

APPENDIX A

Federal vs. State Comparison Chart

Federal	State
Definition of Investment Adviser	
Any person who, for compensation, engages in the business of advising others as to the value of securities or the advisability of investing in securities or, as part of a regular business, issues analyses or reports concerning securities.	Same as federal.
Exclusions from Above Definition	
<ol style="list-style-type: none">1. Banks;2. Lawyers, accountants, teachers, engineers;3. Broker-dealers;4. Publishers of any bona fide newspaper, news magazine, or other publication of general circulation;5. Any person whose advice relates solely to securities issued or guaranteed by the U.S. government.	<ol style="list-style-type: none">1. Banks;2. Lawyers, accountants, teachers, engineers;3. Broker-dealers;4. Publishers of any bona fide newspaper, news magazine, newsletter, or other publication that does not consist of the rendering of advice on the basis of the specific investment situation of each client;5. Investment adviser representatives.
Exemptions	
<ol style="list-style-type: none">1. The Private Fund adviser exemption is available for advisers with less than \$150 million in assets under management for private equity funds.2. The only clients are insurance companies.3. Intrastate business only and does not furnish advice with respect to securities listed on any national securities exchange, and does not have any private funds as clients.	<ol style="list-style-type: none">1. The Private Fund adviser exemption is more restrictive than federal law.2. Adviser has no place of business within that state and<ol style="list-style-type: none">a. The only clients are institutions such as investment companies; banks and trust companies; insurance companies; broker-dealers and other investment advisers; \$1 million or larger employee benefit plans; governmental agencies; or instrumentalities; orb. Does not direct communications to more than five clients in the state (other than those above) during the previous 12 months (de minimis).
Registration	
File Form ADV with the SEC and pay initial and renewal fees based on their fiscal year. Effective within 45 days. No net worth requirements. No surety bonds. Withdrawal of registration is on 60th day. Successor firm pays fee. No registration of investment adviser representatives.	File Form ADV with the Administrator and pay initial and renewal (12/31) fees. Effective at noon of the 30th day. Net worth and/or surety bonds required (custody or discretion). Withdrawal of registration is on 30th day. Successor firm pays no fee until renewal. Registration automatically registers any adviser representative who is a partner, officer, director, or similar in status.

Federal	State
	Recordkeeping
Investment adviser records must be kept easily accessible for five years.	Generally, records must be kept for three years (broker-dealers) and five years (investment advisers).
\$10,000 and five years in jail.	Fines/Penalties
	\$5,000 and three years in jail.
	Custody of Customer Funds/Securities
Kept by Qualified Custodian. It is custody if securities and/or checks are not returned or forwarded within three days. Third-party checks are not custody. An audited balance sheet would be required if adviser takes advance fees of more than \$1,200, six months or more in advance, but not when the adviser maintains custody.	If not prohibited, with written notice to the Administrator. Requires minimum net worth or surety bond of \$35,000. It is custody if securities or checks are not returned and third-party checks forwarded within three business days. An audited balance sheet would be required if adviser takes fees of more than \$500, six or more months in advance, or the adviser maintains custody.
	Performance Fees
Prohibited unless:	Same as federal law, except risk incentive statement and other disclosures must be made.
1. contract with investment company	
2. certain clients with at least \$1.1 million under management or net worth in excess of \$2.2 million.	
	Statute of Limitations for Civil Action
Sooner of three years after the sale or one year after discovery.	Sooner of three years after the sale or two years after discovery.
	A “Person”
A natural person or company (includes a corporation, a partnership, an association, a joint stock company, a trust, or any organized group of persons, whether incorporated or not).	An individual, a corporation, an association, a joint stock company, a trust where the interests of the beneficiaries are evidenced by a security, an unincorporated organization, a government, or a political subdivision of a government.
	Filing of Advertisements
No filing with the SEC ever.	No filing for exempt securities or exempt transactions, otherwise filed with the Administrator.
	Private Placement Exemption
Sold to up to 35 nonaccredited investors under Rule 506(b). Exclusively accredited investors under Rule 506(c).	Up to 10 offers within the state over a 12-month period. The term accredited investor is meaningless. Institutions are not counted nor restricted.
	Miscellaneous
No assignment of the advisory contract may be made without the client's consent.	Same as federal.
The adviser, if a partnership, must notify the client of any change in the membership of the partnership within a reasonable period of time.	Same as federal.
The Brochure and Brochure Supplement Rule—120-day annual delivery.	Same as federal except 48 hours in advance rule.

Federal	State
The term investment counsel may not be used unless:	An investment adviser representative is an associated person of an adviser firm (not clerical) who:
1. principal business is investment advice; and	1. makes recommendations or otherwise gives advice;
2. substantial portion of service is providing investment supervisory services (the giving of continuous advice on the investment of funds on the basis of the individual needs of each client).	2. manages accounts of clients;
	3. solicits or negotiates for the sale of advisory service; and
	4. supervises any of these.
May not use initials RIA or IAR on business card or letterhead. Professional or educational designations are okay.	Same as federal.
Insolvency is not a cause for revocation.	Insolvency is a cause for revocation.
\$110 million or more under management registers with the SEC. \$100–\$110 million can do either.	Less than \$100 million under management generally registers with the state.
Registration renewal for IAs within 90 days of fiscal year.	Registration renewal for all securities professionals on December 31.
Register as an IAR only if a place of business in the state; no de minimis.	Register in the state if retail clients reside in the state; subject to five or fewer de minimis.
Employee benefit plans \$5 million—institution.	Employee benefit plans \$1 million—institution.

APPENDIX B

NASAA Model Rule on Unethical Business Practices of Investment Advisers, Investment Adviser Representatives, and Federal Covered Advisers (with Review Annotation Notes)

The North American Securities Administrators Association (NASAA) has adopted a Model Rule on unethical business practices of investment advisers and their representatives. This Model Rule is reproduced here, with review notes included.

An investment adviser is a fiduciary and has a duty to act primarily for the benefit of its clients. While the extent and nature of this duty varies according to the nature of the relationship between an investment adviser and its clients and the circumstances of each case, an investment adviser shall not engage in unethical business practices, including the following:

1. Recommending to a client to whom investment supervisory, management, or consulting services are provided the purchase, sale, or exchange of any security without reasonable grounds to believe that the recommendation is suitable for the client on the basis of information furnished by the client after reasonable inquiry concerning the client's investment objectives, financial situation and needs, and any other information known by the investment adviser.

Review Note: An investment adviser providing investment supervisory, management, or consulting services has a fundamental obligation to analyze a client's financial situation and needs before making any recommendation to the client. Recommendations made to a client must be reasonable in relation to the information that is obtained concerning the client's investment objectives, financial situation and needs, and other information known by the investment adviser. By failing to make reasonable inquiry or by failing to make recommendations that are in line with the financial situation, investment objectives, and character of a client's account, an investment adviser has not met its primary responsibility.

2. Exercising any discretionary power in placing an order for the purchase or sale of securities for a client without obtaining prior written discretionary authority from the client, unless the discretionary power relates solely to the price at which, or the time when, an order involving a definite amount of a specified security shall be executed, or both.

Review Note: This rule pertains only to investment advisers that place orders for client accounts. Before placing an order for an account, an investment adviser exercising discretion should have written discretionary authority from the client. In most cases, discretionary authority is granted in an advisory contract or in a separate document executed at the time the contract is executed. The rule permits oral discretionary authority to be used for the initial transactions in a customer's account within the first 10 business days after the date of the first transaction. An investment adviser is not precluded from exercising discretionary power that relates solely to the price or time at which an order involving a specific amount of a security is authorized by a customer because time and price do not constitute discretion.

3. Inducing trading in a client's account that is excessive in size or frequency in view of the financial resources, investment objectives, and character of the account.

Review Note: This rule is intended to prevent an excessive number of securities transactions from being induced by an investment adviser. There are many situations where an investment adviser may receive commissions or be affiliated with a person that receives commissions from the securities transactions that are placed by the investment adviser. Because an adviser in such situations can directly benefit from the number of securities transactions effected in a client's account, the rule appropriately forbids an

excessive number of transaction orders to be induced by an adviser for a customer's account.

4. Placing an order to purchase or sell a security for the account of a client without authority to do so.

Review Note: This rule is not new to either the securities or investment advisory professions. An investment adviser must have authority to place any order for the account of a client. The authority may be obtained from a client orally or in an agreement executed by the client giving the adviser blanket authority.

5. Placing an order to purchase or sell a security for the account of a client upon instruction of a third party without first having obtained a written third-party trading authorization from the client.

Review Note: It is sound business practice for an investment adviser not to place an order for the account of a customer at the instruction of a third party without first knowing that the third party has obtained authority from the client for the order. For example, it would be important for an investment adviser to know that an attorney had power of attorney over an estate whose securities the adviser was managing before placing any order at the instruction of the attorney. Placing orders under such circumstances could result in substantial civil liability besides being an unethical practice.

6. Borrowing money or securities from a client unless the client is a broker-dealer, an affiliate of the investment adviser, or a financial institution engaged in the business of loaning funds.

Review Note: Unless a client of an investment adviser is engaged in the business of loaning money, is an affiliate of the investment adviser, or is an institution that would engage in this type of activity, an investment adviser must not take advantage of its advisory role by borrowing funds from a client. A client provides a substantial amount of confidential information to an investment adviser regarding the client's financial situation and needs. Using that information to an investment adviser's own advantage by borrowing funds is a breach of confidentiality and may create a material conflict of interest that could influence the advice rendered by the adviser to the client.

7. Loaning money to a client unless the investment adviser is a financial institution engaged in the business of loaning funds or the client is an affiliate of the investment adviser.

Review Note: Like borrowing money from a client, loaning funds to a client by an investment adviser should not be an allowable practice unless the investment adviser is a financial institution normally engaged in the business of loaning funds or unless the client is affiliated with the adviser. Loaning funds may influence decisions made for a client's account and puts the investment adviser in a conflict of interest position because the client becomes a debtor of the adviser after a loan is made.

8. To misrepresent to any advisory client, or prospective advisory client, the qualifications of the investment adviser or any employee of the investment adviser, or to misrepresent the nature of the advisory services being offered or fees to be charged for such service, or to omit to state a material fact necessary to make the statements made regarding qualifications, services, or fees, in light of the circumstances under which they are made, not misleading.

Review Note: When an investment adviser offers its services to a prospective client or when it provides services to an existing client, the qualifications of the investment adviser or any employee of the investment adviser and the nature of the advisory services and the fees to be charged must be disclosed in such a way as to not mislead. Overstating the qualifications of the investment adviser or disclosing inaccurately the nature of the advisory services to be provided or fees to be charged are not ethical ways to either acquire or retain clients.

9. Providing a report or recommendation to any advisory client prepared by someone other than the adviser without disclosing the fact. (This prohibition does not apply to a situation where

the adviser uses published research reports or statistical analyses to render advice or where an adviser orders such a report in the normal course of providing service.)

Review Note: If an investment adviser provides a report to a client that is prepared by a third party, the adviser has a responsibility to disclose the fact to the client. By entering into an investment advisory agreement, the client relies on the expertise of the adviser to provide the advisory service. Thus, if the advice is provided by a third party, it is imperative that the adviser disclose this fact to the client so the client is not misled. The prohibition does not apply when an investment adviser gathers and uses research materials before making its recommendation to a client.

10. Charging a client an unreasonable advisory fee.

Review Note: This rule is intended to prohibit an investment adviser from charging an excessively high advisory fee. *Unreasonable* as used in this rule means unreasonable in relation to fees charged by other advisers for similar services. Although no two advisory services are exactly alike, comparisons can be drawn. In those instances where an advisory fee is out of line with fees charged by other advisers providing essentially the same services, an investment adviser should justify the charge. It would be very difficult for a client to compare various advisory services to evaluate those services and the fees charged. This rule will allow state Administrators to research the competitiveness of an adviser's services and fees and to determine whether the fees being charged are unreasonably high.

11. Failing to disclose to clients in writing, before any advice is rendered, any material conflict of interest relating to the adviser or any of its employees which could reasonably be expected to impair the rendering of unbiased and objective advice, including:
 - a. compensation arrangements connected with advisory services to clients which are in addition to compensation from such clients for such services, and
 - b. charging a client an advisory fee for rendering advice when a commission for executing securities transactions pursuant to such advice will be received by the adviser or its employees.

Review Note: This rule is designed to require disclosure of all material conflicts of interest relating to the adviser or any of its employees that could affect the advice that is rendered. The two examples cited in the rule pertain to compensation arrangements that benefit the adviser and are connected with advisory services being provided. However, full disclosure of all other material conflicts of interest, such as affiliations between the investment adviser and product suppliers, is also required to be made under the rule.

12. Guaranteeing a client that a specific result will be achieved (gain or no loss) with advice that will be rendered.

Review Note: An investment adviser should not guarantee any gain or against loss in connection with advice that is rendered. By doing so, the adviser fails to maintain an arms-length relationship with a client and puts himself in a conflict of interest position by having a direct interest in the outcome of the advice rendered by the adviser.

13. Publishing, circulating, or distributing any advertisement which does not comply with the Investment Advisers Act of 1940.

Review Note: An investment adviser should not publish, circulate, or distribute any advertisement that is inconsistent with federal rules governing the use of advertisements. The SEC amended the rules for investment adviser advertising in 2020, and NASAA has not yet updated their Model Rule to reflect the changes, such as certain permitted testimonials or endorsements. Please refer to the text in Lesson 13.5, LO 13.i

14. Disclosing the identity, affairs, or investments of any client unless required by law to do so, or unless consented to by the client.

Review Note: An investment advisory firm has a responsibility to ensure that all information collected from a client be kept confidential. The only exception to the rule should be in those instances where the client authorized the release of such information, or when the investment advisory firm is required by law to disclose such information.

15. Taking any action, directly or indirectly, with respect to those securities or funds in which any client has any beneficial interest, where the investment adviser has custody or possession of such securities or funds when the adviser's action is subject to and does not comply with the requirements of the Investment Advisers Act of 1940.

Review Note: In instances where an investment adviser has custody or possession of a client's funds or securities, it should comply with the regulations under the Investment Advisers Act of 1940 designed to ensure the safekeeping of those securities and funds. The rules under the act specifically provide that securities of clients be segregated and properly marked, that the funds of the clients be deposited in separate bank accounts, that the investment adviser notify each client as to the place and manner in which such funds and securities are being maintained, that an itemized list of all securities and funds in the adviser's possession be sent to the client not less frequently than every three months, and that all such funds and securities be verified annually by actual examination by an independent CPA on a surprise basis. The rule establishes very conservative measures to safeguard each client's funds and securities held by an investment adviser.

16. Entering into, extending, or renewing any investment advisory contract unless such contract is in writing and discloses, in substance, the services to be provided, the term of the contract, the advisory fee, the formula for computing the fee, the amount of prepaid fee to be returned in the event of contract termination or non-performance, whether the contract grants discretionary power to the adviser, and that no assignment of such contract shall be made by the investment adviser without the consent of the other party to the contract.

Review Note: The purpose of this rule is to ensure that clients have a document to refer to that describes the basic terms of the agreement that the client has entered into with an adviser.

The conduct set forth previously is not inclusive. Engaging in other conduct such as nondisclosure, incomplete disclosure, or deceptive practices shall be deemed an unethical business practice.

APPENDIX C

Abbreviations, Dates, and Calculations for the Series 65 Exam

Common Abbreviations

ADR/ADS	American depositary receipt/ share
AIR	assumed interest rate
APO	additional public offering
AMTI	alternative minimum taxable income
AUM	assets under management
BCP	business continuity plan
BD	broker-dealer
BSA	Bank Secrecy Act
BU	bushel
CD	certificate of deposit
CEF	closed-end fund
CEO	chief executive officer
CFTC	Commodity Futures Trading Commission
CIP	customer identification program
CMO	collateralized mortgage obligation
CMV	current market value
CODA	cash or deferred arrangement
COGS	cost of goods sold
CPI	Consumer Price Index
CY	current yield
DCF	discounted cash flow
DJIA	Dow Jones Industrial Average
DMA	direct market access
DMM	Designated Market Maker
DPP	direct participation program
EE	Series EE savings bonds
EIA	equity index annuity
ELN	equity linked note
EPS	earnings per share
ERA	exempt reporting adviser
ERISA	Employee Retirement Income Security Act of 1974
ESG	environmental, social, and governance investing
ETF	exchange-traded fund
ETN	exchange-traded note
FACC	face-amount certificate company
Fed	Federal Reserve System
FDIC	Federal Deposit Insurance Corporation
FIFO	first in, first out

FINRA	Financial Industry Regulatory Authority
FMV	fair market value
FNMA	Federal National Mortgage Association
FOMC	Federal Open Market Committee
FRB	Federal Reserve Board
GDP	gross domestic product
GIC	guaranteed investment contract
GNMA	Government National Mortgage Association
GO	general obligation bond
HFT	high-frequency trading
HNW	high net worth
IA	investment adviser
IAR	investment adviser representative
IARD	Investment Adviser Registration Depository
IPO	initial public offering
IRA	individual retirement account
IRC	Internal Revenue Code
IRS	Internal Revenue Service
JTIC	joint tenants in common
JTWROS	joint tenants with right of survivorship
LIFO	last in, first out
LOI	letter of intent
MNPI	material nonpublic information
MRD	minimum required distribution
MSRB	Municipal Securities Rulemaking Board
NASAA	North American Securities Administrators Association
Nasdaq	National Association of Securities Dealers Automated Quotation system
NAV	net asset value
NIRP	negative interest-rate policy
NL	no load
NYSE	New York Stock Exchange
OTC	over the counter
PE	price-to-earnings ratio
PII	personally identifiable information
POA	power of attorney
POD	pay on death
POP	public offering price
RAUM	regulatory assets under management
REIT	real estate investment trust
RF	risk-free rate
SEC	Securities and Exchange Commission
SEP	simplified employee pension plan
SERP	supplemental executive retirement plan
SIPC	Securities Investor Protection Corporation
SPO	subsequent public offering

SRO	self-regulatory organization
STRIPS	Separate Trading of Registered Interest and Principal of Securities
TBE	tenants by the entirety
TIC	tenants in common
TOD	transfer on death
TSA	tax-sheltered annuity
TVA	Tennessee Valley Authority
UGMA/UTMA	Uniform Gift (Transfers) to Minors Act
UIT	unit investment trust
UPIA	Uniform Prudent Investors Act
USA	Uniform Securities Act
UVL	universal variable life insurance
VLI	variable life insurance
YLD	yield
YTC	yield to call
YTM	yield to maturity
ZIRP	zero interest-rate policy
ZR	zero coupon

Calculations

To Calculate	Use Formula
Current yield (stock)	$\frac{\text{annual dividend}}{\text{current market price}}$
Current yield (debt security)	$\frac{\text{annual interest}}{\text{current market price}}$
Number of shares for conversion	$\frac{\text{par value}}{\text{conversion price}}$
Parity	$\frac{\text{bond market value}}{\text{number of shares}}$
Tax-free equivalent yield	$\text{Corporate rate} \times (100\% - \text{tax bracket})$
Tax-equivalent yield	$\frac{\text{municipal rate}}{(100\% - \text{tax bracket})}$
NAV of mutual fund share	$\frac{\text{fund NAV}}{\text{number of shares outstanding}}$
Dollar cost average	$\frac{\text{total dollars invested}}{\text{number of shares purchased}}$
Average market price	$\frac{\text{share price total}}{\text{number of investments}}$
Shareholders' equity	$\text{Assets} - \text{liabilities}$
Total return	$\text{Income (dividends or interest)} + \text{gain or loss} / \text{original investment}$
Annualized return	Total return on an annualized basis

Inflation-adjusted (real) return	Total return minus the CPI
After-tax return	Total return minus the marginal tax bracket
Rule of 72	Divide 72 by known interest rate = number of years to double investment; or divide 72 by known number of years = interest rate required to double investment
Arithmetic mean	Simple average of the numbers
Median	In a group of numbers, the one with an equal above and below—i.e., the number in the middle
Mode	In a group of numbers, the one appearing most frequently
Range	In a group of numbers, the difference between the highest one and the lowest one
Alpha (RF not given)	Actual return – (beta × market return)
Alpha (RF given)	(Actual return – RF) – (beta × [market return – RF])
Sharpe ratio	Actual return – RF / standard deviation

Dates

48 hours prior to contract	State IAs deliver initial brochure, or 5-day withdrawal without penalty
Entering advisory contract	Latest time to delivery IA brochure
Same day	Time limit for execution of a day limit order. Also, time and/or price discretion only good that day
Next business day	Notification to Administrator that IA's net worth is insufficient (send details the following business day)
2 business days	Maximum and minimum offering prices and underwriting discounts on file for coordination
3 business days	Securities or funds received by noncustody IA must be returned to client
3 business days	Third-party checks received by noncustody IA must be forwarded to the third party (USA only)
4 business days	Filing Form 8-K
5 business days	Penalty-free cancelation of IA contract if brochure not delivered at least 48 hours in advance (USA only)
7 days	Time limit for open-end investment company (mutual fund) to redeem shares
10 days	SEC can summarily suspend trading in a security
10 business days after first trade	Investment advisers may use oral discretion
15 days after written request	Hearing must be granted: Summary order
15 days after first sale	File Form D (private placement Rule 506)
15 days after account approval	Receipt of options account agreement
18th birthday	Latest date for a Coverdell ESA contribution

20 days	Cooling-off period under Securities Act of 1933. Also minimum time Administrator must have documents for coordination
30th day	State registration or withdrawal of securities professionals effective
30 days	Maximum residency under snowbird exemption
30 days	Time limit within which rescission offer must be accepted or rejected
30 days	Mandatory waiting time to retest (first two failures)
30 days	Wash sale rule
30 days	New issues eligible for margin once owned this long
40 days	Days after end of each quarter to file Form 10-Q
45th day	Federal registration of BDs and IAs effective
45 days	Days after end of each quarter to file Form 13F
60th day	Withdrawal of federal covered adviser on ADV-W
60 days	Time limit to appeal an order under both state and federal law
60 days	Maximum time for tax-free rollover
60 days	Maximum termination clause with mutual fund adviser
90 days	After end of fiscal year, IA must file annual updating amendment
90 days	State IA with AUM at \$110 million or above, must register with SEC
90 days	Maximum time a letter of intent (LOI) backdated
90 days	SEC, with notice to U.S. President, can suspend all trading on an exchange
91 days	Maturity of T-Bill most commonly used as risk-free rate
120 days	Annual delivery of adviser brochure to clients (if material changes)
120 days	Time limit for an IA who expects to reach the required AUM to register with the SEC
180 days	SEC IA with AUM below \$90 million must register with state(s)
180 days	Mandatory waiting time to retest (third and subsequent failures)
6 months	Alternative valuation date for estate taxes
9 months (270 days)	Maximum maturity of exempt commercial paper
9 months after death	Payment of estate taxes is due
13 months	Maximum time to complete a letter of intent
397 days	Maximum maturity of any holding in money market mutual fund
2 years	Records must be kept easily accessible
3 years	Time period for most records kept by broker-dealers
5 years	Time period for investment adviser recordkeeping

GLOSSARY

1035 exchange A tax-free exchange between like contracts. This provision applies to transfers from annuity to annuity, life to life, and life to annuity. It cannot be used for transfers from an annuity to a life insurance policy.

12b-1 fee A section of the Investment Company Act of 1940 that permits an open-end investment company (mutual fund) to levy an ongoing charge for advertising and sales promotional expenses. This fee may not exceed .75% and, if above .25%, the fund may not describe itself as no-load.

401(k) plan A tax-deferred defined contribution retirement plan offered by a private-sector employer.

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

529 savings plans Plans designed by states to provide tax-advantaged means of saving for eligible education expenses.

access person Those persons required under an investment adviser's code of ethics to report their personal securities transactions and holdings on a quarterly basis.

accredited investor Any institution or individual meeting minimum requirements for the purchase of securities qualifying under the Regulation D registration exemption.

accumulation stage The period during which contributions are made to an annuity contract. *See also* accumulation unit.

accumulation unit An accounting measure used to determine an annuitant's proportionate interest in the insurer's separate account during a variable annuity's accumulation (deposit) stage. *See also* accumulation stage; annuity unit; separate account.

acid-test ratio A measure of a corporation's liquidity, calculated by adding cash, cash equivalents, and accounts and notes receivable, but not inventory, and dividing the result by total current liabilities. It is a more stringent test of liquidity than current ratio. *See also* current ratio.

active management style Active managers believe they can identify industries that are undervalued or overvalued in order to weight them appropriately and achieve returns in excess of the market. *See* passive management style; sector rotation.

adjusted (cost) basis Adjusted basis is used to compute the gain or loss on the sale or other disposition of the asset or security.

adjusted gross income (AGI) Gross income from all sources minus certain adjustments to income, such as deductible contributions to an IRA and net capital losses. It is the amount of income that will be subject to tax.

administrator (1) The official or agency administering the securities laws of a state. (2) A person authorized by a court of law to liquidate an intestate decedent's estate.

adoption A firm's endorsement or approval of the social media content of a third-party site.

advance/decline line A technical analysis tool representing the total of the differences between advances and declines of security prices. The advance/decline line is considered the best indicator of market movement as a whole. *See also* breadth-of-market theory.

advertisement Any promotional material where the firm has little control over the type of individuals being exposed to the material.

advisory account An account through which a registered investment adviser (RIA) or investment adviser representative (IAR) of the RIA provides investment advice to her clients for a fee.

affiliate Anyone in a position to influence decisions made in a corporation, including officers, directors, principal stockholders, and members of their immediate families. *See* affiliated person.

affiliated person Anyone in a position to influence decisions made in a corporation, including officers, directors, principal stockholders, and members of their immediate families. Their shares are often referred to as *control stock*.

agency basis *See* agency transaction.

agency cross transaction For an advisory client, a transaction in which a person acts as an investment adviser in relation to a transaction in which that investment adviser acts as a broker for both an advisory client and for another person on the other side of the transaction.

agency issue A debt security issued by an authorized agency of the federal government. Such issues are backed by the issuing agencies themselves, not by the full faith and credit of the U.S. government (except GNMA and Federal Import Export Bank issues).

agency transaction A transaction in which a broker-dealer acts for the accounts of others by buying or selling securities on behalf of customers. *Syn.* agency basis. *See also* agent; broker; principal transaction.

agent (1) An individual or firm that effects securities transactions for the accounts of others. (2) A securities salesperson who represents a broker-dealer or issuer when selling or trying to sell securities to the investing public; this individual is considered an agent whether he actually receives or simply solicits orders. *See* broker; broker-dealer; dealer; principal.

aggressive investment strategy A method of portfolio allocation and management aimed at achieving maximum return. Aggressive investors pursue aggressive policies, including margin trading, arbitrage, and option trading. *See also* defensive investment strategy.

AGI *See* adjusted gross income.

algorithmic trading Algorithmic trading makes use of computer programs for entering pre-programmed trading instructions on electronic trading platforms. The algorithm, usually proprietary, has a set of automatic responses to many complex market conditions.

alpha The return on an investment measured against the return of the market as a whole or a certain benchmark index.

alternative minimum tax (AMT) An alternative tax computation that adds certain tax preference items back into adjusted gross income. If the AMT is higher than the regular tax liability for the year, the regular tax and the amount by which the AMT exceeds the regular tax are paid.

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

annual report A formal statement issued yearly by a corporation to its shareowners. It is a reflection of the corporation's financial and operational well-being at the close of the business year (balance sheet) and earnings performance (income statement).

annuitant A person who receives an annuity contract's distribution.

annuitize To change an annuity contract from the accumulation (pay-in) stage to the distribution (pay-out) stage.

annuity A contract between an insurance company and an individual. Upon annuitization, it guarantees lifetime income to the individual on whose life the contract is based in return for either a lump sum or a periodic payment to the insurance company.

annuity unit An accounting measure used to determine the amount of each payment during an annuity's distribution stage. *See also* accumulation unit; annuity.

anti-dilutive covenant A protective clause found in most convertible issues (preferred stock or debentures) that adjusts the conversion rate for stock splits and/or stock dividends. This ensures that the holder of the convertible will not suffer a dilution in value.

appreciation The increase in value of an asset.

arbitrage The purchase of securities on one market and the simultaneous resale on another market to take advantage of a price discrepancy. This is not a form of market manipulation and is completely legal.

arithmetic mean The average of a set of numbers, arrived at by adding them together and dividing by the number of terms in the set.

ask An indication by a trader or dealer of a willingness to sell a security or a commodity; the price at which an investor can buy a security. *Syn.* offer; POP.

assessable stock Stock issued below par, carrying with it the option on the part of the issuer or creditors to assess the owner for the remainder. A gift of assessable stock is considered an offer and a sale under the Uniform Securities Act.

asset A balance sheet item expressing what a corporation owns.

asset allocation fund A mutual fund that splits its investment assets among stocks, bonds, and other vehicles, with a view to provide a consistent return for the investor.

asset class allocation Dividing an investment portfolio among different asset categories such as stocks; bonds; cash; and tangible assets, such as real estate, precious metals, and other commodities. *Syn.* asset allocation.

assignment (1) Transferring an investment advisory contract to another firm. (2) A document accompanying or part of a stock certificate signed by the person named on the certificate for the purpose of transferring the certificate's title to another person's name. (3) The act of identifying and notifying a customer that an option short in their account has been exercised. *See also* bond power.

assignment Transferring an investment advisory contract to another firm. This may not be done without written consent of the customer. A change in the majority interest in an investment advisory firm organized as a partnership is also considered assignment.

associated person Any employee, manager, director, officer, or partner of a member broker-dealer or another entity (e.g., issuer or bank), or any person controlling, controlled by, or in common control with that member, is considered an associated person of that member.

assumed interest rate (AIR) (1) The net rate of investment return that must be credited to a variable life insurance policy to ensure that at all times, the variable death benefit equals the amount of the death benefit. The AIR forms the basis for projecting payments, but it is not guaranteed. (2) The rate that a variable annuity separate account must earn to keep annuity payments level. If the account earns more than the AIR, the next payment will increase; if it earns less, the next payment will decrease.

auction market A market in which buyers enter competitive bids and sellers enter competitive offers simultaneously. The NYSE is an auction market. *Syn.* double auction market.

audited financial statement A financial statement of a program, a corporation, or an issuer that has been examined and verified by an independent certified public accountant.

authorized stock The number of shares of stock that a corporation may legally issue. This number is stipulated in the corporation's state-approved charter and may be changed by a vote of the corporation's stockholders.

automatic reinvestment A feature available to shareholders whereby dividend distributions are automatically reinvested.

bad actor A person whose past disciplinary history or potential for improper actions disqualifies certain exemptions.

back-end load A fee that is charged when mutual fund shares or variable annuity contracts are redeemed. It is typically found with Class B shares (and for one year with Class C shares). It declines annually, decreasing to zero over an extended holding period—up to eight years—as described in the prospectus. *Syn.* contingent-deferred sales load.

backdating The predating of a letter of intent (LOI) by as many as 90 days to allow an investor to incorporate recent deposits for the purpose of qualifying for a sales load discount (breakpoint) on a purchase of open-end investment company shares.

balance sheet A financial statement showing the assets, liabilities, and shareholder's equity at a particular moment.

balance sheet equation A formula stating that a corporation's assets equal the sum of its liabilities plus shareholders' equity.

balanced fund A mutual fund whose stated investment policy is to have, at all times, some portion of its investment assets in bonds and preferred stock, as well as in-common stock, in an attempt to provide both growth and income. *See also* mutual fund.

bank holding company A holding company whose primary asset is a commercial bank. *See* holding company.

Bank Secrecy Act (BSA) The Bank Secrecy Act authorizes the Treasury Department to require financial institutions to maintain records of personal financial transactions that involve the movement of currency in excess of \$10,000 in and out of accounts. It also authorizes the Treasury Department to require any financial institution to report any suspicious transaction. These reports, called suspicious activity reports (SARs), are filed with the Treasury Department's Financial Crimes Enforcement Network (FinCEN).

basis (1) The cost of an asset or security. (2) Another term for yield to maturity (e.g., this bond is selling at a 5.78 basis).

basis point A measure of a bond's yield, equal to 1/100 of 1% of a yield. A bond whose yield increases from 5.0% to 5.5% is said to increase by 50 basis points. A basis point is equal to 10 cents.

BD *See* broker-dealer.

bear An investor who acts on the belief that a security or the market is falling or is expected to fall. *See* bull.

bear market A market in which prices of a certain group of securities are falling or are expected to fall. *See* bull market.

benchmark portfolio A model portfolio of a large number of assets, such as the S&P 500, against which the performance of a fund or portfolio is measured.

beta A means of measuring the comovement of the return of a security or a portfolio of securities to the return on the overall market. A beta of 1 indicates that the security's returns will be expected to move in tandem with the market. A beta greater than 1 indicates that the security's returns will be expected to exceed those of the market. A beta less than 1 means returns will be expected to be lower than those of the market. *Syn.* beta coefficient.

beta coefficient *See* beta.

bid (1) An indication by an investor, a trader, or a dealer of a willingness to buy a security or commodity; the price at which an investor can sell to a broker-dealer. (2) The price at which an investor can redeem shares of a mutual fund. *See also* offer; public offering price; quotation.

Black-Scholes One of the most popular options pricing models. Appears frequently on the exam as an incorrect choice.

block trade A large trading order, defined as an order that consists of 10,000 or more shares of a given stock or at a total market value of \$200,000 or more. *Syn.* block sale.

blotter A book of original entry in which a broker-dealer records on a daily basis every transaction, movement of securities, and cash receipt and disbursement. *Syn.* daily journal; diary; day book.

blue-chip stock The equity issues of financially stable, well-established companies that have demonstrated their ability to pay dividends in both good and bad times.

blue-sky To register a securities offering in a particular state.

blue-sky laws The nickname for state regulations governing the securities industry.

board of directors Individuals elected by stockholders to establish corporate management policies. A board of directors decides, among other issues, if and when dividends will be paid to stockholders.

bona fide From the Latin "good faith," something that is bona fide is genuine, authentic, and real. An example would be a bona fide quote.

bond A legal obligation of an issuing company or government to repay the principal of a loan to bond investors at a specified future date. Corporate bonds are usually issued with a par or face value of \$1,000, and municipal bonds with a par of \$5,000, representing the amount of money borrowed. The issuer promises to pay a percentage of the par value as interest on the borrowed funds. The interest payment is stated on the face of the bond or its description at issue.

bond fund A mutual fund whose investment objective is to provide stable income with a minimal capital risk. It invests in income-producing instruments that may include corporate, government, or municipal bonds.

bond laddering A fixed-income investment strategy that involves purchasing several smaller bonds, each with a different maturity date spread over months or years, rather than one larger bond maturing on a single date.

bond quote Quotes for corporate, municipal, and government bonds are percentages of the bonds' face values (usually \$1,000). Corporate bonds are quoted in increments of 1/8. Government bonds are quoted in increments of 1/32. Municipal bonds may be quoted on a dollar basis or on a yield-to-maturity basis.

bond rating An evaluation of the possibility of a bond issuer's default, based on an analysis of the issuer's financial condition and likelihood of meeting all obligations. Standard & Poor's, Moody's Investors Service, and Fitch Investors Service, among others, provide bond rating services. Ratings of municipal bonds may be found on the EMMA System operated by the Municipal Securities Rulemaking Board.

bond ratio One of several tools used by bond analysts to assess the degree of safety offered by a corporation's bonds. It measures the percentage of the corporation's capitalization that is provided by long-term debt financing, calculated by dividing the total face value of the outstanding bonds by the total capitalization. *Syn.* debt ratio.

book value per share A measure of the net worth of each share of common stock. It is calculated by subtracting intangible assets and preferred stock from total net worth, then dividing the result by the number of shares of common outstanding. *Syn.* net tangible assets per share.

Brady bonds Debt instruments, generally from third-world countries, that may have a U.S. Treasury bond as collateral.

breadth-of-market theory A technical analysis theory that predicts the strength of the market according to the number of issues that advance or decline in a particular trading day.

breakout In technical analysis, the movement of a security's price through an established support or resistance level. *See also* resistance level; support level.

breakpoint The schedule of sales charge discounts a mutual fund offers for lump-sum or cumulative investments. Breakpoints are available to any person. Investment clubs or associations formed for the purpose of investing do not qualify for breakpoints.

breakpoint sale The sale of mutual fund shares in an amount just below the level at which the purchaser would qualify for reduced sales charges. This violates the Conduct Rules.

bridge loan A short-term loan made to bridge the gap until permanent financing is arranged.

brochure A written disclosure statement that investment advisers must provide to most clients and prospective clients. The Form ADV Part 2A may be used for this purpose.

brochure rules A state-registered investment adviser must provide its customer with its brochure (Parts 2A and 2B of Form ADV) at least 48 hours before having them sign the contract. If delivery is made after that (but no later than the finalization of the contract), the customer must be given 5 days to void the contract without penalty.

brochure supplement A written disclosure statement containing information about certain of an investment adviser's supervised persons. This disclosure is usually accomplished by the delivery of Form ADV Part 2B to most clients and prospective clients.

broker (1) An individual or firm that charges a fee or commission for executing buy and sell orders submitted by a customer. (2) The role of a firm when it acts as an agent for a customer and charges the customer a commission for its services. *See also* agent; broker-dealer; dealer.

broker-dealer Person or firm in the business of buying and selling securities and/or futures. A firm may act as both broker (agent) or dealer (principal) but not in the same transaction. Securities broker-dealers normally must register with the SEC, futures broker-dealers with the CFTC and the appropriate SROs and any state in which they do business.

bull An investor who believes that a security, a commodity, or the market overall is likely to rise. *See also* bear.

bull market A market where prices of a certain group of commodities or securities are rising or are expected to rise. *See also* bear market.

bunching orders Combining individual trade executions at the same price for reporting purposes into a single trade report. Nasdaq does not support bunched (.B) trade reports.

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

business development company A business development company (BDC) is one created to help small companies grow while still in the initial stages of their development. Also referred to as growth development companies, these allow smaller nonaccredited investors the opportunity to invest in startup companies.

business risk The risk inherent in equity securities that poor management decisions will have a negative impact on the stock's performance. Can be reduced through diversification. *Syn.* unsystematic risk.

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

bypass trust A trust that is funded with property in an amount equal to the exemption equivalent to the transfer tax credit amount applicable to the decedent (\$11.7 million in 2021); thus, the property is not subject to federal estate tax. *See* generation-skipping trust.

call (1) An option contract giving the owner the right to buy a specified amount of an underlying security at a specified price within a specified time. (2) The act of exercising a call option. *See also* put.

call date The date, specified in the prospectus of every callable security, after which the security's issuer has the option to redeem the issue at par or at par plus a premium.

call feature *See* call provision.

call option A contract giving the owner the right to buy a specified amount of an underlying security at a specified price within a specified time.

call price The price, usually a premium over par value, at which a bond or preferred stock may be redeemed at the discretion of the issuer.

call protection A provision in a bond indenture stating that the issue is noncallable for a certain period (e.g., 5 or 10 years) after the original issue date. *See* call provision.

call provision The written agreement between an issuer and its bondholders or preferred stockholders giving the issuer the option to redeem the securities at a specified price before maturity and under certain conditions. *Syn.* call feature.

call risk The potential for a bond to be called before maturity, leaving the investor without the bond's current income. Because this is more likely to occur during times of falling interest rates, the investor may not be able to reinvest the principal at a comparable rate of return. This risk applies to callable preferred shares as well.

callable bond A type of bond issued with a provision allowing the issuer to redeem the bond before maturity at a predetermined price. *See also* call price.

callable preferred stock A type of preferred stock issued with a provision allowing the corporation to call in the stock at a certain price and retire it. *See* call price; preferred stock.

cancellation Nonpunitive termination of registration by a state Administrator. Reasons include the registrant's death, the registrant ceasing to do business, mental incompetence on the part of the registrant, or the Administrator's inability to locate the registrant.

capital appreciation A rise in the market price of an asset.

capital asset pricing model (CAPM) A securities market investment theory that attempts to derive the expected return on an asset on the basis of the asset's systematic risk.

capital gain The profit realized when a capital asset is sold for a price higher than the purchase price. *See also* capital loss; long-term capital gain.

capital gains distributions Payments made to mutual fund shareholders of gains realized on the sale of the fund's portfolio securities. These amounts, if any, are paid once a year.

capital loss The loss incurred when a capital asset is sold for a price lower than the purchase price. *See* capital gain; long-term capital loss.

capital stock All of a corporation's outstanding preferred and common stock, listed at par value.

capital structure The composition of long-term funds (equity and debt) a corporation has as a source for financing. *See* capitalization.

capital surplus *See* paid-in capital.

capitalization (1) The sum of a corporation's long-term debt, stock, and surpluses. *Syn.* invested capital. *See* capital structure. (2) The number of outstanding shares multiplied by share price. (3) The costs to acquire an asset expensed over the life of the asset.

cash dividend Money paid to a corporation's stockholders out of the corporation's current earnings or accumulated profits. The board of directors must declare all dividends.

cash equivalent A security that can be readily converted into cash. Examples include Treasury bills, certificates of deposit, and money market instruments and funds.

cash flow The money received by a business minus the money paid out. Cash flow is also equal to net income plus depreciation or depletion.

CD *See* negotiable certificate of deposit.

CDSC Conditional deferred sales charge. Sometimes called a back-end load (conditional deferred sales load, or CDSL) to differentiate between it and a front-end load. Instead of charging a load on each purchase, there is no sales charge unless the investor redeems shares too early. These charges begin reducing after the first year and generally decline to zero between the sixth and eighth year after purchase. *See* front-end load.

cease and desist order An order used by a state administrator when it appears that a registered person has or is about to commit a violation. May be issued with or without a prior hearing.

certificate of deposit (CD) A debt instrument issued by a bank that pays a fixed interest rate over a specific time period. CDs are insured up to \$250,000 by the FDIC. *See* negotiable certificate of deposit.

Chicago Board Options Exchange (CBOE) The first nationally recognized securities exchange listing and trading options. The self-regulatory organization with jurisdiction over all writing and trading of standardized options and related contracts listed on that exchange.

Chinese Wall A disused descriptive name for the division within a brokerage firm that prevents insider information from passing from corporate advisers to investment traders, who could make use of the information to reap illicit profits. The preferred term today is information barriers. *See* Insider Trading and Securities Fraud Enforcement Act of 1988.

churning Excessive trading in a customer's account with the view to generate commissions. *Syn.* overtrading.

Class A share (1) A class of mutual fund shares issued with a front-end sales load. (2) Shares of a company that have differing characteristics from other classes of stock (e.g., Class A shares in a company offering multiple share classes may offer super voting privileges of many times the number of votes Class B shares may offer).

Class B share A class of mutual fund shares issued with a back-end load. A mutual fund offers different classes of shares to allow investors to choose the type of sales charge they will pay. *See also* back-end load; Class A share; Class C share.

Class C share A class of mutual fund shares issued with a level load. A mutual fund offers different classes of shares to allow investors to choose the type of sales charge they will pay. *See also* Class A share; Class B share.

client profile Information generated on a client that identifies capital and discretionary income available for appropriate investment, according to the investor's investment objectives, financial and tax status, and monetary needs.

closed-end management company An investment company that issues a fixed number of shares in an actively managed portfolio of securities. The shares may be of several classes, and they are traded in the secondary marketplace, either on an exchange or over the counter. The market price of the shares is determined by supply and demand. *Syn.* publicly traded fund.

closing purchase An options (or futures) transaction in which the seller buys back an option in the same series; the two transactions effectively cancel each other out, and the position is liquidated.

closing sale An options transaction in which the buyer sells an option in the same series; the two transactions effectively cancel each other out, and the position is liquidated. *See also* closing purchase.

CMO *See* collateralized mortgage obligation.

CMV *See* current market value.

collateral Certain assets set aside and pledged to a lender for the duration of a loan. If the borrower fails to meet obligations to pay principal or interest, the lender has claim to the assets.

collateral trust bond A secured bond backed by stocks or bonds of another issuer. The collateral is held by a trustee for safekeeping. *Syn.* collateral trust certificate.

collateral trust certificate *See* collateral trust bond.

collateralized mortgage obligation (CMO) A mortgage-backed corporate security. Unlike pass-through obligations issued by FNMA and GNMA, its yield is not guaranteed, and it does not have the federal government's backing. These issues attempt to return interest and principal at a predetermined rate.

college savings plan College savings plans allow contributors to invest after-tax dollars in professionally managed accounts that contain a mix of stocks, bonds, and other investments selected to reflect a child's age or a family's investment preference. *Syn.* qualified tuition. *See* education savings plan.

commercial paper (CP) A short-term, unsecured debt instrument primarily issued by corporations and banks, typically for the funding of short-term liabilities such as payrolls, accounts payable, and inventories and normally priced at a discount and redeemed at face value. Maturities are 270 days or less.

commingling (1) The combining by a brokerage firm of one customer's securities with another customer's securities and pledging them as joint collateral for a bank loan; unless authorized by the customers, this violates SEC Rule 15c2-1. (2) The combining by a brokerage firm of customer securities with firm securities and pledging them as joint collateral for a bank loan; this practice is prohibited.

commission A service charge assessed by an agent in return for arranging the purchase or sale of a security. A commission must be fair and reasonable, considering all the relevant factors of the transaction. *Syn.* sales charge.

Commission Shortened term for the Securities and Exchange Commission, which was created by Congress to regulate the securities markets and protect investors. Composed of five commissioners appointed by the President of the United States and approved by the Senate. The SEC enforces, among other laws, the Securities Act of 1933, Securities Exchange Act of 1934, Trust Indenture Act of 1939, Investment Company Act of 1940, and Investment Advisers Act of 1940. If in context, the subject is commodity futures, the word refers to the CFTC.

Commodities Futures Trading Commission (CFTC)

A congressionally mandated organization that provides regulatory oversight on the trading and clearing of commodity futures markets.

commodity Any bulk good traded on an exchange or in the cash market, including metals, grains, and meats.

common stock A security that represents ownership in a corporation. Holders of common stock exercise control by electing a board of directors and voting on corporate policy. *See also* equity; preferred stock.

common stock fund A mutual fund portfolio that consists primarily of common stocks. The emphasis of these portfolios is usually on growth.

completion of the transaction As defined by FINRA, the point at which a customer pays any part of the purchase price to the broker-dealer for a security he has purchased or for delivering a security that he has sold. If the customer makes payment to the broker-dealer before the payment is due, the completion of the transaction occurs when the broker-dealer delivers the security.

complex trust A trust that accumulates income over time and is not required to make scheduled distributions to its beneficiaries.

conduit theory A means for an investment company to avoid taxation on net investment income distributed to shareholders. If a mutual fund acts as a conduit for the distribution of net investment income, it may qualify as a regulated investment company and be taxed only on the income the fund retains. *Syn.* pipeline theory.

confirmation (securities trade) Written notification disclosing details of a customer securities transaction. It is used to verify that trades were carried out according to instructions. It may be mailed or paperless, as the customer wishes. It must be sent on or before the completion of the transaction.

conflict of interest Circumstances or conditions that oppose the client's best interest, thus enabling a member or AP to benefit from a relationship with a client.

consent to lend agreement *See* loan consent agreement.

consent to service of process A legal document entered into by all registrants, whereby the administrator is given the power to accept legal papers on behalf of the registrant.

consolidation The technical analysis term for a narrowing of the trading range for a commodity or security that may be interpreted as a mark indecisiveness.

constant dollar plan A formula method of investing that attempts to maintain a fixed dollar amount, rather than ratio, in a specific asset class. Periodically, the account is reviewed, and the specified asset class is either sold or purchased to get to the fixed dollar level.

constant ratio plan A formula method of investing that contemplates maintaining a fixed ratio, rather than dollar amount, between specific asset classes in the portfolio. Periodically, the account is reviewed, and the specified asset class is either sold or purchased to get to the fixed ratio level.

contemporaneous trader A person who enters a trade at or near the same time and in the same security as a person who has inside information. The contemporaneous trader may bring suit against the inside trader. *See also* Insider Trading and Securities Fraud Enforcement Act of 1988.

contingent deferred sales load *See* back-end load.

contra-broker The broker on the buy side of a sell order or on the sell side of a buy order. *Syn.* contra-party; contra-member.

contributory plan A retirement plan to which both the employee and the employer make contributions. *See* noncontributory pension plan.

control person (1) A director, officer, or other affiliate of an issuer. (2) A stockholder who owns at least 10% of any class of a corporation's outstanding voting securities. *See also* affiliated person; insider.

control relationship A control relationship exists with respect to a security if a broker-dealer controls, is controlled by, or is under common control with the issuer or another person obligated with respect to the debt service of the issue.

control security Any security owned by a director, officer, or other affiliate of the issuer or by a stockholder who owns at least 10% of any class of a corporation's voting securities. Who owns a security, not the security itself, determines whether it is a control security. *See also* Rule 144.

conversion parity Two securities—one of which can be converted into the other—of equal dollar value. A convertible security holder can calculate parity to help decide whether converting would lead to gain or loss.

conversion price The dollar amount of a convertible security's par value that is exchangeable for one share of the issuer's common stock.

conversion privilege A feature the issuer adds to a corporate debt security that allows the holder to change the security into shares of the issuer's common stock. This makes the security attractive to investors and, therefore, more marketable. *See also* convertible bond; convertible preferred stock.

conversion rate The number of shares of common stock per par value amount that a holder would receive following a conversion of a convertible bond or preferred share. *Syn.* conversion ratio.

conversion ratio The number of shares of common stock per par value amount that a holder would receive following a conversion of a convertible bond or preferred share. *Syn.* conversion rate.

conversion value The total market value of common stock into which a corporate debt instrument is convertible.

convertible bond A corporate debt security, such as a bond or debenture, that is exchangeable for the equity securities of the issuing corporation at a specified price or rate.

convertible preferred stock An equity security that may be exchanged for common stock at specified prices or rates. Dividends may be cumulative or noncumulative. *See also* cumulative preferred stock; noncumulative preferred stock; preferred stock.

convexity A measurement of relationship between bond prices and bond yields. A risk-management tool.

cooling-off period A waiting period between a registration statement's filing date with the SEC and the registration effective date. In practice, the period varies in length. *Syn.* Waiting period.

coordination *See* registration by coordination.

corporate account An account held in a corporation's name specifying which officers are authorized to trade in the account. A corporation must provide a copy of its charter and bylaws authorizing a margin account.

corporate bond A long-term debt security issued by a corporation to finance its capital improvements and operations.

corporation A form of business organization in which its total worth is divided into shares of common stock, with each share representing a unit of ownership. A corporation is characterized by a continuous life span and its owners' limited liability.

correlation The extent to which two or more securities or portfolios move together.

cost basis The price paid for an asset, including any commissions or fees, used to calculate capital gains or losses when the asset is sold. Also includes any reinvested distributions.

coupon yield *See* nominal yield.

Coverdell ESA Formerly known as the Education IRA, this offers tax-deferred growth and tax-free withdrawal of funds used to pay for education. Subject to certain earnings limits, after-tax contributions up to a certain amount per year may be made for a beneficiary up until the beneficiary's 18th birthday. The account may be used for qualifying educational expenses at any grade level, from elementary school through graduate school.

covered adviser *See* federal covered adviser.

covered call writer An investor who sells a call option while owning the underlying security or some other asset that guarantees the ability to deliver if the call is exercised.

covered security *See* federal covered security.

credit agreement A component of a customer's margin account agreement, outlining the conditions of the credit arrangement between the brokerage firm and customer.

credit risk The degree of probability that the issuer of a debt security will default in the payment of either principal or interest. Securities issued by the U.S. government are considered to have little credit risk. *Syn.* default risk; financial risk. *See* Moody's; Standard & Poor's.

cumulative preferred stock An equity security that offers the holder any unpaid dividends in arrears. These dividends accumulate and must be paid to the cumulative preferred stockholder before any dividends may be paid to the common stockholders.

currency transaction report (CTR) A report filed by financial institutions to the IRS for deposits of any currency of more than \$10,000 on a single day.

current assets Cash and other assets that may be converted into cash within the next 12 months. Examples include such liquid items as cash and equivalents (T-bills), accounts receivable, inventory, and prepaid expenses.

current liabilities A corporation's debt obligations due for payment within the next 12 months. Examples include accounts payable, accrued wages payable, and current long-term debt.

current market value (CMV) The worth of the securities in an account. The market value of listed securities is based on the closing prices on the previous business day. *Syn.* long market value.

current ratio A measure of a corporation's liquidity—that is, its ability to transfer assets into cash to meet current short-term obligations. It is calculated by dividing total current assets by total current liabilities. *Syn.* working capital ratio.

current yield The annual rate of return on a security, calculated by dividing the interest or dividends paid by the security's current market price.

custodial account An account in which a custodian enters trades on behalf of the beneficial owner, who is often a minor. A custodian cannot delegate away fiduciary responsibility but can grant trading authority and investment decisions to a qualified third party.

custodian An institution or person responsible for making all investment, management, and distribution decisions in an account maintained in the best interests of another. For example, mutual funds have custodians responsible for safeguarding certificates and performing clerical duties.

custody Maintaining possession of a customer's money and/or securities.

customer Any person who opens an account with a broker-dealer. A customer may be classified in terms of account ownership, trading authorization, payment method, or types of securities traded.

customer agreement (margin agreement) A document that a customer must sign when opening a margin account with a broker-dealer. It allows the firm to liquidate all or a portion of the account if the customer fails to meet a margin call.

customer complaint A complaint is only a complaint when it is made in writing. All firms must maintain procedures for handling customer complaints and keep records of their disposition.

customer confirmation Printed document stating the trade date, settlement date, and money due from or owed to a customer. It is sent or given to the customer on or before the settlement date.

customer identification program (CIP) The measures taken by a broker-dealer firm to verify the identity of each customer. Measures include obtaining unexpired photo identification, such as a valid driver's license or passport, and determining whether the customer's name appears on the U.S. Treasury's lists of known or suspected terrorists.

customer ledger The accounting record that lists separately all customer cash and margin accounts carried by a firm. *See also* general ledger.

cybersecurity The protection of computer information systems from theft or damage to hardware, software, and the information stored on them. Cybersecurity also protects information systems from disruption or misdirection of the services they provide.

daily journal Day book or diary. *See* blotter.

dark pool This term refers to an alternative trading system (ATS) where a supply of shares exists that is not displayed for all to see. Dark pools are akin to members-only trading platforms for those wishing to execute larger trades without their interest being made known through an open book. A dark pool provides anonymity to investors and sensitivity of share prices to movement when any sizeable demand appears.

day order An order that is valid only until the close of trading on the day it is entered. If it is not executed by the close of trading, it is canceled.

de minimis exemption A provision under the Uniform Securities Act where an investment adviser or investment adviser representative, having no place of business in a state and, during the preceding 12-month period, having no more than five retail clients, is exempt from registration in that state.

dealer (1) An individual or firm engaged in the business of buying and selling securities for its own account, either directly or through a broker. (2) The role of a firm when it acts as a principal and charges the customer a markup or markdown. *Syn.* principal. *See also* broker; broker-dealer.

death benefit provision This provision of an annuity allows for the payment to a beneficiary to be the greater of the value of the contributions or the value of the separate account at date of death. The provision is only effective during the accumulation period of the annuity, meaning if the annuitant dies before reaching the annuity (payout) phase.

debenture A debt obligation backed by the issuing corporation's general credit. *Syn.* unsecured bond.

debit balance (DR) The amount of money a customer owes a brokerage firm. *Syn.* debit record; debit register.

debt financing Raising money for working capital or capital expenditures by selling bonds, bills, or notes to individual or institutional investors.

debt ratio *See* bond ratio.

debt security A fixed-income security representing a loan by an investor to an issuer such as a corporation, a municipality, the federal government, or a federal agency.

declaration date The date on which a corporation announces an upcoming dividend's amount, payment date, and record date.

decumulation Disposal of something accumulated. Investors spend much of their working years accumulating for retirement; taking the funds out is decumulation.

deduction An item or expenditure subtracted from adjusted gross income to reduce the amount of income subject to tax.

default (1) The failure to pay interest or principal promptly when due. (2) The failure to perform on a futures contract as required by an exchange.

default risk *See* credit risk.

defensive investment strategy A method of portfolio allocation and management aimed at minimizing the risk of losing principal. Defensive investors place a high percentage of their investable assets in bonds, cash equivalents, and stocks that are less volatile than average.

deferred annuity An annuity contract that delays payment of income, installments, or a lump sum until the investor elects to receive it. *See also* annuity.

deferred compensation plan A nonqualified retirement plan whereby the employee defers receiving current compensation in favor of a larger payout at retirement (or in the case of disability or death).

defined benefit plan A qualified retirement plan that specifies the total amount of money that the employee will receive at retirement.

defined contribution plan A qualified retirement plan that specifies the amount of money that the employer will contribute annually to the plan.

deflation A persistent and measurable fall in the general level of prices. *See also* inflation.

delivery A change in ownership or control of a security in exchange for cash. Delivery takes place on the settlement date.

delta Measure of responsiveness of option premiums to change in the price of the underlying asset. Deep-in-the-money options have deltas near 1 and respond most to futures price changes. Deep-out-of-the-money options have deltas near zero.

derivative An investment vehicle, the value of which is based on the value of another security. Futures, forwards, swaps, and options are among the most common types of derivatives. Derivatives are generally used by institutional investors to increase overall portfolio return or hedge portfolio risk.

dilution A reduction in earnings per share of common stock. Dilution occurs through the issuance of additional shares of common stock and the conversion of convertible securities.

direct participation program (DPP) A business organized so as to pass through all income, gains, losses, and tax benefits to its owners (partners), the investors; the business may be structured as a limited partnership. Examples include oil and gas programs, real estate programs, agricultural programs, motion pictures, and cattle programs. An interest in a DPP is a security. *Syn.* program.

directed brokerage The ability of an investment adviser or client to determine broker-dealers to be used in the execution of transactions in their advisory accounts.

discount The difference between the lower price paid for a security and the security's face amount at issue. *See also* premium.

discount bond A bond that sells at a lower price than its face value. *See also* par value; premium bond.

discretion The authority given to someone other than an account's beneficial owner to make investment decisions for the account. *See also* limited power of attorney.

discretionary account An account in which the principal (beneficial owner) has given the registered representative authority to enter transactions at the representative's discretion. The registered representative may, if so directed by the customer, use the discretion about price (buy or sell), time, and choice of securities (bought or sold).

discretionary order An order entered by a registered representative for a discretionary account allowing use of the representative's judgment on the customer's behalf, with respect to the choice of security, quantity of security, and/or whether the transaction should be a purchase or sale.

disgorge(ment) In legal usage, the forced giving up of profits made through illegal activity (e.g., insider trading, short-swing profits).

distributable net income (DNI) Taxable income from a trust that determines the amount of income that may be taxable to beneficiaries.

diversification A risk management technique that mixes a wide variety of investments within a portfolio, thus minimizing the impact of any one security on overall portfolio performance.

dividend A distribution of the earnings of a corporation. Dividends may be in the form of cash, stock, or property. All dividends must be declared by the board of directors. *See also* cash dividend; stock dividend.

dividend exclusion rule An IRS provision that permits a corporation to exclude from its taxable income 50% of dividends received from domestic preferred and common stocks.

dividend growth model A valuation method that takes into consideration dividend per share and its expected growth. This model assumes that dividends grow at the same rate forever. Therefore, it is most commonly used to value companies belonging to mature and stable industries, having steady dividend growth. It will show a higher valuation than the DDM. *Syn.* DGM.

dividend payout ratio A measure of a corporation's policy of paying cash dividends, calculated by dividing the dividends paid on common stock by the net income available for common stockholders. The ratio is the complement of the retained earnings ratio.

dividend reinvestment plan Frequently referred to as a DRIP, plan allows shareholders the option of having cash dividends automatically reinvested in shares of the issuer's stock, frequently at a discounted price and/or without commissions. In most plans, additional investments are permitted.

dividend yield The annual rate of return on a common or preferred stock investment. The yield is calculated by dividing the annual dividend by the stock's purchase price. *See also* current yield; dividend.

dividends per share The dollar amount of cash dividends paid on each common share during one year.

DJIA *See* Dow Jones Industrial Average.

Dodd-Frank Bill The general term by which the Wall Street Reform and Consumer Protection Act of 2010 is known. Considered to be the most significant legislation impacting the securities industry since the 1930s.

dollar cost averaging A system of buying mutual fund shares in fixed dollar amounts at regular fixed intervals, regardless of the share's price. The investor purchases more shares when prices are low and fewer shares when prices are high, thus lowering the average cost per share over time.

donor A person who makes a gift of money or securities to another. Once the gift is donated, the donor gives up all rights to it. Gifts of securities to minors under the Uniform Gifts to Minors Act provide tax advantages to the donor. *See also* Uniform Gifts to Minors Act.

Dow Jones Industrial Average (DJIA) The most widely used stock market indicator, composed of 30 large, actively traded issues of industrial stocks. Futures contracts and futures option contracts trade on the Chicago Board of Trade.

DPP *See* direct participation program.

DRIP *See* dividend reinvestment plan.

durable power of attorney A document giving either full or limited authority to a third party who survives the mental or physical incompetence (but not death) of the grantor. *See* full power of attorney; limited power of attorney.

duration An approximate measure of a bond's price sensitivity to changes in interest rates. The longer the duration, the greater the price fluctuation.

earned income Income derived from active participation in a trade or business, including wages, salary, tips, commissions, and bonuses. *See* portfolio income; unearned income.

earnings momentum A term used to describe earnings that are growing at an accelerating rate.

earnings multiplier Another term for the price-to-earning (PE) ratio. The earnings multiplier is the price of the stock divided by its earnings per share.

earnings per share (EPS) A corporation's net income available for common stock divided by its number of shares of common stock outstanding. *Syn.* primary earnings per share.

Education IRA *See* Coverdell ESA.

Education Savings Account *See* Coverdell ESA.

education savings plan (1) 529 savings plan. A tax-advantaged qualified tuition program designed to help account owners save for certain K–12 tuition expenses or future qualified higher education expenses. (2) Education savings account (ESA), e.g., Coverdell Education Savings, a tax-advantaged account with earnings and withdrawals that may be free from federal income tax if used for certain education expenses. Contribution limits apply.

effective date The date the registration of an issue of securities becomes effective, allowing the underwriters to sell the newly issued securities to the public and confirm sales to investors who have given indications of interest.

effective tax rate The overall rate paid on a taxpayer's total taxable income. It will always be less than the marginal tax rate. *See* marginal tax rate.

efficient market theory Theory based on the premise that the stock market processes information efficiently. It postulates that, as new information becomes known, it is reflected immediately in the price of stock, and therefore, stock prices represent fair prices.

electronic storage An acceptable method of recordkeeping, generally on computer disc.

Employee Retirement Income Security Act of 1974 (ERISA) The law that governs the operation of most corporate pension and benefit plans. *Syn.* Pension Reform Act.

enjoin The action of directing a person to comply with a court order.

enjoined Being subject to a mandatory injunction, prohibitory injunction, preliminary injunction, or a temporary restraining order issued by a court of competent jurisdiction.

entangled The practice of a firm participating in the development of the social media content of a third-party site. *Syn.* entanglement.

EPS *See* earnings per share.

equipment trust certificate A debt obligation, generally issued by transportation companies such as railroads, that is backed by equipment (rolling stock). *Syn.* equipment bond; equipment note.

equity (1) The ownership interest of common and preferred stockholders in a corporation. (2) In a margin account, equity equals what is owned less what is owed. *See also* common stock; margin account.

equity financing Raising money for working capital or capital expenditures by selling common or preferred stock to individual or institutional investors. In return for the money paid, the investors receive ownership interests in the corporation.

equity index annuity *See* index annuity.

equity security A financial instrument representing proportional ownership interest held in a corporation, company, or other enterprise recognized in the form of shares (e.g., common stock, preferred stock, convertible bonds, rights, warrants, and options).

ERISA *See* Employee Retirement Income Security Act of 1974.

estate tax A tax imposed by a state or the federal government on the assets a person possesses at the time of death.

ETF *See* exchange-traded fund (ETF).

European-style option An option contract that can only be exercised on the last trading day (usually Friday) before expiration.

ex-date The first date on which a security is traded without entitling the buyer to receive distributions previously declared. *Syn.* ex-dividend date; ex-warrants; ex-rights; ex-distribution.

ex-dividend date *See* ex-date.

Exchange Act *See* Securities Exchange Act of 1934.

exchange market All of the exchanges on which listed securities are traded.

exchange privilege A feature offered by a mutual fund allowing an individual to transfer an investment in one fund to another fund under the same sponsor without incurring an additional sales charge. *Syn.* conversion privilege.

exchange-traded fund (ETF) An investment company legally classified as an open-end company or unit investment trust (UIT) but differing from traditional open-end companies (mutual funds) and UITs. An ETF issues shares in large blocks that are known as *creation units*. Those who purchase creation units are frequently large institutional traders or investors. The creation units can then be split up and sold as individual shares in the secondary markets, allowing individual investors to purchase shares.

executor/executrix A person given fiduciary authorization through a valid will to manage the affairs of a decedent's estate.

exempt Not being required to do something that others are required to do.

exempt reporting adviser (ERA) Investment advisers—ones exempt from registration—who rely on either the venture capital fund adviser or the private fund adviser exemption. Although exempt from registration, an ERA is subject to certain reporting, recordkeeping, and other obligations.

exempt security A security that need not be in formal compliance with a given piece of legislation, such as the Securities Act of 1933 or the Uniform Securities Act as adopted by a state. Examples include U.S. government and municipal securities. No security is exempt from the antifraud provisions of any securities legislation.

exempt transaction (federal) Transactions that do not trigger a federal registration. Examples include Regulation A+ offerings, Regulation S offerings, Regulation D offerings, and Rule 147/147A offerings.

exempt transaction (state) Transactions that do not trigger a state's registration and advertising requirements under the Uniform Securities Act. Examples of exempt transactions include transactions with financial institutions, unsolicited transactions, and private placement transactions.

expense ratio A ratio for comparing a mutual fund's efficiency by dividing the fund's expenses by its net assets.

exploratory drilling program A limited partnership that aims to locate and recover undiscovered reserves of oil, gas, or minerals. *Syn.* wildcatting.

exploratory well A well drilled in search of either an undiscovered pool of oil or gas or with the hope of substantially extending the limits of an existing pool of oil or gas.

FAC *See* face-amount certificate company.

face value *See* par value.

face-amount certificate company (FAC) An investment company that issues certificates obligating it to pay an investor a stated amount of money (the face amount) on a specific future date. The investor pays into the certificate in periodic payments or in a lump sum.

Fannie Mae *See* Federal National Mortgage Association.

Farm Credit Administration (FCA) The government agency that coordinates the activities of the banks in the Farm Credit System. *See also* Farm Credit System.

Farm Credit System (FCS) An organization of 73 customer-owned lending institutions that provide credit services to farmers and mortgages on farm property. Included in the system are the Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.

federal covered adviser An investment adviser regulated under the Investment Advisers Act of 1940.

federal covered security Created by the NSMIA of 1996. State securities registration requirements are preempted with respect to covered securities, other than the ability to require notice filing. *Syn.* covered security.

Federal Deposit Insurance Corporation (FDIC) A federal government agency that insures deposits in banks and thrifts for up to \$250,000 per depositor.

Federal Home Loan Mortgage Corporation (FHLMC) A government-sponsored entity that provides funding for mortgages by purchasing mortgages and bundling them into mortgage-backed securities, then selling those securities on the secondary market. *Syn.* Freddie Mac.

Federal National Mortgage Association (FNMA) A publicly held corporation that purchases conventional mortgages and mortgages from government agencies, including the Federal Housing Administration, Department of Veterans Affairs, and Farmers Home Administration. *Syn.* Fannie Mae.

Federal Reserve (The Fed) The central bank of the United States that regulates the monetary system. It strives for price stability and economic growth.

Federal Reserve Board (FRB) A seven-member group that directs the operations of the Federal Reserve System. Board members are appointed by the president and subject to approval by Congress.

Federal Reserve System The central banking system of the United States that regulates flow of money and credit. The system includes 12 regional banks, 24 branch banks, and hundreds of national and state banks. *Syn.* Fed.

fictitious account An account maintained for someone who does not exist.

fictitious quotation A bid or offer published before being identified by source and verified as legitimate. A fictitious quote may create the appearance of trading activity where none exists.

fictitious trading Entering offsetting buy and sell orders to create the appearance of activity/volume in a futures or option contract.

fidelity bond Insurance coverage required by the self-regulatory organizations for all employees, officers, and partners of member firms to protect against employee fraud. *Syn.* surety bond.

fiduciary A person authorized, in good faith, to hold assets for another person and manage those assets for the benefit of that person.

FIFO *See* first in, first out.

final order A term used in both state and federal law to refer to a decision rendered by a regulatory body. The final order may result in a suspension, revocation, or denial of registration. It is analogous to the judge passing sentence in a trial.

final prospectus The legal document that states a new issue security's price, delivery date, and underwriting spread, as well as other material information. It must be given to every investor who purchases a new issue of registered securities. *Syn.* prospectus. *See* preliminary prospectus; red herring.

Financial Crimes Enforcement Network (FinCEN) A part of the U.S. Department of the Treasury that collects information from financial institutions and coordinates with law enforcement to combat money laundering.

Financial Industry Regulatory Authority

(FINRA) The largest regulator for securities firms doing business in the United States. It oversees approximately 635,000 registered representatives. Overseen by the SEC, its primary role is to maintain the fairness of U.S. capital markets. FINRA was preceded by NASD, which merged with most of NYSE Regulation in 2007 to form a new regulatory authority.

financial risk An unsystematic risk. Generally, the concern is that an issuer will be unable to meet its debt obligations as they come due. *See* credit risk.

FinCEN *See* Financial Crimes Enforcement Network.

FinCEN Form 112 Currency transactions in excess of \$10,000 must be reported within 15 days on this form. Also known as a Currency Transaction Report (CTR).

FINRA The acronym for the Financial Industry Regulatory Authority and the result of the cooperative effort of NASD and the NYSE to harmonize regulation in the securities industry.

firm quote The sure price at which a trading unit of a security may be bought or sold. All quotes are firm quotes unless otherwise indicated.

first in, first out (FIFO) An accounting method, used to assess a company's inventory, in which it is assumed that the first goods acquired are the first to be sold. The same method is used by the IRS to determine cost basis for tax purposes. *See also* last in, first out; share identification.

fiscal year An accounting year that ends on a day other than December 31 (calendar year accounting). *See* calendar year.

fixed annuity An insurance contract in which the insurance company makes fixed dollar payments to the annuitant for the term of the contract, usually until the annuitant dies. The insurance company guarantees both earnings and principal.

fixed asset A tangible, physical property used in the course of a corporation's everyday operations. It includes buildings, equipment, and land.

fixed-premium variable life Variable life is a permanent insurance policy sold by prospectus that directs premiums to one or more separate account investment funds as the policy owner wishes. *Syn.* scheduled premium variable life.

flat yield curve A chart showing the yields of bonds with short maturities as equal to the yields of bonds with long maturities. *Syn.* even yield curve. *See also* inverted yield curve; yield curve.

flexible premium policy A variable or whole life insurance contract that permits the holder to adjust the premium payments and death benefit according to changing needs. Generally referred to as *universal life*.

FNMA *See* Federal National Mortgage Association.

forced conversion Market conditions created by a corporation to encourage convertible bondholders to exercise their conversion options. Conversion may be forced by calling the bonds when the market value of the stock is higher than the redemption price offered by the corporation.

foreign currency Money issued by a country other than the one in which the investor resides. Options and futures contracts on numerous foreign currencies are traded on U.S. exchanges.

Form 1040 The IRS form used to file individual income tax. Schedule C of the Form 1040 is used to report business income for sole proprietorships.

Form 1041 The IRS form used by estates and trusts to report their income for tax purposes.

Form 1065 The information return filed by a partnership or LLC. Because income and losses flow through to owners, the entity pays no tax.

Form 112 (CTR) The form filed with FinCEN when transactions or aggregated transactions total more than \$10,000.

Form 1120 and 1120S The tax returns filed by corporations. The S is for an S corporation.

Form 706 The form used for the computation of estate tax. It must be filed within nine months of death, unless an extension has been obtained.

Form 709 The form in which the United States Gift (and Generation-Skipping Transfer) Tax Return is filed on.

Form ADV The document used by an investment adviser to register with the appropriate authority.

Form BD The document used by a broker-dealer to register with the appropriate authority.

Form D The SEC form that must be filed when engaging in a Regulation D private placement.

Form U4 The standardized application form for registration as an associated person.

Form U5 The standardized application form for termination of an associated person.

forward contract A direct commitment between one buyer and one seller for a specific commodity. These contracts are not standardized and have limited liquidity.

forward pricing The basis of computation of mutual fund purchases and redemptions in relation to the next calculated NAV.

fractional share A portion of a whole share of stock most commonly found with mutual funds.

fraud The deliberate concealment, misrepresentation, or omission of material information or the truth, so as to deceive or manipulate another party for unlawful or unfair gain.

FRB *See* Federal Reserve Board.

front running The prohibited practice of entering an order for the benefit of a securities firm or professional before entering a customer order received.

front-end load A mutual fund commission or sales charge that is included in the purchase price. *See also* back-end load; Class A share

frontier fund A foreign stock fund that invests in preemerging economies.

full power of attorney A written authorization for someone other than the beneficial owner of an account to make deposits and withdrawals and execute trades in the account. *See also* limited power of attorney.

functional allocation A sharing arrangement whereby the investors in an oil and gas direct participation program are responsible for intangible costs, and the sponsor is responsible for tangible costs. Revenues are shared.

fundamental analysis The study of the business prospects of an individual company within the context of its industry and the overall economy.

fungible A term referring to the interchangeability of financial instruments having effectively identical features. Cash is fungible, as are most securities.

futures contract Standardized, exchange-traded agreement to buy or sell a particular type and grade of commodity for delivery at an agreed-upon place and time in the future. Futures contracts are transferable between parties. *See also* forward contract.

GAAP *See* generally accepted accounting principles.

gamma One of the four Greeks (specialized mathematical measurements) used by options analysts. An option's gamma is a measure of the rate of change of its delta. The gamma of an option is expressed as a percentage and reflects the change in the delta in response to a one-point movement of the underlying stock price.

GDP *See* gross domestic product.

general account The account that holds all of an insurer's assets other than those in separate accounts. The general account holds the contributions paid for traditional life insurance contracts. *See also* separate account.

general ledger The records to which all of a brokerage firm's assets, liabilities, capital accounts, and income and expense accounts are posted. *See also* customer ledger.

general partner (GP) An active party in a direct participation program who is personally liable for all debts of the program and who manages the business of the program. *See also* limited partner.

general partnership An association of two or more parties formed to conduct a business jointly. The general partners are jointly and severally liable for the partnership's liabilities. *See also* limited partnership.

generally accepted accounting principles The accounting standards set forth by the Financial Accounting Standards Board for all publicly traded companies in the United States. Normally shown as GAAP.

generation-skipping trust A form of bypass trust that is designed to have assets pass to grandchildren (or great-grandchildren) in order to skip a generation of estate tax.

geometric mean A type of average that indicates the central tendency of a set of numbers; instead of finding the sum as with the arithmetic mean, the geometric mean takes the product of the numbers and divides that by the n th root (where n is the count of numbers). It will always be lower than the arithmetic mean unless all of the numbers are the same (e.g., 5, 5, and 5).

gilt-edged A debt security with highest quality. Sovereign debt (debt issued by a national government) has historically been the most likely to be deemed gilt-edged.

Gilts The term used to describe sovereign debt of the UK.

Ginnie Mae *See* Government National Mortgage Association.

GNMA *See* Government National Mortgage Association.

goodwill An intangible asset that represents the value that a firm's business reputation adds to its perceived value.

Government National Mortgage Association

(GNMA) A wholly government-owned corporation that issues pass-through mortgage debt certificates backed by the full faith and credit of the U.S. government. *Syn.* Ginnie Mae.

government-sponsored enterprises

(GSEs) Corporations created by Congress to foster a public purpose such as affordable housing. Examples include the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage (Freddie Mac).

GP *See* general partner; general partnership.

grantor The creator of the trust relationship and generally the owner of the assets initially contributed to the trust. *Syn.* settlor; trustor.

grantor trust A term used in the Internal Revenue Code to describe any trust over which the grantor or other owner retains the power to control or direct the trust's income or assets.

gross domestic product (GDP) The total value of goods and services produced in a country during one year. It includes consumption, government purchases, investments, and exports minus imports.

gross margin The operating profit of a business prior to interest and taxes. It is computed by subtracting the cost of goods sold (COGS) from the company's sales (or revenues). *See also* margin of profit.

growth and income fund A mutual fund whose aim is to provide for a degree of both income and long-term growth.

growth fund A diversified common stock fund that has capital appreciation as its primary goal. It invests in companies that reinvest most of their earnings for expansion, research, or development.

growth industry An industry that is growing faster than the economy as a whole as a result of technological changes, new products, or changing consumer tastes.

growth stock A relatively speculative issue that is believed to offer significant potential for capital gains. It often pays low dividends and sells at a high price/earnings ratio.

growth-style investing A management style that attempts to find stocks with positive earnings momentum. *See* value style investing.

guaranteed bond A debt obligation issued with a promise from a corporation other than the issuing corporation to maintain payments of principal and interest.

guaranteed security The term *guaranteed* means guaranteed by a third party as to the payment of principal, interest, or dividends, but not capital gains.

guardian A fiduciary, generally appointed by a court, who manages the assets of a minor or incompetent for the benefit of that person. *See also* fiduciary.

head and shoulders On a technical analyst's trading chart, a pattern that has three peaks resembling a head and two shoulders. A head and shoulders typically indicates a market reversal.

hedge An investment made to reduce the risk of adverse price movements in a security. Derivatives are a common way to hedge.

hedge clause Any legend, clause, or other provision that is likely to lead an investor to believe that he has in any way waived any right of action he may have.

hedge fund A form of investment company that, as a regular policy, hedges its market commitments. It does this by holding securities it believes are likely to increase in value, and at the same time, is short other securities it believes are likely to decrease in value. The sole objective is capital appreciation. This type of fund is highly aggressive and generally available to sophisticated investors.

HFT *See* high-frequency trading.

high-frequency trading (HFT) Involves executing algorithmic, ultra-low-latency computerized trading strategies. *See* algorithmic trading.

high-yield bond A bond with a less-than-investment-grade rating. *Syn.* junk bond

high-yield security A debt security of lower-than-investment grade offering higher yields with greater risk.

holding company A company organized to invest in and manage other corporations. Control can occur through the ownership of 50% or more of the voting rights or through the exercise of a dominant influence.

home state If an investment adviser is registered with a state Administrator (state-registered adviser), the firm's home state is the state where it maintains its principal office and place of business.

HR-10 plan *See* Keogh plan.

hypothecation The practice of pledging securities as collateral for a loan. This is most commonly done when purchasing on margin. *See* margin account.

IAR *See* investment adviser representative.

identity theft A fraud committed or attempted using the identifying information of another person without authority.

immediate annuity An annuity contract that provides for monthly payments to begin immediately (generally in no more than 60 days) after deposit of the invested funds. *See also* deferred annuity.

impersonal investment advice Investment advisory services that do not purport to meet the objectives or needs of specific individuals or accounts.

indenture The agreement between a lender and a borrower that details specific terms of the bond issuance. The indenture specifies the legal obligations of the bond issuer and rights of the bondholders. *Syn.* deed of trust.

in-part call The redemption of a certain portion of a bond issue at the request of the issuer. *Syn.* Partial call. *See also* in-whole call.

in-the-money The term used to describe an option that has intrinsic value, such as a call option, when the stock is selling above the exercise price, or a put option, when the stock is selling below the exercise price. *See also* intrinsic value; out-of-the-money.

in-whole call The redemption of a bond issue in its entirety at the option of the issuer, as opposed to its redemption based on a lottery held by an independent trustee. *See also* in-part call.

income fund A mutual fund that seeks to provide stable current income by investing in securities that pay interest and/or dividends.

income statement A financial statement spanning a period showing the accounting profit or loss for the period.

index annuity An annuity product issued by an insurance company that provides for potential growth by tracking a specified index. It is not considered a security. *Syn.* equity index annuity; fixed index annuity.

index fund Investors who wish to invest passively can invest in an index mutual fund or ETF, which seeks to replicate the performance of a security market index such as the Standard & Poor's 500. Index funds have low operating expenses and low portfolio turnover.

indication of interest (IOI) An investor's expression of potential interest in buying a security currently in registration.

individual retirement account (IRA) A retirement investing tool for employed individuals that allows an annual contribution of 100% of earned income up to an indexed dollar maximum.

inflation A persistent and measurable rise in the general level of prices. *See* deflation.

inflation risk *See* purchasing power risk.

information barrier Policies and procedures created to prevent misuse of material nonpublic information (MNPI). Formerly referred to as Chinese walls. *Syn.* information walls.

initial margin requirement The amount of equity a customer must deposit when making a new purchase in a margin account. *See also* margin; margin call.

initial public offering (IPO) The first sale of common stock by a corporation to the public. *See also* public offering price.

injunction A court order requiring a person to do or omit doing a specific action.

inside information Material nonpublic information (MNPI) a person obtained or used for the purpose of trading in securities. *See also* material fact.

insider Any person who possesses or has access to material nonpublic information about a corporation. An insider includes directors, officers, and stockholders who own at least 10% of any class of equity security of a corporation.

Insider Trading Act *See* Insider Trading and Securities Fraud Enforcement Act of 1988.

Insider Trading and Securities Fraud Enforcement Act of 1988 Legislation that defines what constitutes the illicit use of nonpublic information in making securities trades and the liabilities and penalties that apply. *Syn.* Insider Trading Act. *See also* contemporaneous trader; insider.

institutional account Any account opened by a bank, savings and loan, insurance company, or registered investment company; an investment adviser registered either with the SEC or with a state; or any corporation, trust, natural person, etc., with total assets of at least \$50 million.

intangible asset A property owned that is not physical, such as a formula, a copyright, or goodwill. *See also* goodwill.

intangible drilling cost (IDC) In an oil and gas limited partnership, a tax-deductible cost. Usually this is for a nonphysical asset, such as labor or fuel, that does not depreciate. *Syn.* intangible drilling development expense.

intangible drilling development expense *See* intangible drilling cost.

interactive content Social media format in which content is supplied by both the creator and the viewer(s).

interest The charge for the privilege of borrowing money, usually expressed as an annual percentage rate.

interest rate risk The systematic risk associated with investments, relating to the sensitivity of price or value, to fluctuations at the current level of interest rates.

internal rate of return (IRR) A metric used to evaluate the attractiveness of a project or investment. The higher a project's IRR, the more appealing it is to undertake.

Internal Revenue Code (IRC) The legislation that defines tax liabilities and deductions for U.S. taxpayers.

Internal Revenue Service (IRS) The U.S. government agency responsible for collecting most federal taxes and for administering tax rules and regulations.

internet cookies A way for a broker-dealer to obtain nonpublic personal information about a customer that is permissible under Regulation S-P.

intestate An individual dying without a valid will. The state will appoint an administrator to handle the estate's affairs. *See* administrator; executor.

intrastate offering An issue of securities exempt from SEC registration that are available to companies that do business in one state only and sell their securities only to residents of that same state.

intrinsic value The potential profit to be made from exercising an option. A call option is said to have intrinsic value when the underlying stock is trading above the exercise price.

inverted yield curve A chart showing long-term debt instruments having lower yields than short-term debt instruments. *Syn.* negative yield curve. *See also* flat yield curve.

investment adviser Any person who, for compensation (a flat fee or a percentage of assets managed), is in the business of offering investment advice on securities.

investment adviser representative (IAR) Any partner, officer, director, or other individual employed by or associated with an investment adviser whose job function involves the rendering of advice, solicitation for clients, or supervision of those who do.

Investment Advisers Act of 1940 Federal legislation requiring certain investment advisers to register as such with the SEC.

investment company A company engaged in the business of pooling investors' money and investing and reinvesting in securities. Examples include face-amount certificate companies, unit investment trusts, and management companies.

Investment Company Act of 1940 Federal legislation setting forth the regulatory requirements for investment companies.

investment constraints Limitations or restrictions that can affect the ability of a client's portfolio to meet specified investment objectives.

investment counsel A term authorized for use by registered investment advisers whose principal business activity is the rendering of investment supervisory services.

investment grade The broad credit designation given to bonds that have a high probability of being paid and minor, if any, speculative features. Bonds rated BBB or higher by Standard and Poor's or Baa or higher by Moody's Investors Service are deemed by those agencies to be investment grade.

investment objective Any goal a client hopes to achieve through investing. Examples include current income, capital growth, and preservation of capital.

investment policy statement (IPS) Used by those advising employee benefit plans to set out the objectives, policies, criteria for investment selections, and monitoring procedures for the plan. May also be used with their clients by investment advisers to determine policies to be followed.

investment pyramid A portfolio strategy that allocates investable assets according to an investment's relative safety. The pyramid base is composed of low-risk investments, the middle portion is composed of growth investments, and the top is composed of speculative investments.

IPO *See* initial public offering.

IRA *See* individual retirement account.

IRA rollover The reinvestment of assets that an individual receives as a distribution from a qualified tax-deferred retirement plan into an individual retirement account.

IRA transfer The direct reinvestment of retirement assets from one qualified tax-deferred retirement plan to another, or to an individual retirement account, without ever passing through the investor's hands.

irrevocable trust A trust that cannot be altered or canceled by the grantor at any time.

IRS *See* Internal Revenue Service.

isolated nonissuer transaction An exempt transaction between individual investors, conducted privately.

issuer (1) The entity, such as a corporation or municipality, that offers or proposes to offer its securities for sale. (2) The creator of an option. The issuer of an over-the-counter option is the option writer, and the issuer of a listed option is the Options Clearing Corporation.

ITSFEA *See* Insider Trading and Securities Fraud Enforcement Act of 1988.

joint account An account in which two or more individuals possess some form of control over the account and may transact business in the account.

joint life with last survivor An annuity payout option that covers two or more people, with annuity payments continuing as long as one of the annuitants remains alive.

joint tenants with right of survivorship (JTWROS) A form of joint ownership of an account whereby a deceased tenant's fractional interest in the account passes to the surviving tenant(s). *See also* tenants in common.

JTWROS *See* joint tenants with right of survivorship.

Jumpstart Our Business Startups Act (JOBS act) The JOBS Act (2012) loosens some restrictions on small companies seeking to raise capital by offering securities to the public. It expanded the range of offerings that can be sold under Regulations A and D and provided rules for the use of crowdfunding in security offerings.

junk bond *See* high-yield bond.

Keogh plan A qualified tax-deferred retirement plan for persons who are self-employed. *Syn.* HR-10 plan. *See also* individual retirement account; nonqualified retirement plan; qualified retirement plan.

kiddie tax Any unearned income in excess of a designated amount (\$2,300 in 2022) received by a minor under age 19 (or 24 if full-time student) that is taxed to that minor, but at trust rates.

Know Your Customer Rule Regulation requires that every member must use reasonable diligence, in regard to the opening and maintenance of every account, to know (and retain) the essential facts concerning every customer and concerning the authority of each person acting on behalf of such customer.

laddering (1) An investing strategy for purchasing municipal bonds. A bond ladder is purchasing a series of bonds, each with a different interest rate and maturity date. When a rung of the ladder matures, the principal is reinvested into a new bond. (2) The violative promotion of inflated pre-IPO prices for the sake of obtaining a greater allotment of the offering. For instance, an underwriter pushes up the offering price of an IPO through promotion in order to please the issuer and receive a larger allotment in return. This is a prohibited practice.

large-cap A measurement of a stock's market capitalization. These stocks have a market cap in excess of \$10 billion.

last in, first out (LIFO) An accounting method used to assess a corporation's inventory in which it is assumed that the last goods acquired are the first to be sold. The method may also be used to determine cost basis for tax purposes. The IRS designates last in, first out as the order in which sales or withdrawals from an annuity are made.

LEAPS *See* Long-term Equity Anticipation Securities.

legend stock Private placement stock. Stock certificates are issued with a stamped notification that requires the fulfillment of a holding period before transfer. *Syn.* lettered stock; restricted security; Regulation D.

legislative risk The potential for an investor to be adversely affected by changes in investment or tax laws.

letter of intent (LOI) A nonbinding agreement between a purchaser of mutual funds and the fund underwriter that allows the investor up to 13 months to reach a specified dollar purchase. *See* breakpoint.

lettered stock Private placement stock. *See* legend stock.

level load A mutual fund sales fee charged annually based on the net asset value of a share. *See also* back-end load; Class C share; front-end load.

leverage Using borrowed capital to increase investment return.

liability A legal obligation to pay a debt. Current liabilities are debts payable within 12 months. Long-term liabilities are debts payable over a period of more than 12 months.

life annuity/straight annuity An annuity payout option that pays over the annuitant's lifetime.

life annuity with period certain An annuity payout option that guarantees the annuitant a monthly check for the longer of a certain period or until the annuitant's death. If the annuitant dies before the period expires, the payments go to the annuitant's named beneficiary for the duration of the certain period.

life settlement The sale of a life insurance policy in the secondary market. When the policy being sold is variable life, it is treated as the sale of a security subject to all federal and FINRA regulations.

LIFO *See* last in, first out.

limit order An order that instructs the trader to buy a specified security below a certain price or to sell a specified security above a certain price (e.g., "Buy 100 ABC at 120 or better [lower].") *Syn.* or better order. *See also* stop limit order; stop order.

limited liability An investor's right to limit potential losses to no more than the amount invested. Equity shareholders, such as corporate stockholders and limited partners, have limited liability.

limited liability company (LLC) A hybrid between a partnership and a corporation, in that it combines the pass-through treatment of a partnership with the limited liability accorded to corporate shareholders.

limited partner (LP) A passive investor in a direct participation program who does not participate in the management or control of the program and whose liability for partnership debts is limited to the amount invested in the program. *See also* general partner; participant.

limited partnership (LP) A business, formed by filing a partnership agreement with a state, that consists of a general partner and one or more limited partners.

limited power of attorney A legal authorization for someone other than the beneficial owner of an account to make investment decisions in the account.

liquidation priority In the case of a corporation's liquidation, the order that is followed for paying off creditors and stockholders.

liquidity The ease with which an asset can be converted to cash in the marketplace.

liquidity risk The potential that an investor might not be able to sell an investment when desired without adverse price disruption. *Syn.* marketability risk.

living trust A trust created during the lifetime of the grantor; also known as an *inter vivos* trust.

living will The legal document that lets people state their wishes for end-of-life medical care. *Syn.* health care directive; advance directive.

LLC *See* limited liability company.

loan consent agreement An optional contract between a brokerage firm and a margin customer that permits the firm to lend margin securities to other brokers. The contract is part of the margin agreement. *Syn.* consent to lend agreement.

long-term capital gain The profit earned on the sale of a capital asset that has been owned for more than 12 months. *See also* capital gain; capital loss; long-term capital loss; short-term capital gain.

long-term capital loss The loss realized on the sale of a capital asset that has been owned for more than 12 months. *See also* capital gain; capital loss; long-term capital gain; short-term capital loss.

Long-term Equity Anticipation Securities (LEAPS) Options that have the same characteristics as standard options, but with expiration dates up to three years in the future.

long-term equity option *See* Long-term Equity Anticipation Securities (LEAPS).

longevity annuity A deferred income annuity that generally does not begin payout until the age of 85. If a qualified longevity annuity contract (QLAC), exempt from RMDs for up to 15 years in a qualified retirement plans.

loss carryover A capital loss incurred in one tax year that is carried over to the next or later years for use as a capital loss deduction. *See also* capital loss.

low latency Very short time periods (microseconds) for investors to connect to exchanges and ECNs to effect transactions. The lower the latency, the greater the trading advantage for high-frequency traders using “no-touch” algorithmic trading tools with direct market access. *Syn.* ultra-low latency.

LP *See* limited partner; limited partnership.

M A letter designation often used to indicate thousands. For example, a transaction for “550M bonds” would involve bonds having a par value of \$550,000. Millions may be designated with “MM.”

make a market To stand ready to buy or sell a particular security as a dealer for its own account. *See also* market maker.

management company An investment company, either open-end or closed-end, that trades various types of securities under the direction of its portfolio manager, in accordance with specific objectives stated in the prospectus. *See* investment company.

margin The amount of equity contributed by a customer as a percentage of the current market value of the securities held in a margin account. *See also* equity; initial margin requirement; margin call; Regulation T.

margin account An account with a broker-dealer where the firm lends money to the client to purchase securities. *See* hypothecation.

margin account risk disclosure document Prior to or at the time of opening a margin account, broker-dealers must provide this document describing the risks inherent in trading on margin.

margin call The Federal Reserve Board’s demand that a customer deposit a specified amount of money or securities when a purchase is made in a margin account; the amount is expressed as a percentage of the market value of the securities at the time of purchase. The deposit must be made within one payment period. *Syn.* Fed call; federal call; federal margin; Reg T call; T call. *See also* initial margin requirement; margin.

margin maintenance call A demand that a margin customer deposit money or securities when the customer’s equity falls below the margin maintenance requirement set by the broker-dealer or FINRA. *Syn.* house maintenance call; maintenance call; FINRA maintenance call; minimum maintenance call.

margin of profit A measure of a corporation’s relative profitability. It is calculated by dividing the operating profit by the net sales. *Syn.* operating profit ratio; profit margin. *See also* gross margin.

marginal tax rate The rate of taxation on any additional taxable income received. It is sometimes referred to as the tax on the “next” dollar or the “last” dollar of income. *See* effective tax rate.

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

market capitalization The number of outstanding shares multiplied by the current market price. Classed as large-cap, mid-cap, small-cap, and micro-cap.

market maker A dealer willing to accept the risk of holding a particular security in its own account to facilitate trading in that security. *See also* make a market.

market order An order that is to be executed immediately at the best available price. A market order is the only order that guarantees execution. *Syn.* unrestricted order.

market risk The potential for an investor to experience losses owing to day-to-day fluctuations in the prices at which securities can be bought or sold. *See* systematic risk.

marketability The ease with which a security can be bought or sold; having a readily available market for trading.

marketability risk *See* liquidity risk.

markup (1) The profit made by a dealer when selling a security to a customer. Dealers purchase at one price and sell to their clients at a higher price. That difference is the markup. (2) The difference between the lowest current offering price among dealers and the higher price a dealer charges a customer. *See* markdown.

matched orders Simultaneously buying and selling a security to give its trading volume a falsely high appearance. This is a fraudulent practice under state and federal law.

material fact Information required to be included in a registration statement that a knowledgeable investor would deem significant in making an investment determination. *See* inside information.

material information Any fact that could affect an investor's decision to trade a security.

material nonpublic personal information (MNPI) Any personally identifiable financial information that is not publicly available.

maturity date The date on which a bond's principal is repaid to the investor and interest payments cease. *See* principal.

mean When referring to a series of values, such as portfolio returns, the average. A measure of central tendency known as the arithmetic mean.

median When viewing a series of values, such as portfolio returns, the number that has as many occurrences above as below. A measure of central tendency.

mid-cap Stocks with a market capitalization of \$2 billion to \$10 billion.

minimum death benefit The amount payable under a variable life insurance policy upon the policyowner's death, regardless of the separate account's investment performance. The insurance company guarantees the minimum amount.

mode When viewing a series of values, the one that occurs the most frequently. A measure of central tendency.

modern portfolio theory (MPT) A formal mathematical approach designed to reduce risk and increase performance of an investment portfolio by using different classes of securities that don't always move in the same direction at the same time.

money laundering The act of cleaning money from illegitimate enterprises through three stages known as placement, layering, and integration for the purpose of hiding the money's origin in anticipation of its later use for legitimate and illegitimate purposes.

money market The securities market that deals in short-term debt, such as debt maturing in less than one year (e.g. Treasury bills, commercial paper).

money market fund A mutual fund that invests in short-term debt instruments. The fund's objective is to earn interest while maintaining a stable net asset value of \$1 per share. Usually sold with no load, the fund may also offer check-writing privileges and low opening investments. *See also* mutual fund.

money market instruments Debt obligations that are traded in the money market and mature in a year or less.

Monte Carlo simulation A statistical method to determine the return profile of a security or portfolio that recreates potential outcomes by generating random values on the basis of the risk and return characteristics of the securities themselves.

Moody's Investors Service A nationally recognized statistical rating organization (NRSRO) by the Securities and Exchanges Commission. Moody's rates bonds, commercial paper, preferred and common stocks, and municipal short-term issues. *See* bond rating; Standard & Poor's Composite Index.

mortality guarantee The insurance company guarantee that an annuitant will receive payments for life. There is a charge made against the account as an operating expense to cover the cost of this guarantee. Mutual funds do not have a mortality guarantee.

mortgage bond A debt obligation secured by a property pledge. It represents a lien or mortgage against the issuing corporation's properties and real estate assets.

moving average chart A tool used by technical analysts to track the price movements of a commodity. It plots average daily settlement prices over a defined period (e.g., over three days for a three-day moving average).

MRD Minimum required distribution. *See* required minimum distribution.

municipal bond fund A mutual fund that invests in municipal bonds and operates as either a unit investment trust or an open-end fund, with the view to maximize federally tax-exempt income. *See also* mutual fund; unit investment trust.

municipal fund security A municipal security that, but for the application of Section 2(b) of the Investment Company Act of 1940, would constitute an investment company within the meaning of Section 3 of the Investment Company Act of 1940.

municipal security Debt security issued by a state or local government, or an authority other than the federal government, to raise money for a public project. Interest payable on these instruments may be free of federal income tax.

mutual fund An investment company that continuously offers new equity shares in an actively managed portfolio of securities. *Syn.* open-end investment company; open-end management company.

naked call writer *See* uncovered call writer.

NASAA *See* North American Securities Administrators Association.

National Conference of Commissioners on Uniform State Laws (NCCUSL) The NCCUSL, founded in 1892, is an organization composed of lawyers who draft and propose template state legislation where uniformity in law among the states is deemed to be desirable.

Nationally Recognized Statistical Rating Organization (NRSRO)

An SEC-registered credit rating organization that is permitted to perform credit assessments (e.g., Fitch Ratings, Moody's, Standard & Poor's).

National Securities Markets Improvement Act of 1996 (NSMIA)

Federal legislation designed to clarify the demarcation between federal and state securities law, as well as improve the efficiency of the securities markets in the United States by elimination of duplicate federal and state regulatory efforts.

NAV *See* net asset value.

NAV of fund The net total of a mutual fund's assets and liabilities. It is used to calculate the price of new fund shares.

NAV per share The value of a mutual fund share, calculated by dividing the fund's total net asset value by the number of shares outstanding.

negative yield curve *See* inverted yield curve.

negotiable certificate of deposit (CD) An unsecured promissory note issued with a minimum face value of \$100,000. It evidences a time deposit of funds with the issuing bank and is guaranteed by the bank. *Syn.* Jumbo CD.

net asset value (NAV) The daily computation of the value of a mutual fund that is reached by deducting the fund's liabilities from the closing market value of all of its shares and then dividing by the number of outstanding shares.

net capital The amount of cash and SEC-approved assets readily convertible into cash that a broker-dealer owns in excess of its liabilities; found in SEC Rule 15c3-1.

net investment income (NII) The source of an investment company's dividend payments.

net worth The amount by which assets exceed liabilities. *Syn.* owners' equity; shareholders' equity; stockholders' equity.

new account form The form that must be filled out for each new account opened with a brokerage firm. The form specifies, at a minimum, the account owner; trading authorization; payment and delivery method; and types of securities appropriate for the customer.

no-load The term used to describe a mutual fund whose shares are offered without a sales charge.

no-load fund A mutual fund whose shares are sold without a commission or sales charge. The investment company distributes the shares directly. *See also* mutual fund; net asset value; sales load.

nominal yield The interest rate stated on the face of a bond that represents the percentage of interest the issuer pays on the bond's face value. *Syn.* coupon rate; stated yield.

nonaccredited investor An investor not meeting the income or net worth requirements of Regulation D. Nonaccredited investors are counted for purposes of the 35-investor limitation for Regulation D private placements.

noncontributory pension plan A retirement plan to which only the employer makes contributions. *See* contributory plan.

noncumulative preferred stock An equity security that does not pay any dividends in arrears to the holder. *See also* convertible preferred stock; cumulative preferred stock; preferred stock.

nondiscrimination In a qualified retirement plan, a formula for calculating contributions and benefits that must be applied uniformly so as to ensure that all employees receive the same treatment. *See also* qualified retirement plan.

nonexempt security A security whose issue and sale must be in compliance with the Uniform Securities Act and/or the various federal securities acts, most notably the Securities Act of 1933. *See exempt security.*

nonissuer A person other than the issuer of a security.

nonissuer transaction A securities trade where the proceeds do not accrue to the issuer.

nonqualified annuity An annuity that does not qualify for tax deductibility of contributions under IRS codes.

nonqualified retirement plan A corporate retirement plan that does not meet the standards set by the Employee Retirement Income Security Act of 1974.

nonqualified stock option A type of employee stock option where the gain upon exercise is treated as ordinary income.

nonrecourse financing Debt incurred for a partnership that does not hold the limited partners personally liable. *See also* recourse financing.

nonsystematic risk Company-specific risk that can be reduced through diversification. *Syn.* unsystematic risk. *See* systematic risk.

North American Securities Administrators Association (NASAA) The body responsible for the Series 63, 65, and 66 exams, a voluntary association whose membership consists of 67 state, provincial, and territorial securities administrators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada, and Mexico.

notice filing (1) Method by which a registered investment company and certain other federal covered securities file records with state securities Administrators. (2) SEC-registered advisers (federal covered) may have to provide state securities authorities (the Administrator) with copies of documents that are filed with the SEC and pay a filing fee.

notice filing (state law) Under the Uniform Securities Act, the method used by federal covered securities and federal covered investment advisers to permit selling (securities) or doing business (advisers) in a specific state.

NSMIA *See* National Securities Markets Improvement Act of 1996.

OCC *See* Options Clearing Corporation.

ODD *See* options disclosure document.

odd-lot theory In technical analysis, a theory that assumes small investors are nearly always wrong. Therefore, if odd-lot sales are up, signifying that small investors are selling, it is a good time to buy.

offer (1) Under the Uniform Securities Act, any attempt to solicit a purchase or sale in a security for value. (2) An indication by an investor, trader, or dealer of a willingness to sell a security; the price at which an investor can buy from a broker-dealer. *See bid.*

OID *See* original issue discount bond.

oil and gas direct participation program A direct participation program formed to locate new oil and gas reserves, develop existing reserves, or generate income from producing wells. *Syn.* oil and gas limited partnership.

oil depletion allowance An accounting procedure that reduces the taxable portion of revenues from the sale of oil to compensate for the decreased supply of oil in the ground. Depletion is the natural resource counterpart of depreciation.

omitting prospectus SEC Rule 482 provides for a mutual fund to advertise performance figures but without providing the full disclosure of material facts found in a statutory prospectus.

open-end investment company *See* mutual fund.

optimal portfolio Portfolio under the modern portfolio theory that assumes investors seek a portfolio of assets that minimizes risks while offering the highest possible return.

option A contract that represents the right to buy or sell a security or futures contract at a specified price within a specified time. The purchaser acquires a right, and the seller assumes an obligation.

option agreement The document a customer must sign and return to the member within 15 days of being approved for options trading. In it, the customer agrees to abide by the rules of the options exchanges and not to exceed position or exercise limits.

Options Clearing Corporation (OCC) The organization that issues options, standardizes option contracts, and guarantees their performance.

options disclosure document A publication of the Options Clearing Corporation that outlines the risks and rewards of investing in options. The document must be given to each customer at the time of opening an options account and must accompany any options sales literature sent to a customer. *Syn.* OCC Disclosure Document.

order memorandum The form completed by a registered representative that contains customer instructions regarding the placement of an order. *Syn.* order ticket.

order ticket *See* order memorandum.

ordinary income Mainly wages, salaries, commissions, and interest income (as from bonds) taxed at the individual's marginal rate tax bracket.

original issue discount bond (OID) A debt security issued at a discount from face value. The discount on an OID bond is accreted annually for the purpose of calculating cost basis. *See also* zero-coupon bond.

out-of-the-money The term used to describe an option that has no intrinsic value (e.g., a call option when the stock is selling below the exercise price, or a put option when the stock is selling above the exercise price). *See also* in-the-money; intrinsic value.

overbought When the appetite for an asset pushes its price to levels not supported by the fundamentals.

oversold A technical analysis term for a market in which more and stronger selling has occurred than the fundamentals justify. *See also* overbought.

oversubscribed A new security issue where the demand for the shares greatly exceeds the available supply. The issues usually appreciate rapidly on the first day of trading, and failure to properly allocate them is a prohibited practice.

owners' equity *See* net worth.

P/E ratio *See* price-earnings ratio.

paid-in capital The money a corporation receives in excess of the stated value of the stock at the time of first sale.

painting the tape A prohibited practice that uses spurious trading in a particular security among a group of collaborating investors to create the illusion of activity in a security.

par value The dollar amount assigned to a security by the issuer. Par for common stock usually bears no relationship to the market price. Par for debt security is usually \$1,000, while par for preferred is usually \$100. *Syn.* face value; principal; stated value.

parity (convertible securities) When a convertible security (bond or preferred stock) is selling at the same price as the value of the converted common stock.

participant (1) A person who advises stockholders in a proxy contest. (2) The holder of an interest in a direct participation program. (3) An individual covered by an ERISA plan.

partnership A form of business organization requiring a minimum of two participants.

pass-through certificate A security representing an interest in a pool of conventional, Veterans Administration, Farmers Home Administration, or other agency mortgages. The pool receives the principal and interest payments, which it passes through to each certificate holder. *See* Federal National Mortgage Association; Government National Mortgage Association.

passive investment An interest in, for example, rental property, limited partnership, or other enterprise in which the individual is not actively involved. Passive income, therefore, does not include earnings from wages or active business participation, nor does it include income from dividends, interest, and capital gains. *See also* passive loss; unearned income.

passive loss A loss incurred through a rental property, limited partnership, or other enterprise in which the individual is not actively involved. These losses may be used to offset passive income only, not wage or portfolio income. *See also* passive income.

passive management style A cost-efficient management style based on buying a broad market index of stocks and holding it. *See* active management style.

payment date The day on which a declared dividend is paid to all stockholders owning shares on the record date. *See ex-date; record date.*

payroll deduction plan An employer's withholding of money for certain purposes, such as benefits and taxes, or for retirement plans, such as a payroll deduction IRA. These plans are not qualified under ERISA.

PE ratio *See* price-earnings ratio.

pecuniary Of or relating to money, such as operating for pecuniary profit.

pension plan A contract between an individual and an employer, labor union, government entity, or other institution that provides for the distribution of pension benefits at retirement.

Pension Reform Act *See* Employee Retirement Income Security Act of 1974.

performance-based fee An investment advisory fee based on a share of capital gains on, or capital appreciation of, client assets. This fee may only be charged to certain high-net-worth clients.

period certain annuity Settlement option that allows the annuitant to receive payments for life but also designates a minimum guaranteed period (e.g., 10 or 15 years) for which the annuitant will receive payments. If death occurs during this guaranteed period, then payments will continue for the remaining years of the period certain to a stated beneficiary.

person As defined in securities law, an individual, corporation, partnership, association, fund, joint stock company, unincorporated organization, trust, government, or political subdivision of a government.

pipeline theory *See* conduit theory.

point A measure of a securities price. (For example, a bond's price of 1 point is equal to 1% of the par value of \$1,000, or \$10. In stock, 1 point is \$1 per share.) *See also basis point.*

political risk The risk that an investment's returns could suffer as a result of political changes or instability in a country, such as from a change in government, nationalization of industries, military control, or tax codes.

POP *See* public offering price.

portfolio income Earnings from interest, dividends, and all nonbusiness investments. *See* earned income; unearned income.

portfolio manager The entity (i.e., the adviser) responsible for investing a mutual fund's assets, implementing its investment strategy, and managing day-to-day portfolio trading. *Syn.* fund manager.

position The amount of a security either owned (a long position) or owed (a short position) by an individual or a dealer.

positive yield curve *See* normal yield curve.

power of attorney (POA) A written authorization to represent or act on another's behalf.

preferred stock An equity security that represents nonvoting ownership in a corporation. Preferred stock is senior to common and junior to debt. *See also* callable preferred stock; convertible preferred stock; cumulative preferred stock.

preliminary prospectus An abbreviated prospectus that is distributed while the SEC is reviewing an issuer's registration statement. It contains all of the essential facts, but it does not contain pricing or the effective date.

premium (1) The amount of cash that an option buyer pays to an option seller. (2) The difference between the higher price paid for a debt security and the security's face amount at issue. *See also* discount.

premium bond A bond that sells at a higher price than its face value. *See* discount bond; par value.

preorganization certificate Agreement for the future purchase of the stock of a corporation when it is eventually incorporated.

prepaid tuition plans A type of 529 plan that allows contributors to purchase tuition credits or certificates at today's prices. Contributors bear no investment or inflation risk because the accounts are generally guaranteed to grow at a rate equal to college tuition increases.

present value The worth of a future payment or stream of payments in today's terms. It takes into account the time value of money by discounting the future value of an investment by an assumed compound interest rate.

price-earnings (P/E) ratio A tool for comparing the prices of different common stocks by dividing the current market price of the stock by the earnings per share.

primary distribution *See* primary offering.

primary offering An offering in which the proceeds of the underwriting go to the issuing corporation, agency, or municipality. The issuer seeks to increase its capitalization either by selling shares of stock, representing ownership, or selling bonds, representing loans to the issuer.

prime rate The interest rate that commercial banks charge their prime or most creditworthy customers—generally large corporations.

principal (1) A supervisory employee at a broker-dealer. (2) A party in a transaction who is trading for the party's own account.

principal office The firm's executive office from which the firm's officers, partners, or managers direct, control, and coordinate the activities of the firm. *Syn.* principal place of business.

principal transaction A transaction in which a broker-dealer either buys securities from customers and takes them into its own inventory or sells securities to customers from its inventory. *See also* agency transaction; agent; broker-dealer; principal.

private label CMO Collateralized mortgage obligations issued by investment banks or their subsidiaries, financial institutions, or home builders.

private placement An offering of new issue securities under Regulation D that is not available to the public as a whole, but rather to select investors. *See also* Regulation D.

private placement (federal) An offering of new issue securities that complies with Regulation D of the Securities Act of 1933. According to Regulation D, a security generally is not required to be registered with the SEC if it is offered to no more than 35 nonaccredited investors or to an unlimited number of accredited investors. *See* Regulation D.

private placement (state) The USA's private placement provision allows an exemption from full state registration for a security that is offered in that state to no more than 10 noninstitutional investors within a 12-month period.

probity Being morally and ethically above reproach; having integrity. A necessary trait for someone in this business.

profit-sharing plan An employee benefit plan established and maintained by an employer whereby the employees receive a share of the business's profits.

progressive tax A tax that takes a larger percentage of income from high-income earners than that of low-income earners (e.g., the graduated income tax). *See* regressive tax.

promissory note A financial instrument, included in the definition of a security, that contains a written promise by one party to pay another party a definite sum of money, either on demand or at a specified future date.

proscribed A term commonly used in legal situations to describe a prohibited action.

prospectus The disclosure document required in conjunction with primary securities offerings and commodity limited partnerships (pools) that must register with the Securities Exchange Commission (SEC). *See* preliminary prospectus; final prospectus.

prudent expert rule A modern application of the prudent man rule to those with a fiduciary responsibility over qualified plans coming under the jurisdiction of ERISA.

prudent investor rule Legally known as the Uniform Prudent Investors Act of 1994 (UPIA). A modern adaptation of the prudent man rule, which, as a result of the development of modern portfolio theory, applies the standard of prudence to the entire portfolio rather than to individual investments. It requires the fiduciary to measure risk with respect to return.

public offering price (POP) (1) The price of new shares that is established in the issuing corporation's prospectus. (2) The price to investors for mutual fund shares, equal to the net asset value plus the sales charge. *See also* ask; bid; mutual fund; net asset value.

publicly traded fund *See* closed-end investment company.

purchasing power risk The potential that, because of inflation, a certain amount of money will not purchase as much in the future as it does today. *Syn.* inflation risk.

put (1) An option contract giving the owner the right to sell a specified amount of an underlying security at a specified price within a specified time. (2) The act of exercising a put option. *See also* call.

put buyer An investor who pays a premium for an option contract and receives, for a specified time, the right to sell the underlying security at a specified price.

put writer An investor who receives a premium and takes on, for a specified time, the obligation to buy the underlying security at a specified price at the put buyer's discretion.

QTP *See* qualified tuition program.

qualification *See* registration by qualification.

qualified client Under both state and federal law, a client for whom an investment adviser may charge performance-based fees.

qualified dividends These dividends, if certain requirements are met, are taxed at a lower rate than an investor's marginal tax rate.

qualified domestic relations orders (QDROs) A court-issued order that gives someone the right to an individual's qualified plan assets, typically an ex- (or soon-to-be-ex-) spouse; the qualified domestic relations order, or QDRO, is usually issued during the course of divorce proceedings or to satisfy child support obligations. A QDRO applies only to assets in a qualified employer plan—it would not be applicable to an IRA or a SEP. Premature distributions that are taken pursuant to a QDRO are exempt from the 10% penalty.

qualified higher education expenses These include expenses for tuition, fees, books, supplies, and equipment, as well as room and board costs.

qualified longevity annuity contract (QLAC) When calculating required minimum distributions (RMDs) of qualified money, if certain limits prescribed by the IRS are met, RMDs do not have to include the value of these contracts until age 85.

qualified purchaser From the Investment Company Act of 1940, it means, in part, any natural person who owns \$5 million or more in securities. *See also* accredited investor.

qualified retirement plan A corporate retirement plan that meets the standards set by the Employee Retirement Income Security Act of 1974. Contributions to a qualified plan are tax deductible.

qualified tuition program The technical name for Section 529 Plans. *Syn.* QTP.

quick assets A measure of a corporation's liquidity that takes into account the size of the unsold inventory. It is calculated by subtracting inventory from current assets, and it is used in the acid-test ratio. *See also* acid-test ratio.

quick ratio *See* acid-test ratio.

quotation The price being offered or bid by a market maker or broker-dealer for a particular security. *Syn.* quote. *See also* ask; bid; bond quote.

quote *See* quotation.

random walk theory A market analysis theory that the past movement or direction of the price of a stock or market cannot be used to predict its future movement or direction.

range A security's low price and high price for a particular trading period, such as the close of a day's trading; the opening of a day's trading; or a day, month, or year. *Syn.* opening range; trading range.

rating An evaluation of a corporate or municipal bond's relative safety, according to the issuer's ability to repay principal and make interest payments. Bonds are rated by various organizations such as Standard & Poor's and Moody's. Ratings range from AAA or Aaa (the highest) to C or D (company in default).

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

raw land program A real estate direct participation program that aims to provide capital appreciation by investing in undeveloped land.

real estate investment trust (REIT) A corporation or trust that uses the pooled capital of many investors to invest in direct ownership of either income property or mortgage loans. REITs that are traded on exchanges or OTC are considered very liquid. Real estate is not.

real estate limited partnership A direct participation program formed to build new structures, generate income from existing property, or profit from the capital appreciation of undeveloped land.

realized gain The amount earned by a taxpayer when an asset is sold for a profit. *See also* unrealized gain.

recapture The taxation as ordinary income of previously earned deductions or credits. Circumstances that may cause the IRS to require this tax to be paid include excess depreciation, premature sale of an asset, or disallowing of a previous tax benefit.

record date The date a corporation's board of directors establishes that determines which of its stockholders are entitled to receive dividends or rights distributions.

recourse financing (loan) Debt incurred for the purchase of an asset and that which holds the borrower personally liable for the debt. *See also* nonrecourse financing.

red flags Term used to describe potential warnings about an investment. Examples of red flags are promises of high returns with low risk and “don’t miss this opportunity; get in now.” The term is also used in conjunction with protecting against identity theft.

red herring *See* preliminary prospectus.

redeemable security A security that the issuer redeems upon the holder’s request. Examples include shares in a mutual fund.

Reg T *See* Regulation T.

Reg T call *See* margin call.

registered investment company An investment company, such as an open-end management company (mutual fund) or closed-end management company, that is registered with the SEC.

registration by coordination A security is eligible for blue-sky registration by coordination in a state if the issuer files for registration of that security under the Securities Act of 1933 and files duplicates of the registration documents with the state Administrator.

registration by qualification A security is eligible for blue-sky registration by qualification in a state if all of the offering is to be sold in a single state or if the security is not eligible for another method of state registration.

registration statement Before nonexempt securities can be offered to the public, they require registration under the Securities Act of 1933 and/or the Uniform Securities Act. The registration statement must disclose all pertinent information concerning the issuer and the offering. This statement is submitted to the SEC and/or administrator in accordance with the requirements of their respective laws. If the securities are to be sold in only one state, by qualification, only that state’s registration requirements apply.

regressive tax A tax that takes a larger percentage of the income of low-income earners than that of high-income earners. Examples include gasoline and cigarette tax.

regular way settlement The time when standard securities transactions are settled. The Uniform Practice Code sets the standard payment period. The type of security being traded determines the amount of time allowed for regular way settlement. *See also* settlement date.

regulated investment company An investment company to which Subchapter M of the Internal Revenue Code grants special status that allows the flow-through of tax consequences on a distribution to shareholders.

Regulation D The provision of the Securities Act of 1933 that exempts from registration offerings sold in private placements. *See* private placement.

Regulation S-P An SEC regulation covering privacy rules promulgated under the Gramm-Leach-Bliley Act. A broker-dealer must provide customers with a notice of its privacy policies and practices and must not disclose nonpublic personal information about a consumer to nonaffiliated third parties unless it provides certain information to the consumer and the consumer has not opted out of the disclosure. Rigorous standards to protect privacy are also required under the regulation.

Regulation T The Federal Reserve Board regulation that governs customer cash accounts and the amount of credit that brokerage firms and dealers may extend to customers for the purchase of securities. Regulation T currently sets the loan value of marginable securities at 50% and the payment deadline at two days beyond regular way settlement. *Syn.* Reg T.

regulatory risk The risk that changes in regulations may negatively affect the operations of a company.

reinvestment risk The potential that a bond investor may not be able to reinvest interest income or principal in new bonds at the same rate of return.

REIT *See* real estate investment trust.

remainderman A person who inherits, or is entitled under the law to inherit, property upon termination of the estate of the former owner. Usually, this occurs due to the death or termination of the former owner’s life estate.

remuneration Money paid for work performed or a service provided.

required minimum distribution (RMD) The amount that traditional and SEP IRA owners and qualified plan participants must begin withdrawing from their retirement accounts by April 1 following the year they reach age 73. Exceptions apply to those covered under a qualified plan who are still employed. RMD amounts must then be distributed by December 31 that year and each subsequent year.

rescission Buying back from the customer a security that was inadvertently sold unlawfully. The price is generally the customer's purchase price plus the state's legal rate of interest, less any income received. The customer has 30 days to accept or reject the offer.

resistance A term by technical analysts indicating a price area higher than the current stock price where an abundance of supply exists for the stock and, therefore, the stock may have trouble rising through the price.

resistance level A technical analysis term describing the top of a stock's historical trading range. *See also* breakout; support level.

retail investor Any person other than an institutional investor, regardless of whether the person who has an account with the firm is considered a retail investor.

retained earnings The amount of a corporation's net income that remains after all dividends have been paid to preferred and common stockholders. *Syn.* earned surplus; reinvested earnings.

retirement account A customer account established to provide retirement funds.

return (on investment) The percentage of profit that an investor makes, or might make, on his capital investment.

reverse split A reduction in the number of a corporation's shares outstanding that increases the par value of its stock or its earnings per share. The market value of the total number of shares remains the same. *See also* stock split.

revocable trust A trust that can be altered or canceled by the grantor. During the life of the trust, income earned is distributed to the grantor, and only after death does property transfer to the beneficiaries.

right (1) A legal guarantee. (2) A security representing a stockholder's entitlement to the first opportunity to purchase new shares issued by the corporation at a predetermined price (normally less than the current market price) in proportion to the number of shares already owned. Rights are issued for a short time only, after which they expire. *Syn.* subscription right; subscription right certificate.

right of accumulation A benefit offered by a mutual fund that allows the investor to qualify for reduced sales loads on additional purchases according to the fund account's total dollar value.

risk The possibility that an actual return on an investment will be lower than the expected return.

risk premium The amount in excess of the risk-free rate demanded by investors to compensate for the additional risks inherent in the specific security being described.

risk tolerance An investor's ability and willingness to lose some or all of the original investment in exchange for greater potential returns. An aggressive investor, or one with a high risk tolerance, is more likely to risk losing money in order to get better results. A conservative investor, or one with a low risk tolerance, tends to favor investments that will preserve the original investment.

risk-adjusted return Return from a security adjusted for the market risk associated with it. Usually measured by the Sharpe Ratio.

risk-free rate Generally refers to the interest rate of 91-day U.S. Treasury bills.

RMD *See* required minimum distribution.

rollover The transfer of funds from one qualified retirement plan to another. If this is not done within a specified time period, the funds are taxed as ordinary income.

Roth 401(k) Plan A retirement plan that combines the characteristics of a Roth IRA with a corporate 401(k) plan.

Roth IRA Allows taxpayers—subject to certain income limits—to save money for use in retirement while allowing the savings to grow tax deferred, with qualifying distributions being tax free.

Rule 144 SEC rule that sets the requirements for selling or purchasing restricted, unregistered, or control securities.

Rule 147 SEC rule that provides exemption from the registration statement and prospectus requirements of the Securities Act of 1933 for securities offered and sold exclusively intrastate.

Rule 147A SEC rule that provides an exemption from registration. It is nearly identical to Rule 147 except that it permits offerings to be available to out-of-state residents, and companies may be incorporated out of state.

S corporation A small business corporation that meets certain requirements and is taxed as a partnership while retaining limited liability.

SIMPLE Plan *See* Savings Incentive Match Plan for Employees.

S&P 500 *See* Standard & Poor's Composite Index of 500 Stocks.

safe harbor A provision in a regulatory scheme that provides protection against legal action if stated procedures are followed. *See* Section 28(e); top-heavy.

sale To convey ownership of a security or another asset for money or value.

sales charge The term used to describe the cost involved in purchasing an open-end investment company. It is the difference between the public offering price (POP) and the net asset value (NAV). *Syn.* sales load; load.

sales load The amount added to a mutual fund share's net asset value to arrive at the offering price. *See also* mutual fund; net asset value; no-load fund.

Savings Incentive Match Plan for Employees (SIMPLE) A form of employer-sponsored IRA for businesses that have 100 or fewer employees who earned \$5,000 or more during the preceding calendar year.

Schedule K-1 The form supplied by a partnership, LLC, or S corporation to owners indicating their proportionate share of income/loss to be reported on their Form 1040 tax returns.

scheduled premium variable life A variable life insurance policy under which the insurer fixes both the amount and the timing of the premium payments.

SEC *See* Securities and Exchange Commission.

secondary distribution (offering) (1) A distribution, with a prospectus, that involves securities owned by major stockholders (typically founders or principal owners of a corporation). The sale proceeds go to the sellers of the stock, not to the issuer. *Syn.* registered secondary distribution. (2) A procedure for trading very large blocks of stock shares whereby the trade is executed off the floor of an exchange after the market closes.

secondary market An aftermarket where investors buy and sell to each other apart from the issuer. Exchanges, such as Nasdaq, NYSE, and NYSE American, facilitate the secondary market.

Section 1035 exchange A provision of the Internal Revenue Code that permits the cash values of insurance policies or annuities to be exchanged for a different policy or annuity issued by the same or different insurance company without current taxation.

Section 28(e) A code section of the Securities Exchange Act of 1934 that deals with soft-dollar compensation. *See* soft-dollar compensation.

Section 457 plan A deferred compensation plan set up under Section 457 of the tax code that may be used by employees of a state, political subdivision of a state, or any agency or instrumentality of a state, and employees of certain tax-exempt organizations.

Section 529 plan A state-sponsored plan to save for education. Contributions are made with after-tax dollars and grow tax deferred. If the money is used for qualified education expenses, withdrawals are tax free. Under securities laws, these plans are structured as municipal fund securities and, therefore, require supervision by a principal with either a Series 51 or Series 53 registration by an MSRB-registered broker-dealer.

sector fund A mutual fund whose investment objective is to capitalize on the return potential provided by investing primarily in a particular industry or sector of the economy. *Syn.* industry fund; specialized fund.

sector rotation An active portfolio management technique that attempts to take advantage of the fact that different sectors of the economy rise and fall in the business cycle at different times. *Syn.* sector rotating. *See* active management style.

Securities Act of 1933 Federal legislation requiring the full and fair disclosure of all material information about the issuance of new securities. *Syn.* Act of 1933; Full Disclosure Act; New Issues Act; Prospectus Act; Trust in Securities Act; Truth in Securities Act.

Securities and Exchange Commission (SEC) Commission created by Congress to regulate the securities markets and protect investors. The SEC enforces, among other acts, the Securities Act of 1933, the Securities Exchange Act of 1934, the Trust Indenture Act of 1939, the Investment Company Act of 1940, and the Investment Advisers Act of 1940.

Securities Exchange Act of 1934 Federal legislation that established the Securities and Exchange Commission and aims to protect investors by regulating exchanges, over-the-counter market, extension of credit by the Federal Reserve Board, broker-dealers, insider transactions, trading activities, client accounts, and net capital. *Syn.* Act of 1934; Exchange Act.

security Generally, a negotiable instrument evidencing debt of, or equity in, a common enterprise in which an investment is made with the expectation of financial return.

security market index Used to represent the performance of an asset class, security market, or segment of a market. Popular examples are the S&P 500 and the Russell 2000.

self-employed 401(k) plan (solo 401(k)) A 401(k) plan for self-employed persons who have no other business plan in place and whose only full-time employees are the proprietor and spouse.

self-regulatory organization (SRO) An organization accountable to the SEC for the enforcement of federal securities laws and the supervision of securities practices within an assigned field of jurisdiction.

sell The act of conveying ownership of a security or other property for money or other value; every contract to sell a security or an interest in a security.

sell stop order An order to sell a security that is entered at a price below the current market price and triggered when the market price touches or goes through the sell stop price.

selling short A bearish investment strategy where an investor borrows and then sells a security she does not own, with the anticipation that the security's price will decline, replacing the security at a lower price.

senior security A security that grants its holder a prior claim to the issuer's assets over the claims of another security's holders.

SEP-IRA *See* simplified employee pension plan.

separate account The account that holds funds paid by variable contracts issued by insurance companies. The funds are kept separate from the insurer's general account.

Series 66 The Uniform Combined State Law Exam, which, when passed in conjunction with the Series 7 exam, entitles the successful candidate to act as an agent for a broker-dealer and function as an investment adviser representative of a registered investment adviser.

settlement The completion of a trade through the delivery of a security or commodity and the payment of cash or other consideration.

settlement date The business day on which delivery of a security and payment of money is to be made through the facilities of a registered clearing agency in connection with the sale of a security. Settlement provisions are standardized by the Uniform Practice Code.

settlement option (variable or fixed annuity) The annuitization selection made by a holder of an annuity.

settlor An individual or organization that gifts assets to a beneficiary by transferring fiduciary duty to a third-party trustee that will maintain the assets for the benefit of the beneficiaries. *Syn.* grantor, trustor.

share identification An accounting method that identifies the specific shares selected for liquidation in the event an investor wishes to liquidate shares.

shareholders' equity *See* net worth.

Sharpe ratio The ratio that measures the risk-adjusted return of an investment.

short sale The sale of a security that the seller does not own, or any sale consummated by the delivery of a security borrowed by or for the account of the seller.

short-interest theory A technical analysis theory that examines the ratio of short sales to volume in a stock. Because the underlying stock must be purchased to close out the short positions, a high ratio is considered bullish.

short-term capital gain The profit realized on the sale of an asset that has been owned for 12 months or less. *See also* capital gain; capital loss; short-term capital loss.

short-term capital loss The loss incurred on the sale of a capital asset that has been owned for 12 months or less. *See also* capital gain; capital loss; short-term capital gain.

side-by-side management The practice of managing accounts that are charged performance-based fees while at the same time managing accounts that are not charged performance-based fees.

simple trust A trust that accumulates income and distributes it to its beneficiaries on an annual basis. *See also* complex trust.

simplified employee pension plan (SEP) A qualified retirement plan allowing employers to contribute to traditional IRAs (SEP-IRAs) set up for employees.

single payment deferred annuity Method of purchasing an annuity in which the annuitant deposits one lump sum of money into the account and elects to have the money remain in the account and accrue tax deferred until the annuitant elects to begin the payout phase at a later time (deferred).

single payment immediate annuity A method of purchasing an annuity in which the annuitant deposits one lump sum of money into the account and elects to begin the payout phase immediately.

small-cap A market capitalization range from \$300 million to \$2 billion.

social media The collective online communications channels dedicated to community-based input, interaction, contentsharing, and collaboration.

soft-dollar compensation Noncash compensation received by an investment adviser from a broker-dealer, generally in exchange for directed brokerage transactions. *See* safe harbor.

solicited order An order resulting from a broker-dealer recommendation. The resulting trade must be suitable for the investor.

solicited trade A trade that originates from, and is initiated by, a registered representative (recommending a securities transaction to a customer).

solicitor A person either contracted or employed by an investment adviser for the purpose of bringing in advisory business.

solvency The ability of a corporation to both meet its long-term fixed expenses and have adequate money for long-term expansion and growth.

special situation fund A mutual fund whose objective is to capitalize on the profit potential of corporations in nonrecurring circumstances, such as those undergoing reorganizations or being considered as takeover candidates.

specialist An NYSE American Exchange member who stands ready to provide automatically updated two-sided market quotations with size in all the appointed option series. The specialist's role is to maintain a fair, orderly, and competitive market. Formerly used on the NYSE. *Syn.* Specialist; specialist unit.

specialized fund *See* sector fund.

speculation Trading a commodity with a higher-than-average risk in return for a higher-than-average profit potential. The trade is effected solely for the purpose of profiting from it and not as a means of hedging or protecting other positions.

speculator One who trades a commodity or security with a higher-than-average risk in return for a higher-than-average profit potential. *See also* speculation.

sponsor (1) A person who is instrumental in organizing, selling, or managing a limited partnership. (2) A term for the underwriter of a mutual fund. Another is *distributor*.

spoofing Bidding or offering with the intent to cancel the bid or offer before execution.

spousal IRA A separate individual retirement account established for a spouse with little or no earned income. Contributions to the account made by the working spouse grow tax deferred until withdrawal.

spread (1) In a quotation, the difference between the bid and the ask prices. (2) An options position established by purchasing one option and selling another option of the same class but of a different series. (3) The price difference between two futures contracts. It involves holding a long and a short position in two or more related futures contracts, with the objective of profiting from a change in the price relationship.

SRO *See* self-regulatory organization.

stagflation A period of high unemployment in the economy accompanied by a general rise in prices. *See also* deflation; inflation.

Standard & Poor's Composite Index of 500 Stocks (S&P 500) (SPX) A market-value-weighted index that offers broad coverage of the securities market. It is composed of 400 industrial stocks, 40 financial stocks, 40 public utility stocks, and 20 transportation stocks. The index is owned and compiled by Standard & Poor's Corporation. *See also* index.

standard deviation A measurement of a security's or a portfolio's total risk. The greater the standard deviation, the more the security's returns deviate from its average return, hence indicating greater volatility. *See* total risk.

statement of intention *See* letter of intent.

static content Social media content that rarely changes and can only be changed by the author of the content; e.g. an investment adviser's website.

statutory disqualification A person may be subject to a statutory disqualification (not permitted to work in the securities industry) if the person is enjoined temporarily or permanently from violating securities laws by a court of competent jurisdiction; is barred or suspended from association with a broker-dealer by the SEC, the Commodities Futures Trading Commission (CFTC), a self-regulatory organization (SRO), or foreign equivalent; or has been convicted of any felony or certain misdemeanors within the past 10 years. *See* Securities Exchange Act of 1934.

stock dividend *See* dividend.

stock exchange Any organization, association, or group of persons that maintains or provides a marketplace in which securities can be bought and sold. Examples include the New York Stock Exchange (NYSE), the London Stock Exchange (LSE), and the Tokyo Stock Exchange (TSE).

stock split An increase in the number of a corporation's outstanding shares, which decreases its stock's par value. The market value of the total number of shares remains the same.

stockholders' equity *See* net worth.

stop (stop loss) order A customer order that becomes a market order when the market price of the security reaches or passes a specific price. *See also* limit order; market order; stop limit order.

stop limit order A customer order that becomes a limit order when the market price of the security reaches or passes a specific price. *See also* limit order; stop order.

stop order (1) A directive from the SEC or the Administrator that suspends the sale of new issue securities to the public when fraud is suspected or filing materials are deficient. (2) A customer order that becomes a market order when the market price of the security reaches or passes a specific price. *See also* limit order; market order; stop limit order.

street name The security registered in the name of the broker-dealer on the issuer's books where the firm holds the security for clients in *book-entry* form. A book-entry is a record in the broker-dealer's books showing who owns the security. A stock or bond certificate is not delivered.

Subchapter M The section of the Internal Revenue Code that provides special tax treatment for regulated investment companies.

subordinated debenture A debt obligation backed by the good faith and credit of the issuing corporation that has claims to interest and principal subordinated to ordinary debentures and all other liabilities. *See also* debenture.

subscription agreement A statement signed by an investor indicating an offer to buy an interest in a direct participation program. In the statement, the investor agrees to grant power of attorney to the general partner and abide by the limited partnership agreement. The sale is finalized when the subscription agreement is signed by the general partner.

subscription right *See* right.

successor firm An entity that acquires the business of an existing broker-dealer or investment adviser.

suitability A determination made by a registered representative as to whether a particular security matches a customer's objectives and financial capability. The representative must have enough information about each customer to make a reasonable judgment.

suitable transaction A transaction that meets or takes into account the investment needs of the customer. All solicited transactions must be suitable. *See* suitability.

supervision A system implemented by a broker-dealer to ensure its employees and associated persons comply with the applicable securities laws, rules, and regulations.

support level A technical analysis term describing the bottom of a stock's historical trading range. *See also* breakout; resistance level.

surety bond A bond required for many employees, officers, and partners of broker-dealers and investment advisers to protect clients against acts of misplacement, fraudulent trading, and check forgery.

systematic risk The potential for a security to decrease in value, owing to its inherent tendency to move together with all securities of the same type. Neither diversification nor any other investment strategy can eliminate this risk. *See also* market risk.

T-bill *See* Treasury bill.

T-bond *See* Treasury bond.

T-call *See* Regulation T; margin call.

T-note *See* Treasury note.

tax basis *See* cost basis.

tax bracket A point on the income-tax rate schedule. *Syn.* marginal tax bracket.

tax credit An amount that can be subtracted from a tax liability, often in connection with real estate development, energy conservation, and research and development programs. Every dollar of tax credit reduces the amount of tax due, dollar for dollar. *See also* deduction.

tax-deferred annuity *See* tax-sheltered annuity.

tax-free bond fund A mutual fund whose investment objective is to provide maximum tax-free income. It invests primarily in tax-free municipal debt.

tax-exempt bond fund *See* tax-exempt bond fund.

tax-sheltered annuity (TSA) An insurance contract that entitles the holder to exclude all contributions from gross income in the year they are made. Tax payable on the earnings is deferred until retirement. *Syn.* tax-deferred annuity.

Taxpayer Identification Number (TIN) A unique nine-digit number assigned by the IRS to a business or an individual. An Employer Identification Number (EIN) is used to identify a business, while a Social Security Number (SSN) or an Individual Taxpayer Identification Number (ITIN) is used to identify an individual.

technical analysis A method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value. *See also* fundamental analysis.

tenants in common (TIC) A form of joint ownership of an account whereby a deceased tenant's fractional interest in the account is retained by his estate. *See* joint tenants with right of survivorship.

testamentary trust A trust created as a result of instructions from a deceased's last will and testament.

testimonial An endorsement of an investment or service by a celebrity or public opinion influencer.

theta The rate of decay in an option's time value is called theta.

thinly traded A security with a low trading volume, usually traded in the OTC market, with a wide spread between the quoted bid and ask prices or higher than usual commissions.

TIC *See* tenants in common.

time horizon The expected number of months, years, or decades over which the investments will be made to achieve a particular financial goal.

timing risk The potential for an investor to incur a loss as a result of buying or selling a particular security at an unfavorable time.

TIN (Taxpayer Identification number) *See* Taxpayer Identification number (TIN)

tippee Term used in the Insider Trading and Securities Fraud Enforcement Act of 1988 (ITSFEA) to describe the person receiving material nonpublic information from an insider or other tipper.

tipper Term used in the Insider Trading and Securities Fraud Enforcement Act of 1988 (ITSFEA) to describe the individual responsible for disseminating material nonpublic information.

TOD account *See* transfer on death.

tombstone A printed advertisement that solicits indications of interest in a securities offering. The text is limited to basic information about the offering, such as the name of the issuer, type of security, names of the underwriters, and where a prospectus is available. *See* omitting prospectus.

top-down Top-down analysis is a method of choosing investments beginning with the broad economy and narrowing down to the specific security.

top-heavy The term used to describe a 401(k) plan that offers a disproportionate benefit to key employees. Top-heavy testing must be done on an annual basis unless the plan qualifies as a safe harbor 401(k). *See* safe harbor.

total capitalization The sum of a corporation's long-term debt, stock accounts, and capital in excess of par.

total risk As measured by standard deviation, can be broken down into its component parts: unsystematic risk and systematic risk. That is, total risk equals systematic risk plus unsystematic risk.

trade blotter *See* blotter.

trade confirmation A printed document that contains details of a transaction, including the settlement date and amount of money due from or owed to a customer.

trade date The date on which a securities transaction is executed.

traditional IRA A retirement plan available to any individual with earned income.

transfer agent A trust or bank engaged by a company to maintain records of investors.

transfer on death A type of individual (or JTWRROS) account registration where the account holder designates a specific beneficiary or beneficiaries to receive the assets in the account upon the holder's death. No special legal documentation is necessary, and the assets pass without going through probate. *Syn.* TOD.

Treasury bill A marketable U.S. government debt security with a maturity of 52 weeks or less. *Syn.* T bill.

Treasury bond A marketable, fixed-interest U.S. government debt security with a maturity of more than 10 years.

Treasury note A marketable, fixed-interest U.S. government debt security with a maturity of between 2 and 10 years. *Syn.* T-note.

trendline A tool used by technical analysts to trace a security's movement by connecting the reaction lows in an upward trend or the rally highs in a downward trend.

trustee (1) A person legally appointed to act as a fiduciary and make decisions in the best interests of the beneficiary. (2) A bank designated by an issuer of municipal debt as the custodian of funds and representative of bondholders appointed to ensure compliance with the bond contract.

trustor An individual or organization that gifts assets to a beneficiary by transferring fiduciary duty to a third-party trustee that will maintain the assets for the benefit of the beneficiaries. *Syn.* settlor, grantor.

TSA *See* tax-sheltered annuity.

UGMA *See* Uniform Gifts to Minors Act.

UIT *See* unit investment trust.

uncovered call writer An investor who writes a call option without owning the underlying stock or other related assets that would enable the investor to deliver the stock, should the option be exercised. *Syn.* naked call writer.

underwriter An investment banker who works with an issuer to help bring a security to the market and sell it to the public.

underwriting The procedure by which investment bankers channel investment capital from investors to corporations and municipalities that are issuing securities.

unearned income Income derived from investments and other sources not related to employment services. Examples of unearned income include interest from a savings account, bond interest, and dividends from stock. *See also* earned income; passive income; portfolio income.

unethical trading practices The use of any manipulative, fraudulent, or deceptive activity in selling securities. *See* front running; painting the tape.

Uniform Gifts to Minors Act (UGMA) Legislation that permits a gift of money or securities to be given to a minor and held in a custodial account that an adult manages for the minor's benefit. Income and capital gains transferred to a minor's name are usually taxed at the minor's rate. However, if the child is under a specified age and has unearned income above a certain level, those earnings are taxed at the parent's rate. *See* Uniform Transfers to Minors Act.

Uniform Prudent Investors Act (UPIA) A modern adaptation of the prudent man rule, which, as a result of the development of modern portfolio theory, applies the standard of prudence to the entire portfolio rather than to individual investments. It requires the fiduciary to measure risk with respect to return.

Uniform Securities Act (USA) Template legislation written by the NCCUSL to serve as the basis for a state's securities legislation if the state wished to adopt it. It regulates securities, persons (broker-dealers and their agents and investment advisers and their representatives), and transactions in the securities markets within the state.

Uniform Transfers to Minors Act (UTMA) Legislation adopted in most states that permits a gift of money or securities to be given to a minor and held in a custodial account that an adult manages for the minor's benefit until the minor reaches a certain age (not necessarily the age of majority). *See* Uniform Gift to Minors Act.

unit investment trust (UIT) An investment company that sells redeemable shares in a professionally selected portfolio of securities. *See* unit of beneficial interest.

unit of beneficial interest A redeemable share in a unit investment trust, representing ownership of an undivided interest in the underlying portfolio. *Syn.* share of beneficial interest. *See also* unit investment trust.

unit refund annuity An annuity payout option that guarantees that all of the money in the contract (at minimum) at the time of annuitization is distributed to the annuitant/beneficiary.

universal variable life A form of life insurance that has flexible premiums and cash values that are tied to securities. An insurance and securities license is required to present these policies.

unrealized gain The amount by which a security appreciates in value before it is sold. Until it is sold, the investor does not actually possess the proceeds of the sale. *See also* realized gain.

unsolicited trade A trade that originates from and is initiated by the customer.

unsuitable transaction A transaction that does not meet the investment needs of the customer. An example is the purchase of a municipal bond for a low-income customer seeking growth.

unsystematic risk The potential for an unforeseen event to affect the value of a specific investment. Examples of such events include strikes, natural disasters, poor management decisions, introductions of new product lines, and attempted takeovers. *Syn.* nonsystematic risk. *See* systematic risk.

U.S. government and agency bond fund A mutual fund whose investment objective is to provide current income while preserving safety of capital through investing in securities backed by the U.S. Treasury or issued by a government agency.

USA *See* Uniform Securities Act.

USA PATRIOT Act of 2001 Stands for Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act. Congress enacted the USA PATRIOT Act to arm law enforcement with new tools to detect and prevent terrorism.

UTMA *See* Uniform Transfers to Minors Act.

UVL *See* universal variable life.

vacate When used in a legal context (such as on this exam), it means to cancel or annul a judgment or penalty.

value fund A fund and management style that focuses on undervalued companies.

value style investing A management style that looks for stocks that have solid underlying fundamentals and are currently selling at distressed prices.

variable annuity An insurance contract used to fund retirement. Cash values vary with the performance of a portfolio of investments. An insurance and securities license is required to present variable contracts.

variable death benefit The amount paid to a decedent's beneficiary that depends on the investment performance of an insurance company's separate account. The amount is added to any guaranteed minimum death benefit.

variable life insurance Provides death benefits and cash values that vary with the performance of a portfolio of investments. An insurance and securities license is required to present variable contracts.

vega Vega is the measurement of the change in the price of an option to a 1% change in the implied volatility of the underlying asset.

vesting (1) An ERISA guideline stipulating that an employee must be entitled to all his retirement benefits within a certain period of time, even if he no longer works for the employer. (2) The amount of time that an employee must work before retirement or before benefit plan contributions made by the employer become the employee's property without penalty.

VL *See* variable life insurance.

volatility The magnitude and frequency of changes in the price of a security or commodity within a given time period.

volume The amount of trading activity, expressed in shares or dollars, experienced by a single security or the entire market within a specified period, usually daily, monthly, or annually.

warrant (1) A security that gives the holder the right to purchase securities from the warrant issuer at a stipulated subscription price. Warrants are usually long-term instruments with expiration dates years in the future. (2) A debt security, usually a small amount, issued in certain municipal jurisdictions to pay project costs as they are incurred.

wash sale Selling a security at a loss for tax purposes and, within 30 days before or after, purchasing the same or a substantially identical security. The IRS will disallow the claimed loss.

wash trade Occurs when a customer enters a purchase order and a sale order for the same security at the same time. It is done to create a false appearance of activity in a security. This is a prohibited practice.

Wilshire 5000 Total Market Index Represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data.

wrap fee program Any advisory program under which a specified fee or fees not based directly upon transactions in a client's account is charged for investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisers) and the execution of client transactions. The exclusion from the definition of investment adviser available under both state and federal law to broker-dealers is not in effect for those offering wrap fee programs.

yield The rate of return on an investment, usually expressed as an annual percentage rate. *See* current yield; dividend yield; nominal yield.

yield curve A graphic representation of the actual or projected yields of fixed-income securities in relation to their maturities. *See* flat yield curve; inverted yield curve.

yield to call (YTC) The rate of return on a bond that accounts for the difference between the bond's acquisition cost and its proceeds, including interest income, calculated to the earliest date that the bond may be called by the issuing corporation.

yield to maturity (YTM) The rate of return on a bond that accounts for the difference between the bond's acquisition cost and its maturity proceeds, including interest income.

YTC *See* yield to call.

YTM *See* yield to maturity.

zero-coupon bond A corporate or municipal debt security traded at a deep discount from face value. The bond pays no interest; rather, it may be redeemed at maturity for its full face value.

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