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|---|---|
| 6 components of the Code of Ethics: | A Priori Probability |
| 7 Standards of Professional Conduct: | Absolute Yield Spread |
| A change in accounting estimates... | Accelerated Depreciation |
| A change in accounting principles... | Accelerated Sinking Fund |

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| Comes from a formal reasoning and inspection process; an objective probability | +Act with integrity, competence, diligence, respect and in an ethical manner wit the public, clients, prospective clients, employers, employees, colleagues, and all participants in global markets<br>+Place integrity of profession and interest of clients above all else<br>+Use reasonable care and independent professional judgement when conducting investment analysis, making investment recommendations, taking investment action, and engaging in professional activities<br>+Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession<br>+Promote the integrity, and uphold the rules of, the capital markets<br>+Maintain and improve their professional competence of themselves and others |
| The difference between yields on two bonds;<br>= Higher Bond Yield - Lower Bond Yield;<br>Most commonly used;<br>Shortcoming is it may always remain constant even as yield rise or fall | +Professionalism<br>+Integrity of Capital Markets<br>+Duties to Clients<br>+Duties to Employers<br>+Investment Analysis, Recommendation and Action<br>+Conflicts of Interest<br>+Responsibilities of a CFA Member/Candidate |
| Applies depreciation more at the beginning of an assets life | Is a change due to new information and does not require old statements to reflect it |
| Allows the issuer the choice of retiring more than the amount of bonds specified in the sinking fund requirement | Requires restatement of prior financial statements |

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| Accounting Information Flow | Action lag |
| Accounting Warning Signs | Active crawling peg |
| Accrual Accounts | Ad Hoc Auction Services |
| Acquisition Method of Accounting for Business Combinations | Addition of Probability |

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| Time it takes governments to vote on and enact policy | 1. Journal record every transaction by order of date in the general journal<br>2. The general ledger sorts the entries in the general journal by account<br>3. An initial trade balance is prepared at the end of the period to show the balance of each account and adjustments are then made<br>4. Financial statements are made from the adjusted trial balances |
| When the adjustments are periodic, announced and implemented | +Aggressive revenue recognition<br>+Different growth rates of operating cash flow and earnings<br>+Abnormal sales growth as compared to the economy, industry or peers<br>+Abnormal inventory growth compared to sales growth<br>*Could be signs of obsolete products<br>+Boosting revenue with nonoperating income and nonrecurring gains<br>+Delaying expense recognition<br>+Abnormal use of operating leases by lessees<br>+Hiding expenses by classifying them as extraordinary or nonrecurring<br>+LIFO liquidations<br>+Abnormal gross margin and operating margin as compared to industry peers<br>+Extending the useful lives of long-term assets<br>+Aggressive pension assumptions<br>+Year-end surprises<br>+Equity method investments and off-balance-sheet special purpose entities<br>+Other off-balance-sheet financing arrangements including debt guarantees |
| Method where central government auctions new securities when market conditions are advantageous | +State the objective and context<br>+Gather data<br>+Process data<br>+Analyze and interpret data<br>+Report conclusions and recommendations<br>+Update analysis |
| P(A or B) = P(A) + P(B) - P(AB) | When the purchase price is allocated to the identifiable assets and liabilities of the acquired firm based on fair value and the rest is recorded as goodwill |

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|---|---|
| Adjustments to Compare Firms' Financial Statements | Adverse auditor's opinion |
| Administrative Steps to Capital Budgeting | Affirmative Covenants |
| Advantages of ETFs | After-Tax Nominal Return |
| Advantages of NPV and IRR | After-Tax Yield = |

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|---|---|
| The statements are not presented fairly or don't conform to standards | +Accounting of investment securities<br>+Inventory cost methods<br>+Depreciation schedules<br>+Off-balance-sheet financing<br>+Treatment of goodwill and other intangible assets |
| When the borrower promises to do certain things | *Idea generation<br>*Analyzing project proposals<br>*Create firm-wide capital budget<br>*Monitoring decisions and conducting a post-audit |
| The return after tax liability is deducted | +Efficient diversification<br>+Traded like a stock<br>+Better risk management by having options and futures markets<br>+Investors know the exact composition of the fund throughout the day<br>+Low expense ratios<br>+No worry about trading a a premium or discount to NAV<br>+Dividends can be reinvested immediately<br>+Low capital gains tax liability |
| Taxable Yield * (1 - Marginal Tax Rate) | NPV: A direct measure of the expected increase in the value of a firm<br>IRR: A percentage and shows return on each dollar invested |

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| Agency Bonds | American Option |
| All or Nothing Orders | Amortization |
| Alternative Hypothesis | Amortizing Bonds |
| American Depository Receipts | Approaches to Calculating Cost of Equity |

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| Exercisable at any time;<br>Will never have a smaller premium than a European option;<br>More flexible | Securities issued by various agencies and organizations of the Federal government;<br>Most aren't guaranteed by US Government explicitly, but it is implicit;<br>Federally related institutions are owned by the US Government and are exempt from SEC rules and are guaranteed by US Gov't;<br>Government sponsored enterprises are privately owned but publicly chartered organizations and were created by Congress but not guaranteed by US Gov't |
| Only done on assets with finite lives and is done the same as depreciation | Trades that execute only if the entire lot can be bought |
| Pay periodic interest and principal payments over the life of a bond;<br>Payments are equal with the proportion of interest and principal changing with each payment | What is concluded if null is rejected |
| +CAPM<br>+Dividend Discount Model<br>+Bond Yield + Risk Premium | Receipts denominated in US Dollar and trade in the US;<br>The security it is based on is called the American Depository Share |

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|---|---|
| Appropriations Backed Obligations | Arbitrage-Free Treasury Spot Rates |
| Arbitrage | Arithmetic Mean |
| Arbitrage CDO | Arms Index (or TRIN) |
| Arbitrage Free Valuation | Ascending price (English) auction |

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| The rates for different time periods that correctly value a Treasury bond;<br>Discount rates for a zero-coupon bond | When the state isn't the issuer but can act as a back up if the issuer defaults;<br>General obligation |
| Average of every period's return | An opportunity where the return that can be earned without risk is greater than the risk-free rate;<br>Come from market mispricings;<br>If uncertain returns can be combined into a portfolio that has certain returns, the portfolio should not exceed the risk free rate |
| A measure of funds flowing into advancing and declining stocks;<br>Calculated by (Number of advancing shares\Number of declining shares) * (Volume of declining shares\Volume of increasing shares);<br>Greater than 1 indicates money going into declining shares, the opposite means it's going into increasing shares | Created by a sponsor seeks to profit from the spread between the rate earned on the underlying assets and the rate promised to CDO holders |
| Bidders can bid amounts greater than the previous bid, and the bidder that first offers the highest bid wins the item and pays the amount | When a bond has each of its cash flows discounted using a discount rate that is specific to the maturity of each cash flow;<br>Spot rates used are required rate of returns on zero coupon bonds maturing at a given time;<br>The value of a bond based on spot rates must be equal to the value of its parts or there is an arbitrage opportunity |

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| Asset Backed Securities | Asset's Carrying Value |
| Asset Based Models | Asset's Tax Base |
| Asset Beta | Assumptions of Gordon Growth Model |
| Asset Returns and Correlation | Attitude/Rationalization |

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| The value reported on the financial statements net of depreciation | Represent a claim to a portion of a pool of assets and the return is passed through to investors with different tranches having different levels of risk and return |
| Amount that will be deducted on the tax return in the future as economic benefits are realized | Based on the equity value of a firm being the fair market value of the assets minus the fair market value of the liabilities;<br>Market value and intangible assets make this difficult |
| *Dividends are appropriate to measure shareholder wealth<br>*Dividend growth rate and required return never change<br>*Required return is greater than the dividend growth rate | = Equity Beta * [1/1 + (Debt/Equity)(1 - Tax Rate)] |
| A mindset that fraudulent behavior is justified;<br>Inappropriate ethical standards;<br>Excessive participation by nonfinancial management in the selection of accounting standards;<br>Violations of laws and regulations by management or board members;<br>A management obsession with maintaining or increasing the firm's stock price or earnings trend;<br>Making commitments to third parties to achieve aggressive results;<br>Failing to correct known reportable conditions;<br>Inappropriately minimizing earnings for tax purposes;<br>Use of materiality as a basis to justify inappropriate or questionable accounting methods;<br>Strained relationship between management and the current or previous auditor | Prefer correlations of asset returns within an asset class are significantly greater than correlations of asset class returns |

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| Auction Process | Available for Sale Securities |
| Auditor's Opinions | Average Collection Period |
| Austrian | Average Inventory Period = |
| Autarky | Average Revenue < AVC |

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| Listed at fair value but but unrealized gains and loses are not reported | When the issuer determines the size and terms of the issue and several banks bid on the interest rate required to sell it;<br>Lowest interest rate bid wins the deal |
| Average number of days it takes for a customer to pay its bills;<br>ACP = 365/Receivables Turnover | +Unqualified opinion<br>+A qualified opinion<br>+An adverse opinion<br>+A disclaimer opinion |
| 365/Inventory Turnover | Business cycles are caused by the government |
| Firm should shut down | Closed economy |

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| Average Revenue > ATC | Balance Sheet CDO |
| Average Revenue > AVC | Bank Discount Yield |
| Backfilling Bias | Banker's Acceptance |
| Backwardation | Banker's Acceptances |

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| Created by a bank to reduce its loan exposure on its balance sheet | Firm should stay in business for long-run |
| = ((face value - market value)/(face value)) * (360/days until maturity) | Firm continue production |
| Guarantees by a bank that a loan will be repaid;<br>Part of a commercial transaction;<br>Gives assurance to counterparty that financing is secure for the trade;<br>Counterparty can sell the acceptance in a secondary market or hold until it is paid;<br>Credit risks are the borrower does not repay or the acceptance bank does not pay | When past performance of an index is inflated because funds with poor performance in the past is not included |
| Guarantees from a bank stating that a firm has ordered goods and a payment will be made at the receipt of the goods, which the firm sells at a discount immediately to generate cash | When a futures price is below the spot price;<br>Caused by hedgers to insure against price declines in the future;<br>Some markets are described as having normal backwardation |

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| Barriers to Creating a Coherent Financial Framework | Bayes' Formula |
| Barter Transaction | Behavioral Finance |
| Basic EPS | Benefits of a Lease |
| Basis Swap | Benefits of Derivatives |

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| Used to update a given set of prior probabilities for a given event in response to new information;<br>(Updated Probability) = {(Probability of new information of a given event) \ (Unconditional probability of new information)} * (Probability of event) | +Valuation<br>+Standard setting<br>+Measuring value at a point in time versus it's movement over a period of time |
| Investigates investor behavior, it's effect on financial markets, how cognitive biases affect anomalies, and if investors are rational;<br>Says investors have an asymmetric preference towards risk | When two parties exchange goods with no cash payments;<br>GAAP says revenue can be recognized at fair value only if the firm has historically received cash for the goods and use the historical price to determine fair value, otherwise the revenue is recorded at the carrying value of the surrendered items;<br>IFRS says revenues must be based on fair value of revenue from similar transactions with unrelated parties |
| +Less costly financing<br>+Reduced risk of obsolescence<br>+Less restrictive provisions<br>+Off-balance-sheet financing<br>+Tax reporting advantages | (Net Income - Preferred Dividends)/(Weighted Average of Shares Outstanding) |
| +Provide price information<br>+Allow risk to be managed and shifted among market participants<br>+Reduce transaction costs | Trading one floating rate payment for another |

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| Benefits of Funds of Funds | Best Efforts Sale |
| Benefits of Intermediaries | Beta |
| Bernoulli Random Variable | Beta |
| Best Efforts IPO | Beta Pure Play Method |

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| When the banker agrees to sell as much of the issue as possible;<br>Not liable for the debt left over | *Gives access to investors with limited capital resources<br>*Greater diversification<br>*Fund of fund managers have expertise in picking managers |
| Measure of systematic risk | *Savers fund entrepreneurs<br>*Companies share risk |
| The sensitivity of an asset's return to the return of the market and is the standardized measure for the Covariance of the asset's return with the market;<br>= (Covariance of Asset's and Market's Return)/(Variance of Market);<br>= (Correlation of Asset and Market) * (Standard Deviation of the Asset)/(Standard Deviation of Market);<br>Estimated by regressing asset returns with market returns | Binomial random variable with only one trial |
| Looking at a publicly traded security of a company involved directly in the business the project is engaged in;<br>Company's beta is also a product of its capital structure and must be adjusted accordingly to fit the need of the project;<br>Delever the comparable beta and relever for the project in question | When a bank agrees to distribute shares but if undersubscribed, bank does not buy unsold portion |

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| Biased Fund | Board Member Qualifications |
| Bid-Ask Spread | Bollinger Bands |
| Binomial Random Variable | Bond Equivalent Yield |
| Block Brokers | Bond Equivalent Yield = |

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| +Make informed decisions about the firm's future<br>+Have made public statements indicating their ethical stance<br>+Have had any legal or regulatory problems as a result of working for or serving on a board<br>+Have other board experience<br>+Will regularly attend meetings<br>+Do they have significant stock positions and are committed to shareholders<br>+Have they served on the board for a long time and become too close to management | Either stays net long or net short always |
| Charting 1 standard deviation above and below the closing price for a certain amount of days | The difference between the bid price and ask price;<br>Bid price is the price that a dealer will sell a security;<br>The ask or offer price is the price a dealer will pay for a security;<br>How the dealer makes money |
| = 2 * (semiannual discount rate)<br>OR<br>= HPR * (365/days until maturity) | Variable may be defined as the number of successes in a given number of trials where the outcome can be either a success or failure;<br>Expected value = (probability of success) * (number of trials);<br>Variance = (expected value) * (1 - probability of success) |
| [(1 + Annual YTM) ^ (1/2) - 1] * 2;<br>Referred to as the semiannual yield to maturity or semiannual-pay yield to maturity | Trade large lots |

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| Bond Indenture | Book Building |
| Bond Legal and Issuance Costs | Book Value of Equity |
| Bond Pricing | Bootstrapping |
| Bond Yield + Risk Premium | Break Even Quantity of Sales |

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| When investment banks solicit indications of interest from market participants and adjust the offering price accordingly | The contract that specifies all the rights and obligations of the issuer and the owners of a fixed income security |
| The value of the firm's assets on its balance sheet minus it's liabilities; Market value of equity is a firm's market cap | GAAP: Capitalized<br>IFRS: Subtracted from book value |
| Method of constructing a Treasury yield curve using the yield to maturities of different maturities | Prices quoted in percent and 32nds of a percent;<br>102-5 is equal to $102.16 per bond |
| Quantity of sales for which revenues equal total costs so net income is zero;<br>= (Fixed Operating Costs + Fixed Financing Costs)/(Price - Variable Costs per Unit) | Cost of Equity = Risk Free Rate + Risk Premium |

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| Break Point | Business Risks |
| Bringing About Disinflation | Buyout Funds |
| Broker Dealers | Call Market |
| Brokered Markets | Call Option |

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| Risks associated with a firms' operating income and is the result of uncertainty about a firm's revenues and expenditures | Where the cost of one of the WACC components changes;<br>= Amount of Capital at which the Component's Cost Changes/Weight of the Component in Capital Structure |
| Buy entire public companies and take them private to restructure or resell later to gain a profit;<br>Company typically purchased largely from debt;<br>Time horizon is 3-5 years | When policy rate is above the neutral interest rate |
| When trades can only be placed during a specific time period;<br>Very liquid when in session because all traders are present but illiquid between sessions;<br>All trades, bids, ands asks are declared and then one negotiated price is set that clears the market for the stock | Have an inherent conflict of interest because they should seek the best prices for their clients but their goal is to profit through the transaction;<br>Traders typically place limits on how their orders are filled when working through a broker dealer |
| The right to buy | Where investors use brokers to locate a counterparty to a trade;<br>Useful with unique or illiquid securities;<br>Dealers do not carry inventory;<br>Too few trades to trade in an order-driven market |

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| Call Option | Callable Shares Risk ____<br>Common Shares Risk |
| Call Option P/L | Capital account components |
| Call Risk | Capital Allocation Line |
| Callable Common Shares | Capital Budgeting |

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| More than | The right to buy an asset at a certain price by a certain date; Counterparty has the obligation to sell the asset |
| -Capital transfers<br>-Sale and purchase of non-financial assets | +Maximum loss is the premium<br>+Break-even price is the premium plus the strike price<br>+Profit to the buyer is unlimited, loss to the writer is unlimited<br>+Call holder will exercise when stock price is greater than the strike price<br>+Maximum profit for the writer is the premium<br>+Zero-sum game between buyer and writer |
| Represents the combinations of a risky portfolio and a risk free asset | As interest rates fall, an issuer is more likely to call its bonds and refinance at a lower rate |
| The process of identifying and evaluating projects where the cash flow to the firm will be received over a period longer than a year | Give the firm the right to repurchase the stock at a pre-specified price;<br>Benefits the firm because when the market price is great than the call price, the firm can call shares and reissue them at a higher price;<br>Allows firm to reduce its dividend payments without changing its per-share dividend |

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| Capital Market Line | Cash Flow Earnings Index |
| CAPM = | Cash Flow per Share |
| CAPM Approach | Cash Flow to Revenue |
| Cash Conversion Cycle | Cash Flow Yield |

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| A way to measure the relationship between the operating cash flow and earnings;<br>CFEI = Operating Cash Flow/Net Income | The same thing as a capital allocation line but the risky portfolio is now a portfolio of all the investable assets available in the market |
| A variation of earnings per share but using cash flow;<br>CFPS = (CFO - Preferred Dividends)/Weighted Average Number of Common Shares | Risk Free Rate + (Beta * Excess Market Return) |
| Measures the amount of operating cash flow generated per dollar of revenue;<br>CFTR = CFO/Net Revenue | 1 Estimate risk free rate of government bond with maturity closest to the life of the project<br>2. Estimate beta<br>3. Estimate the expected return of the market<br>4. CAPM = Risk Free Rate + (Beta) * (Estimated Market Return - Risk Free Rate) |
| Used for mortgage-backed securities and other amortized asset-backed securities;<br>Includes assumptions on how prepayments are likely to occur;<br>Once monthly cash flow projections are made, can calculate a CFY as a monthly IRR based on the market price of the security;<br>Bond Equivalent Yield = [(1 + Monthly CFY) ^ 6 - 1] * 2 | The length of time it takes to turn the firms cash invested in inventory back into cash;<br>CCC = Days Sales Outstanding + Days of Inventory on Hand - Number of Days of Payables |

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| Cash Ratio = | Cash-Settled Forward Contract |
| Cash Return on Assets | Categories of Capital Budgeting Projects |
| Cash Return on Equity | Causes of demand changes |
| Cash to Income | Causes of Low Quality Earnings |

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| When the party with a negative value pays the party with the positive value in cash | (Cash + Marketable Securities)/Current Liabilities |
| +Replacement projects to maintain the business<br>+Replacement projects for cost reduction<br>+Expansion projects<br>+New product or market development<br>+Projects mandated by governments or agencies<br>+Projects not easy to analyze under capital budgeting | Measures the return of operating cash flow attributed to all providers of capital;<br>CROA = CFO/Average Total Assets |
| Income<br>Increases as prices of substitute goods increase<br>Decreases as the prices of complement goods increases | Measures the return of operating cash flow attributed to shareholders;<br>CROE = CFO/Average Total Equity |
| +Selecting legal accounting measures that don't accurately represent the economics of a business<br>+Structuring transactions to get a favorable outcome<br>+Using aggressive or unrealistic estimates and assumptions<br>+Exploiting the intent of an accounting principle | Measures the ability to generate cash from the firms operations;<br>CTI = CFO/Operating Income |

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| Causes of supply changes | CFA designated officer looks into inquiries raised by: |
| Central bank tools | Characteristics of a coherent financial framework |
| Central Limit Theorem | Characteristics of Commercial Paper |
| Certificates of Deposit | Characteristics of Medium-Term Notes |

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|---|---|
| +Self disclosure of civil litigation, criminal investigation, or written complaint<br>+Written complaints to CFA<br>+Media reports<br>+CFA exam proctor | Rises if technology increases;<br>Rises if input prices decrease |
| +Transparency<br>+Comprehensiveness<br>+Consistency | +Policy rate<br>+Reserve requirements<br>+Open market operations |
| +Maturities of 270 days or less<br>+Pure-discount security<br>+Typically issued by corporations with strong credit ratings<br>+Directly placed paper is sold to large investors without going through a broker<br>+Dealer placed paper is sold to purchasers through a commercial paper dealer | For simple random samples of size n from a population with a mean u and a finite variance o, the sampling distribution of the sample mean x approaches a normal distribution with mean u and a variance equal to the population variance divided by the number of sample observations |
| +Shelf-registered and they do not need to be all sold at once<br>+Provide a range of maturities and yields the issuer would like to sell<br>+A best-effort issuance and agent does not buy bonds unsold<br>+No typical structure or terms | Issued by banks and sold to their customers;<br>A promise by the bank to repay a certain amount plus interest;<br>Issued in specific denominations and for specified periods of time that can be of any length;<br>Penalty if funds are withdrawn earlier than the maturity date |

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| Chebyshev's Inequality | Clearinghouses |
| Chi-Squared Test | Closed End Fund |
| Classified Balance Sheet | Closed-End Fund |
| Clearing Instructions | Coefficient of Variation |

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| Provide escrow services, guarantees of contract completion, assurance margin traders have necessary capital, and limits on orders;<br>Reduce counterparty risk | The percentage of the observations that lie within k standard deviations of the mean is at least 1 - (1/k^2) when k > 1 |
| Traded through secondary markets;<br>Initially sell for a small premium to the value of the underlying assets | Used to test hypothesis about one variance |
| Professionally managed pools of investor money that do not take in new money or redeem shares;<br>Trade like equity shares on an exchange or over the counter<br>Charges an ongoing management fee | Separates asset and liabilities into current and non-current categories; |
| Standard deviation divided by the mean | Specify how to settle a trade |

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| Coincident economic indicators | Commercial Paper |
| Collateralized Commodities Futures Positions | Committed Line of Credit |
| Collateralized Debt Obligation | Common market |
| Combinational Ordering | Common Shares |

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|---|---|
| A short-term debt security that can be sold directly to investors or through dealers | Employees on nonfarm payroll<br>Personal income<br>Industrial production<br>Manufacturing sales |
| When a bank commits to lending a certain amount over a certain period of time | Require buying a specific futures contract and buying government securities, with a market value equal to the contract value of the futures contract;<br>Any gains from the futures contract would be used to buy more government securities and cover margin calls by selling them;<br>Total return is the change in commodities' prices plus the interest from the government securities |
| All benefits of a customs union;<br>All barriers to the movement of labor and capital goods among member countries are removed | Debt instrument where the collateral for the promise to pay is an underlying pool of other debt obligations;<br>Tranches are created for seniority of cash flows |
| Represent an ownership interest, a residual claim on the firm's assets in liquidation, and govern through voting rights;<br>No obligation for firm to pay a dividend;<br>Can proxy their votes to others; | Formula to find the number of possible ways of selecting r items from a set of n items;<br>C = (n!) \ {(n - r)! * r!} |

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|---|---|
| Common Size Income Statement | Components of Credit Rating |
| Complete Markets | Components of Direct Cash Flow Method |
| Complying to Preservation of Confidentiality | Components of Net Daily Cash Position |
| Components of an Order | Comprehensive Income |

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|---|---|
| +Scale and diversification<br>+Operational efficiency<br>+Margin stability<br>+Leverage | Shows each category of the income statement as a percentage of revenue;<br>+Controls for a company's size, allowing for easier comparison<br>+The effective tax rate is the amount of tax paid divided by pretax income<br>+Gross profit margin is the gross profit divided by the total revenue<br>+Net profit margin is the net income divided by total revenue |
| +Cash collected from customers<br>+Cash used in production of goods and services<br>+Cash operating expenses<br>+Cash paid for interest<br>+Cash paid for taxes | Allow investors to save for the future at fair rates of return, creditworthy borrowers obtain funds, hedgers manage risk and traders get assets |
| *Treasury bills<br>*Short term agency securities<br>*CDs<br>*Banker's acceptances<br>*Time deposits<br>*Repo agreements<br>*Commercial paper<br>*Money market funds<br>*Adjustable rate preferred stock | Best way is to only share information with someone in the company working with that client |
| Accounts for all changes in equity except for owner contributions or distributions; Includes foreign currency gains/loses, pension liability adjustments, cash from hedging and unrealized gains/loses from available-for-sale securities | +Bid-ask spread<br>+Execution order<br>+Validity instructions<br>+Clearing instructions |

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|---|---|
| Concentration measures | Conservatism |
| Conditional Probability | Considerations of Firm Voting Policy |
| Confidence Interval | Considerations When Electing Board |
| Conflicts of Interest: | Contango |

When investors react slowly to change

Nth firm indicator
Herfindahl-Hirschman Index

*Whether it is a classified board (staggered multi-year terms) or annual elections
*Whether Board filled a vacancy without shareholder approval
*Whether shareholders can remove member
*Whether the Board is the proper size

When one event's probability affects the other events
*P(A|B) = The probability of A given B

*Majority of Board is comprised of independent members (not managers)
*Board meets regularly without management
*Chairman is current or former CEO
*Independent Board members have a primary or leading Board member in cases when the chairman is not independent
*Board members are closely aligned with suppliers, customers, etc

A range of values the population parameter is expected to fall under;
When a distribution has a known population variance, found by:
(sample mean) (+\-) (z-statistic) * (standard error);
When distribution population variance is not known, found by:
(sample mean) (+\-) (t-statistic) * (standard error)

When a future price is above the spot price;
Caused by companies wanting to lock in future rates to match future liabilities

+Disclosure of Conflicts
+Priority of Transactions
+Referral Fees

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|---|---|
| Contents of Auditor's Opinion | Continuation Patterns |
| Contents of Footnotes | Continuous Markets |
| Contents of Investment Policy Statement | Continuous Random Variable |
| Contents of Management Discussion and Analysis | Contraction/Recession |

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| Suggest a pause in an uptrend rather than a reversal | +Independent view of the firms financial statements<br>+Generally accepted accounting policies were used and judgements were reasonable<br>+Explanation when accounting policies change from year to year |
| Trades occur any time a market is open | +The basis of presentation such as the accounting period<br>+Information about the accounting methods used<br>+Additional information about extraordinary events |
| Variable where the number of possible outcomes is infinite, even if upper and lower bounds exist | +Description of Client<br>+Statement of Purpose of IPS<br>+Statement of Investment Manager's Duties and Responsibilities<br>+Procedures to Update IPS<br>+Investment Objectives<br>+Investment Constraints<br>+Investment Guidelines<br>+Evaluation of Performance<br>+Appendices |
| Real GDP is decreasing<br>Rates of spending, investment and employment remain positive while inflation accelerates | +The basis of presentation such as the accounting period<br>+Information about the accounting methods used<br>+Additional information about extraordinary events |

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| Contribution Margin | Convertible Debt |
| Conventional Cash Flow Pattern | Convertible Preferred Stock |
| Conventional fixed peg agreement | Convexity |
| Convertible Bond Arbitrage | Convexity |

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| Debt an investor can exchange for a specified number of equities in the issuing firm | Difference between price and variable cost per unit |
| Can be exchanged for common stock at a predetermined exchange ratio;<br>Dividend is usually higher;<br>Investor has upside potential;<br>Conversion option holds value over regular preferred stock;<br>Less risk than common stock | Signs of cash flows only change once |
| Makes so a bond's rate of devaluation fall the more yields rise | When a country pegs its currency to within a certain margin of another currency or to a basket of currencies of is trading partners |
| The curvature of the price-yield curve;<br>The more convexity, the worse the duration estimate will differ from actual change | Takes long and short positions in convertible bonds and equity shares to benefit from relative mispricing |

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|---|---|
| Core inflation | Cost of Goods Sold |
| Corporate Governance | Cost of Preferred Stock |
| Cost Method Ratio Effects | Cost-push inflation |
| Cost of Debt | Country Risk Premium |

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|---|---|
| = Beginning Inventory + Purchases - Ending Inventory | Headline inflation - food & energy |
| Equals the dividend yield of the preferred stock | The set of internal controls, processes and procedures by which firms are managed and defines the rights, roles and responsibilities of management |
| Caused by a decrease in supply | +FIFO/LIFO produces higher/lower profitability measures<br>+FIFO/LIFO produces higher/lower Current and Working Ratios<br>+FIFO/LIFO produces lower/higher Inventory Turnover and higher/lower Days of Inventory On Hand<br>+FIFO/LIFO produces lower/higher solvency ratios |
| Sometimes added to Beta to capture specific country risk;<br>Spread between Treasury yield and country's yield;<br>= Sovereign Yield Spread * (Annualized St. Dev. Of Developing Country Equity Index)/(Annualized St. Dev. Of Developed Country Bond Market)<br>CAPM = Risk Free Rate + (Beta) * (Estimated Market Return - Risk Free Rate + Country Risk Premium) | Equals the market's yield to maturity |

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|---|---|
| Cournot duopoly | Credit Default Swap |
| Covered Call | Credit Risk |
| Covered Call Option P/L | Credit Spread |
| Crawling bands | Criteria for Capital Budgeting Method |

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|---|---|
| Form of insurance pays if an issuer defaults on its bonds | One firm will look at the other's price and production and adjust accordingly until both firms meet at an equilibrium of the same price and quantity |
| Chance the creditworthiness of an issuer will decrease | When the writer of a call also owns the stock he is obligated to sell;<br>Used to increase income in a time when you do not expect the stock price to increase;<br>Can be written out of the money to add insurance that the stock won't get called away;<br>Trading away chance of stock appreciating in future for income now |
| The difference in yields between two issues that are similar in all respects except credit rating;<br>Decline in an expanding economy;<br>Increase during economic contractions | *If stock closes below strike price, the call expires worthless and the writer keeps the premium<br>*Breakeven point is the stock's price minus the call premium<br>*If stock appreciates past the initial price but not as high as the call's strike price, the writer gets the premium as well as the stock's appreciating<br>*Maximum loss is the stock price minus the premium |
| +Location (Europeans use payback period a lot more)<br>+Size of company (Larger companies are more likely to use NPV or IRR)<br>+Public vs Private (Private companies prefer payback period, public companies prefer NPV or IRR)<br>+Management education (The more education management has, the more they will use IRR or NPV) | When the width of the bands of permissible exchange rates is increased over time |

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|---|---|
| Criticisms of Derivatives | Cumulative Preferred Stock Risk<br>____ Non-Cumulative Preferred Stock Risk |
| Cross rate | Cumulative Voting |
| Cum Coupon | Currency board |
| Cumulative Preferred Stock | Currency Forward |

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|---|---|
| Less than | +Too risky for investors with limited knowledge<br>+High leverage and high payoffs liken them to gambling |
| Shareholders can allocate their votes to one or more candidates and lets minority shareholders have proportional representation on the board | The exchange rate between two currencies implied by both their exchange rates to a third currency |
| Explicit commitment to exchange domestic currency for a specified foreign currency at a fixed exchange rate;<br>Cannot set its own monetary policy | When the buyer is entitled to the next couponn |
| One party agrees to exchange a certain amount of one currency for a certain amount of another at a future date;<br>Specifies an exchange rate where one party can buy a fixed amount of currency;<br>Either delivered or cash settled | Has promised fixed dividends and any dividend not paid must be paid before common shareholders are given dividends |

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|---|---|
| Currency Swap | Current Liabilities |
| Currency Swap | Current Ratio = |
| Current account components | Current Yield |
| Current Assets | Custodians |

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|---|---|
| +Accounts Payable<br>+Notes Payable and Current Portion of Long-Term Debt<br>+Accrued Liabilities<br>+Unearned Revenue | Swapping loans in different currencies |
| Current Assets/Current Liabilities | One party makes payments denominated in one currency while the payments from the other party are made in a second currency |
| The yield from the bond's annual coupon payments;<br>Offers little information;<br>Current Yield = (Annual Cash Coupon Payment)/(Bond Price) | -Merchandise and services<br>-Income receipts<br>-Unilateral transfers |
| Improve market integrity by holding client securities and preventing their loss due to fraud or other events | +Cash and Cash Equivalent<br>+Marketable Securities<br>+Accounts Receivable<br>+Inventory<br>+Other Current Assets |

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|---|---|
| Customs unions | Cyclical unemployment |
| Cycle Theory | Daily Sales in Payables |
| Cyclical Firms | Dead Cross |
| Cyclical Sectors | Debenture |

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|---|---|
| Due to changes in the general level of economic activity | All benefits of a free trade area;<br>Countries adopt a common set of trade restrictions with non-members |
| DSIP = (Accounts Payable)/(COGS) * Number of Days in Period;<br>A firm can temporarily increase operating cash flows by delaying payment to suppliers | +Presidential Cycle = 4 years<br>+Decennial Cycle = 10 years<br>+Kondratieff Wave = 54 years |
| When the short term average crosses below the long term average;<br>Indicate downtrend | Earnings highly dependent on the business cycle, a non-cyclical firm has stable demand over economic stages;<br>High operating leverage and earnings volatility |
| Unsecured bond | +Energy<br>+Financials<br>+Technology<br>+Materials<br>+Consumer discretionaries |

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|---|---|
| Debt Coverage | Debt to Assets = |
| Debt Payment | Debt to Capital = |
| Debt Securities | Debt to Equity |
| Debt Supported by Public Credit Enhancement | Decisions of an Index Maker |

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|---|---|
| Total Debt/Total Assets | Measures financial risk and leverage;<br>DC = CFO/Total Debt |
| Total Debt/(Total Debt + Total Shareholders Equity) | Measures the firms ability to satisfy long term debt with operating cash;<br>DP = CFO/Cash Long-Term Debt Repayment |
| Measure of a firms fixed-cost financing;<br>DE = Total Debt/Total Shareholders Equity | Promises to repay borrowed funds |
| +What is the target market an asset is supposed to measure<br>+What securities should be included<br>+How should securities be weighted<br>+How often should index be rebalanced<br>+When should selection and weighting be reevaluated | An explicit guarantee that the bond is backed up by the state or federal government;<br>General obligation |

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|---|---|
| Declaration Date | Defensive Interval Ratio |
| Declining Stage | Deferred Tax Asset |
| Decreases to Consumer Surpluses | Deferred Tax Disclosures |
| Deductible Temporary Difference | Deferred Tax Liability |

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|---|---|
| The number of days the average cash expenditures the firm could pay with its current liquid assets;<br>DI = (Cash + Marketable Securities + Receivables)/Average Daily Expenditures | The date the board of directors approves the dividend |
| Created when taxes payable are greater than income tax expense;<br>POST-EMPLOYMENT BENEFITS, WARRANTY EXPENSES AND TAX LOSS CARRYFORWARDS ARE MOST COMMON CAUSES;<br>Must be reduced if it is unlikely to be used under GAAP | When industry starts to shrink;<br>Negative growth;<br>Declining price;<br>Consolidation |
| +Deferred tax liabilities and assets, valuations allowance and the net change in the valuation allowance over a period<br>+Any unrecognized deferred tax liability for undistributed earnings of subsidiaries and joint ventures<br>+Current year effects of each temporary difference<br>+Components of income tax expense<br>+Reconciliation of reported income tax expense and the tax expense based in the statutory rate<br>+Tax loss carryforwards and credits | Import quotas, tariffs and volunteer export restraints |
| Created when income tax expense is greater than taxes payable;<br>MOST COMMON REASON IS USING DIFFERENT DEPRECIATION METHODS ON TAX RETURN AND INCOME STATEMENT | Result in expected future tax deductions |

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|---|---|
| Deferred Tax Liability and Asset Adjustments | Defined Contribution Pension Expense |
| Deferred-Coupon Bonds | Degree of Financial Leverage |
| Defined Benefit Fund Status | Degree of Operating Leverage |
| Defined Benefit Pension Expense Components | Deleveraged Floater |

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|---|---|
| = Employer's Contribution | Adjusted for changes in expected tax rates under the liability method |
| = (% Change in EPS)/(% Change in EBIT)<br>= (EBIT)/(EBIT - Interest) | Initial coupon payment is delayed;<br>Interest accrues and is paid as a lump sum;<br>Coupons paid regularly after the first |
| = (Percent Change in EBIT)/(Percent Change in Sales)<br>= [Quantity of Units Sold **(Price per Unit - Variable Cost)] /[Quantity of Units Sold** (Price per Unit - Variable Cost) - Fixed Cost]<br>= (Sales - Total Variable Costs) / (Sales - Total Variable Cost - Fixed Costs] | Difference between the defined benefit obligation and the plan assets;<br>Reported on balance sheet under GAAP;<br>IFRS removes unrecognized actuarial gains and losses and unrecognized prior service expenses from the funded status and the result does not reflect economic reality;<br>Firms separately disclose the components of the benefit obligation, assets and expenses and the assumptions used to calculate the pension expense |
| Structured note that has coupon rates that equal a fraction of the reference rate plus a constant margin | ~Service cost is the present value of benefits earned by employees during the current period<br>~Interest costs is the increase to the benefit obligation due to the passage of time<br>~Expected return on plan assets reduces the pension expense<br>~Actuarial gains or losses come from changes to assumptions the actuary uses about future obligations<br>~Prior service costs are retroactive benefits awarded to employees when the plan is initiated or amended |

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|---|---|
| Deliverable Forward Contract | Depreciation Methods |
| Demand-pull inflation | Derecognition |
| Depository Institutions | Derivative |
| Depository Receipts | Derivative Contracts |

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|---|---|
| Straight-line depreciation;<br>Accelerated depreciation;<br>Units-of-Production method | When a forward is settled with physical delivery |
| When an asset is sold, exchanged or abandoned;<br>When sold, the asset is taken off of the balance sheet and the gain/loss is reported on the income statement;<br>If abandoned, the entire value is listed as a loss on the income statement;<br>If traded, the new asset is put on the balance sheet and the difference in values is put on the income statement | Caused by increase demand |
| A security that derives its value from the value or return of another asset or security | Institutions pay interest on customer deposits and provide transaction services |
| Securities with values that depend on values of other assets | Represent ownership in a foreign firm and are traded in other countries' markets at the local currency;<br>A bank deposits shares of the foreign firm and then sells receipts representing ownership of a specific number of foreign shares;<br>Depository bank acts as a custodian and manages stock events such as splits and dividends;<br>Although conversion is not necessary, changes in exchange rates affect price;<br>Sponsored DR is if the firm is involved with the issue |

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|---|---|
| Descending price (Dutch) auction | Differences between IFRS and GAAP |
| Development Cost Treatment | Differences Between IFRS and GAAP Cash Flow Statements |
| Difference Between Modified and Effective Convexity | Differences Between Security Market Line and Capital Market Line |
| Differences Between Futures and Forwards | Differentiation Strategy |

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|---|---|
| +IASB lists income and expenses as elements related to performance, GAAP includes revenues, gains, loses and comprehensive income<br>+GAAP defines an asset as having future economic benefit, IASB defines an asset as a resource for which a future economic benefit is probable<br>+GAAP doesn't allow for the upward valuation of most assets | Begins with a price greater than what any bidder will pay and the price is reduced until a bidder agrees to pay it;<br>If there are multiple units available, each bidder and specify how many they want to buy;<br>Can be modified so that winning bidders all pay the same price |
| +GAAP lists dividends paid under financing activities and interest paid in operating activities. IFRS allows them to be listed as either operating or financing activities<br>+GAAP lists dividends and interest received under operating activities. IFRS allows them to be listed as either operating or investing activities<br>+GAAP lists taxes paid under operating activities. IFRS lists taxes as operating activities unless they are associated with an investing or financing activity | Capitalized under IFRS;<br>Expensed under GAAP |
| *CML plots total risk on the x-axis and only plots efficient portfolios; SML plots beta on the x-axis<br>*All points on the CML, except point of tangency, represent the risk-return characteristics of portfolios formed by combining the risk free rate and market return or borrowing at the risk free rate to invest more than 100% in the market | Modified convexity does not take options into account and effective convexity does |
| Firm's products are distinct;<br>Cost of differentiation must be less than the premium customers will pay for it;<br>Pricing premium must be sustainable;<br>Require extensive market research and creative personnel | *Futures are on exchanges, forwards are private<br>*Futures are standardized, forwards are customized<br>*Futures go through clearinghouses<br>*Government regulates futures |

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| Diluted EPS | Direct Investing |
| Dilutive/Anti-Dilutive Securities | Direct Method -> Indirect Method |
| Direct Cash Flow Method | Direct quote |
| Direct Finance Lease | Disadvantages of Callable Bonds |

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| Buying a firm's securities in a foreign market;<br>Denominated in foreign currency;<br>May be less liquid than domestic markets;<br>May have less strict reporting procedures | [(Net Income - Preferred Dividends) + Convertible Preferred Dividends + Convertible Debt Interest * (1-t)] / [Weighted Average Shares + Shares from Conversion of Preferred Shares + Shares from Converted Debt + Shares from Issuable Stock Options] |
| +Cash Collected from Customers<br>1. Start with net sales<br>2. Subtract/add any increase/decrease in accounts receivable<br>3. Add/subtract any increase/decrease in unearned revenue<br><br>+Cash Payments to Suppliers<br>1. Begin with Cost of Goods Sold<br>2. Add back depreciation and amortization if they have been included in COGS<br>3. Add/subtract any increase/decrease in the inventory balance<br>4. Reduce/increase COGS by any increase/decrease in the accounts payable balance<br>5. Subtract any inventory write off from COGS | Stock options, warrants, convertible bonds or convertible preferred stock that would decrease/increase earnings per share if converted to common stock;<br>Stock options and warrants are only dilutive when their exercise prices are less than market value of the stock; the treasury stock method must be used to calculate average number of shares outstanding |
| The value of one unit of a foreign currency in terms of the home currency | Converts each line item of the accrual-based income statement into cash receipts and payments;<br>Begins with cash inflows from customers and deducts cash outflow from purchases, operating expenses, etc |
| +Uncertainty about cash flow stream<br>+Principal tends to be returned at times when the possibilities for reinvestment are less attractive<br>+Capital appreciation potential is less than an option-free bond | When the present value of the lease payments does not exceed the carrying value of the asset;<br>Typically lessor bought the asset from a third party;<br>Lessor removes asset from balance sheet and creates a lease receivable account in the same amount;<br>The interest portion of each payment is equal to the beginning of period lease receivables times the lease interest rate |

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| Disadvantages of ETFs | Discount Bond |
| Disclaimer auditor's opinion | Discount Bond Effects |
| Discontinued Operation | Discounted Payback Period |
| Discount Basis | Discrete Random Variable |

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|---|---|
| Bond priced below its par value; Yield required in the market rises, causing prices to fall | +Few indices for ETFs to track<br>+Intraday trading might not matter for long-term investors<br>+Low volume may result in inefficient markets<br>+Institutions can get same exposure with lower expenses and tax consequences by investing directly in the index |
| +Reported on balance sheet as less than face value<br>+Discount is amortized over time and eventually the value of the bond liability will increase until it equals face value at maturity | When the auditor cannot issue an opinion |
| Calculates the time it takes to get back invested capital in present value terms;<br>Alleviates the problem of the regular payback period by incorporating The time value of money;<br>Doesn't take into account payback after investment is recouped | Operation that management plans to get rid of, or already has;<br>The measurement date is the date management made a plan of discontinuation;<br>The phaseout period is the time between the measurement period and the actual disposal date;<br>Income must be separated on the income statement, past income statements must be restated |
| Variable where the number of outcomes can be counted and each outcome has a measurable and positive probability | Same as bank discount yield;<br>= (Face Value Discount) * (360/ Days) |

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| Discrete Uniform Random Variable | Diversification Ratio |
| Discriminatory Pricing | Dividend Dates |
| Disposition Effect | Dividend Discount Model |
| Distressed Securities | Dividend Payment |

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| The ratio of the risk of an equally weighted portfolio of n securities to the risk of a single random security from the list of n securities | Variable where all possible outcomes for a discrete random variable are equal |
| +Declaration date<br>+Ex-dividend date<br>+Holder-of-record date<br>+Payment date | Uses the limit price of the order that arrived first as the trading price |
| Cost of Equity = (Expected Constant Growth Rate) + [(Next Year's Dividend)/(Stock Price)] | When investors are willing to realize gains but not losses |
| Measures the firms ability to make dividend payments from operating cash flows;<br>DiP = CFO/Dividends Paid | When companies are about to or have filed for bankruptcy;<br>Company sometimes tries to negotiate a restructuring outside of court;<br>Debt holders try to get equity stakes;<br>Illiquid with long investment horizons |

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|---|---|
| Does IFRS accept LIFO? | Drawbacks of Funds of Funds |
| Domestic Government Collects Full Value of Import License | Drawbacks of NPV and IRR |
| Dominant firm model | Dual Index Floater |
| Double-Barrel Bonds | DuPont ROE Equations |

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|---|---|
| *Fees are higher than investing in a hedge fund by yourself<br>*Returns can be lowered by diversification | NO!!! |
| NPV: It is an absolute measure and doesn't take into account the size of the project.<br>IRR: It is not too useful for mutually exclusive projects and a project could have multiple or no IRR | Quota has same economic result as a tariff |
| Structured note that has two reference rates | When a firm with the vast majority prices smaller firms out of the market over time by lowering prices to the point where it falls below the average total cost of smaller competitors |
| = Net Profit Margin **Asset Turnover** Leverage Ratio<br>= (Net Income/EBIT) **(EBT/EBIT)** (EBIT/Revenue) **(Revenue/Total Assets)** (Total Assets) * (Total Assets/Total Equity)<br>= (Tax Burden) **(Interest Burden)** (EBIT Margin) **(Asset Turnover)** (Financial Leverage) | Backed by both taxes but also special charges that are collected outside of the general fund; General obligation |

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| Duration | Duties to Clients: |
| Duration Relationships | Duties to Employers: |
| Duration/Convexity Approach | Earnings Multiplier |
| Duration/Convexity Bond Pricing = | Economic union |

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|---|---|
| +Loyalty, Prudence and Care<br>+Fair Dealing<br>+Suitability<br>+Performance Presentation<br>+Preservation of Confidentiality (unless unlawful) | Bond's interest rate sensitivity;<br>The ratio of the percent change in price to the percent change in yield;<br>= (- Percent Change in Bond Price)/Yield Change in Percent;<br>Longer maturities have longer durations;<br>Lower coupon rates have higher duration;<br>Callable bonds have lower duration;<br>Putable bonds have less duration risk |
| +Loyalty<br>+Additional Compensation Agreements<br>+Responsibilities of Supervisors | *HIgher/lower coupon means lower/higher duration<br>*Longer/shorter maturity means higher/lower duration<br>*Higher/lower market yield means lower/higher duration |
| Same as a PE ratio | Approximates the actual interest rate sensitivity of the bond |
| All benefits of a common market; Member countries establish common institutions and economic policy for the union | [(-Duration **Change in Yield)** + **(Convexity** Change in Yield ^ 2)] * 100 |

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| Effective Annual Rate | Elasticity of demand |
| Effective Annual Yield | Elements of a Through Industry Analysis |
| Effective Convexity | Elements of Company Analysis |
| Effective Duration = | Elements of IFRS' Conceptual Framework |

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|---|---|
| A measure of how consumers respond to price changes; Perfectly elastic is when the demand curve is horizontal; Perfectly inelastic is when the demand curve is perfectly vertical | = (1 + (periodic rate/compounding periods)) ^ (compounding periods) - 1 |
| +Evaluate the relationships between macroeconomic variables and industry trends<br>+Estimate industry variables using different approaches and scenarios<br>+Compare with other analysts to confirm conclusion or find instances of misvaluation due to group think<br>+Determine relative valuation of different industries<br>+Compare valuations of industries over time to determine their volatilities over business cycles<br>+Analyze industry prospects based on strategic groups<br>+Classify industries by life-cycle stages<br>+Position the industry on the experience curve, which shows cost per unit relative to output<br>+Consider forces that affect industries<br>+Examine forces that determine competition within industries | = (1 + HPR) ^ (365/days until maturity) - 1 |
| *Overview of firm's operations, governance, strengths and weaknesses<br>*Industry characteristics<br>*Product demand<br>*Product costs<br>*Pricing environment<br>*Financial ratios<br>*Projected financial statements and firm valuations | Takes into account changes in cash flows from embedded options |
| +Assets<br>+Liabilities<br>+Equity<br>+Income<br>+Expenses | (Bond Price When Yields Fall - Bond Price When Yields Rise)/(2 **Initial Price** Change in Yield in Decimal Form) |

| | |
|---|---|
| Elliot Wave Theory | Enterprise Value |
| Embryonic Stage | Equal Weighting Index |
| Empirical Probability | Equity Forwards |
| Enhancements of relevance and faithful representation | Equity Securities |

Measures total company value and represents what it would cost to acquire the firm;
Appropriate when comparing firms with different capital structures;
EBITDA is most used denominator

Financial markets can be described as a series of cycles;
A few minutes is a subminuette cycle, centuries it is a grand supercycle;
In uptrend, prices go up 5 waves, down 3; down 5 and up 3 in downtrend;
Size of waves thought to correspond to Fibonacci sequence and can be used to set price targets by convering to 0.618 and 1.618

The arithmetic average return of the index stocks;
Matched by the returns of a portfolio that had equal dollar amounts invested in each stock;
Simple to calculate;
Replication portfolio would have to be periodically rebalanced, creating transaction costs;
Percentage increases by smaller companies equal a proportionally larger weight in the index return;
Value Line Composition Average and Financial Times Ordinary Share Index are major examples

When the industry has just started;
Slow growth;
High prices;
Large investment required;
High risk of failure

Have a stock, portfolio, or stock index as the underlying asset;
The more stocks covered by the forward, the more cost effective it is;
Index forwards are usually cash settled;
Dividends normally are not taken into account

Comes from past data; an objective probability

Represent ownership positions

+Comparability
+Verifiability
+Timeliness
+Understandability

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|---|---|
| Equity Swap | Eurodollar Deposit |
| Equity Swap | Eurodollar Future |
| Equity Valuation Models | European Option |
| Estimations of Dividend Growth Rates | Event Driven Fund |

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|---|---|
| A deposit in a large bank outside of the US but denominated in US dollars;<br>LIBOR is the interest rate on Eurodollar deposits;<br>Euribor is the equivalent Euro interest rate | When the return on a stock, portfolio or index is paid each period by one party in return for a fixed or floating rate payment |
| Based on 90 day LIBOR<br>Cash settled;<br>Price quote is 100 minus the annualized interest rate of the bill;<br>One tick move is equal to $25 | Swapping the return on an equity index for the interest payments on a debt instrument |
| Only can be exercised on the expiration date | +Discounted Cash Flow<br>+Multiplier Model<br>+Asset Based Models |
| Invests in response to one corporate action | *Historical rate<br>*Industry average rate<br>*Sustainable growth rate |

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|---|---|
| Event Driven Funds | Excess Kurtosis |
| Event Risk | Exchange Rate Risk |
| Ex-Coupon | Exchange Traded Fund |
| Ex-Dividend Date | Exchange Traded Funds |

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|---|---|
| Kurtosis - 3; Significant if result is greater than 1 | Strive to capitalize on some unique opportunity in the market |
| Uncertainty about the value of foreign currency cash flows to an investor in terms of his domestic currency | Effects from factors outside of financial markets |
| A fund that invests in a portfolio of stocks and bonds in efforts to mimic an index;<br>Traded like a stock | When the buyer does not get the next coupon |
| Similar to closed end funds but we often passively managed and do not always trade to their NAVs<br>Often traded to match a particular index<br>Can be bought, sold short, and bought on margin intra-day<br>Pay brokerage commissions on trade and bid-ask spreads<br>Dividend is typically only offered as cash<br>Produce less capital gains liabilities since it doesn't have to sell securities to match redemptions | The first day the stock trades without the dividend;<br>If stock bought on or after, it does not receive the dividend;<br>Always two business days before the holder of record date;<br>Stock falls by dividend amount on the ex-dividend date |

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|---|---|
| Exchange-Traded Derivatives | F-Test |
| Expansion | F-Test Statistic |
| Export subsidies | Face Value Discount = |
| Extraordinary Item | Factors Affecting Market Efficiency |

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|---|---|
| Used to compare two variances | Derivatives that are standardized and backed by a clearinghouse |
| Examines two sample variances, with the larger in the denominator and smaller in the numerator | Real GDP is increasing<br>Increasing employment, consumer spending and business investment<br>The start of each new expansion is called a recovery |
| (Fair Value - Price)/Face Value | Increase the good's price and decrease consumer surplus;<br>In a small country, the price of the good will increase by the amount of the subsidy. In a large country, the world price decreases and some foreign participants also benefit |
| +Number of market participants<br>+Availability of Information<br>+Impediments to trading<br>+Transaction and information costs | Item that is both unusual and infrequent;<br>Allowed only by GAAP |

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|---|---|
| Factors Increasing Reinvestment Risk | Fama-French Model |
| Factors Influencing Difference Between Nominal and Zero-Vol Spreads | Features of preparing financial statements |
| Factors Influencing Industries | Federally Related Institutions Not Guaranteed |
| Fair Dealing | FIFO |

| | |
|---|---|
| Estimates a security's sensitivity to firm size, book to market value and excess market return; Carhart adds sensitivity to price momentum | +Coupon is higher so interest cash flows are higher<br>+A call feature<br>+Is amortizing<br>+Contains prepayment option |
| +Fair presentation<br>+Going concern basis<br>+Accrual basis<br>+Consistency<br>+Materiality<br>+Aggregation of only similar items<br>+No offsetting of assets against liabilities or revenues against expenses unless explicitly stated by a standard<br>+Reporting frequency is annual | ~The steeper the benchmark spot rate curve, the greater the difference between the two and an upward/downward sloping curve produces a Z spread greater/smaller than nominal spread<br>~The shorter the maturity, the greater the difference |
| +Tennessee Valley Authority<br>+Private Export Funding Corporation | +Macroeconomic<br>+Technology<br>+Demographics<br>+Government policies<br>+Social influences |
| *GAAP and IFRS<br>*Each unit sold is matched with the unit's actual cost<br>*Most appropriate when items are not interchangeable and when firms have a small number of costly and distinguishable items | If a client places an order that goes against the firm's recommendation for that security, members and candidates should inform the client of the discrepancy between the order and the firm's recommendation before accepting the order. |

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|---|---|
| Finance (Capital) Lease | Financing Activities |
| Financial account components | Firm Specific Credit Factors |
| Financial Leverage = | First Stage Financing |
| Financial Risk | Fiscal policy tools |

| | |
|---|---|
| +Principal from issued debt<br>+Proceeds from issued stock<br>+Principal paid on debt<br>+Payments to reacquired stock<br>+Dividends paid to shareholders | Basically a purchase of an asset that is financed by debt;<br>Lessee adds equal parts asset and liability to the balance sheet at inception;<br>Lessee includes principal payments is an investing cash outflow while the interest payment is an operating cash outflow under GAAP;<br>Depreciation expense is recognized on the asset and interest expense on the liability;<br>Lessor takes asset off of balance sheet and replaces it with a lease investment account;<br>Leads to higher EBIT calculations and net income will be lower in early years and higher in later years |
| *Past payment history<br>*Quality of management and their ability to adapt to changing conditions<br>*Industry outlook and firm strategy<br>*Overall debt level of firm<br>*Operating cash flow and ability to service debt<br>*Sources of liquidity<br>*Competitive position, regulatory environment and union history<br>*Financial management and controls<br>*Susceptibility to event and political risk | -Government owned assets abroad<br>-Foreign owned assets in the country |
| The funding used during the transition to commercial production and sales of products | Average Total Assets/Average Total Equity |
| *Transfer payments (entitlement programs)<br>*Current spending<br>*Capital spending<br>*Direct taxes<br>*Indirect taxes | Risk that the firm's common stockholders must bear when a firm uses fixed cost financing |

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| Fisher effect | Fixed Income Arbitrage |
| Fisher index | Fixed Income Financial Statement Disclosures |
| Fixed Asset Turnover | Float Adjusted Market Weighting Index |
| Fixed Charge Coverage = | Floating-Rate Bonds |

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|---|---|
| Take long and short positions in bonds to benefit from mispricing while minimizing interest rate effects | Nominal interest rate equals the sum of expected inflation and the real interest rate;<br>Consistent with money neutrality;<br>Can be modified to add a risk premium for inflationary uncertainty |
| +Nature of liabilities<br>+Maturity dates<br>+Stated and effective interest rates<br>+Call provisions and conversion privileges<br>+Restrictions imposed by creditors<br>+Assets pledged as security<br>+The amount of debt maturing in each of the next 5 years | Geometric mean of a Laspeyres index;<br>Used to eliminate bias from substitution |
| Like a market cap index but are based on the proportion of each firm's share value available to investors to the total market value of the index available to investors;<br>Stock with large controlling shareholders will have less weighting in index;<br>Advantage is weights represent total market value;<br>Disadvantage is the relative impact of a stock's return on the index;<br>S&P 500 is an example | Measures the utilization of fixed assets;<br>FAT = Revenue/Average Net Fixed Asset |
| Coupon payments are based on another rate or index;<br>Reference rate is the underlying rate;<br>Payment is a specified spread applied to the reference rate;<br>Indenture lists schedule of rate changes | (EBIT + Lease Payments)/(Interest Payments + Lease Payments) |

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| Flotation Costs | Form 10-Q |
| Foreign Currency Translation Loss | Form 144 |
| Form 8-K | Form DEF-14A |
| Form 10-K | Form S-1 |

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| Quarterly report | Fees charged by investment banks when raising equity capital; Correct way to account for flotation costs is to include them in the initial project cost |
| Notice to the SEC of a sale of non-registered securities | Taken directly to owners' equity |
| Proxy statement | Discloses material events |
| Filed before sale of a new security | Annual report |

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| Formal dollarization | Forward Contract |
| Formative Stage Financing | Forward Contract |
| Forms 3, 4, 5 | Forward Dealer |
| Forward Contract | Forward End-User |

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| One party agrees to buy, and the counterparty to sell, a physical asset or security at a specific price on a specific date in the future | Using another country's currency; Country can't set its own monetary policy |
| Agreement to buy or sell an asset in the future at a specified price in the contract at its inception | Spanning seed stage to first stage financing |
| Someone who has a balanced book of positions and make money off of the bid-ask spread | Notices of insider ownership |
| Someone looking to lock in a future price | A bilateral contract that obligates one party to buy and the other to sell a specific quantity of an asset, at a set price, on a specific date in the future;<br>No premium is paid to get into the contract ;<br>Used to hedge risk and speculate on prices;<br>Buyer has long position;<br>Seller has short position;<br>Can terminate a forward contract by entering into the opposite position in another trade |

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| Forward Rate | Free Cash Flow |
| Forward Rate Agreement | Free Cash Flow to Equity |
| Fraud Triangle | Free trade area |
| Free Cash Flow | Frictional unemployment |

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| Represents the total amount that could be paid to investors;<br>The cash remaining after a firm meets all of its debt obligations and provides for capital expenditures necessary to maintain existing assets or purchase new ones;<br>FCF = Net Income + Depreciation - Increase in Working Capital - Fixed Capital Investment - Debt Principal Repayments + New Debt Issues;<br>FCF = Cash Flow from Operations + Net Borrowing - Fixed Capital Investment | Borrowing/lending rate for a loan to be made at a future date;<br>Borrowing for three-years at a three year rate or for 1-year periods, three in succession, should cost the same |
| Cash flow that would be available for distribution to common shareholders;<br>= Cash Flow from Operations - Fixed Capital Investment + Debt Issued - Debt Repaid | A forward contract to lend/borrow money at a certain rate in the future;<br>Cash settled, no loan is made;<br>Creditworthiness is not considered;<br>If yield goes up, long gets paid; if yield goes down, short gets paid<br>Payment = (Nominal Principal) **[(Floating Rate - Forward Rate)** (Days/360)]/[1 + (Floating Rate * Days)/360] |
| All barriers to import and export of goods and services among member countries are removed | -Incentive/Pressure<br>-Opportunity<br>-Attitude/Rationalization |
| The time lag necessary to match employees to employers | Cash available once the firm has covered it's capital expenditures;<br>= Net Income + Noncash Charges + (Interest Expense * [1 - tax rate]) - Fixed Capital Investment - Working Capital Investment;<br>= Cash Flow from Operations + (Interest Expense * [1 - tax rate]) - Fixed Capital Investment |

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| Front-Running | Funded Investor |
| Functions of Financial System | Future Contract |
| Functions of Intermediaries | Future Income and Interest Rates Relationship |
| Fundamental Weighting Index | Futures Contract |

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| Investor who borrows to finance an investment position | Prohibited for employees at financial firms |
| Same as forward but are standardized in amount, asset characteristics and delivery time; Greater liquidity than forwards since they are traded on a secondary market | +Allow entities to save and borrow money, raise equity capital, manage risks and<br>trade assets<br>+Determine returns required for the supply of savings to equate to the demand for borrowing<br>+Allocate capital to the most efficient uses |
| Increases in expected future incomes will increase the equilibrium interest rate. | *Organize trading venues<br>*Supply liquidity<br>*Securitize assets<br>*Manage banks, insurance firms and investment advisory services<br>*Providing clearinghouses to settle trades<br>*Manage depositories |
| A forward contract that is standardized, traded in a secondary market, regulated, backed by a clearinghouse, requires daily settlement of gains and losses, and exchange-traded | Weights are based in firms' fundamentals, like earning, dividends or cash flow;<br>Avoids bias of market cap indices to overvalued firms;<br>Has a value tilt, overweighting firms with higher value-based metrics |

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| GAAP Asset Impairment | GAAP Treatment of Impaired Assets |
| GAAP Inventory Requirements | Gambler's Fallacy |
| GAAP PP&E Disclosures | Geometric Mean |
| GAAP Qualifications for a Finance Lease from Lessee's & Lessor's Perspective | Giffen good |

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| *Only tested for impairment when it is deemed necessary<br>*First tested for recoverability then the loss is measured<br>*No loss recovery is allowed | Book value is greater than the sum of the estimated undiscounted future cash flows from its use and disposal |
| When recent events affect investors' perceptions of future probabilities | Requires inventory be reported at the smaller of cost or market value;<br>Market price is usually replacement cost but cannot be greater than net realizable value or net realizable value minus a normal profit margin;<br>Even if inventory has to be written down, it is not allowed to be written back up |
| Compounded annual rate of return for an investment | +Depreciation expense by period<br>+Balances of major asset classes by nature and function<br>+Accumulated depreciation<br>+General description of the methods used |
| An inferior good for which the income effect outweighs the substitution effect so that the demand curve is positively sloped (higher the price, higher the demand) | *Title of asset is transferred to the lessee at the end of period<br>*A bargain purchase option is available to the lessee to buy the asset at a price significantly below market value at some future date<br>*The lease period is 75% or more of the assets economic life<br>*The present value of the lease payment is 90% or more of the assets fair market value<br>*Collection of lease payments is fairly certain (lessor only) |

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| GIPS Compliance with CVGs | Global Macro Funds |
| Global Depository Receipts | Global Minimum Variance Portfolio |
| Global Fund | Global Registered Shares |
| Global Macro Fund | Going Concern Assumption |

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| Make bets on the direction of a market, currency, interest rate or some other factor;<br>HIghly levered through the use of derivatives | Firms may include performance figures for periods prior to January 1, 2006, that were compliant with their applicable CVG, together with GIPS-compliant performance figures for periods after that date, and claim GIPS compliance |
| The portfolio on the efficient frontier with the least risk | Receipts issued outside both the US and the firm's domestic market;<br>Usually denominated in US Dollar;<br>Not subject to capital flow restrictions and allow the firm and investor greater opportunities for foreign investment |
| Shares that trade in different currencies on exchanges around the world | Invests in strategies all over the world |
| The company will remain in operation for the foreseeable future | Speculates on changes in international interest rates and currency rates, often using derivatives and leverage |

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| Golden Cross | Gross Profit |
| Golden Parachute | Gross Profit Margin = |
| Gordon Growth Model | Gross Return |
| Greenmail | Gross Revenue Reporting |

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| Amount that remains after the direct costs of producing a good are subtracted from revenue | When the short term average crosses above the long term average;<br>Indicate uptrend |
| Gross Profit/Revenue | A rich severance package for managers who lose their jobs after a takeover |
| Total return in a security before fees and expenses | Assumes annual growth rate of dividend is constant;<br>Stock value equals the dividend divided by the difference of the required return and the dividend growth rate |
| When the cost of goods sold and sales revenues are reported separately;<br>Sales are higher than under Net Revenue Reporting | The right of the company to use corporate funds to buy back the shares of a hostile acquirer at a premium to market value |

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| Growth Stage | Headline inflation |
| Guarding Against Inflation | Heckschler-Ohlin model |
| Harmonic Mean | Hedge Fund Indices Problems |
| Head and Shoulders Pattern | Hedge Funds |

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| Measures inflation of all goods | When industry is growing rapidly;<br>Rapid growth;<br>Limited competitive pressures;<br>Falling prices;<br>Increasing profitability |
| Takes into account a country's labor and capital;<br>Assumes capital receives more income than labor | When policy rate is less than the neutral interest rate |
| *Self-selection bias<br>*Backfilling bias<br>*Survivorship bias<br>*Smoothed pricing<br>*Return measures do not account for unlimited downside with limited upside with options<br>*The incentive fees give the manager reason to take extra risk since they have nothing to lose | The mean of n numbers expressed as the reciprocal of the arithmetic mean of the reciprocals of the numbers |
| Pools of investor funds that are not regulated to the same extent as mutual funds | Suggests that demand drove the uptrend but it is fading;<br>More telltale if the highs are hit on declining volume;<br>Range between the head and the neckline is how far the trend is supposed to decrease past the right "shoulder" |

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| Hedonic index | Holder-Of-Record Date |
| Herfindahl-Hirschman Index | Holding Period Return = |
| Hidden Orders | Holding Period Yield |
| High Willingness to Bear Risk, Low Ability to Bear Risk | Identifiable Tangible Asset |

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| The date that share holders on record are owed the dividend | Adjusts a price index for the quality of goods used in basket |
| (Price Change + Dividend)/(Initial Price) | Adds up the sum of the squares of the largest firms in the market |
| Holding Period Return = (ending value/beginning value) - 1<br>OR<br>= (ending value - beginning value + cash flow received)/(beginning value) - 1 | Orders where only the broker knows the trade size |
| Capable of being separated from the firm, controlled by the firm and expected to provide future economic benefit | The low ability will win out in an advisor's assessment |

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| If Company Redeems Bonds | IFRS Treatment of Impaired Assets |
| IFRS Inventory Requirements | Impact lag |
| IFRS PP&E Disclosures | Implications of Gordon Growth Model |
| IFRS Qualifications for a Finance Lease from the Lessee's & Lessor's Perspective | In verification, a third-party attests that: |

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| *Assets must be evaluated annually<br>*Impaired if its carrying value exceeds its recoverable amount<br>*An impaired asset must be written down on the balance sheet and the impairment loss of the difference of the carrying value and the recoverable amount is recorded on the income statement<br>*Asset can be revalued up if the recoverable amount rises | A gain or loss is recognized by subtracting the redeem price from the book value of the bond liability at the redeem date;<br>GAAP requires any remaining unamortized bond issuance costs must be written off and included in the gain or loss calculation;<br>IFRS requires no write down since the legal and issuance costs have already been deducted |
| Time it takes for fiscal policy to produce change once out into law | When inventory purchased or sold is recorded directly in the inventory account;<br>Inventory is written down if net realizable value is less than cost and written back up if necessary |
| *If the gap between the discount and dividend growth rates grows, stock price falls and vice versa<br>*Small changes in rates can change stock price significantly | +Historical cost<br>+Useful life and depreciation rates<br>+Gross carrying value and accumulated depreciation<br>+Reconciliation of carrying amounts from beginning to end of period<br>+Title restrictions and assets pledged as collateral<br>+Agreement to acquire any PP&E in the future |
| +The firm has complied with all GIPS requirements for using composites firm wide<br>+The firm's processes and procedures are established to present performance in accordance with the calculation methodology, data requirements and in the format required by GIPS | *All rights and risks of ownership are transferred to the lessee<br>*Title is leased asset is transferred to lessee at end of lease<br>*The lessee can purchase the asset at a price significantly lower than the fair value of the asset at some future date<br>*The lease term covers a major portion of the asset's economic life<br>*The present value of the lease payments is substantially equal to the fair value of the leased asset<br>*The leased asset is so specialized that my the lessee cause the asset without significant modification |

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|---|---|
| In-Kind Creation and Redemption | Income Tax Expense |
| Incentive/Pressure | Income Tax Expense |
| Incidence of tax | Increased Collection Period |
| Income effect | Increases to Producer Surpluses |

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| Income tax expense is the expense recognized on the income statement that includes taxes payable and changes to the deferred tax assets and liabilities<br>= Taxes Payable + Changes in Deferred Tax Liability - Changes in Deferred Tax Assets | When authorized participants ensure an efficient and orderly market;<br>Can create new shares by depositing with a trustee a portfolio of stocks that track the index;<br>Can redeem shares with the trustee for underlying portfolio;<br>Keeps market price close to NAV;<br>No capital gains to fund, resulting in no tax liability |
| Is a non-operating item that is reported within "income from continuing operations" | Motive for fraud;<br>Threats to financial stability or profitability;<br>Excessive third-party pressures on management;<br>Personal net worth of management or the board of directors is threatened;<br>Excessive pressure on management or operating personnel to meet internal financial goals |
| Indicates that customers are taking longer to pay their outstanding accounts;<br>Represents a drag on the company's liquidity | Who ends up bearing the cost of a tax |
| Import quotas, tariffs and volunteer export restraints | Either increase or decrease a good that has fallen in price;<br>Typical of normal good to have a positive income effect;<br>Typical of inferior good to have negative substitution effect |

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| Increasing Required Rate of Return and Decreasing Dividend Payout | Independence Test |
| Incremental Cash Flow | Index Amortizing Notes |
| Indecent entry floating exchange rate | Index Fund |
| Independence and Objectivity | Indexed Commodity Strategy |

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| Events are independent if P(A\|B) = P(A) | Reduce a company's PE |
| Structured Note with fixed coupons but pay back some principal early based on a reference rate | Does not include financing costs |
| Match returns of a particular index | Market determined and only influenced by monetary authorities to slow the rate of movement, not keep them at a certain level |
| An active investment because rolling risk and investing on the futures curve require active management;<br>Weights of various commodities and blocks can change over time and must be managed;<br>Collateral must be managed | Specifically addresses the requirement of disclosure of the nature of any compensation from the subject company |

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| Indifference Curve | Inflation Risk |
| Indirect Cash Flow Method | Information Cascades |
| Indirect Cash Flow Method Process | Informational Efficiency |
| Indirect quote | Initial Margin |

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| Uncertainty of future inflation rates and decreased real return rates | A plot of the combinations of risk and return that an investor is indifferent to;<br>Slope upward for risk adverse investors because they will only take more risk if they get paid for it |
| Uninformed traders watch the actions of informed traders and follow when they are given a lot of unclear information;<br>Consistent with investor rationality and improved market efficiency if they stem from uninformed traders;<br>Said to be fragile if it does not lead towards the correct pricing of an asset | Converts net income into operating cash by making adjustments for transactions that affect net income but are not cash transactions;<br>Eliminate noncash expenses and nonoperating items;<br>Only presents the net of cash receipts and payments;<br>Focuses on the differences between net income and operating cash flow |
| Prices reflect all information associated with fundamental value in a timely fashion;<br>Allocationally efficient is capital is allocated to its most efficient use;<br>Brought by traders who bid prices up and down in response to new information;<br>Helped by accounting standards and financial reporting requirements | 1. Begin with net income<br>2. Subtract gains or add loses from financing or investing cash flows<br>3. Add back all noncash charges to income and subtract all noncash components of revenue<br>4. Subtract increases in operating assets and add back decreases<br>5. Add increases in operating liabilities and subtract decreases |
| The money deposited in a futures account before trading begins;<br>Typically around one day's maximum price movement | The amount of foreign currency that can be bought for one unit of home currency |

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| Installment Sales | Integrity of Capital Markets: |
| Insurance Companies | Interest Coverage |
| Insurance Contract | Interest Coverage |
| Insured Bonds | Interest Expense |

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| +Material Nonpublic Information<br>+Market Manipulation | When a firm finances a sale and payments are expected to be received over an extended period of time;<br>If collection is certain, revenue is recorded at the time of sale;<br>If not certain, either the installment method or cost recovery method can be used;<br>In the installment method, profit is recognized as cash is collected and equals the cash collected multiplied by the total expected profit as a percentage of sales;<br>The cost recovery method only recognizes profit when cash collected exceeds costs incurred |
| Assesses the company's ability to pay back it's debt;<br>IC = EBIT/Interest Payments | Collect insurance premiums in return for providing risk reduction to the insured |
| Measures the firms ability to meet its interest obligations;<br>IC = (CFO + Interest Paid + Taxes Paid)/Interest Paid | Security that pays a cash amount if a future event occurs;<br>Used as a hedge |
| The book value of the bond times the market rate of interest when the bond was issued | Carry a third-party guarantee that cannot be cancelled and is good for the life of the bond;<br>Usually raises rating to AAA;<br>More common for a revenue bond than general obligation |

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| Interest Rate Cap | Interest Rate Swap |
| Interest Rate Floor | Interest Rate Swap |
| Interest Rate Option | Interest Rate Theories |
| Interest Rate Risk | Interest Rate Tools of the Fed |

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| When floating rate interest payments are exchanged for fixed rate payments | A series of interest rate call options that have expiration dates that correspond to the reset date on a floating-rate loan;<br>Protect a floating-rate borrower;<br>Pays when rate rises above the cap |
| An exchange of one loan for another (typically one is a floating rate, the other is a fixed rate);<br>Total loan amount isn't exchanged, just the difference between the liabilities at the end of the period | A series of floating rate options that have expiration dates that correspond to the reset date on a floating-rate loan;<br>Protect floating rate lenders;<br>Pays when rate falls below floor |
| +Pure Expectations Theory<br>+Liquidity Preference Theory<br>+Market Segmentation Theory | Have an interest rate as the exercise price and reference are as the underlying asset;<br>No deliverable asset and are only cash settled;<br>Mostly European options;<br>Long gets paid when reference rate exceeds strike price; short gets paid when reference rate is below strike price;<br>LONG RATE CALL COMBINED WITH A SHORT RATE PUT IS THE SAME AS A LONG FORWARD RATE AGREEMENT |
| +Discount rates<br>+Open market operations<br>+Bank reserve requirements<br>+Persuading banks to change credit policies | The effect of changes in bond rates on bond values |

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| Interest Rates and Financial Capital Relationship | Inventory Turnover |
| Interpretations of Duration | Inventory Valuation Methods |
| Inventory Cost Changes | Inverse Floater |
| Inventory Disclosure | Investing Activities |

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| Measures a firms efficiency with inventory;<br>IT = Cost of Goods Sold/Average Inventory | If the demand for financial capital rises, interest rates also rise |
| +Specific Identification<br>+First-in, first-out<br>+Weighted average cost<br>+Last-in, first-out | +Duration is the slope of the price-yield curve at the bond's current YTM<br>+Duration is a weighted average of the time until each cash flow<br>+Duration is the approximate percentage change in price for a 1% change in yield |
| Structured note increase when reference rates decrease and vice versa | Must be changed retrospectively on all past financial statements;<br>IFRS requires an explanation as to why a change provides better information;<br>GAAP requires an explanation as to why the cost flow method is preferable;<br>IF CHANGING TO LIFO, NO CHANGES ARE MADE RETROSPECTIVELY AND THE OLD METHOD JUST BECOMES THE FIRST LAYER OF THE LIFO COST BASIS |
| +Sales proceeds of fixed assets<br>+Sale of debt and equity instruments<br>+Principal from loans made to others<br>+Acquisition of fixed assets<br>+Loans made to others<br>+Acquisition of debt and equity investments | +Cost flow method used<br>+Total carrying value of inventory, with carrying value by classification if appropriate<br>+Carrying value of inventory recognized at fair value minus selling costs<br>+Total COGS for the period<br>+Amount of inventory write downs during a period, as well as any write ups with a description of the event<br>+Carrying value of inventories pledged as collateral |

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| Investing and Financing Ratio | Investment Property |
| Investment Analysis, Recommendations and Actions: | Investment Property Transfers |
| Investment Bank's IPO Conflict of Interest | Investor's Utility Function |
| Investment Constraints | IS curve |

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| Held by a firm for the purpose of collecting rental income and gaining capital appreciation;<br>ONLY DISTINGUISHED BY IFRS;<br>Can be valued using fair value or cost model;<br>Any upside revaluation is recognized as a gain on the income statement;<br>Must disclose the the valuation model used | Measures the firms ability to purchase assets, satisfy debts and pay dividends;<br>IF = CFO/Investing and Financing Cash Outflows |
| If from owner-occupied to investment property, treat as a revaluation and recognize gain only if it reverses a previous loss;<br>If from inventory to investment property, recognize a gain or loss if fair value is different from carrying amount;<br>If from investment property to owner-occupied or inventory, the cost basis is the property's fair value at that date; | +Diligence and Reasonable Basis<br>+Communications with Clients<br>+Record Retention |
| Represents the investor's preference in terms of risk and return | As an agent, they should set a high price to maximized the funds raised for the issuer but, as underwriters, they want the price to be low so the whole issue sells |
| Shows the inverse relationship between the real interest rate and income;<br>Decrease in real interest rates -> decrease in financing costs -> increase in capex by businesses -> same increase in savings as capex | +Liquidity<br>+Time horizon<br>+The tax treatment<br>+Legal and regulatory constraints<br>+Ethical or personal preferences |

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| Issue Specific Credit Factors | Keynesian |
| Issuing an Investment Recommendation Report | Kinked demand curve |
| Jensen's Alpha = | Lagging economic indicators |
| Joint Probability | Lags of fiscal policy |

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| Demand fluctuations are due to swings in the level of optimism of business owners and that business owners overinvest when optimistic and underinvest when pessimistic;<br>Argue that wages are "downward sticky" and it is difficult to reduce them in times of recession;<br>Believe government should control expectations with monetary or fiscal policy;<br>Policymakers can use the budget to diminish aggregate demand through restrictive fiscal policy | *Priority of claim being rated<br>*Value/quality of collateral pledged to issuance<br>*Covenants of issuance<br>*Any third-party guarantees or insurance |
| Based on the assumption that an increase in a firm's product price will not be followed by its competitors, but a price decrease will;<br>Firms assume that demand is more elastic above a certain price than below it;<br>Firms produce the quantity at the kink, assuming if they increase production, their revenues will be eroded by decreased prices and if they decrease production the price won't go up much;<br>Model doesn't account for cause of kinks | All clients of a firm must be given it at the same time |
| Average duration of unemployment<br>Inventory to sales ratio<br>Labor cost per unit of output<br>Average prime rate<br>Commercial and industrial loans<br>Consumer installment credit to income ratio<br>Consumer price index | Portfolio Return - Portfolio's CAPM;<br>Most appropriate when a fund has multiple managers and only has systematic risk |
| +Recognition lag<br>+Action lag<br>+Impact lag | $P(AB) = P(A\|B) * P(B)$<br>$P(A\|B) = P(AB)/P(B)$ |

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|---|---|
| Laspeyres index | Lease Disclosures |
| Later Stage Financing | Leptokurtic |
| Leadership Strategy | Leverage |
| Leading economic indicators | Leveraged Buyout |

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| +General description of leasing arrangement<br>+Nature, timing, and amount of payments to be paid or received in each of the next 5 years (payments can be aggregated)<br>+Amount of lease revenue and expense reported in the income statement for each period presented<br>+Amounts receivable and yearned revenues from lease arrangement<br>+Restrictions imposed by legal agreements | Uses a constant basket of goods;<br>Can be biased to upward movement when old products are replaced by newer and more expensive products, higher quality products replacing lower quality and by consumers using substitute goods when those in the basket get expensive |
| Bigger peak and smaller tails than a normal distribution (k>3) | Financing when marketable goods are in production and sales are underway |
| Amount of fixed costs a firm has | The firm seeks to have the lowest costs of production in the industry;<br>Either to protect or grow market share;<br>Pricing can be aggressive or predatory;<br>Managerial incentives are to improve efficiency |
| When an investor buys an entire firm with debt financing;<br>Called a managed buyout if it is the firm's management that is taking it private;<br>Firms usually have cash flow to service the debt or undervalued assets hat can be sold to pay down debt over time | Average hours worked weekly<br>Weekly unemployment claims<br>New manufacturer orders<br>Index of supplier deliveries<br>New building permits<br>Stock prices<br>Money supply<br>Interest rate spreads<br>Consumer expectations index |

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| Leveraged Equity Real Estate Ownership | LIBOR |
| Leveraged Position | LIFO |
| Leveraged Return | Limit Move |
| Liability's Tax Base | Limit Order |

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| The rate paid on negotiable CDs by banks and bank branches located in London;<br>Most important reference rate for floating-rate debt | Investor the same entitlements of outright ownership but must meet conditions of the loan |
| *GAAP only<br>*Values inventory at a historical cost basis<br>*In an inflationary/deflationary environment, earnings are lower/higher | When borrowed funds are used to purchase assets;<br>Funds are considered margin loans;<br>Interest paid is called the call money rate;<br>The initial margin requirement is the minimum amount of equity an investor is required to provide at time of new margin purpose;<br>Additional risk in portfolio is considered risk from financial leverage |
| When a future exceeds its limit and trading does not take place | A return that is a multiple of the return on the underlying asset |
| Places a minimum execution price for a sale or maximum execution price for a buy;<br>Not guaranteed to be filled;<br>Marketable or aggressively priced if buy/sell order is above the best ask/below the best bid;<br>A limit between bid and ask is said to be making a new market or inside the market;<br>Standing orders are limits waiting to be executed | The carrying value of the liability minus any amounts that will be deducted on the tax return in the future |

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| Limit Order "Behind the Market" | Limitations of Ratio Analysis |
| Limit Order "Far From the Market" | Limited Tax General Obligation Bonds |
| Limit Order "Making the Market" | Liquidating Dividend |
| Limitation of Yield to Maturity | Liquidity Drag |

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| *Not useful when viewed in isolation<br>*Skewed by different accounting treatments<br>*Difficult to find appropriate ratios when companies compete in multiple industries<br>*Conclusions can't be made by looking a a single ratio<br>*Determining a target or comparison value of a ratio is difficult | A buy order below the best bid or a sell order above the best ask |
| Subject to a statutory limit on taxes that may be raised to pay off the obligation;<br>General obligation | A buy considerably lower than the best bid or a sell considerably higher than the best ask |
| When a company goes out of business and distributes its proceeds to shareholders;<br>Treated as a return of capital for tax reasons and not taxed unless it is over the investor's cost basis | A buy order at the best bid or sell at the best ask |
| Delay or reduce cash inflows or increase borrowing costs | Doesn't tell the compounded rate of return that will be realized on a fixed income security;<br>Assumes reinvestment at the yield to maturity |

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| Liquidity Preference Theory | Locked Limit |
| Liquidity Pull | Lognormal Distribution |
| Liquidity Risk | Long Lived Assets: IFRS v. GAAP |
| LM curve | Long Position |

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| When trading stops due to a limit move | Both short-term rate expectations and a liquidity premium determine yields;<br>Consistent with longer maturities having higher yields;<br>Size of liquidity premium will depend on how much additional compensation investors require to take on the greater risk of longer maturity bonds;<br>Liquidity premium can distort information coming from the yield curve |
| The function e^x where x is normally distributed;<br>Positively skewed;<br>Bound to the left by 0<br>;Price relative is the ending price divided by the starting price | Accelerate cash outflows |
| Disclosures are more extensive under GAAP | Chance a bond will be sold at less than market price due to a lack of liquidity |
| When an investor owns, or has the right to own, an asset | Shows the combination of GDP and real interest rates;<br>Demand for money is inversely related to the real interest rate;<br>Demand for money is positively related to real income;<br>At equilibrium, there is a positive relationship between real income and real interest rates |

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| Long-Term Fixed Income | Low Willingness to Bear Risk, High Ability to Bear Risk |
| Long/Short Fund | Lower Bound of American Put |
| Long/Short Fund | Lower Bound of European Put |
| Longitudinal Data | M-Squared = |

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|---|---|
| Advisor can try to educate client, but it is not his responsibility to force client to take on more risk | Securities that have maturities more than 5 years;<br>Usually called bonds |
| The maximum of 0 and the present value of the strike price minus the stock price | Take long and short stock positions;<br>Largest category;<br>Not market neutral since they try to profit more from their long positions than their short positions |
| The maximum of 0 and the present value of the strike price | Buy securities that are expected to outperform the market and sell those that are expected to underperform |
| (Portfolio Return - Risk Free Rate) * (Market Standard Deviation/Portfolio Deviation) - (Market Return - Risk Free Rate);<br>Most appropriate when portfolio holds no systematic risk and is managed by one manager | Observations over time of multiple characteristics of the same entity |

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|---|---|
| M1 | Maintenance Margin |
| M2 | Managed floating exchange rate |
| M3 | Margin Debt |
| Macaulay Duration | Margin Percentage |

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| The amount of margin that must be maintained in a futures account;<br>Additional funds must be added to the margin account if the balance falls below the maintenance margin | Sum of currency in circulation and overnight deposits |
| When the monetary authority tries to influence exchange rates in response to specific economic indicators | M1 plus deposits with maturity up to two years and deposits redeemable at notice up to three months |
| An increase in the number indicates bullish sentiment;<br>Sentiment indicator | M2 plus repo agreements, money market funds and debt with maturity up to two years |
| The percentage of security value that is owed | An estimate of a bond's interest rate sensitivity based on years until promised cash flow will arrive;<br>Cannot be used for bonds with options |

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|---|---|
| Marginal Cost of Capital Break Points | Market Anomaly |
| Marginal cost of capital slopes _____, investment opportunity schedule slopes _____ | Market Cap Index Value = |
| Marginal cost pricing | Market Model |
| Market Anomalies | Market Order |

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| Something that would lead to a rejection of the hypothesis that markets are efficient | Show changes in the cost of capital |
| (Current Total Market Value of Stocks/Base Year Total Market Value of Stocks) * Base Year Index Value | upward, downward |
| Single factor model where the only factor is excess return on the market portfolio | Forces the monopoly to reduce price to the point where the firms marginal cost curve intersects the market demand curve |
| Instructs broker to execute trade immediately at best possible price | +The January effect is that in the first five days of January, stock returns are significantly higher than the rest of the year<br>+The overreaction effect is the finding that firms with poor stock returns over the last 5 years subsequently have higher turns in the next period than firms that performed well<br>+The momentum effect is that firms with high short-term returns are followed by continued high returns<br>+The size effect is that small cap stocks outperform large caps<br>+The value effect is that value stocks outperform growth stocks<br>+Closed end investment funds typically deviate from NAV at a discount<br>+Positive earnings surprises are generally followed by above average returns that last past the announcement day and can be exploited by buying positive surprises and selling negative surprises<br>+IPOs typically rise after issuance and then fall in the long term |

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|---|---|
| Market Premium | Market-Neutral Fund |
| Market Segmentation Theory | Markets for Commodities |
| Market Weighting Index | Marshall-Lerner condition |
| Market-Neutral Fund | Mature Stage |

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|---|---|
| Long/short funds where the short exposure nets out the long | Difference between the risk free rate and the market return |
| +Spot<br>+Futures<br>+Forwards | The supply of bonds and demand for bonds determine equilibrium yields for various maturity ranges;<br>Different investors may have strong preferences for maturity ranges that closely match their liabilities |
| The demand for exports plus the demand for imports is greater than 1;<br>Under this condition, depreciation of a currency will decrease a trade deficit;<br>For export elasticity, the worst case is completely inelastic demand because the decrease in foreign currency has no effect on the quantity demanded;<br>For import elasticity, the worst case is perfectly inelastic demand because the quantity demanded remains the same as price changes;<br>Overall, currency depreciation will improve the trade deficit when either import or export demand is elastic;<br>Only considers trade flows and not capital flows | Weightings based on the market cap of each stock as a proportion of the index's market cap;<br>Replicated by a portfolio in which the value of each security position is the same proportion of the security's market cap to the index's market cap;<br>Not adjusted for dividends or stock splits;<br>An alternative is to incorporate a security's number of shares available to the investing public, or a security's float |
| When there is little industry growth and firms consolidate;<br>Slow growth;<br>Consolidation;<br>High barriers to entry;<br>Stable pricing;<br>Superior firms gain market share | A type of long/short fund that attempts to make money despite what the general market is doing;<br>Long and short positions net themselves out |

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| Maximum Price for American Put | Measurement Scales |
| Maximum Price for European Put | Mental Accounting |
| Maximum Price of a Call Option | Mesokurtic |
| Mean Absolute Deviation | Mezzanine Financing |

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| +Nominal scales are arbitrary ways of coding data<br>+Ordinal scales are coding data categorically based on some sensical order that is relative<br>+Interval scales are coding data in an order that has an equal distance between scale values<br>+Ratio scales provide ranking, equal distance between values, and a true 0 | Put's strike price |
| When investors classify different investments into separate mental accounts rather than viewing them as one portfolio | Present value of option's strike |
| Kurtosis equal a normal distribution (k=3) | Stock's current price |
| Financing enables the company the financing to go public | Average of the absolute values of each deviation |

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|---|---|
| Minimum Option Price | Money Market Fund |
| Modified Duration | Money Market Yield |
| Monetary union | Money Markets |
| Monetary union | Money neutrality |

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|---|---|
| Invest in short-term debt securities and provide interest income with low risk; NAV is set at $1.00 | 0 |
| = HPR * (360/days until maturity) | Similar to Macaulay but takes into account YTM; = (Macaulay Duration)/(1 + Periodic Market Yield) |
| Markets for debt securities with maturities of one year or less and capital markets are for longer term debt securities and equities | Countries use a shared currency; Can't make their own monetary policy but participate in making the policy of the union |
| The belief that real variables (real GDP and velocity) are not affected by monetary variables (money supply and prices) | All benefits of an economic union; Member countries adopt a single currency |

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| Money Weighted Return | Mortgage Backed Securities |
| Money-Weighted Return | Mortgages |
| Monopolistic competition | Moving Average Convergence/Divergence (MACD) |
| Monopoly | Multi-Step Format |

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| Backed by pools of mortgage loans that provide both collateral and cash flow;<br>Self-amortizing and can be paid early;<br>Issued by Ginnie Mae, Fannie Mae and Freddie Mac;<br>Cash flows are of periodic interest, scheduled principal repayments, and unscheduled principal payments;<br>Mortgage pass through securities pass payments made on a pool of mortgages through proportionally to each security holder;<br>Collateralized mortgage obligations are derivatives of mortgage passthroughs;<br>Stripped mortgage-backed securities are either principal or interest portions of a mortgage backed security | Same as IRR |
| Receives monthly principal and interest payments paid by a borrower;<br>If borrower defaults, investor gets ownership | IRR of a portfolio |
| Lines drawn by smoothing moving average curves and putting more weight on recent observations;<br>Difference between two moving average lines;<br>Signal Line is the smooth moving average of the MACD line;<br>The crossing of the MACD line above the Signal Line is a buy signal, the opposite is a sell signal;<br>Oscillator | Many firms that compete with differentiated products;<br>Demand curve is downward sloping and is highly elastic;<br>Quality, Price and Marketing are key differentiators ;<br>Low barriers to entry;<br>Firms must advertise and innovate;<br>In short run maximize economic profits by producing where marginal revenue equals marginal cost ;<br>In long run, price equals average total cost and economic profits are 0 |
| Gross profit is included | Only one seller in the market and there are no good substitutes;<br>High barriers to entry;<br>Maximize profit, not price;<br>Profit maximized when marginal revenue equals marginal cost when demand curve is above ATC |

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| Multi-Year Dividend Discount Model | Mutual Fund Cash Position |
| Multifactor Model | Mutual Termination |
| Multiple Price, Regular Auction Cycle | Narrow Framing |
| Mutual Fund | Nash equilibrium |

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| Ratio of a mutual fund's cash to its total positions;<br>Increases in a down market, decreases in an up market | Add each year's dividends discounted by each years required return on equity to the present value of the terminal value;<br>Most of the time they use an infinite holding period model where the terminal value is calculated at some point in time when growth rates remain constant |
| One party pays the other to end the swap | Normally take into account macroeconomic factors along with fundamental factors and statistical factors and estimates the sensitivity of a security to each factor |
| When investors see events in isolation | Winning bidders receive bonds at the price each bidder bid |
| When the choice of all firms are such that there is no other choice that makes any firm better off;<br>Each decision maker will unilaterally choose what's best for himself | Pooled investments where each investor owns shares representing ownership of a portion of the portfolio |

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| Natural monopoly | Neoclassical |
| Negative Covenants | Net Asset Value |
| Negative Skew | Net Operating Income |
| Negotiated Offering | Net Profit Margin = |

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| Shifts in aggregate supply and demand are driven by technology over time and that the economy has a strong tendency towards full employment;<br>Business cycle is a temporary deviation from the long-run equilibrium | When the average cost of production is falling over the relevant range of demand and having two or more producers would lead to hire production costs and hurt the consumer |
| Total net value of its assets divided by the shares outstanding | When the borrower promised to refrain from certain activities than can adversely affect the lenders position |
| Gross operating income minus estimated vacancy, collections and other operating expenses | Long tail to the left and Mean < Median < Mode |
| Net Income/Revenue | When the price is determined between the lead investment bank and the issuer |

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| Net Return | New Classical |
| Net Revenue = | New Keynesian |
| Net Revenue Reporting | Nominal Spread |
| Neutral Interest Rate | Non-accelerating inflation rate of unemployment (NAIRU) |

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| Believe in Real Business Cycle Theory;<br>Argue that governments shouldn't try to fight business cycles;<br>Emphasize the effect of external shocks and technology on aggregate demand | The return of a security after fees and expenses are paid |
| Modify Keynesian by saying all inputs of productivity are downward sticky, not just labor | Revenues - ordinary expenses + other income - other expenses + gains - losses |
| The difference between a bond's YTM and a similar Treasury's YTM;<br>Uses a single discount rate;<br>Ignores the shape of the yield curve and is technically only correct if yield curve is flat | Reports the difference between the two figures |
| The natural weight of unemployment | Sum of the real growth rate and the target inflation |

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|---|---|
| Non-Amortizing (Bullet) Bonds | Non-Cyclical Sectors |
| Non-controlling/Minority Interests | Non-Parallel Shift |
| Non-Current Assets | Non-Refundable Bonds |
| Non-Current Liabilities | Nonparametric Tests |

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| +Healthcare<br>+Utilities<br>+Telecom<br>+Consumer staples | Pays interest until maturity, then principal is repaid |
| When not all maturities change by the same amount | In the equity section of the balance sheet; Represents the portion of the subsidiary that is not owned by the reporting firm |
| Can be called but cannot use borrowed money to buy back bonds;<br>Can be called but not refunded | +Plants, Property, and Equipment<br>+Investment Property<br>+Intangible Assets<br>+Goodwill<br>+Financial Assets |
| Do not make any assumptions about the population and are used when parametric tests cannot be | +Long-Term Financial Liabilities<br>+Deferred Tax Liability |

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| NPV Profile | Objectives of International Organization of Securities Commissions |
| Nth firm indicator | Objectives of Regulation |
| Null Hypothesis | Officer can decide: |
| Number of Days Payable | Officer can do: |

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| +Protect investors<br>+Ensure market fairness, efficiency and transparency<br>+Reduce systemic risk | A graph that shows a project's NPV for different discount rates;<br>Discount rate on the X axis, NPV on the Y;<br>IRR is where the line intersects the X axis;<br>The point where multiple projects intersect is called the crossover rate |
| *Protect unsophisticated investors<br>*Promote minimum standards of performance reporting<br>*Prevent insider trading<br>*Require common financial reporting standards<br>*Require minimum capital levels so all participants can honor their obligations | How much market share is held by the top N firms in the market;<br>Isn't affected by two large companies merging |
| +No sanctions<br>+Cautionary letter<br>+Issue sanction | What you are testing |
| +Request written response<br>+Interview subject<br>+Interview complainant<br>+Collect documents relevant to the investigation | Average time it takes for a company to pay its bills;<br>DP = 365/Payables Turnover Ratio |

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| Offsetting Contracts | On The Run Issues |
| Oligopolists and Collusion Agreements | One-Year Holding Period Dividend Discount Model |
| Oligopoly | Open End Fund |
| Oligopoly models | Open-End Fund |

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| Most recently auctioned treasury issues;<br>More actively traded than other issuances;<br>Provide best information | Open a swap with an opposite exposure with the same terms with the same counterparty |
| Equal to the current year's dividend in present value plus the present value of the stock's expected price at the end of the year | There is an incentive to cheat and raise your share of the joint profit |
| Issues and redeems new shares based on that day's closing value;<br>May charge an upfront sales fee called a load<br>Sometimes there are back-end loads;<br>Annual fees are charged to cover management fees, administrative expenses, distribution fees | Only a few firms compete and each must consider the actions of others when setting price and strategy;<br>High barriers to entry;<br>Demand is less elastic than monopolistic competition |
| Allows investors to buy newly issued shares at NAV;<br>New cash is invested by mutual fund manager in new securities;<br>Investors can redeem their shares at NAV;<br>Management charges an ongoing fee as a percent of NAV | -Kinked demand curve<br>-Cournot duopoly<br>-Nash equilibrium<br>-Dominant firm model |

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| Operating Activities | Operating Lease |
| Operating Break Even Cost of Sales | Operating Profit |
| Operating Cash Cycle | Operating Profit Margin = |
| Operating Cycle | Operating Return on Assets = |

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| A rental agreement;<br>Lessee recognizes rental expense each period and an operating cash outflow;<br>Lessor does not remove asset from balance sheet, recognizes rental income and continues to depreciate the asset | +Cash collected from customers<br>+Interest and dividends received<br>+Sales proceeds from trading securities<br>+Cash paid to suppliers and employees<br>+Cash paid for other expenses<br>+Acquisition of trading securities<br>+Interest and taxes paid |
| When operating expenses are subtracted from gross profit;<br>Profit before financing costs, income tax and nonoperating items | = Fixed Operating Costs/(Price - Variable Cost per Unit) |
| EBIT/Revenue | The average number of days that it takes to turn raw materials into cash proceeds;<br>= Days of Inventory + Days of Receivables |
| EBIT/Average Total Assets | The time it takes to produce or purchase inventory, sell it, and collect the cash |

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| Operational Efficiency | Option Contract |
| Operational independence | Order Driven Market |
| Opportunity | Oscillators |
| Option Adjusted Spread | Outright Ownership of Real Estate |

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| Security that gives its owners a right to buy or sell an asset at a specified price at a specified time in the future | Market with low trading costs;<br>Will make markets more informationally efficient because low trading costs encourage trading on new information |
| Rules are used to match buyers and sellers;<br>Traders are usually anonymous;<br>Order matching rules establish an order precedence hierarchy;<br>*After orders are matched, trade pricing rules are used to determine the price;<br>*In electronic markets, orders are batched together and matched at fixed points in time during the day at the average of the bid-ask quotes from the exchange | When the central bank can independently set the policy rate |
| tools that move between a set range (example: 0-100);<br>Convergent when the oscillator and the price chart look the same; divergent when they don't;<br>Convergence means trend will continue | Exists when there is a weakness in internal controls;<br>The nature of the firms operations;<br>Ineffective management monitoring;<br>A complex or unstable organizational structure;<br>Deficient internal controls |
| Holder has full ownership rights for an indefinite time period | The spread to the Treasury spot curve that the bond would have if it were option-free |

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| Outside Compensation and Benefits | Par Value Bond Effects |
| Paasche index | Parallel Shift |
| Panel Data | Parametric Tests |
| Par Bond | Participating Preferred Stock |

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| +Assets and liabilities increase by the bond proceeds<br>+Interest expense is equal to the coupon payment<br>+Proceeds are reported as cash inflow from financing activities and coupon payments are reported as cash outflows from operating activities<br>+Repayment of principal is reported as cash outflow from financing activities | Require written consent from employer |
| Shift in the curve is when the entire curve shifts by the same amount | Weights its basket based on current consumption |
| Rely on assumptions regarding the distribution of the population and are specific to population parameters | Observations of the same characteristic of multiple entities over time |
| Preferred stock that gets an increased dividend if profits exceed a predetermined level and may get more than par value if firm is liquidated; Used by smaller, riskier firms to attract capital by giving investors chance for upside potential | When the bond's coupon rate equals the market yield; Bonds are typically issued near par value |

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| Passive crawling peg | Peak |
| Payables Turnover | Percentage of Completion Revenue Recognition |
| Payment Date | Perfect competition |
| Payment of Interest Rate Option | Performance Presentation |

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| Real GDP stops increasing and starts decreasing<br>Inventory to sales ration increases | When an exchange rate is adjusted periodically to adjust for higher inflation versus the currency it is pegged to |
| The percentage of total cost is how much revenue can be recognized; Revenue is recorded faster, more subjective and better matches revenues and expenses | Measures the firms use of trade credit;<br>PT = Purchases/Average Trade Payable |
| Many firms compete with identical products, low barriers to entry, and the only way to compete is on price;<br>Perfectly elastic demand curves for each firm;<br>A firm will continue to expand production until marginal revenue equals marginal cost, which maximizes profit or where MR = MC;<br>Economic loss occurs when marginal revenue is less than marginal cost;<br>Firm can't make economic profit in long-run;<br>Long-run equilibrium output is where marginal revenue equals marginal cost equals average total cost ;<br>An increase/decrease in market demand will increase/decrease both equilibrium price and quantity;<br>Short-run supply curve is the marginal cost curve above the average variable cost | The date dividend checks are sent out |
| Statements about performance must be accurate, fair and complete. | Based on a stated nominal amount and the difference between the reference rate and the strike rate times the fractional interest period |

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| Period Costs | Perpetual Inventory System |
| Periodic Inventory System | Personal disposable income |
| Permanent Difference | Personal Income |
| Permutational Ordering | Phases of business cycle |

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| When inventory purchased or sold is recorded directly in the inventory account | Costs that are expensed in the period incurred;<br>Abnormal waste of materials, labor or overhead;<br>Storage costs;<br>Administrative overhead;<br>Selling costs; |
| Personal income - personal taxes | When inventory values and COGS are determined at the end of the period; Inventory bought is put into a Purchase account, which is added to beginning inventory to find the cost of goods available for sale. COGS is found by subtracting the ending inventory from goods available for sale |
| National income + transfer payments to households - indirect business taxes - corporate income taxes - undistributed corporate profits | Difference between taxable income and pretax income that will not reverse in the future;<br>Do not create deferred tax assets or liabilities but change the effective tax rate from the statutory tax rate |
| Expansion<br>Peak<br>Contraction/Recession<br>Trough | A specific ordering of a group of objects and answers the question of how many different groups of size r in specific order can be chosen from n objects;<br>P = (n!) \ (n - r)! |

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| Plain Vanilla Interest Rate Swap | Poison Pill |
| Platykuric | Porter's 5 Forces |
| Point and Figure Chart | Portfolio Duration |
| Point Estimates | Portfolio Management Process |

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| Giving certain rights to existing shareholders if a certain amount of the stock is acquired | Trade fixed interest payments for floating rate payments;<br>LIBOR is typically the floating rate used;<br>Zero-sum game;<br>Net Fixed-Rate Payment = (Swap Fixed Rate - Swap Floating Rate) **(Number of Days/360)** (Notional Principal) |
| *Rivalry among competitors;<br>*Threat of new entrants;<br>*Threat of substitute products;<br>*Bargaining power of buyers;<br>*Bargaining power of suppliers; | Smaller peak and fatter tails than a normal distribution (k<3) |
| The weighted average of each bond's duration;<br>Best with a parallel curve shift since not all bonds will have the same yield change | Shows price movement by having price on the vertical axis and the number of changes in direction on the horizontal axis;<br>X = increase one box size<br>O = decrease one box size |
| +Planning step begins with the analysis of the investor's risk tolerance, return objectives, time horizon, tax exposure,liquidity needs, income needs, and any other preferences<br>+Execution step is an analysis of the risk return characteristics to determine how the fund should allocate (top-down analysis)<br>+Feedback step is rebalancing the portfolio and adjust the investor's IPS | Single values used to estimate population parameters |

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|---|---|
| Portfolio Perspective | Positive substitution, negative income smaller than positive substitution |
| Positive Abnormal Returns By Using Technical Analysis | Positive substitution, positive income |
| Positive Skew | Power of Test |
| Positive substitution, negative income greater than positive substitution | Precautionary demand |

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|---|---|
| Consumption increases | Evaluating individual investments by their contribution to the risk-return of a portfolio |
| Consumption increases | No form of efficient market hypothesis supports this |
| Probability of correctly rejecting the null;<br>Found by subtracting the probability of a Type II error from 1 | Long tail to the right and Mean > Median > Mode |
| Money held for unforeseen future needs;<br>Increases with GDP | Consumption decreases |

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|---|---|
| Preferred Stock | Premium Bond Effects |
| Preferred Stock Risk ____ Common Stock Risk | Presentation of deferred taxes on balance sheet |
| Prefunded Bonds | Pretax Margin = |
| Premium Bond | Pretax Nominal Return |

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|---|---|
| +Reported on the balance sheet as above face value<br>+As the premium is amortized the book value of the bond will decrease until it equals par value at maturity | Hybrid between debt and equity;<br>Typically have fixed periodic payments to investors;<br>Usually don't have voting rights;<br>Have a stated par value and dividend is a percentage of that par |
| GAAP: Classified as current or noncurrent based on the classification of the underlying asset or liability<br>IFRS: Netted and classified as noncurrent | Less than |
| EBT/Revenue | Bonds for which Treasury securities have been purchased and placed in escrow to make all of the remaining required bond payments;<br>Income and principal from Treasuries must be enough to cover remaining payments until maturity or next call date;<br>Have little credit risk |
| Return prior to paying taxes | Bonds priced above the bond's par value;<br>Yield required in the market decreased, causing prices to rise |

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| Price elasticity | Price Value of a Basis Point |
| Price Multiples | Price Weighting Index |
| Price Priority | Primary Dealers |
| Price Return | Primary Market |

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| The dollar change in the price/value of a bond or portfolio when the yield changes by one basis point;<br>= Duration **0.0001** Bond Value | How responsive the quantity demanded is to a change in price |
| The arithmetic average of the prices of securities included in the index;<br>Divisor is adjusted for stock splits and changes in composition when securities are added or subtracted;<br>Advantage is it is simple to compute;<br>Disadvantage is that a percentage change in a higher priced stock has a greater impact than an equal percentage increase in a lesser valued stock;<br>Stock splits, repurchases or dividends can change the relative weight of a stock in the index;<br>Having an equal weighting of stocks to the index will return an identical return;<br>Major examples are the Nikkei and Dow Jones Industrial | +Price-to-Earnings<br>+Price-to-Book Value<br>+Price-to-Cash Flow |
| Trade with central banks when they buy and sell securities | When trades with the highest bids and lowest asks are given the highest priorities |
| Market for newly issued securities secondary market is for subsequent sale of securities | When an index uses only the prices of an index's constituency securities |

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| Principles of Capital Budgeting | Private Placement |
| Prior Service Cost | Private Placement |
| Private Equity in Comparison to Public Equity | Private Securities |
| Private Investment in Public Equity | Private value auctions |

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|---|---|
| When an issue is sold to a small group of investors and is not required to be registered with the SEC;<br>Issue can be better tailored for the investors' needs;<br>Buyers will require a slightly higher interest rate since issue can not be resold to the public | +Decisions are based on cash flows, not accounting income<br>+Cash flows are based on opportunity costs<br>*Opportunity costs need to be analyzed<br>+Cash flow timing is important<br>+Cash flows are analyzed after taxes<br>+Financing costs are incorporated in the required rate of return |
| When securities are sold directly to qualified investors with the help of an investment bank;<br>Do not require the issuer to disclose as much information about the securities;<br>Issuance costs are less;<br>Offer price is lower since securities cannot be resold in the public markets | When changes in the terms of a defined benefit pension plan increase the future benefits due employees based on their prior employment with the company |
| Not traded on public markets, illiquid, and not subject to regulation | *Less liquid<br>*Share price negotiated between firm and investor, not the market<br>*No government or exchange requirement for disclosures<br>*Lower reporting costs since they are less frequent<br>*Weaker corporate governance since there is less public scrutiny<br>*Greater focus on long-term prospects since no public pressure for short-term results<br>*Potential for large return once firm goes public |
| Value is subjective and different to each bidder | When a public firm needs capital quick and sells private equity to investors;<br>Usually at a sizable discount to the market price |

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| Pro-Forma Statement Steps | Product Costs |
| Problems Fixed by Regulation | Professionalism: |
| Problems with Pure Play | Profit maximized |
| Process for Testing Hypothesis | Profitability Index |

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| Costs capitalized under the Inventories account on the balance sheet;<br>Purchase costs less trade discounts and rebates;<br>Conversion costs including labor and overhead;<br>Other costs necessary to bring the inventory to its present location and condition | *Estimate relationship between changes in sales and the changes in sales-driven income statement and balance sheet items<br>*Estimate the future tax rate, interest rates on debt, lease payments, etc<br>*Forecast sales<br>*Estimate fixed operating costs and financing costs<br>*Integrate estimates into pro forma statement |
| +Professionalism<br>+Integrity of Capital Markets<br>+Duties to Clients<br>+Duties to Employers<br>+Investment Analysis, Recommendation and Action<br>+Conflicts of Interest<br>+Responsibilities of a CFA Member/Candidate | *Fraud and theft<br>*Insider trading<br>*Costly information<br>*Defaults |
| Producing up to but not over MR=MC;<br>Producing quantity where TR-TC is at a maximum | ~Beta uses historical data and sensitive to the length of time and frequency of data<br>~Affected by which index is chosen to represent the market return<br>~Betas are believed to revert to 1 after time and the estimate may need to be adjusted accordingly<br>~Betas of smaller firms may need to be adjusted upward to reflect risk inherent in small firms not captured by Beta calculation |
| = Present Value of Cash Flows/Initial Investment<br>= 1 + NPV/Initial Cash Flow | +State Hypothesis<br>+Select Test Statistic<br>+Specify Level of Significance<br>+State Decision Rule Regarding Hypothesis<br>+Calculate Sample Statistics<br>+Make a Decision about Hypothesis<br>+Make a Decision Based on Test |

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| Project Beta | Protective Put Option P/L |
| Project Selection | Publicly Traded Securities |
| Properties of Estimators | Pure Expectations Theory |
| Protective Put | Pure Expectations Theory Yield Curve Ramifications |

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| *Maximum loss is the premium<br>*Maximum loss occurs when the stock falls below the strike price<br>*The break even point is the strike price plus the premium amount<br>*Losses begin to occur when the stock falls below the break even<br>*Same profit diagram as a long call | = Asset Beta **[1 + (Debt/Equity)** (1 - Tax Rate)] |
| Traded on exchanges or through securities dealers and are subject to regulatory oversight | Independent projects can be evaluated based on its own profitability;<br>Mutually exclusive projects allow for only one to be selected from the group;<br>Some projects may need to be completed in sequence, and if the preceding project wasn't profitable, the next might not be undertaken;<br>At times only a set amount of capital might be available and rationing decisions must be made |
| The yield for a particular maturity is an average of the short term rates that are expected in the future;<br>If rates are expected to rise, yields on longer maturities will be higher than on shorter maturities | Unbiased - Low sampling error<br>Efficient - Small variance<br>Consistent - Accuracy increases as sample size increases |
| ~Short term rates expected to rise in future = normal curve<br>~Short term rates expected to fall in future = inverted curve<br>~Short term rate expected to rise then fall = humped curve<br>~Short term rate expected to remain constant = flat curve | Buying a stock and a put on the stock to protect the decline of a stock's price;<br>Can be replicated by buying a bond that pays the strike price minus the premium at expiration and a call with the strike price |

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| Put Option | Put/Call Ratio |
| Put Option | Putable Common Shares |
| Put Option P/L | Putable Shares Risk ____ Callable Shares Risk |
| Put-Call Parity | Qualified auditor's opinion |

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| Put volume divided by the call volume;<br>The higher the ratio, the more negative the sentiment;<br>Sentiment indicator | The right to sell an asset at a certain price by a certain date;<br>Counterparty has the obligation to buy the asset |
| Give the shareholder the right to sell back shares to the company at a specific price;<br>Puts a floor on the share price;<br>Shareholders implicitly pay for put option because putable shares sell for more than non-putable;<br>Raise more capital for firm when issued | The right to sell |
| Less than | +Maximum loss for the buyer is the premium<br>+Maximum profit is the strike price minus the premium<br>+Maximum loss to writer is the strike price minus the premium<br>+Break-even is the strike price minus the option premium<br>+Maximum profit for the writer is the premium<br>+Zero-sum game between buyer and writer |
| There is an exception to accounting principles | Based on the payoffs of two portfolio combinations, a fiduciary call and protective put<br>Call with Strike X + Present Value of X = Stock Price + Put with Strike X |

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| Qualities of central bank | Quota |
| Qualities of useful financial statements | Quota Rents |
| Quantity theory of money | Quote Driven Markets |
| Quick Ratio = | Range Notes |

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| Same effect as a tariff except the government only gains if it charges for tariff licenses (quota rents);<br>If the government doesn't charge quota rents, the loss to the domestic economy is equal to the quota rents (the difference between the gain in producer surplus and the loss in consumer surplus) | +Independence<br>+Credibility<br>+Transparency |
| Gains to those foreign exporters who receive import licenses under a quota if the domestic government does not charge for the import licenses. | Relevance and faithful representation |
| Investors trade with dealers;<br>Dealers keep an inventory of securities;<br>Most securities other than stocks trade in quote driven markets;<br>Trading is often electronic | (money supply)**(velocity of money)=(price level)**(real GDP) |
| Floaters that equal the reference rate if it is within a specific range or zero if it is outside the range | (Cash + Marketable Securities + Receivables)/Current Liabilities |

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| Rate of Change | Reasons Floating Rate Might Reset at Par |
| Real Assets | Reasons for Differences Between an Accounting Item for Tax Reporting and Financial Reporting |
| Real Estate Aggregation Vehicles | Reasons for Differences Between Effective and Statutory Tax Rate |
| Real Return | Reasons to Invest in Commodities |

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| *Placing a cap on a floating rate can increase the interest rate risk<br>*There is time until the next reset<br>*If the spread in indenture no longer reflects the credit and liquidity risk of the bond | Measures momentum by multiplying 100 by the difference between the latest closing price and the closing price of a certain number of periods ago;<br>Sell when moving negative;<br>Buy when moving positive;<br>Oscillator |
| +Timing of revenue and expense recognition may differ on the income statement and tax return<br>+Some revenues are only recognized on the income statement or tax return<br>+Assets and/or liabilities have different carrying amounts and tax bases<br>+Gain or loss recognition in the income statement differs from the tax return<br>+Tax losses from periods prior may offset future taxable income<br>+Financial statement adjustments may not affect the tax return or may be recognized in different periods | *Increasingly being held by institutions<br>*Provide income, tax advantages and diversification, but also entail large management costs<br>*Require increased due diligence<br>*Illiquid<br>*Can be bought indirectly through REITs and MLPs<br>*Can get exposure by buying stock in companies that have large real asset ownership |
| +Different tax rates in different jurisdictions<br>+Permanent tax differences (tax credits, tax-exempt income, non deductible expenses)<br>+Changes on tax rates and legislation<br>+Tax holidays in some jurisdictions<br>+Deferred taxes provided on reinvested earnings of foreign and unconsolidated domestic affiliates | Investing in a pool of real estate assets |
| +Exposure to economic growth<br>+Hedge against inflation<br>+Diversification | Return adjusted for inflation |

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| Reasons to Overstate Earnings | Recognition of DTA |
| Reasons to Understate Earnings | Record Retention |
| Receivables Turnover | Rectangles |
| Recognition lag | Referral Fees |

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| GAAP: Recognized in full and reduced if it is more likely than not it won't be fully realized<br>IFRS: Recognized if probable that tax profit will be able to cover the tax asset | *Meet earnings expectations<br>*Remain in compliance with lending covenants<br>*Receive higher incentive compensation |
| Requires members to maintain records of the data and analysis they use to develop their research recommendations. | *Obtain trade relief in the form of quotas and protective tariffs<br>*Negotiate favorable terms from creditors<br>*Negotiate favorable labor contracts |
| When trading creates a range between a support level and a resistance level;<br>Continuation pattern | Measures the turnover of accounts receivable;<br>RT = Annual Sales/Average Receivables |
| Members and candidates must disclose to employers and to affected clients, before entering into any formal agreement for services, any benefits received for the recommendation of services provided by the member. | When it takes time for policy makers to recognize what is happening in the economy and make the appropriate decision |

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| Regimes of countries with their own currency | Reinvestment Risk |
| Regimes of countries without their own currency | Relationship cost curves |
| Regular Dividend | Relative Strength |
| Reinvestment Ratio | Relative Strength Index (RSI) |

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| Not being able to reinvest money at the same rate of return if interest rates fall and issuers call bonds or prepay loans | -Currency board<br>-Conventional fixed peg agreement<br>-Target zone<br>-Passive crawling peg<br>-Active crawling peg<br>-Crawling bands<br>-Managed floating exchange rate<br>-Indecent entry floating exchange rate |
| AFC slopes downward<br>Vertical distance between ATC and AVC equals AFC<br>MC initially declines, then rises<br>MC intersects AVC and ATC at their minimums<br>ATC and AVC are u-shaped<br>The MC above the AVC is the firm's short-rum supply curve | -Formal dollarization<br>-Monetary union |
| The asset's price charted against the index price | When a company pays out a portion of its profits on a regular basis;<br>Sign of company stability |
| Ratio of total price increases to decreases over a set amount of time;<br>Over 70 is overbought;<br>Under 30 is underbought;<br>Oscillator | Measures the firm's ability to acquire long term assets with operating cash flow;<br>R = CFO/Cash Paid for Long-Term Assets |

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| Relative Yield Spread | Require Shareholder Attendance to Vote Hold Their Meetings on the Same Day but in Different Locations |
| Repo Agreement | Required Financial Statements |
| Repo Agreement | Required Interest Rate |
| Representativeness | Resale |

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| Prevents shareholders from attending all the meetings and therefore exercising their full voting rights | The absolute yield spread as a percentage of the benchmark bond's yield;<br>= Absolute Yield Spread/Yield on Benchmark Bond |
| +Balance sheet<br>+Income statement<br>+Cash flow statement<br>+Owner's equity<br>+Footnotes | A borrower sells a high quality asset and has both the right and obligation to buy it back at a higher price in the futures |
| = (risk free rate) + (default risk premium) + (liquidity premium) + (maturity risk premium) | An arrangement by which an institution sells a security with a commitment to buy it back at a later date for a higher price |
| Sell the swap to another party with the permission of the counterparty | When investors assume good companies are good investments |

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| Research Cost Treatment | Responsibilities of Supervisors |
| Responsibilities as CFA Member/Candidate | Restrictions of Board's Business Dealings |
| Responsibilities of regulatory authorities | Retail Inventory Method |
| Responsibilities of standard-setting bodies | Return on Assets = |

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| Speaking to the employee to determine the extent of the violations and receiving assurances that it will not be repeated is not enough. | Typically expensed |
| *The firm, it's subsidiaries, or former employees<br>*Individuals or groups with a controlling interest<br>*Executive management or their families<br>*Firm's advisors, auditors and families<br>*An entity with a cross directorship with the firm | +Uphold reputation of CFA<br>+Don't misrepresent CFA |
| Measures inventory at retail price and subtracts a predetermined profit from each unit | Government agencies with legal authority to enforce compliance with financial reporting standards |
| Net Income/Total Assets OR [Net Income + Interest Expense (1-t)]/Total Assets | Professional organizations to establish financial reporting standards |

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| Return on Capital = | Revaluation of fixed and intangible assets |
| Return on Common Equity = | Revenue Bonds |
| Return on Equity = | Reversal Pattern |
| Revaluation Model | Ricardian model |

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| GAAP: Not allowed<br>IFRS: Deferred tax recognized in equity | EBIT/Average Total Capital |
| Supported by revenues from a specific project that is funded by the proceeds of the issuance;<br>Only required to pay interest and back principal if the project generates a sufficient amount of revenue | (Net Income - Preferred Dividends)/Average Common Equity |
| When a trend approaches a range of prices but fails to continue beyond that range | Net Income/Average Total Equity |
| Uses the factor of differences in labor productivity due to differences in technology | An alternative to the cost model and allows for long lived assets to be reported at fair value as long as there is an active market for the asset;<br>Any revaluation above historical cost is not reported on the income statement but is an increase in the revaluation surplus in owner's equity |

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| Rights Offering | Risks of Hedge Funds |
| Risk Budgeting | Risks of Insurance Companies |
| Risks of Bonds | Role of Nominations Committee |
| Risks of ETFs | Roles of central banks |

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| +Illiquid<br>+Hard to value underlying assets<br>+Counterparty credit risk<br>+Short squeezes<br>+Margin calls | Existing shareholders are given the right to buy new shares at a discount to the current market price;<br>Dilutes ownership unless option is exercised;<br>Sometimes the option can be sold |
| ~Moral hazard when policy holders take more risk because they are insured<br>~Adverse selection that people who buy insurance are the ones who are most risky<br>~Fraud when the insured purely causes damage to collect a claim | Sets an overall risk limit for a portfolio and allocates the risk to different asset classes |
| Regularly reviewing performance, independence, skills, and experience of existing board members | +Interest rate risk<br>+Yield curve risk<br>+Call risk<br>+Reinvestment risk<br>+Credit risk<br>+Liquidity risk<br>+Exchange rate risk<br>+Inflation risk<br>+Volatility risk<br>+Event risk<br>+Sovereign risk |
| +Sole supplier of money<br>+Banker to the government and other banks<br>+Regulator and supervisor of payments system<br>+Lender of last resort<br>+Holder of gold and foreign exchange reserves<br>+Conductor of monetary policy | +Exposed to market risk<br>+Only invest in only a portion of the market, opening up investor to asset class and sector risk<br>+If market isn't liquid enough, won't stick to NAV<br>+If doesn't replicate index exactly, there is tracking error risk<br>+Can be levered and opened to credit risk by using derivatives<br>+Can be exposed to country or currency risk |

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| Round Trip Transaction | Sanctioned candidate can: |
| Roy's Safety First Criterion | Sanctions are: |
| Sales-Type Lease | Scenario Analysis |
| Sample Skew | Schools of economic thought |

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| +Reject sanction and refer it to a panel of CFA members<br>+Accept sanction | When goods are sold to one party with the simultaneous purchase of identical goods from the same party |
| +Condemnation by peers<br>+Suspension of CFA membership | The optimal portfolio minimizes the probability that the return of the portfolio falls below A minimum acceptable level;<br>= (Historical Return - Return Threshold)/(Volatility)<br>Shortfall risk is the probability of being to the left of the minimum return |
| Measuring interest rate risk by plugging in different rates to the valuation model and looking at the outputs | When the present value of the lease payments exceeds carrying value of the asset;<br>Treated as if the lessor sold the asset to the buyer and also provided them a loan for the same amount;<br>Typical of dealers or manufacturers;<br>Lessor recognizes a sale equal to the present sale of the lease payments, cost of goo sold equal to the carrying value, and a lease receivables account is created equal to the present value of the lease payments;<br>Interest portion of each payment is the lease receivable balance at the beginning of the period times the lease interest rate |
| -Neoclassical<br>-Keynesian<br>-New Keynesian<br>-Austrian<br>-New Classical | (1/sample size) * [(Sum of Each Sample Deviation Cubed)/(Sample Deviation Cubed)]; Skewness greater than 0.5 is significant |

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| Sealed bid auction | Sections of GIPS: |
| SEC Forms | Sector Strategy |
| Second sealed bid auction (Vickrey auction) | Secured Debt Collateral |
| Second Stage Financing | Securitizers |

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| -Fundamentals of Compliance<br>-Input Data<br>-Calculation Methodology<br>-Composite Construction<br>-Disclosures<br>-Presentation and Reporting<br>-Real Estate<br>-Private Equity<br>-Wrap Fee/SMA Portfolios | Each bidder submits one bid, which is unknown to the other bidders and the bidder with the highest bid wins the item and pays the price;<br>The reservation price is the highest price that a bidder is willing to pay;<br>The optimal bid for the bidder with the highest reservation price is just slightly above the bidder with the second highest reservation price;<br>Bids are not necessarily equal to reservation price |
| Have its investments concentrate in a specific industry | +S-1<br>+10-K<br>+10-Q<br>+DEF-14A<br>+8-K<br>+144<br>+Forms 3, 4, 5 |
| *Personal property<br>*Real property<br>*Financial assets | The bidder with the highest bid wins the item but pays the price bid by the second highest bidder;<br>No reason for a bidder not to bid his reserve price;<br>Similar to a an ascending price auction, the winning bidder tends to pay one increment of price more than the bidder who values the time the second most |
| Pool large amounts of securities or other assets and sell interests in the pool to other investors;<br>The returns from the pool, net of fees, are passed through to investors;<br>Cash flows are segregated by risk into traunches | Investing in a company producing and selling a product that isn't generating income yet |

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| Security (Prime) Brokers | Selecting an External Auditor |
| Security Market Index | Selection Methods |
| Security Market Line | Self Selection Bias |
| Seed Stage | Semi-Strong Form Market Efficiency |

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| Responsibility of the Board's audit committee | Provide loans to investors who purchase securities on margin |
| -NPV<br>-IRR<br>-Payback Period<br>-Discounted Payback Period<br>Profitability Index | Used to represent the performance of a certain asset;<br>Constituent securities are those that make up an index;<br>Have a numerical value calculated from constituent securities |
| When the only information available for reporting is from managers who had good enough performance to want to report it | Plot of the relationship between an asset's risk and return;<br>= Risk Free Rate + (Beta *Excess Return);<br>Shows CAPM |
| Securities rapidly adjust without bias and reflect all current publicly available data;<br>Best for passive investing;<br>Suggested if fundamental analysis allows for profits | Providing capital in the earliest stage of business;<br>Helps fund research and development |

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| Sentiment Indicators | Share Repurchase |
| Separately Managed Account | Shareholders' Equity |
| Shakeout Stage | Shelf Registration |
| Shapes of Yield Curve | Shifts in aggregate demand curve |

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| A company buys back shares of its own common stock;<br>Increases earnings per share;<br>EPS RISES IF EARNINGS YIELD > COST OF BORROWED FUNDS;<br>EPS FALLS IF EARNINGS YIELD < COST OF BORROWED FUNDS;<br>Purchasing with company funds reduces interest income and earnings;<br>Purchasing with borrowed funds incurs interest costs;<br>BOOK VALUE PER SHARE WILL INCREASE/DECREASE IF THE PURCHASE PRICE IS LESS THAN/GREATER THAN THE BOOK VALUE PER SHARE;<br>Alternative to a cash dividend | Discern the potential views of buyers and sellers |
| +Owner's Equity<br>+Contributed Capital<br>+Par Value is the stated legal value, has no relationship to fair value, and is reported separately in the statement<br>+Shares<br>+Preferred Stock<br>+Non-Controlling Interest<br>+Retained Earnings<br>+Treasury Stock<br>+Accumulated Other Comprehensive Income | Owned by a single investor and managed to meet their needs |
| When a firm makes its public disclosures as a regular offering but it then the issues the registered securities as it needs capital or the markets are favorable | When growth and profitability are slowing due to strong competition;<br>Growth has slowed;<br>Intense competition;<br>Increasing industry overcapacity;<br>Decreased profitability;<br>Increased cost cutting;<br>Increased failures |
| Change in price level/inflation<br>Consumer income and wealth increases<br>Higher expectations for economy in the future<br>Expansionary monetary and fiscal policy<br>Favorable exchange rate movement | +Normal (upward sloping)<br>+Inverted (downward sloping)<br>+Flat<br>+Humped |

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| Shifts in long run aggregate supply | Short-Term Fixed Income |
| Shifts in short term aggregate supply | Short-Term Treasury Forwards |
| Short Interest Ratio | Simple Capital Structure |
| Short Position | Simple Random Sampling |

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| Securities that have maturities less than 2 years;<br>Usually called paper or notes | Increase in supply and quality of labor<br>Increase in supply of natural resources<br>Increase in stock of physical capital<br>Technology |
| Must settle before maturity date;<br>Price is typically the yield to maturity as of the settlement date;<br>Default provisions must be worked in if there is a chance of default by issuer;<br>Option provisions must be made if bond has embedded options | Shifts to long run aggregate supply<br>Labor productivity<br>Input prices<br>Expectations of future output prices<br>Taxes and government subsidies<br>Exchange rates |
| Only contains common stock and nonconvertible stock | The short interest divided by the average daily trading volume;<br>Can indicate a bearish sentiment but also an upcoming spike from shorts closing positions;<br>Sentiment indicator |
| Completely random, systemic sampling is picking every nth member of a population;<br>Sampling error is the difference between the sample statistic and the population's statistic | Result from borrowing an asset and selling it, with the obligation to replace the asset at a later date;<br>Must borrow the securities through a broker, return the securities at the request of the lender when the short sale is closed out, and keep a portion of the proceeds on deposit with the broker;<br>Borrower must pay lender all dividends or interest the lender would have received;<br>*Collateral earns interest, some of which is returned to the borrower at a short rebate rate |

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| Single Price, Regular Auction Cycle | Smoothed Pricing |
| Single-Step Format | Software Development Treatment |
| Sinking Fund | Sources of Bond Return |
| Situations Where Estimating Cash Flows is Difficult | Sources of Commodity Returns |

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| Occurs because there is not daily pricing of hedge fund assets | Debt is auctioned periodically according to a cycle and the highest price (lowest yield) at which the entire issue to be auctioned can be sold and is awarded to all bidders |
| Expensed until known to be feasible, then they are capitalized by both GAAP and IFRS | All expenses are grouped together |
| +Coupon payments<br>+Recovery of principal at maturity<br>+Reinvestment income | Provisions provide the repayment of principal through a series of payments over the life of the issuance;<br>In a cash payment, the issuer can deposit the required cash amount annually to a trustee, who will randomly call a portion of the issuance back;<br>In a delivery of securities, the issuer purchases bonds with a total par value equal to the amount that is to be retired in that year in the market and deliver them to the trustee who will retire them; |
| +Collateral yield<br>+The price return<br>+Roll yield | +Principal repayment stream is not known with certainty<br>+Coupon payments are not known with certainty<br>+Bond is convertible |

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| Sovereign Risk | Special Redemption Prices |
| Spearman Rank Correlation Test | Specific Identification |
| Special Dividend | Speculative demand |
| Special Purpose Vehicle | Spot Market |

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| Redemption prices from a sinking fund or government mandated sale | Credit risk of a sovereign bond outside of the investor's home market |
| *GAAP and IFRS<br>*Each unit sold is matched with the unit's actual cost<br>*Most appropriate when items are not interchangeable and when firms have a small number of costly and distinguishable items | Order all of the data and examine its correlation to see if there is any relationship at the extremes ;<br>Used when data isn't normal |
| Money available to take advantage of investment opportunities that arise in the future;<br>Rises as economic future becomes uncertain | Used when favorable circumstances allow a firm to make a one-time cash payment to shareholders,in addition to any other dividends it pays |
| Market with immediate delivery | A legal entity to which the assets used as collateral in an ABS issue are sold. This transaction separates the assets backing the ABS from the other assets of the company that creates the SPV. |

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| Stable Value Fund | Standard Error |
| Stages of Industry | Start-Up Financing |
| Stages of Venture Capital | Statutory incidence |
| Standard Costing Inventory | Statutory Voting |

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| Dividing the sample variance by the square root of the number of observations since the populations standard deviation is rarely known | Invests in short term government securities or other investments that can provide timely principal payments and a set interest rate |
| Funding used for completion of product development and fund initial marketing efforts | +Embryonic<br>+Growth<br>+Shakeout<br>+Mature<br>+Declining |
| Who is legally responsible for paying a tax | *Seed stage<br>*Start-up financing i<br>*First stage financing<br>*Formative stage<br>*Later stage financing<br>*Second stage investing<br>*Third stage investing<br>*Mezzanine financing |
| Each share gets one vote in the election of each board nominee | Assigns predetermined amounts of materials, labor, etc to each unit produced |

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| Step-Up Note | Steps of a Multistage Dividend Growth Model |
| Step-Up Notes | Steps of Arbitrage Free Valuation |
| Steps for Forming Peer Group | Steps of Bootstrapping |
| Steps in a Fixed-For-Fixed Currency Swap | Steps of Financial Statement Analysis Framework |

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| *Determine required return<br>*Project initial size and duration of high initial dividend growth<br>*Estimate dividends during high growth period<br>*Estimate sustainable growth at the end of period<br>*Estimate first dividend that will grow at a constant rate<br>*Use sustainable growth to calculate stock value<br>*Add all present values | Structured note with coupon rates that raise on a set schedule |
| *Value the security using spot values<br>*Compare the value to the market price | Coupon rates increase over time at a specified rate |
| *Begin with 6-month spot rate<br>*Set value of the 1-year bond equal to present value of the cash flows with the 1-year spot rate divided by two as the only unknown<br>*Solve for 1-year spot rate<br>*Use 6-month and 1-year spot rates and equate the present value of the cash flows of the 1.5-year bond to its price, with 1.5-year bond as the only unknown<br>*Solve for 1.5-year bond | *Determine which companies are in the same industry<br>*Examine firms' annual reports to find competitors<br>*Examine competitors' annual reports to find more competitors<br>*Use trade publications to find new competitors<br>*Confirm comparable firms have comparable characteristics<br>*Adjust financial statements of non-financial companies for any financing subsidiary data they include |
| +State the objective and context<br>+Gather data<br>+Process data<br>+Analyze and interpret data<br>+Report conclusions and recommendations<br>+Update analysis | *Notional principal is swapped at initiation (Party A gets Currency B and Party B gets Currency A)<br>*Full interest payments are exchanged at each settlement date, each in a different currency<br>*Notional payment is returned at the final settlement date |

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| Steps of Valuing a Bond | Stock Split |
| Stochastic Oscillators | Straight Line Depreciation |
| Stock Dividend | Strategic Asset Allocation |
| Stock Index Futures | Stratified Random Sampling |

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| When each existing share is divided into multiple shares;<br>No change in owners wealth;<br>Share price drops accordingly;<br>Historically, stocks rise after a split because it is seen as a positive sign | +Estimate cash flows<br>+Determine appropriate discount rate<br>+Calculate the present value of the estimated cash flow |
| When an asset's value is decreased by the same amount each year | Calculated using the highest and lowest closing prices over a set time period;<br>%K line is the difference between the latest price and recent low divided by the difference between the recent high and low;<br>%D is a three period average of %K line;<br>The crossing of the %D line above the %K line is a buy signal, the opposite a sell |
| Specifies the percentage of assets go to each asset class | Dividends paid as newly issued stock |
| When a population is divided up into smaller groups based on distinguishing characteristics;<br>Proportions of groups in sample same as in population | S&P 500 Index is most popular;<br>Settlement is in cash and based on a multiplier of 250 |

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| Strong Form Market Efficiency | Subjective Probability |
| Structural unemployment | Substitution effect |
| Structured Note | Sum of value added method GDP |
| Style | Sustainable Growth |

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| Comes from a personal judgement | Security prices fully reflect all information from both public and private sources |
| Always acts to increase the consumption of a good that has fallen in price | Long-run changes in the economy that eliminate some jobs while generating others for which unemployed workers are not qualified |
| Summing the additions to value created at each stage of production and distribution | Debt security combined with a derivative |
| = Retention Rate * ROE | Describes the basic characteristics of the underlying assets |

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| Swap | Synthetic Lease |
| Swap and Forward Commonalities | T-Distribution |
| Swap Contract | T-Test |
| Swapation | Tactical Asset Allocation |

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| When the lease is treated like ownership for tax reporting to allow for the deduction of depreciation and interest expenses but the lease does not appear on the balance sheet | A series of forward contracts where one party agrees to pay the short-term (floating) rate of interest on some principal amount, and the counterparty agrees to pay a certain (fixed) rate of interest in return |
| A bell shaped distribution symmetrical about its median used to make confidence intervals with small samples (<30) and unknown population variance; Degrees of freedom = # of Observations - 1 | *Require no payment at initiation<br>*Custom instruments<br>*Not traded in a secondary market<br>*Mostly unregulated<br>*Default risk matters<br>*Large institutions are the main players |
| Used to compare two means when population is known to be normally distributed | When two parties make payments equivalent to one asset being traded for another one |
| When a manager varies from the strategic allocation weights when attractive opportunities are present | Buy an option to enter an offsetting swap and exercising it would cancel the original swap |

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| Takeover Defenses | Tariff |
| Tap System | Tax Backed (General Obligation) Bonds |
| Target independence | Tax Burden |
| Target zone | Tax Rate Decrease Causes... |

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| Increases the domestic price;<br>Decreases the quantity imported and increases the domestic quantity supplied;<br>The government gains by the amount of the tariff revenues | +Golden parachute<br>+A poison pill<br>+Greenmail |
| Backed by the full faith, credit and taxing power of the issuer | When issuance and auction of bonds identical to the previously issued bonds |
| Falls on the party with less elastic curve | When the central bank defines how inflation is computed, sets the target inflation, and determines the time horizon for achieving the target |
| The decrease in the DTL would result in lower income tax expense and the decrease in DTA would result in higher income tax expense | A set range a currency is allowed to fluctuate relative to another currency;<br>Larger movement range than a fixed peg |

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| Tax Rate Increase Causes... | Temporary Difference |
| Tax rate used to measure deferred taxes | Tenor |
| Taxable Temporary Difference | Term Repo |
| Taxes Payable | Test's Significance |

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| Difference between the tax base and the carrying value of an asset or liability that will result in either taxable amounts or deductible amounts in the future | The increase in DTL is added to taxes payable and the increase in DTA is subtracted from taxes payable |
| Length of the swap | GAAP: Enacted tax rate only<br>IFRS: Enacted or substantially enacted tax rate |
| Repo lasting longer than a day | Result in expected future taxable income |
| The probability that a true null hypothesis will be rejected by chance | The tax liability on the balance sheet caused by taxable income |

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| Things to Consider when Comparing Market and Modeled Valuations | Total Asset Turnover |
| Third Stage Financing | Total Leverage |
| Time Weighted Return | Total Probability |
| TIPS | Total Return |

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| Measures the firms effectiveness at creating revenue from assets; TAT = Revenue/Average Total Assets | *The bigger the difference between modeled and market valuation, the mover likely it is an investor buys stock<br>*The more confident an investor is in the assumptions in his model, the more likely the investor is to buy stock<br>*Market values should be seen as rational indicators of intrinsic value<br>*Investor must believe market price will eventually move towards his estimated intrinsic value |
| = Degree of Operating Leverage * Degree of Financial Leverage | Investing is when a company is going through a major expansion |
| P(A and B) = P(A) * P(B) if independent events | Same as annualized return |
| When an index includes both price changes and income from constituent securities | Inflation protected 5 and 10 year notes and 20 year bonds;<br>Make semi-annual coupon payments at a rate fixed at issuance;<br>Par value starts at $1,000 and is adjusted semi-annually for changes to the CPI;<br>COUPON IS PAID ON ADJUSTED PAR VALUE;<br>Bond holder gets the greater of $1,000 or the final adjusted par value at maturity;<br>The par value increase is taxed as income in that year |

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| Total Risk = | Traditional Investment Market |
| Trade blocs | Transaction demand |
| Trading Securities | Traveling for Business/to a Client |
| Traditional Finance | Treasury Bill Future |

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| Market for debt and equity, alternative markets, alternatives markets are for everything else | Systematic Risk + Unsystematic Risk |
| Money held to meet the need for undertaking transactions; Increases with GDP | +Free trade areas<br>+Customs unions<br>+Common market<br>+Economic union<br>+Monetary union |
| It is not required the each person pays for their own room | Listed at fair value, with unrealized gains and losses are recognized in the income statement |
| Based on $1 million face value and 90 day maturity;<br>Quote is 100 minus the annualized discount rate in percent of the bill;<br>Heavily influenced by monetary policy;<br>Eurodollar futures are more popular now;<br>1 tick move is equal to $25 | Markets are rational even if individuals aren't |

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| Treasury Bills | Treasury Strips |
| Treasury Bond Future | Treatment of Float Costs |
| Treasury Notes and Bonds | Treynor Measure = |
| Treasury Stock Method | Triangles |

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| Treasury securities that are sold in bulk to large dealers, who then strip out the coupons from principal, repackage the cash flows, and sell them separately as zero-coupon bonds;<br>Coupon strips are strips created from coupon payments stripped from the original security;<br>Principal strips refer to principal payments with the coupons stripped off;<br>Taxed on their implicit interest rate | Maturities of less than a year and do not make explicit interest payments;<br>Sold at a discount to par and pay out par value at maturity;<br>The implied interest rate is called the implicit interest rate;<br>Either 28 day (4 week), 91 day (3 month) or 182 day (6 month) maturities;<br>Sometimes offer cash management bills with very short maturities |
| Treat as a cash outflow at project initiation rather than as a component of the cost of equity | Traded on bonds with maturities greater than 15 years;<br>Deliverable contract;<br>Can choose a number of bonds to deliver, will choose the cheapest;<br>Face value of $100,000;<br>Quotation in 1/32nds of percent of face value;<br>Conversion factor is used to adjust the long's payment at delivery so more valuable bonds receive a higher payment |
| (Portfolio Return - Risk Free Rate)/Portfolio Beta;<br>Most appropriate when a fund has multiple managers and only has systematic risk | Bonds pay semi-annual coupons at a rate fixed at issuance;<br>Notes have maturities of 2, 3, 5, and 10 years;<br>Until 1984, were callable every 5 years;<br>Bonds have maturities of 20 or 30 years |
| When prices reach lower highs and higher lows;<br>Trendlines converge when projected forward;<br>Imply buying and selling pressures have temporarily become equal but will not impede the trend;<br>A price target can be set by the difference between the two trendlines at the beginning of the pattern | Equates the net increase in the number of shares outstanding to the number of shares created by exercising the option minus the number of shares repurchased with the proceeds of the exercise;<br>Assumes the funds received by the company from the exercise of the options would be used to purchase shares of the company's common stock at the average market price |

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| Trough | Type II Error |
| Two Assets' Correlation Coefficient | Types of Bonds |
| Two Fund Separation Theorem | Types of Currency Swaps |
| Type I Error | Types of Dividends |

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| Not rejecting a false null | Real GDP stops decreasing and begins increasing<br>Inventory to sales ratio decreases |
| +Zero-Coupon Bonds<br>+Step-Up Bonds<br>+Deferred-Coupon Bonds<br>+Floating-Rate Bonds | Dividing the covariance between returns of two assets by the individual standard deviations of returns of the two assets |
| *Party A pays a fixed rate on Currency A received, Party B pays a fixed rate on Currency B<br>* Party A pays a floating rate on Currency A received, Party B pays a fixed rate on Currency B<br>* Party A pays a fixed rate on Currency A received, Party B pays a floating rate on Currency B<br>* Party A pays a floating rate on Currency A received, Party B pays a floating rate on Currency B | All investors' optimum portfolios will be made up of some combination of an optimal portfolio of risky assets and a risk free asset |
| -Regular dividends<br>-Special dividends<br>-Liquidating dividends<br>-Stock dividends<br>-Stock splits<br>-Reverse stock splits | Rejecting the null when it is true; Significance level is probability of Type I error |

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| Types of Equity Indices | Types of trade restrictions |
| Types of Event Risk | Types of Treasury Securities |
| Types of Execution Orders | Types of unemployment |
| Types of Investors | Types of Validity Instructions |

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| -Tariffs<br>-Quotas<br>-Export subsidies<br>-Minimum domestic content<br>-Voluntary export restraint | +Broad market index<br>+Multi-market index<br>+Multi-market index with fundamental weighting<br>+Sector index<br>+Style index |
| +Treasury Bills<br>+Treasury Notes and Bonds<br>+TIPS | +Disasters<br>+Corporate Restructuring<br>+Regulatory Issues |
| +Frictional<br>+Structural<br>*Different<br>+Cyclical | +Market order<br>+Limit order<br>+All or nothing order<br>+Hidden order |
| *Day orders<br>*Good-till-cancelled orders<br>*Immediate-or-cancelled, or fill-or-kill, orders<br>*Good-on-close orders<br>*Stop-loss orders | +Individual investors<br>+Institutions<br>+An endowment fund<br>+A bank<br>+Insurance companies<br>+Investment companies<br>+Sovereign wealth funds |

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| Uncommitted Line of Credit | Undistributed profit from a subsidiary |
| Underwritten Issues | Undistributed profit from an associate firm |
| Underwritten Offering | Uniform Pricing Rules |
| Undistributed profit from a joint venture | Unit of Production Depreciation |

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| GAAP: No deferred taxes for foreign subsidiaries that meet the indefinite reversal criterion or domestic subsidiaries if amounts are tax free<br>IFRS: Recognized unless the parent is able to control the distribution of profit and it is probable that the difference will not reverse in the future | An offer of credit for a certain amount a bank extends but may refuse to lend if conditions change |
| GAAP: Deferred taxes are recognized from temporary differences<br>IFRS: Recognized unless the parent is able to control the distribution of profit and it is probable that the difference will not reverse in the future | When a banker purchases the entire issue and resells it;<br>Arrangement is called a firm commitment;<br>Deal is called a bought deal;<br>Typically a syndicate of other banks is put together to help sell issue;<br>Goal is to presell as much of the debt as possible |
| When all trades trade at the same price, which results from where the highest volume is | When the investment bank agrees to entire issue at a negotiated price;<br>Bank is stuck with position if undersubscribed |
| Depreciates the assets based on the actual usage of the asset | GAAP: No deferred tax for a foreign joint venture that meets the indefinite reversal criterion<br>IFRS: Recognized unless the parent is able to control the distribution of profit and it is probable that the difference will not reverse in the future |

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| Unlimited Tax General Obligation Bonds | Unsecured Debt Credit Enhancements |
| Unqualified auditor's opinion | Unstable equilibrium |
| Unrealized Gains/Losses on Held For Trading Securities | Use of Accounts Receivable Aging Schedule |
| Unrealized Gains/Losses on Securities Available For Sales | Use of Activity Ratios |

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| *Third-party guarantees<br>*Letters of credit that a bank will advance the issuer for the service of its debt<br>*Bond insurance | Backed by unlimited taxing power of the issuer;<br>General obligation |
| When a supply curve intersects a demand curve more than once, the unstable equilibrium is an equilibrium where supply can increase towards another equilibrium that results in a lower price;<br>Caused by a nonlinear supply function | Indicates the auditor believes the statements are fine |
| To identify trends in how well the firm is doing at collecting receivables and converting them to cash | Included in net income |
| Give indications of how well a firm utilizes various assets | Included in comprehensive income |

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| Use of Liquidity Ratios | Uses of Ratio Analysis |
| Use of Profitability Ratios | Value of final output GDP |
| Use of Solvency Ratios | Value Weighted Indices Adjust for Stock Splits? |
| Uses of Market Indices | Variation Margin |

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| *Project future earnings and cash flow<br>*Evaluate a firms flexibility<br>*Assess managements performance<br>*Evaluate changes in the firm and industry over time<br>*Compare firms within an industry | The ability to pay short-term obligations as they come due |
| Summing the value of all final goods and services produced | Give information about how well a company generates operating profits and net profits from its sales |
| No, market cap does not change | Ability to pay back long-term obligations |
| The funds that must be deposited into an account to bring it back up to the initial margin amount | +Reflection of market sentiment<br>+Benchmark of manager performance<br>+Measure of market risk and return<br>+Measure of beta risk adjusted returns<br>+Model portfolio for index funds |

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| Venture Capital | Volatility Risk |
| Venture Capital Fund | Voluntary export restraint |
| Venture Capital Investment Characteristics | Warrants |
| Volatility Index (VIX) | Ways for Company to Buy Back Stock |

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| Chance of increased interest rate volatility causing prepayments | Capital provided to firms early in their life cycles to fund development and growth;<br>Can be seed, early stage, or mezzanine funding;<br>Very illiquid;<br>Require 3-10 year commitment;<br>Profit comes from the firm's IPO |
| Agreement by the government to limit the quantity of a good that can be exported;<br>The loss to the domestic economy is equal to that of an equivalent quota with no charge for quota rents | Invests in companies in the start-up phase with the intent that they grow into profitable companies and the investment is sold at an IPO |
| Give the holder the right to buy a firm's equity at a fixed price prior to the warrant's expiration;<br>Similar to options | *Illiquidity<br>*Long-term investment horizon<br>*Difficult to value<br>*Limited information<br>*Good entrepreneurs don't always make good managers<br>*Market conditions play a big role in venture capital returns<br>*Require extensive operations analysis<br>*Most implant factors are expected payoff at exit, timing of exit, and probability of failure |
| +Buy stock in the open market at prevailing market price<br>+Negotiate directly with a large shareholder to buy back it's shares, usually at a premium to the market price<br>+Make tender offer to buy a certain number of shares at a set price | Measures the volatility of options on the S&P 500 index;<br>The higher the level, the more scared the market;<br>Sentiment indicator |

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| Ways Hedge Funds Use Leverage | Ways to Terminate Swap |
| Ways to Invest in Foreign Companies | Ways to Value Real Estate |
| Ways to Issue Sovereign Debt | Weak Form Market Efficiency |
| Ways to Terminate a Futures Contract | Weighted Average Cost of Capital |

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| *Mutual termination<br>*Offsetting contracts<br>*Resale<br>*Swapation | *Borrow through a margin account<br>*Borrow externally<br>*Utilize derivatives that do not require trading in cash |
| +Replacement cost<br>+Comparable sales<br>+Income method<br>+Discounted after-tax cash flow model | +Direct Investing<br>+Depository Receipts<br>+Global Depository Receipts<br>+American Depository Receipts<br>+Global Registered<br>+ETF of Depository Receipts |
| Current security prices fully reflect all currently available security market data | *Single price, regular auction cycle<br>*Multiple price, regular auction cycle<br>*Ad hoc auction services<br>*Tap system |
| The discount rate used in capital budgeting;<br>= (Weight of Debt) **(After Tax Cost of Debt) + (Weight of Preferred Stock)** (Cost of Preferred Stock) + (Weight of Common Equity) * (Cost of Common Equity) | +Delivery<br>+Cash settlement<br>+Make an offsetting trade<br>+Exchange for physicals |

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| Weighted Average Cost of Inventory | Who enforces the Code of Standards? |
| When Bond at Discount… | Why Capital Budgeting is Important |
| When Bond at Par…. | Why Firms Support One Set of Reporting Standards |
| When Bond at Premium… | Why were GIPS created? |

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| The Board of Governors | *GAAP and IFRS<br>*Dividing total cost of goods available for sale by the total quantity of goods available for sale |
| *Involves large transactions<br>*Same principles apply to most corporate decision making<br>*Objective way to maximize shareholder value | Coupon Rate < Current Yield < Yield to Maturity |
| Would reduce the cost and the time spent on reporting | Coupon Rate = Current Yield = Yield to Maturity |
| Discourage:<br>+Showing a top performing portfolio as representative of a firms total performance<br>+Survivorship bias<br>+Varying time periods | Coupon Rate > Current Yield > Yield to Maturity |

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| Working Capital | Yield Spreads |
| Working Capital Turnover = | Yield to Call |
| Yield Curve Risk | Yield to Maturity |
| Yield Ratio | Yield to Put |

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| +Absolute yield spread<br>+Relative yield spread<br>+Yield ratio | Working Capital = Current Assets - Current Liabilities |
| The yield on callable bonds that are selling at a premium to par;<br>Can be less than the yield to maturity if the bond is trading at a premium;<br>Calculate the same way as yield to maturity but the call price is used instead of par and the time period only runs to the next call | Revenue/Average Working Capital |
| The IRR of a bond's price and promised cash flows;<br>Stated as two times the semiannual coupon payments implied by the bond's price | Possibility of a change in the shape of the yield curve |
| Used if a bond has a put option and is selling at a discount;<br>Calculated the same way as yield to maturity but with the put price as the price and put date as the date | The ratio of the yield on the subject bond to the yield on the benchmark bond;<br>= Subject Bond Yield/Benchmark Bond Yield;<br>= 1 + Relative Yield Spread |

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| Yield to Refunding | Zero Volatility Spread |
| Yield to Worst | Zero-Coupon Bonds |
| Z-Test | |
| Z-Value of Normal Distribution | |

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| The equal amount that must be added to each rate on the Treasury spot yield curve in order to make the present value of the risky bond's cash flow equal to its market price;<br>Measures spread to Treasury spot rates necessary to produce a spot rate curve that correctly prices a risky bond;<br>For a risky bond, the value obtained from discounting expected cash flows at Treasury spot rates will be too high since Treasury spot rates are lower than they would be for a risky bond | Used when a bond is callable and rates make sense for it to be called, but the bond covenants contain provisions giving protection from refunding until a future date;<br>Same calculation as yield to call but date used is the first date refunding is allowed |
| Do not pay periodic interest;<br>Sold at a discount and pay par value at maturity | The worst yield outcome of any of the possible call provisions |
| | Used to calculate a mean when population is known to be normally distributed |
| | The number of standard deviations away a random variable is from the population mean ;<br>z = (variable - population mean)\(standard deviation) |