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Financial Glossary

A comprehensive glossary of finance and investment terminology.

[A](#) [B](#) [C](#) [D](#) [E](#) [F](#) [G](#) [H](#) [I](#) [J](#) [K](#) [L](#) [M](#) [N](#) [O](#) [P](#) [Q](#) [R](#) [S](#) [T](#) [U](#) [V](#) [W](#) [Y](#) [Z](#)

#

10-K

A public corporation's detailed business report that is required to be filed with the SEC yearly.

12b-1 fees

A fee (typically less than 1 percent) charged by some funds to cover operating and marketing expenses. Information about 12b-1 fees is disclosed in a fund's prospectus and can reduce shareholders' returns over time.

401(k) plan

A defined-contribution retirement plan offered as an employee benefit by a company. It allows the contributor to set aside pre-tax income into a pool that is then invested in securities. Early withdrawals (prior to age 59 1/2) may be subject to a 10% IRS penalty.

403(b) plan

A defined-contribution retirement plan offered as an employee benefit by a qualifying non-profit organization. It allows the contributor to set aside pre-tax income into a pool that is then invested in securities. Early withdrawals (prior to age 59 1/2) may be subject to a 10% IRS penalty.

A

Accrued interest

Interest earned (but not yet paid) on a bond or fixed income security since the last interest payment. The buyer of the bond pays the market price plus accrued interest.

Acquisition

The process by which a larger company, through stock purchase or exchange, gains control of a smaller company.

All or none

A type of order that requires the order be executed completely or not at all.

Alternative Minimum Tax (AMT)

A congress-created tax plan that targets high-income individuals who take advantage of deductions, credits, and exemptions.

American Depository Receipt (ADR)

A security issued by a U.S. bank in place of the foreign shares held in trust by that bank, thereby facilitating the trading of foreign shares in U.S. markets.

American Stock Exchange (AMEX)

Stock exchange in the United States for equities, bonds, options, and derivative securities located in New York City.

Amortization

Eliminating a debt (principal and interest) over time, in installments. Accounting for expenses or charges as applicable rather than as paid. Includes such practices as depreciation, depletion, write-off of intangibles, prepaid expenses and deferred charges.

Annual report

A corporation's yearly, formal financial statement. Reports describe corporate assets, liabilities, revenues, expenses, and earnings, as well as analysis and messages from officers. In accordance with SEC regulations, annual reports are distributed to all company stockholders.

Annuity

An insurance product that pays an income benefit on a specific date, for a specific term, or for the lifetime of the person(s) receiving the annuity. Annuities are long-term investment vehicles designed for retirement purposes. Early withdrawals may be subject to surrender charges. Withdrawals are subject to ordinary income tax, and if taken prior to age 59 1/2, a 10 percent IRS penalty may also apply. Fixed annuities are not insured nor guaranteed by the FDIC. All guarantees are backed by the claims-paying ability of the issuing company.

Arbitrage

The simultaneous purchase of a security in one market, and the sale of it or a derivative product in another market to profit from price differentials between the two markets.

Ask (ask price)

The lowest price a dealer or trader will accept to sell stock. Also the quoted offer at which an investor can buy stock. This is sometimes called the offer price.

Assets

Everything a corporation owns or that is due to it: cash, investments, money due it, materials and inventories, which are called current assets; buildings and machinery, which are known as fixed assets; and patents and goodwill, called intangible assets. (See: Liabilities)

Asset Allocation

Deciding how funds should be allocated among different types of securities.

Asset class

An investment category, e.g., stock, real property, metals, etc.

Auction market

The system of trading securities through brokers or agents on an exchange, such as the New York Stock Exchange. Buyers compete with other buyers while sellers compete with other sellers for the most advantageous price.

Auditor's report

Often called the accountant's opinion, it is the statement of the accounting firm's work and its opinion of the corporation's financial statements, especially if they conform to the normal and generally accepted practices of accountancy.

Averages

Various ways of measuring the trend of securities prices, one of the most popular of which is the

Dow Jones Industrial Average of 30 industrial stocks listed on the New York Stock Exchange. The prices of the 30 stocks are totaled and then divided by a divisor that is intended to compensate for past stock splits and stock dividends, and that is changed from time to time. As a result, point changes in the average have only the vaguest relationship to dollar-price changes in stocks included in the average.

B

Balance sheet

A condensed financial statement showing the nature and amount of a company's assets, liabilities and capital on a given date. In dollar amounts, the balance sheet shows what the company owned, what it owed and the ownership interest in the company of its stockholders.

Basis point

The smallest measure used for quoting yields in the bond market. One hundred basis points equals one point of bond yield. Interest rates also employ basis points, e.g., an interest rate of 5% is 50 basis points greater than 4.5%.

Bear

Someone who believes a market will decline.

Bear market

A bear market is one in which prices are declining.

Bearer bond

A bond that does not have the owner's name registered on the books of the issuer. Interest and principal, when due, are payable to the holder.

Beneficiary

Person or legal entity named to receive benefits in a will, trust, insurance policy, or other contract.

Bid (bid price)

This is the quoted bid at which a Market Maker is willing to buy a stock.

Bid-ask spread

The difference between the price at which a Market Maker is willing to buy a security (bid), and the price at which the firm is willing to sell it (ask). The spread narrows or widens according to the supply and demand for the security being traded.

Block Trade

A purchase or sale of a large quantity of stock, usually 10,000 shares or more.

Blue chip

Popular name for any large, national, well-known company with solid, high-quality management and a history of profitability.

Blue Sky Laws

A popular name for laws various states have enacted to protect the public against securities frauds. The term is believed to have originated when a judge ruled that a particular stock had about the same value as a patch of blue sky.

Bond

A long term promissory note in which the issuer agrees to pay the owner the amount of the face value on a future date and to pay interest at a specified rate at regular intervals.

Book value

An accounting term. Book value of a stock is determined from a company's records, by adding all assets then deducting all debts and other liabilities, plus the liquidation price of any preferred issues. The sum arrived at is divided by the number of common shares outstanding and the result is book value per common share. Book value of the assets of a company or a security may have little relationship to market value.

Broker

An agent who handles the public's orders to buy and sell securities, commodities or other property. A commission is charged for this service.

Brokers' loans

Money borrowed by brokers from banks or other brokers for a variety of uses. It may be used by specialists to help finance inventories of stock they deal in; by brokerage firms to finance the underwriting of new issues of corporate and municipal securities; to help finance a firm's own investments; and to help finance the purchase of securities for customers who prefer to use the broker's credit when they buy securities.

Bull

Someone who believes a market will rise.

Bull market

A bull market is one in which prices are high or rising.

Buy

To purchase a security; take a long position.

Buy in

To cover, offset, or close out a short position.

Buy limit order

A conditional trading order that tell a broker to purchase a security only at a designated price or lower. Limit orders become market orders when they reach the specified limit.

Buy on close

To buy at the end of a trading session at a price within the closing range.

Buy on margin

Purchasing securities either partly or entirely on credit, using the shares themselves as collateral.

Buy on opening

To buy at the beginning of a trading session at a price within the opening range.

Buy-and-hold strategy

An investor purchases securities and holds them (without selling) for a long period of time (five or more years), regardless of trends or fluctuations in the share price.

Buy-side Trader

An individual, such as a pension or mutual fund portfolio manager, who affects trades for an institutional investor.

C

Call option

An option contract that gives the holder the right (but not the obligation) to buy a security at a specified price on or before a specific date.

Callable

A bond issue, all or part of which may be redeemed by the issuing corporation under specified conditions before maturity. The term also applies to preferred shares that may be redeemed by the issuing corporation.

Cap

The upper limit on the interest rate of a floating-rate note or an adjustable mortgage.

Capital gain or capital loss

Profit or loss from the sale of a capital asset. The capital gains provisions of the tax law are complicated. You should consult your tax advisor for specific information.

Capital stock

All shares representing ownership of a business, including preferred and common.

Capitalization

Total amount of the various securities issued by a corporation. Capitalization may include bonds, debentures, preferred and common stock, and surplus. Bonds and debentures are usually carried on the books of the issuing company in terms of their par or face value. Preferred and common shares may be carried in terms of par or stated value. Stated value may be an arbitrary figure decided upon by the director or may represent the amount received by the company from the sale of the securities at the time of issuance.

Cash flow

Often used as an indication of financial strength, cash flow is the amount of cash generated (and used) by a company during a specific time period. Earnings before depreciation, amortization, and non-cash charges.

Cash sale

A market transaction that specifies delivery of securities the same day they are purchased.

Certificate

A formal (usually engraved) document that serves as proof of stock ownership in a company.

Certificate of deposit (CD)

Money market instrument issued by a bank that indicates a specific sum of money has been deposited. CDs bear a maturity date, a specific interest rate, and a duration of up to five years. Traditional CDs typically feature a penalty for early withdrawal.

Clearing house

An exchange component that confirms and settles securities trades.

Collateral

Securities or other property pledged by a borrower to secure repayment of a loan.

Commercial paper

Debt instruments issued by companies to meet short-term financing needs.

Commission

The broker's basic fee for purchasing or selling securities or property as an agent.

Commission broker

An agent who executes the public's orders for the purchase or sale of securities or commodities.

Common stock

Securities that represent an ownership interest in a corporation. If the company has also issued preferred stock, both common and preferred have ownership rights. Common stockholders assume the greater risk, but generally exercise the greater control and may gain the greater award.

in the form of dividends and capital appreciation. The terms common stock and capital stock are often used interchangeably when the company has no preferred stock.

Community property assets

Property that spouses own jointly (usually acquired during the marriage). Community property laws vary from state to state.

Conglomerate

A large corporation that has acquired several other firms engaged in different industries.

Consolidated balance sheet

A comprehensive balance sheet that shows the financial health of a company and all its subsidiaries.

Consolidated tape

The ticker tape reporting transactions in NYSE-listed securities that take place on the NYSE or any of the participating regional stock exchanges and other markets. Similarly, transactions in AMEX-listed securities, and certain other securities listed on regional stock exchanges, are reported on a separate tape.

Convertible Bond

A bond that can be exchanged at the option of the holder into preferred or common stock at a preset ratio.

Correspondent

A financial organization that acts as a proxy for another similar organization that lacks direct access to certain places or markets.

Coupon Bond

An unregistered debt instrument payable to the holder via detachable coupons.

Coverdell Education Savings Account (ESA)

A replacement for the education IRA, an ESA is a trust or custodial account designed to help parents fund qualified education expenses for their children. Account contributions are taxed, although earnings used for qualified expenses are not. Ask your financial advisor for benefits and restrictions.

Cumulative preferred

A stock having a provision that if one or more dividends are omitted, the omitted dividends must be paid before dividends may be paid on the company's common stock.

Cumulative voting

A voting method in which participants receive as many votes as there are open board positions.

This gives minority shareholders more say by allowing them to cast all their votes (if desired) for a single candidate. Cumulative voting is required under the corporate laws of some states and is permitted in most others.

Current assets

Cash or assets that can be converted to cash at short notice (usually within one year), e.g., cash, government bonds, accounts receivable, etc.

Current liabilities

Short-term debts owed by a company.

Current return

An investment's present earnings or rate of return.

Custodial fees

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

D

Day order

An order to buy or sell securities that automatically expires, if not executed on the day it is entered.

Dealer

An individual or firm in the securities business who buys and sells stocks and bonds as a principal rather than as an agent. The dealer's profit or loss is the difference between the price paid and the price received for the same security. The dealer's confirmation must disclose to the customer that the principal has been acted upon. The same individual or firm may function, at different times, either as a broker or dealer.

Debenture

An unsecured debt secured by general credit (the borrower's integrity), not by collateral. The debenture agreement is called an indenture.

Debit balance

Debit balances are monies owed to a broker-dealer by a customer generally resulting from the customer's purchase of securities.

Debt

Money borrowed.

Default

Failure to make timely payments on a debt.

Deficit

An excess of liabilities over assets, losses over profits, or expenditures over income.

Delayed opening

The postponement of trading of an issue on a stock exchange beyond the normal opening of a day's trading because of market conditions that have been judged by exchange officials to warrant such a delay. Reasons for the delay might be an influx of either buy or sell orders, an imbalance of buyers and sellers, or pending corporate news that requires time for dissemination.

Depletion accounting

Natural resources, such as metals, oil, gas and timber, that conceivably can be reduced to zero over the years, present a special problem in capital management. Depletion is an accounting practice consisting of charges against earnings based upon the amount of the asset taken out of the total reserves in the period for which accounting is made. A bookkeeping entry, it does not represent any cash outlay nor are any funds earmarked for the purpose.

Depository Trust Company (DTC)

A central securities certificate depository through which members effect security deliveries between each other via computerized bookkeeping entries thereby reducing the physical movement of stock certificates.

Depreciation

Normally, charges against earnings to write off the cost, less salvage value, of an asset over its estimated useful life. It is a bookkeeping entry and does not represent any cash outlay nor are any funds earmarked for the purpose.

Dilution

When company shares increase in quantity, causing the value of each share to decrease.

Director

Person elected by shareholders to serve on the board of directors.

Disability insurance

An insurance product that only pays benefits if the policyholder, as a result of illness or injury, can no longer work.

Discount

How much a security sells below its par value.

Discount rate

The interest rate that the Federal Reserve charges banks and broker-dealers to borrow money.

Discretionary account

An account empowering a broker or adviser to buy and sell without the client's prior knowledge and consent.

Diversification

A risk-reducing investment strategy that combines different securities and assets (stocks, bonds, cash, etc.) unlikely to move, price-wise, in the same direction at the same time.

Dividend

Distributions to stockholder of cash or stock declared by the company's board of directors.

Dollar-cost-averaging

A strategy of buying securities at regular intervals with a fixed dollar amount per interval.

Dow Jones industrial average

The best-known U.S. index of stocks containing 30 companies that trade on the NYSE.

Downgrade

A negative change in buy/sell/hold ratings for a security.

Down tick

A transaction executed at a price lower than the preceding transaction in that security or a new quote registered at a lower price than the preceding quote in that security.

E

Earnings

Net income for a company.

Earnings before interest and taxes (EBIT)

A company's earning power

Earnings per share (EPS)

A company's profit divided by its number of outstanding shares.

Effective rate

A debt security's yield calculated from the purchase price.

Employee stock ownership plan (ESOP)

A company contributes to a trust fund that buys stocks on behalf of employees.

Equity

The ownership interest of common and preferred stockholders in a company. Also refers to excess

of value of securities over the debit balance in a margin account.

Equity

The ownership interest of stockholders in a company. Also, the excess of the market value of securities over debit balance in a margin account.

Estate taxes

A tax on the estate of a deceased person before it transfers to heirs or entities owed by the estate.

Eurodollar

U.S. currency in a European bank or other institutions outside the U.S.

Exchange

A marketplace where agents trade shares and options. Principle U.S. stock exchanges are the New York Stock Exchange (NYSE), American Stock Exchange (AMEX), and the National Association of Securities Dealers (NASDAQ).

Ex-dividend

A synonym for "without dividend." The buyer of a stock selling ex-dividend does not receive the recently declared dividend. When stocks go ex-dividend, the stock tables include the symbol "x" following the name.

Ex-rights

Without the rights. Corporations raising additional money may do so by offering their stockholders the right to subscribe to new or additional stock, usually at a discount from the prevailing market price. The buyer of a stock selling ex-rights is not entitled to the rights.

Expense ratio

Operating costs, including management fees, expressed as a percentage of a fund's average net assets for a given time period.

Extra

A dividend that is paid in addition to a firm's 'regular' quarterly dividend.

F

Face value

The nominal dollar amount assigned to a security by the issuing institution or company.

Federal Deposit Insurance Corporation (FDIC)

A federal institution that insures bank deposits.

Federal Home Loan Mortgage Corporation (Freddie Mac or FHLMC)

Established by congress in 1970, the corporation buys qualified mortgage loans from originating institutions. It converts the loans to securities, which it then sells to investors. The U.S. government does not back the corporation's securities.

Federal National Mortgage Association (Fannie Mae or FNMA)

Like Freddie Mac the congressionally chartered corporation (1938) buys qualified mortgage loans from originating institutions. It converts the loans to securities, which it then sells to investors. The U.S. government does not back the corporation's securities.

Fill

The price at which a broker executes a trade order.

Fill or kill order

A trade order that is canceled unless executed within a specified time period.

FINRA

Conducts the regulatory oversight of more than 5,000 securities firms and 666,000 registered representatives. It is responsible for rule writing, firm examination, enforcement and arbitration and mediation functions, along with all functions that were previously overseen solely by NASD, including market regulation under contract for NASDAQ, the American Stock Exchange, the International Securities Exchange and the Chicago Climate Exchange.

Fiscal year

A corporation or institution's accounting year (often different from a calendar year).

Fixed annuities

Annuity contracts in which the issuing institution pays a fixed dollar amount per period.

Floating rate note

A debt instrument that may pay interest at a variable (instead of fixed) rate.

Floor

The area of an exchange where trading occurs.

Floor broker

A licensed agent who is paid a commission for executing orders for clearing members or their customers.

Floor trader

An agent who generally trades only for his/her own account, for an account under his/her control, or who has such a trade made for him/her.

Formula investing

An investment technique. One formula calls for the shifting of funds from common shares to preferred shares or bonds as a selected market indicator rises above a certain predetermined point - and the return of funds to common share investments as the market average declines.

Free and open market

A market in which supply and demand are freely expressed in terms of price. Contrasts with a controlled market in which supply, demand and price may all be regulated.

Fundamental research

Analysis of industries and companies based on such factors as sales, assets, earnings, products or services, markets and management. As applied to the economy, fundamental research includes consideration of gross national product, interest rates, unemployment, inventories, savings, etc.

Funds

Money or assets that can be converted to money. An investment company that sells shares and invests in securities issued by publicly traded companies.

Fund family

Set of funds with different investment objectives offered by one investment management company.

Funded debt

Usually interest-bearing bonds or debentures of a company. Could include long-term bank loans. Does not include short-term loans, preferred or common stock.

G

General mortgage bond

A bond secured by a property mortgage.

General partner

A partner who has unlimited liability for the obligations of the partnership.

General partnership

A partnership arrangement in which all partners are general partners.

Gilt-edged

Securities from high-quality, blue chip companies are said to be 'gilt-edged.'

Gold standard

A monetary system in which currencies are defined in terms of their gold content. The U.S. abandoned the gold standard in 1971.

Good delivery

A designation that a security meets all requirements to be transferred to the buyer.

Good 'til canceled (GTC) or open order

A trading order that is good until the investor cancels it. Brokerages usually set a limit of 30 to 60 days, after which the GTC expires if not reinstated.

Government bonds

A high-grade debt instrument sold by the U.S. Government.

Gross domestic product (GDP)

Market value of goods and services produced over time including the income of foreign corporations and foreign residents working in the U.S., but excluding the income of U.S. residents and corporations overseas.

Gross national product (GNP)

Measure of an economy's total income. Equal to GDP plus income abroad accruing to domestic residents minus income generated in domestic market accruing to non-residents.

Gross profit margin

Gross profit divided by sales, which is equal to each sales dollar left over after paying for the cost of good sold.

Growth stock

Stock of a company that is growing (earnings, revenue, etc.) faster than its industry.

H

Hedge fund

A fund (usually used by wealthy accredited individuals and institutions) that employs a variety of aggressive techniques to enhance returns. Hedge funds typically collect a percentage of fund profits.

High price

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

Holding company

A corporation that owns the securities of another, in most cases with voting control.

Host security

The security to which a warrant is attached.

Hypothecation

The pledging of securities as collateral - for example, to secure the debit balance in a margin account.

Income bond

A debt instrument that promises to repay principal, but only pay interest when earned by the issuing institution.

Income fund

A conservative mutual fund that seeks to return current income as its primary objective rather than emphasizing growth.

Income statement

A statement showing a company's revenues, expenses, and income over a specified period of time.

Income stock

Common stock with a history of high dividend yield.

Independent broker

Member on the floor of the NYSE who executes orders for other brokers having more business at that time than they can handle themselves, or for firms who do not have their exchange member on the floor.

Index

Statistical measure (not an average) of specific securities' value.

Index and option market (IOM)

A division of the Chicago Mercantile Exchange (CME) established in 1982 for trading stock index products and options.

Inflation

The value of a currency decreasing as prices of goods and services increase over time.

Initial public offering (IPO)

A company's first sale of stock to the public. Companies making an IPO are seeking outside equity capital and a public market for their stock.

Institutional investor

An organization whose primary purpose is to invest its own assets or those held in trust by it for others. Includes pension funds, investment companies, insurance companies, universities and banks.

Instruments

Any financial security, e.g., stock, bond, Treasury bill, mortgages, etc.

Interest

Payments borrowers pay lenders for the use of their money. A corporation pays interest on its bonds to its bondholders.

Intermarket Trading System (ITS)

A computer system that interconnects competing exchange markets for the purpose of choosing the best market. It is operated by Securities Automation Corporation (SAC).

International fund

A mutual fund that invests primarily in securities of companies domiciled outside the U.S.

Interrogation device

A computer terminal that provides market information - last sale price, quotes, volume, etc. - on a screen or paper tape.

Investment

The use of money for the purpose of making more money, to gain income, increase capital, or both.

Investment bank

A financial institution that acts as a middleman (underwriter) between the corporation issuing stocks and bonds, and the public.

Investment company

A company or trust that uses its capital to invest in other companies. There are two principal types: the closed-end and the open-end, or mutual fund. Shares in closed-end investment companies, some of which are listed on the New York Stock Exchange, are readily transferable in the open market and are bought and sold like other shares. Capitalization of these companies remains the same unless action is taken to change, which is seldom. Open-end funds sell their own shares to investors, stand ready to buy back their old shares, and are not listed. Open-end funds are so called because their capitalization is not fixed; they issue more shares as people want them.

Investment counsel

One whose principal business consists of acting as investment advisor and rendering investment supervisory services.

I**IRA**

Individual retirement account. A pension plan with tax advantages. IRAs permit investment through intermediaries like mutual funds, insurance companies and banks, or directly in stocks and bonds through stockbrokers. (See: Keogh Plan)

Issue

Any of a company's securities, or the act of distributing such securities.

Issuer

A corporation that has distributed to the public securities registered with the Securities Exchange Commission.

J**Joint account**

An agreement between two or more organizations to share risk and responsibility in purchasing or underwriting securities.

Jumbo loan

A loan larger than the lending limits set by Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation). Jumbos usually carry a higher interest rate than conforming loans.

Junk bond

A risky bond with a speculative credit rating of BB (Standard & Poor's) or Ba (Moody's) or lower. Junk bonds offer investors higher yields than those of financially sound companies, but with substantially higher risk.

Junior debt

Debt whose holders have a claim on the firm's assets only after senior debt holder's claims are satisfied.

K**Keogh plan**

Tax-advantaged personal retirement program that can be established by a self-employed individual.

L

Last split

After a stock split, the number of shares distributed for each share held, and the date of the distribution.

Leading economic indicators

A set of ten economic indicators that tend to rise or fall before the rest of the economy. Indicators include building permits, stock prices, real money supply, and vendor performance.

Lease

A long-term rental agreement, or a form of secured long-term debt.

Lessee

A person or organization that leases an asset from another.

Lessor

A person or organization that leases an asset to another.

Leverage

The use of fixed-rate debt financing to try to boost an investment's rate of return.

Leveraged buyout (LBO)

A strategy used to take a public corporation private financed through the use of debt funds (bank loans and bonds).

Liabilities

All the claims against a corporation. Liabilities include accounts, wages and salaries payable; dividends declared payable; accrued taxes payable; and fixed or long-term liabilities, such as mortgage bonds, debentures and bank loans.

Limit, limited order, or limited price order

An order to buy or sell a stated amount of a security at a specified price, or at a better price, if obtainable after the order is represented in the trading crowd.

Line of credit

A borrower receives a specified amount of unsecured credit for a specified period of time.

Liquidation

The process of converting securities or other property into cash. The dissolution of a company, with cash remaining after sale of its assets and payment of all indebtedness being distributed to the shareholders.

Liquidity

The ability of the market in a particular security to absorb a reasonable amount of buying or selling at reasonable price changes. Liquidity is one of the most important characteristics of a good market.

Listed stock

The stock of a company that is traded on a securities exchange.

Load

A sales charge associated with some mutual funds.

Locked in

Because of capital gains tax consequences, an investor does not sell a profitable investment.

Long

Stock ownership. One who has ownership of securities is in a 'long position.'

M

Management fee

An investment advisory fee paid by a mutual fund's manager for services. Many registered investment advisors also charge fees for accounts under management or for advisory services.

Manipulation

An illegal operation. Buying or selling a security for the purpose of creating false or misleading appearance of active trading or for the purpose of raising or depressing the price to induce purchase or sale by others.

Margin call

A demand upon an investor for additional funds because of adverse price movement in a security.

Market index

A statistical collection that measures and quantifies a specific market's price changes over specific time periods.

Market order

An order to buy or sell a stated amount of a security at the best possible price at the time the order is received in the market place.

Market price

A security's price as determined by willing buyers and willing sellers in an open market.

Market value

The market value of a security is the last-sale price multiplied by total shares outstanding. It is calculated throughout the trading day and is related to the total value of the index.

Maturity

The date on which a loan or bond comes due and is to be paid off.

Mean

A type of mathematical average. It's derived by dividing a sum by the number of values that make up the sum.

Member corporation

A securities brokerage firm, organized as a corporation, with at least one member of the New York Stock Exchange who is an officer or employee of the corporation.

Member firm

A securities brokerage firm organized as a partnership and having at least one general partner or employee who is a member of the New York Stock Exchange.

Member organization

The term includes New York Stock Exchange member firms and member corporations.

Merger

Combination of two or more corporations.

Modern portfolio theory

Investment strategy based on risk-return trade-offs and efficient diversification.

Money market fund

A mutual fund whose investments are in high-yield money market instruments such as federal securities, CDs and commercial paper. Its intent is to make such instruments, normally purchased in large denominations by institutions, available indirectly to individuals.

Mortgage

A loan secured by the collateral of some specified real estate property. Mortgages require the borrower to make a predetermined series of payments.

Mortgage bond

A bond secured by a mortgage on a property. The value of the property may or may not equal the value of the bonds issued against it.

Municipal bonds

Bonds issued by states, cities, counties and towns to fund public capital projects like roads, schools, sanitation facilities, bridges, as well as operating budgets. These bonds are exempt from

federal taxation and from state and local taxes for the investors who reside in the state where the bond is issued.

Mutual fund

A pool of money invested by an investment company in a number of securities like stocks, bonds, or government securities. Each mutual fund is different in its make-up and philosophy. Because most mutual funds invest in a large number of securities, they offer investors the benefit of diversification which can help reduce market risk.

N

Nasdaq

An automated information network that provides brokers and dealers with price quotations on securities traded over-the-counter. Nasdaq is an acronym for National Association of Securities Dealers Automated Quotations.

Negotiable

Refers to a security, the title to which is transferable by delivery.

Net asset value (NAV)

A single mutual fund share's price.

Net change

The difference between today's last trade and the previous day's last trade.

Net income

A company's revenue minus costs. Also called 'the bottom line,' earnings, or net profit.

Net worth

Common stockholder's equity, consisting of common stock, surplus, and retained earnings.

New issue

A stock or bond sold by a corporation for the first time. Proceeds may be used to retire outstanding securities of the company, for new plant or equipment, for additional working capital, or to acquire a public ownership interest in the company for private owners.

New York Futures Exchange (NYFE)

A subsidiary of the New York Stock Exchange devoted to the trading of futures products.

New York Stock Exchange (NYSE)

The largest organized securities market in the United States, founded in 1792. The Exchange itself does not buy, sell, own or set the prices of securities traded there. The prices are determined by

public supply and demand. The Exchange is a non-profit corporation of 1,366 individual members, governed by a board of directors consisting of 10 public representatives, 10 Exchange members or allied members and a full-time chairman, executive vice chairman and president.

No-load mutual fund

A mutual fund without upfront sales charges or distribution fees. However, no-load funds still incur management fees and 12b-1 fees.

Nonrecourse debt

Debt for which the borrower is not personally liable.

Noncumulative

A class of preferred stock that does not accrue unpaid dividends.

Nonqualified assets

Any assets subject to taxes.

Nonrefundable

A bond indenture condition that restricts a bond from being refunded.

Note

A debt security with an initial maturity of more than one year, and less than 10 years.

NYSE Composite Index

A weighted index of all NYSE common stocks.

O

Odd Lot

An amount of stock less than the established 100-share unit.

Off-board

A listed stock transaction not completed on a national exchange or an OTC transaction of an unlisted transaction.

Offer

The price at which a person is ready to sell. Opposed to bid, the price at which one is ready to buy.

Open order

An order to buy or sell a security that remains in effect until it is either cancelled by the customer or executed.

Open position

A net long or short position whose value will change with a price change.

Open-end fund

An investment company (a mutual fund) that sells new shares to the public and redeems its outstanding shares on demand.

Option

An instrument that gives the owner the right to buy or sell a specified number of shares of a specified stock at a specified price within a specified period of time. A Call option allows the buyer to purchase the underlying stock at any time up to the expiration date of the contract. A Put option allows the buyer to sell the underlying stock at any time up to the expiration date of the contract.

Over the counter (OTC)

A market for securities not listed on an exchange, as well as the principal bond market.

Overbought

An opinion as to price levels. May refer to a security that has had a sharp rise or to the market as a whole after a period of vigorous buying which, it may be argued, has left prices "too high."

Oversold

The reverse of overbought. A single security or a market which, it is believed, has declined to an unreasonable level.

Over-the-counter

A market for securities made up of securities dealers who may or may not be members of a securities exchange. The over-the-counter market is conducted over the telephone and deals mainly with stocks of companies without sufficient shares, stockholders or earnings to warrant listing on an exchange. Over-the-counter dealers may act either as principals or as brokers for customers. The over-the-counter market is the principal market for bonds of all types.

P

Paper profit (loss)

An unrealized profit or loss on a security still held. Paper profits and losses become realized only when the security is sold.

Par

A security's dollar amount, as stipulated by the issuing institution. Par value for a bond is the face (maturity) value.

Participating preferred

A preferred stock that is entitled to its stated dividend and to additional dividends on a specified basis upon payment of dividends on the common stock.

Passed dividend

Omission of a regular or scheduled dividend.

Penny stocks

Low-priced issues, often highly speculative, selling at less than \$1 a share. Frequently used as a term of disparagement, although some penny stocks have developed into investment-caliber issues.

Point

A unit of financial measurement. Stock points are one dollar per share. Debt instrument points are one percent of face value. Loan or mortgage points are one percent of the loan amount.

Portfolio

An individual or institution's collection of assets (financial and/or real).

Position

The number of securities contracts either owned (long) or owed (short).

Preferred stock

A security that usually pays a fixed dividend and that gives the holder a claim on corporate earnings and assets that is superior to that of holders of common stock.

Premium

The amount by which a bond or preferred stock may sell above its par value. May refer, also, to redemption price of a bond or preferred stock if it is higher than face value.

Price-to-earnings ratio

A popular way to compare stocks selling at various price levels. The P/E ratio is the price of a share of stock divided by earnings per share for a 12-month period. For example, a stock selling for \$50 a share and earning \$5 a share is said to be selling at a price-to-earnings ratio of 10.

Primary distribution

Also called primary or initial public offering. The original sale of a company's securities. (See: Investment banker)

Prime rate

A commercial bank's lowest interest rate, charged to their most credit-worthy customers.

Principal

The total amount of money being borrowed or loaned. The person affected by a broker's actions.

Privatization

The transfer of ownership of property or business from a government to a privately owned entity.

Probate

The review of a will by a legal authority to determine validity, as well as the process of distributing a deceased person's property to heirs.

Product cycle

The time needed to bring new and/or improved products to the market.

Profit-taking

Selling stock that has appreciated in value since purchase, in order to realize the profit. The term is often used to explain a downturn in the market following a period of rising prices.

Prospectus

A formal written offer to sell securities that sets forth the plan for a proposed business enterprise, or the facts concerning an existing one that an investor needs to make an informed decision.

Proxy

Written power of attorney given by a shareholder of a corporation, authorizing someone to vote on his or her behalf at corporate meetings.

Proxy statement

Material information required by the Securities and Exchange Commission to be given to a corporation's stockholders as a prerequisite to solicitation of votes. It is required for any issuer subject to the provisions of the Securities Exchange Act of 1934.

Prudent Man Rule

An investment standard. In some states, the law requires that a fiduciary, such as a trustee, may invest the fund's money only in a list of securities designated by the state - the so-called legal list. In other states, the trustee may invest in a security if it is one that would be bought by a prudent person of discretion and intelligence, who is seeking a reasonable income and preservation of capital.

Public offering

The sale of registered securities in the public market through an underwriter.

Put

An option granting the right (but not the obligation) to sell a security at a specified price on or before a specific date.

Put price

The price at which an asset will be sold if a put option is exercised. Also called the strike price.

Q

Qualified assets

Tax-advantaged assets.

Quick ratio

Indicator of a company's financial health. Calculated by taking current assets minus inventories, divided by current liabilities. Ratio provides information regarding the firm's liquidity and ability to meet its obligations.

Quote

The highest bid to buy and the lowest offer to sell a security in a given market at a given time. If you ask your financial advisor for a "quote" on a stock, he or she may come back with something like "45 1/4 to 45 1/2." This means that \$45.25 is the highest price any buyer wanted to pay at the time the quote was given on the floor of the exchange and that \$45.50 was the lowest price that any seller would take at the same time.

R

Rally

A brisk rise following a decline in the general price level of the market, or in an individual stock.

Range

A security's high and low transaction prices (or high and low bids and offers) for a specific period.

Rating

An evaluation of credit quality. Moody's, Standard & Poor's, and Fitch Investors Service issue ratings to companies used by investors and analysts.

Real Estate Investment Trust (REIT)

An organization similar to an investment company in some respects but concentrating its holdings in real estate investments. The yield is generally liberal since REITs are required to distribute as much as 90% of their income.

Record date

Date by which a shareholder must officially own shares in order to be entitled to a dividend.

Redemption price

The price at which a bond may be redeemed before maturity, at the option of the issuing company. Redemption value also applies to the price the company must pay to call in certain types of preferred stock.

Red herring

Industry jargon for a preliminary prospectus issued by underwriters or issuers to gauge interest in a prospective offering. It receives its name from the warning printed in red, that information in the document is incomplete or subject to change before the issue.

Refinancing

Same as refunding. New securities are sold by a company and the money is used to retire existing securities. The object may be to save interest costs, extend the maturity of the loan, or both.

Registered bond

A bond issued in the name of the owner. Nontransferable without the owner's endorsement.

Registered competitive market maker

Members of the New York Stock Exchange who trade on the floor for their own or their firm's account and who have an obligation, when called upon by an exchange official, to narrow a quote or improve the depth of an existing quote by their own bid or offer.

Registered representative

The man or woman who serves the investor customers of a broker-dealer. In a New York Stock Exchange-member organization, a registered representative must meet the requirements of the exchange as to background and knowledge of the securities business. Also known as a financial advisor or customer's broker.

Registrar

Usually a trust company or bank charged with the responsibility of keeping record of the owners of a corporation's securities and preventing the issuance of more than the authorized amount.

Registration

A company's filing of securities with the SEC for public offering.

Regulation A

The securities regulation that exempts small public offerings (valued at less than \$1.5 million) from most SEC registration requirements.

Regulation D

Securities and Exchange Commission (SEC) regulation governing private placement exemptions. Reg D allows usually smaller companies to raise capital through the sale of equity or debt securities without having to register their securities with the SEC.

Regulation M

Federal regulation requiring member banks to hold reserves against their net borrowings from their foreign branches over a 28-day averaging period. Reg M has also required member banks to hold reserves against Eurodollars lent by their foreign branches to domestic corporations for

domestic purposes.

Regulation Q

Federal regulation imposing caps on the rates that banks may pay on savings and time deposits. Currently time deposits with a denomination of \$100,000 or more are exempt from Reg Q.

Regulation T

The federal regulation governing the amount of credit that may be advanced by brokers and dealers to customers for the purchase of securities.

Regulation U

The federal regulation governing the amount of credit that may be advanced by banks to customers for the purchase of listed stocks.

Reverse stock split

A reduction in the number of shares (but not the value of shares) held by shareholders. Shareholders maintain the same percentage of equity in the corporation as before the split.

Rights

When a company wants to raise more funds by issuing additional securities, it may give its stockholders the opportunity, ahead of others, to buy the new securities in proportion to the number of shares each owns. The piece of paper evidencing this privilege is called a right. Because the additional stock is usually offered to stockholders below the current market price, rights ordinarily have a market value of their own and are actively traded. In most cases they must be exercised within a relatively short period. Failure to exercise or sell rights may result in monetary loss to the holder.

Roll over

To reinvest funds received from a maturing security into a new issue of the same or a similar security. Also, a tax-advantaged reinvestment of funds from a qualified retirement plan into an IRA or other qualified plan.

Roth accounts

An IRA or 401(k) retirement account created by congress in 1997. Savings to these accounts grow tax-free, but contributions are made on a pre-tax basis.

Round lot

A unit of trading or a multiple thereof. On the NYSE, the unit of trading is generally 100 shares in stocks and \$1,000 or \$5,000 par value in the case of bonds. In some inactive stocks, the unit of trading is 10 shares.

S

Scale order

An order to trade a security, to be executed in pieces at pre-determined price levels.

Seat

A traditional figure of speech for a membership on an exchange.

SEC

Created by an act of Congress in 1934, the Securities and Exchange Commission regulates the securities industry and protects investors from fraudulent practices.

Secondary distribution

Sale of a block of listed or unlisted securities after it has originally been sold by the issuer.

Sector

A group of securities that are similar (e.g., maturity, type, rating, industry, etc).

Securities Industry Automation Corporation (SIAC)

An independent organization established by the New York and American Stock Exchanges as a jointly owned subsidiary to provide automation, data processing, clearing and communications services.

Securities Investor Protection Corporation (SIPC)

Provides funds for use, if necessary, to protect customers' cash and securities that may be on deposit with a SIPC member firm in the event the firm fails and is liquidated under the provisions of the SIPC Act. SIPC is not a government agency. It is a non-profit membership corporation created, however, by an act of Congress.

Security

An investment instrument defined by the Securities Exchange Act of 1934 as 'Any note, stock, treasury stock, bond, debenture, certificate of interest or participation in any profit-sharing agreement or in any oil, gas, or other mineral royalty or lease, any collateral trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit, for a security, any put, call, straddle, option, or privilege on any security, certificate of deposit, or group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, or in general, any instrument commonly known as a 'security'; or any certificate of interest or participation in, temporary or interim certificate for, receipt for, or warrant or right to subscribe to or purchase, any of the foregoing; but shall not include currency or any note, draft, bill of exchange, or banker's acceptance which has a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace, or any

renewal thereof the maturity of which is likewise limited.

Sell limit order

Conditional trading order that instructs an agent to sell a security at the designated price or higher.

Limit orders become market orders when they reach the specified limit and execute at the market price, not the specified limit price.

Seller's option

A seller's right to select a date of a security's delivery, within limits prescribed by a contract (usually from not less than two business days to not more than 60 days).

Selling short

Borrowing a security from a broker and selling it, hoping the price will go down. Eventually, the borrower must buy the stock back on the open market to repay the broker.

Serial bond

An issue that matures in part at periodic stated intervals.

Settlement

When payment is made for an executed trade and the security is delivered.

Shares

Certificates or book entries representing ownership in a corporation.

Short

An investor who has sold a contract to establish a market position and who has not yet closed out this position through an offsetting purchase. Opposite of a long position.

Short sale

Selling a security that the seller does not own, but is committed to repurchasing eventually (profiting from an expected decline in the security's price).

Specialist

A member of the New York Stock Exchange who has two primary functions: first, to maintain an orderly market in the securities registered to the specialist. In order to maintain an orderly market, the exchange expects specialists to buy or sell for their own account, to a reasonable degree, when there is a temporary disparity between supply and demand. Second, the specialist acts as a broker's broker. When commission brokers on the exchange floor receive a limit order, say, to buy at \$50 a stock then selling at \$60 - they cannot wait at the post where the stock is traded to see if the price reaches the specified level. They leave the order with a specialist, who will try to execute it in the market if and when the stock declines to the specified price. At all times the specialists must put their customers' interests above their own.

Speculation

Investing with high risk when principal safety is secondary to quick gains.

Speculator

An investor who attempts to anticipate (and profit from) market price changes, assuming a large amount of risk in the process.

Spin-off

An independent company created from an existing division of another firm by selling or distributing new shares in the spin-off.

Split

An increase in the number of shares (but not the value of shares) held by shareholders.

Shareholders maintain the same percentage of equity in the corporation as before the split.

Spread

1. The gap between bid and ask prices;
2. The simultaneous purchase and sale of separate contracts for the same asset for delivery in different months;
3. Difference between the price at which an underwriter buys an issue from a firm and the price at which that underwriter sells it to the public;
4. The price an issuer pays above a benchmark fixed-income yield to borrow money.

Standard deviation

Measures the fluctuation of returns around the arithmetic average return of the investment. The higher the standard deviation, the greater the variable (and the risk) of the investment return.

Stock

Ownership of a corporation, represented by shares, which in turn represent a piece of that corporation's assets and earnings.

Stock exchange

An organized marketplace for securities featured by the centralization of supply and demand for the transaction of orders by member brokers for institutional and individual investors.

Stock dividend

A dividend paid in securities rather than in cash. The dividend may be additional shares of the issuing company, or in shares of another company (usually a subsidiary) held by the company.

Stockholder of record

A stockholder whose name is registered on the books of the issuing corporation.

Stock index futures

Futures contracts based on market indexes, e.g. NYSE Composite Index Futures Contracts.

Stock ticker symbols

Lettered symbols (up to four letters per symbol) assigned to securities and mutual funds trading on U.S. exchanges.

Stop limit order

A stop order that becomes a limit order after the specified stop price has been reached.

Stop order

An order to buy at a price above or sell at a price below the current market. Stop buy orders are generally used to limit loss or protect unrealized profits on a short sale. Stop sell orders are generally used to protect unrealized profits or limit loss on a holding. A stop order becomes a market order when the stock sells at or beyond the specified price and, thus, may not necessarily be executed at that price.

Street

Brokers, dealers, underwriters, and other knowledgeable members of the financial community.

Street name

Securities held in the name of a broker instead of a customer's name are said to be carried in "street name." This occurs when the securities have been bought on margin or when the customer wishes the security to be held by the broker.

Strike price

The stated price per share for which underlying stock may be purchased (in the case of a call) or sold (in the case of a put) by the option holder upon exercise of the option contract.

Structured settlement

An agreement to settle a lawsuit involving specific payments made over a period of time.

Swapping

Selling one security and buying a similar one almost at the same time to take a loss, usually for tax purposes.

Sweep account

Account in which a brokerage firm takes all the excess available funds at the close of each business day and invests them on behalf of the firm.

Syndicate

A group of investment bankers who together underwrite and distribute a new issue of securities or a large block of an outstanding issue.

T

Takeover

Transfer of control of a firm from one group of shareholders to another group.

Tax-deferred retirement plans

Employee-sponsored and other plans that allow contributions and earnings to be made and accumulate tax-free until they are paid out as benefits. Withdrawals are subject to ordinary income tax and may be subject to a 10 percent tax penalty if taken prior to age 59 1/2.

Technical research

Analysis of the market and stocks based on supply and demand. The technician studies price movements, volume, trends and patterns, which are revealed by charting these factors, and attempts to assess the possible effect of current market action on future supply and demand for securities and individual issues.

Tender offer

General offer made publicly and directly to a firm's shareholders to buy their stock at a price well above the current market price.

Tenancy in common

A form of joint property agreement without right of survivorship.

Term life insurance

A contract that provides a death benefit, but no cash accumulation or investment component.

Third market

Trading of stock exchange-listed securities in the over-the-counter market by non-exchange member brokers.

Tick

Minimum change in a security's price, either up or down.

Ticker

A scrolling, constantly updated list of current or recent security prices and/or volume.

Time horizon

The length of time an investor holds an asset.

Trade

A verbal or electronic transaction involving one party buying a security from another. Settlement occurs one to three days later.

Trader

People who take a position in securities with the objective of making profits.

Transfer

1. A change of asset ownership;
2. Moving funds between accounts.

Transfer agent

Person employed by a firm to maintain shareholder information.

Treasury bonds

Debts issued by the U.S. Treasury with maturities of 10 years or more.

Treasury stock

Stock issued by a company, but later reacquired. It may be held in the company's treasury indefinitely, reissued to the public or retired. Treasury stock receives no dividends and has no vote while held by the company.

Turnover rate

The volume of shares traded in a year as a percentage of total shares listed on an exchange, outstanding for an individual issue or held in an institutional portfolio.

U

Underperform

When a security is expected to appreciate at a slower rate than the rest of the market.

Underwriter

A firm (usually an investment bank) that buys an issue of securities from a company and resells it to investors.

Unit investment trust

Money invested in a portfolio whose composition is fixed for the life of the fund. These trusts can trade at a loss.

Universal life

A whole-life insurance product whose investment component pays a competitive interest rate rather than the below-market crediting rate. Universal life insurance policies' cash values are supported by the insurance company's general account. Universal variable life cash values are supported by the insurance company's separate account based on the selection of the investment option. Variable life insurance is offered by prospectus only. The prospectus contains details including charges and expenses. Please read the prospectus carefully before purchasing a policy.

Life insurance policies contain exclusions, limitations, reduction of benefits and terms for keeping them in force. Insurance policies are the contractual obligation of the issuing insurance company.

Unlisted stock

A security not listed on a stock exchange. (See: Over-the-counter)

Up tick

A term used to designate a transaction made at a price higher than the preceding transaction. Also called a "plus" tick. A "zero-plus" tick is a term used for a transaction at the same price as the preceding trade but higher than the preceding different price. Conversely, a down tick, or "minus" tick, is a term used to designate a transaction made at a price lower than the preceding trade. A plus sign, or a minus sign, is displayed throughout the day next to the last price of each stock at the trading post on the floor of the New York Stock Exchange.

V

Value-added tax

Method of indirect taxation whereby a tax is levied at each stage of production on the value added at that specific stage.

Variable annuity

Annuity contracts in which the issuer pays a periodic amount linked to the investment performance of the underlying portfolio.

Variable life insurance policy

A whole-life insurance product that provides a death benefit dependent on the insured's portfolio market value at the time of death. Variable life insurance is offered by prospectus only. The prospectus contains details including charges and expenses. Please read the prospectus carefully before purchasing a policy. Life insurance policies contain exclusions, limitations, reduction of benefits and terms for keeping them in force. Insurance policies are the contractual obligation of the issuing insurance company.

Venture capital

An investment in a start-up business that the investor perceives as having growth prospects but lacking access to capital markets.

Volume

The number of shares or contracts traded in a security or an entire market during a given period. Volume is usually considered on a daily basis and a daily average is computed for longer periods.

Voting right

Common stockholders' right to vote their stock in affairs of a company. Preferred stock usually has the right to vote when preferred dividends are in default for a specified period. The right to vote may be delegated by the stockholder to another person.

W

Warehousing

The interim period from the time a loan closes to its subsequent marketing to capital market investors.

Warrants

Certificates giving the holder the right to purchase securities at a stipulated price within a specified time limit or perpetually. Sometimes a warrant is offered with securities as an inducement to buy.

Watch list

A list of securities selected for special attention by a brokerage, exchange, or regulatory organization. Firms on the watch list are often takeover targets, companies planning to issue new shares, or stocks that show unusual activity.

When issued

A short form of "when, as and if issued." The term indicates a conditional transaction in a security authorized for issuance but not as yet actually issued. All "when issued" transactions are on an "if" basis, to be settled if and when the actual security is issued and the exchange or National Association of Securities Dealers rules the transactions are to be settled.

Whole life insurance

A contract with both insurance and investment components. It pays off a stated amount upon the insured's death; and it accumulates a cash value that the policyholder can redeem or borrow against.

Will

A legal document that specifies how a person wishes his or her property to be distributed after death.

Wire house

A firm operating a private wire to its own branch offices or to other firms, clearing agents houses, or brokerage houses.

Working capital

The difference in current assets and current liabilities.

Working control

Theoretically, ownership of 51% of a company's voting stock is necessary to exercise control. In practice - and this is particularly true in the case of a large corporation - effective control sometimes can be exerted through ownership, individually or by a group acting in concert, of less than 50%.

Write-down

Decreasing the book value of an asset if its book value is overstated compared to current market values.

Y

Yield

Also known as return. The dividends or interest paid by a company expressed as a percentage of the current price. A stock with a current market value of \$40 a share paying dividends at the rate of \$3.20 is said to return 8% ($\$3.20 \div \40.00). The current yield on a bond is figured the same way.

Yield ratio

The quotient of two bond yields.

Yield to maturity

The yield of a bond to maturity takes into account the price discount from or premium over the face amount. It is greater than the current yield when the bond is selling at a discount and less than the current yield when the bond is selling at a premium.

Z

Zero coupon bond

A bond with no coupons (i.e., pays no interest) that an issuer sells at a deep discount, which matures at its face value.