, Indonesia, and Vietnam. Future members are likely to include Burma, Laos, and Cambodia.

Assumed debt

A debt obligation of an acquired company that becomes an obligation of the acquirer.

Assumed interest rate

Rate of [interest](#) used by an [insurance company](#) to calculate the payout on an [annuity contract](#).

Assumption

Becoming responsible for the [liabilities](#) of another party.

ASX Derivatives and Options Market (ASXD)

[Options market trading](#) options on more than 50 of Australia's and New Zealand's leading [companies](#).

Asymmetric information

Information that is known to some people but not to other people.

Asymmetric taxes

When participants in a [transaction](#) have different net tax rates.

Asymmetric volatility

Phenomenon that [volatility](#) is higher in down [markets](#) than in up markets.

Asymmetry

A lack of equivalence between two things, such as the unequal tax treatment of [interest expense](#) and [dividend](#) payments.

At/for

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

Athens Stock Exchange

Greece's only major [securities market](#). Greek language only.

At par

A price equal to [nominal](#) or [face value](#) of a [security](#). See: [Par](#).

At risk

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

At the bell

In context of general equities, at the [opening](#) or [close](#) of the [market](#). See: [MOC Order](#).

At the close order

In the context of [securities](#), an [all or none market order](#) that is to be [executed](#) at the [closing price](#) of the [security](#) on the [exchange](#). If the [execution](#) cannot be made under this condition, the [order](#) is to be treated as [cancelled](#).

In the context of [futures](#) and [options](#), refers to a [contract](#) that is to be [executed](#) on some [exchanges](#) during the [closing period](#), a period in which there is a [range](#) of prices.

At the figure

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

At the full

Used in context of general equities. [At the figure](#).

At the market

See: [Market order](#).

At-the-money

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

At the opening order

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

Attractor

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

Attribute bias

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

Athens Stock Exchange (ASE)

Greece's principal [stock exchange](#).

Auction Market Preferred Stock (AMPS)

A type of [Dutch Auction Preferred Stock](#) (A Merrill Lynch product).

Auction markets

[Markets](#) in which the prevailing [price](#) is determined through the free interaction of prospective buyers and sellers, as on the [floor](#) of the [stock exchange](#).

Auction rate preferred stock (ARPS)

[Floating rate preferred stock](#), whose [dividend](#) is adjusted every seven weeks through a [Dutch auction](#).

Auction Rate Securities (ARS)

Long term bonds whose interest rate may be reset at regular short-term intervals by an auction process

Audit

An examination of a [company's](#) accounting records and [books](#) conducted by an outside professional in order to determine whether the [company](#) is maintaining records according to [generally accepted accounting principles](#). See: [accountant's opinion](#).

Audit trail

Resolves the validity of an accounting entry by a step-by-step record by which accounting data can be traced to their source.

Auditor's certificate

See: [Accountant's opinion](#).

Auditor's report

A section of an [annual report](#) that includes the auditor's opinion about the veracity of the [financial statements](#).

Aunt Millie

An unsophisticated [investor](#).

Australian Stock Exchange (ASX)

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

Autarky

Absence of a cross-border [trade](#) in models of international [trade](#).

Autex

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

Authentication

In the context of [bonds](#), refers to the validation of a bond certificate.

Authority bond

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

Authorized shares

Number of [shares](#) authorized for [issuance](#) by a [firm's](#) corporate [charter](#).

Autocorrelation

The [correlation](#) of a [variable](#) with itself over successive time intervals. Sometimes called serial correlation.

Automated bond system (ABS)

The computerized system that records [bids](#) and [offers](#) for inactively [traded bonds](#) until they are [cancelled](#) or [executed](#) on the [NYSE](#).

Automated Clearing House (ACH)

A collection of 32 regional electronic interbank networks used to process [transactions](#) electronically with a [guaranteed](#) one-day bank [collection float](#).

Automated Customer Account Transfer (ACAT)

For [transfers](#) of [securities](#) from a non-equity [trading](#) account to your equity trading account with your [broker](#).

Automated Export System

Electronic filing of Shippers Export Declaration (SEDs) with US Customs prior to departure.

Automated Order System (AOS)

[Investment bank](#) computerized [order](#) entry system that sends single order entries to [DOT](#) (Odd-Lot) or to investment banks [floor brokers](#) on the [exchange](#). See: [Round lot](#), [GTC orders](#).

Automated Pit Trading (APT)

Introduced in 1989, APT is the [LIFFE](#) screen-based [trading system](#) that replicates the open outcry method of trading on screen. APT is used to extend the trading day for the major [futures contracts](#) as well as to provide a daytime trading environment for non-[floor trading](#) products.

Automated teller machine (ATM)

Computer-controlled terminal located on the premises of [financial institutions](#) or elsewhere, through which customers may make deposits, withdrawals or other [transactions](#) as they would through a bank teller. Other terms sometimes used to describe such terminals are customer-bank communications terminal (CBCT) and remote service unit (RSU). Groups of banks sometimes share ATMs. Sometimes called Automated Banking Machines.

Automatic Data Processing (ADP), Inc.

A company that acts as an [intermediary](#) to perform [proxy](#) services for several banks and [brokers](#). Distributes proxy material to beneficial owners, tabulates the returned proxies, and provides the [Corporation](#) or its tabulator compiled reports of the tabulation results. ADP also distributes [quarterly reports](#) and other corporate information to the beneficial owners. ADP also provides timely information on U.S. payrolls. The ADP employment release usual precedes the U.S. Non-Farm Payrolls release by two days.

Automatic exercise

A protection procedure whereby the [Options Clearing Corporation](#) attempts to protect the [holder](#) of an expiring [in-the-money](#) option by automatically [exercising](#) the option on behalf of the holder.

Automatic extension

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

Automatic funds transfer

A [transfer](#) of funds from one [account](#) or [investment](#) vehicle to another using electronic or telecommunications technology.

Automatic investment program

A program in which an [investor](#) can invest or withdraw funds automatically. A [mutual fund](#), for example, automatically withdraws a pre determined specified amount from the [investor's](#) bank account on a regular basis.

Automatic reinvestment

See: [Constant dollar plan](#).

Automatic stay

The restricting of [liability holders](#) from [collection](#) efforts related to [collateral](#) seizure. Automatically imposed when a [firm](#) files for [bankruptcy](#) under [Chapter 11](#).

Automatic transfer service (ATS) account

A depositor's saving account from which funds may be transferred automatically to the same depositor's [checking](#) account to cover a check written or to maintain a minimum balance.

Automatic withdrawal

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

Autoquote

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

Autoregressive

Using past data or [variable](#) of interest to predict [future values](#) of the same variable.

Auto-Regressive (AR) Process

A stationary stochastic process where the current value of the time [series](#) is related to the past p values, where p is any integer, is called an AR(p) process. When the current value is related to the previous two values, it is an AR(2) process. An AR(1) process has an infinite memory.

Autoregressive Conditional Heteroskedasticity (ARCH)

A nonlinear stochastic process, where the [variance](#) is time-varying, and a function of the past variance. ARCH processes have frequency [distributions](#) which have high [peaks](#) at the [mean](#) and fat-tails, much like [fractal distributions](#). The ARCH model was invented by Robert Engle. The Generalized ARCH (GARCH) model is the most widely used and was pioneered by Tim Bollerslev. See: [Fractal Distributions](#).

Autorité des Marchés Financiers (AMF)

France's supervisory authority for the French financial markets. French financial regulator.

Availability

The period in which the project financing is available for [drawdown](#).

Availability float

[Checks](#) deposited by a [company](#) that have not yet been cleared.

Available cash flow

Total [cash](#) sources less total cash uses before payment of [debt](#) service.

Available for Sale

Investment in [securities](#) where the intention is not to [trade](#) in the short-term and they may or may not be [held to maturity](#). These are usually reported at [market value](#). Unrealized gains or losses on these investments do not appear in [Net Income](#) but in the [Accumulated Other Comprehensive Income](#) account. Also see [Held to Maturity, Trading Securities](#).

Available on the way in

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

Aval

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

Avalizer

An institution or person who gives the [aval](#).

Average

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

Average accounting return

The average project [earnings](#) after taxes and [depreciation](#) divided by the [average book value](#) of the [investment](#) during its life.

Average (across-day) measures

An estimation of price that uses the [average](#) or representative price of a large number of [trades](#).

Average age of accounts receivable

The [weighted-average age](#) of all the [firm's](#) outstanding [invoices](#).

Average collection period, or days' receivables

The ratio of [accounts receivables](#) to [sales](#), or the total amount of [credit](#) extended per dollar of daily sales ([average](#) AR/sales 365).

Average cost

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

Average cost of capital

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

Average daily balance

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

Average discount rate

[Purchasers tender](#) their [competitive bids](#) on a [discount rate](#) basis. The weighted, or adjusted [mean](#) of all bids accepted in [Treasury](#) bill auctions.

Average down

A [strategy](#) used by [investors](#) to reduce the [average cost](#) of [shares](#), in which the [investor purchases](#) more shares with a fixed amount of [capital](#) as the price of the shares decreases. The [investor](#) receives more shares per dollar and decreases the [average](#) price per share.

Average equity

A customer's [average daily balance](#) in a [trading](#) account at a brokerage firm.

Average life

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

Average maturity

The [average](#) time to [maturity](#) of [securities](#) held by a [mutual fund](#). Changes in [interest](#) rates have greater impact on funds with longer average maturity.

Average rate of return (ARR)

The ratio of the [average](#) cash inflow to the amount invested.

Average tax rate

Taxes as a fraction of income; total taxes divided by total [taxable income](#).

Average up

A [strategy](#) used by [investors](#) to lower the overall [cost](#) of [shares](#) by [buying](#) as many shares with a given amount of [capital](#) in an increasing [market](#). Buying \$1000 worth of shares at \$30, \$35, \$40, and \$45, for instance, will make the [average cost](#) of the shares \$36.65, lower than the average price of \$37.50.

Averaging

See: [Constant dollar plan](#).

Avoided cost

In context of project financing, the [capital](#) and [expense](#) that would have to be spent if the project did not proceed.

Away

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

Away from the market

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

Away from us

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

Away from you

Used for [listed equity securities](#). See: [Outside of you](#).

Axe to grind

Used in context of general equities. Involvement in a [security](#), whether through a [position](#), [order](#), or [inquiry](#).

B

Fifth letter of a [Nasdaq](#) stock [descriptor](#) specifying that [issue](#) is the [Class B shares](#) of the [company](#).

B2B

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

BA

The two-character [ISO](#) 3166 country code for BOSNIA AND HERZEGOVINA.

BaFin

See: [Bundesanstalt für Finanzdienstleistungsaufsicht](#).

BAM

The [ISO](#) 4217 currency code for Bosnia & Herzegovinan Convertible Mark.

BAN

See: [Bank anticipation notes](#)

BAR

See: [Builders' All Risk](#)

BB

The two-character [ISO](#) 3166 country code for BARBADOS.

BBD

The [ISO](#) 4217 currency code for Barbadian Dollar.

BD

The two-character [ISO](#) 3166 country code for BANGLADESH.

BDT

The [ISO](#) 4217 currency code for Bangladeshi Taka currency.

BDI (1)

SEE: [Baltic Dry Index](#)

BDI (2)

The three-character [ISO](#) 3166 country code for BURUNDI.

BE

The two-character [ISO](#) 3166 country code for BELGIUM.

BEACON

See: [Boston Exchange Automated Communication Order-Routing Network](#)

BEARS

See: [Bonds Enabling Annual Retirement Savings \(BEARS\)](#)

BEF

The [ISO](#) 4217 currency code for Belgian Franc.

BEL

The three-character [ISO](#) 3166 country code for BELGIUM.

BEN

The three-character [ISO](#) 3166 country code for BENIN.

BF

The two-character [ISO](#) 3166 country code for BURKINA FASO.

BFA

The three-character [ISO](#) 3166 country code for BURKINA FASO.

BG

The two-character [ISO](#) 3166 country code for BULGARIA.

BGD

The three-character [ISO](#) 3166 country code for BANGLADESH.

BGL

The pre-July 1999 [ISO](#) 4217 currency code for Bulgarian Lev.

BGN

The current [ISO](#) 4217 currency code for Bulgarian Lev.

BGR

The three-character [ISO](#) 3166 country code for BULGARIA.

BH

The two-character [ISO](#) 3166 country code for BAHRAIN.

BHC

See: [Bank Holding Company](#).

BHD

The [ISO](#) 4217 currency code for Bahrainian Dinar.

BHR

The three-character [ISO](#) 3166 country code for BAHRAIN.

BHS

The three-character [ISO](#) 3166 country code for BAHAMAS.

BI

The two-character [ISO](#) 3166 country code for BURUNDI.

BIC

See: [Bank Investment Contract](#)

BIF (1)

See: [Bank Insurance Fund](#)

BIF (2)

The [ISO](#) 4217 currency code for Burundian Franc.

BIH

The three-character [ISO](#) 3166 country code for BOSNIA AND HERZEGOVINA.

BIMBO

See: [Buyin management buyout](#)

BIPS

See: [Basis point.](#)

BIS

See: [Bank for International Settlements](#)

BJ

The two-character [ISO](#) 3166 country code for BENIN.

BL

The two-character [ISO](#) 3166 country code for SAINT BARTHELEMY.

BLDRS

See: [Baskets of Listed Depositary Receipts](#)

BLM

The three-character [ISO](#) 3166 country code for SAINT BARTHELEMY.

BLR

The three-character [ISO](#) 3166 country code for BELARUS.

BLZ

The three-character [ISO](#) 3166 country code for BELIZE.

BM

The two-character [ISO](#) 3166 country code for BERMUDA.

BMD

The [ISO](#) 4217 currency code for Bermudan Dollar.

BMU

The three-character [ISO](#) 3166 country code for BERMUDA.

BN

The two-character [ISO](#) 3166 country code for BRUNEI DARUSSALAM.

BND

The [ISO](#) 4217 currency code for Brunei Darussalam Dollar.

BO

The two-character [ISO](#) 3166 country code for BOLIVIA.

BOB

The [ISO](#) 4217 currency code for Bolivian Boliviano.

BOL

The three-character [ISO](#) 3166 country code for BOLIVIA.

BOT

See: [Build Own Transfer](#)

BPS

See: [Basis point](#).

BR

The two-character [ISO](#) 3166 country code for BRAZIL.

BRA

The three-character [ISO](#) 3166 country code for BRAZIL.

BRB

The three-character [ISO](#) 3166 country code for BARBADOS.

BRL

The [ISO](#) 4217 currency code for Brazilian Real.

BRN

The three-character [ISO](#) 3166 country code for BRUNEI DARUSSALAM.

BS

The two-character [ISO](#) 3166 country code for BAHAMAS.

BSD

The [ISO](#) 4217 currency code for Bahamas Dollar.

BSE

See: [Boston Stock Exchange](#)

BT

The two-character [ISO](#) 3166 country code for BHUTAN.

BTC

See: [Bitcoin](#).

BTM

See: [Book to market value](#).

BTN (1)

The [ISO](#) 4217 currency code for Bhutan Ngultrum.

BTN (2)

The three-character [ISO](#) 3166 country code for BHUTAN.

BV

The two-character [ISO](#) 3166 country code for BOUVET ISLAND.

BVT

The three-character [ISO](#) 3166 country code for BOUVET ISLAND.

BW

The two-character [ISO](#) 3166 country code for BOTSWANA.

BWA

The three-character [ISO](#) 3166 country code for BOTSWANA.

BWP

The [ISO](#) 4217 currency code for Botswanan Pula.

BY

The two-character [ISO](#) 3166 country code for BELARUS.

BYB

The [ISO](#) 4217 currency code for Belarus Rouble.

BZ

The two-character [ISO](#) 3166 country code for BELIZE.

BZD

The [ISO](#) 4217 currency code for Belize Dollar.

B1

A rating within [speculative grade Moody's Long-term Corporate Obligation Rating](#). Obligations rated B1 are considered speculative and are subject to high credit risk. Rating one notch higher is [Ba3](#). Rating one notch lower is [B2](#).

B2

A rating within [speculative grade Moody's Long-term Corporate Obligation Rating](#). Obligations rated B2 are considered speculative and are subject to high credit risk. Rating one notch higher is [B1](#). Rating one notch lower is [B3](#).

B3

A rating within [speculative grade Moody's Long-term Corporate Obligation Rating](#). Obligations rated B3 are considered speculative and are subject to high credit risk. Rating one notch higher is [B2](#). Rating one notch lower is [Caa1](#).

Ba1

The highest rating of [speculative grade Moody's Long-term Corporate Obligation Rating](#). Obligations rated Ba1 are judged to have speculative elements and are subject to substantial credit risk. Rating one notch higher is [Baa3](#). Rating one notch lower is [Ba2](#)

Ba2

The second highest rating of [speculative grade Moody's Long-term Corporate Obligation Rating](#). Obligations rated Ba2 are judged to have speculative elements and are subject to substantial credit risk. Rating one notch higher is [Ba1](#). Rating one notch lower is [Ba3](#)

Ba3

The third highest rating of [speculative grade Moody's Long-term Corporate Obligation Rating](#). Obligations rated Ba1 are judged to have speculative elements and are subject to substantial credit risk. Rating one notch higher is [Ba2](#). Rating one notch lower is [B1](#)

Baa1

The eighth highest rating in [Moody's Long-term Corporate Obligation Rating](#). Obligations rated Baa1 are subject to moderate credit risk. They are considered medium grade and as such may possess certain speculative characteristics. Rating one notch higher is [A3](#). Rating one notch lower is [Baa2](#)

Baa2

The ninth highest rating in [Moody's Long-term Corporate Obligation Rating](#). Obligations rated Baa2 are subject to moderate credit risk. They are considered medium grade and as such may possess certain speculative characteristics. Rating one notch higher is [Baa1](#). Rating one notch lower is [Baa3](#)

Baa3

The lowest rating of [investment grade Moody's Long-term Corporate Obligation Rating](#). Obligations rated Baa3 are subject to moderate credit risk. They are considered medium grade and as such may possess certain speculative characteristics. Rating one notch higher is [Baa2](#). Rating one notch lower is [Ba1](#)

Baby bond

A [bond](#) with a [par value](#) of less than \$1000.

Back away

In the context of general equities, to withdraw from a previously declared interest, [indication](#), or [transaction](#); [broker-dealer's](#) failure, as a [market maker](#) in a given [security](#), to make good on a [bid/offer](#) for the minimum quantity.

Back fee

The fee paid on the [extension date](#) if the buyer wishes to continue the [option](#).

Back months

In the context of [futures](#) and [options trading](#), refers to the months of [contracts](#) with [expiration dates](#) farthest away. See [farthest month](#).

Back office

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

Back on the shelf

In the context of general equities, permanently [canceled order/interest](#) in a [stock](#) by a customer.

See: [Take a powder](#).

Back taxes

Due taxes that have not been paid on time.

Back up

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

Back up the truck

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

Backdating

In the context of [mutual funds](#), a feature allowing fundholders to use an earlier date on a [letter of intent](#) to invest in a [mutual fund](#) in exchange for a reduced [sales charge](#), e.g. Giving retroactive value to [purchases](#) from the earlier date. In the context of corporate governance, the illegal practice of setting the date of options awarded as part of executive compensation to a period when the stock price was very low (rather than setting the date of the options on the date the award was made).

Backdoor listing

See [Going public through the backdoor](#).

Backed in

In the context of general equities, to describe the result of unanticipated events that allow for a [purchase](#) at a [discount](#) or a [sale](#) at a [premium](#).

Back-end load fund

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

Back-testing

Creating a hypothetical [portfolio](#) performance history by applying current asset selection criteria to prior time periods.

Back-to-back financing

An [intercompany loan](#) channeled through a bank.

Back-to-back loan

A [loan](#) in which two [companies](#) in separate countries [borrow](#) each other's [currency](#) for a specific time period and repay the other's currency at an agreed-upon [maturity](#).

Backup line

A commercial paper [issuer's](#) bank [line of credit](#) covering maturing [notes](#) if, for some reason, selling new notes to cover the maturing notes is not possible.

Backup Line of Credit

A bank assurance of funds obtained by an [issuer](#) of commercial paper to protect the CP [investor](#) from [default](#). The [issuer](#) pays a commitment fee to the bank.

Backup Withholding

[Withholding](#) of a certain amount of investment income (e.g. [interest](#), [dividends](#)) by banks and other businesses under conditions such as missing Taxpayer Identification Number (TIN) or under directions from the [IRS](#). Also see: [TEFRA](#), [W-8](#), [W-9](#).

Backwardation

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

Bad bank

A government owned entity that takes over and [liquidates toxic assets](#) from failed or declining [financial institutions](#) to leave them with a clean [balance sheet](#). The strategy was last used during the Savings and Loan crisis of 1980s where this entity was called the Resolution Trust Corporation.

Bad debt

A [debt](#) that is written off and deemed [uncollectible](#).

Bad delivery

Antithesis of [good delivery](#).

Bad title

Title to property that does not distinctly confer ownership, usually in the context of [real estate](#).

Bai-kai

Two-sided [market picture](#), in Japanese terminology applies mainly to international equities.

Bailout

A [capital infusion](#) offered to a [business](#) with a national or multi-national footprint that is in danger of [bankruptcy](#), [insolvency](#), or total [liquidation](#). Financial aid can be provided in the form of [debt](#) or [equity](#) offerings, cash contributions, or some form of [loan](#) or [line of credit](#), and is often accompanied by greater government oversight and [regulation](#). The failure of a business that employs thousands or plays an influential role in the economy potentially can send shock waves throughout the entire economy, including other [industries](#). The [credit](#) crisis that began in 2007 created numerous failures around the world, which resulted in a large number of government-sponsored bailouts in almost every [industry across the globe](#). See: [Conservator](#), [Conservatorship](#).

Bailing out

In the context of [securities](#), refers to selling a [security](#) or [commodity](#) quickly, regardless of the price. May occur when an [investor](#) no longer wants to sustain further [losses](#) on a [stock](#).

Also refers to relieving an individual, [corporation](#), or government entity in financial trouble.

Bailout bond

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

Baker Plan

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

Balance of payments

A statistical compilation formulated by a sovereign nation of all economic [transactions](#) between residents of that nation and residents of all other nations during a stipulated period of time, usually a calendar year.

Balance of trade

[Net](#) flow of goods (exports minus imports) between two countries.

Balance on goods and services

[Netting](#) of [transaction](#) balances, including the [net amount of payments](#) of [interest](#) and [dividends](#) to foreign [investors](#) and [investments](#), as well as [receipts](#) and payments resulting from international tourism. Also known as Trade Balance.

Balance sheet

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

Balance sheet exposure

See: [Accounting exposure](#).

Balance sheet identity

Total [assets](#) = Total [liabilities](#) + Total [stockholders' equity](#).

Balanced budget

A budget in which the income equals expenditure. See: [budget](#).

Balanced fund

An investment [company](#) that invests in [stocks](#) and [bonds](#). The same as a [balanced mutual fund](#).

Balanced mutual fund

This is a fund that [buys common stock](#), [preferred stock](#), and [bonds](#). The same as a [balanced fund](#).

Balloon interest

In the context of [serial bond issues](#), the elevated [coupon](#) rate on [bonds](#) with late [maturities](#).

Balloon maturity

Any large [principal](#) payment due at [maturity](#) for a [bond](#) or [loan](#) with or without a [sinking fund requirement](#).

Balloon Payment

The final (large) payment that repays all the remaining [principal](#) and [interest](#) of a partially [amortized](#) or unamortized [loan](#). See: [Bullet](#).

Ballot

The document distributed at the [annual](#) meeting to [shareholders](#) of record who wish to vote their [shares](#) in person.

Baltic Dry Index (BDI)

An [index](#) that tracks the price of transporting dry bulk cargo like cement, coal, iron ore, and grain on bulk freighters. As many of these [commodities](#) are raw materials that go into production of finished goods, the BDI is often taken to be an indicator of [economic growth](#) and production. The [index](#) is maintained by the London-based Baltic Exchange.

Bank-based corporate governance system

Organization of a supervisory board so that it is dominated by bankers and corporate [insiders](#).

Bank anticipation notes (BAN)

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

Bank collection float

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

Bank discount basis

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

Bank draft

A [draft](#) addressed to a bank.

Bank holding company

A [company](#) that owns or has [controlling interest](#) in two or more banks and/or other bank [holding companies](#).

Bank Insurance Fund (BIF)

A [unit](#) of the [Federal Deposit Insurance Corporation \(FDIC\)](#) that provides [deposit insurance](#) for banks excluding [thrifts](#).

Bank for International Settlements (BIS)

An international bank headquartered in Basel, Switzerland, which serves as a forum for monetary cooperation among several European [central banks](#), the Bank of Japan, and the US [Federal Reserve System](#). Founded in 1930 to handle the German payment of World War I reparations, it now monitors and collects data on international banking activity and promulgates rules concerning international bank [regulation](#).

Bank Investment Contract (BIC)

[Interest guaranteed](#) by the bank in a [portfolio](#) over a specific time frame with a specific [yield](#).

Bank line

[Line of credit](#) that a bank grants to a customer.

Bank Letter of Credit Policy

Standards allowing banks to confirm [letters of credit](#) by foreign banks supporting the [purchase](#) of US exports.

Bank loan

Usually refers to a loan or a line of credit expended to a corporation from a traditional bank. Also see: [Leveraged loan](#)

Bank note

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

Bank of England (BoE)

The central bank of England.

Bank of Japan (BoJ)

The central bank of Japan.

Bank regulation

The formulation and issuance by authorized agencies of specific rules or [regulations](#), under governing law, for the conduct and structure of banking.

Bank run (bank panic)

A [series](#) of unexpected [cash](#) withdrawals caused by a sudden decline in depositor confidence or fear that the bank will be closed by the [chartering agency](#), i.e. many depositors withdraw cash almost simultaneously. Since the cash reserve a bank keeps on hand is only a small fraction of its deposits, a

large number of withdrawals in a short period of time can deplete available cash and force the bank to close and possibly go out of business.

Bank trust department

Bank department that deals with estates, administers [trusts](#), and provides services such as estate planning advice to its clients.

Bank wire

A computer message system linking major banks. It is used not for effecting payments, but as a mechanism to advise the receiving bank of some action that has occurred, e.g., the payment by a customer of funds into that bank's account.

Banker's acceptance

A [short-term credit](#) investment created by a nonfinancial [firm](#) and [guaranteed](#) by a bank as to payment. [Acceptances](#) are [traded](#) at [discounts](#) to [face value](#) in the [secondary market](#).

These [instruments](#) have been a popular investment for [money market](#) funds. They are commonly used in international [transactions](#).

Banking Delay

Time required for processing and clearing a [check](#) through the banking system.

Bankmail

An agreement between a [company](#) engaged in a [takeover bid](#) and a bank that the bank will not [finance](#) the bid of another [acquirer](#).

Bankruptcy

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

Bankruptcy code

Laws governing [bankruptcy proceedings](#) for corporations, municipalities, and individuals. Enacted through the U.S. Federal Bankruptcy Reform Act of 1978.

Bankruptcy cost view

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

Bankruptcy proceedings

Legal proceedings covered by [Bankruptcy Code](#). The proceedings could result in [liquidation](#) or [reorganization](#) of the firm.

Bankruptcy risk

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

Bankruptcy view

The argument that expected [bankruptcy costs](#) preclude [firms](#) from financing entirely with [debt](#).

Bar

Slang for one million dollars.

Barbell strategy

A fixed income [strategy](#) in which the [maturities](#) of the [securities](#) included in the [portfolio](#) are concentrated at two extremes. For example, a portfolio manager invests in short and long duration bonds but not in the intermediate duration bonds.

Barefoot Investor

A popular Australian radio program focused on teaching young people financial literacy.

Barefoot pilgrim

A slang term for an unsophisticated [investor](#) who has lost everything on the [stock market](#). Not to be confused with [Barefoot Investor](#).

Bargain hunter

In the context of general equities, [purchaser](#) who is extremely selective in the price sought on a [transaction](#).

Bargain-purchase-price option

Gives the [lessee](#) the option to [purchase](#) the [asset](#) at a price below [fair market value](#) when the [lease](#) expires.

Barometer

Economic and [market](#) data that represent an overall [trend](#). The [Dow Jones Industrial Average](#) is an example of a [stock market](#) barometer.

BARRA's performance analysis (PERFAN)

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

Barrier options

[Option contracts](#) that remain dormant until a trigger point (the barrier price) is reached, at which point the call or put option is activated, and results either in a long or short options position, or in the automatic exercise of an options position. One example is an up-and-in call. Assume an exercise price of \$50 and a barrier price of \$53. If the stock stays below \$53, the call option cannot be exercised. If the stock price reaches the \$53 barrier price, the holder then has a call option on the shares at \$50. These are exotic options.

Barron's confidence index

[Index](#) measuring the ratio of the [average yield](#) on 10 top-grade [bonds](#) to the [average](#) yield on 10 intermediate-grade bonds. The discrepancy between high-rated top-grade bonds and low-rated bond yields establishes a measure that is indicative of [investor](#) confidence.

Barter

The [trading](#)/exchange of goods or services without using [currency](#).

Base

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

Base currency

Applies mainly to international equities. [Currency](#) in which gains or [losses](#) from operating an international portfolio are measured.

Base interest rate

Related: [Benchmark interest rate](#).

Base market value

The average market price of a group of securities at a specific time. Used for the purpose of [indexing](#).

Base period

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

Base probability of loss

The probability of not achieving a [portfolio expected return](#). Related: [Value at risk](#).

Base rate

British equivalent of the US [prime rate](#).

Basel I

Agreement concluded among country representatives in 1988 in Basel, Switzerland to develop standardized risk-based capital requirements for banks across countries. The Accord is also known as 1988 Basel Accord and it primarily focused on credit risk and is now viewed as outdated. [Basel II](#) is currently in the process of implementation and [Basel III](#) is currently under development.

Basel II

An update of [Basel I](#), Basel II was published in June 2004. The revised accord aimed to improve the consistency of capital regulations internationally, make regulatory capital more risk sensitive, and promote enhanced risk-management practices among large, internationally active banking organizations. Generally speaking, with Basel II, the greater risk to which the bank is exposed, the greater the amount of capital the bank needs to hold. However, critics of Basel II say that the revised accord failed to regulate certain risk transfers, such as securitization or transfer of risk to unregulated parts of holding companies.

Basel III

Describes the third version of the Basel Accords agreed upon by 27 countries on September 12, 2010. Among the highlights was the increasing of Tier 1 capital from 2% to 4.5% and the addition of a buffer of 2.5%. The assets that qualify for capital were also redefined. The full implementation of the accord is not due until 2023.

Basic balance

In a [balance of payments](#), the basic balance is the [net](#) balance of the combination of the [current account](#) and the [capital account](#).

Basic business strategies

Key strategies a [firm](#) intends to pursue in carrying out its business plan.

Basic IRR rule

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

Basis

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

Basis point

In the [bond market](#), the smallest measure used for quoting [yields](#) is a basis point. Each percentage point of [yield](#) in [bonds](#) equals 100 [basis](#) points. Basis points also are used for [interest](#) rates. An interest

rate of 5% is 50 basis points higher than an interest rate of 4.5%. Sometimes referred to as BPS, BIPS, and pronounced "Bips"

Basis price

Price expressed in [terms of yield to maturity](#) or [annual rate of return](#).

Basis risk

Unexpected changes in the basis between the placing and the lifting of a hedge. Basis risk is in excess of convergence.

Basis trade

A trade that takes a view on the difference between two financial instruments. For [futures](#) contract, the difference between the cash and the futures price of an instrument.

Basket

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

Basket credit default swap

A [credit derivative](#) contract that provides a payoff when any of the multiple reference entities [default](#). The contract specifies the number of defaults after which the payoff is generated, based on which the instrument is classified as first-to-default [CDS](#), second-to-default CDS or more generally nth-to-default CDS.

Baskets of Listed Depository Receipts

[Nasdaq](#)'s fund family made of four funds that will track indexes composed of [American Depository Receipts \(ADRs\)](#) of foreign companies.

Basket options

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

Basket trades

Related: [Program trades](#).

Bayseian inference

An alternative method of reasoning whereby the observer has a prior belief about a hypothesis and that belief is updated after observing the data.

BD form

An [SEC](#) document required of brokerage houses that outlines the [firm's finances](#) and officers.

BDS Statistic

A statistic based upon the correlation integral which examines the probability that a purely random system could have the same [scaling](#) properties as the system under study. See: [Correlation Integral](#).

Boston Exchange Automated Communication 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](#).

Bear

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

Bear CD

A bear [CD](#) pays the [holder](#) a fraction of any fall in a given [market index](#).

Bear hug

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

Bear market

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

Bear raid

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

Bear rally

A temporary surge in [stock markets](#) while the primary market trend is bearish.

Bear spread

Applies to [derivative](#) products. [Strategy](#) in the [options](#) or futures [markets](#) designed to take advantage of a fall in the price of a [security](#) or [commodity](#). A bear spread with call options is created by buying a call option with a certain strike price and selling a call option on the same stock with a lower strike price (with the same expiration date). A bear spread with put options is where an investor buys a put with a high strike price and sells a put with a low strike price. With futures, the investor sells the nearby contract and purchases the next out contract. All of these strategies are designed to profit from a fall in the underlying asset's price.

Bear trap

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

Bearer bond

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

Bearer form

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

Bearer share

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

Bearish

Words used to describe [investor](#) attitude. A bearish investor believes that a particular asset or the market as a whole will decline in value.

Beating the gun

In the context of general equities, gaining an advantageous price in a [trade](#) through a quick response to [market](#) developments.

Before-tax contributions

The portion of an employee's salary [contributed](#) to a retirement plan before federal [income taxes](#) are [deducted](#); this reduces the individual's [gross income](#) for federal tax purposes.

Before-tax profit margin

The ratio of [net income](#) before taxes to [net sales](#).

Beggar-thy-neighbor

An international [trade](#) policy of competitive [devaluations](#) and increased protective barriers that one country institutes to gain at the [expense](#) of its trading partners.

Beggar-thy-neighbor devaluation

A [devaluation](#) that is designed to cheapen a nation's [currency](#) and thereby increase its exports at the [expense](#) of other countries. [Devaluation](#) can also reduce a nation's imports. Such devaluations often lead to [trade](#) wars.

Behavioral finance

An important subfield of finance. Behavioral finance uses insights from the field of psychology and applies them to the actions of individuals in trading and other financial applications.

Behind

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

Beige book

Official name for the Beige book is Summary of Commentary on Current Economic Conditions. It is a report published by the Fed before [FOMC](#) meeting (eight times a year) and is used to inform the members on changes in the economy.

Bell

Signal on a [stock exchange](#) to [indicate](#) the [open](#) and [close](#) of [trading](#).

Bellwether issues

Related: [Benchmark issues](#).

Below par

Less than the [nominal](#) or [face value](#) of a [security](#).

Benchmark

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

Benchmark error

Use of an inappropriate [proxy](#) for the true [market portfolio](#).

Benchmark interest rate

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

Benchmark issue

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

Beneath

Used for listed equity securities. 1) [Behind](#); 2) Lower in price.

Beneficial Owner

As used for most purposes under the federal [securities](#) laws. A beneficial owner of [stock](#) is any person or entity with sole or shared power to vote or dispose of the stock. This [SEC](#) definition is intended to include a [holder](#) who enjoys the benefits of ownership although the [shares](#) may be held in another name.

Beneficial ownership

Often used in [risk arbitrage](#). Person who enjoys the benefits of ownership even though title is in another name. (Abused through the illegal use of a [parking violation](#).)

Beneficiary

Term used to refer to the person who receives the benefits of a [trust](#) or the recipient of the [proceeds](#) of a [life insurance](#) policy.

Bequest

Property left to an heir under the [terms](#) of a [will](#).

Bermudan option

An [option](#) that can be [exercised](#) at a set number of times (unlike [European options](#), which can be exercised only at the expiration date and [American options](#), which can be exercised any time).

Best's rating

A [rating](#) A.M. Best Co. assigns to insurance companies based on the [company's](#) ability to meet its [obligations](#) to its [policyholders](#).

Best efforts

A high standard of undertaking, but nevertheless excusable in the event of a [force majeure](#).

Best-efforts sale

A method of [securities distribution/underwriting](#) in which the securities firm agrees to sell as much of the [offering](#) as possible and return any unsold [shares](#) to the [issuer](#). As opposed to a [guaranteed](#) or [fixed-price sale](#) or bought deal, in which the underwriter agrees to sell a specific number of shares (and [holds](#) any unsold shares in its own account if necessary).

Best-interests-of-creditors test

The requirement that a [claim holder](#) voting against a plan of [reorganization](#) must receive at least as much as if the [debtor](#) were [liquidated](#).

Beta

The measure of an [asset's risk](#) in relation to the [market](#) (for example, the [S&P500](#)) or to an alternative [benchmark](#) or [factors](#). Roughly speaking, a security with a beta of 1.5, will have move, on [average](#), 1.5 times the [market return](#). [More precisely, that [stock's excess return](#) (over and above a [short-term](#) money market rate) is expected to move 1.5 times the market [excess return](#).)] According to asset pricing theory, beta represents the type of risk, [systematic risk](#), that cannot be [diversified](#) away. When using beta, there are a number of issues that you need to be aware of: (1) betas may change through time; (2) betas may be different depending on the direction of the market (i.e. betas may be greater for down moves in the market rather than up moves); (3) the estimated beta will be biased if the security does not frequently trade; (4) the beta is not necessarily a complete measure of risk (you may need multiple betas). Also, note that the beta is a measure of co-movement, not [volatility](#). It is possible for a security to have a zero beta and higher volatility than the market.

Beta equation (security)

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

- Beta=
- $$\frac{[(n)(\text{sum of } [xy])] - [\text{sum of } x](\text{sum of } y)}{[(n)(\text{sum of } [xx])] - \text{sum of } x}$$
- where: $n = \# \text{ of observations}$ (usually 36 to 60 months)
- $x = \text{rate of return}$ for the S&P 500 index
- $y = \text{rate of return}$ for the security.
- Related: [Alpha](#)

Biased expectations theories

Related: [Pure expectations theory](#).

Bid

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

Bid away

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

Bid-asked spread

The difference between the [bid](#) and the [asked](#) prices.

Bid bond

A [bid](#) "performance" [bond](#) consisting of a small percentage (1-3%) of the tender [contract](#) price, refunded to losers once the contract is awarded.

Bid price

This is the [quoted bid](#), or the highest price an [investor](#) is willing to pay to [buy](#) a [security](#). Practically speaking, this is the available price at which an investor can sell [shares](#) of [stock](#). Related: [Ask](#), [offer](#).

Bid-to-cover ratio

The ratio of the number of [bids](#) received in a Treasury security auction compared to the number of accepted bids.

Bid wanted

Used in the context of general equities. Announcement that a [holder](#) of [securities](#) wants to sell and will entertain [bids](#).

Bidder

A [firm](#) or person that wants to [buy](#) a [firm](#) or [security](#).

Bidding buyer

In the context of general equities, a non[aggressive](#) buyer who prefers to await a [natural](#) seller in the hope of paying a lower price.

Bidding through the market

In the context of general equities, [aggressive](#) willingness to [purchase](#) a [security](#) at a [premium](#) to the [inside market](#). Contrasts with [bidding buyer](#).

Bidding up

Moving the [bid price](#) higher.

Bifurcation

When a non-linear [dynamic system](#) develops twice the possible solutions that it had before it passed its critical level. A bifurcation cascade is often called the period [doubling](#) route to [chaos](#) because the transition from an orderly system to a chaotic system often occurs when the number of possible solutions begins increasing, doubling each time.

Bifurcation Diagram

A graph that shows the critical points where [bifurcation](#) occurs, and the possible solutions that exist at that point.

Big Bang

The term applied to the liberalization in 1986 of the London Stock Exchange (LSE) when [trading](#) was automated.

Big Board

A nickname for the [New York Stock Exchange \(NYSE\)](#). Also known as [The Exchange](#). More than 2,000 common and [preferred stocks](#) are [traded](#). Founded in 1792, the NYSE is the oldest exchange in the United States, and the largest. It is located on Wall Street in New York City.

Big Mac Index

The Big Mac Index is published by the Economist as an informal way of measuring the [Purchasing Power Parity](#) between currencies by comparing the price of a Big Mac in one country (in its currency) with the price of a Big Mac in another country (in its currency). The index was first introduced in September 1986 and has been published annually by the Economist since then.

Big picture

To highlight [trading](#) interest due to the size of the [trade](#).

Big producer

A successful [broker](#) who generates a large [volume](#) of [commission](#). See [Rainmaker](#).

Big uglies

Unpopular [stocks](#).

Bilateral Netting

Bilateral netting - the consolidation of all swap agreements between two counterparties into one master agreement. The result is that if one counterparty bankrupts, that counterparty cannot seek to collect on any swaps that are in-the-money to them while at the same time refusing to pay out on any that are out-of-the-money. Instead, the master agreement sets out that in this event all swaps between the two counterparties will be netted; only then will the bankrupt company receive money, and then only if they are net in-the-money.

Bill of exchange

General term for a document demanding payment.

Bill of lading

A [contract](#) between an exporter and a transportation [company](#) in which the latter agrees to transport the goods under specified conditions that limit its [liability](#). It is the exporter's [receipt](#) for the goods as well as proof that goods have been or will be received.

Billing cycle

The time elapsed between billing periods for [goods sold](#) or services rendered.

Binary credit default swap

Similar to a [credit default swap](#) except that there is a fixed dollar payoff in the event of [default](#).

Binary option

An [option](#) where the payoff is a fixed amount of an [asset](#) or nothing at all.

Binder

An amount of [money](#) paid to [indicate good faith](#) in a [transaction](#) before the transaction is completed.

Binomial option pricing model

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

Bip

A [basis point](#) or 1/100th of one percent. Sometimes called bips or bps.

Bitcoin

A cryptocurrency first proposed by Satoshi Nakamoto in 2008. Bitcoin uses a specific technology called [blockchain](#) which prevents the double spending of any bitcoin and allows for unprecedented

security. There are currently thousands of cryptocurrencies and tokens based on blockchain technology.

Bi-weekly mortgage loan

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

Black Friday

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

Black Litterman Model

An [asset allocation](#) model that allows [portfolio managers](#) to incorporate views into [CAPM](#) equilibrium returns and generate [portfolios](#) that are more [diversified](#) than those produced with plain [mean-variance](#) optimization.

Black market

An illegal market.

Black Monday

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

Black-Scholes option-pricing model

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

Blackout period

A period of time before the [earnings](#) release of a [public company](#) during which its [directors](#) and specific employees deemed [insiders](#) cannot trade the company's [stock](#).

Blank check

A [check](#) that is duly signed, but the amount of the [check](#) is left blank to be supplied by the drawee.

Blank check offering

An [initial public offering](#) by a [company](#) whose business activities are undefined and therefore speculative.

Blank Check Preferred Stock

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

Blanket certification form

See: [NASD form FR-1](#)

Blanket fidelity bond

[SEC](#)-required insurance coverage that brokerage firms are required to have in order to cover fraudulent [trading](#) by employees.

Blanket inventory lien

A [secured loan](#) that gives the [lender](#) a [lien](#) against all the [borrower's inventories](#).

Blanket Mortgage

A mortgage that covers at least two pieces of [real estate](#) as collateral for the same mortgage.

Blanket recommendation

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

Blind pool

A [limited partnership](#) that does not announce its intentions as to what properties will be [acquired](#).

Blind trust

A [trust](#) in which a [fiduciary](#) third party has total discretion to make [investments](#) on behalf of a [beneficiary](#) while the beneficiary is uninformed about the [holdings](#) of the [trust](#).

Blitzkrieg tender offer

In the context of a [takeover](#), refers to a [tender offer](#) that is priced so attractively that the tender is completed quickly.

Block

Large quantity of [stock](#) or large dollar amount of [bonds held](#) or [traded](#). As a rule of thumb, 10,000 [shares](#) or more of stock and \$200,000 or more worth of [bonds](#) would be described as a block.

Block call

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

Block house

Brokerage firms that help to find potential [buyers](#) or sellers of large [block trades](#).

Block list

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

Block trade

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

Block trader

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

Block voting

Describes a group of [shareholders](#) banding together to vote their [shares](#) in a single [block](#).

Blockchain

Think of blockchain as a database or a spreadsheet. But a really special spreadsheet. There's no centralized master copy. Instead, it's shared on many computers. It's special because you can only add to it. There's no editing of history. The database is divided into chronological sub-sheets. These are the blocks. The last line of any block summarizes all of the data in the block, and – and this is pretty important – appears as the first line of the next block. If anyone tries to edit a block, the last line will change and will not match the first line of the next block. The network sees this corrupted block and immediately replaces it. This ingenious trick makes it futile to rewrite history and guarantees an unprecedented degree of security. Blockchain was invented by Haber and Stornetta in 1991 but made famous in the Satoshi Nakamoto's [bitcoin](#) paper.

Blocked currency

A [currency](#) that is not freely convertible to other [currencies](#) due to [exchange controls](#).

Blocked funds

[Cash flows](#) generated by a foreign project that cannot be immediately repatriated to the [parent firm](#) because of [capital](#) flow restrictions imposed by the host government.

Blocker Corporation

A blocker corporation is a type of [C Corporaton](#). Tax exempt investors and foreign investors often set up offshore feeder corporation known as a blocker corporation when they invest in [private equity](#) or [hedge funds](#) in order to avoid US trade or business income tax.

Blow-off top

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

Blowout

The rapid [sale](#) of all [shares](#) in a new [securities offering](#). See: hot issue.

Blue list

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

Blue-chip company

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

Blue chip stocks

[Common stock](#) of well-known [companies](#) with a history of growth and [dividend](#) payments.

Blue-sky laws

State laws covering the [issue](#) and [trading](#) of [securities](#).

Bo Derek stock

High quality [stock](#).

Board broker

Employee of the [Chicago Board Options Exchange](#) who manages [away from the market orders](#), which cannot be [executed](#) immediately.

Board of Directors

Individuals elected by the [shareholders](#) of a [corporation](#) who carry out certain tasks established in the [charter](#).

Board of Governors of the Federal Reserve System

The managing body of the [Federal Reserve System](#), which sets policies on bank practices and the [money supply](#).

Board room

A room at a brokerage firm where its clients can watch an electronic board displaying [stock](#) prices and [transactions](#). Also refers to the room where [Board of Directors](#) meetings take place.

Bogey

The return an investment manager is compared to for [performance evaluation](#).

Boiler room

Used to describe place or operation in which unscrupulous salespeople call and try to sell people speculative, even fraudulent [securities](#).

Boilerplate

Standard [terms](#) and conditions.

Bollinger Bands

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

Bolsa

Spanish for [stock exchange](#).

Bolsa de Comercio de Santiago (SSE)

Chile's preeminent [stock exchange](#).

Bolsa de Valores de Rio de Janeiro (BVRJ)

Brazil's second-largest [stock exchange](#).

Bolsa de Valores de Sao Paulo (BOVESPA)

The largest [stock exchange](#) in Brazil.

Bolsa Familia Program

Direct translation is "Family Allowance", Bolsa Familia Program is a part of Brazilian governmental welfare program Fome Zero (Zero Hunger) launched by President Luiz Inácio Lula da Silva (Brazilian President 2003-2011). Bolsa Familia provides financial aid to low-income Brazilian families under the condition that their children attend school and are vaccinated. It is currently the largest conditional cash transfer program in the world.

Bolt

Used for listed equity securities. [Block trading](#) version of [COLT](#).

Bolt-on acquisition

Bolt-on acquisition is a term in [private equity](#). It is used when a PE backed company (Company A) acquires another company (Company B) as a "bolt-on" to enhance the value of Company A.

Bombay Stock Exchange (BSE)

Largest stock exchange of India. See also: [National Stock Exchange](#); Mumbai [stock exchange](#).

Bond

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

Bond agreement

A [contract](#) for privately placed [debt](#).

Bond anticipation note (BAN)

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

Bond broker

A [broker](#) on the [floor](#) of an [exchange](#) or in the over-the-counter market (OTC) who [trades bonds](#).

Bond Buyer

A daily publication featuring many essential statistics and [index](#) figures relevant to the [fixed income markets](#).

Bond Buyer's municipal bond index

A [municipal bond](#) price tracking [index](#) published daily by the [Bond Buyer](#).

Bond counsel

An attorney who prepares the [legal opinion](#) concerning a [municipal bond issue](#).

Bond covenant

A [contractual](#) provision in a [bond indenture](#). A [positive covenant](#) requires certain actions, and a [negative covenant](#) limits certain actions.

Bond crowd

Members of the [stock exchange](#) who transact [bond orders](#) on the [floor](#) of the [exchange](#).

Bond discount

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

Bond-equivalent basis

The method used for computing the [bond-equivalent yield](#).

Bond equivalent yield

[Bond yield](#) calculated on an [annual percentage rate](#) method. Differs from [annual effective yield](#).

Bond fund

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

Bond indenture

[Contract](#) that sets forth the promises of a bond [issuer](#) and the rights of [investors](#).

Bond indexing

Designing a bond [portfolio](#) so that its performance will match the performance of some [bond index](#).

Bond market association

An international trade association of [broker/dealers](#) and banks in US government and federal [agency securities](#), municipal securities, [mortgage-backed securities](#), and [money market](#) securities.

Bond mutual fund

A mutual fund which primarily or exclusively holds [bonds](#).

Bond of Indemnity

An insurance policy that [indemnifies](#) the [corporation](#), the shareholder and the [Transfer Agent](#) against any and all claims arising from the replacement by the Transfer Agent of [certificates](#) lost or stolen.

Bond option

An [option](#) to buy or sell a [bond](#) by a particular date at a fixed price.

Bond points

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

Bond power

A form used in the [transfer](#) of [registered bonds](#) from one owner to a different owner.

Bond premium

See: [Bond discount](#)

Bond rating

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

Bond ratio

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

Bond swap

The [sale](#) of one [bond issue](#) and [purchase](#) of another [bond issue](#) simultaneously. See: [Swap](#); swap order.

Bond value

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

Bondholder

A [firm](#) often has [stockholders](#) and bondholders. In a [liquidation](#), the bondholders have first priority.

BONDPAR

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

Bonds Enabling Annual Retirement Savings (BEARS)

[Holders](#) of BEARS receive the [face value](#) of the [bonds underlying call option](#), which is [exercised](#) by CUBS (an acronym for Calls Underwritten by Swanbrook). If the [calls](#) are exercised by CUBS, BEARS holders receive the total of the [exercise price](#).

Bon voyage bonus

See: [Greenmail](#).

Boning

Charging a lot more for an [asset](#) than its worth.

Book

A banker or [trader's positions](#).

Book cash

A [firm's cash balance](#) as reported in its [financial statements](#). Also called ledger [cash](#).

Book to market

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

Book profit

The cumulative [book](#) income plus any gain or loss on disposition of [assets](#).

Book runner

The managing [underwriter](#) for a new [issue](#). The book runner maintains the [book](#) of [securities](#) sold.

Book to bill

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

Book value

A [company's](#) total [assets minus intangible assets](#) and [liabilities](#), such as [debt](#). A [company's](#) [book](#) value might be higher or lower than its [market value](#).

Book value per share

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

Book-Entry

[Registered](#) ownership of stock without the issuance of a [corresponding stock certificate](#), as is the case with dividend reinvestment and direct [purchase](#) plans, employee plans and [Direct Registration System](#) issuances. Periodic statements of ownership are issued instead of certificates.

Book-entry securities

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

Bootstrap

Term used to describe the start-up of a [company](#) with very little [capital](#).

Bootstrapping

Creating a theoretical [spot rate curve](#) using one [yield](#) projection as the [basis](#) for the yield of the next [maturity](#). Bootstrapping follows the work of Efron. It involves a Monte Carlo approach.

Borrow

To obtain or receive [money](#) on [loan](#) with the promise or understanding that it will be repaid.

Borrowed reserves

Funds [borrowed](#) from a [Federal Reserve Bank](#) by [member banks](#) to maintain the required [reserve](#) ratios.

Borrower fallout

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

Boston Stock Exchange

The third oldest stock exchange in the United States being founded in 1834. Now known as NASDAQ OMX BX, it was previously known as BSE. NASDAQ OMX acquired the BSE in 2007.

Bot

1) Shorthand for bought. Antithesis of SL, meaning sold. 2) Also refers to a web-based algorithm (short for robot) that picks off key information that might be useful for trading.

Bottom

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

Bottom fisher

An [investor](#) seeking [stocks](#) that have fallen to prices at or near their bottom, which he or she believes will [trend](#) up in the future.

Bottomline growth

Growth in net [profit](#). Also see topline growth.

Bottom-up equity management style

A [management](#) style that de-emphasizes the significance of economic and [market cycles](#), focusing instead on the analysis of individual [stocks](#).

Bought deal

[Security issue](#) in which one or two [underwriters buy](#) the entire issue. Also known as a guaranteed or fixed-price sale; opposite of a best-efforts sale.

Bounce

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

Bourse

French for a [stock market](#).

Boutique

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

Box

The actual physical location at a brokerage house or bank where [securities](#) or other documents are stored for safekeeping. Alternatively, a [quotation](#) machine or battery march. Also known as 'the cage.'

Box spread

This strategy refers to a type of [option arbitrage](#) in which both a [bull spread](#) and a [bear spread](#) are implemented for an almost-[riskless position](#). One [spread](#) is implemented using [put options](#) and the other is implemented with [calls](#). The spreads may both be debit spreads (call [bull spread](#) vs. put [bear spread](#)) or both [credit spreads](#) (call bear spread vs. put bull spread).

Bracket

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

Bracket creep

The gradual movement into higher [tax brackets](#) when incomes increase as a result of [inflation](#).

Brady bonds

[Bonds issued](#) by [emerging countries](#) under a [debt](#) reduction plan.

Branch

An operation in a foreign country [incorporated](#) in the home country.

Breadth

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

Breadth of the market

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

Break

A rapid and sharp price decline. Related: [Crash](#).

Break even

The reduction of a project's [net cash flow](#) to zero by altering an input variable such as price or [costs](#).

Break-even rate

The difference in [yield](#) between inflation-protected and nominal debt of the same [maturity](#). If the breakeven rate is negative it suggests traders are betting the economy may face [deflation](#) in the near future.

Break price

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

Break-even analysis

An analysis of the level of [sales](#) at which a project would make zero [profit](#).

Break-even lease payment

The [lease](#) payment at which a party to a prospective lease is indifferent between entering and not entering into a lease arrangement.

Break-even payment rate

The prepayment rate of an [MBS coupon](#) that will produce the same cash flow yield (CFY) as that of a predetermined [benchmark](#) MBS coupon. Used to identify for [coupons](#) higher than the benchmark coupon the prepayment rate that will produce the same cash flow yield (CFY) as that of the benchmark coupon; and for coupons lower than the benchmark coupon the lowest [prepayment](#) rate that will do so.

Break-even point

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

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

Break-even tax rate

The [tax rate](#) at which a party to a prospective [transaction](#) is indifferent between entering into and not entering into the transaction.

Break-even time

Related: [Premium payback](#) period.

Breaking the syndicate

Terminating an agreement among [underwriters](#), specifically the [investment banking](#) group assembled to underwrite the [issue](#) of a [security](#).

Breakout

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

Breakpoint

For [mutual funds](#), the point at which the amount invested reduces the sales charge is called the "breakpoint." Each mutual fund may have several breakpoints; the larger the investment, the greater

the discount. Note that the actual reduction in the sales charge is known as the "breakpoint discount". Also, the term "breakpointing" is sometimes used to refer to the offering of breakpoint discounts. The practice of soliciting mutual fund purchases just below the breakpoint (to earn more commissions) is considered unethical and in violation of NASD rules. See: right of [accumulation](#).

Breakpoint Sale

For [mutual funds](#), this refers to the practice of soliciting mutual fund purchases just below the [breakpoint](#) (to earn more commissions). The practice is considered unethical and in violation of NASD rules.

Breakup value

See: [Private market value](#).

Breeden, Douglas T.

Inventor of one of the foundational [asset pricing models](#) in [finance](#), the consumption based [capital asset pricing model](#). Chairman of Smith Breeden Associates, and former Dean of the Fuqua School of Business.

Brent crude

A type of oil sourced from the North Sea often used as a benchmark to price oil. The other well-known classifications are [West Texas Intermediate \(WTI\)](#), Dubai Crude, and OPEC Reference Basket.

Bretton Woods Agreement

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

Bridge financing

[Interim financing](#) of one sort or another used to solidify a [position](#) until more permanent financing is arranged.

Bridge loan

A short-term loan that is used until a company secures permanent financing or removes an existing obligation. A bridge loan provides an immediate cash flow. In venture capital, a bridge is usually a short term note (6-12 months) that converts to preferred stock.

Bring it out

In the context of general equities, "make [stock](#) available for [sale](#) to [indicated buyers](#)."

British Bankers Association (BBA)

An association of banks and [financial institutions](#) operating in the U.K. The BBA calculates and publishes [LIBOR](#) rates.

British clearers

The large [clearing banks](#) that dominate deposit taking and [short-term lending](#) in the domestic sterling [market](#).

Broad-Base

Generally referring to an index, it [indicates](#) that the index is composed of a sufficient number of stocks or of stocks in a variety of [industry](#) groups. See also: [Narrow-Based](#).

Broad Market

Usually refers to indices such as the Wilshire 5000 that track the performance of 5,000 [securities](#), rather than the more narrow measures such as the Dow Jones Industrial Average and the S&P 500.

Broad tape

An expanded version of the [ticker tape](#), which is displayed on a screen in the [board room](#) of a brokerage firm and shows constantly updated [financial](#) information and news.

Broken up

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

Broker

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

Broker-dealer

Any person, other than a bank, engaged in the business of [buying](#) or selling [securities](#) on its own behalf or for others. See: [Dealer](#).

Broker loan rate

Related: [Call money rate](#).

Brokered CD

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

Brokered market

A [market](#) in which an [intermediary offers](#) search services to [buyers](#) and sellers.

Brokers' loans

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

Brought over the wall

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

Bruise

See: [Spaceman](#)

Brussels Stock Exchange (BSE)

[Stock exchange](#) that handles the majority of [securities transactions](#) in Belgium.

Bubble theory

A theory under which [security](#) prices sometimes move wildly above their true values, or the price falls sharply until the "bubble bursts". It is also possible for a bubble to deflate gradually.

Budget

A detailed pro forma schedule of financial activity, such as an advertising budget, a [sales](#) budget, or a [capital budget](#).

Budget authority

Broad responsibility conferred by Congress that empower government [agencies](#) to spend [federal funds](#). Congress can specify criteria for the spending of these funds. For example, it may stipulate that a given agency must spend within a specific year, number of years, or any time in the future. The basic forms of budget authority are; [appropriations](#), authority to [borrow](#), [contract](#) authority, and authority to [oblige](#) and expend [offsetting receipts](#) and [collections](#). The period of time during which Congress makes funds available may be specified as one-year, multiple years or no year. The available amount may be classified as either definite or indefinite; a specific amount or an unspecified amount can be

made available. Authority may also be classified as current or permanent. Permanent authority requires no current action by Congress.

Budget deficit

The amount by which government spending exceeds government revenues.

Buck

Slang for one million dollars.

Bucket shop

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

Budapest Stock Exchange

Established in 1864, the major securities [market](#) of Hungary.

Budget surplus

The amount by which government revenues exceed government spending.

Buenos Aires Stock Exchange (Bolsa de Comercio de Buenos Aires)

Argentina's major [securities market](#).

Build a book

In the context of general equities, develop customer [orders](#) to gather demand/supply in order to make a [bid](#) or an [offer](#). Also refers to a commissioned salesperson amassing a 'book' of regular clients.

Build-Operate-Transfer (BOT) Approach

One of the two main approaches in financing the large-scale infrastructure projects. Contrary to [State-Build-Own-Operate \(SBOO\) Approach](#), BOT Approach awards a project to a project company that operates the project for twenty-five to thirty-five years before it is transferred back to the government. BOT Approach is similar to [Public-Private-Partnership \(PPP\) Approach](#).

Build Own Transfer

The transfer of a project back to the party granting the concession, either with or at no [cost](#).

Builder buydown loan

A [mortgage loan](#) on newly developed property that the builder [subsidizes](#) during the early years of the development. The builder uses [cash](#) to buydown the [mortgage rate](#) to a lower level than the

prevailing [market loan](#) rate for some period of time. The typical [buydown](#) is 3% of the interest rate amount for the first year, 2% for the second year, and 1% for the third year (also referred to as a 3-2-1 buydown).

Builders' All Risk

A standard construction insurance package.

Bulge

A short-lived [stock](#) price increase. Synonymous with [bubble](#).

Bulge bracket

A tier of [firms](#) in an [underwriting syndicate](#) that have the highest participation level. See: [Mezzanine bracket](#).

Bull

An [investor](#) who thinks the [market](#) will rise. Related: [Bear](#).

Bull-bear bond

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

Bull CD

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

Bull market

Any [market](#) in which [prices](#) are in an upward [trend](#).

Bull spread

A [spread strategy](#) used in options and futures trading that is designed to capitalize on expected price appreciation. A bull spread using call options is created by buying a call option on an asset with a certain strike price and selling a call option on the same asset with a higher strike price (same expiration date). A bull spread with put options is created by buying a put option with a low strike and selling a put option with a high strike price (same expiration date). Less frequently, the bull spread is implemented by buying the nearby futures contract and selling the next out contract.

Bulldog bond

Foreign [bond issue](#) made in London.

Bulldog market

The [foreign market](#) in the United Kingdom.

Bullet

A one-time repayment, often after little or no [amortization](#) of the [loan](#). See: [Balloon Payment](#).

Bullet contract

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

Bullet loan

A bank [term loan](#) that calls for no [amortization](#).

Bullet strategy

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

Bullion coins

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

Bullish

Word used to describe an [investor](#)'s attitude. Bullish refers to an optimistic outlook, while bearish means a pessimistic outlook.

Bump-up CD

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

Bunching

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

Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)

Germany's supervisory authority for the German financial markets. German financial regulator.

Bundling, unbundling

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

Bureau of Labor Statistics (BLS)

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

Burn rate

Used in [venture capital](#) financing to refer to the rate at which a startup [company](#) expends [capital](#) to [finance overhead costs](#) prior to the generation of positive [cash flow](#).

Burnout

Depletion of a [tax shelter's](#) benefits. In the context of [mortgage backed securities](#) it refers to the percentage of the [pool](#) that has prepaid their [mortgage](#).

Business combination

See: [Merger](#)

Business Combination laws

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

Business cycle

Repetitive [cycles](#) of economic [expansion](#) and contractions. The official [peaks](#) and troughs of the US cycle are determined by the National Bureau of Economic Research in Cambridge, MA.

Business day

A day in which [financial markets](#) are [open](#) for [trading](#).

Business failure

A business that has terminated operations with a [loss](#) to [creditors](#).

Business risk

The [risk](#) that the [cash flow](#) of an [issuer](#) will be impaired because of adverse economic conditions, making it difficult for the issuer to meet its [operating expenses](#).

Business segment reporting

[Reporting](#) the results of the separate divisions or [subsidiaries](#) of a business.

Busted convertible

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

Bust-up takeover

A [leveraged buyout](#) in which the buyer sells off the [assets](#) of the [target company](#) to repay the [debt](#) that [financed](#) the [takeover](#).

Butterfly

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

Butterfly shift

A [nonparallel shift in the yield curve](#) involving the height of the curve.

Butterfly spread

Applies to [derivative](#) products. Complex [option strategy](#) that involves buying a call option with a relatively low strike price; buying a call option with a relatively high strike price; and selling two call options with an intermediate strike price. Essentially, this is a [bear call spread](#) stacked on top of a [bull call spread](#). One can also do this with puts. The investor buys a put with a low strike, buys a put at high strike and sells two puts at intermediate strike price. The [payoff diagram](#) resembles the shape of a butterfly.

Buy

To [purchase](#) an [asset](#); taking a [long position](#).

Buy-and-hold strategy

A passive [investment strategy](#) with no [active buying](#) and selling of assets from the time the [portfolio](#) is created until the end of the investment horizon. Opposite of active strategy.

Buy-and-write strategy

An [options strategy](#) that calls for the [purchase](#) of assets and the writing of [covered call options](#) on them.

Buy the book

An [order](#) typically from a large [institutional investor](#) to a [broker](#) to [purchase](#) all the [shares](#) available at the [market](#) from the [specialist](#) and other [brokers](#) and [dealers](#) at the current [offer price](#).

The [book](#) refers to the record a [specialist](#) kept before the advent of computers.

Buy hedge

See: [Long hedge](#)

Buy in

To cover, [offset](#), or [close out](#) a [short position](#). Related: [Evening up](#), [liquidation](#).

Buyin management buyout (BIMBO)

A form of [leveraged buyout](#) in which the bidding team comprises members of the incumbent management team and externally hired managers, often alongside a third-party private equity investor.

Buy limit order

A conditional [trading order](#) that [indicates](#) a [security](#) may be [purchased](#) only at the designated price or lower. Related: [Sell limit order](#).

Buy minus order

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

Buy on the bad news

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

Buy on close

[Buying](#) at the end of the [trading](#) session at a price within the [closing range](#).

Buy on margin

[Borrowing](#) to [buy](#) additional [shares](#), using the shares themselves as [collateral](#).

Buy on opening

Buying at the beginning of a trading session at a price within the opening range.

Buy order

An [order](#) to a [broker](#) to [purchase](#) a specific quantity of a [security](#).

Buy-side analyst

A financial analyst employed by a nonbrokerage firm, typically one of the larger [money management firms](#) that [purchases securities](#) on its own account.

Buy stop order

A [buy order](#) not to be [executed](#) until the [market price](#) rises to the [stop price](#). Once the [security](#) has broken through that price, the [order](#) is then treated as a [market order](#). Also known as a suspended market order. Often used to protect against loss on a short sale.

Buy them back

Used for listed equity securities. "Cover my [short position](#).

Buy write

See also [Covered Call](#).

Buyback

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

Buydown

A [lump sum](#) payment made to the [creditor](#) by the [borrower](#) or by a third party to reduce the amount of some or all of the consumer's periodic payments to repay the indebtedness. In the context of project financing, refers to a one-time payment out of [liquidated damages](#) to reflect [cash flow losses](#) from sustained underperformance.

Buyer credit

A financing provided to a [buyer](#) to pay for the supply of goods or services usually by an exporting country or by the supplier [company](#).

Buyer's market

[Market](#) in which the supply exceeds the demand, creating lower prices. Antithesis of [seller's market](#).

Buyers/sellers on balance

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

Buying climax

A rapid rise in the price of a [stock](#) resulting from heavy [buying](#), which usually creates the [market](#) condition for a rapid fall in the price.

Buying the index

[Purchasing](#) the [stocks](#) in the [S&P](#) 500 in the same proportion as the [index](#) to achieve the same [return](#).

Buying power

The amount of [money](#) available to [buy securities](#), determined by adding the [total cash](#) held in brokerage [accounts](#) and the amount that could be spent if [securities](#) were [margined](#) to the limit.

Buyout

[Purchase](#) of a [controlling interest](#) (or percent of [shares](#)) of a [company's stock](#). A [leveraged buy out](#) is effected with [borrowed money](#).

Buyout firm

See [Private Equity firm](#).

Bylaws

Rules and practices that govern [management](#) of an organization.

Bylaw Amendment Limitations

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

Bypass trust

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

ifth letter of a [Nasdaq](#) stock descriptor specifying that [issue](#) is exempt from Nasdaq listing requirements for a temporary period.

CA

The two-character [ISO](#) 3166 country code for CANADA.

CAC

See: [Collective Action Clause](#)

CAD

The [ISO](#) 4217 currency code for Canada Dollar.

CADS

See [Cash Available for Debt Service](#).

CAF

The three-character [ISO](#) 3166 country code for CENTRAL AFRICAN REPUBLIC.

CAGR

See: [Compound Annual Growth Rate](#)

CAMPS

See: [Cumulative Auction Market Preferred Stocks](#)

CAN

The three-character [ISO](#) 3166 country code for CANADA.

Capex

See: [Capital expenditures](#)

CAPM

See: [Capital asset pricing model](#)

CAPS

See: [Convertible adjustable preferred stock](#)

CARs

See: [Certificates of Automobile Receivables](#)

CARDs

See: [Certificates of Amortized Revolving Debt](#)

CATS

See: [Certificate of Accrual on Treasury Securities \(CATS\)](#)

CAX

The [ISO](#) 4217 currency code for Canadian Cent.

CBD

See: [Cash In Advance](#).

CBFA

See: [Commission Bancaire, Financiere et des Assurances](#).

CBO

See: [Collateralized Bond Obligation](#).

CBOE

See: [Chicago Board Options Exchange](#)

CC

The two-character [ISO](#) 3166 country code for COCOS (KEELING) ISLANDS.

CCK

The three-character [ISO](#) 3166 country code for COCOS (KEELING) ISLANDS.

CCO

Chief Compliance Officer.

CCP

See: [Central Counterparty Clearing House](#)

CCR

See: [Counterparty Credit Risk](#).

CD (1)

See: [Certificate of deposit](#)

CD (2)

The two-character [ISO](#) 3166 country code for CONGO, THE DEMOCRATIC REPUBLIC OF.

CDC

See: Commonwealth Development Corp

CDN

See: [Canadian Dealing Network](#)

CDO

See: [Collateralized Debt Obligation](#).

CDS

See: [Credit Default Swap](#).

CEBS

See: [Committee European Banking Supervisors](#).

CEC

See: [Commodities Exchange Center](#)

CF

The two-character [ISO](#) 3166 country code for CENTRAL AFRICAN REPUBLIC.

CFAT

See: [Cash flow after taxes](#)

CFC

See: [Controlled foreign corporation](#)

CFD

See: [Contract for Difference](#)

CFR

See: [Cost and Freight](#)

CFTC

See: [Commodity Futures Trading Commission](#)

CG

The two-character [ISO](#) 3166 country code for The Congo.

CH

The two-character [ISO](#) 3166 country code for SWITZERLAND.

CHAP

See: [Clearing House Automated Payments System](#)

CHE

The three-character [ISO](#) 3166 country code for SWITZERLAND.

CHESS

See: [Clearing House Electronic Subregister System](#)

CHF

The [ISO](#) 4217 currency code for Swiss Franc.

CHL

The three-character [ISO](#) 3166 country code for CHILE.

CHN

The three-character [ISO](#) 3166 country code for CHINA.

CHIPS

See: [Clearing House Interbank Payments System](#)

CI

The two-character [ISO](#) 3166 country code for COTE D'IVOIRE.

CIV

The three-character [ISO](#) 3166 country code for COTE D'IVOIRE.

C&I

See: [Commercial and Industrial Loans](#).

CIF

See: [Cost Insurance and Freight](#)

CK

The two-character [ISO](#) 3166 country code for COOK ISLANDS.

CL

The two-character [ISO](#) 3166 country code for CHILE.

CLF

The [ISO](#) 4217 currency code for Chile Unidades de Fomento.

CLO

See: [Collateralized Loan Obligation](#).

CLP

The [ISO](#) 4217 currency code for Chilean Peso.

CM

The two-character [ISO](#) 3166 country code for CAMEROON.

CMBS

See: [Commercial Mortgage Backed Securities](#)

CME

See: [Chicago Mercantile Exchange](#)

CML

See: [Capital market line](#)

CMO

See: [Collateralized mortgage obligation](#)

CMVM

See: [Comissão do Mercado de Valores Mobiliários](#).

CMR

The three-character [ISO](#) 3166 country code for CAMEROON.

CMTA

See: [Clearing Member Trade Agreement](#)

CN

The two-character [ISO](#) 3166 country code for CHINA.

CNMV

See: [Comisión Nacional del Mercado de Valores](#).

CNOOC

See: [China National Offshore Oil Corporation](#)

CNY

The [ISO](#) 4217 currency code for Chinese Renminbi (Yuan).

CO

The two-character [ISO](#) 3166 country code for COLOMBIA.

Cocos

See: [Contingent convertible capital instruments](#)

COD

The three-character [ISO](#) 3166 country code for CONGO, THE DEMOCRATIC REPUBLIC OF.

COG

The three-character [ISO](#) 3166 country code for The Congo.

COK

The three-character [ISO](#) 3166 country code for COOK ISLANDS.

COL

The three-character [ISO](#) 3166 country code for COLOMBIA.

COLAs

See: [Cost of living adjustments](#)

COM

The three-character [ISO](#) 3166 country code for COMOROS.

COMEX

A division of the [New York Mercantile Exchange \(NYMEX\)](#). Formerly known as the Commodity Exchange, COMEX is the leading US market for metals [futures](#) and [options](#) trading.

CONSOB

See: [Commissione Nazionale per le Società e la Borsa](#).

COP

The [ISO](#) 4217 currency code for Colombian Peso.

CPFF

See: [Commercial Paper Funding Facility](#).

CPP

See: [Capital Purchase Program](#)

CPPI

See: [Constant Proportion Portfolio Insurance](#).

CPT

See: [Carriage Paid To](#)

CPV

The three-character [ISO](#) 3166 country code for CAPE VERDE.

CR

The two-character [ISO](#) 3166 country code for COSTA RICA.

CRB

See: [Commodity Research Bureau](#).

CRC

The [ISO](#) 4217 currency code for Costa Rican Colon.

CRE

See: [Commercial Real Estate Loans](#).

CRI

The three-character [ISO](#) 3166 country code for COSTA RICA.

CSR

See: [Corporate social responsibility](#)

CSSF

See: [Commission de Surveillance du Secteur Financier](#).

CTA

See: [Cumulative Translation Adjustment](#). Also refers to [Commodity Trading Advisor](#).

CTD

See: [Cheapest to deliver issue](#)

CTP

See: [Certified Treasury Professional](#).

CU

The two-character [ISO](#) 3166 country code for CUBA.

CUB

The three-character [ISO](#) 3166 country code for CUBA.

CUP

The [ISO](#) 4217 currency code for Cuban Peso.

CUSIP

See: [Committee on Uniform Securities Identification Procedures](#)

CV

The two-character [ISO](#) 3166 country code for CAPE VERDE.

CVA

See: [Credit Valuation Adjustments](#)

CVE

The [ISO](#) 4217 currency code for Cape Verde Islands Escudo.

CX

The two-character [ISO](#) 3166 country code for CHRISTMAS ISLAND.

CXR

The three-character [ISO](#) 3166 country code for CHRISTMAS ISLAND.

CY

The two-character [ISO](#) 3166 country code for CYPRUS.

CYM

The three-character [ISO](#) 3166 country code for CAYMAN ISLANDS.

CYP (1)

The [ISO](#) 4217 currency code for Cyprus Pound.

CYP (2)

The three-character [ISO](#) 3166 country code for CYPRUS.

CZ

The two-character [ISO](#) 3166 country code for CZECH REPUBLIC.

CZE

The three-character [ISO](#) 3166 country code for CZECH REPUBLIC.

CZK

The [ISO](#) 4217 currency code for Czech Republic Koruna.

C

A rating within [speculative grade Moody's Long-term Corporate Obligation Rating](#). Obligations rated C are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest. Rating one notch higher is [Ca](#).

Ca

A rating within [speculative grade Moody's Long-term Corporate Obligation Rating](#). Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest. Rating one notch higher is [Caa3](#). Rating one notch lower is [C](#)

Caa1

A rating within [speculative grade Moody's Long-term Corporate Obligation Rating](#). Obligations rated Caa1 are judged to be of poor standing and are subject to very high credit risk. Rating one notch higher is [B3](#). Rating one notch lower is [Caa2](#)

Caa2

A rating within [speculative grade Moody's Long-term Corporate Obligation Rating](#). Obligations rated Caa2 are judged to be of poor standing and are subject to very high credit risk. Rating one notch higher is [Caa1](#). Rating one notch lower is [Caa3](#)

Caa3

A rating within [speculative grade Moody's Long-term Corporate Obligation Rating](#). Obligations rated Caa3 are judged to be of poor standing and are subject to very high credit risk. Rating one notch higher is [Caa2](#). Rating one notch lower is [Ca](#)

Cabinet crowd

[NYSE](#) members who [trade bonds](#) with a low daily traded [volume](#). See: [Automated Bond System](#).

Cabinet security

A [stock](#) or [bond](#) listed on a major [exchange](#) with low daily [traded volume](#).

Cable

[Exchange rate](#) between British pound sterling and the U.S. dollar.

CAC 40 index

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

Cage

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

Calendar

List of new issues scheduled to come to market shortly.

Calendar effect

Describes the tendency of stocks to perform differently at different times. For example, a number of researchers have documented that historically, returns tend to be higher in January compared to other months (especially February). Others have documented returns patterns across days of the week and within the day. Some of these patterns are found in volume and volatility as well as returns.

Calendar spread

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

Calendar Straddle or Combination

See [Calendar Spread](#).

Call

An option that gives the holder the right to buy the underlying asset.

Call date

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

Call feature

Part of the indenture agreement between the bond issuer and buyer describing the schedule and price of redemptions prior to maturity.

Call loan

A loan repayable on demand. Sometimes used as a synonym for broker loan or broker overnight loan.

Call loan rate

See: [Call money rate](#)

Call money rate

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

Call option

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

Call an option

To [exercise](#) a [call](#) option.

Call premium

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

Call price

The price, specified at [issuance](#), at which the [issuer](#) of a [bond](#) may [retire](#) part of the bond at a specified [call date](#).

Call protection

A feature of some [callable bonds](#) that establishes an initial period when the bonds may not be [called](#).

Call provision

An [embedded option](#) granting a [bond issuer](#) the right to [buy](#) back all or part of an [issue](#) prior to [maturity](#).

Call risk

The combination of [cash flow](#) uncertainty and [reinvestment risk](#) introduced by a [call provision](#).

Call swaption

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

Callability

Feature of a [security](#) that allows the [issuer](#) to [redeem](#) the [security](#) prior to [maturity](#) by [calling](#) it in, or forcing the holder to sell it back.

Callable

Applies mainly to [convertible securities](#). [Redeemable](#) by the [issuer](#) before the scheduled [maturity](#) under specific conditions and at a [stated price](#), which usually begins at a premium to [par](#) and declines annually. Bonds are usually [called](#) when interest rates fall so significantly that the issuer can save [money](#) by issuing new bonds at lower rates.

Called away

Convertible: [Redeemed](#) before [maturity](#).

Option: [Call](#) or [put option exercised](#) against the [stockholder](#).

[Sale](#): [Delivery](#) required on a [short sale](#).

Cumulative Auction Market Preferred Stocks (CAMPs)

Stands for Cumulative Auction Market Preferred Stocks, Oppenheimer & Company's Dutch Auction [preferred stock](#) product.

Canadian agencies

[Agency](#) banks established by Canadian Banks in the U.S.

Canadian Dealing Network (CDN)

The organized [OTC](#) market of Canada. Formerly known as the Canadian Over-the-Counter Automated Trading System (COATS), the CDN became a [subsidiary](#) of the [Toronto Stock Exchange](#) in 1991.

Candlestick chart

A popular method of charting price fluctuations that displays an [asset's opening](#), [closing](#), [high](#), and [low prices for the period](#). Points on a candlestick chart are represented as a box, called the [real body](#), with a vertical line on both the top and bottom. White-bodied boxes represent upward movement in the price of the [asset](#): the bottom of the body is the [opening price](#) and the top of the body is the [closing price](#). Black-bodied boxes represent downward movement in the price of the [asset](#): the bottom of the body is the [closing price](#) and the top of the body is the [opening price](#). In both cases, the top vertical line shows the high price for the period, and the bottom vertical line shows the low price for the period. See: [Real body](#).

"Can get \$xxx"

Refers to over-the-counter trading. "I have a [buyer](#) who will pay \$xxx for the stock". Usually a standard markdown from \$xxx is applied to this price in [bidding](#) the seller for its [stock](#). Antithesis of [cost me](#).

Cancel

To void an [order](#) to [buy](#) or sell from (1) the [floor](#), or (2) the [trader](#)/salesperson's scope.

In [Autex](#), the [indication](#) still remains on record as having once been placed unless it is [expunged](#).

Canceled Certificates

Before the [issuance](#) of a new [certificate](#), the old certificate is presented to the [Transfer Agent](#) and is [canceled](#).

"Cannot compete"

In the context of general equities, cannot accommodate customers at that price level (i.e., compete with other [market makers](#)), often because there is no [natural](#) opposite side of the [trade](#).

"Cannot complete"

In the context of general equities, inability to [finish](#) an [order](#) on a [principal](#) or [agency](#) basis, given prevailing price instructions and/or [market](#) conditions.

Cap

An upper limit on the [interest rate](#) on a [floating-rate note \(FRN\)](#) or an [adjustable-rate mortgage \(ARM\)](#). Also, an OTC derivatives contract consisting of a series of European interest rate call options; used to protect an issuer of floating-rate debt from interest rate increases. Each individual call option within the cap is called a caplet. Opposite of a floor.

Capacity

[Credit grantors'](#) measurement of a person's ability to repay [loans](#).

Capacity utilization rate

The percentage of the economy's total plant and equipment that is currently in production. Usually, a decrease in this percentage signals an economic slowdown, while an increase signals economic [expansion](#).

Capital

[Money invested](#) in a [firm](#).

Capital account

Net result of [public](#) and private international [investment](#) and [lending activities](#).

Capital allocation decision

Allocation of [invested](#) funds between [risk-free assets](#) and the [risky portfolio](#).

Capital appreciation

See: [Capital growth](#)

Capital appreciation fund

See: [Aggressive growth fund](#)

Capital asset

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

Capital asset pricing model (CAPM)

An economic theory that describes the relationship between [risk](#) and [expected return](#), and serves as a model for the pricing of [risky securities](#). The CAPM asserts that the only risk that is priced by rational [investors](#) is [systematic risk](#), because that risk cannot be eliminated by [diversification](#). The CAPM says that the [expected return](#) of a [security](#) or a [portfolio](#) is equal to the rate on a risk-free security plus a risk [premium](#) multiplied by the asset's systematic risk. Theory was invented by William Sharpe (1964) and John Lintner (1965). The early work of Jack Treynor is also instrumental in the development of this model.

Capital budget

A [firm's](#) planned [capital expenditures](#).

Capital budgeting

The process of choosing the [firm's long-term assets](#).

Capital Builder Account (CBA)

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

Capital charge rate

. The capital charge is the cost of capital times the amount of invested capital. This capital charge is a dollar amount. By capital charge rate is just the cost of capital. In other words, the capital charge rate is the rate or return required on invested capital.

Capital commitments

In the context of private equity, capital commitment is a [limited partner](#)'s obligation (promise) to provide certain amount of capital to a fund.

Capital expenditures

Amount used during a particular period to acquire or improve [long-term assets](#) such as property, plant, or equipment.

Capital flight

The [transfer](#) of [capital](#) abroad in response to fears of [political risk](#).

Capital formation

[Expansion](#) of [capital](#) or [capital goods](#) through savings, which leads to [economic growth](#).

Capital gain

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

Capital gains distribution

A [distribution](#) to the [shareholders](#) of a [mutual fund](#) out of [profits](#) from selling [stocks](#) or [bonds](#), that is subject to capital gains taxes for the [shareholders](#).

Capital gains tax

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

Capital gains yield

The price change portion of a stock's return.

Capital goods

Goods used by [firms](#) to produce other goods, e.g., office buildings, machinery, equipment.

Capital growth

The increase in an [asset's market price](#). Also called [capital appreciation](#).

Capital infusion

Often refers to the cross-[subsidization](#) of divisions within a [firm](#). When one division is not doing well, it might benefit from an infusion of new funds from the more successful divisions. In the context of [venture capital](#), it can also refer to funds received from a venture capitalist to either get the firm started or to save it from failing due to lack of [cash](#).

Capital-intensive

Used to describe [industries](#) that require large [investments](#) in [capital assets](#) to produce their goods, such as the automobile industry. These [firms](#) require large [profit margins](#) and/or low [costs of borrowing](#) to survive.

Capital International Indexes

[Market indexes](#) maintained by [Morgan Stanley](#) that track major [stock markets](#) worldwide.

Capital investment

See: [Capital expenditure](#).

Capital lease

A [lease obligation](#) that has to be [capitalized](#) on the [balance sheet](#).

Capital loss

The difference between the [net cost](#) of a [security](#) and the sales price, if the [security](#) is sold at a [loss](#). Also used in a more general context to refer to the market for stocks, bonds, derivatives and other investments.

Capital market

Traditionally, this has referred to the [market](#) for trading [long-term debt instruments](#) (those that [mature](#) in more than one year). That is, the market where capital is raised. More recently, capital markets is used in a more general context to refer to the market for stocks, bonds, derivatives and other investments.

Capital market efficiency

The degree to which the present asset price accurately reflects current information in the market place. See: [Efficient market hypothesis](#).

Capital market imperfections view

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

Capital market line (CML)

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

Capital market proceeds

Companies often go to the capital market to raise money, usually for new investment projects. They might issue new equity, bonds, or rights. The proceeds refers to the amount raised in the capital market. The net proceeds are after all underwriting costs.

Capital Purchase Program

A preferred stock and equity warrant purchase program created by US Treasury in October 2008 to stabilize the financial institutions of all sizes throughout U.S. CPP is a part of [Troubled Assets Relief Program](#) (TARP). \$250 billion was allocated for CPP out of \$700 billion TARP fund.

Capital rationing

Placing limits on the amount of new [investment](#) undertaken by a [firm](#), either by using a higher [cost of capital](#), or by setting a maximum on the entire [capital budget](#) or parts of it.

Capital requirements

[Financing](#) required for the operation of a business, composed of [long-term](#) and [working capital](#) plus [fixed assets](#).

Capital reserve

[Retained earnings](#) that may not be distributed to [shareholders](#) as [dividends](#).

Capital shares

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

Capital stock

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

Capital structure

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

Capital surplus

Amounts of directly contributed [equity capital](#) in excess of the [par value](#).

Capital turnover

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

Capitalization

The [debt](#) and/or [equity](#) mix that funds a [firm's assets](#).

Capitalization method

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

Capitalization rate

The [interest](#) rate used to calculate the [present value](#) of a number of future payments.

Capitalization ratios

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

Capitalization table

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

Capitalization-Weighted Index

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

Capitalized

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

Capitalized interest

[Interest](#) that is not immediately [expensed](#), but rather is considered as an [asset](#) and is then [amortized](#) through the [income statement](#) over time. In the context of project financing, [interest](#) that is paid by additional [borrowing](#).

Capped-Style Option

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

Captive finance company

A [company](#), usually a [subsidiary](#) that is wholly owned, whose main function is [financing consumer purchases](#) from the [parent company](#).

Caput

An [exotic option](#). It represents a [call option](#) on a [put option](#). That is, you [purchase](#) the option to [buy](#) a [put option](#) at a particular price on or before the [expiration date](#).

Car

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

Caracas Stock Exchange

Originally established in 1947 and merged with a competitor in 1974 to become the only securities exchange of Venezuela.

Cargo

Goods being transported.

Carriage and Insurance Paid To (CIP)

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

Carriage Paid To (CPT)

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

Carried interest

In private equity fund or hedge fund, carried interest is a share of the profits of a successful partnership that is paid to the manager of the partnership as a form of compensation. Carried interest is typically up to 20% of the profits and becomes payable once the original investment in the fund has been repaid to the investors, plus a predefined [hurdle rate](#).

Carrot equity

British slang for an [equity investment](#) with the added benefit of an opportunity to [purchase](#) more equity if the [company](#) reaches certain financial goals.

Carry

Related: [Net financing cost](#).

Carryback

See [Loss carryback](#).

Carryover

[Funds](#) unused during a financial year which are transferred to the [budget](#) for the following year.

Carry Trade

For the bond market, this refers to a trade where you borrow and pay interest in order to buy something else that has higher interest. For example, with a positively sloped term structure (short rates lower than long rates), one might borrow at low short term rates and finance the purchase of long-term bonds. The carry return is the coupon on the bonds minus the interest costs of the short-term borrowing. Of course, if long-term interest rates unexpectedly rose (and long-term bond prices fell as a result), the carry trade could become unprofitable. Indeed, if this occurred, there could be a number of investors trying to unwind the carry trade, which would involve selling the long-term bonds. It is possible that this could exacerbate the increase in long-term interest rates, i.e. push the rates even higher. For currency, you buy the currency that has the highest local short term interest rate. For more information on currency, see: [Currency Carry Trade](#).

Carryforwards

Tax losses allowed to be applied to [offset future](#) income in some specified number of future years.

Carrying charge

The fee a [broker](#) charges for [carrying securities](#) on [credit](#), such as on a [margin account](#). Also, any component of a futures basis, such as storage costs, interest charges or insurance costs on the underlying interest.

Carrying costs

[Costs](#) that increase with increases in the level of [investment](#) in [current assets](#).

Carrying value

[Book value](#).

Cartel

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

Carve out

Usually occurs when a company decides to IPO one of their subsidiaries or divisions. The company usually only offers a minority share to the equity market. Also known as equity carve out.

Case-Shiller index

A family of [S&P indices](#) created by Karl Case, Robert Shiller, and Allan Weiss used to measure the [nominal value](#) of home prices in the U.S. The Case-Shiller Indices, which are based on 20 metropolitan statistical areas (MSAs), use data on single-family homes sold more than once (resale homes) and re-sold sale prices to provide a weighted and quality-adjusted assessment of the [real estate](#) market. Calculated each month by Fiserv, Inc., the family of [indices](#) consists of 20 MSA [indices](#) and two aggregated [indices](#).

Cash

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

Cash account

A brokerage account that settles [transactions](#) on a [cash](#)-rather than [credit](#)-basis.

Cash Available for Debt Service

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

Cash asset ratio

[Cash](#) and [marketable securities](#) divided by [current liabilities](#). See: [Liquidity ratios](#).

Cashed-Based

Referring to an option or [future](#) that is settled in [cash](#) when [exercised](#) or assigned. No physical entity, either stock or commodity, is received or delivered.

Cash balance pension plan

A cash balance pension plan is a [defined-benefit plan](#) that is maintained on an individual account basis. The employer contributes to a participant's account with a set percentage of annual

compensation plus interest charges. The company holds all ownership of profits and losses in the portfolio.

Cash basis

Refers to the accounting method that recognizes revenues and [expenses](#) when [cash](#) is actually received or paid out.

Cash and equivalents

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

Cash budget

A [forecasted](#) summary of a [firm's](#) expected cash inflows and cash outflows as well as its expected [cash](#) and [loan](#) balances.

Cash & carry

Applies to [derivative](#) products. Combination of a [long position](#) in a [stock/index/commodity](#) and [short position](#) in the [underlying futures](#), which entails a [cost of carry](#) on the [long position](#). Also known as cash and carry arbitrage.

Cash commodity

The actual [physical commodity](#), as distinguished from a [futures contract](#).

Cash conversion cycle

The length of time between a [firm's purchase](#) of [inventory](#) and the receipt of [cash](#) from [accounts receivable](#).

Cash cow

A [company](#) that pays out most of its [earnings per share](#) to [stockholders](#) as [dividends](#). Or, a company or division of a company that generates a steady and significant amount of [free cash flow](#).

Cash cycle

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

Cash deficiency agreement

An agreement to [invest cash](#) in a project to the extent required to cover any cash deficiency the project may experience.

Cash delivery

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

Cash discount

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

Cash dividend

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

Cash earnings

A [firm's cash](#) revenues less cash [expenses](#), which excludes the [costs](#) of [depreciation](#).

Cash-equivalent items

Examples include [Treasury bills](#) and [Banker's Acceptances](#).

Cash flow

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

Cash flow after interest and taxes

[Net income](#) plus [depreciation](#).

Cash flow break-even point

The point below which the [firm](#) will need either to obtain additional [financing](#) or to [liquidate](#) some of its [assets](#) to meet its [fixed costs](#).

Cash flow per common share

[Cash flow](#) from operations minus [preferred stock dividends](#), divided by the number of [common shares outstanding](#).

Cash flow coverage ratio

The number of times that financial [obligations](#) (for [interest](#), [principal](#) payments, [preferred stock dividends](#), and [rental](#) payments) are covered by [earnings](#) before interest, taxes, rental payments, and [depreciation](#).

Cash flow matching

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

Cash flow from operations

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

Cash flow time line

Line depicting the operating activities and [cash flows](#) for a [firm](#) over a particular period.

Cash in Advance

A payment term meaning the [buyer](#) pays the seller before shipment is effected.

Cash In Lieu (CIL)

In a typical exchange offer, "old" shares of the [target company](#) are exchanged for "new shares".

Cash investments

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

Cash management

Refers to the efficient management of [cash](#) in a business in order to put the cash to work more quickly and to keep the cash in applications that produce income, such as the use of [lock](#) boxes for payments.

Cash management bill

Very [short-maturity](#) bills that the [Treasury](#) occasionally sells because its [cash balances](#) are down and it needs [money](#) for a few days.

Cash markets

Also called [spot markets](#), these are [markets](#) that involve the immediate [delivery](#) of a [security](#) or instrument. Related: [Derivative markets](#).

Cash offer

Often used in [risk arbitrage](#). Proposal, either hostile or friendly, to [acquire](#) a [target company](#) through the payment of [cash](#) for the [stock](#) of the target. Compare to [exchange offer](#).

Cash-on-cash return

A method used to find the [return on investments](#) when there is no [active secondary market](#).

The [yield](#) is determined by dividing the annual [cash](#) income by the total investment. See: [Current yield](#) or [yield to maturity](#).

Cash on delivery (COD)

In the context of [securities](#), this refers to the practice of [institutional investors](#) paying the full [purchase](#) price for [securities](#) in [cash](#).

Cash-out Laws

These laws enable [shareholders](#) to sell their stakes to a "controlling" shareholder at a price based on the highest price of recently acquired shares. This works something like [Fair-Price](#) provisions extended to nontakeover situations. A few states have these laws.

Cash plus convertible

[Convertible bond](#) that requires [cash](#) payment upon conversion.

Cash position

The percentage of a [mutual fund's assets invested](#) in [short-term reserves](#), such as [US Treasury bills](#) or other [money market instruments](#).

Cash price

Applies to [derivative](#) products. See: [Spot price](#).

Cash-liabilities ratio

Used as a measure of [liquidity](#) in a corporation. Calculated as the ratio of [cash](#) and [cash equivalents](#) to [current liabilities](#).

Cash ratio

The proportion of a [firm's assets](#) held as [cash](#).

Cash reserves

See: [Cash investments](#)

Cash sale/settlement

[Transaction](#) in which a [contract](#) is settled on the same day as the [trade date](#), or the next day if the trade occurs after 2:30 p.m. EST and the parties agree to this procedure. Often occurs because a party

is strapped for [cash](#) and cannot wait until the regular three-[business day settlement](#). See: [Settlement date](#).

Cash Settlement

The process by which the terms of an option contract are fulfilled through the payment or receipt in dollars of the amount by which the option is [in-the-money](#) as opposed to [delivering](#) or receiving the underlying stock.

Cash settlement contracts

[Futures contracts](#) such as [stock index futures](#) that settle for [cash](#) and do not involve [delivery](#) of the [underlying](#).

Cash-surrender value

The amount an insurance company will pay if the [policyholder tenders](#) or cashes in a [whole life insurance](#) policy.

Cash transaction

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

Cash value life insurance

A combination of [term life insurance](#) with a savings component. A portion of the premium is used to fund a savings or investment component that the policyholder can access by borrowing against it or by cashing in the policy.

Cashbook

An accounting [book](#) that is composed of [cash](#) receipts plus disbursements. This balance is posted to the cash [account](#) in the [ledger](#).

Cashier's check

A [check](#) drawn directly on a customer's [account](#), making the bank the primary [obligor](#), and assuring [firm](#) that the amount will be paid.

Cashout

Occurs when a [firm](#) runs out of [cash](#) and cannot readily sell marketable securities.

Casualty-insurance

Insurance [protecting](#) a [firm](#) or homeowner against loss of property, damage, and other [liabilities](#).

Casualty loss

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

Catastrophe call

Early [redemption](#) of a [municipal revenue bond](#) because a catastrophe has destroyed the project that provided the revenue source backing the [bond](#).

Catastrophe bond

Also known as cat [bonds](#), these are used as a way for [insurance agents](#) to transfer [risks](#) to [investors](#). They are often attractive to [investors](#) because the [risks](#) (like that of an earthquake) are uncorrelated with the [business cycle](#) - and, hence, provide natural [diversification](#). Cat bond is typically structured so that if a major natural catastrophe hits, the principal initially paid by the investors is forgiven and used by the sponsor (the insurer) to pay its claims to policyholders.

Cats and dogs

[Speculative stocks](#) with short histories of [sales](#), [earnings](#), and [dividend](#) payments.

Caveat emptor, caveat subscriptor

Latin expressions for "buyer beware" and "seller beware," which warn of overly [risky](#), inadequately [protected markets](#).

C Corporations

C corporations are taxed under the Federal income tax laws and most major companies are treated as C corporations for federal tax purposes. See: [S Corporations](#)

CDO squared

A [CDO](#) in which the [underlying asset](#) pool contains [tranches](#) of other CDOs.

Cease-and-desist order

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

Cede & Co.

Nominee name for The [Depository Trust Company](#), a large clearing house that holds [shares](#) in its name for banks, [brokers](#) and institutions in order to expedite the [sale](#) and [transfer](#) of stock.

CEDEL

A centralized clearing system for [Eurobonds](#).

Ceiling

The highest price, [interest rate](#), or other numerical factor allowable in a financial [transaction](#).

Centillion

A unit of quantity equal to 10^{303} (1 followed by 303 zeros).

Central bank

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

Central bank intervention

The [buying](#) or selling of [currency](#), foreign or domestic, by central banks in order to influence market conditions or [exchange rate](#) movements.

Central bank liquidity swap

Announced by the Federal Reserve on December 12, 2007, the Fed made temporary agreements with 14 central banks around the world to provide liquidity in U.S. dollars to overseas markets. The agreements terminated on Feb. 1, 2010.

Central Counterparty Clearing House

An organization in European countries that helps facilitate trading done in European derivatives and equities market.

Central Limit Theorem

The [Law of Large Numbers](#) states that as a sample of independent, identically distributed random numbers approaches infinity, its [probability density function](#) approaches the normal [distribution](#). See: [Normal Distribution](#).

Centralized cash flow management

Provision of consolidated [cash management](#) decisions to all [MNC units](#) from one location, usually at the parent's headquarters.

Cents per share

The amount of a [mutual fund's dividend](#) or [capital gains distributions](#) that a [shareholder](#) will receive for each [share](#) owned.

Checkwriting

Free [checkwriting](#) privileges offered with non[retirement](#) accounts for select [mutual funds](#).

Certainty equivalent

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

Certainty Equivalent Return

The certain (zero [risk](#)) [return](#) an [investor](#) would [trade](#) for a given (larger) [return](#) with an associated [risk](#). For example, a particular investor might trade an uncertain expected 4% [active return](#) with 6% risk, for a certain active return of 1.5%. Used as a way to incorporate individual investor risk tolerances into financial decisions.

Certificate

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

Certificate of Accrual on Treasury Securities (CATS)

Refers to a zero-coupon US [Treasury issue](#) that is sold at a deep [discount](#) from the [face value](#) and pays no [coupon interest](#) during its lifetime, but [returns](#) the full [face value](#) at [maturity](#).

Certificate of deposit (CD)

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

Certificate of Origin

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

Certificates of Amortized Revolving Debt (CARD)

[Pass-through securities](#) backed by [credit card receivables](#).

Certificates of Automobile Receivables (CAR)

[Pass-through securities](#) backed by automobile loan receivables.

Certificateless municipals

[Municipal bonds](#) with one [certificate](#) which is valid for the entire [issue](#), and having no individual certificates, easing [transactions](#). See: [Book-entry securities](#).

Certified check

A bank [guaranteed check](#) for which funds are immediately withdrawn, and for which the bank is legally liable.

Certified Financial Planner (CFP)

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

Certified financial statements

[Financial statements](#) that include an [accountant's opinion](#).

Certified Public Accountant (CPA)

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

Certified Treasury Professional (CTP)

Certification in corporate treasury management offered by Association for Financial Professionals (AFP).

Chair of the board

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

Chain base index

For this type of [index](#), a value in any specific time period is based on the value of the same entity in the preceding period. Changes in values can be compared between sequential time periods. This differs from a [fixed base index](#) in which values in any period are based on the initial value. See: [Fixed base index](#), [Index number](#)

Chapter 7 Proceedings

Provisions of the [Bankruptcy](#) Reform Act under which the [debtor firm's assets](#) are [liquidated](#) by a court because [reorganization](#) would fail to establish a [profitable](#) business.

Chapter 9

A section of the [U.S. Bankruptcy Code](#) that deals with [reorganization](#) of a municipality's debt. Also known as Municipal reorganization.

Chapter 11 Proceedings

Provisions of the [Bankruptcy](#) Reform Act under which the [debtor firm](#) is [reorganized](#) by a court because the estimated value of the [reorganized](#) firm exceeds the expected [proceeds](#) from its [liquidation](#).

Chapter 12

A section of the [U.S. Bankruptcy Code](#) that deals with agricultural [bankruptcies](#). It is simpler, more streamlined, and less expensive than [Chapter 11](#).

Chapter 13

A section of the [U.S. Bankruptcy Code](#) that deals with [reorganization](#) of [debt](#) of wage-earning individuals, including the opportunity to save their homes from [foreclosure](#).

Chapter 22

A colloquial term that refers to a second [Chapter 11](#) filing by a corporation.

Chapter 33

A colloquial term that refers to a third [Chapter 11](#) filing by a corporation.

Changes in financial position

Sources and uses of funds provided from operations that alter a [company's cash flow position](#): [depreciation](#), [deferred taxes](#), other sources, and [capital expenditures](#).

Characteristic line

The [market model](#) applied to a single [security](#); a [regression](#) of security returns on the [benchmark](#) return. The slope of the [regression](#) line is a security's [beta](#).

Characteristic portfolio

A [portfolio](#) which efficiently represents a particular [asset](#) characteristic. For a given characteristic, it is the minimum risk [portfolio](#), with [portfolio](#) characteristic equal to 1. For example, the characteristic portfolio of [asset betas](#) is the [benchmark](#). It is the minimum risk beta = 1 portfolio.

Charge

The document evidencing [mortgage security](#) required by Crown Law (law derived from English law). A Fixed Charge refers to a defined set of [assets](#) and is usually registered. A Floating Charge refers to other assets which change from time to time (ie. [cash](#), [inventory](#), etc.), which become a Fixed Charge after a [default](#).

Charge back

A [transaction](#) where the card holder bank reverses a previous transaction between a merchant and a consumer in case of a dispute. The bank reimburses the consumer by withdrawing the transaction amount from the merchant's account

Charge off

See: [Bad debt](#)

Charitable remainder trust

An irrevocable trust that pays income to a designated person or persons until the [grantor's](#) death, when the income is passed on to a designated charity. A charitable lead [trust](#) by contrast allows the charity to receive income during the grantor's life, and the remaining income to pass to designated family members upon the grantor's death.

Charter

See: [Articles of incorporation](#)

Charter Amendment Limitations

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

Chartered Financial Analyst (CFA)

An experienced [financial analyst](#) who has passed examinations in economics, financial accounting, [portfolio management](#), [security](#) analysis, and standards of conduct given by the Institute of Chartered Financial Analysts.

Chartists

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

Chasing the market

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

Chastity bonds

[Bonds redeemable](#) at [par value](#) in the case of a [takeover](#).

Chatter

See: [Whipsawed](#)

Chattel Mortgage

A [loan](#) agreement that grants to the [lender](#) a [lien](#) on property other than [real estate](#). Chattel is personal or movable property.

Cheapest to deliver issue

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

Check

A [bill of exchange](#) representing a [draft](#) on a bank from deposited funds that pays a certain sum of [money](#) to a certain person or party.

Check clearing

The movement of a [check](#) from the depository institution at which it was deposited back to the institution on which it was written; the movement of funds in the opposite direction and the corresponding [credit](#) and debit to the involved accounts. The Federal Reserve operates a nationwide check-clearing system.

Checking Account

A deposit account held with a [financial institution](#) that allows for withdrawals through [checks](#), [automated teller machines](#), or [debit cards](#). Typically pays no [interest](#) or lower [interest rate](#) as compared to [Savings account](#)

Checking the market

Searching for [bid](#) and [offer](#) prices from [market makers](#) to find the best deal.

Chicago Board Options Exchange (CBOE)

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

Chicago Board of Trade (CBOT)

The second largest [futures exchange](#) in the US, and a pioneer in the development of [financial futures](#) and [options](#). CBOT merged with [Chicago Mercantile Exchange \(CME\)](#) in July 2007 and is now operated as a unit of the CME group.

Chicago Mercantile Exchange (CME)

Chicago Mercantile Exchange (CME) is the largest [futures](#) exchange in the United States and the second largest exchange in the world for the trading of [futures](#) and [options](#) on [futures](#). Founded in 1898 as a [not-for-profit corporation](#), in November 2000 CME became the first U.S. financial exchange to demutualize and become a [shareholder](#)-owned corporation. Its futures and [options](#) on [futures trade](#) on CME's trading [floors](#), on its GLOBEX electronic trading platform and through privately negotiated [transactions](#). CME has four major product areas based on [interest](#)

[rates](#) (including Eurodollar futures, the world's most [actively](#) traded [futures contract](#)), stock indexes (such as the [S&P](#) 500 and Nasdaq-100 futures), foreign exchange and [commodities](#).

Chicago Stock Exchange (CHX)

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

Chief Executive Officer (CEO)

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

Chief Financial Officer (CFO)

The officer of a [firm](#) responsible for handling the financial affairs of a [company](#).

Chief Operating Officer (COO)

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

China National Offshore Oil Corporation (Cnooc)

One of the three major national oil companies of China. 70% owned by the government of China. A subsidiary is listed in Hong Kong and New York

Chinese hedge

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

Chinese wall

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

Choice market

Applies mainly to international equities. [Locked market](#) in London terminology.

Chooser option

An [option](#) that gives its holder the right to choose at a pre-specified time (before [maturity](#)) whether the option is a [call](#) or a [put](#).

Churning

Excessive [trading](#) of a client's account in order to increase the [broker's commissions](#).

Cincinnati Stock Exchange (CSE)

[Stock exchange](#) based in Cincinnati that is the only fully automated [stock exchange](#) in the US. It has no [trading floor](#), but handles all [members' transactions](#) using computers.

Circle

[Underwriters](#), actual or potential, often seek out and "circle" [investor](#) interest in a new [issue](#) before final pricing. The customer circled has basically made a commitment to [purchase](#) the [issue](#) if it is available at an agreed-upon price. If the actual price is other than that stipulated, the customer supposedly has first [offer](#) at the actual price.

Circuit breakers

Measures instituted by [exchanges](#) to stop [trading](#) temporarily when the [market](#) has fallen by a certain percentage in a specified period. They are intended to prevent a [market](#) free fall by permitting [buy](#) and sell [orders](#) to [rebalance](#).

Circus swap

A fixed-rate [currency swap](#) against [floating](#) US dollar [LIBOR](#) payments. An acronym that stands for Combined Interest Rate and CUrrency Swap.

Citizen bonds

[Certificateless municipals](#) that can be registered on [stock exchanges](#) and are listed in newspapers.

City code on takeovers and mergers

See: [Dawn raid](#)

Claim dilution

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

Claimant

A party to an explicit or implicit [contract](#).

Class

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

Class A/Class B shares

See: [Classified stock](#)

Class action

A legal complaint filed by a lawyer or group of lawyers for a group of petitioners with an identical grievance, often with an award proportionate to the number of [shareholders](#) involved.

Class of Options

Option [contracts](#) of the same type ([call](#) or put) and Style (American, European or Capped) that cover the same underlying security.

Classified Board

Also known as Staggered Board: is one in which the directors are placed into different classes and serve overlapping terms. Since only part of the board can be replaced each year, an outsider who gains [control](#) of a [corporation](#) may have to wait a few years before being able to gain control of the board. This slow replacement makes a classified board an effective delay of takeovers. Sometimes known as a delay provision.

Classified stock

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

Claused Bill of Lading

A [bill of lading](#) with a notation that indicates damage or shortage. Also called [foul bill of lading](#) and are the opposite of [clean bills of lading](#).

Clawback

A [dividend](#) clawback is an arrangement whereby the equity owners commit to use [dividends](#) they have received in the past to [finance](#) the [cash](#) needs of the project or [corporation](#) in the future. Clawback has a more general definition. For example, premiums paid on an insurance policy may be refunded (or clawed back) if the policy is cancelled in a certain time frame. Such an arrangement is specified in the contract and referred to as a clawback provision.

Clean

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

Clean Bill of Lading

A [bill of lading](#) bearing no findings of damage or shortage.

Clean opinion

An auditor's opinion reflecting an unqualified acceptance of a [company's financial statements](#).

Clean price

[Bond](#) price excluding [accrued interest](#).

Clean Report of Findings

A report [issued](#) by an inspection [firm](#), indicating that price has been verified, that the goods have been inspected prior to shipment, and that both conform to [buyer](#) specifications.

Clean up

In the context of general equities, [purchase/sale](#) of all the remaining supply of [stock](#), or the last piece of a [block](#), in a trade-leaving a [net](#) zero [position](#).

Clean-up merger

Consolidation of the acquired firm into the acquiring firm after the [merger](#). Also called [take-out merger](#).

"Clean your skirts"

In the context of general equities, i.e. "make all your [obligated calls](#)" check with all prior obligations in a [security](#). Often preceded by "[subject](#) to."

Clear

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

Clear a position

To eliminate a [long](#) or [short position](#), leaving no ownership or [obligation](#).

Clear title

Title to ownership that is untainted by any claims on the property or disputed interests, and therefore available for [sale](#). This is usually checked through a title search by a title [company](#).

Clearing corporations

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

Clearing House Automated Payments System (CHAPS)

A computerized clearing system for sterling funds that began operations in 1984. It includes 14 [member banks](#), nearly 450 participating banks, and is one of the clearing [companies](#) within the structure of the Association for Payment Clearing Services (APACS).

Clearing House Electronic Subregister System (CHESS)

CHESS is the automatic [transfer](#) and [settlement](#) system for the majority of [Australian Stock Exchange \(ASX\)](#) listed securities.

Clearing house funds

Funds from the [Federal Reserve System](#), requiring three days to clear, that are passed to and from banks.

Clearing House Interbank Payments System (CHIPS)

An international wire [transfer](#) system for high-value payments operated by a group of major banks.

Clearinghouse

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

Clearing member

A member [firm](#) of a [clearing house](#). Each clearing member must also be a member of the [exchange](#). Not all members of the exchange, however, are members of the clearing organization. All [trades](#) of a non-clearing member must be registered with, and eventually settled through, a clearing member.

Clearing Member Trade Agreement (CMTA)

An agreement that allows a client to [execute derivative trades](#) through different [brokers](#) yet consolidate positions for clearing purposes at one brokerage [firm](#).

Clientele effect

Describes the tendency of funds or [investments](#) to be followed by groups of [investors](#) who have similar preferences for a [firm](#) which follows a particular [financing](#) policy, such as the amount of [leverage](#) it uses.

Clone fund

A new fund set up in a [fund family](#) to emulate another successful fund.

Close

The close is the period at the end of the [trading](#) session. Sometimes used to refer to [closing price](#).

Related: [Opening](#).

Close a position

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

Close-end credit

An agreement in which [advanced credit](#) plus any [finance](#) charges are expected to be repaid in full over a definite time. Most [real estate](#) and automobile [loans](#) are closed-end agreements.

Close market

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

Closed corporation

A [corporation](#) whose [shares](#) are owned by just a few people, having no [public](#) market.

Closed-end fund

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

Closed-end management company

An [investment company](#) that has only a set number of [shares](#) of the [mutual fund](#) that it manages, and does not create new shares if demand increases. Antithesis of an open-end management company.

Closed-end mortgage

[Mortgage](#) against which no additional [debt](#) may be [issued](#).

Closed fund

A [mutual fund](#) that is no longer [issuing shares](#), mainly because it has grown too large.

Closed out

[Position](#) that is [liquidated](#) when the client does not meet a [margin call](#) or [cover](#) a [short sale](#).

Closely held

A [corporation](#) whose voting [stock](#) is owned by only a few [shareholders](#).

Closely held company

A [company](#) who has a small group of [controlling shareholders](#). In contrast, a widely-held [firm](#) has many shareholders. It is difficult or impossible to wage a proxy battle for any closely-held firm.

Closing costs

All the [expenses](#) involved in [transferring](#) ownership of real estate.

Closing price

Price of the last [transaction](#) of a particular [stock](#) completed during a [day's trading](#) session on an [exchange](#).

Closing purchase

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

Closing quote

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

Closing range

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

Closing sale

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

Closing tick

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

Closing transaction

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

Closing TRIN

See: [TRIN](#)

Cloud on title

Any claim or encumbrance, usually discovered in a title search, that may impair the title to a property, and make its validity questionable. See: [bad title](#).

Club

A group of [underwriters](#) who do not need to proceed to form a [syndicate](#).

Cluster analysis

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

CMO REIT

A very [risky](#) type of [Real Estate Investment Trust](#) investing in the residual [cash flows](#) of [Collateralized Mortgage Obligation](#) (CMOs). CMO [cash flows](#) are derived from the difference between the rates paid by the [mortgage loan](#) holders and the lower, shorter-term rates paid to CMO [investors](#).

Co-financing

A type of financing in which the different [lenders](#) agree to fund under the same documentation and [security](#) packages but may have different [interest rates](#), repayment profiles, and [terms](#).

Co-manager

A second-tier Participant, ranked by size of participation.

Co-agent

An institution appointed by the [issuer](#) as [co-transfer agent](#) accepts and transfers [certificates](#) and sends daily activity journals to the primary record-keeping [agent](#). A co-agent does not maintain security holder records, but is used to facilitate the transfer of [stock](#) in a geographic region not easily accessible to the issuer or its principal transfer agent.

Coattail investing

A [risky trading](#) practice of making trades similar to those of other successful [investors](#), usually [institutional investors](#).

COD transaction

See: [Delivery versus payment](#)

Code of procedure

The guide of the [National Association of Securities Dealers](#) used to adjudicate complaints filed against [NASD](#) members.

Coefficient of determination

A measure of the goodness of fit of the relationship between the dependent and [independent variables](#) in a [regression analysis](#); for instance, the percentage of variation in the [return](#) of an [asset](#) explained by the [market portfolio](#) return. Also known as [R-square](#).

Coefficient of Variation

A measure of [investment risk](#) that defines [risk](#) as the [standard deviation](#) per [unit](#) of [expected return](#).

Coface

The French Export Credit Agency.

Coffee, Sugar & Cocoa Exchange (CS&CE)

The historic New York-based [commodity](#) exchange trading [futures](#) and [options](#). In June 2004, the CS&CE merged with the New York Cotton Exchange (NYCE) to form the New York Board of Trade. As a result of this merger, all previous exchanges and subsidiaries ceased to exist, including the Coffee, Sugar, & Cocoa Exchange, the New York Cotton Exchange, the Citrus Associates of the New York Cotton Exchange, the New York Futures Exchange (NYFE), and the FINEX Exchange. All markets are now referred to as the New York Board of Trade or NYBOT.

Cofinancing agreements

Joint participation of the [World Bank](#) and other [agencies](#) or [lenders](#) in providing funds to developing countries.

Coherent Market Hypothesis

A hypothesis that the [probability density function](#) of the market may be determined by a combination of group sentiment and fundamental bias. Depending on combinations of these two factors, the market can be in one of four states: [random walk](#), unstable transition, [chaos](#), or coherence.

Coincident indicators

[Economic indicators](#) that give an indication of the current status of the economy.

Coinurance effect

Refers to the fact that the [merger](#) of two [firms](#) lessens the probability of [default](#) on either firm's [debt](#).

Cold-calling

[Calling](#) potential new customers in the hope of selling [stocks](#), [bonds](#) or other financial products and receiving [commissions](#).

Collar

Refers to the [ceiling](#) and [floor](#) of the price fluctuation of an underlying asset. A collar is usually set up with [options](#), [swaps](#), or by other agreements. In corporate finance, the collar strategy of buying puts and selling calls is often used to mitigate the risk of a concentrated position in (sometimes) restricted stock. When the restricted owner can't sell the stock, but needs to diversify the risk, a collar transaction is one of the few tools available. Many corporate executives who receive chunks of their

compensation in restricted stock need to employ this strategy to mitigate the diversification risk in their overall portfolio.

Collateral

In the context of project financing, additional [security](#) pledged to support the project financing.

Collateral trust bonds

A [bond](#) in which the [issuer](#) (often a [holding company](#)) grants [investors](#) a [lien](#) on [stocks](#), [notes](#), [bonds](#), or other financial [asset](#) as [security](#). Compare [mortgage bond](#).

Collateralized Bond Obligation (CBO)

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

Collateralized Debt Obligation (CDO)

A general inclusive term which covers [Collateralized Bond Obligations](#), [Collateralized Loan Obligations](#), and [Collateralized Mortgage Obligations](#),

Collateralized loan obligation (CLO)

A [security](#) backed by a pool of commercial or personal loans , structured so that there are several [classes](#) of [bondholders](#) with varying [maturities](#), called [tranches](#). Similar in structure to [Collateralized Mortgage Obligations](#).

Collateralized mortgage obligation (CMO)

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

Collecting Bank

A bank that assists in obtaining payment in accordance with [draft](#) payment terms.

Collection

The presentation of a negotiable instrument for payment, or the conversion of any [accounts receivable](#) into [cash](#).

Collection float

The period between the time a [check](#) is deposited in an account and the time funds are made available.

Collection fractions

The percentage of a given month's [sales collected](#) during the month of sale and each month following the month of sale.

Collection period

See: [Collection ratio](#)

Collection policy

Procedures a [firm](#) follows in attempting to [collect accounts receivables](#).

Collection ratio

The ratio of a [company's accounts receivable](#) to its [average](#) daily [sales](#), which gives the average number of days it takes the company to convert receivables into [cash](#).

Collective Action Clause (CAC)

CAC allows bondholders to agree on debt restructuring even when some bondholders are against restructuring as long as majority agrees.

Collective wisdom

The combination of all the individual opinions about a [stock's](#) or [security's](#) value.

Colombo Stock Exchange

Established in 1984, the only [public](#) stock exchange of Sri Lanka.

COLT (Continuous on-line trading system)

Computerized [OTC](#) traders assistance system that provides for [trade](#) entry and [position](#) monitoring, among other functions.

Comanager

A bank that ranks just below a [lead manager](#) in a [syndicated Eurocredit](#) or international bond [issue](#). Comanagers may assist the [lead manager](#) bank in the pricing and issue of the [instrument](#).

Combination

Applies to [derivative](#) products. Arrangement of [options](#) involving two [long](#) or two [short positions](#) with different [expiration dates](#) or [strike \(exercise\)](#) prices. See: [Straddle](#).

Combination annuity

See: [Hybrid annuity](#)

Combination bond

A [bond](#) backed by the government [unit](#) issuing it as well as by revenue from the project that is to be [financed](#) by the [bond](#).

Combination order

See: [Alternative order](#)

Combination matching

Also called [horizon-matching](#), a variation of [multiperiod immunization](#) and [cash flow-matching](#) in which a [portfolio](#) is created that is always [duration](#)-matched and also [cash](#)-matched in the first few years.

Combination strategy

A [strategy](#) in which a [put](#) and [call](#) with different [strike prices](#) and the same [expiration](#) are either both bought or both sold. Related: [Straddle](#)

Combined financial statement

A [financial statement](#) that merges the [assets](#), [liabilities](#), [net worth](#), and operating figures of two or more [affiliated companies](#). A combined statement is distinguished from a [consolidated financial statement](#) of a [company](#) and [subsidiaries](#), which must reconcile [investment](#) and [capital](#) accounts.

Come in

In the context of general equities, a fall in price.

Come out of the trade

In the context of general equities, [trader's position](#) in a [security](#) that results from [executing](#) a [trade](#) (or the expectations thereof). Antithesis of [going into the trade](#).

Comeout

In the context of general equities, the [opening](#). Antithesis of the [close](#). Public utilities, service, and industrial companies. Does not include loans [secured](#) by real estate.

Comfort letter

A letter from an independent auditor included in a preliminary prospectus stating that, while a full audit has not been undertaken, the auditor has done a 'review' sufficient to assure that financial statement information in the preliminary prospectus is correctly prepared to the best of the auditor's knowledge. The auditor in effect states that, had a full audit been done, they are comfortable that the audited financial statements would not be materially different from the ones presented in the preliminary [prospectus](#).

Comisión Nacional del Mercado de Valores (CNMV)

Spain's supervisory authority for the Spanish financial markets. Spain's financial regulator.

Comissão do Mercado de Valores Mobiliários (CMVM)

Portugal's supervisory authority for the Portuguese financial markets. Portugal's financial regulator.

Commercial and Industrial Loans (C&I)

[Loans](#) made to corporations and other business enterprises (not to individuals) for commercial or industrial purposes. Non-financial issuers include p

Commercial and Industrial Loan (C&I Loan)

Loan made to a business or corporation and not to an individual. This type of loan is usually short-term floating loan and is almost always backed with a collateral.

Commercial bank

Bank that offers a broad range of deposit accounts, including [checking](#), savings and time deposits and extends [loans](#) to individuals and business. Commercial banks can be contrasted with [investment](#) banking [firms](#), such as brokerage firms, which generally are involved in arranging for the [sale](#) of corporate or municipal securities.

Commercial draft

Demand for payment.

Commercial Futures Trading Commission

Independent federal agency that regulates trading in [futures](#) and [options](#).

Commercial hedgers

[Companies](#) that take [futures positions](#) in [commodities](#) so that they can [guarantee](#) prices at which they will [buy](#) raw materials or sell their products.

Commercial invoice

Bill for merchandise sold.

Commercial letters of credit

[Trade](#)-related agreement that a certain amount of bank funds is available to an entity.

Commercial loan

A [short-term loan](#), typically 90 days, used by a [company](#) to [finance](#) seasonal [working capital](#) needs.

Commercial Mortgage Backed Securities

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

Commercial paper

Short-term [promissory notes](#) either unsecured or backed by assets such as loans or mortgages issued by a [corporation](#). The [maturity](#) of [commercial paper](#) is typically less than 270 days; the most common [maturity](#) range is 30 to 50 days or less. They are usually sold, like Treasury bills, at a discount.

Commercial Paper Funding Facility (CPFF)

In 2008, the Federal Reserve offered to purchase highly rated, three-month commercial paper in response to difficulty companies had raising money in the commercial paper market. The goals were to persuade investors to lend to top-tier companies and give borrowers a backstop if funds can't be obtained in the open market. The CPFF began operations on Oct. 27, 2008, and closed on Feb. 1, 2010.

Commercial property

[Real estate](#) that produces some sort of income-producing property.

Commercial real estate loans

[Loans secured](#) with [commercial](#) rather than [residential property](#).

Commercial risk

The [risk](#) that a [debtor](#) will be unable to pay its [debts](#) because of business events, such as [bankruptcy](#).

Commingling

In the context of [securities](#), this involves mixing customer-owned [securities](#) with brokerage [firm](#)-owned [securities](#). This process is referred to as [rehypothecation](#), which is the use of customers' [collateral](#) to secure their [loans](#). This is legal with customer consent, although some [securities](#) and [collateral](#) must be kept separately.

Commission

The fee paid to a [broker](#) to [execute](#) a [trade](#), based on number of [shares](#), [bonds](#), [options](#), and/or their dollar value. In 1975, deregulation led to the establishment of [discount](#) brokers, who charge lower commissions than full service [brokers](#). Full service brokers offer advice and usually have a staff of [analysts](#) who follow specific [industries](#). Discount [brokers](#) simply execute a client's [order](#) and usually do not offer an opinion on a [stock](#). Also known as a [round-turn](#). Commissions are known as round-turn only in futures trading, since the commission is assessed only after liquidation of the position.

Commission Bancaire, Financiere et des Assurances (CBFA)

Belgium's supervisory authority for the Belgian financial markets. Belgium's financial regulator.

Commission broker

A [broker](#) on the [floor](#) of an [exchange](#) who acts as [agent](#) for a particular brokerage house and [buys](#) and sells [stocks](#) for the brokerage house on a [commission](#) basis.

Commission de Surveillance du Secteur Financier (CSSF)

Luxembourg's supervisory authority for the Luxembourg financial markets. Luxembourg's financial regulator.

Commission house

A [firm](#) that [buys](#) and sells [futures contracts](#) for customer accounts. Related: [futures commission merchant](#), [omnibus account](#).

Commissione Nazionale per le Società e la Borsa (CONSOB)

Italy's supervisory authority for the Italian financial markets. Italian financial regulator.

Commission-only compensation

Payment to a [financial advisers](#) of only [commissions](#) on [investments purchased](#) when the client implements the recommended [financial plan](#).

Commitment

Describes a [trader's obligation](#) to accept or make [delivery](#) on a [futures contract](#). Related: [Open interest](#).

Committee of European Banking Supervisors

The Committee of European Banking Supervisors (CEBS) gives advice to the European Commission on policy and regulatory issues related to banking supervision. CEBS is composed of high level representatives from the banking supervisory authorities and central banks of the [European Union](#).

Committee on Uniform Securities Identification Procedures (CUSIP)

Committee that assigns identifying numbers and codes for all securities. These "CUSIP" numbers and [symbols](#) are used when recording all [buy](#) or sell [orders](#).

Commodities Exchange Center (CEC)

The location of five New York [futures](#) exchanges: Commodity Exchange, Inc. (COMEX); the New York Mercantile Exchange (NYMEX); New York Cotton Exchange, Coffee, Sugar & Cocoa Exchange (CS&CE), and [New York Futures Exchange \(NYFE\)](#).

Commodity

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

Commodity-backed bond

A [bond](#) with [interest](#) payments tied to the price of an [underlying commodity](#).

Commodity Bundle

One [unit](#) of the collection of the complete set of goods produced and sold in the world [market](#).

Commodity Channel Index

An [index](#) used in [technical analysis](#). High values mean a potential future correction (downward movement in [underlying asset](#)) and low values potentially [forecast](#) a [rally](#). Details in Donald Lambert's October 1980 article in *Commodities* Magazine.

Commodity futures contract

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

Commodity Futures Trading Commission (CFTC)

An [agency](#) created by the US Congress in 1974 to regulate [exchange](#) trading in [futures](#).

Commodity indices

Indices measuring the price and performance of [physical commodities](#), often by the price of [futures contracts](#) for the [commodities](#) that are listed on [commodity exchanges](#).

Commodity paper

A [loan](#) or [advance](#) secured by [commodities](#).

Commodity Research Bureau

Produces a popular price index of 17 [commodities](#) which is often used to track [inflationary trends](#) in the economy.

Commodity Trading Advisor

An [investment](#) manager that focuses on long and short trading in the futures markets. The [trades](#) are often intraday trades. Sometimes referred to as Managed [Futures](#).

Common-base-year analysis

The representing of accounting information over multiple years as percentages of amounts in an initial year.

Common code

A nine-digit identification code [issued](#) jointly by [CEDEL](#) and [Euroclear](#). As of January 1991 common codes replaced the earlier separate [CEDEL](#) and [Euroclear](#) codes.

Common factor

An element of [return](#) that influences many [assets](#). According to multiple [factor risk models](#), the factors determine correlations between asset returns. Common factors include size (often measured by [market capitalization](#)), valuation measures such as [price to book value ratio](#) and [dividend yield](#), [industries](#) and [risk indices](#).

Common market

An agreement between two or more countries that permits the free movement of [capital](#) and labor as well as goods and services.

Common shares

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

Common-size analysis

The representing of [balance sheet](#) items as percentages of [assets](#) and of [income statement](#) items as percentages of [sales](#).

Common-size statement

A statement in which all items are expressed as a percentage of a [base](#) figure, useful for purposes of analyzing [trends](#) and changing relationship among [financial statement](#) items. For example, all items in each year's [income statement](#) could be presented as a percentage of [net sales](#).

Common stock

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

Common stock equivalent

A [convertible security](#) that is [traded](#) like an [equity issue](#) because the optioned [common stock](#) is trading above the conversion price.

Common stock fund

A [mutual fund investing](#) only in [common stock](#).

Common stock market

The market for trading equities, not including [preferred stock](#).

Common stock/other equity

Value of [outstanding common shares](#) at [par](#), plus [accumulated retained earnings](#). Also called [shareholders' equity](#).

Common stock ratios

Ratios that are designed to measure the relative claims of [stockholders](#) to [earnings \(cash flow\)](#) per share), and equity ([book value](#) per share) of a [firm](#).

Commonwealth Development Corp

A British development [finance](#) institute.

Community Bank

A smaller bank that is regulated by the Office of the Comptroller of Currency (OCC). Currently, there is no official definition of Community Bank, i.e. in terms of asset size.

Community Reinvestment Act (CRA)

Enacted by Congress in 1977, the CRA encourages banks to help meet the [credit](#) needs of their communities for housing and other purposes, particularly in neighborhoods with low or moderate incomes, while maintaining safe and sound operations.

Companion bonds

A [class](#) of a [Collateralized Mortgage Obligation \(CMO\)](#) whose [principal](#) is paid off first when the [underlying mortgages](#) are prepaid due to falling [interest rates](#). When [interest rates](#) rise, there will be lower prepayments of the [principal](#); companion [bonds](#) therefore absorb most of the prepayment risk of a [CMO](#).

Company

A [proprietorship](#), [partnership](#), [corporation](#), or other form of enterprise that engages in business.

Company doctor

An executive, usually appointed from outside, brought in to turn a [company](#) around and make it [profitable](#).

Company-specific risk

Related: [Unsystematic risk](#)

Comparative advantage

Theory suggesting that specialization by countries can increase worldwide production.

Comparative credit analysis

Comparing a [firm](#) to others that have a desired target [debt](#) rating in order to deduce an appropriate financial ratio target.

Comparative statements

[Financial statements](#) for different periods, that allow the [comparison](#) of figures to illustrate [trends](#) in a [company's](#) performance.

Comparison

Short for "comparison ticket," a memorandum between two [brokers](#) that confirms the details of a [transaction](#) to be carried out.

Comparison universe

A group of [money managers](#) of similar [investment](#) style used to assess relative performance of a [portfolio manager](#).

Compensation trade

The form of countertrade in which an incoming [investment](#) is repaid from the revenues generated by that investment.

Compensating balance

An excess balance that is left in a bank to provide indirect [compensation](#) for [loans](#) extended or services provided.

Compensation

Arrangement under which the delivery of goods to a party is paid for by [buying](#) back a certain amount of the product from the recipient of the goods.

Compensatory Financing Facility (CFF)

Entity that attempts to reduce the impact of export instability on country economies.

Competence

Sufficient ability or fitness for one's needs. The necessary abilities to be qualified to achieve a certain goal or complete a project.

Competition

Intra- or intermarket rivalry between or among businesses trying to obtain a larger piece of the same [market share](#).

Competition ahead

Often used in [risk arbitrage](#). Situation whereby another [OTC market maker](#) has transacted with [investment bank](#) at the [stated](#) market level before the [bid/offer](#) has been made.

Competitive bidders

One of two categories of [bidders](#) on Treasury securities: competitive and noncompetitive. Competitive bidders are usually financial institutions.

Competitive bidding

A [securities offering](#) process in which securities [firms](#) submit competing [bids](#) to the [issuer](#) for the securities the issuer wishes to sell.

Competitive offering

An [offering](#) of [securities](#) through competitive [bidding](#).

Complementary Financing

A type of financing in which different [lenders](#) agree to fund under similar yet parallel documentation and a pro rata [security](#) package.

Complete

In the context of general equities, to [fill](#) an [order](#).

Complete capital market

A [market](#) in which there is a distinctive marketable security for each and every possible outcome.

Complete portfolio

The entire [portfolio](#), including [risky](#) and [risk-free assets](#).

Completion

In the context of project financing, occurs after a Completion Test, when the project's [cash flows](#) become the primary method of repayment. Prior to completion, the primary source of repayment is usually from the sponsors or from the [turnkey contractor](#).

Completion bonding

Insurance that a [construction contract](#) will be completed successfully.

Completion risk

The [risk](#) that a project will not be brought into operation successfully or be able to pass its [completion test](#).

Completion test

A test of the project's ability to perform as planned and generate the expected [cash flows](#). After the [completion](#) test, the project can move from recourse to project financing.

Completion undertaking

An undertaking either (1) to complete a project so that it meets certain specified performance criteria on or before a certain specified date, or (2) to repay project [debt](#) if the completion test cannot be met.

Complex system

A system that cannot be fully understood simply by understanding the function of each component part.

Complexity Theory

The theory that processes with a large number of seemingly independent [agents](#) can spontaneously organize themselves into a coherent system.

Compliance department

A department in all [organized stock exchanges](#) to ensure that all [companies](#), [traders](#), and brokerage firms comply with [Securities and Exchange Commission](#) and exchange rules and regulations.

Composite depreciation

Method of [depreciation](#) where a single average depreciation rate is applied to a group of dissimilar [assets](#) with different service lives. See also [Group depreciation](#).

Composite tape

See: [Tape](#)

Composition

Voluntary arrangement to [restructure](#) a [firm's debt](#), under which payment is reduced.

Compound Annual Growth Rate

Annual return calculated based on each year's previous balances where each previous balance includes both the original principal and all interest accrued from prior years. Best defined by example. If you [invest](#) \$100 today and make 5% in the first year and reinvest (\$105) and make 8% in the second year, the [compound annual growth rate](#) is 6.489%. The calculation is $\$100 \times 1.05 \times 1.08 = \113.4 which is what you end up with at the end of year two. The [average return](#) is $[\text{square root}(113.4/100) - 1] = 0.06489$ or 6.489%. Note 1. If we had three [compounding](#) periods we would take the cubic root (power of 1/3). Note 2. If we had [invested](#) at exactly 6.489 in both periods, we get $\$100 \times 1.06489 \times 1.06489 = \113.4 . Note 3. The example is directed to a [return](#) - but CAGR could be applied to [earnings](#) growth, [GDP](#) growth, etc.

Compound Annual Return

See: [Compound Annual Growth Rate](#)

Compound growth rate

See: [Compound Annual Growth Rate](#)

Compound interest

[Interest](#) paid on previously earned interest as well as on the [principal](#).

Compound option

[Option](#) on an option.

Compounding

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

Compounding frequency

The number of [compounding](#) periods in a year. For example, [quarterly](#) compounding has a compounding frequency of 4.

Compounding period

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

Comprehensive due diligence investigation

The investigation of a [firm's](#) business in conjunction with a [securities offering](#) to determine whether the firm's business and financial situation and its prospects are adequately disclosed in the [prospectus](#) for the [offering](#).

Comprehensive Income

Comprehensive income is the change in equity of a business enterprise during a period from [transactions](#) and other events from non-owner sources. It includes all non-owner changes in equity (in contrast to [net income](#) which does not include some changes in equity). [Financial Accounting Standards Board](#) (FASB) [issued](#) the Statement of Financial Accounting Standards No. 130 (SFAS 130), *Reporting Comprehensive Income*. For fiscal years beginning after December 15, 1997, SFAS 130 requires the [disclosure](#) of both net income and a more 'comprehensive' measure of income which includes four items recorded as owners' equity under previous FASB pronouncements: adjustments to unrealized gains and losses on available-for-[sale](#) marketable securities (SFAS 115), foreign [currency](#) translation adjustments (SFAS 52), minimum required pension liability adjustments (SFAS 87), and changes in the market values of certain [futures contracts](#) qualifying as hedges (SFAS 80).

Comptroller

The corporate manager responsible for the [firm's](#) accounting activities. Sometimes referred to as the controller (which means the same thing).

Comptroller of the Currency

Short for the Office of the Comptroller of the Currency (OCC). This federal agency regulates, watches over, and charters national banks (not state banks) and also is in charge of foreign banks conducting business in the U.S. The OCC is headed by the Comptroller of the Currency who is appointed by the President.

Computerized market timing system

A computer system that compiles large amounts of [trading](#) data in search of [patterns](#) and [trends](#) to make [buy](#) and sell recommendations.

Concave

See the discussion of negative [convexity](#).

Concentration account

A single centralized account into which funds [collected](#) at regional locations ([lockboxes](#)) are [transferred](#).

Concentration Banks

A small number of large banks a firm [contracts](#) with to periodically [collect](#) the [firm's](#) deposit balances from a group of smaller banks.

Concentration services

Movement of [cash](#) from different [lockbox](#) locations into a single concentration account from which disbursements and [investments](#) are made.

Concession

The per-[share](#) or per-[bond compensation](#) of a selling group for participating in a corporate [underwriting](#).

Concession agreement

An understanding between a [company](#) and the host government that specifies the rules under which the company can operate locally.

Conditional call

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

Conditional call options

A protective [guarantee](#) that, in the event a [high yield bond](#) is called, the [issuing corporation](#) will replace the [bond](#) with a non[callable bond](#) of the same life and terms as the [bond](#) that is being called.

Conditional sales contracts

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

Condor

Applies to [derivative](#) products. [Option strategy](#) consisting of both [puts](#) and [calls](#) at different [strike prices](#) to [capitalize](#) on a narrow range of [volatility](#). The [payoff diagram](#) takes the shape of a bird.

Conduit bond

A conduit bond is a type of [municipal bond](#) sold by a governmental entity for the purpose of making proceeds available to a private entity usually in furtherance of a public purpose. An example would be bonds in connection with not-for-profit hospitals or affordable housing. The governmental issuer is typically not responsible in the event of default.

Conduit theory

A theory that because [investment companies](#) are merely conduits for [capital gains](#), [dividends](#), and [interest](#), which are in fact passed through to [shareholders](#), the [investment company](#) should not be taxed at the corporate level.

Confidence indicator

A measure of [investors'](#) faith in the economy and the securities market. A low or deteriorating level of confidence is considered by many [technical analysts](#) as a [bearish](#) sign.

Confidence letter

Statement by an [investment bank](#) that it is highly confident that the [financing](#) for its client/[acquirer's takeover](#) can and will be obtained. Often used in [risk arbitrage](#).

Confidence level

In risk analysis, the degree of assurance that a specified failure rate is not exceeded.

"Confirm me out"

Used for listed equity securities. "Go to the [floor](#) and check with the [specialist](#) or [floor broker](#) that my previously [active order](#) has been [canceled](#) and was not [executed](#)". One does not have to honor any [trade](#) reported after being given a "firm out".

Confirmation

The written statement that follows any "[trade](#)" in the securities markets. Confirmation is [issued](#) immediately after a [trade](#) is [executed](#). It spells out [settlement date](#), terms, [commission](#), etc.

Confirmed Letter of Credit

A [letter of credit](#) which a bank other than the bank that opened it agrees to honor as though they had themselves [issued](#) it. This additional confirmation is in addition to the [obligation](#) of the bank which issued the letter of credit.

Confirming Bank

The bank which has confirmed a [letter of credit](#) opened by another bank.

Conflict between bondholders and stockholders

[Bondholders](#) and [stockholders](#) may have interests in a [corporation](#) that conflict. Sources of conflict include [dividends](#), distortion of [investment](#), and [underinvestment](#). Protective covenants in [bond](#) documents work to resolve these conflicts.

Conforming loans

[Mortgage loans](#) that meet the qualifications of [Freddie Mac](#) or [Fannie Mae](#), which are bought from [lenders](#) and [issued](#) as [pass-through securities](#).

Conglomerate

A [firm](#) engaged in two or more unrelated businesses.

Conglomerate merger

A [merger](#) involving two or more [firms](#) that are in unrelated businesses.

Consensus forecast

The [mean](#) of all financial analysts' [forecasts](#) for a [company](#).

Conservator

An [entity](#) given legal responsibility for overseeing, protecting, or preserving the interests and affairs of another entity deemed incapable often doing so. See: [Bailout](#), [Conservatorship](#)

Conservatorship

An [entity either set up by the government or by court order that takes control of an organization that is unable to function on its own \(due to legal or financial distress\)](#). See: [Convservator](#)

Consignee

The party named in the [bill of lading](#) to whom delivery is promised and/or title is passed.

Consignment

[Transfer](#) of goods to a seller while title to the merchandise is retained by the owner.

Consol

A [government bond](#) with no [maturity](#). Popular in Great Britain. The formula for valuing these [bonds](#) is simple. The consol payment divided by [yield to maturity](#) is the price of the bond.

Consolidated financial statement

A [financial statement](#) that shows all the [assets](#), [liabilities](#), and operating [accounts](#) of a [parent company](#) and its [subsidiaries](#).

Consolidated mortgage bond

A [bond](#) that covers several [units](#) of property, sometimes [refinancing mortgages](#) on the properties.

Consolidated Supervised Entities (CSE) Program

A Securities and Exchange Commission program created in 2004 and terminated in 2008 that provided voluntary supervision for the five largest investment bank conglomerates.

Consolidated tape

Used for listed equity securities. Combined [ticker tapes](#) of the [NYSE](#) and the [curb](#). Network A covers the NYSE-listed securities and is used to identify the originating [market](#). Network B does the same for [AMEX](#)-listed securities and also reports on securities listed on [regional stock exchanges](#). See: [tape](#).

Consolidated tax return

A tax return combining the reports of [affiliated companies](#), that are at least 80% owned by a [parent company](#).

Consolidation

The combining of two or more [firms](#) to form an entirely new entity.

Consolidation loan

A [loan](#) that is used to combine and [finance](#) payments on other loans.

Consortium

A group of [companies](#) that cooperate and share resources in order to achieve a common objective.

Consortium banks

A [merchant banking subsidiary](#) set up by several banks that may or may not be of the same nationality. Consortium banks are common in the Euromarket and are [active](#) in [loan syndication](#).

Constant dollar

Condition in which [inflation](#) or escalation is not applicable. Prices and [costs](#) are deescalated or reescalated to a single point in time.

Constant dollar accounting

See [General Price Level Accounting](#).

Constant-dollar plan

Method of purchasing [securities](#) by [investing](#) a fixed amount of [money](#) at set intervals.

The [investor buys](#) more [shares](#) when the price is low and fewer [shares](#) when the price is high, thus reducing the average [cost](#).

Constant-growth model

Also called the Gordon-Shapiro model, an application of the [dividend discount model](#) that assumes (1) a fixed [growth rate](#) for future dividends, and (2) a single [discount rate](#).

Constant Proportion Portfolio Insurance

A [trading strategy](#) that sets a floor on a [portfolio](#) value by investing in a [risky](#) and a [riskless asset](#) such that if the risky asset falls to its lowest expected value, the portfolio value will be at the floor. The weights are altered as the asset values change. This limits the downside risk while maintaining a potential upside through the exposure to the risky asset. This is analogous to buying a put option on the portfolio. Also see [Portfolio Insurance](#).

Constant ratio plan

Maintaining a predetermined ratio between [stock](#) and fixed income [investments](#) through regular adjustments of [distribution](#) of funds into different investments. See: [formula investing](#).

Constant yield method

Allocation of annual interest on a zero-coupon [security](#) for [income tax](#) use.

Construction loan

A [short-term loan](#) to [finance](#) building [costs](#).

Constructive receipt

The date a taxpayer receives [dividends](#) or other income, for use in the determination of taxes.

Consular Invoice

A document prepared by the shipper and certified in the country of origin by a consul of the country of importation. It shows the [transaction](#) details and origin of the goods.

Consumer Advisory Council (CAC)

A statutory body established by Congress in 1976. The Council, with 30 members who represent a broad range of consumer and [creditor](#) interests, advises the Federal Reserve Board on the exercise of its responsibilities under the Consumer Credit Protection Act and on other matters on which the Board seeks its advice.

Consumer credit

[Credit](#) a [firm](#) grants to consumers for the [purchase](#) of goods or services. Also called [retail](#) credit.

Consumer Credit Protection Act of 1968

Federal legislation establishing rules for the [disclosure](#) of the terms of a [loan](#) to [protect borrowers](#).

See: [Truth in lending](#).

Consumer debenture

An [investment note issued](#) directly to the [public](#) by a financial institution.

Consumer durables

Consumer products that are expected to last three years or more, such as an automobile or a home appliance.

Consumer finance company

See: [Finance company](#)

Consumer goods

Goods not used in production but bought for personal or household use such as food, clothing, and entertainment.

Consumer interest

[Interest](#) paid on consumer [loans](#); e.g., [interest](#) on [credit](#) cards and [retail purchases](#).

Consumer Price Index (CPI)

The CPI, as it is called, measures the prices of consumer goods and services and is a measure of the pace of US [inflation](#). The US Department of Labor publishes the CPI every month.

Consumption tax

See: [Value-added tax](#)

Contagion

Refers to an increase in [correlation](#) of asset returns that is more than expected. Sometimes also called excess correlation. For example, during the East Asian crisis that began in July 1997 when the Thai [currency](#) devalued, many emerging markets as far away as South America became increasingly correlated. Contagion is difficult to identify because you need some sort of measure of the expected correlation. It is complicated because correlations are known to change through time, for example, see Erb, Harvey and Viskanta's article in the 1994 Financial Analysts Journal. In periods of negative returns, correlations (and [volatility](#)) are known to increase, so what might appear to be excessive correlations may not be contagion.

Contango

A market condition in which [futures prices](#) are higher in the distant delivery months.

Contingency

An additional amount or percentage added to any [cash flow](#) item (ie. [Capex](#)). Care is needed to ensure it is either to be spent or to remain as a [cushion](#).

Contingency graph

A plot of the net profit to a [speculator](#) in [currency options](#) under various [exchange rate](#) scenarios.

Contingency order

In the context of general equities, [order](#) to [buy](#) one [security](#), if the [trader](#) can sell another, usually given that certain price limits or conditions reach a certain level. [Swap](#), [switch order](#).

Contingent

In context of [liabilities](#), those liabilities that do not yet appear on the [balance sheet](#) (ie. [guarantees](#), supports, lawsuit [settlements](#)). For support or recourse, the trigger may occur at any time in the future.

Contingent convertible capital instruments (Cocos)

Capital instruments that act as bonds but convert to equity if the issuing bank comes under extreme stress, such as core capital ratio falling below a predetermined level.

Contingent claim

A claim that can be made only if one or more specified outcomes occur.

Contingent conversion trigger

Used in the context of convertible instruments. The price of the stock must exceed the trigger price before the bond holder can convert to common stock at a pre-established conversion price. The trigger price exceeds the conversion price. In addition, after a certain number of years, the convertible instrument usually specifies that both the conversion price and the contingent conversion trigger will increase every year by, for example, a rate equal to LIBOR.

Contingent debt

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A contingent debt is an unusual kind of debt that is dependent on uncertain future developments. A contingent debt is not a definitive liability as it is based on the outcome of a future event (for example, such as a court verdict).

Contingent deferred sales charge (CDSC)

The formal name for the [load](#) of a back-end load fund.

Contingent immunization

An arrangement in which the [money manager](#) pursues an [active bond portfolio strategy](#) until an adverse [investment](#) experience drives the then-available potential [return](#) down to the [safety net](#) level. When that point is reached, the money manager is [obliged](#) to pursue an [immunization strategy](#) to lock in the [safety-net level return](#).

Contingent order

An order which can be [executed](#) only if another event occurs; i.e. "sell Oct 45 [call](#) 7-1/4 with stock 52 or lower".

Contingent pension liability

Under ERISA, a [firm](#) is liable to its [pension plan](#) participants for up to 39% of the [net worth](#) of the firm.

Contingent Voting Power

Enables [preferred stockholders](#) to vote when the [company](#) fails to satisfy the agreement between itself and the [preferred stockholders](#).

Continuous compounding

The process of [accumulating](#) the [time value of money](#) forward in time on a continuous, or instantaneous, basis. [Interest](#) is earned constantly, and at each instant, the interest that accrues immediately begins earning interest on itself.

Continuous net settlement (CNS)

Method of [securities](#) clearing and [settlement](#) using a [clearing house](#), which matches [transactions](#) to [securities](#) available, resulting in one [net](#) receive or deliver [position](#) at the end of the day.

Continuous random variable

A random value that can take any fractional value within specified ranges, as contrasted with a [discrete variable](#).

Contra broker

The [broker](#) on the [buy](#) side of a [sell order](#) or the sell side of a [buy order](#).

Contract

A term of reference describing a [unit of trading](#) for a [financial](#) or [commodity future](#). Also, the actual bilateral agreement between the [buyer](#) and seller of a [transaction](#) as defined by an [exchange](#).

Contract for Difference

Also known as CFD. This is an agreement between buyer and seller to exchange the difference between the current value of the asset and the initial value of the asset when the contract is initiated. For example, suppose the initial price of share XYZ is \$100 and a CFD for 1000 shares is exchanged. Both the buyer and seller must post some margin. If the price goes to \$105, then the buyer gets \$5,000 from the seller. If the price goes to \$95, the buyer pays the seller \$5,000. This contract avoids ownership of the stock and all the associated transactions issues (like stamp taxes). The contract also allows for leverage (typically 10:1) because the margin that must be posted is only a fraction of the value of the underlying asset. These contracts can also be on the difference of two assets' prices. They can also be on the difference of a single asset of different maturities (like a bond or futures contracts). CFDs are sometimes known as spread trading.

Contract month

The month in which [futures contracts](#) may be satisfied by making or accepting a [delivery](#).

Contractual Claim

An amount that by legal agreement must be paid periodically to the [buyer](#) of a [security](#); contractual claim may also specify the time at which the [principal](#) must be repaid and other details.

Contractual Intermediary

Holder of an [indirect claim](#) through a legal agreement that specifies that the individual must make [periodic](#), fixed payments to the [intermediary](#) in exchange for the right to receive payments from the intermediary in the future.

Contractual plan

A plan in which fixed dollar amounts of [mutual fund shares](#) are [purchased](#) through periodic [investments](#), usually featuring some sort of additional incentive for the fixed period payments.

Contramarket stock

In the context of general equities, [stock](#) that tends to go against the [trend](#) of the [market](#) as a whole, such as a [commodities](#)-related stock or one in an [industry](#) out of favor with [investors](#) in a [bull](#) market.

Contrarian

An [investment](#) style that leads one to [buy assets](#) that have performed poorly and sell assets that have performed well. There are two possible reasons this [strategy](#) might work. The first is a mean-reversion argument; that is, if the asset has deviated from its usual level, it should eventually return to that usual level. The second reason has to do with [overreaction](#). [Investors](#) might have overreacted to bad news sending the asset price lower than it should be.

Contrarian investing

Ignoring [market trends](#) by [buying securities](#) that the [investor](#) considers [undervalued](#) and out of favor with other investors.

Contributed capital

See: [Paid-in capital](#)

Contributed surplus

Total [assets](#) minus the sum of total [liabilities](#), the [par value](#) of issued [stock](#), and [retained earnings](#). Contributed surplus identifies the portion of a company's income that comes from non-operational sources, or the portion of total [profit](#) other than [profit](#) earned through operations. One example of

contributed surplus is the [income](#) a company receives from selling [shares](#) above their stated [par value](#).

See: [Retained earnings](#), [Capital surplus](#)

Contribution

[Money](#) placed in an [individual retirement account \(IRA\)](#), an employer-sponsored [retirement](#) plan, or other retirement plan for a particular tax year. Contributions may be [deductible](#) or nondeductible, depending on the type of account.

Contribution margin

The difference between variable revenue and [variable cost](#).

Control

50% of the [outstanding](#) votes plus one vote.

Control Limits

The upper and lower limits on the acceptable level of [cash](#) that minimizes the sum of the [opportunity cost](#) of excessive cash and the [cost](#) of marketable security [transactions](#).

Control parameters

In a nonlinear dynamic system, the coefficient of the [order parameter](#); the determinant of the influence of the order parameter on the total system. See: [Order Parameter](#).

Control person

See: [Affiliated person](#)

Control-share Acquisition Laws

See [Supermajority](#).

Control stock

The [shares](#) owned by the [controlling shareholders](#) of a [corporation](#). Sometimes refers to stock that has voting rights rather than stock that carries no voting rights. In a situation where all stock has voting rights, it sometimes refers to the shareholdings of one investors or a group of investors that effectively control the firm.

Controlled commodities

[Commodities](#) regulated by the [Commodities Exchange Act of 1936](#) in order to prevent fraud and manipulation in [commodities futures markets](#).

Controlled disbursement

A service that provides for a single presentation of [checks](#) each day (typically in the early part of the day).

Controlled foreign corporation (CFC)

A [foreign corporation](#) whose [voting stock](#) is more than 50% owned by US [stockholders](#), each of whom owns at least 10% of the voting power.

Controller

The corporate manager responsible for the [firm's](#) accounting activities. Sometimes referred to as the comptroller (which means the same thing).

Convenience yield

The extra advantage that [firms](#) derive from holding the [commodity](#) rather than a [futures position](#).

Convention statement

An [annual](#) statement filed by a [life insurance company](#) in each state where it does business in compliance with that state's regulations. The statement and supporting documents show, among other things, the [assets](#), [liabilities](#), and [surplus](#) of the reporting company.

Conventional mortgage

A [loan](#) based on the [credit](#) of the [borrower](#) and on the [collateral](#) for the [mortgage](#).

Conventional option

An [option contract](#) arranged on the [trading floor](#) and traded regularly. The opposite of exotic option.

Conventional pass-throughs

Also called [private-label pass-throughs](#), any [mortgage pass-through security](#) not [guaranteed](#) by government agencies. Compare [agency pass-throughs](#).

Conventional project

A project with a [negative initial cash flow](#) (cash outflow), which is expected to be followed by one or more future positive cash flows (cash inflows).

Convertible

A [financial instrument](#) that can be exchanged for another [security](#) or equity [interest](#) at a pre-agreed time and exchange ratio.

Convertible Arbitrage

In the context of hedge funds, a style of management that involves the simultaneous [purchase](#) of a convertible bond and the short [sale](#) of shares of the underlying stock. [Interest rate](#) risk may or may not be hedged.

Convergence

The movement of the price of a [futures contract](#) toward the price of the [underlying cash commodity](#). At the start, the [contract](#) price is usually higher because of [time value](#). But as the contract nears [expiration](#), and time value decreases, the [futures](#) price and the [cash](#) price converge. More generally, convergence trading involves taking two related assets that have different prices with the expectation that prices will converge (the cheaper asset is purchased and the more expensive is sold short).

Conversion

In the context of [securities](#), refers to the exchange of a [convertible security](#) such as a [bond](#) into [stock](#).

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

Conversion factors

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

Conversion feature

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

Conversion parity

See: [Market conversion price](#)

Conversion parity price

Related: [Market conversion price](#)

Conversion parity/value

Applies mainly to [convertible securities](#). [Common stock](#) price at which a [convertible bond](#) can become exchangeable for [common shares](#) of equal value; value of a convertible bond based solely on the [market value](#) of the [underlying equity](#). [Par value](#) plus [conversion ratio](#). See [bond value](#), [investment value](#), [parity](#).

Conversion Period

The time period during which an [investor](#) can exchange a [convertible security](#) for [common stock](#).

Conversion premium

The extent by which the [conversion price](#) of a [convertible security](#) exceeds the prevailing [common stock](#) price at the time the convertible security is [issued](#). In general usage, the conversion premium is the amount by which the convertible security trades above its converted value. For example, if a \$1,000 par bond is trading at \$1,100, it is convertible into 50 shares, and the shares are trading at \$21, the converted value is $50 \times 20.50 = \$1,025$, and the conversion premium is \$75.

Conversion price

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

Conversion ratio

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

Conversion value

The value of a [convertible security](#) if it is converted immediately. Also called [parity value](#) or converted value.

Converted put

See [Synthetic Put](#).

Convertibility

The ability to exchange a [currency](#) without government restrictions or controls.

Convertible adjustable preferred stock (Caps)

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

Convertible arbitrage

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

Convertible bond

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

Convertible eurobond

A [eurobond](#) that can be converted into another [asset](#), often through [exercise](#) of attached [warrants](#).

Convertible exchangeable preferred stock

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

Convertible 100

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

Convertible preferred stock

[Preferred stock](#) that can be converted into [common stock](#) at the option of the holder. See also: [participating convertible preferred stock](#).

Convertible price

The contractually specified price per [share](#) at which a [convertible security](#) can be converted into [shares](#) of [common stock](#).

Convertible security

A [security](#) that can be converted into [common stock](#) at the [option](#) of the securityholder; includes [convertible bonds](#) and [convertible preferred stock](#).

Convex

Refers to a non-linear asset pricing relationship. See [convexity](#).

Convexity

This concept is best described with respect to a bond. Consider a graph of the [bonds](#) price (y-axis) and the bond yield (x-axis). If this graph was a straight line (downward sloping), there would be no convexity. It would be a simple linear relationship between bond price and [yield](#) (yield up, price down). However, bonds are non-linear functions of yields partly because irrespective of their how high their yield is, they cannot have negative price. Hence, the bond price is not a straight line, but a curve that is upward (like a bowl). So, if rates increase, the simple linear straightline will tell you (incorrectly) that the bond price drops too much). Essentially, the convexity is the second derivative whereas the linear relationship is the first-derivative (of bond price with respect to yield). If the asset price drops less than predicted by the linear relationship, it is known to have positive convexity

(commonly referred in the bond market simply as ‘convexity’). However, if the asset price drops by more than predicted by the linear relationship, it is known to have negative convexity (rather than the common usage in mathematics of concavity). Convexity is also associated with [options](#) which (by definition) have non-linear payoffs.

Cook the books

To deliberately falsify the [financial statements](#) of a [company](#). This is an illegal practice.

Cooling-off period

The period of time between the filing of a preliminary [prospectus](#) with the [Securities and Exchange Commission](#) and the actual [public offering](#) of the [securities](#).

Cooperative

An organization owned by its members. Examples are agriculture cooperatives that assist farmers in selling their products more efficiently and apartment buildings owned by the residents who have full control of the property.

Copenhagen Stock Exchange

The only [securities exchange](#) in Denmark. It features electronic [trading](#) of [stocks](#), [bonds](#), [futures](#), and [options](#).

Core capital

The [capital](#) required of a thrift institution, which must be at least 2% of [assets](#) to meet the rules of the [Federal Home Loan Bank](#).

Core competence

Primary area of expertise. Narrowly defined fields or tasks at which a [company](#) or business excels. Primary areas of specialty.

Core inflation

Core inflation for the Consumer Price Index, the Producer Price Index or the Personal Consumption Expenditure Deflator removes the volatile food and energy prices. The Headline inflation includes these components.

Cornering the market

Purchasing a [security](#) or [commodity](#) in such volume as to achieve [control](#) over its price. An illegal practice.

C Corporation

A [corporation](#) that elects to be taxed as a corporation. The C corporation pays federal and state income taxes on earnings. When the earnings are [distributed](#) to the [shareholders](#) as dividends, this income is subject to another round of taxation (shareholder's income). Essentially, the C corporations' earnings are taxed twice. In contrast, the [S corporation's](#) earnings are taxed only once.

Corporate acquisition

The [acquisition](#) of one [firm](#) by another firm.

Corporate bonds

[Debt obligations issued](#) by [corporations](#).

Corporate charter

A legal document creating a [corporation](#).

Corporate equivalent yield

A [comparison](#) of the after-tax [yield](#) of [government bonds](#) selling at a [discount](#) and [corporate bonds](#) selling at [par](#).

Corporate finance

One of the three areas of the discipline of [finance](#). It deals with the operation of the [firm](#) (both the [investment decision](#) and the financing decision) from the firm's point of view.

Corporate financial management

The application of financial principles within a [corporation](#) to create and maintain value through decision-making and proper resource management.

Corporate financial planning

[Financial planning](#) conducted by a [firm](#) that encompasses preparation of both [long](#)-and [short-term financial plans](#).

Corporate financing committee

A committee of the [NASD](#) that reviews [underwriters'](#) SEC-required documents to ensure that proposed markups are fair and in the [public interest](#).

Corporate income fund (CIF)

A [unit investment trust](#) featuring a fixed [portfolio](#) of [high-grade securities](#) and other [investments](#), usually with monthly [distribution](#) of income.

Corporate processing float

The time that elapses between [receipt](#) of payment from a customer and the deposit of the customer's [check](#) in the [firm's](#) bank account; the time required to process customer payments.

Corporate repurchase

[Active buying](#) by a [corporation](#) of its own [stock](#) in the marketplace. Reasons for repurchase include putting idle [cash](#) to use, raising [EPS](#), creating support for a [stock](#) price, increasing internal [control](#) ([shark repellent](#)), or stock for [ESOP](#) or [pension plans](#). Repurchase is subject to rules, such as that buying must be on a [zero minus](#) or a [minus tick](#), after the [opening](#) and before 3:30 p.m.

Corporate restructuring

See [restructuring](#).

Corporate social responsibility

A form of corporate self-regulation where businesses monitor and ensure that their activities are aligned with the social, economic, and environmental expectations. CSR-focused businesses proactively promote the public interest and encourage community growth and development. CSR is the deliberate inclusion of public interest into corporate decision making. CSR is wide spread in Europe and has recently gained popularity in the U.S.

Corporate tax view

The argument that double (corporate and individual) taxation of equity returns makes [debt](#) a cheaper [financing](#) method.

Corporate taxable equivalent

[Rate of return](#) required on a [par bond](#) to produce the same after-tax [yield to maturity](#) that the quoted [premium](#) or [discount](#) bond would generate.

Corporate Trust

The function of servicing and maintaining records for [debt](#) securities [issued](#) by a [corporation](#).

Corporation

A legal entity that is separate and distinct from its owners. A corporation is allowed to own [assets](#), incur [liabilities](#), and sell [securities](#), among other things.

Corpus

See: [Principal](#)

Correction

Reverse movement, usually downward, in the price of an individual [stock](#), [bond](#), [commodity](#), or [index](#). If prices have been rising on the [market](#) as a whole, and then fall dramatically, this is known as a correction within an upward [trend](#). Antithesis of a [technical rally](#). See: [Dip](#), [break](#).

Correlation

Statistical measure of the degree to which the movements of two variables ([stock](#)/[option](#)/[convertible](#) [prices](#) or [returns](#)) are related. See: [Correlation coefficient](#).

Correlation coefficient

A standardized statistical measure of the dependence of two [random variables](#), defined as the [covariance](#) divided by the product of the [standard deviations](#) of two variables.

Correlation Dimension

An estimate of the [Fractal Dimension](#) which measures the probability that two points chosen at random will be within a certain distance of each other, and examines how this probability changes as the distance is increased. [White noise](#) will fill its space since its components are [uncorrelated](#), and its [correlation dimension](#) is equal to whatever dimension it is placed in. A dependent system will be held together by its correlations and retain its dimension whatever embedding dimension it is placed in, as long as it is greater than its [fractal dimension](#).

Correlation Integral

The probability that two points are within a certain distance from one another. Used in the calculation of the [correlation dimension](#).

Correspondent

A financial organization that performs services (acts as an [intermediary](#)) in a [market](#) for another organization that does not have access to that [market](#).

Correspondent bank

Bank that accepts deposits of, and performs services for, another bank (called a respondent bank); in most cases, the two banks are in different cities.

Cosigner

A term referring to a person, other than the principal [borrower](#), who signs for a [loan](#). The cosigner(s) assumes equal liability for the loan.

Cost

The opposite of revenue. An [expense](#) that reflects the price of purchasing goods, services and financial instruments. A [cash](#) cost means that cash is given up today to the [purchase](#). Also, the purchase price of an investment, which is compared to the sale proceeds to determine capital gain or loss.

Cost accounting

A branch of accounting that provides information to help the management of a [firm](#) evaluate production [costs](#) and efficiency.

Cost and Freight (CFR)

Seller is responsible for the payment of freight to carry goods to a named destination, as agreed with the [buyer](#). This should be used with ocean shipments only, as the point where risk and responsibility pass from seller to buyer is the rail of the carrying vessel.

Cost basis

The original price of an [asset](#), used to determine [capital gains](#).

Cost-benefit ratio

The [net present value](#) of an [investment](#) divided by the investment's initial [cost](#). Also called the [profitability index](#).

Cost center

Any division, department, or subsidiary of a company that has expenses but is not directly producing revenues.

Cost of capital

The [required return](#) for a [capital budgeting](#) project.

Cost of carry

Out-of-pocket [costs](#) incurred while an [investor](#) has an investment position. Examples include [interest](#) on [long positions](#) in [margin account](#), [dividend](#) lost on [short margin positions](#), and incidental [expenses](#). Related: [Net financing cost](#).

Cost-of-carry market

Applies to [derivative](#) products. [Futures contracts trade](#) in a "cost-of-carry market" where the [underlying commodity](#) can be stored, [insured](#), and converted into the future easily and inexpensively. [Arbitrageurs](#), because of the ease of switching from the [spot commodity](#) to [futures](#), will keep these [markets](#) in line with prevailing [interest rates](#).

Cost company arrangement

Arrangement whereby the [shareholders](#) of a project receive output free of charge but agree to pay all operating and [financing](#) charges of the project.

Cost of equity

The required [rate of return](#) for an [investment](#) of 100% [equity](#).

Cost of funds

[Interest rate](#) associated with [borrowing money](#).

Cost of goods sold

The total [cost](#) of [buying raw materials](#), and paying for all the factors that go into producing finished goods.

Cost of lease financing

A [lease's internal rate of return](#).

Cost of limited partner capital

The [discount rate](#) that equates the after-tax inflows with outflows for [capital](#) raised from [limited partners](#).

Cost of living adjustments

Cost of living adjustments refer to Social Security's general benefit increases based on increases in the cost of living, measured by the [Consumer Price Index](#)

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Cost Insurance and Freight (CIF)

Seller is responsible for the payment of freight to carry goods to a named destination, as agreed with the [buyer](#). The seller is also responsible for providing cargo insurance at minimum coverage against the buyer's risk of loss or damage to the goods during transport. This term should be used with ocean shipments only, as the point where risk and responsibility pass from seller to buyer is the rail of the carrying vessel.

"Cost me"

Refers to [over-the-counter trading](#). "The price I must pay to obtain the [securities](#) you wish to [buy](#) is [\$]". Usually, a standard markup is then applied for resale to this [buyer](#). Antithesis of [can get](#).

Cost-plus contract

A [contract](#) in which the selling price is based on the total [cost](#) of production plus a fixed percentage or fixed amount.

Cost-push inflation

[Inflation](#) caused by rising prices, usually from increased [raw material](#) or labor [costs](#) that push up the costs of production. Related: [Demand-pull inflation](#).

Cost records

The records maintained by an [investor](#) of the prices at which [securities transactions](#) are made, so that [capital gains](#) can be [computed](#).

Cost Recovery Period

The number of years it takes to fully [depreciate](#) a [capital asset](#). This time period is based on classification of the depreciable life of an [asset](#).

Council of Economic Advisers

A group of economists appointed by the [President](#) of the United States to provide economic counsel and help prepare the president's budget presentation to Congress.

Countercyclical stocks

[Stocks](#) whose price tends to rise when the economy is in recession or the [market](#) is [bearish](#), and vice versa.

Counterpart items

In the [balance of payments](#), counterpart items are analogous to [unrequited transfers](#) in the [current account](#). They arise through the double-entry system in balance of payments accounting and refer to adjustments in [reserves](#) owing to monetization or demonetization of gold, allocation or [cancellation](#) of [SDRs](#), and revaluation of the various components of total reserves.

Counterparties

The parties on either side of an [interest rate swap](#) or a currency, equity or commodity swap, or to an options or futures position.

Counterparty

The other participant, including [intermediaries](#), in a [swap](#) or [contract](#).

Counterparty credit risk

See [Counterparty risk](#).

Counterparty risk

The [risk](#) that the other party to an agreement will [default](#). In an [options contract](#), the risk to the [option buyer](#) that the [option writer](#) will not [buy](#) or sell the [underlying](#) as agreed.

Counterpurchase

Exchange of goods between two parties under two distinct [contracts](#) expressed in monetary terms.

Countertrade

See: [barter](#)

Country allocations

The percentages of a fund's [net assets distributed](#) to [securities](#) of various countries. These percentages serve as an indicator of a fund's [diversification](#) and its vulnerability to [fluctuations](#) in foreign [financial markets](#) or [currency exchange rates](#).

Country beta

[Covariance](#) of a national economy's [rate of return](#) and the rate of return of the world economy divided by the [variance](#) of the world economy.

Country diversification

[Investment](#) of a global or international [portfolio's assets](#) in [securities](#) of various countries.

Country economic risk

Developments in a national economy that can affect the outcome of an international financial [transaction](#).

Country financial risk

Centers around the ability of a national economy to generate enough [foreign exchange](#) to meet payments of [interest](#) and [principal](#) on its foreign [debt](#).

Country risk

The general level of political, [financial](#), and economic uncertainty in a country which impacts the value of the country's [bonds](#) and equities. See: [Sovereign risk](#).

Country selection

A type of [active](#) international management that measures the [contribution](#) to performance attributable to [investing](#) in the [better-performing stock markets](#) of the world.

Coupon

The contractual interest obligation a bond or debenture issuer covenants to pay to its debtholders.

Coupon bond

A [bond](#) featuring [coupons](#) that must be presented to the [issuer](#) in order to receive [interest payments](#).

Coupon-equivalent rate

See: [Equivalent bond yield](#)

Coupon equivalent yield

True [interest cost](#) expressed on the basis of a 365-day year.

Coupon pass

Canvassing by the desk of primary [dealers](#) to determine the [inventory](#) and [maturities](#) of their [Treasury securities](#). The desk then decides whether to [buy](#) or sell certain [issues \(coupons\)](#) in order to add or withdraw [reserves](#).

Coupon payments

A [bond's interest](#) payments.

Coupon rate

In [bonds](#), [notes](#), or other [fixed income securities](#), the [stated](#) percentage [rate of interest](#), usually paid twice a year.

Covariance

A statistical measure of the degree to which [random variables](#) move together. A positive covariance implies that one [variable](#) is above (below) its [mean](#) value when the other [variable](#) is above (below) its mean value.

Covenant

An agreed action to be undertaken (Positive) or not done (Negative). A breach of a covenant is a [default](#).

Covenant defeasance

Covenant defeasance allows the issuer to remove the bond's covenants by placing the remaining payments with a trustee in escrow to be paid out on schedule.

Cover

The amount above UNITY of a [debt](#) service ratio.

Coverage

See: [Fixed-charge coverage](#)

Coverage initiated

Usually refers to the fact that [analysts](#) begin following a particular [security](#). This usually happens when there is enough [trading](#) in it to warrant attention by the [investment](#) community.

Coverage ratios

Ratios used to test the adequacy of [cash flows](#) generated through [earnings](#) for purposes of meeting [debt](#) and [lease obligations](#), including the [interest coverage ratio](#) and the [fixed-charge coverage ratio](#).

Covered

A written option is considered to be covered if the writer also has an opposing market position on a share-for-share basis in the underlying security. That is, a short [call](#) is covered if the underlying stock is owned, and a short put is covered (for margin purposes) if the underlying stock is also short in the account. In addition, a short call is covered if the account is also long another call on the same security, with a striking price equal to or less than the striking price of the short call. A short put is covered if there is also a long put in the account with a striking price equal to or greater than the striking price of the short put.

Covered call

A [short call option position](#) in which the [writer](#) owns the number of [shares](#) of the [underlying](#) stock represented by the [option contracts](#). Covered [calls](#) generally limit the [risk](#) the [writer](#) takes because the [stock](#) does not have to be bought at the [market price](#), if the holder of that [option](#) decides to [exercise](#) it.

Covered call writing strategy

A [strategy](#) that involves writing a [call option](#) on [securities](#) that the [investor](#) owns. See: [Covered or hedge option strategies](#).

Covered foreign currency loan

A [loan denominated](#) in a [currency](#) other than that of the [borrower's](#) home country, for which repayment terms are prearranged through the use of a [forward currency contract](#).

Covered interest arbitrage

Occurs when a [portfolio manager invests](#) dollars in an [instrument denominated](#) in a [foreign currency](#) and [hedges](#) the resulting [foreign exchange risk](#) by selling the proceeds of the investment [forward](#) for dollars.

Covered Interest Rate Parity

The principle that the [yields](#) from interest-bearing foreign and domestic [investments](#) should be equal when the [currency market](#) is used to predetermine the domestic currency payoff from a foreign investment. For example, suppose interest on 90 U.K. Treasury bills is 4% but only 1% in U.S. When the U.S. investor tries to take advantage of the higher yield, they translate U.S. dollars to Sterling to buy the Treasury bill and then sell 90-days forward Sterling (so they can translate the principal and

interest back to U.S. dollars). Covered Interest Parity ensures that the return to this transaction is 1%. If it was different, there would be arbitrage.

Covered or hedge option strategies

[Strategies](#) that involve a [position](#) in an [option](#) as well as a position in the [underlying stock](#), designed so that one [position](#) will help [offset](#) any unfavorable price movement in the other, including [covered call](#) writing and [protective put buying](#). Related: [Naked strategies](#)

Covered option

[Option position](#) that is [offset](#) by an equal and opposite position in the [underlying security](#). Antithesis of [naked option](#).

Covered position

Use of an [option](#) in a [trading strategy](#) in the [underlying asset](#) which is already owned.

Covered put

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

Covered straddle

An option [strategy](#) in which one [call](#) and one put with the same [strike price](#) and [expiration](#) are written against 100 shares of the underlying stock. In actually, this is not a "[covered](#)" [strategy](#) because assignment on the short put would require [purchase](#) of stock on margin. This method is also known as a covered combination.

Covered straddle write

The term used to describe the [strategy](#) in which an [investor](#) owns the underlying security and also writes a straddle on that security. This is not really a [covered](#) position.

Covered writer

An [investor](#) who writes [options](#) only on [stock](#) that he or she owns, so that [option](#) premiums may be [collected](#).

Covering

Using [forward currency contracts](#) to predetermine the domestic [currency](#) amount of an expected future foreign receipt or payment. Also, the buying back ('covering') of a short position.

CPI

A measure of [inflation](#). See: [Consumer Price Index](#).

Cramdown

The ability of the [bankruptcy](#) court to confirm a plan of [reorganization](#) over the objections of some [classes of creditors](#). This often involves resetting the amount of principal that the bond holders are owed. Related is a mortgage cramdown. Here the home owner cannot pay the mortgage because of financial distress and, indeed, the mortgage could be a higher value than the house. A cramdown resets (lower) the principal amount of the mortgage. This may allow the homeowner to stay in the house (avoid foreclosure).

Cram-down deal

A [merger](#) in which [stockholders](#) are forced to accept undesirable terms, such as [junk bonds](#) instead of [cash](#) or [equity](#), due to the absence of any better alternatives.

Crash

Dramatic loss in [market value](#). The last great crash was in 1929. Some refer to October 1987 as a crash but the [market return](#) for the entire year of 1987 was positive.

Crawling peg

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

Credible signal

A [signal](#) that provides accurate information; a signal that can distinguish among senders.

Credit

[Money loaned](#).

Credit analysis

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

Credit balance

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

Credit bureau

An [agency](#) that researches the [credit](#) history of consumers so that [creditors](#) can make decisions about granting of [loans](#).

Credit card

Any card, plate or coupon book that may be used repeatedly to [borrow money](#) or [buy](#) goods and services on [credit](#).

Credit crunch

A shortage of available credit for businesses and consumers. This situation could arise when [lenders](#) are reluctant to lend because of uncertainty of [defaults](#) or are willing to lend only at high [interest rates](#) thus making it difficult for businesses and consumers to secure [credit](#). The term became popular the financial crisis that began in 2007 when a large number of homeowners either [defaulted](#) or were expected to [default](#) on [mortgages](#), leading to great stress on the [market](#) in which these securitized [loans](#) were traded. The ensuing constriction in [liquidity](#) caused [lenders](#) to cut back on [loans](#) resulting in a [credit crunch](#).

Credit default swap

A [credit derivative](#) contract between two parties where the buyer makes periodic payments (over the maturity period of the [CDS](#)) to the seller in exchange for a commitment to a payoff if a third party [defaults](#). Generally used as [insurance](#) against default on a credit [asset](#) but can also be used for [speculation](#).

Credit derivative

Financial [instruments](#) in which the payoffs depend on the [credit risk](#) of companies or government entities, other than the [counterparties](#) to the credit derivative [transaction](#) itself.

Credit enhancement

The [purchase](#) of the [financial guarantee](#) of a large insurance [company](#) to raise funds. In the context of project financing, the issuance of a guarantee or additional [collateral](#) to reinforce the [credit](#) strength of a project financing. Also, the reduction of counterparty risk on a swap transaction through such measures as [bilateral netting](#).

Credit history

A record of how a person has [borrowed](#) and repaid [debt](#).

Credit insurance

[Insurance](#) against abnormal [losses](#) due to unpaid [accounts receivable](#).

Credit linked security

A [note](#) whose [cash flow](#) depends upon a [credit](#) event or credit measure of a referenced entity or [asset](#) such as [default](#), [credit spread](#), or [rating](#) change. The manager would [purchase](#) such a note to [hedge](#) against possible down grades, or [loan defaults](#) that would [guarantee](#) payment into the [portfolio](#) of the manager even if [moneys](#) on referenced assets are reduced.

Credit market

Market for [trading credit](#)-related products. Most of this market involves non-exchange traded contracts, that is, [over the counter](#) trading.

Credit period

The length of time for which a [firm's](#) customer is granted [credit](#).

Credit Policy Delay

The period between the [sale](#) of goods for a [credit](#) and the payment for those goods. This [lag](#) is determined largely by the selling [firm's](#) credit policy.

Credit Rating Agencies

[Firms](#) that compile information on and [issue public credit ratings](#) for a large number of [companies](#).

Credit Standards

The guidelines a [company](#) follows to determine whether a [credit](#) applicant is [creditworthy](#).

Credit Terms

The conditions under which [credit](#) will be extended to a customer. The components of credit terms are: [cash discount](#), [credit period](#), [net period](#).

Credit quality

A measure of a [bond issuer's](#) ability to repay [interest](#) and [principal](#) in a timely manner. [Rating agencies](#) assign letter designations such as AAA, AA, and so forth. The lower the rating, the higher the probability of default.

Credit rating

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

Credit risk

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

Credit scoring

A statistical technique that combines several financial characteristics to form a single score to represent a customer's [creditworthiness](#).

Credit spread

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

Credit union

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

Credit watch

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

Crediting rate

The [interest rate](#) offered on an [investment](#) type [insurance policy](#).

Creditor

[Lender of money](#).

Creditor's committee

A group representing [firms](#) that have claims on a [company](#) facing [bankruptcy](#) or extreme financial difficulty.

Credit Valuation Adjustments

[Market value of counterparty credit risk](#). In other words, it is the difference between the true portfolio value (that takes into account the possibility of a counterparty's default) and the risk-free portfolio value.

Creditworthiness

Eligibility of an individual or [firm](#) to [borrow money](#).

Creeping expropriation

The act of a government squeezing a project by taxes, [regulation](#), access, or changes in law.

Creeping tender offer

The process by which a group attempting to circumvent certain provisions of the [Williams Act](#) gradually acquires [shares](#) of a [target company](#) in the [open market](#).

CREST

CREST is CrestCo's real-time [settlement](#) system for UK and Irish shares and other corporate [securities](#). CrestCo has provided settlement systems for [government bonds](#) and money market instruments in the UK since 1990.

Crisp Sets

The [fuzzy set](#) term for traditional set theory. That is, an object either belongs to a set, or does not.

Critical Levels

Values of [control parameters](#) where the nature of a nonlinear dynamic system changes. The system can [bifurcate](#), or make the transition from stable to turbulent behavior. An example is the straw that breaks the camel's back.

Cross

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

Cross-border factoring

Concluding a [transaction](#) by a network of factors across borders. The exporter's [factor](#) can contact [correspondent](#) factors in other countries to handle the [collection](#) of [accounts receivable](#).

Cross-border risk

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

Cross-Collateral

An agreement among project participants to [pool collateral](#), to allow recourse to each other's collateral.

Cross-default

A provision under which [default](#) on one [debt obligation](#) triggers [default](#) on another debt obligation.

Cross hedging

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

Cross-holdings

The holding by one [corporation](#) of [shares](#) in another [firm](#). One needs to allow for cross-holdings when [aggregating capitalizations](#) of firms. Ignoring cross-holdings leads to double-counting.

Cross rates

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

Cross-sectional analysis

Assessment of relationships among a cross-section of [firms](#), countries, or some other [variable](#) at one particular time.

Cross-Sectional Ratio Analysis

A method of analysis that compares a [firm's](#) ratios with some chosen [industry benchmark](#).

The [benchmark](#) usually chosen is the [average](#) ratio value for all firms in an industry for the time period under study.

Cross-sectional approach

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

Cross-share holdings

Often used in [risk arbitrage](#). [Corporations'](#) or governments' [equity](#) share ownership in another corporation's [shares](#).

Cross-border bonds

[Bonds](#) that [firms issue](#) in the international market.

Crossed market

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

Crossed trade

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

Crossover rate

The [return](#) at which two alternative projects have the same [net present value](#).

Crowd trading

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

See: [Priority](#).

Crowding out

Heavy federal [borrowing](#) that drives [interest rates](#) up and prevents businesses and consumers from [borrowing](#) when they would like to.

Crown jewel

A particularly [profitable](#) or otherwise particularly valuable corporate [unit](#) or [asset](#) of a [firm](#). Often used in [risk arbitrage](#). The most desirable entities within a [diversified corporation](#) as measured by [asset value](#), [earning power](#), and business prospects; in [takeover](#) attempts, these entities typically are the main objective of the [acquirer](#) and may be sold by a [takeover target](#) to make the rest of the company less attractive. See: [Scorched earth policy](#).

Crown Law

A law derived from English law (ie. England, Ireland, Canada, PNG, Australia, Hong Kong, Singapore, India, Malaysia).

Cum dividend

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

Cum rights

With [rights](#).

Cumulative abnormal return (CAR)

Sum of the differences between the [expected return](#) on a [stock](#) ([systematic risk](#) multiplied by the [realized market return](#)) and the actual [return](#) often used to evaluate the impact of news on a stock price.

Cumulative dividend feature

A requirement that any missed [preferred or preference stock dividends](#) be paid in full before any dividend payment on common shares is made.

Cumulative preferred stock

[Preferred stock](#) whose [dividends accrue](#), should the [issuer](#) not make timely [dividend](#) payments.

Related: [Non-cumulative preferred stock](#).

Cumulative probability distribution

A function that shows the [probability](#) that the [random variable](#) will attain a value less than or equal to each value that the random variable can take on.

Cumulative total return

The actual performance of a fund over a particular period.

Cumulative Translation Adjustment (CTA) account

An entry in a translated [balance sheet](#) in which [gains](#) and/or [losses](#) from translation have been [accumulated](#) over a period of years. The C.T.A. account is required under the [FASB No. 52 rule](#).

Cumulative voting

A system of voting for directors of a [corporation](#) in which [shareholder's](#) total number of votes is equal to the number of [shares](#) held times the number of candidates.

The Curb

Another name for the [American Stock Exchange \(AMEX\)](#).

Cure

To make good a [default](#).

Currency

[Money](#).

Currency appreciation

An increase in the value of one [currency](#) relative to another currency. Appreciation occurs when, because of a change in [exchange rates](#), a [unit](#) of one currency [buys](#) more units of another currency.

Currency arbitrage

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

Currency basket

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

Currency Board

Entity charged with maintaining the value of a local [currency](#) with respect to some other specified currency.

Currency call option

[Contract](#) that gives the holder the right to [purchase](#) a specific [currency](#) at a specified price ([exchange rate](#)) within a specific period of time.

Currency Carry Trade

A carry trade where you borrow and pay interest in order to buy something else that has higher interest. For currencies, it might be that you borrow in Yen (where the interest rate might be low) and use the proceeds to purchase U.S. dollar long term debt. While the trade might produce a positive return, it is risky in two dimensions. First, U.S. rates could increase diminishing the value of the bond you purchased. Second, the exchange rate could take an unfavorable move effectively increasing your borrowing costs. Related: [Carry Trade](#).

Currency depreciation

A decline in the value of one [currency](#) relative to another currency. [Depreciation](#) occurs when, because of a change in [exchange rates](#), a [unit](#) of one currency [buys](#) fewer units of another currency.

Currency devaluation

A deliberate downward adjustment in the official [exchange rates](#) established, or pegged, by a government against a specified standard, such as another [currency](#) or gold.

Currency diversification

Using more than one [currency](#) as an [investing](#) or [financing strategy](#). Exposure to a diversified currency [portfolio](#) typically entails less [exchange rate](#) risk than if all the [portfolio](#) exposure were in a single foreign currency.

Currency Exchange Risk

Uncertainty about the rate at which revenues or [costs denominated](#) in one [currency](#) can be converted into another currency.

Currency futures contract

[Contract](#) specifying a standard [volume](#) of a particular [currency](#) to be exchanged on a specific [settlement date](#).

Currency future

A [financial future](#) contract for the [delivery](#) of a specified foreign [currency](#).

Currency hedge

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

Currency in circulation

Paper [money](#), coins, and demand deposits that constitute all the money circulating in the economy.

Currency no longer issued

Old and new [series](#) gold and silver [certificates](#), [Federal Reserve notes](#), [national bank notes](#), and 1890 Series Treasury notes.

Currency put option

[Contract](#) that gives the holder the right to sell a particular [currency](#) at a specified price ([exchange rate](#)) within a specified period of time.

Currency option

An [option](#) to [buy](#) or sell a [foreign currency](#).

Currency overvaluation

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

Currency revaluation

A deliberate upward adjustment in the official [exchange rate](#) established, or pegged, by government against a specified standard, such as another [currency](#) or gold.

Currency risk

Related: [Exchange rate risk](#)

Currency selection

[Asset](#) allocation in which the [investor](#) chooses among [investments denominated](#) in different [currencies](#).

Currency swap

An agreement to [swap](#) a series of specified payment [obligations denominated](#) in one [currency](#) for a [series](#) of specified payment obligations denominated in a different currency. Usually fixed for fixed.

Current account

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

Current account balance

The difference between the nation's total exports of goods, services and [transfers](#) and its total imports of them. Current account balance calculations exclude [transactions](#) in financial assets and liabilities.

Current assets

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

Current coupon

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

Current Coupon Bond

[Bonds](#) on which the [coupon](#) is set approximately equal to the [bonds' yield to maturity](#) at the time of their [issuance](#).

Current-coupon issues

Related: [Benchmark issues](#)

Current dollar

Refers to the use of actual or real prices and [costs](#). Escalation or [inflation](#) effects are included.

Current income

Regular series of cash flows that is routinely received from [investments](#) in the form of [dividends](#), [interest](#), and other income sources.

Current income bonds

[Bonds](#) paying semiannual [interest](#) to holders. Interest is not included in the accrued discount.

Current issue

In [Treasury securities](#), the most recently [auctioned issue](#). [Trading](#) is more [active](#) in current issues than in off-the-run issues. Also known as on-the-run issue.

Current liabilities

Amount owed for [salaries](#), [interest](#), [accounts payable](#) and other [debts](#) due within 1 year.

Current market value

The value of a client's [portfolio](#) at today's [market price](#), as listed in a brokerage statement.

Current maturity

Current time to [maturity](#) on an [outstanding debt instrument](#).

Current/noncurrent method

The translation of all of a foreign [subsidiary's current assets](#) and [liabilities](#) into home [currency](#) at the current [exchange rate](#) while noncurrent assets and liabilities are translated at the [historical exchange rate](#); that is, the rate in effect at the time the [asset](#) was [acquired](#) or the liability incurred.

Current order

In the context of [periodic repayment schedules](#), the next periodic [principal](#) repayment.

Current production rate

The highest [interest rate](#) permissible on current [Government National Mortgage Association, mortgage-backed securities](#).

Current rate method

The translation of all [foreign currency balance sheet](#) and income statement items at the current [exchange rate](#).

Current ratio

Indicator of [short-term debt-paying ability](#). Determined by dividing [current assets](#) by [current liabilities](#). The higher the ratio, the more [liquid](#) the [company](#).

Currency risk sharing

An agreement by the parties to a [transaction](#) to share the [currency risk](#) associated with the transaction. The arrangement involves a customized [hedge contract](#) embedded in the [underlying](#) transaction.

Current yield

For [bonds](#) or [notes](#), the [coupon](#) rate divided by the [market price](#) of the [bond](#).

Cushion

In the context of project financing, the extra amount of [net cash flow](#) remaining after expected [debt](#) service.

Cushion bonds

High-[coupon](#) bonds trading at a premium that tend to fall in price much less than comparable bonds when interest rates rise (hence the cushion effect), because of their high coupons.

Cushion theory

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

CUSIP number

Unique number given to a [security](#) to distinguish it from other [stocks](#) and [registered bonds](#).

See: [Committee on Uniform Securities Identification Procedures](#).

Custodial fees

Fees charged by an institution that holds [securities](#) in safekeeping for an [investor](#).

Custodian

Either (1) a bank, [agent](#), [trust company](#), or other organization responsible for safeguarding [financial assets](#), or (2) the individual who oversees the [mutual fund assets](#) of a minor's custodial account.

Custodian bank

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

Customary payout ratios

A range of [payout ratios](#) that is typical according to an analysis of comparable [firms](#).

"Customer picking prices"

Customer is firm on price and has set the price at which to [transact](#).

Customer's loan consent

Agreement signed by a [margin](#) customer that allows a [broker](#) to [borrow margin securities](#) up to the level of the customer's [debit balance](#) to help cover other customers' [short positions](#).

Customers' net debit balance

The total amount of [credit](#) given by [NYSE member firms](#) to [finance](#) customers purchasing [securities](#).

Customized benchmarks

A [benchmark](#) that is designed to meet a client's requirements and [long-term](#) objectives.

Customs Broker

An individual or firm licensed by customs authorities to enter and clear imported goods through customs. The broker represents the importer in dealings with the customs authorities.

Customs union

An agreement by two or more countries to erect a common external [tariff](#) and to abolish restrictions on [trade](#) among members.

Cut Off Date

The date prescribed in the unclaimed property law in most states for determining the items of property that must be turned over to the state. See: [Escheat](#).

Cutoff point

The lowest [rate of return](#) acceptable on [investments](#).

Cycles

A full orbital period.

Cyclical stock

[Stock](#) that tends to rise quickly when the economy turns up and fall quickly when the economy turns down. Examples are housing, automobiles, and paper.

Cyclical unemployment

Unemployment caused by a low level of aggregate demand associated with recession in the [business cycle](#).

D

Fifth letter of a [NASDAQ](#) stock symbol specifying that it is a new issue, such as the result of a reverse split.

DARTs

See: [Daily average revenue trades](#)

D/A

See: [Documents Against Acceptance](#)

DCF

See: [Discounted Cash Flows](#)

DSCR

See: [Debt-service coverage ratio](#)

DDM (1)

The [ISO](#) 4217 currency code for former East Germany Ostmark.

DDM (2)

See: [Discounted Dividend Model](#)

DE

The two-character [ISO](#) 3166 country code for GERMANY.

DEM

The [ISO](#) 4217 currency code for Deutschemark.

DEQ

Abbreviation for the Incoterm "Delivered Ex Quay."

DES

Abbreviation for "Delivered Ex Ship."

DEU

The three-character [ISO](#) 3166 country code for GERMANY.

DISC

See: [Domestic International Sales Corporation](#)

DITM

See: [Deep in the money](#)

DJ

The two-character [ISO](#) 3166 country code for DJIBOUTI.

DJF

The [ISO](#) 4217 currency code for Djibouti Franc.

DJI

The three-character [ISO](#) 3166 country code for DJIBOUTI.

DJIA

See [Dow Jones Industrial Average](#).

DK

The two-character [ISO](#) 3166 country code for DENMARK.

DKK

The [ISO](#) 4217 currency code for Danish Krone.

DM (1)

The two-character [ISO](#) 3166 country code for DOMINICA.

DM (2)

Deutsche marks, the former currency of Germany.

DMA

The three-character [ISO](#) 3166 country code for DOMINICA.

DNK

The three-character [ISO](#) 3166 country code for DENMARK.

DNR Order

See: [Do Not Reduce Order](#)

DO

The two-character [ISO](#) 3166 country code for DOMINICAN REPUBLIC.

DOM

The three-character [ISO](#) 3166 country code for DOMINICAN REPUBLIC.

DOP

The [ISO](#) 4217 currency code for Dominican Republic Peso.

DOT

See: [Designated Order Turnaround System](#)

DOTM

See: [Deep out of the money](#)

D/P

Abbreviation for [Documents Against Payment](#).

DRP

See: [Dividend Reinvestment Plan](#)

DTC (1)

See: [Depository Transfer Check](#)

DTC (2)

See: [Depository Trust Company](#)

DTCC

See: [Depository Trust and Clearing Corporation](#)

DZ

The two-character [ISO](#) 3166 country code for ALGERIA.

DZA

The three-character [ISO](#) 3166 country code for ALGERIA.

DZD

The [ISO](#) 4217 currency code for Algerian Dinar.

Daily average revenue trades (DARTs)

A metric in the brokerage industry that measures the number of trades per day that the broker generates revenue through commissions or fees.

Daily price limit

The level within many [commodity](#), [futures](#), and options markets are allowed to rise or fall in a day. [Exchanges](#) usually impose a daily price limit on each [contract](#).

Daisy chain

Manipulation of the [market](#) by [traders](#) to create the illusion of [active volume](#) to attract [investors](#).

Danish FSA

See: [Finanstilsynet](#).

Data room

A secure (physical or online) location containing confidential documents to provide investment banks and potential [acquirers](#) with necessary information for [due diligence](#).

Date of issue

Used in the context of [bonds](#) to refer to the date on which a [bond](#) is [issued](#) and when [interest](#) begins to accrue to the [bondholder](#). Used in the context of stocks to refer to the date [trading](#) begins on a new [stock issued](#) to the [public](#).

Date of payment

Date [dividend checks](#) are mailed.

Date of record

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

Dated date

The date one uses to calculate [accrued interest](#) on various [debt instruments](#), specifically [bonds](#).

Dates convention

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

Dating

[Credit](#) extension beyond normal terms of a credit supplier.

Dawn raid

A term of British origin used to describe the purchase of all available [shares](#) of a [target company](#) at the [market's open](#) by a raider. A dawn raid is a surprise technique that allows the raider to gain a substantial share of the [target company](#) before the target company knows what is happening.

Day around order

A [day order](#) that supersedes ([cancels](#) and replaces) the previous [order](#) by altering its size or [price limit](#).

Day count convention

A convention for determining the number of days between two dates and the number of days in a year, which are used for calculating interest accrued on [bonds](#) and other interest rate dependent [securities](#). Also see [actual/actual](#), [actual/360](#), [30/360](#).

Day of deposit to day of withdrawal account

A bank [account](#) that pays [interest](#) according to the number of days that the [money](#) is actually on deposit.

Day loan

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

Day order

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

Day trade

Also known as a "daylight [trade](#)." The purchase and sale or the short sale and cover of the same security in a margin account on the same day.

Day trading

Establishing and liquidating the same [position](#) or positions within one day's [trading](#).

Days in receivables

Average collection period.

Days' sales in inventory ratio

The average number of days' worth of sales that is held in [inventory](#).

Days' sales outstanding

Average collection period.

De facto

Existing in actual fact although not by official recognition.

Dead cat bounce

A small upmove in a [bear market](#).

Deal flow

In [investment banking](#), the rate at which new deals are referred to a brokerage firm.

Deal stock

[Stock](#) subject to [merger](#) or [acquisition](#), either [publicly](#) announced or rumored.

Dealing desk (Trading desk)

Personnel at an international bank who [trade spot](#) and forward [foreign exchange](#).

Dealer

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

Dealer loan

Overnight, [collateralized loan](#) from a [money market](#) bank made to a [dealer](#) financing his [position](#) by [borrowing](#).

Dealer market

Where [traders](#) specializing in particular [commodities buy](#) and sell [assets](#) for their own accounts.

Dealer options

[Over-the-counter options](#), such as those offered by government and [mortgage-backed securities dealers](#).

Dealer's spread

See: [markdown](#); [underwriting spread](#).

Dear money

British term for [tight money](#).

Death-backed bonds

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

Death cross

A bearish signal generated when the 50-day(short-term) [moving average](#) crosses below the 200-day(long-term) [moving average](#). See also [golden cross](#).

Death play

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

Death Spiral Convertible

Used by companies that are in such bad shape, that there is no other way to get financing. This instrument is similar to a convertible bond, but convertible at a discount to the share price at issuance and for a fixed dollar amount rather than a specific number of shares. The further the stock falls, the more shares you get. Popular in the mid to late 1990s. Also known as toxic convertibles or floorless convertibles.

Death Valley Curve

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

Debenture

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

Debenture bond

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

Debenture stock

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

Debit

An [expense](#), or [money](#) paid out from an account. A debit [transaction](#) is one which the net cost is greater than the net sale proceeds. See also [Credit](#).

Debit balance

The amount that is owed to a [broker](#) by a [margin](#) customer for [loans](#) the customer uses to [buy securities](#).

Debit card

A card that resembles a credit card but which debits a [transaction](#) account ([checking](#) account) with the transfers occurring contemporaneously with the customer's purchases. A debit card may be machine readable, allowing for the activation of an automated teller machine or other automated payments equipment.

Debit spread

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

Debt

Money [borrowed](#).

Debt bomb

A [default](#) on [debt](#) and [obligations](#) by a major [financial institution](#) that disrupts the stability of the economic system.

Debt capacity

Ability to [borrow](#). The amount a [firm](#) can borrow up to the point where the firm value no longer increases.

Debt ceiling

See: [Debt limit](#)

Debt displacement

The amount of [borrowing](#) that [leasing](#) displaces. [Firms](#) that do a lot of leasing are curtailed in their [debt capacity](#).

Debt/EBITDA ratio

This ratio typically is used to gain a sense for how many periods a company would have to operate at the same level of [earnings](#) in order to pay off its current level of [debt](#). Although useful, this [metric](#) does not include the effects of excess [cash](#) or [capital expenditures](#) on a company's finances, and so should be used with caution when evaluating a company, as not all of the [risk](#) is accounted for within the ratio. See: [Debt, Earnings before interest, taxes, depreciation, and amortization \(EBITDA\), Payback period](#)

Debt/equity ratio

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

Debt-for-equity swap

A [swap](#) agreement to exchange [equity/returns](#) for [debt](#) returns or the converse over a prearranged length of time.

Debt instrument

An [asset](#) requiring fixed dollar payments, such as a government or [corporate bond](#).

Debt leverage

Amplification of the [return earned on equity](#) when an [investment](#) or [firm](#) is financed partially with [borrowed money](#).

Debt limit

The maximum amount that a municipality can [borrow](#).

Debt limitation

A [bond covenant](#) that restricts the [firm's](#) ability to incur additional indebtedness in some way.

Debt market

The [market](#) for [trading debt instruments](#).

Debt outstanding subject to limitation

[Obligations](#) incurred by the [Treasury](#) subject to the [statutory limit](#) set by Congress. Until World War 1, a specific amount of [debt](#) was authorized for each separate security [issue](#). Beginning with the Second Liberty Loan Act of 1917, the nature of the limitation was modified until, in 1941, it developed into an overall limit on the [outstanding](#) Federal debt. The statutory limit may change from year to year.

Debt ratio

Total [debt](#) divided by total [assets](#).

Debt relief

Reducing the [principal](#) and/or [interest](#) payments on [Less developed country loans](#).

Debt restructuring

Modification of the terms of a [loan](#) to provide relief to a [debtor](#) who could otherwise [default](#) on payments. The restructuring may involve extending the period of repayment, reducing the total amount owed, or exchanging a portion of the [debt](#) for [equity](#) in the [debtor](#) company. Also see [extension](#), [composition](#), [debt-for-equity swap](#).

Debt retirement

The complete repayment of [debt](#). See: [Sinking fund](#).

Debt securities

IOUs created through [loan](#)-type [transactions-commercial paper](#), bank [CDs](#), bills, [bonds](#), and other [instruments](#).

Debt service

[Interest payment](#) plus repayments of [principal](#) to [creditors](#) (retirement of [debt](#)).

Debt service coverage

The ratio of [cash flow](#) available to the [borrower](#) to the annual [interest](#) and [principal](#) payments on a [loan](#) or other [debt](#).

Debt-service coverage ratio

[Earnings](#) before [interest](#) and [income taxes](#), divided by [interest expense](#) plus the quantity of [principal](#) repayments divided by one [minus](#) the [tax rate](#).

Debt service parity approach

Payment alternatives that provide the [firm](#) with the exact same schedule of after-tax [debt](#) payments (including both [interest](#) and [principal](#)).

Debt swap

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

Debtholder

See: [Bondholder](#)

Debtor

[Borrower](#) of [money](#).

Debtor in possession

A [firm](#) that continues to operate under the [Chapter 11 bankruptcy](#) process.

Debtor-in-possession financing

New [debt](#) obtained by a [firm](#) during the [Chapter 11 bankruptcy](#) process, Federal Bankruptcy Rule 4001 (c)(1). This financing is unique because it is secured, that is, it has priority over existing [debt](#), equity and other claims.

Decile rank

Performance over time, rated on a scale of 1-10. 1 indicates that a [mutual fund's return](#) is in the top 10% of funds being compared; while 3 means the [return](#) is in the top 30%.

Decillion

A unit of quantity equal to 10^{33} (1 followed by 33 zeros).

Decimal trading

The [quotation](#) and [trading](#) of [stock](#) or [bond](#) prices in decimals, as opposed to the quotation of prices in fractions.

Decimalization

The quotation and [trading](#) of [stock](#) or [bond](#) prices in decimals, as opposed to fractions such as eighths.

Decision Break-Point Analysis

A type of sensitivity analysis that indicates the value at which a key [variable](#) will result in a negative [NPV](#) for an [investment](#) project.

Decision tree

Schematic way of representing alternative sequential decisions and the possible outcomes from these decisions.

Declaration date

The date on which a [firm's directors](#) meet and announce the date and amount of the next [dividend](#).

Declaration

The [Board of Directors](#) motion to authorize [dividend](#) payments.

Dedicated capital

Total [par value](#) (number of [shares issued](#), multiplied by the par value of each share). Also called dedicated value.

Dedicating a portfolio

Related: [Cash flow matching](#)

Dedication strategy

Refers to multiperiod [cash-flow matching](#).

Deductible

An amount or period which must be deducted before an insurance payout or [settlement](#) is calculated.

Deductible contribution

Amount paid into an [IRA](#), an employer-sponsored retirement plan, or other type of retirement plan for a particular tax year that is a [deduction](#) from income for tax purposes.

Deduction

An [expense](#) that is allowable as a reduction of [gross taxable income](#) by the [IRS](#) e.g., charity donations.

Deductive reasoning

Using known facts to draw a conclusion about a specific situation.

Deed of trust

See: [Indenture](#)

Deep-discount bond

A [bond issued](#) with a very low [coupon](#) or no [coupon](#) that sells at a price far below [par value](#).

A [bond](#) that has no coupon is called a [zero-coupon bond](#).

Deep in the money

A [call option](#) with an [exercise price](#) substantially below the [underlying](#) stock's [market price](#). Also [put option](#) with an [exercise price](#) substantially above the underlying stock's [market price](#). Often substantially below is defined as more than one [strike price](#) below (for [calls](#))/above (for [puts](#)) the current value of the [underlying security](#).

Deep out of the money

A [call option](#) with an [exercise price](#) substantially above the [market price](#). Also [put option](#) with an [exercise price](#) substantially below the underlying stock's [market price](#). Often substantially below is defined as more than one [strike price](#) below (for [calls](#))/above (for [puts](#)) the current value of the [underlying security](#).

Default

The failure to make timely payment of [interest](#) or [principal](#) on a [debt security](#) or to otherwise comply with the provisions of a [bond indenture](#). A breach of a [covenant](#). In context of project financing, a technical default signals a project parameter is outside defined or agreed limits or a legal matter is not yet resolved.

Default interest

A higher [interest rate](#) payable after [default](#).

Default premium

A differential in promised [yield](#) that compensates the [investor](#) for the [risk](#) inherent in purchasing a [corporate bond](#) that entails some risk of [default](#). Often the premium is measured as the yield over and above a government bond yield of similar coupon and maturity.

Default risk

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

Defeasance

The setting aside by a [borrower](#) of [cash](#) or [bonds](#) sufficient to service the borrower's [debt](#). Both the borrower's debt and the [offsetting](#) cash or [bonds](#) are removed from the [balance sheet](#). In securities [trading](#), where a [clearing house](#) becomes [counterparty](#) to each side of a trade, after the trade has been agreed. This is necessary to facilitate [netting](#), and reduce counterparty [risk](#) exposure. The term has become popular recently, because of the growth of central counterparty clearing services in European cash equities markets.

Defensive securities

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

Deferred account

A type of [account](#) that delays taxes on that account until some later date. An example is an IRA account.

Deferred annuities

Tax-advantaged life insurance products. [Deferred annuities offer](#) deferral of taxes with the option of withdrawing one's funds in the form of a [life annuity](#).

Deferred call

A provision that prohibits the [company](#) from calling the [bond](#) before a certain date. During this period the bond is said to be [call protected](#).

Deferred charge

An expenditure treated as an [asset](#) that carries forward until it becomes pertinent to the business at hand, e.g., the underwriting fees on a corporate bond issue, which the corporation capitalizes as a deferred charge and then amortizes over the life of the bond issue.

Deferred compensation

An amount that has been earned but is not actually paid until a later date, typically through a payment plan, pension, or [stock option](#) plan.

Deferred equity

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

Deferred futures

The most distant months of a [futures contract](#).

Deferred interest bond

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

Deferred nominal life annuity

A monthly [fixed-dollar payment](#) beginning at [retirement age](#). It is [nominal](#) because the payment is fixed in a dollar amount at any particular time, up to and including [retirement](#).

Deferred payment annuity

An [annuity](#) that stipulates payments be made to the annuitant at a later date, such as when the annuitant reaches a certain age.

Deferred strike option

An [option](#) where the [strike price](#) can be specified as the [underlying asset](#) price any time before [maturity](#). After the strike is specified, the option becomes a vanilla option until maturity of the option.

Deferred tax expense

A [non-cash expense](#) that provides a source of [free cash flow](#). Amount allocated during the period to cover tax liabilities that have not yet been paid.

Deficiency

The amount by which a project's [cash flow](#) is not adequate to meet [debt](#) service.

Deficiency Agreement

An agreement that calls on the sponsor or another party to provide the shortfall when [cash flow](#), [working capital](#), or revenues are below agreed levels or are insufficient to meet [debt](#) service.

Deficiency letter

Notification from the [SEC](#) to a prospective [issuer](#) of [securities](#) that revisions or additions need to be made to the preliminary prospectus.

Deficit

An excess of [liabilities](#) over [assets](#), of losses over [profits](#), or of expenditure over income.

Deficit spending

When government spending overwhelms government revenue resulting in government [borrowing](#).

Defined asset fund

A [unit investment trust](#) consisting of a fixed [portfolio](#) of [securities](#), including [blue chips](#), [REITs](#), or [high-yielding](#) stocks on a major [exchange](#) such as the [NYSE](#) or [FTSE](#).

Defined benefit plan

A [pension plan](#) obliging the sponsor to make specified dollar payments to qualifying employees at retirement. The pension [obligations](#) are effectively the [debt](#) obligation of the [plan sponsor](#).

Related: [Defined contribution plan](#)

Defined contribution plan

A [pension plan](#) whose [sponsor](#) is responsible only for making specified [contributions](#) into the plan on behalf of qualifying participants. Related: [Defined benefit plan](#)

Defined event

The definition applicable to the trigger of a [loss](#) in an insurance policy, particularly [political risk](#) insurance.

Deflation

Decline in the prices of goods and services. Antithesis of [inflation](#).

Deflator

A statistical factor used to convert current dollar [purchasing power](#) into [inflation](#)-adjusted purchasing power. Enables the comparison of prices while accounting for inflation in two different time periods.

Delayed issuance pool

Refers to [mortgage backed securities \(MBS\)](#) that at the time of issuance were [collateralized](#) by seasoned [loans](#) originated prior to the MBS pool [issue](#) date.

Delayed opening

Postponement of the start of [trading](#) in a [stock](#) until correction of a gross [imbalance](#) in [buy](#) and sell [orders](#). Such an imbalance is likely to follow on the heels of a significant event such as a [takeover offer](#). See: [Suspended trading](#).

Delayed settlement/delivery

In the context of general equities, [transaction](#) in which a [contract](#) is settled in excess of five full business days. [Seller's option](#). See: [Dividend play](#), [settlement](#).

Delinquency

Failure to make a payment on a [debt](#) or [obligation](#) by the specified [due date](#).

Delisting

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

Deliver

The sale of a [futures](#) or [forward contract](#) may require the seller to [deliver](#) the [commodity](#) during the delivery month, if the short position is not offset prior to that time.

Deliverable bills

The [Treasury bills](#) that fulfill a set of guidelines set forth by the [exchange](#) on which the bills are [traded](#).

Deliverable instrument

The [asset](#) in a [forward contract](#) that will be [delivered](#) in the future at an agreed-upon [price](#).

Delivered at Frontier (DAF)

Seller must supply the goods at his or her own risk and [expense](#) delivered to a named place (usually a border location) by a specified time. The buyer is responsible for the importation. This is normally used with rail, truck, or multi-modal shipments.

Delivered Duty Paid (DDP)

Seller must supply the goods at his or her own risk and [expense](#) to a named place in the country of importation. The seller is responsible for importation, payment of duty, and [on carriage](#) to the location agreed upon with the buyer.

Delivered Duty Unpaid (DDU)

Seller fulfills the [contract obligations](#) when the goods have arrived at a named place in the importing country. The seller bears all the costs and risk except for import duties and other customs clearance costs.

Delivered Ex Ship (DES)

Seller fulfills the [contract obligations](#) when the goods have been made available to the buyer on board a ship at the named port of destination. The seller must bear all costs and risks associated in bringing the goods to the named port of destination. The buyer is responsible for all costs necessary to unload the goods and clear them through customs. Unloading costs are included the ocean freight charged by most ship lines. The DES is most often used for [charter shipments](#).

Delivered Ex Quay (DEQ)

Seller fulfills the [contract obligations](#) to deliver when the goods are made available to the buyer at the wharf of the destination port. A DEQ can further specify "Duty Paid" or "Duty Unpaid." If "Duty Paid" is specified, the seller is responsible for all risks and costs, including duty, to the wharf of the destination port. If "Duty Unpaid" is specified, the buyer is to clear the goods and pay duty. Since unloading costs are included in the ocean freight charged by most ship lines. This is most often used for charter shipments.

Delivery

The [tender](#) and receipt of an actual [commodity](#) or financial instrument in [settlement](#) of a [futures contract](#).

Delivery date

Date by which a seller must fulfill the [obligations](#) of a [forward](#) or [futures contract](#).

Delivery notice

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

Delivery options

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

Delivery points

Locations designated by [futures](#) exchanges at which the financial [instrument](#) or [commodity](#) covered by a [futures contract](#) may be delivered in fulfillment of such a [contract](#).

Delivery price

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

Delivery versus payment

A in which the buyer's payment for [securities](#) is due at transaction the time of [delivery](#) (usually to a bank acting as [agent](#) for the buyer) upon receipt of the securities. The payment may be made by [bank wire](#), [check](#), or direct [credit](#) to an account.

Delphi technique

Collection of independent opinions without group discussion by the [analysts](#) providing the opinions; used for various sorts of evaluations (such as country risk assessment).

Dependent variable

Term used in [regression analysis](#) to represent the element or condition that is dependent on values of one or more other independent [variables](#).

Delta

The ratio of the change in price of an option to the change in price of the [underlying](#) asset. Also called the [hedge ratio](#). Applies to derivative products. For a [call option](#) on a stock, a delta of 0.50 means that for every \$1.00 that the stock goes up, the option price rises by \$0.50. As options near [expiration](#), [in-the-money](#) call option contracts approach a [delta](#) of 1.0, while [in-the-money put options](#) approach a delta of -1. See: [hedge ratio](#), [neutral hedge](#). Call deltas range from 0.00 to +1.00; put deltas range from 0.00 to -1.00. If the call delta is 0.69, the put delta is -0.31 (call delta minus 1 equals put delta; 0.69 -1 =-0.31).

Delta cross-hedge

A futures [hedge](#) that has both [maturity](#) and [currency](#) mismatches with an [underlying](#) exposure.

Delta hedge

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

Delta neutral

Describes value of a [portfolio](#) not affected by changes in the value of the [asset](#) on which the [options](#) are written.

Delta Spread

A ratio spread that is established as a neutral position by utilizing the [deltas](#) of the options involved. The neutral ratio is determined by dividing the [delta](#) of the purchased option by the [delta](#) of the written option. See also [Ratio Spread](#) and [Delta](#).

Demand deposits

[Checking](#) accounts that pay no [interest](#) and from which funds can be withdrawn upon demand.

Demand line of credit

A bank [line of credit](#) that enables a customer to [borrow](#) on a daily or on-demand basis.

Demand loan

A [loan](#) which can be [called](#) by the [lender](#) at any time and carries no set [maturity date](#).

Demand master notes

[Short-term securities](#) that are repayable immediately upon the holder's demand.

Demand-pull inflation

A theory of [inflation](#) or price increases resulting from so-called excess demand. Related: [Cost-push inflation](#).

Demand shock

An event that affects the demand for goods and services in an economy.

Demonetization

Government withdrawal of a form of currency from circulation e.g. a particular note, coinage, or precious metal.

Denomination

Corresponds to the [face value](#) of [currency units](#), coins, and [securities](#). An international transaction may be denominated in US dollars, for example, or in British pounds.

Demutualization

Refers to the process that has come about as the result of many not-for-profit exchanges (mutual companies owned by groups of members) converting to for-profit and then shareholder companies in order to go public.

Dependent

Acceptance of a [capital budgeting](#) project contingent on the acceptance of another project.

Deposit insurance

See: [FDIC: Federal Deposit Insurance Corporation](#)

Depository

An [agent](#) appointed for a [Tender](#) or [Exchange Offer](#) who accepts certificates from [shareholders](#), processes them and assures that the appropriate [cash](#) or new [securities](#) are properly remitted to the [tendering](#) party.

Depository institution

A [financial institution](#) that obtains its funds mainly through deposits from the [public](#). This includes commercial banks, savings and loan associations, savings banks and credit unions.

Depository Institutions Deregulation and Monetary Control Act

The 1980 federal legislation that ended the regulation of the banking industry.

Depository preferred

Device enabling an [issuer](#) to circumvent an arbitrary corporate limit on the number of [preferred shares issuable](#). Applies mainly to [convertible securities](#).

Depository receipt

See: [ADR American Depository Receipt](#)

Depository transfer check (DTC)

[Check](#) made out directly by a local bank to a particular [firm](#) or person.

Depository Trust Company (DTC)

DTC is the world's largest central [securities](#) depository. It accepts deposits of over 2 million equity and [debt securities](#) issues (valued at \$23 trillion) from over 65 countries for custody, [executes book-entry deliveries](#) (valued at over \$116 trillion in 2000) records book-entry pledges of those [securities](#),

and processes related income [distributions](#) DTC is a member of the U.S. [Federal Reserve System](#), a limited-purpose trust company under New York State banking law, a registered clearing agency with the Securities and Exchange Commission, and is owned by the [Depository Trust and Clearing Corporation](#) (DTCC), which is in turn owned primarily by most of the major banks, [broker-dealers](#), and [exchanges](#) on [Wall Street](#).

Depository Trust and Clearing Corporation (DTCC)

The Depository Trust and Clearing Corporation (DTCC), through its [subsidiaries](#), provides post-trade clearance, [settlement](#), custody and information services for [equities](#), corporate and municipal [debt](#), [money market instruments](#), American depositary receipts, exchange-traded funds, [unit investment](#) trusts, [mutual funds](#), insurance products and other [securities](#). The National Securities Clearing Corporation (NSCC) subsidiary, which acts as a central [counterparty \(CCP\)](#), provides trade guarantee, [netting](#) and [risk management](#) services for equity and debt transactions from all U.S. [stock exchanges](#) and [markets](#). The [Depository Trust Company](#)(DTC) subsidiary has custody of and provides asset servicing for millions of securities issues of issuers from the U.S. and over 60 other countries. DTC serves as a major [clearinghouse](#) for institutional post-trade [settlement](#). DTCC's two subsidiary businesses have [Standard and Poors'](#) highest rating: AAA.

Depreciate

To allocate the purchase cost of an [asset](#) over its life.

Depreciated cost

In terms of economics: The measure of [capital](#) consumption during production, e.g., machine and equipment wear.

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

Depreciation

A [non-cash expense](#) (also known as non-cash charge) that provides a source of [free cash flow](#). Amount allocated during the period to [amortize](#) the cost of acquiring [long-term assets](#) over the useful life of the [assets](#). To be clear, this is an accounting [expense](#) not a real expense that demands [cash](#). The sum of depreciation expenses of prior years leads to the balance sheet item Accumulated Depreciation.

Depreciation tax shield

The value of the tax [write-off](#) on [depreciation](#) of plant and equipment.

Depressed market

[Market](#) in which supply overwhelms demand, leading to weak and lower prices.

Depressed price

In the context of stocks, [stock](#) whose [market price](#) is low in comparison to stocks in its [sector](#).

Depression

An extended period of depressed economic activity, typically a number of years, and potentially consisting of at least one and maybe two or more recessions, during which one or more of GDP, output, income, or employment, especially the latter, fail to rise above their level at the beginning of the period, even if GDP or output do recover fully much earlier in the period. The Great Depression of the 1930's contained two distinct recessions with significant recoveries of GDP and output after each, but with an ongoing very high level of unemployment and loss of income. The National Bureau of Economic Research's Business Cycle Dating Committee dates U.S. business cycles. There is no definition of depression on their website. It is popularly believed that a decrease of real GDP of 10% or greater would indicate a depression.

Deregulation

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

Derivative

A financial [contract](#) whose value is based on, or "derived" from, a traditional [security](#) (such as a [stock](#) or [bond](#)), an [asset](#) (such as a [commodity](#)), or a [market index](#).

Derivative instruments

[Contracts](#) such as [options](#) and [futures](#) whose price is derived from the price of an [underlying financial asset](#).

Derivative markets

Markets for [derivative instruments](#).

Derivative security

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

Descending tops

A chart [pattern](#) which in which each successive peak in a [security's](#) price is lower than the preceding peak over a period of time. Antithesis of [ascending tops](#).

Descriptor

A [variable](#) describing [assets](#), used as an element of a [risk index](#). For example, a [volatility risk index](#), distinguishing high [volatility](#) assets from low volatility assets, could consist of several descriptors based on [short term](#) volatility, long term volatility, [systematic](#) and residual volatility, etc.

Design risk

The [risk](#) associated with the impact on project [cash flow](#) from deficiencies in design or engineering. Also known as [engineering risk](#).

Designated order turnaround system (DOT)

Computerized order entry system that allows [orders](#) to [buy](#) or sell large [baskets](#) of [stock](#) to be transmitted immediately to the [specialist](#) on the [exchange](#), where [execution](#) will occur quickly, depending on the [basket](#) size. Also used for [odd-lot transactions](#) to occur at the [prices](#) and quantities available. See: [AOS](#).

Desk

The New York Federal Reserve Bank's [trading](#) desk (or [securities](#) department) where all [transactions](#) of the [Federal Reserve System](#) are [executed](#) in the [money market](#) or the [government securities market](#).

Detachable warrant

A [warrant](#) entitles the holder to [buy](#) a given number of [shares](#) of stock at a stipulated [price](#). A detachable warrant is one that may be sold separately from the package it may have originally been [issued](#) with (usually a [bond](#)).

Determinism

Fully ordained in advance. A deterministic [chaos](#) system is one that gives random looking results, even though the results are generated from a system of equations.

Deterministic models

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

Detrend

To remove the general drift, tendency, or bent of a set of statistical data as related to time. Often accomplished by [regressing](#) a [variable](#) or a time [index](#) and perhaps the square of the time index and capturing the [residuals](#). A stochastic detrend would be to subtract a moving-average (say for five years) from the value of the variable.

Deutsche Börse

Germany's major [securities](#) market, including the Frankfurt Stock Exchange.

Deutsche Terminbörse (DTB)

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

Deutsche Börse AG (DBAG)

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

Devaluation

A decrease in the [spot price](#) of a [currency](#). Often initiated by a government announcement.

Diagonal spread

An [options strategy](#) requiring a [long](#) and a [short position](#) in the same [class](#) of [option](#) at different [strike prices](#) and different [expiration dates](#). For example, buying an XYZ April 50 call and selling an XYZ July 55 call. See: [Calendar spread](#); [vertical spread](#).

Dialing and smiling

See: [Cold calling](#)

Dialing for dollars

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

Diamonds

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

Diaspora Bond

A sovereign bond that targets investors that have emmigrated to other countries and the relatives of those emmigrants. For example, the government of Greece tries to sell a government bond to Americans of Greek origin.

Diff

Short version of [Euro](#) rate differential, which is a [Chicago Mercantile Exchange Futures contract](#) that is founded on the [interest rate spread](#) between the U.S. dollar and the British pound, the German mark, or the Japanese yen.

Difference check

The difference in [interest payments](#) that is paid to a [swap counterparty](#) to close out a deal.

Difference from S&P

A [mutual fund's return minus](#) the change in the [Standard & Poor's 500 index](#) for the same time period. A notation of -5.00 means the fund return is 5 percentage points less than the [gain](#) in the [S&P](#), while 0.00 means that the fund and the S&P have the same return.

Differential

A small charge added to the purchase price and subtracted from the selling price by the [dealer](#) for [odd-lot](#) quantities.

Differential disclosure

The practice of reporting conflicting or markedly different information in official corporate statements including [annual](#) and [quarterly](#) reports and [10-Ks](#) and [10-Qs](#).

Differential swap

[Swap](#) between two [LIBOR rates of interest](#), e.g., yen LIBOR for dollar LIBOR Payments are in one [currency](#).

Diffusion process

A conception of the way a [stock's price](#) changes that assumes that the price takes on all intermediate values.

Digits deleted

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

Dilution

Diminution in the proportion of income to which each [share](#) is entitled. Issing new shares often causes dillution.

Dilution protection

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

Dilutive effect

Result of a [transaction](#) that decreases [earnings per common share \(EPS\)](#).

Dim sum bond

Unofficial name for bonds denominated in Chinese yuan and issued in Hong Kong. China's domestic debt market is closed to foreign investors, but foreign investors can invest in dim sum bonds.

Dip

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

Direct Claim

A financial claim issued by a [deficit unit](#) to acquire funds for [investment](#) in [real assets](#).

Direct costs of financial distress

Costs such as fees or penalties incurred as a result of [bankruptcy](#) or [liquidation](#) proceedings.

Direct deposit

A method of payment which electronically credits your checking or savings account.

Direct deposit service

A service that electronically transfers all or part of any recurring payment—including [dividends](#), paychecks, [pensions](#), and [Social Security payments](#)—directly to a [shareholder's](#) account.

Direct estimate method

A method of [cash budgeting](#) based on detailed estimates of cash receipts and cash disbursements category by category.

Direct Exchange Rate

The home [currency](#) price of one [unit](#) of a [foreign currency](#).

Discount Interest

[Interest](#) at a beginning of the [loan](#). For example if you take out a one-year [loan](#) of \$100 at a discount interest rate of 10%, you would receive \$90 at the outset.

Direct investment

The purchase of a controlling [interest](#) in a [company](#) or at least enough interest to have enough influence to direct the course of the company.

Direct lease

[Contract](#) in which a [lessor](#) purchases new equipment from the manufacturer and leases it to the [lessee](#).

Direct overhead

A fraction of [overhead](#) costs devoted to the manufacturing [sector](#) of a [firm](#) to cover [expenses](#) such as rent and utilities.

Direct paper

[Commercial paper](#) sold directly by the [issuer](#) to [investors](#).

Direct participation program

An [investment](#) program enabling [investors](#) to directly participate in the [cash flow](#) and tax benefits of the [partnership](#) invested in by the investor, typically a form of [passive investment](#).

Direct placement

Selling a new [issue](#) not by offering it for sale [publicly](#), but by placing it with one of several [institutional investors](#). Also known as a private placement.

Direct public offering

The process by which a company markets and sells its shares directly to [investors](#) rather than through an [underwriter](#).

Direct Purchase Plan

A plan that enables interested first-time individual [investors](#) to purchase a [company's stock](#) directly from the company or without the direct intervention of a [broker](#). The administrator also ensures the safekeeping of the shares by registering them directly on the books of the company. Eliminates the need for [shareholders](#) to hold on to physical certificates.

Direct quote

For [foreign exchange](#), the number of US dollars needed to [buy](#) one [unit](#) of a [foreign currency](#).

Direct Registration System

A system, sometimes referred to as DRS, that allows electronic direct registration of securities in an investor's name on the books for the transfer agent or issuer, and allows shares to be transferred between a [transfer agent](#) and [broker](#) electronically. DRS provides investors with a different way of holding their securities in certificate or street form. Under DRS, investors can elect to have their securities registered directly on the issuer's records in book-entry form. An investor electing to hold a security in a DRS book-entry position will receive a statement from the issuer or its [transfer agent](#) verifying ownership of the security. The investor can subsequently transfer electronically the DRS book-entry position to their bank or broker/dealer.

Direct rollover

Movement of tax-deferred retirement plan [money](#) from one [qualified plan](#) or [custodian](#) to another. No immediate tax liabilities or penalties are incurred, but there is an [IRS](#) reporting requirement.

Direct search market

Buyers and sellers seek each other directly and transact directly.

Direct stock-purchase programs

[Investors](#) purchase [securities](#) directly from the [issuer](#).

Direct terms

The price of a [unit](#) of [foreign currency](#) in domestic currency terms, such as \$.9850/[Euro](#) for a US resident. See: [Indirect terms](#).

Director

See: [Board of directors](#).

Director Exception

A [proxy](#) or ballot that withholds its votes from one or more, but not all, individuals on the slate of nominated directors.

Directors' Duties

In the context of corporate governance, Directors' Duties refers to stated responsibilities of the [company's Board of Directors](#). These provisions allow directors to consider constituencies other than [shareholders](#) when considering a merger. These constituencies may include, for example, employees, host communities, or suppliers. This provision provides boards of directors with legal basis for rejecting a takeover that would have been beneficial to shareholders. A majority of states have Directors Duties Laws.

Directorship

Used in the context of general equities. [Stock](#) status whereby a [trader](#) may not maintain [positions](#) in the [security](#), due to an [investment](#) bank employee serving as a director on the [corporation's Board of Directors](#) done to avoid conflicts of interest; signified by a flashing "D" on Quotron. Contrast to [restricted](#).

Dirty float

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

Dirty price

[Bond](#) price including [accrued interest](#), i.e., the price paid by the [bond buyer](#).

Dirty stock

A [stock](#) that fails to fulfill prerequisites to attain [good delivery](#) status.

Disability income insurance

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

Disbursement float

A decrease in [book cash](#) but no immediate change in bank [cash](#), generated by [checks](#) written by the [firm](#).

Discharge of bankruptcy

The termination of bankruptcy proceedings, resulting in cancellation of the [debtor's obligations](#).

Discharge of lien

An [order](#) terminating a [lien](#) on property.

Disclaimer of opinion

An auditor's statement that does not express any opinion regarding the [company's](#) financial condition.

Disclosure

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

Discontinued operations

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

Discount

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

General: Information that has already been taken into account and is built into a [stock](#) or [market](#).

Straight equity: [Price](#) lower than that of the last sale or [inside market](#).

Discount Arbitrage

A riskless arbitrage in which a discount option is purchased and an opposite position is taken in the [underlying security](#). The arbitrageur may either [buy](#) a call at a discount and simultaneously sell the underlying security (basic call arbitrage) or may buy a put at a discount and simultaneously buy the underlying security (basic put arbitrage). See also [Discount](#).

Discount bond

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

Discount broker

A brokerage house featuring relatively low [commission](#) rates in comparison to a [full-service broker](#).

Discount factor

[Present value](#) of \$1 received at a stated future date.

Discount payment

The difference between the face value and the price paid for a security.

Discount period

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

Discount rate

The [interest rate](#) that the [Federal Reserve](#) charges a bank to [borrow](#) funds when a bank is temporarily short of funds. [Collateral](#) is necessary to borrow, and such borrowing is quite limited because the Fed views it as a privilege to be used to meet [short-term](#) liquidity needs, and not a device to increase [earnings](#). In context of [NPV](#) or PV calculations, the discount rate is the [annual percentage](#) applied. In the context of project financing, the discount rate is often the [all-in](#) interest rate or the interest rate plus [margin](#).

Discount securities

Non-interest-bearing [money market instruments](#) that are [issued](#) at a [discount](#) and [redeemed](#) at [maturity](#) for full [face value](#), e.g., US [Treasury bills](#).

Discount window

Facility provided by the [Fed](#) enabling [member banks](#) to [borrow](#) reserves against [collateral](#) in the form of government securities or other acceptable paper.

Discount yield

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

Discounted basis

To sell a debt instrument below [maturity value](#), so that the difference makes up all or part of the interest.

Discounted cash flow (DCF)

Future [cash flows](#) multiplied by [discount factors](#) to obtain [present values](#).

Discounted dividend model (DDM)

A formula to estimate the [intrinsic value](#) of a [firm](#) by figuring the [present value](#) of all expected future [dividends](#).

Discounted payback

The length of time needed to recoup the [present value](#) of an [investment](#).

Discounted payback period rule

An [investment decision](#) rule in which [cash flows](#) are [discounted](#) at an [interest rate](#) and then one determines how long it takes for the sum of the [discounted cash flows](#) to equal the initial [investment](#).

Discounted in/by market

Unannounced information that is widely accepted or anticipated, and hence is already taken into account in the pricing of the [security/ market](#) (e.g., poor earnings).

Discounting

Calculating the [present value](#) of a future amount. Discounting is opposite to [compounding](#).

Discounting the news

An adjustment of a [stock's](#) price as [speculators bid](#) the price up or down in anticipation of news about the [company](#), whether good or bad.

Discrepancy

Any deviation from the conditions stipulated in a [letters of credit](#). Discrepancies void letter of credit protection.

Discrete compounding

[Compounding](#) the [time value of money](#) for separate time intervals.

Discrete random variable

A [random variable](#) that can take only a certain specified set of individual possible values-for example, the positive integers 1, 2, 3, . . . For example, stock prices are discrete random variables, because they can only take on certain values, such as \$10.00, \$10.01 and \$10.02 and not \$10.005, since stocks have a

minimum tick size of \$0.01. By way of contrast, stock returns are continuous not discrete random variables, since a stock's return could be any number.

Discrete variable

[Variable](#) like 1, 2, 3. [Bond ratings](#) are examples of discrete classifications.

Discretion

Freedom given to the floor broker by an [investor](#) to use his judgment regarding the execution of an order. Discretion can be limited, as in the case of a limit order that gives the floor broker some distance from the stated limit price to use his judgment in executing the order. Discretion can also be unlimited, as in the case of a market-not-held order. See also: [Market Not Held Order](#).

Discretionary account

Account over which an individual or organization, other than the person in whose name the account is carried, [exercises trading authority](#) or [control](#).

Discretionary cash flow

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

Discretionary income

The amount of income a consumer has available after purchasing essentials such as food and shelter.

Discretionary order

A type of [buy order](#) or sell order that gives the [broker](#) the freedom and power to make the [execution](#) at any time and price that is seen fit and reasonable, given the [investor's](#) goals.

Discretionary Proposition

A proposal on a [proxy](#) card that [brokers](#) can cast in favor of management if they have not yet heard from the beneficial holder ten days before the annual meeting. See: [Ten-Day Rule](#)

Discretionary reserves

[Balance sheet](#) accounts representing temporary accumulations of [earnings](#) from the current year or the recent past.

Discretionary trust

In the context of [mutual funds](#), refers to a [mutual fund](#) or [unit trust](#) whose management decides on the best way to use the [assets](#) without restriction to a specific type of [security](#).

In the context of [trusts](#), refers to a [personal trust](#) in which a trustee has the power of decision as to how much income or [principal](#) each [beneficiary](#) receives.

Discriminate analysis

A statistical process that links the probability of [default](#) to a specified set of [financial ratios](#).

Dishonor

A refusal to pay.

Disinflation

A decrease in the rate of [inflation](#).

Disintermediation

Withdrawal of funds from a [financial institution](#) in order to [invest](#) them directly.

Disinvestment

A reduction in [capital investment](#) reflected by a decrease in [capital goods](#) and a [company's](#) decision not to replace depleted [capital goods](#).

Disorderly Market

A characterization of market conditions whereby there is excessive volatility at a time when there is no news. The volatility is often caused by order imbalances. In some markets, shorts trying to cover can cause disorderly conditions. If disorderly conditions arise, sometimes trading is halted.

Disposable income

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

Distress sale

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

Distressed securities

A security of a [firm](#) that has declared or is about to declare bankruptcy. In the context of hedge funds, a style of management that focuses on [securities](#) of companies that have declared bankruptcy and may be undergoing reorganization. [Investment](#) holdings can include bonds as well as stock in these firms.

Distributed

New [Treasury](#) issues in [dealers'](#) hands are said to be distributed.

Distributing syndicate

A [syndicate](#) consisting of a number of brokerage firms or [investment bankers](#) that work together to sell and disperse a large [lot](#) of [securities](#).

Distribution

Selling a large [lot](#) of a [security](#) in such a way that the security price is not heavily influenced.

Distribution area

An established price [range](#) in which a [stock](#) has been [trading](#) for a significant amount of time.

See: [Accumulation area](#).

Distribution Cost Advantage

A source of competitive advantage that depends on the efficient delivery of a product or service to customers.

Distribution by coupon

Classification of a [portfolio's securities](#) according to [coupon rate](#)—the [interest rate](#) that an [issuer](#) promises to pay, expressed as an annual percentage of [face value](#).

Distribution by credit quality

Classification of a [portfolio's securities](#) according to [credit rating](#).

Distribution by issuer

Classification of a [portfolio's](#) holdings by type of [issuer](#) or type of [instrument](#).

Distribution by maturity

An indicator of [interest rate risk](#). In general, the higher the concentration of longer-[maturity issues](#), the more a [portfolio's share](#) price will fluctuate in response to changes in interest rates.

Distribution period

The few days between the [Board of Directors' declaration](#) of a [stock dividend](#) ([declaration date](#)) and the [date of record](#), or the date an individual must own [shares](#) to be entitled to a [dividend](#).

Distribution plan

A [mutual fund's](#) plan to charge [distribution costs](#) such as advertising to the [investors](#) of the fund.

Distribution schedule

The frequency (monthly, [quarterly](#), semiannually, or annually) of a [mutual fund's](#) scheduled [distributions of dividends](#) or [capital gains](#).

Distribution stock

A small amount of a specific [stock](#) that forms part of a larger [block](#) of [stock](#) that is sold small amount by small amount so as not to disrupt the stock's [market price](#).

Distributions

Payments from fund or corporate [cash flow](#). May include [dividends](#) from [earnings](#), [capital gains](#) from sale of [portfolio](#) holdings and [return of capital](#). Fund [distributions](#) can be made by [check](#) or by investing in additional [shares](#). Funds are required to distribute realized capital gains (if any) to [shareholders](#) at least once per year if they are not to be taxed by the fund itself.

Some [corporations](#) offer [Dividend Reinvestment Plans \(DRP\)](#).

Divergence

When two or more [averages](#) or [indexes](#) fail to show confirming [trends](#).

Diversifiable risk

Related: [Unsystematic risk](#)

Diversification

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

Diversified investment company

An [investment](#) vehicle such as a [mutual fund](#) that invests in an assortment of [securities](#).

Divestiture

A complete [asset](#) or [investment](#) disposal such as outright sale or [liquidation](#).

Dividend

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

Dividend Discount Return

The [rate of return](#) which equates the [present value](#) of [future expected dividends](#) with the current [market price](#) of a [security](#).

Dividend in arrears

[Accumulated dividends](#) on [cumulative preferred stock](#) that are deemed payable to the current holder.

Dividend capture

See: [Dividend rollover plan](#)

Dividend clawback

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

Dividend clientele

A group of [shareholders](#) who prefer that the [firm](#) follow a particular [dividend policy](#). Such a preference may be based on comparable tax situations.

Dividend Disbursing Agent

A commercial bank or [financial institution](#) that disburses [dividend](#) to the securityholders. Usually a [Transfer Agent](#) is also the Dividend Disbursing Agent.

Dividend Discount Model (DDM)

A method to value the [common stock](#) of a [company](#) that is based on the [present value](#) of the expected future [dividends](#).

Dividend distribution

See: [Dividend income](#)

Dividend growth model

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

Dividend income

[Distribution of earnings](#) to [shareholders](#) that may be in the form of [cash](#), [stock](#), or property. [Mutual fund dividends](#) are paid out of income, usually on a [quarterly](#) basis, from [interest](#) generated by a fund's [investments](#). Also known as a [dividend distribution](#).

Dividend limitation

A [bond covenant](#) that restricts in some way the [firm's](#) ability to pay [cash dividends](#).

Dividend Order

A letter or form signed by the [shareholder](#) instructing a [corporation](#) to issue and forward [dividend](#) and/or interest payments to a specific person or entity other than the registered owner, such as a bank or [broker](#).

Dividend payout ratio

Percentage of [earnings](#) paid out as [dividends](#).

Dividend policy

Standards by which a [firm](#) determines the amount of [money](#) it will pay as [dividends](#).

Dividend rate

The fixed or [floating rate](#) paid on [preferred stock](#) based on [par value](#).

Dividend record

[S&P](#) publication stating companies' payment histories and corporate policies.

Dividend Reinvestment Plan (DRP)

Plan which provides for automatic [reinvestment](#) of [shareholder dividends](#) in more [shares](#) of a [company's stock](#), often without [commissions](#). Some plans provide for the purchase of additional shares at a [discount](#) to [market price](#). [Dividend](#) reinvestment plans allow [shareholders](#) to accumulate stock over the [long term](#) using [dollar cost averaging](#). The DRP is usually administered by the company without charges to the holder.

Dividend requirement

The annual [earnings](#) minimum required for payment of [dividends](#) on a [preferred stock](#).

Dividend rights

A [shareholder's](#) rights to receive per-share dividends identical to those other shareholders receive.

Dividend rollover plan

An [investment strategy](#) that entails the purchasing before and selling after of a stock right before its [ex-dividend](#) date in order to collect the [dividends](#) paid out by the stock and [capture](#) a [trade profit](#).

Dividend trade roll/play

Used for listed equity securities. Method of [buying](#) and selling [stocks](#) around their [ex-dividend](#) dates so as to collect the [dividend](#) (which is 80% [tax-exempt](#)) [offset](#) by a fully-taxable [capital loss](#).

Predicated on the 80% current [exemption](#) that some [corporations](#) receive on [dividend income](#).

Dividend yield (Funds)

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

Dividend yield (Stocks)

[Indicated yield](#) represents annual [dividends](#) divided by current [stock price](#).

Dividends payable

The [declared dividend](#) dollar amount that a [company](#) is [obligated](#) to pay.

Dividends per share

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

Dividends-received deduction

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

Divisional buyout (Divisional LBO)

A form of [leveraged buyout](#) where a business unit, a subsidiary, or a corporate division is acquired.

Divisor

Used in construction of [stock indices](#). Suppose there 10 stocks in an [index](#), each worth \$10 and the index is at 100. Now suppose that one of the stocks must be replaced with another stock that is worth \$20. If no adjustment is made to the divisor, the total value of the index would be 110 after the [swapping](#). yet there should be no increase in value because nothing has happened other than switching the two constituents. The solution is to change the divisor; in this case from 1.00 to 1.10. Note that the value of the index, 110/1.1, is now exactly 100 - which is where it was prior to the swap.

Direct foreign investment (DFI)

[Investment](#) in [real assets](#) (such as land, buildings, or plants) outside one's own country.

Direct Loan Program

[Fixed-rate loans](#) offered by the [Ex-Im Bank](#) directly to the foreign buyer to purchase US [capital](#) equipment and services.

Do Not Increase (DNI)

A restriction that an [investor](#) places on a [good til' canceled order](#) to prevent an [order](#) increase in the case of a [stock dividend](#) or [stock split](#).

Do Not Reduce Order (DNR Order)

[Limit order](#) to [buy](#) or to sell, or a [stop limit order](#) to sell that is not to be reduced by the amount of an ordinary [cash dividend](#) on the [ex-dividend](#) date. A "do not reduce order" applies only to ordinary [cash dividends](#), and not [stock dividends](#) or [rights](#).

Doctrine of sovereign immunity

Principle that a nation may not be tried in another country without its consent.

Documentary Collection

A service provided by banks to sellers in obtaining payments. This service is usually transacted by the seller's bank through the buyer's bank, with the latter presenting the shipping documents to the buyer in exchange for payment or for signing a [promissory note](#) like instrument called a [time draft](#).

Documentary collections

Trade [transactions](#) handled on a [draft](#) basis.

Documented discount notes

[Commercial paper](#) backed by normal bank [lines of credit](#) plus a [letter of credit](#) from a bank stating that it will pay off the paper at [maturity](#) if the [borrower defaults](#). Such paper is also referred to as [L.O.C.](#) paper. Also known as Bankers' Acceptances.

Documents against acceptance

Shipping documents held by the buyer's bank until the buyer has accepted (signed) the [draft](#).

Documents against payment

Shipping documents that are released to the buyer once the buyer has paid for the [draft](#).

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Act was passed as a response to 2007-2010 financial crisis and brought sweeping changes to financial regulation in the United States. The Act was signed by President Barack Obama on July 21, 2010

Dogs of the Dow

The 10 stocks of the 30 on the [Dow Jones Industrial Average](#) with the most depressed prices and consequently the highest [yields](#). The [investor buying](#) these stocks speculates that they will bounce back over a one-year period.

Dollar bears

[Traders](#) who [capitalize](#) on a falling dollar by [buying](#) other [foreign currencies](#) directly.

Dollar bonds

[Municipal revenue bonds](#) for which quotes are given in dollar prices. Not to be confused with "US [Dollar](#)" bonds, a common term of reference in the [Eurobond](#) market.

Dollar cost averaging

See: [Constant dollar plan](#)

Dollar drain

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

Dollar duration

The product of [modified duration](#) and the initial [price](#).

Dollar price of a bond

Percentage of [face value](#) at which a [bond](#) is quoted.

Dollar return

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

Dollar roll

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

Dollar safety margin

The dollar equivalent of the [safety cushion](#) for a [portfolio](#) in a [contingent immunization strategy](#).

Dollar shortage

Results when a nation importing US goods cannot pay for them without the aid of the United States.

Dollar-weighted rate of return

Also called the [internal rate of return](#); the [interest rate](#) that makes the [present value](#) of the [cash flows](#) from all the subperiods in an [evaluation period](#) plus the [terminal market value](#) of the [portfolio](#) equal to the initial [market value](#) of the [portfolio](#).

Domestic bonds

[Bonds](#) issued and [traded](#) within the [internal market](#) of a country and [denominated](#) in the [currency](#) of that country.

Domestic corporation

A [corporation](#) that is conducting business and is based in the country in which it is established, as opposed to a [foreign corporation](#).

Domestic International Sales Corporation (DISC)

A U.S. [corporation](#) that receives a tax incentive for export activities.

Domestic market

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

Domestic series

Nonmarketable [interest](#) and noninterest-bearing [securities issued](#) periodically by the [Treasury](#) to the [Resolution Funding Corporation \(RFC\)](#) for [investment](#) of funds authorized under section 21B of the [Federal Home Loan Bank Act](#).

Donor

One who gives property or [assets](#) to someone else through the vehicle of a [trust](#).

Don't fight the tape

Phrase advising not to [trade](#) against the [market trend](#). If [stock](#) prices are rising, do not sell.

Don't know (DK, DKed)

"Don't know the [trade](#)." A [Street](#) expression used whenever one party lacks knowledge of a [trade](#) or receives conflicting instructions from the other party. Also, an unscrupulous claim made by one party denying that the trade had been agreed to and made after the trade goes adversely against that party.

Double auction market

Systems by which listed [securities](#) are bought and sold through [brokers](#) on the securities exchanges, as distinguished from the [OTC](#) market, where [trades](#) are negotiated. Unlike the conventional auction with one auctioneer and many buyers, double auction markets consist of many sellers and many buyers.

Double auction system

A [market](#) consisting of many sellers and many buyers, as opposed to a conventional auction with one [market maker](#) and many buyers.

Double-barreled

Describes backing of the [principal](#) and [interest](#) of a smaller [municipal revenue bond](#) by a larger municipal entity.

Double bottom

A term used in [technical analysis](#) to refer to the [drop](#) of a stock's price, a rebound, and then a drop back to the same level as the original drop. The pattern looks like the letter W. In technical analysis, this pattern is considered a positive for the stock. The stock has bottomed out and the technical analysts would expect the stock to appreciate afterwards.

Double-declining-balance depreciation method (DDB)

An accounting methodology in which the [depreciation](#) rate used is double the rate used under the [straight-line](#) method. In addition, the rate is applied to the full purchase cost of the asset, whereas under the [straight-line](#) method the rate is applied to the cost net of salvage value.

Double-declining-balance depreciation

Method of [accelerated depreciation](#).

Double dip

Used for listed equity securities. [Dividend](#) roll in which the "dividend capturer" already owns the [stock cum dividend](#). Also used when tax [depreciation](#) is accessed in two countries concurrently. For economics, it refers to two closely dated recessions, e.g. 1980-82.

Double-dip lease

A cross-border [lease](#) in which the different rules of the [lessor's](#) and [lessee's](#) countries let both parties be treated as the owner of the leased equipment for tax purposes.

Double-entry bookkeeping

Accounting method that records each [transaction](#) as both a [credit](#) and a [debit](#) in different accounts.

Double-tax agreement

Agreement between two countries that taxes paid abroad can be [offset](#) against domestic taxes levied on foreign dividends.

Double taxation

Government taxation of the same [money](#) twice; specifically, [earnings](#) taxed first at the corporate level and then again as [dividends](#) at the stockholder level.

Double top

A term used in [technical analysis](#) to refer to the rise of a stock's price, a [drop](#), and then a rise back to the same level as the original rise. The pattern looks like the letter M. In technical analysis, this pattern is interpreted negatively suggesting that there is some resistance level (top of the M) whereby the stock can't go higher.

Double up

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

Double witching day

The last trading day before expiry of [options](#) and [futures](#) on the same underlying asset, resulting in a variety of [arbitrage strategies](#) to close out [positions](#).

Doubling option

A [sinking fund](#) provision that may allow repurchase of twice the required number of [bonds](#) at the sinking fund [call price](#).

Dovish

Refers to the tone of language used to describe a situation and the associated implications for actions. For example, if the Federal Reserve bank refers to inflation in a dovish tone, it is unlikely that they would take aggressive actions. Similarly, a CEO might use dovish language to describe an important event facing the firm. This indicates that the firm is unlikely to take strong actions. Dovish sometimes means conciliatory. Opposite of hawkish.

Dow dividend theory

See: [Dogs of the Dow](#).

Dow Jones Industrial Average

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

Dow Theory

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

Down market

The period of time after a market top during which a security's price trends downwards.

Down round

Refers to a round of [venture capital](#) financing that is raised at a lower firm valuation than the previous round.

Down volume

When a stock decreases in value on a particular day, the volume in that stock is considered down volume. Related: [Up volume](#).

Down-and-in option

[Barrier option](#) (or knock-in option) that causes a plain-vanilla call or put option to come into existence if the underlying asset price falls to a predetermined price level (the barrier price).

Down-and-out option

[Barrier option](#) (or knock-out option) that initially is a plain vanilla option, but which ceases to exist if the underlying security falls to a predetermined level (the barrier price).

Downgrade

A negative change in [ratings](#) for a [stock](#), or other rated [security](#).

Downside Protection

Generally used in connection with covered call writing, this is the cushion against loss, in case of a price decline by the [underlying security](#), that is afforded by the written call option. Alternatively, it may be expressed in terms of the distance the [stock](#) could fall before the total position becomes a loss (an amount equal to the option premium), or it can be expressed as percentage of the current stock price.

Downside risk

[Risk](#) includes the chance that a [security](#) increases or decreases in value unexpectedly. However, most people are concerned with the chance of an unexpected decline - which is known as downside risk.

Downsizing

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

Downstream

The transfer of corporate activity from the larger [parent](#) to the smaller [subsidiary](#).

Downtick

A trade in a particular stock at a price lower than the trade immediately preceding it. On U.S. [stock exchanges](#), you cannot sell a stock [short](#) on a [downtick](#).

Downturn

(1) A period of contraction or decline of economic activity, especially real GDP, but typically employment as well. (2) The transition of an economy from growth to contraction, also known as a peak of economic activity.

Downswing

(1) A downward turn in a security's price after a period of flat or rising prices ([market top](#)). (2) The period during which a security's price trends downwards.

Draining reserves

[Federal Reserve System's](#) course of action to tighten the [money supply](#) by (1) raising a bank's minimum [reserve](#) requirements, (2) selling [bonds](#) in the [open market](#), (3) raising the rate at which banks [borrow](#) from the Fed, or (4) through draw-downs.

Draft

An unconventional [order](#) in writing-signed by a person, usually the exporter, and addressed to the importer-ordering the importer or the importer's [agent](#) to pay, on demand ([sight draft](#)) or at a fixed future date ([time draft](#)) the amount specified on the face of the draft.

Draw a call

In the context of general equities, provoking a customer [indication/inquiry/order](#) by calling them up or doing large amount of the volume in a [stock](#).

Drawback

A tax or duty [rebate](#) on imported goods that are exported at a later date.

Drawdown

The state in which the [borrower](#) obtains some of the project financing, usually progressively according to construction expenditures plus IDC.

Draw-down

In context of [private equity](#), when investors commit themselves to back a private equity fund, all the funding may not be needed at once and therefore, capital is drawn down at a later date.

Drawee

The party who is directed to pay as specified in a [draft](#).

Drawer

The party initiating a [draft](#).

Drayage

A trucking [company](#) freight charge for the pick up or delivery of an ocean container.

Dressing up a portfolio

[Money managers' strategy](#) to make [transactions](#) for the sole purpose of making a [portfolio](#) look good to the [investor](#) near the end of a reporting period. See: [Window dressing](#)

Drip feed

The continual [investment](#) of [capital](#) in a small and growing [company](#) as the company needs it, rather than investing a [lump sum](#) at the company's inception.

Drive-by VC

A type of [venture capitalist](#). In the usual model, the venture capitalist (VC) is involved in management and monitoring of the [startup](#). A drive-by VC invests in a [portfolio](#) of startups and is often quick to exit.

Drop

Refers to [over-the-counter trading](#). Remove from [OTC trading list](#); hence, no longer making a [market](#) in a [security](#).

Drop, The

In a [dollar roll transaction](#), the difference between the sale [price](#) of a [mortgage-backed](#) pass-through, and its repurchase price on a future date at a predetermined price.

Drop-dead day

The date on which a deadline is final, with no exceptions.

Drop-dead fee

A term of British origin referring to fee that must be paid if a deal falls through because of financing [issues](#).

Drop lock

The fixing of the [interest rate](#) on a [floating-rate note](#) or [preferred stock](#) if it falls to a specified level.

Dual banking

Describes United States custom in which a bank is [chartered](#) by the state or federal government.

Dual-currency issues

[Eurobonds](#) that pay [coupon interest](#) in one [currency](#) but pay the [principal](#) in a different currency.

Dual listing

Listing of a [security](#) on more than one [exchange](#), thus increasing the competition for [bid](#) and [offer prices](#), the [liquidity](#) of the securities, and the length of time the [stock](#) can be [traded](#) daily (if listed on both the east and west coasts.) See: [Listed security](#).

Dual-purpose fund

A [closed-end fund](#) consisting of two [classes](#) of [shares](#). The two [classes](#) are [preferred shares](#), on which [shareholders](#) receive all the [dividends](#) and [interest](#) from the [portfolio](#), and [common shares](#), on which [shareholders](#) receive all the [capital gains](#).

Dual syndicate equity offering

An international [equity](#) placement that splits the [offering](#) into two [branches](#) - domestic and foreign - and each grantee is handled by a separate [lead manager](#).

Dual trading

The custom of a [trader](#) on the [commodities market](#) to deal for its own [account](#) and the [investor's account](#) at the same time.

Ducentillion

A unit of quantity equal to 10^{603} (1 followed by 603 zeros).

Due bill

An [instrument](#) evidencing the [obligation](#) of a seller to deliver [securities](#) sold to the buyer. Occasionally used in the bill market.

Due date

Date on which a [debt](#) must be paid.

Due diligence

An [internal audit](#) of a [target firm](#) by an [acquiring firm](#). [Offers](#) are often made contingent upon resolution of the due diligence process.

Due diligence meeting

Meeting legally required to be held by an [underwriter](#) to enable [brokers](#) to question a new [issuer](#) about an upcoming [issue](#).

Due-on-sale clause

A [mortgage contract](#) clause stipulating that the [borrower](#) pay off the full remaining [principal](#) on a [mortgage](#) if the mortgaged property is sold before the mortgage is paid off.

Dump

See: [Spaceman](#)

Dumping

Used in the context of general equities. [Offering](#) large amounts of [stock](#) with little or no concern for [price](#) or [market](#) effect.

Duodecillion

A unit of quantity equal to 10^{39} (1 followed by 39 zeros).

Duononagintillion

A unit of quantity equal to 10^{279} (1 followed by 279 zeros).

Duooctogintillion

A unit of quantity equal to 10^{249} (1 followed by 249 zeros).

Duoquadrugintillion

A unit of quantity equal to 10^{129} (1 followed by 129 zeros).

Duoquinquagintillion

A unit of quantity equal to 10^{159} (1 followed by 159 zeros).

Duoseptuagintillion

A unit of quantity equal to 10^{219} (1 followed by 219 zeros).

Duosexagintillion

A unit of quantity equal to 10^{189} (1 followed by 189 zeros).

Duotrigintillion

A unit of quantity equal to 10^{99} (1 followed by 99 zeros).

Duovigintillion

A unit of quantity equal to 10^{69} (1 followed by 69 zeros).

Duplicate Proxy

A second [proxy](#) received on an account. If the second proxy bears a more recent date than the first proxy, and has a different voting pattern, the second proxy will override the first.

Duplicative portfolio

Mainly applies to derivative products. [Basket](#) of [stocks](#) that imitates the [price](#) movement of another set of [securities](#) (e.g., [S&P 500 index](#)).

Dupont system of financial control

Highlights the fact that [return on assets \(ROA\)](#) can be expressed in terms of the [profit margin](#) and [asset turnover](#).

Durable merchandise

Goods that have a relatively lengthy life (television sets, radios, etc.).

Duration drift

Change in [duration](#) attributable to the passage of time.

Duration

A common gauge of the [price](#) sensitivity of a fixed income [asset](#) or [portfolio](#) to a change in [interest rates](#).

Duration matching strategy

An [immunization](#) technique that matches [asset duration](#) with the duration of the [liabilities](#).

Dutch auction

[Auction](#) in which the lowest [price](#) necessary to sell the entire [offering](#) becomes the price at which all [securities](#) offered are sold. This technique has been used in [Treasury](#) auctions. Often used in [risk arbitrage](#). [Auction](#) system in which the price of an item ([stock](#)) is gradually lowered until it meets a responsive [bid](#) (government [T-bills](#)) or [offer](#) ([corporate repurchase](#)) and is sold. In a [corporate repurchase](#), a range of prices is set by the [company](#) within which [shareholders](#) are invited to [tender](#) their [shares](#). The [tender offer](#) is open for a specific period of time (i.e., 20 days), and the quantity of stock to be purchased is stated as well, subject to proration if more shares are [tendered](#) than can be legally purchased under the stated terms (often an additional amount equal to 20% of [outstanding shares](#) can be purchased). The price paid is that at which the amount stated to be purchased can be sold. Compare to [double auction system](#).

Dutch Auction Preferred Stock

A form of [adjustable-rate preferred stock](#) in which the [dividend](#) is ascertained in a [Dutch Auction](#) process by corporate bidders every seven weeks.

Duty

A tax on imports, exports, or consumption goods.

Dwarfs

[Fannie Mae](#) issued [mortgage-backed securities](#) pools that have an original [maturity](#) of 15 years.

Dynamic

For option [strategies](#), describing analyses made during the course of changing security prices and during the passage of time. This is as opposed to an analysis made at expiration of the options used in the [strategy](#). A dynamic break-even point is one that changes as time passes. A dynamic follow-up action is one that will change as either the security price changes or the option price changes or time passes.

Dynamic asset allocation

An [asset](#) allocation [strategy](#) in which the asset mix is quantitatively shifted in response to changing [market](#) conditions, as in a [portfolio insurance strategy](#), for example.

Dynamic hedging

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

Dynamical Noise

When the output of a [dynamical system](#) becomes corrupted with [noise](#), and the noisy value is used as input during the next iteration. Also called [System Noise](#). See: [Observational Noise](#).

Dynamical Systems

A system of equations where the output of one equation is part of the input for another. A simple version of a dynamical system is linear simultaneous equations. Non-linear simultaneous equations are nonlinear dynamical systems.

E

Fifth letter of a [Nasdaq](#) stock symbol specifying that an issue has not met the reporting date for the [company's](#) SEC regulatory filing requirements.

E/EV

See: [EBITDA/enterprise value ratio](#)

EAFFE index

See: [European Australian and Far East index](#)

EASD

See: [European Association of Securities Dealers](#)

EBA

See: [European Banking Authority](#)

EBIAT

See: [Earnings Before Interest after Taxes](#)

EBIT

See: [Earnings Before Interest and Taxes](#)

EBITD

See: [Earnings Before Interest, Taxes and Depreciation](#)

EBITDA

See: [Earnings Before Interest, Taxes, Depreciation, and Amortization](#)

EBITDA/EV

See: [EBITDA/enterprise value ratio](#)

EBITDA/enterprise value ratio (EBITDA/EV)

A modified measure of the ratio of a company's operating and non-operating [profits](#) to the [market value](#) of the firm's [equity](#) and [debt](#). By providing a simple, though incomplete, ratio of [profit](#) to [value](#), EBITDA/EV is often used to estimate the [cash return on an investment](#). See: [Enterprise value/EBITDA ratio](#)

EBRD

See: European Bank for Reconstruction and Development

EBT

See: [Earnings Before Taxes](#)

EC

The two-character [ISO](#) 3166 country code for ECUADOR.

ECA

See: Export Credit Agency

ECRI Index

See: [Economic Cycle Research Institute Index](#)

ECU

The three-character [ISO](#) 3166 country code for ECUADOR.

EDC

See: Export Credit Agency

ECGD

See: [Export Credit Guarantee Department](#)

ECN (1)

Electronic Communications Network. Defined under Rule 11Ac1- 1(a)(8) under the U.S. Securities Exchange Act of 1934.

ECN (2)

See: [Emerging company marketplace](#)

ECS

The [ISO](#) 4217 currency code for the Ecuadorian Sucre.

EDGAR Electronic Data Gathering, Analysis and Retrieval System

The system through which [companies](#) electronically file reports and registration statements with the [SEC](#). This requires converting the paper or word-processing document to be filed into a universal ASCII format, a process known as [EDGAR](#)-izing the document. The filings can then be accessed by the [public](#) through the SEC's Web site on the Internet.

EE

The two-character [ISO](#) 3166 country code for ESTONIA.

EEK

The [ISO](#) 4217 currency code for the Estonian Kroon.

EFIC

See: [Export Finance Insurance Corp.](#)

EFSF

See: [European Financial Stability Facility](#)

EFTPOS

Acronym for Electronic Funds Transfer at Point of Sale. Payment is transferred usually from a checking account at the point of sale.

EG

The two-character [ISO](#) 3166 country code for EGYPT.

EGP

The [ISO](#) 4217 currency code for the Egyptian Pound.

EGY

The three-character [ISO](#) 3166 country code for EGYPT.

ECU

See: [European Currency Unit](#)

EDI

See: [Electronic Data Interchange](#)

EE

The two-character [ISO](#) 3166 country code for ESTONIA.

EH

The two-character [ISO](#) 3166 country code for WESTERN SAHARA.

EIOPA

See: [European Insurance and Occupational Pensions Authority \(EIOPA\)](#)

EM

See: [Effective margin](#)

EMS

See: [European Monetary System](#)

EMU

See: [Economic and Monetary Union](#)

EOE

See: [European Options Exchange](#)

EOQ

See: [Economic Order Quantity](#)

ER

The two-character [ISO](#) 3166 country code for ERITREA.

ERI

The three-character [ISO](#) 3166 country code for ERITREA.

ERM

See: [Exchange Rate Mechanism](#)

ES

The two-character [ISO](#) 3166 country code for SPAIN.

ESH

The three-character [ISO](#) 3166 country code for WESTERN SAHARA.

ESMA

See: [European Securities and Markets Authority \(ESMA\)](#)

ESOP

See: [Employee Stock Ownership Plan](#)

ESP (1)

The [ISO](#) 4217 currency code for the Spanish Peseta.

ESP (2)

The three-character [ISO](#) 3166 country code for SPAIN.

EST

The three-character [ISO](#) 3166 country code for ESTONIA.

ET

The two-character [ISO](#) 3166 country code for ETHIOPIA.

ETB

The [ISO](#) 4217 currency code for the Ethiopian Birr.

ETF

See [Exchange Traded Fund](#).

ETH (1)

The three-character [ISO](#) 3166 country code for ETHIOPIA.

ETH (2)

See: [Ethereum](#)

ETP

See: [Exchange traded product](#)

EU

See: [European Union](#)

EUR

The [ISO](#) 4217 currency code for [Euro](#).

EUREX

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

EXDEC

See: Shipper's Export Declaration.

Each way

A [broker's commission](#) from his or her involvement on both the purchase and the sale side of a [security](#).

Early distribution

See: [Premature distribution](#)

Early Exercise (assignment)

The [exercise](#) or assignment of an option contract before its expiration date.

Early stage

In context of [private equity](#), the state of a company after the [seed stage](#) but before middle state (generating revenues). Typically, a company in early stage will have a core management team and a proven concept or product, but no positive cash flow.

Early withdrawal

See: [Premature distribution](#)

Early withdrawal penalty

Penalty paid by the holder of a fixed-term [investment](#) penalizing an [investor](#) who withdraws [money](#) before the agreed-upon [maturity date](#).

Earn-out

Refers to an additional payment in a [merger](#) or [acquisition](#) that is not part of the original [acquisition cost](#), which is based on the [acquired company's](#) future [earnings](#) relative to a level determined by the [merger](#) agreement.

Earned income

[Compensation](#) earned from employment, which includes wages, salary, tips, and compensation.

Earned income credit

A [tax credit](#) for taxpayers with children.

Earned surplus

See: [Retained earnings](#)

Earnest money

[Money](#) given to a seller by a buyer to demonstrate the buyer's [good faith](#). If the deal falls through, the deposit is usually [forfeited](#).

Earning asset

An [asset](#) that generates income, e.g., income from rental property.

Earning power

[Earnings](#) before [interest](#) and taxes ([EBIT](#)) divided by total [assets](#).

Earnings

[Net income](#) for the [company](#) during a period.

Earnings before interest after taxes (EBIAT)

A financial measure defined as revenues less [cost of goods sold](#) and selling, general and administrative [expenses](#). In other words, operating and nonoperating [profit](#) before the [deduction](#) of [interest](#) plus [cash income taxes](#). Equivalent to [EBIT](#) minus cash taxes.

Earnings before interest and, taxes (EBIT)

A financial measure defined as revenues less [cost of goods sold](#) and selling, general, and administrative [expenses](#). In other words, operating and nonoperating [profit](#) before the [deduction](#) of [interest](#) and [income taxes](#).

Earnings before interest, taxes, and depreciation (EBITD)

A financial measure defined as revenues less [cost of goods sold](#) and selling, general, and administrative [expenses](#). In other words, operating and nonoperating [profit](#) before the [deduction](#) of [interest](#) and [income taxes](#). [Depreciation expenses](#) are not included in the costs.

Earnings before interest, taxes, depreciation, and amortization (EBITDA)

A financial measure defined as revenues less [cost of goods sold](#) and selling, general, and administrative [expenses](#). In other words, operating and nonoperating [profit](#) before the [deduction](#) of [interest](#) and [income taxes](#). [Depreciation](#) and [amortization](#) expenses are not included in the costs.

Earnings before taxes (EBT)

A financial measure defined as revenues less [cost of goods sold](#) and selling, general, and administrative [expenses](#). In other words, operating and nonoperating [profit](#) before the [deduction](#) of [income taxes](#).

Earnings momentum

An increase in the [earnings per share](#) growth rate from one reporting period to the next.

Earnings per share (EPS)

A [company's profit](#) divided by its number of common [outstanding shares](#). If a company earning \$2 million in one year had 2 million common shares of [stock outstanding](#), its EPS would be \$1 per share. In calculating EPS, the company often uses a weighted [average](#) of shares outstanding over the reporting term. The one-year (historical or trailing) EPS growth rate is calculated as the percentage change in [earnings](#) per share. The prospective EPS growth rate is calculated as the percentage change in this year's earnings and the [consensus forecast](#) earnings for next year.

Earnings-price ratio

See: [Earnings yield](#)

Earnings response coefficient

A measure of relation of stock [returns](#) to [earnings](#) surprises around the time of corporate earnings announcements.

Earnings retention ratio

[Plowback rate](#).

Earnings surprises

Positive or negative differences from the [consensus forecast](#) of [earnings](#) by [institutions](#) such as [First Call](#) or [IBES](#). Negative earnings surprises generally have a greater adverse effect on [stock prices](#) than a reciprocal positive earnings surprise.

Earnings yield

The ratio of [earnings per share](#), after allowing for tax and [interest payments](#) on fixed interest [debt](#), to the current share price. The inverse of the [price-earnings ratio](#). It is the total twelve months [earnings](#) divided by number of [outstanding shares](#), divided by the recent price, multiplied by 100. The end result is shown in percentage terms. We often look at earnings yield because this avoids the problem of zero earnings in the [denominator](#) of the price-earning ratio.

Easy money

See: [Tight money](#)

Eating stock

When an [underwriter](#) can't find buyers for a [stock](#) and therefore has to buy them for his own [account](#).

E-bond

E-bonds refer to a joint European sovereign bond (Eurozone common bond) issued by European Debt Agency. Proposal for E-bond was made in late 2010. E-bond is sometimes referred to as a Eurobond. This is confusing because the usual definition of the [Eurobond](#) is a bond issued outside the home currency, such as a U.S. dollar bond sold in Europe.

Eclectic paradigm

A theory that posits three types of advantages benefiting a [multinational corporation](#): ownership-specific, [location-specific](#), and market internalization advantages.

Econometrics

The quantitative science of modelling the economy. Econometric models help explain and predict variables of interest.

Economic and Monetary Union

In the context of the European Union, the EMU is a commitment (adapted by most but not all EU countries) to move to economic integration in a number of stages culminating with a common currency.

Economic assumptions

General market environment a [firm](#) expects to operate in over the life of a [financial plan](#).

Economic bubble

A [market](#) phenomenon characterized by surges in [asset](#) prices to levels significantly above the fundamental value of that [asset](#). Bubbles are often hard to detect in real time because there is disagreement over the fundamental value of the [asset](#).

Economic defeasance

See: [In-substance defeasance](#)

Economic dependence

When the costs and/or revenues of one project depend on those of another.

Economic earnings

The real flow of [cash](#) that a [firm](#) could pay out forever in the absence of any change in the firm's productive capacity.

Economic Cycle Research Institute Index

An independent research institute that studies business cycles and produces a widely-followed index of leading indicators.

Economic exposure

The extent to which the value of a [firm](#) will change because of an [exchange rate](#) change.

Economic growth

An increase in the nation's capacity to produce goods and services. Usually refers to real GDP growth.

Economic growth rate

The [annual percentage rate](#) of change in the [Gross National Product](#).

Economic income

[Cash flow](#) plus change in [present value](#).

Economic indicators

The key statistics of the economy that reveal the direction the economy is heading in; for example, the [unemployment rate](#) and the [inflation](#) rate.

Economic Life

The time period over which an [asset's NPV](#) is maximized. Economic life can be less than [absolute physical life](#) for reasons of technological obsolescence, physical deterioration, or product life cycle.

Economic order quantity (EOQ)

The [order](#) quantity that minimizes total [inventory](#) costs.

Economic rents

[Profits](#) in excess of the competitive level.

Economic risk

In project financing, the [risk](#) that the project's output will not be salable at a price that will cover the project's operating and maintenance costs and its [debt service](#) requirements.

Economic shock

Events that impact the economy which originate from outside it. They are unexpected and unpredictable (e.g., Hurricane Andrew in 1991, the rise in oil prices by OPEC).

Economic stimulus

A plan to boost the economy and achieve positive effects like increased job creation, jumpstart frozen credit markets, restore consumer spending etc. through the use of [fiscal policy](#) like government spending and tax measures. This program is controversial because many economists disagree on the stimulus multiplier. The expenditure is stimulative if the multiplier is greater than 1.0 (extra government spending causes add on spending by consumers). However, many economists think that at best, the multiplier is 1.0 (simple replacement of spending that would already occur) and at worst less than 1.0 (government spending focused on less productive targets than consumers would choose).

Economic surplus

For any entity, the difference between the [market value](#) of all its [assets](#) and the market value of its [liabilities](#).

Economic union

An agreement between two or more countries that allows the free movement of [capital](#), labor, and all goods and services, and involves the harmonization and unification of social, fiscal, and [monetary policies](#).

Economic value added (EVA)

A method of [performance evaluation](#) that adjusts accounting performance for [investors'](#) required [return](#) on [investment](#). Suppose a division produces a 12% return on [capital invested](#). Given the [risk](#) of the division's business line, if investors would usually require 14% on capital invested for this level of risk, the division destroyed [shareholder](#) value by the EVA metric. This Stern-Stewart has a trade mark on this term.

Economics

The study of the economy. See also: [Macroeconomics](#); [microeconomics](#); [Keynesian economics](#), [monetarism](#), and [supply-side economics](#).

Economies of scale

The decrease in the [marginal](#) cost of production as a [firm's](#) extent of operations expands.

Economies of scope

Scope economies exist whenever the same [investment](#) can support multiple [profitable](#) activities less expensively in combination than separately.

Economies of vertical integration

Produced by achieving lower operating costs by owning all components of production and sometimes sales outlets rather than contracting with [companies](#) in the outside marketplace.

EDGAR (Electronic Data Gathering and Retrieval)

The [Securities & Exchange Commission](#) uses Electronic Data Gathering and Retrieval to transmit [company](#) documents such as [10-Ks](#), [10-Qs](#), [quarterly](#) reports, and other [SEC](#) filings, to [investors](#).

Edge Act corporation

[Corporation chartered](#) by the Federal Reserve to engage in international banking. The Board of Governors acts on applications to establish Edge Act corporations and also examines the corporations and their subsidiaries. Named after Senator Walter Edge of New Jersey, who sponsored the original legislation to permit formation of such organizations. See also: [agreement corporation](#).

Edge corporations

Specialized banking institutions, authorized and [chartered](#) by the [Federal Reserve Board of Governors](#) in the U.S., that are allowed to engage in [transactions](#) of a foreign or international character. They are not subject to restrictions on interstate banking. [Foreign banks](#) operating in the U.S. are permitted to organize and own an edge [corporation](#).

Education IRA

A type of [individual retirement account](#) enabling the [contribution](#) of up to \$500 per year tax free for each child up to the age of 18 by the parents in the family.

Effective annual interest rate

An annual measure of the [time value of money](#) that fully reflects the effects of [compounding](#).

Effective annual yield

[Annualized interest rate](#) on a [security](#) computed using [compound interest](#) techniques.

Effective call price

The [strike price](#) in a [market redemption](#) provision plus the [accrued interest](#) to the redemption date.

Effective convexity

The [convexity](#) of a [bond](#) calculated using [cash flows](#) that change with [yields](#).

Effective date

In an [interest rate swap](#), the date the [swap](#) begins [accruing interest](#).

Effective debt

The total [debt](#) owed by a [firm](#) to its [creditors](#).

Effective duration

The [duration](#) calculated using the approximate duration formula for a [bond](#) with an [embedded option](#), reflecting the expected change in the [cash flow](#) caused by the [option](#). Measures the responsiveness of a [bond's](#) price - taking into account that expected cash flows will change as [interest rates](#) change due to the [embedded option](#).

Effective Interest Rate

The annual rate at which an [investment](#) grows in value when interest is credited more often than once a year.

Effective margin (EM)

Used with SAT [performance measures](#), the amount equal to the net earned [spread](#), or [margin of income](#), on [assets](#) in excess of financing costs for a given [interest rate](#) and [prepayment](#) rate scenario.

Effective net worth

[Net worth](#) plus [subordinated debt](#).

Effective rate

A measure of the [time value of money](#) that fully reflects the effects of [compounding](#).

Effective sale

A sale based on the most recent [round-lot](#) price, which determines the price of the next [odd lot](#). The difference created between the last round-lot price and the [odd-lot](#) price is referred to as the odd-lot differential.

Effective spread

The gross [underwriting spread](#) adjusted for the impact that a [common stock offering's](#) announcement has on the [firm's](#) share price.

Effective tax rate

The net rate a taxpayer pays on income that includes all forms of taxes. It is calculated by dividing the total tax paid by [taxable income](#).

Effective yield

[Yield](#) or [return](#) on a [short-term investment](#) after adjustment for the change in [exchange rates](#) over the period of concern.

Efficiency

The degree and speed with which a [market](#) accurately incorporates information into [prices](#).

Efficient capital market

A [market](#) in which new information is very quickly reflected accurately in [share](#) prices.

Efficient diversification

The organizing principle of [portfolio theory](#), which maintains that any [risk-averse investor](#) will search for the highest [expected return](#) for any particular level of [portfolio risk](#).

Efficient frontier

The combinations of [securities portfolios](#) that maximize [expected return](#) for any level of expected [risk](#), or that minimizes expected risk for any level of [expected return](#). Pioneered by Harry Markowitz.

Efficient market

Market in which prices correctly reflect all relevant information.

Efficient Market Hypothesis

States that all relevant information is fully and immediately reflected in a [security's market price](#), thereby assuming that an [investor](#) will obtain an [equilibrium rate of return](#). In other words, an investor should not expect to earn an [abnormal return](#) (above the [market return](#)) through either [technical analysis](#) or [fundamental analysis](#). Three forms of efficient [market](#) hypothesis exist: [weak form](#) ([stock prices](#) reflect all past information in prices), [semistrong form](#) ([stock prices](#) reflect all past and current [publicly](#) available information), and [strong form](#) ([stock prices](#) reflect all relevant information, including information not yet disclosed to the general public, such as [insider](#) information).

Efficient markets theory (EMT)

Principle that all [assets](#) are correctly priced by the [market](#), and that there are no bargains.

Efficient portfolio

A [portfolio](#) that provides the greatest [expected return](#) for a given level of [risk](#) (i.e., [standard deviation](#)), or, equivalently, the lowest risk for a given expected return.

Efficient set

Graph representing a set of [portfolios](#) that maximize [expected return](#) at each level of portfolio [risk](#).

Efficient surface

In [mean variance skewness](#) analysis, the set of [portfolios](#) that result from [investor's](#) preference for higher means, lower variance and higher (positive) skewness. The efficient surface is analogous (in three dimensions, mean, variance and skewness) to the [efficient frontier](#) (in two dimensions, mean and variance).

Eighth[-ed]

Historical term used in the context of general equities. A [specialist](#) or another [broker](#) is [bidding](#) higher or [offering](#) lower than we are, often topping or undercutting us by an eighth.

Either/or facility

An agreement permitting a bank customer to [borrow](#) either domestic dollars from the bank's head office or [Eurodollars](#) from one of its foreign branches.

Either-or order

Used in the context of general equities. See: [Alternative order](#).

Either-way market

In the [interbank Eurodollar](#) deposit [market](#), an [either-way market](#) is one in which the [bid](#) and [offered](#) rates are identical.

Elasticity of demand

The degree of buyers' responsiveness to price changes. Elasticity is measured as the percent change in quantity divided by the percent change in price. A large value (greater than 1) of elasticity indicates sensitivity of demand to price, e.g., luxury goods, where a rise in price causes a decrease in demand. Goods with a small value of elasticity (less than 1) have a demand that is insensitive to price, e.g., food, where a rise in price has little or no effect on the quantity demanded by buyers.

Elasticity of supply

The degree of producers' responsiveness to price changes. Elasticity is measured as the percent change in quantity divided by the percent change in price. A large value (greater than 1) of elasticity indicates sensitivity of supply to price, e.g., luxury goods, where a rise in price causes an increase in supply. Goods with a small value of elasticity (less than 1) have a supply that is insensitive to price, e.g., food, where a rise in price has little or no effect on the amount that producers supply.

Elasticity of an option

Percentage change in the value of an [option](#) given a 1% change in the value of the option's [underlying stock](#). Related: [delta](#).

Elect

The conversion of a conditional [order](#) into a [market order](#).

Election Period

The period of time during which the holder can elect to extend and extendible bond, or to retract a retractable bond.

Electronic data interchange (EDI)

The direct exchange of information electronically, from one [firm's](#) computer to another firm's computer in a structured format.

Electronic depository transfers

The transfer of funds between bank accounts through the [Automated Clearing House \(ACH\)](#) system.

Electronic funds transfer (EFT)

Transfer of funds electronically rather than by check or [cash](#). The Federal Reserve's Fedwire and automated clearinghouse services are EFT systems.

Electronic Funds Transfer Systems

A variety of systems and technologies for transferring funds ([money](#)) electronically rather than by check. Includes Fedwire, automated clearinghouses (ACHs) and other automated systems.

Electronic Queriable Carrier

A transporter of goods which allows tracking of goods in transit electronically using a waybill number such as United Parcel, Federal Express, etc.

Elephants

A term used to refer to large [institutional investors](#).

Eleven bond index

An [index](#) based on the [average yield](#) of 11 [municipal bonds](#) that [mature](#) in 20 years and carry an average AA [rating](#). The eleven bonds used to calculate the [index](#) are also found in the [20 bond index](#), which serves as a [benchmark](#) in tracking [municipal bond yields](#).

Eligible bankers' acceptances

In the [BA](#) market, an acceptance may be referred to as eligible because it is acceptable by the [Fed](#) as [collateral](#) at the [discount window](#) and/or because the accepting bank can sell it without incurring a [reserve](#) requirement.

Elliott Wave Theory

Technical [market timing strategy](#) that predicts [price](#) movements on the basis of historical price wave patterns and their [underlying](#) psychological motives. Robert Prechter is a famous Elliott Wave theorist.

Elves

A term the host uses to refer to guests on the PBS television show, "Wall Street Week", who are [technical analysts](#) attempting to predict the direction of [stock](#) prices over the next six months.

Embedded option

An [option](#) that is part of the structure of a [bond](#) that gives either the [bondholder](#) or the [issuer](#) the right to take some action against the other party, as opposed to a bare option, which [trades](#) separately from any [underlying security](#).

Emergency fund

A [reserve](#) of [cash](#) kept available to meet the costs of any unexpected financial emergencies.

Emergency Home Finance Act of 1970

The federal legislation creating the [Federal Home Loan Mortgage Corporation](#), a partially government-run program initiated to stimulate the development of a [secondary mortgage market](#) and expand [mortgages](#) available to veterans and other groups.

Emerging Company Marketplace (ECM)

A service once offered by the [American Stock Exchange](#) to help small growth [companies](#) fulfill special listing requirements. The service is no longer available.

Emerging markets

The financial [markets](#) of developing economies.

Emerging Markets Free index (EMF)

A [Morgan Stanley Capital International index](#) created to track [stock markets](#) in selected [emerging markets](#) that are open to foreign [investment](#) like Argentina, Chile, Jordan, Malaysia, Mexico, Philippines, and Thailand.

Emerging markets fund

A [mutual fund](#) that [invests](#) primarily in countries with developing economies (that is, those that are becoming industrialized). [Emerging markets](#) funds tend to be more [volatile](#) than domestic stock funds due to [currency](#) fluctuation and political instability. Consequently, fund prices can fluctuate dramatically.

Employee contribution

An employee's own deposit to a [company retirement](#) plan.

Employee Retirement Income Security Act (ERISA)

The law that regulates the operation of private pensions and benefit plans.

Employee stock fund

A [firm](#)-sponsored program that enables employees to purchase [shares](#) of the firm's [common stock](#) on a preferential basis.

Employee stock ownership plan (ESOP)

A [company](#) contributes to a trust fund that buys [stock](#) on behalf of employees.

Employee Stock Purchase Plan (ESPP)

A plan usually linked to a [corporation's](#) payroll [deduction](#) system allowing employees to purchase shares at a discount from current [market value](#).

Employer matching contribution

The amount, if any, a [company](#) contributes on an employee's behalf to the employee's [retirement](#) account, usually tied to the employee's own [contribution](#).

Employment rate

The percentage of the labor force that is employed. The employment rate is one of the economic indicators that economists examine to help understand the state of the economy. See also: [Unemployment rate](#).

Empty head and pure heart test

[Securities and Exchange Commission](#) rule that allows only the bidder of a [tender offer](#) to [trade](#) in the [stock](#) while possessing [inside information](#).

Encumbered

A property owned by one party on which a second party reserves the right to make a valid claim, e.g., a bank's holding of a home [mortgage encumbers](#) property.

End-of-year convention

Treating [cash flows](#) as if they occur at the end of a year as opposed to the date convention. Under the end-of-year convention, the present is time 0, the end of year 1 occurs one year hence; and so on.

Endogenous uncertainty

Describes factors within the control of the [firm](#), such as a decision to reveal information about price or input costs. Converse of [exogenous](#).

Endogenous variable

A value determined within the context of a [model](#). Related: [Exogenous variable](#).

Endorse

Transferring [asset](#) ownership by signing the back of the [asset's certificate](#).

Endowment

Gift of [money](#) or property to a specified institution for a specified purpose.

Endowment funds

[Investment](#) funds established for the support of institutions such as colleges, private schools, museums, hospitals, and foundations. The [investment income](#) may be used for the operation of the institution and for [capital expenditures](#).

Energy mutual fund

[Mutual fund](#) investing in energy [stocks](#) only, e.g., oil and gas [companies](#).

Engineering risk

The [risk](#) associated with the impact on a project's [cash flows](#) from deficiencies in design or engineering. Also known as [design risk](#).

Enhanced indexing

Also called [indexing-plus](#), an [indexing strategy](#) whose [objective](#) is to exceed or replicate the total [return](#) performance of some predetermined [index](#).

Enhancement

An innovation that has a positive impact on one or more of a [firm's](#) existing products.

Enterprise

A business [firm](#).

Enterprise multiple

The ratio of the [enterprise value](#) to the [EBITDA](#) of a [corporation](#). See: [Enterprise value/EBITDA \(EV/E\)](#), [Enterprise value](#)

Enterprise Value

The [market capitalization](#) of a [firm's equity](#) plus the [market value](#) of the firm's [debt](#). Often the value of [assets](#) that are non-core are excluded from the final calculation.

Enterprise value/EBITDA ratio (EV/E)

The EV/EBITDA ratio, also known as the [enterprise multiple](#), is the ratio of a company's [enterprise value](#) to its [earnings](#) before non-cash items and is commonly used to value possible [takeover targets](#). Although similar to the [P/E ratio](#), there are two aspects of the EV/E ratio that make it a more accurate measurement of a company's true value: the inclusion of [EBITDA](#) in the ratio allows for a comparison of [earnings](#) between different industries by omitting the effects of [interest](#) and taxes

on [earnings](#), which vary between industries; the [enterprise value](#), on the other hand, uses net [debt](#) in its calculation, which allows for the EV/E ratio to be used to compare companies with different [capitalization](#) structures. See: [EBITDA](#), [Enterprise multiple](#), [Takeover](#)

Entrepreneur

A person starting a new [company](#) who takes on the [risks](#) associated with starting the enterprise, which may require [venture capital](#) to cover [start-up](#) costs.

Entropy

The level of disorder in a system.

Environmental fund

A [mutual fund](#) that [invests](#) strictly in [stocks](#) of [companies](#) that are environmentally friendly and/or have the goal of environmental betterment. The [investors](#) are trying to support and [profit](#) from opportunities related to the environmental movement.

Environmental risk

The [risk](#) associated with economic or administrative consequences of slow or catastrophic environmental pollution.

EPS

See: [Earnings per share](#)

Equal dollar swap

Selling [common stock](#)/convertibles in one [company](#) and reinvesting the [proceeds](#) in as many [shares](#) of (1) another type of [security issued](#) by the company, or (2) another [security](#) of the same type but of another company -- as can be bought with the [proceeds](#) of the sale. See: [Equal shares swap](#).

Equal percentage contribution rule (EPCoR)

Principle that each [asset contributes](#) the same proportion to the [equilibrium portfolio](#) rate [premium](#) and [risk](#).

Equal shares swap

Applies mainly to [convertible securities](#). Selling the [underlying common](#) and reinvesting the [proceeds](#) in as much of the convertible as can be converted into the number of [shares of common](#) just sold. See [equal dollar swap](#).

Equalizing dividend

Special [dividends](#) received by [investors](#) of a [firm](#) for income the [investor](#) lost because the firm altered the [dividends](#) payment schedule.

Equilibrium

The stable state of the system. See: [Attractor](#).

Equilibrium exchange rate

[Exchange rate](#) at which demand for a [currency](#) is equal to the supply of the [currency](#) in the economy.

Equilibrium market price of risk

The slope of the [capital market line \(CML\)](#). Since the [CML](#) represents the [expected return](#) offered to [compensate](#) for a perceived level of [risk](#), each point on the line is a balanced [market](#) condition, or [equilibrium](#). The slope of the line determines the additional [expected return](#) needed to compensate for a [unit](#) change in [risk](#). The equation of the CML is defined by the [capital asset pricing model](#).

Equilibrium price

The price at which the supply of goods matches demand.

Equilibrium rate of interest

The [interest rate](#) that clears the [market](#). Also called the [trade](#)-clearing interest rate.

Equipment leasing partnership

A [limited partnership](#) that receives income and tax benefits such as [depreciation](#) costs by purchasing equipment and leasing it to other parties.

Equipment trust certificates

[Certificates issued](#) by a [trust](#) that is formed to purchase an [asset](#) and [lease](#) it to a [lessee](#). When the last of the certificates has been repaid, title and ownership of the asset transfers to the lessee.

Equitable owner

The [beneficiary](#) of a property held in a [trust](#).

Equity

Ownership interest in a [firm](#). Also, the [residual dollar value](#) of a [futures trading account](#), assuming its [liquidation](#) is at the going [trade](#) price. In [real estate](#), dollar difference between what a property could be sold for and [debts](#) claimed against it. In a brokerage [account](#), [equity](#) equals the value of the [account's securities](#) minus any debit balance in a [margin account](#). Equity is also shorthand for [stock market investments](#).

Equity cap

An agreement in which one party, for an up-front premium, agrees to pay the other at specific time periods if a designated [stock market benchmark](#) tops a predetermined level.

Equity carve out

Usually occurs when a company decides to IPO one of their subsidiaries or divisions. The company usually only offers a minority share to the equity market. Also known as carve out.

Equity claim

Also called a [residual claim](#); a claim to a share of [earnings](#) after [debt obligations](#) have been satisfied.

Equity collar

The simultaneous purchase of an [equity floor](#) and sale of an [equity cap](#).

Equity contribution agreement

An agreement to contribute [equity](#) to a project under certain specified conditions.

Equity floor

An agreement in which one party agrees to pay the other at specific time periods if a specific [stock market benchmark](#) falls below a predetermined level.

Equity funding

An [investment](#) consisting of a [life insurance policy](#) and a [mutual fund](#). The insurance policy is paid by the [collateral](#) value of fund [shares](#), giving the [investor](#) the advantages of insurance protection with the growth potential of a [mutual fund](#).

Equity injection

Purchase of [shares](#) (either [common](#) or [preferred](#)) of a (usually ailing) company or institution to provide it with the required [capital](#).

Equity kicker

[Stock warrants issued](#) attached to a new debt, preferred or common stock issue to improve the salability of the issue.

Equity-linked Eurobonds

A [Eurobond](#) including a convertibility [option](#) or [warrant](#).

Equity-linked policies

Related: [Variable life](#)

Equity market

Related: [stock market](#)

Equity multiplier

Total [assets](#) divided by total [common stockholders' equity](#); the total assets per dollar of stockholders' equity.

Equity options

[Securities](#) that give the holder the right (but not the [obligation](#)) to [buy](#) or sell a specified number of [shares](#) of [stock](#), at a specified price for a certain (limited) time period. Typically one [option](#) equals 100 shares of [stock](#).

Equity REIT

A [Real Estate Investment Trust](#) that assumes ownership status in the property it [invests](#) in enabling [investors](#) of the REIT to earn [dividends](#) on [rental](#) income from the property and [appreciation](#) in property resale. Antithesis of a [Mortgage REIT](#).

Equity swap

A [swap](#) in which the [cash flows](#) exchanged are based on the total [return](#) on some [stock market index](#) and an [interest rate](#) (either a fixed rate or [floating rate](#)). Related: [Interest rate swap](#).

Equityholders

[Stockholders](#); those holding [shares](#) of the [firm's equity](#).

Equivalent annual annuity

The amount per year for some number of years that has a [present value](#) equal to a given amount.

Equivalent annual benefit

The annual [annuity](#) with the same value as the [net present value](#) of an [investment](#) project.

Equivalent annual cash flow

[Annuity](#) with the same [net present value](#) as the [company's](#) proposed [investment](#).

Equivalent annual cost

The cost per year of owning an [asset](#) over its entire life.

Equivalent bond yield

[Effective annual yield](#) on a [short-term](#), noninterest-bearing [security](#) calculated for comparison to [yields](#) quoted on [coupon](#) securities.

Equivalent loan

Given the after-tax stream associated with a [lease](#), the maximum amount of conventional [debt](#) that the same period-by-period after-tax [debt service](#) stream is capable of supporting.

Equivalent taxable yield

The [yield](#) that must be offered on a taxable [bond issue](#) to give the same after-tax yield as a tax-exempt issue.

Erosion

A negative impact on one or more of a [firm's](#) existing [assets](#).

Escalator clause

Provision in a [contract](#) allowing cost increases to be passed on. In an employment [contract](#), for example an escalator clause may call for wage increases in line with [inflation](#).

Escheat

Reversion of monies or [securities](#) to the state in which the securityholder was last known to reside, when no claim by the securityholder has been made after a certain period of time fixed by state law. This is known as the holding period or [cut-off date](#).

Escheat Period

The period of elapsed time required by applicable state law for property to be presumed abandoned.

Escheatment

The process of turning over unclaimed or abandoned property to a state authority. Escheatment laws require [mutual funds](#) to turn over [uncashed](#) or returned [check](#) dollars and/or client account fund shares if the owner cannot be located within a length of time determined by each state.

Escrow

Property or [money](#) held by a third party until the agreed upon [obligations](#) of a [contract](#) are met.

Escrow receipt

A document provided by a bank in [options trading](#) to guarantee that the [underlying security](#) is on deposit and available for potential [delivery](#).

Escrowed to Maturity (ETM)

Holding of the [proceeds](#) from a new [bond issue](#) to pay off an existing [bond issue](#) at its [maturation date](#).

Essential purpose (or function) bond

See: [Public purpose bond](#)

Estate planning

The preparation of a plan to carry out an individual's wishes as to the administration and disposition of his/her property before or after his/her death.

Estate tax

A federal or state tax imposed on an individual's [assets](#) inherited by heirs.

Estimated tax

Tax to be paid [quarterly](#) on income that is not subject to [withholding tax](#), including [self-employed income](#), [investment income](#), alimony, [rent](#), and [capital gains](#).

Ethereum

A business friendly cryptotechnology based on the ethereum [blockchain](#). Ethereum is both a cryptocurrency and a platform to run smart contracts. Further, many crypto tokens use the Ethereum blockchain.

Ethical fund

See: [Social conscious mutual fund](#).

Ethics

Standards of conduct or moral judgment.

Euclidean Geometry

The Plane geometry learned in high school, based upon a few ideal, smooth, symmetric shapes.

Euro

Originally, the term for a deposit made outside one's home country but denominated in the home country [currency](#). This terminology is confusing now since the new [European Currency unit](#), also called the Euro, was introduced on January 1, 1999.

Euro CDs

[CDs issued](#) by a U.S. bank branch or foreign bank located outside the U.S. Almost all [Euro](#) CDs are issued in London.

Eurodollar obligations

[Certificates of deposit](#) issued in U.S. dollars by foreign banks and foreign branches of U.S. banks.

Euro lines

[Lines of credit](#) granted by banks (foreign or foreign [branches](#) of U.S. banks) for [Eurocurrencies](#).

Euro straight

A fixed-rate [coupon Eurobond](#).

Eurobank

A bank that regularly accepts [foreign currency-denominated](#) deposits and makes foreign currency [loans](#).

Eurobond

A [bond](#) that is (1) [underwritten](#) by an international [syndicate](#), (2) [issued](#) simultaneously to [investors](#) in a number of countries, and (3) issued outside the jurisdiction of any single country. Eurobonds are often bearer bonds.

Euroclear

The Euroclear group is the world's largest [settlement](#) system for domestic and international securities [transactions](#), covering both [bonds](#) and [equities](#) for [financial institutions](#) located in over 80 countries.

Euro-commercial paper

[Short-term notes](#) with [maturities](#) up to 360 days that are [issued](#) by [companies](#) in international [money markets](#).

Eurocredit market

Comprises banks that accept deposits and provide [loans](#) in large [denominations](#) and in a variety of [currencies](#). The banks that constitute this [market](#) are the same banks that constitute the [Eurocurrency market](#); the difference is that Eurocredit loans are longer-term than so-called [Eurocurrency](#) loans.

Eurocredits

[Intermediate-term loans](#) of [Eurocurrencies](#) made by banking [syndicates](#) to corporate and government [borrowers](#).

Eurocurrency

[Instrument](#) issued outside your country, but [denominated](#) in your [currency](#). A [Eurodollar](#) is a [Certificate of Deposit](#) in U.S. dollars issued in some other country (though mainly [traded](#) in London). A Euroyen is a [CD](#) issued in yen outside Japan.

Eurocurrency deposit

A [short-term](#) fixed-rate [time deposit](#) [denominated](#) in a [currency](#) other than the local currency (e.g., U.S. dollars deposited in a London bank).

Eurocurrency market

The [money market](#) for [borrowing](#) and [lending currencies](#) that are held in the form of deposits in banks located outside the countries where the currencies are issued as legal [tender](#).

Eurodollar

Refers to a [certificate of deposit](#) in U.S. dollars in a bank that is not located in the U.S. Most of the Eurodollar deposits are in London banks, but Eurodeposits may be anywhere other than the U.S. Similarly, a Euroyen or [Euro DM](#) deposit represents a [CD](#) in yen or [DM](#) outside Japan and Germany, respectively.

Eurodollar bonds

[Eurobonds denominated](#) in U.S.dollars.

Eurodollar certificate of deposit

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

Eurodollar futures

A [futures contract](#) written on a [Eurodollar](#) deposit. The contract locks in an [interest rate](#) in the future and is [cash settled](#).

Eurodollar interest rate

[Interest rate](#) earned on a [Eurodollar](#) deposit.

Euroequity issues

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

Euro-medium term note (Euro-MTN)

A non[underwritten Euronote issued](#) directly to the [market](#). Euro-MTNs are offered continuously rather than all at once as a [bond](#) issue is. Most Euro-MTN [maturities](#) are under five years.

Euro.NM

Created on March 1, 1996, Euro.NM is a pan- network of regulated markets dedicated to growth [companies](#), regardless of their sector of activity or country of origin. Euro.NM member [exchanges](#) and their respective new markets consist of the [Paris Stock Exchange](#) (Le Nouveau Marché), the [Deutsche Börse AG](#) (Neuer Markt), the Amsterdam Exchanges (NMAX), and the [Brussels Stock Exchange](#) (Euro.NM Belgium).

Euro-note

[Short-](#) to medium-term [debt instrument](#) sold in the [Eurocurrency](#) market.

Euroyen bonds

[Eurobonds denominated](#) in Japanese yen.

European, Australia, and Far East index (EAFE index)

[Stock index](#), computed by [Morgan Stanley Capital International](#).

European Association of Securities Dealers Automated Quotation (EASDAQ)

European equivalent of [Nasdaq](#).

European Banking Authority (EBA)

The European Banking Authority was established in November 24, 2010 by the European Parliament. EBA took over all existing and ongoing tasks and responsibilities from the Committee of European Banking Supervisors (CEBS). EBA acts as a hub of EU, safeguarding public values related to banking, such as the stability of the financial system, the transparency of markets and financial products and the protection of depositors and investors. See: [ESMA](#) and [EIOPA](#)

European Bank for Reconstruction and Development

Bank targeted at Eastern Europe and the former Soviet Union.

European Central Bank (ECB)

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

European Currency Unit (ECU)

An [index](#) of [foreign exchange](#) consisting of [European currencies](#), originally devised in 1979. Also see [Euro](#).

European exchange rate mechanism (ERM)

The system that countries in the [European Union](#) once used to pay [exchange rates](#) within bands around an [ERM](#) central value.

European Exercise

A feature of an [option](#) that stipulates that the option may only be [exercised](#) at its [expiration](#). Therefore, there can be no early assignment with this type of option. Most index options are European-style exercise.

European Financial Stability Facility

A [special purpose entity](#) formed to preserve financial stability in Europe by providing financial assistance to eurozone states in difficulty. The Facility was agreed by the 27 member states of the EU on May 9, 2010 and can give loans up to a maximum of €440 billion to member states in need.

European Insurance and Occupational Pensions Authority (EIOPA)

EIOPA is part of European System of Financial Supervision consisting of three European Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Parliament, the Council of the European Union and the European Commission. EIOPA's core responsibilities are to support the stability of the financial system, transparency of markets and financial products as well as the protection of insurance policyholders, pension scheme members and beneficiaries. EIOPA works closely with [EBA](#) and [ESMA](#)

European Monetary System (EMS)

A system adopted by European Community members with the aim of promoting stability by limiting exchange-rate fluctuations. The system was originated in 1979 by the nine members of the European Community (EC). The EMS comprised three principal elements: the [European Currency Unit \(ECU\)](#), the monetary [unit](#) used in EC [transactions](#); the [Exchange Rate Mechanism, ERM](#), whereby those member states taking part agreed to maintain [currency](#) fluctuations within certain agreed limits; and the European Monetary Cooperation Fund, which issues the ECU and oversees the ERM. The 1992 Maastricht Treaty provided for the move to Economic and Monetary Union (EMU), including a European Monetary Institute to coordinate the economic and monetary policy of the EU, a [European Central Bank \(ECB\)](#) to govern these policies, and the presentation of a single European [currency](#).

European option

[Option](#) that may be [exercised](#) only at the [expiration date](#). Related: [American option](#).

European Options Exchange (EOE)

Now AEX-Optiebeurs. See: [Amsterdam Exchanges \(AEX\)](#).

European Securities and Markets Authority (ESMA)

ESMA is an independent EU Authority that safeguards public values related to securities and markets, ensuring integrity, transparency, efficiency and orderly functioning of securities markets, as well as investor protection. ESMA fosters supervisory convergence amongst securities regulators, and across financial sectors by working closely with [EBA](#) and [EIOPA](#)

European-style exercise

A method of [exercising options contracts](#) in which the buyer can only exercise the [contract](#) on the last day before [expiration](#).

European-style option

An [option contract](#) that can be [exercised](#) only on the [expiration date](#).

European Systemic Risk Council (ESRC)

A supra-national structure established to deal with cross-border aspects of financial stability in Europe post financial crisis in 2008. ESRC monitors systemic risks (supervise the macro-prudential system) and address them through coordinated policy responses from EU member states.

European System of Financial Supervisors (ESFS)

A supra-national structure established to deal with cross-border aspects of financial stability in Europe post financial crisis in 2008. ESFS brings together existing national supervisors with three new sectoral EU-level authorities (for banking, insurance, and securities markets respectively) and supervise individual (but unnamed) financial institutions important enough to pose a widespread threat if they encounter problems.

European terms

A [foreign exchange quotation](#) that states the [foreign currency](#) price of one U.S. dollar. Opposite of direct quote.

European Union (EU)

An economic association of European countries founded by the Treaty of Rome in 1957 as a [common market](#) for six nations. It was known as the European Community until January 1, 1994 and currently comprises 28 membercountries. Its goals are a single market for goods and services without any economic barriers, and a common [currency](#) with one monetary authority. Not all countries share the common currency. Currently, the Eurozone (countries using the Euro) are 17 countries.

Eurozone (EZ)

A subset of the European Union of those countries that use the Euro currency. Currently, there are 17 members of the Eurozone.

Evaluation period

The time interval over which funds assess a [money manager's](#) performance.

Even lot

See: [Round lot](#)

Evening up

Buying or selling to [offset](#) an existing market [position](#).

Event anomalies

Occurrences such as [earnings](#) surprises or [stock splits](#) that seem to present opportunity to generate [abnormal returns](#) for those [trading](#) on the news.

Event driven

In the context of hedge funds, a style of management that combines many different types of hedge fund investing such as [merger arbitrage](#), [distressed securities](#) and high yield investing, in conjunction with an important "event" that is supposed to unlock [firm](#) value (like a merger announcement, earnings announcement, or a regulator decision).

Event risk

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

Event study

A statistical study that examines how the release of information affects [prices](#) at a particular time.

Events of default

[Contractually](#) specified events that allow [lenders](#) to demand immediate repayment of a [debt](#).

Evergreen

A [contract](#) that rolls over after each agreed ([short-term](#)) period until cancelled by one party.

Evergreen credit

[Revolving credit](#) without [maturity](#).

Evergreen facility

A facility that allows the borrower (with the consent of the lenders) to extend a 364 day revolving facility for another 364 days.

Evergreen funding

A British term referring to the gradual injection of [capital](#) into a new or existing [enterprise](#).

Ex Works (EXW)

A transaction in which the seller's only responsibility is to make the ordered goods available to the buyer at the seller's premises. The buyer bears the cost and [risk](#) in transporting the goods from the seller's premises to destination. Since this includes pre- carriage and export clearance in the seller's country, EXW is not a very practical Incoterm for U.S. exports.

Ex-all

The sale of a [security](#) without the [privileges](#) associated with the [security](#) such as [dividends](#), [voting rights](#), or [warrants](#).

Ex ante return

The [expected return](#) or anticipation return of an [asset](#) or [portfolio](#).

Ex ante value

The [forecasted](#) price or value.

Exception

A [proxy](#) which does not authorize the proxy committee to act on its behalf concerning any other business, adjournments or substitutions.

Exceptional Return

[Residual](#) return plus [benchmark timing return](#). For a given [asset](#) with [beta](#) equal to one, if its residual return is 2%, and the [benchmark portfolio](#) exceeds its consensus [expected returns](#) by 1%, then the asset's exceptional return is 3%.

Excess accumulation

The amount of a required minimum [distribution](#) that an [IRA](#) holder fails to remove from an IRA in a timely manner. Excess [accumulations](#) are subject to a 50% [IRS](#) penalty tax.

Excess contribution

The amount by which an [IRA contribution](#) exceeds the allowable limits. If an excess contribution is not properly corrected, a 6% [IRS](#) penalty applies.

Exchange Ratio

The number of new [shares](#) in an [acquiring firm](#) that are given for each [outstanding](#) share of an acquired firm.

Exchange Traded Fund

Similar to an index mutual fund, these tracking stocks trade continuously. Two popular ETFs are the Standard and Poor's depositary receipt ([SPDR](#)) launched in 1993 and the NASDAQ-100 Index Tracking Stock ([QQQ](#)) which was launched in 1999. These vehicles are popular for hedging as well as investment.

Exchange Traded Notes (ETN)

Unsecured, unsubordinated [debt securities](#) that are traded on an exchange and offer returns based on the performance of a [market index](#) upon [maturity](#). As they are issued by an [underwriting](#) bank, their value also depends on the [credit rating](#) of the [issuer](#).

Ex-dividend

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

Ex-dividend date

The first day of trading when the buyer of a stock is no longer entitled to the most recently announced dividend payment (i.e. the trade will settle the day after the record date, too late for the buyer to appear on the shareholder record and receive the dividend.) The date set by the [NYSE](#) (and generally followed on other U.S. [exchanges](#)) is currently two business days before the [record date](#). A [stock](#) that has gone [ex-dividend](#) is denoted by an x in newspaper listings on that date.

Executor

An individual or [trust](#) institution nominated in a will and appointed by a court to settle the estate of a deceased person.

Ex-legal

A [municipal bond](#) offered without a law [firm's legal opinion](#). A majority of [bonds](#) are issued with legal opinions.

Expatriate

An employee who is a U.S. citizen living and working in a foreign country.

Ex-pit transaction

The closing out of a futures position off the exchange floor. Effectuated when two hedgers, one long and one short, make a private deal in the cash market, and no longer need their (equal and opposite) futures contracts to hedge. The hedgers contact the exchange and request the contracts be nullified without making a trade on the floor. This must be done (1) to ensure neither contract results in delivery/the requirement to deliver; (2) to properly reflect open interest; and (3) to eliminate the uncertainty of the fill price should a trade actually be done to offset the positions. Extremely rare. Also known as an EFP transaction, an exchange-for-physicals transaction or an against-actuals transaction.

Ex post return

Related: [Holding-period return](#)

Ex-rights

[Shares](#) of [stock](#) that are [trading](#) without [rights](#) attached.

Ex-rights date

The date on which a share of [common stock](#) with rights on it begins [trading ex-rights](#).

Ex-warrants

Describes a [stock](#) sale during the time in which the buyer of the stock is not entitled to the [warrant](#) accompanying the stock.

Exact interest

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

Exact matching

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

Except for opinion

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

Expected rate of inflation

The [public's](#) expectations for [inflation](#). These expectations determine how large an effect a given policy action by the Fed will have on economic activity.

Excess kurtosis

Kurtosis measures the "fatness" of the [tails](#) of a [distribution](#). Positive excess kurtosis means that distribution has fatter tails than a normal distribution. Fat tails means there is a higher than normal probability of big positive and negative [returns](#) realizations. When calculating kurtosis, a result of +3.00 indicates the absence of kurtosis (distribution is mesokurtic). For simplicity in its interpretation, some statisticians adjust this result to zero (i.e. kurtosis minus 3 equals zero), and then any reading other than zero is referred to as excess kurtosis. Negative numbers indicate a platykurtic distribution; positive numbers indicate a leptokurtic distribution.

Excess margin

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

Excess profits tax

Additional federal taxes placed on the [earnings](#) of a business, used only in time of national emergency such as war.

Excess reserves

Occur when the actual [reserves](#) that a bank keeps with the central bank exceed the [required reserves](#). Interest is often paid on excess reserves. See: [Interest on Excess Reserves](#)

Excess return on the market portfolio

Difference between the [return](#) on the [market portfolio](#) and the [riskless rate](#).

Excess returns

Difference between an asset's return and the [riskless rate](#). Sometimes confused with [abnormal returns](#), returns in excess of those required by some [asset pricing model](#).

Exchange

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

Exchange, The

A nickname for the [New York Stock Exchange](#). Also known as the [Big Board](#), where more than 2000 [common](#) and [preferred stocks](#) are [traded](#). The exchange is the oldest in the United States, founded in 1792, and the largest. It is located on [Wall Street](#) in New York City.

Exchange of assets

[Acquisition](#) of another [company](#) by purchase of its [assets](#) in exchange for [cash](#) or [stock](#).

Exchange controls

Government restrictions on the purchase of [foreign currencies](#) by domestic citizens or on the purchase of the local domestic [currency](#) by foreigners.

Exchange distribution

A sale on an [exchange floor](#) of a large [block](#) of [stock](#) in a single [transaction](#). A [broker bunches](#) a large number of buy [orders](#) and sells the block all at once. The [broker](#) receives a special [commission](#) from the seller.

Exchange for physical

The exchange of cash(physical) commodity for an equivalent amount of [futures](#) contracts.

Exchange fund (also known as swap fund)

[Investment](#) vehicle introduced in 1999 that appeals to wealthy [investors](#) with large holdings in a single [stock](#) who want to [diversify](#) without paying [capital gains](#) taxes. These funds allow investors to exchange their stock for shares in a diversified [portfolio](#) of stocks in a tax-free [transaction](#).

Exchange members

See: [Member firm; seat](#)

Exchange offer

An offer by a [firm](#) to give one [security](#), such as a [bond](#) or [preferred stock](#), in exchange for another security, such as shares of [common stock](#).

Exchange privilege

A [mutual fund shareholder's](#) right to switch from one fund to another within one [fund family](#), usually at no additional charge.

Exchange rate

The price of one country's [currency](#) expressed in another country's currency.

Exchange Rate Mechanism (ERM)

The methodology by which members of the [EMS](#) maintain their [currency exchange rates](#) within an agreed-upon range with respect to other member countries.

Exchange rate risk

Also called [currency risk](#); the [risk](#) that an [investment's](#) value will change because of currency exchange rates.

Exchange risk

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

Exchange of stock

[Acquisition](#) of another [company](#) by purchase of its [stock](#) in exchange for [cash](#) or [shares](#).

Exchange Traded Funds (ETF)

Also known as ETF. A [basket](#) of [stocks](#) similar to an index mutual fund. However, there are a number of important differences between ETFs and mutual funds. The ETF can be traded within the day, they can be [shorted](#), purchased on [margin](#) and there even exists options on some ETFs.

Exchange traded product (ETP)

A term encompassing [exchange traded fund](#) and exchange traded note.

Exchangeable

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

Exchangeable instrument

Applies mainly to [convertible securities](#). [Bond](#) or [preferred stock](#) that may be exchangeable into the [common stock](#) of a different [public corporation](#).

Exchangeable Security

[Investment](#) instrument that grants its holder the right to exchange it for the [common stock](#) of a [firm](#) other than the [issuer](#) of the instrument.

Excise tax

Federal or state tax placed on the sale or manufacture of a [commodity](#), typically a luxury item e.g., alcohol.

Exclusionary self-tender

A [firm's offer](#) to [buy](#) a given amount of its own [stock](#) while excluding targeted [stockholders](#).

Exclusive

In the context of general equities, having sole possession of the customer [order/indication](#); not in [competition](#) with other [dealers](#).

Execution

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

Execution costs

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

Exempt List

Sophisticated investors, usually institutional investors, who are considered informed enough that new issues can be marketed to them without a prospectus. This exemption reduces the cost of private placements.

Exempt securities

Instruments exempt from the [registration](#) requirements of the [Securities Act of 1933](#) or the [margin](#) requirements of the [SEC Act of 1934](#). Such [securities](#) include [government bonds](#), [agencies](#), [munis](#), [commercial paper](#), and [private placements](#).

Exemption

Direct reductions from [gross income](#) allowed by the [IRS](#).

Exercise

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

Exercise limit

Cap on the number of [option contracts](#) of any one class of contract that can be [exercised](#) within a five-day period contract. There are no restrictions on exercise for the last 10 trading days before expiry. A [stock option's exercise](#) limit varies with the volume of the underlying stock.

Exercise notice

A [broker's](#) notification from a client who wants to [exercise](#) a right to buy or sell (depending on the type of [contract](#)) the [underlying security](#) of the [option contract](#).

Exercise price

The price at which the [security underlying](#) an [options contract](#) may be bought or sold.

Exercise settlement amount

The difference between the [exercise price](#) of the option and the exercise [settlement](#) value of the index on the day an exercise notice is tendered, multiplied by the index multiplier.

Exercise value

The value of an [in-the-money](#) option if it was exercised today (before the expiration date). For a call option, this is the difference between the current asset price and the stike price. For a put option, it is the difference between the strike price and the current asset price.

Exercising the option

The act of buying or selling the [underlying asset](#) via the [option contract](#).

Exhaust price

The low price at which a [broker](#) must [liquidate](#) a client's holding in a [stock](#) purchased in a [margin account](#) in order to meet a [margin call](#) when the client cannot meet the [call](#).

Exim bank

See: [Export-Import Bank](#)

Exit fee

See: [Back-end load](#)

Exogenous

Describes facts outside the control of the [firm](#). Converse of [endogenous](#).

Exogenous variable

A [variable](#) whose value is determined outside the model in which it is used. Related: [Endogenous variable](#)

Exotic option

Refers to [options](#) that are more complex than simple put or call options. For example, a Caput is a [call option](#) on a [put option](#). Exotic options trade over-the-counter.

Expansion

Phase of the [business cycle](#) as it climbs from a [trough](#) toward a [peak](#).

Expectations hypothesis theories

Theories of the [term structure of interest rates](#), which include the [pure expectations theory](#); the [liquidity](#) theory of the term structure, and the [preferred habitat theory](#). These theories hold that each [forward rate](#) equals the expected future [interest rate](#) for the relevant period. These three theories differ, however, on whether other factors also affect [forward rates](#), and how.

Expectations theory of forward exchange rates

A theory of [foreign exchange rates](#) that states that the expected future [spot foreign exchange rate](#) t periods from now equals the current t -period [forward exchange rate](#).

Expected dividend yield

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

Expected future cash flows

Projected future [cash flows](#) associated with an [asset](#).

Expected future return

The [return](#) that is expected to be earned on an [asset](#) in the future. Also called the [expected return](#).

Expected return

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

Expected return-beta relationship

Implication of the [CAPM](#) that [security risk premiums](#) will be proportional to [beta](#).

Expected return on investment

The [return](#) one can expect to earn on an [investment](#). See: [Capital asset pricing model](#).

Expected Spot Rate

The [exchange rate](#) between two [currencies](#) that is anticipated to prevail in the [spot market](#) on a given future date. It differs from the current [spot rate](#) primarily by the extent to which [inflation](#) expectations in the two currencies differ.

Expected value

The weighted [average](#) of a [probability distribution](#). Also known as the mean value.

Expected value of perfect information

The [expected value](#) if the future uncertain outcomes could be known minus the expected value with no additional information.

Expense ratio

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

Expensed

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

Expert system

A software system designed to emulate the processes and procedures conducted by humans in particular areas of expertise, thereby automating decision-making processes.

Experience rating

A technique insurance [companies](#) use to determine the correct price of a [policy premium](#).

Expiration

The time an [option contract](#) lapses.

Expiration cycle

The recurring cycle of expiry months for which [options](#) on a particular security can be available. Basic [options](#) are placed in one of three cycles; Cycle 1 (the January/April/July/October, or the first month of each quarter); Cycle 2 (the second month of each quarter); or Cycle 3 (the third month of each quarter).

At any one time, a basic option has contracts with three [expiration](#) dates outstanding. For example, in mid-February, options trading on cycle 3 will have March, June and September expiries available. Late in March, after the March options expire, a December contract will be added, thus offering June, September and December expiries.

Higher-volume equity [options](#), index [options](#), and LEAPS can trade on other cycles, such as Cycle 4, Cycle 5 or Cycle 6. Cycle 4, for example, offers [options](#) in the two nearest months plus two months from Cycle 3. For example, in mid-April, there would be April, May, June and September [expires](#) available. A month later, there would be May, June, September and December expiries available for trading.

Expiration date

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

Expiration time

The time of day by which all [exercise](#) notices must be received on the expiration date. Technically, the expiration time is currently 11:59AM on the expiration date, but [public](#) holders of option contracts

must indicate their desire to exercise no later than 5:30PM on the business day preceding the expiration date. The times are Eastern Time. See also [Expiration Date](#).

Explicit Bankruptcy Costs

Specific costs incurred during the [bankruptcy](#) process such as legal fees, court costs, consultants' fees, and document preparation [expenses](#).

Explicit tax

A tax specifically collected by a government; includes [income](#), [withholding](#), [property](#), [sales](#), and [value-added taxes](#) and [tariffs](#).

Exploding term sheet

[Venture capital](#) jargon. Often a proposed term sheet might explode or be null and void in a fixed period set to negotiate the final [contract](#).

Export Commodity Control List

A listing administered by the U.S. Department of Commerce of items requiring validated export licenses for shipment to some or all countries.

Export Credit Agency

An [agency](#) established by a country to [finance](#) its nation's goods, [investment](#), and services, often offers political risk insurance.

Export Credit Guarantee

Guarantee from the UK Export Credit Agency.

Export Development Corp.

Canada's Export Credit Agency.

Export Finance Insurance Corp.

Australia's Export Credit Agency.

Export-import Bank (Ex-IM Bank)

The U.S. federal government [agency](#) that extends trade credits to U.S. [companies](#) to facilitate the financing of U.S. exports.

Export financing interest

Interest income derived from goods manufactured in the U.S. and sold outside the U.S. as long as not more than 50% of the value is imported into the U.S.

Export License

Permission from the exporter's government to export specific merchandise to a particular country.

Export management company

A foreign or domestic [company](#) that acts as a sales agent and distributor for domestic exporters in [international markets](#).

Export Management Consultant (EMC)

A [company](#) serving as the export department of other [firms](#). Normally, EMC's work on a commission basis and do not take title to the goods they export. Also see: [Export Trading Company](#).

Export Trading Company (ETC)

A [company](#) serving as the export department of other [firms](#). They usually take title, [risk](#) and responsibility for the goods they export.

Exports

Goods or services sold to parties in foreign countries.

Exposure netting

[Offsetting](#) exposures in one [currency](#) with exposures in the same or another currency, when [exchange rates](#) are expected to move in such a way that [losses](#) or [gains](#) on the first exposed [position](#) should be [offset](#) by gains or losses on the second currency exposure.

Expost average rate of return

The historical [mean](#) percentage an [asset](#) has [yielded](#).

Expropriation

The official seizure by a government of private property. Any government has the right to seize such property, according to international law, if prompt and adequate [compensation](#) is given. Sometimes referred to as nationalization.

Expunge

Used in the context of general equities. Remove any trace of an [Auto indication's](#) existence at any time. See: [Cancel](#).

Extendable bond

[Bond](#) whose [maturity](#) can be extended at the option of the holder (investor).

Extendable notes

[Note](#) with [maturity](#) that can be extended by mutual agreement between the [issuer](#) and [investors](#).

Extension

Voluntary arrangements to restructure a [firm's debt](#), under which the payment date is postponed.

Extension date

The day on which the first [option](#) either [expires](#) or is extended.

Extension swap

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

External debt

External debt is the portion of a country's [debt](#) that was borrowed from foreign lenders including commercial banks, governments or international financial institutions.

External efficiency

Related: [Pricing efficiency](#)

External finance

Funding that is not generated by a [firm's](#) operations: new [borrowing](#) or a [stock issue](#).

External funds

Funds originating from a source outside the [corporation](#) to increase [cash flow](#) and to aid in expansion efforts, e.g., bank [loan](#) or [bond offering](#).

External market

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

Extinguish

[Retire](#) or pay off [debt](#).

Extra Dividend

A temporary increase in a [firm's dividends](#) beyond the normal level.

Extraordinary call

Early [redemption](#) of a [revenue bond](#) because the revenue source paying the [interest](#) on the [bond](#) has been eliminated or has disappeared.

Extraordinary item

An unusual and unexpected one-time event that must be explained to [shareholders](#) in an annual or [quarterly](#) report, e.g., write down for a discontinued operation, employee fraud, a lawsuit, or other one-time events. Results are often presented with and without these items. The logic of excluding these items is that [investors](#) have a better notion of future performance if one-time events are excluded. Differs from an unusual item in that extraordinary items are (1) material; (2) non-recurring; and (3) outside the ordinary nature of the business.

Extra or special dividends

A one-time or special [dividend](#) that is paid in addition to a [firm's](#) established or expected [quarterly dividend](#).

Extraordinary positive value

A positive [net present value](#).

Extrapolative statistical models

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

F

Fifth letter of a [Nasdaq](#) stock symbol specifying that the [issue](#) is a foreign [company](#).

FAC

See: [Federal Advisory Council](#)

FAS

Abbreviation for the Incoterm [Free Alongside Ship](#).

FASB

See: [Financial Accounting Standards Board](#)

FCA

Abbreviation for the [Free Carrier](#)

FCIA

See: [Foreign Credit Insurance Association](#)

FCM

See: [Futures commission merchant](#)

FDI

See: [Foreign direct investment](#)

FDIC

See: [Federal Deposit Insurance Corporation](#)

FF

See: [Federal Funds](#)

FFO

See: [Funds from operations](#)

FI

The two-character [ISO](#) 3166 country code for FINLAND.

FICO

See: [Financing corporation](#)

FIFO

See: [First in, first out](#)

FIM

The [ISO](#) 4217 currency code for the Finnish Markka.

FIN

The three-character [ISO](#) 3166 country code for FINLAND.

FINRA

See: [Financial Industry Regulation Authority](#)

FIRREA

See: [Financial Institutions Reform, Recovery and Enforcement Act of 1989](#)

FIVA

See: [Finanssivalvonta](#).

FIXatdl

See: [Financial Information eXchange Algorithmic Trading Definition Language](#)

FJ

The two-character [ISO](#) 3166 country code for FIJI.

FJD

The [ISO](#) 4217 currency code for the Fijian Dollar.

FJI

The three-character [ISO](#) 3166 country code for FIJI.

FK

The two-character [ISO](#) 3166 country code for FALKLAND ISLANDS (MALVINAS).

FKP

The [ISO](#) 4217 currency code for the Falkland Islands Pound.

FLK

The three-character [ISO](#) 3166 country code for FALKLAND ISLANDS (MALVINAS).

FO

The two-character [ISO](#) 3166 country code for FAROE ISLANDS.

FOK

See: [Fill or kill order](#)

FOMC

See: [Federal Open Market Committee](#)

FM

The two-character [ISO](#) 3166 country code for MICRONESIA, FEDERATED STATES OF.

FMA

See: [Finanzmarktaufsicht](#).

FPA

Abbreviation for the [insurance](#) term [Free of Particular Average](#)

FR

The two-character [ISO](#) 3166 country code for FRANCE.

FRA (1)

The three-character [ISO](#) 3166 country code for FRANCE.

FRA (2)

See: [Forward rate agreement](#)

FRF

The [ISO](#) 4217 currency code for the French Franc.

FRN

See: [Floating-rate note](#)

FRO

The three-character [ISO](#) 3166 country code for FAROE ISLANDS.

FSA

See: [Financial Services Authority](#).

FSC

See: [Foreign Sales Corporation](#)

FSM

The three-character [ISO](#) 3166 country code for MICRONESIA, FEDERATED STATES OF.

F.T.C.

See: [Federal Trade Commission](#)

FX Rate

See: [Foreign exchange rate](#)

Face-amount certificate

A [debt security issued](#) by face amount. The holder makes payments periodically to the [issuer](#), and the issuer promises to pay the purchaser the [face value](#) at [maturity](#) or the [surrendered value](#) if the [security](#) is presented at the maturity specified in the [certificate](#).

Face value

See: [Par value](#)

Facilitation

The process of providing a market for a [security](#). Normally, this refers to bids and offers made for large blocks of securities, such as those traded by institutions. Listed options may be used to offset part of the risk assumed by the trader who is facilitating the large block order. See also: [Hedge ratio](#).

Factor

A [financial institution](#) that buys a [firm's accounts receivable](#) and collects the accounts.

Factor analysis

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

Factor model

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

Factor portfolio

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

Factor Return

The [return](#) attributable to a particular [common factor](#). We decompose [asset returns](#) into common factor components, based on the asset's exposures to common factors times the factor returns, and a specific return.

Factoring

[Sale](#) of a [firm's accounts receivable](#) to a [financial institution](#) known as a [factor](#).

Fade

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

Fail

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

Failure to deliver

Shares not delivered from seller to buyer on the settlement date.

Fair-and-equitable test

A set of requirements for a plan of [reorganization](#) to be approved by the [bankruptcy](#) court.

Fair game

An investment prospect that has a zero [risk premium](#).

Fair market price

Amount at which an [asset](#) would change hands between two parties, where both have knowledge of the relevant facts. Also referred to as [market price](#).

Fair price

The [equilibrium price](#) for [futures contracts](#). Also called the [theoretical futures price](#), which equals the [spot price continuously compounded](#) at the [cost of carry rate](#) for some time interval. In the context of corporate governance, Fair-Price provisions limit the range of prices a bidder can pay in two-tier offers. They typically require a bidder to pay to all shareholders the highest price paid to any shareholder during a specified period of time before the commencement of a tender offer and do not apply if the deal is approved by the board of directors or a supermajority of the target's shareholders. The goal of this provision is to prevent pressure on the target's shareholders to tender their shares in the front end of a two-tiered tender offer, and they have the result of making such an acquisition more expensive. A majority of states have fair price laws.

Fair price provision

See:[Appraisal rights](#)

Fair rate of return

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

Fair Tax

A proposal to change the federal tax laws in the United States from current tax system to a single national consumption tax on retail sales. The plan was introduced to the Congress as the Fair Tax Act for the first time in July 1999. The Act gained additional visibility in 2008.

Fair value

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

Fair value accounting

Refers to accounting for the value of an asset or liability based on the current market price instead of [book value](#). This term was started by Professor Matt Holden of UNLV. Fair value accounting has been a part of [GAAP](#) since 1990s. See: [mark to market accounting](#)

Fairness opinion

An [investment banker's](#) professional opinion as to the price an [acquiring firm](#) is [offering](#) in a [takeover](#) or [merger](#).

Fall Down

In the context of general equities, may not be able to produce as indicated in one's advertised [market](#), due to less help (than anticipated) from other parties or due to changing market conditions.

Fall out of bed

A sudden drop in a [stock's](#) price resulting from failed or poor business deals gone bad or falling through.

Fallen angels

[Bonds](#) that at the time of [issue](#) were considered [investment grade](#) but that have dropped below that [rating](#) over time.

Fallout risk

A type of [mortgage pipeline risk](#) that is generally created when the terms of the [loan](#) to be [originated](#) are set at the same time the [sale](#) terms are established. The [risk](#) is that either of the two parties, [borrower](#) or [investor](#), fails to close and the loan "falls out" of the pipeline.

False accounting

Illegally altering accounting records by making misleading entries or omitting [material](#) information for personal gain or to mask poor firm performance.

Fama, Eugene F.

Finance professor at the University of Chicago. Developer of the Efficient Markets Hypothesis. Nobel Laureate in Economics, 2013.

Fama and French Three Factor Model

Created by [Eugene Fama](#) and Kenneth French to describe the [expected return](#) of a [portfolio](#). Their model includes the market exposure (known as [beta](#) in the [Capital Asset Pricing Model](#)) plus two other risk factors: SMB (Small Minus Big) and HML (High Minus Low.) SMB accounts for the tendency for [stocks](#) of firms with small [market capitalizations](#) generate higher [returns](#), while HML accounts for the tendency that value [stocks](#) (of firms with high [Book to Market](#) ratios) generating higher [returns](#).

Family of funds

A group of [mutual funds](#) offered by one [investment company](#). Often, switching from one mutual fund to another can be done without incurring fees as long as both funds are in the same 'family'.

Family office

Entities (usually registered as [corporations](#) or [limited liability company](#)) set up to manage the finances of a wealthy family.

Fat fingers

In the context of electronic trading, this refers to a trader incorrectly keying in an order.

Far month

Used in the context of [option](#) or [futures](#) to refer to the [trading](#) month of the [contract](#) that is farthest away. Antithesis of [nearest month](#).

Farther out; farther in

Used in the context of [options](#) to refer to the relative length of [option contract maturities](#).

FAS 157

See: [Statement of Financial Accounting Standards No. 157](#)

FASB No. 8

U.S. accounting standard that requires US [firms](#) to translate their foreign affiliates' accounts by the [temporal method](#); that is, reporting gains and losses from [currency fluctuations](#) in current income. It was in effect between 1975 and 1981 and became the most controversial accounting standard in the US. It was replaced by [FASB No. 52](#) in 1981.

FASB No. 52

The US accounting standard that replaced [FASB No. 8](#). US companies are required to translate foreign accounts in terms of the [current rate](#) and report the changes from [currency fluctuations](#) in a [cumulative translation adjustment account](#) in the [equity](#) section of the [balance sheet](#).

Fast market

Excessively rapid [trading](#) in a specific [security](#) that causes a delay in the electronic updating of its [last sale](#) and [market](#) conditions, particularly in [options](#).

Favorable Balance of Trade

The value of a nation's exports in excess of the value of its imports.

Favorable trade balance

Condition that total exports of a nation exceed total imports, creating a [net](#) export.

Feasible portfolio

A [portfolio](#) that an [investor](#) can construct, given the [assets](#) available.

Feasible set of portfolios

The [collection](#) of all feasible [portfolios](#).

Feasible target payout ratios

[Payout ratios](#) that are consistent with the level of excess funds available to make [cash](#) [dividend](#) payments.

Fed

The short form for the U.S. [Federal Reserve Bank](#).

Fed Funds

See: [Federal Funds](#).

FED Pass

A [Federal Reserve](#) action adding more [reserves](#) to the banking system, increasing the [money](#) available for [lending](#), and making [credit](#) easier to attain.

Federal Advisory Council (FAC)

Advisory group made up of one representative (in most cases a banker) from each of the 12 Federal Reserve districts. Established by the Federal Reserve Act, the council meets periodically with the Board of Governors to discuss business and [financial](#) conditions and make recommendations.

Federal agency bond

[Fixed-income security issued](#) by a government agency such as FNMA.

Federal agency securities

[Securities issued](#) by [corporations](#) and [agencies](#) created by the US government, such as the [Federal Home Loan Bank Board](#) and [Ginnie Mae](#).

Federal Agricultural Mortgage Corporation (Farmer Mac)

A federal agency [chartered](#) in 1988 to provide a [secondary market](#) for farm [mortgage loans](#).

Federal credit agencies

[Agencies](#) of the federal government set up to supply [credit](#) to various [classes](#) of institutions and individuals, e.g., S&Ls, small business [firms](#), students, farmers, and exporters.

Federal deficit (surplus)

When federal government [expenditures](#) are exceeded by (are less than) federal government revenue.

Federal Farm Credit Bank

An institution created by the government with the purpose of uniting the [financing](#) activities of the Federal Land Banks, the [Federal Intermediate Credit Banks](#), and the banks for [cooperatives](#).

See: [Federal Farm Credit System](#).

Federal Farm Credit System

A system [chartered](#) in 1971 through the farm credit act providing farmers with [credit](#) services through a Federal Land Bank, a [Federal Intermediate Credit Bank](#), and a bank for [cooperatives](#). See: [Federal Farm Credit Bank](#).

Federal Deposit Insurance Corporation (FDIC)

A federal institution that insures bank deposits.

Federal Financing Bank

A federal institution that [lends](#) to a wide array of [federal credit agencies](#) funds it obtains by [borrowing](#) from the US [Treasury](#).

Federal funds

A Federal Funds Transaction is an unsecured loan of U.S. dollars to a "borrower" or "purchaser" that is a Depository Institution from a "lender" or "seller" that is a Depository Institution, foreign bank, government-sponsored enterprise or other eligible entity. Note that Fed Funds liabilities are not subject to reserve requirements.

Federal funds market

The [market](#) in which Depository Institutional can [borrow](#) or [lend reserves](#), allowing banks temporarily [short](#) of their [required reserves](#) to borrow reserves from banks that have [excess reserves](#).

Federal funds rate

The daily federal funds effective rate (FFER), calculated by the [Federal Reserve](#) Bank of New York (New York Fed), is one measure of the overnight fed funds rate. The FFER is based on data voluntarily provided to the New York Fed by major fed funds brokers, and is a weighted-average rate of all overnight fed funds transactions arranged through these brokers each business day. This rate often points to the direction of US [interest rates](#). The most sensitive [indicator](#) of the direction of [interest rates](#), since it is set daily by the [market](#), unlike the [prime rate](#) and the [discount rate](#).

Federal gift tax

A federal tax imposed on [assets](#) conveyed as gifts to individuals.

Federal Home Loan Banks

The institutions that regulate and [lend](#) to [savings and loan associations](#). The Federal Home Loan Banks play a role analogous to that played by the [Federal Reserve Banks](#) vis-à-vis member commercial banks.

Federal Home Loan Mortgage Corporation (FHLMC)

See: [Freddie Mac](#)

Federal Housing Administration (FHA)

Federally sponsored agency [chartered](#) in 1934 whose [stock](#) is currently owned by savings institutions across the United States. The agency buys [residential mortgages](#) that meet certain requirements, sells these [mortgages](#) in [packages](#), and insures the [lenders](#) against [loss](#).

Federal Housing Finance Board (FHFB)

US government agency [chartered](#) in 1989 to assume the responsibilities formerly held by the [Federal Home Loan Bank](#) system.

Federal Intermediate Credit Bank

A bank sponsored by the federal government to provide funds to [institutions](#) making [loans](#) to farmers.

Federal intrafund transactions

[Intrabudgetary transactions](#) in which payments and [receipts](#) both occur within the same federal fund group.

Federal Land Bank

A bank administered under the US Farm Credit Administration that provides [long-term mortgage credit](#) to farmers for agriculture-related [expenditures](#).

Federal margin call

A broker's demand upon a customer for cash, or securities needed to satisfy the required [Regulation T](#) down payment for a purchase or short [sale](#) of securities.

Federal Maritime Commission (FMC)

A U.S. government agency that regulates and administers the shipping industry. This agency also grants freight forwarder licenses.

Federal National Mortgage Association (Fannie Mae)

A [publicly](#) owned, [government-sponsored corporation](#) [chartered](#) in 1938 to purchase [mortgages](#) from [lenders](#) and resell them to [investors](#). Known by the nickname Fannie Mae,

it packages mortgages backed by the [Federal Housing Administration](#), but also sells some nongovernment-backed mortgages.

Federal Open Market Committee (FOMC)

The body that is responsible for setting the [interest rates](#) and [credit](#) policies of the [Federal Reserve System](#). The FOMC sets a target level for the overnight fed funds rate, as the fed funds market has historically facilitated the transfer of the most liquid funds among depository institutions. The New York Fed then uses open market operations to change the supply of reserves in the system which, in conjunction with IOER, influence overnight fed funds to trade around this policy target rate or within the target rate range.

Federal Reserve Act of 1913

Federal legislation that established the Federal Reserve System.

Federal Reserve Bank

One of the 12 [member banks](#) constituting the [Federal Reserve System](#) that is responsible for overseeing the commercial and [savings banks](#) of its region to ensure their compliance with [regulation](#).

Federal Reserve District (Reserve district or district)

One of the twelve geographic regions served by a Federal Reserve Bank.

Federal Reserve Board (FRB)

The seven-member governing body of the [Federal Reserve System](#), which is responsible for setting [reserve requirements](#), and the [discount rate](#), and making other key economic decisions.

Federal Reserve float

Float is checkbook [money](#) that appears on the books of both the check writer (the payor) and the check receiver (the payee) while a check is being processed. Federal Reserve float is float present during the Federal Reserve's check [collection](#) process. To promote efficiency in the payments system and provide certainty about the date that deposited funds will become available to the receiving depository institutions (and the payee), the Federal Reserve credits the reserve accounts of banks that deposit checks according to a fixed schedule. However, processing certain checks and collecting funds from the banks on which these checks are written may take more time than the schedule allows. Therefore, the accounts of some banks may be [credited](#) before the Federal Reserve is able to collect payment from other banks, resulting in Federal Reserve float.

Federal Reserve notes

[Issued](#) by the US government to the [public](#) through the [Federal Reserve Banks](#) and their [member banks](#). They represent [money](#) owed by the government to the public. Currently, the item "Federal

Reserv1e notes amounts [outstanding](#)" consists of new [series](#) issues. The Federal Reserve [note](#) is the only class of [currency](#) currently issued.

Federal Reserve System

The monetary authority of the US, established in 1913, and governed by the [Federal Reserve Board](#) located in Washington, D.C. The system includes 12 [Federal Reserve Banks](#) and is authorized to [regulate monetary policy](#) in the US as well as to supervise Federal Reserve [member banks](#), bank [holding companies](#), international operations of US banks, and US operations of foreign banks.

Federal Savings and Loan Association

An institution [chartered](#) by the federal government whose primary function is to regulate institutions that collect savings deposits and provide [mortgage loans](#).

Federal Trade Commission (FTC)

An independent federal agency consisting of a five-member board, whose goal is to create [economic competition](#) by promoting consumer protection and prevent illegal business practices. The FTC was created in 1914 to battle [monopolistic trusts](#), and has since been granted the abilities to prohibit anti-competitive and illegal business practices and enforce industry-wide [regulations](#).

Federally related institutions

Arms of the federal government exempt from [SEC](#) registration whose [securities](#) are backed by the [full faith and credit](#) of the US government (with the exception of the Tennessee Valley Authority).

Fedwire

A wire transfer system for high-value payments operated by the [Federal Reserve System](#).

Fee

A fixed amount or a percentage of an [underwriting](#) or [principal](#) paid to the underwriter for its services. Also, the charge a mutual fund holder pays for expenses incurred in management and administration of the fund. Also, the rate an account holder pays to a portfolio manager for management of a discretionary account.

Fee table

Schedule found in a [mutual fund's prospectus](#) that discloses and illustrates the expenses and fees a [shareholder](#) will incur.

Fee-and-commission compensation

See: [Fee-based compensation](#)

Fee-based compensation

Payment to a [financial adviser](#) of a set hourly rate, or an agreed-upon percentage of [assets](#) under management, for a [financial plan](#). When the plan is implemented, the adviser may also receive [commission](#) on some or all of the [investment](#) products purchased, which would be [fee-and-commission compensation](#).

Fee-only compensation

Payment to a [financial adviser](#) of a set hourly rate, or an agreed-upon percentage of [assets](#) under management, for a [financial plan](#). Under this arrangement, the adviser receives no commissions on any transactions to implement the plan.

Feedback Systems

An equation where the output becomes the input in the next iteration. This is much like a [public](#) address system where the microphone is placed next to the speakers generating feedback as the signal is looped through the PA system.

FHA prepayment experience

The percentage of [loans](#) in a [pool](#) of [mortgages outstanding](#) at the origination anniversary, based on [annual](#) statistical historic survival rates for FHA-insured mortgages.

Fiat money

Nonconvertible paper [money](#).

FICO score

[Credit scoring](#) model developed by the Fair Issac Corporation.

Fictitious credit

A [margin account's credit balance](#). Fictitious [credit](#) exists after the [proceeds](#) from a [short sale](#) are accounted for with respect to the [margin requirement](#). The proceeds from the short sale are reflected as a credit, but must stay in the [account](#) to serve as [security](#) for the [loan](#) of [securities](#) made in a short sale, and are therefore inaccessible to the client for withdrawal.

Fidelity bond

See: [Blanket fidelity bond](#)

Fiduciary

One who must act for the benefit of another party.

Fiduciary out

A provision that permits the Board of Directors to terminate a proposed merger if a better deal arises with another party.

Field warehouse

Warehouse rented by a [company](#) on another [firm's](#) premises.

Figure

Refers to details about price including the [bid](#) and [offer](#). See: [Handle](#)

Figuring the tail

Calculating the [yield](#) at which a future [money market instrument](#) (one available some period hence) is purchased when that future [security](#) is created by buying an existing [instrument](#) and [financing](#) the initial portion of its life with a [term repo](#).

Fill

An [executed](#) order. Also, the price at which an order is executed.

Fill or kill order (FOK)

Has various definitions. 1) On some exchanges, a [market](#) or [limited price order](#) that is to be [executed](#) in its entirety as soon as it is represented in the [trading crowd](#), and, if not so executed, is to be treated as [canceled](#). In this context, no partial [fills](#) are accepted, and the FOK order is treated as an [IOC](#), [AON](#) order. 2) On other exchanges, a market or limit order that is to be executed by filling the number of [shares](#) made available by the first [bid](#) or [offer](#), and then canceling any unfilled balance. In this context, a FOK order is treated as an instruction to fill what can be filled by hitting the first bid or offer, and cancel the rest. In this case partial fills are possible, and the FOK order is treated as an IOC, Any Part order. Because of the prevalence of interlisted [stocks](#), the ability of a [broker](#)'s trading desk to direct [trades](#) to one exchange or another, and the different interpretations the order can have depending on which exchange the order is routed to, use of this type of order is discouraged. Instead, either an IOC AON, or an IOC Any Part, order will get the desired result regardless of the exchange.

Filter

A rule that stipulates when a [security](#) should be bought or sold according to its [price](#) action.

Final Take

In the context of project financing, the final participation.

Finance

A discipline concerned with determining value and making decisions. The finance function allocates resources, including the [acquiring](#), [investing](#), and [managing](#) of resources.

Finance charge

The total cost of [credit](#) a customer must pay on a consumer [loan](#), including [interest](#).

Finance company

A [company](#) whose business and primary function is to make [loans](#) to individuals, while not receiving deposits like a bank.

Finance Lease

An agreement where the [lessor](#) receives [lease](#) payments to cover its ownership [costs](#). The [lessee](#) is responsible for maintenance, insurance, and taxes. Some finance leases are conditional [sales](#) or hire [purchase](#) agreements.

Financial Accounting Standards Board (FASB)

Board composed of independent members who create and interpret Generally Accepted Accounting Principles (GAAP).

Financial adviser

A professional offering [financial](#) advice to clients for a fee and/or [commission](#).

Financial analysis

Analysis of a [company](#)' [financial statements](#), often by financial [analysts](#).

Financial analysts

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

Financial assets

Claims on [real assets](#).

Financial Close

The time when the documentation has been [executed](#) and conditions precedent have been satisfied or waived. [Drawdowns](#) are now permissible.

Financial control

The management of a [firm's](#) costs and [expenses](#) in relation to [budgeted](#) amounts.

Financial Crimes Enforcement Network

U.S. Treasury office that collects and analyzes information about financial transactions to combat money laundering, terrorist financing, and other financial crimes.

Financial distress

Events preceding and including [bankruptcy](#), such as violation of [loan contracts](#).

Financial distress costs

Legal and administrative costs of [liquidation](#) or [reorganization](#). Also includes implied costs associated with impaired ability to do business (indirect costs).

Financial engineering

Combining or carving up existing [instruments](#) to create new [financial](#) products.

Financial future

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

Financial guarantee insurance

[Insurance](#) created to cover [losses](#) from specified [financial transactions](#).

Financial Industry Regulation Authority

A regulatory body that resulted from merging the NASD and the NYSE regulatory committees. From the 2011 FINRA website, "The Financial Industry Regulatory Authority (FINRA) is the largest independent regulator for all securities firms doing business in the United States. FINRA's mission is to protect America's investors by making sure the securities industry operates fairly and honestly. All told, FINRA oversees nearly 4,535 brokerage firms, about 163,620 branch offices and approximately 631,640 registered securities representatives. FINRA touches virtually every aspect of the securities business—from registering and educating industry participants to examining securities firms; writing rules; enforcing those rules and the federal securities laws; informing and educating the investing public; providing trade reporting and other industry utilities; and administering the largest dispute resolution forum for investors and registered firms. We also perform market regulation under contract for the major U.S. stock markets, including the New York Stock Exchange, NYSE Arca, NYSE Amex, The NASDAQ Stock Market and the International Securities Exchange."

Financial Information eXchange Algorithmic Trading Definition Language

The coding that helps traders quickly obtain new or updated algorithms in [Algorithmic trading](#).

Financial innovation

Design of any new [financial](#) product, such as [exotic currency options](#) and [swaps](#).

Financial institution

An [enterprise](#) such as a bank whose primary business and function is to collect [money](#) from the [public](#) and [invest](#) it in [financial assets](#) such as [stocks](#) and [bonds](#), loans and mortgages, leases, and insurance policies.

Financial institution buyer credit policy

[Insurance](#) coverage for [loans](#) by banks to foreign buyers of exports.

Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA)

Legislation that established the [Office of Thrift Supervision](#), which was created in the wake of the savings and [loan](#) crisis of the late 1980s.

Financial intermediaries

Institutions that provide the [market](#) function of matching [borrowers](#) and [lenders](#) or [traders](#). Financial intermediaries facilitate [transactions](#) between those with excess cash in relation to current requirements (suppliers of [capital](#)) and those with insufficient cash in relation to current requirements (users of capital) for mutual benefit.

Financial lease

[Long-term](#), non[cancelable rental](#) agreement.

Financial leverage

Use of [debt](#) to increase the [expected return](#) on [equity](#). Financial leverage is measured by the ratio of debt to debt [plus equity](#).

Financial leverage clientele

A group of [investors](#) who have a preference for investing in [firms](#) that adhere to a particular [financial leverage](#) policy.

Financial leverage ratios

Common ratios are [debt](#) divided by equity and debt divided by the sum of debt plus equity.

Related: [capitalization ratios](#).

Financial market

An organized institutional structure or mechanism for creating and exchanging [financial assets](#).

Financial meltdown

Refers to events like steep fall in [stock markets](#), decline in [asset values](#), corporate losses etc. that hurt the economy and lead to losses for [investors](#).

Financial model

A model that represents the financial operations or [financial statements](#) of a company in terms of its business parameters and forecasts future financial performance. Models are used for [risk](#)

management by examining different economic scenarios for the future. Financial models are also used to provide **valuations** of individual **assets** that might not be actively **traded** in a **secondary market**.

Financial needs approach

A method of establishing the amount of **life insurance** required by an individual by estimating the **financial** needs of dependents in the event of the individual's death.

Financial objectives

Goals related to returns that a **firm** will strive to accomplish during the period covered by its **financial plan**.

Financial plan

A blueprint relating to the financial future of a **firm**.

Financial planner

An investment professional who assists individuals with **long-** and **short-term financial** goals.

Financial planning

Evaluating the investing and **financing** options available to a **firm**. Planning includes attempting to make optimal decisions, projecting the consequences of these decisions for the firm in the form of a **financial plan**, and then comparing future performance against that plan.

Financial policy

Criteria describing a **corporation's** choices regarding its **debt/equity** mix, **currencies** of **denomination**, **maturity** structure, method of **financing investment** projects, and **hedging** decisions with a goal of maximizing the value of the **firm** to some set of **stockholders**.

Financial position

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

Financial press

Media devoted to reporting **financial** news.

Financial price risk

The chance there will be unexpected changes in a **financial** price, including **currency (foreign exchange)** risk, **interest rate** risk, and **commodity price risk**.

Financial public relations

[Public](#) relations division of a [company](#) charged with cultivating positive [investor relations](#) and proper [disclosure](#) information.

Financial pyramid

A [risk](#) structure that [spreads investor's](#) risks across low-, medium-, and high-risk vehicles. The bulk of the [assets](#) are in safe, low-risk [investments](#) that provide a predictable [return](#) (base of the pyramid). At the top of the pyramid are a few high-risk ventures that have a modest chance of success.

Financial ratio

The result of dividing one [financial statement](#) item by another. Ratios help [analysts](#) interpret financial statements by focusing on specific relationships.

Financial risk

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

Financial Services Authority (FSA)

The United Kingdom's supervisory authority for the British financial markets. British financial regulator.

Financial service income

Income from delivery of [financial](#) services such as banking, [insurance](#), [leasing](#), or financial service [management fees](#).

Financial sponsors

In context of [private equity](#), financial sponsor refers to [private equity](#) investment firms that engage in [leveraged buyout](#) or LBO transactions.

Financial Stability Oversight Council

A council established under the [Dodd-Frank Act](#) within U.S. Department of the Treasury to provide comprehensive monitoring to ensure the stability of national financial system. The Council is made up of ten voting members - nine federal financial regulatory agencies and an independent member with insurance expertise - and five nonvoting members.

Financial statement

A report of basic accounting data that helps [investors](#) understand a [firm's financial](#) history and activities.

Financial statement analysis

Evaluation of a [firm's financial statements](#) in order to assess the firm's [worth](#) and its ability to meet its financial [obligations](#).

Financial strategy

Practices a [firm](#) adopts to pursue its [financial](#) objectives.

Financial structure

The way in which a [company's assets](#) are financed, such as [short-term borrowings](#), [long-term debt](#), and [owners equity](#). Financial structure differs from [capital structure](#) in that capital structure accounts for long-term [debt](#) and equity only.

Financial supermarket

A [company](#) offering a wide variety of [financial](#) services such as a combination of banking services, investment services, and [insurance brokerage](#).

Financial tables

Tables found in newspapers listing prices, [dividends](#), [yields](#), [price-earnings ratios](#), [trading volume](#), and other important data on [stocks](#), [bonds](#), [mutual funds](#), and [options](#) and [futures contracts](#).

Financial Times (F-T)-Actuaries indexes

[Share](#) price indexes for U.K. companies. The [denominator](#) in the [index](#) formula is the market capitalization at the [base date](#), adjusted for all [capital](#) changes affecting the particular index since the base date. See: [Footsie](#) (FTSE) (pronounced footsie).

Financing Agreements

In the context of project financing, the documents which provide the project financing and sponsor support for the project as defined in the project [contracts](#).

Financing Corporation (FICO)

A government agency [chartered](#) in 1987 to [bail out](#) the Federal Savings and Loan Insurance Corporation (FSLIC) by [issuing bonds](#).

Financing decisions

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

Financing Intermediaries

Institutions that effect agreement terms between [borrower](#) and [lender](#) by reaching separate agreements with the borrower and the lender.

Financing Cost Savings

A source of [competitive](#) advantage that depends on access to low cost sources of [capital](#).

Finansinspektionen (Swedish FSA)

Sweden's supervisory authority for the Swedish financial markets. Swedish financial regulator.

Finanssivalvonta (FIVA)

Finland's supervisory authority for the Finland financial markets. Finish financial regulator.

Finanstilsynet (Danish FSA)

Denmark's supervisory authority for the Denmark financial markets. Danish financial regulator.

Finanzmarktaufsicht (FMA)

Austria's supervisory authority for the Austrian financial markets. Austria's financial regulator.

Finder's fee

A fee a person or [company](#) charges for service as an [intermediary](#) in a [transaction](#).

FINEX

The Financial [Futures](#) and [Options](#) Division of the [New York Cotton Exchange \(NYCE\)](#), with a [trading floor](#) in Dublin, FINEX Europe, creating a 24-hour market in most FINEX contracts.

Finish

Used in the context of general equities. See: [Fill](#).

Finite-Life Real Estate Investment Trust (FREIT)

A [Real Estate Investment Trust](#) whose priority is to sell its holdings within a specified period to realize [capital gains](#).

Firewall

The legal barrier between banking and [broker/dealer](#) operations within a [financial institution](#) created to prevent the exchange of [inside information](#).

Firm

Refers to an [order](#) to [buy](#) or sell that can be [executed](#) without confirmation for some fixed period.

Also, a synonym for [company](#).

Firm anomalies

[Trading strategies](#) that generate abnormal [returns](#) based on [firm](#)-specific characteristics.

Firm commitment underwriting

An [underwriting](#) in which an [investment banking firm](#) commits to [buy](#) and sell an entire [issue of stock](#) and assumes all [financial](#) responsibility for any unsold [shares](#). Also known as [bought deal](#).

Firm market

In the context of general equities, [prices](#) at which a [security](#) can actually be bought or sold in decent sizes, as compared to an [inside market](#) with very little depth. See: [Actual market](#).

Firm order

In the context of general equities, (1) [order](#) to [buy](#) or sell for the proprietary account of the [broker-dealer firm](#); (2) [buy](#) or sell order not conditional upon the customer's confirmation.

Firm quote

A definite price on a [round-lot bid](#) or [offer](#) declared by a [market maker](#) on a given [security](#) and not identified as a [nominal quotation](#) (therefore is not [negotiable](#)).

Firm-specific news

News that affects only a specific [firm](#), [Market](#), news by contrast affects many firms.

Firm-specific risk

See: [Diversifiable](#) risk or [unsystematic risk](#)

Firm's net value of debt

Total firm value [minus](#) total firm [debt](#).

First board

The [Chicago Board of Trade's](#) established dates for [delivery](#) on [futures contracts](#).

First call

With [collateralized mortgage obligation \(CMOs.\)](#), the start of the [cash flow](#) cycle for the cash flow [window](#).

First call date

A date stated in an [indenture](#) that is the first date on which the [issuer](#) may [redeem](#) a [bond](#) either partially or completely.

First In, First Out (FIFO)

An accounting method for valuing the cost of goods sold that uses the cost of the oldest item in [inventory](#) first. Ending inventory is therefore valued based on the most recently purchased items.

First market

[Exchange-traded securities](#).

First mortgage

A type of [mortgage](#) that through a [lien](#) gives [precedence](#) to the [lender](#) of the first [mortgage](#) over all other lenders in case of [default](#).

First notice day

The first day, varying by [contracts](#) and exchanges, on which notices of intent to [deliver](#) actual [financial instruments](#) or [physical commodities](#) against [futures](#) are authorized.

First-pass regression

A [time series regression](#) to estimate the [betas](#) of [securities portfolios](#).

First preferred stock

A type of [preferred stock](#) that has priority over other preferred [issues](#) and [common stock](#) when claiming [dividends](#) and [assets](#).

Fiscal agency agreement

An alternative to a [bond trust deed](#). Unlike the [trustee](#), the fiscal [agent](#) acts as a representative of the [borrower](#).

Fiscal agency services

Services performed by the Federal Reserve Banks for the U.S. government. These include maintaining deposit accounts for the Treasury Department, paying U.S. government checks drawn on the Treasury, and issuing and redeeming savings bonds and other government securities.

Fiscal policy

Government spending and taxing for the specific purpose of stabilizing the economy.

Fiscal stimulus

See [Economic stimulus](#).

Fiscal year (FY)

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

Fiscal year-end

The end of a 12-month accounting period.

Fisher effect

A theory that [nominal interest rates](#) in two or more countries should be equal to the [required real rate of return](#) to [investors](#) plus [compensation](#) for the expected amount of [inflation](#) in each country.

Fisher's separation theorem

The notion that a [firm's](#) choice of investments is separate from its owner's attitudes toward investments. Also referred to as [portfolio separation theorem](#).

Fit

The matching of the [investor's](#) requirements and needs such as [risk tolerance](#) and growth potential preference with a specific [investment](#). Also, how well or how poorly a regression line represents the data points it is based on. A good 'fit' indicates a high correlation coefficient.

Fitch sheet

Used in the context of general equities. Chronological listing of [trades](#) in a [security](#) showing the price, size, [exchange](#), and time (to the second) of the trades; obtained by hitting "#M" on Quotron.

Five Cs of credit

Five characteristics that are used to form a judgment about a customer's [creditworthiness](#): character, [capacity](#), [capital](#), [collateral](#), and conditions.

Five hundred dollar rule

A rule of the [Federal Reserve](#) that excludes deficiencies of \$500 or less in [margin requirements](#) as a necessary reason for the [firm](#) to [liquidate](#) the client's [account](#) to [cover](#) a [margin call](#).

Five percent rule

A rule of the [National Association of Securities Dealers](#) providing ethical guidelines for [spreads](#) created by [market makers](#) and [commissions](#) charged by [brokers](#).

Fixation

The process of setting a price of a [commodity](#), whether in the present or the future. See: [Gold fixing](#).

Fixed asset

Long-lived property owned by a [firm](#) that is used by a firm in the production of its income. [Tangible fixed assets](#) include [real estate](#), [plant](#), and equipment. [Intangible fixed assets](#) include [patents](#), [trademarks](#), and customer recognition.

Fixed asset turnover ratio

The ratio of [sales](#) to [fixed assets](#).

Fixed annuities

[Contracts](#) in which an insurance company or [issuing financial institution](#) pays a fixed dollar amount of [money](#) per period.

Fixed base index

For this type of [index](#), the value in any specific time period is based on the value in the initial time period and this base remains unchanged throughout the [index](#). This is different from a [chain base index](#) in which values in any period are based on the preceding time period. See: [Base period](#), [Chain base index](#), [Index number](#)

Fixed benefits

Payments to a [beneficiary](#) that are paid in fixed preset amounts and are not variable.

Fixed-charge coverage ratio

A measure of a [firm's](#) ability to meet its fixed-charge [obligations](#): the ratio of (Earnings before interest, depreciation and amortization minus unfunded capital expenditures and distributions) divided by total debt service (annual principal and interest payments). Notice that lease payments are sometimes included in the calculations.

Fixed cost

A cost that is fixed in total for a given period of time and for given production levels.

Fixed dates

In the [Euromarket](#), the standard periods for which [Euros](#) are [traded](#) (one month out to a year out) are referred to as the [fixed dates](#).

Fixed-dollar obligations

Conventional [bonds](#) for which the [coupon rate](#) is set at a fixed percentage of the [par value](#).

Fixed-dollar security

A non[negotiable debt security](#) that can be [redeemed](#) at some fixed price or according to some schedule of fixed values, e.g., bank deposits and government [savings bonds](#).

Fixed exchange rate

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

Fixed for floating swap

An [interest rate swap](#) in which the fixed rate payments are swapped for [floating rate](#) payments.

Fixed income equivalent

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

Fixed income instruments

[Assets](#) that pay a fixed dollar amount, such as [bonds](#) and [preferred stock](#).

Fixed income market

The market for trading [bonds](#) and [preferred stock](#).

Fixed-income securities

[Investments](#) that have specific and fixed [interest rates](#) or [dividend rates](#), such as [bonds](#).

Fixed premium

Payments of a fixed or equal amount paid to an insurance company for [insurance](#) or an [annuity](#).

Fixed price basis

An [offering](#) of [securities](#) at a fixed price.

Fixed-price tender offer

A one-time [offer](#) by an acquirer company to purchase a stated number of [shares](#) of a target company at a stated fixed price, usually at a [premium](#) over the current [market](#) price.

Fixed rate

A traditional approach to determining the finance charge payable on an extension of [credit](#). A predetermined and certain rate of interest is applied to the principal.

Fixed-rate loan

A [loan](#) whose rate is fixed for the life of the loan.

Fixed-rate payer

In an [interest rate swap](#), the [counterparty](#) who pays a [fixed rate](#), usually in exchange for a [floating-rate payment](#).

Fixed-term reverse mortgage

A [mortgage](#) in which the [lending](#) institution provides payments to a homeowner for a fixed number of years.

Fixed trust

A [unit investment trust](#) consisting of [securities](#) that were agreed upon at the time of investment and are held for the duration of the trust.

FIX Protocol Algorithmic Trading Working Group

An industry group that developed and maintains the standard for algorithms for [high frequency trading \(HFT\)](#).

Flag

A [pattern](#) reflecting price [fluctuations](#) within a narrow [range](#), generating a rectangular area on a graph both prior to and after sharp rises or declines.

Flash

Value of a [security](#) displayed, or flashed across the [tape](#), when the tape display cannot keep up with [volume](#) on an [exchange](#) and lags the current price by more than approximately five minutes.

Flash Crash

Refers to the 700 point drop in the Dow Jones Industrial Average that happened in just a few minutes on May 7, 2010.

Flash-light

See: [Spaceman](#)

Flat

Convertibles: Earning [interest](#) on the date of payment only.

General: Having neither a [short](#) nor a [long position](#) in a [stock](#). [Clean](#).

[Market](#): Characterized by [horizontal price movement](#), usually the result of low activity.

Equities: To [execute](#) without [commission](#) or markup.

Flat benefit formula

Method used to determine a participant's benefits in a [defined benefit plan](#) by multiplying months of service by a [flat](#) monthly benefit.

Flat price (also clean price)

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

Flat price risk

[Taking a position](#) either [long](#) or [short](#) that does not involve [spreading](#).

Flat scale

The [pattern](#) for new [issues](#) where [shorter-](#) and [longer-term yields](#) display very little difference over the [bond's maturity range](#).

Flat tax

A tax which is levied at the same rate on all levels of income. See also [progressive tax](#).

Flat trades

A [bond](#) in [default trades flat](#); that is, the price quoted covers both [principal](#) and unpaid [accrued interest](#). Any [security](#) that [trades](#) without accrued interest or at a price that includes accrued interest is said to [trade flat](#).

Flattening of the yield curve

A change in the [yield curve](#) when the [spread](#) between the [yield](#) on [long-term](#) and [short-term Treasuries](#) has decreased. Compare [steepening of the yield curve](#) and [butterfly shift](#).

FLEX Options

Exchange traded equity or index options, where the [investor](#) can specify within certain limits the terms of the options, such as [exercise price](#) [Expiration date](#), exercise type, and settlement calculation.

Flexible budget

A [budget](#) that shows how costs vary with different rates of output or at different levels of [sales volume](#) and projects revenue based on these different output levels.

Flexible expenses

[Expenses](#) for an individual or [corporation](#) that can be adjusted or completely dispensed with, e.g., luxury goods.

Flexible mutual fund

Fund that [invests](#) in a variety of [securities](#) in varying proportions in order to maximize [shareholder returns](#) while maintaining a low level of [risk](#).

Flight to quality

The tendency of [investors](#) to move toward safer [investments](#) (often [government bonds](#)) during periods of high economic uncertainty.

Flip-flop note

Note that allows investors to switch between two different types of debt.

Flip side

In the context of general equities, opposite side to a proposition or position (buy, if sell is the proposition and vice versa).

Flipping

Buying shares in an initial public offering (IPO), and then selling the shares immediately after the start of public trading to turn an immediate profit.

Float

Currency: Exchange rate policy that does not limit the range of the market rate.

Equities: Number of shares of a corporation that are outstanding and available for trading by the public, excluding insiders or restricted stock on a when-issued basis. A stock's volatility is inversely correlated to its float.

Floater

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

Floating debt

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

Floating exchange rate

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

Floating exchange rate system

Purchase or sale of the currencies of other nations by a central bank for the purpose of influencing foreign exchange rates or maintaining orderly foreign exchange markets. Also called foreign-exchange market intervention.

Floating lien

General attachment against a company's assets or against a particular class of assets.

Floating Rate

Interest rate that is reset periodically, usually every couple of months or sometimes daily.

Floating-rate contract

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

Floating-rate note (FRN)

[Note](#) whose [interest payment](#) varies with [short-term interest rates](#).

Floating-rate payer

In an [interest rate swap](#), the [counterparty](#) who pays a rate based on a [reference rate](#), usually in exchange for a fixed-rate payment.

Floating-rate preferred

[Preferred stock](#) paying [dividends](#) that vary with [short-term interest rates](#).

Floating securities

[Securities](#) bought in a [broker's name](#) and resold quickly to attain a [profit](#) in a short amount of time.

Floating supply

The aggregate of [securities](#) believed to be available for immediate purchase, that is, in the hands of [dealers](#) and [investors](#) wanting to sell.

Floor

The area of a stock exchange where [active trading](#) occurs. Also the price at which a [stop order](#) is activated (when the price [drops](#) low enough to activate such an order). In context of [interest rates](#), a level which an interest rate or [currency](#) is structured not to go below. In context of OTC interest rate options, a series of interest rate [put options](#), where the buyer of the floor guarantees a minimum interest income

Floorless Convertible

Used by companies that are in such bad shape that there is no other way to get financing. This instrument is similar to a convertible bond, but convertible at a discount to the share price at issuance and for a fixed dollar amount rather than a specific number of shares. The further the stock falls, the more shares you get. Popular in the mid to late 1990s. Also known as toxic convertibles or death spiral convertibles.

Floor broker

Member of an [exchange](#) who is an employee of a [member firm](#) and [executes orders](#), as [agent](#), on the [floor](#) of the exchange for clients.

Floor official

An employee of a [stock exchange](#) who settles disputes related to the [auction](#) process on the [floor](#) of the [stock exchange](#).

Floor picture

Details of the [trading crowd](#) for a [stock](#), such as the major [players](#), their sizes, and the [outside market](#) +/- an eighth.

Floor planning

Arrangement used to finance [inventory](#). A [finance company](#) buys the inventory, which is then held in [trust](#) for the user.

Floor ticket

Summary of a [stock](#) or [commodities exchange order ticket](#) by the [registered representative](#) on receipt of a [buy](#) or sell [order](#) from a client; gives the [floor broker](#) the information needed to [execute](#) a [securities transaction](#).

Floor trader

A [stock exchange member](#) who generally [trades](#) only for his own account or for an account controlled by him, or who has such a trade made for him. Also referred to as a "[local](#)."

Flotation (rotation) cost

The costs associated with creating [capital](#) through the [issue](#) of new [stocks](#) or [bonds](#), including the [compensation](#) earned by the [investment banker](#) plus legal, accounting and printing [expenses](#).

Flow of funds

In the context of [municipal bonds](#), refers to the statement displaying the priorities by which municipal revenue will be applied to the [debt](#).

In the context of [mutual funds](#), refers to the movement of [money](#) into or out of a [mutual fund](#) or between or among various fund [sectors](#).

Flow-through basis

An account for an investment [credit](#) to show all [income statement](#) benefits of the [credit](#) in the year of [acquisition](#), rather than [spreading](#) them over the life of the [asset](#).

Flow-through method

The practice of reporting to [shareholders](#) using [straight-line depreciation](#) but using [accelerated depreciation](#) for tax purposes and "flowing through" the lower [income taxes](#) actually paid to [financial statements](#) prepared for shareholders.

Flower bond

[Government bonds](#) that when owned at the time of death are acceptable at [par](#) in payment of federal [estate taxes](#).

Fluctuation

A price or [interest rate](#) change.

Fluctuation limit

The limit created by the [commodity exchange](#) that halts [trading](#) on a [future](#) if the price of the [future](#) changes, in either direction, more than a previously set amount. Also called [daily price limit](#).

Flurry

A drastic [volume](#) increase in a specific [security](#).

Focus list

Used in the context of general equities. [Investment banks](#) published list of [buy](#) and sell recommendations from its [research department](#); signified by a flashing "F" on Quotron.

Follow-on offering

Offering of additional [stock](#) of a company subsequent to its [IPO](#).

Footsie (FTSE)

[Financial Times \(FT\)-Actuaries 100 index](#): in London. Has the stature of the Dow Jones Industrial Average or the S&P 500 in London.

For/At

Used in the context of general equities. Conjunctions used in an [order](#), [market](#) summary, or [trade](#) recap that signify a [bid](#) or an [offer](#), respectively. See: [On](#).

For a number

Used in the context of general equities. Implies that the quantity mentioned is not his [total](#) but instead is only approximate, and to [open](#) him up more will [oblige](#) one to participate.

For valuation only (FVO)

Refers to a quote for a security where the price could be changed later. FVO quotes are made for informational purposes rather than transactions.

For your information (FYI)

A prefix to a [security](#) price indicating that the quote is for information purposes only, and not an [offer](#) to [trade](#).

Forbes 500

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

Force Majeure

Events outside the control of the parties. These events are acts of man, nature, governments and regulators, or impersonal events. [Contract](#) performance is forgiven or extended by the period of force majeure.

Force majeure risk

The [risk](#) that there will be a prolonged interruption of operations for a [project finance enterprise](#) due to fire, flood, storm, or some other factor beyond the control of the project's [sponsors](#).

Forced conversion

Occurs when a [convertible security](#) is called in by the [issuer](#), usually when the [underlying stock](#) is selling well above the [conversion price](#). The issuer thus assures the [bonds](#) will be [retired](#) without requiring any cash payment. Upon conversion into [common](#), the [carrying value](#) of the [bonds](#) becomes part of a [corporation's equity](#), thus strengthening the [balance sheet](#) and enhancing future [debt](#) capability.

Forecasting

Making projections about future performance on the basis of historical and current conditions data.

Foreclosure

Process by which the holder of a [mortgage](#) seizes the property of a homeowner who has not made [interest](#) and/or [principal](#) payments on time as stipulated in the [mortgage](#) contract.

Foreign banking market

That portion of domestic bank [loans](#) supplied to foreigners for use abroad.

Foreign base company income

A category of [Subpart F](#) income that includes foreign [holding company](#) income and foreign base company [sales](#) and [service income](#).

Foreign bond

A [bond](#) of a non-domestic [company issued](#) on the [domestic capital market](#).

Foreign bond market

[Issues floated](#) by foreign companies or government in the [domestic bond market](#).

Foreign branch

A foreign [affiliate](#) that is legally a part of the [firm](#). According to the U.S. tax code, foreign branch income is taxed as it is earned in the foreign country.

Foreign corporation

A [corporation](#) conducting business in another country from the one it is [chartered](#) in and that abides by the laws of another country. See: [Alien corporation](#).

Foreign Corrupt Practices Act

An amendment to the [Securities Exchange Act](#) created to prohibit bribery of foreign officials by [publicly](#) held US companies.

Foreign Credit Insurance Association (FCIA)

A private consortium of US insurance companies that offers [trade credit insurance](#) to US exporters in conjunction with the US [Export-Import Bank](#).

Foreign crowd

[NYSE](#) members who [trade](#) in foreign [bonds](#) on the [floor](#).

Foreign currency

[Money](#) of a country other than one's own.

Foreign currency forward contract

Agreement that obligates its parties to exchange given quantities of [currencies](#) at a prespecified [exchange rate](#) on a certain future date.

Foreign currency futures contract

Standardized and easily [transferable obligation](#) between two parties to exchange [currencies](#) at a specified rate during a specified [delivery](#) month; standardized [contract](#) on specified [underlying](#) currencies, in multiples of standard amounts. Purchased and [traded](#) on a [regulated exchange](#) on which [margins](#) are [posted](#).

Foreign currency option

An [option](#) that conveys the right (but not the [obligation](#)) to [buy](#) or sell a specified amount of foreign currency at a specified price within a specified time period.

Foreign currency translation

The process of restating [foreign currency](#) accounts of [subsidiaries](#) into the [reporting currency](#) of the parent company in order to prepare consolidated [financial statements](#).

Foreign direct investment (FDI)

The [acquisition](#) abroad of [physical assets](#) such as [plant](#) and equipment, with operating [control](#) residing in the [parent corporation](#).

Foreign equity market

[Issues floated](#) by foreign companies in the [domestic equity market](#).

Foreign exchange

[Currency](#) of another country. Abbreviated [Forex](#).

Foreign exchange broker

[Intermediaries](#) in the [foreign exchange](#) market that do not put their own [money](#) at [risk](#).

Foreign exchange controls

Various forms of [controls](#) imposed by a government on the purchase/[sale](#) of [foreign currencies](#) by residents or on the purchase/sale of local currency by nonresidents.

Foreign exchange dealer

A [firm](#) or individual that buys [foreign exchange](#) from one party and then sells it to another party.

The [dealer](#) makes the difference between the buying and selling [prices](#), or the [spread](#).

Foreign exchange market

Largely banks that serve [firms](#) and consumers who may wish to buy or sell various [currencies](#).

Foreign exchange rate

The rate of one [currency unit](#) expressed in terms of another.

Foreign exchange reserves

Strict definition is the total of a country's foreign currency deposits and bonds held by the [central bank](#) and monetary authorities. However, the term often refers to the total of a country's gold holdings, convertible foreign currencies held in its banks, plus [special drawing rights \(SDR\)](#) and exchange reserve balances with the [International Monetary Fund \(IMF\)](#).

Foreign exchange risk

The [risk](#) that a [long](#) or [short position](#) in a [foreign currency](#) might have to be [closed out](#) at a [loss](#) due to an adverse movement in [exchange rates](#). In general, the risk of an adverse movement in exchange rates.

Foreign exchange swap

An agreement to exchange stipulated amounts of one [currency](#) for another currency at one or more future dates.

Foreign holdings

The percentage of a [portfolio's investments](#) represented by [stocks](#) or [American Depository Receipts \(ADRs\)](#) of companies based outside the United States.

Foreign investment risk matrix (FIRM)

Graph that displays [financial](#) and [political risk](#) by intervals on which countries may be compared according to [risk ratings](#).

Foreign official institutions

Central governments of foreign countries, including all departments and agencies of national governments; [central banks](#), exchange authorities, and all fiscal agents of foreign national governments that undertake activities similar to those of a [treasury](#), central bank, or stabilization fund; diplomatic and consular establishments of foreign national governments; and any international or regional organization, including [subordinate](#) and [affiliate agencies](#), created by treaty or convention between sovereign states.

Foreign market

Part of a nation's [internal market](#), representing the mechanisms for [issuing](#) and [trading securities](#) of entities domiciled outside that nation. Compare [external market](#) and [domestic market](#).

Foreign market beta

A measure of [foreign market risk](#) that is derived from the [capital asset pricing model](#).

Foreign public borrower

[Foreign official institutions](#); the [corporations](#) and [agencies](#) of foreign central governments, including development banks and institutions, and other agencies that are majority owned by the central government or its departments; and state, provincial and local governments of foreign countries and their departments and agencies.

Foreign Sales Corporation (FSC)

A special type of [corporation](#) created by the [Tax Reform Act of 1984](#) that is designed to provide a tax incentive for exporting U.S.-produced goods.

Foreign-source income

Income earned from international operations.

Foreign-targeted issue

[Notes](#) sold between October 1984 and February 1986 to foreign institutions, foreign [short-term branches](#) of US institutions, foreign [central banks](#) or monetary authorities, and to international organizations in which the United States held membership. Sold as companion [issues](#), they could be converted to domestic (normal) [Treasury notes](#) with the same [maturity](#) and [interest rates](#). Interest was paid [annually](#).

Foreign tax credit

Home country [credit](#) against domestic income tax. Received in return for foreign taxes paid on foreign derived [earnings](#).

Foreigner

All institutions and individuals living outside the United States, including US citizens living abroad, and [branches](#), [subsidiaries](#), and other [affiliates](#) abroad of US banks and business concerns; also central governments, [central banks](#), and other official institutions of countries other than the United States, and international and regional organizations, wherever located. Also refers to persons in the United States to the extent that they are known by reporting institutions to be acting for foreigners.

Forex

See: [Foreign exchange](#)

Forfakter

Purchaser of promises to pay [issued](#) by importers.

Forfakter (Primary)

An individual or [financial](#) entity that arranges a forfaiting [transaction](#) directly with an exporter and then holds or sells on the payment [obligations](#) of the importer/ guarantor.

Forfakter (Secondary)

An individual or [financial](#) entity that buys or sells the payment [obligations](#) of the importer/ guarantor.

Forfaiting

A form of [factoring](#) that involves selling large, medium to [long-term receivables](#) to buyers ([forfaiters](#)) who are willing and able to bear the [costs](#) and [risks](#) of [credit](#) and [collections](#).

Forfeiting

Method of [financing](#) international trade of [capital goods](#).

Forfeiture

The loss of rights to an [asset](#) outlined in a legal [contract](#) if a party fails to fulfill [obligations](#) of the contract.

Form 8-K

The form required by the [SEC](#) when a [publicly](#) held [company](#) incurs any event that might affect its [financial](#) situation or the [share](#) value of its [stock](#).

Form 4

The form required by the [SEC](#) for a change in the [holdings](#) of an individual owning 10% or more of the [outstanding stock](#) or in the holdings of a [company](#) officer.

Form S-3

A shorter form of registration statement than the Form S-1 that can be used by certain already-[public](#) companies to sell additional shares. It is also the form most often used to cover resales of [restricted securities](#) by selling stockholders.

Form S-8

A very brief form of registration statement filed with the [SEC](#); registers [shares](#) to be issued under a stock plan.

Form T

The form required by the [NASD](#) to report [equity transactions](#) after the [market's](#) regular hours.

Form 10-K

A report required by the [SEC](#) from exchange-[listed companies](#) that provides for [annual disclosure](#) of certain [financial](#) information.

Form 3

A form required by the [SEC](#) and the [stock exchange](#) from all holders of 10% or more of a [company's](#) stock and all directors and officers, which details [securities](#) owned.

Form 13F

A quarterly report of equity holdings filed to United States [Securities & Exchange Commission](#) (SEC) by investment managers with at least \$100 million in equity [assets under management](#). Form 13F only reports long positions, short positions are not required to be reported.

Formula basis

A method of selling a new [issue](#) of [common stock](#) in which the [SEC](#) declares the [registration statement](#) effective on the basis of a price formula rather than on a specific [range](#).

Formula investing

A [formula-based investment](#) technique in which [investment](#) decisions are made using predetermined [timing](#) or [asset](#) allocation models, e.g., [dollar cost averaging](#).

Fortune 500

Fortune magazine's listing of the top 500 US [corporations](#) determined by an [index](#) of 12 [variables](#).

48-hour rule

PSA [Uniform Practices](#) requirement that all [pool](#) information in a [to be announced \(TBA\) transaction](#) be communicated by the seller to the buyer before 3 p.m. EST on the business day 48 hours prior to the agreed-upon [trade date](#).

Forward

See: [Forward contract](#)

Forward averaging

A method of calculating taxes on a [lump sum distribution](#) from a [qualified retirement plan](#) that enables the tax payer to pay less than the current [tax rate](#).

Forward contract

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

Forward cover

The [purchase](#) in the [cash market](#) of the difference between what you are [obligated](#) to [deliver](#) in a forward contract and the amount of the [asset](#) you own. For example, if you agreed to sell 100,000 bushels of corn in September in a forward contract, but you only have 60,000, you need to purchase 40,000 to cover your [obligation](#).

Forward currency contract

An agreement to [buy](#) or sell a country's [currency](#) at a specific price, usually 30, 60, or 90 days in the future. This guarantees an [exchange rate](#) on a given date.

Forward delivery

A [transaction](#) in which the [settlement](#) will occur on a specified date in the future at a price agreed upon on the [trade date](#).

Forward differential

[Annualized](#) percentage difference between [spot](#) and [forward rates](#).

Forward discount

A [currency trades](#) at a [forward discount](#) when its [forward price](#) is lower than its [spot price](#).

Forward exchange

A type of foreign exchange [transaction](#) whereby a contract is made to exchange one [currency](#) for another at a fixed date in the future at a specified exchange rate. By buying or selling forward exchange, businesses protect themselves against a decrease in the value of a currency they plan to sell at a future date.

Forward exchange rate

[Exchange rate](#) fixed today for exchanging [currency](#) at some future date.

Forward exchange transaction

[Foreign currency](#) purchase or [sale](#) at the current [exchange rate](#) but with payment or [delivery](#) of the foreign currency at a future date.

Forward Fed funds

[Fed funds traded](#) for future [delivery](#).

Forward foreign exchange contract

Agreement that [obligates](#) an [investor](#) to deliver a specified quantity of one [currency](#) in return for a specified amount of another currency on a specified future date.

Forward foreign exchange rate

The [exchange rate](#) available today to exchange [currency](#) at some specified date in the future.

Forward forward contract

In [Eurocurrencies](#), a [contract](#) under which a deposit of fixed [maturity](#) is agreed to at a fixed price for future [delivery](#).

Forward interest rate

[Interest rate](#) fixed today on a [loan](#) to be made at some future date.

Forward-looking multiple

A truncated expression for a [P/E ratio](#) that is based on [forward](#) (expected) [earnings](#) rather than on trailing [earnings](#).

Forward market

A [market](#) in which participants agree to [trade](#) some [commodity](#), [security](#), or [foreign exchange](#) at a fixed price for future [delivery](#).

Forward parity

Notion that the [forward rate](#) is an unbiased predictor of future [spot exchange rates](#).

Forward premium

A [currency trades](#) at a forward [premium](#) when its [forward](#) price is higher than its [spot price](#).

Forward pricing

Practice mandated by the [SEC](#) that open-end [investment companies](#) establish all incoming [buy](#) and sell [orders](#) on the next [net asset valuation](#) of fund [shares](#).

Forward rate

A projection of future [interest rates](#) calculated from either [spot rates](#) or the [yield curve](#). For example, suppose the one-year government bond was yielding 2% and the two-year bond was yielding 4%. The one year forward rate represents the one-year interest rate one year from now. You would solve the formula $(1.04)^2 = (1.02)(1+F)$. F is 6.03%.

Forward rate agreement (FRA)

Agreement to [borrow](#) or [lend](#) at a specified future date at an [interest rate](#) that is [fixed today](#).

Forward sale

A method for [hedging](#) price [risk](#) that involves an agreement between a [lender](#) and an [investor](#) to sell particular kinds of [loans](#) at a specified price and future time.

Forward start option

An [option](#) that becomes effective some time after it is bought or sold.

Forward trade

A [transaction](#) for which [settlement](#) will occur on a specified date in the future at a price agreed upon on the [trade date](#).

Forward yield curve

Calculate the one-year forward rate. For example, suppose the one-year government bond was yielding 2% and the two-year bond was yielding 4%. The one year forward rate represents the one-year interest rate one year from now. You would solve the formula $(1.04)^2 = (1.02)(1+F_1)$. F is 6.03%. Now calculate the two-year forward rate one year from now. For example, suppose again the one-year bond is yielding 2% and the three-year bond was yielding 5% (annual basis). $(1.05)^3 = (1.02)(1+F_2)^2$. $F_2 = 6.53\%$. Continue this exercise for all maturities and you have the one-year forward yield curve. The [yield curve](#) graph is usually yield (y-axis) against maturity (x-axis).

Forwarder

Acts as a travel agent for cargo. A forwarder specializes in arranging the transport and completing required shipping documentation. Some are affiliated with [NVOCC](#) services. In the United States they are licensed by the Federal Maritime Commission.

Foul Bill of Lading

A [bill of lading](#) that contains a notation indicating damage or shortage. Also called [claused](#) and is the opposite of [clean bill of lading](#).

401(K)

Under section 401(K) of the Internal Revenue Code, a deferred compensation plan set up by an employer so that employees can set aside [money](#) for retirement on a pre-tax basis. Employers may match a percentage of the amount that employees contribute to the plan. Contributions by both employees and employers, as well as investment earnings and interest, are not taxed until the employee withdraws the money; if the employee withdraws the money before retirement age, he or she pays an early withdrawal penalty tax. Currently, employees are allowed to [annually](#) contribute up to 15 percent of their salary but no more than \$11,000 (\$12,000 for people 50 or older). Many employers now offer these deferred compensation plans in lieu of or in addition to pensions.

403(b)

Under section 403(b) of Internal Revenue Code, 403(b) plan is a tax-advantaged retirement savings plan for public education organizations, cooperative hospital service organizations, and some non-profit employers. Tax treatment is similar to that of [401\(K\)](#) plan.

Fourth market

Refers to the practice of [institutional investors trading](#) large [blocks](#) of [securities](#) directly to avoid brokerage [commissions](#). See: [Instinet](#).

Fractal

An object in which the parts are in some way related to the whole. That is, the individual components are "[self-similar](#)." An example is the branching network in a tree. While each branch, and each successive smaller branching is different, they are qualitatively similar to the structure of the whole tree.

Fractal Dimension

A number that quantitatively describes how an object fills its space. In [Euclidean](#), or Plane geometry, objects are solid and continuous. That is, they have no holes or gaps. As such, they have integer dimensions. [Fractals](#) are rough and often discontinuous, like a wiffle ball, and so have fractional, or [fractal dimensions](#).

Fractal Distribution

A [probability density function](#) that is statistically [self-similar](#). That is, in different increments of time, the statistical characteristics remain the same.

Fractal Market Hypothesis

The [fractal market hypothesis](#) states that (1) a [market](#) consists of many [investors](#) with different investment horizons, and (2) the information set that is important to each investment horizon is different. As long as the [market](#) maintains this [fractal](#) structure, with no characteristic time scale, the [market](#) remains stable. When the [market's](#) investment horizon becomes uniform, the market becomes unstable because everyone is trading based upon the same information set. Theory due to Ed Peters.

Fractional Brownian Motion

A biased [random walk](#). Unlike Standard Brownian Motion, the odds are biased in one direction or the other. It is like playing with loaded dice.

Fractional coins

Metal [currency](#) minted in [denominations](#) of 50, 25, and 10 cents, and minor coins (5 cents and 1 cent).

Fractional discretion order

A type of [order](#) that gives the [broker](#) discretion to alter the price, up or down, within a specific [fractional range](#) in order to guarantee an [execution](#).

Fractional Noise

A [noise](#) which is not completely independent of previous values. See [Fractional Brownian Motion](#), [1/f Noise](#), [White Noise](#).

Fractional share

[Stocks](#) amounting to less than one full [share](#), usually resulting from [splits](#), [acquisitions](#), [exchanges](#), or [dividend reinvestment programs](#).

Franchise agreement

[Contract](#) by which a domestic [company](#) ([franchisor](#)) [licenses](#) its trade name and/or business system and practices for a fee to an independent company ([franchisee](#)) in a [foreign market](#).

Franchising

Provision of a specialized [sales](#) or service strategy, support assistance, and possibly an initial [investment](#) in the franchise in exchange for periodic fees.

Frankfurt Stock Exchange

The largest of Germany's eight [securities exchanges](#), operated by Deutsche Borse AS.

Freddie Mac (Federal Home Loan Mortgage Corporation)

A Congressionally [chartered corporation](#) that purchases [residential mortgages](#) in the [secondary market](#) from [S&Ls](#), banks, and mortgage bankers and [securities](#) for [sale](#) in the [capital markets](#).

Free Alongside Ship (FAS)

An [Incoterm \(FAS\)](#) that means the seller is responsible for the cost of transporting and delivering goods alongside a vessel in a port in his or her country. Since the buyer has responsibility for export clearance under FAS, it is not a practical Incoterm for U.S. exports. FAS should be used only for ocean shipments since risk and responsibility shift from seller to buyer when the goods are placed within the reach of the ship's tackle (crane).

Free on board (FOB)

Implies that [distribution](#) services like transport and handling performed on goods up to the customs frontier (of the economy from which the goods are classed as merchandise) are included in the price.

Free box

A bank vault or other suitable storage place for the [securities](#) of a [firm's](#) customer.

Free Carrier (FCA)

An Incoterm meaning that the cost, risk and responsibility shift from the seller to the buyer when the goods are turned over to a carrier at a designated place.

Free cash flows

[Cash](#) not required for operations or for [reinvestment](#). Often defined as [earnings](#) before [interest](#) (often obtained from the operating income line on the [income statement](#)) less [capital expenditures](#) less the change in [working capital](#). In terms of a formula:

Free cash flows =

[Sales](#) (Revenues from operations)

- COGS (Cost of goods sold-labor, material, book depreciation)

- [SG&A](#) (Selling, general administrative costs)

EBIT (Earnings before interest and taxes or Operating Earnings)

- [Taxes](#) (Cash taxes)

EBIAT (Earnings before interest after taxes)

+ DEP (Book depreciation)

- CAPX ([Capital expenditures](#))

- [ChgWC](#) (Change in working capital)

C (Free cash flows)

There is an issue as to whether you want to define the FCFs to the [firm](#) as a whole (the [cash flow](#) to all of its [security](#) holders), or the FCFs only to the firm's equity holders. For firm [valuation](#), you want the former; for [stock](#) valuation you want the latter.

To value the firm, calculate the stream of FCFs to the firm and discount this stream by the firm's WACC ([Weighted average cost of capital](#)). This will give you the value of a [levered](#) firm, including the tax benefits of debt [financing](#). Alternatively, you can discount the firm's FCFs by its unlevered [cost of capital](#) and add separately the [present value](#) of the tax benefits.

To value the firm's equity, you can either take the above number and subtract the [market value](#) of all [outstanding debt](#) ([liabilities](#)) or you can calculate the FCFs to the firm's equity holders and discount this stream by the firm's levered equity cost of capital.

Notice that changes in [working capital](#) have the same effect on free cash flows as do changes in [physical capital](#), i.e., capital expenditures. For example, suppose you had to spend \$XX to increase the capacity of your plant. This expenditure would be a reduction in free cash flow in the year it was made. Likewise, if you had to increase the level of your [cash balance](#), inventory or receivables by \$XX to accommodate greater [sales](#), then this too would result in a like reduction in free cash flows in the year the level of working capital was increased. [Definition and discussion courtesy of Professor Michael Bradley.]

Free delivery

[Securities industry](#) procedure whereby [delivery](#) of [securities](#) sold is made to the buying customer's bank without requiring immediate payment; thus a [credit](#) agreement of sorts. Antithesis of delivery vs. payment.

Free float

An [exchange rate](#) system characterized by the absence of government intervention. Also known as [clean](#) float.

Free of Particular Average

[Marine cargo insurance](#) that does not cover partial losses or partial damage unless caused by the vessel being sunk, stranded, burned, on fire, or in a collision.

Free Indices

Usually refers to indices constructed by Morgan Stanley Capital International such that the market capitalization weights reflect the degree to which a stock is investible by foreigners. For example, if a stock has \$700 million capitalization but government restrictions only allow up to 50% to be held by foreigners, then the weight in the Free index would be \$350 million. The Standard and Poors/International Finance Corporation indices call their equivalent indices Investible Indices (IFCI).

Free reserves

[Excess reserves](#) minus [member bank borrowings](#) at the [Fed](#).

Free rider

A follower who avoids the cost and expense of finding the best course of action simply by mimicking the behavior of a leader who made these [investments](#).

Free-riding

A forbidden practice in which the member of an [underwriting syndicate](#) retains a portion of an [initial public offering \(IPO\)](#) and resells the [securities](#) at a higher price determined by the [market](#) at a later time. Also forbidden is a brokerage customer's rapid buying and selling of a [security](#) without putting up [money](#) for the purchase.

Free right of exchange

An [investor's](#) right to [transfer securities](#) from one name to another name without paying charges that accompany a [sales transaction](#).

Free stock

A [stock](#) that is paid for in full and is not [pledged](#) in any way as [collateral](#).

Free to trade

Used in the context of general equities. Not subject to any internal ([restricted](#) list) or external restrictions on [trading](#), hence, the [trader](#) is free to solicit interest.

Freed up

A term used to indicate that an [underwriting syndicate's](#) members are no longer restricted to the fixed price agreed upon in the [agreement among underwriters](#) and are permitted to trade the [security](#) on a free [market basis](#).

Freedom of Information Act (FOIA)

The Act was signed by President Lyndon B. Johnson on September 6, 1966. This act allows for the full or partial disclosure of previously unreleased information and documents controlled by the US Government.

Freely floating exchange rate system

[Monetary system](#) in which [exchange rates](#) are allowed to move due to [market](#) forces without intervention by country governments.

Freeze out

The action of pressurizing [shareholders](#) with relatively minor amounts of [stock](#) to sell their [shares](#) after a [takeover](#).

Freight

A transportation term meaning either goods being transported, and/or charges incurred for such transport.

Freight Forwarder

See: [forwarder](#).

Freight shippers

[Agents](#) who coordinate the logistics of transportation.

FREIT

See: [Finite-Life Real Estate Investment Trust](#)

Frequency distribution

The organization of data to show how often certain values or ranges of values occur.

Fresh picture

Updated estimation of a [stock](#) or [market](#), usually following recent [trading](#) activity or news that has changed the previous [look](#).

Fresh signal

Piece of information ([fundamental](#) or [technical](#)) leading one to believe a [stock](#) will move in a certain manner.

Friction costs

Costs, both implied and direct, associated with a [transaction](#). Such costs include time, effort, [money](#), and associated tax effects of gathering information and making a [transaction](#).

Frictional cost

The difference between an [index fund return](#) and the [index](#) it represents. The typically lower rate of [return](#) from the fund results from [transactions costs](#).

Frictionless market

Ideal [trading](#) environment that imposes no costs or restraints on [transactions](#).

Frictions

"stickiness" involved in making [transactions](#); the total process including time, effort, [money](#), and tax effects of gathering information and making a transaction such as buying a [stock](#) or [borrowing money](#).

Friendly Merger

A business combination that the management of both [firms](#) believes will be beneficial to [stockholders](#).

Friendly takeover

[Merger](#) when the [target firm's](#) management and [board of directors](#) is in favor of the [takeover](#).

Antithesis of [hostile takeover](#).

Front-end load

The fee applied to an [investment](#) at the time of initial purchase, e.g., on a [mutual fund](#) purchased from a [broker](#) or [mutual fund](#) company.

Front fee

The fee initially paid by the buyer upon entering a [split-fee option contract](#).

Front office

Refers to revenue generating [sales](#) personnel in a brokerage, [insurance](#), or other [financial](#) services operation.

Front running

Entering into an equity trade, [options](#) or [futures contracts](#) with advance knowledge of a [block transaction](#) that will influence the price of the [underlying security](#) to [capitalize](#) on the [trade](#). This practice is expressly forbidden by the [SEC](#). Traders are not allowed to act on nonpublic information to trade ahead of customers lacking that knowledge.

Frozen account

A disciplinary action taken by the [Federal Reserve Board](#) for some violation of [Regulation T](#), where an individual [investor](#) cannot sell [securities](#) until they are paid for in full and [certificates](#) delivered.

Fry a bigger fish

Used in the context of general equities. Work on a [trade](#) of larger size than a trade just [disclosed](#).

FR Y-9C

Quarterly report filed by [bank holding companies](#) with the [Federal Reserve](#). It contains [consolidated balance sheet](#) and [income statement](#) with detailed schedules including a schedule for off-balance-sheet items and regulatory capital.

Full

[Handle](#).

Full compensation

Payment for [delivery](#) of goods to one party by buying back more than 100 % of the value that was originally sold.

Full coupon bond

A [bond](#) with a [coupon](#) equal to the going [market](#) rate; the bond is therefore selling at [par](#).

Full disclosure

Describes [exchange](#) and government [regulations](#) providing for the release and free exchange of all information pertinent to a given [security](#).

Full Employment and Balance Growth Act of 1978(Humphrey-Hawkins Act)

Federal legislation that, among other things, specifies the primary objectives of U.S. economic policy—maximum employment, stable prices, and moderate [long-term](#) interest rates.

Full faith-and-credit obligations

The [security](#) pledges for larger [municipal bond issuers](#), such as states and large cities that have diverse funding sources.

Full-payout lease

See: [Financial lease](#)

Full price

Also called [dirty price](#); the price of a [bond](#) including [accrued interest](#). Related: [Flat price](#).

Full recourse

No matter what [risk](#) event occurs, the [borrower](#) or its guarantors [guarantee](#) to repay the [debt](#). This is not a project financing unless the borrower's sole [asset](#) is the project.

Full-service broker

A [broker](#) who provides clients an all-inclusive selection of services such as advice on [security](#) selection and [financial planning](#).

Full-service lease

Also called [rental lease](#). Arrangement in which [lessor](#) promises to maintain and insure the equipment leased.

Full Set of Bills of Lading

All originals of an ocean bill of lading.

Full trading authorization

Indication that a [broker](#) with a [discretionary account](#) can operate without obtaining prior consent to each [trade](#) from the client..

Fully depreciated

An [asset](#) that has already been charged with the maximum amount of depreciation allowed by the [IRS](#) for accounting purposes.

Fully diluted earnings per share

[Earnings per share](#) expressed as if all [outstanding convertible securities](#) and [warrants](#) have been [exercised](#).

Fully distributed

A new [stock issue](#) that has been completely resold to the [investing public](#) and is no longer held by [dealers](#).

Fully invested

Used to describe an [investor](#) whose [assets](#) are totally committed to [investments](#) (typically [stock](#)) rather than in cash.

Fully modified pass-throughs

[Agency pass-throughs](#) that guarantee the timely payment of both [interest](#) and [principal](#).

Related: [Modified pass-throughs](#).

Fully valued

Used in the context of general equities. Said of a [stock](#) that has reached a price at which [analysts](#) think the [underlying company's fundamental earnings](#) power has been fully recognized by the [market](#).

Functional currency

As defined by [FASB No. 52](#), an [affiliate's functional currency](#) is the currency of the primary economic environment in which the affiliate generates and expends [cash](#).

Fund assets

The total value of a [portfolio's securities](#), cash, and other holdings, [minus](#) any [outstanding debts](#).

Funded status

In the context of [pension funds](#) and/or insurance, funded status is the amount by which a pension plan's assets exceed the projected benefit obligations that will have to be paid in the future.

Fund family

Set of [funds](#) with different [investment objectives](#) offered by one [management company](#). In many cases, [investors](#) may move their [assets](#) from one fund to another within the family at little or no cost.

Fund of funds

A [mutual fund](#) or [hedge fund](#) that [invests](#) in other funds.

Fund manager

The person whose responsibility it is to oversee the allocation of the [pool](#) of [money invested](#) in a particular [mutual fund](#). The fund manager is charged with investing the money to attain [returns](#) consistent with the level of [risk](#) outlined in the [mutual fund](#) prospectus.

Fund switching

Moving [money](#) within a mutual fund family from one [mutual fund](#) to another.

Fun money

[Money](#) that can be used to [invest](#) in [risky investments](#) with high potential [return](#).

Fundamental analysis

[Security](#) analysis that seeks to detect misvalued [securities](#) through an analysis of the [firm's](#) business prospects. Research often focuses on [earnings](#), [dividend](#) prospects, expectations for future [interest rates](#), and [risk](#) evaluation of the firm. Antithesis of [technical analysis](#). In macroeconomic analysis, information such as [interest rates](#), [GNP](#), [inflation](#), [unemployment](#), and inventories is used to predict the direction of the economy, and therefore the [stock market](#). In [microeconomic](#) analysis, information such as [balance sheet](#), [income statement](#), products, [management](#), and other [market](#) items is used to [forecast](#) a [company's](#) imminent success or [failure](#), and hence the future price action of the [stock](#).

Fundamental beta

The product of a statistical model to predict the fundamental [risk](#) of a [security](#) using not only price data but also other [market](#)-related and [financial](#) data.

Fundamental descriptors

In the model for calculating [fundamental beta](#), ratios in [risk indexes](#) other than market variability, which rely on [financial](#) data other than price data.

Fundamental forecasting

Analyzing the future on the basis of fundamental relationships between economic [variables](#) and [exchange rates](#).

Fundamental Information

Information relating to the economic state of a [company](#) or economy. In [market analysis](#), fundamental information is related to the [earnings](#) prospects of the [firm](#) only.

Funded debt

[Debt maturing](#) after more than one year.

Funded Liability

A source of funds that a [firm](#) must take overt action to arrange and that carries an [interest cost](#).

Funded pension plan

A [pension plan](#) in which all [liabilities](#), including payments to be made to pensioners in the immediate future, are completely funded.

Funding

Used to describe the [refinancing](#) of a [debt](#) prior to its [maturity](#) (the same as [refunding](#)). In [corporate finance](#) refers to the [floating](#) of [bonds](#) to raise finance and levels of [capital](#). See also: [refunding](#).

Funding ratio

The ratio of a [pension plan's assets](#) to its [liabilities](#).

Funding risk

The [risk](#) associated with the impact on a project's [cash flow](#) from higher funding [costs](#) or lack of availability of funds. See: [interest rate risk](#).

Funds From Operations (FFO)

Used by [real estate](#) and other [investment trusts](#) to define the [cash flow](#) from [trust](#) operations; [earnings](#) with [depreciation](#) and [amortization](#) added back. A similar term increasingly used is funds available for distribution (FAD), which is FFO less [capital investments](#) in trust property and the [amortization](#) of mortgages.

Fungibility

The substitutability of [listed options](#), which is dependent upon their common [expiration dates](#) and [strike prices](#). The congruence of expiration dates and strike prices lets [investors](#) close [positions](#) by [offsetting transactions](#) through the [options clearing corporation](#).

Furthest month

Used in the context of [commodities](#) or [options trading](#) to refer to the month that is furthest away from the [contract's](#) date of settlement.

FUTOP

The Danish derivatives market, merged with the [Copenhagen Stock Exchange](#) in 1997.

Future

A term used to designate any [contract](#) covering the [sale](#) of financial [instruments](#) or [physical commodities](#) for future [delivery](#) on a futures [exchange](#). Alternatively, a future is any forward contract that has been standardized and listed for trading on a futures exchange.

Future investment opportunities

The identification of additional, more valuable, [investment](#) opportunities in the future that result from a current opportunity or operation.

Futures commission merchant (FCM)

A [firm](#) or person engaged in soliciting or accepting and handling [orders](#) for the purchase or [sale](#) of [futures contracts](#), subject to the rules of a futures exchange and, who, in connection with such solicitation or [acceptance](#) of orders, accepts any [money](#) or [securities](#) to provide [margin](#) for any resulting [trades](#) or [contracts](#). The FCM must be licensed by the [CFTC](#). Related: [Commission house](#), [omnibus account](#).

Futures contract

A legally binding agreement to [buy](#) or sell a [commodity](#) or [financial](#) instrument in a designated future month at a price agreed upon at the initiation of the contract by the buyer and seller. Futures contracts are standardized according to the quality, quantity, and delivery time and location for each commodity. A futures contract differs from an [option](#) in that an option gives one of the counterparties a right and the other an obligation to buy or sell, while a futures contract is the represents an obligation to both counterparties, one to deliver and the other to accept delivery. A future is part of a [class of securities called derivatives](#), so named because such [securities](#) derive their value from the worth of an [underlying](#) investment.

Futures contract multiple

A constant set by an [exchange](#), which when multiplied by the [futures price](#) gives the dollar value of a [stock index futures contract](#).

Futures market

A [market](#) where [contracts](#) for future [delivery](#) of a [commodity](#) or a financial [instrument](#) are bought or sold.

Futures option

An [option](#) on a [futures contract](#). Related: [Options on physicals](#).

Futures price

The price at which parties to a [futures contract](#) agree to transact upon the [settlement date](#).

Future value

The amount of [cash](#) at a specified date in the future that is equivalent in value to a specified sum today.

Fuzzy Logic

A system which mathematically models complex relationships which are usually handled in a vague manner by language. Under the title of "Fuzzy Logic" falls formal fuzzy logic (a multi-valued form of logic), and fuzzy sets. Fuzzy sets measure the similarity between an object and a group of objects. A member of a fuzzy set can belong to both the set, and its complement. Fuzzy sets can more closely approximate human reasoning than traditional "crisp" sets. See: [Crisp sets](#).

FVO (for valuation only)

See: [For valuation only](#).

G

Fifth letter of a [Nasdaq](#) stock symbol specifying that the issue is the first convertible bond of the [company](#).

GA

The two-character [ISO](#) 3166 country code for GABON.

GAAP

See: [Generally Accepted Accounting Principles](#)

GAB

The three-character [ISO](#) 3166 country code for GABON.

GB

The two-character [ISO](#) 3166 country code for UNITED KINGDOM.

GBP

The [ISO](#) 4217 currency code for the United Kingdom Pound Sterling.

GBR

The three-character [ISO](#) 3166 country code for UNITED KINGDOM.

GD

The two-character [ISO](#) 3166 country code for GRENADE.

GDP

See: [Gross Domestic Product](#)

GDR

See: [Global Depository Receipt](#)

GE

The two-character [ISO](#) 3166 country code for GEORGIA.

GEO

The three-character [ISO](#) 3166 country code for GEORGIA.

GF

The two-character [ISO](#) 3166 country code for FRENCH GUIANA.

GFMA

See: [Global Financial Markets Association](#)

GG

The two-character [ISO](#) 3166 country code for GUERNSEY.

GGY

The three-character [ISO](#) 3166 country code for GUERNSEY.

GH

The two-character [ISO](#) 3166 country code for GHANA.

GHA

The three-character [ISO](#) 3166 country code for GHANA.

GI

The two-character [ISO](#) 3166 country code for GIBRALTAR.

GIB

The three-character [ISO](#) 3166 country code for GIBRALTAR.

GIC

See: [Guaranteed Investment Contract](#)

GIN

The three-character [ISO](#) 3166 country code for GUINEA.

GL

The two-character [ISO](#) 3166 country code for GREENLAND.

GLP

The three-character [ISO](#) 3166 country code for GUADELOUPE.

GNP

See: [Gross National Product](#)

GM

The two-character [ISO](#) 3166 country code for GAMBIA.

GMB

The three-character [ISO](#) 3166 country code for GAMBIA.

GMC

See: [Guaranteed Mortgage Certificate](#)

GN

The two-character [ISO](#) 3166 country code for GUINEA.

GNB

The three-character [ISO](#) 3166 country code for GUINEA-BISSAU.

GNQ

The three-character [ISO](#) 3166 country code for EQUATORIAL GUINEA.

GP (1)

The two-character [ISO](#) 3166 country code for GUADELOUPE.

GP (2)

See: [General partner](#)

GPM

See: [Graduated Payment Mortgages](#)

GQ

The two-character [ISO](#) 3166 country code for EQUATORIAL GUINEA.

GR

The two-character [ISO](#) 3166 country code for GREECE.

GRC

The three-character [ISO](#) 3166 country code for GREECE.

GRD

The three-character [ISO](#) 3166 country code for GRENADE.

GRL

The three-character [ISO](#) 3166 country code for GREENLAND.

GS

The two-character [ISO](#) 3166 country code for SOUTH GEORGIA AND THE SOUTH SANDWICH ISLANDS.

GT

The two-character [ISO](#) 3166 country code for GUATEMALA.

GTC

See: [Good 'til cancelled order](#)

GTM

The three-character [ISO](#) 3166 country code for GUATEMALA.

GU

The two-character [ISO](#) 3166 country code for GUAM.

GUF

The three-character [ISO](#) 3166 country code for FRENCH GUIANA.

GUM

The three-character [ISO](#) 3166 country code for GUAM.

GUY

The three-character [ISO](#) 3166 country code for GUYANA.

GW

The two-character [ISO](#) 3166 country code for GUINEA-BISSAU.

GY

The two-character [ISO](#) 3166 country code for GUYANA.

G-2

G-2, the Group of Two, refers to the United States of America and China.

G-7

G-7, the Group of Seven, is a meeting of finance ministers and was formed in 1976 when Canada joined the Group of Six. The member countries of G-7 are Canada, France, Germany, Italy, Japan, United Kingdom, and United States.

G-8

G-8, the Group of Eight, is a meeting of finance ministers and was formed in 1997 when Russia joined the Group of Seven. The member countries of G-8 are Russia, Canada, France, Germany, Italy, Japan, United Kingdom, and United States.

G-20

G-20, the Group of Twenty, was established in 1999 in the wake of the 1997 Asian Financial Crisis to bring together major advanced and emerging economies with the goal of stabilizing the global financial market. The G-20 is made up of the finance ministers and central bank governors of 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Republic of Korea, Turkey, United Kingdom, and United States of America. The [European Union](#), who is represented by the rotating Council presidency and the European Central Bank, is the 20th member of the G-20.

Gadfly

A nickname for a "professional" securityholder who owns [stock](#) in various [companies](#), attends annual meetings and asks senior [management](#) hard and often embarrassing questions.

Gaijin

Japanese term used to describe a non-Japanese [investor](#) in Japan (outside person). A more polite version of the same word is gaikokujin which means outside country person.

Gain

A [profit](#) on a [securities transaction](#) recognized by selling a [security](#) for more than the [security](#) originally [cost](#). The gain is the difference between the cost and the [sale](#).

Gamma

The ratio of a change in the [option delta](#) to a small change in the price of the [asset](#) on which the option is [written](#).

Gap

[Financing](#) that is required, but for which no provision has been made. The difference in [total funding](#) needed for a proposal and the amount of funding already made available.

Gap Hedging

An [asset-liability](#) corporate [hedge](#) based on net assets, or the amount of a company's [shareholders' equity](#). Less sophisticated than placing one hedge on the total assets of the company, and another on the total liabilities, gap hedging is the practice of simply hedging the net of the two, or [owners' equity](#). Assumes the [volatility](#) of assets and the volatility of liabilities are equal.

Gap opening

In the context of general equities, [opening price](#) that is substantially higher or lower than the previous day's [closing price](#), usually because of some extraordinarily positive or negative news.

Garage

The [floor](#) of the [NYSE](#), which is situated on the north side of the main [trading floor](#).

Garbatrage

Rising [stock](#) prices and increased [market](#) activity in an entire [sector](#) caused by a psychology change stemming from a major [takeover](#) involving two [companies](#) in the [sector](#). [Speculators](#) feel other takeovers are likely in the [sector](#). See: [Rumortrage](#).

Garman-Kohlhagen option pricing model

A model widely used to price [foreign currency options](#).

Gather in the stops

A [market strategy](#) in which [investors](#) sell [stocks](#) to drive prices to a level that breaks through [stop orders](#) known to exist. Once the price is low enough, the [stop orders](#) become [market orders](#) and are [executed](#), to create [snowballing](#).

Gaussian

A system whose probabilities are well described by the [normal distribution](#), or bell-shaped curve.

GDP implicit price deflator

An economic technique used to account for [inflation](#) by comparing the current-dollar [gross domestic product GDP](#) to constant-dollar [GDP](#) as a ratio. The ratio accounts for price changes of goods and

services that make up GDP and changes in the composition of GDP. This is an alternative measure of inflation compared to the usual Consumer Price Index.

Gearing

[Financial leverage](#).

GEM (growing equity mortgage)

[Mortgage](#) in which annual increases in monthly payments are used to reduce [outstanding principal](#) and to shorten the term of the [loan](#).

General Average

Provision in maritime law where all shippers on a given voyage would reimburse the ship line in the event of vessel sinking or catastrophic damage. It also provides for the reimbursement to those shippers whose cargo was thrown overboard in order to save the vessel.

General Average Contribution

The amount of [money](#) paid by each shipper involved in a [General Average](#).

General account

[Federal Reserve Board's](#) term for a [margin account](#) provided to a customer by a brokerage firm. Governed by [Regulation T](#) of the Fed.

General Agreement on Tariffs and Trade (GATT)

A treaty adopted by the United Nations aimed at elimination of international [trade](#) barriers between member countries.

General cash offer

A [public offering](#) made to [investors](#) at large.

General collateral rate

Interest rate earned on borrower's collateral for equity loans.

Generic credit spread

Refers to the corporate bond [spread](#) for a particular [credit rating](#) and expiry. For example, 10-year single A corporates were priced or [trading](#) at 130 [basis points](#) above [Treasuries](#) last night, or said differently, 130 is the generic [credit spread](#) for 10-year single A corporates.

General ledger

Accounting records that show all the [financial statement](#) accounts of a business.

General lien

An attachment that gives the [lender](#) the right to seize the personal property of a borrower who has not fulfilled the [obligations](#) of the [loan](#), but prevents the lender from seizing [real property](#).

General loan and collateral agreement

The agreement governing the [broker-dealer's borrowing](#) against [listed securities](#) from a bank for the purpose of carrying on business and making [transactions](#). See: [Broker loan rate](#).

General mortgage

A type of [obligation](#) that covers all a borrower's [mortgageable](#) properties, not just one specific property.

General obligation bonds

[Municipal securities](#) secured by the [issuer's](#) pledge of its [full faith, credit](#), and taxing power.

General Order

A penalty imposed on imported goods that are not promptly cleared through customs.

General partner

A participant who has [unlimited liability](#) for the [obligations](#) of a [partnership](#). In [private equity](#), the General Partner is the managing partner of the PE company who has unlimited personal liability for the debts and obligations of the Limited partnership and the right to participate in the management. See also:[Limited partner](#).

General partnership

A [partnership](#) in which all participants are [general partners](#).

General price level

An [index](#) that measures the change in price of goods in an economy over time and hence the [purchasing power](#) of the currency of the country. For instance, in the U.S. it is represented by the CPI ([Consumer Price Index](#)) maintained by the U.S. Department of Labor.

General price level accounting

Restating conventional [financial statements](#) (which are stated in nominal currency) in units of general [purchasing power](#) to adjust for [inflation](#).

General revenue

The sum of taxes, charges, and miscellaneous income taken in at the state and [local](#) level while neglecting overlapping revenue which may be erroneously counted twice.

Generally Accepted Accounting Principles (GAAP)

The overall conventions, rules, and procedures that define accepted accounting practice at a particular time in the U.S.

Generation-skipping transfer or trust

A [trust](#) in which a [principal](#) amount is placed in a [trust](#) on the death of person A and is transferred to A's grandchildren when A's children die. The income from the [trust](#) goes to the children of person A while they survive.

Generic

Usually used in the context of mortgage-back securities. Describes the characteristics and/or experience of the [total](#) universe of a [coupon](#) of [MBS sector](#) type; that is, in contrast to a specific [pool](#) or [collateral](#) group, as in a specific [CMO issue](#).

Genetic Algorithms

Models that optimize rules by mimicking the Darwinian notion of survival of the fittest. A set of rules is chosen from those that work the best. The weakest are discarded. In addition, two successful rules can be combined (the equivalent to genetic cross-overs) to produce offspring rules. The offspring can replace the parents, or they will be discarded if less successful than the parents. Mutation is also accomplished by randomly changing elements. Mutation and cross-over occur with low probability, as in nature.

Geographic risk

[Risk](#) that arises when an [issuer](#) issues policies concentrated within certain geographic areas, such as the risk of concentrating their coverage in hurricane or earthquake prone regions.

Geometric mean return

Also called the [time-weighted rate of return](#), a measure of the [compound](#) rate of growth of the initial [portfolio market value](#) during the evaluation period, assuming that all [cash distributions](#) are [reinvested](#) in the portfolio. It is computed by taking the geometric average of the [portfolio subperiod returns](#). Also called the [time-weighted rate of return](#) or Dietz algorithm.

Gestation repo

A [reverse repurchase](#) agreement between [mortgage firms](#) and [securities dealers](#). Under the agreement, the firm sells federal [agency-guaranteed MBS](#) and simultaneously agrees to repurchase them at a future date at a fixed price.

Get hit

Go lower in price, when [bids](#) in the [stock](#) or [market](#) are [hit](#), causing those bids to vanish and be replaced by lower ones. [Come in](#). Antithesis of [on the take](#).

Get out

Used in the context of general equities. Sell [interest](#) in a position ("We could get out big size in Humana.")

Ghosting

The illegal practice that one [firm](#) drives a [stock's](#) price higher or lower, while other conspiring firms follow its lead to influence up the price of the stock.

Gift splitting

A technique used to avoid a [gift tax](#) in which a large sum of [money](#) to be given by two parents to a child is halved and given to the child separately. For example, a husband and wife each donate \$10,000 to their child rather than one parent donating \$20,000.

Gift tax

A tax assessed on the giver of a property or [asset](#) as a gift. A \$10,000 federal gift tax [exemption](#) exists per recipient. See: [Gift splitting](#).

Gift inter vivos

A piece of property or [asset](#) given from one living person to another.

Gilt-edged securities

British and Irish government [securities](#). [Blue Chip](#).

Gilts

British and Irish government [securities](#). [Blue Chip](#).

Ginnie Mae

See: [Government National Mortgage Association](#)

Ginnie Mae pass-through

A [security guaranteed](#) by the [Government National Mortgage Association](#) that is backed by a collection of [mortgages](#), in which the [investor](#) receives the [interest](#) and [principal](#) payments of participating homeowners.

Give up

Used for listed equity [securities](#). (1) Term used in a securities [transaction](#) involving three [brokers](#), as follows: Broker A, a [floor broker](#), [executes](#) a [buy order](#) for broker B (a [member firm](#) broker who has

too much business at the time to [execute](#) the order). The broker with whom broker A completes the transaction (the [sell-side broker](#)) is broker C. Broker A "gives up" the name of broker B, so that the record shows a transaction between broker B and broker C even though the [trade](#) is actually executed between broker A and broker C; (2) [distribution](#) of [commissions](#) to brokerage houses not participating in a trade. This is a grey area of the law governing reimbursement of a broker for services (e.g., research). See: Directed brokerage.

Glamour stock

A popular [stock](#) characterized by high [earnings](#) growth rate and a price that rises faster than the [market average](#) in a [bull](#) market.

Global Depository Receipt (GDR)

A [receipt](#) denoting ownership of foreign-based [corporation stock shares](#) which are [traded](#) in numerous [capital markets](#) around the world.

Glass-Steagall Act

1933 legislation prohibiting commercial banks to own, [underwrite](#), or deal in corporate stock and [corporate bonds](#). The bill was effectively repealed by the Gramm-Leach-Bliley Act, November 12, 1999 and was partially reinstated with the Volcker Rule in 2013.

Global bonds

[Bonds](#) designed to qualify for immediate [trading](#) in any [domestic capital market](#) and in the Euromarket.

Global Financial Markets Association

The Global Financial Markets Association (GFMA) is a lobby group which "joins together some of the world's largest financial trade associations to develop strategies for global policy issues in the financial markets, and promote coordinated advocacy efforts. The member trade associations count many of the world's largest financial institutions as their members." (according to their website). GFMA currently has three members: the Association for Financial Markets in Europe (AFME), the Asia Securities Industry & Financial Markets Association (ASIFMA), and, in the United States, the [Securities Industry and Financial Markets Association](#) (SIFMA).

Global fund

A [mutual fund](#) that can [invest](#) anywhere in the world, including the U.S.

Globalization

Tendency toward a worldwide [investment](#) environment, and the integration of national [capital markets](#).

GNMA-I

[Mortgage-backed securities \(MBS\)](#) on which registered [holders](#) receive separate [principal](#) and [interest payments](#) on each of their [certificates](#), usually directly from the servicer of the MBS pool. [GNMA-I](#) mortgage-backed securities are single-[issuer pools](#).

GNMA-II

[Mortgage-backed securities \(MBS\)](#) on which registered [holders](#) receive an [aggregate principal](#) and [interest payment](#) from a central paying [agent](#) on all their [certificates](#). [Principal](#) and interest payments are disbursed on the 20th day of the month. [GNMA-II](#) MBS are backed by [multiple-issuer pools](#) or custom pools (one issuer but different [interest rates](#) that may vary within one percentage point). [Multiple-issuer pools](#) are known as "[jumbos](#)." Jumbo pools are generally longer and offer certain [mortgages](#) that are more geographically diverse than single-issuer pools. Jumbo pool mortgage [interest rates](#) may vary within one percentage point.

GNMA Midget

A [GNMA](#) pass-through certificate backed by [fixed-rate mortgages](#) with a 15-year [maturity](#). GNMA Midget is a [dealer](#) term and is not used by GNMA in the formal description of its programs.

Gnomes

[Freddie Mac's](#) 15-year fixed-rate [pass-through securities issued](#) under its [cash](#) program.

Go along

Used for listed equity [securities](#). [Buy](#) or sell at prices that randomly occur on the [floor](#), participating in what [trades](#) the [specialist](#) and other [players](#) will allow.

Go around

Describes the N.Y. Federal Reserve Bank's [trading desk](#) practice of communicating with primary [dealers](#) to establish a [market](#) of [bids](#) and [offers](#) on behalf of the [Federal Open Market Committee](#).

Goal

An individual's or institution's [financial objective](#).

Godfather offer

An aggressive [takeover](#) technique in that the proposed [offer](#) of the [acquiring company](#) is so large that [management](#) of the [target company](#) cannot refuse, out of fear of lawsuits or [shareholder](#) revolt.

Go-go fund

A type of [mutual fund](#) invested in highly aggressive [growth stocks](#). The fund has high levels of [risk](#) and potential [return](#).

Go to

Used in the context of general equities. Sell [insurance](#) ("we've got 50 IBM to go").

Goes

Used in the context of general equities. (1) [Trades](#) ("10 IBM goes on at 115 "); see [Print](#); (2) indicates a change in the [stock's inside market](#) ("Apple goes 3/4 [bid](#)").

Going ahead

A [broker-dealer trades](#) in a personal [account](#) prior to filling the [orders](#) of his or her clients. Prohibited by the [NASD](#) rules of fair practice. Also see [front running](#)

Going away

The type of [bond](#) purchased by [dealers](#) for immediate resale to [investors](#), as opposed to purchasing a [bond](#) to hold for some amount of time, and then reselling it at a future date.

Going-concern value

The value of a [company](#) to another company or individual in terms of an operating business. The difference between a company's going-concern value and its [asset](#) or [liquidation value](#) is deemed [goodwill](#) and plays a major role in [mergers](#) and [acquisitions](#).

Going long

The [investor's](#) purchase of a [security](#) for [investment](#) or [speculation](#) that the price will rise resulting in a [profit](#) once the [security](#) is sold. See: [long position](#). Antithesis of [going short](#).

Going out

Used in the context of general equities. Soliciting/advertising over the [SS1](#), [NASDSAQ](#), or [Autex](#).

Going private buyout

When [publicly](#) owned [stock](#) in a [firm](#) is replaced with complete [equity](#) ownership by a private group. The firm is [delisted](#) on stock [exchanges](#) and can no longer be purchased in the open [markets](#).

Going public

When a private [company](#) first [offers shares](#) to the [public market](#) and [investors](#). See: [IPO](#).

Going public through the backdoor

The process by which a company comes to have [publicly traded](#) shares without an [IPO](#). This could happen through a [reverse shell merger](#), or through [acquisition](#) of a [public company](#) and

offering [shares](#) to previous owners. Another way is through a series of [private placements](#), selling shares on an [exchange](#) to [institutional](#) and other sophisticated investors.

Going short

Selling [stock](#) that an [investor](#) does not own by [borrowing shares](#) from a [broker](#). The assumption is that the price will fall. The investor anticipates buying (covering the [short](#)) the shares back at a lower price than what they were sold for, recognizing the difference as a [profit](#). Antithesis of [going long](#).

Going into the trade

Used in the context of general equities. 1) Condition of the [trader's position](#) in the [security](#) and expectations of [stock](#) placement with accounts just prior to taking an order to the exchange [floor](#) for [execution](#); 2) On the way in. Antithesis of [come out of the trade](#).

Gold bars

Bars with a minimum content of 99.5% (two nines five in trader jargon; typically traded gold is four nines pure or 99.99%) gold, which may be held by [central banks](#) or [traded](#) by [investors](#).

Gold bond

[Bonds issued](#) by gold-mining [companies](#) and backed by gold. The [bonds](#) make [interest payments](#) based on the level of gold prices.

Gold bullion

[Investment](#)-grade, pure gold, which may be smelted into [gold coins](#) or [gold bars](#).

Gold Carry Trade

A carry trade where you borrow and pay interest in order to buy something else that has higher interest. The gold carry trade works as follows. A central bank loans a bank (sometimes called a bullion bank) some gold. The gold lease rate is usually very low. The bullion bank immediately sells the gold and invests in securities with a higher rate of return, such as government long-term bonds. The carry return is the return on the bonds minus the gold lease rate. However, this trade is risky on two dimensions. First, if the bullion bank invested in long-term bonds and the interest rate goes up, the trade could be unprofitable. More seriously, the bullion bank has effectively sold the gold short. If the loan is called by the central bank and if gold has risen in value, the bullion bank will have to go into the market and purchase higher priced gold. Indeed, if many banks are short, the unwinding of the gold carry trade could drive the gold price even higher. Related: [Carry Trade](#).

Gold certificate

[Certificate](#) of an [investor](#) that shows proof of ownership of [gold bullion](#).

Gold coins

Coin minted in gold, such as the American Eagle or the Canadian Maple Leaf.

Gold exchange standard

A [fixed exchange rate](#) system adopted in the [Bretton Woods agreement](#). It required the U.S. to peg the dollar to gold and other countries to peg their [currencies](#) to the U.S. dollar. The U.S. last abandoned the gold standard in August 1971.

Gold fixing

The process of determining the price of gold based on supply and demand forces of the [market](#); which occurs twice daily in London.

Gold mutual fund

A [mutual fund](#) that primarily [invests](#) in gold-mining [companies' stock](#). The most popular way to invest in gold today is via an Exchange Traded Fund (ETF) such as GLD.

Gold standard

An international monetary system in which [currencies](#) are defined in terms of their gold content, and payment imbalances between countries are settled in gold. It was in effect from about 1870 to 1914 and then off and on. The U.S. abandoned the standard in August 1971.

Goldbug

[Analysts](#) who recommends gold as an [investment/hedge](#). Also, an investor who has a penchant for gold and gold stocks.

Golden cross

A bullish signal generated when the 50-day(short-term) [moving average](#) crosses above the 200-day(long-term) [moving average](#). See also [death cross](#).

Golden handcuffs

A [contract](#) that binds a [broker](#) to a brokerage firm by offering the [broker commissions](#) and bonuses, but penalizes the [broker](#) if he or she goes to work for another [firm](#).

Golden handshake

A large payment to a senior employee who is forced into [retirement](#) or fired as a result of a [takeover](#) or similar development.

Golden hello

A bonus a [securities firm](#) pays to attract an employee from a competing firm.

Golden parachute

[Compensation](#) paid to departing top-level [management](#) by a [target firm](#) if a [takeover](#) occurs.

Goldilocks economy

A term developed in the mid 1990s to describe the positive performance of the economy as "not too hot, not too cold; just right."

Good delivery

A [delivery](#) in which everything - order-endorsement, any necessary attached legal papers, is in good order such that a [transaction](#) settles satisfactorily.

Good delivery and settlement procedures

Refers to PSA Uniform Practices such as cutoff times on [delivery](#) of [securities](#) and notification, allocation, and proper endorsement.

Good faith deposit

Used in the context of [commodities](#). Refers to the initial [margin account](#) deposit needed when [buying](#) or selling a [futures contract](#); approximately 2%-10% of the [contract](#) value.

Used in the context of securities to describe the deposit required by [securities firms](#) engaged in [transactions](#) on behalf of a new client.

Also used to refer to the deposit with a [municipal bond issuer](#) by [firms](#) competing for the [underwriting](#) business.

Good money

Federal funds that [clear](#) on the same day, unlike [clearinghouse funds](#), which require three days to [clear](#).

Good-this-Month order (GTM)

An [order](#) to [buy](#) or sell [securities](#) that continues to be a valid [order](#) until the end of the current month.

Good through/until date order

Used in the context of general equities. [Market](#) or [limited price order](#) that remains viable for a stated period of time unless [cancelled](#), [executed](#), or changed, after which such [order](#) or the portion thereof not executed is to be treated as cancelled.

Good 'til cancelled order (GTC)

An [order](#) to [buy](#) or sell [stock](#) that is good until the client [executes](#) or [cancels](#) it. Brokerages usually set a limit of 30-60 days, at which the G.T.C. order expires if not restated. (Different from a [day order](#).)

Goodwill

Excess of purchase price over fair [market value](#) of [net assets](#) acquired under the [purchase method](#) of accounting.

Googol

A unit of quantity equal to 10^{100} (1 followed by 100 zeros).

Googolplex

A unit of quantity equal to 10^{googol} (1 followed by a googol of zeros).

Government bond

See: [Government securities](#)

Government National Mortgage Association (Ginnie Mae)

A [wholly owned](#) U.S. government [corporation](#) within the Department of Housing & Urban Development. Ginnie Mae [guarantees](#) the timely payment of [principal](#) and [interest](#) on [securities issued](#) by approved servicers that are [collateralized](#) by [FHA](#)-issued, VA-guaranteed, or Farmers Home Administration (FmHA)-guaranteed [mortgages](#).

Government obligations

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

Government securities

[Negotiable U.S. Treasury securities](#).

Government sponsored enterprises

Privately owned, [publicly chartered](#) entities, such as the [Student Loan Marketing Association](#), created by Congress to reduce the [cost of capital](#) for certain borrowing sectors of the economy including farmers, homeowners, and students.

Governments

U.S. government-[issued securities](#), such as [Treasury bills](#), [bonds](#), and [notes](#), and [savings bonds](#). Governments are considered among the safest [investments](#) available as they are backed by the U.S. government.

Also used to refer to [debt issues](#) of federal agencies, which are not directly backed by the U.S. government.

Grace period

The time period stipulated in most [loan contracts](#) and [insurance policies](#) during which a late payment will not result in [default](#) or [cancellation](#).

Graduated call writing

Selling [covered call options](#) at incrementally rising [exercise prices](#), so that as the price of the [underlying stock](#) rises and the [options](#) are [exercised](#), the seller receives a higher average price than the original [exercise price](#).

Graduated lease

A type of [long-term lease](#) whose payments are [variable](#) rather than fixed, and depend upon a [benchmark](#) rate, such as changes in the [consumer price index](#).

Graduated payment

Repayment terms calling for gradual increases in the payments on a closed-end [obligation](#). A graduated payment [loan](#) usually involves negative amortization.

Graduated-payment mortgage (GPM)

A type of stepped-payment [loan](#) in which the borrower's payments are initially lower than those on a comparable [level-rate mortgage](#). The payments gradually increase over a predetermined period (usually 3, 5, or 7 years), and then are fixed at a [level-pay](#) schedule, which will be higher than the level-pay [amortization](#) of a level-pay mortgage [originated](#) at the same time. The difference between what the borrower actually pays and the amount required to fully [amortize](#) the mortgage is added to the unpaid [principal](#) balance.

Graduated security

A [security](#) that has moved from listing on an [exchange](#) of less prominence to one of more prominence.

Graham and Dodd method of investing

An [investment strategy](#) based on fundamental analysis. It is the original idea of value investing. You look to buy equities that have good prospects but have very low valuation ratios, such a price to book value.

Graham-Harvey Measure 1

[Performance measure](#) developed by John Graham and Campbell Harvey. The idea is to lever a fund's [portfolio](#) to exactly match the [volatility](#) of the [S&P 500](#). The difference between the fund's levered [return](#) and the [S&P 500](#) return is the [performance measure](#).

Graham-Harvey Measure 2

[Performance measure](#) developed by John Graham and Campbell Harvey. The idea is to lever the [S&P 500](#) portfolio to exactly match the [volatility](#) of the fund. The difference between the fund's [return](#) and the levered [S&P 500](#) return is the performance measure.

Gramm-Leach-Bliley Act

1999 U.S. legislation that lifted certain remaining restrictions established by the [Glass-Steagall Act](#). The act was partially repealed with the institution of the Volcker Rule in 2013 which restricts commercial banks from proprietary trading.

Grandfathered activities

Nonbank activities, some of which would normally not be permissible for bank holding [companies](#) and foreign banks in the United States, but which were acquired or engaged in before a particular date. Such activities may be continued under the "grandfather" clauses of the Bank Holding Company Act and the International Banking Act.

Grandfather clause

A provision included in a new rule or [regulation](#) that [exempts](#) a business that is already conducting business in the area addressed by the regulation from [penalty](#) or [restriction](#).

Grant

The issuance of an award under a stock plan, such as a [stock](#) option or shares of [restricted stock](#).

Grant Date

The date on which an [option](#) or other award is granted.

Grantor

A [trader](#) in the [options market](#) who makes [premium income](#) by selling [options](#).

Grantor Retained Income Trust (GRIT)

A tax-saving [trust](#) in which a [grantor](#) transfers property to a [beneficiary](#), but receives income until termination, at which time the beneficiary begins receiving the income.

Grantor trust

A mechanism of [issuing MBS](#) wherein the mortgages' [collateral](#) is deposited with a [trustee](#) under a [custodial](#) or trust agreement.

Graveyard market

[Bear market](#) in which [investors](#) who sell are faced with substantial [losses](#), while potential investors prefer to stay [liquid](#); that is, to keep their [money](#) in [cash](#) or [cash equivalents](#) until [market](#) conditions improve.

Gray knight

In a [merger](#) or [acquisition](#), a gray knight is an [acquiring company](#) that outbids a [white knight](#) in pursuit of its own best interests, although it is friendlier than a [hostile bidder](#).

Gray list

Formal roster of [stocks](#) that can be [traded](#) by the [block](#) desks, but not in [risk arbitrage](#) because an [investment bank](#) is involved with the [company](#) on nonpublic activity (e.g., [mergers](#) and [acquisitions](#) defense). A stock's presence on this list should never be conveyed to anyone outside the trading area, much less outside the [firm](#). See: [Restricted list](#).

Gray market

Describes the [sale](#) of [securities](#) that have not officially been [issued](#) to [firms](#) other than the [underwriting syndicate](#). This type of [market](#) serves as a good indicator of demand for a new [issue](#) in the [public market](#).

Great call

Used in the context of general equities. Potential customer who may have an interest in participating in a particular [trade](#) if customer's past [inquiry](#) or activity is any indication.

Greater fool theory

An [investment](#) notion that even when a [stock](#) is fully valued by conventional standards, there is room for upward movement because there are enough buyers to push prices farther upward purely on [speculation](#) or hype.

Greenmail

The holding of a large [block](#) of [stock](#) of a [target company](#) by an unfriendly company, with the object of forcing the [target company](#) to [repurchase the stock](#) at a substantial [premium](#) to prevent a [takeover](#).

Greenshoe option

[Option](#) that allows the [underwriter](#) for a new [issue](#) to increase the size of the issue because of high demand for the [shares](#).

Gross per broker

The dollar amount of [commissions](#) generated by a [broker](#) or [registered representative](#) over a specific period.

Gross domestic product (GDP)

The [market value](#) of final goods and services produced over time including the income of foreign [corporations](#) and foreign residents working in the U.S., but excluding the income of U.S. residents and corporations overseas.

Gross earnings

A person's [total taxable income](#) prior to adjustments. See: [adjusted gross income](#).

Gross estate

The [total](#) value of a person's property and [assets](#) before accounting for [debts](#), taxes, and [liabilities](#).

Gross income

A person's [total](#) income prior to exclusions and [deductions](#).

Gross interest

[Interest](#) earned before taxes are [deducted](#).

Gross lease

A type of property [lease](#) in which the [lessor](#) (owner of the property being leased) pays [expenses](#) associated with ownership such as damages, taxes, and insurance.

Gross National Product (GNP)

Measures an economy's [total](#) income. It is equal to [G.D.P.](#) plus the income abroad accruing to domestic residents [minus](#) income generated in [domestic market](#) accruing to non-residents.

Gross parity

Applies mainly to [convertible securities](#) and international equities. Antithesis of [net parity](#). For the price of a convertible, including [accrued interest](#). For the price of international [security](#), including [commissions](#), fees, [stamp duty](#), and other [transaction costs](#), translated into U.S. dollar amounts.

Gross profit

[Sales](#) minus the [cost of goods sold](#).

Gross profit margin

Gross profit divided by [sales](#), which is equal to each sales dollar left over after paying for the [cost of goods sold](#).

Gross sales

[Total sales](#) calculated by summing all sales at [invoice](#) values, neglecting any adjustments such as customer discounts, excise taxes, or [returns](#).

Gross spread

The fraction of the gross proceeds of an [underwritten securities offering](#) that is paid as [compensation](#) to the [underwriters](#) of the [offering](#).

Gross Weight

The full weight (including goods and packaging) of shipment.

Ground lease

A [lease](#) of land, as opposed to a lease of a building.

Group depreciation

Method of [depreciation](#) where a single average depreciation rate is applied to a group of similar [assets](#) with similar service lives. See also [Composite depreciation](#).

Group insurance

Insurance coverage for a group, which can usually be obtained at a cheaper rate than insurance for an individual.

Group of Eight (G-8)

The [G-7](#) countries plus Russia.

Group of Five (G-5)

The five leading countries (France, Germany, Japan, the U.K., and the U.S.) that meet periodically to achieve some cooperative effort on international economic issues. When [currency](#) issues are discussed, the monetary authorities of these nations hold the meeting.

Group of Seven (G-7)

The [G-5](#) countries plus Canada and Italy.

Group of Ten

A group of the ten major industrialized countries whose mission is to create a more stable world economic [trading](#) environment through [monetary](#) and fiscal policies. The ten are Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States.

Group rotation

The tendency of [stocks](#) in one [sector](#) of the [market](#) to outperform and then underperform other industries, usually as a result of economic cycles or the conditions in a particular industry.

Group rotation manager

A [top-down manager](#) who deduces the phases of the business cycle and allocates [assets](#) accordingly.

Group sales

[Block sale](#) (of large amounts) of [securities](#) to [institutional investors](#).

Group Universal Life Policy (GULP)

[Universal life](#) insurance on a group basis. See: [Group insurance](#).

Growing Equity Mortgage (GEM)

[Mortgage](#) with a fixed [interest rate](#) and payments that increase throughout the term of the [mortgage](#).

Growing perpetuity

A constant stream of [cash flows](#) without end that is expected to rise indefinitely.

Growth fund

A [mutual fund](#) that [invests](#) primarily in [stocks](#) with a history of and future potential for [capital gains](#).

Growth and income fund

A [mutual fund](#) that [invests](#) primarily in [stocks](#) with a history of [capital gains](#) (growth) and consistent [dividend](#) payments (income).

Growth manager

A [money manager](#) who seeks to [buy stocks](#) that typically sell at relatively high [P/E ratios](#) due to high [earnings](#) growth, with the expectation of continued high or higher earnings growth.

Growth opportunity

Opportunity to [invest](#) in [profitable](#) projects.

Growth phase

A phase of development during which a [company](#) experiences rapid [earnings](#) growth as it produces new products and expands [market](#) share.

Growth rates

[Compound annual growth rate](#) for the number of full [fiscal years](#) shown. If there is a negative or zero value for the first or last year, the growth is N.M. (not meaningful).

Growth recession

A growth [recession](#) is a prolonged period (more than one quarter) of significantly below trend real GDP growth. For the U.S., this would be growth in the 0-2 percent range. While an official recession usually has two quarters of negative real GDP growth, this is not required in a growth recession.

Growth stage

In context of [private equity](#), the state of a company when it has received one or more rounds of financing and is generating revenue from its product or service. Also known as [middle stage](#).

Growth stock

Common stock of a **company** that has very attractive possibilities for revenue growth.

Guarantee

The assumption of responsibility for payment of a **debt** or performance of some **obligation** if the liable party fails to perform to expectations.

Guarantee Fee

A sum paid by the importer to the guarantor, usually as a percentage per annum of the **face value** of the bills or notes being **guaranteed**.

Guarantee letter

A commercial bank's letter assuring payment of the **exercise price** of a client's **put option**.

Guaranteed bond

A type of **bond** for which a **firm** other than the **issuer guarantees** its **interest** and **principal** payments.

Guaranteed delivery

Seller commits to a settlement date and the buyer is allowed to cancel the trade if delivery is not made. Delivery terms are negotiated trade by trade.

Guaranteed insurability

A life and health **insurance policy** feature that enables the insured to add coverage at future times and at fixed and agreed-upon rates regardless of health conditions.

Guaranteed insurance contract

A **contract** promising a stated **nominal interest rate** over some specific time period, usually several years.

Guaranteed investment contract (GIC)

A pure **investment** product in which a life **company** agrees, for a single **premium**, to pay at a **maturity date** the **principal** amount of a predetermined annual **crediting (interest) rate** over the life of the investment.

Guaranteed Mortgage Certificates (GMC)

First **issued** by **Freddie Mac** in 1975, G.M.C.s, represent undivided **interest** in specified **conventional** whole **loans** and **participations** previously purchased by **Freddie Mac**.

Guarantor

A party who will **guarantee** repayment or performance of a **covenant**.

Guardian

An individual or trust institution appointed by a court to care for a minor or an incompetent person and his or her property.

Guaranteed renewable policy insurance

A type of [insurance policy](#) that requires the insurer to renew the policy to an individual regardless of health changes. No changes may be made to an individual [policyholder](#) unless the same change is applied to all policyholders.

Guaranteed replacement cost coverage insurance

A policy that covers the full [cost](#) of replacing damaged property without any allowances or [deductions](#), e.g., [depreciation](#).

Guaranteeing/ Avalising Bank

The person, bank, or [financial](#) entity who gives the [guarantee](#) for the importer.

Guarantor program

Under the [Freddie Mac](#) program, the [aggregation](#) by a single [issuer](#) (usually an [S&L](#)) for the purpose of forming a qualifying [pool](#) to be [issued](#) as [PCs](#) under the [Freddie Mac guarantee](#).

Guidance

It is increasingly important for firms to meet or exceed analysts' consensus earnings forecasts. Often management will give guidance or hints of the earnings per share prospects over the next quarter to try to direct the consensus to what is achievable. For example, it is possible that the consensus is well above management's internal forecasts. Management will try to guide the consensus downwards so that when the earnings are released the negative surprise is minimized or eliminated. Under Regulation FD, management needs to be very careful to provide guidance information to all shareholders -- not just a select group of analysts. This is often achieved in investor presentations (that are often webcast) or conference calls (where anyone is allowed to dial in).

Gun jumping

In the context of [securities trading](#), refers to trading in a [security](#) on the basis of information that has not been made available to the [public](#). The illegal solicitation of [buy orders](#) in an [underwriting](#) before completion and finalization of [Securities and Exchange Commission registration](#). Also see [front running](#).

Gunslinger

An aggressive [portfolio manager](#) who makes [risky investments](#), typically in [margin accounts](#), in search of high [returns](#).

Gypsy Swaps: In the context of Regulation D. A private purchaser wishes to [invest](#) directly in an issuer but hopes to acquire unrestricted [securities](#). Through arrangements and understandings with the issuer, a stockholder with shares that are either restricted securities currently eligible for [sale](#) under [Rule 144](#) or unrestricted securities sells the shares to the private purchaser. At about the same time, the issuer sells an equivalent number of shares to the stockholder. The [Securities & Exchange Commission](#)'s view is that the shares taken by the private purchaser from the stockholder will be restricted securities within the meaning of [Rule 144\(a\)\(3\)](#). The holding period will date to the private acquisition. A [public](#) resale of the shares acquired from the stockholder without regard to the conditions of [Rule 144](#) would raise serious issues under Section 5 of the [Securities Act](#) for all parties to the [transactions](#).

H

Fifth letter of a [Nasdaq](#) stock symbol specifying that the issue is the second preferred bond of the [company](#).

HAB

See: [House Air Waybill](#)

HCMC

See: [Hellenic Capital Market Commission](#).

HEX

See: [Helsinki Exchange](#)

HFT

See: [High frequency trading](#)

HHI

See: [Herfindahl-Hirschman Index](#)

HIICs

See: [Heavily Indebted Industrialized Countries](#)

HK

The two-character [ISO](#) 3166 country code for HONG KONG.

HKD

The [ISO](#) 4217 currency code for the Hong Kong Dollar.

HKFE

See: [Hong Kong Futures Exchange](#)

HKG

The three-character [ISO](#) 3166 country code for HONG KONG.

HLT

See: [Highly leveraged transaction](#)

HM

The two-character [ISO](#) 3166 country code for HEARD ISLAND AND MCDONALD ISLANDS.

HMD

The three-character [ISO](#) 3166 country code for HEARD ISLAND AND MCDONALD ISLANDS.

HN

The two-character [ISO](#) 3166 country code for HONDURAS.

HND

The three-character [ISO](#) 3166 country code for HONDURAS.

HNL

The [ISO](#) 4217 currency code for the Honduras Lempira.

HR

The two-character [ISO](#) 3166 country code for CROATIA.

HRK

Croatian Kuna currency. (The [ISO](#) 4217 currency code)

HRV

The three-character [ISO](#) 3166 country code for CROATIA.

HT

The two-character [ISO](#) 3166 country code for HAITI.

HTG

The [ISO](#) 4217 currency code for the Haiti Gourde.

HTI

The three-character [ISO](#) 3166 country code for HAITI.

HTM

See: [Held to Maturity](#).

HU

The two-character [ISO](#) 3166 country code for HUNGARY.

HUF

The [ISO](#) 4217 currency code for the Hungarian Forint.

HUI

An indexed (unhedged) of gold stocks. A popular chart is to compare the price of gold to this index.

HUN

The three-character [ISO](#) 3166 country code for HUNGARY.

Haircut

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

Half-life

The point in the life of a [mortgage-backed security guaranteed](#) or [issued](#) by the [Government National Mortgage Association](#), the [Federal National Mortgage Association](#) or the [Federal Home Loan Mortgage Corporation](#) when half the [principal](#) has been repaid.

Half-stock

[Stock](#), [common](#) or [preferred](#), with a \$50 [par](#) value.

Hammering the market

Heavy selling of [stocks](#) by [speculators](#) who think that the [stock](#) is overvalued and is about to drop.

Handle

The whole-dollar price of a [bid](#) or [offer](#) is referred to as the handle (e.g., if a [security](#) is quoted at 101.10 bid and 101.11 offered, 101 is the handle. In this example, the market is then simply quoted as 'ten to eleven', as in '.10 to .11'.) [Traders](#) are assumed to know the handle. See: [Full](#).

Hands-off investor

An [investor](#) who has a large stake in a [company](#), but does not wish to play an active role in the [management](#) of the [corporation](#).

Hands-on investor

An [investor](#) who has a large stake in a [corporation](#) and takes an active role in its [management](#) .

Antithesis of [hands-off investor](#).

Hang Seng index

The major [index](#) in Hong Kong.

Hansen, Lars Peter

University of Chicago economist known for inventing the estimation method called the Generalized Method of Moments which is widely used in finance research. Nobel Laureate 2013.

Hard call protection

Usually refers to callable bonds. The period of time when a bond cannot be called, no matter what the interest rate is. That is, if the interest rate falls sharply, most callable bonds will be called (so the bond issuer can reissue at a lower interest rate). Hard call protection ensures that the holder of the bond can benefit when rates fall.

Hard capital rationing

A [capital budget](#) that under no circumstances can be violated.

Hard currency

A freely convertible [currency](#) that is not expected to [depreciate](#) in value in the foreseeable future.

Hard dollars

Actual separate payments made by a customer for services, including research, provided by a brokerage firm. Antithesis of [soft dollars](#).

Harmless warrant

[Warrant](#) that allows the user to [purchase a bond](#) only by surrendering another bond with similar [terms](#).

The Harmonized Commodity Description and Coding System

Commonly known as Harmonized System. It is a classification system devised by the Customs Cooperation Council to provide uniformity in tariff classification, trade statistics, and transport documentation among cooperating countries.

Hart-Scott-Rodino Act

Often used in [risk arbitrage](#). Antitrust act administered by U.S. Department of Justice and the FTC that requires an [investor](#) to file a form with the government before he acquires an economic interest in the lesser amount of \$15 million or 15% of the [capitalization](#) of a specific [security](#). The government has thirty days to respond to the filer.

Harvest

In context of [private equity](#), to harvest is to generate cash or stock from the sale or IPO of companies in the portfolio of investments.

Harvey, Campbell R.

Author of this glossary. Finance professor at Duke University. Author of research on international finance, asset allocation, and [emerging markets](#). Editor of the Journal of Finance, 2006-2012.

Hawkish

An aggressive tone. For example, if the Federal Reserve uses hawkish language to describe the threat of inflation, one could reasonably expect stronger actions from the Fed. There is a similar application to CEO describing an important issue that a firm faces. Opposite of Dovish.

Head & shoulders

In [technical analysis](#), a pattern that results where a [stock](#) price reaches a [peak](#) and declines; rises above its former peak and again declines; and rises a third time but not to the second peak, and then again declines. The first and third peaks are shoulders, while the second peak is the formation's head. [Technical analysts](#) generally consider a head and shoulders formation to be a very [bearish indication](#), especially if the market descends more than 3% below the [neckline](#).

Headline inflation

A measure of the total [inflation](#) that is experienced throughout an entire economy. Headline inflation is based off of the U.S. Bureau of Labor Statistics' [Consumer Price Index \(CPI\)](#). In contrast, the core CPI, which is used to measure [core inflation](#) excludes price fluctuations in the food and energy sector due to their seasonal or volatile movements. See: [Consumer Price Index \(CPI\)](#), [Inflation](#)

Heavily Indebted Industrialized Countries (HIICs)

Developed countries such as the U.S., Europe, the U.K., and Japan that display the type of investment risks traditionally associated with emerging markets due to high leverage levels. This is a new acronym created after 2008 financial crisis to describe shifting global economic fortunes.

Heavy

An [equities market](#) now dominated by sellers, or oversupply, resulting in falling [prices](#).

See: [Overbought](#), [resistance level](#), [tired](#).

Hedge

A [transaction](#) that reduces the [risk](#) of an [investment](#).

Hedge clause

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

Hedge fund

An investment vehicle that somewhat resembles a mutual fund, but with a number of important differences. If the fund is "off-shore", the fund does not have to adhere to any SEC regulations (and can only sell to non-U.S. investors or investment vehicles). These funds employ a number of different strategies that are not usually found in mutual funds. The term "hedge" can actually be misleading. The traditional hedge fund is actually hedged. For example, a fund employing a long-short strategy would try to select the best securities for purchase and the worst for short sale. The combination of longs and short provides a natural hedge to market-wide shocks. However, much more common are funds that are not hedged. There are funds that are long-biased and short-biased. There are funds that undertake high frequency futures strategies, sometimes called managed futures. There are funds that take long-term macroeconomic bets, sometimes called global macro. There are funds that try to capitalize on merger and acquisitions. Another distinguishing feature of hedge funds is the way that managers are rewarded. There are two fees: fixed and variable. The fixed fee is a percentage of asset under management. The variable or performance fee is a percentage of the profit of the fund. There are also funds of funds which invest in a portfolio of hedge funds. Another important difference with hedge funds is that the minimum required investment is usually quite large and, as a result, minimizes the participation of retail investors.

Hedge quality

Measured by the [R-square](#) in a [regression](#) of [spot rate](#) changes on [futures](#) price changes.

Hedge ratio (delta)

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

Hedge wrapper

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

Hedged portfolio

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

Hedged tender

An [investor](#) sells a portion of a stock holding [short](#) a [tender offer](#) in the anticipation that not all [shares](#) tendered will be accepted. For example, investor Q has 5000 shares of XYZ.

An [acquiring company](#) makes a tender offer of \$100 a share for 50% of the target company when the shares are currently worth \$80. Investor Q anticipates that if he or she tenders all 5,000 shares, only 2,500 will be accepted by the bidder pro rata. Investor Q therefore short-sells 2500 shares after the announcement and the price of the [stock](#) has approached \$100. Company XYZ [purchases](#) only 2500 of the original shares at \$100. Investor Q has sold all shares at \$100 even as the price of the stock drops on a post-news [dip](#).

Hedgedog

See: [Spaceman](#)

Hedgie

Slang for a [hedge fund](#).

Hedging

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

Hedging demands

Demands for [securities](#) to [hedge](#) particular sources of consumption [risk](#), beyond the usual mean-variance [diversification](#) motivation.

Held at the opening

Used for listed equity securities. Not [open](#) for [trading](#) because [specialists](#) or [regulators](#) are not allowing [trading](#) to occur until imbalances dissipate or news is disseminated.

Held order

[Order](#) that must be [executed](#) without hesitation ([Hit the bid](#) or [take the offer](#) in line) or if the [stock](#) can be bought or sold at that price (held [limit order](#)) in sufficient quantity.

Held to maturity

[Investment](#) in [securities](#) with the intention and ability to hold them to [maturity](#). Note that these can only be [debt securities](#) as [equity](#) has no maturity. These are reported at amortized cost and temporary fluctuations in [market prices](#) do not affect the value reported on [financial statements](#). Also see [Available for Sale](#), [Trading Securities](#).

Greece's supervisory authority for the Greek financial markets. Greek financial regulator.

Hell-or-high-water contract

A [contract](#) that [obligates](#) a [purchaser](#) of a project's output to make [cash](#) payments to the project in all events, even if no product is offered for [sale](#).

Helsinki Exchanges (HEX)

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

Hemline theory

A theory that [stock](#) prices move in the same direction as the hemlines of women's dresses. For example, short skirts (1920s and 1960s) are symbolic of [bullish markets](#) and long skirts (1930s and 1940s) are symbolic of [bearish markets](#).

Herfindahl-Hirschman Index (HHI)

A measure of [market](#) concentration, it depends on the number of firms and their size relative to the [market](#). It is calculated by summing up the squares of market shares of each firm. For example, a [market](#) where the HHI comes to more than 1800 will be considered a concentrated market. [Mergers](#) or [acquisitions](#) that change the HHI by more than 100 points in a concentrated market may raise [antitrust](#) concerns within the Department of Justice.

Hermes

The [trade finance agency](#) for Germany.

Herstatt risk

The [risk of loss](#) in [foreign exchange trading](#) that one party will deliver foreign exchange but the [counterparty financial institution](#) will fail to complete its end of the [contract](#). This is also referred to as [settlement risk](#).

H-H page

Quotron display page that shows new listed [inquiries/orders](#) received after the [block call](#).

HIBOR

Hong Kong Interbank Offered Rate, the [annualized](#) offer rate banks pay to attain Hong Kong three-month deposits [denominated](#) in dollars.

Hidden load

A [sales charge](#) that is not explicitly disclosed or is buried in the fine print of a [mutual fund prospectus](#) or [life insurance policy](#) and therefore is not immediately apparent.

Hidden values

Valuable [assets](#) owned by a [company](#) that are not accurately reflected in its [stock](#) price at a particular time.

High-coupon bond refunding

Replacing a high-[coupon bond](#) with a new, lower-coupon bond.

High credit

The maximum amount of [outstanding loans](#) for a particular customer on a bank's record.

High current income mutual fund

A [mutual fund](#) whose primary goal is to produce a high level of income by making higher-[risk investments](#) in [instruments](#) such as [junk bonds](#).

High flyer

High-priced and highly [speculative stock](#) that moves up and down sharply over a [short](#) period. Generally glamorous in nature due to the [capital gains](#) potential associated with them; also used to describe any high-priced stock. Antithesis of [sleeper](#).

High Frequency Trading (HFT)

Refers to computerized trading using proprietary algorithms. There are two types high frequency trading. Execution trading is when an order (often a large order) is executed via a computerized algorithm. The program is designed to get the best possible price. It may split the order into smaller pieces and execute at different times. The second type of high frequency trading is not executing a set order but looking for small trading opportunities in the market. It is estimated that 50 percent of stock trading volume in the U.S. is currently being driven by computer-backed high frequency trading. Also known as algo or algorthmic trading.

High-grade

[Credit quality](#) of AAA or AA.

High-grade bond

A [bond](#) with Triple-A or Double-A [rating](#) in [Standard & Poor's](#), or Moody's rating system.

High powered money

See [monetary base..](#)

High price

The highest closing price of a [stock](#) over the past 52 weeks, adjusted for any [stock splits](#), or the highest [intraday](#) price of a stock in the most recent (or current) trading session.

High-premium convertible debenture

A [bond](#) with a [long-term](#), high-[premium](#), [common stock](#) conversion feature. It also [offers](#) a competitive [interest rate](#). This type of [investment](#) vehicle is aimed at [bond investors](#) who want to be able to convert into [stock](#) to [hedge](#) against [inflation](#).

High-tech stock

[Stocks](#) of [companies](#) operating in high-technology fields.

High withholding tax interest income

Interest income that is subject to a foreign gross [withholding tax](#) of 5% or more. Specified in US tax code.

High yield

In the context of hedge funds, a style of [management](#) that focuses on low rated fixed income securities.

High-yield bond

See: [Junk bond](#)

Highjacking

Japanese term for a [takeover](#).

Highly confident letter

An [investment banking firm's](#) letter indicating that the firm is highly confident it will be able to arrange financing for a [securities](#) deal.

Highly leveraged transaction (HLT)

Bank [loan](#) to a highly [leveraged firm](#).

Highs

[Stocks](#) that have hit an all-time high for the current 52-week time period.

Hindenburg Omen

A technical indicator that purportedly predicts a bear market or a crash when there is a large number of 52 weeks highs and 52 week lows on the NYSE. There is disagreement on the threshold. Some say

2.5% or 2.8% of issues traded on NYSE in a day. Named after the German zeppelin that caught fire on May 6, 1937.

Hire Purchase

The right to [purchase](#) an [asset](#) by the user of the asset according to a pre-agreed method. The user may be the owner for tax purposes.

Historical cost

Describes the accounting cost carried in the [books](#) and reflecting the cost of the item at the time it was purchased, rather than its current value.

Historical Cost Accounting Convention

An accounting technique that values an [asset](#) for [balance sheet](#) purposes at the price paid for the asset at the time of its [acquisition](#).

Historical exchange rate

An accounting term that refers to the [exchange rate](#) in effect at the time an [asset](#) or [liability](#) is [acquired](#).

Historical trading range

The [range](#) of price over which a [security](#) or a [commodity](#) has [traded](#) since [listing](#) on a [exchange](#).

Historical volatility

Fluctuations estimated from a historical time series.

Historical yield

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

Hit the bid

A [dealer](#) who agrees to sell at the [bid](#) price [quoted](#) by another [dealer](#) is said to "hit" that bid. Antithesis of [take the offer](#).

Hit the ribbon

Used in the context of general equities. See: [Print](#).

Hold

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

Holder

The [purchaser](#) of an option.

Holder of record date

The date on which holders of record in a [firm's stock ledger](#) are designated as the recipients of either [dividends](#) or [stock rights](#). Also called [date of record](#) or record date.

Holding company

A [corporation](#) that owns enough [voting stock](#) in another [firm](#) to control [management](#) and operations by influencing or electing its [Board of Directors](#).

Holding the market

The illegal practice of maintaining and/or placing a sufficient number of [buy orders](#) to create [price support](#) for a [security](#) or [commodity](#) in an amount sufficient to stabilize a downward [trend](#).

Holding period

Length of time a [security](#) is [held](#).

Holding-period return

[Rate of return](#) on an [investment](#) over a given period.

Holding-Period Yield (HPY)

The [rate of return](#) (including any [interest](#) or [dividends](#)) paid during the holding period) actually [realized](#) on an [investment](#) in a [bond](#).

Home asset bias

The tendency of [investors](#) to over invest in their own county's [assets](#).

Home run

Large [capital gain](#) in a [stock](#) in a [short](#) period of time.

Homemade dividend

[Sale](#) of some [shares](#) of [stock](#) to get [cash](#) in an amount similar to that of a [cash dividend](#).

Homemade leverage

Idea that as long as individuals [borrow](#) (or [lend](#)) on the same [terms](#) as the [firm](#), they can duplicate the effects of corporate [leverage](#) on their own. Thus, if levered firms are priced too high, rational [investors](#) will simply borrow on personal accounts to [buy shares](#) in unlevered firms.

Homeowner's equity account

A [credit line](#) offered by [mortgage lenders](#) allowing a homeowner a [second mortgage](#) that uses the [equity](#) present in the customer's [account](#) as [collateral](#).

Home Ownership and Equity Protection Act

1994 U.S. federal law that gave the [Federal Reserve](#) new responsibility to address abusive and predatory mortgage lending practices.

Homeowner's insurance policy

An [insurance policy](#) protecting a homeowner against damage or [loss](#) to property.

Homogeneity

The degree to which items are similar.

Homogeneous

Exhibiting a high degree of [homogeneity](#).

Homogeneous expectations assumption

An assumption of [Markowitz portfolio](#) construction that [investors](#) have the same expectations with respect to the inputs that are used to derive [efficient portfolios](#): [asset returns](#), [variances](#), and [covariances](#).

Hong Kong Futures Exchange (HKFE)

Established in 1976, the Hong Kong Futures Exchange (H.K.F.E.) operates futures and options markets in [index](#), [stock](#), [interest rate](#), and [foreign exchange](#) products.

Horizon analysis

An analysis of [returns](#) using total return to assess performance over some [investment](#) horizon.

Horizon matching strategy

An income [immunization strategy](#) that [cash](#)-matches over the next few years and [duration](#)-matches the rest.

Horizon return

Total [return](#) over a given horizon.

Horizontal acquisition

[Merger](#) between two [companies](#) producing similar goods or services.

Horizontal analysis

The process of dividing each [expense](#) item of a given year by the same expense item in the [base](#) year. It allows assessment of changes in the relative importance of expense items over time and the behavior of expense items as [sales](#) change.

Horizontal merger

A [merger](#) involving two or more [firms](#) in the same industry that are both at the same stage in the production cycle; that is, two or more [competitors](#).

Horizontal price movement

[Stock](#) price movement within a narrow price [range](#) over an extended period of time which creates the appearance of a relatively straight line on a graph of the [stock's](#) price.

Horizontal spread

The simultaneous [purchase](#) and [sale](#) of two [options](#) that differ only in their [expiration dates](#).

Hospital revenue bond

A [bond issued](#) to finance construction of a hospital by a municipal or state [agency](#).

Host security

The security to which a [warrant](#) is attached.

Hostile takeover

A [takeover](#) of a [company](#) (usually made by an open [tender offer](#) to shareholders) against the wishes of the current [management](#) and the [Board of Directors](#) by an [acquiring](#) company or raider.

Hot

Used in the context of general equities. [Active](#), usually with positive price implications.

Hot Issue

An [IPO](#) for which demand heavily exceeds supply.

Hot money

[Money](#) that moves across country borders in response to [interest rate](#) differences and that moves away when the interest rate differential disappears.

House

[Firms](#) that conduct business as [broker-dealers](#) in [securities](#) or in the [investment banking](#) field are characterized as houses.

House account

A type of [account](#) at a brokerage firm that is given a high level of priority and is handled by the main office or an [executive](#), rather than a traditional salesperson.

House Air Waybill (AWB)

An air waybill issued by an [air freight consolidator](#).

House call

Notification by a brokerage house that a customer's [margin account](#) is below the minimum maintenance level. The client must provide more [cash](#) or [equity](#), or the [account](#) will be [liquidated](#).

House of issue

An [investment banking](#) firm whose business it is to [underwrite stock](#) or [bond issues](#) and [offer](#) the [securities](#) to the [public](#).

House maintenance requirement

The internal rules of a brokerage house that govern the minimum amount of [equity](#) that must be present in a customer's [margin account](#).

House poor

People who are short on [cash](#) because most of their [money](#) is tied up in their homes are "house poor."

House rules

Internal rules of [broker-dealer firm](#) that govern the handling of its customers' [accounts](#).

Housing and Economic Recovery Act

2008 U.S. law including measures to reform and regulate the government sponsored enterprises created by the Federal Housing Finance Agency.

Housing bond

[Bonds issued](#) by a local housing authority to finance housing projects.

"How are you making XXX?"

"What is your [market](#) in a particular [stock](#)?" See: [Quotation](#).

Hubris

An arrogance due to excessive pride and an insolence toward others. A classic character flaw of a [trader](#) or [investor](#).

Hulbert rating

A [rating](#) by Hulbert Financial Digest, a service of CBS MarketWatch, of how well the recommendations of various [investment advisory newsletters](#) have performed.

Human capital

The unique capabilities and expertise of individuals.

Humphrey-Hawkins Act

Informal name for the Full Employment and Balanced Growth Act of 1978, from the names of the act's original sponsors.

Hung up

Used to describe the [position](#) of an [investor](#) whose [stocks](#) or [bonds](#) have dropped in value below their original [purchase](#) price.

Hunkering down

A term used to describe a [trader](#) selling off a big [position](#) in a [stock](#).

Hurdle rate

The [required return](#) in [capital budgeting](#). For example, if a project has an expected [rate of return](#) higher than the hurdle rate, the project may be accepted. Also, the rate of current return an income trust must earn consistently in order for it to be able to maintain [distributions](#) at their current level.

Hurst Exponent(H)

A measure of the bias in [fractional Brownian motion](#). H=0.50 for Brownian motion. 0.50<H<1.00 for persistent, or [trend-reinforcing series](#). 0<H<0.50 for an [anti-persistent](#), or [mean](#)-reverting system. The inverse of the Hurst exponent is equal to [alpha](#), the characteristic exponent for [Stable Paretian distributions](#). The [fractal dimension](#) of a time series, D, is equivalent to 2-H.

Hybrid

A package of two or more different kinds of [risk management instruments](#) that are usually interactive.

Hybrid annuity

A type of insurance company [investment](#) that combines the benefits of both a [fixed annuity](#) and a [variable annuity](#).

Hybrid security

A [convertible security](#) whose optioned [common stock](#) is [trading](#) in a middle range between the [par value](#) of the root security and the [market value](#) of the security it is convertible into, causing the

convertible security to trade with the characteristics of both a [fixed income security](#) and a common stock [instrument](#).

Hyperinflation

See: [Inflation](#)

Hypothecation

In banking, refers to the commitment of property to [secure](#) a [loan](#).

In [securities](#), refers to the commitment of [securities](#) to serve as [collateral](#) for [margin loans](#) at the [broker-dealer](#) firm.

Hysteresis

Used to characterize a [lagging](#) effect. [Firms](#) may fail to enter [markets](#) that appear attractive, or firms that are once [invested](#) in a market may persist in operating at a [loss](#). The effect is characteristic of investments with high entry and exit costs along with high uncertainty.

I

Fifth letter of a [Nasdaq](#) stock symbol specifying that it is the third preferred bond of the company.

IAS 39

IAS 39 is fair value measurement accounting standard followed by [IASB](#). The objective of IAS 39 is to establish principles for recognizing and measuring the value of financial assets, financial liabilities and contracts to buy or sell non-financial items.

IASB

See: [International Accounting Standards Board](#)

IBES

See: [Institutional Brokers Estimate System](#)

IBF

See: [International Banking Facility](#)

IBO

See: [Institutional buyin](#)

IBRD

See: [International Bank for Reconstruction and Development](#)

IC

See: [Information Coefficient](#)

ICC

See: [International Chamber of Commerce](#)

ID

The two-character [ISO](#) 3166 country code for INDONESIA.

IDA

See: [International Development Association](#)

IDC

See: Interest During Construction

IDN

The three-character [ISO](#) 3166 country code for INDONESIA.

IDR (1)

The [ISO](#) 4217 currency code for the Indonesian Rupiah.

IDR (2)

See: [International Depository Receipt](#)

IDR (3)

See [Incremental Default Risk](#)

IE

The two-character [ISO](#) 3166 country code for IRELAND.

IEP

The [ISO](#) 4217 currency code for the Irish Punt.

IFC

See: [International Finance Corporation](#)

IFRS

See: [International Financial Reporting Standards](#)

IFSRA

See: [Irish Financial Services Regulatory Authority](#).

IL

The two-character [ISO](#) 3166 country code for ISRAEL.

ILS

The [ISO](#) 4217 currency code for the Israeli Shekel.

IM

The two-character [ISO](#) 3166 country code for ISLE OF MAN.

IMF

See: [International Monetary Fund](#)

IMM

See: [International Monetary Market](#)

IMN

The three-character [ISO](#) 3166 country code for ISLE OF MAN.

IN

The two-character [ISO](#) 3166 country code for INDIA.

IND

The three-character [ISO](#) 3166 country code for INDIA.

INR

The [ISO](#) 4217 currency code for the Indian Rupee.

IO (1)

The two-character [ISO](#) 3166 country code for BRITISH INDIAN OCEAN TERRITORY .

IO (2)

See: [Interest-only strip](#)

IOC order

See: [Immediate or canceled order](#)

IOER

See: [Interest on Excess Reserves](#)

IOM

See: [Index and Option Market](#)

IOR

See: [Interest on Reserves](#)

IOT

The three-character [ISO](#) 3166 country code for BRITISH INDIAN OCEAN TERRITORY .

IPL

See: [Investment Product Line](#)

IPO

See: [Initial Public Offering](#)

IQ

The two-character [ISO](#) 3166 country code for IRAQ.

IQD

The [ISO](#) 4217 currency code for the Iraqi Dinar.

IR

The two-character [ISO](#) 3166 country code for IRAN, ISLAMIC REPUBLIC OF.

IRB

See: [Industrial Revenue Bond](#)

IRL

The three-character [ISO](#) 3166 country code for IRELAND.

IRN

The three-character [ISO](#) 3166 country code for IRAN, ISLAMIC REPUBLIC OF.

IRQ

The three-character [ISO](#) 3166 country code for IRAQ.

IRR (1)

The [ISO](#) 4217 currency code for the Iranian Rial.

IRR (2)

See: [Internal rate of return](#)

IS

The two-character [ISO](#) 3166 country code for ICELAND.

ISDA

See: [International Swap Dealers Association](#)

ISK

The [ISO](#) 4217 currency code for the Icelandic Krona.

ISL

The three-character [ISO](#) 3166 country code for ICELAND.

ISMA

See: [International Security Market Association](#)

ISO

See: [International Organization for Standardization.](#)

ISR

The three-character [ISO](#) 3166 country code for ISRAEL.

IT

The two-character [ISO](#) 3166 country code for ITALY.

ITA

The three-character [ISO](#) 3166 country code for ITALY.

ITL

The [ISO](#) 4217 currency code for the Italian Lira.

ITM

See: [In-the-money](#)

ITS

See: [Intermarket Trading System](#)

IBC's money fund report average

[Report](#) giving the [average yield](#) of all major [money market funds](#).

I-bonds

Treasury savings bonds with a 30-year [maturity indexed](#) to account for [inflation](#).

Identified shares

[Stock](#) or [mutual fund](#) whose [purchase](#) date and price may be identified for [capital gains](#) and tax purposes when shares sold.

Idiosyncratic Risk

[Unsystematic risk](#) or [risk](#) that is [uncorrelated](#) to the overall [market](#) risk. In other words, the risk that is [firm-specific](#) and can be [diversified](#) through [holding](#) a [portfolio](#) of [stocks](#).

I-I page

In [over-the-counter trading](#), same as [H-H page](#), but exclusively for [OTC stocks](#).

Illegal dividend

A corporation's [dividend](#) that is [declared](#) in violation of its charter and/or of state laws, typically because of the way it is calculated.

Illiquid

In the context of corporate finance, the absence of [cash flow](#) needed to fulfill financial [debts](#) and meet [obligations](#). In the context of [investments](#), describes a thinly [traded investment](#) such as a [stock](#) or [bond](#) that is not easily converted into cash. Illiquid securities have high transactions costs. Often the bid-ask spread is very wide.

Imbalance of orders

Used for listed equity securities. Too many [market orders](#) of one kind - to [buy](#) or to sell or [limit orders](#) to buy up or sell down, without matching orders of the opposite kind. An imbalance usually follows a dramatic event such as a [takeover](#), research recommendation, or death of a key executive, or a government ruling that will significantly affect the company's business. If it occurs before the [stock exchange opens](#), [trading](#) in the [stock](#) is delayed. If it occurs during the trading day, the [specialist](#) halts and then [suspends trading](#) (with [floor](#) governor's approval) until enough matching orders can be found to make an orderly market.

Immediate or canceled order (IOC order)

[Market](#) or [limited price order](#) that is to be [executed](#) in whole or in part as soon as such order is represented in the [trading crowd](#). The portion not executed is to be treated as [canceled](#). A [stop](#) is considered an execution in this context. See: [AON order](#), [FOK order](#).

Immediate family

Term used in the [NASD](#) rules of fair practice to refer to one's parents, brothers, sisters, children, relatives supported financially, father-in-law, mother-in-law, sister-in-law, and brother-in-law.

Immediate payment annuity

An [annuity contract](#) paid by a single payment and with a specified payment plan that starts immediately after the contract is [purchased](#).

Immediate settlement

[Delivery](#) and settlement of [securities](#) immediately upon execution of the trade.

Immunization

The construction of an [asset](#) and a [liability](#) match that benefits from [offsetting](#) changes in value.

Immunization strategy

A [bond portfolio](#) strategy whose goal is to eliminate the portfolio's [risk](#), in case of a general change in the rate of [interest](#), through the use of [duration](#).

Impaired capital

When a company's total [capital](#) is less than the [par value](#) of all its [capital stock](#).

Impaired credit

Result of a [borrower's](#) reduced [credit rating](#).

Impairment

Reduction in the value of an [asset](#) because the asset no longer generates the benefits expected earlier as determined by the company through periodic assessments. This could happen because of changes in [market value](#) of the asset, business environment, government regulations, etc.

Imperfect market

Economic environment in which the costs of labor and other resources used for production encourage [firms](#) to use substitute inputs that are less costly.

Implicit Bankruptcy Costs

Opportunity costs incurred prior to the [bankruptcy](#) process such as the loss of [sales](#) or financing.

Implicit tax

Lower or higher before-tax required returns on [assets](#) that are subject to lower or higher [tax rates](#).

Implied call

The right of the homeowner to [prepay](#), or [call](#), a [mortgage](#) at any time.

Implied repo rate

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

Implied volatility

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

Import/export letters of credit

Bank or financial institution issuance's of funds in a certain amount provided to facilitate international trade.

Import Quota

Puts limits on the quantity of certain products that can be legally imported into a particular country during a particular time frame. There is a Fixed quota, which is a maximum quantity not to be exceeded, and [tariff](#) rate surcharge, which permits additional quantities but at much higher duty.

Import substitution development strategy

A development strategy followed by many Latin American countries and other [LDCs](#) that emphasize import substitution-accomplished through [protectionism](#)-as the route to [economic growth](#).

Imputation tax system

Arrangement by which [investors](#) who receive a [dividend](#) also receive a [tax credit](#) for corporate taxes that the [firm](#) has paid.

Imputed interest

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

Imputed value

Refers to the value of an [asset](#), service, or company that is not physically recorded in any accounts but is implicit in the product, e.g., the opportunity cost of cash remaining in a savings account and not invested.

In between

Used in the context of general equities. Priced higher than the [bid price](#) but lower than the [offer price](#).

See: [In the middle](#)

In the box

Means that a [dealer](#) has a wire receipt for [securities](#), [indicating](#) that effective [delivery](#) on them has been made.

In competition

Indication that the customer has revealed trading interest to multiple brokers and that the trade will take place with the firm having the highest bid or lowest offer. Antithesis of exclusive.

In hand

Used in the context of general equities. Firm indicating control of a bid, offer, or order.

In the hole

Used in the context of general equities. Below the inside market when one is attempting to sell the stock; at a significant discount. Antithesis of premium.

In-house

In the context of general equities, keeping an activity within the firm. For example, rather than go to the marketplace and sell a security for a client to anyone, an attempt is made to find a buyer to complete the transaction within the firm. Although a listed trade must be taken to the floor of the stock exchange, matching supply with demand within the confines of the firm results in higher commissions for the firm.

In-house processing float

The time it takes the receiver of a check to process a payment and deposit it in a bank for collection.

In-line

Used in the context of general equities. (1) An order or market in a specific security within the inside market; 2) any announcement (earnings) that adheres closely to Wall Street analysts' expectations.

In the middle

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

In-the-money

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

In play

Often used in risk arbitrage. Company that has become the target of a takeover, and whose stock has now become a speculative issue.

In-the-money option

An [option](#) that has [intrinsic value](#). For a call option, the underlying asset price exceeds the exercise price of the option (hence, if the option is immediately exercised, it has value).

In & out

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

In-and-out trader

A [daytrader](#), or a [speculator](#) who buys and sells the same [security](#) on the same day.

In the tank

Used in the context of general equities. Slang expression meaning [market prices](#) are dropping rapidly.

In touch with

Used in the context of general equities. Having a sell [inquiry](#) in a [stock](#) (not a [firm](#) customer sell [order](#)), often entailing a capital commitment. Antithesis of [looking for](#).

In-substance defeasance

Process through which debt is removed from the [balance sheet](#) but not [canceled](#).

Inactive asset

[Asset](#) not used in a productive manner at all times.

Inactive post

[Trading post](#) on [NYSE floor](#) where inactive, lightly [traded stocks](#) are [traded](#) in 10-[share lots](#) as opposed to 100-[share](#) lots.

Inactive stock/bond

A [security](#) that [trades](#) in very small [volume](#) on a daily basis. See: [Illiiquid](#).

Incentive fee

Compensation paid to [commodities trading](#) advisers or to any practitioner who achieves above-[average returns](#). Sometimes called performance fee.

Incentive Stock Option (ISO)

An [Option](#) that has met certain tax requirements entitling the optionee to favorable tax treatment. Such an option is free from regular tax at the date of grant and the date of [exercise](#) (when a non-qualified option would become taxable). If two [holding](#) period tests are met (two years between grant date and [sale](#) date and one year between the exercise date and sale date), the [profit](#) on the option

qualifies as a long [term](#) capital gain rather than ordinary income. If the holding periods are not met, there has been a "disqualifying disposition".

Incestuous share dealing

[Trading](#) of [shares](#) between companies in order to create a tax or financial benefit for the companies involved.

Incipient default

Potential [default](#).

Income baskets

Category to which certain income is allocated. Losses in one [basket](#) may not be used to [offset gains](#) in another [basket](#). Specified in U.S. tax code.

Income beneficiary

One who receives income from a trust.

Income bond

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

Income dividend

Any payout to [mutual fund shareholders](#) resulting from [interest](#), [dividends](#), or other income.

Income exclusion rule

The [IRS](#) rule that excludes certain types of income from taxation, e.g., welfare payments.

Income fund

A [mutual fund](#) that seeks to provide [current income](#) from investments.

Income immunization strategies

Methodologies adopted to insure adequate future [cash flow](#).

Income investment company

A [management company](#) focused on managing a [mutual fund](#) whose primary purpose is income generation, typically investing in [bonds](#) and high [dividend yielding stocks](#).

Income limited partnership

A [limited partnership](#) whose main goal is income generation, e.g., [real estate](#), oil equipment.

Income property

Real estate [purchased](#) for the reasons of income generation.

Income risk

The possibility that a [portfolio's dividends](#) will decline as a result of falling [interest rates](#). Income risk is generally greatest for [money market instruments](#) and [short-term bonds](#), and least for [long-term bonds](#).

Income statement (statement of operations)

A statement showing the revenues, expenses, and income (the difference between revenues and expenses) of a corporation over some period of time.

Income stock

[Common stock](#) with a high [dividend yield](#) and few [profitable](#) investment opportunities.

Income tax

A state or federal government's levy on individuals as personal [income tax](#) and on the earnings of corporations as corporate income tax.

Incontestability clause

Clause in a life insurance [contract](#) preventing the insurer from revoking the policy after it has been in force for a year or two. If the life insurance company discovers any important facts that the [policyholder](#) may have concealed, such as experiencing a stroke, within that period, the insurer could revoke the policy.

Incorporation

A legal process through which a company receives a charter and the state in which it is based allows it to operate as a corporation.

Incoterms

Trade terms used worldwide to specify seller and buyer [obligations](#) in shipments against international [sales contracts](#). These terms are adopted by the [International Chamber of Commerce \(ICC\)](#) for international movement of merchandise. Since they in themselves are not law, they must be specified if desired in quotations, [sales](#) contracts, [purchase](#) orders and commercial invoices.

Inconvertibility

The inability of a local [currency](#) to be exchanged for another currency. Often includes [transfer risk](#).

Incorporated joint venture

A [joint venture](#) in which [legal entities](#) are established to divide the project's [equity](#) by [shareholdings](#) in a [company](#).

Incremental cash flows

Difference between the firm's [cash flows](#) with and without a project.

Incremental cost of capital

Average cost applicable to the [issue](#) of each additional unit of [debt](#) and [equity](#).

Incremental costs and benefits

Costs and benefits that would occur if a particular course of action is taken, compared to those that would have been obtained if that course of action had not been taken.

Incremental default risk (IDR)

[Default risk](#) incremental to what is calculated through the [Value-at-risk model](#), which often does not adequately capture the [risk](#) associated with [illiquid](#) products.

Incremental internal rate of return

[Internal rate of return \(I.R.R.\)](#) on the incremental investment from choosing a larger instead of a smaller project.

Incubator

A company or facility designed to host start-up companies. Incubators provide networks of contacts and shared backoffice resources to help start-ups grow by controlling costs.

Indemnify

Used in [insurance policy](#) agreements as to compensation for damage or loss. Hold harmless

Indemnification

Used in insurance policy agreements as to compensation for damage or loss. In the context of corporate governance, Director Indemnification uses the bylaws and/or charter to indemnify officers and directors from certain legal expenses and judgments resulting from lawsuits pertaining to their conduct.

Indemnity

A legal [obligation](#) to cover a [liability](#), however arising.

Indenture

Agreement between [lender](#) and [borrower](#) that details specific [terms](#) of the [bond issuance](#). Specifies legal [obligations](#) of bond [issuer](#) and rights of [bondholders](#). An indenture spells out the specific terms of a [bond](#), as well as the rights and responsibilities of both the [issuer](#) of the [security](#) and the holder.

Independent auditor

A [certified public accountant](#) operating outside the company who can provide an [accountant's opinion](#).

Independent broker

[NYSE](#) member who [executes orders](#) for [floor brokers](#) and firms other than its own.

Independent investments

[Investments](#) available to a firm that may be selected individually or in groups because each investment is different in its nature and purpose.

Independent project

A project whose [acceptance](#) or [rejection](#) is independent of the acceptance or rejection of other projects.

Independent variable

Term used in [regression analysis](#) to represent the element or condition that is expected to influence another (so-called [dependent](#)) [variable](#).

Index

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

Index arbitrage

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

Index fund

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

Index futures

A [futures contract](#) on an [index](#) (such as a foreign [stock index](#)) in the [futures market](#).

Index method

Technique to calculate [rates of return](#) that is based on initial and [terminal values](#).

Index model

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

Index number

A way to standardize the price changes of goods that have much different prices. For example, a consumer price index might be represented by a shopping cart of goods. Suppose those goods cost \$324. The index would begin by dividing by 3.24 and the initial value would be 100. One usually watches the percentage increases or decreases in the index. See: [Consumer Price Index \(CPI\)](#), [Time series models](#)

Index option

A [call](#) or [put option](#) based on a [stock market index](#).

Index and Option Market (IOM)

A division of the [CME](#) established in 1982 for [trading stock index](#) products and [options](#).

Index swap

A [swap](#) of a [market index](#) for some other [asset](#), such as a stock-for-stock or debt-for-stock swap.

Index warrant

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

Indexed bond

[Bond](#) whose payments are linked to an [index](#), e.g., the [consumer price index](#).

Indexed rate

An [interest rate](#) linked to an [index](#), usually the CPI.

Indexed Stock Options

Options that have an exercise price which may [fluctuate](#) above or below market value at performance options in that the exercise price of [indexed](#) options typically remains variable until the option is exercised.

Indexing

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

Indexing plus

See: [Enhanced indexing](#)

Indicated dividend

Total amount of [dividends](#) that would be paid on a share of [stock](#) over the next 12 months if each [dividend](#) were the same amount as the most recent dividend. Usually represented by the letter "e" in stock tables.

Indicated yield

The [yield](#), based on the most recent [quarterly dividend rate](#) times four. To determine the [yield](#), divide the annual [dividend](#) by the price of the [stock](#). The resulting number is represented as a percentage.

See: [Dividend yield](#).

Indication

(1) Notice given by a dealer (through [Autex](#)) or customer of an interest in buying or selling stock, sometimes including specific volume and price; (2) approximation of where a [specialist](#) sees buy and sell interest to tighten the range to an [opening](#) price.

Indication of interest

A [dealer's](#) or [investor's interest](#) in purchasing (not [commitment](#) to buy) [securities](#) that are still in the [underwriting](#) stage and are being [registered](#) by the [Securities and Exchange Commission](#).

Indication pricing schedule

A statement of rates for an [interest rate](#) or [currency swap](#).

Indicator

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

Indifference curve

The expression in a graph of a [utility function](#), where the horizontal axis measures [risk](#) and the vertical axis measures [expected return](#). The curve connects all [portfolios](#) with the same utility.

Indirect Claim

Claim of a [financial intermediary](#); the intermediary relends funds to the [deficit unit](#) to enable it to acquire [real assets](#).

Indirect costs of financial distress

Costs such as lost business as a result of [bankruptcy](#) or [liquidation](#).

Indirect diversification benefits

[Diversification](#) benefits provided by the [multinational corporation](#) that are not available to [investors](#) through their [portfolio](#) investment.

Indirect Exchange Rate

The [foreign currency](#) price of one [unit](#) of the home currency.

Indirect method

[Reporting](#) in the statement of [cash flow](#) that adjusts or reconciles [net income](#) to cash from operations.

Indirect quote

For [foreign exchange](#), the number of [units](#) of a [foreign currency](#) needed to buy one US dollar.

Indirect terms

The price of a [unit](#) of domestic [currency](#) in [foreign currency terms](#). See: [Direct terms](#).

Individual Retirement Account (IRA)

A retirement [account](#) that may be established by an employed person. IRA contributions are [tax deductible](#) according to certain guidelines, and the gains in the [account](#) are [tax-deferred](#).

Individual Retirement Account (IRA) rollover

A provision of the law governing [IRA's](#) that enables a retiree or anyone receiving a [lump-sum](#) payment from a [pension](#), [profit-sharing](#), or salary reduction plan to [transfer](#) the amount into an IRA.

Individual tax return

A tax return filed by an individual to account for their personal income and taxes payable.

Inductive reasoning

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

Industrial production

A statistic determined by the [Federal Reserve Board](#) focusing on the total output of all US factories and mines on a monthly basis. Used as an [economic indicator](#).

Industrial revenue bond (IRB)

A [bond issued](#) by local government [agencies](#) on behalf of corporations.

Industrials

General term used in the [financial markets](#) to refer to companies manufacturing, producing, or distributing goods and services.

Industry

The category describing a company's primary business activity. This category is usually determined by the largest portion of revenue.

Industry allocation

Investment of certain proportions of a [portfolio](#) in certain [industries](#). Sometimes called [sector allocation](#).

Inefficient portfolio

Group of assets dominated by at least one other portfolio under the mean variance rule. For example, if A has both lower return and higher [volatility](#) than B, we say A is dominated by B.

Infant industry argument

Argument that [industries](#) in the developing and emerging [sectors](#) of the economy need protection against international [competition](#) in order to establish themselves.

Inflation

The rate at which the general level of [prices](#) for goods and services is rising.

Inflation accounting

Accounting practices allowing for the effects of [inflation](#).

Inflation-escalator clause

A clause in a [contract](#) providing for increases or decreases in [inflation](#) depending on [fluctuations](#) in the cost of living, production costs, and so forth.

Inflation hedge

[Investments](#) designed to [hedge](#) against inflation and the loss of [purchasing power](#) associated with it.

Inflation-indexed securities

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

Inflation risk

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

Inflation uncertainty

The fact that future inflation rates are not known. It is a possible contributing factor to the makeup of the [term structure of interest rates](#).

Inflexible expenses

Expenses that cannot be adjusted or eliminated such as car payments or rental payments. Antithesis of [flexible expenses](#).

Information Agent

[Agent](#) whose primary task is to disseminate and explain the details of capital [transactions](#).

Information asymmetry

Condition that information is known to some, but not all, participants.

Information Coefficient (IC)

The [correlation](#) between predicted and actual [stock returns](#), sometimes used to measure the contribution of a [financial analyst](#). An IC of 1.0 indicates a perfect linear relationship between predicted and actual returns, while an IC of 0.0 indicates no linear relationship.

Information content effect

The rise in the [stock price](#) following a [dividend signal](#), or publication of some other related news.

Information costs

[Transactions costs](#) that include the assessment of the investment merits of a financial asset.

Related: [Search costs](#).

Information memorandum

A document detailing the project and project financing, usually in connection with a [syndication](#).

Information theory

A mathematical theory first studied by Claude E. Shannon that presents a framework that measures among many things the amount of theoretical coding necessary to communicate information effectively.

Infrastructure risk

The [risk](#) associated with the impact on project [cash flows](#) from infrastructure problems. Also known as transportation risk.

Information-motivated trades

[Trades](#) in which an [investor](#) believes he or she possesses pertinent information not currently reflected in the [stock's](#) price.

Information Ratio

The ratio of [annualized](#) expected [residual return](#) to [residual risk](#). A central measurement for [active management](#), [value added](#) is proportional to the square of the information ratio.

Information services

Organizations that furnish investment and other types of information, such as information that helps a [firm](#) monitor its [cash position](#).

Information Signaling

Conveying intelligence through a [firm's](#) actions. A firm's [dividend policy](#), for example, provides signals to [investors](#) concerning the value of the firm's [stock](#).

Informational efficiency

The degree to which [market prices](#) correctly and quickly reflect information and thus the true value of an [underlying asset](#).

Informationless trades

[Trades](#) that are the result of either a reallocation of wealth or an implementation of an [investment strategy](#) that acts only on existing information. That is, an investor might sell a large block of stock -- not because they have information that leads them to think the stock will fall in value -- but because they might need the cash for some other investment.

Infrastructure

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

Ingot

A bar of metal such as the type that the [Federal Reserve System](#) uses to store gold reserves.

Inheritance tax return

Tax form required to determine the amount of state tax due on an inheritance.

Initial filing

Has various meanings. It could refer to a form that is filed with the [Securities and Exchange Commission](#) in advance of a major event, such as a [public offering](#) or a [share repurchase](#). It could also refer to filings that occur before legal [inside transactions](#).

Initial margin

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

Initial margin requirement

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

Initial public offering (IPO)

A company's first [sale](#) of [stock](#) to the [public](#). [Securities](#) offered in an IPO are often, but not always, those of young, small companies seeking outside [equity](#) capital and a public market for their stock. [Investors](#) purchasing stock in IPOs generally must be prepared to accept considerable [risks](#) for the possibility of large gains. IPOs by [investment companies](#) ([closed-end funds](#)) usually include [underwriting](#) fees that represent a [load](#) to buyers.

Initial Public Offering Spinning

The practice of an investment bank setting aside portions of a corporation's Initial Public Offering for senior [management](#) of that corporation.

Initiate coverage

(1) Firm is now followed by [analysts](#) at a particular securities house; (2) [Indication](#) to [cover short position](#) by purchasing the [underlying](#) stock (this [cancels](#) out the [short position](#)).

Inland Bill of Lading

A document used as a receipt from the carrier to shipper that covers the transport of goods overland. It also acts as a contract of carriage.

Input-output tables

Tables that indicate how much each [industry](#) requires of the production of each other industry in order to produce each dollar of its own output.

Inquiry

Used in the context of general equities. [In-line](#) expression of interest in a particular [stock](#), usually asking the [firm](#) to [bid](#) for or [offer stock](#).

In-service withdrawal

A participant-initiated withdrawal from an employer-sponsored retirement plan while the participant is still employed by the company.

Inside market

Refers to [over-the-counter trading](#). Best (highest) [bid](#) and best (lowest) [offer](#), often used in the [O.T.C. Market](#). See: [In-line](#).

Insider information

Material information about a company that has not yet been made [public](#). It is illegal for [holders](#) of this information to make [trades](#) based on it, however received.

Insider trading

Trading by officers, [directors](#), major [stockholders](#), or others who [hold](#) private [inside information](#) allowing them to benefit from buying or selling [stock](#).

Insider Trading Sanctions Act of 1984

Act imposing civil and criminal penalties for [insider trading](#) violations.

Insider Trading & Securities Fraud Enforcement Act of 1988 (ITSFEA)

Federal legislation that greatly increased the penalties for [trading](#) on material inside information.

Insider transaction reports

A [Form 4](#) report filed with the [Securities and Exchange Commission](#) upon [purchases](#) or [divestitures](#) of company [stock](#) by corporate [insiders](#). See: [Form 4](#), [Insiders](#)

Insiders

Traditionally referring to the [directors](#), senior officers and holders of more than 10% of the [voting shares](#) of the [company](#), insiders now include anyone who possesses or has access to material, non-public information ([inside information](#)), including tippees. This could include, for example, even a junior employee who makes photocopies for a board meeting, or someone who is 'tipped' by an insider..

Insolvency risk

The [risk](#) that a [firm](#) will be unable to satisfy its [debts](#). Also known as [bankruptcy risk](#).

Insolvent

A [firm](#) that is unable to pay [debts](#) (its [liabilities](#) exceed its [assets](#)).

Inspector(s) of Election

The person(s) appointed by the Corporation to act as a judge on voting matters brought before a shareholder meeting. The inspector determines which [proxies](#) and ballots are in good form, and acceptable to be voted. They also count and record the votes, supervise and inspect the counting process and attest to the final results. They cannot be overruled on these matters, although they have no voice in the procedural aspects of the meeting itself.

Inspector's or Judge's Certificate

A form provided by the Corporation, and completed by the [Inspectors of Election](#), attesting to the final voting results and percentages of a [shareholder](#) meeting.

Installment payments

[Distribution](#) of plan [assets](#) to beneficiaries based upon a regular schedule.

Installment sale

The [sale](#) of an [asset](#) in exchange for a specified [series](#) of payments (the [installments](#)).

Instinet (Institutional Networks Corporation)

Computerized subscriber service that serves as a vehicle for the [fourth market](#). "Instinet" is [registered](#) with the [SEC](#). As a [stock exchange](#) it numbers among its subscribers a large number of [mutual funds](#) and other [institutional investors](#) linked to each other by computer terminals. The system permits subscribers to display [bids](#) and [offers](#) (which are exposed system wide for whatever length of time the initiating party specifies) and to consummate trades electronically. Instinet is largely used by [market makers](#), but, nonmarket makers and customers have equal access.

Institutions

Insurance [companies](#), [pension funds](#), [trusts](#), foundations, [mutual funds](#), funds managers, bank [investment](#) departments.

Institutional broker

A [broker](#) who buys and sells [securities](#) for [institutional investors](#) such as banks, and [mutual funds](#), [pensions](#).

Institutional Brokers' Estimate System (IBES)

Service that assembles [analysts'](#) estimates of future earnings for thousands of [publicly](#) traded companies, detailing how many estimates are available for each company and the high, low, and [average](#) estimates for each.

Institutional buyin (IBO)

A form of [leveraged buyout](#) in which an institutional investor or private equity house acquires a company. Incumbent management can be retained and may be rewarded with equity participation.

Institutional investors

Organizations that invest, including insurance companies, depository institutions, [pension funds](#), [investment companies](#), [mutual funds](#), and [endowment funds](#).

Institutionalization

The gradual domination of [financial markets](#) by [institutional investors](#), as opposed to individual [investors](#). This process has occurred throughout the industrialized world.

Instrumentality

[Notes issued](#) by a federal [agency](#) whose [obligations](#) are [guaranteed](#) by the [full-faith-and-credit](#) of the government, even though the agency's responsibilities are not necessarily those of the US government.

Instruments

Financial [securities](#), such as [money market instruments](#) or [capital market](#) instruments.

Insurable interest

An [insurance](#) term referring to the relationship between a policy's insured person or property and the potential [beneficiary](#). The beneficiary must have an insurable [interest](#) in the insured person or property to receive payment of the policy if the insured died while the policy was in force.

Insurance

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

Insurance agent

The insurance company representative and adviser who sells insurance policies.

Insurance broker

A [broker](#), independent of any insurance company, who represents the interests of the buyer in searching for insurance coverage at the lowest cost and providing the highest benefit to the buyer.

Insurance claim

A claim for reimbursement from the insurance company when the insured has suffered a loss that is covered under an [insurance policy](#).

Insurance dividend

Money paid annually to [policyholders](#) participating in cash value [life insurance policies](#).

Insurance Linked Securities (ILS)

Insurance Linked Securities transfer a specified set of risks (insurance risks) from a sponsor to investors. ILS have payouts linked to insurance losses and it is an effective way for investors to diversify their portfolio since insurance loss has little correlation with the other financial markets (equity, fixed income). See also [Catastrophic Bonds](#)

Insurance policy

A [contract](#) detailing an [insurance policy](#) and outlining what [risks](#) are insured, what insurance [premiums](#) are to be paid by the [policyholder](#), what deductibles prevail, and all the details associated with a policy.

Insurance premium

Payments calculated by the insurance company based on [risk factors](#) that must be made by the insured to [guarantee](#) protection of property loss under an [insurance policy](#).

Insurance principle

The law of averages. The [average](#) outcome for many independent trials of an experiment will approach the [expected value](#) of the experiment.

Insurance settlement

The payment of [proceeds](#) by an insurance company to the [insured](#) to settle an [insurance claim](#) within the guidelines stipulated in the [insurance policy](#).

Insured

The property or persons covered by an [insurance policy](#).

Insured account

A bank or financial [account](#) that is insured for the benefit of the depositor, protecting against loss in the event that the savings institution becomes [insolvent](#). See: [FDIC](#).

Insured bond

A [municipal bond](#) backed both by the credit of the municipal [issuer](#) and by commercial [insurance policies](#).

Insured plans

Defined benefit [pension plans](#) that are [guaranteed](#) by [life insurance](#) products. Related: [Non-insured plans](#)

Insured Trade Acceptance

A [trade acceptance](#) where the buyer's ability to pay is insured.

Intangible asset

A legal claim to some future benefit, typically a claim to future [cash](#), [Goodwill](#), intellectual property, [patents](#), copyrights, and [trademarks](#) are examples of intangible assets.

Integer programming

Variant of [linear programming](#) in which the solution values must be integers.

Integrated financial market

A [market](#) in which there are no barriers to financial flows, and the same [risk](#) asset commands the same [expected return](#), irrespective of domicile.

Intellectual property rights

[Patents](#), copyrights, and [proprietary](#) technologies and processes that may be the basis of a company's [competitive](#) advantage.

Intellidex

[Indices](#) traded on the [AMEX](#) weighted by certain criteria in an attempt to create [excess returns](#). The [stocks](#) included in an intellidex are chosen using a system called the Intelligent Index Methodology that is designed to narrow a broad range of [stocks](#) that meet specified criteria down to those deemed most likely to create [excess returns](#). There are extensive criteria options, but some of the more commonly used ones follow stocks that match a certain [investment strategy](#), [industry](#) focus, or [risk](#) level.

Interbank market

Financial institutions exchange of currencies between and among themselves.

Interbank rate

See: [LIBOR](#)

Interbank spread

The difference between a bank's offer and [bid](#) rates for deposits in the [Eurocurrency](#) market.

Intercommodity spread

In the [commodities market](#), a [spread](#) consisting of a [long position](#) and a [short position](#) in different but related [commodities](#) for example, [speculating](#) that the price relationship between the two [commodities](#) will change, e.g., platinum and gold.

Intercompany loan

[Loan](#) made by one [unit](#) of a corporation to another unit of the same corporation.

Intercompany transaction

[Transaction](#) carried out between two [units](#) of the same corporation.

Interdelivery spread

Used in [futures](#) or [options](#) market to refer the [purchase](#) of one month of a [contract](#) and selling another month in the same [contract](#), in the hope that the price difference will widen or narrow, depending on the [investment](#).

Interfund transactions

Financial arrangements effected by payments made from one fund group (either [Federal funds](#) or trust funds) to another group.

Interest

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

Interest coverage ratio

The ratio of [earnings](#) before [interest](#) and taxes to annual interest expense. This ratio measures a [firm's](#) ability to pay interest.

Interest coverage test

A [debt limitation](#) that prohibits the issuance of additional [long-term debt](#) if the [issuer's](#) interest coverage would, as a result of the [issue](#), fall below some specified minimum.

Interest deduction

An [interest expense](#), such as [interest](#) on a [margin account](#), that is allowed as a [deduction](#) for [tax purposes](#).

Interest during construction

[Interest accumulated](#) during construction period, which usually equals [capitalized](#) interest.

Interest equalization tax

Tax on foreign investment by residents of the US which was abolished in 1974.

Interest expense

Interest expense is the [money](#) the corporation or individual pays out in [interest](#) on [loans](#).

Interest in Arrears

[Interest](#) that is due only at the [maturity date](#) rather than periodically over the life of the [loan](#).

Interest on excess reserves

Interest rate that a central bank pays to banks on funds that exceed the statutory reserve requirements. Related: [Excess Reserves](#).

Interest on interest

Interest earned on [reinvestment](#) of each [interest payment](#) on [money](#) invested. See: [compound interest](#).

Interest on reserves

Interest rate that a central bank pays to banks on funds that are statutory reserve requirements as well as the reserves that are in excess of the required reserves. Related: [Excess Reserves](#).

Interest-only loan

A [loan](#) in which payment of [principal](#) is deferred and [interest](#) payments are the only current [obligation](#).

Interest-only strip (IO)

A [security](#) based solely on the [interest payments](#) from a [pool](#) of [mortgages](#), [Treasury bonds](#), or other [bonds](#). Once the [principal](#) on the mortgages or bonds has been repaid, [interest payments](#) stop, and the value of the IO falls to zero.

Interest payments

[Contractual debt](#) payments based on the [coupon rate](#) of [interest](#) and the [principal](#) amount.

Interest rate

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

Interest rate agreement

An over the counter agreement whereby one party, for an up-front [premium](#), agrees to [compensate](#) the other at specific time periods if a designated [interest rate](#) (the [reference rate](#)) is different from a predetermined level (the [strike rate](#).) Also called a FRA (pronounced like 'draw') or [forward rate agreement](#).

Interest rate cap

An [interest rate agreement](#) in which payments are made when the [reference rate](#) exceeds the [strike rate](#). Also called an [interest rate ceiling](#). Related: [Interest rate floor](#).

Interest rate on debt

The [firm's](#) cost of [debt capital](#).

Interest rate ceiling

See: [Interest rate cap](#)

Interest rate floor

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

Interest rate futures contract

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

Interest rate parity theorem

Expression that the interest rate differential between two countries is equal to the difference between the [forward foreign exchange](#) rate and the [spot rate](#).

Interest rate parity line (IRP)

Diagonal line on a graph that characterizes [interest rate parity](#).

Interest rate risk

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

Interest rate swap

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

Interest-sensitive insurance policy

A cash value [life insurance policy](#) whose insurance [dividend](#) rates vary with respect to [inflation](#), enabling the [policyholder](#) to avoid the loss of [purchasing power](#) associated with [inflation](#).

Interest-sensitive stock

Stocks whose earnings are dependent upon and change with the [interest rate](#), e.g., bank stocks.

Interest subsidy

The value of a [firm's deduction](#) of the [interest payments](#) on its [debt](#) from its [earnings](#) before calculation of its tax bill under current tax law.

Interest tax shield

The reduction in [income taxes](#) that results from the [tax-deductibility](#) of [interest payments](#).

Interim dividend

The declaration and payment of a [dividend](#) prior to annual earnings determination.

Interim financing

A [short-term loan](#) made to a company on the condition that a takeout will follow with [long-term](#) or intermediate financing.

Interim rate of return

The [rate of return](#) earned between [cash flows](#).

Interim statement

A financial statement that reflects only a limited period of a company's financial statement, not the entire [fiscal year](#).

Interlocking directorate

Describes cross-memberships of directors on each other's company [Board of Directors](#).

Intermarket sector spread

The [spread](#) between the [interest](#) rate offered in two [sectors](#) of the [bond](#) market for [issues](#) of the same [maturity](#). For example, a spread between AA bonds and BBB bonds.

Intermarket spread swaps

An exchange of one [bond](#) for another based on the manager's projection of a realignment of [spreads](#) between [sectors](#) of the bond market.

Intermarket Surveillance Information System (ISIS)

A database that distributes information from all the major [stock exchanges](#) in the United States.

Intermarket Trading System (ITS)

Electronic communications network linking the [trading floors](#) of seven registered exchanges to permit trading among them in [stocks listed](#) on either the [NYSE](#) or [AMEX](#) and one or more [regional](#)

[exchanges](#). Through ITS, any [broker](#) or [market maker](#) on the [floor](#) of any participating [exchange](#) can reach other participants for an [execution](#) whenever the nationwide [quote](#) shows a better price available. A [floor broker](#) on the exchange can enter an ITS order to assure execution of all of an [offering](#) or [bid](#), instead of splitting it with competing [brokers](#).

Intermediary

See: [Financial intermediary](#)

Intermediate targets

An intermediate target is a variable (such as the [money](#) supply) that is not directly under the control of the central bank, but that does respond fairly quickly to policy actions, is observable frequently and bears a predictable relationship to the ultimate goals of policy.

Intermediate-term

Typically one-ten years.

Intermediate trend

General movement in price data that lasts from three weeks to six months.

Intermediated market

A [financial market](#) in which some [financial institution](#) stands between [counterparties](#) to financial transactions.

Intermediation

Investment through a financial institution. Related: [Disintermediation](#).

Intermittency

When a non-linear [dynamical system](#) alternates between periodic and [chaotic](#) behavior.

See: [Chaos](#), [Dynamical Systems](#).

Internal auditor

An employee of a company who analyzes the company's accounting records to ensure that the company is following and complying with all [regulations](#).

Internal expansion

Growth of [assets](#) resulting from [internal financing](#) or internally generated [cash flow](#).

Internal finance

Finance generated within a [firm](#) by [retained earnings](#) and [depreciation](#).

Internal growth rate

Maximum rate a [firm](#) can expand without outside sources of funding. Growth generated by [cash flows](#) retained by company.

Internal market

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

Internal measure

The number of days that a [firm](#) can finance operations without additional [cash](#) income.

Internal rate of return (IRR)

[Dollar-weighted rate of return](#). [Discount rate](#) at which [net present value \(NPV\)](#) of an investment is zero. The rate at which a [bond's](#) future [cash flows](#), discounted back to today, equal its price.

Internal Revenue Code

The various statutes and [regulations](#) making up federal tax law.

Internal Revenue Service (IRS)

The federal [agency](#) responsible for the collection of federal taxes, including personal and corporate [income taxes](#), Social Security taxes, and [excise](#) and [gift taxes](#).

Internal Revenue Service Restructuring and Reform Act of 1998

The legislation targeted at [IRS](#) reform, particularly related to the time period required for [capital gains](#) and taxpayer protection and rights.

Internally efficient market

See: [Operationally efficient market](#)

International Accounting Standards Board (IASB)

The group that creates and issues the [International Financial Reporting Standards \(IFRS\)](#). It is the successor to the IASC (International Accounting Standards Committee,) which created the IAS (International Accounting Standards).

International arbitrage

Simultaneous buying and selling of foreign securities and [ADRs](#) to capture the [profit](#) potential created by time, currency, and [settlement](#) inconsistencies that vary across international borders.

International Asset Pricing Model (IAPM)

The international version of the [CAPM](#) assuming that [investors](#) in each country share the same consumption [basket](#) and [purchasing power parity holds](#).

International Banking Facility (IBF)

A branch that an American bank establishes in the United States to do [Eurocurrency](#) business.

International Bank for Reconstruction and Development (IBRD)

Also commonly called the [World Bank](#). It is a United Nations affiliated institution that assists in the development of its poorer members by facilitating private investments, and by making and [guaranteeing loans](#).

International bonds

A collective term that refers to global bonds, [Eurobonds](#), and [foreign bonds](#).

International Chamber of Commerce (ICC)

A business organization with membership from over 80 countries. They work to harmonize trade practices worldwide by establishing agreed upon rules such as [Incoterms](#) and [Uniform Customs and Procedures for Documentary Credits](#).

International Depository Receipt (IDR)

A receipt [issued](#) by a bank as evidence of ownership of one or more [shares](#) of the [underlying stock](#) of a foreign corporation that the bank [holds](#) in [trust](#). The advantage of the IDR structure is that the corporation does not have to comply with all the issuing requirements of the foreign country where the [stock](#) is to be traded. The US version of the IDR is the [American Depository Receipt \(ADR\)](#).

International Development Association (IDA)

Association established as part of the [World Bank](#) to stimulate country development; it was especially suited for the world's 80 poorest countries, providing [loans](#) with no or low [interest rates](#).

International diversification

The attempt to reduce [risk](#) by investing in more than one nation. By [diversifying](#) across nations whose economic cycles are not perfectly [correlated](#), [investors](#) can typically reduce the variability of their [returns](#).

International Energy Agency (IEA)

The International Energy Agency, founded during the oil crisis of 1973-1974, is an intergovernmental organization which acts as energy policy advisor to 28 member countries.

International Finance Corporation (IFC)

A corporation owned by the [World Bank](#) that produces a number of well-known [stock indexes](#) for [emerging markets](#). Its major role is to provide financing for projects in less developed countries.

International finance subsidiary

A [subsidiary](#) incorporated in the US, usually in Delaware, whose sole purpose once was to [issue debentures](#) overseas and invest the [proceeds](#) in foreign operations, with the [interest](#) paid to foreign [bondholders](#) not subject to US [withholding tax](#). Elimination of the corporate [withholding tax](#) has ended the need for this type of subsidiary.

International Financial Reporting Standards (IFRS)

Accounting standards differ across countries making it difficult for [investors](#) to understand the financial health of [corporations](#) in different countries. Countries are gradually adapting the International Financial Reporting Standards proposed by the [International Accounting Standards Board \(IASB\)](#).

International Fisher effect

States that the [interest rate](#) differential between two countries should be an unbiased predictor of the future change in the [spot rate](#).

International Fisher relationship

Theory that [nominal interest rates](#) and [inflation](#) rates in different countries are connected. The Fisher equation says the nominal interest rate is the product of one plus the [real interest rate](#) times one plus the expected rate of inflation.

International fund

A [mutual fund](#) that can invest only outside the United States.

International market

Related: [External market](#)

International market index

An [index listed](#) on the [American Stock Exchange](#) tracking the performance of 50 [American Depository Receipts traded](#) on the [AMEX](#), [NYSE](#), and [NASDAQ](#).

International Monetary Fund (IMF)

An organization founded in 1944 to oversee exchange arrangements of member countries and to [lend](#) foreign [currency reserves](#) to members with [short-term balance of payment](#) problems.

International Monetary Market (IMM)

A division of the [CME](#) established in 1972 for [trading](#) financial futures. Related: [Chicago Mercantile Exchange \(CME\)](#)

International monetary system

The global network of government and commercial institutions within which currency [exchange rates](#) are determined.

International mutual fund

A [mutual fund](#) that invests strictly in [securities](#) markets throughout the world, excluding the United States. A [global fund](#), on the other hand, invests in both foreign and domestic [securities](#).

International Organization for Standardization (ISO)

ISO is not an acronym but the name of a standards setting organization chartered by the United Nations. The name ISO is derived from Greek and connotes equality, i.e. each member country regardless of size or wealth gets only one vote. The ISO 4217 are the standard three letter currency codes. These codes are usually composed of the ISO 3166 two letter country code plus a third letter representing the name of the currency.

International Petroleum Exchange (IPE)

Energy [futures](#) and [options exchange](#) based in London.

International Security Market Association (ISMA)

Swiss law association located in Zurich that regroups all the participants on the [Eurobond primary](#) and [secondary markets](#). Establishes uniform [trading](#) procedures in the international bond markets.

International Stock Exchange of the U.K. and the Republic of Ireland (ISE)

Organization that replaced the [London Stock Exchange](#) after its [merger](#) with the International Securities Regulatory Organization (ISRO).

International Swap Dealers Association (ISDA)

Formed in 1985 to promote [uniform practices](#) in the writing, [trading](#), and [settlement](#) of [swaps](#) and other [derivatives](#).

Internet Banking

Use of the Internet to obtain account status information or carry out transactions on an account with a [financial institution](#).

Interpolation

A method of approximating a price or [yield](#) that is unknown by using numbers that are known.

Interpositioning

The practice of using a second [broker](#) in a [securities transaction](#), which is considered illegal if used to generate additional [commission](#).

Inter vivos trust

A [trust](#) created between living persons. Antithesis of a [testamentary trust](#).

Intrabudgetary transactions

Effectuated when payment and receipt both occur within the budget, or when payment is made from [off-budget federal entities](#) whose budget authority and outlays are excluded from the budget totals.

Intracommodity spread

Used in the context of [futures trading](#) to refer to a [trader](#) buying and selling [contracts](#) in the same [commodity](#) on the same [exchange](#), but for different months. For example, buying Chicago August cattle futures and selling Chicago December cattle futures.

Intracompany trade

Transactions between or among [subsidiaries](#) that are part of the same [parent company](#).

Intraday

Term meaning "within the day," often referring to the high and the low price of a [stock](#).

Intramarket sector spread

The [spread](#) between two [issues](#) of the same [maturity](#) within a market sector. For instance, the difference in [interest](#) rates offered for five-year industrial [corporate bonds](#) and five-year [utility corporate bonds](#).

Intrastate offering

A [securities offering](#) limited to just one state in the United States.

Intrinsic value

The value of an option if it were to expire immediately with the underlying stock at its current price; the amount by which an option is [in-the-money](#). For call options, this is the difference between the stock price and the [strike price](#), if that difference is a positive number, or zero otherwise. For [put options](#) it is the difference between the strike price and the stock price, if that difference is positive, and zero otherwise. See also: [In-the-Money](#), [Time Value Premium](#), [Parity](#).

Intrinsic value of an option

The amount by which an [option](#) is [in the money](#). An [option](#) that is not [in the money](#) has no intrinsic value.

Intrinsic value of a firm

The [present value](#) of a [firm's](#) expected future [net cash flows](#) discounted by the [required rate of return](#).

Inventory

For companies: [Raw materials](#), items available for [sale](#) or in the process of being made ready for sale. They can be individually valued by several different means, including cost or current [market value](#), and collectively by [FIFO \(First in, first out\)](#), [LIFO \(Last in, first out\)](#) or other techniques. The lower value of alternatives is usually used to preclude overstating [earnings](#) and [assets](#). For [securities](#) firms: Securities bought and held by a [broker](#) or [dealer](#) for their own account.

Inventory financing

Used in the context of [factoring](#) and general finance to refer to [loans](#) to consumer product producers that use [inventory](#) as [collateral](#). See also: [Inventory loan](#).

Inventory loan

A [secured short-term loan](#) to [purchase inventory](#). The three basic forms are a [blanket inventory lien](#), a [trust receipt](#), and [field warehousing](#) financing.

Inventory turnover

A measure of how often the company sells and replaces its [inventory](#). It is the ratio of annual cost of [sales](#) to the latest [inventory](#). One can also interpret the ratio as the time to which inventory is held. For example a ratio of 26 implies that inventory is held, on average, for two weeks (365 days in a year divided by inventory turnover ratio of 26 equals 14 days pr 2 weeks average inventory holding period). It is best to use this ratio to compare companies within an industry (high turnover is a good sign) because there are huge differences in this ratio across industries.

Inverse floater

Refers to a [debt security](#) whose value increases as [interest rates](#) rise, i.e. there is a direct price-[yield](#) relationship rather than the usual inverse price-yield relationship. In this context, one example of an inverse floater is an IO, the interest-only component of an [MBS strip](#). As interest rates rise, people are less likely to refinance their [mortgages](#), meaning the existing [principal](#) in a mortgage pool is more likely to remain intact. In turn, the cash flows on the IOs are more likely to continue. Therefore, as interest rates rise, the IO becomes more valuable, and so its price rises..

Inverse floating-rate note

A [variable](#)-rate [security](#) whose [coupon rate](#) increases as a [benchmark interest rate](#) declines.

Inverse order

In the context of [periodic repayment schedules](#), beginning from the end, expected [maturity](#). Opposite of [current order](#).

Inverted market

A [futures market](#) in which the nearer months are selling at price [premiums](#) to the more-distant months. Related: [Premium](#).

Inverted scale

A [serial bond offering](#) whose [bonds](#) with earlier [maturity dates](#) have higher [yields](#) than [bonds](#) with later [maturity dates](#).

Inverted yield curve

When [short-term interest rates](#) are higher than [long-term](#) rates. Antithesis of [positive yield curve](#).

Investible Indices

Usually refers to the Standard and Poors/International Finance Corporation emerging market indices which are weighted by the amount of market capitalization that foreigners can obtain in each company. The IFCG (Global) index weights each stock by total capitalization. The IFCI (Investible) index weighs by investible capitalization.

Investment

The creation of more [money](#) through the use of [capital](#).

Investment adviser

A person or an organization that makes the day-to-day decisions regarding a [portfolio's investments](#). Also called a [portfolio manager](#).

Investment Advisers Act

Legislation passed in 1940 requiring [financial advisers](#) to [register](#) with the [Securities and Exchange Commission](#). The measure was enacted to protect the [public](#) from fraud or misrepresentation by investment advisers.

Investment advisory service

A business that specializes in providing [investment advice](#) for a fee. All advisers of an advisory service must be registered with the [Securities and Exchange Commission](#).

Investment agreement

A contract specifying the rights and responsibilities of a host government and a corporation in the structure and operation of an [investment](#) project.

Investment analysts

Related: [Financial analysts](#)

Investment bank

[Financial intermediaries](#) who perform a variety of services, including [underwriting](#) and [sale](#) of securities, facilitating [mergers](#) and other corporate [reorganizations](#), acting as [brokers](#) to both individual and institutional clients, and trading for their own accounts. See: [Underwriters](#).

Investment certificate

A document that serves as proof that an individual has an [investment](#) in a [savings and loan association](#).

Investment climate

Factors such as economic, monetary, and other conditions that affect the performance of [investments](#).

Investment club

A group of people who combine their [money](#) into a larger [pool](#), then invest collectively in [stocks](#) and [bonds](#), making decisions as a group.

Investment company

A [firm](#) that invests the funds of [investors](#) in [securities](#) appropriate for their [stated investment objectives](#) in return for a [management fee](#). See also: [Mutual fund](#).

Investment Company Act of 1940

Legislation that requires [investment companies](#) to register with the [SEC](#) and that outlines standards by which they must operate.

Investment Company Institute (ICI)

A national industry group of [investment companies](#), including [mutual funds](#), founded in 1940.

Investment decisions

Decisions concerning the [asset](#) side of a [firm's balance sheet](#), such as the decision to offer a new product.

Investment grade

In the context of bond ratings, the rating level above which [institutional investors](#) have been authorized to invest.

Investment-grade bonds

A [bond](#) that is assigned a rating in the top four categories by commercial [credit rating](#) companies. [S&P](#) classifies [investment-grade bonds](#) as BBB or higher, and Moody's classifies investment grade bonds as BAA or higher. Related: [High-yield bond](#).

Investment history

The history of a [member firm](#) that establishes certain norms in respect of its [investment](#) practice.

Investment income

The revenue from a [portfolio](#) of invested [assets](#).

Investment letter

A [letter of intent](#) between the [issuer](#) of new [securities](#) and the buyer, in the private placement of these new [securities](#). The letter of intent establishes that the [securities](#) are being bought for a minimum time period and are treated as an [investment](#), not for resale. If no such letter exists, the [securities](#) must be registered with [Securities and Exchange Commission](#).

Investment management

The process of managing [money](#). Also called [portfolio management](#) and [money management](#).

Investment manager

The individual who manages a [portfolio](#) of investments. Also called a [portfolio manager](#) or a [money manager](#).

Investment objective

The [financial objective](#) of an [investor](#). Whether the [investor](#) requires income or [capital appreciation](#), for example. The [investor's](#) objective governs the [investment strategy](#).

Investment opportunity set

The universe of choices as to [investments](#) available to an individual or corporation.

Investment philosophy

The style and general ideology of [investment](#) practiced by an [investor](#). Certain [investors](#) favor small-[capitalization stocks](#), while others prefer large [blue-chip stocks](#), for example.

Investment policy

Statement of objectives and constraints for an individual's or organization's approach.

Investment product line (IPL)

The line of [required returns](#) for investment projects as a function of [beta](#) (nondiversifiable risk).

Investment Risk

Uncertainty about the future benefits to be realized from an [investment](#).

Investment Valuation Model (IVM)

The basic mathematical technique of finance that calculates the value of an [investment](#) as the [present value](#) of all future [cash flows](#) expected to be generated by the investment.

Investments

As a discipline, the study of financial securities, such as [stocks](#) and [bonds](#), from the [investor's](#) viewpoint.

Investment software

Computer software that helps [investors](#) make [investment decisions](#) by identifying situations that meet programmed parameters.

Investment strategy

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

Investment strategy committee

A committee within a brokerage firm that conducts research and makes recommendations on the firm's [stated investment strategy](#).

Investment Tax Credit

Proportion of new [capital investment](#) that could be used to reduce a company's tax bill (abolished in 1986).

Investment trust

A [closed-end fund](#) regulated by the [Investment Company Act of 1940](#). These funds have a fixed number of [shares](#) that are traded on the [secondary markets](#), like corporate stock. The market price may exceed the [asset value](#) per share, in which case shares are selling at a [premium](#). When the market [price](#) falls below the [\(NAV\)](#)/share, shares are selling at a [discount](#). Many [closed-end funds](#) are of a specialized nature; the [portfolio](#) represents a particular industry or country. These funds are usually listed on US and [foreign exchanges](#).

Investment value

Applies mainly to dealer securities. Fixed income value of a convertible, the price at which the convert would have to sell as a straight [debt instrument](#) relative to the [yield](#) of other [bonds](#) of like [maturity](#), size, and quality represents a presumed [floor](#) to the bond, assuming the continued [creditworthiness](#) of the [issuer](#) and the general level of [interest rates](#). [Bond value](#). See: [conversion value](#).

Investor

The owner of an [asset](#).

Investor fallout

In the [mortgage pipeline](#), [risk](#) that occurs when the originator commits [loan terms](#) to the [borrowers](#) and gets commitments from investors at the time of application, or if both sets of terms are made at [closing](#).

Investor relations

The process by which the corporation communicates with its [investors](#).

Investor's equity

The balance of a [margin account](#). Related: [Buying on margin](#), [initial margin requirement](#).

Investors service bureau

[NYSE](#) service that deals with all general inquiries concerning [securities investments](#).

Invoice

Bill written by a seller of goods or services and submitted to a [purchaser](#) for payment.

Invoice billing

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

Invoice date

Usually the date when goods are shipped. [Payment dates](#) are set relative to the invoice date.

Invoice price

The price that the buyer of a [futures contract](#) must pay the seller when the [underlying asset](#) (such as [Treasury bond](#)) is [delivered](#).

Involuntary bankruptcy

The process where [creditors](#) petition the court to begin [bankruptcy](#) proceedings on a [debtor](#). Also see [Voluntary bankruptcy](#).

Involuntary liquidation preference

A [premium](#) that must be paid to [preferred](#) or preference [stockholders](#) if the [issuer](#) of the [stock](#) is forced into involuntary [liquidation](#).

IPO Spinning

See [Initial Public Offering Spinning](#).

IRA/Keogh accounts

Special accounts that allow [income taxes](#) on funds deposited into the plan to be [deferred](#) until [money](#) is withdrawn. These plans are subject to frequent changes in law with respect to the deductibility of contributions. Withdrawals of [tax-deferred](#) contributions are taxed as income, including the [capital gains](#) from such accounts.

Irish Financial Services Regulatory Authority (IFSRA)

Ireland's supervisory authority for the Irish financial markets. Irish financial regulator.

Irredeemable bond

A [bond](#) lacking a [call feature](#) or a right of [redemption](#). Also refers to a [perpetual bond](#).

Irrational call option

The [implied call](#) imbedded in a [MBS](#). Irrational because the call is sometimes not exercised when it is [in the money](#) ([interest rates](#) are below the threshold to refinance), and sometimes [exercised](#) when it is not in the [money](#). Option exercise like this affects payments on the MBS.

Irrelevance result

The [Modigliani and Miller](#) theorem that a [firm's capital structure](#) is irrelevant to the firm's value.

Irrevocable letter of credit

Assurance of funds issued by a bank that cannot be [canceled](#) or amended without the beneficiary's approval.

Irrevocable trust

A [trust](#) that is unable to be amended, altered, or revoked.

Islamic Loan

A [loan](#) that [interest](#) cannot be charged on. Instead, the loan is structured using [discounts](#), [sale](#) or lease, [profit](#) participation, or [repurchase agreements](#).

Issue

A particular financial [asset](#).

Issued share capital

Total amount of [shares](#) that have been [issued](#). Related: [Outstanding shares](#).

Issuer

An entity that puts a [financial asset](#) in the marketplace.

Issuing bank

Bank that issues a [letter of credit](#).

Issuer bid

An offer by the issuer to buy back some of its own shares. Issuer bids are often undertaken when either the company feels that their stock price is undervalued or when there is extra cash to return to the shareholders.

Istanbul Stock Exchange

The sole securities exchange in Turkey.

Italian Derivatives Market (IDEM)

A [derivatives market](#) operated by the Italian Stock Exchange Council. It [trades futures](#) and [options](#) on the 30 index and individual [stock options](#). See: [Italian Stock Exchange](#).

Italian Exchange (Borsa Italiana)

Italy's major securities exchange.

Italian Stock Exchange (ISE)

The Milan-based [stock exchange](#), which came into effect after the unification of Italy's ten national [exchanges](#) in 1991. All listed [securities](#) are [traded](#) electronically. The main [indexes](#) are the MIB and the MIBTEL, based on the prices of all listed [shares](#), and the MIB 30, based on a sample of the 30 most [liquid](#) and highly capitalized [shares](#).

Itemized deduction

Specific [deductions](#) allowed by the [IRS](#) outlined in the tax return.

"**It's us,**"

Used in the context of general equities. "The [firm](#), and not a customer, is the party involved."

J

Fifth letter of a [Nasdaq](#) stock symbol specifying the issue is the voting [stock](#) of the [company](#).

JAM

The three-character [ISO](#) 3166 country code for JAMAICA.

JCCT

See: [Joint Commission on Commerce and Trade \(JCCT\)](#)

JE

The two-character [ISO](#) 3166 country code for JERSEY.

JEY

The three-character [ISO](#) 3166 country code for JERSEY.

JM

The two-character [ISO](#) 3166 country code for JAMAICA.

JMD

The [ISO](#) 4217 currency code for the Jamaican Dollar.

JO

The two-character [ISO](#) 3166 country code for JORDAN.

JOR

The three-character [ISO](#) 3166 country code for JORDAN.

JOD

The [ISO](#) 4217 currency code for the Jordanian Dinar.

JP

The two-character [ISO](#) 3166 country code for JAPAN.

JPN

The three-character [ISO](#) 3166 country code for JAPAN.

JPY

The [ISO](#) 4217 currency code for the Japanese Yen.

Jasdaq

See: [Japanese Association of Securities Dealers Automated Quotation System](#)

JSE

See: [Johannesburg Stock Exchange](#)

J Curve (1)

Theory that says a country's [trade deficit](#) will initially worsen after its [currency depreciates](#) because higher [prices](#) on foreign imports will more than [offset](#) the reduced volume of imports in the short run.

J Curve (2)

In context of [private equity](#), the curve that is formed by plotting returns generated by a [private equity](#) fund against time from inception to termination. There are usually negative returns (due to start up costs and management fees) in early years and investment gains in the outlying years as the portfolio of companies matures.

Jakarta Stock Exchange

Established in 1977, the largest securities exchange in Indonesia.

January effect

Refers to the historical pattern that [stock](#) prices rise in the first few days of January. Studies have suggested this holds only for small-[capitalization](#) stocks. In recent years, there is less evidence of a January effect.

Japanese Association of Securities Dealers Automated Quotation System (Jasdaq)

Japanese equivalent of [Nasdaq](#).

Jeep

See: [Graduated payment mortgage](#)

Jensen index

An [index](#) that uses the [capital asset pricing model](#) to determine whether a [money manager](#) outperformed a [market index](#). The [alpha](#) of an [investment](#) or [investment manager](#).

Jobber

A term for a [market maker](#) used on the [London Stock Exchange](#).

Johannesburg Stock Exchange (JSE)

Established in 1886, the Johannesburg Stock Exchange is the only [stock exchange](#) in South Africa. Gold and mining stocks form the majority of [shares](#) listed.

Joint account

An agreement between two or more [firms](#) to share [risk](#) and [financing](#) responsibility in purchasing or [underwriting securities](#), or an [account](#) owned jointly by two or more persons at a bank or brokerage house.

Joint and survivor annuity

A type of [annuity](#) opened by and intended for two people, that makes payments for the entire lifetime of both [beneficiaries](#), even if one of them dies.

Joint bond

A [bond](#) that is guaranteed by the [issuer](#) and a party other than the [issuer](#).

Joint clearing members

[Firms](#) that [clear](#) on more than one [exchange](#).

Joint Commission on Commerce and Trade (JCCT)

JCCT was established in 1983 as a forum for high-level dialogue on bilateral trade issues between China and U.S. In 1994, as U.S.-China commercial relations became increasingly complex, the two governments institutionally strengthened the JCCT by establishing structured working groups covering trade and investment issues, business development and industrial cooperation, and commercial law, in addition to a side dialogue on export controls. From its inception until 2004, the JCCT was co-chaired by the U.S. Secretary of Commerce and China's Minister of Commerce. Following the December 2003 meeting of President Bush and Premier Wen the two sides agreed the Commission would be co-chaired on the U.S. side by two cabinet officials (the Secretary of Commerce and the U.S. Trade Representative) and, on the Chinese side, by the Vice Premier responsible for foreign trade.

Joint float

An arrangement by which a group of [currencies](#) maintain a fixed relationship relative to each other, but move jointly relative to another currency in response to supply and demand conditions in the exchange market.

Joint stock company

A form of business organization that falls between a [corporation](#) and a [partnership](#). The [company](#) sells [stock](#), and its [shareholders](#) are free to sell their stock, but shareholders are liable for all [debts](#) of the company.

Jointly and severally

[Municipal bond underwriting](#) in which the [account](#) is undivided and [syndicate](#) members are responsible for unsold [bonds](#) in proportion to their participation, regardless of how many bonds they may have already sold. A [firm](#) with 20% of the [account](#) is responsible for selling 20% of the

unsold [bonds](#) even if has already sold 25% of the total [debt issue](#), for example. See: [Severally but not jointly](#).

Joint tax return

Tax return filed by two people, usually spouses.

Joint tenants with right of survivorship

In the case of a [joint account](#), on the death of one [account](#) holder, ownership of the account [assets](#) is transferred to the remaining [account](#) holder or holders.

Joint venture

An agreement between two or more [firms](#) to undertake the same business strategy and plan of action. See: [Incorporated joint venture](#) and [Unincorporated joint venture](#).

Jonestown defense

An extreme defensive tactic employed by the [management](#) of a [target corporation](#) to prevent a [hostile takeover](#). The defensive tactics are so extreme that they typically lead to the destruction of the target corporation. See: [Suicide](#).

Joseph Effect

The tendency for persistent [time series](#) ($0.50 < H < 1.00$), to have [trends](#) and [cycles](#). The term "Joseph Effect" was coined by Mandelbrot in reference to Joseph's interpretation of Pharaoh's dream of seven fat years followed by seven lean years.

Jumbo certificate of deposit

A [certificate of deposit](#) in increments of \$100,000.

Jumbo loan

[Loans](#) of \$1 billion or more. Or, loans that exceed the statutory size limit eligible for [purchase](#) or [securitization](#) by the federal [agencies](#).

Jump ball

Used in the context of general equities. (1) Deal in which no [trading](#) house has [exclusivity](#) (each [firm](#) is in direct competition for a piece of business); (2) no preference in picking a particular side ([buy](#)/sell) of a [stock](#) as [profile](#), indicated during the [block call](#), indicate that the sales force could have the [stock](#) either way.

Junior debt (subordinate debt)

[Debt](#) whose holders have a claim on the [firm's assets](#) only after senior [debtholder's](#) claims have been satisfied. [Subordinated debt](#).

Junior issue

A [debt](#) or [equity issue](#) from one [corporation](#) over which the issue of another [firm](#) takes precedence with respect to [dividends](#), [interest](#), [principal](#), or [security](#) in the event of [liquidation](#).

Junior mortgage

A [mortgage](#) that will be satisfied only after more senior mortgages have been satisfied. E.g., a first mortgage will be satisfied prior to a second or a third mortgage.

Junior refunding

Issuing of new [securities](#) to refinance government [debt](#) that matures in one to five years.

Junior security

A [security](#) that has a lower-priority claim on a [company's assets](#) and income than a [senior security](#). For example [common stock](#) is junior to [preferred stock](#).

Junk bond

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

Jury of executive opinion

A method of [forecasting](#) using a composite forecast prepared by a number of individual experts. The experts form their own [opinions](#) initially from the data given, and revise their opinions according to the others' opinions. Finally, the individuals' final opinions are combined.

"Just me asking"

Used in the context of general equities. "Not a customer request for information."

Just-in-time inventory systems

Systems that schedule materials to arrive exactly when they are needed in the production process.

Just title

See: [Clear title](#)

Justified price

The [fair market price](#) of an [asset](#).

K

Fifth letter of a [Nasdaq](#) stock symbol specifying the [issue](#) has no voting rights.

KAZ

The three-character [ISO](#) 3166 country code for KAZAKSTAN.

KCBT

See: [Kansas City Board of Trade](#)

KE

The two-character [ISO](#) 3166 country code for KENYA.

KEN

The three-character [ISO](#) 3166 country code for KENYA.

KES

The [ISO](#) 4217 currency code for the Kenyan Shilling.

KG

The two-character [ISO](#) 3166 country code for KYRGYZSTAN.

KGS

The [ISO](#) 4217 currency code for the Kyrgyzstan Som.

KGZ

The two-character [ISO](#) 3166 country code for KYRGYZSTAN.

KH

The two-character [ISO](#) 3166 country code for CAMBODIA.

KHM

The three-character [ISO](#) 3166 country code for CAMBODIA.

KHR

The [ISO](#) 4217 currency code for the Cambodian Riel.

KI

The two-character [ISO](#) 3166 country code for KIRIBATI.

KIR

The three-character [ISO](#) 3166 country code for KIRIBATI.

KLCE

See: [Kuala Lumpur Commodities Exchange](#)

KLOFFE

See: [Kuala Lumpur Options and Financial Futures Exchange](#)

KLSE

See: [Kuala Lumpur Stock Exchange](#)

KM

The two-character [ISO](#) 3166 country code for COMOROS.

KMF

The [ISO](#) 4217 currency code for the Comoros Franc.

KN

The two-character [ISO](#) 3166 country code for SAINT KITTS AND NEVIS.

KNA

The three-character [ISO](#) 3166 country code for SAINT KITTS AND NEVIS.

KOR

The three-character [ISO](#) 3166 country code for KOREA, REPUBLIC OF.

KP

The two-character [ISO](#) 3166 country code for KOREA, DEMOCRATIC PEOPLE'S REPUBLIC OF.

KPW

The [ISO](#) 4217 currency code for the North Korean Won.

KR

The two-character [ISO](#) 3166 country code for KOREA, REPUBLIC OF.

KRW

The [ISO](#) 4217 currency code for the South Korean Won.

KW

The two-character [ISO](#) 3166 country code for KUWAIT.

KWT

The two-character [ISO](#) 3166 country code for KUWAIT.

KWD

The [ISO](#) 4217 currency code for the Kuwait Dinar.

KY

The two-character [ISO](#) 3166 country code for CAYMAN ISLANDS.

KYD

The [ISO](#) 4217 currency code for the Cayman Islands Dollar.

KM

The two-character [ISO](#) 3166 country code for COMOROS.

KZ

The two-character [ISO](#) 3166 country code for KAZAKSTAN.

KZT

The [ISO](#) 4217 currency code for the Kazakhstan Tenge.

Kaffirs

South African gold mining [shares](#) that [trade](#) on the [London Stock Exchange](#).

Kangaroos

Australian stocks.

Kansas City Board of Trade (KCBT)

The U.S.-based futures and options exchange for no. 2 red wheat futures and, options, Value Line Index futures and Mini Value Line futures and options.

Kappa

The ratio of the dollar price change in the price of an [option](#) to a 1% change in the expected [volatility](#).

Karachi Stock Exchange

The major securities exchange of Pakistan.

Keiretsu

A network of Japanese [companies](#) organized around a major bank. The term is also used outside of Japan to describe how a large [corporation](#) with many [subsidiaries](#) and associated [firms](#) can manipulate revenues. For example, firm A and B are [controlled](#) by firm C. Firm A is forced to [buy](#) its input from firm B at a high price. As a result, A is unprofitable and B is very profitable.

Keogh plan

A type of [pension](#) account in which taxes are [deferred](#). Available to those who are [self-employed](#).

Key industry

An [industry](#) that plays a critical role in a nation's economy.

Key man (or woman) insurance

A [life insurance policy purchased](#) by a [company](#) to insure the life of a key executive. The company is the [beneficiary](#) in case of the executive's death.

Keynesian economics

An economic theory of British economist, John Maynard Keynes that active government intervention is necessary to ensure economic growth and stability.

"Kick it out"

Used in the context of general equities. "[Liquidate a position](#) (sell a [long](#)/cover a [short](#)) without regard to price."

Kickback

In the context of [finance](#), refers to [compensation](#) of [dealers](#) by [sales finance companies](#) for [discounting](#) [installment purchase](#) paper.

In the context of [contracts](#), refers to secret payments made to insure that the [contract](#) goes to a specific [firm](#).

Kicker

An additional feature of a [debt obligation](#) that increases its marketability and attractiveness to [investors](#).

Kiddie tax

Tax owed for the [investment income](#) of children if the amount is more than \$1,400.

Killer bees

Those who aid a [company](#) in fending off a [takeover bid](#), usually [investment bankers](#) who devise [strategies](#) to make the [target](#) less attractive or more difficult to [acquire](#).

Kiting

Used in banking to refer to the practice of depositing and drawing [checks](#) at two or more banks and taking advantage of the time it takes for the second bank to collect funds from the first bank.

Also refers to illegally increasing the [face value](#) of a [check](#) by changing the numbers on the check.
In the context of [securities](#), refers to the manipulation and [inflation](#) of [stock](#) prices.

Kiwi

An informal expression used to refer to the New Zealand dollar in currency trading. \$1 New Zealand coin depicts a kiwi.

Knock-out option

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

Know your customer

An ethical foundation of [securities brokers](#) that an adviser who recommends the [purchase or sale](#) of any [security](#) to a customer, must believe that the recommendation is suitable for the customer, given the customer's financial situation.

Kondratieff Wave

An economic theory of the Soviet economist Kondratieff stating that the economies of the western world are susceptible to major up-and-down "supercycles" lasting 50 to 60 years.

Korea Stock Exchange

The major securities market of Korea.

Krugerand

A [gold coin](#) minted by the republic of South Africa that typically sells for slightly higher prices than the [market value](#) of the gold it contains.

Kuala Lumpur Commodities Exchange (KLCE)

The Malaysian commodity exchange for [trading futures](#) in crude palm oil, crude palm kernel oil, tin, rubber, and cocoa.

Kuala Lumpur Options and Financial Futures Exchange (KLOFFE)

Established in 1995, the Kuala Lumpur Options and Financial Futures Exchange offers equity derivative products based on underlying instruments traded on the [Kuala Lumpur Stock Exchange \(KLSE\)](#).

Kuala Lumpur Stock Exchange (KLSE)

Established in 1973, the Kuala Lumpur Stock Exchange (KLSE) is the only [stock exchange](#) in Malaysia.

Kurtosis.

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

L

Fifth letter of a [Nasdaq](#) stock symbol specifying that the [issue](#) is a class of stock such as third [preferred](#) class of warrants, foreign preferred, sixth class of preferred stock, or preferred when issued stock.

LA

The two-character [ISO](#) 3166 country code for LAO PEOPLE'S DEMOCRATIC REPUBLIC.

LAK

The [ISO](#) 4217 currency code for Laos New Kip.

LAO

The three-character [ISO](#) 3166 country code for LAO PEOPLE'S DEMOCRATIC REPUBLIC.

LB

The two-character [ISO](#) 3166 country code for LEBANON.

LBN

The three-character [ISO](#) 3166 country code for LEBANON.

LBO

See: [Leveraged buyout](#)

LBP

The [ISO](#) 4217 currency code for Lebanese Pound.

LBR

The three-character [ISO](#) 3166 country code for LIBERIA.

LBY

The three-character [ISO](#) 3166 country code for LIBYAN ARAB JAMAHIRIYA.

LC

The two-character [ISO](#) 3166 country code for SAINT LUCIA.

LCA

The three-character [ISO](#) 3166 country code for SAINT LUCIA.

LCL

See: [Less Than Container Load](#)

LCR

See: [Liquidity Coverage Ratio](#)

LDC

See: [Less developed countries](#)

LDI

See: [Liability Driven Investment](#)

LEAPS

See: [Long-Term Anticipation Securities](#)

LI

The two-character [ISO](#) 3166 country code for LIECHTENSTEIN.

LIBOR

See: [London Interbank Offered Rate](#)

LIE

The three-character [ISO](#) 3166 country code for LIECHTENSTEIN.

LIFFE

See: [London International Financial Futures and Options Exchange](#)

LIFO

See: [Last in, first out](#)

LK

The two-character [ISO](#) 3166 country code for SRI LANKA.

LKA

The three-character [ISO](#) 3166 country code for SRI LANKA.

LKR

The [ISO](#) 4217 currency code for Sri Lankan Rupee.

LDs

See: [Liquidated damages](#)

LOC

See: [Letter of credit](#)

LP

See: [Limited partner](#)

LR

The two-character [ISO](#) 3166 country code for LIBERIA.

LRD

The [ISO](#) 4217 currency code for the Liberian Dollar.

LS

The two-character [ISO](#) 3166 country code for LESOTHO.

LSAP

See: [Large scale asset purchase](#)

LSL

The [ISO](#) 4217 currency code for the Lesotho Loti.

LSO

The three-character [ISO](#) 3166 country code for LESOTHO.

LT

The two-character [ISO](#) 3166 country code for LITHUANIA.

LTL

The [ISO](#) 4217 currency code for the Lithuanian Litas.

LTU

The three-character [ISO](#) 3166 country code for LITHUANIA.

LTV

See: [Loan-to-value ratio](#)

LU

The two-character [ISO](#) 3166 country code for LUXEMBOURG.

LUF

The [ISO](#) 4217 currency code for the Luxembourg Franc.

LUX

The three-character [ISO](#) 3166 country code for LUXEMBOURG.

LV

The two-character [ISO](#) 3166 country code for LATVIA.

LVA

The three-character [ISO](#) 3166 country code for LATVIA.

LVL

The [ISO](#) 4217 currency code for the Latvian Lats.

LY

The two-character [ISO](#) 3166 country code for LIBYAN ARAB JAMAHIRIYA.

LYD

The [ISO](#) 4217 currency code for the Libyan Dinar.

LYON

See: [Liquid yield option note](#)

Ladder strategy

A [bond portfolio](#) construction [strategy](#) that [invests](#) approximately equal amounts in every [maturity](#) within a given [range](#).

Lady Macbeth Strategy

[Strategy](#) in which a third party poses as a [white knight](#) in a [takeover bid](#), and then joins forces with an unfriendly bidder.

Laffer curve

A curve conjecturing that economic output will increase if marginal [tax rates](#) are cut. Named after economist Arthur Laffer.

Lag

Payment of a [financial obligation](#) later than is expected or required, as in [lead](#) and [lag](#). Also, the number of periods that an [dependent variable](#) in a [regression](#) model is "held back" in order to predict the [dependent variable](#).

Lag response of prepayments

A delay of typically about three months between the time the [weighted-average coupon](#) of an [MBS pool](#) crosses the threshold for refinancing and observation of an acceleration in [prepayment](#) speed is observed.

Lagging

[Strategy](#) used by a [firm](#) to stall payments, normally in response to [exchange rate](#) projections.

Lagging indicators

[Economic indicators](#) that follow rather than precede the country's overall pace of economic activity.

See also: [Leading indicators](#) and [coincident indicators](#).

Laissez-faire

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

Lambda

The ratio of a change in the [option price](#) to a small change in the [option volatility](#). It is the partial [derivative](#) of the [option price](#) with respect to the option volatility.

Land contract

A method of [real estate financing](#); a mortgage-holding seller finances a [buyer](#) by taking a down payment and subsequent payments in [installments](#), but [holds](#) the title until the [mortgage](#) is fully repaid.

Landlord

A property owner who [rents](#) property to a [tenant](#).

Lapsed option

An [option](#) that no longer has any value because it has reached its [expiration date](#) without being [exercised](#).

Large-cap

A [stock](#) with a high level of [capitalization](#), usually at least \$5 billion [market value](#).

Large scale asset purchase

A monetary policy tool otherwise known as [quantitative easing](#) or printing money.

Last in, first out (LIFO)

An accounting method that fixes the [cost](#) of goods sold to the most recent [purchases](#). Hence, if prices are generally rising, LIFO will lead to lower accounting [profitability](#).

Last sale

The most recent [trade](#) performed in a [security](#).

Last split

After a [stock split](#), the number of [shares distributed](#) for each share held and the date of the distribution.

Last trading day

The final day under an [exchange's](#) rules during which [trading](#) may take place in a particular [futures](#) or [options contract](#). Contracts [outstanding](#) at the end of the last trading day must be [settled](#) by [delivery](#) of [underlying physical commodities](#) or [financial instruments](#), or by agreement for monetary settlement, depending [futures contract](#) specifications.

Late charge

A fee a [credit grantor](#) charges a [borrower](#) for a late payment.

Late tape

A delay in the display of price changes on the [tape](#) of an [exchange](#) because of heavy [trading](#). In severe instances the first digit of each price is intentionally deleted.

Late trading

Late trading of mutual fund shares occurs when investors placing trades after 4 PM receive the 4 PM price. These late traders can use the information revealed after 4 PM to guide their trades: buying funds when their current value is greater than their 4 PM value and selling the funds when the reverse is true. Doing so allows them to earn expected abnormal returns at the expense of the fund's long-term shareholders.

Latent default

A potential [default](#) that may have always been present but unidentified.

Later stage

In context of [private equity](#), the state of a company that has proven its concept, achieved significant revenues compared to its competition and is approaching cash flow break even or positive net income. A later stage company is usually about 6 to 12 months away from a liquidity event such as an IPO or buyout.

Launder

To move illegally acquired [cash](#) through [financial](#) systems so that it appears to be legally acquired.

Law of large numbers

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

Law of one price

An economic rule stating that a given [security](#) must have the same price no matter how the security is created. If the payoff of a security can be synthetically created by a package of other [securities](#), the implication is that the price of the package and the price of the security whose payoff it replicates must be equal. If it is unequal, an [arbitrage](#) opportunity would present itself.

Lay off

In the context of general equities, this eliminates all or part of a [position](#) by finding customers or other [dealers](#) to take the position.

Layup

Used in the context of general equities. Easily [executed trade](#) or [order](#). See: [Lead pipe](#).

Lead

Payment of a [financial obligation](#) earlier than is expected or required.

Lead arranger

The senior tier of [arranger](#)

Lead bank

A senior bank involved in the negotiations for a project financing.

Lead Manager

Subordinate to an [arranger](#).

Lead pipe

Used in the context of general equities. Virtually certain that [trade](#) will take place; lead pipe cinch.
See: [Layup](#).

Lead regulator

A leading [self-regulatory organization](#) that oversees compliance with a particular section of the law, such as the [NYSE](#), [ASE](#), or [NASDAQ](#).

Lead underwriter

The head of a [syndicate](#) of [financial firms](#) that are sponsoring an [initial public offering](#) of [securities](#) or a secondary offering of securities. Could also apply to [bond issues](#).

Leader

A [stock](#) or group of stocks that is the first to move in a [market](#) upsurge or downturn.

Leading

[Strategy](#) used by a [firm](#) to accelerate payments, normally in response to [exchange rate](#) expectations.

Leading economic indicators

Economic [series](#) that tend to rise or fall in advance of the rest of the economy.

Leading indicator

A change in a measurable economic [factor](#) that is evident before the economy starts to follow a specific [trend](#).

Leading and lagging

Refers to [timing](#) of [cash flows](#) within a [corporation](#).

Leading the market

In the context of general equities, this is a [stock](#) or group of stocks moving with the [market](#) as a whole, but moving in advance of the general market.

League tables

A ranking of [lenders](#) and advisors according to the [underwriting](#), final take, or number of project [finance loans](#) or advisory mandates.

Leakage

Release of information selectively or not before official [public](#) announcement.

Lease

A [long-term rental agreement](#), and a form of [secured long-term debt](#).

Lease acquisition cost

The legal fees and other [expenses](#) incurred when acquiring a [lease](#).

Leasehold

An [asset](#) providing the right to use property under a [lease](#) agreement.

Leasehold improvement

An improvement made to [leased](#) property.

Lease-purchase agreement

An agreement that allows for portions of [lease](#) payments to be used to [purchase](#) the leased property.

Lease rate

The payment per period stated in a [lease contract](#).

Lease term

The life of a [lease](#), including any renewal [options](#).

Leaseback

A [transaction](#) that involves the [sales](#) of some property, and an agreement by the seller to [lease](#) the property back from the [buyer](#) after the sale.

Leaves

Used in the context of general equities. Remains to [buy](#) or sell of a previously entered [order](#) after a [report](#) of [partial execution](#) has been given. If the [floor broker](#) to buy 20M IBM at \$115, and he then buys 6M at this price, his report would be, "You bought 6M IBM at \$115; leaves 14."

Ledger cash

A [firm's cash](#) balance as reported in its [financial statements](#). Also called [book cash](#).

Leg

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

Leg up

Used in the context of general equities. (1) Have a portion of the [offsetting](#) side of a [trade in your pocket \(spoken for\)](#) so your [capital risk](#) in the [transaction](#) is reduced. ([Purchase](#) of 10,000 of a 50,000 [buy order](#) leaves the [trader](#) a "leg up".) (2) Complete one side of a two-sided transaction, as in a [swap](#) or [contingency order](#).

LEGAL

A computerized database maintained by the [NYSE](#) to keep track of enforcement actions, [audits](#), and complaints against [member firms](#). This [term](#) is not an acronym but is referred to in capitals.

Legal capital

Value at which a [company's shares](#) are recorded in its [books](#).

Legal bankruptcy

A legal proceeding for [liquidating](#) or [reorganizing](#) a business.

Legal defeasance

The deposit of [cash](#) and permitted [securities](#), as specified in the [bond indenture](#), into an [irrevocable trust](#) sufficient to enable the [issuer](#) to fully discharge its [obligations](#) under the [bond indenture](#).

Legal entity

A person or organization that can legally enter into a [contract](#), and may therefore be sued for failure to comply with the [terms](#) of the contract.

Legal investments

[Investments](#) that a [regulated](#) entity is permitted to make under the rules and regulations that govern its conduct.

Legal list

A list of high-quality [debt](#) and [equity securities](#) chosen by a state [agency](#) that are acceptable [holdings](#) for [fiduciary](#) institutions.

Legal monopoly

A government-[regulated firm](#) that is legally entitled to be the only [company offering](#) a particular service in a particular area.

Legal opinion

A statement, usually written by a specialized law [firm](#), required for a new [municipal bond issue](#) stating that the [issue](#) is legally acceptable.

Legal risk

The [risk](#) associated with the impact of a defect in the documentation on [cash flow](#) or [debt](#) service.

Legal transfer

A [stock transaction](#) that requires special documentation in addition to standard [stock](#) or [bond power](#) to be legally valid.

Legislative risk

The [risk](#) that new or changed legislation will have a large positive or negative effect on an [investment](#).

Legitimate

Used in the context of general equities. Real interest in [trading](#) as compared to a [profile](#) stance.

See: [Natural](#).

Lehman Brothers Adjustable-Rate Mortgage Index

A [benchmark index](#) that includes all [agency-guaranteed securities](#) with [coupons](#) that periodically adjust based on a [spread](#) over a published [index](#).

Lehman Brothers Aggregate Bond Index

A [benchmark index](#) made up of the Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed Securities Index, and [Asset-Backed Securities Index](#), including [securities](#) that are of [investment-grade](#) quality or better, have at least one year to [maturity](#), and have an [outstanding par value](#) of at least \$100 million.

Lehman Brothers California Municipal Bond Index

A [benchmark index](#) that includes [investment-grade](#), [tax-exempt](#), and fixed-rate bonds issued in California. All [securities](#) have [long-term maturities](#) (greater than two years) and are selected from [issues](#) larger than \$50 million.

Lehman Brothers Corporate Bond Index

A [benchmark index](#) that includes all [publicly issued](#), fixed-rate, nonconvertible, dollar-denominated, SEC-registered, [investment-grade](#) corporate [debt](#).

Lehman Brothers Government Bond Index

A [benchmark index](#) made up of the [Treasury Bond](#) Index and the Agency Bond Index as well as the 1-3 Year Government Index and the 20+ Year Treasury Index.

Lehman Brothers Government/Corporate Bond Index

A [benchmark index](#) made up of the Lehman Brothers® [Government](#) and [Corporate Bond](#) indexes, including U.S. government [Treasury](#) and [agency securities](#) as well as [corporate](#) and [Yankee bonds](#).

Lehman Brothers Mortgage-Backed Securities Index

A [benchmark index](#) that includes 15- and 30-year fixed-rate [securities](#) backed by mortgage pools of the [Government National Mortgage Association \(GNMA\)](#), [Federal Home Loan Mortgage Corporation \(FHLMC\)](#), and Federal National Mortgage Association (FNMA).

Lehman Brothers Municipal Bond Index

A [benchmark index](#) that includes [investment-grade](#), [tax-exempt](#), and fixed-rate bonds with [long-term maturities](#) (greater than two years) selected from [issues](#) larger than \$50 million.

Lehman Brothers New York Municipal Bond Index

A [benchmark index](#) that includes [investment-grade](#), [tax-exempt](#), and fixed-rate bonds [issued](#) in the state of New York. All [securities](#) have [long-term maturities](#) (greater than two years) and are selected from [issues](#) larger than \$50 million.

Lemon

An [investment](#) with poor results.

Lemons problem

Named after 2001 Nobel Laureate George Akerlof's 1970 paper "The Market for Lemons". His original example had to do with used cars. Why does the seller want to get rid of the car? It might be a lemon. The [buyer](#) and seller have asymmetric information. Hence, the buyer will demand a deep [discount](#) on the car because of the possibility it is a lemon.

Lend

To provide [money](#) temporarily on the condition that it or its equivalent will be returned, often with an [interest fee](#).

Lendable funds

The [pool](#) of funds available to [borrows](#); typically categorized by [currency](#) and [maturity](#).

Lender

Businesses that provide [loans](#) to others.

Lender of last resort

Traditionally the [Federal Reserve Bank](#) in the US, which assists banks that face large withdrawals of funds and in so doing stabilizes the banking system.

Lender liability lawsuits

Legal action of [debtor](#) against [creditors](#) that alleges unfair enforcement of [loan covenants](#) or violation of implied [terms](#) of a loan agreement.

Lending agreement

A [contract](#) regarding funds [transferred](#) between a [lender](#) and a [borrower](#).

Lending at a premium

A [loan](#) from one [broker](#) to another of [securities](#) to cover a customer's [short position](#), with a [borrowing](#) fee included. A fee is unusual since [securities](#) are normally lent freely between [brokers](#).

Lending at a rate

[Interest](#) paid to a customer on the [credit balance](#) received from a [short sale](#).

Lending securities

[Securities borrowed](#) from a [broker's inventory](#), from another customer's [margin account](#), or from another [broker](#), when a customer is required to [deliver](#) on a [short sale](#).

Leptokurtosis

The condition of a [probability](#) density curve to have fatter tails and a higher peak at the [mean](#) than the [normal distribution](#).

Less-developed countries (LDCs)

Also known as [emerging markets](#). Countries who's per capita [GDP](#) is below a [World Bank](#)-determined level.

Less Than Container Load

Shipments of less than container load size (<\$50,000).

Lessee

An entity that [leases](#) an [asset](#) from another entity.

Lessor

An entity that [leases](#) an [asset](#) to another entity.

Letter of Administration

A [certificate issued](#) by the Court evidencing the appointment of the Administrator of an Estate.

Letter of comment

A communication to the [firm](#) from the [SEC](#) that suggests changes to its [registration statement](#).

Letter of credit (LOC)

A form of [guarantee](#) of payment [issued](#) by a bank on behalf of a [borrower](#) that assures the payment of [interest](#) and repayment of [principal](#) on [bond](#) issues.

Letter of Guarantee

A letter from a bank to a brokerage firm which states that a customer (who has written a [call option](#)) does indeed own the underlying stock and the bank will [guarantee delivery](#) if the [call](#) is assigned. Thus the call can be considered covered. Not all brokerage firms accept letters of guarantee. Also: letter issued to Option Clearing Corporation by [member firms](#) covering a guarantee of any [trades](#) made by one of its customers, (a trader or broker on the exchange [floor](#)).

Letter of intent

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

Letter stock

Privately placed [common stock](#), so-called because the [SEC](#) requires a letter from the [purchase](#) stating that the [stock](#) is not intended for resale.

Letter of Testamentary

A [certificate issued](#) by the court evidencing the appointment of an executor of estate.

Letter of Transmittal

A document used by security [holder](#) to accompany [certificates](#) surrendered in an exchange or other corporate action.

Level

Used in the context of general equities. Price measure of an [indication](#).

Level annuity system

A plan that pays [interest](#) and [principal](#) in such a way that the total is same for each payment. The earliest payments are mostly [interest](#) and the later ones are mostly [principal](#).

Level-coupon bond

[Bond](#) with a stream of [coupon payments](#) that remain the same throughout the life of the bond.

Level debt service

A municipal [charter](#) provision that [debt](#) payments must be relatively equal from year to year so that required revenue projections are easier.

Level load

A [mutual fund](#) that charges a permanent [sales charge](#), usually at some fixed percentage. See: [Front-end loads](#) and back-end loads.

Level pay

Scheduling [principal](#) and [interest payments \(P&I\)](#) due under a [mortgage](#) so that total monthly payment of P&I is the same. Different from the typical mortgage for which the [principal](#) payment component of the monthly payment becomes gradually greater while the monthly interest component shrinks.

Level term insurance

A [life insurance policy](#) with a fixed [face value](#) and increasing [premiums](#).

Leverage

The use of [debt](#) financing, or property of rising or falling at a proportionally greater amount than comparable [investments](#). For example, an [option](#) is said to have high leverage compared to the [underlying stock](#) because a given price change in the stock may result in a greater increase or decrease in the value of the [option](#). Also, commonly known as Gearing in Europe.

Leverage clientele

A group of [shareholders](#) who, because of their personal [leverage](#), seek to [invest](#) in [corporations](#) that maintain a compatible degree of corporate leverage.

Leverage ratios

Measures of the relative value of [stockholders](#), [capitalization](#), and [creditors obligations](#), and of the [firm's](#) ability to pay [financing](#) charges. Value of firm's [debt](#) to the total value of the firm (debt plus stockholder capitalization).

Leverage rebalancing

Making [transactions](#) to adjust (rebalance) a [firm's leverage ratio](#) to a target ratio.

Leveraged beta

The [beta](#) of a [leveraged required return](#); that is, the beta as adjusted for the degree of leverage in the [firm's capital structure](#).

Leveraged buyout (LBO)

A [transaction](#) used to take a [public corporation](#) private that is [financed](#) through [debt](#) such as bank [loans](#) and [bonds](#). Because of the large amount of debt relative to [equity](#) in the new corporation, the [bonds](#) are typically rated below [investment-grade](#), properly referred to as [high-yield bonds](#) or [junk bonds](#). [Investors](#) can participate in an LBO through either the [purchase](#) of the debt (i.e., purchase of the bonds or participation in the bank [loan](#)) or the purchase of [equity](#) through an LBO fund that specializes in such [investments](#).

Leveraged company

A [company](#) that has [debt](#) in its [capital structure](#).

Leveraged equity

[Stock](#) in a [firm](#) that relies on [financial leverage](#). [Holders](#) of [leveraged equity](#) experience the benefits and [costs](#) of using [debt](#).

Leveraged investment company

An [investment company](#) or [mutual fund](#) entitled to [borrow capital](#) for its operations. Also, an investment company that [issues](#) both income [shares](#) and capital [shares](#).

Leveraged lease

A [lease](#) arrangement under which the [lessor borrows](#) a large proportion of the funds needed to [purchase](#) the [asset](#). The [lender](#) has a [lien](#) on the assets and a pledge of the lease payments to secure the borrowing.

Leveraged loan

Leveraged loan is debt from companies with below [investment grade](#) credit ratings. Leveraged loans are typically secured with a lien on the company's assets and are generally senior to the company's other debt. Companies often issue leveraged loan predominantly to fund [Leveraged buyouts](#). Also called [Bank loan](#)

Leveraged portfolio

A [portfolio](#) that includes [risky assets purchased](#) with funds [borrowed](#).

Leveraged recapitalization

Often used in [risk arbitrage](#). A [public company](#) takes on significant additional [debt](#) with the purpose of either paying an extraordinary [dividend](#) or repurchasing [shares](#), leaving the public [shareholders](#) with a continuing interest in a more financially [leveraged](#) company. Popular form of [shark repellent](#) See: [Stub](#).

Leveraged required return

The [required return](#) on an [investment](#) when the investment is [financed](#) partially by [debt](#).

Leveraged stock

[Stocks financed](#) with [credit](#), such as that [purchased](#) on a [margin account](#).

Levered portfolio

[Investment](#) at least partially [financed](#) by [borrowing](#).

Liability

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

Liability driven investment (LDI)

LDI is a form of investing in which the main goal is to gain sufficient assets to meet all liabilities. This form of investment strategy is taken by many [pension funds](#) and insurance companies.

Liability funding strategies

An [investment strategy](#) that select [assets](#) so that [cash flows](#) will equal or exceed the client's [obligations](#).

Liability insurance

Insurance guarding against damage or loss that the [policyholder](#), may cause another person in the form of bodily injury or property damage.

Liability swap

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

License agreement

A [contract](#) by which a domestic [company](#) (the licensor) allows a foreign company (the licensee) to market its products in a foreign country in return for [royalties](#), fees, or other forms of [compensation](#).

Licensing

Arrangement in which a local [firm](#) in the host country produces goods in accordance with another firm's (the [licensing](#) firm's>) specifications; as the goods are sold, the local firm can retain part of the [earnings](#).

Lien

A [security](#) interest in one or more [assets](#) that [lenders hold](#) in exchange for [secured debt financing](#).

Life annuity

An [annuity](#) that pays a fixed amount for the lifetime of the annuitant.

Life cycle

The lifetime of a product or business, from its creation to its demise or transformation.

Life expectancy

The length of time that an average person is expected to live, which is used by insurance [companies](#) use to make projections of benefit payouts.

Life insurance

An [insurance policy](#) that pays a monetary benefit to the insured person's survivors after death.

Life insurance in force

The dollar amount of [life insurance](#) that a [company](#) has [issued](#), measured as the sum of policy [face values](#) and [dividends](#) paid.

Life insurance policy

The [contract](#) that sets out the [terms](#) of [life insurance](#) coverage.

Lifetime reverse mortgage

A type of [mortgage](#) in which a homeowner [borrows](#) against the value a home, while retaining title, and making no payments while residing in the home. When the owner ceases living in the house, the property is sold, and the [loan](#) repaid.

Lift

An increase in [securities](#) prices, as shown by some [economic indicator](#).

Lifted

Refers to [over-the-counter trading](#). Having an [offer](#) taken in a [stock](#), followed by the [market maker](#) raising the offer price.

Lifting a leg

Closing out one side of a long-short [arbitrage](#) before the other is closed.

Lighten up

Selling some part of a [stock](#) or [bond position](#) in a [portfolio](#) to realize capital gains or to [losses](#) or increase [cash assets](#).

Lima Stock Exchange

Peru's major securities market.

Limit

See [Trading Limit](#).

Limit Cycles

An attractor for non-linear [dynamic systems](#) which has periodic [cycles](#) or orbits in [phase space](#). An example is an undamped pendulum which will have a closed circle orbit equal to the amplitude of the pendulum's swing. See: [Attractor](#), [Phase Space](#).

Limit on close order

An [order](#) to [buy](#) or sell [stock](#) at the closing price only if the price is at a predetermined level or better.

Limit order

An [order](#) to [buy](#) a [stock](#) at or below a specified price, or to sell a stock at or above a specified price. For instance, you could tell a [broker](#) "buy me 100 [shares](#) of XYZ Corp at \$8 or less" or "sell 100 shares of

XYZ at \$10 or better" The customer specifies a price, and the order can be [executed](#) only if the [market](#) reaches or betters that price. A conditional [trading order](#) designed to avoid the danger of adverse unexpected price changes.

Limit order book

A record of [unexecuted limit orders](#) maintained by the [specialist](#). These [orders](#) are treated equally with other orders in [terms](#) of priority of [execution](#).

Limit order information system

The electronic system supplying information about [securities traded](#) on participating [exchanges](#) so that the best securities prices can be found.

Limit price

See: [Maximum price fluctuation](#)

Limit up, limit down

The maximum price change allowed for a [commodity futures contract](#) per [trading](#) day.

Limitation on asset dispositions

A [bond covenant](#) that restricts in some way a [firm's](#) ability to sell major [assets](#).

Limitation on conversion

Applies mainly to [convertible securities](#). Possible delay in convertibility. More frequently, the right to convert may be terminable prior to a [redemption](#) date, preventing the [holder](#) from receiving a final [coupon](#) or [dividend](#). See: [Accrued interest](#).

Limitation on liens

A [bond covenant](#) that restricts in some way a [firm's](#) ability to grant [liens](#) on its [assets](#).

Limitation on merger, consolidation, or sale

A [bond covenant](#) that restricts in some way a [firm's](#) ability to [merge](#) or consolidate with another firm.

Limitation on sale-and-leaseback

A [bond covenant](#) that restricts in some way a [firm's](#) ability to enter into [sale-and-leaseback transactions](#), [financing](#) techniques that could affect [creditor thinness](#).

Limitation on subsidiary borrowing

A [bond covenant](#) that restricts in some way a [firm's](#) ability to [borrow](#) at the level of firm [subsidiary](#).

Limited company

A form of business commonly used in the U.K. comparable to incorporation in the U.S.

Limited discretion

Permission by a client that allows a [broker](#) to make certain [stock](#) and [option trades](#) without first consulting the client about the trade.

Limited flexibility exchange rate system

The [International Monetary Fund's](#) name for an [exchange rate](#) system with a [managed float](#).

Limited liability

Limitation of [loss](#) to what has already been [invested](#).

Limited liability company (LLC)

A [company](#) that has characteristics of both a [corporation](#) and [partnership](#). Like a corporation, it offers owners [limited liability](#) and like a partnership, taxation is at individual owner level rather than at corporate level.

Limited-liability instrument

A [security](#), such as a [call option](#), in which the owner can lose only the initial [investment](#).

Limited partner

A partner who has [limited legal liability](#) for the [obligations](#) of the [partnership](#). In [private equity](#), the Limited Partner is an investor (in a private equity fund). See also: [General partner](#).

Limited partnership

A [partnership](#) that includes one or more partners who have [limited liability](#).

Limited payment policy

[Life insurance](#) providing full life protection but requiring [premiums](#) for only part of the customer's lifetime.

Limited recourse

A term describing a type of [loan](#) in which the [lender](#) has limited or no claim against the [parent company](#) if the [collateral](#) is insufficient to repay the [debt](#). See:[Nonrecourse](#).

Limited risk

The [risk](#) inherent in [options contracts](#), which is much lower than that of a [futures contract](#), which has unlimited [risk](#). The maximum loss in [buying](#) a [call option](#), for example, is the [premium](#) paid for the [option](#).

Limited price order

Used in the context of general equities. See: [Limit order](#).

Limited-tax general obligation bond

A general [obligation bond](#) of a government backed by specified or constrained revenue sources.

Limited warranty

A warranty with certain conditions and limitations on the parts covered, type of damage covered, and/or time period for which the agreement is good.

Line of credit

An informal [loan](#) arrangement between a bank and a customer allowing the customer to [borrow](#) up to a prespecified amount.

Linear programming

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

Linear regression

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

Linking method

Method for calculating [rates of return](#) that multiplies one plus the interim rate of return.

Lintner's observations

John Lintner's work (1956) suggests that [dividend](#) policy is related both a target level, and to the speed of adjustment of change in dividends.

Lipper Mutual Fund Industry Average

The average level of performance for all [mutual funds](#), as [reported](#) by Lipper Analytical Services.

Liquid

In context of [securities](#), easily [traded](#) or converted to [cash](#).

In context of a [corporation](#), the state of having enough [cash](#) and [cash equivalents](#) to cover [short-term obligations](#).

Liquid asset

[Asset](#) that is easily and cheaply turned into [cash](#)-notably, cash itself and [short-term securities](#).

Liquid market

A [market](#) allowing the [buying](#) or selling of large quantities of an [asset](#) at any time and at low [transactions costs](#).

Liquid yield option note (LYON)

[Zero-coupon](#), [callable](#), [putable](#), [convertible bond](#) developed by Merrill Lynch & Co.

Liquidated damages

The amount payable for delays and sub-standard performance under a construction, equipment supply, or Operations & Maintenance [contract](#).

Liquidating dividend

Payment by a [firm](#) to its owners from [capital](#) rather than from [earnings](#).

Liquidation

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

Liquidation by assignment

[Sale](#) or realization of a [debtor firm's assets](#) voluntarily agreed to by its [creditors](#) who estimate that the firm's [liquidation value](#) exceeds its [going-concern value](#).

Liquidation rights

The rights of a [firm's](#) securityholders in the event the firm [liquidates](#).

Liquidation value

[Net](#) amount that could be realized by selling the [assets](#) of a [firm](#) after paying the [debt](#).

Liquidator

Person appointed by an [unsecured creditor](#) in the United Kingdom to oversee the [sale](#) of an [insolvent firm's assets](#) and the repayment of its [debts](#).

Liquidity

In context of [securities](#), a high level of [trading](#) activity, allowing [buying](#) and selling with minimum price disturbance. Also, a market characterized by the ability to [buy](#) and sell with relative ease.

In context of a [corporation](#), the ability of the corporation to meet its [short-term obligations](#). Measured with [liquidity ratios](#) like [current ratio](#), [quick ratio](#), and [cash ratio](#).

Antithesis of [illiquidity](#).

Liquidity Coverage Ratio

Under Basel III, banks need to have more high quality liquid assets than projected cash outflows over 30 days in a significant stress scenario (specified by supervisors), i.e. a ratio greater than one. The idea is that banks should be able to withstand a 30-day credit crunch by selling the high quality assets.

Liquidity diversification

[Investing](#) in a variety of [maturities](#) to reduce the price [risk](#) to which [holding](#) long [bonds](#) exposes the [investor](#).

Liquidity Fund

A California [company](#) that [buys real estate limited partnership interests](#) at 25% to 35% lower than the current value of the real estate [assets](#).

Liquidity preference hypothesis

The argument that greater [liquidity](#) is valuable, all else equal. Also, the theory that the [forward rate](#) exceeds expected future [interest rates](#).

Liquidity premium

[Forward rate minus](#) expected future [short-term interest rate](#).

Liquidity put

A contract allowing one party to compel the other to buy an asset under certain circumstances. It ensures that there will be a buyer for otherwise illiquid asset.

Liquidity ratios

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

Liquidity risk

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

Liquidity Trap

A situation where [monetary policy](#) can no longer stimulate the economy. When an economy enters liquidity trap, increases in money supply fail to lower interest rates and fail to stimulate the economy.

Liquidity theory of the term structure

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

Lisbon Stock Exchange (LSE)

[Stock exchange trading](#) stocks, [bonds](#), and [unit trusts](#). The BVL general index is the [exchange's official index](#).

Listed firm

A [company](#) whose [stock trades](#) on a [stock exchange](#), and conforms to [listing requirements](#).

Listed option

An [option](#) that has been accepted for [trading](#) on an [exchange](#).

Listed security

[Stock](#) or [bond](#) that has been accepted for [trading](#) by one of the organized and registered securities [exchanges](#) in the United States. Generally, the advantages of being [listed](#) are that exchanges provide: (1) an orderly marketplace; (2) [liquidity](#); (3) [fair price](#) determination; (4) accurate and continuous [reporting](#) on [sales](#) and [quotations](#); (5) information on [listed companies](#); and (6) strict [regulation](#) for the protection of securityholders. Antithesis of [OTC Security](#).

Listed stocks

[Stocks](#) that are [traded](#) on an [exchange](#).

Listing

In the context of [real estate](#), written agreement between a property owner and a real estate [broker](#) that gives the [broker](#) permission to find a buyer or tenant for some property. See: [Listing broker](#).

Listing broker

In the context of [equity](#), when a stock is traded in exchange it is said to be listed. A licensed [real estate broker](#) who completes a listing of a property for [sale](#).

Listing requirements

Requirements, including minimum [shares outstanding](#), [market value](#), and income, that are laid down by an [exchange](#) for any [stock](#) to be listed for [trading](#).

Living benefits

[Life insurance](#) benefits from which the insured can draw [cash](#) while still living, usually in the case of some high-[cost](#) illness.

Living trust

A trust that an individual establishes during the individual's lifetime, enabling the person to [control](#) the [assets](#) contributed to the trust. Also known as an [inter vivos trust](#).

Living will

A document specifying the kind of medical care a person wants-or does not want-in the event of terminal illness or incapacity.

Lloyds of London

A marketplace in London for [underwriting syndicates](#).

Load

The [sales](#) fee charged to an [investor](#) when [shares](#) are [purchased](#) in a [load fund](#) or [annuity](#). See: Back-end load; [front-end load](#); [level load](#).

Load fund

A [mutual fund](#) that sells [shares](#) with a [sales charge](#)-typically 4% to 8% of the [net](#) amount indicated. Some no-load funds also levy [distribution](#) fees permitted by Article [12b-1](#) of the Investment Company Act; these are typically 0. 25%. A true no-load fund has neither a sales charge nor a distribution fee.

Load-to-load

Arrangement whereby the customer pays for the last [delivery](#) when the next one is received.

Load spread option

A method of allocating the [annual sales charge](#) on [load funds](#), often through percentage [deductions](#) from a customer's periodic fixed payments.

Loan

Temporary [borrowing](#) of a sum of [money](#). If you borrow \$1 million you have taken out a loan for \$1 million.

Loan amortization schedule

The timetable for repaying the [interest](#) and [principal](#) on a [loan](#).

Loan commitment

Assurance by a [lender](#) to make [money](#) available to a [borrower](#) on specific [terms](#) in return for a fee.

Loan crowd

Historical [term](#). In the 1920's and 1930's, it refers to the group of [member firms](#) that [lend](#) or [borrow securities](#) needed to cover the [positions](#) of customers who have sold [short securities](#). The crowd could be found around the [loan](#) post.

Loan origination

All the steps involved in making a new [loan](#) including initial application to processing of a loan until it appears on the lender's [books](#).

Loan Preference Principle

The theory that a [covered loan](#) is less expensive when its [cost](#) is calculated in one [currency](#), it will also be less expensive in all other currencies.

Loan shark

Someone who issues [loans](#) with [interest rates](#) above the maximum legal level, often thought to come with threats from the [lessor](#). Loan sharks typically are associated with organized crime, but this is becoming more rare with the emergence of regulated methods that accompany high-[risk loans](#) such as subprime and payday [lender](#). See: [Usury](#)

Loan syndication

Group of banks sharing a [loan](#). See: [Syndicate](#).

Loan value

The maximum percentage of the value of [securities](#) that a [broker](#) can [lend](#) to a [margin account](#) customer, as dictated by the [Federal Reserve Board](#) in [Regulation T](#).

Loan-to-value ratio (LTV)

The ratio of [money borrowed](#) on a property to the property's [fair market value](#).

Loaned flat

[Securities](#) lent [interest-free](#) between [brokers](#) to cover customers' [short sale positions](#).

Local

A [futures exchange member](#) who [trades securities](#) for his or her own [account](#).

Local expectations hypothesis (LEH)

Theory that [bonds](#) similar in all aspects except [maturity](#) will have the same [holding-period rate of return](#).

Local expectations theory

A form of the [pure expectations theory](#) that suggests that the [returns](#) on [bonds](#) of different [maturities](#) will be the same over a [short-term](#) investment horizon.

Local taxes

Property, sewer, school, or other community paid to a locality. Local taxes are usually [deductible](#) for federal [income tax](#) purposes.

Location-specific advantages

Advantages (natural and created) that are available only or primarily in a particular place.

Locational arbitrage

Attempt to exploit discrepancies in [exchange rates](#) between banks.

Lock

Used in the context of general equities. Make a [market](#) both ways ([bid](#) and [offer](#)) either on the [bid](#), [offering](#), or an [in-between](#) price only. Locking on the offering occurs to attract a seller, since the [trader](#) is willing to pay (and [ask](#)) the offering side when others only ask it. Locking on the bid side attracts buyers for similar reasons. Typically, the sell side requires a [plus tick](#) to comply with [short sale](#) rules.

Lock in

To ensure that an individual transacts all his or her business with a sole [broker](#) by providing superior services, such as accommodating block [buy](#) and sell needs or preparing excellent research ([soft-dollar](#) lock). This usually [guarantees](#) a certain volume of business.

Lock-out

With [PAC](#) bond [CMO](#) classes, the period before the PAC [sinking fund](#) becomes effective.

With [multifamily loans](#), the period of time during which [prepayment](#) is prohibited.

Lock-up CDs

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

Lockup option

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

See: [Shark repellent](#).

Lockbox

A [collection](#) and processing service provided to [firms](#) by banks, which collect payments from a dedicated postal box to which the firm directs its customers to send payment to. The banks make several collections per day, process the payments immediately, and deposit the funds into the firm's bank account.

Locked in

When an [investor](#) is unable to take advantage of preferential tax treatment because of time remaining on a required [holding period](#). Also, a [commodities position](#) in which the [market](#) has a limit up or limit down day and investors are unable to move in to or out of the [market](#).

Locked market

A [market](#) is locked if the [bid](#) price equals the [ask](#) price. This can occur, for example, if the [market](#) is [brokered](#) and one side pays brokerage only, in [over-the-counter](#) trading the initiator of the [transactions](#). Highly competitive market environment with inside bid and [offering](#) at the same price. Often occurs when an [OTC dealer](#) has not updated the market.

Lockup Agreement

Where the purchaser of securities agrees not to sell the securities for a certain period of time (the lockup time).

Log-linear least-squares method

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

Lognormal distribution

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

Lombard rate

Applies mainly to international equities. [Interest rate](#) the German Bundesbank uses as an upper limit to the day-to-day [money rate](#), since no bank will pay higher rates in the [money market](#) than it has to pay for very [short-term](#) recourse to Lombard [credit](#).

London Commodity Exchange (LCE)

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

London Interbank Bid Rate (LIBID)

The [bid](#) rate that a Euromarket bank is willing to pay to attract a deposit from another Euromarket bank in London. Related: [LIBOR](#).

London Interbank Offered Rate

A [short-term interest rate](#) often quoted as a 1,3,6-month rate for U.S.dollars.

London International Financial Futures and Options Exchange (LIFFE)

A leading market for trading options and futures on euro [money market derivatives](#).

London Metal Exchange (LME)

A [market](#) for [trading](#) base metals, where [traded options contracts](#) are available against the [underlying futures contract](#).

London Stock Exchange (LSE)

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

Long

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

Long bonds

[Bonds](#) with a long [current maturity](#). The "long bond" is the 30-year US [Treasury bond](#).

Long coupons

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

Long end duration (LEDUR)

Sensitivity of a [portfolio](#) value to changes in the [long end of the yield curve](#).

Long end of the yield curve

Usually refers to [yields](#) that are 10-yrs or greater.

Longevity Swap

A longevity swap is a derivative contract that offsets insurance companies' or pension funds' risks of their policyholders living longer than expected. Longevity swap is an insurance program for the financial institutes or funds. A third party (insurance company, for example) will insure the pension fund or annuity fund based on the current predicted life expectancy. If life expectancy increases dramatically, the insurance policy kicks in to cover the extra pay-outs.

Long-term forward contracts

[Contracts](#) that state [exchange rate](#) at which a specified amount of a particular [currency](#) can be exchanged at a future date (more than one year from today).

Long hedge

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

Long leg

The part of an [option spread](#) in which an agreement to [buy](#) the [underlying security](#) is made.

Long market value

The [market value](#) of a [security](#), excluding [options](#), as of the close of the last business day.

Long only portfolio

A [portfolio](#) that holds only [long positions](#) on [securities](#) and no [short positions](#).

Long position

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

Long position in an option

[Purchase](#) of an [options](#).

Long run

A period of time in which all [costs](#) are [variable](#); longer than one year.

Long short portfolio

A [portfolio](#) with [long positions](#) on [securities](#) that are expected to rise in value and [short positions](#) on securities that are expected to decline in value. If dollar amounts in long and short positions are balanced, it approximately neutralizes the [risk](#) of the underlying market.

Long straddle

Taking a [long position](#) in both a [put](#) and a [call option](#).

Long-term

Three or more years. In the context of accounting, more than 1 year.

Long-term assets

Value of property, equipment, and other [capital assets minus](#) the [depreciation](#). This is an entry in the bookkeeping records of a [company](#). It is usually established on a "cost" [basis](#), and thus does not necessarily reflect the [market value](#) of the assets.

Long-term capital gain

A [profit](#) on the [sale](#) of a [security](#) or [mutual fund share](#) that has been held for more than one year.

Long-term debt

An [obligation](#) having a [maturity](#) of more than one year from the date it was [issued](#). Also called [funded debt](#).

Long-term debt/capitalization

[Indicator of financial leverage](#). Shows [long-term debt](#) as a proportion of the [capital](#) available.

Determined by dividing long-term debt by the sum of long-term debt, [preferred stock](#) and common [stockholder's equity](#).

Long-term debt-to-equity ratio

A [capitalization](#) ratio comparing [long-term debt](#) to [shareholders' equity](#).

Long-term debt ratio

The ratio of [long-term debt to total capitalization](#).

Long-Term Anticipation Securities (LEAPS)

[Long-term](#) options.

Long-term financial plan

[Financial](#) plan covering two or more years of future operations.

Long-term financing

[Liabilities](#) repayable in more than one year plus [equity](#).

Long-term gain

A [profit](#) on the [sale](#) of a [capital assets](#) held longer than 12 months, and eligible for [long-term capital gains](#) tax treatment.

Long-term goals

[Financial](#) goals expected to be accomplished in five years or longer.

Long-term investor

A person who makes [investments](#) for a period of at least five years in order to [finance](#) his or her [long-term](#) goals.

Long-term liabilities

Amount owed for [leases](#), [bond](#) repayment, and other items due after 1 year.

Long-term loss

A [loss](#) on the [sale](#) of a [capital asset](#) held less than 12 months that can be used to [offset](#) a [capital gain](#).

Look

Used for listed equity securities. See: [Picture](#).

Look-thru

A method for calculating US taxes owed on income from [controlled](#) foreign corporations that was introduced by the [Tax Reform Act of 1986](#).

Lookback option

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

Looking for

In the context of general equities, this describing a [buy](#) interest in which a [dealer](#) is asked to [offer stock](#), often involving a [capital](#) commitment. Antithesis of [in touch with](#).

Loophole

A technicality in some legislation or [regulation](#) that makes it possible to avoid certain consequences or circumvent a rule without breaking the law, such as in the use of a [tax shelter](#).

Loose credit

Policy by the [Federal Reserve Board](#) to make [loans](#) less expensive and more available by reducing [interest rates](#) through market operations.

Loss

The opposite of gain.

Loss Carry-Back (Carry-Forward)

A tax provision that allows [operating losses](#) to be used as a [tax shield](#) to reduce [taxable income](#) in prior and future years. [Losses](#) can be carried backward for up to three years and forward for up to 15 years under current tax codes.

Loss-control activities

Actions that an insured person or [company](#) takes at the instigation of an insurance company in order to prevent accidents or [losses](#).

Loss-of-income insurance

Insurance coverage that will pay out income that a [policyholder loses](#) as a result of a disability, injury, or business disruption.

Loss payee

A party to whom an insurance loss payment or insurance [settlement](#) may be directly paid.

Loss ratio

The ratio of [losses](#) paid or accrued by an [insurer](#) to [premiums](#) collected over a year.

Lots

In the context of general equities, this [blocks](#) or portions of [trades](#). Can express a specific [transaction](#) in a [stock](#) at a certain time, often implying [execution](#) at the same price (e.g., "I traded 40m in two lots of 10 and four lots of 5.").

Louvre Accord

1987 agreement between countries to attempt to stabilize the value of the US dollar.

Low

In the context of general equities, this is a specific minimum limit required by a seller in [execution](#) an [order](#) ("I'll sell 50 with an eighth low."); implies a [not-held limit order](#). Antithesis of [top](#).

Low balance method

A method of calculating [interest](#) on the basis of the lowest balance of an [account](#) over the applicable period.

Low ball

Slang for making an [offer](#) well below the [fair value](#) of an [asset](#) in hopes that the seller may be desperate to sell.

Low-coupon bond refunding

[Refunding](#) of a low-[coupon bond](#) with a new, higher-coupon bond.

Low grade

A [bond](#) with a [rating](#) of B or lower.

Low-load fund

A [mutual fund](#) that charges a [sales commission](#) of 3.5% or less for the [purchase](#) of [shares](#).

Low price

The day's lowest price of a [security](#) that has changed hands between a [buyer](#) and a seller.

Low price-earnings ratio effect

The tendency of [portfolios](#) of stocks with a low price-[earnings](#) ratio to outperform portfolios of stocks with high [price-earnings ratios](#).

Lump sum

A large one-time payment of [money](#).

Lump-sum distribution

A single payment that represents an employee's interest in a [qualified retirement plan](#). The payment must be prompted by retirement (or other separation from service), death, disability, or attainment of age 59-1/2, and must be made within a single tax year to avoid the federal government's 10% penalty tax.

Lyapunov Exponents

A measure of the dynamics of an [attractor](#). Each dimension has a Lyapunov exponent. A positive exponent measures sensitive dependence on initial conditions, or how much our forecasts can diverge based upon different estimates of starting conditions. Another way to view Lyapunov exponents is the loss of predictive ability as we look forward into time. [Strange Attractors](#) are characterized by at least one positive exponent. A negative exponent measures how points converge towards one another. [Point Attractors](#) are characterized by all negative [variables](#). See: [Attractor](#), [Limit Cycle](#), [Point Attractor](#), [Strange Attractor](#).

M

Fifth letter of a [NASDAQ](#) stock symbol specifying that the [issue](#) is the [company's](#) fourth class of preferred shares.

M1

Measure of the U.S. [money](#) stock that consists of: (1) [currency](#) held by the [public](#) (i.e. outside the U.S. Treasury, Federal Reserve Banks, and the vaults of depository institutions); (2) travelers [checks](#) (issued by nonbanks); (3) demand deposits at commercial banks (excluding those amounts held by depository institutions, the U.S. government, and foreign banks and official institutions) less cash items in the process of collection and Federal Reserve float; and (4) other checkable deposits (OCDs), consisting of negotiable order of withdrawal (NOW) and automatic transfer service ([ATS](#)) accounts at depository institutions, credit union share draft accounts, and demand deposits at thrift institutions.

M2

M2 consists of [M1](#) plus (1) savings deposits (including money market deposit accounts); (2) small-denomination time deposits (time deposits in amounts of less than \$100,000), less individual retirement account (IRA) and Keogh balances at depository institutions; and (3) balances in retail money market mutual funds, less IRA and Keogh balances at money market mutual funds.

M3

Measure of the U.S. [money](#) stock that consists of [M2](#), time deposits of \$100,000 or more at all depository institutions, [term repurchase agreements](#) in amounts of \$100,000 or more, certain [term](#) Eurodollars and balances in money market mutual funds restricted to [institutional investor](#).

MA

The two-character [ISO](#) 3166 country code for MOROCCO.

MAB

See: [Master Air Waybill](#)

MAC

The three-character [ISO](#) 3166 country code for MACAU.

MAD

The [ISO](#) 4217 currency code for the Moroccan Dirham.

MAF

The three-character [ISO](#) 3166 country code for SAINT MARTIN.

MAR

The three-character [ISO](#) 3166 country code for MOROCCO.

MBI

See: [Management buyin](#)

MBO

See: [Management buyout](#)

MBSCC

See: [Mortgage-Backed Securities Clearing Corporation](#)

MC

The two-character [ISO](#) 3166 country code for MONACO.

MCO

The three-character [ISO](#) 3166 country code for MONACO.

MD

The two-character [ISO](#) 3166 country code for MOLDOVA, REPUBLIC OF.

MDA (1)

The three-character [ISO](#) 3166 country code for MOLDOVA, REPUBLIC OF.

MDA (2)

See: [Multiple discriminant analysis](#)

MDG

The three-character [ISO](#) 3166 country code for MADAGASCAR.

MDL

The [ISO](#) 4217 currency code for the Moldovan Leu.

MDV

The three-character [ISO](#) 3166 country code for MALDIVES.

ME

The two-character [ISO](#) 3166 country code for MONTENEGRO.

MEX

The three-character [ISO](#) 3166 country code for MEXICO.

MF

The two-character [ISO](#) 3166 country code for SAINT MARTIN.

MG

The two-character [ISO](#) 3166 country code for MADAGASCAR.

MGF

The [ISO](#) 4217 currency code for the Madagascar Franc.

MH

The two-character [ISO](#) 3166 country code for MARSHALL ISLANDS.

MHL

The three-character [ISO](#) 3166 country code for MARSHALL ISLANDS.

MHS

See: [Manufactured housing securities](#)

MK

The two-character [ISO](#) 3166 country code for MACEDONIA, THE FORMER YUGOSLAV REPUBLIC OF.

MKD

The three-character [ISO](#) 3166 country code for MACEDONIA, THE FORMER YUGOSLAV REPUBLIC OF.

MIP

See: [Monthly income preferred security](#)

MIT

See: [Market-if-touched](#)

MKD

The [ISO](#) 4217 currency code for the Macedonian Denar.

ML

The two-character [ISO](#) 3166 country code for MALI.

MLI

The three-character [ISO](#) 3166 country code for MALI.

MLP

See: [Master limited partnership](#)

MLT

The three-character [ISO](#) 3166 country code for MALTA.

MM

The two-character [ISO](#) 3166 country code for MYANMAR.

MMDA

See: [Money Market Demand Account](#). Same as Money Market Deposit Account

MMIFF

See: [Money Market Investor Funding Facility](#).

MMK

The [ISO](#) 4217 currency code for the Myanmar (ex-Burma) Kyat.

MMME

See: [Middle Market Manufacturing Exporter](#)

MMR

The three-character [ISO](#) 3166 country code for MYANMAR.

MN

The two-character [ISO](#) 3166 country code for MONGOLIA.

MNC

See: [Multinational corporation](#)

MNE

The three-character [ISO](#) 3166 country code for MONTENEGRO.

MNG

The three-character [ISO](#) 3166 country code for MONGOLIA.

MNP

The three-character [ISO](#) 3166 country code for NORTHERN MARIANA ISLANDS.

MNT

The [ISO](#) 4217 currency code for the Mongolian Tugrik.

MO

The two-character [ISO](#) 3166 country code for MACAU.

MOC

See [Market on Close](#).

MOP

The [ISO](#) 4217 currency code for the Macau Pataca.

MOZ

The three-character [ISO](#) 3166 country code for MOZAMBIQUE.

MP

The two-character [ISO](#) 3166 country code for NORTHERN MARIANA ISLANDS.

MQ

The two-character [ISO](#) 3166 country code for MARTINIQUE.

MR

The two-character [ISO](#) 3166 country code for MAURITANIA.

MRO

The [ISO](#) 4217 currency code for the Mauritanian Ouguiya.

MRQ

A short-form for Most Recent Quarter. Often used in the context of explaining [company](#) performance. MRQ earnings, for example.

MRT

The three-character [ISO](#) 3166 country code for MAURITANIA.

MS

The two-character [ISO](#) 3166 country code for MONTSERRAT.

MSCI

See: [Morgan Stanley Capital International](#)

MSR

The three-character [ISO](#) 3166 country code for MONTSERRAT.

MT

The two-character [ISO](#) 3166 country code for MALTA.

MTL

The [ISO](#) 4217 currency code for the Maltese Lira.

MTN

A short-form for [Medium Term Note](#).

MTNR

A short-form for [Medium Term Note Retail](#).

MTQ

The three-character [ISO](#) 3166 country code for MARTINIQUE.

MU

The two-character [ISO](#) 3166 country code for MAURITIUS.

MUR

The [ISO](#) 4217 currency code for the Mauritius Rupee.

MUS

The three-character [ISO](#) 3166 country code for MAURITIUS.

MV

The two-character [ISO](#) 3166 country code for MALDIVES.

MVR

The [ISO](#) 4217 currency code for the Maldives Rufiyaa.

MW

The two-character [ISO](#) 3166 country code for MALAWI.

MWI

The three-character [ISO](#) 3166 country code for MALAWI.

MWK

The [ISO](#) 4217 currency code for the Malawian Kwacha.

MY

The two-character [ISO](#) 3166 country code for MALAYSIA.

MYR

The [ISO](#) 4217 currency code for the Malaysian Ringgit.

MYS

The three-character [ISO](#) 3166 country code for MALAYSIA.

MYT

The three-character [ISO](#) 3166 country code for MAYOTTE.

MX

The two-character [ISO](#) 3166 country code for MEXICO.

MXN

The [ISO](#) 4217 currency code for the Mexican Peso.

MZ

The two-character [ISO](#) 3166 country code for MOZAMBIQUE.

MZM

The [ISO](#) 4217 currency code for the Mozambique Metical.

Macaroni defense

A tactic used by a [corporation](#) that is the target of a [hostile takeover bid](#) involving the [issue](#) of a large number of [bonds](#) that must be [redeemed](#) at a higher value if the [company](#) is taken over.

Macaulay duration

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

Macro

In the context of hedge funds, a style of [management](#) that takes [long-term](#) strategic bets. For example, the manager might believe that the Yen will appreciate relative to the dollar over the next six months and alter the [portfolio](#) to capture this potential [profit](#) opportunity.

Macro country risks

Country risks or [political risks](#) that affect all foreign [firms](#) in a host country.

Macroassessment

Overall [risk](#) assessment of a country without consideration of an [MNC's](#) business.

Macroeconomics

Analysis of a country's economy as a whole.

Madrid Stock Exchange (Bolsa de Madrid)

The largest of Spain's four [stock exchanges](#).

Magic of diversification

The effective reduction of [risk \(variance\)](#) of a [portfolio](#), achieved without reduction to [expected returns](#) through the combination of [assets](#) with low or negative [correlations \(covariances\)](#).

Related: [Markowitz diversification](#).

Mail Delay

Time a payment spends in the postal system before delivery.

Mail float

Time period that [checks](#) for payment spend in the postal system.

Mailing Date

A specific date set for the mailing of certain material to security [holders](#) such as interim reports, [proxy](#) material and [dividend checks](#).

Maintenance

Appropriate ongoing adjustments to security [holder](#) records.

Maintenance call

A [call](#) for additional [money](#) or [securities](#) when a [margin account](#) falls below its exchange-mandated required level.

Maintenance fee

A yearly charge to maintain brokerage accounts, such as [asset management accounts](#) or [IRAs](#).

Maintenance margin

For derivative contracts, when the margin drops below the maintenance margin, the investor gets a margin call. The investor must post margin to the initial margin (which is higher than the maintenance) or the contract will be liquidated.

Maintenance margin requirement

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

Majority shareholder

A [shareholder](#) who is part of a group that [controls](#) more than half the [outstanding shares](#) of a [corporation](#).

Majority voting

Voting system under which corporate [shareholders](#) vote for each [director](#) separately.

Related: [Cumulative voting](#).

Make a market

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

Make-up

The amount of deficiency when a [cash flow](#) or [capital](#) item is deficient. For example, an [interest](#) make-up relates to the interest amount above a [ceiling](#) percentage.

Make whole provision

Related to the [lump-sum](#) payments made when a [loan](#) or [bond](#) is [called](#), equal to the [NPV](#) of future loan or [coupon payments](#) not paid because of the call. The payment can be significant and negate the attractiveness of a call.

Making delivery

Refers to the seller's actually turning over to the buyer the [assets](#) agreed upon in a [forward contract](#).

Malaysia Commodity Exchange

A [subsidiary](#) of the [KLSE](#) that [trades interest rate futures](#) on the three-month Kuala Lumpur Interbank offered rate.

Maloney Act

1938 legislation amending the [Securities Exchange Act](#) that [regulates](#) the [OTC](#) market.

Managed account

An [investment portfolio](#) one or more clients entrusted to a manager who decides how to invest it.

Managed float

Also known as "[dirty](#)" [float](#), this is a system of [floating exchange rates](#) with [central bank](#) intervention to reduce [currency fluctuations](#).

Managed Futures

In the context of hedge funds, a style of [management](#) that focuses on [short-term trading](#) in the futures market.

Management

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

Management buyin (MBI)

A form of [leveraged buyout](#) in which the outside management team (often backed by a third party private equity investor) acquires a company and replaces the incumbent management team.

Management buying

The [acquisition](#) of a [controlling interest](#) in a promising business by an outside [investment](#) group that retains existing [management](#) and places representatives on the [board of directors](#).

Management buyout (MBO)

[Leveraged buyout](#) whereby the [acquiring](#) group is led by the [firm's management](#).

Management/closely held shares

Percentage of [shares](#) held by persons closely related to a [company](#), as defined by the [Securities and Exchange Commission](#). Part of these percentages often are included in "institutional [holdings](#)"-- making the combined total of these percentages over 100. There is overlap as institutions sometimes acquire enough [stock](#) to be considered by the [SEC](#) to be closely allied to the company.

Management contract

An agreement by which a [company](#) will provide its organizational and [management](#) expertise in the form of services.

Management fee

An [investment advisory](#) fee charged by the [financial adviser](#) to a [fund](#) typically on the basis of the fund's [average assets](#), but sometimes determined on a sliding scale that declines as the dollar amount of the fund increases.

Management Shake-Up

A situation where senior [management](#) is replaced or reassigned to different roles.

Management's discussion and analysis (MD&A)

A report from [management](#) to [shareholders](#) that accompanies the [firm's financial statements](#) in the [annual report](#). It explains the period's financial results and enables management to discuss topics that may not be apparent in the [financial statements](#) in the [annual](#) report.

Manager

A medium-level participant established according to final take.

Managerial decisions

Decisions concerning the operation of the [firm](#), such as the choice of firm size, firm [growth rates](#), and employee [compensation](#).

Managerial flexibility

Flexibility in the timing and scale of [investment](#) provided by a real investment option.

Managing underwriter

The leading [firm](#) in an [underwriting](#) group, which originates the deal and acts as an [agent](#) for the group.

Mandate

Allocation of funds to an investment manager to be managed for a specific purpose or style. Also refers to the formal appointment to advise on or arrange a project financing.

Mandatory convertibles

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

Mandatory redemption schedule

Schedule according to which [bond sinking fund](#) payments must be made.

Manipulation

Dealing in a [security](#) to create a false appearance of [active trading](#), in order to bring in more [traders](#). Illegal.

Manufactured housing securities (MHS)

[Loans](#) on manufactured homes—that is, factory-built or prefabricated housing, including mobile homes.

Manufacturing ISM Report on Business

A monthly report released by the Institute for Supply Management measuring growth in the manufacturing sector.

Maple Leaf

A gold, silver, or platinum coin minted in Canada that usually [trades](#) at slightly more than its current [bullion](#) value.

Margin

Allows [investors](#) to [buy securities](#) by [borrowing money](#) from a [broker](#). The margin is the difference between the [market value](#) of a [stock](#) and the [loan](#) a broker makes. Related: [Security](#) deposit (initial). In the context of [hedging](#) and [futures contracts](#), the [cash collateral](#) deposited with a [trader](#) or exchanged as insurance against [default](#).

Margin account (stocks)

A [leverageable](#) account in which [stocks](#) can be [purchased](#) for a combination of [cash](#) and a [loan](#). The loan in the [margin](#) account is [collateralized](#) by the [stock](#); if the value of the stock [drops](#) sufficiently, the

owner will be asked to either put in more cash, or sell a portion of the stock. Margin rules are federally [regulated](#), but margin requirements and [interest](#) may vary among [broker/dealers](#).

Margin requirement

A performance [bond](#) paid upon [purchase](#) of a [futures contract](#) that protects the exchange [clearinghouse](#) from [loss](#).

Margin stock

Any stock listed on a national [securities](#) exchange, any over-the-counter security approved by the SEC for [trading](#) in the national market system, or appearing on the Board's list of over-the-counter [margin](#) stock and most mutual funds.

Margin trading

Buying [securities](#), in part, with [borrowed money](#).

Marginal

Incremental.

Margin agreement

The agreement governing customers' [margin accounts](#).

Marginal cost

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

Marginal efficiency of capital

The [percentage yield](#) earned on an additional [unit](#) of [capital](#).

Marginal revenue

The change in total revenue as a result of producing one additional [unit](#) of output.

Marginal tax rate

The [tax rate](#) that would have to be paid on any additional dollars of [taxable income earned](#).

Marginal utility

The change in total satisfaction as a result of consuming one additional [unit](#) of a specific good or service.

Margin call

A demand for additional funds because of adverse price movement. [Maintenance margin requirement](#), [security deposit maintenance](#).

Margin department

The department in a brokerage firm that monitors customers' [margin accounts](#), ensuring that all short sales, [stock purchases](#), and other [positions](#) are covered by the margin account balance.

Margin of profit

[Gross profit](#) divided by [net sales](#). Used to measure a [firm's](#) operating efficiency and pricing policies in order to determine how competitive the firm is within the [industry](#).

Margin of safety

With respect to [working capital management](#), the difference between (1) the amount of [long-term financing](#) and (2) the sum of [fixed assets](#) and the permanent component of [current assets](#).

Margin requirement (options)

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

Margin security

A [security](#) that may be bought or sold in a [margin account](#) as defined in [Regulation T](#).

Marine Cargo Insurance

[Insurance](#) covering loss or damage to goods in transit.

Marital deduction

A [tax deduction](#) that allow spouses to [transfer](#) unlimited amounts of property to one another.

Marital trust

A [trust](#) created to allow one spouse to [transfer](#), during life or upon death, an unlimited amount of property to his/her spouse without incurring gift or [estate tax](#).

Markdown

The amount subtracted from the selling price of [securities](#) when they are sold to a [dealer](#) in the [OTC](#) market. Also, the [discounted](#) price of [municipal bonds](#) after the [market](#) has shown little interest in the [issue](#) at the original price.

Marked-to-market

An arrangement whereby the [profits](#) or [losses](#) on a [futures contract](#) are settled each day.

Market

Usually refers to the [equity market](#). "The market went down today" means that the value of the [stock market dropped](#) that day.

Market analysis

An analysis of technical corporate and [market](#) data used to predict movements in the [market](#).

Market-based forecasting

Analyzing future [spot rates](#) on the basis of a market-determined [exchange rate](#) (such as the current [spot rate](#) or [forward rate](#)).

Market-based corporate governance system

Organization of a [corporation](#) whereby the [supervisory board](#) represents a dispersed set of largely [equity shareholders](#).

Market-book ratio

[Market price](#) of a [share](#) divided by [book value per share](#).

Market bottom

- (1) The point in time at which a security's price begins to trend upwards after trending downwards.
- (2) The price level at which a security's price begins to trend upwards after trending downwards.

Market break

See: [Break](#)

Market capitalization

The total dollar value of all [outstanding shares](#). Computed as shares times current [market price](#). [Capitalization](#) is a measure of corporate size.

Market capitalization rate

[Expected return](#) on a [security](#). The market-consensus estimate of the appropriate [discount rate](#) for a [firm's cash flow](#).

Market check

An investigation typically conducted by an investment banking firm, on behalf of a target's Board of Directors (or Special Committee) as part of a process to determine whether a proposed price for the target (or its assets) is fair.

Market clearing

Total demand for [loans](#) by [borrowers](#) equals total supply of loans from [lenders](#). The market, any market, clears at the [equilibrium rate of interest](#) or price.

Market conversion price

Also called [conversion parity price](#), the price that an [investor](#) effectively pays for [common stock](#) by purchasing a [convertible security](#) and then [exercising](#) the conversion [option](#). This price is equal to the [market price](#) of the convertible security divided by the [conversion ratio](#).

Market correction

A relatively [short-term drop](#) in stock [market prices](#), generally viewed as bringing overpriced [stocks](#) back to a level closer to [companies'](#) actual values.

Market cycle

The period between the two latest highs or lows of the [S&P 500](#), showing [net](#) performance of a fund through both an up and a down market. A market cycle is complete when the S&P is 15% below the highest [point](#) or 15% above the lowest [point](#) (ending a down market).

Market Eye

A [financial](#) information service based in the U.K. sponsored by the ISE (International Stock Exchange of the UK and the Republic of Ireland) that provides current [market](#) and statistical information.

Market failure

The inability of arm's length markets to deliverer goods or services. A [multinational corporation's](#) market internalization advantages may take advantage of market failure.

Market-if-touched (MIT)

A [price order](#), below [market](#) if a [buy](#) or above market if a sell, that automatically becomes a [market order](#) if the specified price is reached.

Market impact costs

The result of a [bid/ask spread](#) and a [dealer's](#) price [concession](#). Also called [price impact costs](#).

Market index

Market measure that consists of weighted values of the components that make up certain list of [companies](#). A [stock market](#) tracks the performance of certain stocks by weighting them according to their prices and the number of [outstanding shares](#) by a particular formula.

Market interest rate

Rates of interest paid on deposits and other [investments](#), determined by the interaction of the supply of and demand for funds in the [money](#) market.

Market internalization advantages

Conditions that allow a [corporation](#) to exploit the failure of an [arm's length](#) market to deliver goods or services efficiently.

Market jitters

Anxiety among many [investors](#), causing them to sell [stocks](#) and [bonds](#), pushing prices down.

Market letter

A newsletter analyzing the [market](#) that is written by an [SEC](#)-registered [investment](#) adviser who sells the letter to subscribers. See: [Hulbert Rating](#).

Market maker

Used in the context of general equities. One who maintains firm [bid](#) and [offer prices](#) in a given [security](#) by standing ready to [buy](#) or sell [round lots](#) at [publicly](#) quoted prices.

See: [Agent](#), [dealer](#), [specialist](#).

Market microstructure

The functional setup of a [market](#).

Market model

The market model says that the [return](#) on a [security](#) depends on the return on the [market portfolio](#) and the extent of the security's responsiveness as measured by [beta](#). The return also depends on conditions that are unique to the [firm](#). The market model can be graphed as a line fitted to a plot of [asset](#) returns against returns on the [market portfolio](#). This relationship is sometimes called the [single-index model](#).

Market Neutral

In the context of hedge funds, a style of [management](#) that has long and short equity exposure with nearly exposure on [average](#) to [fluctuations](#) in the market. However, the on average qualification is important. The [risk](#) of the longs and the shorts could fluctuate through time leading to negative [returns](#) when the market falls sharply.

Market Not Held Order

Also a [market order](#), but the [investor](#) is allowing the [floor broker](#) to use his own discretion as to the exact timing of the execution. If the floor broker expects a decline in price and he is [holding](#) a "market not held buy order", he (she) may wait to buy, figuring that a better price will soon be available. There is no guarantee that a "market not held order" will be filled.

Market-on-Close (MOC) order

An [order](#) to [trade stocks](#), [options](#), or [futures](#) as close as possible to the [market](#) close. See also [MOC](#).

Market opening

The start of formal [trading](#) on an [exchange](#).

Market order

Used in the context of general equities. [Order](#) to [buy](#) or sell a [stated](#) amount of a [security](#) at the most advantageous price obtainable after the order is represented in the [trading crowd](#). You cannot specify special restrictions such as [all or none \(AON\)](#) or [good 'til canceled order \(GTC\)](#) on market orders.

See: [Limit order](#).

Market order go-along/participating

Used for listed equity securities. See: [Percentage order](#).

Market out clause

A clause that may appear in an [underwriting](#) firm commitment that releases it from its [purchase](#) requirement if there are negative [securities market](#) developments.

Market overhang

The theory that, in certain situations, institutions wish to sell their [shares](#) but postpone the [sale](#) because large [orders](#) under current market conditions would drive down the share price and that the consequent threat of [securities sales](#) will tend to retard the rate of share price appreciation. Support for this theory is largely anecdotal.

Market penetration/share

Used in the context of general equities. Percent of [trading](#) volume in a [stock](#) that a particular [market maker](#) trades.

Market Performance Committee (MPC)

A group of [NYSE](#) market oversight [specialists](#) who monitor specialists' efficiency in maintaining fair prices and orderly [markets](#).

Market price

The last reported price at which a [security](#) was [traded](#) on an [exchange](#).

Market research

A [technical analysis](#) of [factors](#) such as [volume](#), price [trends](#), and [market](#) breadth that are used to predict price movement.

Marketplace price efficiency

The degree to which the [prices](#) of [assets](#) reflect the available marketplace information. Marketplace price efficiency is sometimes estimated as the difficulty faced by [management](#) of [earning](#) a greater [return](#) than passive management would, after adjusting for the [risk](#) associated with a [strategy](#) and the [transactions costs](#) associated with implementing a strategy.

Market portfolio

A [portfolio](#) consisting of all [assets](#) available to [investors](#), with each [asset](#) held in proportion to its [market value](#) relative to the total market value of all assets.

Market price of risk

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

Market prices

The amount of [money](#) that a willing buyer pays to [acquire](#) something from a willing seller, when a buyer and seller are independent and when such an exchange is motivated by only commercial consideration.

Market return

The [return](#) on the [market portfolio](#).

Market risk

[Risk](#) that cannot be [diversified](#) away. Related: [Systematic risk](#)

Market RRR (required rate of return) Schedule

A line that [indicates](#) the minimum [return](#) required by [investors](#) at each level of [investment risk](#). The schedule begins at the [risk-free interest rate](#) and rises as risk increases.

Market sectors

The classifications of [bonds](#) by [issuer](#) characteristics, such as state government, corporate, or utility.

Market segmentation theory or preferred habitat theory

A [biased expectations theory](#) that asserts that the shape of the [yield curve](#) is determined by the supply of and demand for [securities](#) within each [maturity sector](#).

Market share

The percentage of total [industry sales](#) that a particular [company controls](#).

Market sweep

A second [offering](#) following a [tender offer](#), allowing [institutional investors](#) to obtain a [controlling interest](#) at a price higher than the original offer.

Market timer

A [money manager](#) who assumes he or she can forecast when the [stock market](#) will go up and down.

Market timing 1.

Used in the practice of [Asset allocation](#). Based on public information, managers actively decide which stocks, sectors, countries, or asset classes to over or underweight. Market timing takes advantage of a small but important amount of predictability in asset returns. The strategy contrasts with the buy-and-hold strategy in which a portfolio is decided on and held for long periods of time. Market timing is an active rather than passive strategy.

Market timing 2.

A misnomer synonym used in reference to 2003 mutual fund scandal. The misnomer synonym refers to [Stale Price Arbitrage](#).

Market timing costs

[Costs](#) that arise from [price movement](#) of a [stock](#) during a [transaction](#) period but attributable to other activity in the stock.

Market tone

The general state of well-being of a [securities](#) market, based mostly on [trading](#) activity.

Market top

- (1) The point in time at which a security's price begins to trend downwards after trending upwards.
- (2) The price level at which a security's price begins to trend downwards after trending upwards.

Market value

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

Market value ratios

Ratios that relate the [market price](#) of the [firm's common stock](#) to selected [financial statement](#) items.

Market value-weighted index

An [index](#) of a group of [securities](#) computed by calculating a weighted [average](#) of the [returns](#) on each security in the [index](#), where the weights are proportional to [outstanding market value](#).

Marketability

A [negotiable security](#) is said to have good marketability if there is an [active secondary market](#) in which it can easily be resold.

Marketable securities

[Securities](#) that are easily [convertible](#) to [cash](#) because there is high demand allowing them to be sold quickly.

Marketable title

A clear, reasonably incontestable title to a piece of [real estate](#) that is good for [transaction](#) purposes.

Marketed claims

Claims that can be bought and sold in [financial markets](#), such as those of [stockholders](#) and [bondholders](#).

Marking to market

Settling or reconciling changes in the value of [futures contracts](#) on a daily basis. Also refers to the practice of reporting the value of [assets](#) on a [market](#) rather than [book value](#) basis.

Marking up or down

The amount by which a [securities dealer](#) raises or lowers the price of a [stock](#) or [bond](#) due to changes in demand and supply.

Markowitz, Harry

Nobel laureate in economics. Father of [portfolio theory](#).

Markowitz diversification

A [strategy](#) that seeks to combine in a [portfolio assets](#) with [returns](#) that are less than perfectly positively correlated, in an effort to lower [portfolio risk \(variance\)](#) without sacrificing [return](#).

Related: [Naive diversification](#).

Markowitz efficient frontier

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

Markowitz efficient portfolio

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

Markovian Dependence

The condition where observations in a [time series](#) are dependent on previous observations in the near term. Markovian dependence dies quickly, while long-memory effects like Hurst dependence, decay over very long time periods.

Markowitz efficient set of portfolios

The collection of all [efficient portfolios](#), which can be graphed as the [Markowitz efficient frontier](#).

Marks and Numbers

Identifying symbols and numbers placed by the shipper on each piece of cargo in a shipment.

Mark-to-market

Adjustment of the [book value](#) or [collateral](#) value of a [security](#) to reflect [current market value](#).

Mark to market accounting

Refers to accounting for the value of an asset or liability based on the current market price instead of [book value](#). This term was started by Professor Matt Holden of UNLV. See: [fair value accounting](#)

Marriage penalty

A tax that has the effect of penalizing a married couple because they pay more tax on a [joint tax return](#) than they would if they file tax returns individually.

Married put

A [put option](#) bought at the same time as its [underlying securities](#) in [order](#) to [hedge](#) the price paid for the [securities](#).

Married Put and Stock

The simultaneous [purchase](#) of stock and the corresponding number of [put options](#). This is a limited [risk strategy](#) during the life of the puts because the stock can be sold at the [strike price](#) of the puts.

Married Put Strategy

A put and stock are considered to be married if they are bought on the same day, and the position is designated at that time as a hedge.

Master Air Waybill (MAB)

A document [issued](#) by the originating airline when and if a shipment involves more than one air carrier.

Master limited partnership (MLP)

A [publicly](#) traded [limited partnership](#).

Master pension plan

See: [Prototype plan](#)

Matador market

The [foreign market](#) in Spain.

Matched and lost

The outcome of the flip of a coin used to determine which of two [brokers](#) who are locked in competition for equal [trades](#) may actually [execute](#) the [trades](#).

Match-fund

A bank is said to match-fund a [loan](#) or other [asset](#) when it does so by buying (taking) a deposit of the same [maturity](#). The term is commonly used in the Euromarket.

Matched book

A bank runs a matched [book](#) when the of [maturities](#) of its [assets](#) and [liabilities](#) is [distribution](#) equal.

Matched maturities

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

Matched orders

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

Matched Sale Purchase Transactions

[Transcations](#) in which the Federal Reserve sells a government security to a [dealer](#) or a foregin central bank and agrees to buy back the security to a dealer or a foreign central bank and agrees to buy back the security on a specified date (usually within seven days) at eh same price (the reverse of a [repurchase agreement](#)). Such transaction allow the Federal Reserve to temporarily absorb [excess reserves](#) from the banking system, limiting the ability of banks to make new [loans](#) and [investments](#).

Matched sale transaction

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

Matching concept

The accounting principle that requires the recognition of all [costs](#) that are associated with the generation of the revenue reported in the [income statement](#).

Material Adverse Change or Effect

Many mergers and [acquisitions](#) contracts include a material adverse change clause that allows a [company](#) to renegotiate or walk away from a deal if the other company or its [subsidiaries](#) announces a significant event that may negatively affect its stock price or operations. See also [materiality](#).

Materiality

The importance of an event or information in influencing a [company's stock](#) price. [Companies](#) must report any material events within one month by filing SEC form 8-K.

Materials requirement planning

Computer-based systems that plan backward from the production schedule to make [purchases](#) in order to manage [inventory](#) levels.

Mathematical model

A mathematical representation of concepts that describes a system through a series of equations relating variables of the system. Many disciplines use mathematical models, including, but not limited to, physics, biology, psychology, and [finance](#).

Mathematical programming

An operations research technique that solves problems in which an optimal value is sought subject to specified constraints. Mathematical programming models include [linear programming](#), [quadratic programming](#), and dynamic programming.

Matif SA

The [futures exchange](#) of France.

Matrix trading

[Swapping bonds](#) in order to take advantage of temporary differences in the [yield spread](#) between [bonds](#) with different [ratings](#) or different [classes](#).

Mature

To cease to exist; to expire.

Mature economy

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

Matured noninterest-bearing debt

Outstanding [savings bonds](#) and [notes](#) that have reached final [maturity](#) and no longer earn [interest](#).

Includes all Series A-D, F, G, 1, J, and K [bonds](#). [Series E bonds](#) (issued between May 1941 and November 1965), [Series EE](#) (issued since January 1980), Series H (issued from June 1952 through December 1979), and savings notes issued between May 1967 and October 1970 have a final maturity of 30 years. [Series HH bonds](#) (issued since January 1980) mature after 20 years.

Maturity

For a [bond](#), the date on which the [principal](#) is required to be repaid. In an [interest rate swap](#), the date that the [swap](#) stops [accruing interest](#).

Maturity date

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

Maturity factoring

An arrangement that provides [collection](#) and insurance of [accounts receivable](#).

Maturity mismatch

In the context of [hedging](#), maturity mismatch arises when a hedging [instrument](#) does not match the maturity of the [underlying assets](#) thus creating an imperfect hedge. In the context of [balance sheets](#), maturity mismatch arises when there are more short-term [liabilities](#) than short-term [assets](#) to cover the liabilities with.

Maturity phase

A stage of [company](#) development in which [earnings](#) to grow at the rate of the general economy.

Related: [Three-phase DDM](#).

Maturity spread

The difference in [returns](#) between [bonds](#) of different time lengths.

Maturity value

Related: [Par value](#)

Maximum capital gains mutual fund

A [mutual fund](#) whose objective is to produce [capital gains](#) by [investing](#) in small or [risky](#) rapid-growth [companies](#).

Maximum expected return criterion (MERC)

Standard that one choose the [asset](#) with the highest anticipated return.

Maximum price fluctuation

The greatest amount by which the [contract](#) price can change, up or down, during one [trading](#) session, as fixed by [exchange](#) rules in the contract specification. Related: [Limit price](#).

Maximum return criterion (MRC)

Standard that one choose the [asset](#) with the highest return.

May Day

The date of May 1, 1975, after which [brokers](#) were allowed to charge any brokerage [commission](#), rather than a mandatory rate.

May expand

Used in the context of general equities. Warning that the size of the [order/total](#) may be increased. See: "[more behind it](#)."

MBS depository

A [book](#)-entry depository for [GNMA securities](#). The depository was initially operated by [MBSCC](#) and is now a separately incorporated, participant-owned, limited-purpose [trust company](#) organized under the State of New York Banking Law.

MBS servicing

The requirement that the [mortgage servicer](#) maintain payment of the full amount of contractually due [principal](#) and [interest payments](#) whether or not actually [collected](#).

Meals and entertainment expense

A [tax deduction](#) allowed for meals and entertainment [expenses](#) incurred in the course of business.

Mean

The expected value of a [random variable](#). Arithmetic average of a sample.

Mean of the sample

The [arithmetic average](#); that is, the sum of the observations divided by the number of observations.

Mean return

The average return. Also see: [Expected return](#)

Mean reversion

The idea that stock prices revert to a long term level. Hence, if there is a shock in prices (unexpected jump, either up or down), prices will return or revert eventually to the level before the shock. The time it takes to revert is often referred to as the time to reversion. If the process is very persistent, it might take a long time to revert to the mean. The key difference between a mean-reverting process and a [random walk](#) is that after the shock, the [random walk](#) price process does not return to the old level.

Mean-variance analysis

Evaluation of [risky](#) prospects based on the [expected value](#) and [variance](#) of possible outcomes.

Mean-variance criterion

The selection of [portfolios](#) based on the [means](#) and [variances](#) of their [returns](#). The choice of the higher [expected return portfolio](#) for a given level of variance or the lower variance [portfolio](#) for a given expected return.

Mean-variance efficient portfolio

Related: [Markowitz efficient portfolio](#)

Measurement error

Errors in measuring an explanatory [variable](#) in a [regression](#), which leads to biases in estimated [parameters](#).

Measurement Noise

See: [Observational Noise](#).

Medallion Stamp Program

A program approved by the Securities Transfer Association that enables participating [financial institutions](#) to [guarantee](#) signatures. The Medallion programs ensure that the individual signing the [certificate](#) or stock power is in fact the registered owner as it appears on the stock certificate or stock power. Any U.S. financial institution that belongs to a Medallion Stamp Program can provide Medallion [guarantees](#). Such institutions include banks, savings and [loans](#), credit unions and U.S. brokerages.

Median market cap

The midpoint of [market capitalization](#) ([market price](#)) multiplied by the number of [shares outstanding](#)) of the [stocks](#) in a [portfolio](#). Half the stocks in the portfolio will have higher market capitalizations; half will have lower.

Medium term

Two-six years.

Medium-term bond

A [bond maturing](#) in two to ten years.

Medium-Term Guarantee Program

[Ex-Im Bank](#) effort encouraging commercial [lenders](#) to [finance](#) the [sale](#) of U.S. [capital](#) equipment and services to approved foreign buyers. The Ex-IM Bank [guarantees](#) the [principal](#) and [interest](#) on these [loans](#).

Medium-term note (MTN)

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

Medium-term note retail (MTNR)

Medium-term note designated for retail investors. For example, at Fannie Mae, it means that the bond is designated for individual investors that is underwritten through a dealer versus issuing through a program, like Investment Notes or Benchmark Notes.

Meff Renta Fija

The [derivatives exchange](#) in Barcelona, Spain, listing [futures](#) and [options](#) on fixed-interest [securities](#) and on [interest rates](#), including the MIBOR (Madrid Interbank Offered Rate).

Meff Renta Variable

[Stock index](#) and [equity](#) derivatives market in Spain [trading futures](#) and [options](#) on the Iberian Exchange (IBEX)-35 [index](#) and on individual [stocks](#).

Member bank

A national- or state-[chartered](#) bank that is a member of the [Federal Reserve System](#).

Member firm

Used for listed equity securities. Brokerage firm that has at least one membership on a major [stock exchange](#) even though, by exchange rules, the membership in the name of an employee and not of the firm itself.

Membership or a seat on the exchange

A limited number of [exchange positions](#) that enable the holder to trade for the holder's own accounts and charge clients for the [execution](#) of [trades](#) for their accounts. Related: [member firm](#).

Member short sale ratio

The total [shares](#) sold [short](#) by [NYSE](#) members divided by total [short sales](#), which is used to analyze [market](#) expectations and [bullish](#) or [bearish](#) [trends](#).

Menu

Used in the context of general equities. Hierarchy of choices concerning price and volume of [bids](#) or [offers](#) proposed to a customer (e.g. Menu of [offerings](#) to a customer buyer - a) 10m @ 24 1/4; b) 25m @ 24 1/2; or c) 50m @ 24 3/4).

Mercantile agency

An organization that supplies [credit ratings](#) and reports on [firms](#) that are prospective customers.

Mercato Italiano Futures (MIF)

The Italian [futures](#) market [trading](#) Italian [Treasury](#) bond (BTB) futures.

Merchandise

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

Merc, the

[Chicago Mercantile Exchange](#).

Merchant bank

A British term for a bank that specializes not in [lending](#) out its own funds, but in providing various [financial](#) services such as accepting bills arising out of [trade](#), [underwriting](#) new [issues](#), and providing advice on [acquisitions](#), [mergers](#), [foreign exchange](#), [portfolio management](#), etc.

Mercosur

The "Common Market of the South," which includes Argentina, Brazil, Paraguay, and Uruguay in a regional trade pact that reduces [tariffs](#) on intrapact [trade](#) by up to 90%.

Merger

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

Merger Arbitrage

In the context of hedge funds, a style of [management](#) that involves the simultaneous [purchase](#) of stock in a [company](#) being [acquired](#) and the [sale](#) of stock in its [acquirer](#).

Method of payment

The way a [merger](#) or [acquisition](#) is [financed](#).

Metric

A standard unit of measurement, such as the [price to earnings ratio](#).

Mexican Stock Exchange

The only [stock exchange](#) in Mexico. The Indice de Precios y Cotizaciones, or IPC index, consists of the 35 most representative [stocks](#) chosen every two months.

Mezzanine bracket

The members of an [underwriting](#) group with involvement large enough to be in the second participation tier from the top.

Mezzanine capital

In a company's capital structure, mezzanine capital is senior to [common shares](#) but junior to secured debt or [senior debt](#). Mezzanine capital refers to [subordinated debt](#) or [preferred equity](#) and is usually more expensive for the issuer than issuing senior debt.

Mezzanine debt

See: [Mezzanine capital](#)

Mezzanine level

The period in a [company's](#) development just before it goes [public](#).

Mezzanine financing

The next stage of [financing](#) that follows [venture capital](#) financing.

Micro-cap stock

See: [Penny stock](#)

Micro country risks

Country or political risks that are specific to an [industry](#), [company](#), or project within a host country.

Microassessment

The [risk](#) assessment of a country as related to an [MNC's](#) type of business.

Microcredit

A form of [lending](#) that originated in the 1970s with small [loans](#) made to very small [enterprises](#) in Bangladesh, called micro-enterprises, with the intention of alleviating high poverty levels. Microfinance institutions (MFIs) issue micro-loans that have higher-than-normal [interest rates](#) meant to cover the high costs associated with issuing small [loans](#). Given that the purpose of microcredit is to be a poverty relief mechanism, individuals with low credit scores who lack [capital](#) and steady employment are then able to receive [loans](#) to develop their [enterprises](#). See: [Microfinance](#)

Microeconomics

Analysis of the behavior of individual economic [units](#) such as [companies](#), [industries](#), or households.

Microfinance

Any mode of [finance](#) designed to provide low-income individuals with the means to become self-sufficient. Microfinance institutions issue small [loans](#) to those marginalized from normal modes of [finance](#) with the intention of helping the poor prosper by allowing them to save or borrow money.

See: [Microcredit](#)

Microstructuring

A method of [money laundering](#) in which larger [transactions](#) are broken down into multiple smaller [transactions](#) to evade detection by authorities. For example, making multiple (under US\$10,000) deposits in banks and withdrawing it in overseas countries.

Mid cap

A [stock](#) with a [capitalization](#) usually between \$1 billion and \$5 billion.

Mid-cap SPDRs

This is the same as a [SPDR](#) except the [index](#) it tracks is Standard&Poor's Mid-cap 400. This SPDR also [trades](#) on the [AMEX](#), under the [symbol](#) MDY.

Middle Market Manufacturing Exporter (MMME)

An exporter with the following traits: 1) Manufacturer with less than 500 employees 2) Ships less than \$1 Million per year (on average) overseas.

Middle stage

In context of [private equity](#), the state of a company when it has received one or more rounds of financing and is generating revenue from its product or service. Also known as [growth stage](#).

Midget

A 15 year GNMA bond; similar to a Dwarf.

Midmarket

Price around which a [market maker](#) derives [bid](#) and [asked prices](#).

Milan Stock Exchange

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

Miller and Modigliani's irrelevance proposition

Theory that if [financial markets](#) are perfect, [corporate financial](#) policy (including [hedging](#) policy) is irrelevant.

Miller, Merton

Nobel Laureate and coauthor of the famous Miller-Modigliani theorems. Finance professor at the University of Chicago.

Mimic

An imitation that sends a false [signal](#).

Mini-manipulation

[Trading](#) in the underwriting security of an [option](#) contract in order to manipulate its price so that the [options](#) will become [in-the-money](#).

Minimum maintenance

The lowest required [equity](#) level that must be held with a [broker](#) in a [margin account](#). See: [margin call](#).

Minimum price fluctuation

Smallest increment of price movement possible in [trading](#) a given [contract](#). Also called [point](#) or [tick](#).

Minimum purchases

For [mutual funds](#), the amount required to open a new account (Minimum Initial Purchase) or to deposit into an existing account (Minimum Additional Purchase). These minimums may be lowered for buyers participating in an automatic purchase plan

Minimum-variance frontier

Graph of the lowest possible [portfolio variance](#) that is attainable for a given [portfolio expected return](#).

Minimum-variance portfolio

The [portfolio](#) of [risky assets](#) with lowest [variance](#).

Minority interest

An outside ownership interest in a [subsidiary](#) that is consolidated with the [parent](#) for financial [reporting](#) purposes.

Minus

The symbol (-) that precedes the change figure in a stock table to indicate a closing [sale](#) lower than that of the previous day.

Minus tick

See: [downtick](#).

Misery index

An [index](#) that sums the unemployment and [inflation](#) rates, used as a political rating or measure of consumer confidence.

Mismatch bond

[Floating rate note](#) whose [interest rate](#) is reset at more frequent intervals than the [rollover](#) period (e.g. a [note](#) whose payments are set [quarterly](#) on the basis of the one-year [interest rate](#)).

Miss the price/market

Used for listed equity securities. 1) Have an [order in hand](#) but fail to [execute](#) a [transaction](#) on [terms](#) favorable to a customer and, thus, be negligent as a [broker](#); 2) receive an [order](#) just after a [print](#) has transpired.

Mixed account

A brokerage account [holding](#) both [long](#) and [short positioned securities](#).

Mixed bag

Used in the context of general equities. Group of [stocks](#) which consists of some which are up, down, and neutral.

Mixed forecasting

Development of [forecasts](#) using a combination of forecasting techniques.

Mob spread

The [yield spread](#) between a tax-free [municipal bond](#) and a [Treasury bond](#) with the same [maturity](#).

Mock trading

The simulated [trading](#) of [securities](#) used as a learning device in training [investors](#) and [broker](#).

Modeling

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

Model risk

Risk of loss arising from valuing financial instruments with a model that is inaccurate (e.g. makes incorrect underlying assumptions, does not capture all scenarios that could occur in reality, or fails under extreme market conditions). Also known as model uncertainty.

Modern portfolio theory

Principals underlying the analysis and evaluation of rational portfolio choices based on risk return trade-offs and efficient diversification.

Modified Accelerated Cost Recovery System (MACRS)

A 1986 act that set out rules for the depreciation of qualifying assets, allowing for greater acceleration over longer periods of time.

Modified duration

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

Modified following business day convention

A business day convention whereby payment days that fall on a holiday or a Saturday or a Sunday roll forward to the next target business day. If that day falls in the next calendar month, the payment day rolls backward to the immediately preceding target business day.

Modified pass-throughs

Agency pass-throughs that guarantee (1) timely interest payments and (2) principal payments as collected, but no later than a specified time after they are due. Related: fully modified pass-throughs

Modigliani and Miller Proposition I

A proposition by Modigliani and Miller which states that a firm cannot change the total value of its outstanding securities by changing its capital structure proportions. Also called the irrelevance proposition.

Modigliani and Miller Proposition II

A proposition by Modigliani and Miller which states that the cost of equity is a linear function of the firm's debt/equity-ratio.

Momentum

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

Momentum indicators

[Indicators](#) used in [market analysis](#) to quantify the [momentum](#) of upward and downward price movements.

M-1, M-2 and M-3

See: [money supply](#).

MONEP (Marche des Options Negociables de Paris)

A [subsidiary](#) of the [Paris Bourse](#) that [trades stock](#) and [index options](#).

Monetarism

A [macroeconomic](#) theory concerned with the sources of national income and the causes of [inflation](#). The theory, proposed by and closely associated with Milton Friedman, states that the amount of money issued by a [government](#) should be kept steady, only allowing increases in the supply of money to allow for natural [economic growth](#). Monetarism also states that the rate of [inflation](#) is directly determined by the supply of money available in an [economy](#). Friedman believed that the [government](#) should be less focused on controlling the supply of money and more focused on maintaining price stability, a balance between monetary supply and demand. See: [Economic growth rate](#), [Monetarist](#)

Monetarist

An economist who believes that changes in the [money supply](#) are the most important determinants of economic activity and economic [cycles](#). See: [Monetarism](#)

Monetary assets and liabilities

[Assets](#) and [liabilities](#) with [contractual](#) payoffs.

Monetary base

Sum of the currency held by the public and [reserves](#) held by [financial institutions](#) with the [Federal Reserve Banks](#). This is the monetary aggregate that the Federal Reserve has control over through its [monetary policy](#). Also called [High Powered Money](#) because the effect of changes in monetary base on [money supply](#) is magnified by the [money multiplier](#).

Monetary Control Act of 1980 (MAC)

Act which requires that all banks and all institutions that accept deposits from the [public](#) make periodic reports to the Federal Reserve System. Starting in September 1981, the Fed charged banks for

a range of services that it had provided free in the past, including [check](#) clearing, wire [transfer](#) of funds and the use of automated clearinghouse facilities.

Monetary gold

Gold held by governmental authorities as a [financial asset](#).

Monetary indicators

Economic [indicators](#) of the effects of [monetary policy](#), such as the condition of the [credit market](#).

Monetary policy

Actions taken by the Board of Governors of the [Federal Reserve System](#) to influence the [money supply](#) or [interest rates](#).

Monetary/non-monetary method

Under this translation method, monetary items (e.g. [cash](#), [accounts payable](#) and [receivable](#), and [long-term debt](#)) are translated at the current rate while non-monetary items (e.g. [inventory](#), [fixed assets](#), and [long-term investments](#)) are translated at [historical rates](#).

Monetization

The securitization of the gross revenues of a [contract](#).

Monetize the debt

[Financing](#) the [national debt](#) by printing new [money](#), which causes [inflation](#) due to a larger [money supply](#).

Money

[Currency](#) and coin that are [guaranteed](#) as legal [tender](#) by the government, a regulatory agency or bank.

Money base

Composed of [currency](#) and coins outside the banking system plus [liabilities](#) to the deposit [money](#) banks.

Money center banks

Banks that raise most of their funds from the [domestic](#) and [international money markets](#), relying less on depositors for funds.

Money Laundering

Disguising the source of [money](#) generated through illegal activities so that it resembles legitimate income. Money laundering involves breaking up large amounts of [cash](#) into smaller [transactions](#),

changing its form through [investments](#) or deposits into bank accounts, and moving the money through seemingly legitimate businesses to bring it into mainstream [economy](#).

Money management

Related: [Investment management](#).

Money manager

Related: [Investment manager](#).

Money market

[Money](#) markets are for [borrowing](#) and [lending](#) money for three years or less. The [securities](#) in a money market can be U.S.government [bonds](#), [Treasury bills](#) and [commercial paper](#) from banks and [companies](#).

Money Market Demand Account (M.M.D.A.)

An account that pays [interest](#) based on [short-term](#) interest rates. Same as a Money Market Deposit Account

Money market fund

A [mutual fund](#) that [invests](#) only in [short](#) term [securities](#), such as bankers' acceptances, [commercial paper](#), [repurchase agreements](#) and government bills. The [net asset value per share](#) is maintained at \$1.00. Such funds are not federally [insured](#), although the [portfolio](#) may consist of [guaranteed securities](#) and/or the fund may have private insurance protection.

Money market hedge

The use of [borrowing](#) and [lending transactions](#) in [foreign currencies](#) to lock in the home [currency](#) value of a foreign currency transaction.

Money market instruments

See: [Cash investments](#)

Money Market Investor Funding Facility (MMIFF)

The Federal Reserve launched MMIFF on Nov. 24, 2008 to restore liquidity to the money markets during the financial crisis. The MMIFF set up five special purpose vehicles to buy as much as \$600 billion in short-term debt like U.S.-dollar-denominated commercial paper, bank notes and certificates of deposit from money funds from 50 designated financial institutions. The designated institutions were among the largest issuers of highly rated short-term liabilities held by money market mutual funds including Bank of America Corp., General Electric Co., BNP Paribas SA and Société Générale SA. The MMIFF ended on Oct. 30, 2009.

Money market notes

Publicly traded issues that may be collateralized by mortgages and Mortgage Backed Securities (MBSs).

Money market security

Short-term investment usually of less than one year.

Money market yield

A bond quotation convention based on a 360-day year and semiannual coupons. See: Bond equivalent yield.

Money multiplier

Under the fractional reserve banking system, a unit of cash injected into the system by a central bank increases as it propagates through the banking system. Thus an increase in the monetary base has a magnified effect on the money supply and the multiplicative effect is represented by the money multiplier.

Money purchase plan

A defined benefit contribution plan in which the participant contributes some part and the firm contributes at the same or a different rate. Also called an individual account plan.

Money order

A financial instrument backed by a deposit at a certain firm such as a bank that can be easily converted into cash.

Money rate of return

Annual money return as a percentage of asset value.

Money supply

- M1-A: Currency plus demand deposits.
- M1-B: M1-A plus other checkable deposits.
- M2: M1-B plus overnight repos, money market funds, savings, and small (less than \$100M) time deposits.
- M3: M2 plus large time deposits and term repos.
- L: M3 plus other liquid assets.

Monitor

To seek information about an [agent's](#) behavior; a device that provides such information.

Monoline insurance

Type of [insurance](#) used by [capital market](#) participants. [Insurance](#) is purchased assuring [bond principal](#) and [interest](#) payments if an [issuer defaults](#).

Monopoly

Absolute [control](#) of all [sales](#) and [distribution](#) in a [market](#) by one [firm](#), due to some barrier to entry of other firms, allowing the firm to sell at a higher price than the socially optimal price.

Monopsony

The existence of only one buyer in a [market](#), forcing sellers to accept a lower price than the socially optimal price.

Monte Carlo simulation

An analytical technique for solving a problem by performing a large number of trial runs, called [simulations](#), and inferring a solution from the collective results of the trial runs. Method for calculating [the probability distribution](#) of possible outcomes.

Monthly income preferred security (MIP)

[Preferred stock issued](#) by a [subsidiary](#) located in a [tax haven](#). The [subsidiary relends](#) the [money](#) to the [parent](#).

Monthly investment plan

A plan in which a certain amount is invested each month in order to benefit from [dollar cost averaging](#).

Montreal Exchange/Bourse de Montreal

The oldest [stock exchange](#) in Canada [trading stocks, bonds, futures](#), and [options](#). The Canadian Market Portfolio Index (XXM) tracks the [market](#) performance of the 25 highest [capitalized](#) stocks [traded](#) on at least two Canadian exchanges.

Moody's investment grade

A [rating](#) of one through four assigned by [Moody's Investors Service](#) to bonds.

Moody's Investors Service

A leading global [credit rating](#), research and [risk](#) analysis [firm](#).

Moody's Long-term Corporate Obligation Rating

Moody's Long-term Corporate Obligation Ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of 1 year or more. The ratings reflect both the likelihood of default and any financial loss suffered in the event of default. Moody's rating is widely used in the financial world along with [S&P Ratings](#).

The rating scale is as follows:

Moody's [Investment Grade](#): [Aaa](#) → [Aa1](#) → [Aa2](#) → [Aa3](#) → [A1](#) → [A2](#) → [A3](#) → [Baa1](#) → [Baa2](#) → [Baa3](#)

Moody's [Speculative Grade](#): [Ba1](#) → [Ba2](#) → [Ba3](#) → [B1](#) → [B2](#) → [B3](#) → [Caa1](#) → [Caa2](#) → [Caa3](#) → [Ca](#) → [C](#)

Moral hazard

The [risk](#) that the existence of a [contract](#) will change the behavior of one or both parties to the contract, e.g. an insured [firm](#) will take fewer fire precautions.

Moral obligation bond

A [tax-exempt bond issued](#) by a [municipality](#) or a state [financial intermediary](#) that is backed by the moral, but not legal, [obligation](#) of a state government to appropriate funds in case of [default](#).

"More behind it"

Used in the context of general equities. More [stock](#) exists to be bought or sold by the same buyer or seller, respectively. Often, the buyer or seller does not disclose the full size of his [buy](#) or sell interest as not to affect the [market](#) adversely. See: [May expand](#).

More flexible exchange rate system

The [International Monetary Fund's](#) name for an [exchange rate](#) system in which rates [float](#) freely.

Morgan Stanley Capital International (MSCI)

This [firm](#) publishes a number of well known [benchmarks](#), such as the MSCI World Index.

Morgan Stanley Capital International Emerging Markets Global Index

A market [capitalization](#)-weighted benchmark [index](#) made up of equities from 29 developing countries.

Morgan Stanley Capital International Europe, Australia, Far East Index

See: [EAFE Index](#)

Morgan Stanley Capital International Europe Index

A market [capitalization](#)-weighted [benchmark index](#) made up of equities from 15 European countries. France, Germany, and the United Kingdom represent about two-thirds of the index.

Morgan Stanley Capital International Pacific Free index

A [market capitalization](#)-weighted [benchmark index](#) made up of [equities](#) from Pacific Basin countries. Japan represents about three-fourths of the index.

Morgan Stanley Capital International World Index (MSCI World Index)

A [market capitalization](#)-weighted [benchmark index](#) made up of [equities](#) from 23 countries, including the United States.

Morgan Stanley REIT Index

A [capitalization](#)-weighted [benchmark index](#) of the most [actively](#) traded [real estate investment trusts \(REITs\)](#), designed to measure [real estate](#) equity performance.

Morningstar rating system

A system used in [rating mutual funds](#) and [annuity](#) by Morningstar Incorporated of Chicago.

Mortality tables

Tables of [probability](#) that individuals of various ages will die within one year.

Mortgage

A [loan secured](#) by the [collateral](#) of some specified [real estate](#) property which obliges the [borrower](#) to make a predetermined [series](#) of payments.

Mortgage-Backed Securities Clearing Corporation (MBSCC)

"Founded" in 1979, MBSCC is the sole provider of automated post-trade [comparison](#), [netting](#), [risk management](#) and [pool](#) notification services to the [mortgage-backed securities](#) market. The organization is a registered [clearing agency](#) with the [Securities and Exchange Commission](#) and majority-owned by its members -- MBS [dealers](#), inter-dealer [brokers](#) and other non-broker/dealers. MBSCC provides its specialized services to major market participants active in various [Government National Mortgage Association \(GNMA\)](#), [Fannie Mae\(FNMA\)](#) and Federal Home Loan Mortgage Corporation (FHLMC) MBS programs.

Mortgage-backed securities (MBSs)

[Securities](#) backed by a [pool](#) of [mortgage loans](#).

Mortgage banker

A [company](#) or individual that originates [mortgage loans](#) and sells them to [investors](#), while taking care of [borrowers' loan](#) payments, records, taxes, and [insurance](#).

Mortgage bond

A [bond](#) in which the [issuer](#) has granted the [bondholders](#) a [lien](#) against the [pledged assets](#).

See: [Collateral trust bonds](#)

Mortgage broker

A [company](#) or individual that places [mortgage loans](#) with [lenders](#), but does not originate or service loans like a [mortgage banker](#).

Mortgage duration

A modification of standard [duration](#) to account for the impact on duration of [MBSs](#) of changes in [prepayment](#) speed resulting from changes in [interest rates](#). Two [factors](#) are employed: one that reflects the impact of changes in prepayment speed or price.

Mortgagee

The [lender](#) of a [loan secured](#) by property.

Mortgage interest deduction

A federal [tax deduction](#) for [interest](#) paid on a [mortgage](#) used to [acquire](#), construct, or improve a residence.

Mortgage life insurance

A [life insurance policy](#) that pays off the remaining balance of the insured person's [mortgage](#) at death.

Mortgage pass-through security

Also called a [passthrough](#), a [security](#) created when one or more [mortgage](#) holders form a [collection \(pool\)](#) of mortgages and sells [shares](#) or [participation certificates](#) in the pool. The [cash flow](#) from the [collateral](#) pool is "passed through" to the security [holder](#) as monthly payments of [principal](#), [interest](#), and [prepayments](#). This is the predominant type of [MBS](#) traded in the [secondary market](#).

Mortgage pipeline

The period from the taking of applications from prospective [mortgage borrowers](#) to the marketing of the [loans](#).

Mortgage-pipeline risk

The [risk](#) associated with taking applications from prospective [mortgage borrowers](#) who may opt to decline to accept a quoted mortgage rate within a certain [grace period](#).

Mortgage pool

A group of [mortgages](#) with similar [class](#), [interest rate](#), and [maturity](#) characteristics.

Mortgager

The [borrower](#) of a [loan secured](#) by property.

Mortgage rate

The [interest rate](#) on a [mortgage loan](#).

Mortgage REIT

An [REIT](#) that [invests](#) in [loans secured](#) by [real estate](#) which derive income from [mortgage interest](#) and fees.

Mortgage servicing

The [collection](#) of monthly payments and penalties, record keeping, payment of insurance and taxes, and possible [settlement](#) of [default](#), involved with a [mortgage loan](#).

Moscow Interbank Currency Exchange (MICEX)

Established in 1992, the most [liquid](#) and best organized [financial exchange](#) in Russia.

Most active list

The [stocks](#) with the highest [volume](#) of [trading](#) on a certain day.

Most distant futures contract

When several [futures contracts](#) are considered, the [contract](#) settling last. Related: [nearby futures contract](#)

Most Favored Nation

A privilege granted by one country to another whereby the products of the privileged country pay the lowest delivered duty paid charged by the granting country.

Moving average

Used in charts and [technical analysis](#), the [average](#) of [security](#) or [commodity prices](#) constructed in a period as [short](#) as a few days or as long as several years and showing [trends](#) for the latest interval. As each new [variable](#) is included in calculating the average, the last variable of the [series](#) is deleted.

MUD

A municipal [utility](#) district, which is a political subdivision that administers utility-related services, sometimes requiring the [issue](#) of special assessment bonds.

Multibuyer policy

[Ex-Im Bank](#) program that provides [credit risk insurance](#) on export [sales](#) to many different buyers.

Multicurrency clause

Such a clause on a [Euro loan](#) permits the [borrower](#) to switch from one [currency](#) to another currency on a [rollover](#) date.

Multicurrency loans

Gives the [borrower](#) the possibility of drawing a [loan](#) in different [currencies](#).

Multifactor CAPM

A version of the [capital asset pricing model](#) derived by Robert Merton that includes extra-market sources of [risk](#) referred to as [factors](#). Related: [arbitrage pricing theory](#)

Multifamily loans

[Loans](#) usually represented by [conventional mortgages](#) on multi-family rental apartments.

Multilateral Investment Guarantee Agency (MIGA)

[Agency](#) established by the [World Bank](#) that offers various forms of [political risk insurance](#) to [corporations](#).

Multilateral netting system

Elimination of [offsetting cash flows](#) between a [parent](#) and several [subsidiaries](#).

Multinational corporation (MNC)

A [firm](#) that operates in more than one country.

Multinational netting

Elimination of [offsetting cash flows](#) within a [multinational corporation's books](#).

Multinational restructuring

Changing the [terms](#) of an [MNC's assets](#) or [liabilities](#) by mutual agreement.

Multi-option financing facility

A [syndicated](#) confirmed [credit](#) line with attached options.

Multiperiod immunization

A [portfolio strategy](#) in which a [portfolio](#) is created that will be capable of satisfying more than one predetermined future [liability](#) regardless of [interest rate](#) changes.

Multiple Arbitrage

In the context of hedge funds, a style of [management](#) where the fund employs more than one arbitrage [strategy](#). Portfolio manager opportunistically allocates capital among the various strategies in order to create the best [risk/reward](#) profile for the overall fund. Common strategies include merger

arbitrage, [convertible arbitrage](#), fixed income arbitrage, long/short equities pairs [trading](#), and volatility arbitrage. In the context of equity and private equity [investment](#), this refers to an investment in a [firm](#) where standard multiples ([earnings](#)/price, [book](#)/price) indicate the price is far cheaper than [industry](#) averages.

Multiple-discriminant analysis (MDA)

Statistical technique for distinguishing between two groups on the basis of their observed characteristics.

Multiple-issuer pools

Under the [GNMA-II](#) program, [pools](#) formed through the [aggregation](#) of individual [issuers' loan](#) packages.

Multiple listing

An agreement used by a [broker](#) who is a member of a multiple-[listing](#) organization, providing the exclusive right to sell with an additional authority and [obligation](#) on the part of the listing broker to [distribute](#) the listing to the other [brokers](#).

Multiple peril insurance

[Insurance policy](#) which covers a wide variety of property damage.

Multiple rates of return

More than one [rate of return](#) from the same project that make the [net present value](#) of the project equal to zero. This situation arises when the [IRR](#) method is used for a project in which [negative cash flows](#) follow positive cash flows. For each sign change in the cash flows, there is a different [rate of return](#).

Multiple regression

The estimated relationship between a [dependent variable](#) and more than one explanatory variable.

Multiples

Another name for [price/earnings](#) ratios.

Multiplier

The [investment](#) multiplier which quantifies the overall effects of [investment](#) spending on total income. The deposit multiplier which shows the effects of a change in bank deposits on the total amount of [outstanding credit](#) and the [money supply](#).

Multirule system

A [technical trading strategy](#) that combines mechanical rules, such as the CRISMA (cumulative volume, [relative strength](#), [moving average](#)) Trading System of Pruitt and White.

Municipal bond

State or local governments offer muni [bonds](#) or municipals, as they are [called](#), to pay for special projects such as highways or sewers. The [interest](#) that [investors](#) receive is [exempt](#) from some [income taxes](#).

Municipal bond insurance

An [insurance policy](#) which [guarantees](#) payment on [municipal bonds](#) in the event of [default](#).

Municipal bond fund

A [mutual fund](#) that [invests](#) in [bonds issued](#) by state, city, and/or local governments. The interest obtained from these bonds is passed through to [shareholders](#) and is generally free of federal (and sometimes state and local) [income taxes](#).

Municipal improvement certificate

A [certificate](#) used to [finance](#) local government projects and services which is [financed](#) by a special tax assessment and provides tax-free [interest](#).

Municipal Investment Trust (MIT)

A [unit investment trust](#) that buys [municipal bonds](#) and usually [holds](#) them until [maturity](#), passing the [bond](#) income on to [shareholders](#), usually tax-free.

Municipal notes

[Short-term notes issued](#) by municipalities in anticipation of tax [receipts](#), [proceeds](#) from a bond [issue](#), or other revenues.

Municipal reorganization

See [Chapter 9](#).

Municipal revenue bond

A [bond issued](#) to [finance](#) a [public](#) project that is funded by the revenues of the project.

Mutilated security

A [certificate](#) on which the name of the [issue](#), the [issuer](#), or some other identifying detail cannot be read.

Mutual association

A [savings and loan association](#) organized as a [cooperative](#), with members purchasing [shares](#), voting on association affairs, and receiving income in the form of [dividends](#).

Mutual company

A [corporation](#) that is owned by a group of members and that [distributes](#) income in proportion to the amount of business that members do with the [company](#).

Mutual exclusion doctrine

The doctrine that ruled that [municipal bond interest](#) is federal tax-free. In return for this federal [tax exemption](#), states and localities cannot tax [interest](#) generated by federal [government securities](#).

Mutual fund

Mutual funds are [pools](#) of [money](#) that are managed by an [investment company](#). They offer [investors](#) a variety of goals, depending on the fund and its investment [charter](#). Some funds, for example, seek to generate income on a regular [basis](#). Others seek to preserve an [investor's money](#). Still others seek to invest in companies that are growing at a rapid pace. Funds can impose a [sales charge](#), or [load](#), on investors when they [buy](#) or sell [shares](#). Many funds these days are [no load](#) and impose no [sales charge](#). Mutual funds are investment companies [regulated](#) by the [Investment Company Act of 1940](#).

Related: [open-end fund](#), [closed-end fund](#).

Mutual fund cash-to-assets ratio

The portion of the [assets](#) of a [mutual fund](#) which exists in cash [instruments](#).

Mutual fund custodian

A commercial bank or [trust company](#) that [holds securities](#) owned by a [mutual fund](#) and sometimes acts as [transfer agent](#) for the [mutual fund](#).

Mutual savings bank

A state-[chartered savings bank](#) which is owned by its depositors and managed by a [fiduciary](#) board of [trustees](#).

Mutual fund theorem

A result associated with the [CAPM](#), asserting that [investors](#) will choose to invest their entire [risky portfolio](#) in a [market-index](#) or [mutual fund](#).

Mutually exclusive investment decisions

[Investment decisions](#) in which the acceptance of a project precludes the acceptance of one or more alternative projects.

Mutual offset

A system, such as the arrangement between the [Chicago Mercantile Exchange \(CME\)](#) and [Singapore International Monetary Exchange \(SIMEX\)](#), which allows [trading positions](#) established on one [exchange](#) to be [offset](#) or [transferred](#) on another exchange.

N

Fifth letter in a [Nasdaq](#) stock symbol specifying that the [issue](#) is the company's third class of preferred shares.

NA

The two-character [ISO](#) 3166 country code for NAMIBIA.

NAD

The [ISO](#) 4217 currency code for the Namibian Dollar.

NAM

The three-character [ISO](#) 3166 country code for NAMIBIA.

NASD

See: [National Association of Securities Dealers](#)

Nasdaq

See: [National Association of Securities Dealers Automatic Quotation System](#)

NAV

See: [Net asset value](#)

NAV Arbitrage

See: [Net asset value arbitrage](#)

NBBO

See: [National Best Bid and Offer](#)

NC

The two-character [ISO](#) 3166 country code for NEW CALEDONIA.

NCIB

See: [Normal course issuer bid](#)

NCL

The three-character [ISO](#) 3166 country code for NEW CALEDONIA.

NE

The two-character [ISO](#) 3166 country code for NIGER.

NER

The three-character [ISO](#) 3166 country code for NIGER.

NF

The two-character [ISO](#) 3166 country code for NORFOLK ISLAND.

NFA

See: [National Futures Association](#)

NFCP

See: [Non-financial commercial paper](#)

NFK

The three-character [ISO](#) 3166 country code for NORFOLK ISLAND.

NG

The two-character [ISO](#) 3166 country code for NIGERIA.

NGA

The three-character [ISO](#) 3166 country code for NIGERIA.

NGN

The [ISO](#) 4217 currency code for the Nigerian Naira.

NI

The two-character [ISO](#) 3166 country code for NICARAGUA.

NIC (1)

See: [Newly Industrialized Countries](#)

NIC (2)

The three-character [ISO](#) 3166 country code for NICARAGUA.

NIF

See: [Note issuance facility](#)

NIO

The [ISO](#) 4217 currency code for the Nicaraguan Cordoba Oro.

NIU

The three-character [ISO](#) 3166 country code for NIUE.

NL

The two-character [ISO](#) 3166 country code for NETHERLANDS.

NLD

The three-character [ISO](#) 3166 country code for NETHERLANDS.

NLG

The [ISO](#) 4217 currency code for the Dutch Guilder.

NMI

See: [Non-Manufacturing Index](#)

NMS

See: [National Market System](#)

NO

The two-character [ISO](#) 3166 country code for NORWAY.

NOK

The [ISO](#) 4217 currency code for the Norwegian Krone.

NOBO (Non-Objecting Beneficial Owner)

A beneficial ("street") security [holder](#) who has not objected to his or her name being released to the Corporation, if the Corporation so requests.

NOR

The three-character [ISO](#) 3166 country code for NORWAY.

NPR

The [ISO](#) 4217 currency code for the Nepalese Rupee.

NOW

See: [Negotiable Order of Withdrawal](#)

NP

The two-character [ISO](#) 3166 country code for NEPAL.

NPL

The three-character [ISO](#) 3166 country code for NEPAL.

NPV

See: [Net present value](#)

NR

The two-character [ISO](#) 3166 country code for NAURU.

NRU

The three-character [ISO](#) 3166 country code for NAURU.

NTE

Short for Not To Exceed.

NU

The two-character [ISO](#) 3166 country code for NIUE.

NYBOT

See: [New York Board of Trade](#)

NYSE

See: [New York Stock Exchange](#)

Naive diversification

A [strategy](#) whereby an [investor](#) simply invests in a number of different [assets](#) in the hope that the [variance](#) of the [expected return](#) on the [portfolio](#) is lowered. In contrast, mathematical programming can be used to select the best possible investment weights. Related: [Markowitz diversification](#).

NZ

The two-character [ISO](#) 3166 country code for NEW ZEALAND.

NZD

The [ISO](#) 4217 currency code for the New Zealand Dollar.

NZL

The three-character [ISO](#) 3166 country code for NEW ZEALAND.

Nagoya Stock Exchange

Established after World War II, one of the three major [securities](#) markets in Japan.

Naked option strategies

An un[hedged strategy](#) making exclusive use of one of the following: [Short call strategy](#) (selling or writing [call options](#)), and short put strategy (selling or writing [put options](#)). By themselves, these [positions](#) are called [naked strategies](#) because they do not involve an [offsetting](#) or [risk-reducing position](#) in another [option](#) or the [underlying security](#). Related: [Covered option](#) strategies. Antithesis of [covered option](#).

Naked strategies

Writing an [option](#) without owning the [underlying asset](#). [Holder](#) is naked because holder may have agreed to sell something not owned.

Naked writer

See [Uncovered call writing](#) and [Uncovered put writing](#).

Named perils insurance

An insurance policy that names specific [risks](#) covered by the policy.

NASD form FR-1

A form required by the [NASD](#) of foreign [dealers](#) to ensure that [firms](#) participating in a new [distribution](#) of [securities](#) make a bona fide [public offering](#).

Narrow-Based

Generally referring to an [index](#), it indicates that the index is composed of only a few stocks, generally in a specific [industry](#) group. See also [broad-based](#).

Narrow market

An inactive [market](#), which displays large [fluctuations](#) in prices due to a low [volume](#) of [trading](#).

Narrowing the spread

Reducing the difference between the [bid](#) and [ask](#) prices of a [security](#).

Nasdaq small-capitalization companies

A group of 2000 [companies](#) with relatively small [capitalization](#), which are [listed](#) separately and have at least two [market makers](#).

Nasdaq stock market

The first electronic [stock market listing](#) over 5000 companies. The Nasdaq stock market comprises two separate [markets](#), namely the Nasdaq National Market, which [trades](#) large, [active securities](#) and the [Nasdaq Smallcap Market](#) that [trades](#) emerging growth companies.

National Association of Investors Corporation

A Michigan-based association that helps groups establish [investment clubs](#).

National Association of Securities Dealers (NASD)

Nonprofit organization formed under the joint sponsorship of the [investment bankers'](#) conference and the [SEC](#) to comply with the Maloney Act, which provides for the [regulation](#) of the [OTC](#) market. The NASD merged with the NYSE's committee that did a similar job. The new organization is called the [Financial Industry Regulation Authority](#) or FINRA

National Association of Securities Dealers Automatic Quotation System (Nasdaq)

An electronic exchange founded in 1971 that lists about 5,000 [common stocks](#).

National bank

A commercial bank approved by the U.S. [Comptroller of the Currency](#), which is required to be a member of and [purchase stocks](#) in the [Federal Reserve System](#).

National Best Bid and Offer (NBBO)

A term applying to the SEC requirement that brokers must guarantee the best available ask or bid price when they buy or sell for customers.

National Credit Union Administration

Federal [agency](#) that oversees and insures the federal [credit union](#) system, and is funded by its members.

National debt

[Treasury bills](#), [notes](#), [bonds](#), and other [debt obligations](#) that constitute the [debt](#) owed by the federal government.

National Foundation for Consumer Credit

A nonprofit organization that seeks to help consumers who have taken on too much [debt](#) by helping them work out payment plans and supplying credit counseling.

National Futures Association (NFA)

The [futures industry self-regulatory organization](#) established in 1982.

National market

Related: [Internal market](#)

National Market Advisory Board

Group that advises the [SEC](#) on establishing a national exchange market system, which is a highly automated, continuous national [exchange](#), but that preserves the regional exchanges.

National Market System (NMS)

Refers to over-the-counter trading. System of trading [OTC](#) stocks under the sponsorship of the [NASD](#). Must meet certain criteria for size, [profitability](#) and [trading](#) activity. More comprehensive information is available for NMS stocks than for non-NMS stocks traded [OTC](#) (high, low, and [last-sale prices](#), cumulative volume figures, and [bid](#) and [ask quotations](#) throughout the day). This is due to the fact that [market makers](#) must report the actual price and number of [shares](#) in each [transaction](#) within 90 seconds versus [nonreal-time](#) reporting for non-NMS stocks (thus, last [sales](#) prices and minute-to-minute volume updates are not possible).

National Quotation Bureau

A service that publishes [bid](#) and [offer quotes](#) from [market makers](#) in [OTC transactions](#).

National Securities Clearing Corporation (NSCC)

A clearing corporation that facilitates the [settlement](#) of accounts among brokerage firms, [exchanges](#), and other clearing corporations.

National Stock Exchange (NSE)

Second-largest [stock exchange](#) based in India.

National tax policy

The way a country chooses to allocate tax burdens.

Nationalization

A government [takeover](#) of a private [company](#).

Natural

Used in the context of general equities. Customer buyer or seller, versus a [principal](#) or [profile](#) interest. [Legitimate](#), [real](#).

Natural logarithm

Logarithm to the base e (approximately 2.7183).

Near money

[Assets](#) that are easily convertible into [cash](#), such as [money market](#) accounts and bank deposits.

Nearby

The nearest [active trading](#) month of a financial or [commodity futures](#) market. Related: [Deferred futures](#).

Nearby futures contract

When several [futures contracts](#) are considered, the [contract](#) with the closest [settlement date](#) is called the nearby futures contract. The next (or the "next out") [futures contract](#) is the one that settles just after the nearby futures contract. The [contract](#) farthest away in time from settlement is called the [most distant futures contract](#).

Nearest month

The [expiration date](#) of an [option](#) or [future](#) that is closest to the present.

Neckline

The market level equal to a line connecting the two interim declines in a [head and shoulders](#) pattern.

"Need the tick"

Used for listed equity securities. A [stock](#) must [trade](#) up/down at least one [tick](#) (1/8) in order to comply with [regulations](#) governing [short sales/corporate repurchases](#).

Negative amortization

A [loan](#) repayment schedule in which the [outstanding principal](#) balance of the [loan](#) increases, rather than [amortizing](#), because the scheduled monthly payments do not cover the full amount required to amortize the loan. The unpaid [interest](#) is added to the [outstanding principal](#), to be repaid later.

Negative NPV tie-in project

A negative-[NPV](#) infrastructure development project that a local government requires of a [company](#) engaged in a positive [NPV](#) investment project elsewhere in the country.

Negative carry

Related: [Net financing cost](#)

Negative cash flow

Occurs when spending in a business is greater than [earnings](#).

Negative convexity

A [bond](#) characteristic such that the price [appreciation](#) will be less than the price [depreciation](#) for a large change in [yield](#) of a given number of [basis](#) points. For example, a [fixed-rate mortgage](#) may lose value as rates go down because of [prepayments](#).

Negative covenant

A [bond covenant](#) that limits or prohibits certain actions unless the [bondholders](#) agree.

Negative duration

Occurs when the price of an [MBS](#) moves in the same direction as [interest rates](#).

Negative income tax

A proposal to assist taxpayer with below-subsistence-level incomes. After filing a tax return, such persons would receive a [subsidy](#) to bring them up above the poverty level.

Negative obligation

A New York Stock Exchange rule that governs the behavior of specialists. Negative obligation is the mandate of the specialists not trade for the specialist's firm's own account when enough public investor orders exist to match up naturally -- without intervention. An example of violating negative obligation is [Trading Ahead](#). Also see [positive obligation](#).

Negative Pledge

An agreement in which the borrower agrees not to pledge any of its [assets](#) as [security](#) and/or not to incur further indebtedness.

Negative pledge clause

A [bond covenant](#) that requires the [borrower](#) to grant [lenders](#) a [lien](#) equivalent to any liens that may be granted in the future to any other currently unsecured lenders.

Negative working capital

Occurs when current [liabilities](#) exceed current [assets](#), which can lead to [bankruptcy](#).

Negative yield curve

When the [yield](#) on a [short-term security](#) is higher than the [yield](#) on a [long-term](#) security, partially because high [interest rates](#) are creating a greater demand for short-term [borrowing](#).

Neglected firm effect

The tendency of [firms](#) that are neglected by [security analysts](#) to outperform firms that are the subject of considerable attention.

Negotiable

A [security](#) whose title is [transferable](#) by [delivery](#). See also: [Negotiable instrument](#).

Negotiable bill of lading

[Contract](#) that grants title of merchandise to the [holder](#), which allows banks to use the merchandise as [collateral](#).

Negotiable certificates of deposit

Large-[denomination](#) bank [certificates of deposit](#) that can be [traded](#).

Negotiable instrument

An unconditional order or promise to pay some amount of [money](#), easily [transferable](#) from one party to another.

Negotiable order of withdrawal (NOW)

[Demand deposits](#) that pay [interest](#).

Negotiable Order of Withdrawal Account (NOW)

An interest-earning account on which checks may be drawn. Withdrawals from NOW accounts may be offered by commercial banks, mutual savings banks, and savings and loan associations and may be owned only by individuals and certain nonprofit organizations and governmental [units](#).

Negotiated certificate of deposit

A large-[denomination CD](#), generally \$1MM or more, that can be sold but cannot be cashed in before [maturity](#).

Negotiated commission

An unfixed [broker's commission](#) that is determined through negotiation, depending on the specifics of the [trades](#) performed.

Negotiated markets

[Markets](#) in which each [transaction](#) is separately negotiated between buyer and seller (i.e., an [investor](#) and a [dealer](#)).

Negotiated offering

An [offering](#) of [securities](#) for which the [terms](#), including [underwriters' compensation](#), have been negotiated between the [issuer](#) and the [underwriters](#).

Negotiated sale

Determining the [terms](#) of an [offering](#) by negotiation between the [issuer](#) and the [underwriter](#) rather than through [competitive bidding](#) by underwriting groups.

Negotiated underwriting

A [securities offering](#) process in which the [purchase](#) price paid to the [issuer](#) and the [public offering](#) price are determined by negotiation rather than through [competitive bidding](#).

NEO

Abbreviation for [nonequity options](#), which are [options contracts](#) on foreign currencies, [debt issues](#), [commodities](#), and [stock indexes](#).

Net

The [gain](#) or [loss](#) on a [security sale](#) as measured by the selling price of a [security](#) less the adjusted [cost of acquisition](#).

Net adjusted present value

The [adjusted present value minus](#) the initial cost of an [investment](#).

Net advantage to leasing

The [net present value](#) of entering into a [lease](#) financing arrangement rather than [borrowing](#) the necessary funds and buying the [asset](#).

Net advantage to merging

The difference in total post- and pre-[merger market value minus](#) the [cost](#) of the [merger](#).

Net advantage of refunding

The [net present value](#) of the savings from a [refunding](#).

Net after-tax gain

[Capital gain](#) after [income taxes](#) have been paid.

Net asset value (NAV)

The value of a fund's [investments](#). For a [mutual fund](#), the net asset value per [share](#) usually represents the fund's [market price](#), subject to a possible [sales](#) or [redemption charge](#). For a [closed-end fund](#), the market price may vary significantly from the net asset value.

Net asset value arbitrage

For a number of assets, the most recent transaction price at 4PM ET does not fully reflect all available market information. One example is international equities that trade on exchanges that are located in different time zones and close 2-15 hours before U.S. markets. In addition, domestic small-capitulation equities and high-yield and convertible bonds often trade infrequently and have wide bid-ask spreads. This can cause the most recent transaction price to be much different from the price that one would see in a liquid market at 4 PM, even for assets that trade on exchanges that are open at that time. Investors can take advantage of mutual funds that calculate their [NAVs](#) using stale closing prices by

trading based on recent market movements. For example, if the U.S. market has risen since the close of overseas equity markets, investors can expect that overseas markets will open higher the following morning. Investors can buy a fund with a stale-price [NAV](#) for less than its current value, and they can likewise sell a fund for more than its current value on a day that the U.S. market has fallen. Similar opportunities exist when the values of infrequently or illiquidly-traded domestic assets have recently changed. Also known as Stale Price Arbitrage.

Net assets

The difference between [total assets](#) on the one hand and [current liabilities](#) and [noncapitalized long-term liabilities](#) on the other hand.

Net benefit to leverage factor

A linear approximation of a number, that enables one to operationalize the total impact of [leverage](#) on firm value in the [capital market](#) imperfections view of [capital structure](#).

Net book value

The current [book value](#) of an [asset](#) or [liability](#); that is, its original [book value](#) net of any accounting adjustments such as [depreciation](#).

Net capital requirement

[SEC](#) requirement that [member firms](#) and nonmember [securities broker-dealers](#) maintain a maximum ratio of [indebtedness](#) to [liquid capital](#) of 15 to 1.

Net cash balance

Beginning [cash](#) balance plus [cash receipts minus](#) cash disbursements.

Net change

This is the difference between a day's last trade and the previous day's last trade.

Net charge-off rate

Ratio of loan losses to total loans.

Net currency exposure

Exposure to [foreign exchange risk](#) after [netting](#) all [intracompany cash flows](#).

Net current assets

The difference between current [assets](#) and current [liabilities](#), also known as [working capital](#).

Net errors and omissions

In [balance of payments](#) accounting, net errors and omissions record the statistical discrepancies that arise in gathering balance of payments data.

Net exposed assets

Exposed [assets](#) less exposed [liabilities](#). This term is used with [market values](#) or, in translation accounting, with [book values](#).

Net financing cost

Also called the [cost of carry](#) or, simply [carry](#), the difference between the [cost](#) of financing the [purchase](#) of an [asset](#) and the asset's [cash yield](#). Positive carry means that the [yield](#) earned is greater than the [financing cost](#); [negative carry](#) means that the financing [cost](#) exceeds the yield earned.

Net float

Sum of [disbursement float](#) and [collection float](#).

Net income

The [company's](#) total [earnings](#), reflecting revenues adjusted for [costs](#) of doing business, [depreciation](#), [interest](#), taxes and other expenses.

Net income per share of common stock

See: [Earnings per share](#)

Net interest cost (NIC)

The total amount of [interest](#) that will be paid on a [debt obligation](#) by a corporate or [municipal bond issuer](#).

Net investment

Gross, or total [investment minus depreciation](#).

Net investment income per share

Income received by an [investment company](#) from [dividends](#) and [interest](#) on [investments](#) less administrative [expenses](#), divided by the number of [outstanding shares](#).

Net lease

A [lease](#) arrangement under which the [lessee](#) is responsible for all [property taxes](#), maintenance [expenses](#), insurance, and other [costs](#) associated with keeping the [asset](#) in good working condition.

Net monetary assets

See: [Monetary assets less monetary liabilities](#).

Net operating loss carrybacks

The application of [losses](#) to [offset earnings](#) in previous years.

Net operating loss carryforwards

Application of [losses](#) to [offset earnings](#) in future years.

Net operating losses

[Losses](#) that a [firm](#) can take advantage of to reduce taxes.

Net operating margin

The ratio of net operating income to [net sales](#).

Net parity

Antithesis of [gross parity](#).

Convertibles: Price of a [convertible security](#) including [accrued interest](#).

International: Price of international [security](#) including [commissions](#), fees, [stamp duty](#), and other [transaction costs](#), translated into U.S. dollar amounts.

Net period

The period of time between the end of the [discount](#) period and the date payment is due.

Net position

The value of the [position](#) subtracting the initial [cost](#) of setting up the position. For example, if 100 [options](#) where [purchased](#) for \$1 each and the option is currently [trading](#) for \$9, the value of the net position is \$900 - \$100 = \$800.

Net present value (NPV)

The [present value](#) of the expected future cash flows [minus](#) the [cost](#).

Net proceeds

Amount received from the [sale](#) of an [asset](#) after deducting all [transaction costs](#).

Net present value of future investments

The [present value](#) of the total sum of [NPVs](#) expected to result from all of the [firm's](#) future [investments](#).

Net present value of growth opportunities

A model valuing a firm in which [net present value](#) of new investment opportunities is explicitly examined.

Net present value rule

An [investment](#) is worth making if it has a positive [NPV](#). Projects with negative NPVs should be rejected.

Net profit margin

[Net income](#) divided by [sales](#); the amount of each sales dollar left over after all [expenses](#) have been paid.

Net quick assets

[Cash](#), marketable securities, and [accounts receivable](#) less current [liabilities](#).

Net realized capital gains per share

[Capital gains](#) realized by an [investment company minus](#) any capital losses divided by the total number of the company's [outstanding shares](#).

Net sales

Gross [sales](#) less [returns](#) and allowances, freight out, and [cash discounts](#) allowed.

Net sales transaction

Refers to [over-the-counter](#) trading. [Securities](#) deal in which the [quoted prices](#) include [commissions](#) (i.e., [OTC](#)); looked at another way, the buyer and seller do not pay fees or [commissions](#) in addition to the print or [quotation](#) prices.

Net salvage value

The after-tax net [cash flow](#) for terminating the project.

Net tangible assets per share

All of a [company's assets](#) except [patents](#), [trademarks](#), and other [intangible assets minus](#) all [liabilities](#) and the [par value](#) of [preferred stock](#), divided by the number of [shares outstanding](#).

Net transaction

A [securities transaction](#) in which no [commissions](#) or extra fees are paid, such as in an [initial public offering](#).

Net transaction exposure

[Offsetting](#) inflows against outflows in a given [currency](#) to determine extent of exposure to [risk](#).

Net Weight

The weight of goods being shipped that does not include the weight of wrapping material, container, or other packaging.

Net working capital

[Current assets minus current liabilities](#). Often simply referred to as [working capital](#).

Net worth

[Common stockholders' equity](#) which consists of [common stock](#), [surplus](#), and [retained earnings](#).

Net yield

The [rate of return](#) on a [security minus purchase costs, commissions](#), or markups.

Netting

Reducing [transfers](#) of funds between [subsidiaries](#) or separate [companies](#) to a net amount.

Netting out

To get or bring in as a [net](#); to clear as [profit](#).

Network A/Network B

See: [Consolidated tape](#)

neutral

Describing an opinion that is neither bearish nor bullish. Neutral option strategies are generally designed to perform best if there is little or no net change in the price of the underlying stock or [index](#).

See also [Bearish](#) and [Bullish](#).

Neutral hedge

[Hedge](#) that is expected to [yield](#) a dollar-neutral result of the combined [position](#), regardless of price change in any part of the [hedge securities](#). For any convertible [trading](#) at a premium, this ratio is less than 100%. The higher the convertible premium, the lower a ratio must be to be neutral. See: [Delta](#).

Neural Nets

Models which mimic the massive parallel processing that occurs in the brain.

Neutral period

In the Euromarket, a period over which [Eurodollars](#) are sold is said to be neutral if it does not start or end on either a Friday or the day before a holiday.

Neutral stock

A [stock](#) with a [beta](#) of 1.0.

New account report

A [broker's](#) document including information about a new client. See: [Know your customer](#).

New European Exchange (NEWEX)

A [trading](#) market for Central and East European securities established by the Deutsche B&#ouml;rse (German Stock Market) and the Wiener B&#ouml;rse (Austrian Stock Market) in 2000.

New high/new low

A [stock](#) valued at its highest or lowest price in the last year.

New issue

[Securities](#) that are [publicly offered](#) for the first time, whether in an [IPO](#) or as an additional [issue](#) of [stocks](#) or [bonds](#) by a [company](#) that is already public.

New-issues market

The [market](#) in which a new [issue](#) of [securities](#) is first sold to [investors](#). This is not a separate market but refers to a niche of the overall market.

New listing

A [security](#) that has just been entered on a [stock](#) or [bond exchange](#) for [trading](#).

New money

In a [Treasury](#) auction, the amount by which the [par value](#) of the [securities offered](#) exceeds that of those [maturing](#).

New York Board of Trade (NYBOT)

[Formed in June 2004 by the merger of the two historic exchanges \(the New York Cotton Exchange \(NYCE\) and the Coffee, Sugar, & Cocoa Exchange \(CSCE\)\). As a result of this merger, all previous exchanges and subsidiaries ceased to exist, including the Coffee, Sugar, & Cocoa Exchange, the New York Cotton Exchange, the Citrus Associates of the New York Cotton Exchange, the New York Futures Exchange \(NYFE\), and the FINEX Exchange. All markets are now referred to as the New York Board of Trade or NYBOT.](#)

New York Cotton Exchange (NYCE)

[A historic commodities exchange](#) in New York which traded [futures](#) and [options](#) on cotton, frozen concentrated orange juice, and potatoes, as well as [interest rate](#), [currency](#), and index futures and [options](#). In June 2004, the NYCE merged with the Coffee, Sugar and Cocoa Exchange to form the New York Board of Trade. As a result of this merger, all previous exchanges and subsidiaries ceased to exist, including the Coffee, Sugar, & Cocoa Exchange, the New York Cotton Exchange, the Citrus Associates of the New York Cotton Exchange, the New York Futures Exchange (NYFE), and the FINEX Exchange. All markets are now referred to as the New York Board of Trade or NYBOT.

New York Futures Exchange (NYFE)

A wholly owned [subsidiary](#) of the [NYSE](#) that [trades futures](#) and [options](#) on the [NYSE](#) composite [index](#).

New York Mercantile Exchange (NYMEX)

The world's largest physical [commodity futures exchange](#).

New York Stock Exchange (NYSE)

Also known as the [Big Board](#) or the [Exchange](#).

NYSE composite index

Composite [index](#) covering price movements of all new world [common stocks](#) listed on the [New York Stock Exchange](#). It is based on the close of the market on December 31, 1965, at a level of 50.00, and is weighted according to the number of [shares listed](#) for each [issue](#). Print changes in the [index](#) are converted to dollars and cents so as to provide a meaningful measure of changes in the [average](#) price of [listed stocks](#). The composite index is supplemented by separate indexes for four [industry](#) groups: industrial, transportation, [utility](#), and [finance](#).

New Zealand Stock Exchange

Automated, screen-based national [trading](#) system based in Wellington.

Newly Industrialized Countries (NICs)

NIC's are countries with high-growth [industrial](#) economies, such as Hong Kong and Malaysia.

"News out"

Refers to [over-the-counter trading](#). A news story concerning the [stock](#) being considered has recently been posted on one of the news services, such as the [Dow Jones](#) News Service or [Reuters](#). A courtesy standard in [trading](#) is to mention that "news is out," in case the other party is unaware of the new development.

Next day settlement

[Transaction](#) in which the [contract](#) is settled the day after the [trade](#) is [executed](#). See: [Settlement date](#).

Next futures contract

The [contract](#) settling immediately after the [nearby futures contract](#).

Nexus (of contracts)

A set or collection of something.

Nifty Fifty

[Institutional investor's](#) 50 most popular [stocks](#).

Nikkei

The common term for the Nihon Keizai newspaper, Japan's leading financial newspaper. The Nikkei usually refers to the price-weighted [average](#) of 225 stocks of the first section of the [Tokyo Stock Exchange](#).

Nikkei stock average

Applies mainly to international equities. Price-weighted [average](#) of 225 stocks of the first section of the Tokyo Stock Exchange started on May 16, 1949. Japanese equivalent of the US [Dow](#).

NINA loan

Acronym for No Income No Assets. [Loans](#) made without any supporting documentation for income or assets. Also see [No docs](#).

Nine-bond rule

An [NYSE](#) rule requiring that [orders](#) for nine [bonds](#) or fewer stay on the [floor](#) for one hour to seek a [market](#).

NINJA loan

Acronym for No Income No Job or Assets. Loans made without any supporting documentation for income, employment or assets. Also see [NINA loan](#), [No docs](#).

19c3 stock

A [stock listed](#) on a national securities exchange after April 26, 1979, that is exempt from the [Securities and Exchange Commission](#) rule that prohibits [exchange members](#) from participating in [off-board trading](#).

No-action letter

A letter from the [Securities and Exchange Commission](#) agreeing that the [commission](#) will take no civil or criminal action against a party, regarding a specific activity.

No Adjournment

Within the text on the [proxy](#), card are the words: "Shares will be voted at this [annual](#) meeting or at any adjournment thereof." If a securityholder strikes out this phrase, the proxy cannot be counted at any adjournment (reconvening) of the meeting.

"No Autex"

Used in the context of general equities. "No [buy](#) or sell interest should be entered into the [Autex](#) (advertising) system." Inquirers do not want exposure of an [inquiry](#) to affect the price at which they hope to ultimately [transact](#) the [trade](#), hence disturbing the customer's picture.

No book

Used for listed equity securities. Not much, if any, [stock](#) is being [bid](#) for or [offered](#) at the present time by customers or the [specialist](#).

No-brainer

A [market](#) in which it does not take very complex analysis to figure out how [securities](#) are going to perform, such as a strong [bull](#) market.

No docs

[Loans](#) that are supported with little or no documentation (like proof of income, employment or assets.) Generally availed of by [borrowers](#) who do not have such documentation (or do not want to disclose it) but are willing to pay high [interest rates](#) for such loans. Also see [Alt-A](#), [NINA loan](#).

No-load fund

A [mutual fund](#) that does not impose a [sales commission](#). Related: [Load fund](#), [no-load mutual fund](#).

No-load mutual fund

An [open-end investment company](#) whose [shares](#) are sold without a [sales charge](#). There can be other [distribution](#) charges, however, such as Article [12B-1 fees](#). A true no-load fund has neither a [sales charge](#) nor a [distribution](#) fee.

No-load stock

[Shares](#) that can be [purchased](#) from the [issuing companies](#) themselves, so that [broker](#) fees and [commissions](#) can be avoided.

NM

Abbreviation for "not meaningful".

Noah Effect

The tendency of persistent time [series](#) ($0.50 < H < 1.00$) to have abrupt, and discontinuous changes. The [normal distribution](#) assumes continuous changes in a system. However, a time series which exhibits [Hurst](#) statistics may abruptly change levels, skipping values either up or down. Mandelbrot coined the term "Noah effect" after the biblical story of the deluge. See: [Joseph Effect](#), [Hurst Exponent](#), Persistence, [Anti-persistence](#).

NOB spread

Notes over [bonds spread](#). This is the difference in [yield](#) between [Treasury notes \(maturing](#) in 2 to 10 years) and Treasury bonds (maturing in 15 or more years), which is [traded](#) using Treasury note and bond [futures](#).

No Substitution

Within the text on a [proxy](#) card are the words: "The shareholder appoints certain people (collectively, the proxy committee) with full power of substitution to vote the shares." If the security [holder](#) strikes out this phrase, the proxy cannot be voted if there is a change in the designated proxy committee.

Noise

[Price](#) and [volume fluctuations](#) that can confuse interpretation of market direction. Used in the context of general equities. [Stock market](#) activity caused by [program trades](#), [dividend rolls](#), and other phenomena not reflective of general sentiment. Antithesis of [real](#).

Noisy Chaos

A chaotic [dynamical system](#) with either [observational](#) or [system noise](#) added. See: [Chaos](#), [Dynamical Systems](#), [Observational Noise](#), [System Noise](#).

No-par-value stock

A [stock](#) with no [par value](#) given in the [charter](#) or [stock certificate](#).

Nominee Name

A name that is used by the [corporation](#) as a generic registered owner on a [stock](#) or [bond certificate](#). The use of nominee names makes the processing of security [transfers](#) easier.

Nominal

In name only. Differences in [compounding](#) cause the nominal rate to differ from the [effective interest rate](#). [Inflation](#) causes the [purchasing power](#) of [money](#) to differ from one time to another.

Nominal annual rate

An [effective rate](#) per period multiplied by the number of periods in a year. Same as [annual percentage rate](#).

Nominal cash flow

A [cash flow](#) expressed in [nominal terms](#) if the actual dollars to be received or paid out are given.

Nominal dollars

Dollars that are not adjusted for [inflation](#).

Nominal exchange rate

The actual [foreign exchange quotation](#) in contrast to the [real exchange rate](#), which has been adjusted for changes in [purchasing power](#).

Nominal exercise price

The [exercise price](#) of a [GNMA option contract](#), which equals the unpaid [principal](#) balance multiplied by the [adjusted exercise price](#).

Nominal income

Income that has not been adjusted for [inflation](#) and decreasing [purchasing power](#).

Nominal interest rate

The [interest rate](#) unadjusted for [inflation](#).

Nominal price

Price [quotations](#) on [futures](#) for a period in which no actual [trading](#) took place.

Nominal quotation

Used in the context of general equities. [Bid](#) and [offer prices](#) given by a [market maker](#) for the purpose of [valuation](#), not as an invitation to [trade](#); must be specifically identified as such by prefixing the quotes FYI (for your information) or FVO (for valuation only).

Nominal value

See [Par value](#)..

Nominal yield

The income received from a fixed income security in one year divided by its [par value](#). See also: [Coupon rate](#).

Nominee

A person or [firm](#) to whom [securities](#) or other properties are [transferred](#) to facilitate [transactions](#), while leaving the customer as the actual owner.

Nonaccredited investor

Wealthy, sophisticated [investors](#) who do not meet [SEC net worth](#) requirements. These investors require less protection because of large financial resources, but only 35 [nonaccredited investor](#) can be included per [investment](#).

Non-agency mortgage backed securities

[Mortgage backed securities](#) sponsored by private companies other than government sponsored enterprises such as [Fannie Mae](#) or [Freddie Mac](#) See: [Private-labeled mortgage backed securities](#)

Nonagintillion

A unit of quantity equal to 10^{275} (1 followed by 273 zeros).

Noncallable

A [preferred stock](#) or [bond](#) that cannot be [redeemed](#) whenever desired by the [issuer](#).

Noncash charge

A [cost](#), such as [depreciation](#), depletion, and [amortization](#), that does not involve any [cash](#) outflow. That is, this is treated as an accounting [expense](#) -- not a real expense that demands cash.

Nonclearing member

An [exchange member firm](#) that is not able to clear [transactions](#), and must pay another [member firm](#) to carry out its clearing operations.

Noncompete

A provision in a number of employment [contracts](#) that prohibits an employee from working for a competing [firm](#) for a specified number of years after the employee leaves the firm.

Noncompetitive bid

In a [Treasury](#) auction, [bidding](#) for a specific amount of [securities](#) at the price, whatever it may turn out to be, equal to the [average](#) price of the accepted [competitive bids](#).

Noncompetitive tender

[Offer](#) by an [investor](#) to purchase [Treasury securities](#) at a price equivalent to the weighted [average discount rate](#) or [yield](#) of accepted competitive bids in a Treasury auction. Noncompetitive tenders are always accepted in full.

Noncontributory pension plan

A [pension plan](#) that is fully paid for by the employer, requiring no employee [contributions](#).

Noncumulative

Applies mainly to [convertible securities](#). Type of [preferred stock](#) on which unpaid or Omitted dividends do not [accrue](#). Omitted dividends are, as a rule, gone forever.

Noncumulative preferred stock

[Preferred stock](#) whose [holders](#) must forgo [dividend](#) payments when the [company](#) misses a dividend payment. Related: [Cumulative preferred stock](#).

Noncurrent asset

Any [asset](#) that is expected to be held for the whole year, not sold or exchanged, such as [real estate](#), machinery, or a [patent](#).

Noncurrent liability

A [liability](#) due in one year.

Non-Discretionary Proposal

A proposition on a [proxy](#) card requiring a response from the beneficial owner which does not fall under the [Ten Day Rule](#). Therefore, the [broker](#) cannot vote on behalf of the beneficial owner, it can only vote after specific instructions have been received from the beneficial owner.

Nondiscretionary trust

A [personal trust](#) whose [trustee](#) has no discretion in deciding how income will be [distributed](#) to the [beneficiary](#).

Nondeductible contribution

A [contribution](#) to either a [traditional IRA](#) or [Roth IRA](#). [Income tax](#) is due on the contribution in the tax year for which the contribution is made.

Nondeliverable Forward Contracts (NDF)

Agreement regarding a [position](#) in a specified [currency](#), a specified [exchange rate](#), and a specified future [settlement date](#), that does not result in [delivery](#) of [currencies](#). Rather one party in the agreement makes a payment to the other party on the basis of the [exchange rate](#) at the future date.

Nondiversifiability of human capital

The difficulty of [hedging](#) one's [human capital](#) (the unique capabilities and expertise of individuals) and employment effort.

Nondiversifiable risk

[Risk](#) that cannot be eliminated by having a large [portfolio](#) of many [assets](#).

Non-Equity Option

An option whose [underlying](#) entity is not common stock; typically refers to options on physical commodities and [index](#) options.

Nonfinancial assets

Physical [assets](#) such as [real estate](#) and machinery.

Non-financial Commercial Paper (NFCP)

[Commercial paper](#) issued by non-financial firms. Non-financial issuers include public utilities, service and industrial companies.

Nonfinancial services

Such things as [freight](#), insurance, passenger services, and travel.

Noninsured plans

Defined benefit [pension plans](#) that are not [guaranteed](#) by [life insurance](#) products. Related: [Insured plans](#).

Noninterest-bearing note

A [note](#) without periodic interest payment, but selling at a [discount](#) and [maturing](#) at [face value](#).

See: [Zero-coupon bond](#).

Non-Manufacturing Index

The primary index released in [Non-Manufacturing ISM Report on Business](#) by the Institute for Supply Management on monthly basis. The index is seasonally adjusted and measures business activity in the US service economy. Service sector (non-manufacturing) accounts for approximately 80% of US economy. A reading above 50% indicates expansion of services sector; below 50% indicates the sector's contraction.

Non-Manufacturing ISM Report on Business

A monthly report released by the Institute for Supply Management measuring growth in the service sector.

Nonmarketed claims

Claims that cannot be easily bought and sold in the [financial markets](#), such as those of the government and litigants in lawsuits.

Nonillion

A unit of quantity equal to 10^{30} (1 followed by 30 zeros).

Nonintermediated debt market

A [financial market](#) in which borrowers (government and large [corporations](#)) appeal directly to savers for debt capital through the securities markets without using a [financial institution as intermediary](#).

Nonmarketable security

[Securities](#) that cannot be easily bought and sold.

Nonmember bank

Depository institution that is not a member of the Federal Reserve System. Specifically, a state-[chartered](#) commercial bank that has elected not to join the System.

Nonmember firm

Used for listed equity securities. Brokerage firm that is not a [member](#) of an [organized exchange \(NYSE\)](#). Such [firms execute trades](#) either through [member firms](#), or on [regional exchanges](#) where they are members, or in the third market.

Nonmonetary assets and liabilities

[Assets](#) and [liabilities](#) with [noncontractual](#) payoffs.

Nonparallel shift in the yield curve

A shift in the [yield curve](#) in which [yields](#) do not change by the same number of [basis](#) points for every [maturity](#). Related: [Parallel shift in the yield curve](#).

Nonparticipating life insurance policy

[Life insurance policy](#) whose [policyholders](#) do not receive [dividends](#), because they are not participants in the [interest](#), [dividends](#), and [capital gains](#) earned by the insurer on [premiums](#) paid.

Nonperforming asset

An [asset](#) that is not effectively producing income, such as an overdue [loan](#).

Nonproductive loan

A [loan](#) that increases spending power, but is used in business that does not directly increase the economy's output, such as a [leveraged buyout](#) loan.

Nonpublic information

Information about a [company](#) that is not known by the general [public](#), which will have a definite impact on the [stock](#) price when released. See: [Insider trading](#).

Nonpurpose loan

A [loan](#) with [securities](#) pledged as [collateral](#), but which is not to be used in [securities trading](#) or [transactions](#).

Nonqualified plan

A retirement plan that does not meet the [IRS](#) requirements for favorable tax treatment.

Nonqualifying annuity

An [annuity](#) that does not fall under an [IRS](#)-approved [pension plan](#). [Contributions](#) are made with after-tax dollars, but [earnings](#) can [accumulate tax-deferred](#) until [withdrawal](#).

Nonqualifying stock option

An employee [stock option](#) that does not satisfy [IRS](#) qualifying rules and therefore is liable for taxation upon [exercise](#).

Nonrated

A [bond](#) that has not been rated by a large [rating agency](#), usually because the [issue](#) is too small.

Nonrecourse

In the case of [default](#), the [lender](#) has no ability to claim [assets](#) over and above what the limited partners contributed.

Nonrecourse loan

A [loan](#) for which no partner or related person bears the economic [risk of loss](#). For example, if a [partnership](#) fails to repay a [nonrecourse](#) loan, the [lender](#) has no recourse against any partner except to foreclose of the [assets](#) used to secure the loan.

Nonrecurring charge

A one-time [expense](#) or [credit](#) shown in a [company's financial statement](#).

Nonredeemable

Not permitted, under the [terms](#) of an [indenture](#), to be [redeemed](#).

Nonrefundable

Not permitted, under the terms of an [indenture](#), to be [refundable](#).

Nonreproducible assets

A [tangible asset](#) with unique physical properties, like a parcel of land, a mine, or a work of art.

Nonsterilized intervention

Taking an action in the foreign exchange market without adjusting for changes in [money supply](#).

Nonsystematic risk

Nonmarket or [firm-specific risk factors](#) that can be eliminated by [diversification](#). Also called [unique risk](#) or [diversifiable risk](#). [Systematic risk](#) refers to risk factors common to the entire economy.

Nontradables

Goods and services produced and consumed domestically that are not close substitutes to import or export goods and services.

Non Vessel Operating Common Carriers (NVOCC)

An ocean carrier that does not own or operate their own vessels. They use less than full containerloads which they ship on actual ship lines. They [issue](#) their own [bills of lading](#) which are backed up by actual [on board ocean bills of lading](#) issued to them by the other carrier.

Nonvoting stock

A [security](#) that does not entitle the [holder](#) to vote on the [corporation's resolutions](#) or elections.

No Protest

Instructions given to a [collecting bank](#) not to protest a specific item in the event of non payment or non [acceptance](#).

Normal annuity form

The manner in which [retirement](#) benefits are paid out.

Normal backwardation theory

[Holds](#) that the [futures](#) price will be [bid](#) down to a level below the expected [spot price](#).

Normal course issuer bid (NCIB)

Refers to a company's intention of buying back its own outstanding shares from the markets. It is subject to regulatory approval. The buying is usually spread over an extended period of time. It is often the case that companies do not carry through on their stated intentions in terms of the amount that they intend to buy.

Normal deviate

Related: [Standardized value](#)

Normal Distribution

The well known bell shaped curve. According to the [Central Limit Theorem](#), the [probability density function](#) of a large number of independent, identically distributed random numbers will approach the normal distribution. In the [fractal](#) family of [distributions](#), the normal distribution only exists when [alpha](#) equals 2, or the [Hurst exponent](#) equals 0.50. Thus, the normal distribution is a special case which in time [series](#) analysis is quite rare. See: Alpha, [Central Limit Theorem](#), [Fractal Distribution](#).

Normal growth firms

Companies whose [earnings](#) grow at a constant rate.

Normal investment practice

The [investment history](#) of a customer, which is used as a [benchmark](#) to test the bona fide [public offerings](#) requirement of the allocation of a hot [issue](#).

Normal Market Size (NMS)

A system that categorizes the size of [transactions](#) that are normal for a particular [security](#) and forces [market makers](#) to deal within these sizes.

Normal portfolio

A [customized benchmark](#) that includes all the [securities](#) from which a manager normally chooses, weighted as the manager would weight them in a [portfolio](#).

Normal probability distribution

A [probability distribution](#) for a [continuous random variable](#) that forms a symmetrical bell-shaped curve around the [mean](#). This [distribution](#) has no [skewness](#) or [excess kurtosis](#).

Normal random variable

A [random variable](#) that has a [normal probability distribution](#).

Normal retirement

The age or number of working years after which a [pension plan beneficiary](#) can [retire](#) and receive unreduced benefits immediately.

Normal trading unit

See: [Round lot](#).

Normalized earnings

[Earnings](#) that have been adjusted in order to take into account the effect of [cycles](#) in the economy.

Normalizing method

Making a change in the income account equivalent to the tax savings realized through the use of different [depreciation](#) methods for [shareholder](#) and [income tax](#) purposes, thus washing out the benefits of the tax savings reported as final [net income](#) to shareholders.

North American Free Trade Agreement (NAFTA)

A regional trade pact among the United States, Canada, and Mexico.

Not a name with us

Refers to [over-the-counter trading](#). Not a [registered market maker](#) in the [security](#), especially in [OTC](#) and convertibles, or having nothing [real](#) to do.

Not-for-profit

An organization established for charitable, humanitarian, or educational purposes that is [exempt](#) from some taxes and in which no one in [profits](#) or [losses](#).

Not rated

A [rating](#) service indicator, neither positive nor negative, showing that a [security](#) or [company](#) has not been rated.

Not-sufficient-funds check

A bank [check](#) having insufficient funds to back it.

Not held order (NH order)

Applies mainly to international equities. [Market](#) or [limit order](#) in which the customer does not desire to [transact](#) automatically at the [inside market](#) (market held) but instead has given the [trader](#) or [floor broker](#) ([listed stock](#)) time and price discretion in transacting on a [best-efforts basis](#). This will not [hold](#) the broker responsible for missing the price within the limits (limit not held) or obtaining a worse price (market not held). The [order](#) is marked "not held, disregard tape/DRT, take time" or bears any such qualifying notation, excluding "or better." See: [Held order](#).

Note

[Debt instruments](#) with initial [maturities](#) longer than one year and shorter than 10 years.

Note agreement

A [contract](#) for [privately placed debt](#).

Note issuance facility (NIF)

An agreement by which a [syndicate](#) of banks [indicates](#) a willingness to accept [short-term notes](#) from [borrowers](#) and resell these [notes](#) in the [Eurocurrency](#) markets.

Notes to the financial statements

A detailed set of [notes](#) immediately following the [financial statements](#) in an [annual report](#) that explain and expand on the information in the financial statements.

Notice day

A day on which notices of intent to [deliver](#) pertaining to a specified [delivery](#) month may be [issued](#).

Related: [Delivery notice](#).

Notice of Meeting

The legal one-page notice to security [holders](#) stating the date, time and place of the shareholder meeting. This page is normally attached to the front of the [proxy](#) statement.

Notice Period

The time during which the buyer of a futures contract can be called upon to accept delivery. Typically, the 3 to 6 weeks preceding the [expiration](#) of the contract.

Notification date

The day the [option](#) is either [exercised](#) or [expires](#).

Notifying Bank

See: [Advising Bank](#)

Notional principal amount

In an [interest rate swap](#), the predetermined dollar [principal](#) on which the exchanged [interest payments](#) are based.

Nouveau Marché

An [equity market unit](#) of the Paris [Bourse](#) that deals solely in innovative, high-growth [companies](#).

Novation

[Defeasance](#) whereby the [firm's debt](#) is [cancelled](#).

Novemdecillion

A unit of quantity equal to 10^{60} (1 followed by 60 zeros).

Novemnonagintillion

A unit of quantity equal to 10^{300} (1 followed by 300 zeros).

Novemoctogintillion

A unit of quantity equal to 10^{270} (1 followed by 270 zeros).

Novemquadratrigintillion

A unit of quantity equal to 10^{150} (1 followed by 150 zeros).

Novemquinquagintillion

A unit of quantity equal to 10^{180} (1 followed by 180 zeros).

Novemseptuagintillion

A unit of quantity equal to 10^{240} (1 followed by 240 zeros).

Novemsexagintillion

A unit of quantity equal to 10^{210} (1 followed by 210 zeros).

Novemtrigintillion

A unit of quantity equal to 10^{120} (1 followed by 120 zeros).

Novemvigintillion

A unit of quantity equal to 10^{90} (1 followed by 90 zeros).

NPV profile

A graph of [NPV](#) as a function of the [discount rate](#).

NRA (Non-Resident Alien) Tax

The tax which must be withheld by the [corporation](#) or its disbursing [agent](#) (usually 15% or 30%, depending on the [hold's](#) citizenship).

Nugget

A 15 year Gold FHLMC (Freddie Mac) bond; similar to a Dwarf.

Numismatist

Collector of historical coins and [currencies](#).

O

Fifth letter of a Nasdaq stock symbol specifying that it is the company's second class of preferred shares.

OAS

See: [Option adjusted spread](#)

OB

See: [Over the Counter Bulletin Board](#)

OFR

See: [Office of Financial Research](#)

OCC

See: [Options Clearing Corporation](#)

OTCBB

See: [Over the Counter Bulletin Board](#)

OECD

See: [Orgainzation for Economic Cooperation and Development](#)

OID

See: [Original issue discount debt](#)

OM

The two-character [ISO](#) 3166 country code for OMAN.

OMN

The three-character [ISO](#) 3166 country code for OMAN.

OMT

See: [Outright Monetary Transactions](#).

OMR

The [ISO](#) 4217 currency code for the Oman Rial.

OPEC

See: [Organization of Petroleum Exporting Countries](#)

OR

See: [Operations research](#)

OSE

See: [Osaka Securities Exchange](#)

OTC

See: [Over-the-counter](#).

OTM

See: [Out of the money](#).

OTTI

See: [Other Than Temporary Impairment](#).

Oath of Inspectors

A sworn statement signed by the Inspectors of Election, usually notarized, wherein they swear they will impartially and faithfully execute their duties as Inspectors of Election at the [annual](#) or special meeting of shareholders.

Objective (mutual funds)

The fund's [investment strategy](#) category as stated in the [prospectus](#). There are more than 20 standardized categories. E.g. [Aggressive growth](#), [balanced](#).

Objective probability

The true unobservable [underlying](#) odds that something is so.

Obligation

A legal responsibility, such as to repay a [debt](#).

Obligation bond

A [municipal bond](#) with a [face value](#) greater than the value of the [underlying](#) property. The difference is designed to compensate the [lender](#) for [costs](#) exceeding the mortgage value.

Obligor

A person who has an [obligation](#) to pay off a [debt](#).

Observational Noise

The error between the true value in a system and its observed value due to imprecision in measurement. Also called [Measurement Noise](#). See: [Dynamical Noise](#).

Ocean bill of lading

Receipt for a shipment by boat, that includes freight charges and title to the merchandise.

Octillion

A unit of quantity equal to 10^{27} (1 followed by 27 zeros).

Octodecillion

A unit of quantity equal to 10^{57} (1 followed by 57 zeros).

Octogintillion

A unit of quantity equal to 10^{243} (1 followed by 243 zeros).

Octononagintillion

A unit of quantity equal to 10^{297} (1 followed by 297 zeros).

Octooctogintillion

A unit of quantity equal to 10^{267} (1 followed by 267 zeros).

Octoquadrangintillion

A unit of quantity equal to 10^{147} (1 followed by 147 zeros).

Octoquinquagintillion

A unit of quantity equal to 10^{177} (1 followed by 177 zeros).

Octoseptuagintillion

A unit of quantity equal to 10^{237} (1 followed by 237 zeros).

Octosexagintillion

A unit of quantity equal to 10^{207} (1 followed by 207 zeros).

Octotrigintillion

A unit of quantity equal to 10^{117} (1 followed by 117 zeros).

Octovigintillion

A unit of quantity equal to 10^{87} (1 followed by 87 zeros).

Odd lot

A [trading order](#) for less than 100 [shares](#) of [stock](#). Compare [round lot](#).

Odd-Lot Buy Back

An offer made by the [corporation](#) or its [agent](#) to purchase shares from odd-lot shareholders.

Odd-lot dealer

A [broker](#) who combines [odd lots](#) of [securities](#) from multiple [buy](#) or sell [orders](#) into [round lots](#) and [executes transactions](#) in those round lots.

Odd-Lot Resale

An offer made by the [corporation](#) or its [agent](#) to purchase [shares](#) from odd-lot shareholders and immediately resell them in the market, usually in round-lots to institutions, thus saving the corporation the [expense](#) of merely buying shares back.

Odd-lot short-sale ratio

The percentage of total [odd-lot](#) sales that is composed of [short sales](#).

Odd-lot theory

The theory that [profits](#) can be made by making [trades](#) contrary to [odd-lot](#) trading [patterns](#), since [odd-lot investors](#) have poor timing. This theory is no longer popular.

OEX index

Applies to derivative products. Quotron symbol for the [S&P 100 index option](#).

Off-balance-sheet financing

[Financing](#) that is not shown as a [liability](#) on a [company's balance sheet](#).

Off-board

Used for listed equity securities. [Transacted](#) away from a national securities [exchange](#) even though the [stock](#) itself is [listed](#), such as on the [NYSE](#), and instead of on the [OTC](#) market, a [regional exchange](#), or in the [third](#) or [fourth markets](#) (between customers directly). After 9:30 a.m., if the stock has not opened due to the exchange's discretion, [trading](#) can occur elsewhere, but the [trader](#) must assume the role of a quasi-[specialist](#) in the process.

Off-budget Federal entities

Federally owned and [controlled](#) entities whose [transactions](#) are excluded from the [budget](#) totals under provisions of law. Their [receipts](#), outlays, and surplus or [deficit](#) are not included in budget receipts, outlays or deficits. Their [budget authority](#) is not included in totals of the budget.

Off-floor order

Used for listed equity securities. (1) [Order](#) to [buy](#) or sell a [security](#) that originates off the [floor](#) of an [exchange](#); customer orders originating with [brokers](#), as distinguished from orders placed by [floor members trading](#) for their own accounts. [Exchange](#) rules require that an off-floor order be [executed](#) before orders initiated on the floor. [Upstairs order](#). Antithesis of [on-floor order](#); (2) order not handled on the floor but instead [upstairs](#).

Offer

Indicates a willingness to sell at a given price. Related: [Bid](#).

Offer price

See: [Offer](#).

Offer wanted

Used in the context of general equities. Notice by a potential buyer of a [security](#) that he or she is [looking for](#) supply from a potential seller of the security, often requiring a [capital commitment](#). Antithesis of [bid wanted](#).

Offering date

Date on which a new set of [stocks](#) or [bonds](#) will first be sold to the [public](#).

Offering memorandum

A document that outlines the terms of [securities](#) to be [offered](#) in a [private placement](#).

Offering scale

The [range](#) of prices offered by the [underwriter](#) of a [serial bond issue](#) with different [maturities](#).

Offering statement

A shortened [registration statement](#) required by the [Securities and Exchange Commission](#) on [debt issues](#) with less than a nine-month [maturity](#).

Offerings

Often refers to [initial public offerings](#). When a [firm](#) goes [public](#) and makes an offering of [stock](#) to the [market](#).

Office of the Comptroller of the Currency

Independent bureau within Department of Treasury that charters, regulates, and supervises all national banks and certain branches and agencies of foreign banks in the United States.

Office of Financial Research

The office created within the Department of Treasury to manage data in an evolving financial industry. Under [Dodd-Frank Wall Street Reform and Consumer Protection Act](#), the office will set standards for financial reporting and improve the quality of data that supervisors and other market participants use to manage risk.

Office of Thrift Supervision (OTS)

An [agency](#) of the U.S. Treasury department responsible for the U.S. [savings and loan industry](#).

Official reserves

Holdings of gold and [foreign currencies](#) by official monetary institutions.

Official statement

A statement published by an [issuer](#) of a new municipal [security](#) describing itself and the [issue](#).

Official settlements balance (overall balance)

An overall measurement of a country's private financial and economic [transactions](#) with the rest of the world.

Official unrequited transfers

Include a variety of [subsidies](#), military aid, voluntary cancellation of [debt](#), [contributions](#) to international organizations, indemnities imposed under peace treaties, technical assistance, taxes, or fines.

Offlake

In the context of project financing, the [purchase](#) of the project's output.

Offset

Elimination of a [long](#) or [short position](#) by making an opposite [transaction](#). Related: [Liquidation](#).

Offset Loan

A type of [loan](#) in which the [borrower](#) maintains a [savings account](#) with the [lender](#) so that the [account balance](#) is netted against the loan outstanding for purpose of [interest](#) calculation. The [interest rate](#) on Offset loans is typically higher than the ones without this feature.

Offshore finance subsidiary

A wholly owned affiliate incorporated overseas, usually in a [tax haven](#) country, whose function is to [issue securities](#) abroad for use in either the [parent's](#) domestic or foreign business.

Offshore fund

A [mutual fund](#) whose headquarters is based outside the United States.

"O.K. to cross"

Used for listed equity securities. "Legal to [cross](#) the [buy](#) and sell [orders](#) on the [exchange](#) floor because transactor is not a [principal](#) in the [transaction](#)."

Old-line factoring

[Factoring](#) arrangement that provides [collection](#), [insurance](#), and [finance](#) for [accounts receivable](#).

Oligopoly

A [Market](#) characterized by a small number of producers who often act together to [control](#) the supply of a particular good and its [market price](#).

Oligopsony

A [Market](#) characterized by a small number of large buyers who [control](#) all purchases and therefore the market price of a good or service.

OM Stockholm AB

The derivatives market of Sweden, [trading](#) a wide variety of [interest rate](#) and [bond futures](#).

The [exchange](#) trades [futures](#) and [options](#) on the OMX [equity index](#).

Omitted dividend

A [dividend](#) that was scheduled to be [declared](#), but that is not voted by the [Board of Directors](#) probably because the [company](#) is experiencing financial difficulties.

Omnibus account

An account carried by one [futures commission merchant](#) with another futures commission merchant in which the [transactions](#) of two or more persons are combined and carried in the name of the originating [broker](#), rather than designated separately. Related: [Commission house](#).

Omnibus Proxy

A list issued by depositories detailing their participants, and their holdings, and authorizing the participants to vote their [proxies](#) directly. This type of proxies are issued by [Cede](#) & Co. and by certain bank custodians.

On

Used in the context of general equities. Conjunction that denotes [trade execution /indication](#), usually during a pre-[opening](#) look. "Looks 6 on 6000 [shares](#) at opening." See: [for/at](#).

On balance

Used for listed equity securities. Left over after [pairing off](#) other [market buy](#) and sell [orders](#), usually before the [opening](#) of a [stock](#) or [market](#) but at times at the [close](#) (especially during [index expirations](#)). See: [Imbalance of orders](#).

On board

Used in the context of general equities. [Long](#).

On Board Ocean Bill of Lading

An ocean [bill of lading](#) bearing an on board notation, or words indicating that the merchandise is located aboard the vessel for transportation. These notations must be initialed or signed by an authorized employee or [agent](#) of the ship line.

On Carriage

Freight [costs](#) arising after the cost of principal international freight costs. These are usually inland freight charges for [delivery](#) within the buyer's country.

On a clean up

Used in the context of general equities. Willingness to participate in part of a [trade](#) if all of the [stock](#) available is [spoken for](#) except for the "[clean up](#) amount."

On the close order

A [market order](#) that is to be [executed](#) as close as possible to the [closing price](#) of the day.

On-floor order

Used for listed equity securities. [Security order](#) originating with a [member](#) on the floor of an [exchange](#) when dealing with his or her own account, versus an [upstairs order](#). Antithesis of [off-floor order](#).

On the money

Used in the context of general equities. [In-line](#), or at the same price, as the last sale.

On the opening order

A [market order](#) that is to be [executed](#) at the price of the first [trade](#) of the day.

On the print

Used in the context of general equities. To participate in a [block trade](#) that has already transpired, as if that customer had been part of the trade originally; often used by a new party looking to participate in a [trade](#) that has just happened. See: [Open on the print](#).

On the run

The most recently [issued](#) (and typically the most [liquid](#)) [government bond](#) in a particular [maturity](#) range.

On the sidelines

An [investor](#) who decides not to invest due to [market](#) uncertainty.

On the take

Used in the context of general equities. [Price](#) moving upward, because more [buyers](#) are taking [offerings](#), causing offerings to vanish and be replaced by higher ones. Antithesis of [come in, get hit](#).

On the tape

Used in the context of general equities. (1) [Trade](#) printed on the [ticker tape](#); (2) news displayed on [Reuters](#) or the [Dow Jones News Service](#).

One-decision stock

A quality [stock](#) that is not [actively traded](#), but rather held for its growth potential.

One-factor APT

A special case of the [arbitrage pricing theory](#) that is derived from the [one-factor model](#) by using [diversification](#) and [arbitrage](#). It shows that the [expected return](#) on any [risky asset](#) is a linear function of a single [factor](#).

144 stock

Used in the context of general equities. [Restricted stock](#).

One-man picture

When both [bid](#) and the [offered prices](#) of a [broker](#) come from the same source.

1/f Noise

See: [Anti-Persistence](#)

One-share-one-vote rule

The principle that all [shareholders](#) should have equal [voting rights](#) in [public companies](#) and each shareholder should have one vote.

One-way market

(1) A [market](#) in which only one side, the [bid](#) or [asked](#), is [quoted](#) or firm. (2) A market that is moving strongly in one direction.

OPD

Tape [symbol](#) showing either the first [transaction](#) of the day in a [security](#) after a delayed [opening](#) or the opening transaction in a [security](#) whose price has experienced a large rise or fall from the previous day's [closing](#) price.

Open

Used in the context of general equities. Having either [buy](#) or sell interest at the indicated price level and side of a preceding [trade](#). "Open on the [buy/sell side](#)" means looking for buyers/sellers (for someone who is a seller/buyer). Antithesis of [clean](#).

Open account

Arrangement whereby sales are made with no formal [debt contract](#). The buyer signs a receipt, and the seller records the sale in the [sales ledger](#).

Open book

See: [Unmatched book](#)

Open contracts

[Contracts](#) that have been bought or sold without completion of the transaction by subsequent sale or purchase, or by making or taking actual [delivery](#) of the financial [instrument](#) or [physical commodity](#).

Open depending on the floor

Used for listed equity securities. Having room for a customer buyer or seller contingent on the results of a [trade](#) being [executed](#) on the [floor](#) (i.e., satisfying the [specialist book](#) and the orders the [trader opened up](#)). See: [Open on the print](#), subject.

Open-end credit

[Revolving line of credit](#) that is extended with every purchase or [cash advance](#).

Open-end fund

Used in the context of general equities. [Mutual fund](#) that continually creates new [shares](#) on demand. [Mutual fund shareholders buy](#) the funds at [net asset value](#) and may [redeem](#) them at any time at the prevailing [market prices](#). Antithesis of [closed-end fund](#).

Open-end lease

A [lease](#) agreement that provides for an additional payment at the [expiration](#) of the lease to adjust for any change in the value of the property.

Open-end mortgage

[Mortgage](#) against which additional [debts](#) may be issued. Related: [Closed-end mortgage](#).

Open interest

The total number of [derivatives contracts](#) traded that have not yet been liquidated either by an [offsetting](#) derivative [transaction](#) or by [delivery](#). Related: [Liquidation](#).

Open-market operation

Purchase or sale of [government securities](#) by the monetary authorities to increase or decrease the domestic [money supply](#).

Open-market purchase operation

A systematic program of repurchasing [shares](#) of [stock](#) in [market transactions](#) at current [market prices](#), in competition with other prospective [investors](#).

Open-market rates

[Interest rates](#) that are determined in the open [market](#) by supply and demand, as opposed to being set by the [Federal Reserve Board](#).

Open order (good-till-cancelled, GTC order)

[Order](#) to [buy](#) or sell a [security](#) that stays [active](#) until it is completed or the [investor cancels](#) it.

Open-outcry

The method of [trading](#) used at [futures exchanges](#), typically involving calling out the specific details of a [buy](#) or sell [order](#), so that the information is available to all [traders](#).

Open Policy

[A marine cargo insurance policy](#) issued to cover various unspecified exports over the life of the policy.

Open position

A [net long](#) or [short position](#) whose value will change with a change in [prices](#).

Open on the print

Used in the context of general equities. [Block trader's](#) term for a [block trade](#) that has been completed with an institutional client and [printed](#) on the [consolidated tape](#), but leaves the block trader with [stock](#) available (because the trader has taken a [long](#) or [short position](#) to complete the trade) for new customers who are on the opposite side of the [market](#) to the initiating customer.

Open repo

A [repurchase agreement](#) with no definite term. The agreement is made on a day-to-day basis, and either the [borrower](#) or the [lender](#) may choose to terminate. The rate paid is higher than on [overnight repo](#) and is subject to adjustment if rates move.

Open up

Used in the context of general equities. [Disclose](#) more information (e.g., the exact price and quantity of one's potential interest). See: [Put pants on it](#).

Opening

The period at the beginning of the [trading](#) session officially designated by an [exchange](#), during which all [transactions](#) are considered made "at the opening." Related: [Close](#).

Opening Bank

A bank which establishes a [letter of credit](#).

Opening price

The [range of prices](#) at which the first [bids](#) and [offers](#) are made or the first [transactions](#) are completed on an [exchange](#).

Opening purchase

Creation of or increase in a [long position](#) in a given [series](#) of [options](#).

Opening sale

Creation of or increase in a [short position](#) in a given [series](#) of [options](#).

Opening transaction

Applies to derivative products. (1) [Buy](#) or sell [transaction](#) that creates a [position](#) out of a [flat](#) one ([writing](#) an [option short](#) or buying an option [long](#)). Antithesis of [closing transaction](#). (2) First transaction of the day in a [stock](#).

Operations research (OR)

A method of decision-making that uses analytical tactics such as mathematical models and statistical data to reduce [risk](#) and assist in answering complex business problems.

Operating Assets

Another term for [working capital](#).

Operating cash flow

[Earnings](#) before [depreciation](#) minus taxes. Measures the [cash](#) generated from operations, not counting [capital](#) spending or [working capital](#) requirements.

Operating cycle

The [average](#) time between the [acquisition](#) of materials or services and the final [cash](#) realization from that acquisition.

Operating expenses

The amount paid for [asset](#) maintenance or the [cost](#) of doing business, excluding [depreciation](#). [Earnings](#) are distributed after operating expenses are deducted.

Operating exposure

Degree to which [exchange rate](#) changes, in combination with price changes, will alter a [company's](#) future [operating cash flows](#).

Operating lease

[Short-term](#), [cancelable lease](#). A type of lease in which the [contract](#) period is shorter than the life of the equipment, and the [lessor](#) pays all maintenance and servicing [costs](#).

Operating leverage

Fixed [operating costs](#), which are characterized as [leverage](#) because they accentuate variations in [profits](#).

Operating profit (or loss)

Revenue from a [firm's](#) regular activities less [costs](#) and [expenses](#) and before income [deductions](#).

Operating profit margin

The ratio of operating [profit](#) to [net sales](#).

Operating rate

The percentage of total production capacity of a [company](#), [industry](#), or country that is being used.

Operating ratios

Ratios that measures a [firm's](#) operating efficiency. Examples include profit margin, and sales to assets.

Operating in the red

Doing business while losing [money](#).

Operating risk

The inherent or fundamental [risk](#) of a [firm](#), without regard to [financial risk](#). The risk that is created by operating [leverage](#). Also called [business risk](#).

Operationally efficient market

[Market](#) in which [investors](#) can obtain [transactions](#) services that reflect the true [costs](#) associated with furnishing those services. Also called an [efficient market](#).

Operations department

See: [Back office](#).

Opex

See: [Operating Expenses](#)

Opinion shopping

Attempts by a [corporation](#) to attain reporting objectives by following questionable accounting principles, with the help of an auditor willing to sanction the practices. Prohibited by the [SEC](#).

OPM

Stands for "other people's money," which refers to [borrowed](#) funds used to increase the [return](#) on invested [capital](#).

Oporto

Portugal's derivatives exchange (Bolsa de Derivados do Oporto) trading [futures](#) on the ten-year government [bond](#), Portuguese stock [index](#), and three-month interbank deposit rate LISBOR (Lisbon Interbank Offered Rate).

Opportunity cost of capital

[Expected return](#) that is forgone by investing in a project rather than in comparable financial [securities](#).

Opportunity costs

The difference in the actual performance of a particular [investment](#) and some other desired investment adjusted for [fixed costs](#) and [execution](#) costs. It often refers to the most valuable alternative that is given up.

Opportunity line

Slope of a graph representing [portfolios](#) achieved by combining different levels of [borrowing](#) and [lending](#) with a single [risky](#) portfolio. Sometimes called [investment opportunity set](#).

Opportunity set

The possible [expected return](#) and [standard deviation](#) pairs of all [portfolios](#) that can be constructed from a given set of [assets](#).

Optimal contract

The [contract](#) that balances the three types of [agency costs](#) (contracting, monitoring, and misbehavior) against one another to minimize the total [cost](#).

Optimal portfolio

An [efficient portfolio](#) most preferred by an [investor](#) because its [risk/reward](#) characteristics approximate the [investor's](#) utility function. A [portfolio](#) that maximizes an investor's preferences with respect to [return](#) and [risk](#).

Optimal redemption provision

Provision of a [bond indenture](#) that governs the [issuer's](#) ability to [call](#) the [bonds](#) for [redemption](#) prior to their scheduled [maturity](#) date.

Optimization approach to indexing

An approach to [indexing](#) that seeks to optimize some objective, such as to maximize the [portfolio yield](#), to maximize [convexity](#), or to maximize [expected total returns](#).

Optimum capacity

The amount of manufacturing output that creates the lowest [cost](#) per unit.

Optimum Leverage Ratio

The [borrowing](#) level that maximizes the value of the [firm](#). The [cost of capital](#) to the firm is minimized at that same level.

Option

Gives the buyer the right, but not the [obligation](#), to [buy](#) or sell an [asset](#) at a set [price](#) on or before a given date. [Investors](#), not [companies](#), [issue](#) options. Buyers of [call options](#) bet that a [stock](#) will be worth more than the price set by the [option](#) (the [strike price](#)), plus the price they pay for the option itself. Buyers of [put options](#) bet that the stock's price will [drop](#) below the price set by the option. An option is part of a [class of securities](#) called [derivatives](#), which means these securities derive their value from the worth of an [underlying](#) investment.

Option account

A brokerage account that is approved to hold [option positions](#) or [trades](#).

Option-adjusted spread (OAS)

(1) The [spread](#) over an [issuer's spot rate](#) curve, developed as a measure of the [yield spread](#) that can be used to convert dollar differences between theoretical value and [market prices](#). (2) The [cost](#) of the [implied call](#) embedded in an [MBS](#), defined as additional [basis-yield spread](#). When added to the base yield spread of an MBS without an operative [call](#) produces the option-adjusted spread.

Option agreement

A form that an [options investor](#) opening an [option account](#) fills out guarantees the [investor](#) will follow [trading regulations](#) and has the financial resources to settle possible [losses](#).

Option cycle

The [cycle](#) of [option expiration](#) months. The most common [cycles](#) are: January, April, July, and October (JAJO); February, May, August, and November (FMAN); and March, June, September, and December (MJSD).

Option elasticity

The percentage increase in an [option's](#) value, given a 1 percentage point change in the value of the [underlying security](#).

Option holder

A person who has an [option](#) that has not been [exercised](#).

Option margin

The [margin requirement](#) for [options](#) described in [Regulation T](#) and in [brokers'](#) individual policies.

Option mutual fund

A [mutual fund](#) that [buys](#) and sells [options](#) for aggressive or conservative [investment](#).

Option not to deliver

In the [mortgage pipeline](#), an additional [hedge](#) placed in tandem with the [forward](#) or substitute sale.

Option premium

The [option price](#).

Option price

Also called the [option premium](#); the price the buyer of the [options contract](#) pays for the right to [buy](#) or sell a [security](#) at a specified price in the future.

Option Pricing Curve

A graphical representation of the projected price of an option at a fixed point in time. It reflects the amount of time value premium in the option for various stock prices, as well. The curve is generated by using a mathematical model. The delta (or hedge ratio) is the slope of a tangent line to the curve at a fixed stock price. See also [Delta](#) and [Hedge Ratio](#)

Option seller

Also called the [option writer](#); the party who grants a right to [trade](#) a [security](#) at a given price in the future.

Option series

A group of [options](#) on the same [underlying security](#) with the same [exercise price](#) and [maturity](#) month.

Option spread

The [trading](#) of [options](#) of the same [class](#) at the same time in order to [profit](#) from changes in the size of the [spread](#) between different [options](#).

Option writer

See: [Option seller](#)

Optional dividend

A [dividends](#) that the [shareholder](#) can elect to receive either in [cash](#) or in [stock](#).

Optional payment bond

A [bond](#) whose [principal](#) and/or [interest](#) may be paid in foreign or domestic [currency](#) at the discretion of the [bondholder](#).

Options backdating

Awarding employees with [stock options](#) those are dated prior to the actual grant date. The date chosen could be one when the company's stock was at a low, so the options can be [in-the-money](#) at the time of granting itself. The practice is illegal if it is not followed by proper [disclosure](#) and related expenses are not recorded in [financial statements](#).

Options Clearing Corporation (OCC)

Applies to derivative products. [Financial institution](#) that is the actual [issuer](#) and guarantor of all [listed option contracts](#).

Options contract

A [contract](#) that, in exchange for the [option price](#), gives the [option](#) buyer the right, but not the [obligation](#), to [buy](#) (or sell) a [financial asset](#) at the [exercise price](#) from (or to) the [option seller](#) within a specified time period, or on a specified date ([expiration date](#)).

Options contract multiple

A constant, set at \$100, that when multiplied by the [cash](#) index value gives the dollar value of the [stock index underlying](#) an [option](#). That is the dollar value of the underlying stock index = Cash index value x \$100 (the [options contract multiple](#)).

Options on physicals

[Interest rate options](#) written on [fixed income securities](#), as opposed to those written on futures contracts.

Or better

Used in the context of general equities. [Indication](#) on the [order ticket](#) of a [limit order](#) to [buy](#) or sell [securities](#) at a price better than the specified [limit price](#) if a better price can be obtained. Does not imply a [not-held order](#), but rather puts more emphasis on [executing](#) at the limit if available.

Oral contract

A [contract](#) not recorded on paper or on computer, but made vocally which is usually enforceable.

Order

Instruction to a [broker/dealer](#) to [buy](#), sell, [deliver](#), or receive [securities](#) or [commodities](#) that commits the [issuer](#) of the "[order](#)" to the terms specified. See: [indication](#), [inquiry](#), [bid wanted](#), [offer wanted](#).

Order Book Official

The exchange employee in charge of keeping a [book](#) of public limit orders on exchanges utilizing the "marker-maker" system, as opposed to the "specialist system", of [executing](#) orders. See also [Market-Marker](#) and [Specialist](#).

Order imbalance

[Orders](#) of one kind for a [stock](#) not [offset](#) by the opposite orders, which causes a wide [spread](#) between [bid](#) and [offer](#) prices.

Order Parameter

In a nonlinear [dynamic system](#), a [variable](#)-acting link a macrovariable, or combination of variables—that summarizes the individual variables that can affect a system. In a [controlled](#) experiment, involving thermal convection, for example, temperature can be a control parameter; in a large complex system, temperature can be an order parameter, because it summarizes the effect of the sun, air pressure, and other atmospheric variables. See: [Control parameter](#).

Order protection rule

A provision of the [National Market System](#) that forces [trading](#) centers to [quote](#) equivalent and consistent [execution](#) prices for a [security](#) on all [exchanges](#) that allow [trading](#) of that [security](#). Also known as Rule 611 after its designation in the Federal Register, the Order Protection Rule is designed to prevent trade-throughs, or [trades executed](#) at prices other than the best-[quoted price](#) for that [security](#). Rule 611 applies to all [stocks](#) on major [indices](#) and most [over-the-counter stocks](#).

Order room

The brokerage firm department receives and processes all [orders](#) to [buy](#) and sell [securities](#).

Order splitting

Breaking up [orders](#) so that they can be processed as small orders for [execution](#) by [SOES](#). Prohibited by [NASD](#).

Order ticket

A form detailing an [order](#) instruction that a customer gives an account executive.

Ordering Costs

[Costs](#) that occur when an order is placed regardless of the size of the order.

Ordinary income

The income derived from the regular operating activities of a [firm](#) or individual.

Ordinary interest

[Interest](#) based on a 360-day year instead of a 365-day year, resulting in what can be a significant difference.

Ordinary shares

Applies mainly to international equities. [Shares](#) of non-U.S. [companies traded](#) in their individual home markets. Usually cannot be [delivered](#) in the U.S. See: [ADR](#).

Organic growth

Refers to growth achieved by internal investments of the firm. This could be the day to day business of the firm or a division of the firm starting a new business from scratch. This is distinguished from growth by acquisition or merger which involves an outside firm.

Organization chart

A chart showing the hierarchical interrelationships of [positions](#) within an organization.

Organization of Petroleum Exporting Countries (OPEC)

A [cartel](#) of oil-producing countries.

Organized exchange

A [securities](#) marketplace where purchasers and sellers regularly gather to [trade](#) securities according to the formal rules adopted by the [exchange](#).

Original face value

The [principal](#) amount of a [mortgage](#) as of its issue date.

Original issue discount debt (OID debt)

[Debt](#) that is initially [offered](#) at a price below [par](#).

Original Issue Discount securities (OIDS)

[Bonds](#) on which the [coupon rate](#) is set considerably below the [yield to maturity](#) at the time of issuance so that the [bonds](#) are issued at a [discount](#) from a [par value](#).

Original margin

The [margin](#) needed to [cover](#) a specific new [position](#). Related: [Margin](#), [security deposit](#) (initial).

Original maturity

[Maturity](#) at [issue](#). For example, a five-year [note](#) has an original maturity of five years; one year later it has a maturity of four years.

Originate-to-distribute

When lenders make loans with the intention of selling them to other institutions and/or investors, as opposed to holding the loans through maturity. See: [Originate-to-hold](#)

Originate-to-hold

When lenders make loans with the intention of holding them through maturity, as opposed to selling them to other financial institutions and/or investors. See: [Originate-to-distribute](#)

Origination

The making of [mortgage loans](#).

Organization for Economic Cooperation and Development (OECD)

An organization of industrialized countries formed to promote the economic health of its members and to [contribute](#) to worldwide development.

Originator

A bank, [savings and loan](#), or [mortgage banker](#) that initially made a [mortgage](#) loan that is part of a [pool](#). Also, an [investment bank](#) that has worked with the [issuer](#) of a new [securities offering](#) from the beginning and is usually appointed manager of the [underwriting syndicate](#).

Orphan stock

A [stock](#) that is ignored by research [analysts](#) and as a result may be [trading](#) at low price earnings ratios.

Osaka Securities Exchange (OSE)

Established after World War II, one of the three major securities markets in Japan.

Oslo Stock Exchange

An [exchange](#) founded in 1819 and trading [stocks](#), [bonds](#), and [stock options](#) that is considered the [options market](#) of Norway.

OTC Bulletin Board

An electronic [quotation listing](#) of the [bid](#) and [asked prices](#) of [OTC stocks](#) that do not meet the requirements to be listed on the [NASDAQ stock-listing](#) system.

OTC margin stock

[Shares](#) traded [over-the-counter](#) that can be used as [margin securities](#) under [Regulation T](#).

Other capital

In the balance of payments, other [capital](#) is a [residual](#) category that groups all the [capital transactions](#) that have not been included in direct investment, [portfolio](#) investment, and [reserves](#) categories. It is divided into long-term capital and short-term capital and, because of its residual status, can differ from country to country. Generally speaking, other [long-term](#) capital includes most [nonnegotiable instruments](#) of a year or more, like [bank loans](#) and [mortgages](#). Other [short-term](#) capital includes [financial assets](#) that can be [liquidated](#) in less than a year such as currency, deposits, and bills.

Other current assets

Value of noncash [assets](#), including prepaid [expenses](#) and [accounts receivable](#), due within one year.

Other income

Income from activities that are not undertaken in the ordinary course of a [firm's](#) business.

Other long-term liabilities

Value of [leases](#), future employee benefits, [deferred taxes](#), and other [obligations](#) not requiring [interest payments](#) that must be paid over a period of more than one year.

Other sources

Amount of funds generated during the period from operations by sources other than [depreciation](#) or [deferred taxes](#). Part of [free cash flow](#) calculation.

Other than temporary impairment (OTTI)

[Impairment](#) charge taken on a [security](#) whose [fair value](#) has fallen below the [carrying value](#) on [balance sheet](#) and its value is not expected to recover through the [holding period](#) of the security.

Out

Used in the context of general equities. (1) No longer [obligated](#) to an [order](#), as it has already been [canceled](#); (2) advertised on [Autex](#).

Out-of-favor industry or stock

An unpopular [industry](#) or [stock](#) that usually has a low [price-earnings ratio](#).

Out of line

A [stock](#) price that is too high or too low in [comparison](#) with similar-quality stocks in the same [industry](#), according to its [price/earnings ratio](#).

Out-of-the-money option

A [call option](#) is "out of the money" if the [strike price](#) is greater than the [market price](#) of the [underlying security](#). That is, you have the right to purchase a security at a price higher than the market price, which is not valuable. A [put option](#) is out of the money if the [strike price](#) is lower than the market price of the [underlying security](#).

Out of the name

Used in the context of general equities. To no longer have an [active trading profile/ position](#) in the stock.

Out of print

Not [open on the print](#). See: [Clean](#).

Out there

Used in the context of general equities. [Indication](#) gained from their [trading](#) and [inquiry](#) activity that buyers and/or (more often) sellers are in the [market](#) and should be found to get their [order](#). "Feels like IBM is 'out there'."

Out with

Used in the context of general equities. Showing of an [inquiry](#) to another [broker](#) by a customer ("he's out with....").

Outlays

Payments on [obligations](#) in the form of [cash](#), [checks](#), the [issuance](#) of [bonds](#) or [notes](#), or the [maturing](#) of [interest coupons](#).

Outperform

In general, this means to do better than some particular benchmark. Mutual Fund XYZ is said to outperform the S&P500 if its return exceeds the S&P500 return. However, this language does not take risk into account. That is, one might have a higher return than the benchmark in a particular year because of higher risk exposure. Outperform is also a term used by analysts to describe the prospects of a particular company. Usually, this means that the company will do better than its industry average. Related: [underperform](#).

Outright Monetary Transactions or OMT

Refers to the policy of the European Central Bank announced on September 6, 2012. OMTs are transactions whereby the ECB buys risky sovereign debt and [sterilizes](#) the debt by selling other bonds or bills. In contrast with previous strategies, the purchased debt will not be senior. The ECB would lose like any other investor if a country had to default.

Outright quote

A [quote](#) in which all the digits of the [bid](#) and [offer prices](#) are quoted. See: [Points quote](#).

Outright rate

Actual [forward rate](#) expressed in dollars per [currency unit](#), or vice versa.

Outside director

A [director](#) of a [company](#) who is not an employee of that company and brings in outside experience to help make board decisions.

Outside market

Used in the context of general equities. Outside the [inside market](#) (above the lowest [offering](#) and below the highest [bid](#)).

Outside of you

Used for listed equity securities. Another [order bidding](#) for or [offering stock](#) at the same price that the [trader](#) has put on the floor himself, represented by another [broker](#) in the [trading crowd](#). These orders may have different [price limits](#) (possible top or low on floor mentioned to [floor broker](#) but not announced in the [crowd](#)). See: [Matching orders](#).

Outsourcing

Purchasing a significant percentage of intermediate components from outside suppliers.

Outstanding

Used in the context of general equities. [Stock](#) held by [shareholders](#) (verses the [company's treasury stock](#)).

Outstanding Dividends

[Dividend checks](#) which have been mailed to shareholders of record but not yet cashed. Funds are held until the check is paid, reissued or escheated to the state as abandoned property.

Outstanding share capital

[Issued share capital](#) less the [par value](#) of [shares](#) that are held as the [company's treasury stock](#).

Outstanding shares

[Shares](#) that are currently owned by [investors](#).

Over-the-counter (OTC)

A decentralized [market](#) (as opposed to an [exchange](#) market) where geographically dispersed [dealers](#) are linked by telephones and computers. The market is for [securities](#) not [listed](#) on a [stock](#) or derivatives [exchange](#).

Over-the-Counter Bulletin Board

Over the counter securities trade on a Bulletin Board offered by the National Association of Security Dealers. If the stock is on the bulletin board, it will have a ".ob" suffix.

Over-the-Counter Option

An option traded off-exchange, as opposed to a listed stock option. The OTC option has a direct link between buyer and seller, has no secondary market, and has no standardization of striking prices and expiration dates. See also [Secondary Market](#).

Overage

Apples mainly to convertible securities. Difference between how much [common stock](#) one party must sell and the other wishes to [buy](#) for the same amount of [convertible](#) in a [swap](#).

Overall FTC limitation

A limitation on the FTC equal to foreign source income times US tax on worldwide income divided by worldwide income.

Overall market price coverage

Total [assets](#) less [intangibles](#) divided by the total of the [market value](#) of the [security issue](#) and the [book value](#) of [liabilities](#) and [issues](#) having a prior claim. This is used to determine how much of the [market value](#) of a certain [class](#) of securities would be covered in [liquidation](#).

Overallotment

See [Greenshoe Option](#).

Overbought

Used in the context of general equities. Technically too high in price, and hence a technical [correction](#) is expected. See: [Heavy](#). Antithesis of [oversold](#).

Overbought-oversold indicator

An [indicator](#) that attempts to define when [prices](#) have moved too far and too fast in either direction and thus are vulnerable to [reaction](#).

Overcapitalization

Said to occur when a [firm](#) cannot service its [debt](#) even though its [debt/equity](#) ratio is not excessive.

Overdraft

Provision of instant [credit](#) by a [lending](#) institution.

Overdraft checking account

A checking account associated with a [line of credit](#) that allows a person to write [checks](#) for more than the actual balance in the account, with a [finance](#) charge on the overdraft.

Overfunded pension plan

A [pension plan](#) that has a positive surplus (i.e., [assets](#) exceed [liabilities](#)).

Overhang

Used in the context of general equities. Sizable [block](#) of [securities](#) or [commodities contracts](#) that, if released on the [market](#), would put downward pressure on [prices](#); prohibits buying activity that would otherwise translate into upward price movement. Examples include [shares](#) held in

a [dealer's](#) inventory, a large institutional holding, a [secondary distribution](#) still in [registration](#), and a large [commodity position](#) about to be [liquidated](#).

Overhanging Bond

A [convertible bond issue](#) that [investors](#) do not convert into [common stock](#) because the stock has not [appreciated](#) in value.

Overhead

The [expenses](#) of a business that are not attributable directly to the production or sale of goods.

Overheating

An economy that is growing very quickly, with the risk of high [inflation](#).

Overinvestment

In corporate [finance](#), this refers to managers not acting in the best interests of the shareholders and investing too much (potentially in negative net present value projects).

Overissue

An excess of [issued shares](#) over [authorized shares](#).

Overlap the market

Used in the context of general equities. Create a [crossed market](#) by expressing a willingness to sell on the [bid](#) side of the [market](#) and [buy](#) on the [offer](#) side.

Overlapping debt

The portion of [debt](#) of political subdivisions or neighboring special districts that a municipality is responsible for.

Overlay strategy

A [strategy](#) of using [futures](#) for [asset](#) allocation by [pension sponsors](#) to avoid disrupting the activities of [money managers](#).

Overnight delivery risk

A [risk](#) brought about because differences in time zones between [settlement](#) centers require that payment or [delivery](#) on one side of a [transaction](#) be made without knowing until the next day whether the funds have been received in an account on the other side. Particularly apparent when delivery takes place in Europe for payment in dollars in New York.

Overnight position

A [broker-dealer's position](#) in a [security](#) at the end of a [trading](#) day.

Overnight repo

A [repurchase agreement](#) with a term of one day.

Overperform

To [appreciate](#) at a rate faster than appreciation of the overall [market](#).

Overreaching

Used in the context of general equities. Creating artificial volume in a [stock](#) through activity not generated by normal/[natural](#) buyers and sellers in the [market](#).

Overreaction hypothesis

The supposition that [investors](#) overreact to unanticipated news, resulting in exaggerated movements in [stock prices](#) followed by corrections.

Overrun

In the context of project financing, the amount of [capital](#) expenditures or funding above the original estimate to complete the project.

Overshooting

The tendency of a [pool](#) of [MBS](#) to reflect an especially high rate of [prepayments](#) the first time it crosses the [threshold for refinancing](#), specially if two or more years have passed since the date of [issue](#) without the [weighted average coupon](#) of the pool crossing the refinancing threshold.

Oversold

Used in the context of general equities. Technically too low in price, and hence a technical [correction](#) is expected. Antithesis of [overbought](#).

Oversubscribed issue

[Investors](#) are not able to [buy](#) all the [shares](#) or [bonds](#) they want, so [underwriters](#) must allocate the shares or bonds among investors. This occurs when a new [issue](#) is underpriced or in great demand because of growth prospects.

Oversubscription

The excess number of [shares](#) or [bonds](#) that [investors](#) want to [buy](#) but are not available due to high demand.

Oversubscription privilege

In a [rights issue](#), arrangement by which [shareholders](#) are given the right to apply for any [shares](#) that are not taken up.

Overtrading

Excessive [broker](#) trading in a [discretionary account](#). [Underwriters](#) persuade brokerage clients to purchase some part of a new [issue](#) in return for the purchase by the underwriter of other [securities](#) from the clients at a [premium](#). This [premium](#) is [offset](#) by the [underwriting spread](#).

Overvalued

A [stock](#) price that is seen as too high according to the [company's price-earnings ratio](#), expected earnings, or financial condition.

Overweight

Usually refers to recommendation that leads an investor to increase their investment in a particular security or asset class. The increase is usually with respect to a benchmark. Suppose that U.S. equities compose 40% of the benchmark portfolio. If one thinks the U.S. will outperform, the investor may increase the exposure to U.S. equity to more than 40%.

Overwithholding

[Deducting](#) and paying too much tax that may be refunded to the taxpayer or applied against the next period's [obligation](#).

Overwriting

A speculative [option](#) strategy that involves selling [call](#) or [put options](#) on [stocks](#) that are believed to be overpriced or underpriced; the options are expected not to be [exercised](#).

Own foreign offices

U.S. reporting institutions' [parent](#) organizations, branches, and/or majority owned subsidiaries located outside the United States.

Owner's equity

[Paid-in capital](#) plus donated [capital](#) plus [retained earnings](#) less [liabilities](#).

Ownership-specific advantages

[Property rights](#) or [intangible assets](#), including [patents](#), [trademarks](#), organizational and marketing expertise, production technology, and management and general organizational abilities, that form the basis for a [company's](#) advantage over other firms.

P

Fifth letter of [Nasdaq](#) stock symbol specifying issue is the [company's](#) first class of preferred shares.

P2P

Business slang, usually used in reference to startups or internet startup, refers to "path to profitability".

PA

The two-character [ISO](#) 3166 country Code for PANAMA.

PAB

The [ISO](#) 4217 currency code for the Panama Balboa.

PAC (1)

See: [Planned amortization class](#)

PAC (2)

See: [Preauthorized checks](#)

PAD

See: [Preauthorized electronic debits](#)

PAK

The three-character [ISO](#) 3166 country code for PAKISTAN.

PAN

The three-character [ISO](#) 3166 country Code for PANAMA.

P/B

See: [Price to book ratio](#)

PBC

See: [People's Bank of China](#).

PBGC

See: [Pension Benefit Guaranty Corporation](#)

PBOC

See: [People's Bank of China](#).

PC

See: [Participation certificates](#)

PCAOB

See: [Sarbanes Oxley Act of 2002](#)

PCE

See: [Personal Consumption Expenditure](#)

PCN

The three-character [ISO](#) 3166 country code for PITCAIRN.

PDCF

See: [Primary Dealer Credit Facility](#).

PE

The two-character [ISO](#) 3166 country code for PERU.

PEFCO

See: [Private Export Funding Corporation](#)

PEG Ratio

See: [Prospective earnings growth ratio](#)

PEN

The [ISO](#) 4217 currency code for the Peruvian Nuevo Sol.

PER

The three-character [ISO](#) 3166 country code for PERU.

PERC

See: [Preferred equity redemption stock](#)

PERLS

[Principal Exchange-Rated-Linked Securities.](#)

PF

The two-character [ISO](#) 3166 country code for FRENCH POLYNESIA.

PG

The two-character [ISO](#) 3166 country code for PAPUA NEW GUINEA.

PGK

The [ISO](#) 4217 currency code for the Papua New Guinea Kina.

PH

The two-character [ISO](#) 3166 country code for PHILIPPINES.

PHL

The three-character [ISO](#) 3166 country code for PHILIPPINES.

PHP

The [ISO](#) 4217 currency code for the Philippines Peso.

PHLX

See: [Philadelphia Stock Exchange](#)

PIBOR

See: [Paris Interbank Offer Rate](#)

PIK

See: [Payment-in-kind bond](#)

PIPE

See: [Private Investment in Public Equity](#)

PK (1)

The two-character [ISO](#) 3166 country code for PAKISTAN.

PK (2)

A suffix that refers to [Pink Sheets](#)

PKR

The [ISO](#) 4217 currency code for the Pakistani Rupee.

PL

The two-character [ISO](#) 3166 country code for POLAND.

PLC

See: [Project loan certificate](#)

PLN

The [ISO](#) 4217 currency code for the Polish Zloty.

PLW

The three-character [ISO](#) 3166 country code for PALAU.

PM

The two-character [ISO](#) 3166 country code for SAINT PIERRE AND MIQUELON.

PMI

See: [Purchasing Managers Index](#)

PN (1)

The two-character [ISO](#) 3166 country code for PITCAIRN.

PN (2)

See: [Project notes](#)

PNG

The three-character [ISO](#) 3166 country code for PAPUA NEW GUINEA.

PO

See: [Principal only](#)

POL

The three-character [ISO](#) 3166 country code for POLAND.

PP&E

See: [Property, Plant and Equipment](#)

PPNR

See: [Pre-Provision Net Revenue](#)

PPP

See: [Purchasing power parity](#)

PR

The two-character [ISO](#) 3166 country code for PUERTO RICO.

PRI (1)

See: [Political risk insurance](#)

PRI (2)

The three-character [ISO](#) 3166 country code for PUERTO RICO.

PRK

The three-character [ISO](#) 3166 country code for KOREA, DEMOCRATIC PEOPLES REPUBLIC OF (NORTH).

PRT

The three-character [ISO](#) 3166 country code for PORTUGAL.

PRY

The three-character [ISO](#) 3166 country code for PARAGUAY.

PS

The two-character [ISO](#) 3166 country code for PALESTINIAN TERRITORY, OCCUPIED.

PSA

See: [Public Securities Association](#).

PSE

The three-character [ISO](#) 3166 country code for PALESTINIAN TERRITORY, OCCUPIED.

PT

The two-character [ISO](#) 3166 country code for PORTUGAL.

PTE

The [ISO](#) 4217 currency code for the Portugese Escudo.

P/S

See: [Price to sales](#)

PV

See: [Present value](#)

PVBP

See: [Price value of a basis point](#)

PW

The two-character [ISO](#) 3166 country code for PALAU.

PY

The two-character [ISO](#) 3166 country code for PARAGUAY.

PYF

The three-character [ISO](#) 3166 country code for FRENCH POLYNESIA.

PYG

The [ISO](#) 4217 currency code for the Paraguay Guarani.

PAC Bond

Stands for Planned Amortization Class bond. A [tranche](#) class offered by some [CMOs](#) that has a [sinking fund](#) schedule and an ability to make [principal](#) payments that are not [subordinated](#) to other [classes](#).

Pacific Stock Exchange

Used for listed equity securities. [Regional exchange](#) located in Los Angeles and San Francisco; only U.S. [exchange](#) open between 4:00 and 4:30.

Pac-Man strategy

[Takeover](#) defense [strategy](#) in which the prospective [acquiree](#) retaliates against the [acquirer's tender offer](#) by launching its own [tender offer](#) for the other firm.

Package mortgage

A [mortgage](#) on a house and property in the house.

Paid-in capital

[Capital](#) received from [investors](#) in exchange for [stock](#), but not stock from capital generated from [earnings](#) or donated. This account includes [capital stock](#) and [contributions](#) of [stockholders](#) credited to accounts other than capital stock. It would also include surplus resulting from recapitalization.

Paid in surplus

See: [Paid-in capital](#)

Paid up

When all payments that are due have been made.

Paid-up policy

A [life insurance policy](#) in which all [premiums](#) that are due have been paid.

Painting the tape

Illegal practice by [traders](#) who manipulate the [market](#) by [buying](#) and selling a [security](#) to create the illusion of high [trading](#) activity and to attract other [traders](#) who may push up the price.

Paired off

Used for listed equity securities. Matched [buy](#) and sell [market orders](#), usually pertaining to the pre-[opening](#) market [picture](#) in a [stock](#), or [MOC](#) orders (especially relating to [futures/options expirations](#)).

Paired shares

[Stock](#) of two [companies](#) under the same [management](#) that are sold as one [unit](#) with one [certificate](#).

Pairoff

A [buyback](#) to [offset](#) and effectively [liquidate](#) a prior [sale](#) of [securities](#).

Panic buying or selling

Rapid [trading](#) of [stocks](#) or [bonds](#) in high [volume](#) in anticipation of sharply rising or falling prices, usually after unexpected news is released.

Paper

[Money market instruments](#), [commercial paper](#), and other.

Paper dealer

A brokerage firm that [buys](#) and sells [commercial paper](#) to make a [profit](#).

Paper gain (loss)

[Unrealized capital gain \(loss\)](#) on [securities](#) held in a [portfolio](#) based on a [comparison](#) of current [market price](#) to original [cost](#).

Par

Equal to the [nominal](#) or [face value](#) of a [security](#). A [bond](#) selling at par is worth an amount equivalent to its original issue value or its value upon [redemption](#) at [maturity](#)-typically \$1000/bond.

See: [Discount](#), [premium](#).

Par bond

A [bond trading](#) at its [face value](#).

Par value

Also called the [maturity value](#) or [face value](#); the amount that an [issuer](#) agrees to pay at the [maturity date](#).

Par value of currency

The official [exchange rate](#) between two countries' [currencies](#).

Par yield

The [yield](#) for which the price of a [bond](#) equals its [face value](#).

Parallel bonds

[Fixed income instruments denominated](#) in the respective [currencies](#) of the countries where they are placed.

Parallel loan

A process whereby two [companies](#) in different countries [borrow](#) each other's [currency](#) for a specific period of time, and repay the other's currency at an agreed [maturity](#) for the purpose of reducing [foreign exchange risk](#). Also referred to as [back-to-back loans](#).

Parallel shift in the yield curve

A shift in economic conditions in which the change in the [interest rate](#) on all [maturities](#) is the same number of [basis](#) points. In other words, if the three month [T-bill](#) increases 100 basis points (one %), then the 6-month, 1-year, 5-year, 10-year, 20-year, and 30-year rates all increase by 100 basis points as well. Related: [Non-parallel shift in the yield curve](#).

Parameter

A model is a combination of variables, such as [GDP](#) growth, and coefficients which multiply these variables. The coefficients are often estimated from the data. The coefficients are called parameters.

Parent company

A [company](#) that [controls subsidiaries](#) through its ownership of voting [stock](#), as well as runs its own business.

Paris Bourse

National [stock market](#) of France.

Paris Interbank Offer Rate (PIBOR)

The deposit rate on [interbank transactions](#) in the [Eurocurrency](#) market quoted in Paris.

Parity

For convertibles, level at which a [convertible security's market price](#) equals the [aggregate](#) value of the [underlying common stock](#); value/worth of the [convertible bond](#) considered only as an [equity instrument](#) ([Conversion ratio](#) times common price). See: [Conversion value](#). For international parity, U.S.\$ price of a foreign stock's last [sale](#) in an overseas [market](#) (Local currency [stock](#) price times [forex](#) rate times [ADR](#) ratio). For [listed parity](#), condition whereby no party has [floor priority](#), and matching thus occurs. For [options](#) parity, dollar amount by which an option is [in the money](#).

See: [Intrinsic value](#).

Pari passu

Refers to the equal ranking of [securities](#).

Parity value

Related: [Conversion value](#)

Parking

Putting [money](#) into safe [investments](#) such as [money market](#) investments while deciding where to invest the money.

Parking violation

Often used in [risk arbitrage](#). Illegal [holding](#) of [stock](#) by a third party, or the [financing](#) of such a stock, in which the third party's sole reason for holding the stock is to conceal ownership or [control](#) of a raider, thus sidestepping the [Williams Act](#) requirements of 5% holding limits. See: [Rule 13d](#).

Part B prospectus

See: [Statement of Additional Information](#)

Partial

Used in the context of general equities. [Trade](#) whose size is only part of the [total](#) customer [indication/order](#), usually made to avoid a compromise in price and also to get some business instead of losing the customers [inquiry/order](#) to a competitor.

Partial compensation

Incomplete payment for the [delivery](#) of goods to one party by [buying](#) back a certain amount of product from the same party.

Partial Vote

When only a portion of the total [shares](#) in an account is voted. For example, a [broker](#) has 1,000 shares and sends out a card to each of four shareholder clients. If only three of the four client cards are returned to the broker, the broker will submit only 3/4ths(750 shares) of the total 1,000 shares to vote. If the fourth card arrives later, an additional vote can be counted.

Participant risk

The [risk](#) associated with the [credit](#) of the participants and possibility of non-performance.

Participant

A party of a funding. It usually refers to the lowest rank or smallest level of funding.

"Participate but do not initiate"

Used for listed equity securities. "Participate in the side of the [market indicated](#) by the [order](#), but do not initiate the interest that causes the [trade](#) to take place." This kind of order can cause one to "miss stock" because the [broker](#) or [investor](#) is at the mercy of the player who does initiate the trade.

See: [Market order go along, percentage order](#).

Participating buyer/seller

Used for listed equity securities. (1) Customer willing to [buy/sell in line](#) with [market](#). (2) [Buyer](#)/seller who [goes along](#) with another buyer/seller in a [percentage order](#).

Participating convertible preferred stock

[Preferred stock](#) that can be converted into [common stock](#) at the [option](#) of the [holder](#). In contrast, to the usual preferred stock, the value of the preferred stock is [refunded](#) to the holder. That is, one gets conversion plus the value of the stock.

Participating dividend

[Dividend](#) received from ownership of participating [preferred stock](#).

Participating fees

The portion of total fees in a [syndicated credit](#) that go to the participating banks.

Participating GIC

A [guaranteed investment contract](#) whose [policyholder](#) is not [guaranteed](#) a [crediting rate](#), but instead receives a [return](#) based on the actual experience of the [portfolio](#) managed by the [life insurance](#) company.

Participating life insurance policies

[Life insurance](#) that pays [dividends](#) to [policyholders](#) depending on the [company's](#) success as provided by few claims and [profitable underwritings](#) and [investments](#).

Participating preferred stock

[Preferred stock](#) that provides the [holder](#) with a specified [dividend](#) plus the right to additional [earnings](#) under specified conditions.

Participation

The amount of [loan](#) or [bond issue](#) taken directly from another direct [lender](#) or [underwriter](#).

Participation certificates (PC)

Used in the context of general equities. [Investments](#) representing an interest in a [pool](#) of funds or in other [instruments](#), such as foreign [securities](#), that allow participation in the rise or fall of a [security](#) or group of securities.

Participation loan

A large [loan](#) made by a group of [lenders](#), that enables a [borrower](#) to obtain [financing](#) above the legal lending limit of an individual lender.

Partner

Business associate who shares [equity](#) in a [firm](#).

Partnership

Shared ownership among two or more individuals, some of whom may, but do not necessarily, have [limited liability](#) with respect to [obligations](#) of the group. See: [General partnership](#), [limited partnership](#), and [master limited partnership](#).

Partnership agreement

A written agreement among [partners](#) detailing the [terms](#) and conditions of participation in a business ownership arrangement.

Party in interest

An [ERISA](#)-specified individual—such as an administrator, officer, [fiduciary](#), [trustee](#), [custodian](#), or counsel—who is prohibited from making certain [transactions](#) involving a [retirement plan](#). A trustee, for example, would be prohibited from using an [IRA](#) as [collateral](#) for a [loan](#).

Pass the book

The process of transferring responsibility for a brokerage firm's [trading](#) account from one office to another around the world in order to benefit from trading 24 hours a day.

Pass-through coupon rate

The [interest rate](#) paid on a [securitized pool](#) of [assets](#), which is less than the rate paid on the [underlying loans](#) by an amount equal to the servicing and [guaranteeing](#) fees.

Pass-through rate

The [net interest rate](#) passed through to [investors](#) after deducting servicing, [management](#), and [guarantee](#) fees from the gross [mortgage coupon](#).

Pass-through securities

A [pool](#) of [fixed income securities](#) backed by a package of [assets](#) (i.e., mortgages) where the [holder](#) receives the [principal](#) and [interest payments](#). Related: [Mortgage pass-through security](#)

Passive

Income or [loss](#) from business activities in which a person does not materially participate, such as a [limited partnership](#).

Passive Activity Loss (PAL)

A [loss](#) incurred in participating in [passive investing](#).

Passive bond

A [bond](#) without any [interest yield](#).

Passive income

Income (such as [investment income](#)) that does not come from [active](#) participation in a business.

Specified by the U.S. tax code.

Passive Income Generator (PIG)

An [investment](#) that favors [passive income](#), such as an income-oriented [real estate limited partnership](#).

Passive investing

Putting [money](#) into a [profitable](#) business opportunity that is deemed [passive](#) by the [IRS](#) and thus benefits from [tax deductions](#).

Passive investment management

[Buying](#) a well [diversified portfolio](#) to represent a broad-based [market index](#) without attempting to search out mispriced [securities](#).

Passive investment strategy

See: [Passive investment management](#).

Passive management

See: [Indexing](#)

Passive portfolio

A [market index portfolio](#).

Passive portfolio strategy

A [strategy](#) that involves minimal expectational input, and instead relies on [diversification](#) to match the performance of some [market index](#). A passive strategy assumes that the marketplace will reflect all available information in the price paid for [securities](#), and therefore, does not attempt to find mispriced securities. Related: [Active portfolio strategy](#).

Past due balance method

A method for calculating financial charges that charges no [interest](#) on a balance as long as that balance is paid off within a pre-determined time period; the balance remaining after the [interest-free](#) period is over is then considered "past due," and is penalized by the application of an [interest rate](#). The past due balance method is applied to both [credit](#) card and charge [accounts](#).

Patent

A patent gives the owner the right to prohibit/exclude others from using his/her patented technology. It does not even grant the patent owner the right to practice his/her own technology (called 'freedom of operation') because his/her patent may be dominated by another person's or persons' patent(s) that could exclude him or her from doing so.

Path-dependent option

An [option](#) whose value depends on the sequence of prices of the [underlying asset](#) rather than just the final price of the [asset](#).

Pattern

A technical chart formation used to make [market](#) predictions by following the price movements of [securities](#).

Pay-as-you-go basis

A method of paying [income tax](#) in which the employer deducts a portion of an employee's monthly [salary](#) to [remit](#) to the [IRS](#).

Pay-to-play

Attempts by [municipal bond underwriting](#) businesses to gain influence with political officials who decide which [underwriters](#) are awarded the municipality's business.

Pay-up

The [loss](#) of [cash](#) resulting from a [swap](#) into higher-priced [bonds](#) or the need/willingness of a bank or other [borrower](#) to pay a higher rate of [interest](#) to get funds. Used in the context of general equities. (1) When an [investor](#) who wants to [buy](#) a [stock](#) at a particular price hesitates and the stock begins to rise; instead of letting the stock go, he "pays up" to buy the [shares](#) at the higher prevailing price. (2) Buy shares in a high-quality [company](#) at what is felt to be a high, but supportable, price due to its quality.

Payable through drafts

A method of making payment that is used to maintain [control](#) over payments made on behalf of the [firm](#) by personnel in noncentral locations. The [payer's](#) bank delivers the payable through [draft](#) to the payer, which must approve it and return it to the bank before payment can be received.

Payable date

The date when [dividends](#) or [capital gains](#) are paid to [shareholders](#) or [reinvested](#) in additional [shares](#).

Payables

Related: [Accounts payable](#)

Payback

The length of time it takes to recover the initial [cost](#) of a project, without regard to the [time value of money](#).

Payback period

In project evaluation and [capital budgeting](#), the payback period estimates the time required to recover the [principal](#) amount of an [investment](#). Because the payback period method ignores any benefits that occur after the [investment](#) is repaid and the [time value of money](#), other methods of [investment](#) analysis are often preferred. See: [Internal rate of return \(IRR\)](#), [Discounted cash flow \(DCF\)](#), and [Net present value \(NPV\)](#)

Pay-down

In a [Treasury refunding](#), the amount by which the [par value](#) of the [securities maturing](#) exceeds that of those sold. In the context of general equities, paying a lower price in an [accumulation](#) of [stock](#). Antithesis of [pay-up](#).

Payee

A person receiving payment through any form of [money transfer](#) method.

Payer

The person making a payment to a [payee](#).

Paying agent

An [agent](#) who makes [principal](#) and [interest payments](#) to [bondholders](#) on behalf of the [issuer](#).

Pay-in-kind toggle notes (PIK toggle notes)

PIK toggles pay interest in cash at one rate or, at the company's option, pay interest in additional PIK toggle notes. The interest paid in additional notes is set at a higher rate than the cash interest rate.

Payment

The amount required to repay a [loan](#), including [interest](#) and fees.

Payment date

The date on which [shareholders](#) of record will be sent a [check](#) for the [declared dividend](#).

Payment float

Company-written [checks](#) that have not yet [cleared](#).

Payment-in-kind (PIK) bond

A [bond](#) that gives the [issuer](#) an [option](#) (during an initial period) either to make [coupon](#) payments in [cash](#) or in the form of additional [bonds](#).

Payments netting

Reducing fund [transfers](#) between affiliates to only a [netted](#) amount. Netting can occur on a bilateral basis (between pairs of [affiliates](#)), or on a multi-lateral basis (taking all affiliates together).

Payments pattern

Describes the [collection](#) pattern of [receivables](#). The pattern might describe the probability that a 72-day-old account will still be unpaid when it is 73 days-old.

Payments System

Collective term for mechanisms (both paper-backed and electronic) for moving funds, payments and [money](#) among [financial institutions](#) throughout the nation. The Federal Reserve plays a major role in the nation's payments system through [distribution](#) of currency and coin, processing of [checks](#), electronic [transfer](#) of funds and the operation of automated clearinghouses that transfer funds electronically among depository intitutions; various private organizations also perform payments system functions.

Payoff diagram

In [option](#) pricing, a graph of the value of the option [position](#) at [expiration](#) as a function of the [underlying asset](#) price.

Payoff profile

The slope of a line graphed according to the value of an [underlying asset](#) on the x-axis and the value of a [position](#) taken to [hedge](#) against [risk](#) exposure on the y-axis. Also used with changes in value.

See: [Risk profile](#).

Payout period

The time period during which withdrawals from a [retirement](#) account or [annuity](#) are paid.

Payout ratio

Generally, the proportion of [earnings](#) paid out to the [common stockholders](#) as [dividends](#).

Morespecifically, the [firm's](#) cash dividend divided by the firm's [earnings](#) in the same [reporting](#) period.

P-coast

Refers to west coast listed equity securities. See: [Pacific Stock Exchange](#).

P/E

See: [Price/earnings ratio](#)

P/E effect

That [portfolios](#) with low [P/E stocks](#) exhibit higher [average risk-adjusted returns](#) than those with high P/E stocks. Related: [Value manager](#).

P/E ratio

Current [stock](#) price divided by trailing [annual earnings per share](#) or expected annual earnings per share. Assume XYZ Co. sells for \$25.50 per [share](#) and has earned \$2.55 per share this year; \$25.50 = 10 times \$2.55. XYZ stock sells for ten times [earnings](#).

Peak

The high point at the end of an economic [expansion](#) until the start of a contraction.

Pecking-order view (of capital structure)

The argument that external [financing transactions costs](#), especially those associated with the problem of adverse selection, create a dynamic environment in which [firms](#) have a preference, or pecking-order of preferred sources of financing, when all else is equal. Internally generated funds are the most preferred, followed by new [debt](#), and debt-[equity hybrids](#). Finally, new equity is at the least preferred source.

Pegged exchange rate

[Exchange rate](#) whose value is pegged to another [currency's](#) value or to a [unit of account](#).

Pegging

Making [transactions](#) in a [security](#), [currency](#), or [commodity](#) in order to stabilize or target its value through [market](#) intervention.

Penalty clause

A clause found in [contract](#) agreements that provides for a penalty in the event of [default](#).

Penalty tax

A federal tax that can be applied if a plan [holder](#) does not meet certain requirements when making withdrawals from a tax-advantaged retirement plan (for instance, if the plan holder has not reached age 59-1/2). This penalty tax is owed in addition to any [income taxes](#) due.

Pennant

A chart [pattern](#) resembling a pointed flag, with the point facing to the right, which shows a diminishing variance of price.

Penny stock

Used in the context of general equities. [Stock](#) that typically sells for less than \$1 a [share](#), although it may rise to as much as \$10/share after the [initial public offering](#), usually because of heavy promotion. All are [traded OTC](#), many of them in the local markets of Denver, Vancouver, or Salt Lake City.

Pension Benefit Guaranty Corporation (PBGC)

A federal [agency](#) that insures the vested benefits of [pension plan](#) participants (established in 1974 by the ERISA legislation).

Pension fund

A fund set up to pay the [pension](#) benefits of a [company's](#) workers after [retirement](#).

Pension liabilities

Future [liabilities](#) resulting from [pension](#) commitments made by a [corporation](#). Accounting for [pension liabilities](#) varies widely by country.

Pension parachute

A form of [poison pill](#) providing that in the event of a [hostile takeover](#) attempt, any excess [pension plan assets](#) can be used to benefit pension plan participants. This prevents the raiding firm from using the pension [assets](#) to [finance](#) the [takeover](#). In the context of corporate governance, these provisions prevent an acquirer from using surplus [cash](#) in the [pension fund](#) of the target in order to finance an acquisition. Surplus funds are required to remain the property of the pension fund and to be used for plan participants' benefits.

Pension plan

A fund that is established for the payment of [retirement](#) benefits.

Pension Protection Act of 2006

The Act requires companies with underfunded pension plans to pay higher premiums to the [Pension Benefit Guaranty Corporation \(PBGC\)](#). The Act also extended the requirement of providing funding to the pension systems of companies that terminate their pension plans and raised the maximum amount employers are allowed to invest in their own plans.

Pension reversion

Termination of an [overfunded](#) defined benefit [pension plan](#) and replacement of it with a [life insurance](#) company-sponsored [fixed annuity](#) plan.

Pension sponsors

Organizations that have established a [pension plan](#).

Penultimate profit prospect (PPP)

The second-lowest-priced of the ten highest-yielding stocks in the [Dow Jones Industrial Average](#) that is said (by authors O'Higgins and Downes) to be the Dow stock with the best possibility of outperforming the [average](#) as a whole.

People pill

A form of [poison pill](#) providing that the entire [management](#) threatens to resign in the event of a [takeover](#).

People's Bank of China (PBC or PBOC)

The central bank of China.

Per annum

Yearly.

Per capita debt

The total [bonded debt](#) of a municipality divided by the population of the municipality.

Per stirpes

A method for [distributing](#) the [assets](#) of an individual who dies without a valid will. The Latin means for each descendant.

Percent to double

Percentage that the [stock](#) price has to rise (fall) to double the price of the [call](#) ([put](#)).

Percentage financial statement

[Balance sheet](#) and [income statement](#) represented as percentages.

Percentage order

Used for listed equity securities. [Market limited price order](#) to [buy](#)/sell a specified percentage (usually 50%) of [shares traded](#) (sometimes after a fixed number of [shares](#) of the [stock](#) have already traded).

See: [participating buyer/seller](#), "[Participate but do not initiate](#)."

Percentage premium

Applies mainly to [convertible securities](#). Premium over [parity](#) of a [convertible bond](#) divided by [parity](#).

Perfect capital market

A [market](#) in which there are never any [arbitrage](#) opportunities.

Perfect competition

An idealized [market](#) environment in which every market participant is too small to affect the [market price](#) by acting on its own.

Perfect forecast line

Graph of a slope that matches the [forecast](#) of an [exchange rate](#) with the actual exchange rate.

Perfect hedge

A situation in which the [profit](#) and [loss](#) from the [underlying asset](#) and the [hedge position](#) are equal.

Perfect market assumptions

Conditions under which the law of one price [holds](#). The assumptions include [frictionless markets](#), rational [investors](#), and equal access to [market prices](#) and information.

Perfect market view (of capital structure)

Analysis of a [firm's capital structure](#) decision, which shows the irrelevance of capital structure in a perfect [capital market](#).

Perfect market view (of dividend policy)

Analysis of a decision on [dividend policy](#), in a perfect [capital market](#) environment, that shows the irrelevance of [dividend policy](#).

Perfected first lien

A first attachment on an [asset](#) that is duly recorded with the relevant government body so that the [lender](#) will be able to act on it should the [borrower default](#).

Perfectly competitive financial markets

[Markets](#) in which no [trader](#) has the power to change the price of goods or services. Perfect [capital markets](#) are characterized by certain conditions: (1) [Trading](#) is [cost](#) less, and access to the [financial markets](#) is free; (2) information about [borrowing](#) and [lending](#) opportunities is freely available; and (3) there are many traders, and no single trader can have a significant impact on [market prices](#).

Performance Accelerated Restricted Stock Award Plans ("PARSAPs")

Also known as performance-accelerated restricted stock ("PARS") and time-accelerated restricted stock award plans ("TARSAPs"). Grants of restricted stock or restricted stock units which may vest early upon attainment of specified performance objectives. Otherwise, a time-vesting schedule would remain in effect.

Performance attribution analysis

The decomposition of a [money manager's](#) performance results to explain the reasons why those results were achieved. This analysis seeks to answer questions such as: (1) What were the major sources of [added value](#)? (2) Was [short-term factor](#) timing statistically significant? (3) Was [market](#) timing statistically significant? and (4), was [security](#) selection statistically significant?

Performance bond

A [surety bond](#) between two parties, insuring one party against [loss](#) if the [terms](#) of a [contract](#) are not fulfilled. Usually part of a construction contract or supply agreement.

Performance evaluation

The assessment of a manager's results, which involves, first, determining whether the [money manager](#) added value by outperforming the established [benchmark](#) ([performance measurement](#)) and, second, determining how the money manager achieved the calculated [return](#) ([performance attribution analysis](#)).

Performance fund

A growth-oriented [mutual fund investing](#) in [growth stock](#) and [performance stock](#) with low [dividends](#) and high [risk](#).

Performance index

A risk-adjusted measure of how well a [portfolio](#) has performed.

Performance measurement

Calculation of the [return](#) a [money manager](#) realizes over some time interval.

Performance shares

[Shares](#) of [stock](#) paid out to managers only if the company makes certain sales, [earnings per share](#), or other similar criteria.

Performance stock

High-[growth stock](#) in a [company](#) that retains [earnings](#) for further growth and therefore pays no [dividends](#), but that an [investor](#) feels has significant future potential.

Period-certain annuity

An [annuity](#) that provides [guaranteed](#) payments to an [annuitant](#) for a specified period of time.

Period of digestion

The time period of often high [volatility](#) after a new [issue](#) is released when the [trading price](#) of the [security](#) is established by the [market](#).

Periodic call auction

Selling [stocks](#) by [bid](#) at intervals throughout the day.

Periodic payment plan

[Accumulation](#) of [capital](#) in a [mutual fund](#) by making regular payments on a monthly or [quarterly](#) basis.

Periodic payments

A [series](#) of payments from an [annuity](#), [qualified retirement plan](#), or 403(b)(7) account made over a certain [term](#) of years. A payment from an [IRA](#), even if over a period of years, is not considered a periodic payment for tax purposes.

Periodic purchase deferred contract

A [fixed](#) or [variable annuity contract](#) for which fixed-amount [premiums](#) are paid either monthly or [quarterly](#), and that does not begin paying out until a time elected by the [annuitant](#).

Periodic rate

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

Permanent Assets

[Fixed assets](#) (plant and equipment) and permanent [current assets](#).

Permanent Current Assets

The minimum level of [current assets](#) that a [firm](#) needs to continue operation. Because some level is always maintained, they are called permanent current assets.

Permanent financing

[Long-term financing](#) using either [debt](#) or [equity](#).

Permanent spontaneous current Liabilities

The minimum level of [spontaneous liabilities](#) that is always maintained by a [firm](#).

Permissible nonbank activities

[Financial](#) activities closely related to banking that may be engaged in by bank [holding companies](#) (BHCs), either directly or through nonbank [subsidiaries](#). For example, a BHC might own finance companies or engage in mortgage banking. The Federal Reserve Board determines

which activities are closely related to banking. Before making such activities permissible, the Board must determine that performance of the activities by bank holding companies is in the public interest.

Perpendicular spread

[Option strategy](#) involving the [purchase](#) of [options](#) with similar [expiration dates](#) and different [exercise prices](#).

Perpetual bond

[Nonredeemable bond](#) with no [maturity date](#) that pays regular [interest rates](#) indefinitely.

Perpetual inventory

Recordkeeping system in which [book inventory](#) is updated daily.

Perpetual warrants

[Warrants](#) that have no [expiration date](#).

Perpetuity

A constant stream of identical [cash flows](#) without end, such as a British [consol](#).

Perquisites

Personal benefits, including direct benefits, such as the use of a [firm](#) car or [expense](#) account for personal business, and indirect benefits, such as up-to-date office decoration.

Personal article floater

Insurance policy attachment designed to cover specified personal valuables.

Personal consumption expenditure (PCE)

An [inflation](#) gauge used by the [Federal Reserve Bank](#) to track changes in the prices of goods and services used for personal consumption. The PCE is measured using a [chain base index](#) which closely follows the purchasing tendencies of consumers by allowing the goods and services included in the PCE [basket](#) to change as consumer preferences change. The [Consumer Price Index \(CPI\)](#), another [inflation](#) gauge used by the [Federal Reserve](#), differs from the PCE in that the [CPI](#) does not account for changes in consumer preferences because it tracks the change in prices of a fixed [basket](#) of goods and services. This is why the [Federal Reserve](#) prefers the PCE and not the [CPI](#) as the [inflation](#) gauge. See: [Chain base index](#), [Consumer Price Index](#)

Personal exemption

Amount of [money](#) a taxpayer can exclude from [personal income](#) for each member of the household in calculation of a tax [obligation](#).

Personal income

Total income received from all sources, including wages, [salaries](#), or rents, and the like.

Personal inflation rate

The [inflation](#) rate as it affects a specific individual.

Personal property

Any [assets](#) other than [real estate](#).

Personal tax view (of capital structure)

The argument that the difference in personal [tax rates](#) between income from [debt](#) and income from [equity](#) eliminates the disadvantage of the double taxation (corporate and personal) of income from [equity](#).

Personal trust

An interest in an [asset](#) held by a [trustee](#) for the benefit of another person.

Petrodollars

Deposits by countries that receive dollar revenues from the [sale](#) of petroleum to other countries; the term commonly refers to [OPEC](#) deposits of dollars in the [Eurocurrency market](#).

Phantom income

Income from a [limited partnership](#) that creates taxability without generating [cash flow](#).

Phantom Stock Award

A type of incentive grant in which the recipient is not [issued](#) actual [shares](#) of [stock](#) on the [grant date](#) but receives an account credited with a certain number of hypothetical shares. The value of the account increases over time based on the appreciation of the stock price and the [crediting](#) of phantom dividends. Payout may be settled in [cash](#) or stock.

Phantom stock plan

An incentive scheme that awards [management](#) bonuses based on increases in the [market price](#) of the [company's](#) stock.

Phase space

A graph which shows all possible states of a system. In phase space we plot the value of a [variable](#) against possible values of the other variables at the same time. If a system had three descriptive variables, we plot the phase space in three dimensions, with each variable taking one dimension.

Philadelphia Board of Trade (PBOT)

A [subsidiary](#) of the Philadelphia Stock Exchange that [trades](#) currency futures.

Philadelphia Stock Exchange (PHLX)

The oldest stock exchange in the United States being founded in 1790. It is now known as NASDAQ OMX PHLX (purchased by NASDAQ OMX in 2008). PHLX has a strong presence in option trading.

Philippine Stock Exchange

Established in 1992 through the merger of the Manila Stock Exchange and the Makati Stock Exchange, the Philippines'only securities market.

Phillips Curve

A graph that supposedly shows the relationship between [inflation](#) and [unemployment](#). It is conjectured that there is a simple trade-off between inflation and unemployment (high inflation and low unemployment, and low inflation and high unemployment). Named after A.W. Phillips. Obviously, the relation between these important [macroeconomic variables](#) is more complicated than this simple graph would suggest. For a modern treatment, see work of Robert Lucas.

Phone switching

[Transferring money](#) between funds in the same [mutual fund](#) family by telephone request. There may be a charge associated with these transfers. [Phone switching](#) is also possible among different [fund families](#) if the funds are held in [street name](#) by a participating [broker/dealer](#).

Physical asset

Actual property such as precious metals or [real estate](#). Also called [real](#) or tangible assets.

Physical commodity

See: [Commodity](#)

Physical completion

The state in which a project is physically functioning, but not yet fully generating [cash flow](#).

Physical option

An option whose underlying security is a physical commodity that is not stock or futures. The physical commodity itself (a currency, [treasury](#) debt [issue](#), commodity) - underlies that option contract. See also [index option](#).

Physical verification

A procedure auditors use to ensure that [inventory](#) recorded in the [book](#) is correct by actually checking out the physical [inventory](#).

P & I

Stands for [principal](#) and [interest](#) on [bonds](#) or [mortgage-backed securities](#).

Pickup

The [gain](#) in [yield](#) that occurs when a [block](#) of [bonds](#) is [swapped](#) for another block of higher-[coupon](#) bonds.

Pickup bond

A [bond](#) with a relatively high [coupon](#) that is close to the date at which it is [callable](#), meaning that a fall in [interest rates](#) will most likely cause early [redemption](#) of the [bond](#) at a [premium](#).

Picture

Describes [bid](#) and [asked prices](#) a [broker](#) quotes for a given [security](#). Used for listed equity securities. Bid and ask prices and quantity information from a [specialist](#) or from a [dealer](#) regarding a particular security (i.e., "IBM's 1/4 to 1/2, 5m by 10m").

Piece

Apply mainly to [convertible securities](#). Increment of [bonds](#) that [trade](#) in portions of \$1000 minimum. Not all bonds can be traded in "pieces," and the increments can vary.

Pie model of capital structure

A model of the [debt-equity ratio](#) of the [firms](#), graphically depicted in slices of a pie that represent the value of the firm in the [capital markets](#).

Pier

A man made structure extending from the shore against which vessels may lie to load or unload cargo.

Piggyback registration

When a [securities underwriter](#) allows existing [holdings](#) of [shares](#) in a [corporation](#) to be sold in combination with an [offering](#) of new [public](#) shares.

Piggybacking

A [broker](#) who [trading stocks, bonds](#) or [commodities](#) in a personal account following a trade just made for a customer. The [broker](#) assumes that the customer is making the trade on valuable [inside information](#).

Piggyback mortgage

A [mortgaging](#) technique used by homeowners to reduce their [loan-to-value ratio](#) and avoid the need for [private mortgage insurance \(PMI\)](#). Piggybacking consists of a homeowner either taking on a second [mortgage](#) as the original one is refinanced, or taking out two [mortgages](#) together. By splitting the total [mortgage](#) amount into two [loans](#), the [borrower](#) can decrease the ratio of the amount of the [mortgage](#) to the value of the home to under 80%, the ratio floor that necessitates [PMI](#). The downside of this method is that the second [mortgage](#) typically comes with a higher [interest rate](#) than the first [mortgage](#). Piggybacking can also be used on certain types of [loans](#).

PIK (Payment-in-kind) securities

Highly [bonds](#) or [preferred stock](#) that pay [interest](#) or [dividends](#) through additional [bonds](#) or preferred stock.

Pink sheets

Refers to [over-the-counter trading](#). Daily publication of the [National Quotation Bureau](#) that [reports](#) the [bid](#) and [ask prices](#) of thousands of [OTC](#) stocks, as well as the [market makers](#) who [trade](#) each stock.

Pip

Used for listed equity securities. Smallest [unit](#) of a [currency](#) (i.e., cents for US dollars).

Pipeline

The [underwriting](#) process that must be completed with the [SEC](#) before a [security](#) can be [offering](#) for [sale](#) to the public.

Pit

A specific area of the [trading](#) floor that is designed for the trading of [commodities](#), individual [futures](#), or [option contracts](#).

Pitch book

Marketing material compiled by an investment bank for use in client presentations to win new business or for attracting new clients.

Pit committee

A committee of the [exchange](#) that determines the daily [settlement price](#) of [futures contracts](#).

PITI

Stands for [principal](#), [interest](#), taxes, and [insurance](#), the four main parts of monthly [mortgage obligations](#).

Pivot

Price level established as being significant by [market's](#) failure to penetrate or as being significant when a sudden increase in [volume](#) accompanies the move through the price level.

P&L

[Profit](#) and [loss](#) statement for a [trader](#).

Place

The marketing of new [securities](#), usually through [sales](#) to [institutional investors](#). See: [Float](#).

Placement

The [transferring](#) of [securities](#) to a small group of [investors](#).

Placement ratio

The percentages of last week's new [municipal bond offerings](#) that have been bought from the [underwriters](#), according to the Bond Buyer newspaper.

Plain vanilla

A term that refers to a relatively simple [derivative financial instrument](#), usually a [swap](#) or other derivative that is [issued](#) with standard features.

Plain vanilla swap

See: [Fixed for floating swap](#)

Plan agreement

A document detailing the [terms](#) and conditions of a [retirement plan](#) such as an [IRA](#).

Plan participants

Employees or other [beneficiaries](#) who are eligible to receive benefits from a [company's](#) employee benefit plan.

Plan for reorganization

A plan for reorganizing a firm during the [Chapter 11 bankruptcy](#) process.

Plan sponsors

The entities that establish [pension plans](#), including private business entities acting for their employees; state and local entities operating on behalf of their employees; unions acting on behalf of their members; and individuals representing themselves.

Planned amortization class (PAC)

(1) The [class](#) of [CMO](#) that has the most stable [cash flows](#) and the lowest [prepayment risk](#) of any class of CMO. Because of a stable [cash flow](#), it is considered the least [risky](#) CMO. (2) A CMO [bond](#) class that stipulates [cash flow contributions](#) to a [sinking fund](#). A PAC directs [principal](#) payments to the [sinking fund](#) on a priority [basis](#) in accordance with a predetermined payment schedule, with prior claim to the cash flows before other CMO classes. Similarly, cash flows received by the [trust](#) in excess of the [sinking fund requirement](#) are also allocated to other [bond](#) classes. The prepayment experience of the PAC is therefore very stable over a wide range of prepayment experience.

Planned capital expenditure program

[Budgeted](#) or projected [outlays](#) for major expenditures on permanent or [fixed assets](#) as outlined in the corporate [financial plan](#).

Planned financing program

[Budgeted](#) or projected ways need for reasons or to obtain [short-term](#) and [long-term financing](#) as outlined in the corporate [financial plan](#).

Planning horizon

The length of time a model or [investor](#) or plan projects into the future.

Plant

The [assets](#) of a business including land, buildings, machinery, and all equipment permanently employed.

Player

Used in the context of general equities. Customer or [trader](#) who is [actively](#) involved in a particular [stock](#) or the [market](#) in general.

Playing the market

[Trading](#) in high, uncalculated [risk](#) usually refers to actions of amateur [investors](#).

Plaza Accord

Agreement among country representatives in 1985 to implement a coordinated program to weaken the dollar.

Pledging

See: [Hypothecation](#)

Plow back

To [reinvest earnings](#) in a business rather than pay out them out as [dividends](#). Common practice in high-growth [companies](#).

Plowback rate

Related: [Retention rate](#)

Plug

A [variable](#) that handles [financial](#) slack in the [financial plan](#).

Plus

Used to quote a price in 64ths. [Dealers](#) in government [bonds](#) normally give price quotes in 32nds. To quote a [bid](#) or [offer](#) in 64ths, they use pluses; a [dealer](#) who bids 4+ is bidding the [handle](#) plus $4/32 + 1/64$, which equals the handle plus 9/64.

Plus a match

Used for listed equity securities. [Floor indication](#) that someone is on the floor with equal [priority](#) standing who wants to [buy](#)/sell at least the same number of [shares](#) at the same price as one's own [order](#). [Outside](#). See: [Matched orders](#). Compare to [ahead](#).

Plus tick

Used in the context of general equities. [Trade](#) occurring at a price higher than the previous [sale](#). [Uptick](#). Antithesis of [minus tick](#). See: [Short sale](#).

Plus tick seller

Used for listed equity securities. A [short seller](#) (referring to the [regulation](#) requiring a [plus tick to short](#)).

Point

The smallest [unit](#) of price change quoted, or one one-hundredth of a percent. Related: [Minimum price fluctuation](#) and [tick](#).

Point and figure chart

A price-only chart that takes into account only whole integer changes in price, i.e., a 2-point change. [Point](#) and figure charting disregards the element of time and is used solely to record changes in price.

Point Attractor

In non-linear dynamics, an [attractor](#) where all orbits in [phase space](#) are drawn to one [point](#), or value. Essentially, any system which tends to a stable, single valued [equilibrium](#) will have a point attractor. A pendulum which is damped by friction will always stop, so its [phase space](#) will always be drawn to the point where [velocity](#) and [position](#) are equal to zero. See: [Attractor](#), Phase Space.

Points quote

An abbreviated form of the outright quote used by [traders](#) in the [interbank market](#).

Poison pill

Anti-[takeover](#) device that gives a prospective [acquiree's shareholders](#) the right to [buy shares](#) of the [firm](#) or shares of anyone who acquires the firm at a deep [discount](#) to their fair [market value](#). Named after the cyanide pill that secret government [agents](#) are said to be instructed to swallow if capture is imminent.

Poison put

A covenant allowing the [bondholder](#) to demand repayment in the event of a [hostile takeover](#).

Policy asset allocation

Way in which an [investor](#) seeks to assess an appropriate [long-term](#) "normal" mix of [assets](#) that represents an ideal blend of [controlled risk](#) and enhanced [return](#).

Policy limit

The maximum dollar amount of coverage provided by an insurance company for a certain policy.

Policy loan

A [loan](#) often made at a below-[market interest rate](#) from an insurance company to a [policyholder](#) that is secured by the [cash surrender value](#) of a [life insurance policy](#).

Policyholder

An individual who owns an [insurance policy](#).

Policyholder loan bonds

Packaged loans acquired by [policyholders](#) that are secured by the [cash surrender value](#) of the policies, and are [offered](#) by a [broker/dealer](#) as [bonds](#).

Political risk insurance

The [risk](#) associated with possible negative events such as expropriation of [assets](#), changes in tax policy, restrictions on the exchange of [foreign currency](#), or other changes in the business climate of a country.

Ponzi scheme

A fraudulent [investment](#) scheme. Investors are promised very high returns by the promoter. The original investors often realize these high returns because their payouts are funded by cash from new investors. New investors' cash is used to pay out the original investors. The investors' funds are usually not applied to the stated purpose. However, the reported high returns attract additional inflows of capital used to pay out subsequent investors. The scheme fails when the payouts to existing investors and/or redemption requests exceed new investor inflows.

Pool

In [capital budgeting](#), the concept that [investment](#) projects are [financed](#) out of a [pool](#) of [bonds](#), [preferred stock](#), and [common stock](#), and a weighted-average [cost of capital](#) must be used to calculate investment returns. In [insurance](#), a group of insurers who share [premiums](#) and [losses](#) in order to spread [risk](#). In investments, the combination of funds for the benefit of a common project, or a group of [investors](#) who use their combined influence to manipulate prices.

Pool factor

The [outstanding principal](#) balance divided by the original principal balance with the result expressed as a decimal. [Pool factors](#) are published monthly by the Bond Buyer newspaper for [Ginnie Mae](#), [Fannie Mae](#), and [Freddie Mac \(Federal Home Loan Mortgage Corporation\) MBSs](#).

Pooling of interests

An accounting method for [reporting acquisitions](#) accomplished through the use of [equity](#). The combined [assets](#) of the merged entity are consolidated using [book value](#), as opposed to the [purchase method](#), which uses [market value](#). The merging entities' [financial](#) results are combined as though the two entities have always been a single entity.

Porcupine provision

Often used in risk arbitrage. See: [Shark repellent](#).

Portability

The character of benefits that may be carried from a previous job to the next.

PORTEL Market

The trading market for unregistered securities that is operated by NASDAQ.

Portfolio

A collection of [investments](#), real and/or [financial](#).

Portfolio allocation by region

The [distribution](#), by geographic region, of a [portfolio's holdings](#).

Portfolio asset allocation

The [distribution](#), by type of [asset](#), of a [portfolio's holdings](#).

Portfolio beta

Used in the context of general equities. The [beta](#) of a [portfolio](#) is the weighted sum of the individual asset betas, According to the proportions of the investments in the portfolio. E.g., if 50% of the [money](#) is in stock A with a beta of 2.00, and 50% of the money is in stock B with a beta of 1.00, the portfolio beta is 1.50. Portfolio beta describes relative [volatility](#) of an individual [securities portfolio](#), taken as a whole, as measured by the individual [stock betas](#) of the securities making it up. A beta of 1.05 relative to the [S&P 500](#) implies that if the [S&P's excess return](#) increases by 10% the portfolio is expected to increase by 10.5%.

Portfolio diversification

[Investing](#) in different [asset classes](#) and in [securities](#) of many [issuers](#) in an attempt to reduce overall investment [risk](#) and to avoid damaging a [portfolio's](#) performance by the poor performance of a single security, [industry](#), (or country).

Portfolio expected return

A weighted average of individual [assets' expected returns](#).

Portfolio insurance

A [strategy](#) using a [leveraged portfolio](#) in the [underlying stock](#) to create a synthetic put option. The strategy's goal is to ensure that the value of the portfolio does not fall below a certain level.

Portfolio internal rate of return

The [rate of return](#) computed by first determining the [cash flows](#) for all the [bonds](#) in the [portfolio](#) and then finding the [interest rate](#) that will make the present value of the cash flows equal to the [market value](#) of the portfolio.

Portfolio management

Related: [Investment management](#)

Portfolio manager

Used in the context of general equities. Professional responsible for the [securities portfolio](#) of an individual or [institutional investor](#), such as a [mutual fund](#), [pension fund](#), [profit-sharing plan](#), [bank trust department](#), or insurance company. In return for a fee, the manager has the [fiduciary](#) responsibility to manage the assets prudently and choose which asset types are most appropriate over time. Related: [Investment manager](#).

Portfolio opportunity set

The [expected return/standard deviation](#) pairs of all [portfolios](#) that can be constructed from a given set of [assets](#).

Portfolio optimization

Determination of weights of [securities](#) in a [portfolio](#) such that it best suits a given objective, eg. maximize [return](#) for a given [risk](#).

Portfolio R²

Used in the context of general equities. Number between 0 and 1 that measures the strength of correlation of movement between the [portfolio/stock](#) and the [index](#). Indeed, the R² is the square of the correlation. For [hedging](#) purposes, the higher the R², the better.

Portfolio restructuring

Applies to derivative products. Recomposition of a [portfolio's asset](#) mix by selling off undesired asset types ([equities](#), [debt](#), or [cash](#)) or specific [securities](#) within that [class](#), while simultaneously [buying](#) desired types or securities. Often a [firm](#) is asked to [bid](#) on an old portfolio and give an [offering](#) of the desired portfolio. See: [Program trading](#).

Portfolio separation theorem

Theory that an [investor's](#) choice of a [risky](#) investment [portfolio](#) is separate from his attitude towards [risk](#). Related: [Fisher's separation theorem](#).

Portfolio theory

See: [Modern portfolio theory](#).

Portfolio transaction costs

The [expenses](#) associated with [buying](#) and selling [securities](#), including [commissions](#), purchase and [redemption fees](#), exchange fees, and other miscellaneous [costs](#). In a [mutual fund prospectus](#), these expenses are listed separately from the fund's [expense ratio](#).

Portfolio turnover rate

For an [investment company](#), an [annualized](#) rate found by dividing the lesser of [purchases](#) and [sales](#) by the [average](#) of [portfolio assets](#).

Portfolio variance

Weighted sum of the [covariance](#) and [variances](#) of the [assets](#) in a [portfolio](#).

Position

A [market](#) commitment; the number of [contracts](#) bought or sold for which no [offsetting transaction](#) has been entered into. The [buyer](#) of a [commodity](#) is said to have a [long position](#), and the seller of a commodity is said to have a [short position](#). Related: [Open contracts](#).

Position building

[Buying shares](#) to build up a [long position](#) or selling [shares](#) to create a [short position](#) in a particular [security](#) or group of securities.

Position diagram

Diagram showing the possible payoffs from a [derivative investment](#).

Position limits

Applies to derivative products. Maximum [position](#) available in any one [future](#) or [option contract](#) for a given institution. For "bona fide" [futures hedgers](#), there are no position limits.

Position self

Used in the context of general equities. Going [long](#) or [short](#) in anticipation of a [stock's](#) movement.

Position sheet

Used in the context of general equities. List of [long](#) and [short positions](#) for an individual [trader](#) or desk, at times accompanied by the [trades](#) from the previous [trading](#) session that brought these closing [positions](#).

Position trader

A [commodities trader](#) who takes a [long-term](#) approach in maintaining [positions](#) in the [market](#) and does not close out of these [positions](#) until close to the [delivery date](#).

Positive carry

Related: [Net financing cost](#)

Positive convexity

A property of option-free [bonds](#) that the price [appreciation](#) for a large downward change in [interest rates](#) will be greater (in absolute [terms](#)) than the price [depreciation](#) for the same downward change in interest rates.

Positive covenant (of a bond)

A [bond covenant](#) that specifies certain actions the [firm](#) must take. Also called an [affirmative covenant](#).

Positive float

See: [Float](#)

Positive obligation

A New York Stock Exchange rule that governs the behavior of specialists. Positive obligation is the mandate of the specialists to step in and act as either the buyer or the seller public investor orders exist do not match up naturally. Also known as [affirmative obligation](#). Related: [negative obligation](#).

Positive yield curve

When [long-term debt interest rates](#) are higher than [short-term debt](#) rates (because of the increased [risk](#) involved with [long-term debt security](#)).

Possessions corporation

A type of [corporation](#) permitted under the US tax code whose branch operation in a US possession can obtain tax benefits as though it were operating as a foreign [subsidiary](#).

Post

Particular place on the [floor](#) of an [exchange](#) where [transactions](#) in [stocks listed](#) on the [exchange](#) occur.

Post-audit

A set of procedures for evaluating a [capital budgeting](#) decision after the fact.

Post-dated check

A [check](#) that becomes payable and negotiable on a future date specified.

Post-Money Valuation

The value of a company after its most recent round of financing. Related: [Pre-Money Valuation](#)

Postponement option

The option of deferring a project without eliminating the possibility of undertaking it.

Postponing income

Purposely delaying [receipt](#) of income to a later year in order to reduce current [tax liability](#).

Post-trade benchmarks

[Prices](#) after the decision to [trade](#).

Pot

The portion of [stock](#) or [bond issue](#) that is returned to the managing [underwriter](#) by the participating [investment bankers](#) for [sale](#) to [institutional investors](#).

Pot is clean

Phrase used when [managing underwriter](#) has sold the entire [pot](#).

Potential Default

A condition where a [default](#) may occur in time.

Power of attorney

A written authorization allowing a person to perform certain acts on behalf of another, such as moving of [assets](#) between accounts or [trading](#) for a person's benefit.

Praecipium

The amount of the front-end fee not [distributed](#) to the joining members of a [syndication](#).

Pearranged trading

Possibly fraudulent practice whereby [commodities dealers](#) carry out [risk-free trades](#) at predetermined prices to acquire tax advantages.

Preauthorized checks (PAC)

[Checks](#) that are authorized by a [payer](#) in advance, and written either by the [payee](#) or by the payee's bank and then deposited in the payee's bank account.

Preauthorized electronic debits (PAD)

[Debits](#) to a bank account in advance by the [payer](#). The payer's bank sends payment to the [payee's](#) bank through the [Automated Clearing House \(ACH\)](#) system.

Preauthorized payment

Accelerating [cash](#) inflows by directly charging a customer's bank [account](#) with permission.

Pre Carriage

Usually freight charges for port or airport delivery arising before the principal international carriage.

Precautionary demand (for money)

The need to meet unexpected or extraordinary contingencies with a buffer stock of [cash](#).

Precautionary motive

A desire to [hold cash](#) in order to be able to deal effectively with unexpected events that require [cash outlay](#).

Precedence

The established system of priorities of [trades](#) in an [exchange](#). For example, the highest [bid](#) and lowest [offer](#) have highest precedence; the first [bid](#) or first [offer](#) at a price has highest priority, and large [orders](#) have priority over smaller orders.

Precious metals

Gold, silver, platinum, and palladium, which are used for their [intrinsic value](#) or for their value in production. These may be [traded](#) either in their physical state or by way of [futures](#) and [options contracts](#), mining [company stocks](#), [bonds](#), [mutual funds](#), or other [instrument](#).

Precompute

Method of charging [interest](#) in which the [annual interest](#) is either deducted from the face amount of the [loan](#) when the funds are [distributed](#) or is added to the total amount and divided into the regular payments.

Preemptive right

[Common stockholders'](#) right to anything of value [distributed](#) by the[company](#).

Preference

Refers to [over-the-counter trading](#). Selection of a [dealer](#) to handle a [trade](#) despite the dealer's [market](#) not being the best available. Often the "preferred dealer" will then move his market [in line](#).

Preference share

[Preferred shares](#) of a [corporation](#) that have first claim to preferred [dividends](#).

Preference stock

A [security](#) that ranks junior to [preferred stock](#) but senior to [common stock](#) in the right to receive payments from the [firm](#); essentially junior preferred stock.

Preferred dividend coverage

[Net income](#) after [interest](#) and taxes (before [common stock dividends](#)) divided by [preferred stock](#) dividends.

Preferred equity redemption stock (PERC)

[Preferred stock](#) that converts automatically into [equity](#) at a stated date. A limit is placed on the value of the [shares](#) the [investor](#) receives.

Preferred habitat theory

A [biased expectations theory](#) that believes the [term structure](#) reflects the expectation of the future path of [interest rates](#) as well as [risk premium](#). The theory rejects the assertion that the [risk premium](#) must rise uniformly with [maturity](#), but instead [profits](#) that to the extent that the demand for and supply of funds do not match for a given maturity [range](#), some participants will shift to maturities showing the opposite imbalances, as long as they are compensated by an appropriate risk premium whose magnitude will reflect the extent of aversion to either price or [reinvestment risk](#).

Preferred shares

Preferred shares give [investors](#) a fixed [dividend](#) from the [company's earnings](#) and entitle them to be paid before common shareholders. See: [Preferred stock](#).

Preferred stock

A [security](#) that shows ownership in a corporation and gives the [holder](#) a claim, prior to the claim of [common stockholders](#), on [earnings](#) and also generally on [assets](#) in the event of [liquidation](#). Most preferred stock pays a fixed [dividend](#) that is paid prior to the [common stock](#) dividend, [stated](#) in a dollar amount or as a percentage of [par value](#). This stock does not usually carry [voting rights](#). Preferred stock has characteristics of both common stock and [debt](#).

Preferred stock agreement

A [contract](#) for [preferred stock](#).

Preferred stock ratio

[Preferred stock](#) at [par value](#) divided by total [capitalization](#), which gives the portion of capitalization that consists of preferred stock.

PREG

[Financial ratio](#) defined as stock price divided by [sales](#) over earnings growth. Often used in the valuation of Internet stocks. Related: [PSSG](#).

Preliminary estimate

The second estimate of [GDP](#) released about two months after the measurement period.

Preliminary prospectus

An initial or tentative version of a [prospectus](#).

Premature distribution

A [distribution](#) from an [IRA](#) before the owner reaches age 59-1/2. Generally, a 10% penalty tax is owed on such a distribution. Also known as an [early distribution](#) or an [early withdrawal](#).

Premium

(1) A [bond](#) sold above its [par value](#). (2) The price of an [option contract](#); also, in [futures](#) trading, the amount by which the [futures price](#) exceeds the price of the spot commodity. (3) For [convertibles](#), amount by which the price of a convertible exceeds [parity](#), and is usually expressed as a percentage. Suppose a [stock](#) is [trading](#) at \$45, and the [bond is convertible](#) at a \$50 stock price and the convertible bond trading at 105. A similar bond without the conversion feature trades at \$90. In this case, the premium is \$15, or $16.66\% = (105-90)/90$. If the [premium](#) is high, the bond trades like any fixed income bond; if low, like a stock. See: [Gross parity](#), [net parity](#). (4) For futures, excess of fair value of future over the [spot index](#), which in theory will equal the [Treasury bill yield](#) for the period to [expiration minus](#) the expected [dividend yield](#) until the future's expiration. (5) For options, price of an option in the [open market](#) (sometimes refers to the portion of the price that exceeds [parity](#)). (6)

For straight equity, price higher than that of the last sale or inside market. Related: Inverted market premium payback period. Also called break-even time; the time it takes to recover the premium per share of a convertible security.

Premium bond

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

Premium income

The income received by an investor who sells an option.

Premium raid

An attempt to acquire a large portion of a company's stock to gain control by offering stockholders a premium over the market value for their shares.

Pre-Money Valuation

The value of a company just before its most recent round of financing. Related: Post-Money Valuation

Repackaged bankruptcy

A bankruptcy in which a debtor and its creditors pre-negotiate a plan of reorganization and then file it along with the bankruptcy petition.

Prepaid interest

An asset account showing interest that has been paid in advance, which is expensed and charged to the borrower's P & L statement.

Prepayment penalty

A fee a borrower pays a lender when the borrower repays a loan before its scheduled time of maturity.

Prepayment speed

Also called speed, the estimated rate at which mortgagors pay off their loans ahead of schedule, critical in assessing the value of mortgage pass-through securities.

Prepayments

Payments made in excess of scheduled mortgage principal repayments.

Pre-Provision Net Revenue

Net revenue before adjusting for loss provisions. E.g. for a bank, net revenue would be the sum of net interest income and non-interest income less expenses (except loss provisions.).

Prerefunded bond

Refunded [bond](#).

Prerefunding

Procedure of [floating](#) a second [bond](#) at a lower [interest rate](#) in order to pay off the first [bond](#) at the first [call date](#) and to reduce overall [borrowing costs](#).

Presale order

An [order](#) to [purchase](#) part of a new [municipal bond issue](#) that is accepted by an [underwriting syndicate](#) before an official [public offering](#).

Present value

The amount of [cash](#) today that is equivalent in value to a payment, or to a stream of payments, to be received in the future. To determine the present value, each future [cash flow](#) is multiplied by a [present value factor](#). For example, if the [opportunity cost](#) of funds is 10%, the present value of \$100 to be received in one year is $\$100 \times [1/(1 + 0.10)] = \91 .

Present Value Components Analysis

An analytical tool that establishes a base [NPV](#) for a project that can then be adjusted for the incremental NPV effect of separate elements of the project's overall potential [sales](#).

Present value factor

[Factor](#) used to calculate an estimate of the [present value](#) of an amount to be received in a future period. If the [opportunity cost](#) of funds is 10% over next year, the factor is $[1/(1 + 0.10)]$.

Present value of growth opportunities

[Net present value \(NPV\)](#) of [investments](#) the [firm](#) is expected to make in the future.

Present Value Index (PVI)

The ratio of the [NPV](#) of a project to the initial [outlay](#) required for it. The [index](#) is an [efficiency](#) measure for [investment](#) decisions under [capital rationing](#).

President

Highest-ranking officer in a [corporation](#) after the [chief executive officer](#).

Pre shipment Finance

Short [term](#) funding for [inventory](#) and production [costs](#) associated with manufacturing goods being exported.

Presidential election cycle theory

A theory that [stock market trends](#) can be predicted and explained by the four-year presidential election cycle.

Pre-sold issue

An [issue](#) that is sold out before the [coupon](#) announcement.

Pre-tax contribution

Payment to an account made with funds from a worker's [paycheck](#) before federal [income taxes](#) are deducted.

Pretax earnings or profits

[Net income](#) before federal [income taxes](#) are subtracted.

Pretax rate of return

Gain on a [security](#) before taxes.

Pre-trade benchmarks

[Prices](#) occurring before or at the decision to [trade](#).

Previous balance method

Method of calculating [finance charges](#) based on the account balance at the end of the previous month.

Price of admission

Used in the context of general equities. [Cost](#) to become a [player](#) in a [stock](#) in an inordinately [aggressive market](#) (i.e.,[locking](#) on one side, size or price [concessions](#)); [trader](#) becomes aggressive in order to break the domination of customer activity by another [dealer](#).

Price-book ratio

Compares a [stock's market value](#) to the value of total [assets](#) less total [liabilities](#) ([book value](#)).

Determined by dividing current [stock](#) price by [common stockholder equity](#) per [share](#) ([book value](#)), adjusted for [stock splits](#). Also called [Market-to-Book](#).

Price change

Increase or decrease in the [closing price](#) of a [security](#) compared to the previous day's closing price.

Price compression

The [limitation](#) of the price [appreciation](#) potential for a [callable bond](#) in a declining [interest rate](#) environment, based on the expectation that the [bond](#) will be [redeemed](#) at the [call price](#).

Price continuity

Minimal price changes due to [transactions](#).

Price discovery process

The process of determining the [prices](#) of [assets](#) in the marketplace through the interactions of [buyers](#) and sellers.

Price-earnings ratio

Shows the multiple of [earnings](#) at which a [stock](#) sells. Determined by dividing current [stock](#) price by current [earnings per share](#) (adjusted for [stock splits](#)). Earnings per share for the [P/E](#) ratio are determined by dividing earnings for past 12 months by the number of [common shares outstanding](#). Higher multiple means [investors](#) have higher expectations for future growth, and have bid up the stock's price.

Price effect

Impact of a change in [interest rates](#) on [bond](#) prices.

Price elasticities

The percentage change in quantity divided by a percentage change in the price. Answers the question: How much will the demand for my product decrease if I raise prices by 10%?

Price gap

A term used when the price of a [stock](#) rockets or dives in a direction away from its last price [range](#), such as a stock with a [trading range](#) of \$10-\$12 that closes at \$12 and climbs to \$14 the next day.

Price give

Used in the context of general equities. Willingness of a [buyer](#) or seller to negotiate on price, within reason, from the price at the last [sale](#) or the [indicated](#) level. See: [Takes price](#).

Price immunization

Portfolio protection [strategy](#) that focuses on the [market value](#) of [assets](#) and [liabilities](#).

Price impact costs

Related: [Market impact costs](#)

Price indexes

See: [Consumer price index](#) and [producer price index](#)

Price leadership

A price charged by the dominant producer that becomes the price adopted by all the other producers.

Price momentum

Related: [Relative strength](#)

Price persistence

Related: [Relative strength](#)

Price range

The interval between the high and low prices over which a [stock](#) has [traded](#) over a particular period of time.

Price risk

The [risk](#) that the value of a [security](#) (or a [portfolio](#)) will decline in the future. Or, a type of [mortgage pipeline risk](#) created in the production segment when [loan terms](#) are set for the [borrower](#) in advance of setting terms for [secondary market sale](#). If the general level of rates rises during the production [cycle](#), the [lender](#) may have to sell the originated loans at a [discount](#).

Price-sales ratio

Determined by dividing current [stock](#) price by revenue per [share](#) (adjusted for [stock splits](#)). Revenue per share for the [P/S](#) ratio is determined by dividing revenue for past 12 months by number of [shares outstanding](#).

Price-specie flow mechanism

Adjustment mechanism under the classic [gold standard](#) allowing disturbances in the price level in one country to be wholly or partly [offset](#) by a countervailing flow of specie ([gold coins](#)) that would act to equalize prices across countries and automatically bring international payments into balance.

Price spread

An [options strategy](#) that involves [buying](#) and selling two [options](#) on the same [security](#) with the same [expiration](#) month, but with different [exercise prices](#).

Price support

Government intervention to set an artificially high price through the use of a price floor designed to aid producers.

Price takers

Individuals who respond to rates and [prices](#) by acting as though prices have no influence on them.

Price uncertainty

Chance that the future price of an [asset](#) will change.

Price value of a basis point (PVBP)

Also called the dollar value of a basis point; a measure of the change in the price of a [bond](#) if the [required yield](#) changes by one [basis point](#).

Price-volume relationship

A relationship espoused by some [technical analysts](#) that signals continuing rises or falls in [security prices](#) that are related to changes in [volume](#) traded.

Price-weighted index

An [index](#) giving a greater influence to higher-valued [stocks](#) by weighting all component stocks by their price.

Prices (of equity)

Price of a [share](#) of [common stock](#) on the date shown. Highs and lows are based on the highest and lowest [intraday trading](#) price.

Priced out

The [market](#) has already incorporated information, such as a low [dividend](#), into the price of a [stock](#).

Pricey

Term used for an unrealistically low [bid](#) price or unrealistically high [offer](#) price.

Pricing efficiency

Also called [external efficiency](#); a [market](#) characteristic that [prices](#) at all times fully reflect all available information that is relevant to the valuation of [securities](#).

Primary dealer

Usually refers to the select list of [securities](#) firms that are authorized to deal in new [issues](#) of [government bonds](#).

Primary Dealer Credit Facility (PDCF)

Announced by the Federal Reserve in March 2008, PDCF is an overnight loan program provided funding to primary dealers and bolster financial markets overall during the financial crisis. Credit under the program was secured with collateral. The facility was shut down on Feb. 1, 2010.

Primary distribution

[Sale](#) of a new [issue](#) of [stock](#) or [bonds](#), as distinguished from a [secondary distribution](#).

Primary earnings per (common) share

Earnings available for the payment of dividends to common stockholders divided by the number of common shares outstanding.

Primary market

Where a newly issued security is first offered. All subsequent trading of this security occurs in the secondary market.

Primary offering

Direct/Sale of a firm's newly issued shares by the firm to investors.

Primary trend

General movement in price data that lasts 4 to 4 1/2 years.

PRIME

Stands for Prescribed Right to Income and Maximum Equity, a certificate that entitles the owner to the dividend/income from an underlying security, but not to the capital appreciation of that security.

Prime broker

This refers to a large financial institution that offers services to large institutional clients or hedge funds. It is possible for a firm to have more than one prime broker. Importantly, the firm is not obligated to all of its business through the prime broker. The prime broker offers a variety of services which includes but is not limited to execution of trades, settlement, financing and custody.

Prime paper

The highest-quality, investment-grade debt of corporations as decided by rating agencies such as Moody's.

Prime rate

The interest rate at which banks lend to their best (prime) customers. More often than not, a bank's most creditworthy customers borrow at rates below the prime rate.

Prime rate fund

A mutual fund that buys portions of corporate loans from banks and pays the interest to shareholders.

Primitive security

An instrument such as a stock or bond for which payments depend only on the financial status of the issuer.

Principal

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

Principal Investing

[Investment](#) by [merchant banks](#), [investment banks](#), or advisory firms of the firm's [capital](#) to finance a [transaction](#), as opposed to raising capital from [investors](#).

Principal-agent relationship

Occurs when one person, an [agent](#), acts on the behalf of another person, the [principal](#).

Principal amount

The face amount of [debt](#); the amount [borrowed](#) or [lent](#). Often called [principal](#).

Principal Exchange-Rated-Linked Securities (PERLS)

A [debt instrument](#) with its [principal](#) and [interest denominated](#) in U.S. dollars, but with [principal](#) repayment depending on the [exchange rate](#) of the U.S. dollar against a [foreign currency](#).

Principal Finance

Usually refers to the area within an investment bank that deals with high grade fixed income. This group will not just trade bonds on the secondary market but will be actively involved in the debt financing of new projects. Many firms have Principal Finance Officers.

Principal Finance Officer

The head of an investment bank's Principal Finance division or a person that oversees the principal finance dealings of a firm. These dealings usually involve high grade bonds that are used to finance new projects for firms.

Principal-only (PO)

A [mortgage-backed security \(MBS\)](#) whose [holder](#) receives only [principal cash flows](#) on the [underlying mortgage pool](#). All the [principal distribution](#) due from the [underlying collateral](#) pool is paid to the registered holder of the [stripped MBS](#) on the basis of the current [face value](#) of the underlying collateral pool.

Principal stockholder

A [stockholder](#) who owns 10% or more of the [voting stock](#) of a [company](#). Such stockholders must [report](#) all [trading](#) in the [stock](#) to the [SEC](#) pursuant to [insider trading](#) rules.

Principle of diversification

That [portfolios](#) of different sorts of [assets](#) differently correlated with one another will have negligible [unsystematic risk](#). In other words, unsystematic risks disappear in [diversified](#) portfolios, and only [systematic risks](#) persist, those related to particular assets.

Print

Used in the context of general equities. As a verb [execute](#) a [trade](#), evidenced by its printing on the [ticker tape](#). As a noun, a trade.

Prior-lien bond

A [bond](#) usually arising from [reorganization](#) with precedence over another [bond](#) of the same issuing [company](#) that is equally [secured](#).

Prior-preferred stock

[Preferred stock](#) that has a higher claim on all [dividends](#) and [assets](#) in [liquidation](#) than claims of other preferred stock.

Priority

Used for listed equity securities. System used in an auction market, in which the first [bid](#) or [offer price](#) is [executed](#) before other bid and offer prices, even if subsequent [orders](#) are larger. [NYSE](#) rules stipulate that the bid made first should be executed first, or if two bids came in at once, the bid for the large number of [shares](#) receives "priority." The bid not executed is then turned to the [broker](#), who informs the customer that the [trade](#) was not completed because there was [stock ahead](#). See: [Standing](#).

Private Equity

[Equity shares](#) that are not [traded](#) on a public [exchange](#). Private equity consists of investors and funds that invest directly into private companies and the investment often takes the form of [leveraged buyouts](#), [venture capital](#), and distressed investments. Companies that receive investment usually go through following stages: [seed stage](#) → [early stage](#) → [growth stage](#) → [middle stage](#) → [later stage](#)

Private Equity Firm

Firms that use their own [capital](#) or capital raised from investors to take companies private with the aim of running them better and later taking them public or selling them at a profit.

Private Export Funding Corporation (PEFCO)

[Company](#) that mobilizes private [capital](#) for [financing](#) the export of big-ticket items by US [firms](#) by purchasing at fixed [interest rates](#) the medium- to [long-term debt obligations](#) of importers of US products.

Private Investment in Public Equity (PIPE)

Occurs when private investors take a sizable investment in publicly traded corporations. This usually occurs when equity valuations have fallen and the company is looking for new sources of capital. This is a means by which a public company gets additional access to the equity markets in express mode-- they already have public shares trading and this is an additional offering to investors under a securities purchase agreement, the issuer promises to register the shares typically via a resale registration statement within so many days after the closing. In context of [private equity](#), PIPEs is the investments by a private equity fund in a publicly traded company. The investments usually take form of preferred stock at a discount.

Private-label mortgage backed securities

See: [Non-agency mortgage backed securities](#)

Private-label pass-throughs

Related: [Conventional pass-throughs](#).

Private letter ruling

A ruling by the [IRS](#) in response to a request for interpretation of a tax law.

Private limited partnership

A [limited partnership](#) with no more than 35 participants that is not registered with the [SEC](#).

Private market value (PMV)

The break-up [market value](#) of all divisions of a [company](#) if divisions were each independent and established their own [market stock](#) prices.

Private Mortgage Insurance (PMI)

Policy protecting the [holder](#) against [loss](#) resulting from [default](#) on a [mortgage loan](#).

Private placement

The [sale](#) of a [bond](#) or other [security](#) directly to a limited number of [investors](#). For example, sale of [stocks](#), [bonds](#), or other [investments](#) directly to an [institutional investor](#) like an [insurance company](#), avoiding the need for [SEC registration](#) if the securities are purchased for investment as opposed to resale. Antithesis of [public offering](#).

Private-purpose bond

A [municipal bond](#) allowing more than 10% of the [proceeds](#) go to private activities.

Private unrequited transfers

Resident immigrant workers' remittances to their country of origin as well as, e.g., gifts, dowries, inheritances, prizes, charitable [contributions](#).

Privatization

The [transfer](#) of government-owned or government-run [companies](#) to the private sector, usually by selling them.

Pro forma capital structure analysis

A method of analyzing the impact of alternative possible [capital structure](#) choices on a [firm's credit](#) statistics and [reported financial](#) results, especially to determine whether the firm will be able to use projected [tax shield](#) benefits fully.

Pro forma financial statements

A [firm's financial statements](#) as adjusted to reflect a projected or planned [transaction](#). "What-if" analysis.

Pro forma statement

A [financial statement](#) showing the [forecast](#) or [projected](#) operating results and [balance sheet](#), as in pro forma [income statements](#), balance sheets, and [statements of cash flows](#).

Probability

The relative likelihood of a particular outcome among all possible outcomes.

Probability density function

The function that describes the change of certain realizations for a continuous [random variable](#).

Probability distribution

A function that describes all the values a [random variable](#) can take and the probability associated with each. Also called a [probability function](#).

Probability function

A measure that assigns a likelihood of occurrence to each and every possible outcome.

Proceeds

[Money](#) received by the seller of an [asset](#).

Proceeds sale

[OTC securities sale](#) whose revenue is used to [buy](#) another [security](#).

Processing Delay

Time a selling [firm](#) takes to record [receipt](#) of a payment and deposit it.

Producer Price Index (PPI)

Index measuring changes in [wholesale](#) prices, published by the US Bureau of Labor Statistics every month.

Product cycle

The time it takes to bring new and/or improved products to [market](#).

Product cycle theory

Theory suggesting that a [firm](#) initially establish itself locally and expand into [foreign markets](#) in response to foreign demand for its product; over time, the [MNC](#) will grow in foreign [markets](#); after some point, its foreign business may decline unless it can differentiate its product from competitors.

Product Differentiation

A source of competitive advantage that depends on producing some item that is regarded to have unique and valuable characteristics.

Product risk

A type of [mortgage pipeline risk](#) that occurs when a [lender](#) has an unusual [loan](#) in production or [inventory](#) but does not have a [sale commitment](#) at a prearranged price.

Production

In the context of project financing, a defined portion of the [proceeds](#) of production up to a dollar amount.

Production Cost Advantage

A source of competitive advantage that depends on producing some product or service at the lowest [cost](#).

Production-flow commitment

An agreement by the [loan purchaser](#) to allow a monthly loan quota to be delivered in batches.

Production Loan

A project financing where the repayment is linked to the production, often on a dollar/[unit](#) basis.

Production payment financing

A method of [nonrecourse asset-based financing](#) in which a specified percentage of revenue realized from the [sale](#) of the project's output is used to pay [debt service](#).

Production possibilities schedule

The maximum amount of goods (i.e., food and clothing) that a country is able to produce given its labor supply.

Production rate

The [coupon rate](#) at which a [pass-through security guaranteed](#) by [Ginnie Mae](#) is issued.

Productivity

The amount of output per [unit](#) of input, such as the quantity of a product produced per hour of [capital](#) employed.

Profile buyer/seller

[Trader](#) trying to get involved in a [stock](#) who presents self as a [buyer/seller](#) to [draw a call](#) from a customer. That is the trader has nothing [real](#), or [natural](#).

Profit

Revenue [minus cost](#). The amount one makes on a [transaction](#).

Profit center

A division of an organization held responsible for producing its own [profits](#).

Profit forecast

A prediction of future [profits](#) of a [company](#), which may affect [investment decisions](#).

Profit Graph

A graphical representation of the potential outcomes of a [strategy](#). Dollars of [profit](#) or loss are graphed on the vertical axis, and various stock prices are graphed on the horizontal axis. Results may be depicted at any point in time, although the graph usually depicts the results at expiration of the options involved in the strategy.

Profit margin

[Indicator of profitability](#). The ratio of [earnings](#) available to [stockholders](#) to [net sales](#). Determined by dividing [net income](#) by revenue for the same 12-month period. Result is shown as a percentage. Also known as net profit margin.

Profit Range

The range within which a particular position makes a [profit](#). Generally used in reference to strategies that have two break-even points - an upside break-even and a downside break-even. The price range between the two break-even points would be the profit range.

Profit-sharing plan

An incentive system providing that employees share in [companys profits](#) through a [cash](#) fund or a deferred plan used to [buy stock](#) or [bonds](#).

Profit Table

A table of results of a particular [strategy](#) at some point in time. This is usually a tabular compilation of the data drawn on a [profit](#) graph. See also [Profit Graph](#).

Profit taking

Action by [short-term securities traders](#) to [cash](#) in on gains created by a sharp [market](#) rise, which pushes prices down temporarily but implies an upward [market trend](#). See: [Ring the \[cash\] register](#).

Profitability index

The [present value](#) of the future [cash flows](#) divided by the initial [investment](#). Also called the [benefit-cost ratio](#).

Profitability ratios

Ratios that focus on how well a [firm](#) is performing. [Profit margins](#) measure performance with relation to [sales](#). [Rate of return ratios](#) measure performance relative to some measure of size of the investment.

Pro forma

A [financial](#) projection based on assumptions. Also, refers to a statement of income and balance sheets that exclude non-recurring items.

Pro forma Earnings

Often used in two ways. First, pro forma earnings refers to projections of earnings. This is often used internally or on a road show for an IPO. Second, it refers to a way of reporting earnings that excludes non-recurring items such as restructuring charges, extraordinary items.

Pro forma Invoice

A quotation in the form of a invoice prepared by the seller that details items which would appear on a commercial invoice if an order results.

Program trades

[Orders](#) requiring the [execution](#) of [trades](#) in a large number of different [stocks](#) at as near the same time as possible. Also called [basket trades](#). Related: [Block trade](#)

Program trading

[Trades](#) based on signals from computer programs, usually entered directly from the [trader's](#) computer in to the [market's](#) computer system and [executed](#) automatically. Applies to derivative products. A process of electronic [execution](#) of [trading](#) of a [basket](#) of stocks simultaneously, for [index arbitrage](#), [portfolio restructuring](#), or outright [buy/sell](#) interests. See: [super dot](#).

Progress payments

Periodic payments to a supplier, contractor, or subcontractor for work as it is completed as desired, in order to reduce [working capital](#) requirements.

Progress review

A periodic review of a [capital investment](#) project to evaluate its continued economic viability.

Progressive tax system

A tax system that taxes the wealthy at a higher percentage rate than the less wealthy.

Progressive taxation

Characterizes a [convex tax schedule](#) that results in a higher effective [tax rate](#) on higher income levels. Increases for some increases in income, but never decreases with an increase in income.

Project

The [asset](#) constructed with or owned via a project financing, which is expected to produce [cash flow](#) at a [debt](#)-service coverage ratio sufficient to repay the project financing.

Project contracts

In the context of project financing, the suite of agreements underlying the project.

Project Finance Loan Program

Program under which banks, the [Ex-Im Bank](#), or a combination of both may extend [long-term financing](#) for [capital](#) equipment and related services for major projects.

Project financing

A form of [asset-based financing](#) in which a [firm finances](#) a discrete set of [assets](#) on a stand-alone basis.

Project link

An [econometric](#) model [forecasting](#) and describing the effects of changes in different economies on other economies.

Project loan certificate (PLC)

A primary program of [Ginnie Mae](#) for [securitizing](#) FHA-insured and coinsured multifamily, hospital, and nursing home loans.

Project loans

Usually FHA-insured and HUD-[guaranteed](#) mortgages on multiple-family housing complexes, nursing homes, hospitals, and other special development.

Project loan securities

[Securities](#) backed by a variety of FHA-insured loans—primarily multifamily apartment buildings, hospitals, and nursing homes.

Project notes (PN)

[Notes issued](#) by municipalities to [finance](#) federally sponsored programs in urban renewal and housing and [guaranteed](#) by the U.S. Department of Housing and Urban Development.

Projected benefit obligation (PBO)

A measure of a [pension plan's liability](#) at the calculation date assuming that the plan is ongoing and will not terminate in the foreseeable future. Related: [Accumulated benefit obligation](#).

Projected maturity date

With [CMOs](#), the date at the end of the estimated [cash flow](#) window where final payment is made.

Projection

The use of [econometric](#) models to [forecast](#) the future performance of a [company](#), country, or other [financial](#) entity using historical and current information.

Promissory note

Written pledge to pay.

Property inventory

A list of personal property with corresponding values and initial [costs](#) often used to substantiate [insurance](#) claim and tax [losses](#).

Property, Plant and Equipment (PP&E)

[Tangible](#), long-lived assets that a company owns and uses in its operations, rather than simply holding them as an [investment](#). This includes buildings, construction, facilities, machinery etc. and is reported on the balance sheet as [acquisition cost](#) less the accumulated [depreciation](#).

Property rights

Rights of individuals and [companies](#) to own and use property as they see fit and to receive the stream of income that their property generates.

Property tax

A tax levied on real property based on its use and its [assessed value](#).

Proportional representation

A method of [stockholder](#) voting that allows minority shareholders and groups of small [shareholders](#) to have a better chance of getting representation on a [Board of Directors](#) than under [statutory voting](#).

Proprietary trading

[Principal trading](#) in which [firm](#) seeks direct [gain](#) rather than [commission](#) dollars.

Proprietorship

An [unincorporated](#) business that is owned and operated by only one person who has complete [liability](#) for all [assets](#), and complete rights to all [profits](#).

Pro rata

Shared or divided according to a ratio or in proportion to participation.

Proration

Refers to the division between cash and stock in a takeover offer. Often a takeover is a combination of cash and the acquiring firm's equity. Shareholders can elect to take cash or equity. After the election is made, the stock is prorated. For example, if the takeover offer was 500 million in cash and 500 million in shares, if everybody elected cash, then the maximum cash for each shareholder is 50%. If 75% elected to receive cash, 25% of the shareholders would get 100% equity and the other 75% would get 75% cash and 25% equity. The proportions are complicated to compute if the new shares are worth more than the old shares. In this case, small shareholders (with say 100 shares) might receive 100% cash because it is disadvantageous to have a lot less than 100 shares.

Prospective Earnings Growth (PEG Ratio)

The idea is to scale the P/E ratio by earnings growth. Higher P/E multiples could be a result of higher growth opportunities. Expected earnings growth is usually derived from proprietary sources such as [Institutional Brokers' Estimate System \(IBES\)](#), [First Call](#), or Zach's. The usual implementation is to divide the current P/E ratio by the five-year prospective earnings growth. This ratio is problematic if expected earnings growth is negative. As with the usual P/E ratio, zero or very small earnings causes problems too. For stock selection, I usually recommend looking at E/P (earnings price ratio) and expected earnings growth as two separate factors rather than a single PEG ratio. I also recommend looking at different horizons for expected earnings growth -- not just five years.

Prospectus

Formal written document to sell [securities](#) that describes the plan for a proposed business enterprise, or the facts concerning an existing one, that an [investor](#) needs to make an informed decision. Prospectuses are used by [mutual funds](#) to describe fund objectives, [risks](#), and other essential information.

Protect

Assure the salesperson or [trader](#) that interest, [buy](#) or sell, will be attended to, given any change in the trading circumstances, as follows:

At a price: If the [stock trades](#) at a certain price or price range, the [trader](#) will show this [market](#) to the salesperson and thus allow participation under these favorable circumstances.

[Floor](#) protection: Representation of a client on the floor of the [exchange](#)-so that if [size](#) were to trade at his price or a better price, salesperson would participate.

Volume ([OTC](#)): If a certain amount of volume trades (that parallels the protectee's interest), trader assures salesperson of reasonable participation in the trading activity. The extent of this protection depends on [liquidity](#), number of [market makers](#), and other aspects of the stock.

Protected Strategy

A position that has limited risk. A protected [short sale](#) (short stock, long call) has limited risk, as does a protected straddle write (short straddle, [long](#) out-of-the-[money](#) combination). See also [Combination](#) and [Straddle](#).

Protectionism

Notion that governments should protect domestic [industry](#) from import competition by means of [tariffs](#), quotas, and other [trade](#) barriers.

Protective covenant

A part of an [indenture](#) or loan agreement that limits certain actions a [company](#) may take during the [term](#) of the [loan](#) to protect the [lender's](#) interests.

Protective put buying strategy

A [strategy](#) that involves [buying](#) a [put option](#) on the [underlying security](#) that is held in a [portfolio](#).

Related: [Hedge option strategies](#).

Protest

Instructions given to a [collecting bank](#) that [drafts](#) falling due for payment are to be formally presented to the drawee by a notary, who is to formally record any default.

Prototype plan

A [qualified retirement plan](#) sponsored by a [financial institution](#). It may be adopted by executing a written agreement. A prototype is generally more flexible than the IRS Form 5305 or 5305-A and may have additional special features. Also called a [master pension plan](#).

Provision

Used in accounting as a charge for an estimated expense or loss.

Provision for income taxes

An amount on the [P & I](#) statement that estimates a [company's](#) total [income tax liability](#) for the year.

Provisional call feature

A stipulation in a convertible [issue](#) that allows the [issuer](#) to [call](#) the issue during the noncall period if the price of the [stock](#) reaches a certain level. In the case of [convertible securities](#), right of an [issuer](#) to accelerate the first [redemption](#) date if the [underlying](#) common should [trade](#) at or above a certain level for a sustained period. Most typical [terms](#) are 150% of [conversion price](#) for 20 consecutive days. Note that under these circumstances the [security](#) has [appreciated](#), at a minimum, 50% since being issued.

Proxy

Authorization, whether written or electronic, that [shareholders'](#) votes may be cast by others. Shareholders can and often do give [management](#) their proxies, delegating the right and responsibility to vote their [shares](#) as specified.

Proxy Committee

A group of individuals appointed by the [board of directors](#) of the [companies](#) to formally represent the [shareholders](#) who send in [proxy](#) cards, to vote the represented shares in accordance with the shareholders' instructions.

Proxy Committee Ballot

The ballot signed and submitted at the meeting by the [Proxy](#) Committee. It is the legal voting of shares represented by proxies assigned to the Proxy Committee and should always be completed.

Proxy contest

A battle for the [control](#) of a [firm](#) in which a dissident group seeks, from the firm's other [shareholders](#), the right to vote those shareholders' [shares](#) in favor of the dissident group's slate of directors. Also called [proxy fights](#).

Proxy fight

Often used in [risk arbitrage](#). Technique used by an [acquiring company](#) to attempt to gain [control](#) of a [takeover target](#). The acquirer tries to persuade the [shareholders](#) of the [target company](#) that the present [management](#) of the firm should be ousted in favor of a slate of [directors](#) favorable to the acquirer, thus enabling the acquiring company to gain control of the company without paying a [premium price](#).

Proxy Fight

Competition of outside group with [management](#) for [stockholders' proxies](#) in order to [accumulate](#) votes to elect a new [board of directors](#).

Proxy Solicitor

A specialist (firm) hired to gather [proxy](#) votes.

Proxy statement

Document intended to provide [shareholders](#) with information necessary to vote in an informed manner on matters to be brought up at a stockholders' meeting. Includes information on [closely held shares](#). Information required by the [SEC](#) that must be provided to shareholders who wish to vote for [directors](#) and on other [company](#) decisions by [proxy](#).

Proxy vote

Vote cast by one person or entity on behalf of another.

Prudent-man rule

A rule set forth in the Uniform Prudent Investor Act that states that a [fiduciary trustee](#) has the legal obligation to invest and manage [trust assets](#) as a prudent person would, taking into account, among other factors, general economic conditions, [risk](#), and [liquidity](#) requirements in an attempt to create a [portfolio](#) or [investment strategy](#) with objectives suited to the [trust](#).

P&S

[Purchase](#) and [sale](#) statement. A statement provided by the [broker](#) showing change in the customer's [net ledger](#) balance after the [offset](#) of any previously established [positions](#).

PSA Prepayment Rate

The Bond Market Trade Association's Mortgaged Asset-Backed Securities Division's [prepayment](#) model based on an assumed rate of prepayment each month of the then unpaid [principal](#) balance of a pool of [mortgages](#). PSA is used primarily to derive an implied prepayment speed of new production loans. 00% PSA assumes a prepayment rate of 2% per month in the first month following the date of [issue](#), increasing at 2% percentage points per month thereafter until the 30th month. Thereafter, 100% PSA is the same as 6% CPR (Constant prepayment rate).

PSSG

[Financial ratio](#) defined as [stock](#) price divided by [sales](#) over sales growth. Often used in the valuation of Internet stocks. Related: [PREG](#).

Public Accounting Oversight Board (PCAOB)

The organization that oversees [auditors](#). Set up after the [Sarbanes-Oxley Act of 2002](#).

Public Book (of order)

The orders to [buy](#) or sell, entered by the [public](#), that are generally away from the current market. The order [book](#) official or specialist keeps the public book. Market-Makers on the CBOE can see the highest

bid and lowest offer at any time. The specialist's book is closed (only he knows at what price and in what quantity the nearest public orders are). See also [Market-Maker](#) and [Specialist](#).

Public Company

A [company](#) that has held an [initial public offering](#) and whose [shares are traded](#) on a stock exchange or in the over-the-counter market. Public companies are subject to periodic filing and other obligations under the federal securities laws.

Public debt

Public debt can refer to either 1) treasury securities held by institutions outside of the issuing country's government, or 2) total of government debt including intra-government obligations. [Debt](#) by governments are issued to [compensate](#) for a lack of tax revenues.

Public housing authority bond

[Bonds](#) of local [public](#) housing agencies that are secured by the federal government and whose [proceeds](#) are used to provide low-rent housing.

Public limited partnership

A [limited partnership](#) with an unlimited number of [partners](#) that is registered with the [SEC](#) and is available for [public](#) trading by [broker/dealers](#).

Public offering

Used in the context of general equities. [Offering](#) to the investment [public](#), after compliance with [registration](#) requirements of the [SEC](#), usually by an [investment](#) banker or a syndicate made up of several investment bankers, at a price agreed upon between the [issuer](#) and the investment bankers. Antithesis of [private placement](#). See: [Primary distribution](#) and [secondary distribution](#).

Public offering price

The price of a new [issue](#) of [securities](#) at the time that the issue is offered to the [public](#).

Public ownership

The portion of a [company's stock](#) that is held by the [public](#).

Public-Private-Partnership (PPP) Approach

PPP Approach, one of the main approaches in financing the large-scale infrastructure projects, is very similar to [Build-Operate-Transfer \(BOT\) Approach](#) but the sole difference lies in the two approaches' output criteria. In the PPP model, unlike with BOT, the government buys service from project companies at agreed-upon prices and thus has a greater influence in production decisions and bears a greater share of project risks; thus the project companies are not overly exposed to changing market conditions.

Public-purpose bond

A specific type of [municipal bond](#) used to [finance](#) public projects such as roads or government buildings. Interest on municipal bonds is federal [income tax-free](#).

Public Securities Association(PSA)

The trade association for primary [dealers](#) in US [government securities](#), including [MBSs](#). In 1997, they became known as the Bond Market Association.

Public securities offering

A [securities issue](#) placed with the [public](#) through an [investment](#) or commercial bank.

Public-to-Private buyout

A form of [leveraged buyout](#) where a listed company is acquired and subsequently delisted. Also called [Going-private buyout](#)

The Public

Individual [investors](#) who [trade](#) single [securities](#) independently or invest in [intermediaries](#) such as [mutual funds](#), as opposed to professional [investors](#).

Public Utility Holding Company Act of 1935

Legislation intended to eliminate many [holding company](#) abuses by reorganizing the [financial](#) structures of holding [companies](#) in the gas and electric [utility industries](#) and [regulating](#) their [debt](#) and [dividend](#) policies.

Public warehouse

Storage facility operated by an independent warehouse [company](#) on its own premises.

Publicly held

Describes a [company](#) whose [stock](#) is held by the [public](#), whether individuals or business entities.

Publicly traded assets

[Assets](#) that can be [traded](#) in a [public market](#), such as the [stock market](#).

Puke

Slang for a [trader](#) selling a [position](#), usually a losing position, as in, "When in doubt, puke it out."

Pull

Used in the context of general equities. See: [Cancel](#).

Pullback

The downward reversal of a prolonged upward price [trend](#).

Pulling in their horns

[Investors](#) selling off [positions](#) after a [stock](#) or [bond market](#) has increased sharply or setting up [hedging positions](#) to guard against a negative turn of the [market](#).

Purchase

[Buy](#); be [long](#); have an ownership [position](#).

Purchase accounting

Method of accounting for a [merger](#) that treats the [acquirer](#) as having [purchased](#) the [assets](#) and assumed the [liabilities](#) of the [acquiree](#), which are then written up or down to their respective fair [market values](#). The difference between the [purchase](#) price and the net assets acquired is attributed to [goodwill](#).

Purchase agreement

Used in connection with project [financing](#); an agreement to [purchase](#) a specific amount of project output per period.

Purchase fee

A charge assessed by an [intermediary](#), such as a [broker-dealer](#) or a bank, for assisting in the [sale](#) or [purchase](#) of a [security](#).

Purchase fund

Resembles a [sinking fund](#), except that [money](#) is used to [purchase bonds](#) only if they are selling below their [par value](#).

Purchase group

See: [Underwriting syndicate](#)

Purchase loan

A consumer [loan](#) taken to [finance](#) a [purchase](#).

Purchase method

Accounting for an [acquisition](#) using [market value](#) for the consolidation of the two entities' net [assets](#) on the [balance sheet](#). Generally, [depreciation/amortization](#) will increase for this method (due to the creation of [goodwill](#)) compared to the [pooling](#) method resulting in lower [net income](#).

Purchase-money mortgage

A [mortgage](#) given by a [buyer](#) in lieu of [cash](#) when the buyer is unable to [borrow](#) commercially for the [purchase](#) of property.

Purchase order

A written [order](#) to [buy](#) specified goods at a stipulated price.

Purchase and sale

A method of [securities distribution](#) in which a [firm purchases](#) securities from the [issuer](#) for its own account at a [stated](#) price and then resells them, as contrasted with a [best-efforts sale](#).

Purchasing Managers Index

A popular index released in [Manufacturing ISM Report](#) by the Institute for Supply Management on the first of the month. The index reflects percentage of purchasing managers that reported better business conditions compared to the previous month. A reading above 50% indicates expansion in manufacturing sector; below 50% indicates the sector's contraction.

Purchasing power

The amount of [credit](#) available for [securities](#) trading in a [margin account](#), after taking [margin requirements](#) into consideration.

Purchasing power of the dollar

The amount of goods and services that can be exchanged for a dollar as compared with amount of a previous time period.

Purchasing power parity

The notion that the ratio between domestic and foreign price levels should equal the [equilibrium exchange rate](#) between domestic and foreign currencies.

Purchasing power risk

Related: [Inflation risk](#)

Pure discount bond

A [bond](#) that will make only one payment of [principal](#) and [interest](#). Also called a [zero-coupon bond](#) or a single-payment bond.

Pure expectations theory

A theory that asserts that [forward rates](#) exclusively represent the expected future rates. In other words, the entire [term structure](#) reflects the [market's](#) expectations of future [short-term](#) rates. For example, an increasing slope to the [term structure](#) implies increasing short-term interest rates.

Related: [Biased expectations theories](#).

Pure index fund

A [portfolio](#) that is managed so as to perfectly replicate the performance of the [market portfolio](#).

Pure monopoly

A [market](#) in which only one [firm](#) has total [control](#) over the entire [market](#) for a product due to some sort of barrier to entry for other firms, often a [patent](#) held by the controlling firm.

Pure play

A [company](#) involved in only one line of business.

Pure yield pickup swap

Moving to [higher yield-bonds](#).

Purpose credit

[Credit](#) used for the purpose of [buying](#), carrying or trading in [securities](#).

Purpose loan

A [loan](#) that is backed by [securities](#) and that is used to [buy](#) other [securities](#) under certain government [regulations](#).

Purpose statement

A form filed by a [borrower](#) that describes the use of a [loan](#) backed by [securities](#), and [guarantees](#) that the funds lent will not be used illegally to [buy securities](#) against [Federal Reserve regulations](#).

Put

An [option](#) granting the right to sell the [underlying futures contract](#). Opposite of a [call](#).

Put bond

A [bond](#) that the [holder](#) may choose either to exchange for [par value](#) at some date or to extend for a given number of years. If the price is above [par](#), the put is a "premium put."

Put-call parity

Applies to derivative products. [Option](#) pricing principle that says, given a [stock's](#) price, a [put](#) and [call](#) of the same [class](#) must have a static price relationship because [arbitrage](#) opportunities or activities will always reestablish such a relationship.

Put-call parity relationship

The relationship between the price of a [put](#) and the price of a [call](#) on the same [underlying security](#) with the same [expiration date](#), which prevents [arbitrage](#) opportunities. [Holding](#) the

underlying [stock](#) and [buying](#) a [put](#) will [deliver](#) the exact payoff as buying one [call](#) and investing the [present value \(PV\)](#) of the [exercise price](#). The call value equals $C = S + P - PV(k)$.

Put-call ratio

The ratio of the [volume](#) of [put options traded](#) to the [volume](#) of [call options](#) traded, which is used as an [indicator](#) of [investor](#) sentiment ([bullish](#) or [bearish](#)).

Put guarantee letter

A bank's letter certifying that the person writing a [put option](#) has sufficient funds in an account to cover the [exercise price](#) if required.

Put on

Used for listed equity securities. [Trade](#), or [cross](#), a [block](#) of [stock](#) at the designated price and quantity. See: [Print](#).

"Put it on "

Used for listed equity securities. "Go to the [floor](#) to [transact](#)." See: [Print](#).

Put option

This [security](#) gives [investors](#) the right to sell (or [put](#)) a fixed number of [shares](#) at a fixed price within a given period. An [investor](#), for example, might wish to have the right to sell [shares](#) of a [stock](#) at a certain price by a certain time in order to protect, or [hedge](#), an existing investment.

Put an option

To [exercise](#) a [put option](#).

"Put pants on it "

Used in the context of general equities. "Elaborate on your intentions or your [inquiry](#)," especially with respect to size, side, and price. See: [Open up](#).

Put price

The price at which an [asset](#) will be sold if a [put option](#) is [exercised](#). Also called the [strike](#) or [exercise price](#) of a [put option](#).

Put provision

Gives the [holder](#) of a floating-rate [bond](#) the right to [redeem](#) the [note](#) at [par](#) on the [coupon payment](#) date.

Put ratio backspread

A complex options [strategy](#) adopted when one believes a [stock](#) price will decline but wants to protect against it rising.

Put to seller

[Exercise](#) a [put option](#); require that the [option writer](#) to [purchase](#) the [stock](#) at the [strike price](#).

Put swaption

A [financial instrument](#) giving the [buyer](#) the right, or [option](#), to enter into a [swap](#) as a [floating-rate payer](#). The [writer](#) of the [swaption](#) therefore becomes the floating-rate receiver/[fixed-rate payer](#).

Put up

See: [Print](#)

Pyramid scheme

An illegal, fraudulent scheme in which a con artist convinces victims to [invest](#) by promising an extraordinary [return](#) but instead simply uses newly invested funds to pay off any [investors](#) who insist on terminating their investment.

Pyramiding

A type of stock swap option exercise in which a small number of previously-owned [shares](#) is surrendered to the [company](#) to pay a portion of the [exercise price](#), for which a slightly larger number of option shares may be [purchased](#), which are then immediately surrendered back to the company to pay additional amounts of the exercise price, and so on until the full [option price](#) has been paid and the optionee is left with just the number of shares equal to the [option spread](#). With the advent of broker-assisted "Cashless Exercise/Same Day [Sale](#)" programs (see above), pyramiding has fallen out of favor.

Q

Fifth letter of a [Nasdaq](#) stock symbol specifying that it is in [bankruptcy](#) proceedings.

QA

The two-character [ISO](#) 3166 country code for QATAR.

QAR

The [ISO](#) 4217 currency code for the Qatar Rial.

QAT

The three-character [ISO](#) 3166 country code for QATAR.

QE1

QE1 is a nickname developed to refer to the first round of [quantitative easing](#) the Fed launched to promote stronger growth in America post financial crisis of 2008. On November 25, 2008 the Fed announced that it will purchase [Government Sponsored Enterprises \(GSE\)](#) debt of \$100 billion and [Mortgage-Backed Securities \(MBS\)](#) of \$500 billion. And On March 18, 2009, the size of these purchases were increased to GSE of \$200 billion and MBS of \$1.25 trillion, respectively. Purchase of \$300 billion of longer-term Treasury securities was also announced on March 18, 2009.

QE2

The second program of [quantitative easing](#) was first mentioned in a speech given by Federal Reserve Chairman Bernanke in Jackson Hole in August 2010. The Fed officially announced the program on November 3, 2010. The Fed stated that it will purchase \$600 billion of longer-term Treasury securities by the end of 2nd quarter of 2011, a pace of about \$75 billion per month in order to promote a stronger pace of economic recovery in the United States. The Fed would also use the income from its portfolio of securities for additional purchases bring the total purchases close to \$800 billion. The purchases are focused in the 5-10 year maturities.

QQQ

The ticker for the PowerShares QQQ Trust, Series 1, an [ETF](#) traded on the [Nasdaq Index](#). Formerly the Nasdaq-100 Trust, Series 1, this trust holds all the component [securities](#) that make up the Nasdaq and issues [securities](#) called QQQ Index Tracking Stock that are designed to track the approximate performance of the Nasdaq Index.

Q ratio or Tobin's Q ratio

[Market value](#) of a [firm's assets](#) divided by [replacement value](#) of the firm's assets. Named after James Tobin of Yale University.

Quadratic programming

Variant of [linear programming](#) in which the objective function is quadratic rather than linear. In [portfolio](#) selection, we often minimize the variance of the portfolio (which is a quadratic function) subject to constraints on the [mean return](#) of the portfolio.

Quadragnetillion

A unit of quantity equal to 10^{123} (1 followed by 123 zeros).

Quadrillion

A unit of quantity equal to 10^{15} (1 followed by 15 zeros).

Qualification period

A period of time during the first few months or weeks of a new policy when an [insurance](#) company will not reimburse a [policyholder](#) for a claim in order to allow the insurance company time to find any fraudulent information in the application.

Qualified Domestic Relations Order (QDRO)

A judgment, decree, or order that gives a [pension plan](#) participant access to retirement [assets](#) that must be used to pay an ex-spouse or dependent children.

Qualified endorsement

A signature on the back of a [negotiable instrument](#) transferring the amount to some other party but that includes wording that limits the endorser's [liability](#).

Qualified opinion

An [auditor's opinion](#) expressing certain limitations of an [audit](#).

Qualified plan or trust

A [tax-deferred plan](#) allowing employer and [employee contributions](#) that build up savings, which are paid out at retirement or on termination of employment. Tax is paid only when amounts are drawn from the [trust](#).

Qualified retirement plan

A [retirement](#) plan established by employers for their employees that meets the requirements of [Internal Revenue Code](#) Section 401(a) or 403(a) and is eligible for special tax considerations. The plan may provide for employer contributions, as in a [pension](#) or [profit-sharing plan](#), as well as employee [contributions](#). Employers can [deduct](#) plan contributions made on behalf of eligible employees on the business's tax return as business expenses. Plan earnings are not taxed to the employee until withdrawn.

Qualified Terminable Interest Property Trust (Q-TIP)

A [trust](#) that allows a surviving spouse to receive income generated from the trust, while the actual distribution of the trust's [assets](#) is made to other [beneficiaries](#) such as the [grantor's](#) children.

Qualified total distribution

A payment representing an employee's interest in a [qualified retirement plan](#). The payment must be prompted by retirement (or other separation from service), death, disability, or attainment of age 59-1/2. Payment can be in installments as long as the complete distribution is made within a single tax year.

Qualifying annuity

An [annuity](#) allowable as [investment](#) for a [qualified plan or trust](#).

Qualifying share

[Shares](#) of [common stock](#) that a person must hold in order to qualify as a director of the [issuing corporation](#).

Qualifying stock option

A benefit granted by a [corporation](#) that allows employees to purchase [shares](#) at a discount price.

Qualitative analysis

An analysis of the qualities of a [company](#) that cannot be measured concretely, such as management quality or employee morale.

Qualitative research

Traditional analysis of [firm-specific](#) prospects for future [earnings](#). It may be based on data collected by the analysts, there is no formal [quantitative](#) framework used to generate projections.

Quality of earnings

Increased [earnings](#) due to increased sales and cost controls, as compared to artificial [profits](#) created by [inflation](#) of [inventory](#) or other [asset](#) prices.

Quality option

Gives the seller choice of deliverables in [Treasury bond](#) and [Treasury note futures contracts](#). Also called the [swap option](#). Related: [Cheapest to deliver issue](#).

Quant fund

A fund that uses quantitative approaches and computer models to make [investment](#) decisions as opposed to qualitative approaches like opinion of [fund managers](#).

Quantitative analysis

A mathematical analysis of the measurable figures of a [company](#), such as the value of [assets](#) or projected sales. This type of analysis does not include a subjective assessment of the quality of management.

Quantitative easing

A [monetary policy](#) in which the [central bank](#) engages in [open market transactions](#) aimed at increasing [money supply](#) in the economy. Easing could also involve direct money creation (printing).

Quantity risk

Occurs when the quantity of an [asset](#) to be [hedged](#) is uncertain.

Quality spread

Difference between [Treasury securities](#) and non-Treasury securities that are identical in all respects except for quality rating. For instance, the difference between [yields](#) on [Treasuries](#) and those on single A-rated industrial [bonds](#). Also called [credit spread](#).

Quant

A person with numerical and computer skills who carries out [quantitative analyses](#) of companies.

Quantize

To convert an [asset](#) or [liability](#) into a [currency](#) other than the regular [trading](#) currency.

Quantitative research

Use of advanced [econometric](#) and mathematical valuation models to identify the [firms](#) with the best possible prospectives. Antithesis of [qualitative research](#).

Quanto swap

See: [Differential swap](#)

Quantos

[Currency options](#) with a guaranteed [exchange rate](#) that enable buyers who like an [asset](#), German [bonds](#) for example, but not the asset's pricing currency, to arrange payment in a different currency for a fee.

Quarter stock

[Stock](#) with a [par value](#) of \$25 per [share](#).

Quarterly

Occurring every three months.

Quarterly financing

February 15, May 15, August 15 and November 15, or next working day [offerings](#) of several "coupon" [security issues](#). [Quarterly issues](#) currently consist of a 3-year [note](#), a 10-year note, and a 30-year [bond](#). The Treasury sometimes offers additional amounts of [outstanding long-term notes](#) or [bonds](#), rather than selling new security issues. See: [Reopening](#).

Quasi-public corporation

A [corporation](#) that is operated privately, but is supported by the government in its operations and that often [traded](#) publicly.

Quattuordecillion

A unit of quantity equal to 10^{45} (1 followed by 45 zeros).

Quattuornonagintillion

A unit of quantity equal to 10^{285} (1 followed by 285 zeros).

Quattuoroctogintillion

A unit of quantity equal to 10^{255} (1 followed by 255 zeros).

Quattuorquadragintillion

A unit of quantity equal to 10^{135} (1 followed by 135 zeros).

Quattuorquinquagintillion

A unit of quantity equal to 10^{165} (1 followed by 165 zeros).

Quattuorseptuagintillion

A unit of quantity equal to 10^{225} (1 followed by 225 zeros).

Quattuorsexagintillion

A unit of quantity equal to 10^{195} (1 followed by 195 zeros).

Quattuortrigintillion

A unit of quantity equal to 10^{105} (1 followed by 105 zeros).

Quattuorvigintillion

A unit of quantity equal to 10^{75} (1 followed by 75 zeros).

Quay

A landing place or pier, usually of solid construction, where vessels berth to load or unload cargo.

Quick assets

[Current assets minus inventories.](#)

Quick ratio

[Indicator](#) of a [company's](#) financial strength (or weakness). Calculated by taking [current assets](#) less [inventories](#), divided by [current liabilities](#). This ratio provides information regarding the firm's [liquidity](#) and ability to meet its [obligations](#). Also called the [Acid test ratio](#).

Quid pro quo

An arrangement allowing a firm to use research from another firm at no cost in exchange for [executing](#) all of its [trades](#) with the firm that provides the research.

Quiet period

Time period an [issuer](#) is "in registration" with the [SEC](#) and may not promote its forthcoming [issue](#).

Quindecillion

A unit of quantity equal to 10^{48} (1 followed by 48 zeros).

Quinnonagintillion

A unit of quantity equal to 10^{288} (1 followed by 288 zeros).

Quinoctogintillion

A unit of quantity equal to 10^{258} (1 followed by 258 zeros).

Quinquagintillion

A unit of quantity equal to 10^{138} (1 followed by 138 zeros).

Quinquagintillion

A unit of quantity equal to 10^{153} (1 followed by 153 zeros).

Quinquinquagintillion

A unit of quantity equal to 10^{168} (1 followed by 168 zeros).

Quinseptuagintillion

A unit of quantity equal to 10^{228} (1 followed by 228 zeros).

Quinsexagintillion

A unit of quantity equal to 10^{198} (1 followed by 198 zeros).

Quintillion

A unit of quantity equal to 10^{18} (1 followed by 18 zeros).

Quintrigintillion

A unit of quantity equal to 10^{108} (1 followed by 108 zeros).

Quinvigintillion

A unit of quantity equal to 10^{78} (1 followed by 78 zeros).

Quorum

The minimum number of people who must be present or must provide a [proxy](#) to vote at a meeting in order to make a valid decision.

Quota

See [Import Quota](#)

Quotation

Highest [bid](#) and lowest [offer \(asked\)](#) price currently available on a [security](#) or a [commodity](#).

Quotation board

The electronic board at a brokerage firm displaying prices other financial data.

Quote rule

Rule requiring [market makers](#) to publish [quotations](#) for any [listed security](#) when a [quotation](#) represents more than 1% of the [aggregate trading volume](#) for that security.

Quote Stuffing

A practice of placing an unusual number of buy or sell orders on a particular security and then immediately canceling them. This can create confusion in the market and trading opportunities for algorithmic traders.

Quoted price

The price at which the last [trade](#) of a particular [security](#) or [commodity](#) took place.

R

Fifth letter of a [Nasdaq](#) stock symbol specifying that the [stock](#) has [rights](#).

RAM

See: [Reverse-annuity mortgage](#)

RAP

See: [Regulatory accounting procedures](#)

RE

The two-character [ISO](#) 3166 country code for REUNION.

REIT

See: [Real Estate Investment Trust](#)

REMIC

See: [Real Estate Mortgage Investment Conduit](#)

REO

See: [Real Estate Owned](#).

REU

The three-character [ISO](#) 3166 country code for REUNION.

RMBS

See: [Residential Mortgage Backed Securities](#)

RO

The two-character [ISO](#) 3166 country code for ROMANIA.

ROA (1)

See: [Return on assets](#)

ROA (2)

See: [Right of accumulation](#)

ROCE

See: [Return on capital employed](#)

ROE

See: [Return on equity](#)

ROI

See: [Return on investment](#)

ROL

The [ISO](#) 4217 currency code for the Romanian Leu.

ROL

See: [Risk on, risk off.](#)

ROU

The three-character [ISO](#) 3166 country code for ROMANIA.

RPPP

See: [Relative strength index](#)

RS

The two-character [ISO](#) 3166 country code for SERBIA.

RSA

An electronic encryption system used in banking operations. Proposed by Ron Rivest, Adi Shamir, and Leonard Adleman in 1977.

RSI

See: [Relative purchasing power parity](#)

RU

The two-character [ISO](#) 3166 country code for RUSSIAN FEDERATION.

RUB

The [ISO](#) 4217 currency code for the Russian Rouble.

RUS

The three-character [ISO](#) 3166 country code for RUSSIAN FEDERATION.

RW

The two-character [ISO](#) 3166 country code for RWANDA.

RWA

The three-character [ISO](#) 3166 country code for RWANDA.

RWF

The [ISO](#) 4217 currency code for the Rwanda Franc.

Radar alert

Close monitoring of [trading](#) patterns in a company's [stock](#) by senior managers to uncover unusual [buying](#) activity that might signal a [takeover](#) attempt. See: [Shark watcher](#).

Raider

Individual or corporate [investor](#) who intends to take [control](#) of a company (often ostensibly for [greenmail](#)) by [buying](#) a [controlling](#) interest in its [stock](#) and installing new [management](#). Raiders who accumulate 5% or more of the [outstanding shares](#) in the [target company](#) must [report](#) their purchases to the [SEC](#), the exchange of [listing](#), and the target itself. See: [takeover](#).

Rainmaker

A valuable employee, manager or subcontracted person who brings new business to a [company](#).

Rally (recovery)

An upward movement of [prices](#). Opposite of [reaction](#).

Reverse-annuity mortgages (RAM)

Bank [loan](#) for an amount equal to a percentage of the appraisal value of the home. The loan is then paid to the homeowner in the form of an [annuity](#).

Random variable

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

Random walk

Theory that stock price changes from day to day are accidental or haphazard; changes are independent of each other and have the same [probability distribution](#). For a simple random walk, the best forecast of tomorrow's price is today's price. Related: [Mean reversion](#).

Random walk with drift

For a random walk with drift, the best forecast of tomorrow's price is today's price plus a drift term. One could think of the drift as measuring a trend in the price (perhaps reflecting long-term inflation). Given the drift is usually assumed to be constant. Related: [Mean reversion](#).

Randomized strategy

A [strategy](#) of introducing into the decision-making process a chance element that is designed to confound the information content of the decision-maker's observed choices.

Range

The high and low prices, or high and low [bids](#) and [offers](#), recorded during a specified time.

Range forward

A [forward exchange rate contract](#) that places upper and lower bounds on the future [cost](#) of [foreign exchange](#).

Rate anticipation swaps

An exchange of [bonds](#) in a [portfolio](#) for new bonds that will achieve the target [portfolio duration](#), given the [investor's](#) assumptions about future changes in [interest rates](#).

Rate base

The value of a [regulated public utility](#) and its operations as defined by its regulators and on which the company is allowed to earn a particular [rate of return](#).

Rate covenant

A provision governing a municipal revenue project [financed](#) by a [revenue bond issue](#), which establishes the rates to be charged users of the new facility.

Rate of exchange

See: [Exchange Rate](#)

Rate lock

An agreement between the [mortgage banker](#) and the [loan](#) applicant [guaranteeing](#) a specified [interest rate](#) for a designated period, usually 60 days.

Rate-lock selling

Underwriters of corporate bonds sell Treasuries to hedge what they will take in a planned underwriting.

Rate of interest

The rate, as a proportion of the [principal](#), at which [interest](#) is computed.

Rate of return

Calculated as the (value now minus value at time of [purchase](#)) divided by value at time of purchase. For [equities](#), we often include [dividends](#) with the value now. See also: [Return](#), [annual rate of return](#).

Rate of return ratios

Ratios that measure the [profitability](#) of a [firm](#) in relation to various measures of [investment](#) in the firm.

Rate risk

In banking, the [risk](#) that [profits](#) may [drop](#) or [losses](#) occur because a rise in [interest rates](#) forces up the [cost of funding fixed-rate loans](#) or other fixed-rate [assets](#).

Ratings

An evaluation of [credit](#) quality of a [company's debt issue](#) by Thomson Financial BankWatch, Moody's, [S&P](#), and Fitch Investors Service. [Investors](#) and analysts use ratings to assess the [riskiness](#) of an [investment](#). Ratings can also be an evaluation a country's [creditworthiness](#) or ability to repay, taking into consideration its estimated percentage [default](#) rate and [political risk](#).

Ratio analysis

A way of expressing relationships between a [firm's](#) accounting numbers and their [trends](#) over time that analysts use to establish values and evaluate [risks](#).

Ratio Calendar Combination

A [strategy](#) consisting of a simultaneous position of a ratio calendar spread using "[calls](#)" and a similar position using puts, where the striking price of the "calls" is greater than the striking price of the "puts".

Ratio Calendar Spread

Selling more near-[term](#) options than longer-term ones [purchased](#), all with the same strike; either puts or [calls](#).

Ratio Spread

Constructed with either puts or [calls](#), the [strategy](#) consists of [buying](#) a certain amount of options and then selling a larger quantity of more [out-of-the-money](#) options.

Ratio Strategy

A [strategy](#) in which one has an unequal number of long securities and short securities. Normally, it implies a preponderance of short options over either long options or long stock.

Ratio writer

An [option writer](#) who does not own the number of [shares](#) required to cover the [call options](#) he or she writes.

Rational expectations

The idea that people rationally anticipate the future and respond today to what they see ahead. This concept was pioneered by Nobel Laureate, Robert E. Lucas, Jr.

Rational pricing

Prices that reflect the fundamental value of the [security](#) and the absence of [arbitrage](#) opportunities.

Raw material

Materials a manufacturer converts into a finished product.

Raw material supply agreement

As used in connection with [project financing](#), an agreement to furnish a specified amount per period of a specified [raw material](#).

Reachback

The ability of a [tax shelter](#) or [limited partnership](#) to [deduct](#) certain [costs](#) and [expenses](#) at the end of the year that were incurred throughout the entire year.

Reaction

A decline in [prices](#) following an advance. Opposite of [rally](#).

Reading the tape

Judging the performance of [stocks](#) by monitoring changes in price as they are displayed on the [ticker tape](#).

Real

Used in the context of general equities. (1) [natural](#), (2) not [dividend roll](#)-or [program trading](#)-related; (3) not tax-related. "Real" [indications](#) have three major repercussions: a) pricing will be more favorable to the other side of the [trade](#) since an [investment bank](#) is not committing any [capital](#); b) price pressure will be stronger if real since a [natural buyer](#)/seller may have information leading to his decision or more behind it, and c) an [uptick](#) may be required for the [trader](#) to transact if the [indication](#) is not real and the trader has no [long position](#).

Real assets

Identifiable [assets](#), such as land and buildings, equipment, patents, and trademarks, as distinguished from a [financial investment](#).

Real appreciation/depreciation

A change in the purchasing power of a [currency](#).

Real body

On a candlestick line, it is the broad part consisting of the difference between [opening](#) and [closing](#) prices.

Real capital

Wealth that can be represented in [financial](#) terms, such as savings account balances, financial securities, and [real estate](#).

Real cash flow

Income expressed in current purchasing power terms.

Real Currency

The purchasing power in today's [currency](#) of future nominal currency to be disbursed or received.

Real estate

A piece of land and whatever physical property is on it.

Real estate appraisal

An estimate of the value of property using various methods.

Real estate broker

An [intermediary](#) who receives a [commission](#) for arranging and facilitating the [sale](#) of a property for a [buyer](#) or a seller.

Real Estate Investment Trust (REIT)

REITs [invest](#) in [real estate](#) or [loans](#) secured by real estate and [issue shares](#) in such [investments](#). A REIT is similar to a [closed-end mutual fund](#).

Real Estate Mortgage Investment Conduit (REMIC)

A pass-through tax entity that can [hold mortgages](#) secured by any type of real property and can [issue](#) multiple [classes](#) of ownership interests to [investors](#) in the form of pass-through [certificates](#), [bonds](#), or other legal forms. A financing vehicle created under the [Tax Reform Act of 1986](#).

Real Estate Owned (REO)

Property that has been foreclosed and usual failed to sell at a real estate auction. As a result, the bank (or government agency), own the property.

Real exchange rates

[Exchange rates](#) that have been adjusted for the [inflation](#) differential between two countries.

Real gain or loss

A [gain](#) or [loss](#) adjusted for increasing prices by an [inflation index](#) such as the [CPI](#).

Real GDP

[Inflation](#)-adjusted measure of [Gross Domestic Product](#).

Real income

The income of an individual, group, or country adjusted for [inflation](#).

Real interest rate

The rate of [interest](#) excluding the effect of expected [inflation](#); that is, the rate that is earned in terms of constant-[purchasing-power](#) dollars. Interest rate expressed in terms of [real](#) goods, i.e. [nominal interest rate](#) adjusted for expected inflation.

Real market

The [bid](#) and [offer prices](#) at which a [dealer](#) could [execute](#) the desired quantity of [shares](#). [Quotes](#) in the [brokers market](#).

Real option

An [option](#) or option-like feature embedded in a [real investment](#) opportunity.

Real property

Land plus all other property that is in some way attached to the land.

Real rate of return

The percentage [return](#) on some [investments](#) that has been adjusted for [inflation](#).

Real return

The actual [payback](#) on an [investment](#) after removing the effect of [inflation](#).

Real time

A [real-time stock](#) or [bond quote](#) is one that states a [security's](#) most recent [offer](#) to sell or [bid](#) ([buy](#)). Different from a delayed quote, which shows the same bid and [ask prices](#) 15 minutes and sometimes 20 minutes after a [trade](#) takes place.

Realistic on price

In [trading](#), an indication that the [size](#) under consideration requires [price give](#), especially with [illiquid stocks](#). See: [Takes price](#).

Realized compound yield

[Yield](#) assuming that [coupon payments](#) are [invested](#) at the going [market interest rate](#) at the time of their receipt and held thus until the [bond matures](#).

Realized profit (or loss)

A [capital gain](#) or [loss](#) on [securities](#) held in a [portfolio](#) that has become actual by the [sale](#) or other type of surrender of one or many [securities](#).

Realized return

The [return](#) that is actually earned over a given time period.

Realized volatility

Sometimes referred to as the historical volatility, this term usually used in the context of derivatives. While the implied volatility refers to the market's assessment of future volatility, the realized volatility measures what actually happened in the past. The measurement of the volatility depends on the particular situation. For example, one could calculate the realized volatility for the equity market in March of 2003 by taking the standard deviation of the daily returns within that month. One could look at the realized volatility between 10:00AM and 11:00AM on June 23, 2003 by calculating the standard deviation of one minute returns.

Realized yield

The [holding-period return](#) actually generated from an [investment](#) in a [bond](#).

Realtor

A specific designation given to members of [real estate firms](#) affiliated with the National Association of Realtors (NAR) who are trained and licensed to assist clients in [buying](#) and selling real estate.

Rebalancing

Realigning the proportions of [assets](#) in a [portfolio](#) as needed.

Rebate

Negotiated [return](#) of a portion of the interest earned by the [lender](#) of [stock](#) to a [short](#) seller. When a stock is sold [short](#), the seller [borrows](#) stock from an owner or [custodian](#) and delivers it to the [buyer](#). The [proceeds](#) are [delivered](#) to the lender. The borrower, who is short, often wants a rebate of the interest earned on the proceeds under the lender's [control](#), especially when the stock can be borrowed from many sources. Note: The seller must pay the lender any [dividends](#) paid out or, in the case of [bonds](#), interest that [accrues](#) daily during the [term](#) of the loan.

Rebate rate

Interest rate earned by borrowers on collateral for equity loans.

Recalculation method

A method of calculating required minimum [distributions](#) from a [retirement plan](#) using life expectancy tables. Unisex data tables allow a plan [holder](#) to determine the applicable life expectancy each year a [distribution](#) is required.

Recapitalization

In context of [private equity](#), recapitalization is the reorganization of a company's capital structure.

Recapitalization proposal

Often used in [risk arbitrage](#). Plan by a [target company](#) to restructure its [capitalization](#) ([debt](#) and [equity](#)) in a way to ward off a [hostile](#) or potential suitor.

Recapture

A provision in a [contract](#) that allows one party to recover (recapture) some degree of possession of an [asset](#), such as a share of the [profits](#) derived from some property.

Receipts

Funds [collected](#) from selling land, [capital](#), or services, as well as collections from the [public](#) (budget receipts), such as taxes, fines, duties, and fees.

Receive fixed counterparty

The transactor in an [interest rate swap](#) who receives payments based on the fixed rate and makes payments based on the [floating rate](#).

Receive floating counterparty

The transactor in an [interest rate swap](#) who receives payments based on the [floating rate](#) and makes payments based on the fixed rate.

Receive versus payment

An instruction that only [cash](#) will be accepted in exchange for [delivery](#) of [securities](#).

Receivables balance fractions

The percentage of a month's [sales](#) that remains uncollected (and part of [accounts receivable](#)) at the end of succeeding months.

Receivables turnover ratio

Total operating revenues divided by [average](#) receivables. Used to measure how effectively a [firm](#) is managing its [accounts receivable](#).

Received for Shipment Bill of Lading

A document issued by a carrier that looks like a [bill of lading](#) as evidence of receipt of goods for shipment. This type of document is issued prior to the vessel loading and is therefore not an on board bill of lading.

Receiver

A [bankruptcy](#) practitioner appointed by [secured creditors](#) to oversee the repayment of [debts](#).

Receiver's certificate

A [debt instrument](#) issued by a [receiver](#) and serving as a [lien](#) on the property, which provides funding to continue operations or to protect [assets](#) in receivership.

Recession

An extended period, typically of at least six months and measured in months, during which economic activity is declining significantly and broadly in terms of GDP, income, production, and employment, measured from the peak of activity until the trough of activity when recovery begins, although employment tends to lag somewhat in the recovery and unemployment may remain elevated well into the recovery. The National Bureau of Economic Research's Business Cycle Dating Committee is in charge of dating U.S. recessions. The official NBER definition of recession is: "A recession is a significant decline in economic activity spread across the economy, lasting more than a few months,

normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. A recession begins just after the economy reaches a peak of activity and ends as the economy reaches its trough. Between trough and peak, the economy is in an expansion. Expansion is the normal state of the economy; most recessions are brief and they have been rare in recent decades. The start and end dates are determined by the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER). It is a popular misconception that a recession is indicated simply by two consecutive quarters of declining GDP, which is true for most, but not all recession. NBER uses monthly data to date the start and ending months of recessions."

Recharacterization

The reversal of a traditional [IRA contribution](#) or conversion into a [Roth IRA](#), or vice versa.

Reciprocal marketing agreement

A [strategic alliance](#) in which two [companies](#) agree to comarket each other's products. Production rights may or may not be [transferred](#).

Reclamation

A claim for the right to return or the right to demand the return of a [security](#) that has been previously accepted as a result of bad [delivery](#) or other irregularities in the delivery and [settlement](#) process.

Record date

(1) Date by which a [shareholder](#) must officially own [shares](#) in order to be entitled to a [dividend](#). For example, a [firm](#) might declare a dividend on Nov. 1, payable Dec. 1 to holders of record Nov. 15. Once a [trade](#) is [executed](#), an [investor](#) becomes the "owner of record" on [settlement](#), which currently takes five business days for [securities](#) and one business day for [mutual funds](#). [Stocks](#) trade [ex-dividend](#) the fourth day before the record date, since the seller will still be the owner of record and is thus entitled to the dividend. (2) The date that determines who is entitled to payment of [principal](#) and [interest](#) due to be paid on a [security](#). The record date for most MBS is the last day of the month, although the last day on which an MBS may be presented for the [transfer](#) is the last business day of the month. The record dates for [CMOs](#) and [asset-backed securities](#) vary with each [issue](#).

Recordholder

The individual or institution listed on the [corporation's books](#) as a securityholder as of a specified [record date](#).

Record Owner

The stockholder of record as distinguished from the beneficial owner.

Recourse

Term describing a type of [loan](#). If a loan is with recourse, the [lender](#) has the ability to fall back to the guarantor of the loan if the [borrower](#) fails to pay. For example, Bank A has a loan with Company X. Bank A sells the loan to Bank B with recourse. If Company X defaults, Bank B can demand Bank A fulfill the loan obligation.

Recovery

The use of [depreciation](#) of [assets](#) to offset [costs](#); or a new period of rising [securities](#) prices after a period of declining [security](#) values.

Recovery rate

Amount recovered through [foreclosure](#) or [bankruptcy](#) procedures in event of a [default](#), expressed as a percentage of [face value](#).

Redemption date

The date on which a [bond matures](#) or is [redeemed](#).

Redemption fee

A fee some [mutual funds](#) charge when an [investor](#) sells [shares](#) within a specified short period of time.

Redemption price

See: [Call price](#)

Red herring

A preliminary [prospectus](#) providing information required by the [SEC](#). It excludes the [offering price](#) and the [coupon](#) of the new [issue](#).

Redeemable

Eligible for redemption under the [terms](#) of an [indenture](#).

Redemption

Repayment of a [debt security](#) or [preferred stock issue](#), at or before [maturity](#), at [par](#) or at a [premium](#) price.

Redemption charge

The [commission](#) a [mutual fund](#) charges an [investor](#) who is [redeeming shares](#). For example, a 2% redemption charge (also called a [back end load](#)) on the [sale](#) of shares valued at \$1000 will result in payment of \$980 (or 98% of the value) to the [investor](#). This charge may decline or be eliminated as shares are held for longer time periods.

Redemption cushion

The percentage by which the [conversion value](#) of a [convertible security](#) exceeds the [redemption](#) price ([strike price](#)).

Redemption or call

Right of the [issuer](#) to force [holders](#) on a certain date to [redeem](#) their [convertibles](#) for [cash](#). The objective usually is to force [holders](#) to convert into [common](#) prior to the redemption deadline. Typically, an [issue](#) is not [called away](#) unless the [conversion price](#) is 15%-25% below the current level of the common. An exception might occur when an [issuer's](#) tax rate is high, and the issuer could replace it with [debt securities](#) at a lower after-tax [cost](#).

Rediscount

To [discount short-term](#) negotiable [debt instruments](#) for a second time, after they have been discounted with a bank.

Red-lining

Illegal discrimination in making [loans](#), insurance coverage, or other [financial](#) services available to people or property in certain areas because of poor economic conditions, high levels of fraudulent transaction, or frequent [defaults](#).

Reduction-Option Loan (ROL)

A [hybrid](#) of a fixed-rate and [adjustable-rate mortgage](#). An ROL matches the [borrower](#) to the current [mortgage rate](#), which then becomes fixed for the rest of the [term](#). This reduction is usually allowed if rates [drop](#) more than 2% in a year.

Reference rate

A [benchmark](#) interest rate (such as [LIBOR](#)) used to specify conditions of an [interest rate swap](#) or an [interest rate agreement](#).

Refinancing

An extension and/or increase in amount of existing [debt](#).

Reflation

Government monetary action that causes a reversal of [deflation](#).

Refund

To retire existing [bond issues](#) through the [sale](#) of a new [bond issue](#), usually to reduce the [interest rate](#) being paid.

Refundable

Eligible for [refunding](#) under the [terms](#) of a [bond indenture](#).

Refunded bond

Also called a [prerefunded bond](#), a bond that originally may have been [issued](#) as a [general obligation](#) or [revenue bond](#) but that is now secured by an [escrow](#) fund consisting entirely of direct U.S. government [obligations](#) that are sufficient for paying the [bondholders](#).

Refunding

[Redeeming](#) a [bond](#) with [proceeds](#) received from [issuing](#) lower-cost debt obligations with ranking equal to or superior to the debt to be redeemed.

Refunding Escrow Deposits (REDs)

A [financial instrument](#) involving a [forward purchase contract](#) that obligates [investors](#) to [buy bonds](#) at a certain rate when [issued](#). The future date coincides with the first optional [call date](#) on an existing high-rate [bond](#). In the interim, [investors' money](#) is invested in [secondary market Treasury](#) bonds. The Treasuries [mature](#) around the [call date](#) on the existing [bonds](#), providing the money to buy the new [issue](#) and [redeem](#) the old one.

Regional bank

A bank operating in a specific region of the country, taking deposits and [offering loans](#).

Regional Check Processing Center (RCPC)

A Federal Reserve [check](#) processing operation that clears checks drawn on depository institutions located within a specified area. RCPCs expedite [collection](#) and [settlement](#) of checks within the area on an overnight basis.

Regional fund

A [mutual fund](#) that [invests](#) in a specific geographic area overseas, such as Asia or Europe.

Regional stock exchanges

Organized national securities exchanges located outside of New York City and registered with the [SEC](#). They include: the Boston, Cincinnati, Intermountain (Salt Lake City-dormant, owned by COMEX), Midwest (Chicago), Pacific (Los Angeles and San Francisco), Philadelphia (Philadelphia and Miami), and Spokane (local mining and Canadian [issues](#), non-reporting trades) [Stock Exchanges](#).

Registered bond

A [bond](#) whose [issuer](#) records ownership and [interest payments](#). Differs from a [bearer bond](#), which is traded without record of ownership and whose possession is the only evidence of ownership.

Registered check

A [check](#) issued and [guaranteed](#) by a bank for a customer who provides funds for payment of the check.

Registered company

A [company](#) that is [listed](#) with the [SEC](#) after submission of a required statement and compliance with [disclosure requirements](#).

Registered competitive market maker

An [NASD-registered dealer](#) who acts as a [market maker](#) for a designated [over-the-counter](#) stock by [buying](#) and selling that [stock](#) to maintain stability.

Registered equity market maker

[Member firm](#) of the [American Stock Exchange](#) registered as a [trader](#) to make stabilizing [trades](#) for its own account in particular [securities](#).

Registered investment adviser

[SEC-registered](#) individual or [firm](#) that substantiates completion of education and work experience in the field, and pays an [annual](#) membership fee.

Registered investment company

An [investment firm](#) which is [registered](#) with the [SEC](#) and complies with certain stated legal requirements.

Registered options trader

An [American Stock Exchange specialist](#) who monitors a certain group of [options](#) to help maintain a fair and orderly [market](#).

Registered Owner

An individual or organization to whom [certificates](#) are directly [issued](#) and who, as a result, is recorded on the [corporation's](#) securityholder records (as maintained by the [transfer agent](#)).

Registered Retirement Savings Plan (RRSP)

[Tax-sheltered retirement plan](#) for Canadian citizens, much like an American [IRA](#).

Registered representative

A person registered with the [CFTC](#) who is employed by and solicits business for a [commission house](#) or [futures commission merchant](#).

Registered secondary offering

A [reoffering](#) of a large [block](#) of [securities](#), previously publicly [issued](#), by the [holder](#) of a large portion of some [corporation](#) through an [investment](#) firm.

Registered security

Used in the context of general equities. [Securities](#) whose owner's name is recorded on the [books](#) of the [issuer](#) or the issuer's [agent](#), called a [registrar](#).

Registered Shares

[Shares](#) that are [issued](#) in a [shareholder's](#) name as the [holder](#) of record.

Registered trader

A member of the [exchange](#) who [executes](#) frequent [trades](#) for his or her own account.

Registrar

[Financial institution](#) appointed to record [issue](#) and ownership of company [securities](#).

Registration

In the [securities market](#) describes process set up pursuant to the [Securities Exchange Acts of 1933 and 1934](#) whereby [securities](#) that are to be sold to the [public](#) are reviewed by the [SEC](#).

Registration statement

A legal document filed with the [SEC](#) to [register securities](#) for [public offering](#) that details the purpose of the proposed public offering. The statement outlines [financial](#) details, a history of the company's operations and [management](#), and other facts of importance to potential [buyers](#). See: [Registration](#).

Regression

A mathematical technique used to explain and/or predict. The general form is $Y = a + bX + u$, where Y is the variable that we are trying to predict; X is the variable that we are using to predict Y , a is the intercept; b is the slope, and u is the regression [residual](#). The a and b are chosen in a way to minimize the squared sum of the residuals. The ability to fit or explain is measured by the [R-square](#).

Regression analysis

A statistical technique that can be used to estimate relationships between [variables](#).

Regression coefficient

Term yielded by [regression analysis](#) that indicates the sensitivity of the dependent variable to a particular [independent variable](#). See: [Parameter](#).

Regression equation

An equation that describes the average relationship between a [dependent](#) variable and a set of explanatory variables.

Regression toward the mean

The tendency that a [random variable](#) will ultimately have a value closer to its [mean](#) value.

Regressive tax

A tax system that provides that average [tax rates](#) decrease with increases in individuals' income brackets.

Regular settlement

[Transaction](#) in which a [stock contract](#) is [settled](#) and [delivered](#) on the fifth full business day following the date of the transaction ([trade date](#)). In Japan, regular settlement occurs three business days following the trade date; in London, two weeks following the trade date (at times, three weeks); in France, once per month.

Regular way settlement

In the [money](#) and [bond markets](#), the standard basis on which some [security trades](#) are settled is that the [delivery](#) of the securities [purchased](#) is made against payment in [Fed funds](#) on the day following the [transaction](#).

Regulated commodities

The group of [registered commodity futures](#) and [options contracts traded](#) on organized U.S. [futures exchanges](#).

Regulated investment company

An [investment company](#) allowed to pass [capital gains](#), [dividends](#), and [interest](#) earned on fund [investments](#) directly to its [shareholders](#) so that it is taxed only at the personal level, and double taxation is avoided.

Regulation A

An exemption from the [Securities Act of 1933](#) that exempts small [public offerings](#), valued at less than \$1.5MM from most [registration](#) requirements with the [SEC](#).

Regulation D

There are two Regulation Ds. First, it refers to the exemption from the [Securities Act of 1933](#) for Private Placements. These placements are exempt from [registration](#) and [prospectus delivery](#) requirements. Second, it refers to a [Federal Reserve Board regulation](#) that currently requires [member banks](#) to [hold reserves](#) against their [net borrowings](#) from foreign offices of other banks over a 28-day averaging period. Regulation D has been merged with [Regulation M](#).

Regulation FD (fair disclosure)

U.S. [S.E.C. regulation](#) whose purpose is to ensure that select groups of [investors](#) are not privy to [firm-specific](#) information before other investors. Executives are not allowed to reveal nonpublic

information during their communications with [analysts](#) and select [shareholders](#). If information is inadvertently released, they must take steps to broaden the dissemination of the information within 24 hours of discovering the [disclosure](#).

Regulation G

[Federal Reserve Board regulation](#) of [lenders](#) other than commercial banks, [brokers](#), or [dealers](#) that provide [credit](#) for the [purchase](#) of or carrying of [securities](#). This regulation was discontinued by a 1998 amendment.

Regulation M

[Federal Reserve Board regulation](#) that currently requires [member banks](#) to [hold reserves](#) against their [net borrowings](#) from their foreign branches over a 28-day averaging period. Reg M has also required member banks to hold [reserves](#) against [Eurodollars](#) lent by their foreign branches to domestic [corporations](#) for domestic purposes.

Regulation Q

[Federal Reserve Board regulation](#) imposing [caps](#) on the rates that banks may pay on savings and [time deposits](#). Currently [time deposits](#) with a [denomination](#) of \$100,000 or more are exempt from Reg Q.

Regulation T

[Federal Reserve Board regulation](#) that deals with granting [credit](#) to customers by [securities brokers](#), [dealers](#), and [exchange member](#) as far as [initial margin requirements](#) and [securities](#) that are covered under the rules.

Regulation T Calls

[Federal Reserve Board](#) Regulation T [margin calls](#) are [issued](#) when a customer makes a [transaction](#) in a margin account and does not meet the minimum initial requirement of 50% [cash](#) or [loan](#) available. This margin call is referred to as a Fed Call. The customer must increase the [equity](#) in the account by depositing additional funds and/or marginable securities. If the necessary amount of cash or securities is not deposited into the account within the specified time period, securities may be sold to meet the [call](#), and the account may become [restricted](#).

Regulation U

[Federal Reserve Board](#) limit on how much [credit](#) a bank can allow a customer for the [purchase](#) and carrying of margin securities.

Regulations

Rules specifying the appropriate behavior of [agencies](#), organizations or individuals in the [securities industry](#).

Regulatory accounting procedures (RAP)

Accounting principles required by the [FHLB](#) that allow [S&Ls](#) to elect [annually](#) to defer [gains](#) and [losses](#) on the [sale of assets](#) and [amortize](#) these deferrals over the average life of the [asset](#) sold.

Regulatory pricing risk

[Risk](#) that arises when insurance companies are subject to [regulation](#) of the [premium](#) rates that can they charge.

Regulatory surplus

The surplus as measured using [regulatory accounting principles \(RAP\)](#), which may allow the nonmarket valuation of [assets](#) or [liabilities](#) and which may be materially different from [economic surplus](#).

Rehypothecation

[Pledging](#) to banks by [securities brokers](#) of the amount in customers' [margin account](#) as [collateral](#) for [broker loans](#), which are used to cover [margin](#) loans to customers for [margin purchases](#) and selling [short](#).

Reimbursement

Payment made to someone for out-of-pocket [expenses](#) has incurred.

Reinstatement

The restoration of an [insurance policy](#) after it has lapsed for nonpayment of [premiums](#).

Reinsurance

The spreading of [risk](#) and division of client [premiums](#) among insurance companies allowing the sharing of the burden of a large risk.

Reinvestment

Use of [investment income](#) to [buy](#) additional [securities](#). Many [mutual fund](#) companies and investment services offer the automatic reinvestment of [dividends](#) and [capital gains distributions](#) as an [option investors](#).

Reinvestment date

The date on which an [investment's dividend](#) or [capital gains](#) income is [reinvested](#), if requested by the [shareholder](#), to [purchase](#) additional [shares](#). Also known as the [ex-dividend date](#).

Reinvestment effect

The impact of a change in [interest rates](#) on the [reinvestment rate](#).

Reinvestment privilege

A [shareholder's](#) right to reinvest [dividends](#) and [buy](#) more [shares](#) in the [corporation](#) or [mutual fund](#).

Reinvestment rate

The rate at which an [investor](#) assumes [interest payments](#) made on a [debt security](#) can be [reinvested](#) over the life of that security.

Reinvestment risk

The [risk](#) that [proceeds](#) received in the future may have to be [reinvested](#) at a lower potential [interest rate](#).

Reinvoicing center

A central [financial subsidiary](#) an [MNC](#) uses to reduce [transaction](#) exposure by billing all home country exports in the home [currency](#) and reinvoicing to each operating affiliate in that affiliate's local[currency](#). It can also be used as a netting center.

Rejection

Refusal by a bank to grant [credit](#), usually because of the applicants [financial](#) history, or refusal to accept a [security](#) presented to complete a [trade](#), usually because of a lack of proper endorsements or violation of rules of a [firm](#).

Relative form of purchasing power parity

Theory that the rate of change in the prices of products should be somewhat similar, but not absolutely the same when measured in a common [currency](#), as long as transportation [costs](#) and trade barriers are unchanged.

Relative PE

A firm or industry's price to earnings ratio divided by the market price to earnings ratio.

Relative purchasing power parity (RPPP)

Idea that the rate of change in the price level of [commodities](#) in one country relative to the price level in another determines the rate of change of the [exchange rate](#) between the two countries' [currencies](#).

Relative strength

Movement of a [stock](#) price over the past year as compared to a [market index](#) (like the [S&P 500](#)). A value below 1.0 means the stock shows relative weakness in [price movement](#) (underperformed the market); a value above 1.0 means the stock shows [relative strength](#) over the one-year period. Equation for Relative Strength: [current stock price/year-ago stock price] divided by [current S&P 500/year-ago

S&P 500]. Note: this can be a misleading indicator of performance because it does not take [risk](#) into account.

Relative strength index

Used in technical analysis, it is a measure of the number of days a stock increases in value relative to the number of days it decreases in value. The rule of thumb is that values over 70 suggest overvaluation and hence selling where as values around 30 suggest undervaluation or buying. Of course, this indicator completely ignores all fundamental information about the firm's prospects and, hence, is problematic to use as a stand-alone indicator for an investment strategy.

Relative value

The attractiveness measured in terms of [risk](#), [liquidity](#), and [return](#) of one [instrument](#) relative to another, or, for a given instrument, of one [maturity](#) relative to another.

Relative yield

Often refers to a yield on a security relative to the yield on a benchmark security (i.e. a ratio). It is more common to consider a yield spread which is just the difference in two yields.

Relative yield spread

The ratio of the [yield spread](#) to the yield level. Used for [bonds](#).

Release

Relieve party to a [trade](#) of any previously made [obligation](#) concerning that trade, hence allowing the would-be transactor to show the [inquiry/order](#) to a new [broker](#).

Release clause

A [mortgage](#) provision that releases a pledged [asset](#) after a certain portion of the total payments has been made.

Reliquify

Restore [liquidity](#) in a company or financial system.

Reload Stock Option

A replacement [stock option](#) granted by some companies to optionees upon a stock swap. The number of reload shares granted is equal to the number of shares delivered to [exercise](#) the option plus, in some cases, any shares withheld for tax withholding obligations. The exercise price of the new option is the current [market price](#). The option generally expires on the same date that the original option would have.

Remainderman

One who receives the [principal](#) of a [trust](#) when it is dissolved.

Remaining maturity

The length of time remaining until a [bond](#) comes due

Remaining principal balance

The amount of [principal](#) dollars remaining to be paid under a [mortgage](#) as of a given time.

Remargining

Putting up additional [cash](#) or [securities](#) after a [margin call](#) on a brokerage customer's [margin account](#) so that it meets minimum [maintenance requirements](#).

Rembrandt market

The [foreign market](#) in the Netherlands.

Remit

To pay for [purchases](#) by [cash](#), [check](#), or electronic transfer.

Remote disbursement

Technique that involves writing [checks](#) drawn on banks in remote locations so as to maximize [disbursement float](#).

Renegotiable rate

A type of variable rate involving a renewable [short-term](#) "balloon" note. The interest rate on the loan is generally fixed during the [term](#) of the note, but when the balloon comes due, the [lender](#) may refinance it at a higher rate. In order for the loan to be fully amortized, periodic refinancing may be necessary.

Renewal

Placement of a [day order](#) identical to one not completed on the previous day.

Renewable term life insurance

A policy for a stated period that may be renewed if desired at the end of the [term](#).

Rent

Regular payments to an owner for the use of some [leased](#) property.

Rental lease

See: [Full-service lease](#)

Rent control

Municipal [regulation](#) restricting the amount of rent that a building owner can charge.

Reoffering yield

In a [purchase](#) and [sale](#), the [yield to maturity](#) at which an [underwriter offers](#) to sell [bonds](#) to [investors](#).

Reopen an issue

The [Treasury](#), when it wants to sell additional [securities](#), will occasionally sell more of an existing [issue](#) (reopen it) rather than [offer](#) a new [issue](#).

Reopening

[Treasury offerings](#) of additional amounts of [outstanding issues](#), rather than an entirely new issue. A reopened issue will always have the same [maturity](#) date, [CUSIP](#) number, and [interest rate](#) as the original issue.

Reorg (or Corporate Action or Reorganization)

Any [transaction](#) involving the issuance of [stock](#) or [cash](#), or the [cancellation](#) of stock tendered by a [shareholder](#), such as in the case of a [merger](#), acquisition or [tender offer](#).

Reorganization

Creation of a plan to restructure a [debtor's](#) business and restore its [financial](#) health.

Reorganization bond

A [bond issued](#) by a [company](#) undergoing a [reorganization](#) process.

Repatriation

The [return](#) from abroad of the [financial assets](#) of an organization or individual.

Replacement Chain

A concept that views a [capital investment](#) as an indefinite commitment to a specific type of technology. The replacement chain concept can be used to allow the [comparison](#) of mutually exclusive [investments](#) with unequal lives.

Replacement cost

[Cost](#) to replace a [firm's assets](#).

Replacement cost accounting

An accounting method that includes as part of [depreciation](#) the difference between the original [purchase](#) price of an [asset](#) and the current [replacement cost](#).

Replacement cost insurance

[Insurance](#) that pays out the full amount required to replace damaged property with new property, without taking into account the [depreciated](#) value of the property.

Replacement cycle

The frequency with which an [asset](#) is replaced by an equivalent asset.

Replacement value

Current [cost](#) of replacing the [firm's assets](#).

Replacement-chain problem

Idea that future replacement decisions must be taken into account in selecting among projects.

Replicating portfolio

A [portfolio](#) constructed to match an [index](#) or [benchmark](#).

Repo

An agreement in which one party sells a [security](#) to another party and agrees to repurchase it on a specified date for a specified price. See: [Repurchase agreement](#).

Repo 105

Repo 105 is a [repurchase agreement](#) that results in the manipulation of financial statements. Under repo 105, short term loan is recorded as a sale and the cash obtained through this "sale" is used to pay down debt to bring lower leverage on the company's balance sheet. According to the bankruptcy court examiner, repo 105 was used three times by Lehman went bankrupt in 2008.

Report

Written or oral confirmation that all or part of one's [order](#) has been [executed](#), including the price and size parameters of the [trade](#) being reported; often followed by a [fresh picture](#).

Report of Condition and Income

[Financial](#) report that all banks, bank [holding](#) companies, savings, and loan associations, Edge Act and agreement [corporations](#), and certain other types of organizations must file with a federal regulatory [agency](#). Informally termed a [call report](#).

Reported factor

The [pool factor](#) as [reported](#) by the [bond buyer](#) for a given [amortization](#) period.

Reporting currency

The [currency](#) in which the [parent firm](#) prepares its own [financial statements](#); that is, US dollars for a [US company](#).

Representations

In the context of project financing, a [series](#) of statements about a project, a sponsor, or the [obligations](#) under the project [contracts](#) or the financing agreements.

Repricing

To change the price of an asset. In derivatives, it sometimes refers to the exchange of options with different [strike prices](#).

Reproducible assets

A [tangible asset](#) with physical properties that can be matched or duplicated, such as a building or machinery.

Repurchase agreement

An agreement with a [commitment](#) by the seller ([dealer](#)) to [buy](#) a [security](#) back from the [purchaser](#) (customer) at a specified price at a designated future date. Also called a [repo](#), it represents a collateralized [short-term loan](#) for which, where the [collateral](#) may be a [Treasury security](#), [money market instrument](#), [federal agency security](#), or mortgage-backed security. From the purchaser's (customer's) perspective, the deal is reported as a [reverse repo](#).

Repurchase of stock

Technique to pay [cash](#) to [firm's shareholders](#) that provides more preferential tax treatment for [shareholders](#) than [dividends](#). [Treasury stock](#) is the name given to previously [issued stock](#) that has been repurchased by the firm. A repurchase is achieved through either a [Dutch auction](#), open market, [purchase](#), or [tender offer](#).

Required minimum distribution (RMD)

The minimum amount that the [IRS](#) requires must be withdrawn each year from all tax-advantaged retirement plans starting in the calendar year following the year in which the plan [holder](#) reaches age 70-1/2. [Roth IRAs](#) are exempt from this rule.

Required Rate of Return (RRR)

The minimum expected yield by [investors](#) require in order to select a particular [investment](#).

Required reserves

The dollar amounts, based on [reserve ratios](#), that banks are required to keep on deposit at a [Federal Reserve Bank](#).

Required return

The minimum [expected return](#) you would need in order to [purchase](#) an [asset](#), that is, to make the [investment](#).

Required yield

Generally referring to [bonds](#); the [yield](#) required by the marketplace to match available [expected returns](#) for [financial instruments](#) with comparable [risk](#).

Rescaled Range (R/S) Analysis

The analysis developed by H.E. [Hurst](#) to determine long-memory effects and [fractional Brownian motion](#). [Rescaled range analysis](#) measures how the distance covered by a particle increases as we look at longer and longer time scales. For Brownian motion, the distance covered increases with the square root of time. A [series](#) which increases at a different rate is not random. See: [Anti-persistence](#), [Fractional Brownian Motion](#), [Hurst Exponent](#), Persistence, [Joseph Effect](#), [Noah Effect](#).

Rescheduled loans

Bank [loans](#) that are usually altered to have longer [maturities](#) in order to assist the [borrower](#) in making the necessary repayments.

Rescind

To [cancel](#) a [contract](#) because of misrepresentation, fraud, or illegal procedure.

Research and development (R&D)

Development of new products and services by a [company](#) in order to obtain a competitive advantage.

Research and development limited partnership

A [partnership](#) whose [investors](#) put up [money](#) to [finance](#) new product R&D in return for [profits](#) generated from the products.

Research department

The office in an [institutional investing organizations](#) that analyzes [markets](#) and [securities](#).

Research portable

Service offered to clients that transmits [investment bank](#) research electronically by computers.

Reserve

An accounting entry that properly reflects contingent [liabilities](#).

Reserve account

A separate amount of [cash](#) or [letter of credit](#) to service a payment requirement such as [debt](#) service or maintenance.

Reserve currency

A [foreign currency](#) held by a [central bank](#) or monetary authority for the purposes of exchange intervention and the [settlement](#) of intergovernmental claims.

Reserve ratios

Specified percentages of deposits, established by the [Federal Reserve Board](#), that banks must keep in a noninterest-bearing account at one of the twelve Federal Reserve Banks.

Reserve requirements

The percentage of different types of deposits that [member banks](#) are required to [hold](#) on deposit at the [Fed](#).

Reservation price

The price below or above which a seller or [purchaser](#) is unwilling to go.

Reset bonds

[Bonds](#) that allow the initial [interest rates](#) to be adjusted on specific dates in order that the [bonds trade](#) at the value they had when they were [issued](#).

Reset frequency

The frequency with which the [floating rate](#) changes.

Residential mortgage

[Mortgage](#) on a residential property, [tax-deductible](#) for individuals up to \$1 million.

Residential mortgage backed securities (RMBS)

[Mortgage Backed Securities](#) that are backed by [loans secured](#) with [residential](#) rather than [commercial](#) property.

Residential property

Property that consists of homes, apartments, townhouses, and condominiums.

Residual

See:[Residual value](#)

Residual assets

[Assets](#) that remain after sufficient assets are dedicated to meet all [senior debtholders'](#) claims in full.

Residual claim

Related: [Equity claim](#)

Residual cover

The [cash flow](#) remaining after a project financing has been repaid, expressed as a percentage of the original [loan](#). Residual cushion.

Residual dividend approach

An approach that suggests that a firm pay [dividends](#) if and only if acceptable investment opportunities for those funds are currently unavailable.

Residual method

A method of allocating the [purchase](#) price for the [acquisition](#) of another [firm](#) among the [acquired assets](#).

Residual Return

[Return](#) independent of the [benchmark](#). The [residual](#) return is the return relative to [beta](#) times the benchmark return. To be exact, an [asset's](#) residual return equals its [excess return minus beta](#) times the [benchmark excess return](#).

Residual risk

Related: [Unsystematic risk](#)

Residuals

(1) Part of [stock returns](#) not explained by the explanatory [variable](#) (the [market index](#) return).
Residuals measure the impact of [firm-specific](#) events during a particular period. (2) Remainder [cash flows](#) generated by [pool collateral](#) and those needed to fund [bonds](#) supported by the collateral.

Residual value

Usually refers to the value of a [lessor's](#) property at the time the [lease](#) expires.

Resiliency

Speed with which new orders respond to a change in prices.

Resistance

An effective upper bound on prices achieved because of many willing sellers at that price level.

Resistance level

A price level above which it is supposedly difficult for a [security](#) or [market](#) to rise. Price [ceiling](#) at which [technical analysts](#) note persistent selling of a [commodity](#) or [security](#). Antithesis of [support level](#).

Resolution

A document that records a decision or action by a [Board of Directors](#), or a [bond resolution](#) by a government entity authorizing a [bond issue](#).

Resolution Funding Corporation (RefCorp)

A government [agency](#) established by Congress in 1989 to issue [bailout bonds](#) and raise funds for the activities of the [Resolution Trust Corporation](#), as well as to administer struggling institutions inherited from the disbanded [Federal Savings and Loan Corporation](#).

Resolution Trust Corporation (RTC)

A government [agency](#) established in 1989 and disbanded in 1996 that administered [federal savings and loan institutions](#) that were [insolvent](#) between 1989 and August 1992 by either [bailing them out](#) or merging them.

Restricted

Placed on a list that dictates that the [trader](#) may not maintain [positions](#), solicit business, or provide [indications](#) in a [stock](#), but may serve as [broker](#) in [agency trades](#) after being properly cleared. Traders are so restricted due to [investment bank](#) involvement with the [company](#) on nonpublic activity (i.e., [mergers](#) and [acquisitions](#) defense), affiliate ownership, or [underwriting](#) activities; signified on the Quotron by a flashing "R." A restricted list and the stocks on it should never be conveyed to anyone outside of the trading areas, much less outside the firm. See: [Grey list](#).

Restricted account

A [margin account](#) without enough [equity](#) to meet the [initial margin requirement](#) that is restricted from any [purchases](#) until the requirement is fulfilled.

Restricted Securities

The term used under [Rule 144](#) for [securities issued](#) privately by the company, without the benefit of a registration statement. Restricted securities are subject to a [holding](#) period before they can be sold under Rule 144.

Restricted surplus

A portion of [retained earnings](#) not allowed by law to be used for the payment of [dividends](#).

Restricted stock

[Stock](#) that must be [traded](#) in compliance with special [SEC](#) regulations concerning its [purchase](#) and resale. These restrictions generally result from [affiliate](#) ownership, [M&A](#) activity,

and [underwriting](#) activity. Many firms are now using restricted stock as a reward for employees. The advantages to restricted stock are: employees get dividends, employees usually get voting rights, and employee gets something even if the stock price drops over the vesting period (whereas an option would be worthless).

Restricted Stock Award

Grants of [shares of stock](#) subject to restrictions on [sale](#) and [risk](#) of forfeiture until vested by continued employment. Restricted stock typically vests in increments over a period of several years. Dividends or dividend equivalent rights may be paid, and award [holders](#) may have voting rights, during the restricted period.

Restricted stock units

Similar to [restricted stock](#). However, the unit represents a promise that employees will receive stock in the future. The units do not pay dividends until the stock is vested.

Restrictive covenants

Provisions that place constraints on the operations of [borrowers](#), such as restrictions on [working capital](#), [fixed assets](#), future borrowing, and payment of [dividends](#).

Restrictive endorsement

An endorsement signature on the back of a [check](#) that specifies the conditions under which the check can be [transferred](#) or paid out.

Restructuring

The [reorganization](#) of a [company](#) in order to attain greater efficiency and to adapt to new [markets](#). Major corporate restructuring [transactions](#) include [mergers](#), [acquisitions](#), [tender offers](#), [leveraged buyouts](#), divestitures, spin-offs, [equity](#) carve-outs, [liquidations](#) and [reorganizations](#).

Resyndication limited partnership

The [sale](#) of existing properties to new [limited partners](#), so that they can receive the tax advantages that are no longer available to the old [partners](#).

Retail

Individual and institutional customers as opposed to [dealers](#) and [brokers](#).

Retail credit

[Credit](#) granted by a [firm](#) to consumers for the [purchase](#) of goods or services. See: [consumer credit](#).

Retail house

A brokerage firm that caters to individual customers rather than large institutions.

Retail investors

Small individual [investors](#) who commit [capital](#) for their personal account rather than on behalf of another [company](#).

Retail price

The total price charged for a product sold to a customer, which includes the manufacturer's [cost](#) plus a [retail](#) markup.

Retained earnings

Accounting [earnings](#) that are retained by the [firm](#) for [reinvestment](#) in its operations; [earnings](#) that are not paid out as [dividends](#).

Retained earnings statement

A statement of all [transactions](#) affecting the balance of a [company's](#) retained [earnings](#) account.

Retention

The number of [units](#) allocated to an [underwriting syndicate](#) member less the units held back by the syndicate manager for facilitating institutional [sales](#) and for allocation to [nonmember firms](#). In the context of construction [contracts](#), an amount retained from construction contract payments (5-15% of the contract price) to ensure the contractor completes the construction before the retention is returned.

Retention rate

The percentage of present [earnings](#) held back or retained by a [corporation](#), or one [minus](#) the [dividend payout rate](#). Also called the [retention ratio](#).

Retire

To extinguish a [security](#), as in paying off a [debt](#).

Retirement

Removal from circulation of [stock](#) or [bonds](#) that have been reacquired or [redeemed](#).

Retirement Protection Act of 1994

Legislation designed to protect the pension benefits of workers and [retirees](#) by increasing required support of [pension plans](#) by employers.

Retracement

A [price movement](#) in the opposite direction of the previous [trend](#).

Retransmittal notice

[NSCC](#)'s indication to the seller that the buyer plans to [buy-in](#) shares.

Return

The change in the value of a [portfolio](#) over an [evaluation period](#), including any [distributions](#) made from the [portfolio](#) during that period.

Return if Exercised

The return that a covered [call](#) writer would make if the [underlying stock](#) were called away.

Return of capital

A [cash distribution](#) resulting from the [sale](#) of a [capital](#) asset, or [securities](#), or tax breaks from [depreciation](#).

Return on assets (ROA)

Indicator of [profitability](#). Determined by dividing [net income](#) for the past 12 months by total [average assets](#). Result is shown as a percentage. ROA can be decomposed into [return on sales](#) ([net income/sales](#)) multiplied by asset utilization (sales/assets).

Return on capital employed (ROCE)

Indicator of [profitability](#) of the [firm's capital investments](#). Determined by dividing [Earnings Before Interest and Taxes](#) by (capital employed plus [short-term loans minus](#) intangible assets). The idea is that this ratio should at least be greater than the [cost of borrowing](#).

Return on equity (ROE)

Indicator of [profitability](#). Determined by dividing [net income](#) for the past 12 months by [common stockholder equity](#) (adjusted for [stock splits](#)). Result is shown as a percentage. [Investors](#) use ROE as a measure of how a company is using its [money](#). ROE may be decomposed into [return on assets \(ROA\)](#) multiplied by [financial leverage](#) (total [assets](#)/total [equity](#)).

Return on investment (ROI)

Generally, [book](#) income as a proportion of [net book value](#).

Return on sales

A measurement of operational efficiency equaling [net](#) pre-tax [profits](#) divided by [net sales](#) expressed as a percentage.

Return on total assets

The ratio of [earnings](#) available to [common stockholders](#) to total [assets](#).

Return-to-maturity expectations

A variant of [pure expectations theory](#) that suggests that the [return](#) an [investor](#) will realize by rolling over [short-term bonds](#) to some investment horizon will be the same as [holding](#) a [zero-coupon bond](#) with a [maturity](#) that is the same as that investment horizon.

Reuters

International news and [quotation](#) service based in London.

Revaluation

An increase in the [foreign exchange](#) value of a [currency](#) that is pegged to other currencies or gold.

Revenues

[Sales](#) or royalty [proceeds](#). Quantity times price sold.

Revenue Anticipation Note (RAN)

A [short-term](#) municipal [debt issue](#) that will be repaid with anticipated revenues, such as [sales](#) taxes, from the project.

Revenue bond

A [bond issued](#) by a municipality to [finance](#) either a project or an enterprise in which the [issuer](#) pledges to the [bondholders](#) the revenues generated by the operation of the projects financed. Examples are hospital revenue bonds and sewer revenue bonds.

Revenue fund

A fund accounting for all revenues from an enterprise [financed](#) by a [municipal revenue bond](#).

Revenue Reconciliation Act of 1993

Legislation created to reduce the federal [budget deficit](#) by cutting spending and increasing taxes.

Revenue sharing

The percentage split between the general [partner](#) and [limited partners](#) of [profits](#) and [losses](#) resulting from the operation of the involved business.

Reversal

[Turn, unwind](#). For convertible reversal, selling a convertible and [buying](#) the [underlying common](#), usually effected by an [arbitrageur](#). For market reversal, change in direction in the [stock](#) or [commodity](#) futures markets, as [charted](#) by [technical analysts](#) in [trading ranges](#). For options reversal, [closing the positions](#) of each aspect of an options [spread](#) or [combination strategy](#).

Reversal Arbitrage

A riskless arbitrage that involves selling the stock short, writing a put, and [buying a call](#). The options have the same [terms](#).

Reverse auction

An auction where the role of buyer and seller is reversed. The buyer advertises a need and sellers compete to provide the product or service. Generally the seller with the lowest bid wins the auction.

Reverse a swap

Reswap of [bonds](#) to gain the advantage of a [yield spread](#) or tax loss and restore a [bond portfolio](#) to its [position](#) before the original swap.

Reverse conversion

A technique in which brokerage firms earn [interest](#) on the [stocks](#) they [hold](#) for their customers by selling the [short](#) and [investing](#) the [proceeds](#) in [money market](#) accounts. The [short positions](#) are [hedged](#) to protect against adverse [market](#) conditions.

Reverse entries

In accounting, the entries created to reverse the effect of adjusting entries created at the end of previous reporting period. This simplifies recordkeeping.

Reverse leverage

Occurs when the [interest](#) on [borrowings](#) exceeds the [return](#) on [investment](#) of the funds that were [borrowed](#).

Reverse leveraged buyout

Bringing back into [publicly traded](#) status a [company](#) that had been privatized by way of a [leveraged buyout](#).

Reverse mortgage

A [mortgage](#) agreement allowing a homeowner to [borrow](#) against home [equity](#) and receive tax-free payments until the total [principal](#) and [interest](#) reach the [credit](#) limit of [equity](#), and the [lender](#) is either repaid in full or takes the house.

Reverse price risk

A type of [mortgage pipeline risk](#) that occurs when a [lender](#) commits to sell [loans](#) to an [investor](#) at rates prevailing at the time of mortgage application but sets the [note](#) rates when the [borrowers](#) closes. The lender is thus exposed to the risk of falling rates.

Reverse repo

In essence, refers to a [repurchase agreement](#). From the customer's perspective, the customer provides a [collateralized loan](#) to the seller.

Reverse shell merger

[Acquisition](#) of a publicly listed [shell company](#) by a privately held company effectively making itself publicly listed. Also see [Going public through the backdoor](#)..

Reverse stock split

A proportionate decrease in the number of [shares](#), but not the total value of [shares of stock](#) held by [shareholders](#). Shareholders maintain the same percentage of [equity](#) as before the [split](#). For example, a 1-for-3 split would result in [stockholders](#) owning one share for every three shares owned before the split. After the reverse split, the [firm's](#) stock price is, in this example, three times the pre-reverse split price. A firm generally institutes a reverse split to boost its stock's [market](#) price. Some think this supposedly attracts [investors](#).

Reverse subsidiary merger

The process by which the [acquirer merges](#) its [subsidiary](#) into the [target company](#). Thus both the [acquirer](#) and target companies remain in existence after the [merger](#). Also called [Reverse triangular merger](#).

Reverse takeover

- 1) A smaller company [taking over](#) a larger company.
- 2) [Merger](#) of the [acquiring](#) company into the [target company](#) (often to gain a public listing).

Also see [Acquisition](#), [Reverse shell merger](#).

Reverse triangular merger

See [Reverse subsidiary merger](#).

Reversion

See: [Mean reversion](#).

Reversing trade

Entering the opposite side of a currently held [futures position](#) to [close out the position](#).

Revised estimate

The third estimate of [GDP](#) released about three months after the measurement period.

Revisionary trust

An [irrevocable trust](#) that becomes a [revocable trust](#) after a certain amount of time.

Revocable letter of credit

Assurance of funds [issued](#) by a bank that can be canceled at any time without prior notification to the [beneficiary](#).

Revocable trust

A [trust](#) that may be altered as many times as desired in which income-producing property passes directly to the [beneficiaries](#) at the time of the [grantor's](#) death. Since the arrangement can be altered at any time, the [assets](#) are considered part of the grantor's estate and they are taxed as such.

Revolver

A senior secured loan where the funds are drawn and repaid as needed by the borrower. Revolvers are typically amortising and can usually be called by the borrower with the borrower incurring a fee. Also called [revolving credit facility](#).

Revolving credit

Revolving credit is a type of credit that does not have a fixed number of payments, in contrast to installment credit.

Revolving credit agreement

A legal commitment in which a bank promises to [lend](#) a customer up to a specified maximum amount during a specified period.

Revolving credit facility

See: [Revolver](#)

Revolving line of credit

A bank [line of credit](#) on which the customer pays a commitment fee and can take and repay funds at will. Normally a revolving LOC involves a firm commitment from the bank for a period of several years.

Reward-to-volatility ratio

Ratio of [excess return](#) to [portfolio standard deviation](#).

Rich

Term for a [security](#) whose price seems too high in light of its price history.

RICO

Stands for Racketeer Influenced and Corrupt Organization Act. Legislation under/which [inside traders](#) may be convicted.

Rider

A form accompanying an [insurance policy](#) that alters the policy's [terms](#) or coverage.

Riding the yield curve

Buying [long-term bonds](#) in anticipation of [capital gains](#) as [yields](#) fall with the declining [maturity](#) of the bonds.

Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994

Law permitting interstate banking in the U.S.

Rigged market

Manipulation of prices in a [market](#) to attract [buyers](#) and sellers.

Right

Privilege granted [shareholders](#) of a [corporation](#) to subscribe to [shares](#) of a new [issue](#) of [common stock](#) before it is [offered](#) to the [public](#). Such a right, which normally has a life of two to four weeks, is freely [transferable](#) and entitles the [holder](#) to [buy](#) the new common stock below the [public offering](#) price. See: [Warrant](#).

Right here

Used in the context of general equities. [In-line](#), emphasizing that this is a customer [inquiry](#) that is ready to be [executed](#) and not distant on price. See: [Tight](#).

Right of accumulation

Allow investors to combine prior mutual fund purchases with current purchases in the same mutual fund or related mutual fund family to qualify for a [breakpoint](#) and obtain a lower sales charge.

Rights offering

Issuance to [shareholders](#) that allows them to [purchase](#) additional [shares](#), usually at a [discount](#) to [market](#) price. [Holdings](#) of shareholders who do not [exercise](#) rights are usually diluted by the [offering](#). Rights are often [transferable](#), allowing the [holder](#) to sell them on the [open market](#) to others who may wish to exercise them. Rights offerings are particularly common to [closed-end funds](#), which cannot otherwise [issue](#) additional [common stock](#).

Right of first refusal

The right of a person or [company](#) to [purchase](#) some thing before the [offering](#) is made to others.

Right of redemption

The right to recover property that has been attached by paying off the [debt](#).

Right of rescission

The right to void a [contract](#) without any penalty within three days as provided in the [Consumer Credit Protection Act of 1968](#).

Rights Agreement (aka "Poison Pill")

An anti-[takeover](#) arrangement often established by a company in anticipation of a [hostile takeover](#) attempt. The company appoints a Rights Agent who will [issue](#) Rights [Certificates](#) to each [shareholder](#) at the time of the takeover attempt. The shareholder may then [exercise](#) these rights to receive additional shares of stock and/or [debentures](#), making the [target company](#) more expensive to [acquire](#) as a result of the additional shares [outstanding](#), or the additional [debt](#).

Rights Offering

A popular means of raising [capital](#) by offering [shareholders](#) the opportunity to [buy](#) additional [shares](#) of the same [stock](#) at a price below the current market value.

Rights-on

[Shares trading](#) with [rights](#) attached to them.

Rights of set-off

An agreement defining each party's rights should one party [default](#) on its [obligation](#). A setoff is common in [parallel loan](#) arrangements.

Rings

[Trading](#) arenas located on the [floor](#) of an [exchange](#) in which [traders execute orders](#). Sometimes called a [pit](#).

"Ring the cash register"

Used in the context of general equities. "Take a profit." See: [Profit taking](#).

Rio de Janeiro Stock Exchange (Bolsa do Rio)

Brazil's major securities market.

Rising bottoms

Chart [pattern](#) showing an increasing [trend](#) in the daily low prices of a [security](#) or [commodity](#).

Risk

Often defined as the [standard deviation](#) of the [return](#) on total [investment](#). Degree of uncertainty of return on an [asset](#). In context of [asset pricing theory](#). See: [Systematic risk](#).

Risk-adjusted discount rate

The rate established by adding a expected [risk premium](#) to the risk-free rate in order to determine the [present value](#) of a [risky investment](#).

Risk-adjusted profitability

A [probability](#) used to determine a "sure" [expected value](#) (sometimes called a [certainty equivalent](#)) that would be equivalent to the actual [risky expected value](#).

Risk-adjusted return

Often we subtract from the [rate of return](#) on an [asset](#) a rate of return from another asset that has similar [risk](#). This gives an abnormal rate of return that shows how the asset performed over and above a [benchmark](#) asset with the same risk. We can also use the [beta](#) of the asset multiplied by the [benchmark](#) return to create a hypothetical asset that has the same risk characteristics. The difference between the asset return and the beta times the benchmark is the risk adjusted return and is also known as the [alpha](#).

Risk arbitrage

Traditionally, the simultaneous [purchase](#) of [stock](#) in a [company](#) being [acquired](#) and the [sale](#) of stock of the acquirer. Modern risk arbitrage focuses on capturing the [spreads](#) between the [market value](#) of an announced [takeover target](#) and the eventual price at which the acquirer will [buy](#) the target's [shares](#).

Risk-averse

Describes an [investor](#) who, when faced with two [investments](#) with the same [expected return](#) but different [risks](#), prefers the one with the lower risk.

Risk-based capital ratio

Bank requirement that there be a minimum ratio of estimated total [capital](#) to estimated [risk-weighted asset](#).

Risk classes

Groups of projects that have approximately the same amount of [risk](#).

Risk controlled arbitrage

A self-[funding](#), self-[hedged](#) series of [transactions](#) that generally use mortgage securities (MBS) as the primary [assets](#).

Risk factor

In [arbitrage pricing theory](#) or the multibeta capital [asset pricing model](#), the set of common [factors](#) that impact [returns](#), e.g., [market return](#), [interest rates](#), [inflation](#), or industrial production.

Risk-Free Interest Rate

Describes [return](#) available to an [investor](#) in a [security](#) somehow [guaranteed](#) to produce that return. The [risk-free](#) [interest rate](#) [compensates](#) the [investor](#) for the temporary sacrifice of consumption.

Risk indexes

Categories of [risk](#) used to calculate [fundamental beta](#), including (1) [market](#) variability, (2) [earnings](#) variability, (3) low valuation, (4) immaturity and smallness, (5) growth orientation, and (6) [financial risk](#).

Risk profile

The slope of a line graphed according to the value of an [underlying asset](#) on the x-axis and the value of a [position](#) exposed to [risk](#) in the [underlying asset](#) on the y-axis. Also used with changes in value.

See: [Payoff profile](#).

Risk-return trade-off

The tendency for potential [risk](#) to vary directly with potential [return](#), so that the more risk involved, the greater the potential return, and vice versa.

Risk tolerance

An [investor's](#) ability or willingness to accept declines in the prices of [investments](#) while waiting for them to increase in value.

Riskless arbitrage

The simultaneous [purchase](#) and [sale](#) of the same [asset](#) to [yield](#) a [profit](#).

Riskless or risk-free asset

An [asset](#) whose future [return](#) is known today with certainty. The [risk-free asset](#) is commonly defined as [short-term obligations](#) of the US government.

Riskless rate

The rate earned on a [riskless investment](#), typically the rate earned on the 90-day [US Treasury Bill](#).

Riskless rate of return

The rate earned on a [riskless asset](#).

Riskless transaction

A [transaction](#) that is [guaranteed](#) a [profit](#), such as the [arbitrage](#) of a temporary differential between [commodity](#) prices in two different [markets](#). The evaluation of whether [dealer](#) markups and markdowns in [OTC transactions](#) are reasonable. According to [NASD](#), markups or markdowns should not exceed 5%.

Risk lover

A person willing to accept lower [expected returns](#) on prospects with higher amounts of [risk](#).

Risk management

The process of identifying and evaluating [risks](#) and selecting and managing techniques to adapt to risk exposures.

Risk-neutral

Inensitive to [risk](#).

Risk on, risk off or RORO

Refers to a particular type of market environment that is characterized by sharp upward movements in equity (risk off) and sharp downward movements in equity (risk on). Fixed income is affected in the opposite direction. There is no particular trend and overall market returns are often flat when measured over longer horizons.

Risk-prone

Willing to pay [money](#) to assume [risk](#) from others.

Risk premium

The reward for [holding](#) the [risky market portfolio](#) rather than the [risk-free asset](#).

The [spread](#) between [Treasury](#) and non-Treasury bonds of comparable [maturity](#).

Risk premium approach

A common approach for tactical [asset](#) allocation to determine the relative valuation of [asset classes](#) based on [expected returns](#).

Risk-return tradeoff

The basic concept that higher expected [returns](#) accompany greater [risk](#), and vice versa.

Risk-reward ratio

Relationship of substantial reward [corresponding](#) to the amount of [risk](#) taken; mathematically represented by dividing the [expected return](#) by the [standard deviation](#).

Risk seeker

[Investor](#) who likes to take [risk](#) and is even willing to pay for it. Also called [risk lover](#).

Risk transfer

The shifting of [risk](#) through insurance or securitization of [debt](#) because of [risk aversion](#).

Risky asset

An [asset](#) whose future [return](#) is uncertain.

Risk-free asset

An [asset](#) whose future normal return is known today with certainty.

Risk-free rate

The rate earned on a [riskless asset](#).

Road show

A promotional presentation by an [issuer](#) of [securities](#) to potential [buyers](#) about the desirable qualities of the [investments](#).

Robo-signers

Refer to bank officials robotically signing foreclosure documents. This nickname developed after 2007-2009 subprime mortgage crisis as bank officials had to process large numbers of foreclosure affidavits and signed them off without careful review.

Rotation

An [active](#) asset management [strategy](#) that tactically overweighted and underweighted certain [sectors](#), depending on expected performance. Sometimes called [sector rotation](#).

Rocket scientist

An employee of an [investment](#) firm (often having a Ph.D. in physics or mathematics) that works on highly mathematical models of [derivative](#) pricing.

Roll down

To move to an [option position](#) with a lower [exercise price](#).

Roll forward

To move to an [option position](#) with a later [expiration date](#).

Roll, Richard

Author of path-breaking work on [asset pricing](#) including the famous Roll critique. Finance professor at UCLA.

Roll order

- (1) [Dividend roll](#); (2) Replacement of a maturing [position](#) with an identical one in the new [maturity](#);
- (3) Recognition of [capital gain](#) or loss while reestablishing the position at the [risk](#) of the [market](#).

Roll over

To [reinvest](#) funds received from a [maturing security](#) in a new [issue](#) of the same or a similar security.

Roll up

To move to an [option position](#) with a higher [exercise price](#). In [venture capital](#), refers to the venture capitalist forcing small firms to merge operations in order to reduce [costs](#)

Rolling of Futures

As [financial futures](#) have [short-term maturities](#), often 3-9 months, before or at [maturity](#), the future must be sold and a new [future](#) (for the same [asset](#) but with a new [maturity](#)) must be repurchased.

Rollover

Means that a loan is periodically repriced at an agreed [spread](#) over the appropriate, currently prevailing rate. Most [term loans](#) in the Euromarket are made on a rollover basis as to current [LIBOR rate](#).

Rollover IRA

A traditional [individual retirement account holding money](#) from a [qualified plan](#) or 403(b) plan. These [assets](#), as long as they are not mixed with other [contributions](#), can later be rolled over to another qualified plan or 403(b) plan. Also known as a conduit IRA.

Roll's Critique

That the [CAPM holds](#) by construction when [performance is measured](#) against a [mean-variance efficient index](#); otherwise, it holds not at all. Attributable to [Richard Roll](#) in 1977.

Ross, Stephen

Developer of the [Arbitrage Pricing Theory](#). Finance professor at MIT.

Roth IRA

[Individual Retirement Account](#) that allows [contributors](#) to make [annual](#) contributions and to withdraw the [principal](#) and earnings tax-free under certain conditions. Maximum annual contributions are \$3,000 per year (phasing up to \$4,000 per year in 2005 and \$5,000 per year in 2008).

Round lot

A [trading order](#) typically of 100 [shares](#) of a [stock](#) or some multiple of 100. Related: [odd lot](#).

Round-trip trade

The [purchase](#) and [sale](#) of a [security](#) within a short period of time.

Round-trip transactions costs

[Costs](#) of completing a [transaction](#), including [commissions](#), [market impact costs](#), and taxes.

Round-turn

Procedure by which the [long](#) or [short position](#) of an individual is [offset](#) by an opposite [transaction](#) or by accepting or making [delivery](#) of the actual [financial instrument](#) or [physical commodity](#).

Royalty

Payment for the right to use intellectual property or natural resources.

Rubber check

A [check](#) that bounces for lack of funds.

R square (R^2)

Square of the [correlation coefficient](#). The proportion of the variability in one [series](#) that can be explained by the variability of one or more other series a [regression](#) model. A measure of the quality of fit. 100% R-square means perfect predictability.

Rule 10b-5

An [SEC](#) rule that prohibits trading by insiders on material nonpublic information. This is also the rule under which a company may be sued for false or misleading [disclosure](#).

Rule 13-d

Often used in [risk arbitrage](#). Requirement under Section 13-d of the [Securities Act of 1934](#) that a form must be filed with the [SEC](#) within ten business days of [acquiring](#) direct or [beneficial ownership](#) of 5% or more of any [class](#) of [equity securities](#) in a [publicly held corporation](#). The [purchaser](#) of such [stock](#) must also file a 13-d with the [stock exchange](#) on which the [shares](#) are listed (if any) and the company itself. Required information includes the way the shares were acquired, the purchaser's background, and future plans regarding the [target company](#). The law is designed to protect against insidious [takeover](#) attempts and to keep the investing [public](#) aware of information that could affect the price of their stock. See: [Williams Act](#).

Rule 14-d

Often used in [risk arbitrage](#). [Regulations](#) and restrictions covering [public tender offers](#) and related [disclosure](#) requirements.

Rule 144

Restricts solicitation of [buyers](#) to complete the sell [order](#) of an [insider](#) (unless the firm is already a [buyer](#)); signified by a flashing "E" on Quotron.

Rule 144a

[SEC](#) rule allowing qualified institutional [buyers](#) to [buy](#) and [trade unregistered securities](#).

Rule 405

[NYSE](#) codification of "know your customer" rules, which require that a customer's situation is suitable for any [investment](#) being made.

Rule 415

Permits [corporations](#) to file a [registration](#) for [securities](#) they intend to [issue](#) in the future when [market](#) conditions are favorable. See: [Shelf registration](#).

Rule of Absolute Priority

A condition of [bankruptcy proceedings](#) under which junior (subordinated) claim [holders](#) can receive no payment until senior ([priority](#)) claim holders are paid in full.

Rule of 72

A formula used to determine the amount of time it will take for [invested money](#) to double at a given [compound interest](#) rate, which is 72 divided by the [interest rate](#). The logic is as follows. The time for an amount A to double is given by $2A = A(1+i)^t$ where t represents exponent and i is the interest rate, e.g. .05 is 5%. The A term cancels from both sides of the equation. Solve for t by taking the natural log of both sides of the equation. Hence, $t = [\ln(2) \text{ over } \{\ln(1+i)\}]$, which is approximately equal to 0.72 over i. Hence the rule of 72.

Rules of fair practice

Rules established by the [NASD](#) that lay down guidelines for just and equitable principles of [trade](#) and business in [securities markets](#).

Rumortrage

A term combining the words "rumor" and [arbitrage](#), used to describe [trading](#) that occurs on the basis of rumors of a [takeover](#).

Rump

Usually used in the context of a [merger](#) or [acquisition](#). A group of [shareholders](#) who refuse to [tender](#) their [shares](#) for a merger or acquisition. In a merger of Company A and Company B for example, if a sufficient number of Company B shareholders do not tender their shares, the new company will not be able to access the [cash flows](#) of Company B.

Run

A run consists of a [series](#) of [bid](#) and [offer](#) quotes for different [securities](#) or [maturities](#). [Dealers](#) give and ask for runs from each other.

Rundown

A summary of the amount and prices of a [serial bond issue](#) that is still available for [purchase](#).

Running ahead

The illegal practice of [trading](#) in a [security](#) for a [broker's](#) personal account before placing an [order](#) for the same [security](#) for a customer.

Runoff

Used for listed equity securities. [Series](#) of [trades](#) printed on the [ticker tape](#) that occur on the [NYSE](#) before 4:00 p.m., but are not [reported](#) until afterwards due to heavy [trading](#) that makes the tape late.

Russell Indexes

US [equity index](#) widely used by [pension](#) and [mutual fund investors](#) that are weighted by [market capitalization](#) and published by the Frank Russell Company of Tacoma, Washington. For example, the Russell 3000 [index](#) includes the 3,000 largest US [companies](#) according to market [capitalization](#).

Russell 1000

A [market capitalization](#)-weighted [benchmark index](#) made up of the 1000 highest-ranking US [stocks](#) in the [Russell 3000](#).

Russell 2000

A [market capitalization](#)-weighted [benchmark index](#) made up of the 2000 smallest US companies in the [Russell 3000](#).

Russell 3000

A [market capitalization](#)-weighted [benchmark index](#) made up of the 3000 largest US [stocks](#), which represent about 98% of the US [equity market](#).

Russian Exchange

Russia's major securities market.

Russian Trading System (RTS)

An electronic system in Russia, like the [Nasdaq](#) system on which the majority of Russian equities [trading](#) is conducted.

S

Fifth letter of a [Nasdaq](#) stock symbol specifying a beneficial interest.

SA

The two-character [ISO](#) 3166 country code for SAUDI ARABIA.

SAAR

See: [Seasonally adjusted annual rate](#)

SAIF

See: [Savings Association Insurance Fund](#)

SAR

The [ISO](#) 4217 currency code for the Saudi Arabian Riyal.

SATURNS

See [Structured Asset Trust Unit Repackagings](#).

SAU

The three-character [ISO](#) 3166 country code for SAUDI ARABIA.

SB

The two-character [ISO](#) 3166 country code for SOLOMON ISLANDS.

SBD

The [ISO](#) 4217 currency code for the Solomon Islands Dollar.

SC

The two-character [ISO](#) 3166 country code for SEYCHELLES.

SCAP

See: [Supervisory Capital Assessment Program](#).

SCR

The [ISO](#) 4217 currency code for the Seychelles Rupee.

SD

The two-character [ISO](#) 3166 country code for SUDAN.

SDD

The [ISO](#) 4217 currency code for the Sudanese Dinar.

SDN

The three-character [ISO](#) 3166 country code for SUDAN.

SDR

See: [Special drawing rights](#)

SE

The two-character [ISO](#) 3166 country code for SWEDEN.

SEAQ

See: [Stock Exchange Automated Quotation System](#)

SEC

See: [Securities & Exchange Commission](#)

SED

See: [Shipper's Export Declaration](#)

SEFs

See: [Swap Execution Facilities](#)

SEHK

See: [Stock Exchange of Hong Kong](#)

SEK

The [ISO](#) 4217 currency code for the Swedish Krona.

SEN

The three-character [ISO](#) 3166 country code for SENEGAL.

SGS

The three-character [ISO](#) 3166 country code for SOUTH GEORGIA AND THE SOUTH SANDWICH ISLANDS.

SHP

The [ISO](#) 4217 currency code for the Saint Helena Pound.

SIAC

See: [Security Industry Automated Corporation](#)

SIC

See: [Standard Industrial Classification](#)

SIMEX

See: [Singapore International Monetary Exchange](#)

SG

The two-character [ISO](#) 3166 country code for SINGAPORE.

SGD

The [ISO](#) 4217 currency code for the Singapore Dollar.

SGP

The three-character [ISO](#) 3166 country code for SINGAPORE.

SH

The two-character [ISO](#) 3166 country code for SAINT HELENA.

SHN

The three-character [ISO](#) 3166 country code for SAINT HELENA.

SI

The two-character [ISO](#) 3166 country code for SLOVENIA.

securities_industry_and_financial_markets_association

SIMFA

See: [Securities Industry and Financial Markets Association](#).

SIT

The [ISO](#) 4217 currency code for the Slovenian Tolar.

SJM

The three-character [ISO](#) 3166 country code for SVALBARD AND JAN MAYEN.

SJ

The two-character [ISO](#) 3166 country code for SVALBARD AND JAN MAYEN.

SK

The two-character [ISO](#) 3166 country code for SLOVAKIA.

SKK

The [ISO](#) 4217 currency code for the Slovak Republic Koruna.

SL

The two-character [ISO](#) 3166 country code for SIERRA LEONE.

SLB

The three-character [ISO](#) 3166 country code for SOLOMON ISLANDS.

SLE

The three-character [ISO](#) 3166 country code for SIERRA LEONE.

SLL

The [ISO](#) 4217 currency code for the Sierra Leone Leone.

SLV

The three-character [ISO](#) 3166 country code for EL SALVADOR.

SM

The two-character [ISO](#) 3166 country code for SAN MARINO.

SMBS

See: [Stripped mortgage backed securities](#)

SMEs

Small and medium-sized enterprises

SMR

The three-character [ISO](#) 3166 country code for SAN MARINO.

SN

The two-character [ISO](#) 3166 country code for SENEGAL.

SO

The two-character [ISO](#) 3166 country code for SOMALIA.

SOES

See: [Small Order Execution System](#)

SOM

The three-character [ISO](#) 3166 country code for SOMALIA.

SOS

The [ISO](#) 4217 currency code for the Somalian Shilling.

SOXS

See: [Sarbanes Oxley Act of 2002](#)

SPDR

The Standard and Poor's depositary receipt. This is a tracking stock which trades like an index mutual fund which follows the S&P 500. It trades continuously.

SPM

The three-character [ISO](#) 3166 country code for SAINT PIERRE AND MIQUELON.

SR

The two-character [ISO](#) 3166 country code for SURINAME.

SRB

The three-character [ISO](#) 3166 country code for SERBIA.

SRG

The [ISO](#) 4217 currency code for the Surinam Guilder.

ST

The two-character [ISO](#) 3166 country code for SAO TOME AND PRINCIPE.

STD

The [ISO](#) 4217 currency code for the Sao Tome & Principe Dobra.

DT>STP

The three-character [ISO](#) 3166 country code for SAO TOME AND PRINCIPE.

SUR

The three-character [ISO](#) 3166 country code for SURINAME.

SV

The two-character [ISO](#) 3166 country code for EL SALVADOR.

SVC

The [ISO](#) 4217 currency code for the El Salvador Colon.

SVK

The three-character [ISO](#) 3166 country code for SLOVAKIA.

SVN

The three-character [ISO](#) 3166 country code for SLOVENIA.

SWE

The three-character [ISO](#) 3166 country code for SWEDEN.

SWF

See: [Sovereign Wealth Fund](#)

SWIFT

See: [Society for Worldwide Interbank Financial Telecommunications](#)

SWZ

The three-character [ISO](#) 3166 country code for SWAZILAND.

SY

The two-character [ISO](#) 3166 country code for SYRIAN ARAB REPUBLIC.

SYC

The three-character [ISO](#) 3166 country code for SEYCHELLES.

SYP

The [ISO](#) 4217 currency code for the Syrian Pound.

SYR

The three-character [ISO](#) 3166 country code for SYRIAN ARAB REPUBLIC.

SZ

The two-character [ISO](#) 3166 country code for SWAZILAND.

SZL

The [ISO](#) 4217 currency code for the Swaziland Lilangeni.

SACE

The Italian export [credit agency](#).

Safe harbor

Often used in [risk arbitrage](#) as a form of [shark repellent](#). A [target company acquires](#) a business so onerously regulated that it makes the target less attractive, giving it, in effect, a safe harbor.

Safe harbor lease

A [lease](#) to [transfer](#) tax benefits of ownership ([depreciation](#) and [debt tax shield](#)) from the lessee, if the [lessee](#) could not use them, to a [lessor](#) that could use them.

Safekeep

[Holding](#) by a bank of [bonds](#) and money market instruments. For a fee, the bank clips coupons and presents for payment at [maturity](#).

Safety cushion

In a [contingent immunization strategy](#), the difference between the initially available [immunization](#) level and the [safety-net return](#).

Safety-net return

The minimum available [return](#) that will trigger an [immunization strategy](#) in a [contingent immunization](#) strategy.

Salary

Regular wages and benefits an employee receives from an employer.

Salary freeze

A temporary halt to increases in [salary](#) due to [financial](#) difficulties experienced by a [company](#).

Salary reduction plan

A plan allowing employees to contribute pre-tax income to a [tax-deferred retirement plan](#).

Salary Reduction Simplified Employee Pension Plan (SARSEP)

A low-[cost](#), no-frills version of a 401(k) employee savings plan available to [companies](#) with 25 or fewer employees. It allows employees to make pretax contributions to their [IRAs](#) through [salary reduction](#) each year. The Small Business Job Protection Act of 1996 replaced SARSEPs with [SIMPLE \(Savings Incentive Match Plan for Employees\)](#) plans. Existing SARSEPs were allowed to add new participants, but new plans could not be formed after December 31, 1996.

Sale

An agreement between a [buyer](#) and a seller on the price to be paid for a [security](#), followed by [delivery](#).

Sale and lease-back

[Sale](#) of an existing [asset](#) to a [financial institution](#) that then [leases](#) it back to the user. Related: [Lease](#).

Sales charge

The fee charged by a [mutual fund](#) at [purchase](#) of [shares](#), usually payable as a [commission](#) to a marketing [agent](#), such as a [financial adviser](#), who is thus [compensated](#) for assistance to a purchaser. It represents the difference, if any, between the [share](#) purchase price and the share [net asset value](#).

Sales completion

In the context of project financing, the state in which the project has reached physical completion and has delivered product or generated revenues in satisfaction of a sales [completion test](#).

Sales Contract

[Contract](#) between a seller and [buyer](#) for the [sale](#) of goods, services, or both.

Sales forecast

A key input to a [firm's financial planning](#) process. External [sales forecasts](#) are based on historical experience, statistical analysis, and consideration of various [macroeconomic factors](#).

Sales literature

Material written by an institution selling a product, which informs potential [buyers](#) of the product and its benefits.

Sales load

See: [Sales charge](#)

Sales tax

A percentage tax on the selling price of goods and services.

Sales-type lease

The [leasing](#) out of a [firm's](#) own equipment, such as a printing [company](#) leasing its own presses, thereby competing with an independent [leasing](#) company.

Sallie Mae

See: [Student Loan Marketing Association](#)

Salomon Brothers World Equity Index (SBWEI)

A [top-down](#), [float capitalization](#)-weighted [index](#) used to measure the performance of fixed-income and [equity markets](#). It includes approximately 6000 [companies](#) in 22 countries.

Salomon Brothers Non-U.S. Dollar World Government Bond Index

A [benchmark index](#) that includes institutionally traded [bonds](#) other than U.S. [issues](#) that have a fixed rate and a remaining [maturity](#) of one year or longer.

Salvage value

Scrap value of plant and equipment.

Same-Day Funds Settlement (SDFS)

A method of [settlement](#) used in [trading](#) between well-[collateralized](#) parties in good-the-same-day federal funds used by the [Depository Trust Company](#) for [transactions](#) in US government securities, [short-term](#) municipal [notes](#), medium-term commercial paper notes, [CMOs](#), and other [instruments](#).

Same-day substitution

[Offsetting](#) changes in a [margin account](#) during the day that result in no overall change in the balance of the account.

Samurai bond

A [yen-denominated bond](#) issued in Tokyo by a non-Japanese [borrower](#). Related: [Bulldog bond](#) and [Yankee bond](#).

Samurai market

The [foreign market](#) in Japan.

Santa Claus Rally

Seasonal rise in [stock](#) prices in the last week of the calendar year, between Christmas and New Year's Day.

Sao Paulo Stock Exchange

See: [Bolsa de Valores de Sao Paulo](#)

S&P

Standard & Poor's Corporation.

S&P 500 Composite Index

[Index](#) of 500 widely held [common stocks](#) that measures the general performance of the [market](#).

S&P phenomenon

Tendency of [stocks](#) newly added to the S&P composite index to rise in price due to a large number of [buy orders](#) as S&P-related [index](#) funds add the [stock](#) to their [portfolios](#).

S&P Rating

[Rating](#) service provided by [S&P](#) that indicates the amount of [risk](#) involved with different [securities](#).

Sarbanes Oxley Act of 2002

Legislation passed largely as a result of a number of accounting scandals. Among the many features is the creation of the Public Company Accounting Oversight Board. This board is charged to: The Board shall: 1) register public accounting firms; 2) establish, or adopt, by rule, auditing, quality [control](#), ethics, independence, and other standards relating to the preparation of audit [reports](#) for issuers; (3) conduct inspections of accounting firms; (4) conduct investigations and disciplinary proceedings, and impose appropriate sanctions; (5) perform such other duties or functions as necessary or appropriate; (6) enforce compliance with the Act, the rules of the Board, professional standards, and the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto; (7) set the budget and manage the operations of the Board and the staff of the Board.

Saturday night special

Often used in [risk arbitrage](#). Sudden attempt by one [company](#) to [take over](#) another by making a [public tender offer](#).

Saucer

Technical chart [pattern](#) depicting a [security](#) whose price has reached bottom and is moving up.

Savings account

A deposit account held with a [financial institution](#) that pays [interest](#) but does not allow for direct withdrawal through [checks](#). Pays interest at a rate higher than that of [checking account](#) but lower than that of [treasury bills](#).

Savings Association Insurance Fund (SAIF)

A government organization that replaced the Federal Savings and Loan Insurance Corporation as the provider of [deposit insurance](#) for [thrift institutions](#).

Savings bank

An institution that primarily accepts consumer [savings deposits](#) and to make home [mortgage](#) loans.

Savings bond

A government [bond](#) issued in [face value denominations](#) from \$50 to \$10,000, with local and state tax-free [interest](#) and semiannually adjusted [interest rates](#).

Savings deposits

Accounts that pay [interest](#), typically at below-market [interest rates](#), that do not have a specific [maturity](#), and that usually can be withdrawn upon demand.

Savings element

Used in the context of [life insurance](#), the cash value built up in a [policy](#), which equals the amount of [premium](#) paid [minus](#) the [cost](#) of protection. This excess is invested by the insurance company, and the [returns](#) are [tax-deferred](#) inside the policy.

Savings Incentive Match Plan for Employees (SIMPLE) 401(k) plan

A [tax-deferred retirement savings plan](#) similar to a conventional 401(k) plan, redesigned with specific rules to meet the needs of small employers. The Small Business Job Protection Act of 1996 created these plans for [companies](#) with fewer than 100 employees. An employee's [contributions](#) are [indexed](#) for [inflation](#), and employers must make [annual](#) annual matching contributions.

Savings and loan association

National- or state-[chartered](#) institution that accepts [savings deposits](#) and invests the bulk of the funds thus received in [mortgages](#).

Savings rate

Personal savings as a percentage of disposable [personal income](#).

Scalability

The ability to increase the size of a business while either maintaining or increasing its profit margin.

Scale

Payment of different rates of [interest](#) on [CDs](#) of varying [maturities](#). A bank is said to "post a scale." [Commercial paper dealers](#) also post scales.

Scale-enhancing

Describes a project that is in the same [risk class](#) as the whole [firm](#). That is, the project allows the firm to grow larger in the context of their current business rather than diversify into new businesses.

Scale in

Gradually [taking a position](#) in a [security](#) or [market](#) over time.

Scale order

[Order to buy](#) (sell) a [security](#) that specifies the total amount to be bought (sold) and the amount to be bought (sold) at successively decreasing (increasing) price intervals; often placed in order to [average](#) the price.

Scaling

How the characteristics of an object change as you change the size of your measuring device. For a three dimensional object, it could be the volume of an object covered as you increase the radius of a covering sphere. In a times series, it could be the change in the amplitude of the time series as you increase the increment of time.

Scalp

To [trade](#) for small [gains](#). Scalping normally involves establishing and [liquidating](#) a [position](#) quickly, usually within the same day.

Scalping

[Buying](#) up the good [IPOs](#).

Scattered

Used for listed equity securities. Unconcentrated [buy](#) or sell [interest](#).

Scenario analysis

The use of [horizon analysis](#) to project [total returns](#) under different [reinvestment rates](#) and [future market yields](#).

Schedule C

Describes membership requirements and procedures of [NASD](#), in its [bylaws](#).

Schedule 13d

[Disclosure](#) form required when more than 5% of any [class](#) of [equity securities](#) in a publicly held [corporation](#) is [purchased](#).

Scheduled cash flows

The [mortgage principal](#) and [interest payments](#) due to be paid under the [terms](#) of the mortgage, not including possible [prepayments](#).

Scorched-earth policy

Often used in [risk arbitrage](#). Any technique a [company](#) that has become the [target](#) of a [takeover](#) attempt uses to make itself unattractive to the [acquirer](#). For example, it may agree to sell off its [crown jewels](#), or schedule all [debt](#) to become due immediately after a [merger](#).

S Corporation

A [corporation](#) that elects not to be taxed as a corporation. That is, the corporation does not directly pay federal [income tax](#) on its [earnings](#). Similar to a partnership, it passes its income or [losses](#) and other tax items on to its shareholders.

Screen stocks

To analyze various [stocks](#) in search of stocks that meet predetermined criteria. For example, a simple value screen would sort all [stocks](#) by their price-to-[book](#) ratio and pick the [stocks](#) with the lowest ratios as candidates for the value [portfolio](#).

Scrip

A temporary document that represents a portion of a [share](#) of [stock](#), often issued after a [stock split](#) or [spin-off](#).

Scripophily

Collecting [stock](#) and [bond certificates](#) for their scarcity, rather than for their value as [securities](#).

Search costs

[Costs](#) associated with locating a [counterparty](#) to a [trade](#), including explicit costs (such as advertising) and implicit costs (such as the value of time). Related: [Information costs](#).

Seasonally adjusted

Mathematically adjusted by moderating a [macroeconomic indicator](#) (e.g., oil prices/imports) so that relative [comparisons](#) can be drawn from month to month all year.

Seasonally adjusted annual rate

A rate adjustment for economic or business data removing seasonal variations in the data to achieve more accurate relative comparisons from month to month.

Seasoned

In the case of [equity](#), having gained a reputation for quality with the [investing public](#) and enjoying [liquidity](#) in the [secondary market](#); in the case of convertibles, having [traded](#) for at least 90 days after [issue](#) in Europe, and thus available for [sale](#) legally to U.S. [investors](#).

Seasoned datings

Extended [credit](#) for customers who order goods in periods other than peak seasons.

Seasoned issue

[Issue](#) of a [security](#) for which there is an existing [market](#). Related: [Unseasoned issue](#).

Seasoned new issue

A new [issue](#) of [stock](#) after the [company's securities](#) have previously been issued. A seasoned new issue of [common stock](#) can be made using a [cash offer](#) or a [rights offer](#).

Seat

Position of [membership](#) on a [securities](#) or [commodity exchange](#), bought and sold at [market prices](#).

SEC fee

Small fee the [SEC](#) charges to sellers of [equity securities](#) on an [exchange](#).

Second market

The [OTC](#) market.

Second pass regression

A [cross-sectional regression](#) of [portfolio returns](#) on [betas](#). The estimated slope is the measurement of the reward for bearing [systematic risk](#) during the period analyzed.

Second-preferred stock

[Preferred stock issue](#) that has less priority in claiming [dividends](#) and [assets](#) in [liquidation](#) than another [issue of preferred stock](#).

Second round

Stage of [venture capital](#) financing following the [start-up](#) and first round stages and before the [mezzanine level](#) stage.

Second-to-die insurance

[Insurance policy](#) that, on the death of the spouse dying last, pays a death benefit to the heirs that is designed to cover [estate taxes](#).

Secondary buyout

A form of [leveraged buyout](#) where both the buyer and the seller are [private equity](#) companies or [Financial sponsors](#).

Secondary distribution/offering

[Public sale](#) of previously [issued securities](#) held by large [investors](#), usually [corporations](#) or [institutions](#), as distinguished from a [primary distribution](#), where the seller is the issuing corporation. The sale is handled off the [NYSE](#), by a securities [firm](#) or a group of firms, and the [shares](#) are usually [offered](#) at a fixed price related to the current [market price](#) of the [stock](#).

Secondary issue

(1) Procedure for selling [blocks](#) of [seasoned issues](#) of [stocks](#). (2) More generally, [sale](#) of already [issued](#) stock.

Secondary Offering

An [IPO](#) in which privately held [shares](#) in a [corporation](#) are sold to the [public](#).

Secondary market

The [market](#) in which [securities](#) are [traded](#) after they are initially [offered](#) in the [primary market](#). Most [trading](#) occurs in the [secondary market](#). The [New York Stock Exchange](#), as well as all other [stock exchanges](#) and the [bond](#) markets, are secondary markets. [Seasoned](#) securities are [traded](#) in the secondary market.

Secondary mortgage market

[Buying](#) and selling existing [mortgage](#) loans, which are often [pooled](#) and [traded](#) as [mortgage-backed securities](#).

Secondary reserves

[Reserves](#) held by [depository institutions](#) in excess of those mandated by [reserve requirements](#). These reserves are often held in the form of [assets](#) that can be quickly and easily converted to cash and are used to meet unanticipated [obligations](#).

Secondary stocks

[Stocks](#) with smaller [market capitalization](#), less quality and more [risk](#) than [blue chip issues](#) that behave differently than larger corporations' [stocks](#).

Second Lien Debt

Debts that are subordinate to the rights of other more senior debts issued against the same collateral.

Second mortgage lending

[Loans secured](#) by [real estate](#) previously pledged in a first [mortgage](#).

Secret Ballot

In the context of corporate governance, this is also known as confidential voting. An independent third party or employees sworn to secrecy are used to count proxy votes, and the [management](#) usually agrees not to look at individual proxy cards. This can help eliminate potential conflicts of interest for fiduciaries voting shares on behalf of others, or can reduce pressure by management on shareholder-employees or shareholder-partners.

Section 16(a)

Provision of the Securities Exchange Act of 1934 that requires [company](#) insiders to file periodic [reports disclosing](#) their holdings and changes in beneficial ownership of the [company's equity securities](#).

Section 16(b)

Provision of the Securities Exchange Act of 1934 that requires that any [profit](#) realized by a [company](#) insider from the [purchase](#) and [sale](#), or sale and purchase, of the [company's equity](#) securities within a period of less than six months must be returned to the company. It is also known as the "short-swing profit" rule.

Section 83(b) Election

A tax filing within 30 days of grant that allows employees granted stock to pay taxes on the [grant](#) date instead of on the date restrictions lapse. If an employee files the election, taxes are based on the fair market value on the grant date, with any future appreciation taxed as a [capital gain](#). If the employee does not file an election, taxes are based on the fair market value on the date the restrictions lapse, which will be higher assuming the stock has appreciated in value.

Section 423

The government [agency](#) responsible for the supervision and regulation of the securities [industry](#) and markets, as well as public securities offerings and the ongoing [disclosure](#) obligations of public [companies](#).

Section 482

US Department of Treasury regulations governing [transfer prices](#).

Sector

Used to characterize a group of [securities](#) that are similar with respect to [maturity](#), type, [rating](#), [industry](#), and/or [coupon](#).

Sector allocation

[Investment](#) of certain proportions of a [portfolio](#) in certain [sectors](#). See: [Industry allocation](#).

Sector diversification

Constituting of a [portfolio](#) of [stocks](#) of [companies](#) in each major [industry](#) group.

Sector fund

A [mutual fund](#) that concentrates on a relatively narrow [market sector](#). These funds can experience higher [share](#) price [volatility](#) than some [diversified](#) funds because [sector](#) funds are subject to [common market](#) forces specific to a given sector.

Sector rotation

An active asset management [strategy](#) certain [sectors](#), that tactically overweights and underweights depending on expected performance. Sometimes called [rotation](#).

Secular

[Long-term](#) time frame (10-50 years or more).

Secured bond

A [bond](#) backed by the pledge of [collateral](#), a [mortgage](#), or other [lien](#), as opposed to an unsecured [bond](#), called a [debenture](#).

Secured debt

[Debt](#) that has first claim on specified [assets](#) in the event of [default](#).

Securities

Paper [certificates](#) (definitive securities) or electronic records ([book](#)-entry securities) evidencing ownership of equity (stocks) or debt obligations (bonds).

Securities Act of 1933

First law designed to regulate [securities markets](#), requiring [registration](#) of [securities](#) and [disclosure](#).

Securities Acts Amendments of 1975

Legislation to encourage the establishment of a [national market](#) system together with a system for nationwide clearing and [settlement](#) of [securities transactions](#).

Securities analysts

Related: [Financial analysts](#)

Securities and commodities exchanges

[Exchanges](#) on which [securities](#), [options](#), and [futures contracts](#) are [traded](#) by members for their own accounts and for the accounts of customers.

Securities & Exchange Commission (SEC)

A federal [agency](#) that regulates the US [financial markets](#). The SEC also oversees the [securities industry](#) and promotes full [disclosure](#) in order to protect the [investing public](#) against malpractice in the securities markets.

Securities and Exchange Commission Rules

Rules enacted by the [SEC](#) to assist in the regulation of US [financial markets](#).

Securities Exchange Act of 1934

Legislation that created the [SEC](#), outlawing dishonest practices in the [trading](#) of [securities](#).

Securities Exchange of Thailand (SET)

The only [stock market](#) in Thailand, based in Bangkok.

Securities Industry Association (SIA)

An association of [broker-dealers](#) who sell taxable [securities](#), which lobbies the government, records [industry trends](#), and keeps records of [broker profits](#).

Securities Industry and Financial Markets Association (SIFMA)

An industry association that represents the interests of hundreds of securities firms, banks and asset managers. SIFMA is the U.S. regional member of the [Global Financial Markets Association](#) (GFMA).

Securities Industry Committee on Arbitration (SICA)

A private group that provides mediation services in case of customer complaints against [securities firms](#).

Securities Investor Protection Corporation (SIPC)

A nonprofit [corporation](#) that insures customers' [securities](#) and [cash](#) held by member brokerage firms against the failure of those firms.

Securities loan

The [loan](#) of [securities](#) between [brokers](#), often to cover a client's [short sale](#); or a loan secured by [marketable securities](#).

Securities markets

Organized [exchanges](#) plus [over-the-counter markets](#) in which [securities](#) are [traded](#).

Securitization

Creating a more or less standard [investment instrument](#) such as the [mortgage pass-through security](#), by [pooling assets](#) to back the instrument. Also refers to the replacement of nonmarketable loans and/or [cash flows](#) provided by [financial intermediaries](#) with negotiable securities [issued](#) in the [public capital markets](#).

Security

Piece of paper that proves ownership of [stocks](#), [bonds](#), and other [investments](#).

Security characteristic line

A plot on a graph of the [excess return](#) on a [security](#) over the [risk-free rate](#) as a function of the [excess return](#) on the [market](#). The slope of this line is the security's [beta](#).

Security deposit (initial)

Synonymous with the term [margin](#). A [cash](#) amount that must be deposited with the [broker](#) for each [contract](#) as a [guarantee](#) of fulfillment of the [futures contract](#). It is not considered as part payment or [purchase](#). Related: [Margin](#).

Security deposit (maintenance)

Related: [Maintenance margin](#)

Security Industry Automated Corporation (SIAC)

Entity that [executes](#) automated [DOT orders](#).

Security interest

The [creditor's](#) right to take property or a portion of property offered as security.

Security market line

Line representing the relationship between [expected return](#) and [market risk](#) or [beta](#). The slope of this line is the [risk premium](#) for beta.

Security Market Line

The linear relationship between expected [asset returns](#) and [betas](#) posited by the [Capital Asset Pricing Model](#).

Security market plane

A plane that shows the relationship between [expected return](#) and the [beta](#) coefficient of more than one [factor](#).

Security ratings

Commercial [rating](#) agencies' assessment of the [credit](#) and [investment](#) risk of [securities](#).

Security selection

See: [Security selection decision](#)

Security selection decision

Choosing the particular [stocks](#) or [bonds](#) or other investment instruments to include in a [portfolio](#).

Seed money

The first [contribution](#) by a [venture capitalist](#) toward the financing of a new business, often using a [loan](#) or [purchase](#) of [convertible bonds](#) or [preferred stock](#). See: [Mezzanine level](#) and [second round](#).

Seed stage

In context of [private equity](#), the state of a company when it has just been incorporated and its founders are developing their product or service.

Seek a market

Search for a [securities buyer](#) or seller.

Segmented Market

A [market](#) in which there are impediments to the free flow of labor, [capital](#), and information.

Segregation of securities

[SEC](#) rules to dictate how customers' [securities](#) may be used by [broker-dealers](#) in [broker loans](#).

Seigniorage

The amount of goods and services that the government obtains by printing new money in a given period. Often we consider this in real terms, by dividing the new money by the price level.

Select ten portfolio

A [unit investment trust](#) that [buys](#) and [holds](#) for one year the ten [stocks](#) in the [Dow Jones Industrial Average](#) with the highest [dividend yields](#).

Selective hedging

Protecting [investments](#) during some time periods and not during others.

Selected dealer agreement

The set of rules governing the [selling group](#) in an [underwriting](#).

Self-amortizing mortgage

[Mortgage](#) whose entire [principal](#) is paid off in a specified period of time with regular [interest](#) and [principal](#) payments.

Self-directed IRA

An [IRA](#) that the account holder can after appointing a custodian manager to carry out [investment](#) instructions.

Self-employed income

[Taxable income](#) of a person involved in a [sole proprietorship](#) or other sort of free-lance work.

Self-employment tax

A tax self-employed people must pay to qualify them to receive [Social Security benefits](#) at [retirement](#).

Self-liquidating loan

[Loan](#) to [finance current assets](#). The [sale](#) of the current assets provides the [cash](#) to repay the loan.

Self-regulatory organization (SRO)

Organizations that enforce fair, ethical, and efficient practices in the [securities](#) and [commodity futures](#) industries, including all national [securities](#) and [commodities exchanges](#) and the [NASD](#).

Self-selection

Consequence of a [contract](#) that induces only one group to participate.

Self-Similar

When small parts of an object are qualitatively the same, or similar to the whole object. In certain deterministic [fractals](#), like the Sierpinski Triangle, small pieces look the same as the entire object. In random [fractals](#), small increments of time will be statistically similar to larger increments of time.
See: [Fractal](#).

Self-supporting debt

[Bonds](#) sold to [finance](#) a project that will produce enough revenue through tolls or other charges to [retire](#) the [debt](#). See: [revenue bond](#).

Self Tender

A [company buys](#) back a certain percentage of its own [shares](#) through a [tender offer](#).

Self-tender offer

A [company](#) that [tenders](#) for its own [shares](#).

Sell the book

Used for listed equity securities. [Order](#) to a [broker](#) by the holder of a large quantity of [shares](#) of a [security](#) to sell all that can be absorbed at the current [bid](#) price. The term derives from the [specialist's book](#) - the record of all the [buy](#) and sell orders [members](#) have placed in the [stock](#) one handles. In this scenario, the buyers potentially include those in the [specialist's book](#), the [specialist](#) for its own account, and [broker-dealers](#).

Sell hedge

Related: [short hedge](#).

Sell limit order

Conditional trading [order](#) that indicates that a [security](#) may be sold at the designated price or higher.

Related: [Buy limit order](#).

Sell off

[Sale of securities](#) under pressure. See: [Dumping](#).

Sell order

An [order](#) that may take many different forms by an [investor](#) to a [broker](#) to sell a particular [stock](#), [bond](#), [option](#), [future](#), [mutual fund](#), or other [holding](#).

Sell out

[Liquidation](#) of a [margin account](#) after a customer has failed to bring an account to a required level by producing additional [equity](#) after a [margin call](#).

The selling of [securities](#) by a [broker](#) when a customer fails to pay for them.

The complete [sale](#) of all [securities](#) in a new [issue](#).

Sell plus order

[Market](#) or [limit order](#) to sell a [stated](#) amount of [stock](#) provided that the price to be obtained is not lower than the last [sale](#) if the last sale was a [plus](#), or [zero plus tick](#), and is not lower than the last sale plus the minimum fractional change in the stock if the last sale was a minimum or zero minimum [tick](#).
(In a [limit order](#), sale cannot be lower than the limit, regardless of tick.)

Sell price

See: [Redemption price](#)

Sell-side analyst

A [financial analyst](#) who works for a brokerage firm and whose recommendations are passed on to the brokerage firm's customers. Also called [Wall Street analyst](#).

Seller financing

[Funding](#) a [purchase](#) by a seller's [loan](#) to the [buyer](#), the buyer takes full title to the property when the loan is fully repaid.

Seller's market

[Market](#) in which demand exceeds supply. As a result, the seller can dictate the price and the [terms of sale](#).

Seller's option

Delayed settlement/delivery in a transaction.

Seller's points

In reference to a loan, seller's points consist of a lump sum paid by the seller to the buyer's creditor to reduce the cost of the loan to the buyer. This payment is either required by the creditor or volunteered by the seller, usually in a loan to buy real estate. Generally, one point equals one percent of the loan amount.

Selling climax

A sudden drop in security prices as sellers dump their holdings.

Selling concession

The discount underwriters offer the selling group on securities in a new issue.

Selling dividends

Inducing a prospective customer to buy shares in order to profit from a dividend scheduled in the near future.

Selling, general, and administrative (SG&A) expenses

Expenses such as salespersons' salaries and commissions, advertising and promotion, travel and entertainment, office payroll and expenses, and executives' salaries.

Selling on the good news

A strategy of selling stock shortly after a company announces good news and the stock price rises. Investors believe that the price is as high as it can go and is on the brink of going down.

Selling group

All banks involved in selling or marketing a new issue of stock or bonds.

Selling short

Selling a stock not actually owned. If an investor thinks the price of a stock is going down, the investor could borrow the stock from a broker and sell it. Eventually, the investor must buy the stock back on the open market. For instance, you borrow 1000 shares of XYZ on July 1 and sell it for \$8 per share. Then, on Aug. 1, you purchase 1000 shares of XYZ at \$7 per share. You've made \$1000 (less commissions and other fees) by selling short.

Selling short against the box

Selling short stock that is actually owned by the seller but held in the box, meaning it is held in safekeeping. The seller borrowed securities needed to cover as the stock in the box may be inaccessible, or the seller may not wish to disclose ownership. The traditional motive for this transaction was to

defer capital gains taxes. However, this method became infeasible under the Taxpayer Relief Act of 1997.

Selling the spread

A [spread](#) whose [option](#) to be sold is [trading](#) at a higher [premium](#) than the [option](#) to be bought.

Selling Syndicate

A group of [underwriters](#) that issues a [firm's securities](#) by [buying](#) them from the issuing firm and reselling them to a group of smaller brokerage firms for eventual [sale](#) to individual [investors](#).

Semistrong-form efficiency

A form of [pricing efficiency](#) that [profits](#) the price of a [security](#) fully reflects all public information (including, but not limited to, historical price and trading patterns). Compare [weak-form efficiency](#) and [strong-form efficiency](#).

"Send it in"

[Market](#) language: "I bought your [stock](#) - 'send it in' (and possibly more)."

Senior debt

[Debt](#) whose [terms](#) in the event of [bankruptcy](#), require it to be repaid before [subordinated debt](#) receives any payment.

Senior Loan Officer Opinion Survey on Bank Lending Practices Survey

A survey of approximately sixty large domestic banks and twenty four U.S. branches and agencies of foreign banks conducted by the Federal Reserve on quarterly basis. Questions cover changes in the standards and terms of the banks' lending and the state of business and household demand for loans.

Senior mortgage bond

A [bond](#) that, in the event of [bankruptcy](#), will be [redeemed](#) before any other [bonds](#) are repaid.

Senior refunding

Replacement by the [issuer](#) of [securities](#) with 5-to 12-year [maturities](#) with [securities](#) of 15-year or longer [maturities](#), in order to delay, reduce, or consolidate payment.

Senior security

A [security](#) that, in the event of [bankruptcy](#), will be [redeemed](#) before any other [securities](#).

Seniority

The order of repayment. In the event of [bankruptcy](#), [senior debt](#) must be repaid before [subordinated debt](#) is repaid.

Sensitive market

A [market](#) that reacts to a great extent to good or bad news.

Sensitivity analysis

Analysis of the effect on a project's [profitability](#) of changes in [sales](#), [cost](#), and so on.

Sentiment indicators

The general feeling of [investors](#) about the state of the [market](#), such as whether they are [bullish](#) or [bearish](#).

Separate customer

Method of allocating insurance by the [Securities Investor Protection Corporation](#). Each account that is under the name of a different person or group of people is entitled to maximum protection.

Separate tax returns

Tax returns of married persons who choose to file their returns individually, usually because this approach produces lower overall tax payments.

Separate Trading of Registered Interest and Principal Securities (STRIPS)

[Long-term notes](#) and [bonds](#) divided into [principal](#) and [interest](#)-paying components, which may be [transferred](#) and sold in amounts as small as \$1000. STRIPS are sold at auction at a minimum [par](#) amount, varying for each [issue](#). The amount is an arithmetic function of the issue's [interest rate](#).

Separation property

The property that [portfolio](#) choice can be divided into two independent tasks: (1) Determination of the optimal [risky portfolio](#), which is a purely mathematical problem, and (2) the personal choice of the best mix of the optimal risky portfolio and the [risk-free asset](#), which depends on a person's degree of [risk aversion](#).

Separation theorem

Theory that the value of an [investment](#) to an individual is not dependent on consumption preferences. That is, investors will want to accept or reject the same investment projects by using the [NPV rule](#), regardless of personal preference.

Septendecillion

A unit of quantity equal to 10^{54} (1 followed by 54 zeros).

Septillion

A unit of quantity equal to 10^{24} (1 followed by 24 zeros).

Septennonagintillion

A unit of quantity equal to 10^{294} (1 followed by 294 zeros).

Septenoctogintillion

A unit of quantity equal to 10^{264} (1 followed by 264 zeros).

Septenquadrangintillion

A unit of quantity equal to 10^{144} (1 followed by 144 zeros).

Septenquinquagintillion

A unit of quantity equal to 10^{174} (1 followed by 174 zeros).

Septenseptuagintillion

A unit of quantity equal to 10^{234} (1 followed by 234 zeros).

Septensexagintillion

A unit of quantity equal to 10^{204} (1 followed by 204 zeros).

Septentrigintillion

A unit of quantity equal to 10^{114} (1 followed by 114 zeros).

Septuagintillion

A unit of quantity equal to 10^{213} (1 followed by 213 zeros).

Septenvigintillion

A unit of quantity equal to 10^{84} (1 followed by 84 zeros).

Serial bonds

The [Corporate bonds](#) arranged so that specified [principal](#) amounts become due on specified dates.

Related: [Term bonds](#).

Serial covariance

The [covariance](#) between a [variable](#) and the [lagged value](#) of the variable; the same as [autocorrelation](#).

Serial entrepreneur

Business person that successfully starts (does not kill) a number of different businesses.

Serial redemption

The [redemption](#) of a [serial bond](#).

Series

Options: All [option contracts](#) of the same [class](#) that also have the same [unit](#) of [trade](#), [expiration date](#), and [exercise price](#). Stocks: [shares](#) that have common characteristics, such as rights to ownership and [voting](#), [dividends](#), or [par value](#). In the case of many foreign shares, one series may be owned only by citizens of the country in which the [stock](#) is registered.

Series bond

[Bond](#) that may be [issued](#) in several [series](#) under the same [indenture](#) document.

Series E bond

A local and state tax-free [bond](#) issued by the U.S. government from 1941 to 1979, which was then replaced by [Series HH bonds](#).

Series EE bond

See: [Savings bond](#)

Series HH bond

See: [Savings bond](#)

Service charge

A component of some [finance](#) charges, such as the fee for triggering an overdraft [checking](#) account into use.

Service life

See [Useful life](#).

Set-aside

A percentage of a [municipal](#) or [corporate bond underwriting](#) that is allocated for handling by a minority-owned [broker/dealer firm](#).

Set of contracts perspective

View of [corporation](#) as a set of contracting relationships among individuals who have conflicting objectives, such as [shareholders](#) or [managers](#). The [corporation](#) is a legal construct that serves as the [nexus](#) for the contracting relationships.

Set up

Applies mainly to [convertible securities](#). [Arbitrage](#) involving going [long](#) the convertible and [short](#) a certain percentage of the [underlying](#) common. Antithesis of [Chinese hedge](#).

Setoff

[Money](#) held on behalf of a [borrower](#) that may be applied to repay the [loan](#), but usually without the permission of the borrower.

Settle price

An [average](#) of the [trading prices](#) in the [futures market](#) during the last few minutes of [trading](#).

Settlement

When payment is made for a [trade](#).

Settlement date

The date on which payment is made to settle a [trade](#). For [stocks](#) traded on US [exchanges](#), settlement is currently three business days after the trade. For [mutual funds](#), settlement usually occurs in the US the day following the trade. In some [regional markets](#), foreign [shares](#) may require months to settle.

Settlement options

The various possibilities open to a [beneficiary](#) under a [life insurance policy](#) as to how the benefit will be paid out.

Settlement price

A figure determined by the [closing range](#) that is used to calculate [gains](#) and [losses](#) in [futures market](#) accounts. Settlement prices are used to determine gains, losses, [margin calls](#), and invoice prices for deliveries. Related: [Closing range](#).

Settlement rate

The rate suggested in [Financial Accounting Standards Board \(FASB\) 87](#) for [discounting](#) the [obligations](#) of a [pension plan](#). The rate at which the pension benefits could be effectively settled if the [company](#) sponsoring the pension plan wishes to terminate its pension obligation.

Settlement risk

The [risk](#) that one party will [deliver](#) and the [counterparty](#) will not be able to pay and vice versa.

Severally but not jointly

An agreement between members of an [underwriting](#) group [buy](#) a new [issue](#) (severally), but not to assume joint [liability](#) for [shares](#) left unsold by other members.

Severance

A settlement received after being released from a [corporation](#). In the context of corporate governance, an agreement that assures high-level executives of their positions or some [compensation](#) and are not contingent upon a change in [control](#).

Sexagintillion

A unit of quantity equal to 10^{183} (1 followed by 183 zeros).

Sexdecillion

A unit of quantity equal to 10^{51} (1 followed by 51 zeros).

Sexnonagintillion

A unit of quantity equal to 10^{291} (1 followed by 291 zeros).

Sexoctogintillion

A unit of quantity equal to 10^{261} (1 followed by 261 zeros).

Sextillion

A unit of quantity equal to 10^{21} (1 followed by 21 zeros).

Sexquadrugintillion

A unit of quantity equal to 10^{141} (1 followed by 141 zeros).

Sexquinquagintillion

A unit of quantity equal to 10^{171} (1 followed by 171 zeros).

Sexseptuagintillion

A unit of quantity equal to 10^{231} (1 followed by 231 zeros).

Sexsexagintillion

A unit of quantity equal to 10^{201} (1 followed by 201 zeros).

Sextrigintillion

A unit of quantity equal to 10^{111} (1 followed by 111 zeros).

Sexvigintillion

A unit of quantity equal to 10^{81} (1 followed by 81 zeros).

Shadow calendar

A backlog of [securities issues](#) registered with the [SEC](#), awaiting the determination of an [offer](#) date.

Shadow banking

Financial institutions and activities that in some respects parallel banking activities but are subject to less regulation than commercial banks. Institutions include [mutual funds](#), [investment bank](#), and [hedge funds](#).

Shadow stock

First, a [public company](#) may create a [stock](#) that strips out the [market](#) wide movements for the purpose of rewarding managers. That is, the [management](#) might have done a great job - but the traded stock plummets because the market as a whole plummets. A second interpretation of shadow stock is a [phantom stock](#) that is created by a private company (i.e. that does not have stock traded either on [exchange](#) or [over the counter](#)) again for the purpose of performance evaluation and rewards.

Shadows

The thin lines above and below the real body on a candlestick line.

Shakeout

A dramatic change in [market](#) conditions that forces [speculators](#) to sell their [positions](#), often at a [loss](#).

Sham

A business [transaction](#), such as a [limited partnership](#), that is entered into for the sake of avoiding tax.

Shanghai Stock Exchange

One of two major securities markets in China.

Share broker

A [discount broker](#) who charges per [share traded](#), and reduces the per [unit](#) charge as the number of [shares traded](#) increases, as opposed to a [dealer](#) who charges a percentage of the dollar amount of the [trade](#).

Share repurchase

Program by which a [corporation buys](#) back its own [shares](#) in the [open market](#). It is usually done when shares are undervalued. Since repurchase reduces the number of shares [outstanding](#) and thus increases [earnings](#) per share, it tends to elevate the [market value](#) of the remaining shares held by [stockholders](#).

Shared Appreciation Mortgage (SAM)

A [mortgage](#) with a low rate of [interest](#), offset by giving the [lender](#) some portion of the [appreciation](#) in the value of the [underlying](#) property.

Shareholder

Person or entity that owns [shares](#) or [equity](#) in a [corporation](#).

Shareholders' equity

This is a [company's](#) total [assets minus](#) total [liabilities](#). A [company's net worth](#) is the same thing.

Shareholders' letter

A section of an [annual report](#) where one can find general overall discussion by [management](#) of successful and failed [strategies](#). Provides guidance for looking at specific parts of the [report](#).

Shares

[Certificates](#) or [book](#) entries representing ownership in a [corporation](#) or similar entity.

Shares authorized

The maximum number of [shares](#) of [stock](#) of a [company](#) allowed in the articles of incorporation, which may be changed only by a [shareholder](#) vote. See: [Issued](#) and [outstanding](#).

Shark repellant

Often used in [risk arbitrage](#). Examples are [golden parachutes](#), [poison pills](#), [safe harbor](#), and [scorched-earth policy](#). [Porcupine provision](#). Amendment to [company charter](#) intended to protect it against [takeover](#).

Shark watcher

Often used in [risk arbitrage](#). [Firm](#) specializing in the early detection of [takeover](#) activity. Such a firm, whose primary business is usually the solicitation of [proxies](#) for client [corporations](#), monitors [trading](#) patterns in a client's [stock](#) and attempts to determine the identity of parties [accumulating shares](#).

Sharpe benchmark

A statistically created [benchmark](#) that adjusts for a manager's [index](#)-like tendencies. Named after William Sharpe, Nobel Laureate, and developer of the [capital asset pricing model](#).

Sharpe ratio

A measure of a [portfolio's excess return](#) relative to the total [variability](#) of the [portfolio](#).

Related: [Treynor index](#). Named after William Sharpe, Nobel Laureate, and developer of the [capital asset pricing model](#).

Shelf offering

[Offering](#) of [registered securities](#) covered by a [prospectus](#) whose [distribution](#) is not [underwritten](#) on a [firm](#) commitment basis. The [shares](#) may be sold in one [block](#) or in small amounts from time to time in [agency](#) or [principal transactions](#). See: [Rule 415](#).

Shelf registration

A procedure that allows [firms](#) to file one [registration statement](#) covering several [issues](#) of the same [security](#). [SEC Rule 415](#), adopted in the 1980s, allows a [corporation](#) to comply with [registration](#) requirements up to two years prior to a [public offering](#) of securities. With the registration "on the shelf," the corporation, by simply updating regularly filed [annual](#), [quarterly](#), and related reports to the [SEC](#), can go to the [market](#) as conditions become favorable with a minimum of administrative preparation and [expense](#).

Shell corporation

An incorporated [company](#) with no significant [assets](#) or operations, often formed to obtain financing before beginning actual business, or as a front [tax evasion](#).

Shenzhen Stock Exchange

One of two major securities markets in China.

Shiller, Robert /a>

Yale University economist known for his work on behavioral economics. Nobel Laureate in 2013.

Shipper's Export Declaration (SED)

Document required by the U.S. Department of Commerce for exports of certain [controlled](#) items, and/or shipments to certain countries, and/or shipments anywhere that exceed certain dollar amounts. This document is used to monitor shipments of controlled goods.

Shipping Documents

A generic term for the various types of forms required for overseas shipments, such as commercial invoices, transport documents, packing lists, origin [certificates](#), etc.

Shirking

The tendency to do less work when the [return](#) is smaller. Owners may have more incentive to shirk if they [issue equity](#) as opposed to [debt](#), because they retain less ownership interest in the [company](#) and therefore may receive a smaller return. Thus, shirking is considered an [agency cost of equity](#).

Shock absorbers

See: [Circuit breakers](#)

Shogun bond

Dollar [bond](#) issued in Japan by a nonresident.

Shootout

[Venture capital](#) jargon. Refers to two or more [venture capital firms](#) fighting for the [startup](#).

Shop

[Wall Street](#) slang for a [firm](#).

Shopped stock

Sell [inquiry](#) that has been seen by or shown to other [dealers](#) before coming to an [investment bank](#).

Shopping

Seeking to obtain the best [bid](#) or [offer](#) available by calling a number of [dealers](#) and/or [brokers](#).

Short

One who has sold a [contract](#) to establish a [market position](#) and who has not yet closed out this position through an [offsetting purchase](#); the opposite of a [long position](#). Related: [Long](#).

Short against the box

A [short sale](#) of a stock is where the seller actually owns the stock, but does not want to close out the [position](#).

Short Bias

In the context of hedge funds, a style of [management](#) where part or all of the fund consists of short [sales](#).

Short bonds

[Bonds](#) with [short](#) (not much time to [maturity](#)) [current maturities](#).

Short book

See: [Unmatched book](#).

Short coupon

A [bond](#) payment covering less than six-months' [interest](#), because the original [issue](#) date is less than six months from the first scheduled [interest](#) payment. A [bond](#) with a short time to [maturity](#), usually two years or less.

Short covering

Used in the context of general equities. Actual [purchase](#) of [securities](#) by a [short seller](#) to replace those [borrowed](#) at the time of a [short sale](#).

Short end duration (SEDUR)

Sensitivity of a [portfolio](#) value to changes in the [short end of the yield curve](#).

Short end of the yield curve

Refers to [yields](#) that are generally less than one year.

Short exempt

Used for listed equity securities. A special [trading](#) situation where a [short sale](#) is allowed on a minustick. The owners of a convertible trading at [parity](#) can sell the equivalent amount of common [short](#) on a [minus tick](#), assuming they have the firm intention to convert.

Short hedge

The [sale](#) of [futures contracts](#) to eliminate or lessen the possible decline in value of an approximately equal amount of the actual [financial instrument](#) or [physical commodity](#). Related: [Long hedge](#).

Short interest

Total number of [shares](#) of a [security](#) that [investors](#) have sold [short](#) and that have not been repurchased to close out the [short position](#). Usually, investors sell [short](#) to [profit](#) from price declines. As a result, the short interest is often an indicator of the amount of pessimism in the market about a particular security, although there are other reasons to [short](#) that are not related to pessimism. For example, [hedging strategies](#) for [mergers](#) and [acquisition](#) as well as [derivative positions](#) may involve [short sales](#).

Short interest theory

The theory that a large [interest in short positions](#) in [stocks](#) will precede a rise in the [market prices](#), because the [short positions](#) must eventually be covered by [purchases](#) of the [stock](#).

Short-Form Registration

A procedure that allows a [firm](#) to condense its [registration statement](#) and [prospectus](#) by referencing [financial](#) data already on file with the [SEC](#).

Short position

Occurs when a person sells [stocks](#) he or she does not yet own. [Shares](#) must be [borrowed](#), before the [sale](#), to make "good [delivery](#)" to the [buyer](#). Eventually, the shares must be bought back to close out the [transaction](#). This technique is used when an [investor](#) believes the stock price will [drop](#).

Short ratio(or short interest ratio)

Number of [shares](#) of a [security](#) that [investors](#) have sold [short](#) divided by average daily [volume](#) of the security (measured over 30 days or 90 days). There are various interpretations of this ratio. When people short, it is usually (but not always) because they are pessimistic about the security's future performance. Shorting involves [buying](#) at some point however. Hence, some would interpret a high short ratio as an indicator that there will be some buying pressure on the security that would increase its price.

Short-run operating activities

Events and decisions concerning the [short-term finance](#) of a [firm](#), such as how much [inventory](#) to [order](#) and whether to offer [cash terms](#) or [credit terms](#) to customers.

Short sale

Selling a [security](#) that the seller does not own but is committed to repurchasing eventually. It is used to [capitalize](#) on an expected decline in the security's price.

Short-sale rule

An [SEC](#) rule requiring that [short sales](#) be made only in a [market](#) that is moving upward; this means either on an [uptick](#) from the last [sale](#), or showing no downward movement.

Short selling

Establishing a [market position](#) by selling a [security](#) one does not own in anticipation of the price of that security falling.

Short settlement

[Trade](#) settlement made prior to the standard five-day period due to customer request.

Short-short test

A repealed [IRS](#) restriction, that used to limit [profits](#) from [short-term trading](#), which three months, to 30% of [gross income](#). The penalty for exceeding this limit would be the loss of certain tax-free benefits.

Short squeeze

When a lack of supply tends to force [prices](#) upward. In particular, when prices of a [stock](#) or [commodity futures contracts](#) start to move up sharply and many [traders](#) with [short positions](#) are forced to [buy stocks](#) or [commodities](#) in order to cover their [positions](#) and prevent (limit) [losses](#). This sudden surge of buying leads to even higher prices, further aggravating the losses of [short sellers](#) who have not covered their positions.

Short straddle

A [straddle](#) involves both [purchase](#) and [sale](#). In short straddle one [put](#) and one [call](#) are sold.

Short-term capital gain

A [profit](#) on the [sale](#) of a [security](#) or [mutual fund](#) share that has been held for one year or less. A [short-term capital gain](#) is taxed as ordinary income.

Short-term interest rates

Interest rates on [loan](#) contracts-or debt instruments such as Treasury bills, bank certificates of deposit or commerical paper-having maturities of less than one year. Often called money market rates.

Short-term reserves

[Investments](#) in interest-bearing bank deposits, [money market instruments](#), [U.S. Treasury bills](#), and [short-term bonds](#).

Short tender

Practice prohibited by [SEC](#) that involves the use of [borrowed stock](#) to respond to a [tender](#) offer.

Short-term

Any [investments](#) with a [maturity](#) of one year or less.

Short-term bond fund

A bond mutual fund [holding short](#) to intermediate-term [bonds](#) that have [maturities](#) of three to five years.

Short-term debt

[Debt obligations](#), recorded as current [liabilities](#), requiring payment within the year.

Short-term financial plan

A [financial plan](#) that covers the coming [fiscal year](#).

Short-term gain (or loss)

A [profit](#) or [loss](#) realized from the [sale](#) of [securities](#) held for less than a year that is taxed at normal [income tax](#) rates if the [net](#) total is positive.

Short-term investment services

Services that assist [firms](#) in making [short-term investments](#).

Short-term solvency ratios

Ratios used to judge the adequacy of [liquid assets](#) for meeting [short-term](#) obligations as they come due, including (1) the [current ratio](#), (2) the [acid test ratio](#), (3) the [inventory turnover](#) ratio, and (4) the [accounts receivable turnover](#) ratio.

Short-term tax exempts

[Short-term securities issued](#) by states, municipalities, and quasi-government entities such as local housing and urban renewal agencies.

Short-term trend

Erratic price movements that last less than three weeks.

Shortage cost

[Costs](#) that fall with increases in the level of [investment](#) in [current assets](#).

Shortfall risk

The risk of falling [short](#) of any [investment](#) target.

Shout option

See [deferred strike option](#).

Show me buyer/seller

Used in the context of general equities. Customer who has not placed a [firm order](#) to [buy stock](#) but has requested that the salesperson propose available stock for [sale](#) or [purchase](#), along with the asking/[bid](#) price. See: [Bidding buyer](#).

Show stopper

A legal barrier, such as a [scorched-earth policy](#) or [shark repellent](#) system, that [firms](#) use to prevent a [takeover](#).

Show and tell list

Used in the context of general equities. [Block list](#) which is full of real customer [indications](#) (rather than [profile](#)).

Shrinkage

Discrepancy between a [firm's](#) actual [inventory](#) and its recorded inventory due to theft, deterioration, loss, or clerical problems.

Shut out the book

Used for listed equity securities. Exclude a [public bid or offer](#) from participation in a [print](#).

Side-by-side trading

[Trading](#) a [security](#) and an [option](#) on the same [security](#) on the same [exchange](#).

Sidecar

In context of [reinsurance](#), a sidecar is an insurance investment vehicle created by the reinsurance company. By investing in sidecar, investors can participate in the risk and return of a specific group of insurance policies and the liability of investors is limited to the funds of the sidecar. This structure became popular after Hurricane Katrina as a vehicle for reinsurers/insurers to add risk-bearing

capacity and for investors to participate in the potential profits from a sharp increase in reinsurance premium.

Side effects

Effects of a proposed project on other parts of the [firm](#).

Sidelines

Hypothetical position referring to noninvolvement in a [stock](#); merely watching.

Sideways market

See: [Horizontal price movement](#)

Sight deposit account

Similar to a demand deposit. Funds in a sight account can be transferred quickly without restriction to another account or converted into cash. Term is mainly used in Europe

Sight draft

Demand for immediate payment.

Sight Letter of Credit

A [letter of credit](#) made payable to a [beneficiary](#) upon presentation to the opener of conforming documents.

Signal

To convey information through a [firm's](#) actions. The more costly it is to provide a signal, the more credibility it has. For example, to call a press conference and tell everyone that the firm's prospects have improved is less effective than saying the same thing and raising the [dividend](#).

Signaling approach

Notion that [insiders](#) in a [firm](#) have information that the [market](#) does not have, and that the choice of [capital structure](#) by [insiders](#) can signal information to outsiders and change the value of the firm. This theory is also called the [asymmetric information](#) approach.

Signaling approach (on dividend policy)

The argument that [dividend](#) changes are important [signals](#) to [investors](#) about changes in [management's](#) expectation about future [earnings](#).

Signature guaranteee

The authentication of a signature in the form of a stamp, seal, or written confirmation by a bank or member of a domestic [stock exchange](#) (or other acceptable guarantor). A notary public cannot provide

a signature [guarantee](#). A signature guarantee is a common requirement when [transferring](#) or [redeeming shares](#) or changing the ownership of an account.

Signature loan

A good faith [loan](#) that is unsecured and requires only the [borrower's](#) signature on the loan application.

Signatures on Proxies

The basic rule of acceptability is that if the signature reads as the [proxy](#) is printed, it is acceptable. If an individual signs on behalf of another individual and states a legal representation, it is acceptable. Examples: executor, guardian, power of attorney; but not husband, wife, next of kin, etc. On corporate [registrations](#), a manual signature in the name of the [corporation](#) is acceptable. A facsimile signature is also acceptable, but a rubber-stamp signature with a signature line is acceptable only if signed on that line. With joint tenancy, one signature is sufficient, as in the case of one [trustee](#) signing for two or more.

Significant influence

The [holding](#) of a large portion of the [equity](#) of a [corporation](#), usually at least 20%, which gives the holder a significant amount of [control](#) over the corporation. This degree of holding must be recorded in a firm's [financial statements](#).

Significant order

An [order](#) to [buy](#) or sell a large enough quantity of [securities](#) that the price of the [security](#) may be affected. [Institutional investors](#) usually spread out such an [order](#) over a few days or weeks to avoid adverse pressures on the buy or sell price.

Significant order imbalance

A large number of [buy](#) or sell [orders](#) for a [stock](#) that cause an abnormally wide [spread](#) between [bid](#) and [offer prices](#), and often causes the [exchange](#) to halt the [sale](#) of the [stock](#) until significant balance has been reestablished.

Silent partner

A [partner](#) in a business who has no role in [management](#) but [shares](#) in the [liability](#), tax responsibility, and [cash flow](#).

Silver Parachutes

These provisions are similar to Golden Parachutes in that they provide severance payments upon a change in corporate [control](#), but unlike Golden Parachutes, a large number of a firm's employees are eligible for these benefits.

Single-buyer policy

[Ex-Im Bank](#) practice allows the exporter to insure certain [transactions](#) selectively.

Single European Act

Act intended to eliminate barriers on trade and [capital](#) flows between and among European countries.

Simple compound growth method

Calculating a [growth rate](#) by relating [terminal value](#) to initial value and assuming a constant percentage [annual](#) rate of growth between the two values.

Simple interest

[Interest](#) calculated as a simple percentage of the original [principal](#) amount. Compare to [compound interest](#).

Simple IRA

A [salary deduction](#) plan for [retirement](#) benefits provided by some small [companies](#) with no more than 100 employees.

Simple linear regression

A [regression analysis](#) between only two [variables](#), one [dependent](#) and the other explanatory.

Simple linear trend model

An extrapolative statistical model that asserts that [earnings](#) have a base level and grow at a constant amount each period.

Simple moving average

The [mean](#), calculated at any time over a past period of fixed length.

Simple prospect

An [investment](#) opportunity in which only two outcomes are possible.

Simple rate of return

The [return](#) from [investments](#) figured by dividing income plus [capital gains](#) by the amount of [capital](#) invested. The effect of [compounding](#) is not taken into account.

Simplified Employee Pension (SEP) plan

A [pension plan](#) in which both the employee and the employer [contribute](#) to an [individual retirement account](#). Also available to the self-employed.

Simulation

The use of a mathematical [model](#) to imitate a situation many times in order to estimate the likelihood of various possible outcomes. See: [Monte Carlo simulation](#).

Singapore International Monetary Exchange (SIMEX)

A leading [futures and options exchange](#) in Singapore.

Single-country fund

A [mutual fund](#) that [invests](#) in individual countries outside the United States.

Single-factor model

A model of [security returns](#) that acknowledges only one common [factor](#). The single factor is usually the [market return](#). See: [Factor model](#).

Single-index model

A model of [stock returns](#) that decomposes influences on returns into a [systematic factor](#), as measured by the return on the broad [market index](#), and [firm specific factors](#). Related: [Market Model](#)

Single life annuity

An [annuity](#) covering one person. A straight life annuity provides payments until death, while a [life annuity](#) with a guaranteed period provides payments until death or continues payments to a [beneficiary](#) for a guaranteed term, such as ten years.

Single option

A single [put option](#) or [call option](#), as opposed to a [spread](#) or [straddle](#), which involves multiple [puts](#) and [calls](#).

Single-payment bond

A [bond](#) that makes only one payment of [principal](#) and [interest](#).

Single-Premium Deferred Annuity (SPDA)

An [IRA](#)-like [annuity](#) into which an [investor](#) makes a [lump-sum](#) payment that is invested in either a [fixed-return instrument](#) or a [variable-return portfolio](#), which is taxed only when [distributions](#) are taken.

Single-premium life insurance

A [whole life insurance](#) policy requiring one [premium](#) payment, which accrues [cash](#) value much more quickly than a policy paid in installments.

Single-state municipal bond fund

A [mutual fund investing](#) only in government [obligations](#) within a single state, with state tax-free [dividends](#), but taxed [capital gains](#).

Sinker

A [bond](#) with [interest](#) and [principal](#) payments coming from the [proceeds](#) of a [sinking fund](#).

Sinking fund

A fund to which [money](#) is added on a regular basis that is used to ensure [investor](#) confidence that promised payments will be made and that is used to [redeem debt securities](#) or [preferred stock issues](#).

Sinking fund requirement

A condition included in some corporate [bond indentures](#) that requires the [issuer](#) to [retire](#) a specified portion of [debt](#) each year. Any [principal](#) due at [maturity](#) is called the [balloon maturity](#).

Sit tight

Directive from the [trader](#) to the customer to be patient, emphasizing that one's piece of business will be [executed](#).

Size

Refers to the magnitude of an [offering](#), an [order](#), or a [trade](#). Large as in the size of an [offering](#), the size of an [order](#), or the size of a [trade](#). Size is relative from [market](#) to market and [security](#) to security. "I can [buy](#) size at 102-22," means that a [trader](#) can buy a significant amount at 102-22. Small is <10,000 [shares](#). Medium is 15,000-25,000 shares. Good is 50,000 shares. Size is 100,000 shares. Good six-figure size is 200,000-300,000 shares. Multiple six-figure size is >300,000 shares. Size of the market is actual number of shares represented in one's market, or [bid](#) and [offering](#); unless specified, assumed to be at least 500 to 1000 shares, depending on the [stock](#).

Size out the book

Overt action to exclude a public [bid](#) or offer from participation in a [print](#) through [trading](#) a larger size in the [book](#). Can never size out a [market order](#). See: [Priority](#), [shut out the book](#).

Skewed distribution

[Probability distribution](#) in which an unequal number of observations lie below (negative skew) or above (positive [skew](#)) the [mean](#).

Skewness

Negative skewness means there is a substantial probability of a big negative [return](#). Positive skewness means that there is a greater-than-normal probability of a big positive [return](#).

Skill

The ability to accurately forecast [returns](#). We measure skill using the [information coefficient](#).

Skip-day settlement

[Settling](#) a [trade](#) one business day beyond what is normal.

Skip-payment privilege

A [mortgage contract](#) clause giving [borrowers](#) the right to skip payments if they are ahead of schedule.

Skort-Swing Transaction

Any [purchase](#) and [sale](#), or sale and purchase, of the issuer's [equity securities](#) by an insider within a period of less than six months, See: [Section 16\(b\)](#) above.

SLD last sale

Shortened version of "sold last [sale](#)," which shows up on the [consolidated tape](#) when a large change (one point for lower priced [securities](#) and two points for higher-priced [securities](#)) occurs between [transactions](#).

Sleeper

[Stock](#) in which there is little [investor](#) interest but that has significant potential to gain in price once its attractions are recognized. Antithesis of [high flyer](#).

Sleeping beauty

Often used in [risk arbitrage](#). Potential [takeover target](#) that has not yet been approached by an [acquirer](#). Such a company usually has particularly attractive features, such as a large amount of [cash](#), or undervalued [real estate](#) or other [assets](#).

Slippage

The difference between estimated [transactions costs](#) and actual transactions costs. The difference usually represents revisions to price difference or [spread](#) and [commission costs](#).

Slump

A temporary fall in performance, often describing consistently falling [security](#) prices for several weeks or months.

Small business policy

[Insurance](#) coverage available to new exporters and small businesses.

Small-cap

A [stock](#) with a small [capitalization](#), meaning a total [equity](#) value of less than \$500 million.

Small-capitalization (small-cap) fund

A [mutual fund](#) that invests primarily in [stocks](#) of [companies](#) whose [market value](#) is less than \$1 billion. [Small-cap](#) stocks historically have been more volatile than large-cap stocks, and often perform differently from the overall [market](#).

Small-capitalization (small cap) stocks

The [stocks](#) of [companies](#) whose [market value](#) is less than \$1 billion. Small-cap companies tend to grow faster than large-cap companies and typically use any [profits](#) for [expansion](#) rather than pay [dividends](#). They also are more volatile than large-cap companies, and have a higher failure rate.

Small-firm effect

The tendency of small [firms](#) (in terms of total [market capitalization](#)) to outperform the [stock market](#) (consisting of both large and small firms).

Small investor

An individual person [investing](#) in small quantities of [stock](#) or [bonds](#). This group of [investors](#) makes up a minimal fraction of total [stock](#) ownership.

Small issues exemption

[Securities issues](#) that involve less than \$1.5 million are not required to file a [registration statement](#) with the [SEC](#). Instead, they are governed by [Regulation A](#), for which only a brief [offering](#) statement is needed.

Small Order Execution System (SOES)

Three-tiered system of automatic [execution](#) of an [order](#) at the best price. Size is either 200, 500, or, most often, 1000 [shares](#).

Smart money

[Investors](#) who make consistent [profits](#) in the [market](#), regardless of the investing environment, by making wise, educated moves.

Smidge

Small amount of price, usually +/- 1/8 or 1/4.

Smithsonian Agreement

A revision to the [Bretton Woods international monetary system](#) that was signed at the Smithsonian Institution in Washington, D.C., in December 1971. Included were a new set of [par values](#), widened bands to +/- 2.25% of par, and an increase in the official value of gold to US\$38.00 per ounce.

Snake

Arrangement established in 1972, that ties European [currencies](#) to each other within specified limits.

Snowballing

Used in the context of general equities. Process by which the [exercise](#) of [stop orders](#) in a declining or [advancing market](#) causes further downward or upward pressure on [prices](#), thus triggering more stop orders and more price pressure, and so on.

Social Security benefits

Monthly government payments to [retired](#) workers or their families who have paid [Social Security](#) taxes for a total of 40 [quarters](#) or 10 years.

Social Security Disability Income Insurance

Program financed by the Social Security tax to provide assistance to disabled individuals with disabilities expected to last at least one year, to [compensate](#) for lost income.

Socially conscious mutual fund

A [mutual fund](#) that does not [invest](#) in [companies](#) that have interests in socially unacceptable [markets](#) or produce harmful products or by-products, such as high levels of environmental pollution.

Society for Worldwide Interbank Financial Telecommunications (SWIFT)

A dedicated computer network to support funds [transfer](#) messages internationally between over 9,000 financial institutions in over 200 countries.

"Soft" capital rationing

Constraints on spending that under certain circumstances can be violated or even viewed as constituting targets rather than absolute limits.

Soft currency

The [money](#) of a country that is expected to [drop](#) in value relative to other currencies.

Soft dollars

The value of research services that brokerage houses supply to [investment managers](#) "free of charge" in exchange for the [investment manager's](#) business [commissions](#).

Soft landing

A term describing a growth rate high enough to keep the economy out of [recession](#), but also slow enough to prevent high [inflation](#) and [interest rates](#).

Soft market

A [buyer's market](#) in which supply exceeds demand, causing little [trading](#) activity and wide [bid-ask spreads](#).

Soft spot

[Stocks](#) or groups of stocks that remain weak in a strong [market](#).

Softs

Tropical [commodities](#) such as coffee, sugar, and cocoa.

Sold away

Refers to [over-the-counter trading](#). Having sold [stock](#) to another [dealer](#) before making the present [offering](#).

Sold-out market

Unavailability of a [futures contract](#) in a particular [commodity](#) or [maturity date](#) because of [contract executions](#) and limited [offerings](#).

Sole proprietorship

A business owned by a single individual. A sole proprietor pays no corporate [income tax](#) but has unlimited [liability](#) for business [debts](#) and [obligations](#).

Solvency

Ability to meet [obligations](#).

Sour bond

A [bond issue](#) that has [defaulted](#) on [interest](#) or [principal](#) payments, and will thus [trade](#) at a large [discount](#) and a poor [credit rating](#).

Source of funds seller

Customer seller of [stock](#) for the purpose of raising [cash](#) for other [purchases](#). Such a seller will sell only at advantageous prices, and not [aggressively](#).

Sources and applications of funds statement

See: [Statement of cash flows](#)

South African Futures Exchange (SAFEX)

Electronic [futures](#) and [options exchange](#) based in South Africa.

Sovereign risk

The [risk](#) that a [central bank](#) will impose [foreign exchange regulations](#) that will reduce or negate the value of foreign exchange [contracts](#). Also refers to the risk of government [default](#) on a [loan](#) made to a country or [guaranteed](#) by it. The government's part of [political risk](#).

Sovereign Wealth Fund (SWF)

Funds owned by sovereign nations that invest the savings of an entire state, [foreign exchange](#) reserves, or excess [liquidity](#).

Spaceman (Spacemen)

Spaceman is an entity specifically created to assist in tax evasion. Popular in Russia in 2000s. Spacemen are typically registered in the names of people who have lost identification. They are special purpose vehicles that do not perform any real activities and pay zero or minimal tax. They are called "space"men because they exist for a very short period of time (usually 6 months to 2 years) and then disappear (into space). This type of firm is also called a "dump," "flash-light," "bruise," and "hedgehog."

Span

To cover all contingencies within a specified range.

SPDRs

SPDRs (Spiders) are designed to track the value of the [Standard & Poor's 500 Composite Price Index](#). Stands for Standard & Poor's Depositary Receipt. They trade on the [American Stock Exchange](#) under the symbol SPY. SPDRs are similar to [closed-end funds](#) but are formally known as, [a unit investment trust](#). One SPDR [unit](#) is valued at approximately one-tenth (1/10) of the value of the S&P 500. [Dividends](#) are disbursed [quarterly](#), and are based on the [accumulated stock dividends](#) held in [trust](#), less any [expenses](#) of the trust. See: [Mid-cap SPDR](#).

Special arbitrage account

A [margin account](#) with lower [cash](#) requirements, reserved for [transactions](#) that are [hedged](#) by an [offsetting position](#) in [futures](#) or [options](#).

Special assessment bond

A [municipal bond](#) with [interest](#) paid by the taxes of the community benefiting from the [bond-funded](#) project.

Special bid

A method of purchasing a large [block](#) of [stock](#) on the [NYSE](#) by advertising a client's large [buy order](#), and matching it up with a number of other [traders'](#) smaller sell [orders](#).

Special bond account

A special [broker margin account](#) used only for [transactions](#) in US [government bonds](#), municipals, and eligible listed and unlisted non-[convertible corporate bonds](#).

Special Claim on Residual Equity (SCORE)

A [certificate](#) that entitles the owner to the [capital appreciation](#) of an [underlying security](#), but not to the [dividend](#) income from the [security](#).

Special dividend

Also referred to as an [extra dividend](#). [Dividend](#) that is unlikely to be repeated.

Special Drawing Rights (SDR)

A form of international [reserve assets](#), created by the IMF in 1967, whose value is based on a [portfolio](#) of widely used [currencies](#).

Special Meeting

Refers to a meeting of shareholders outside the usual [annual](#) general meeting. In the context of corporate governance, some limitations either increase the level of shareholder support required to call a special meeting beyond that specified by state law or eliminate the ability to call one entirely. Such provisions add an extra time delay to many proxy fights, since [bidders](#) must wait until the regularly scheduled annual meeting to replace board members or dismantle takeover defenses.

Special-Purpose Entity

A financing technique in which a [company](#) decreases its [risk](#) by creating separate partnerships, rather than [subsidiaries](#), for certain holdings and solicits outside investors to take on the risk. In order to qualify as a special-purpose entity, whose [financial](#) results are not carried on the [company's books](#), the [unit](#) must meet strict accounting guidelines. Compare to subsidiary.

Specialist

On an [exchange](#), the [member firm](#) that is designated as the [market maker](#) (or [dealer](#) for a [listed common stock](#)). Member of a [stock exchange](#) who maintains a "fair and orderly market" in one or more [securities](#). Only one [specialist](#) can be designated for a given [stock](#), but dealers may be specialists for several stocks. In contrast, there can be multiple market makers in the [OTC market](#). Major functions include [executing limit orders](#) on behalf of other exchange members for a portion of the [floor broker's commission](#), and [buying](#) or selling for the specialist's own account to counteract temporary [imbalances](#) in supply and demand and thus prevent wide swings in stock [prices](#).

Specialist block purchase and sale

[Purchase](#) of a large number of [securities](#) by a [specialist](#) for himself or to pass on to another [floor trader](#) or [block buyer](#).

Specialist market

[Market](#) in a [stock](#) made solely by the [specialist](#), as no [public orders](#), and henceforth no depth, exist in the market.

Specialist unit

A [specialist](#) who maintains a stable [market](#) by acting as a [principal](#) and [agent](#) for other [brokers](#) in one or many [stocks](#).

Specialist's book

Chronological record maintained by a [specialist](#) that includes the specialist's own inventory of [securities](#), [market orders](#) to sell [short](#), and [limit orders](#) and [stop orders](#) that other [stock exchange](#) members have placed with the [specialist](#).

Specialist's short-sale ratio

The percentage of the total [short sales](#) of [stock](#) sold [short](#) by [specialists](#).

Specialness

Difference between interest earned on a specific stock loan's collateral and the prevailing interest rate for stock loan collateral. A typical stock has specialness equal to zero. When there is positive specialness, a stock is said to be on special.

Specific issues market

The [market](#) in which [dealers](#) reverse in [securities](#) they wish to [short](#).

Specific Return

The part of the [excess return](#) not explained by [common factors](#). The specific [return](#) is independent of (uncorrelated with) the common factors and the specific returns to other [assets](#). It is also called the [idiosyncratic return](#).

Specific risk

See: [Unique risk](#)

Spectail

A [dealer](#) doing business with [retail](#) but concentrating more on acquiring and financing its own [speculative positions](#).

Speculation

Purchasing [risky investments](#) that present the possibility of large [profits](#), but also pose a higher-than-average possibility of [loss](#). A [profitable strategy](#) over the [long](#) term if undertaken by professionals who [hedge](#) their [portfolios](#) to [control](#) the amount of risk.

Speculative

[Securities](#) that involve a high level of [risk](#).

Speculative demand (for money)

The need for [cash](#) to take advantage of [investment](#) opportunities that may arise.

Speculative-grade bond

[Bond](#) rated Ba or lower by Moody's, or BB or lower by [S&P](#), or an unrated bond. See: [Junk Bond](#)

Speculative motive

A desire to [hold cash](#) in order to be poised to exploit any attractive [investment](#) opportunity requiring a [cash](#) expenditure that might arise.

Speculative stock

Very [risky stock](#).

Speculator

One who attempts to anticipate price changes and, through [buying](#) and selling [contracts](#), aims to make [profits](#). A [speculator](#) does not use the [market](#) in connection with the production, processing, marketing, or handling of a product. See: [Trader](#).

Speed

Related: [Prepayment speed](#)

Spider

See: [SPDRs](#)

Spike

[Order ticket](#) that shows the [stock](#), price, number of [shares](#), type, and account of the [order](#). Origin: Practice of placing the [ticket](#) on a metal spike upon [execution](#) or [cancellation](#). Spike is also a sudden, drastic increase in a [company's](#) share price.

Spin-off

A [company](#) can create an independent company from an existing part of the company by selling or distributing new [shares](#) in the so-called spin-off.

Spinning

In investment banking, the practice of an investment bank setting aside portions of a [corporation's](#) Initial Public Offering for senior [management](#) of that corporation. Ethically questionable practice which appears to be a form of bribery.

SPINs

Stands for [Standard & Poor's](#) 500 Index Subordinated Notes.

Split

Sometimes [companies](#) split their [outstanding shares](#) into more shares. If a company with 1 million shares executes a two-for-one split, the company would have 2 million shares. An [investor](#) with 100 shares before the split would [hold](#) 200 shares after the split. The investor's percentage of [equity](#) in the company remains the same, and the share price of the [stock](#) owned is one-half the price of the stock on the day prior to the split.

Split commission

A [commission](#) shared between a [broker](#) and a [financial adviser](#) or other professional who brought the customer to the [broker](#).

Split-coupon bond

A [bond](#) that begins as a [zero-coupon bond](#) paying no [interest](#) and converts to an [interest](#) paying [bond](#) on a future date.

Split-fee option

An [option](#) on an option. The [buyer](#) generally [executes](#) the split fee with first an initial fee, with a window period at the end of which (upon payment of a second fee) the original terms of the option may be extended to a later predetermined final notification date.

Split offering

A [municipal bond issue](#) that is made up of [serial bonds](#) and term [maturity](#) bonds.

Split order

A large [securities transaction](#) that is divided into smaller [orders](#) that are spread out over some period of time to avoid large fluctuations in the [market price](#).

Split print

[Block trade](#) printed at two different prices. Often used in [dividend rolls](#) to get an [average](#) price equal to the [dividend](#).

Split-rate tax system

A tax system that taxes [retained earnings](#) at a higher rate than [earnings](#) that are [distributed](#) as [dividends](#).

Split rating

Two different [ratings](#) given to the same [security](#) by two important [rating](#) agencies.

Split stock

(1) [Purchases](#) or [sales](#) shared with others. (2) Division of the [outstanding shares](#) of a [corporation](#) into a large number of shares. Ordinarily, [splits](#) must be proposed by directors and approved by [shareholders](#).

Spoken for

Amount of opposite demand (placement) or supply (availability) the [trader](#) has in efforts to [cross](#) the [stock](#). Not [open](#).

Sponsor

An [underwriting investment company](#) that offers [shares](#) in its [mutual funds](#), or an influential institution that highly values a particular [security](#) and thus creates additional demand for the [security](#). In the context of project financing, a developer of the project or a party providing [financial](#) support.

Sponsor loan

A sponsor loan allows a parent or other creditworthy person to borrow on behalf of a student and take full responsibility for the loan. The sponsor loan is under the name of the sponsor borrower only.

Spontaneous Current Liabilities

[Short-term obligations](#) that automatically increase and decrease in response to financing needs, such as [accounts payable](#).

Spontaneous Liabilities

[Obligations](#) that arise automatically in the course of operating a business when a [firm buys](#) goods and services on [credit](#).

Spot commodity

A [commodity](#) that is [traded](#) with the expectation of actual [delivery](#), as opposed to a [commodity future](#) that is usually not [delivered](#).

Spot exchange rates

[Exchange rate](#) on [currency](#) for immediate [delivery](#). Related: [Forward exchange rate](#).

Spot futures parity theorem

Describes the theoretically correct relationship between [spot](#) and [futures prices](#). Violation of the [parity](#) relationship gives rise to [arbitrage](#) opportunities.

Spot interest rate

[Interest rate](#) fixed today on a [loan](#) that is made today. Related: [Forward interest rates](#).

Spot lending

Originating [mortgages](#) by processing applications taken directly from prospective [borrowers](#).

Spot markets

Related: [Cash markets](#)

Spot month

The nearest [delivery](#) month on a [futures contract](#).

Spot price

The current [market price](#) of the actual [physical commodity](#). Also called [cash price](#).

Current [delivery](#) price of a commodity [traded](#) in the [spot market](#), in which goods are sold for [cash](#) and [delivered](#) immediately. Antithesis of [futures price](#).

Spot rate

The theoretical [yield](#) on a zero-coupon Treasury security.

Spot rate curve

The graphical depiction of the relationship between the [spot rates](#) and [maturity](#).

Spot secondary

[Secondary distribution](#) that may not require an [SEC registration statement](#) and may be attempted without delay. An [underwriting discount](#) is normally included in these [offerings](#).

Spot trade

The [purchase](#) and [sale](#) of a [foreign currency](#), [commodity](#), or other item for immediate [delivery](#).

Spot transaction

A foreign exchange transaction in which each party promises to pay a certain amount of [currency](#) to the other on the same day or within one or two days.

Spousal IRA

An [individual retirement account](#) in the name of an unemployed spouse.

Spousal remainder trust

A fixed-term [trust](#) from which income is [distributed](#) to the [beneficiary](#) (such as a child of the [grantor](#)) to take advantage of a lower [tax bracket](#), and that at the end of the term passes to the grantor's spouse.

Spread

(1) The gap between [bid](#) and [ask prices](#) of a [stock](#) or other [security](#). (2) The simultaneous [purchase](#) and [sale](#) of separate [futures](#) or [options contracts](#) for the same [commodity](#) for [delivery](#) in different months. Also known as a [straddle](#). (3) Difference between the price at which an [underwriter buys](#) an [issue](#) from a [firm](#) and the price at which the underwriter sells it to the [public](#). (4) The price an [issuer](#) pays above a [benchmark](#) fixed-income [yield](#) to [borrow money](#).

Spread income

Also called [margin](#) income, the difference between income and [cost](#). For a depository institution, the difference between the [assets](#) it invests in ([loans](#) and [securities](#)) and the [cost of its funds](#) (deposits and other sources).

Spread option

A [position](#) consisting of the [purchase](#) of one [option](#) and the [sale](#) of another [option](#) on the same [underlying security](#) with a different [exercise price](#) and/or [expiration date](#).

Spread order

An [order](#) listing the [series](#) of [options](#) that the customer wants to [buy](#) and sell and the desired [spread](#) between the [premiums](#) paid and received for the [options](#).

Spread position

The status of an account after a [spread order](#) has been carried out.

Spread strategy

A [strategy](#) that involves a [position](#) in one or more [options](#) so that the [cost](#) of [buying](#) an [option](#) is funded entirely or in part by selling another option in the same [underlying](#). Also called [spreading](#).

Spreadsheet

A computer program that organizes numerical data into rows and columns in order to calculate and make adjustments based on new data.

Sprinkling trust

A [trust](#) in which the trustee decides how to [distribute trust](#) income among a group of designated people.

SPX

Applies to derivative products. Symbol for the [S&P](#) 500 index.

Squeeze

Period when [stocks](#) or [commodities futures](#) increase in price and [investors](#) who have sold [short](#) must cover their [short positions](#) to prevent loss of large amounts of [money](#).

SS1

Securities sales speaker box that transmits to all [investment banks'](#) regional [trading](#) and [sales](#) desks.

Stabilization

The action undertakes a country when it [buys](#) and sells its own [currency](#) to protect its [exchange](#) value. Actions registered competitive [traders](#) undertake by on the [NYSE](#) to meet the [exchange](#) requirement that 75% of their [traded](#) be stabilizing, meaning that [sell orders](#) follow a [plus tick](#) and [buy orders](#) a [tick](#).

Actions a [managing underwriter](#) undertake so that the [market price](#) does not fall below the [public offering](#) price during the [offering](#) period

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Stable Paretian, or Fractal Hypothesis

In the characteristic function of the [fractal](#) family of [distributions](#), the characteristic exponent alpha can range between one and two. See: [Alpha](#), [Fractal Distributions](#), [Gaussian](#).

Stablecoin

A type of cryptocurrency where the cryptocurrency is either fully or partially collateralized. The collateral could be fiat currency, precious metals, stocks, bonds, or even another non-collateralized cryptocurrency. Stablecoins rely on [blockchain](#) technology. The coins are only as stable as the value of the underlying collateral. An example is the US dollar based [Tether](#).

Stability

The relative steadiness or safety of a [security](#) or fund compared to the [market](#) as a whole. For example, [money market funds](#) and other [short-term investments](#) offer more stability than funds that invest in [growth stocks](#).

Stag

[Speculator](#) who [buys](#) and sells [stocks](#) to [hold](#) for short intervals to make quick [profits](#).

Stagflation

A period of slow economic growth and high unemployment with rising prices ([inflation](#)).

Staggered board of directors

Occurs when a portion of directors are elected periodically, instead of all at once. Board terms are often staggered in order to thwart unfriendly [takeover](#) attempts, since potential [acquirers](#) would have to wait longer before they could take [control](#) of a [company's](#) board through the normal voting procedure.

Staggering maturities

[Hedging](#) against [interest rate](#) movements by [investment](#) in [short-](#), medium-, and [long-term bonds](#).

Stagnation

A period of slow economic growth, or, in [securities trading](#), a period of inactive [trading](#).

Stakeholders

All parties that have an interest, [financial](#) or otherwise, in a [firm](#)-[stockholders](#), [creditors](#), [bondholders](#), employees, customers, [management](#), the community, and the government.

Stale price

An old price of the asset that does not reflect the most recent information.

Stale price arbitrage

For a number of assets, the most recent transaction price at 4PM ET does not fully reflect all available market information. One example is international equities that trade on exchanges that are located in different time zones and close 2-15 hours before U.S. markets. In addition, domestic small-capitalization equities and high-yield and convertible bonds often trade infrequently and have wide bid-ask spreads. This can cause the most recent transaction price to be much different from the price that one would see in a liquid market at 4 PM, even for assets that trade on exchanges that are open at that time. Investors can take advantage of mutual funds that calculate their [NAVs](#) using stale closing prices by trading based on recent market movements. For example, if the U.S. market has risen since the close of overseas equity markets, investors can expect that overseas markets will open higher the following morning. Investors can buy a fund with a stale-price [NAV](#) for less than its current value, and they can likewise sell a fund for more than its current value on a day that the U.S. market has fallen. Similar opportunities exist when the values of infrequently or illiquidly-traded domestic assets have recently changed. With normal market arbitrage, as more traders learn where to buy an item at relatively low cost and where to sell it at relatively high value, market pressures from such traders tend to stabilize prices. With stale price arbitrage, there is no corresponding pressure for market correction. That is, a fund always pays the going market rate even if that fund has an agreement with its customers to only charge them the price from the prior day closing. Accordingly, even if such agreements ultimately impact the prices of trades by the mutual funds, there is no impact on the price paid by the customer of the mutual fund. In that sense, the stale price arbitrage opportunity can last

as long as a mutual fund honors its stale price agreement with its customers. Also referred to as Net Asset Value Arbitrage or NAV Arbitrage.

Stalking horse

In [bankruptcy](#) proceedings, this refers to the [company](#) that first [bids](#) for the companies [assets](#).

Stalking horse bid

In [bankruptcy](#) proceedings, this refers to first [bid](#) for the [companies assets](#). This is the bid to beat. If there are multiple bids, often there is a bankruptcy auction.

Stamp duty

Applies mainly to international equities. Taxes on foreign [transactions](#), usually a percentage of total transaction amount, that can be unilateral or bilateral in nature.

Stamp tax

Tax on a [financial transaction](#).

Stand-alone principle

[Investment](#) approach that advocates a [firm](#) should accept or reject a project by comparing it with [securities](#) in the same [risk class](#).

Standby Letter of Credit

Documents evidencing failure of the bank's customer (the applicant) to pay an obligation when due.

Stand up to

Make a good-sized [market](#) in the [trader's own bid](#) and [offering prices](#). Hence, "standing up" to the bid signifies the trader's willingness to [buy](#) size (i.e., 50m) volume at the advertised bid, even if the customer [buyer/seller falls down](#).

Standard deduction

The IRS-specified amount by which a taxpayer is entitled to reduce income an alternative to itemizing deductions.

Standard deviation

The square root of the [variance](#). A measure of dispersion of a set of data from its [mean](#).

Standard error

In statistics, a measure of the possible error in an estimate. Plus or [minus](#) 2 standard errors usually provides a 95% confidence interval.

Standard Industrial Classification (SIC)

A code system that designates a unique business activity classified by [industry](#).

Standard & Poor's MidCap 400 Index

A [market capitalization](#)-weighted benchmark index made up of 400 [securities](#) with market values between \$200 million and \$5 billion.

Standard & Poor's SmallCap 600 Index

A small-capitalization [benchmark index](#) made up of 600 domestic stocks chosen for market size, [liquidity](#), and industry group representation.

Standardized normal distribution

A [normal distribution](#) with a [mean](#) of 0 and a [standard deviation](#) of 1.

Standardized value

Also called the [normal deviate](#), the distance of one data [point](#) from the [mean](#), divided by the [standard deviation](#) of the [distribution](#).

Standby agreement

In a [rights issue](#), agreement that the [underwriter](#) will [purchase](#) any [stock](#) not purchased by [investors](#).

Standby commitment

An agreement between a [corporation](#) and [investment firm](#) that the firm will [purchase](#) whatever part of a [stock issue](#) that is offered in a [rights offering](#) that is not subscribed to in the two- to four- week standby period.

Standby fee

Amount paid to an [underwriter](#) who agrees to [purchase](#) any [stock](#) that is not purchased by [public investors](#) in a [rights offering](#).

Standby letter of credit

Agreement to [guarantee invoice](#) payments to a supplier; a standby [LOC](#) promises to pay the seller if the [buyer](#) fails to pay.

Standing

Level of [priority](#) in the [trading crowd](#).

Standstill agreement

[Contract](#) by which the [bidding](#) firm in a [takeover](#) attempt agrees to limit its holdings of another firm.

Start-up

The earliest stage of a new business venture.

State bank

A bank authorized in a specific state by a state-based [charter](#), with generally the same functions as a national bank.

State and local government series (SLUGs)

Special [nonmarketable certificates, notes](#), and [bonds](#) offered to state and local governments as a means to [invest proceeds](#) from their own [tax-exempt](#) financing. [Interest rates](#) and [maturities](#) comply with [IRS arbitrage](#) provisions. Slugs are offered in both [time deposit](#) and [demand deposit](#) forms. Time deposit certificates have maturities of up to one year. Notes mature in one to ten years and bonds mature in more than ten years. Demand deposit securities are one-day certificates rolled over with a rate adjustment daily.

State-Build-Own-Operate (SBOO) Approach

One of the two main approaches in financing the large-scale infrastructure projects. The State (the government) builds, owns, and operates the infrastructure project without the involvement of private enterprises. The second main approach is known as [Build-Operate-Transfer \(BOT\) Approach](#) or [Public-Private-Partnership \(PPP\) Approach](#).

State tax-exempt income fund

A [mutual fund](#) that seeks current income exempt from federal and a specific state's [income taxes](#).

Stated annual interest rate

The [interest rate](#) expressed as a per year percentage, by which [interest payments](#) are determined.
See: [Annual percentage rate](#).

Stated conversion price

At the time of issuance of a [convertible security](#), the price the [issuer](#) effectively grants the [securityholder](#) to [purchase](#) the [common stock](#), equal to the [par value](#) of the [convertible security](#) divided by the [conversion ratio](#).

Stated maturity

For the [CMO tranche](#), the date the last payment would occur at zero CPR.

Stated value

A monetary worth figure that bears no relation to [market value](#) that is assigned, for accounting purposes, to [stock](#) for use instead of [par value](#).

Statement of Additional Information (SAI)

A document provided as a supplement to a [mutual fund prospectus](#). It provides more detailed information about fund policies, operations, and risks. Also known as a [Part B prospectus](#).

Statement billing

[Billing](#) method in which the [sales](#) for a period such as a month (for which a customer also receives [invoices](#)) are collected into a single statement, and the customer must pay all the [invoices](#) represented on the statement.

Statement of Cash Flows

A [financial statement](#) showing a [firm's cash receipts](#) and [cash](#) payments during a specified period.

Statement-of-Cash-Flows Method

A method of [cash budgeting](#) that is organized along the lines of the statement of [cash flows](#).

Statement of condition

A document describing the status of [assets](#), [liabilities](#), and [equity](#) of a person or business at a particular time.

Statement of Financial Accounting Standards No. 8

The is a [currency](#) translation standard once used by U.S. accounting [firms](#). See: [Statement of Accounting Standards No. 52](#).

Statement of Financial Accounting Standards No. 52

The [currency](#) translation standard currently used by US [firms](#). It mandates the use of the [current rate method](#). See: [Statement of Financial Accounting Standards No. 8](#).

Statement of Financial Accounting Standards No. 157

Fair value measurements accounting standard issued in September 2006 by the [Financial Accounting Standards Board \(FASB\)](#). FAS 157 became effective for entities with fiscal years beginning after November 15, 2007. For investment securities held by a company, there are three different classifications: [Trading securities](#), [Available for sale](#) securities, and [Held to maturity](#) securities. Currently, under [GAAP](#), Trading and Available for sale securities are recorded at fair market value, while Held to maturity securities are recorded at original cost.

"Static" Return

The return that an investor would make on a particular position if the [underlying](#) stock were unchanged in price at the [expiration](#) of the options in the position.

Static theory of capital structure

Theory that the [firm's capital structure](#) is determined by a trade-off of the value of [tax shields](#) against the [costs](#) of [bankruptcy](#).

Stationary time series

A longitudinal measure in which the process generating [returns](#) is identical over time.

Statistical Arbitrage

In the context of hedge funds, a style of [management](#) that employs complex statistical models that try to capture small abnormalities in a security's intraday return.

Statistical inference

A statistical method of drawing conclusions on unknown properties of a population based on a random sampling of data from that population.

Statistical tracking error

Used in the context of general equities. [Standard deviation](#) of the difference between the [portfolio return](#) and the desired investment [benchmark](#) return.

Statutory debt limit

The cap that Congress imposes on the amount of [public debt](#) that may be [outstanding](#) whether temporary or permanent. When this limit is reached, the [Treasury](#) may not sell new [debt issues](#) until Congress raises the limit. For a detailed listing of changes in the limit since 1941, see Budget of the United States Government. See: [Debt outstanding subject to limitation](#).

Statutory investment

An [investment](#) that a [trustee](#) is authorized to make under state law.

Statutory merger

A [merger](#) in which one [corporation](#) remains as a [legal entity](#), instead of a new legal entity being formed.

Statutory surplus

The [surplus](#) of an insurance [company](#) determined by the accounting treatment of both [assets](#) and [liabilities](#) as established by state statutes.

Statutory voting

The standard rule in most [corporations](#) that there is one vote per [share](#) in elections of the [Board of Directors](#).

Staying power

The ability of an [investor](#) to stay in the [market](#) and not to [sell out](#) of a [position](#) when an [investment](#) has fallen in value.

Steady state

As an [MBS pool](#) ages, or four to six months after component mortgages have passed at least once the threshold for [refinancing](#), the [prepayment](#) speed tends to stabilize within a fairly steady range.

Steenth

1/16 (0.0625) of one full point in price. Often used in negotiations to compromise an eighth difference, and in [options trading](#).

Steepening of the yield curve

A change in the [yield curve](#) where the [spread](#) between the [yield](#) on a [long-term](#) and [short-term Treasury](#) has increased. Compare [flattening of the yield curve](#) and [butterfly shift](#).

Step aside

Allow a [block](#) to [trade](#) at a price at which you do not care to participate in the trade.

Step-down note

A [floating-rate note](#) whose [interest rate](#) declines after a specified period of time.

Step up

To increase, as in step up the [tax basis](#) of an [asset](#).

Step-up bond

A [bond](#) that pays a lower [coupon rate](#) for an initial period, and then increases to a higher coupon rate.
Related: Deferred-interest bond, [payment-in-kind bond](#).

Step-up swap

An [interest rate swap](#) on which the [notional principal](#) increases according to a predetermined schedule.

Sterilization

Refers to a policy undertaken by a Central bank whereby they purchase bonds in the open market (thereby increasing money supply) but at the same time sell other bonds or bills with the same value (thereby decreasing money supply). The impact is neutral on money supply. However, the impact is not necessarily neutral on risk. A recent example is the European Central Banking purchasing junk or near junk sovereign bonds and sterilizing by selling higher quality bonds.

Sterilized intervention

[Foreign exchange market](#) activity by which monetary authorities insulate their domestic [money](#) supplies from the foreign exchange [transactions](#) with [offsetting sales](#) or [purchases](#) of domestic [assets](#).

Sticky deal

A new [securities issue](#) that may be difficult to sell because of problems in the [market](#) or underlying problems with the [corporation](#).

Stochastic models

[Liability](#)-matching models that assume that the [liability](#) payments and the [asset cash flows](#) are uncertain. Related: [Deterministic models](#).

Stochastics index

A computerized tool measuring overbought and oversold conditions in a [stock](#) over a certain period.

Stock

Ownership of a [corporation indicated](#) by [shares](#), which represent a piece of the corporation's [assets](#) and [earnings](#).

Stock ahead

When two or more [orders](#) for a [stock](#) at a certain price arrive about the same time, and the [exchange's priority](#) rules take effect. [NYSE](#) rules stipulate that the [bid](#) made first should be [executed](#) first, or, if two bids come in at once, the bid for the larger number of [shares](#) receives priority. The bid that is not [executed](#) is then turned to the [broker](#), who informs the customer that the [trade](#) was not completed because there was "stock ahead.".

Stock bonus plan

A plan used as an incentive that rewards employee performance with [stock](#) in the [company](#).

Stockbroker

See: [Registered representative](#)

Stock Appreciation Right (SAR)

A contractual right, often granted in tandem with an option that allows an individual to receive [cash](#) or [stock](#) of a value equal to the appreciation of the stock from the grant date to the date the SAR is [exercised](#).

Stock buyback

A [corporation's purchase](#) of its own [outstanding stock](#), usually in order to raise the [company's earnings per share](#).

Stock certificate

A document representing the number of [shares](#) of a [corporation](#) owned by a [shareholder](#).

Stock dividend

Payment of a corporate [dividend](#) in the form of [stock](#) rather than [cash](#). The stock dividend may be additional [shares](#) in the [company](#), or it may be shares in a [subsidiary](#) being spun off to [shareholders](#). Stock dividends are often used to conserve [cash](#) needed to operate the business. Unlike a [cash dividend](#), stock dividends are not taxed until sold.

Stock Exchange Automated Quotation System (SEAQ)

London's [Nasdaq system](#).

Stock Exchange of Hong Kong (SEHK)

Only [stock exchange](#) located in Hong Kong.

Stock Exchange, Mumbai (BSE)

Formerly the Bombay stock exchange, the BSE accounts for more than one-third of Indian [trading volume](#).

Stock Exchange of Singapore (SES)

The only [stock exchange](#) in Singapore.

Stock Appreciation Rights

An incentive scheme for employees similar to stock options. The employee get the increase in the stock price from the date of the grant to the date of the exercise. However, in contrast to options, there is no dilutive effect. That is, no shares are issued. Similar to options, if the company's stock falls in value, the appreciation right is worthless.

Stock Exchange of Thailand

The major securities market of Thailand.

Stock exchanges

Formal organizations, approved and regulated by the [Securities and Exchange Commission \(SEC\)](#), that are made up of [members](#) who use the facilities to exchange certain [common stocks](#). The two major national [stock exchanges](#) are the [New York Stock Exchange \(NYSE\)](#) and the [American Stock Exchange \(ASE or AMEX\)](#). Five [regional stock exchanges](#) include the Midwest, Pacific, Philadelphia, Boston, and Cincinnati. The Arizona Stock Exchange is an after-hours electronic marketplace where anonymous participants [trade](#) stocks via personal computers.

Stock index

Index like the [Dow Jones Industrial Average](#) that tracks a [portfolio](#) of [stocks](#).

Stock Index Future

A [security](#) that uses composite [stock](#) indexes to allow [investors](#) to speculate on the performance of the entire [market](#), or to [hedge](#) against [losses](#) in [long](#) or [short positions](#). The [settlement](#) of the [contracts](#) is in [cash](#).

Stock index option

An [option](#) in which the [underlying](#) is a common [stock index](#).

Stock index swap

A [swap](#) involving a [stock index](#). The other [asset](#) involved in a stock index swap can be another stock index (a stock-for-stock swap), a debt index (a debt-for-stock swap), or any other [financial asset](#) or financial [price index](#).

Stock insurance company

An insurance company owned by a group of [stockholders](#), who are not necessarily [policyholders](#).

Stock jockey

A [stock broker](#) who frequently [buys](#) and sells [shares](#) in a client's [portfolios](#).

Stock list

The department within a [stock exchange](#) that oversees compliance with [listing requirements](#) and [exchange](#) regulations.

Stock market

Also called the [equity market](#), the market for [trading equities](#).

Stock option

An [option](#) whose [underlying asset](#) is the [common stock](#) of a [corporation](#).

Stock power

A [power of attorney](#) form giving ownership of a [security](#) to another person, brokerage firm, bank, or [lender](#) after it has been sold or pledged to that party.

Stock purchase plan

A plan allowing employees of a [company](#) to [purchase shares](#) of the company, often at a [discount](#) or with matching employer funds.

Stock rating

An evaluation by a rating agency of the expected [financial](#) performance or inherent [risk](#) of [common stocks](#).

Stock record

The accounting a brokerage firm keeps of all [securities](#) held in [inventory](#).

Stock replacement strategy

A [strategy](#) for enhancing a [portfolio's return](#), used when the [futures contract](#) is expensive according to its theoretical price. The strategy involves a [swap](#) between the [futures](#) and a [Treasury bill](#) and [stock portfolio](#).

Stock repurchase

A [firm's](#) repurchase of [outstanding shares](#) of its [common stock](#).

Stock right

Another terminology for a [stock option](#).

Stock selection

An [active portfolio management](#) technique that focuses on advantageous selection of particular [stock](#) rather than on broad asset allocation choices.

Stock split

Occurs when a [firm issues](#) new [shares of stock](#) and in turn lowers the current [market price](#) of its stock to a level that is proportionate to pre-[split](#) prices. For example, if IBM trades at \$100 before a two-for-one split, after the split it will [trade](#) at \$50, and holders of the stock will have twice as many shares as they had before the split. See: [Split](#).

Stock symbol

See: [Ticker symbol](#)

Stock ticker

A letter designation assigned to [securities](#) and [mutual funds](#) that [trade](#) on US financial [exchanges](#).

StockWatch

A stock surveillance program offered by proxy solicitation firms, and selected [transfer agents](#), to track and monitor [sales](#) and [purchases](#) of a [corporation's](#) shares and provide valuable information at the beneficial owner level.

Stock watcher (NYSE)

A computerized service that monitors and investigates [trading](#) activity on the [NYSE](#) in order to identify any unusual activity or [security](#) movement that might be caused by rumors or illegal activities.

Stockholder

See: [Shareholder](#).

Stockholder books

Set of [books](#) kept by [firm management](#) for its [annual report](#) that follows [Financial Accounting Standards Board](#) rules. The tax books follow IRS tax rules.

Stockholder equity

[Balance sheet](#) item that includes the [book value](#) of ownership in the [corporation](#). It includes [capital stock](#), [paid-in surplus](#), and [retained earnings](#).

Stockholder of record

[Stockholder](#) whose name is registered on the books of a [corporation](#) and thus will receive [dividends](#) from the corporation.

Stockholder's equity

The [residual claims](#) that [stockholders](#) have against a firm's [assets](#), calculated by subtracting all current liabilities and debt liabilities from total [assets](#).

Stockholder's report

The [annual report](#) and other [reports](#) given to [stockholders](#) to inform them of the [company's financial](#) standing and developments.

Stockholm Stock Market (Stockholm B&#ouml;rseren)

The major securities market of Sweden.

Stockout

Running out of [inventory](#).

Stop basis

Refers to [over-the-counter trading](#). Method of entering an [OTC](#) trade into the [trader's position](#) without [reporting](#) the [trade](#) on the [OTC tape](#).

Stop-limit order

A [stop order](#) that designates a [price limit](#). Unlike the [stop order](#), which becomes a [market order](#) once the stop is reached, the stop-limit order becomes a [limit order](#).

Stop-loss order

An [order](#) to [unwind](#) a position when the price moves against you. This order is designed to limit losses or in some cases to lock in a certain level of profit. As soon as the price of the security hits the stop-loss price (or falls below), the order becomes a market order. If you were [short](#) the [asset](#), the stop-loss would trigger a purchase. Stop-losses are often disabled for after hours trading because prices are often quite variable and you could be executed at an unfavorable price. Stop losses are also usually calculated off the bid price (which is a measure of what people are actually willing to pay if the security is sold). Again, one needs to be careful because if there is lack of liquidity, the bid-ask spread could be large and you could be stopped out at an unfavorable price. Finally, some traders have rolling or trailing stop loss. As the price moves up the stop-loss is moved higher (say 20% below the current price).

Stop order (or stop)

An order to [buy](#) or sell at the [market](#) when a definite price is reached, either above (on a buy) or below (on a sell) the price that prevailed when the order was given.

Stop-out price

The lowest auction price at which [Treasury bills](#) are sold.

Stop payment

An [order](#) given a depository institution not to pay out [cash](#) for a [check](#); often used when the [check](#) has been stolen or lost.

Stop Transfer

A block placed against a security [reported](#) lost or stolen (an adverse claim), so it cannot be [transferred](#).

Stopped

Guaranteed a specific price on the customer's [working order](#) while the [dealer](#) tries to obtain a better one. Stopped against one's self involves a customer order and a firm's own account, not two customers. One can [cancel](#) an order even after being stopped by another party.

Stopped out

A [purchase](#) or [sale](#) that is [executed](#) under a [stop order](#) at the [stop price](#) specified by the customer.

Stopping curve

A curve showing the [refunding](#) rates for different times at which the [expected value](#) of [refunding](#) immediately equals the [expected value](#) of waiting to refund.

Stopping curve refunding rate

A [refunding](#) rate that falls on the [stopping curve](#).

Story stock/bond

A highly complex [security](#) that requires a [long](#) "story" so that [investors](#) may understand the [corporation](#) and be persuaded of its merits.

Straddle

[Purchase](#) or [sale](#) of an equal number of [puts](#) and [calls](#) with the same terms at the same time.

Related: [Spread](#).

Straight

Direct telephone line, compared to an outside line that requires a telephone number to be dialed.

Straight Bill of Lading

A [bill of lading](#) that is cosigned to a specific party and is therefore non negotiable.

Straight Discount

The rate applied to the [face value](#) of the [promissory note](#) to calculate [present value](#) without [compounding](#). For example, a note with a face value in three years of 100, with a straight [discount](#) of 10% per annum has a present value of 70.

Straight-line depreciation

[Amortizing](#) or apportioning an equal dollar amount of [depreciation](#) in each accounting period.

Straight term insurance policy

Term [life insurance policy](#) providing a fixed-amount death benefit over a certain number of years.

Straight value

Also called [investment value](#), the value of a [convertible security](#) without the [conversion option](#).

Straight voting

Allows [shareholder](#) to cast all of the shareholder's votes for each candidate for the [Board of Directors](#).

Strange Attractor

An [attractor](#) in [phase space](#), where the points never repeat themselves, and orbits never intersect, but they stay within the same region of [phase space](#). Unlike [limit cycles](#) or [point attractors](#), strange attractors are non-periodic, and generally have a [fractal dimension](#). They are a picture of a non-linear, chaotic system. See: [Attractor](#), [Chaos](#), [Limit Cycle](#), [Point Attractor](#).

Strangle

[Buying](#) or selling an [out-of-the-money put option](#) and [call option](#) on the same [underlying instrument](#), with the same [expiration](#). [Profits](#) are made only if there is a drastic change in the [underlying instrument's](#) price.

Strap

A relatively simple trading strategy that involves buying a set of [options](#), two [calls](#) and one [put](#), with the same [strike price](#) and [expiration date](#) on a [stock](#). The strap is a more focused version of the [straddle](#), and is popular due to its unlimited [profit](#), limited [risk](#) nature. The maximum loss that a strap can incur occurs when the [equity](#) price on the [expiration date](#) of the [options](#) is the same as the price on the date the options were purchased. In this case, the loss is equal to the sum the three-option set was purchased for. However, with any deviation in the price either up or down, the strategy recovers at least some of the cost of purchasing the options. See: [Strip](#), [Straddle](#)

Strategic alliance

Collaboration between two or more [companies](#) designed to achieve some corporate objective. May include international [licensing](#) agreements, [management contracts](#), or [joint ventures](#).

Strategic buyout

[Acquisition](#) of another [firm](#) in order to realize some operational benefits which will result in increased [earnings](#).

Strategy

The general or specific approach to investing that an individual, institution, or [fund manager](#) employs.

Stratified equity indexing

A method of constructing a [replicating portfolio](#) that classifies the [stocks](#) in the [index](#) into strata, and represents each stratum in the [portfolio](#).

Stratified sampling approach to indexing

Dividing an [index](#) into cells, each representing a different characteristic of the index, such as [duration](#) or [maturity](#).

Stratified sampling bond indexing

A method of [bond indexing](#) that divides the [index](#) into cells, each cell representing a different characteristic, and that [buys](#) bonds to match those characteristics.

Stray

(1) Not a member of the participating party in the [trade](#) at hand; (2) not a meaningful [indication](#) of a customer's desire to take a sizable [position](#) or be involved in a [stock](#).

Street

Means [Wall Street financial](#) community; [brokers](#), [dealers](#), [underwriters](#), and other knowledgeable participants.

Street name

[Registration](#) under which [securities](#) maybe held by a [broker](#) on behalf of a client but be registered in the name of the [Wall Street](#) firm.

Stress test

Tests conducted by federal supervisory agencies in early 2009 to estimate the range of possible future losses among US banks and determine if they have sufficient capital buffers to withstand the impact of a severe [recession](#). The stress test involved two scenarios, a base scenario and a worst case scenario.

Strike index

For a [stock index option](#), the index value at which the [buyer](#) of the [option](#) can [buy](#) or sell the [underlying stock index](#). The [strike index](#) is converted to a dollar value by multiplying by the option's [contract](#) multiple. Related: [Strike price](#).

Strike price

The [stated](#) price per share for which [underlying stock](#) may be [purchased](#) (in the case of a [call](#)) or sold (in the case of a [put](#)) by the [option](#) holder upon [exercise](#) of the [option contract](#).

Striking price

The price at which an [option](#) can be [exercised](#). See: [Exercise price](#).

Striking Price Intercal

The distance between striking prices on a particular underlying security. Normally, the interval is 2-1/2 points for stocks under \$25, 5 points for stocks selling over \$25 per share, and 10 points (or greater) is acceptable for stocks over \$200 per share. There are, however, exceptions to this general guideline.

Strip

Variant of a [straddle](#). A strip is two [puts](#) and one [call](#) on a [stock](#). A strap is two calls and one put on a stock. The puts and calls have the same [strike price](#) and [expiration date](#). See: Strap.

Strip mortgage participation certificate (strip PC)

Ownership interests in specified [mortgages purchased](#) by [Freddie Mac](#) from a single seller in exchange for separate [instruments](#) representing interests in the same mortgages.

Stripped bond

[Bond](#) that can be subdivided into a [series](#) of [zero-coupon bonds](#).

Stripped mortgage-backed securities (SMBS)

[Securities](#) that redistribute the [cash flows](#) from the [underlying](#) generic [MBS collateral](#) into the [principal](#) and [interest](#) components of the MBS to enhance their attractiveness to different groups of [investors](#).

Stripped yield

Applies mainly to [convertible securities](#). Return on the [debt](#) portion of a [bond/warrant unit](#) after subtracting the value of the [issued](#) warrant segment.

Strong Currency

A [currency](#) whose value compared to other currencies is improving, as [indicated](#) by a decrease in the direct [exchange rates](#) for the [currency](#).

Strong dollar

When the dollar can be exchanged for a large amount of [foreign currency](#), benefiting travelers but hurting exporters.

Strong-form efficiency

A form of [pricing efficiency](#), that posits that the price of a [security](#) reflects all information, whether or not it is [publicly](#) available. Related: [Weak-form efficiency](#), [semi-strong form efficiency](#).

Strong form of the EMT

Theory that [market prices](#) reflect all relevant [publicly](#) and privately available information. Defined by Eugene F. [Fama](#) in 1970.

Structural Adjustment Loan Facility (SAL)

[World Bank](#) program established in 1980 to enhance a country's [long-term](#) economic growth through financing projects.

Structure

The description of how a project financing is [drawdown](#), repaid, and [collateralized](#) secured.

Structured arbitrage transaction

A self-funding, self-[hedged series](#) of [transactions](#) that usually use [mortgage-backed securities \(MBS\)](#), commercial mortgage backed securities, and collateralized debt obligations as the primary [assets](#).

Structured Asset Trust Unit Repackagings

A synthetic security linked or weak-linked to underlying collateral. Ratings usually reflect the [credit](#) quality of the underlying securities.

Structured debt

[Debt](#) that has been customized for the [buyer](#), often by incorporating unusual options.

Structured finance

Often refers to a group within an investment bank that deals with [mortgage-backed securities \(MBS\)](#), commercial mortgage backed securities, and collateralized debt obligations, and real estate.

Structured investment vehicle

A fund that [borrows](#) for the short-term by issuing [commercial paper](#) to invest in long-term [assets](#) like [MBS](#) and asset-backed securities. The [profit](#) is made on the [credit](#) spread between short-term [debt](#) and long-term [investments](#). Structured Investment Vehicles are often used as off-balance sheet investments by financial firms. SIVs played an important role in the credit crunch of 2007-2008.

Structured note

A [derivative investment](#) that will change in value with movements of an [underlying index](#); or a [note](#) whose [issuer](#) makes swap arrangements to alter its required [cash flows](#).

Structured portfolio strategy

Designing a [portfolio](#) to achieve a level of performance that matches some predetermined [liabilities](#) that must be paid out in the future.

Structured product

Structured products are [investment vehicles](#) based on a [basket](#) of underlying [securities](#), such as [derivatives](#), [equities](#), [debt issuance](#), [commodities](#), [indices](#), [currencies](#), or any combination thereof.
See: [Debt instrument](#), [Asset allocation decision](#), [Structured finance](#)

Structured settlement

An agreement in [settlement](#) of a lawsuit involving specific payments made over a period of time. Property and [casualty insurance companies](#) often [buy life insurance](#) products to pay the [costs](#) of such settlements.

Stub

Often used in [risk arbitrage](#). Piece of [equity security](#) left over from a major [cash](#) or security [distribution](#) from a recapitalization.

Student Loan Marketing Association (SLMA)

A [publicly traded corporation](#) established by federal action that increases availability of educational loans by guaranteeing student [loans traded](#) in the secondary [market](#). Also known as [Sallie Mae](#).

Subaccount

A term used in bookkeeping. For example, the insurance expense account may have various different subcategories such as building and property insurance, auto/fleet insurance, general liability, environmental, professional liability, law enforcement, and other insurance.

Subchapter M

An [IRS](#) regulation dealing with [investment companies](#) and [real estate investment trusts](#) that avoid double taxation by distributing [interest](#), [dividends](#), and [capital gains](#) directly to [shareholders](#), who are taxed individually.

Subchapter S

[IRS regulation](#) that gives a [corporation](#) with 35 or fewer [shareholders](#) the option of being taxed as a [partnership](#) to escape corporate [income taxes](#).

Subject

Refers to a [bid](#) or [offer](#) that cannot be [executed](#) without confirmation from the customer. In other words, not [firm](#), but a [bid/offer](#) that needs additional information/confirmation before becoming firm and is therefore still negotiable.

Subject market

[Quote](#) in which [prices](#) are subject to [confirmation](#). See: [Fast market](#).

Subject to a (NY) can

Contingent upon [trader's](#) ability to [cancel](#) an [order](#) (on the [indicated exchange](#)).

Subject to opinion

An auditor's opinion reflecting acceptance of a [company's financial statements](#) subject to pervasive uncertainty that cannot be adequately measured, such as information relating to the value of [inventories](#), [reserves](#) for [losses](#), or other matters open to judgment.

Subject to a print/execution/trading

Contingent on [execution](#) of a [trade](#) because the [picture](#) in the [stock](#) has not been materially altered.

Subjective probabilities

[Probabilities](#) that are determined subjectively (for example, on the basis of judgment rather than statistical sampling).

Subordinated

A claim ranked lower in priority than other claims. [Common stock](#) claims are always subordinated to [debt](#).

Subordinated bonds

[Securities](#) that fall after others in priority of claims on the entity in the case of [financial](#) distress.

Subordinated debenture bond

An [unsecured bond](#) that ranks after [secured debt](#), after [debenture bonds](#), and often after some general [creditors](#) in its claim on [assets](#) and [earnings](#). Related: [Debenture bond](#), [mortgage bond](#), [collateral trust bonds](#).

Subordinated debt

[Debt](#) over which [senior debt](#) takes priority. In the event of [bankruptcy](#), [subordinated debtholders](#) receive payment only after senior debt claims are paid in full.

Subordination clause

A provision in a [bond indenture](#) that restricts the [issuer's](#) future [borrowing](#) by subordinating future [lenders'](#) claims on the firm to those of the existing [bondholders](#).

Subpart F

Special category of [foreign-source](#) "unearned" income that is currently taxed by the IRS whether or not it is remitted to the US

Subperiod return

The [return](#) of a [portfolio](#) over a shorter period of time than the [evaluation period](#).

Subprime market

Refers to the [market](#) for [subprime loans](#), [subprime mortgages](#) and their securitized forms such as [MBS](#), asset-backed securities, [CDOs](#), etc.

Subprime mortgage

Subprime refers to higher the [risk](#). These are [mortgages](#) that are issued to individuals who are often not qualified. That is, the long term monthly [mortgage](#) payment is more than their income. Often, these [mortgages](#) are issued on the expectation that the homeowners income will rise in the future. These mortgages are often made feasible by [teaser rates](#). This means that the rate might be very low for the first few years but then rise steeply. In periods of weakness in the housing market or the economy in general, these [mortgages](#) are the first to run into trouble.

Subprime lending

Lending to individuals who have a bad [credit](#) history or relatively low income. A higher [interest rate](#) is charged for such [loans](#) because [risk](#) to the [lender](#) is higher. Excessive subprime lending is often pointed to as one of the major causes of the financial crisis of 2008-2009.

Subrogation

An insurance process whereby a [company](#) that has paid out to a [policyholder](#) for a [loss](#) incurred recovers the amount of the loss from the party that is legally liable.

Subscription

Agreement to [buy](#) new [issue](#) of [securities](#).

Subscription agreement

An application reviewed by the [general partner](#) to join a [limited partnership](#).

Subscription price

Price that current [shareholders](#) pay for a share of [stock](#) in a [rights offering](#).

Subscription privilege

The right of current [shareholders](#) of a [corporation](#) to [buy](#) newly [issued shares](#) before they are available to the [public](#).

Subscription right

See: [Subscription privilege](#)

Subscription warrant

Applies to derivative products. Type of [security](#), usually [issued](#) with another [security](#), such as a [bond](#) or [stock](#), that entitles the holder to [buy](#) a proportionate amount of [common stock](#) at a specified price, usually higher than the [market price](#) at the time of issuance. [Warrant](#).

Subsidiary

A wholly or partially owned [company](#) that is part of a large [corporation](#). A foreign [subsidiary](#) is a separately incorporated entity under the host country's law. A subsidiary's [financial](#) results are carried on the parent [company's books](#).

Subsidized financing

Funding provided by a government or other entity that is available at a below-[market interest rate](#).

Substitute sale

A method for [hedging price risk](#) that uses [debt market instruments](#), such as [interest rate futures](#), or that involves selling [borrowed securities](#) as the primary [assets](#).

Substitution swap

A [swap](#) in which a [money manager](#) exchanges one [bond](#) for another bond that is similar in terms of [coupon](#), [maturity](#), and [credit quality](#), but that [offers](#) a higher [yield](#).

Substantially equal periodic payments (SEPP)

A method of [distribution](#) from [IRA](#) account [assets](#) that under certain conditions is not subject to the [IRS's](#) 10% premature withdrawal penalty for those under age 59-1/2.

Success tax

A 15% [excise tax](#) on "excess" [distributions](#) from [tax-deferred retirement plans](#) that was repealed by the Taxpayer Relief Act of 1997. In essence, the [tax had](#) [penalized](#) "successful" [investors](#) who [accumulated](#) large [retirement](#) accounts and took [distributions](#) that exceeded an [annual](#) limit deemed excessive by the tax code.

Suicide pill

A [hostile takeover](#) prevention tactic that could destroy the [target company](#). Taking on a large amount of [debt](#) to prevent the takeover might cause [bankruptcy](#), for example.

Suitability

A requirement that any investing [strategy](#) fall within the [financial](#) means and investment objectives of an investor.

Suitability rules

Policies and guidelines that [brokers](#) must use to ensure that [investors](#) have the [financial](#) means to assume [risks](#) that they wish to undertake. These are enforced by the [NASD](#) and other [self-regulatory organizations](#).

Suitable

Describing a [strategy](#) or [trading](#) philosophy in which the investor is operating in accordance with his/her [financial](#) means and investment objectives.

Summary plan description (SPD)

A document that explains the fundamental features of an employer's [defined benefit](#) or [defined contribution plan](#), including eligibility requirements, contribution formulas, vesting schedules, benefit calculations, and distribution options. ERISA requires that the SPD be easy to understand and that each participant receive a copy within 90 days of joining the plan.

Sum-of-the-years'-digits depreciation

Method of [accelerated depreciation](#).

Sunk costs

[Costs](#) that have been incurred and cannot be reversed.

Sunrise industries

Growth industries in an economy that may become leaders in the [market](#) in the future.

Super Bowl indicator

A theory that if a team from the old American Football League pre-1970 wins the Super Bowl, the [stock market](#) will decline during the coming year. If a team from the old pre-1990 National Football League wins the Super Bowl, [stock](#) prices will increase in the coming year.

Super DOT

Super [DOT](#) provides faster [execution](#) than regular DOT and focuses on large-size [trades](#) and [baskets](#).

See: [Program trading](#).

Super Majority

A proposal requiring more than a simple majority of the votes eligible to be cast at an [annual](#) or special meeting. A super majority is often a 2/3 (66.66%) vote, but it can be as high as 3/4 (75%) or 4/5 (80%).

Super message

See: [Autex](#)

Super sinker bond

Usually a home financing [bond](#), but also any other [bond](#) that has [long-term coupons](#) but [short maturity](#); the [mortgages](#) may be prepaid, and the holders may receive the long-term [yield](#) after a short period of time.

Super Sovereign

Refers to institutions such as [EU](#) or [IMF](#).

Superangels

Refers to a group of individual venture capitalists, or [angels](#), that pool their funding together to create a larger pool of capital.

Supermajority

Provision in a [company's charter](#) requiring a majority of, say, 80% of [shareholders](#) to approve certain changes, such as a [merger](#).

Supermajority amendment

Often used in [risk arbitrage](#). Corporate amendment requiring that a substantial majority (usually 67% to 90%) of [stockholders](#) approve important [transactions](#), such as [mergers](#).

Supervisory analyst

An [analyst](#) who is qualified to approve [publicly](#) distributed research [reports](#) on the [NYSE](#).

Supervisory board

The [board of directors](#) that represents [stakeholders](#) in the governance of the [corporation](#).

Supervisory Capital Assessment Program

See [Stress test](#).

Supplemental Security Income

A Social Security program established to help the blind, disabled, and poor.

Supplier credit

Self-financing of a supplier's operations. Also the agreement of a supplier of goods or services to deferred repayment [terms](#).

Supply risk

The [risk](#) associated with a change in raw materials or input to a project from those assumed or projected. In the context of a resources production project, this is called reserves risk.

Supply shock

An event that influences production [capacity](#) and [costs](#) in an economy.

Supply-side economics

A theory of economics that reductions in [tax rates](#) will stimulate [investment](#) and in turn will benefit the entire society.

Support

An effective lower bound on prices supported because of many willing [buyers](#) at that price level.

Support level

A price [level](#) below which it is supposedly difficult for a [security](#) or [market](#) to fall. That is, the price level at which a security tends to stop falling because there is more demand than supply; can be identified on a [technical basis](#) by seeing where the [stock](#) has bottomed out in the past.

Surcharge

An additional levy added to some charge.

Surety

An individual or [corporation](#) that [guarantees](#) the performance or actions of another.

Surplus funds

[Cash flow](#) available after payment of taxes in a project.

Surplus management

Related: [Asset management](#)

Surtax

A tax added to the normal tax paid by [corporations](#) or individuals who have [earned income](#) above a certain level.

Surveillance department of exchanges

A department that monitors [trading](#) activity on an [exchange](#) in order to identify any unusual activity that may [indicate](#) illegal practices.

Survivorship bias

Usually pertaining to fund manager or individual investor performance. Suppose we examined the performance over the last ten years of a group of managers that exist today. This performance is biased upwards because we are only considering those that survived for 10 years. That is, some [dropped](#) out because of poor performance. Hence, in evaluating performance, one has to be careful to include both the current and the managers that dropped out of the sample due to poor performance.

Sushi bond

A [Eurobond issued](#) by a Japanese [corporation](#).

Suspended trading

Temporary [halt in trading](#) in a particular [security](#), in advance of a major news announcement or to correct an [imbalance of orders](#) to [buy](#) and sell.

Suspense account

An account used temporarily to record [receipts](#) and disbursements that have yet to be classified.

Sustainable growth rate

Maximum rate of [growth](#) a [firm](#) can sustain without increasing [financial leverage](#).

Swap

An arrangement in which two entities [lend](#) to each other on different [terms](#), e.g., in different [currencies](#), and/or at different [interest rates](#), fixed or floating.

Swap arrangements

[Short-term](#) reciprocal [lines of credit](#) between the Federal Reserve and 14 foreign central banks as well as the [Bank for International Settlements](#). Through a swap [transactions](#), the Federal Reserve can, in effect, [borrow foreign currency](#) in order to [purchase](#) dollars in the foreign exchange market. In doing so, the demand for dollars and the dollar's foreign exchange value are increased. Similarly, the Federal Reserve can temporarily provide dollars to foreign central banks through swap arrangements.

Swap assignment

Related: [Swap sale](#)

Swap book

A [swap](#) bank's [portfolio](#) of swaps, usually arranged by [currency](#) and [maturity](#).

Swap buy back

The [sale](#) of an [interest rate swap](#) by one [counterparty](#) to the other, effectively ending the [swap](#).

Swap Execution Facilities (SEFs)

A Swap Execution Facility is an electronic trading system to bring greater efficiency and transparency in the swaps market. [Dodd-Frank Act](#), which was signed by President Obama in July 2010 included a requirement that any participant providing electronic markets for trading interest rate swaps will need to register as a Swap Execution Facility.

Swap fund

See: [Exchange fund](#)

Swap option

See: [Swaption](#). Related: [Quality option](#).

Swap rate

The difference between [spot](#) and [forward rates](#) expressed in points, e.g., \$0.0001 per pound sterling.

Swap reversal

An [interest rate swap](#) designed to end a [counterparty's](#) role in another [interest rate swap](#), accomplished by counterbalancing the original [swap](#) in [maturity](#), [reference rate](#), and [notional amount](#).

Swap sale

Also called a [swap assignment](#), a [transaction](#) that ends one [counterparty's](#) role in an [interest rate swap](#) by substituting a new counterparty whose [credit](#) is acceptable to the other original counterparty.

Swaption

[Options](#) on [interest rate swaps](#). The [buyer](#) of a swaption has the right to enter into an [interest rate swap](#) agreement by some specified date in the future. The swaption agreement will specify whether the buyer of the swaption will be a fixed-rate receiver or a [fixed-rate payer](#). The [writer](#) of the swaption becomes the counterparty to the [swap](#) if the buyer [exercises](#).

Sweat equity

An increase in [equity](#) created by the labor of the owner.

Swedish FSA

See: [Finansinspektionen](#).

Sweep

The act of using all available [cash flow](#) for the repayment of [debt](#) service.

Sweep account

Account providing that a bank invest all the excess available funds at the close of each business day for the [firm](#).

Sweetener

A feature of a [security](#) that makes it more attractive to potential [purchasers](#).

Swing Trading

Refers to a type of short term (one day to a couple of weeks) trading, triggered by technical analysis, for example, [momentum](#). Swing trading is distinguished by the notion that the trades are executed while the assets are moving in upward or downward [momentum](#). That is, you are riding the [momentum](#).

Swingline facility

Bank [borrowing](#) facility to provide [finance](#) while the [firm](#) replaces US [commercial paper](#) with eurocommercial paper.

Swiss Electronic Bourse (EBS)

Computer linking system between the former [stock exchange trading floors](#) in Zurich, Geneva, and Basel, Switzerland so that [trades](#) can be carried out among [traders](#) on all three of the [trading floors](#).

Swiss Options and Financial Futures Exchange (SOFFEX)

The Swiss [derivatives market](#) with the first fully electronic [trading](#) system in the world, now called Eurex Zurich AG.

Swiss Exchange

The major securities market of Switzerland.

Swissy

Slang for the Swiss franc.

Switch order

[Order](#) for the [purchase \(sale\)](#) of one [stock](#) and the sale (purchase) of another stock at a stipulated price difference. [Contingent order](#), [swap](#).

Switching

[Liquidating](#) a [position](#) and simultaneously reinstating a position in another [futures contract](#) of the same [type](#).

Switching options

A sequence of [transactions](#) in which [exercise](#) of one [option](#) creates one or more additional [options](#). [Investment-disinvestment](#), entry-exit, [expansion](#)-contraction, and suspension-reactivation decisions are switching options.

Sydney Futures Exchange (SFE)

The [derivatives market](#) of Australia.

Symbol

Letters used to identify [companies](#) on the [consolidated tape](#) and other locations.

Symbol book special

[Illiquid](#), inactively [traded stock](#) not familiar [market](#)

Symmetric cash matching

An extension of [cash flow](#) matching that allows for the [short-term borrowing](#) of funds to satisfy a [liability](#) prior to the liability due date, reducing the [cost of funding](#) liabilities.

Synchronous data

Information available at the same time. To test [option-pricing](#) models, the price of the [option](#) and of the [underlying](#) should be synchronous and reflect the same moment in the [market](#).

Syndicate

A group of banks that acts jointly, on a temporary basis, to [loan money](#) in a bank [credit](#) (syndicated credit) or to [underwrite](#) a new issue of [bonds](#).

Syndicate manager

See: [Managing underwriter](#)

Syndicated Eurocredit loans

[Funding](#) provided by a group (or [syndicate](#)) of banks in the [Eurocredit market](#).

Syndicated Loan

A large [Eurocurrency loan](#) from a group of international banks.

Syndication

The selling of a project [finance](#) to a group of prospective participants, the [syndicate](#).

Synergistic effect

A violation of [value-additivity](#) in that the value of a combination is greater than the sum of the individual values.

Synergy

Describes a combination whose value is greater than the sum of the separate individual parts.

Synthetic convertible

Combination of usable [bonds](#) and [warrants](#) (that expire on or after the bonds' [maturity](#)) that resembles [convertible bond](#).

Synthetic forward position

A forward [position](#) constructed through [borrowing](#) in one [currency](#), [lending](#) in another [currency](#), and [offsetting](#) these [transactions](#) in the [spot exchange market](#).

Synthetic Lease

When a [company](#) creates a special-purpose entity to arrange for a [loan](#) to [purchase](#) property, and then leases the property from the entity. The synthetic lease therefore keeps the loan off the [company's](#) balance sheet, while the company provides enough income to the special-purpose entity to cover the interest rate on the loan.

Synthetic put

A [strategy](#) equivalent in risk to purchasing a put option where an investor sells stock short and [buys](#) a [call](#).

Synthetic stock

An option [strategy](#) that is equivalent to the underlying stock. A long [call](#) and a short put is synthetic long stock. A long put and a short call is synthetic short stock.

Synthetics

Customized [hybrid instruments](#) created by blending an [underlying](#) price on a [cash](#) instrument with the price of a derivative instrument. It is a combination of [security](#) holdings that mimics the [price movement](#) of another single security (i.e., synthetic [call](#): [long position](#) in a [stock](#) combined with a put on that position; a protected [long sale](#); synthetic [put](#): [short position](#) in a stock combined with a [call](#) on that position; a [protected short sale](#)).

System Noise

See: [Dynamical Noise](#)

Systematic

Common to all businesses.

Systematic investment plan

An approach involving regular [investments](#) in order to take advantage of [dollar-cost averaging](#).

Systematic Return

The part of the [return](#) dependent on the [benchmark return](#). We can break [excess returns](#) into two components: [systematic](#) and [residual](#). The systematic return is the [beta](#) times the [benchmark excess return](#).

Systematic risk

Also called [undiversifiable risk](#) or [market risk](#). A good example of a systematic risk is market risk. The degree to which the stock moves with the overall market is called the systematic risk and denoted as beta.

Systematic risk principle

Only the [systematic](#) portion of [risk](#) matters in large, well-[diversified](#) portfolios. Thus, [expected returns](#) must be related only to [systematic risks](#).

Systematic withdrawal plan

A provision of certain [mutual funds](#) to pay out to the [shareholder](#) specified amounts after specified periods of time.

Systemic Risk

Risk common to a particular sector or country. Often refers to a risk resulting from a particular "system" that is in place, such as the regulator framework for monitoring of [financial_institutions](#).

Systems theory

A method of describing a complex structure introduced by Ludwig von Bertalanffy in the 1940s that relates the interaction of individual components of the structure to the functioning of the structure as a whole.

T

Fifth letter of a [Nasdaq stock symbol](#) indicating that the stock has [warrants](#) or rights.

TAA

See: [Tactical asset allocation](#)

TAF

See: [Term Auction Facility](#)

TABs

See: [Tax anticipation bill](#)

TALF

See: [Term Asset-Backed Securities Loan Facility](#)

TANs

See: [Tax anticipation notes](#)

TARP

See: [Troubled Asset Relief Program](#)

TBA

See: [To be announced](#)

TBAC

See: [Treasury Borrowing Advisory Committee](#)

TBTF

See: [Too Big to Fail](#)

TC

The two-character [ISO](#) 3166 country code for TURKS AND CAICOS ISLANDS.

TCA

The three-character [ISO](#) 3166 country code for TURKS AND CAICOS ISLANDS.

TCD

The three-character [ISO](#) 3166 country code for CHAD.

TD

The two-character [ISO](#) 3166 country code for CHAD.

TEFRA

See: [Tax Equity and Fiscal Responsibility Act of 1983](#)

TF

The two-character [ISO](#) 3166 country code for FRENCH SOUTHERN TERRITORIES.

TG

The two-character [ISO](#) 3166 country code for TOGO.

TGO

The three-character [ISO](#) 3166 country code for TOGO.

TH

The two-character [ISO](#) 3166 country code for THAILAND.

THA

The three-character [ISO](#) 3166 country code for THAILAND.

THB

The [ISO](#) 4217 currency code for the Thai Baht.

TIGER

See: [Treasury Investors Growth Receipt](#)

TIIS

See: [Treasury inflation-indexed securities](#)

TIPS

See: [Treasury inflation-protected securities](#)

TITAL

See: [Transaction insured trade acceptance locator](#)

TJ

The two-character [ISO](#) 3166 country code for TAJIKISTAN.

TJK

The three-character [ISO](#) 3166 country code for TAJIKISTAN.

TJR

The [ISO](#) 4217 currency code for the Tajikistan Rouble.

TK

The two-character [ISO](#) 3166 country code for TOKELAU.

TKL

The three-character [ISO](#) 3166 country code for TOKELAU.

TKM

The three-character [ISO](#) 3166 country code for TURKMENISTAN.

TL

The two-character [ISO](#) 3166 country code for TIMOR-LESTE.

TLS

The three-character [ISO](#) 3166 country code for TIMOR-LESTE.

TM

The two-character [ISO](#) 3166 country code for TURKMENISTAN.

TMM

The [ISO](#) 4217 currency code for the Turkmenistan Manet.

TN

The two-character [ISO](#) 3166 country code for TUNISIA.

TNCs

Transnational corporations. Corporations with business in multiple countries.

TND

The [ISO](#) 4217 currency code for the Tunisian Dinar.

TO

The two-character [ISO](#) 3166 country code for TONGA.

TON

The three-character [ISO](#) 3166 country code for TONGA.

TOP

The [ISO](#) 4217 currency code for the Tonga Pa'anga.

TP

The two-character [ISO](#) 3166 country code for EAST TIMOR.

TR

The two-character [ISO](#) 3166 country code for TURKEY.

TRL

The [ISO](#) 4217 currency code for the Turkish Lira.

TSLF

See: [Term Securities Lending Facility](#).

TSP

See: [Thrift Savings Plan](#)

TT

The two-character [ISO](#) 3166 country code for TRINIDAD AND TOBAGO.

TTD

The [ISO](#) 4217 currency code for the Trinidad and Tobago Dollar.

TTM

Trailing 12 months. Often used with [Earnings Per Share](#).

TTO

The three-character [ISO](#) 3166 country code for TRINIDAD AND TOBAGO.

TUN

The three-character [ISO](#) 3166 country code for TUNISIA.

TUR

The three-character [ISO](#) 3166 country code for TURKEY.

TUV

The three-character [ISO](#) 3166 country code for TUVALU.

TV

The two-character [ISO](#) 3166 country code for TUVALU.

TW

The two-character [ISO](#) 3166 country code for TAIWAN, PROVINCE OF CHINA.

TWD

The [ISO](#) 4217 currency code for the Taiwan Dollar.

TWN

The three-character [ISO](#) 3166 country code for TAIWAN, PROVINCE OF CHINA.

TZ

The two-character [ISO](#) 3166 country code for TANZANIA, UNITED REPUBLIC OF.

TZA

The three-character [ISO](#) 3166 country code for TANZANIA, UNITED REPUBLIC OF.

TZS

The [ISO](#) 4217 currency code for the Tanzania Shilling.

T-period holding-period return

The percentage [return](#) over the [T](#)-year period an [investment](#) is held.

T+3

The [settlement date](#) for [securities transactions](#) such as a stock [sale](#). It refers to the [obligation](#) in the brokerage business to settle securities trades by the third day following the trade date. The settlement occurs when the seller receives the sales price (the [broker's](#) commission) and the [buyer](#) receives the [shares](#).

Tabulation Report

A [proxy](#) tally report detailing the current quorum and vote figures on each proposal.

TAC bonds

See: [Targeted amortization class bond](#).

T-account

A simplified representation of the actual accounts used for record-keeping. Called T-account because it looks like the letter T with debits under the left arm and credits under the right arm.

Tactical Asset Allocation (TAA)

Portfolio strategy that allows active departures from the normal asset mix according to specified objective measures of value. Often called active management. It involves forecasting asset returns, volatilities, and correlations. The forecasted variables may be functions of fundamental variables, economic variables, or even technical variables.

Tail

1. Often refers to extreme risk. In terms of a distribution, the left tail represents extreme negative realizations. Importantly, there are two tails. The right tail refers to extreme positive realizations. 2. The remaining reserves after a project financing has been repaid. Sometimes refers to the residual value.

Tail Risk

Usually refers to the left side of a probability distribution which represents extreme negative events. Tail risk is related to negative skewness. Tail risk can be managed. For example, the purchase of a put option reduces tail risk.

Tailgating

Purchase of a security by a broker after the broker places an order for the same security for a customer. The broker hopes to profit either because of information which the customer has or because the customer's purchase is of sufficient size to affect security prices. This is an unethical practice.

Taiwan Stock Exchange (TSEC)

Established in 1961, the only centralized securities market in Taiwan.

Take

(1) To agree to buy. A dealer or customer who agrees to buy at another dealer's offered price is said to take the offer. (2) Euro bankers speak of taking deposits rather than buying money.

Take a bath

To sustain a loss on either a speculation or an investment.

Take a flier

To speculate on highly risky securities.

"Take it down"

Reduce the [offering](#) price or [hit](#) others' [bids](#) to such an extent as to lower the [inside market](#).

"Take me along"

"Allow me to participate in the side of a particular [trade](#).

Take off

A sharp increase in the price of a [stock](#), or a positive movement of the [market](#) as a whole.

Take the offer

[Buy stock](#) by accepting a [floor broker's \(listed\)](#) or [dealer's \(OTC\) offer](#) at an agreed-upon volume.

Antithesis of [hit the bid](#).

Take-out

A [cash surplus](#) generated by the [sale](#) of one [block](#) of [securities](#) and the [purchase](#) of another, e.g., selling a block of [bonds](#) at 99 and [buying](#) another block at 95. Also, a [bid](#) made to a seller of a security that is designed (and generally agreed) to take the seller [out of the market](#).

Take-and-pay contract

An agreement that [obligates](#) the [purchaser](#) to take any product that is [offered](#) (and pay the [cash](#) purchase price) and pay a specified amount if the product is not taken.

Take a position

To [buy](#) or [sell short](#); that is to own or to owe some amount on an [asset](#) or [derivative security](#).

Take a powder

Temporarily [cancel](#) an [order](#) or [indication](#) in a [stock](#), while unrepresented interest still exists.

See: [Back on the shelf](#), [sidelines](#).

Take a swing

[Execute](#) a [trade](#) at a price that the [trader](#) feels is higher or more [risky](#) than would normally be acceptable, in order to gain [market](#) share in the institutional arena.

Takedown

The [share](#) of [securities](#) of each [participating investment banker](#) in a new or a [secondary offering](#), or the price at which the [securities](#) are distributed to the different members of an [underwriting](#) group.

Takeout

A financing to refinance or take out another [loan](#).

Take-out merger

See [Clean-up merger](#).

Takeover

General term referring to [transfer](#) of [control](#) of a [firm](#) from one group of [shareholders](#) to another group of shareholders. Change in the controlling interest of a [corporation](#), either through a friendly [acquisition](#) or an unfriendly, [hostile](#), [bid](#). A hostile [takeover](#) (with the aim of replacing current existing management) is usually attempted through a [public tender offer](#).

Takeover target

A [company](#) that is the object of a [takeover](#) attempt, friendly or [hostile](#).

Take-up fee

A fee paid to an [underwriter](#) in connection with an [underwritten rights offering](#) or an underwritten [forced conversion](#). Represents [compensation](#) for each share of [common stock](#) the underwriter obtains and must resell upon the [exercise](#) of rights or [conversion of bonds](#).

Takes a call

Requires a phone call to an account in order for a [trade](#) to be completed. See: [Show me](#).

Takes price

Requiring some price movement or [concession](#) on behalf of the initiating party before a [trade](#) can be consummated. See: [Price give](#).

Taking delivery

When the [buyer](#) actually assumes possession from a seller of [assets](#) agreed upon in a [forward contract](#) or a [futures contract](#).

Taking a view

A London expression; means forming an opinion as to where [market prices](#) are headed and acting on it.

Tandem programs

[Ginnie Mae](#) mortgage funds provided at below-market rates to residential [MBS](#) buyers with FHA Section 203 and 235 loans and to developers of multifamily projects with Section 236 loans initially and later with Section 221(d)(4) loans.

Tangible asset

An [asset](#) whose value depends on particular physical properties. These include [reproducible assets](#) such as buildings or machinery and [non-reproducible assets](#) such as land, a mine, or a work of art. Also called [real assets](#). Converse of: [Intangible asset](#)

Tangible net worth

Total [assets](#) minus [intangible assets](#), which include [patents](#) and copyrights, and total [liabilities](#).

Tangibility

Characteristic that an [assets](#) can be used as [collateral](#) to secure [debt](#).

Tape

(1) Service that reports prices and sizes of transactions on major [exchanges-ticker tape](#). (2) [Dow Jones](#) and other news wires. See: [Consolidated tape](#).

Tape is late

When the [trading volume](#) is so heavy that [trades](#) appear on the [tape](#) more than a minute behind the timer they actually take place.

Tare Weight

The weight of an empty container and any packaging materials used in the container.

Tariff

A tax on imports or exports.

Target cash balance

Optimal amount of [cash](#) for a [firm](#) to [hold](#), considering the trade-off between the [opportunity costs](#) of [holding](#) too much cash and the [trading costs](#) of holding too little cash.

Target company

Often used in [risk arbitrage](#). [Firm](#) chosen as an attractive [takeover](#) candidate by a potential [acquirer](#). The acquirer may [buy](#) up to 5% of the [target's stock](#) without [public disclosure](#), but it must [report](#) all transactions and supply other information to the [SEC](#), the [exchange](#) the target company is listed on, and the target company itself once the 5% threshold is hit. See: Raider.

Target firm

A [firm](#) that is the object of a [takeover](#) by another firm.

Target investment mix

The percentage mix of [stocks](#), [bonds](#), and [short-term reserves](#) that an [investor](#) considers appropriate based on his/her personal objectives, time horizon, [risk](#) tolerance, and [financial](#) resources.

Target Leverage Ratio

The ratio of the [market value](#) of [debt](#) to the total market value of the [firm](#) that [management](#) seeks to maintain.

Target payout ratio

A [firm's](#) long-run dividend-to-earnings ratio. The firm's policy is to attempt to pay out a certain percentage of [earnings](#), but it pays a [stated](#) dollar dividend and adjusts it to the target as base line increases in [earnings](#) occur.

Target price

In the context of [takeovers](#), the price at which an acquirer aims to buy a [target firm](#).

In the context of [options](#), the price of the [underlying security](#) at which an [option](#) will become [in the money](#).

In the context of [stocks](#), the price that an [investor](#) hopes a [stock](#) will reach in a certain time period.

Target zone arrangement

A monetary system under which countries pledge to maintain their [exchange rates](#) within a specific [margin](#) around agreed-upon, fixed central [exchange rates](#).

Target zones

Implicit boundaries on [exchange rates](#) established by [central banks](#).

Targeted registered offerings

[Securities issues](#) sold to "targeted" foreign [financial institutions](#) according to U.S. [Securities and Exchange Commission](#) guidelines. These foreign institutions then maintain a [secondary market](#) in the foreign market.

Targeted repurchase

[Buying](#) back of a [firm's stock](#) from a potential [acquirer](#), usually at a substantial [premium](#), to forestall a [takeover](#) attempt. Related: [Greenmail](#).

Targeted Amortization Class (TAC) bonds

[Bonds](#) offered as a [tranche class](#) of some [CMOs](#), according to a [sinking fund](#) schedule. They differ from [PAC bonds](#) whose [amortization](#) is [guaranteed](#) as long as prepayments on the [underlying mortgages](#) do not exceed certain limits. A TAC's schedule is met at only one prepayment rate.

Tax accounting

Accounting for tax calculation and preparation. Treatment of tax may be different for purpose of reporting to tax authorities as compared to [GAAP](#).

Tax anticipation bills (Tabs)

Special bills that the [Treasury](#) occasionally [issues](#) that [mature](#) on corporate [quarterly income tax](#) dates and can be used at [face value](#) by [corporations](#) to pay their [tax liabilities](#).

Tax Anticipation Notes (Tans)

Notes [issued](#) by states or municipalities to [finance](#) current operations in anticipation of future tax [receipts](#).

Tax arbitrage

Trading that takes advantage of a difference in [tax rates](#) or tax systems as the basis for [profit](#).

Tax audit

[Audit](#) by the [IRS](#) or other [tax-collecting agency](#) to determine whether a taxpayer has paid the correct amount of tax.

Tax avoidance

Minimizing tax burden through legal means such as tax-free [municipal bonds](#), [tax shelters](#), [IRA](#) accounts, and [trusts](#). Compare with [tax evasion](#).

Tax base

The [assessed value](#) of the taxable property, [assets](#), and income within a specific geographic area.

Tax basis

In the context of [finance](#), the original [cost](#) of an [asset](#) less [depreciation](#) that is used to determine gains or losses for tax purposes.

In the context of [investments](#), the price of a [stock](#) or [bond](#) plus the [broker's commission](#).

Tax books

Records kept by a [firm's management](#) that follow IRS rules. The [books](#) follow [Financial Accounting Standards Board](#) rules.

Tax bracket

The percentage of tax [obligation](#) for a particular [taxable income](#).

Tax clawback agreement

An agreement to contribute as [equity](#) to a project the value of all previously realized project-related tax benefits not already clawed back. [Exercised](#) to the extent required to cover any [cash](#) deficiency of the project.

Tax clientele

Categories of [investors](#) who have specific preferences for [debt](#) or [equity](#) because of differences in their personal tax rates.

Tax credit

A direct dollar-for-dollar reduction in tax allowed for [expenses](#) such as child care and R&D for building low-income housing. Compare [tax deduction](#).

Tax-deductible

The effect of creating a [tax deduction](#), such as charitable [contributions](#) and [mortgage interest](#).

Tax deduction

An [expense](#) that a taxpayer is allowed to [deduct](#) from [taxable income](#).

Tax-deferred income

[Dividends](#), [interest](#), and unrealized [capital gains](#) on [investments](#) in an account such as a [qualified retirement plan](#), where income is not subject to taxation until a withdrawal is made.

Tax deferral option

Allowing the [capital gains tax](#) on an [asset](#) to be payable only when the gain is realized by selling the asset.

Tax-deferred retirement plans

Employer-sponsored and other plans that allow [contributions](#) and [earnings](#) to be made and [accumulate](#) tax-free until they are paid out as benefits.

Tax differential view (of dividend policy)

The view that [shareholders](#) prefer [capital gains](#) over [dividends](#), and hence low [payout ratios](#), because capital gains are effectively taxed at lower rates than dividends.

Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA)

Legislation to increase tax revenue by eliminating various taxation loopholes and instituting tougher enforcement procedures in collecting taxes.

Tax-equivalent yield

The pre-tax [yield](#) required from a taxable [bond](#) in order to equal the tax-free [yield](#) of a [municipal bond](#).

Tax evasion

Illegal by reducing tax burden by underreporting income, overstating [deductions](#), or using illegal [tax shelters](#).

Tax-exempt bond

A bond usually issued by municipal, county, or state governments whose interest payments are not subject to federal and, in some cases, state and local [income tax](#).

Tax-exempt income

[Dividends](#) and [interest](#) not subject to federal and, in some cases, state and local [income taxes](#).

Tax-exempt income fund

A [mutual fund](#) that seeks income that is exempt from federal and, in some cases, state and local [income taxes](#).

Tax-exempt money market fund

A [money market fund](#) that invests in [short-term](#) tax-exempt municipal [securities](#).

Tax-exempt sector

The [municipal bond market](#) where state and local governments raise funds. Bonds [issued](#) in this [sector](#) are exempt from federal [income taxes](#).

Tax-exempt security

An [obligation](#) whose interest is tax-exempt, often called a [municipal bond](#), offered by a country, state, town, or any political district.

Tax free acquisition

A [merger](#) or [consolidation](#) in which (1) the [acquirer's tax basis](#) on each [asset](#) whose ownership is [transferred](#) in the transaction is generally the same as the [acquiree's](#), and (2) each seller who receives only [stock](#) does not have to pay any tax on the gain realized until the shares are sold.

Tax haven

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

Tax haven affiliate

A wholly owned entity in a low-tax jurisdiction that is used to channel funds to and from a multinational's foreign operations. The tax benefits of tax haven affiliates were largely removed in the US by the [Tax Reform Act of 1986](#).

Tax holiday

A reduced [tax rate](#) that a government provides as an inducement to foreign direct [investment](#).

Tax liability

The amount in taxes a taxpayer to the government.

Tax lien

The right of the government to enforce a claim against the property of a person owing taxes.

Tax and loan account

An account at a private bank, held in the name of the district [Federal Reserve Bank](#), which [holds](#) operating [cash](#) for the business of the US [Treasury](#).

Tax loss carryback, carryforward

A tax benefit that allows business [losses](#) to be used to reduce [tax liability](#) in previous and or following years.

Tax-neutrality

Characteristic that taxes do not interfere with the natural flow of [capital](#) toward its most productive use.

Tax planning

Devising [strategies](#) throughout the year in order to minimize [tax liability](#), for example, by choosing a tax filing status that is most beneficial to the taxpayer.

Tax preference item

Items that must be included when calculating the alternative minimum tax.

Tax preparation services

[Firm](#) that prepare tax returns for a fee.

Tax rate

The percentage of tax paid for different levels of income.

Tax Reduction Strategy

A source of competitive advantage that depends on differences in the [tax rates](#) imposed in different locations.

Tax Reform Act of 1976

Legislation aimed at tightening provisions relating to taxation, including changes in the [capital gains](#) tax laws.

Tax Reform Act of 1984

Legislation enacted as part of the Deficit Reduction Act of 1984 to reduce the federal [budget deficit](#). Among its provisions are a decrease in the minimum [holding period](#) for [assets](#) to qualify for [long-term capital gains](#) treatment from one year to six months.

Tax Reform Act of 1986

A 1986 law involving a major overhaul of the US tax code.

Tax Reform Act of 1993

See: [Revenue Reconciliation Act of 1993](#)

Tax refund

Money back from the government when too much tax has been paid or withheld from a salary.

Tax schedules

Tax forms used to [report](#) itemized [deductions](#), [dividend](#) and interest income, [profit](#) or [loss](#) from a business, [capital gains](#) and losses, [supplemental income](#) and loss, and [self-employment tax](#).

Tax selling

Selling of [securities](#) to realize losses that will offset [capital gains](#) and reduce [tax liability](#). See: [Wash sale](#).

Tax shelter

Legal methods taxpayers can use to reduce [tax liabilities](#). An example is the use of [depreciation](#) of [assets](#).

Tax-sheltered annuity

A type of [retirement plan](#) under Section 403(b) of the [Internal Revenue Code](#) that permits employees of public educational organizations or tax-exempt organizations to make [before-tax contributions](#) via a [salary](#) reduction agreement to a [tax-sheltered](#) retirement plan. Employers are also allowed to make direct contributions on behalf of employees.

Tax shield

The reduction in [income taxes](#) that results from taking an allowable [deduction](#) from [taxable income](#).

Tax software

Computer software designed to assist taxpayers in filling out tax returns and minimizing [tax liability](#).

Tax status election

The decision of the status under which to file a tax return. For example, a [corporation](#) may file as a C corporation or an S corporation.

Tax straddle

Technique used in [futures](#) and [options trading](#) to create tax benefits. For example, an [investor](#) with a [capital gain](#) takes a [position](#) creating an artificial [offsetting loss](#) in the current tax year and postponing a gain from the [position](#) until the next tax year.

Tax swap

[Swapping](#) two similar [bonds](#) to receive a tax benefit.

Tax-timing option

The option to sell an [asset](#) and claim a loss for tax purposes or not sell the asset and defer the [capital gains](#) tax.

Tax umbrella

Tax loss carryforwards from previous business losses that form a [tax shelter](#) for [profits](#) earned in current and future years.

Taxpayer Relief Act of 1997

Legislation forming part of a larger act designed to balance the federal budget. Some of the legislation's provisions included [tax credits](#) for taxpayers supporting children, an increase in the amount that could be excluded from [estate taxes](#), and a lower [capital gains](#) tax rate.

Taxable acquisition

A [merger](#) or [consolidation](#) that is not a [acquisition](#). The selling [shareholders](#) are treated as having sold their [shares](#).

Taxable equivalent yield

The [return](#) from a higher-paying but taxable investment that would equal the return from a tax-free investment. This depends on the [investor's tax bracket](#).

Taxable estate

That portion of a deceased person's estate that is subject to [transfer tax](#).

Taxable event

An event or [transaction](#) that has a tax consequence, such as the [sale](#) of [stock holding](#) that is subject to [capital gains](#) taxes.

Taxable income

Gross income less a variety of [deductions](#).

Taxable municipal bond

Taxed [private-purpose bonds](#) issued by the state or local government to [finance](#) prohibited projects such as sports stadiums.

Taxable transaction

Any transaction that is not tax-free to the parties involved, such as a [taxable acquisition](#).

Taxable year

The 12-month period an individual uses to report income for [income tax](#) purposes. For most individuals, their tax year is the calendar year.

Tax Equity and Fiscal Responsibility Act of 1983

The law requiring federal [income tax](#) withholding on payments of [dividend](#) and [interest](#) to accounts without a certified tax identification number on file. See: [W-9](#).

Taylor rule

Describes how a [central bank](#) should adjust short-term [interest rates](#) (e.g. the [Federal Funds rate](#)) in response to [inflation](#) or output gaps. According to the rule, the [interest rate](#) should be increased if [inflation](#) rises above the target rate of [inflation](#) or if [real GDP](#) rises above trend [GDP](#) (increasing [interest rates](#) would [squeeze credit](#) supply to decrease demand and bring prices under control.) On the other hand, if [inflation](#) or [real GDP](#) fall below their target values, [interest rates](#) should be decreased. Proposed by economist John B. Taylor in 1993.

Tear sheet

A page from an [S&P stock](#) that provides information on thousands of [stocks](#), often sent to prospective [purchasers](#).

Teaser rate

A low initial [interest rate](#) on an [adjustable-rate mortgage](#) to entice [borrowers](#), that is later eliminated and replaced by a [market](#)-level rate.

Technical analysis

[Security](#) analysis that seeks to detect and interpret patterns in past [security prices](#).

Technical analysts

Also called [chartists](#) or [technicians](#), [analysts](#) who use mechanical rules to detect changes in the supply of and demand for a [stock](#), and to [capitalize](#) on the expected change.

Technical condition of a market

Demand and supply factors affecting price, in particular, the [net position](#), either [long](#) or [short](#), of the [dealer](#) community.

Technical descriptors

[Variables](#) that are used to describe the [market](#) in terms of patterns in historical data.

Technical forecasting

A [forecasting](#) method that uses historical prices and [trends](#).

Technical Information

Information related to the momentum of a particular [variable](#). In [market analysis](#), technical information is information related to market dynamics and [crowd](#) behavior only.

Technical insolvency

[Default](#) on a legal [obligation](#) of the [firm](#). Technical [insolvency](#) occurs when a firm doesn't pay a bill on time.

Technical rally

[Short](#) rise in [securities](#) or [commodities futures prices](#) in the face of a general declining [trend](#). Such a [rally](#) may result because [investors](#) are [bargain hunting](#) or because [analysts](#) have noticed a particular [support level](#) at which securities usually bounce up. Antithesis of [correction](#).

Technical sign

A [short-term trend](#) in the [price movement](#) of a [security](#) that [analysts](#) recognize as significant.

Technician

Related: [Technical analysts](#)

TED spread

Difference between [US Treasury bill](#) rate and [Eurodollar](#) rate; used by some [traders](#) as a measure of investor/trader anxiety or [credit](#) quality.

Teeny

1/16 or 0.0625 of one full point in price. [Steenth](#).

Tel Aviv Stock Exchange

Israel's only [stock exchange](#).

Telephone switching

Moving one's [assets](#) from one [mutual fund](#) or variable annuity to another by telephone.

Temporal method

A [currency translation](#) method under which the choice of [exchange rate](#) depends on the [underlying](#) method of valuation. [Assets](#) and [liabilities](#) valued at [historical cost \(market cost\)](#) are translated at the historical (current market) rate.

Temporary Assets

That portion of a [firm's current assets](#) that fluctuates in response to seasonal or anticipated [short-term](#).

Temporary Financing

The sum of negotiated [current liabilities](#) and temporary [spontaneous current liabilities](#).

Temporary investment

A [short-term investment](#), such as a [money market fund](#), [Treasury bills](#), or short-term [CD](#), which is usually held a year or less.

Ten largest holdings

The percentage of a [portfolio's](#) total [net assets](#) or [equity holdings](#) in its ten largest [securities positions](#). As this percentage rises, a [portfolio's returns](#) are likely to be more volatile because they are more dependent on the fortunes of fewer [companies](#).

Tether

A cryptocurrency known as a [stablecoin](#) that is claimed to be collateralized with US dollars.

10% guideline

The standard [analysts'](#) principle that [funded debt](#) over 10% of the assessed valuation of taxable property for a municipality is excessive.

10-K

[Annual report](#) required by the [SEC](#) each year. Provides a comprehensive overview of a [company's](#) state of business. Must be filed within 90 days after [fiscal year-end](#). A 10-Q report is filed [quarterly](#).

10-Q

[Quarterly report](#) required by the [SEC](#) each [quarter](#). Provides a comprehensive overview of a [company's](#) state of business.

1040 form

The standard [individual tax return](#) form of the [IRS](#).

1099

A statement sent to the [IRS](#) and taxpayers by the payers of [dividends](#) and [interest](#) and by [issuers](#) of taxable original [issue discount](#) securities.

1099 B

The tax statement used for [reporting proceeds](#) resulting from the [sale](#), [redemption](#) or [liquidation](#) of [shares](#).

1099 DIV

The tax statement used for [reporting dividends](#) paid to registered shareholders.

Ten-Day Rule

The New York Stock Exchange rule permitting [member firms](#) (brokers) to vote in favor of [management](#) ten days or less before the meeting, provided that the member firm mailed [proxy](#) material to beneficial owners at least 15 business days before the meeting. The rule allows many [shares](#) to be voted, which would otherwise not be, to reach a quorum, approve the choice of directors and auditors and handle other routine matters. This rule does not apply to banks, their nominees or their depository positions, nor to non-routine proposals such as approval for the [corporation](#) to issue more [shares](#).

Tenant

A partial owner of a [security](#), or the [holder](#) of some property. See: [Lessee](#).

Tenants by Entireties (TEN ENT)

Joint ownership of property or [securities](#) by a husband and wife where, upon the death of one, the property goes to the survivor.

Tenants in common

Account [registration](#) in which two or more individuals own a certain proportion of an account. Each tenant's proportion is distributable as part of the owners estate, so that if one of the account holders dies, that owner's heirs are entitled to that proportional share of the account.

Tenbagger

A [stock](#) that grows in value ten-fold.

Tender

To [offer](#) for [delivery](#) against [futures](#).

Tender offer

General [offer](#) made [publicly](#) and directly to a [firm's shareholders](#) to [buy](#) their [stock](#) at a price well above the current value [market price](#).

Tender offer premium

The [premium](#) offered above the current [market price](#) in a [tender offer](#).

Tenor

The length of time until a [loan](#) is due. For example, a loan is taken out with a two year tenor. After one year passes, the tenor of the loan is one year.

Term

The period of time during which a [contract](#) is in force.

Term Asset-Backed Securities Loan Facility (TALF)

A program announced by the Federal Reserve Bank in November 2008 to make loans to firms that would be purchasing high quality asset backed securities such as credit cards, student loans and some Small Business Administration loans.

Term Auction Facility (TAF)

TAF was created by the Federal Reserve in December 2007 as bank funding markets got strained during the 2007 financial crisis. Access to 28 and 84 day funding were given to deposit-taking institutions and the program was open to all banks with access to the primary discount window. The last TAF auction was held March 8, 2010.

Term bonds

[Bonds](#) whose [principal](#) is payable at [maturity](#). Often referred to as bullet-[maturity bonds](#) or simply bullet bonds. Related: [Serial bonds](#).

Term certificate

A [certificate of deposit](#) with a longer time to [maturity](#).

Term Fed funds

[Fed funds](#) sold for a period of time longer than overnight.

Term insurance

Provides a death benefit only, no build up of cash value.

Term life insurance

A [contract](#) that provides a death benefit but no [cash](#) build up or investment component. The [premium](#) remains constant only for a specified term of years, and the policy is usually renewable at the end of each term.

Term loan

A bank [loan](#), typically with a [floating interest rate](#), for a specified amount that [matures](#) in between one and ten years, and requires a specified repayment schedule.

Term to maturity

The time remaining on a [bond's](#) life, or the date on which the [debt](#) will cease to exist and the [borrower](#) will have completely paid off the amount [borrowed](#). See: [Maturity](#).

Term premiums

Excess of the [yields to maturity](#) on [long-term bonds](#) over those of [short-term](#) bonds.

Term repo

A [repurchase agreement](#) with a [term](#) of more than one day.

Term repurchase

A [repurchase agreement](#) with a term of more than one day. Also known as [Term repo](#)

Term Securities Lending Facility (TSLF)

Announced by the Federal Reserve on March 11, 2008, the TSLF loaned Treasury securities to certain investment banks for one month in return for pledged collateral. The program was aimed at boosting confidence in those firms. The facility was closed on Feb. 1, 2010.

Term structure of interest rates

Relationship between [interest rates](#) on [bonds](#) of different [maturities](#), usually depicted in the form of a graph often called a [yield curve](#). Harvey shows that inverted term structures (long rates below short rates) have preceded every [recession](#) over the past 30 years.

Term trust

A [closed-end fund](#) that has a fixed termination or [maturity date](#).

Terminal value

The value of a [bond](#) at [maturity](#), typically its [par value](#), or the value of an [asset](#) (or an entire [firm](#)) on some specified future valuation date. Usually, a [perpetuity](#) formula is used. For example, suppose we forecast cash flows through year 10. We make an assumption that year 11 and beyond will be no growth (except for [inflation](#)). If the cash flow forecast for year 11 is 100, the [firm's](#) discount rate is 12%, and inflation is expected to be 2%, we use the formula $V_{10} = CF_{11}/(\text{disc rate}-\text{inflation})$. Hence, the value is $100/(0.12 - 0.02)$ that is 1,000. This cash flow needs to be brought back to [present value](#) using the formula $1000/(1.12)^{10}$, which is 321.97. Note the importance of the inflation assumption.

Terms of Delivery

The part of a [sales contract](#) that indicates the point at which title and [risk](#) of loss of merchandise pass from the seller to the [buyer](#). See: [Incoterms](#).

Terms of sale

Conditions under which a [firm](#) proposes to sell its goods or services for [cash](#) or [credit](#).

Terms of trade

The weighted [average](#) of a nation's export prices relative to its import prices.

Territorial tax system

A tax system that taxes domestic income but not foreign income. Territorial tax regimes are found in Hong Kong, France, Belgium, and the Netherlands.

Test

The event of a [price movement](#) that approaches a [support level](#) or a [resistance level](#) established earlier by the [market](#). A test is passed if prices do not go below the support or resistance level, and the test is failed if prices go on to new lows or highs.

Testamentary trust

A [trust](#) created by a will, that is scheduled to occur after the maker's death.

The Desk

The [trading](#) desk at the Federal Reserve Bank of New York through which [open market purchases](#) and [sales](#) of government and federal agency securities are made. The desk maintains direct telephone communication with major government securities dealers. A "foreign desk" at the Federal Reserve Bank of New York conducts transactions in the foreign exchange market.

Theoretical futures price

The [equilibrium futures price](#). Also called the [fair price](#).

Theoretical spot rate curve

A curve derived from theoretical considerations as applied to the [yields](#) of actually [traded Treasury debt securities](#), because there are no [zero-coupon Treasury debt issues](#) with a [maturity](#) greater than one year. Like the [yield](#) curve, this is a graphic depiction of the [term structure of interest rates](#).

Theoretical value

Applies to derivative products. Mathematically determined value of a [derivative instrument](#) as dictated by a pricing model such as the [Black-Scholes model](#).

Theta

The ratio of the change in an [option](#) price to the decrease in [time to expiration](#). Also called [time decay](#).

Thin market

A [market](#) in which [trading volume](#) is low, and consequently [bid](#) and [asked](#) quotes are wide and the [instrument traded](#) is not very liquid. Very little [stock](#) to [buy](#) or sell.

Thinly traded

Infrequently [traded](#).

Third market

[Exchange-listed securities trading](#) in the [OTC](#) market.

Thirty-day visible supply

The total [volume](#) in dollars of [municipal bonds](#) with [maturities](#) of 13 months or more that should reach the [market](#) within 30 days.

Thirty-day wash rule

[IRS](#) rule stating that [losses](#) on a [sale](#) of [stock](#) may not be used as [tax shelter](#) if equivalent [stock](#) is [purchased](#) 30 days or less before or after the sale of the [stock](#).

Thirty/Three Sixty (30/360)

[Day count convention](#) for calculating interest accrued on [corporate bonds](#), [municipal bonds](#), and [agency](#) bonds in the U.S. Uses 30 days in a month and 360 days in a year for calculating interest payments. Also see [Day count convention](#).

Three-phase DDM

A version of the [dividend discount model](#) that applies a different expected [dividend rate](#) depending on a [company's life-cycle](#) phase: [growth phase](#), [transition phase](#), or [maturity phase](#).

Three steps and a stumble rule

A rule predicting that [stock](#) and [bond](#) prices will fall following three increases in the [discount rate](#) by the [Federal Reserve](#). This is a result of increased [costs](#) of [borrowing](#) for [companies](#) and the increased attractiveness of [money market funds](#) and [CDs](#) over [stocks](#) and [bonds](#) as a result of the higher [interest rates](#).

Threshold for refinancing

The point when the [weighted-average coupon](#) of an [MBS](#) is at a level to induce homeowners to [prepay](#) the mortgage in order to [refinance](#) to a lower-rate mortgage, generally reached when

the [weighted-average coupon](#) of the MBS is 2 percentage points or more above currently available mortgage rates.

Thrift institution

An organization formed as a depository for primarily consumer savings. [Savings and loan associations](#) and savings banks are thrift institutions.

Thrift Institution Advisory Council (TIAC)

A council, established following the passage of the Monetary Control Act of 1980, whose purpose is to provide information and views on the special needs and problems of thrifths. The group is comprised of representatives of savings banks, savings and loan associations, and [creditor](#) unions.

Thrift plan

A [defined contribution plan](#) in which an [employee contributes](#), usually on a [before-tax](#) basis, toward the ultimate benefits that will be provided. The employer usually agrees to match all or a portion of the employee's contributions.

Thrift savings plan

A [defined contribution plan](#) for civil service employees, retirees, and for members of the uniformed services of the United States. TSP is similar to [401\(K\)](#) plan offered in the private sector.

Throughput agreement

An agreement to put a specified amount of product per period through a particular facility. An example is an agreement to ship a specified amount of crude oil per period through a particular pipeline.

Tick

Refers to the minimum change in price a [security](#) can have, either up or down. Related: [Point](#).

Tick indicator

A [market indicator](#) based on the number of [stocks](#) whose last [trade](#) was an [uptick](#) or a [downtick](#). Used as an indicator of market sentiment or psychology to try to predict the market's [trend](#).

Tick-test rules

[SEC](#)-imposed restrictions on when a [short sale](#) may be [executed](#), intended to prevent [investors](#) from destabilizing the price of a [stock](#) when the [market price](#) is falling. A short sale can be made only when either (1) the [sale](#) price of the particular [stock](#) is higher than the last [trade](#) price (referred to as an [uptick](#) trade) or (2) if there is no change in the last [trade](#) price of the particular stock, the previous trade price must be higher than the trade price that preceded it (referred to as a [zero uptick](#)).

Ticker symbol

An abbreviation assigned to a [security](#) for [trading](#) purposes.

Ticker tape

Computerized device that relays to [investors](#) around the world the [stock symbol](#) and the latest price and volume on [securities](#) as they are [traded](#).

Ticket

An abbreviation of [order ticket](#).

Tier 1 and Tier 2

Descriptions of the [capital](#) adequacy of banks. Tier 1 refers to core capital while Tier 2 refers to items such as undisclosed resources.

Tight

[In line](#) with or extremely close to the [inside market](#) or last [sale](#) in a stock (+/- 1/8). [On the money](#).

Tight market

A market in which [volume](#) is high, [trading](#) is [active](#) and highly competitive, and consequently [spreads](#) between [bid](#) and [ask prices](#) are narrow.

Tight money

When a [restricted](#) money supply makes [credit](#) difficult to secure. The antithesis of tight money is [easy money](#).

Tiki

Tick of [Dow Jones](#) Industrial Average component [issues](#).

Tilted portfolio

An [indexing strategy](#) that is linked to [active management](#) through the emphasis of a particular [industry sector](#), selected performance [factors](#) such as [earnings momentum](#), [dividend yield](#), [price-earnings ratio](#), or selected economic factors such as [interest rates](#) and [inflation](#).

Time decay

Related: [Theta](#)

Time deposit

Interest-bearing deposit at a [savings institution](#) that has a specific [maturity](#). Related: [Certificate of deposit](#).

Time draft

Demand for payment at a stated future date.

Time horizon

The period, usually expressed in years, for which an [investor](#) expects to hold an investment.

Time Letter of Credit

See: [Usance Letter of Credit](#).

Time to maturity

The time remaining until a [financial contract](#) expires. Also called [time until expiration](#).

Time order

[Order](#) that becomes a [market](#) or [limited price order](#) or is [canceled](#) at a specific time.

Time premium

Also called [time value](#), the amount by which an [option](#) price exceeds its [intrinsic value](#). The value of an option beyond its current [exercise value](#) representing the optionholder's [control](#) until [expiration](#), the [risk](#) of the [underlying asset](#), and the [riskless return](#).

Time-series analysis

Assessment of relationships between two or among more [variables](#) over periods of time.

Time series models

Systems that examine [series](#) of historical data; sometimes used as a means of [technical forecasting](#), by examining moving averages.

Time spread strategy

[Buying](#) and selling [puts](#) and [calls](#) with the same [exercise price](#) but different [expiration dates](#), and trying to [profit](#) from the different [premiums](#) of the [options](#).

Time until expiration

The time remaining until a [financial contract](#) expires. Also called [time to maturity](#).

Time value

Applies to derivative products. Portion of an [option price](#) that is in excess of the [intrinsic value](#), due to the amount of [volatility](#) in the stock; sometime referred to as [premium](#). Time value is positively related to the length of time remaining until [expiration](#).

Time value of money

The idea that a dollar today is worth more than a dollar in the future, because the dollar received today can earn [interest](#) up until the time the future dollar is received.

Time value of an option

The portion of an option's [premium](#) that is based on the amount of time remaining until the [expiration date](#) of the [option contract](#), and the idea that the [underlying](#) components that determine the value of the [option](#) may change during that time. [Time value](#) is generally equal to the difference between the premium and the [intrinsic value](#). Related: [In the money](#).

Time value permium

The amount by which an option's total premium exceeds its intrinsic value.

Times-interest-earned ratio

[Earnings](#) before [interest](#) and tax, divided by [interest payments](#).

Time-weighted rate of return

Related: [Geometric mean return](#)

Time-Zone Arbitrage

A form of [stale price arbitrage](#) where the pricing discrepancies are due to the primary markets for the underlying securities being closed at the times that the fund is traded. Note that time zone arbitrage is sometimes mistakenly used if it were a pure synonym for stale price arbitrage. These are not synonyms since stale prices can also be due to illiquid stocks or bonds that are not traded frequently.

Timeliness

A source of competitive advantage that depends on being the first to enter a given [market](#) with a product or service.

Timing

See: [Market timing](#)

Timing option

The seller's choice of when in the [delivery](#) month to deliver. A [Treasury Bond](#) or [note futures contract](#).

Tip

Information given by one [trader](#) to another, which is used in making buy or sell decisions but is not available to the general public.

Tired

Has been strong for a while and will probably fall due to increased supply at current price level (due to e.g. [profit taking](#), [technical analysis](#)). [Heavy](#).

Title insurance

[Insurance policy](#) that protects a [policyholder](#) from future challenges to the title claim a property that may result in [loss](#) of the property.

To be announced (TBA)

A [contract](#) for the [purchase](#) or [sale](#) of an [MBS](#) to be delivered at an agreed-upon future date but does not include a specified [pool](#) number and number of pools or precise amount to be [delivered](#).

Tobin's Q

[Market value](#) of [assets](#) divided by [replacement value](#) of assets. A Tobin's Q ratio greater than 1 indicates the [firm](#) has done well with its investment decisions. Named after James Tobin, Yale University economist.

Toehold purchase

Often used in [risk arbitrage](#). Accumulation by an [acquirer](#) of less than 5% of the [shares](#) of a [target company](#). Once 5% is acquired, the acquirer must file with the SEC and other [agencies](#) to explain its intentions and notify the [acquiree](#). See: [Rule 13d](#).

Tokyo Commodity Exchange (TOCOM)

Tokyo [exchange](#) for [trading futures](#) on gold, silver, platinum, palladium, rubber, cotton yarn, and woolen yarn.

Tokyo International Financial Futures Exchange

[Exchange](#) that [trades](#) Euroyen [futures](#) and [options](#), and [futures](#) on the one-year Euroyen, three-month [europound](#), and US dollar/Japanese yen [currency](#).

Tokyo Stock Exchange (TSE)

The largest [stock exchange](#) in Japan with the some of the most [active trading](#) in the world.

Toll revenue bond

A [municipal bond](#) that is repaid with revenues from tolls that are paid by users of the public project built with the [bond](#) revenue.

Tolling agreement

An agreement to put a specified amount of [raw material](#) per period through a particular processing facility. For example, an agreement to process a specified amount of alumina into aluminum at a particular aluminum plant.

Tom next

Means to "tomorrow next". In the [interbank market](#) in [Eurodollar](#) deposits and [the foreign exchange](#) market, the value ([delivery](#)) date on a tom next [transaction](#) is the next business day.

Tombstone

Advertisement listing the [underwriters](#) of a [security issue](#).

Ton

\$100 million in [bond trader's terms](#).

too-big-to-fail

Government practices that protect large banking organizations from the normal discipline of the marketplace because of concerns that such institutions are so important to markets and their positions so intertwined with those of other banks that their failure would be unacceptably disruptive, financially and economically.

Top

Indicates the higher price one is willing to pay for a [stock](#) in an [order](#); implies a [not held order](#).

Top-down approach

A method of [security selection](#) that starts with asset allocation and works systematically through [sector](#) and [industry](#) allocation to individual [security selection](#).

Top-down equity management style

[Investment](#) style that begins with an assessment of the overall economic environment and makes a general [asset allocation decision](#) regarding various [sectors](#) of the [financial markets](#) and various [industries](#). The [bottom-up manager](#), in contrast, selects specific [securities](#) within the particular sectors.

Top-heavy

At a price level where supply is exceeding demand. See: [Resistance level](#).

Topline growth

Growth in revenues. Refers to overall growth rather than segment growth. Also see: [Bottomline growth](#).

Topline performance

Usually refers to overall earnings for a corporation (as opposed to earnings by segment).

Topping out

Denoting a [market](#) or a [security](#) that is at the end of a period of rising [prices](#) and can now be expected to stay on a plateau or even to decline.

Toronto Stock Exchange (TSX)

Canada's largest [stock exchange](#) which was founded in 1861, the trading floor closed in 1997 and it became a completely electronic exchange. As of 2000, the TSX became a private company. In 2001, the TSX acquired the Canadian Venture Exchange which was renamed the TSX Venture Exchange. The average stock price is represented by the S&P/TSX Composite Index (which replaced the TSE 300 on May 1, 2002).

Total

Complete amount of [buy](#) or sell interest, as opposed to having [more behind it](#). See: [Partial](#).

Total asset turnover

The ratio of net sales to total [assets](#).

Total capitalization

The total [long-term debt](#) and all types of [equity](#) of a company that constitutes its [capital](#) structure.

Total cost

The price paid for a [security](#) plus the [broker's commission](#) and any accrued interest that is owed to the seller (in the case of a [bond](#)).

Total debt-to-equity ratio

A [capitalization ratio](#) comparing [current liabilities](#) plus [long-term debt](#) to [shareholders' equity](#).

Total dollar return

The [dollar return](#) on a nondollar [investment](#), which includes the sum of any [dividend](#)/interest income, [capital gains](#) or [losses](#), and [currency gains](#) or losses on the investment. See also: [Total return](#).

Total Market Capitalization

The total [market value](#) of all of a [firm's outstanding securities](#).

Total return

In performance measurement, the actual [rate of return](#) realized over some [evaluation period](#). In fixed income analysis, the potential return that considers all three sources of return (coupon interest, [interest](#) on coupon interest, and any [capital gain/loss](#)) over some investment horizon.

Total return for calendar year

The [profit](#) or [loss](#) realized by an [investment](#) at the end of a specified calendar year, [stated](#) as the percentage [gained](#) or lost per dollar invested on January 1.

Total revenue

Total [sales](#) and other revenue for the period shown. Known as "turnover" in the U.K.

Total risk

The sum of [systematic and unsystematic risk](#).

Total volume

The total number of [shares](#) or [contracts traded](#) on national and regional [exchanges](#) in a [stock](#), [bond](#), [commodity](#), future, or [option](#) on a certain day.

Touch, the

Mainly applies to international equities. [Inside market](#) in London terminology.

Tough on price

Firm price mentality at which one wishes to transact [stock](#), often at a [discount/premium](#) that is not available at the time.

Tout

To promote a [security](#) in order to attract buyers.

Toxic assets

In the context of the 2007-2009 [recession](#), the term refers to assets like [mortgage backed securities](#) and [collateralized debt obligations](#) that are [illiquid](#) and difficult to value. If the value of the [underlying assets](#) falls significantly, these [securities](#) could lose value rapidly (aggravated by the lack of liquidity and transparency in price) which could lead to significant [write-downs](#) (and hence losses) for holders of these toxic assets.

Toxic Convertible

Used by companies that are in such bad shape, that there is no other way to get financing. This instrument is similar to a convertible bond, but convertible at a discount to the share price at issuance and for a fixed dollar amount rather than a specific number of shares. The further the stock falls, the more shares you get. Popular in the mid to late 1990s. Also known as death spiral convertibles or floorless convertibles.

Tracers

Refers to investment trusts which are populated by corporate bonds. In October 2001, Morgan Stanley's Tradable Custodial Receipts (Tracers) was launched. Tracers contain a number of corporate

bonds and credit default swaps which are selected for liquidity and diversity. Lehman Brothers launched a similar product, Targeted Return Index Securities (Trains) in January 2002. Both contain investment grade bonds. If a bond falls out of the investment grade category, it is either liquidated from the trust or delivered to the investor. Both Tracers and Trains are 144a trust structures and are only available to qualified buyers because they are considered private securities due to the trust structure.

Tracker Mortgage

A type of [mortgage](#) for which the [interest rate](#) tracks Bank of England's interest rate.

Tracking error

In an [indexing strategy](#), the [standard deviation](#) of the difference between the performance of the [benchmark](#) and the [replicating portfolio](#).

Tracking stock

Best defined with an example. Suppose Company A [purchases](#) a business from Company B and pays B with 1 million [shares](#) of A's [stock](#). The agreement provides that B cannot sell the 1 million shares for 60 days, and also prohibits B from [hedging](#) by [purchasing put options](#) on A's shares or short-selling A's shares. B is worried that the [market](#) may fall in the next 60 days. B could hedge by purchasing put options or selling the [futures](#) on the S&P 500. However, it is possible that A's business is much more cyclical than the S&P 500. One solution to this problem is to find a tracking stock. This is a stock that has high [correlation](#) with A. Let us call it Company C. The solution is to sell [short](#) or buy [protective put options](#) on this tracking stock C. This protects B from [fluctuations](#) in the price of A's stock over the next 60 days. Because the degree of the protection is related to the [correlation](#) of A and C's stock, it is extremely unlikely that the protection is perfect. Multidivisional firms have used a form of restructuring called tracking stock since 1984 to segment the performance of a particular division -- similar to a spin-off or carve-out, except that the parent firm does not relinquish control of the tracked division. Previously, this was known as alphabet stock, but the technically correct name is tracking stock (e.g., EDS traded for years as a tracking stock of GM). This is a way to reward managers for good divisional performance with an [equity](#) that is tied to their division-rather than potentially penalizing them [compensation](#) for bad performance in a division they have no [control](#) over.

Trade

An oral (or electronic) transaction involving one party [buying](#) a [security](#) from another party. Once a [trade](#) is consummated, it is considered "done" or final. [Settlement](#) occurs 1-5 business days later.

Trade acceptance

Written demand that has been accepted by an industrial company to pay a given sum at a future date.

Related: [Banker's acceptance](#).

Trade away

[Trade execution](#) by another [broker/dealer](#).

Trade balance

Overall result of a country's exports.

Trade credit

[Credit](#) one [firm](#) grants to another firm for the [purchase](#) of goods or services. That is, when the goods are delivered, the recipient does not have to pay immediately for the goods - a credit is given with terms for payment (say 30 days). This potentially allows the vendor to sell the goods and use the sale proceeds payoff the credit obligation.

Trade date

The date that the [counterparties](#) in an [interest rate swap](#) commit to the [swap](#). Also, the day on which a [security](#) or a [commodity](#) future [trade](#) actually takes place. [Trades](#) generally settle (are paid for) 1-5 business days after a [trade date](#). With [stocks](#), [settlement](#) is generally 3 business days after the trade. The [settlement date](#) usually follows the trade date by five business days, but varies depending on the transaction and method of [delivery](#) used.

Trade debt

[Accounts payable](#).

Trade deficit or surplus

The difference in the value of a nation's imports over exports ([deficit](#)) or exports over imports (surplus).

Trade draft

A [draft](#) addressed to a commercial enterprise. See: [Draft](#).

Trade finance

Usually refers to financial transactions involving the exports and imports. This could involve payment facilities, downpayments, hedging, guarantees, and transportation linked issues.

Trade flat

For convertibles, [trade](#) without [accrued interest](#). [Preferred stock](#) always "trades flat," as do [bonds](#) on which [interest](#) is in default or is in doubt. In general, trade in and out of a [position](#) at the same price, neither making a [profit](#) nor taking a loss.

Trade house

A [firm](#) that deals in actual [commodities](#).

Trade Lanes

The direction of trade, e.g. US to Europe.

"Trade me out"

Work out of one's [long position](#) (usually created by committing firm [principal](#) to complete a [trade block](#) trade) by selling stock. Antithesis of "[buy them back](#)."

Trade on the wire

Immediately give a [bid](#) or [offer](#) to a salesperson without checking the [floor](#) conditions (listed), [dealer](#) depth ([OTC](#)) or customer interest. An [aggressive trading](#) posture.

Trade on top of

[Trade](#) at a narrow spread or no [spread](#) in [basis points](#) relative to some other [bond yield](#), usually [Treasury bonds](#).

Trade reporting

Dealer: In a trade between two registered Market Participants (MP), only the sell side reports the trade. Auction: In a trade between two [member firms](#), only the sell side reports the trade. Dealer: In a trade between a registered MP and a non-registered MP (Market Maker not registered in a particular stock, an ECN, etc.), the registered MP reports the trade as a buy or sell. Auction: Trading can occur ONLY between two member firms. (Thus, a buy is never reported.)

Trade Surplus

A nation's excess of exports over imports during a given time frame.

Trade-weight value of the dollar

The value of the dollar pegged to, a market basket of selected [foreign currencies](#). The Federal Reserve calculates a trade-weighted value of the dollar based on the weighted-average exchange value of the dollar against the currencies of 10 industrial countries.

Trademark

A distinctive name or [symbol](#) used to identify a product or company and build recognition.

Trademarks may be registered with the US Patent and Trademark Office.

Traders

Individuals who [take positions](#) in [securities](#) and their [derivatives](#) with the objective of making [profits](#). Traders can make [markets](#) by [trading](#) the flow. When they do this, their objective is to earn

the [bid/ask spread](#). Traders can also take [proprietary positions](#) in which they seek to [profit](#) from the directional movement of prices or [spread positions](#).

Trades by appointment

A [stock](#) that is very difficult to [trade](#) because of illiquidity.

Trading

[Buying](#) and selling [securities](#).

Trading Ahead

A New York Stock Exchange rule violation. Basically, in this situation the specialist puts their firm's interest ahead of the investor's interest. Consider an example. Suppose that the specialist simultaneously receives orders from two investors, one to sell 5,000 shares of XYZ and one to buy 5,000 shares of XYZ. Normally, these orders are matched. However, suppose that the specialist substitutes (matches) her own firm's 5,000 shares of XYZ. That is, the firm's own shares are sold instead of the order that came in previously. This disadvantages the buyer because the very next transaction will be the order to sell 5,000 shares of XYZ (which will likely put downward pressure on the price). Notice that the firm has bailed out of XYZ at a higher price than if the order was reversed (the specialist's firm selling afterwards). Trading ahead is part of what is known as [negative obligation](#). Trading ahead should not be confused with [front running](#).

Trading authorization

A document ([power of attorney](#)) a customer gives to a [broker](#) in order that the broker may buy and sell [securities](#) on behalf of the customer.

Trading costs

[Costs](#) of [buying](#) and selling marketable securities and [borrowing](#). [Trading costs](#) include [commissions](#), [slippage](#), and the [bid/ask spread](#). See: [Transactions costs](#).

Trading desk (dealing desk)

Personnel at an international bank who [trade spot](#) and [forward foreign exchange](#).

Trading dividends

Maximizing a [firm's](#) revenues by purchasing [stock](#) in other firms in order to collect the maximum amount of [dividends](#) of which 70% is tax-free.

Trading halt

When [trading](#) of a [stock](#), [bond](#), [option](#) or [futures contract](#) is stopped by an [exchange](#) while news is being broadcast about the [security](#). See: [Suspended trading](#).

Trading limit

The exchange-imposed maximum daily price change that a futures contract or futures option contract can undergo.

Trading paper

[CDs purchased](#) by accounts that are likely to resell them. The term is commonly used in the Euromarket.

Trading pattern

Long-range direction of a [security](#) or [commodity futures price](#), charted by drawing one line connecting the highest prices the security has reached and another line connecting the lowest prices at which the security has [traded](#) over the same period. See: [Technical analysis](#).

Trading posts

The [positions](#) on the [floor](#) of a [stock exchange](#) where the [specialists](#) stand and [securities](#) are [traded](#).

Trading price

The price at which a [security](#) is currently selling.

Trading profit

The [profit](#) earned on [short-term trades](#) of [securities](#) held for less than one year, subject to tax at normal [income tax](#) rates.

Trading range

The difference between the high and low [prices traded](#) during a period of time; for [commodities](#), the high/low price limit an [exchange](#) establishes for a specific [commodity](#) for any one day's [trading](#).

Trading securities

[Investment](#) in [securities](#) with the intention of selling them in the short term for a profit. These are reported at [market value](#). Unrealized gains or losses on these investments appear in the [Net Income](#) for the period. Also see [Available for Sale](#), [Held to Maturity](#).

Trading strategy

A disciplined method of buying and selling [assets](#) that involves working within a predefined set of rules for making [trading](#) decisions. Examples are the [covered position](#), [CPPI](#), [index arbitrage](#) and [multirule system](#).

Trading symbol

See: [Ticker symbol](#)

Trading unit

The number of [shares](#) of a particular [security](#) that is used as the acceptable quantity for [trading](#) on the [exchanges](#).

Trading variation

The increments to which [securities](#) prices are rounded up or rounded down.

Trading volume

The number of [shares](#) transacted every day. As there is a seller for every [buyer](#), one can think of the trading volume as half of the number of shares transacted. That is, if A sells 100 shares to B, the volume is 100 shares.

Traditional IRA

A [tax-deferred individual retirement](#) account that allows [annual contributions](#) of up to \$2000 for each income earner. Contributions are fully deductible for all individuals who are not [active](#) participants in employer-sponsored plans or for plan participants within certain income ranges.

Traditional view (of dividend policy)

An argument that, "within reason," [investors](#) prefer higher [dividends](#) to lower dividends because the dividend is sure but future [capital gains](#) are uncertain.

Trailing earnings

Past earnings. Often used in the context of the price earnings ratio. This ratio is usually distinguished as price to trailing earnings (today's price divided by the most recent 12 months of earnings) versus price to prospective earnings (today's price divided by [consensus forecast](#) earnings for the next 12 months).

Trailing returns

Past [returns](#) of a fund or a company over a given time period.

Trailing sales

Past [sales](#). Often used in the valuation of [companies](#) that have [negative cash flows](#) or earnings. The company is said to be valued at some multiple of past [sales](#) - usually, the last 12 months sales.

Trains

Refers to investment trusts which are populated by corporate bonds. In October 2001, Morgan Stanley's Tradable Custodial Receipts (Tracers) was launched. Tracers contain a number of coporate bonds and credit default swaps which are selected for liquidity and diversity. Lehman Brothers launched a similar product, Targeted Return Index Securities (Trains) in January 2002. Both contain

investment grade bonds. If a bond falls out of the investment grade category, it is either liquidated from the trust or delivered to the investor. Both Tracers and Trains are 144a trust structures and are only available to qualified buyers because they are considered private securities due to the trust structure.

Tranche

One of several related securities [offered](#) at the same time. Tranches from the same [offering](#) usually have different risk, reward, and/or [maturity](#) characteristics.

Transaction

The [delivery](#) of a [security](#) by a seller and its acceptance by the [buyer](#).

Transaction account

A [checking](#) or similar account from which [transfers](#) can be made to third parties. Demand-deposit accounts, negotiable order of withdrawal NOW accounts, automatic transfer service ([ATS](#)) accounts, and credit union share [draft](#) accounts are examples of [transaction](#) accounts at banks and other depository institutions.

Transactions costs

The time, effort, and money necessary, including such things as [commission](#) fees and the [cost](#) of physically moving the [asset](#) from seller to [buyer](#). [Transactions costs](#) should also include the [bid/ask spread](#) as well as [price impact costs](#) (for example a large sell order could lower the price).

Related: [Round-trip transactions costs](#), [information costs](#), [search costs](#).

Transaction demand (for money)

The money needed to accommodate a [firm's](#) expected [cash transactions](#).

Transaction exposure

[Risk](#) to a [firm](#) with known future cash flows in a [foreign currency](#), that arises from possible changes in the [exchange rate](#). Related: [Translation exposure](#).

Transaction fee

A charge an [intermediary](#), such as a [broker-dealer](#) or a bank, assesses for assisting in the [sale](#) or [purchase](#) of a [security](#).

Transaction Insured Trade Acceptance Locator (TITAL)

A trade acceptance through an insurance entity (rather than a bank) which is conditional upon exporter performance.

Transaction loan

A [loan](#) extended by a bank for a specific purpose. [Lines of credit](#) and [revolving credit agreements](#) involve by contrast loans that can be used for various purposes.

Transaction tax

Applies mainly to international equities. Levies on a deal that foreign governments sometimes charge.

Transaction risk

The [risk](#) of changes in the home [currency](#) value of a specific future [foreign currency cash flow](#).

Transactions motive

A desire to [hold cash](#) in order to conduct cash-based [transactions](#).

Transcript of Account

A listing of all prior and present registered securityholder account information.

Transfer

A change of ownership from one person or party to another.

Transfer agent

Individual or institution a company appoints to look after the transfer of [securities](#).

Transfer On Death (TOD)

The process of changing title of a [security](#) from one name to another upon the death of one of the titleholders.

Transfer payments

Payments from a government to its citizens, such as welfare and other government benefits.

Transfer price

The price at which one [unit](#) of a [firm](#) sells goods or services to another unit of the same firm.

Transfer risk

The [risk](#) associated with the possibility of a [currency](#) not being able to be sent out of the country, usually due to [central bank](#) restrictions or a national [debt](#) rescheduling.

Transfer tax

A small federal tax on the movement of ownership of all [bonds](#) (except [obligation](#) of the US, foreign governments, states, and municipalities) and all [stocks](#).

Transferable letter of credit

Document that allows the first beneficiary on a standby bank assurance of funds to [transfer](#) all or part of the original [letter of credit](#) to a third party.

Transferable Stock Options

[Options](#) that provide by their [terms](#) that they may be [transferred](#) by the optionee, generally only to a family member or to a [trust](#), [limited partnership](#) or other entity for the benefit of family members, or to a charity.

Transferable put right

An [option issued](#) by a [firm](#) to its [shareholders](#) to sell the firm one share of its [common stock](#) at a fixed price ([the strike price](#)) within a stated period ([the time to maturity](#)). The [put](#) right is "transferable" because it can be [traded](#) in the [capital markets](#).

Transferee

The party who has received the benefits of a [letter of credit](#) by action of a [transfer](#).

Transferor

The [beneficiary](#) of a [transferable letter of credit](#) who causes a bank to [transfer](#) the credit to another party.

Transshipment

The passing goods from one ocean vessel to another.

Transition phase

A stage of development when a company begins to mature and its earnings decelerate to the rate of growth of the economy as a whole. Related: [Three-phase DDM](#).

Translation exposure

[Risk](#) of adverse effects on a [firm's financial statements](#) that may arise from changes in [exchange rates](#).

Related: [Transaction exposure](#).

Translation Risk

The [risk](#) of changes in the [reported](#) home [currency](#) accounting results of foreign operations due to changes in currency [exchange rates](#).

Transmittal letter

A letter describing the contents and purpose of a [transaction](#) delivered with a [security](#) that is changing ownership.

Travel and entertainment expense

Funds spent on business travel and entertainment that qualify for a [tax deduction](#) of 50% of the amount claimed.

Treasurer

The corporate officer responsible for designing and implementing a [firm's](#) financing and investing activities.

Treasurer's check

A [check](#) issued by a bank to make a payment. Treasurer's checks [outstanding](#) are counted as part of a bank's reservable deposits and as part of the [money supply](#).

Treasuries

Related: [Treasury securities](#)

Treasury

US Department of the Treasury, which [issues](#) all [Treasury bonds](#), [notes](#), and [bills](#) as well as overseeing [agencies](#). Also, the department within a [corporation](#) that oversees its [financial](#) operations including the issuance of new [shares](#).

Treasury bills

[Debt obligations](#) of the US Treasury that have [maturities](#) of one year or less. Maturities for T-bills are usually 91 days, 182 days, or 52 weeks. Treasury bills are sold at a discount from face value and do not pay interest before maturity. The interest is the difference between the purchase price of the bill and the amount that is paid to you either at maturity (this amount is the face value) or when you sell the bill prior to maturity.

Treasury bonds

[Debt obligations](#) of the US [Treasury](#) that have [maturities](#) of more than 10 years.

Treasury Borrowing Advisory Committee

Also, known as TBAC or the "Borrowing Committee" of The [Securities Industry and Financial Markets Association](#) (SIFMA) is an advisory committee governed by federal statute that meets quarterly with the Treasury Department. The Borrowing Committee's membership is comprised of senior representatives from investment funds and banks. The Borrowing Committee presents their observations to the Treasury Department on the overall strength of the U.S. economy as well as providing recommendations on a variety of technical debt management issues - such as the maturity structure of new bond offerings. The [Securities Industry and Financial Markets Association](#) does not participate in the deliberations of the Borrowing Committee.

Treasury certificates

From 1963 to 1975, the Treasury issued something called a "Treasury Certificates". It was a nonmarketable, public issue with a short maturity, usually three months and never more than a one year. They were issued once or twice every month with odd interest rates (such as 5.471% and 6.053%) and sold at par.

Treasury convenience yield

The value investors assign to the liquidity and safety attributes offered by Treasuries.

Treasury direct

A system allowing an individual [investor](#) to make a [noncompetitive bid](#) on US [Treasury securities](#) and thus avoid [broker-dealer](#) fees.

Treasury Inflation-Indexed Securities (TIIS)

Refers to a broad range of U.S. Treasury securities that are inflation indexed. The most popular are the [TIPS](#). The index for measuring the inflation rate is the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers (CPI-U), published monthly by the Bureau of Labor Statistics (BLS).

Treasury Inflation-Protected Security (TIPS)

First issued by the U.S. Treasury in 1997, these Treasury bonds attempt to protect investors against fluctuations in inflation by linking the principal amount to the consumer price index. Each year, the principal is adjusted by the inflation rate during the previous year. The index for measuring the inflation rate is the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers (CPI-U), published monthly by the Bureau of Labor Statistics (BLS). These bonds are taxable. Indeed, one must pay tax on both the interest and the increase in principal. TIPS are one of two types of inflation-indexed securities sold by the U.S. Treasury; the other type is [Series I Savings Bonds](#).

Treasury Investors Growth Receipt (TIGER)

US government-backed [bonds](#) without [coupons](#), meaning that the [bondholders](#) do not receive the periodic [interest](#) payments. The [principal](#) of the [bond](#) and the individual [coupons](#) are sold separately.

Treasury management

Refers to the part of the corporation that in charge of obtaining, maintaining, servicing the company or organization's loans, lines of credit, hedging operations, and other capital raising activities. Treasury would also interact with rating agencies. Sometimes called Treasury Operations.

Treasury notes

Debt obligations of the US Treasury that have maturities of more than one year, but not more than 10 years.

Treasury operations

Refers to the part of the corporation that is in charge of obtaining, maintaining, servicing the company or organization's loans, lines of credit, hedging operations, and other capital raising activities.

Treasury would also interact with rating agencies. Sometimes called Treasury Management.

Treasury securities

Securities issued by the US Department of the Treasury.

Treasury Shares

Shares issued in the name of the corporation. The shares are considered issued, but not outstanding. Usually refers to stock that was once traded in the market but has since been repurchased by the corporation. Treasury stock not considered when calculating dividends or earnings per share.

Treasury stock

Common stock that has been repurchased by the company and held in the company's treasury.

Treat me subject

In the equities market, a conditional bid or offer. "My bid or offer is not firm, but is subject to confirmation between other parties and to market changes."

Trecentillion

A unit of quantity equal to 10^{903} (1 followed by 903 zeros).

Tredecillion

A unit of quantity equal to 10^{42} (1 followed by 42 zeros).

Trenonagintillion

A unit of quantity equal to 10^{282} (1 followed by 282 zeros).

Treoctogintillion

A unit of quantity equal to 10^{252} (1 followed by 252 zeros).

Trequadrangintillion

A unit of quantity equal to 10^{132} (1 followed by 132 zeros).

Trequinquagintillion

A unit of quantity equal to 10^{162} (1 followed by 162 zeros).

Treseptuagintillion

A unit of quantity equal to 10^{222} (1 followed by 222 zeros).

Tresexagintillion

A unit of quantity equal to 10^{192} (1 followed by 192 zeros).

Trerigintillion

A unit of quantity equal to 10^{102} (1 followed by 102 zeros).

Trevigintillion

A unit of quantity equal to 10^{72} (1 followed by 72 zeros).

Trend

The general direction of the [market](#).

Trend following

A [trading](#) method that makes trading decisions through the use of computer models that determine the general direction of the market. Most of these models are based on [momentum](#) and that is why they are called trend following.

Trend Ratio Analysis

The [comparison](#) of the successive values of each ratio for a single [firm](#) over a number of years.

Trendline

A technical chart line that depicts the past movement of a [security](#) and that is used in an attempt to help predict future price movements.

Treynor Index

A measure of the [excess return](#) per [unit](#) of [risk](#), where [excess return](#) is defined as the difference between the [portfolio's](#) return and the [risk-free rate](#) of return over the same [evaluation period](#) and where the unit of risk is the portfolio's [beta](#). Named after Jack Treynor.

T-Rex Fund

A large [venture capital](#) fund (over one billion dollars). Such funds are known for imposing strong discipline on the firms they fund.

Trial balance

Prepared at the close of an accounting period, it is a record of [general ledger](#) account titles with their respective [debit](#) and [credit](#) balances.

Triangular arbitrage

Striking [offsetting](#) deals among three markets simultaneously to obtain an [arbitrage profit](#).

Trickle down

An economic theory that the support of businesses that allows them to flourish will eventually benefit middle- and lower-income people, in the form of increased economic activity and reduced unemployment.

Trigintillion

A unit of quantity equal to 10^{93} (1 followed by 93 zeros).

TRIN

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

Triple net lease

A lease providing that the [tenant](#) pay for all maintenance [expenses](#), plus utilities, taxes, and insurance. This results in lower [risk](#) for [investors](#), who usually form a [limited partnership](#).

Triple tax-exempt

[Municipal bonds](#) featuring federal, state, and local tax-free interest payments.

Triple witching hour

The four times a year that the [S&P futures contract expires](#) at the same time as the S&P 100 [index option](#) contract and [option contracts](#) on individual stocks. It is the last [trading](#) hour on the third Friday of March, June, September, and December, when [stock options](#), [futures on stock indexes](#), and options on these futures [expire](#) concurrently. Massive [trades](#) in [index futures](#), [options](#), and [underlying stock](#) by [hedge](#) strategists and [arbitrageurs](#) cause abnormal activity ([noise](#)) and [volatility](#).

Trough

The transition point between economic [recession](#) and [recovery](#).

Troubled assets

In context of the [Troubled Asset Relief Program](#), the term “troubled asset” is defined as:

- (A) [Mortgages](#), [mortgage backed securities](#), and [instruments](#) derived from these that were originated on or before March 14, 2008, and
- (B) Any other financial instrument the purchase of which is necessary to promote [financial market](#) stability.

Troubled Asset Relief Program (TARP)

A \$700 billion fund created in response to the [credit crunch](#) that hit the US in 2008. The original intent of the fund was to allow the Treasury to buy [illiquid mortgage](#)-related [assets](#). The fund was ultimately used to provide direct [capital](#) infusions to distressed [financial institutions](#).

True interest cost

For a [security](#) such as [commercial paper](#) that is sold on a [discount](#) basis, true [interest cost](#) is the [coupon rate](#) required to provide an identical [return](#) assuming a coupon-bearing [instrument](#) of like [maturity](#) that pays [interest](#) in arrears.

True lease

A [contract](#) that qualifies as a valid [lease](#) agreement under the [Internal Revenue Code](#).

Trust

A [fiduciary](#) relationship calling for a [trustee](#) to hold the title to [assets](#) for the benefit of the [beneficiary](#). The person creating the [trust](#), who may or may not also be the beneficiary, is called the [grantor](#).

Trust company

An organization that acts as a [fiduciary](#) and administers [trusts](#).

Trust deed

Agreement between [trustee](#) and [borrower](#) setting out [terms](#) of a [bond](#).

Trust fund transaction

An intra budgetary [financial](#) arrangement in which both payments and [receipts](#) occur within the same trust fund group.

Trust Indenture Act of 1939

A law that requires all [corporate bonds](#) and other [debt securities](#) to be issued subject to [indenture](#) agreements and comply with certain indenture provisions approved by the [SEC](#).

Trust receipt

[Receipt](#) for goods that are to be held in [trust](#) for the [lender](#).

Trustee

[Agent](#) of a [bond issuer](#) who handles the administrative aspects of a [loan](#) and ensures that the [borrower](#) complies with the [terms](#) of the [bond indenture](#).

Trustee in bankruptcy

An appointed [trustee](#) who supervises and administers the affairs of a bankrupt [company](#) or individual.

TSE 300 (Toronto Stock Exchange index)

The stock price index representing a market capitalization average price on the Toronto Stock Exchange. This index was replaced in May 2002 by the [S&P/TSX Composite Index](#).

TSX Composite Index (Toronto Stock Exchange index)

In May 2002 by the S&P/TSX Composite Index replaced the [TSE300 index](#). The TSX index has over 200 constituents.

TSX60 Index (Toronto Stock Exchange index)

The S&P/TSX Index of the 60 largest capitalization firms on the [Toronto Stock Exchange](#).

TSXV Index (Toronto Stock Exchange Venture index)

The S&P/TSXV Index of the TSX Venture Exchange.

Truth in lending law

Legislation governing the granting of [credit](#), that requires [lenders](#) to disclose the true [cost](#) of [loans](#) and the actual [interest rates](#) and [terms](#) of the loans in a manner that is easily understood.

TT&L account

Treasury tax and [loan](#) account at a bank.

Turkey

A losing [investment](#).

Turn

In the equities market, a [reversal](#); [unwind](#).

Turnaround

[Securities](#) bought and sold for [settlement](#) on the same day. Also describes a [firm](#) that has been performing poorly, but changes its [financial](#) course and improves its performance.

Turnaround time

Time available or needed to effect a [turnaround](#).

Turnkey construction contract

A type of construction [contract](#) under which the construction [firm](#) is obligated to complete a project according to prespecified criteria for a price that is fixed at the time the contract is signed.

Turnover

[For mutual funds](#), a measure of [trading](#) activity during the previous year, expressed as a percentage of the [average](#) total assets of the fund. A [turnover](#) rate of 25% means that the value of [trades](#) represented one-fourth of the assets of the fund. For [finance](#), the number of times a given [asset](#), such as [inventory](#), is replaced during the accounting period, usually a year. For [corporate finance](#), the ratio of [annual sales](#) to [net worth](#), representing the extent to which a [company](#) can grow without outside [capital](#). For [markets](#), the [volume](#) of [shares traded](#) as a percent of total shares listed during a specified period, usually a day or a year. For Great Britain, [total revenue](#). Percentage of the total number of [shares outstanding](#) of an [issue](#) that trades during any given period.

Turnover rate

Measures [trading](#) activity during a particular period. [Portfolios](#) with high turnover rates incur higher [transaction costs](#) and are more likely to distribute [capital gains](#), which are taxable to nonretirement accounts.

12B-1 fees

The percent of a [mutual fund's assets](#) used to defray marketing and [distribution expenses](#). The amount of the fee is stated in the fund's [prospectus](#). The [SEC](#) has recently proposed that 12B-1 fees in excess of 0.25% be classed as a load. A true no [load fund](#) has neither a [sales charge](#) nor a 12b-1 fee.

12B-1 funds

[Mutual funds](#) that do not charge an up-front or back-end [commission](#), but instead take out up to 1.25% of [average](#) daily fund assets each year to [cover](#) the [costs](#) of selling and marketing [shares](#), an arrangement allowed by the [SEC's](#) Rule 12B-1 (passed in 1980).

Twenty bond index

A [benchmark indicator](#) of the level of [municipal bond yields](#). It consists of the [yields](#) on 20 general [obligation municipal bonds](#) with 20-year [maturities](#) with an [average](#) rating equivalent to all.

Twenty-day period

The period during which the SEC inspects [registration statement](#) and [preliminary prospectus](#) prior to a new [issue](#) or [secondary distribution](#).

20% cushion rule

Guideline that revenues from facilities [financed](#) by [municipal bonds](#) should exceed the operating budget plus maintenance [costs](#) and [debt service](#) by at least 20% to allow for unforeseen [expenses](#).

25% rule

The guidelines that [bonded debt](#) over 25% of a municipality's [annual budget](#) is excessive.

Twisting

Convincing a customer that [trades](#) are necessary in order to generate a [commission](#). This is an unethical practice.

Two dollar broker

[Floor broker](#) of the [NYSE](#), who [executes orders](#) for other [brokers](#) having more business at that time than they can handle with their own private floor brokers or who do not have their [exchange member](#) on the [floor](#).

Two-factor model

Usually, Fischer Black's zero-beta version of the [capital asset pricing model](#). It may also refer to another type of model whereby expected returns are generated by any two factors.

Two-fund separation theorem

The theoretical result that all [investors](#) will [hold](#) a combination of the [risk-free asset](#) and the [market portfolio](#).

Two-sided market

A [market](#) in which both [bid](#) and [asked](#) prices, good for the standard [unit of trading](#), are [quoted](#). When customers or [market makers](#) are lined up on both sides ([buy](#) and sell) of a [stock](#).

Two-state option pricing model

A pricing equation allowing an [underlying asset](#) to assume only two possible (discrete) values in the next time period for each value it can take on in the preceding time period. Also called the [binomial option pricing model](#).

Two-tier bid

[Takeover bid](#) in which the acquirer [offers](#) to pay more for the [shares](#) needed to gain [control](#) than for the remaining shares, or to pay the same price but at different times in the [merger](#) period; contrasts with [any-or-all bid](#).

Two-tier tax system

Taxation system that results in taxing the [income](#) going to [shareholders](#) twice.

Two-twenty (2/20)

Refers to the fee structure of [hedge funds](#) - annual management fee of 2% of assets and performance fee of 20% of profits.

Type

The classification of an [option contract](#) as either a [put](#) or a [call](#).

U-turn transactions

Refers to a way for U.S. dollar transactions to take place where the customer or the seller is facing U.S. sanctions. For example, before November 2008, the U.S. Department of Treasury's Office of Foreign Asset Controls allowed some transactions with Iran (in non-prohibited goods) as long the transfer was initiated by a non-Iranian bank and passed through the U.S. system (the U-turn) on the way to another non-Iranian bank. The U-turn practice was terminated on November 10, 2008 with amendments to the Iranian Transactions Regulations, 31 CFR Part 560.

UA

The two-character [ISO](#) 3166 country code for UKRAINE.

UAH

The [ISO](#) 4217 currency code for the Ukraine Hryvnia.

UBTI

See: [Unrelated Business Tax Income](#)

UCITS

See: [Undertakings for Collective Investments in Transferable Securities](#)

UCITS

See: [Undertakings for Collective Investments in Transferable Securities I](#)

UCITS II

See: [Undertakings for Collective Investments in Transferable Securities II](#)

UCITS III

See: [Undertakings for Collective Investments in Transferable Securities III](#)

UCITS IV

See: [Undertakings for Collective Investments in Transferable Securities IV](#)

UCITS V

See: [Undertakings for Collective Investments in Transferable Securities V](#)

UCITS VI

See: [Undertakings for Collective Investments in Transferable Securities VI](#)

UDN

PowerShares DB US Dollar Index Bearish. This [index](#) measures the dollar against a basket of six other currencies: the euro, the Japanese yen, the British pound, the Canadian dollar, the Swedish krona and the Swiss franc. Allows investors to make [short](#) bets on the direction of the dollar. See also [UUP](#).

UG

The two-character [ISO](#) 3166 country code for UGANDA.

UGA

The three-character [ISO](#) 3166 country code for UGANDA.

UGX

The [ISO](#) 4217 currency code for the Uganda Shilling.

UKR

The three-character [ISO](#) 3166 country code for UKRAINE.

UM

The two-character [ISO](#) 3166 country code for UNITED STATES MINOR OUTLYING ISLANDS.

UMI

The three-character [ISO](#) 3166 country code for UNITED STATES MINOR OUTLYING ISLANDS.

URY

The three-character [ISO](#) 3166 country code for URUGUAY.

USA

The three-character [ISO](#) 3166 country code for UNITED STATES.

US

The two-character [ISO](#) 3166 country code for UNITED STATES.

USD

The [ISO](#) 4217 currency code for the USA Dollar.

UUP

PowerShares DB US Dollar Index Bullish. This [index](#) measures the dollar against a basket of six other currencies: the euro, the Japanese yen, the British pound, the Canadian dollar, the Swedish krona and the Swiss franc. Allows investors to make [long](#) bets on the direction of the dollar. See also [UDN](#).

UY

The two-character [ISO](#) 3166 country code for URUGUAY.

UYU

The [ISO](#) 4217 currency code for the Uruguay Peso Uruguayo.

UZ

The two-character [ISO](#) 3166 country code for UZBEKISTAN.

UZB

The three-character [ISO](#) 3166 country code for UZBEKISTAN.

UZS

The [ISO](#) 4217 currency code for the Uzbekistan Sum.

Ultra vires activities

Corporate actions and operations that are not sanctioned by [corporate charter](#), sometimes leading to [shareholder](#) lawsuits.

Ultradot

Applies to derivative products. [Firm](#) proprietary software that stores, and sends [baskets](#) of [stock](#) through [SEAO](#) to either the [NYSE](#) or the curb for [program trading](#).

Ultra-short-term bond fund

A [mutual fund](#) that invests in [bonds](#) with very [short maturity](#) periods, usually one year or less.

Umbrella personal liability policy

A [liability insurance](#) policy that provides protection against damages not covered by standard liability policies, such as large jury awards in lawsuits.

Umbrella policy

[Insurance](#) for exports of an exporter whose issuer handles all administrative requirements.

Unamortized bond discount

Par value of a [bond](#) less the proceeds received from the sale of the bond, less whatever portion has been [amortized](#).

Unamortized premiums on investments

The [unexpensed](#) portion of the difference between the price paid for a [security](#) and its [par value](#).

Unbiased expectations hypothesis

Theory that [forward exchange rates](#) are unbiased predictors of future [spot rates](#). See [Forward parity](#).

Unbiased predictor

A theory that [spot prices](#) at some future date will be equal to today's [forward rates](#).

Unbundling

Separation of a multinational firm's [transfers](#) of funds into discrete flows for specific purposes.

See: [Bundling](#).

Uncentillion

A unit of quantity equal to 10^{306} (1 followed by 306 zeros).

Uncollected funds

The amount of bank deposits in the form of [checks](#) that have not yet been paid by the banks on which the checks are drawn.

Uncollectible account

An account which cannot be collected by a [company](#) because the customer is not able to pay or is unwilling to pay.

Unconfirmed Letter of Credit

A [letter of credit](#) which has not been guaranteed or confirmed by any bank other than the bank that opened it. The advising bank merely informs the [beneficiary](#) of the letter of credit terms and conditions.

Uncovered call

A [short call option position](#) in which the [writer](#) does not own [shares](#) of [underlying stock](#) represented by the [option contracts](#). Uncovered calls are much [riskier](#) for the writer than a [covered call](#), where the writer of the uncovered call owns the [underlying](#) stock. If the buyer of a [call exercises](#) the option to call, the writer would be forced to [buy](#) the [asset](#) at the current [market price](#). Also called a "naked" asset.

Uncovered call writing

A short call option position in which the writer does not own an equivalent position in the underlying security represented by his option contracts.

Uncovered options

See: [Naked options](#)

Uncovered put

A [short put option position](#) in which the [writer](#) does not have a corresponding short [stockposition](#) or has not deposited, in a [cash](#) account, [cash](#) or [cash equivalents](#) equal to the [exercise](#) value of the [put](#). The writer has pledged to [buy](#) the asset at a certain price if the buyer of the [option](#) chooses to exercise it. Uncovered put options limit the writer's [risk](#) to the value of the stock (adjusted for premium received.) Also called "naked" puts.

Uncovered Put writing

A short put option position in which the writer does not have a corresponding short position in the underlying security or has not deposited, in a [cash](#) account.

Undecillion

A unit of quantity equal to 10^{36} (1 followed by 36 zeros).

Under the belt

[Long position](#) in a [stock](#).

Underbanked

When an originating [investment banker](#) cannot find enough [firms](#) to [underwrite](#) a new [issue](#).

Underbooked

Describes limited interest by prospective [buyers](#) in a new [issue](#) of a [security](#) during the [preoffering registration](#) period.

Undercapitalized

A business has insufficient [capital](#) to carry out its normal functions.

Underfunded pension plan

A [pension plan](#) that has a negative [surplus](#) (i.e., [liabilities](#) exceed [assets](#)).

Underinvestment problem

The mirror image of the [asset substitution problem](#), in that [stockholders](#) refuse to invest in low-risk assets to avoid shifting wealth from themselves to [debtholders](#).

Underlying

What supports the [security](#) or [instrument](#) that parties agree to exchange in a [derivative contract](#).

Underlying asset

The security or property or [loan](#) agreement that an [option](#) gives the option holder the right to [buy](#) or to sell.

Underlying debt

[Municipal bonds](#) issued by government entities but under the control of larger government entities and for which the larger entity [shares](#) the [credit](#) responsibility.

Underlying futures contract

A [futures contract](#) that supports an [option](#) on that future, which is executed if the [option](#) is [exercised](#).

Underlying security

For [options](#), the [security](#) that is subject to purchase or sold upon [exercise](#) of an [option contract](#). For example, IBM stock is the [underlying security](#) for IBM options. For [Depository receipts](#), the [class](#), [series](#), and number of the foreign [shares](#) represented by the depository receipt.

Undermargined account

A [margin account](#) that no longer meets minimum [maintenance requirements](#), requiring a [margin call](#) on the [investor](#).

Underperform

In general, this means to do worse than some particular benchmark. Mutual Fund XYZ is said to underperform the S&P500 if its return falls short of the S&P500 return. However, this language does not take risk into account. That is, one might have a lower return than the benchmark in a particular year because of lower risk exposure. Underperform is also a term used by analysts to describe the prospects of a particular company. Usually, this means that the company will do worse than its industry average. Related: [outperform](#).

Underpricing

[Issuing securities](#) at less than their [market value](#).

Undertakings for Collective Investments in Transferable Securities (UCITS)

A European Union initiative where UCITS refers to a set of Directives establishing a harmonized legal framework for the creation, management and marketing of collective investment schemes in the EU (and EEA) Member States. There is a long history which is detailed below.

Undertakings for Collective Investments in Transferable Securities (UCITS I)

The aim of the original UCITS Directive 85/611/EEC, adopted in 1985, was to allow for open-ended funds investing in transferable securities to be subject to the same regulation in every Member State. Under UCITS I, derivatives could only be used for hedging and efficient portfolio management, that is with the aim of reducing risk or cost, or to replicate a position that could otherwise be achieved through investing in the underlying asset.

Undertakings for Collective Investments in Transferable Securities II (UCITS II)

In the early 1990s attempts were made to amend the 1985 Directive and more successfully harmonize laws throughout Europe, since several obstacles became apparent in following UCITS I. Individual marketing rules in each Member State created obstacles to crossborder marketing of UCITS. The limited definition of permitted investments for UCITS also weakened the marketing possibilities of a UCITS. Attempts to reform UCITS in the 1990s faltered and it was not until the introduction in 2001 of Directive 2001/108/EC (generally known as the "Product Directive") and Directive 2001/107/EC (generally known as the "Management Directive") that substantive change was eventually introduced (the Product and Management Directives are UCITS III).

Undertakings for Collective Investments in Transferable Securities III (UCITS III)

A set of Directives adopted in December 2001 which amended [UCITS I](#). UCITS III consists of two directives, a "Product Directive" and a "Management Directive".

- 1) Product Directive: Product Directive removes barriers to the cross border marketing of units of collective investment funds by allowing funds to invest in a wider range of financial instruments including derivatives.
- 2) Management Directive: Management Directive gives management companies a "European Passport" to operate throughout the EU, which widens the range of activities management companies are allowed to take and also assists the cross-border marketing.

The UCITS III revision gave asset managers a broader scope. At the same time, the requirements on investor protection were increased and called for an independent risk management function (to limit/monitor leverage, counterparty risk, concentration limits, etc.). UCITS III expanded the range of available investments to include derivatives for investment purposes, other UCITS and cash. This dramatically increased investor choice, allowing for cash funds, funds of fund, mixed asset funds and absolute return UCITS or UCITS hedge funds. This has allowed a number of hedge fund strategies to be accommodated within the UCITS format such as equity long/short, relative value, etc. Some strategies, however, remain difficult to implement within the UCITS framework because the underlying asset class is not permissible (for example, individual commodities or bank loans) or because of the lack of liquidity (for example, distressed debt).

Undertakings for Collective Investments in Transferable Securities IV (UCITS IV)

The proposal of UCITS IV was approved by the European Parliament on January 13, 2009 and also by the Council of European Union, to be implemented in 2011. UCITS IV will bring further uniformity in collective investments throughout European Union. The UCITS IV directive introduced the management company passport and allows a UCITS to be managed by a management company authorised and supervised in a Member State other than its home Member State. UCITS IV has increased the governance (“organisational”) requirements of UCITS Management Companies and funds and has brought these requirements more in line with the Markets in Financial Instruments Directive 2004/39/ED (known as MiFID). UCITS or its management company needs to establish independent compliance and audit functions in addition to the independent risk management which was already required under UCITS III but which has been expanded to formalise the management of a variety of risks.

Undertakings for Collective Investments in Transferable Securities V (UCITS V)

The initial draft directive was released in 2012 and UCITS V was adopted by the European Parliament and Council in February 2014. There are three key elements in this proposal: (1) A new depositary regime which includes a clarification of the depositaries’ duties, responsibilities and liabilities and a set of the rules under which responsibilities, such as sub-custodian roles) can be delegated. (2) Rules governing remuneration of fund managers including bonus caps. (3) A sanctions regime.

Undertakings for Collective Investments in Transferable Securities VI (UCITS VI)

The UCITS VI consultation document is in circulation. The EU commission asks respondents whether there is a need to review the list of eligible assets under UCITS. Other topics in the consultation paper include efficient portfolio management, OTC derivatives, liquidity management and money market funds.

Undervalued

A stock price perceived to be too low or cheap, as indicated by a particular valuation model. For instance, some might consider a particular [company's](#) stock price cheap if the company's [price-earnings ratio](#) is much lower than the industry average. To refer to undervaluation or [overvaluation](#) implicitly assumes some model of [valuation](#). It is always possible that the [security](#) is valued correctly and that model applied is wrong.

Undervalued security

A [security](#) selling below its [market value](#) or [liquidation](#) value.

Underweight

Usually refers to recommendation that leads an investor to reduce their investment in a particular security or [asset class](#). The reduction is usually with respect to a benchmark. Suppose that U.S.

equities compose 40% of the benchmark portfolio. If one thinks the U.S. will underperform, the investor may reduce the exposure to U.S. equity to less than 40%.

Underwithholding

When a taxpayer has withheld too little tax from [salary](#) and will therefore owe tax when filing a return.

Underwrite

To guarantee, as to guarantee the [issuer](#) of [securities](#) a specified price by entering into a [purchase and sale agreement](#). To bring securities to [market](#).

Underwriter

A [firm](#), usually an [investment bank](#), that [buys](#) an [issue](#) of [securities](#) from a [company](#) and resells it to [investors](#). In general, a party that guarantees the proceeds to the firm from a [security](#) sale, thereby in effect taking ownership of the securities.

Underwriter's discount

See: [Gross spread](#)

Underwriting

Acting as the [underwriter](#) in the [issue](#) of new [securities](#) for a [firm](#).

Underwriting agreement

The [contract](#) between a [corporation](#) issuing new [publicly](#) offered [securities](#) and the managing [underwriter](#) as [agent](#) for the underwriting group. Compare to [agreement among underwriters](#).

Underwriting Commission

The fee [investment bankers](#) charge for [underwriting](#) a [security](#) issue.

Underwriting fee

The portion of the gross [underwriting spread](#) that compensates the [securities firms](#) that [underwrite](#) a [public offering](#) for their services.

Underwriting income

For an insurance [company](#), the difference between the [premiums](#) earned and the costs of settling claims.

Underwriting spread

The income that is generated by the [underwriting syndicate](#) and the [selling group](#), which is essentially the difference between the amount paid to the [issuer](#) of [securities](#) in a [primary distribution](#) and the [public offering](#) price.

Underwriting syndicate

A group of [investment banks](#) that work together to sell new [security offerings](#) to [investors](#).

The [underwriting syndicate](#) is led by the [lead underwriter](#). See also: [Lead underwriter](#).

Underwritten offering

A [purchase and sale](#).

Undigested securities

Newly [issued securities](#) that are not purchased because of lack of demand during the [initial public offering](#).

Undistributable reserve

See [Capital reserve](#).

Undiversifiable risk

Related: [Systematic risk](#)

Unearned income (revenue)

Income received in advance of the time at which it is earned, such as prepaid [rent](#).

Unearned interest

[Interest](#) that has been received on a loan, but that cannot be treated as a part of [earnings](#) yet, because the [principal](#) of the loan has not been [outstanding](#) long enough.

Unemployment rate

The percentage of the people classified as unemployed as compared to the total labor force.

Unencumbered

Property that is not subject to any claims by [creditors](#). For example, [securities](#) bought with [cash](#) instead of on [margin](#) and homes with [mortgages](#) paid off.

Unequal Voting

These provisions limit the voting rights of some shareholders and expand those of others. Under time-phased voting, shareholders who have held the stock for a given period of time are given more votes per share than recent purchases. Another variety is the substantial shareholder provision, which limits the voting power of shareholders who have exceeded a certain threshold of ownership.

Unfavorable Balance of Trade

The value of a nation's imports in excess of the value of its exports.

Unfunded debt

[Debt](#) maturing within one year ([short-term debt](#)). See: [Funded debt](#).

Unfunded pension plan

Provides for the employer to pay out amounts to [retirees](#) or [beneficiaries](#) as and when they are needed. There is no money put aside on a regular basis. Instead, it is taken out of [current income](#).

Unified tax credit

A federal [tax credit](#) that reduces [tax liability](#), dollar for dollar, on lifetime [gifts](#) and [asset](#) transfers at death.

Uniform Commercial Code (UCC)

Collection of laws dealing with commercial business.

Uniform Customs and Practices (Brochure 500)

International Chamber of Commerce rules (commonly referred to as UCP 500 or ICC 500), that are used for [Letters of credit](#). These letters then become legally binding when written into the text of the letter.

Uniform Gifts to Minors Act (UGMA)

Legislation that provides a tax-effective manner of transferring property to minors without the complications of [trusts](#) or guardianship restrictions.

Uniform practice code

Standards of the [NASD](#) prescribing procedures for handling [over-the-counter securities transactions](#), such as [delivery](#), [settlement date](#), and ex-dividend date.

Uniform Rules for Collections

International Chamber of Commerce rules on the handling of documentary and clean collections.

Uniform securities agent state law examination

A test required in some states for registered representatives who are employees of [member firms](#) of the [NASD](#) or [over-the-counter brokers](#).

Uniform Transfers to Minors Act (UTMA)

A law similar to the [Uniform Gifts to Minors Act](#) that extends the definition of gifts to include [real estate](#), paintings, [royalties](#), and [patents](#).

Unilateral transfers

Items in the [current account](#) of the [balance of payments](#) of a country's accounting [books](#) that correspond to gifts from foreigners or [pension](#) payments to foreign residents who once worked in the particular country.

Unincorporated joint venture

A [joint venture](#) in which the legal means of dividing the project's equity is by shareholdings in a [company](#).

Uninsured motorist insurance

Insurance that covers the [policyholder](#) and family if they are injured by a hit-and-run or uninsured motorist, assuming the other driver is at fault.

Unique Diversification Benefit

Reduction in the likelihood of [financial distress](#) for a [conglomerate firm](#) that comes with its diversified [investments](#).

Unique risk

Also called [unsystematic risk](#) or [idiosyncratic risk](#). Specific [company risk](#) that can be eliminated through [diversification](#). See: [Diversifiable risk](#) and [unsystematic risk](#).

Uninvested

Usually refers to cash that could be invested but is being held in reserve.

Unissued stock

[Shares authorized](#) in a [corporation's charter](#), but not [issued](#).

Unit

More than one [class](#) of [securities traded](#) together (e.g., one [common share](#) and three [subscription warrants](#)).

Unit benefit formula

Method used to determine a participant's benefits in a [defined benefit plan](#). Involves multiplying years of service by the percentage of [salary](#).

Unit investment trust

Money invested in a [portfolio](#) whose [composition](#) is fixed for the life of the fund. [Shares](#) in a [unit trust](#) are called [redeemable](#) trust certificates, and they are sold at a [premium](#) to [net asset value](#).

Unit Share Investment Trust (USIT)

A [unit investment trust](#) comprising one unit of [prime](#) and one [unit](#) of score.

Unit of trading

See: [Trading unit](#).

Unit trust

In the United Kingdom and other [foreign markets](#), an [open-end mutual fund](#).

United States Customs Service

An agency of the Treasury Department charged with enforcing laws relative to imports.

United States government securities

[Debt issues](#) of the U.S. government, as distinguished from government-sponsored agency [issues](#).

Universal life

A [whole life insurance](#) product whose investment component pays a competitive [interest](#) rate rather than the below-market [crediting rate](#).

Universe of securities

A group of [stocks](#) having a common feature, such as similar [outstanding market capitalization](#) or same product line.

Unleveraged beta

The [beta](#) of an [unleveraged required return](#) (i.e., no [debt](#)) on an investment when the investment is financed entirely by [equity](#).

Unleveraged program

The use of [borrowed](#) funds to finance less than 50% of a purchase of [assets](#). In a [leveraged](#) program [borrowed](#) funds are used to finance more than 50%.

Unleveraged required return

The [required return](#) on an investment when the investment is financed entirely by [equity](#) (i.e., no [debt](#)).

Unlevered cost of equity

The [discount rate](#) appropriate for an [investment](#) that it is financed with 100% equity.

Unlimited liability

Full [liability](#) for the [debt](#) and other obligations of a [legal entity](#). The [general partners](#) of a [partnership](#) have unlimited liability.

Unlimited marital deduction

An [Internal Revenue Service](#) provision that allows an individual to transfer an unlimited amount of [assets](#) to a spouse, during life or at death, without incurring federal [estate](#) or [gift tax](#).

Unlimited tax bond

A [municipal bond](#) secured by the pledge to levy taxes until full repayment at an unlimited rate.

Unlisted security

A [security traded](#) in the [over-the-counter](#) market that is not [listed](#) on an [organized exchange](#).

Unlisted trading

[Trading](#) in [unlisted securities](#) that occurs on an [organized exchange](#) to accommodate [members](#). This practice is not permitted at the [NYSE](#).

Unloading

Selling [securities](#) or [commodities](#) whose prices are dropping to minimize loss.

Unmargined account

A [cash](#) account held at a brokerage firm.

Unmatched book

If the [average maturity](#) of a bank's [liabilities](#) is shorter than that of its [assets](#), it is said to be running an [unmatched book](#). The term is commonly used with the Euromarket. Also refers to entering into [OTC derivatives contracts](#) and not [hedging](#) by making [trades](#) in the opposite direction to another [financial intermediary](#). In this case, the [firm](#) with an unmatched book usually hedges its net [market risk](#) with [futures](#) and [options](#). Related expressions: [Open book](#) and [short book](#).

Unnonagintillion

A unit of quantity equal to 10^{276} (1 followed by 276 zeros).

Unpaid dividend

A [dividend](#) declared by the [directors](#) of a corporation that has not yet been paid.

Unquadragintillion

A unit of quantity equal to 10^{126} (1 followed by 126 zeros).

Unqualified opinion

An independent [auditor's opinion](#) that a [company's financial statements](#) comply with [accepted accounting procedures](#). Antithesis of [qualified opinion](#).

Unrealized capital gain/loss

An increase/decrease in the value of a [security](#) that is not "[real](#)" because the security has not been sold. Once a security is sold by the [portfolio manager](#), the [capital gains/losses](#) are "realized" by the fund, and any payment to the [shareholder](#) is taxable during the tax year in which the security is sold.

Unrelated Business Tax Income

Income earned by a tax-exempt entity that does not result from tax-exempt activities. The entity may owe taxes on this income.

Upsize option

Upsize option is an option in [IPO](#) to increase the size of offering when the demand is high.

Usance

The time allowed for settlement of a [draft](#).

Usance Draft

See: [Time Draft](#)

Usance Letter of Credit

A [letter of credit](#) payable at a determined future date after presentation of conforming documents.

Unoctogintillion

A unit of quantity equal to 10^{246} (1 followed by 246 zeros).

Unseasoned issue

[Issue](#) of a [security](#) for which there is no existing [market](#). See: [Seasoned issue](#).

Unsecured debt

[Debt](#) that does not identify specific [assets](#) that the [debtholder](#) is entitled to in case of [default](#).

Unseptuagintillion

A unit of quantity equal to 10^{216} (1 followed by 216 zeros).

Unsexagintillion

A unit of quantity equal to 10^{186} (1 followed by 186 zeros).

Unsterilized intervention

[Foreign exchange market](#) intervention in which the monetary authorities have not insulated their domestic money supplies from the foreign exchange transactions.

Unsystematic risk

Also called the [diversifiable risk](#) or [residual risk](#). The [risk](#) that is unique to a [company](#) such as a strike, the outcome of unfavorable litigation, or a natural catastrophe that can be eliminated through [diversification](#). Related: [Systematic risk](#).

Unquinquagintillion

A unit of quantity equal to 10^{156} (1 followed by 156 zeros).

Untrigintillion

A unit of quantity equal to 10^{96} (1 followed by 96 zeros).

Unvigintillion

A unit of quantity equal to 10^{66} (1 followed by 66 zeros).

Unwind a trade

Reverse a [securities](#) transaction through an [offsetting](#) transaction in the [market](#).

Up

Market [indication](#); willingness to go both ways ([buy](#) or sell) at the mentioned volume and [market](#). [Print](#); up on the [ticker tape](#), confirming that the [trade](#) has been [executed](#).

Up market

The period of time after a market bottom during which a security's price trends upwards.

Up tick

[Plus tick](#).

Up volume

When a stock closes increases in value on a particular day, the volume in that stock is considered up volume. Related: [Down volume](#).

Upgrading

Raising the quality [rating](#) of a [security](#) because of new optimism about the prospects of a [firm](#) due to tangible or intangible [factors](#). This can increase [investor](#) confidence and push up the price of the [security](#).

Upset price

The minimum price at which a seller of property will accept a [bid](#) at an auction.

Upside potential

The amount by which [analysts](#) or [investors](#) expect the price of a [security](#) may increase.

Upstairs market

A network of [trading desks](#) for the major brokerage firms and [institutional investors](#), which communicate with each other by means of electronic display systems and telephones to facilitate [block trades](#) and [program trades](#).

Upstairs order

Used for listed equity securities. [Off-floor order](#).

Upswing

(1) An upward turn in a security's price after a period of flat or falling prices ([market bottom](#)). (2) The period during which a security's price trends upwards.

Uptick rule

[SEC](#) rule that selling [short](#) is allowed only on an [up tick](#).

Uptick trade

A transaction that takes place at a higher price than the preceding transaction involving the same [security](#). Related: [Tick test rules](#).

Upturn

(1) A period of growth or rising economic activity, especially real GDP, but typically employment as well. (2) The transition of an economy from contraction to growth, also known as a trough of economic activity.

U.S. Dollar Index

Measures the U.S. dollar's value against a basket of six overseas denominations. See also [UDN](#), [UUP](#).

Useful life

The expected period of time during which a [depreciating asset](#) will be productive.

US Treasury bill

US government [debt](#) with a [maturity](#) of less than a year.

US Treasury bond

US government [debt](#) with a [maturity](#) of more than 10 years.

US Treasury note

US government [debt](#) with a [maturity](#) of one to 10 years.

U.S. Treasury securities

Interest-bearing obligations if the U.S. government issued by the U.S. Department of the Treasury as a means of [borrowing](#) money to meet government expenditures not covered by tax revenues. There are three types of marketable Treasury securities-bills, notes and bonds.

Usufruct

A temporary legal right to derive [profits](#) from property owned by others, given that the property is not damaged. See: [Beneficial ownership](#)

Usury

This term is generally used to denote an illegal predatory [lending](#) practice in which a [lender](#) charges an [interest rate](#) on a [loan](#) that is considered to be excessive or in violation with [interest rate](#) limits as established by some state governments. An excessively high [interest rate](#) that is overly burdensome for the [borrower](#). A [lender](#) may set an [interest rate](#) unreasonably high if they believe that the [borrower](#) may not be able to repay the [loan](#) and [interest](#). Limits on [interest rates](#) vary from state to state within the U.S. See: [Loan shark](#), [Usury laws](#)

Usury laws

Laws limiting the amount of [interest](#) that can be charged on loans.

Utility

A power [company](#) that owns or operates facilities used for the generation, transmission, or distribution of electric energy, which is regulated at state and federal levels.

Utility function

A mathematical expression that assigns a value to all possible choices. In [portfolio theory](#), the [utility](#) function expresses the preferences of economic entities with respect to perceived [risk](#) and [expected return](#).

Utility revenue bond

A [municipal bond issued](#) to finance the construction of [public utility](#) services. These [bonds](#) are repaid from the operating revenues the project produces after the utility is finished.

Utility value

The welfare a given [investor](#) assigns to an investment with a particular [expected return](#) and [risk](#).

V

Fifth letter of a [Nasdaq stock symbol](#) indicate that it is when-[issued](#) or when-[distributed](#).

VAMI

A way of reporting fund performance whereby each reporting period is indexed at 100 or 1000. Hence, for a fund with a total return of 39% over the year, the VAMI indexed at 100 is 139.

VA

The two-character [ISO](#) 3166 country code for HOLY SEE (VATICAN CITY STATE).

VaR

See: [Value-at-risk model](#)

VAT (1)

See: [Value-added tax](#)

VAT (2)

The three-character [ISO](#) 3166 country code for HOLY SEE (VATICAN CITY STATE).

VC

The two-character [ISO](#) 3166 country code for SAINT VINCENT AND THE GRENADINES.

VCT

The three-character [ISO](#) 3166 country code for SAINT VINCENT AND THE GRENADINES.

VE

The two-character [ISO](#) 3166 country code for VENEZUELA.

VEB

The [ISO](#) 4217 currency code for the Venezuelan Bolivar.

VEN

The three-character [ISO](#) 3166 country code for VENEZUELA.

VG

The two-character [ISO](#) 3166 country code for VIRGIN ISLANDS, BRITISH.

VGB

The three-character [ISO](#) 3166 country code for VIRGIN ISLANDS, BRITISH.

VI

The two-character [ISO](#) 3166 country code for VIRGIN ISLANDS, U.S..

VIR

The three-character [ISO](#) 3166 country code for VIRGIN ISLANDS, U.S..

VN

The two-character [ISO](#) 3166 country code for VIETNAM.

VND

The [ISO](#) 4217 currency code for the Vietnamese Dong.

VNM

The three-character [ISO](#) 3166 country code for VIETNAM.

VRDB

See: [Variable-rated demand bond](#)

VU

The two-character [ISO](#) 3166 country code for VANUATU.

VUT

The three-character [ISO](#) 3166 country code for VANUATU.

VUV

The [ISO](#) 4217 currency code for the Vanuatu Vatu.

VWAP

The volume-weighted average price.

Validated Export License

Document issued by the U.S. government (BXA), authorizing the export of specific commodities to a specified foreign country within a specified time period.

Valuation

Determination of the value of a company's [stock](#) based on [earnings](#) and the [market value](#) of [assets](#).

Valuation Clause

Stipulates a fixed sum for insured property in the event of loss when included in a marine cargo insurance policy.

Valuation Opportunity Cost

The potential increase in firm value associated with [investments](#) that are forgone due to [capital rationing](#).

Valuation reserve

An allowance to provide for changes in the value of a company's [assets](#), such as [depreciation](#).

Value Added

Value added is the [risk adjusted return](#) generated by an [investment strategy](#): the [return](#) of the investment strategy minus the [return](#) of the [benchmark](#).

Value Added Tax (VAT)

A value added tax (VAT) is a form of consumption tax. As a buyer, it is a tax on the purchase price. As a seller, it is a tax on the "value added" to a product, material or service at his/her stage of its manufacture or distribution. For example, if a television is built by a company in a country that charges VAT, the manufacturer is charged VAT on all of the parts they purchase to produce the television. Once the television is sold, the consumer pays VAT on the entire product. The VAT is ultimately passed on to the end user.

Value additivity principle

When the value of a whole group of [assets](#) exactly equals the sum of the values of the individual assets that make up the group of assets. Or, the principle that the [net present value](#) of a set of independent projects is just the sum of the net present values of the individual projects.

Value broker

A [discount broker](#) whose rates are a percentage of the dollar value of each [transaction](#).

Value date

In the market for [Eurodollar](#) deposits and [foreign exchange](#), the [delivery date](#) of funds [traded](#). For spot transactions, it is normally on spot transactions two days after a transaction is agreed upon. In the case of a [forward foreign exchange trade](#), it is the future date.

Value dating

When value or [credit](#) is given for funds [transferred](#) between banks.

Value investing

In the context of asset management, mutual funds, and hedge funds, the a style of investment that focuses on securities with low price to earnings ratios or low price to book ratios. Some of these securities are deemed cheap and are viewed by manager as having a lot of profit potential.

Value Line investment survey

A proprietary service that ranks [stocks](#) for timeliness and safety.

Value manager

A manager who seeks to [buy stocks](#) that are at a [discount](#) to their "fair value" and to sell them at or in excess of that value. Often a [value stock](#) is one with a low [price-to-book value ratio](#). Opposite of [growth stock](#).

Value Maximization

Increases in owners' wealth achieved by maximizing of the value of a firm's [common stock](#).

Value-at-risk model (VaR)

Procedure for estimating the [probability](#) of [portfolio losses](#) exceeding some specified proportion based on a statistical analysis of historical [market price trends, correlations](#), and [volatilities](#).

Value stocks

[Stocks](#) with low price/[book ratios](#) or price/earnings ratios. Historically, value stocks have enjoyed higher [average returns](#) than [growth stocks](#) (stocks with high price/book or P/E ratios) in a variety of countries.

Value stock fund

A [mutual fund](#) that emphasizes [stocks](#) of companies whose growth opportunities are generally regarded as subpar by the [market](#). A value stock company often pays regular [dividend income](#) to [shareholders](#) and sells at relatively low prices in relation to its [earnings](#) or [book value](#).

Vancouver Stock Exchange (VSE)

A [securities](#) and [options exchange](#) in Vancouver, British Columbia, (Canada), specializing in [venture capital](#) companies.

Vanilla issue

A [security issue](#) that has no unusual features.

Vanilla option

An [option](#) with standard features like a fixed [strike price](#), expiration date and a single [underlying asset](#). The option is effective at the current date and when exercised, its payoff equals the difference between the value of the underlying asset and the strike price. It is also known whether the option is a [call](#) or a [put](#) at the time the option is sold. Also see [Exotic option](#).

Variable

An element in a model. For example, in the model $RS\&P_{t+1} = a + b \text{ Tbill}_t + e_t$, where $RS\&P_{t+1}$ is the return on the [S&P](#) in month $t+1$ and Tbill is the Tbill return at month t , both $RS\&P$ and Tbill are "variables" because they change through time; i.e., they are not constant.

Variable annuities

Investment [contracts](#) whose [issuer](#) pays a periodic amount linked to the investment performance of an [underlying portfolio](#).

Variable cost

A cost that is directly proportional to the volume of output produced. When production is zero, the variable cost is equal to zero.

Variable interest rate

See: [Adjustable rate](#)

Variable life insurance policy

A [whole life insurance](#) policy that provides a death benefit dependent on the insured's [portfolio market value](#) at the time of death. Typically the company invests [premiums](#) in [common stocks](#), so [variable life](#) policies are referred to as [equity-linked policies](#).

Variable Plan

A plan in which either the number of [shares](#) and/or the price at which they will be issued is not known on the grant date.

Variable-price security

A [security](#) that sells at a [fluctuating market-determined price stocks](#) and [bonds](#) are example.

Variable-rate

A variable-rate agreement, as distinguished from a fixed-rate agreement, calls for an interest rate that may fluctuate over the life of the loan. The rate is often tied to an index that reflects changes in market rates of interest. A fluctuation in the rate causes changes in either the payments or the length of the loan term. Limits are often placed on the degree to which the interest rate or the payments can vary.

Variable-rate CDs

Short-term [certificate of deposits](#) that pay [interest](#) periodically on [roll dates](#). On each roll date, the [coupon](#) on the [CD](#) is adjusted to reflect current market rates.

Variable-rate demand note

A [note](#) that is payable on demand and bears [interest](#) tied to a [money market](#) rate.

Variable-rate loan

[Loan](#) made at an interest rate that fluctuates depending on a [base interest rate](#), such as the [prime rate](#) or [LIBOR](#).

Variable rated demand bond (VRDB)

[Floating-rate bond](#) that periodically can be sold back to the [issuer](#).

Variable Ratio Write

An option strategy in which the investor owns 100 shares of the underlying security and writes two call options against it, each option having a different striking price.

Variance

A measure of dispersion of a set of data points around their [mean](#) value. The mathematical expectation of the average squared deviations from the [mean](#). The square root of the variance is the [standard deviation](#).

Variance-minimization approach to tracking

An approach to [bond indexing](#) that uses historical data to estimate the [variance](#) of the [tracking error](#).

Variance rule

Specifies the permitted minimum or maximum quantity of [securities](#) that can be delivered to satisfy a [TBA trade](#). For [Ginnie Mae](#), [Fannie Mae](#), and [Freddie Mac pass-through securities](#), the accepted [variance](#) is [plus](#) or [minus](#) 2.499999 % per million of the [par value](#) of the TBA quantity.

Variation margin

An additional required deposit to bring an investor's [equity](#) account up to the [margin](#) level when the balance falls below the [maintenance margin requirement](#).

Vault cash

Cash kept on hand in a depository institution's vault to meet day-to-day business needs, such as cashing checks for customers; can be counted as a portion of the institution's required reserves.

Vega

A term that describes the sensitivity of the option price to a one-percent change in volatility.

Velda Sue

Stands for Venture Enhancement and Loan Development Administration for Smaller Undercapitalized Enterprises. A federal agency that buys and pools small business loans made by banks, and then [issues securities](#) that are bought by large [institutional investors](#).

Velocity

The number of times a dollar is spent, or turns over, in a specific period of time. Velocity affects the amount of economic activity generated by a given [money supply](#).

Vendor

Seller or supplier.

Vendor financing

The lending of money by a company to its customers so that the customers can in turn purchase products from the company. The company is basically increasing its sales by basically buying its own products.

Venture capital

An investment in a [start-up](#) business that is perceived to have excellent [growth prospects](#) but does not have access to [capital markets](#). Type of financing sought by early-stage companies seeking to grow rapidly.

Venture capital limited partnership

A [partnership](#) between a [startup](#) company and a brokerage firm or [entrepreneurial](#) company that provides [capital](#) for the new business in return for [stock](#) in the company and a share of the [profits](#).

Vertical acquisition

Buying or [taking over](#) a firm in the same industry in which the [acquired firm](#) and the [acquiring firm](#) represent different steps in the production process.

Vertical analysis

Dividing each [expense](#) item in the [income statement](#) of a given year by [net sales](#) to identify expense items that rise more quickly or more slowly than a change in sales.

Vertical line charting

A form of technical [charting](#) that shows the high, low, and [closing prices](#) of a [stock](#) or a [market](#) on each day on one vertical line with the closing price indicated by a short horizontal mark.

Vertical merger

When one firm acquires another firm that is in the same industry but at another stage in the production cycle. For example, [the firm being acquired](#) serves as a supplier to [the firm doing the acquiring](#).

Vertical spread

Simultaneous purchase and sale of two [options](#) that differ only in their [exercise price](#). See: [Horizontal spread](#).

Vessel

A conveyance for the transport of goods by water.

Vest

Become applicable or exercisable. A term mainly used on the context of employee stock ownership or option programs. Employees might be given equity in a firm but they must stay with the firm for a number of years before they are entitled to the full equity. This is a [vesting](#) provision. It provides incentive for the employee to perform.

Vesting

Nonforfeitable ownership (or partial ownership) by an employee of the retirement account balances or benefits contributed on the employees behalf by an employer. The Tax Reform Act of 1986 established minimum vesting rights for employees based on their years of service—full vesting in five years or 20% vesting per year starting by the end of the third year.

Vesting Schedule

Schedule setting forth when, and to what extent, options become exercisable or [restricted stock](#) or stock units are no longer subject to forfeiture (for example, 20% per year over five years).

Veterans Administration (VA) mortgage

A home [mortgage](#) loan granted by a [lending](#) institution to U.S. veterans and guaranteed by the Veterans Administration.

V formation

A technical chart [pattern](#) that follows a letter V form, indicating that the [security](#) price has bottomed out, and is now in a [bullish trend](#).

Vienna Convention

Common name for the United Nations Convention on Contracts for the International Sale of Goods. They are a body of law governing the international sale of goods between parties domiciled in member countries.

Vienna Stock Exchange (VSX)

One of the world's oldest [exchanges](#), which accounts for approximately 50% of Austrian [stock transactions](#); the balance are [traded OTC](#).

Vig

Slang for interest paid on a loan - usually a loan with higher than market interest rates, a so-called loan shark loan.

Vigintillion

A unit of quantity equal to 10^{63} (1 followed by 63 zeros).

Vignette

A symbol or pictorial representation of the corporation on a stock certificate. Usually a complicated and artistic design, it is meant to make the counterfeiting of stock certificates as difficult as possible.

Virtual currency option

A new [option contract](#) introduced by the [PHLX](#) in 1994 that is settled in US dollars rather than in the [underlying](#) currency. These options are also called 3-Ds (dollar-denominated [delivery](#)).

Visible supply

New [muni bond issues](#) scheduled to come to [market](#) within the next 30 days.

VIX

The implied volatility on the S&P 100 (OEX) option. This volatility is meant to be a forward looking volatility. It is calculated from both calls and puts that are near the money. The VIX is a popular measure of market risk.

Volatility

A measure of [risk](#) based on the [standard deviation](#) of the [asset return](#). [Volatility](#) is a [variable](#) that appears in [option pricing](#) formulas, where it denotes the volatility of the [underlying asset](#) return from now to the [expiration](#) of the [option](#). There are volatility [indexes](#). Such as a scale of 1-9; a higher rating means higher risk.

Volcker Plan

See: [Volcker Rule](#)

Volcker Rule

A proposal to restrict banks from making speculative proprietary investments and/or trading. Proposed by economist and former US Federal Reserve Chairman Paul Volcker. Volcker was appointed by President Obama as the chair of the President's Economic Recovery Advisory Board on February 6, 2009 and the Volcker Rule was publicly endorsed by President Obama on January 21, 2010 and was partially implemented in the [Dodd-Frank Act](#).

Volume counting

The SEC dictates how volume is counted. Thus, volume is counted in the same manner on all markets based on the above reporting structure. Any time money changes hands (or any time capital is risked), it must be counted as a trade. Examples: 1) One registered market participant on Nasdaq buys 100 shares into inventory from another registered market participant or from one of its clients. In either case, it is counted as 100 shares. 2) One member firm on the NYSE or Amex buys 100 shares from another member firm. The Specialist matches the order between the two firms and it is counted as 100 shares. 3) The Specialist sells 100 shares from his inventory to a member firm on the NYSE. It is counted as 100 shares. 4) A Market Maker receives an order to buy 100 shares from its client. It does not have 100 shares in its inventory. It must go buy 100 shares from someone else. It then sells these 100 shares to the client. Thus, there are two trades in this example for a total of 200 shares.

Volume deleted

A [note](#) appearing on the [consolidated tape](#) when the [tape](#) is running behind under heavy [trading](#), meaning that only the [stock symbol](#) and price will be shown for [trades](#) under 5000 [shares](#).

Volume discount

A reduction in price based on the purchase of a large quantity.

Voluntary accumulation plan

Arrangement allowing [shareholders](#) of a [mutual fund](#) to purchase [shares](#) over a period of time on a regular basis, and in so doing take advantage of [dollar cost averaging](#).

Voluntary bankruptcy

The process where the [debtor](#) petitions the court for [bankruptcy](#) protection. Also see [Involuntary bankruptcy](#).

Voluntary liquidation

[Liquidation](#) proceedings that are supported by a company's [shareholders](#).

Voluntary plan

A [pension plan](#) supported partially by the employee by pension contributions deducted from each paycheck.

Volatility risk

The risk in the value of [options portfolios](#) due to the unpredictable changes in the volatility of the [underlying asset](#).

Voting Instruction Card

The voting card sent to participants in an employee plan giving the trustee of the plan the authority to vote the [shares](#) as indicated on a [proxy](#) card.

Volume

This is the daily number of [shares](#) of a [security](#) that change hands between a [buyer](#) and a seller. Also known as volume traded. Also see [Up volume](#) and [Down volume](#).

Voting certificate

Certificates issued by a voting trust to [stockholders](#) in exchange for their [common stock](#), which represent all the rights of [common stock](#) except [voting rights](#).

Voting rights

The right to vote on matters that are put to a vote of [security holders](#). For example the right to vote for directors.

Voting stock

The [shares](#) in a corporation that entitle the [shareholder](#) to vote.

Voting trust certificate

A [trust](#) in which control of a corporation is given to a few individuals, usually to support reorganization of a corporation without interference.

Vulture fund

A fund that buys distressed [debt](#) of commercial [companies](#) or sovereign nations at a cheap price and then often sues them for the entire value of the [debt](#). The resemblance to vultures is because these funds [profit](#) from the [debt](#) of failing companies or poor nations.

VXN

The implied volatility on the Nasdaq 100 (NPX) option. This volatility is meant to be a forward looking volatility. It is calculated from both calls and puts that are near the money.

W

Fifth letter of a [Nasdaq stock symbol](#) indicating that this particular [stock](#) is a [warrant](#).

WACC

See: [Weighted average cost of capital](#)

WEBS

See: [World Equity Benchmark Series](#)

WF

The two-character [ISO](#) 3166 country code for WALLIS AND FUTUNA.

WI

See: [When issued](#)

WLF

The three-character [ISO](#) 3166 country code for WALLIS AND FUTUNA.

WS

The two-character [ISO](#) 3166 country code for SAMOA.

WSM

The three-character [ISO](#) 3166 country code for SAMOA.

WST

Western Samoa Tala currency

WTI

See: [West Texas Intermediate](#)

W-8

Certificate of Foreign Status form required by the IRS to tell the payer, [transfer agent](#), [broker](#) or other middleman that an employee is a nonresident alien or foreign entity that is not subject to U.S. tax reporting or backup withholding rules.

W-9

A form used to certify a shareholder's social security or tax identification number as true and correct, in order to avoid federal tax withholding.

Wage assignment

A loan agreement provision allowing the [lender](#) to [deduct](#) payments from an employee's wages in case of default.

Wage-push inflation

[Inflation](#) caused by skyrocketing wages.

Waiting period

Time during which the [Securities and Exchange Commission \(SEC\)](#) studies a firm's [registration statement](#). During this time the firm may distribute a preliminary [prospectus](#).

Waiver of premium

A provision in an [insurance policy](#) that allows payment of insurance [premiums](#) to be permanently or temporarily stopped in the event the [policyholder](#) becomes incapacitated.

Walk away

To take and maintain a [position](#) in a [stock](#) after going to the [floor](#) to consummate a [trade](#). Antithesis of [trade me out, buy them back](#).

Wall Street

Generic term for the [securities industry](#) firms that [buy](#), sell, and [underwrite securities](#).

Wall Street analyst

Related: [Sell-side analyst](#)

Wallflower

[Stock](#) that has fallen out of favor with [investors](#); stock that tends to have a low [P/E](#) (price-to-earnings ratio).

Wallpaper

A [security](#) with no monetary value.

Wanted for cash

A statement displayed on [market](#) tickers indicating that a [bidder](#) will pay cash for same-day [settlement](#) of a [block](#) of a specified [security](#).

War babies

Slang term for the [stocks](#) and [bonds](#) of corporations in the defense industry.

War chest

Cash kept aside for a [takeover](#) or for defense against a [takeover bid](#).

War Risk Insurance

Separate insurance coverage against loss or damage due to acts of war (including objects left over from previous wars).

Warehouse receipt

Evidence that a [firm](#) owns goods stored in a warehouse.

Warehousing

The interim [holding period](#) from the time of the closing of a [loan](#) to its subsequent marketing to [capital market](#) investors.

Warrant

A [security](#) entitling the holder to [buy](#) a proportionate amount of [stock](#) at some specified future date at a specified price, usually one higher than [current market](#) price. Warrants are [traded](#) as securities whose price reflects the value of the [underlying stock](#). Corporations often bundle warrants with another [class](#) of security to enhance the marketability of the other class. Warrants are like [call options](#), but with much longer time spans-sometimes years. And, warrants are [offered](#) by corporations, while [exchange-traded call options](#) are not issued by firms.

Warranty

A guarantee by a seller to a buyer that if a product requires repair or remedy of a problem within a certain period after its purchase, the seller will repair the problem at no cost to the buyer.

War room

See [Data room](#).

Warsaw Stock Exchange

The major securities market of Poland.

Wash

Gains equal [losses](#).

Wash sale

Purchase and sale of a [security](#) either simultaneously or within a short period of time, often in order to recognize a tax loss without altering one's [position](#). See: [Tax selling](#).

Wasting asset

An [asset](#) that has a limited life and thus decreases in value ([depreciates](#)) over time. Also applies to consumed assets, such as oil or gas, and termed "depletion."

Watch list

A list of [securities](#) selected for special surveillance by a brokerage, [exchange](#), or [regulatory organization](#); firms on the list are often [takeover](#) targets, companies planning to [issue](#) new securities, or [stocks](#) showing unusual activity.

Watered stock

A [stock](#) representing ownership in a corporation that is worth less than the actual invested [capital](#), resulting in problems of low [liquidity](#), inadequate [return on investment](#), and low [market value](#).

Waybill

A document (that looks like a [bill of lading](#)) issued by a carrier that describes the goods to be transported and that details the shipping particulars. Waybills are issued by both air carriers (air waybills) and ship lines (sea waybills). They merely indicate that the stated goods were received by the carrier for transport, they do not convey title.

Weak dollar

A [depreciated](#) dollar with respect to other currencies, meaning that more dollars are needed to buy a unit of [foreign currency](#). Antithesis of [strong dollar](#).

Weak-form efficiency

A pricing theory that the price of a [security](#) reflects the past price and [trading](#) history of the security. Theory implies that security prices follow a [random walk](#). Related: [Semistrong-form efficiency](#), [strong-form efficiency](#).

Weak market

A [market](#) with few buyers and many sellers and a declining [trend](#) in prices.

Wealth effect

The impact of changes in actual or perceived value of [assets](#) on consumption decisions. Changes in wealth that are perceived to be temporary will have a smaller effect on consumption expenditures than changes in wealth that are deemed permanent.

Wedge

A chart [pattern](#) composed of two converging lines connecting peaks and troughs. In the case of falling wedges, the pattern indicates temporary interruptions of upward price [rallies](#). In the case of rising wedges, indicates interruptions of a falling price [trend](#).

Weekend effect

The common recurrent low or negative [average return](#) from Friday to Monday in the [stock market](#).

Weight

Either [Gross Weight](#), [Net Weight](#), or [Tare Weight](#).

Weighted average cost of capital (WACC)

[Expected return](#) on a [portfolio](#) of all a firm's securities. Used as a [hurdle rate](#) for [capital investment](#). Often the weighted average of the cost of [equity](#) and the cost of [debt](#). The weights are determined by the relative proportions of [equity](#) and [debt](#) in a firm's capital structure.

Weighted average Coupon

The weighted average of the gross [interest rates](#) of [mortgages underlying](#) a pool as of the pool [issue](#) date; the balance of each mortgage is used as the weighting [factor](#).

Weighted average life

See: [Average life](#)

Weighted average maturity

The weighted average maturity of an [MBS](#) is the weighted average of the remaining [terms to maturity](#) of the mortgages [underlying](#) the [collateral pool](#) at the date [issue](#), using as the weighting factor the balance of each of the mortgages as of the issue date.

Weighted average portfolio yield

The weighted [average](#) of the [yield](#) of all the [bonds](#) in a [portfolio](#).

Weighted average remaining maturity

The average remaining term of the mortgages [underlying](#) a [MBS](#).

Well-diversified portfolio

A [portfolio](#) that includes a variety of [securities](#) so that the weight of any security is small. The risk of a well-diversified portfolio closely approximates the [systematic risk](#) of the overall [market](#), and the [unsystematic risk](#) of each security has been diversified out of the portfolio.

West Texas Intermediate

A popular benchmark oil price. WTI is the underlying asset in the New York Mercantile Exchange's oil futures contract. This type of oil has a low sulphur content (sweet). The U.S. Department of Energy maintains historical data for this oil price. It is sometimes known as WTI - Cushing or WTI, Cushing, Oklahoma.

When distributed

[When issued](#).

When issued (W.I.)

Refers to a transaction made conditionally, because a [security](#), although authorized, has not yet been issued. Treasury securities, new issues of [stocks](#) and [bonds](#), stocks that have split, and in-[merger](#) situations after the time the proxy has become effective but before completion are all [traded](#) on a when-issued basis. [With ice](#).

Whipsawed

Buying [stocks](#) just before prices fall and selling [stocks](#) just before prices rise in a [volatile market](#), often as the result of misleading signals.

Whisper number or forecast

An unofficial [earnings](#) estimate of a company given to clients by a [security analyst](#) if there is more optimism or pessimism about earnings than shown in the published number. These are often found on the Internet.

Whisper stock

A [stock](#) rumored to be the [target](#) of a [takeover bid](#), drawing [speculators](#) who hope to make a [profit](#) after the takeover is completed.

Whistle blower

A person who has knowledge of fraudulent activities inside a firm or government agency, who is protected from the employer's retribution by federal law.

White knight

A friendly potential [acquirer](#) sought out by a [target firm](#) that is threatened by a less welcome suitor.

White Noise

The audio equivalent of [Brownian motion](#). Sounds that are unrelated and sound like a hiss. The video equivalent of white noise is "snow" in television reception.

White sheets

Lists of prices published by the [National Quotation Bureau](#) for [Market Makers](#).

White-shoe firm

[Broker-dealer](#) firms that disdain practices such as [hostile takeovers](#).

White squire

[White knight](#) who [buys](#) less than a majority interest.

White's rating

A [rating](#) of municipal [securities](#), that uses [market factors](#) rather than credit considerations to find appropriate [yields](#).

Whitemail

Sale of a large amount of stock by a [company](#) that is the target of a [takeover bid](#) to a friendly party at below-[market prices](#), so that the raider is forced to buy more of highly priced [shares](#) to accomplish the takeover.

Whole life insurance

A [contract](#) with both insurance and investment components: (1) It pays off a stated amount upon the death of the insured, and (2) it accumulates a cash value that the [policyholder](#) can [redeem](#) or borrow against.

Whole loan

A term that distinguishes an [investment](#) representing an original [mortgage](#) loan from a loan representing a participation with one or more [lenders](#).

Wholesale mortgage banking

The purchasing of loans originated by others, for the acquisition of the servicing rights.

Wholesaler

An [underwriter](#) or a [broker-dealer](#) who [trades](#) with other [broker-dealers](#), rather than with the retail [investor](#).

Wholly owned subsidiary

A [subsidiary](#) whose [parent company](#) owns virtually 100% of its [common stock](#).

Whoops

A nickname for the Washington Public Power Supply System, which in the 1970s raised billions of dollars through [municipal bond offerings](#), the projects that never materialized. WPPSS [defaulted](#) on the payments to [bondholders](#).

WI WI

Come from when issued. Treasury bills [trade](#) on a [WI](#) basis between the day they are auctioned and the day settlement is made. Bills traded before they are auctioned are said to be traded WI WI

Wide opening

Abnormally wide [spread](#) between the [bid](#) and [asked prices](#) of a [security](#) at the [opening](#) of a trading session.

Widow-and-orphan stock

A [stock](#) paying high [dividends](#) with a low [beta](#) and noncyclical business, that is an extremely safe [investment](#).

Wiener B&#ouml;rse (Austrian Stock Exchange)

Established in 1771, the major securities market of Austria.

Wild card option

The right of the seller of a [Treasury bond futures contract](#) to give notice of intent to [deliver](#) at or before 8:00 p.m. Chicago time after the [closing](#) of the [exchange](#) (3:15 p.m. Chicago time) when the [futures settlement price](#) has been fixed. Related: [Timing option](#).

Williams Act

Federal legislation enacted in 1968 (and now constituting [Rules 13d](#) and [14d](#)) of the Security Exchange Act of 1934) that imposes requirements with respect to public [tender offers](#).

Wilshire indexes

Widely followed [performance measurement indexes](#) measuring performance of all U.S.-headquartered [equity securities](#) with readily available price data, created by Wilshire Associates, Inc.

Wind bond

Wind bond is a type of [Catastrophic Bond](#). The bond's payout is linked to the losses incurred from natural wind-related catastrophes such as hurricane, typhoon, or monsoon.

Windfall profit

A sudden unexpected [profit](#) uncontrolled by the profiting party.

Window

A brokerage firm's cashier department, where [delivery of securities](#) and [settlement of transactions](#) take place.

Window contract

A guaranteed investment [contract](#) purchased with deposits over some future designated time period (the "[window](#)"), usually between 3 and 12 months. All deposits made are guaranteed the same [credit rating](#). Related: [Bullet contract](#).

Window dressing

[Trading](#) activity near the end of a [quarter](#) or [fiscal year](#) that is designed to improve the appearance of a [portfolio](#) to be presented to clients or [shareholders](#). For example, a [portfolio manager](#) may sell losing [positions](#) so as to display only positions that have gained in value. Financial institutions have also been criticized for a different type of window dressing as many moved debt off the balance sheet near the end of the quarter in a temporary manner. This made the bank appear to have less leverage than it actually did.

Window period

The allotted time for parties to release themselves from any obligations to a contract without penalty; the period between the filing of a registration statement of a new [security](#) with the [SEC](#) and the date

that [security](#) can be issued; the period in which company employees, executives, and other [insiders](#) are allowed to trade the company's [stock](#). See [Effective date](#)

Winnipeg Commodity Exchange

Canada's only agricultural [futures](#) and [options exchange](#), located in Manitoba.

Winner's curse

Problem faced by uninformed [bidders](#). For example, in an [initial public offering](#) uninformed participants are likely to receive larger [allotments](#) of [issues](#) that informed participants know are overpriced.

Wire house

A firm operating a private wire to its own [branch](#) offices or to other firms, [commission houses](#), or brokerage houses.

Wire room

A department within a brokerage firm that receives customers' [orders](#) and transmits the [orders](#) to the exchange [floor](#) or the firm's trading department.

Wire stripping

An illegal practice of removing information from wire transfer messages so that the identity of potentially sanctioned countries, entities or individuals is hidden. Stripping could involve: a) a financial institution deleting information from the wire transfer message; b) inserting false information in the wire transfer message; or c) requesting that the transferring institution delete or falsify an incoming transfer message.

Wire transfer

Electronic transfer of funds; usually involves larger currency payments.

With Average (W.A.)

[Marine cargo insurance](#) coverage providing for partial loss or damage to goods, either with or without a deductible. Also called [With particular average](#).

With dividend

Purchase of [shares](#) that entitle the [buyer](#) to the forthcoming [dividend](#). Related: [Ex-dividend](#).

With ice

[When issued](#).

With rights

[Shares](#) sold accompanied by entitlement the [buyer](#) to buy additional shares in the company's rights [issue](#).

Withdrawal plan

Agreement that a [mutual fund](#) will disburse automatic periodic [redemptions](#) to the investor.

Withholding

Used in the context of [securities](#), the illegal practice of a [public offering](#) participant keeping some [shares](#) in a private account or with a family member, employee, or [dealer](#) to [profit](#) from the higher [market price](#) of a hot [issue](#).

Used in the context of taxes, the [withholding](#) by an employer of a certain amount of an employee's income in order to cover the employee's [tax liability](#). Also used to refer to the withholding by corporations and [financial institutions](#) of a flat 10% of [interest](#) and [dividend](#) payments due to [security](#) holders.

Withholding tax

A tax levied by a country of source on income paid, usually on [dividends](#) remitted to the home country of the firm operating in a foreign country.

Without

Indicates a [one-way market](#) if 70 were [bid](#) in the [market](#) and there was no [offer](#), the quote would be "70 bid without".

With Particular Average (WPA)

See: [With Average](#)

Without recourse

Giving the [lender](#) no right to seek payment or seize [assets](#) in the event of nonpayment from anyone other than the party specified in the [debt contract](#) (such as a special-purpose entity).

Without Recourse Financing

Financing in which the right of recourse to the party receiving funds is forfeited to the party advancing funds. This may be evidenced by conditions added to the endorsement of a [draft](#) being sold by an exporter in order to protect the exporter, if the instrument is not paid at maturity by the original [obligor](#).

Woody

Slang to describe a [market](#) moving strongly upward, as in, "This market has a woody."

Working

Attempting to complete the remaining part of a [trade](#), by finding either [buyers](#) or sellers for the rest.

Working away

Transacting with another [broker/dealer](#).

Working capital

Defined as the difference between [current assets](#) and [current liabilities](#). There are some variations in how working capital is calculated. Variations include the treatment of short-term debt. In addition, current assets may or may not include cash and [cash equivalents](#), depending on the company.

Working capital management

The deployment of [current assets](#) and [current liabilities](#) so as to maximize short-term liquidity.

Working capital ratio

[Working capital](#) expressed as a percentage of sales.

Working control

Control of a corporation by a [shareholder](#) or shareholders having less than 51% [voting interest](#) because of the wide dispersion of [share](#) ownership.

Working order

[Standing order](#) in the marketplace, through which a [broker bids](#) or [offers](#) to fill the order in a series of [lots](#) at opportune times in hopes of obtaining the best price.

Workout

Informal repayment or loan forgiveness arrangement between a borrower and [creditors](#).

Workout market

[Market indicating](#) prices at which it is believed a [security](#) can be bought or sold within a reasonable length of time.

Workout period

Realignment of a temporarily misaligned [yield](#) relationship that sometimes occurs in fixed income [markets](#).

World Bank

A multilateral development finance agency created by the 1944 [Bretton Woods](#), (New Hampshire) negotiations. It makes [loans](#) to [developing countries](#) for social [overhead](#) capital projects that are [guaranteed](#) by the recipient country. See: [International Bank for Reconstruction and Development](#).

World Equity Benchmark Series (WEBS)

The World [Equity Benchmark Series](#) are similar to [SPDRs](#). WEBS trade on the [AMEX](#), and track the Morgan Stanley Capital International ([MSCI](#)) country indexes. WEBS are available for: Australia, Austria, Belgium, Canada, France, Germany, Hong Kong, Italy, Japan, Malaysia Free, Mexico, the Netherlands, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

World investible wealth

The part of world wealth that is [traded](#) and is therefore accessible to investors.

World Trade Organization (WTO)

A multilateral agency that administers world trade agreements, fosters trade relations among nations, and solves trade disputes among member countries.

Wrap account

An [investment](#) consulting relationship for management of a client's funds by one or more [money managers](#), that bills all fees and [commissions](#) in one comprehensive fee charged [quarterly](#).

Wraparound

A financing device that permits an existing loan to be refinanced and new money to be advanced at an interest rate between the rate charged on the old loan and the current market interest rate. The creditor combines or "wraps" the remainder of the old loan with the new loan at the intermediate rate.

Wraparound annuity

An investment that allows the [annuitant](#) the choice of [underlying investments tax-deferred](#).

Wraparound mortgage

A second [mortgage](#) that leaves the original mortgage in force. The wraparound mortgage is held by the [lending](#) institution as [security](#) for the total mortgage debt. The [borrower](#) makes payments on both loans to the wraparound lender, which in turn makes payments on the original senior mortgage.

Wrinkle

A feature of a new product or [security](#) intended to entice a buyer.

Write

Sell an [option](#). Applies to derivative products.

Write-down

Reducing the [book value](#) of an [asset](#) if its is overstated compared to current [market values](#).

Write-off

Charging an [asset](#) amount to [expense](#) or [loss](#), such as through the use of [depreciation](#) and [amortization](#) of [assets](#).

Write out

The procedure used when a [specialist](#) makes a [trade](#) involving his own [inventory](#), on one hand, and a floor [broker's order](#), on the other. The broker must first complete the [trade](#) with the specialist, who then transacts a separate [trade](#) with the customer.

Writer

The seller of an [option](#), usually an individual, bank, or company that [issues](#) the [option](#) and consequently has the obligation to sell the [asset](#) (if a [call](#)) or to [buy](#) the asset (if a [put](#)) on which the option is written if the option buyer exercises the option.

Writing cash-secured puts

An [option](#) strategy to avoid using a [margin account](#). Instead of depositing [margin](#) with a [broker](#), a [put](#) writer can deposit a [cash balance](#) equal to the [option exercise price](#), and can avoid additional [margin calls](#).

Writing naked

See: [Naked option](#)

Writing puts to acquire stock

Selling a [put option](#) at an [exercise price](#) that would represent a good [investment](#) by an [option writer](#) who believes a [stock's](#) value will fall, so that the writer cannot lose. If the stock price unexpectedly goes up, the [option](#) will not be [exercised](#) and the writer is at least ahead the amount of the [premium](#) received. If the [stock](#) loses value, as expected, the [option](#) will be exercised, and the writer has the [stock](#) at what he had earlier decided was originally a good buy, and he has the premium income in addition.

Written-down value

The [book value](#) of an [asset](#) after allowing for [depreciation](#) and [amortization](#).

Wrong-way risk

This type of risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. There are two types of wrong-way risk. *Specific* wrong way risk arises through poorly structured transactions, for example, those collateralized by own or related party shares. *General* or *conjectural* wrong way risk arises where the credit quality of the counterparty may for non-specific reasons be held to be correlated with a macroeconomic factor which also affects the value of derivatives transactions. An example of conjectural wrong way risk is that fluctuations in the

interest rate causes changes in the value of the derivative transactions but could also impact the creditworthiness of the counterparty. Another example might occur with an emerging-market counterparty, where there is country and possibly currency risk associated with the counterparty (however creditworthy it might otherwise be).

W-type bottom

A double bottom pattern in a price history that looks like the letter W. See: [Technical analysis](#).

X

Fifth letter of a [Nasdaq](#) stock symbol indicating that listing is a mutual fund.

XAF

The [ISO](#) 4217 currency code for the CFA Franc.

XBA

The [ISO](#) 4217 currency code for the European Composite Unit (EURCO).

XBB

The [ISO](#) 4217 currency code for the European Monetary Unit (EMU).

XCD

The [ISO](#) 4217 currency code for the East Caribbean Dollar.

XDR

The [ISO](#) 4217 currency code for the Special Drawing Rights (SDR).

XEU

The [ISO](#) 4217 currency code for the European currency Unit (ECU).

XMI

Applies to derivative products. Quotron symbol for the Major Market Index (MMI).

XOF

The [ISO](#) 4217 currency code for the CFA Franc.

XPF

The [ISO](#) 4217 currency code for the CFP Franc.

X or XD

[Symbol](#) that indicating that [stock](#) is [trading ex-dividend](#), with no [dividend](#).

XR

[Symbol](#) indicating that a [stock](#) is [trading ex-rights](#), with no [rights](#) attached.

XRP

Refers to the cryptocurrency issued by Ripple on its [blockchain](#). The currency is not collateralized and Ripple focuses on global payments.

XW

[Symbol](#) indicating that a [stock](#) is [trading](#) ex-warrants, with no [warrants](#) attached.

Y

Fifth letter of a [Nasdaq](#) stock symbol specifying that it is an [ADR](#)

YE

The two-character [ISO](#) 3166 country code for YEMEN.

YEM

The three-character [ISO](#) 3166 country code for YEMEN.

YER

The [ISO](#) 4217 currency code for the Yemen Rial.

YT

The two-character [ISO](#) 3166 country code for MAYOTTE.

YU

The two-character [ISO](#) 3166 country code for YUGOSLAVIA.

YUM

The [ISO](#) 4217 currency code for the Yugoslavia New Dinar.

Yankee bonds

Foreign [bonds](#) denominated in U.S. dollars and [issued](#) in the United States by foreign banks and corporations. These bonds are usually registered with the [SEC](#). Such as, [bonds issued](#) by originators with roots in Japan are called [Samurai bonds](#).

Yankee CD

A [CD issued](#) in the [domestic market](#), typically New York, by a branch of a foreign bank.

Yankee market

The [foreign market](#) in the United States.

Yard

Slang for one billion currency units. Used particularly in currency trading, e.g., for Japanese yen since one billion yen equals approximately US\$10 million. It is clearer to say, "I'm a buyer of a yard of yen," than to say, "I'm a buyer of a billion yen," which could be misheard as "I'm a buyer of a million yen."

Year-end dividend

A special [dividend](#) declared at the end of a fiscal year that usually represents distribution of higher-than-expected company [profits](#).

Year-to-date (YTD)

The period beginning at the start of the calendar year up to the current date.

Yellow sheets

Sheets published by the [National Quotation Bureau](#) that detail [bid](#) and [ask](#) prices, plus those firms that are making a [market](#) in [over-the-counter corporate bonds](#).

Yen bond

Any [bond](#) denominated in Japanese yen currency.

Yield

The percentage [return](#) paid on a [stock](#) in the form of [dividends](#), or the effective rate of [interest](#) paid on a [bond](#) or [note](#).

Yield advantage

The advantage gained by purchasing convertible securities instead of [common stock](#), which equals the difference between the [rates of return](#) of the convertible [security](#) and the [common shares](#).

Yield burning

A [municipal bond](#) financing method. [Underwriters](#) in [advance refundings](#) add large markups on US Treasury bonds bought and held in [escrow](#) to compensate [investors](#) while waiting for repayment of old [bonds](#) after issuance of the new [bonds](#). Since bond prices and [yields](#) move in opposite directions, when the [bonds](#) are marked up, they "burn down" the [yield](#), which may violate federal tax rules and diminishes tax revenues.

Yield curb

Applies mainly to convertible securities. Difference in [current yield](#) between the convertible and the [underlying common](#).

Yield curve

The graphic depiction of the relationship between the [yield](#) on [bonds](#) of the same credit quality (y-axis) but different [maturities](#) (x-axis). Related: [Term structure of interest rates](#). [Harvey](#) (1991) finds that the inversions of the yield curve (short-term rates greater than long term rates) have preceded the last five US [recessions](#). The yield curve can accurately forecast the turning points of the business cycle. Yield curves can be upward sloping (sometimes called normal) where long-term rates are higher than short-term rates, flat (rates of different maturities are the same), downward sloping (inverted), or humped. Also see [Forward Yield Curve](#).

Yield curve option-pricing models

Models that can incorporate different [volatility](#) assumptions along the [yield curve](#), such as the Black-Derman-Toy model. Also called [arbitrage-free option-pricing models](#).

Yield curve strategies

Investments that [position](#) a [portfolio](#) to capitalize on expected changes in the shape of the [Treasury yield curve](#).

Yield differential/pickup

Mainly applies to convertible securities. Graph showing the [term structure of interest rates](#) by plotting the [yield](#) of all [bonds](#) of the same quality with [maturities](#) ranging from the [shortest](#) to the longest available.

Yield equivalence

The [interest rate](#) at which a [tax-exempt bond](#) and a taxable [security](#) of similar quality give the [investor](#) the same [rate of return](#).

Yield ratio

The quotient of two [bond yields](#).

Yield spread

The difference in [yield](#) between different [security issues](#) usually [securities](#) of different [credit quality](#).

Yield spread strategies

Investments that [position](#) a [portfolio](#) to capitalize on expected changes in [yield spreads](#) between sectors of the [bond market](#).

Yield to average life

A [yield](#) calculation in which [bonds](#) are retired routinely during the life of the [issue](#). Since the [issuer](#) buys its own [bonds](#) on the open [market](#) because of [sinking fund requirements](#), if

the [bonds](#) are [trading](#) below [par](#), this action provides automatic price support for these [bonds](#) and they will usually [trade](#) on a [yield](#) to [average life basis](#).

Yield to call

The percentage rate of a [bond](#) or [note](#) if the investor [buys](#) and holds the [security](#) until the [call date](#). This [yield](#) is valid only if the security is called prior to [maturity](#). Generally bonds are [callable](#) over several years and normally are called at a slight [premium](#). The calculation of yield to [call](#) is based on [coupon rate](#), length of time to call, and [market price](#).

Yield to maturity

The percentage [rate of return](#) paid on a [bond](#), [note](#), or other [fixed income security](#) if the investor [buys](#) and holds it to its [maturity date](#). The calculation for YTM is based on the [coupon rate](#), length of time to [maturity](#), and [market price](#). It assumes that coupon [interest](#) paid over the life of the [bond](#) will be reinvested at the same rate.

Yield to warrant call

Applies mainly to convertible securities. [Effective yield](#) of usable or [synthetic convertible bonds](#) determined against the first date at which the [warrants](#) can be [called](#).

Yield to warrant expiration

Applies mainly to convertible securities. [Effective yield](#) of usable [convertible bonds](#) determined by the [expiration date](#) of the applicable [warrants](#).

Yield to worst

The [bond yield](#) computed by using the lower of either the [yield to maturity](#) or the yield to [call](#) on every possible [call date](#).

Yo-yo stock

A highly volatile [stock](#) that moves up and down like a yo-yo.

Z

Fifth letter of a [Nasdaq stock symbol](#) indicating that listing is a fifth class of [preferred stock](#), a [stub](#), a certificate representing a [limited partnership](#) interest, foreign preferred when issued, or a second class of [warrants](#).

ZA

The two-character [ISO](#) 3166 country code for SOUTH AFRICA.

ZAF

The three-character [ISO](#) 3166 country code for SOUTH AFRICA.

ZAR

The [ISO](#) 4217 currency code for the South Africa Rand.

ZBA

See: [Zero balance account](#)

ZM

The two-character [ISO](#) 3166 country code for ZAMBIA.

ZMB

The three-character [ISO](#) 3166 country code for ZAMBIA.

ZMK

The [ISO](#) 4217 currency code for Zambian Kwacha .

ZRN

The [ISO](#) 4217 currency code for the Zaire New Zaire.

ZW

The two-character [ISO](#) 3166 country code for ZIMBABWE.

ZWD

The [ISO](#) 4217 currency code for the Zimbabwe Dollar.

ZWE

The three-character [ISO](#) 3166 country code for ZIMBABWE.

Zabara

Applies mainly to international equities. Japanese [securities](#) transactions conducted on the principal of auction, i.e., (1) price [priority](#) in which the selling (buying) [order](#) with the lowest (highest) price takes precedence over other orders, and (2) time priority in that an earlier order takes precedence over other orders at the same price.

Zaibatsu

Large family-owned [conglomerates](#) that controlled much of the economy of Japan prior to World War II.

Z bond

A [bond](#) on which [interest accrues](#) but is not currently paid to the [investor](#) but rather is added to the [principal](#) balance of the Z bond and becoming payable upon satisfaction of all prior bond [classes](#).

Zero-balance account (ZBA)

A [checking](#) account in which zero balance is maintained by [transfers](#) of funds from a master account in an amount only large enough to cover checks presented.

Zero-base budgeting (ZBB)

[Budgeting](#) method that disregards the previous year's budget in setting a new budget, since circumstances may have changed. Each and every expense must be justified in this system.

Zero-beta portfolio

A [portfolio](#) constructed to have zero [systematic risk](#), that is, having a [beta](#) of zero.

Zero-bracket amount

The standard deduction portion of income which is not taxed for taxpayers choosing not to [itemize deductions](#).

Zero-coupon bond

A [bond](#) in which no periodic [coupon](#) is paid over the life of the [contract](#). Instead, both the [principal](#) and the [interest](#) are paid at the [maturity date](#).

Zero-coupon convertible security

A [zero-coupon bond](#) convertible into the [common stock](#) of the issuing company after the [stock](#) reaches a certain price, using a [put option](#) inherent in the [security](#).

Also refers to [zero-coupon bonds](#), which are convertible into an interest bearing [bond](#) at a certain time before [maturity](#).

Zero-investment portfolio

A [portfolio](#) of zero net value established by [buying](#) and [shorting](#) component [securities](#), usually in the context of an [arbitrage](#) strategy.

Zero-minus tick

Sale that takes place at the same price as the previous sale, but at a lower price than the last different price. Antithesis of [zero-plus tick](#).

Zero-one integer programming

An analytical method that can be used to determine the solution to a [capital rationing](#) problem.

Zero prepayment assumption

The assumption of payment of scheduled [principal](#) and [interest](#) with no payments.

Zero-Percent Certificate of Indebtedness or Zero-Percent C of I

A Treasury security that does not earn any interest. It is intended to be used as a source of funds for traditional Treasury security purchases.

Zero-plus tick

Used for listed equity securities. [Transaction](#) at the same price as the preceding [trade](#), but higher than the preceding trade at a different price. Antithesis of [zero-minus tick](#). See: [Short sale](#).

Zero-sum game

A type of game wherein one player can gain only at the expense of another player.

Zero uptick

Related: [Tick-test rules](#)

Zombies

Companies that continue operation while they await [merger](#) or closure, even though they are [insolvent](#) and [bankrupt](#).

Z score

Statistical measure that quantifies the distance (measured in [standard deviations](#)) a data point is from the [mean](#) of a data set. Separately, Z score is the output from a credit-strength test that gauges the likelihood of [bankruptcy](#).