KARUNYA SCHOOL OF MANAGEMENT

FINANCE DICTIONARY

COMPILED BY

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A

A Priori Probability
Probability calculated by logically examining existing information. A priori probabilities are most often used within the counting method of calculating probability. This is because you must use logic to determine what outcomes of an event are possible in order to determine the number of ways these outcomes can occur. For example, consider how the price of a share can change. Its price can increase, decrease, or remain the same. Therefore, according to a priori probability, we can assume that there is a 1-in-3, or 33%, chance of one of the outcomes occurring (all else remaining equal).

AAA
The highest rating given on bonds by bond rating agencies. AAA bonds are thought to have virtually no risk of default. Moody's and Standard & Poor's are the most widely used rating agencies.

Ability to Pay
The principle that taxes should vary according to an individual's level of wealth or income. The application of this principle is a progressive tax system, which is considered to be characteristic of a socialist sentiment. Many hard-line classical economists like Adam Smith believed any elements of socialism would destroy the initiative of the population within a free market economy. However, many countries have blended capitalism and socialism with a great degree of success

Absolute Advantage
The ability of a country, individual, company, or region to produce a good or service at a lower cost per unit than the cost at which any other entity produces that good or service. Those entities with absolute advantages can produce something using a smaller number of inputs than another party producing the same product.

Absolute Breadth Index - ABI
A market indicator used to determine volatility levels in the market without factoring in price direction. It is calculated by taking the absolute value of the difference between the number of advancing issues and the number of declining issues. Typically, large numbers suggest volatility is increasing which is likely to cause significant changes in stock prices in the coming weeks. This tool is classified as a breadth indicator because the number of advancing/declining values are the only values used to create it. This index can be calculated using any exchange, or a subset of an exchange, but traditionally the NYSE has been the accepted standard

Absolute Return
The return that an asset achieves over a period of time. This measure simply looks at the appreciation or depreciation (expressed as a percentage) that an asset - usually a stock or a mutual fund - faces over a period of time. Absolute return differs from relative return because it is concerned with the return of the asset being looked at and does not compare it to any other measure. Absolute return funds look to make positive returns whether the overall market is up or down, while index tracking funds try to beat the index they are tracking. For example, if there has been a 5% increase in the price of Ford stock over the past year, then the holders of Ford stock have achieved an absolute return of 5% over the past year.

Account Balance
The net of debits and credits for an account at the end of a reporting period. This applies for all types of accounts. A bank account balance shows the amount owed to you by

the bank while a credit card balance shows the amount you owe to the credit card company.

Accounting Earnings

A company's earnings as reported in the income statement. Some financial analysis uses forward looking earnings rather than the accounting earnings

Accounting Method

In terms of taxation, the method by which income and expenses are determined for taxation purposes. The two major methods in North America are cash and accrual accounting.

Accounting Noise

The effect of complex and extensive accounting rules that regulate financial statement reporting and are thought to distort a company's true operating performance. Accounting noise can be seen as either a consequence of necessary rules regarding generally accepted accounting principles or a result of management's attempts to massage the numbers to present a rosier financial picture of the firm. For example, a company that has recently undergone a significant merger may look very unprofitable on the income statement; because the merger may cause serious one-time charges for the company, it may be useful for investors to cut through the accounting noise to get a more accurate picture of the company's prospects. Conversely, an underperforming company could engage in earnings manipulation, creating accounting noise to hide its poor performance.

Accounts Payable - AP

An accounting entry that represents an entity's obligation to pay off a short-term debt to its creditors. The accounts payable entry is found on a balance sheet under the heading current liabilities. Accounts payable are often referred to as "payables". Another common usage of AP refers to a business department or division that is responsible for making payments owed by the company to suppliers and other creditors. Accounts payable are debts that must be paid off within a given period of time in order to avoid default. For example, at the corporate level, AP refers to short-term debt payments to suppliers and banks. Payables are not limited to corporations. At the household level, people are also subject to bill payment for goods or services provided to them by creditors. For example, the phone company, the gas company and the cable company are types of creditors. Each one of these creditors provides a service first and then bills the customer after the fact. The payable is essentially a short-term IOU from a customer to the creditor. Each demands payment for goods or services rendered and must be paid accordingly. If people or companies don't pay their bills, they are considered to be in default.

Accounts Receivable - AR

Money owed by customers (individuals or corporations) to another entity in exchange for goods or services that have been delivered or used, but not yet paid for. Receivables usually come in the form of operating lines of credit and are usually due within a relatively short time period, ranging from a few days to a year. On a public company's balance sheet, acounts receivable is often recorded as an asset because this represents a legal obligation for the customer to remit cash for its short-term debts. If a company has receivables, this means it has made a sale but has yet to collect the money from the purchaser. Most companies operate by allowing some portion of their sales to be on credit. These type of sales are usually made to frequent or special customers who are invoiced periodically, and allows them to avoid the hassle of physically making payments as each transaction occurs. In other words, this is when a customer gives a company an IOU for goods or services already received or rendered. Accounts receivable are not limited to businesses - individuals have them as well. People get receivables from their employers in the form of a monthly or bi-weekly paycheck. They are legally owed this money for services (work) already provided. When a company owes debts to its suppliers or other parties, these are known as accounts payable.

Activity Based Budgeting - ABB

A method of budgeting in which activities that incur costs in each function of an organization are established and relationships are defined between activities. This information is then used to decide how much resource should be allocated to each activity. Basically, ABB is budgeting by activities rather than by cost elements

Activity Based Management - ABM

Using an activity-based costing system to improve the operations of an organization. Many managers will attempt to use an activity-based costing system to identify the source of deficiencies in the system. Once the deficiency is identified, the manager can then attempt to correct it to improve efficiency.

Actuarial Analysis

The analysis of an investment's risk done by an actuary. A highly educated actuary will use statistics and historical data in an attempt to measure the risk of a particular investment.

Actuarial Risk

The risk that the assumptions that actuaries implement into a model to price a specific insurance policy may turn out wrong or somewhat inaccurate. Possible assumptions include the frequency of losses, severity of losses and the correlation of losses between contracts. Also known as "insurance risk".

Actuary

A professional statistician working for an insurance company. They evaluate your application and medical records to project how long you will live. Actuaries are intensively educated and their knowledge is used in many different fields in order to predict future events based upon past occurrences

Ad Valorem Tax

A tax based on the assessed value of real estate or personal property. In other words, ad valorem taxes can be property tax or even duty on imported items. Property ad valorem taxes are the major source of revenues for state and municipal governments.

Adaptive Expectations Hypothesis

A hypothesis stating that individuals make investment decisions based on the direction of recent historical data, such as past inflation rates, and adjust the data (based on their expectations) to predict future rates. For example, if inflation over the last 10 years has been running in the 2-3% range, investors would use an inflation expectation of that range when making investment decisions. Consequently, if a temporary extreme fluctuation in inflation occurred recently, such as a cost-push inflation phenomenon, investors will overestimate the movement of inflation rates in the future. The opposite would occur in a demand-pull inflationary environment.

Add-On Certificate of Deposit

A certificate of deposit that allows the bearer to deposit additional funds, after the initial purchase date, that will bear the same rate of interest. Add-on's or add-in's to a certificate of deposit are beneficial when investors feel interest rates will decline. By having this feature, the bearer of the CD will be guaranteed a minimum interest rate return. Most financial institutions that permit the use of an add-on feature will require these additional deposits to meet a minimum dollar amount (typically $500).

Adjusted Gross Income - AGI

Used to determine how much of your income is taxable. AGI consists of gross income from taxable sources minus your maximum allowable adjustments. AGI minus deductions and personal exemptions equals your taxable income

Adjusted Present Value - APV

The Net Present Value (NPV) of a project if financed solely by equity plus the Present Value (PV) of any financing benefits (the additional effects of debt). By taking into account financing benefits, APV includes tax shields such as those provided by deductible interests.

Advisor

A person or company responsible for making investments on behalf of, and/or providing advice to, investors. It's a good idea to choose an advisor that has some type of professional certification.

Affiliated Companies

A situation that occurs when one company owns a minority interest (less than 50%) in another company. so refers to companies that are related to each other in some way. An affiliated company is sometimes referred to as a subsidiary.

Affinity Fraud

A type of investment scam in which a con artist targets members of an identifiable group based on things such as race, age, religion, etc. The fraudster either is, or pretends to be, a member of the group. Often the fraudster will be promoting a ponzi or pyramid scheme. This type of scam leverages and exploits the inherent trust within the group. For example, a fraudster may target a specific religious congregation. Oftentimes, the person will try to acquire the help of the leader of the group to spread the word about the investment scheme. In this instance, the leader becomes an unwitting pawn in the fraudulent scheme.

After Tax Operating Income - ATOI

A company's total operating income after taxes. This non-GAAP measure excludes any after-tax benefits or charges such as effects from accounting changes. Due to its non-GAAP nature, what is included and excluded in the measure differs, therefore, it is important to understand how the company arrived at the value. ATOI is similar to net operating profit after tax (NOPAT).

After-Hours Market Close

The last transaction and final price of a security that is traded in the after-hours market. The after-hours market is generally more volatile than the regular market, but it can give investors an idea of what to expect at the start of trading the next day. Also referred to as "after-hours close".

After-Tax Profit Margin

A financial performance ratio, calculated by dividing net income after taxes by net sales. A company's after-tax profit margin is important because it tells investors the percentage of money a company actually earns per dollar of sales. This ratio is interpreted in the same way as profit margin - the after-tax profit margin is simply more stringent because it takes taxes into account.

Aggressive Growth Fund

A mutual fund that attempts to achieve the highest capital gains. Investments held in these funds are companies that demonstrate high growth potential, usually accompanied by a lot of share price volatility. These funds are only for non risk-averse investors willing to accept a high risk-return trade-off. Also commonly referred to as a "capital appreciation fund" or "maximum capital gains fund". Aggressive growth funds have large betas, which means they have a large positive correlation with the stock market. They tend to perform very well in economic upswings and very poorly in economic downturns. An aggressive growth fund may also invest in a company's IPO and then quickly turn around and re-sell the same stock to realize large profits. Some aggressive growth funds also invest in options to boost returns.

Aggressive Investment Strategy

A method of portfolio management and asset allocation that attempts to achieve maximum return. Because their aim is capital growth, aggressive investors place a higher percentage of their assets in equities rather than in safer debt securities. As such, aggressive investors build portfolios that bear a fairly high amount of risk. But before assuming this strategy, an investor should evaluate his or risk tolerance - making sure it's high - and be sure that he or she has quite a few years before needing the invested funds.

Aging

A method used by accountants and investors to evaluate and identify any irregularities within a company's account receivables. Aging is achieved by sorting and inspecting the accounts according to their length outstanding. By aging a company's accounts receivables, one can get a better view of a company's bad debt and financial health.

Air Pocket Stock

When the price of a stock plunges unexpectedly, similar to an airplane when it hits an air pocket. This is almost always caused by shareholders selling because of unexpected bad news.

Algorithmic Trading

A trading system that utilizes very advanced mathematical models for making transaction decisions in the financial markets. The strict rules built into the model attempt to determine the optimal time for an order to be placed that will cause the least amount of impact on a stock's price. Large blocks of shares are usually purchased by dividing the large share block into smaller lots and allowing the complex algorithms to decide when the smaller blocks are to be purchased. The use of algorithmic trading is most commonly used by large institutional investors due to the large amount of shares they purchase everyday. Complex algorithms allow these investors to obtain the best possible price without significantly affecting the stock's price and increasing purchasing costs.

Alligator Spread

A term referring to an unprofitable spread regardless of favorable market movements. This loss is due entirely to large commissions charged upon the transactions.

Allocational Efficiency

A characteristic of an efficient market in which capital is allocated in a way that benefits all participants. Allocational efficiency occurs when organizations in the public and private sectors can obtain funding for the projects that will be the most profitable, thereby promoting economic growth.

Allonge

A sheet of paper attached to a bill of exchange for the purpose of documenting endorsements.

American Depositary Receipt - ADR

A negotiable certificate issued by a U.S. bank representing a specified number of shares (or one share) in a foreign stock that is traded on a U.S. exchange. ADRs are denominated in U.S. dollars, with the underlying security held by a U.S. financial institution overseas. ADRs help to reduce administration and duty costs that would otherwise be levied on each transaction. This is an excellent way to buy shares in a foreign company while realizing any dividends and capital gains in U.S. dollars. However, ADRs do not eliminate the currency and economic risks for the underlying shares in another country. For example, dividend payments in euros would be converted to U.S. dollars, net of conversion expenses and foreign taxes and in accordance with the deposit agreement. ADRs are listed on either the NYSE, AMEX or NASDAQ.

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American Depositary Share - ADS

A share issued under deposit agreement that represents an underlying security in the issuer's home country. The terms American depositary receipt (ADR) and American depositary share (ADS) are often thought to mean the same thing. However, an ADS is the actual share trading, while an ADR represents a bundle of ADSs.

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American Option

An option that can be exercised anytime during its life. The majority of exchange-traded options are American. Since investors have the freedom to exercise their American options at any point during the life of the contract, they are more valuable than European options, which can only be exercised at maturity. Consider this example: If you bought a Ford March Call option expiring in March of 2006 in March 2005, you would have the right to exercise the call option at anytime up until its expiration date. Had the Ford option been a European option, you could only exercise the option at the expiry date in March '06. During the year, the share price could have been most optimal for exercise in December of 2005, but you would have to wait to exercise your option until March 2006, where it could be out-of-the-money and virtually worthless. Note that the name of this option style has nothing to do with the geographic location.

American Stock Exchange - AMEX

The third-largest stock exchange by trading volume in the United States. The AMEX is located in New York City and handles about 10% of all securities traded in the U.S. The AMEX has now merged with the NASDAQ. It was known as the "curb exchange" until 1921.

It used to be a strong competitor to the New York Stock Exchange, but that role has since been filled by the NASDAQ. Today, almost all trading on the AMEX is in small-cap stocks, exchange-traded funds and derivatives.

Amortization

1. The paying off of debt in regular installments over a period of time.
2. The deduction of capital expenses over a specific period of time (usually over the asset's life). More specifically, this method measures the consumption of the value of intangible assets, such as a patent or a copyright. Suppose XYZ Biotech spent $30 million dollars on a piece of medical equipment and that the patent on the equipment lasts 15 years, this would mean that $2 million would be recorded each year as an amortization expense. While amortization and depreciation are often used interchangeably, technically this is an incorrect practice because amortization refers to intangible assets and depreciation refers to tangible assets.

Anchoring

The use of irrelevant information as a reference for evaluating or estimating some unknown value or information. When anchoring, people base decisions or estimates on events or values known to them, even though these facts may have no bearing on the actual event or value. Here's an everyday example: a friend asks how much you pay in rent for your 800-square-foot apartment, and then asks how much a 1,100-sq-ft apartment would cost to rent in the same building. Would you make an estimate by adding a little more to what you pay even if you've no idea of the actual costs? If so, you would be anchoring your estimate onto what you pay for your apartment. In the context of investing, investors will tend to hang on to losing investments by waiting for the investment to break-even at the price at which it was purchased. Thus, they anchor the value of their investment to the value it once had, and instead of selling it to realize the loss, they take on greater risk by holding it in the hopes it will go back up to its purchase price.

Andersen Effect

A reference to auditors performing more careful due diligence when auditing companies, in order to prevent accounting errors. This extra level of accounting scrutiny often leads to companies restating earnings even though they have not necessarily intentionally misrepresented material accounting information. The Andersen effect takes its name from the accounting firm Arthur Andersen LLP, which was indicted in a number of accounting scandals, particularly that of Enron. The Andersen effect usually occurs as a result of a change in accountants.

Andrew's Pitchfork

A technical indicator that uses three parallel trendlines to identify possible levels of support and resistance. The trendlines are created by placing three points at the end of identified trends. This is usually achieved by placing the points in three consecutive peaks or troughs. Once the points have been placed, a straight line is drawn from the first point that intersects the midpoint of the other two. Also known as "median line studies".

Angel Bond

A slang term for investment-grade bonds. This is the opposite of fallen angels, which are bonds that have a 'junk' rating. An investment-grade bond is rated at minimum as BBB by the S&P and Fitch, and Baa by Moody's. If the company's ability to pay back the bond's principal is reduced, the bond rating may fall below investment-grade minimums, and thereby become a fallen angel.

Angel Investor

A financial backer providing venture capital funds for small start-ups or entrepreneurs. Typically, angel investors are friends or family members. Another good reason to mark their birthdays on your calendar!

Ankle Biter

Stock issues with a market capitalization worth less than $500 million. Also known as "small cap" stocks. These issues can appear to be more speculative than stocks with high market capitalization. However, smaller issues often have great growth potential and tend to outperform larger market capitalization stocks. Small cap stocks are often biting at the ankles of the larger cap stocks and will one day - through capitalization growth - move up into the larger market capitalizations, as a child grows into adulthood.

Annual General Meeting - AGM

A mandatory yearly meeting of shareholders that allows stakeholders to stay informed and involved with company decisions and workings. This yearly meeting is the single event whereby shareholders are able to gather and ask the board of directors questions pertaining to corporate health and strategy. Proper notice must be given to shareholders with regards to meeting times and agenda.

Annual Percentage Yield - APY

The effective annual rate of return taking into account the effect of compounding interest. APY is calculated by: The resultant percentage number assumes that funds will remain in the investment vehicle for a full 365 days. The APY is similar in nature to the annual percentage rate. Its usefulness lies in its ability to standardize varying interest-rate agreements into an annualized percentage number. For example, suppose you are considering whether to invest in a one-year zero-coupon bond that pays 6% upon maturity or a high-yield money market account that pays 0.5% per month with monthly compounding. At first glance, the yields appear equal because 12 months multiplied by 0.5% equals 6%. However, when the effects of compounding are included by calculating the APY, we find that the second investment actually yields 6.17%, as 1.005^12-1 = 0.0617.

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Annual Report

A corporation's annual statement of financial operations. Annual reports include a balance sheet, income statement, auditor's report, and a description of the company's operations. This is usually a sleek, colorful, high gloss publication. Make sure to look beyond the marketing and dig into the numbers. This is the best way to discover the direction of the company. The 10-K is the version of the annual report, which gets submitted to the SEC. It contains more detailed financial information.

Annualize

1. To convert a rate of any length into a rate that reflects the rate on an annual (yearly) basis. This is most often done on rates of less than one year, and usually does not take into account the effects of compounding. The annualized rate is not a guarantee but only an estimate, and its accuracy depends on the variance of the rate. This rate is also known as "annualized return" and is similar to "run rate". 2. To convert a taxation period of less than one year to an annual (yearly) basis. This helps income earners to set out an effective tax plan and manage any tax implications.

Example1, a security that returns 1% a month returns 12% on an annualized basis. If, however, the 12% value was computed after only one month of returns, it is not certain that the 12% will be achieved for the year.

Example2, if after the first three months of the year you earn $10,000, you simply multiply the $10,000 by four to achieve $40,000, your annualized income.

Annuity

A series of fixed payments paid at regular intervals over the specified period. The fixed payments are received after a period of investments that are made into the annuity. An annuity is essentially a level stream of cash flows for a fixed period of time. It is most often used as a form of income during retirement.

Annuity Contract

The written agreement between an insurance company and a customer outlining each party's obligations in an annuity coverage agreement. This document will include the specific details of the contract, such as the structure of the annuity (variable or fixed), any penalties for early withdrawal, spousal provisions such as a survivor clause and rate of spousal coverage, and more. An annuity contract is one of the three accounts that can exist under a 403(b) plan. These 403(b) annuity contract plans are also known as "tax-sheltered annuities" or "tax-deferred annuities". An annuity contract is beneficial to the individual investor in the sense that it legally binds the insurance company to provide a guaranteed periodic payment to the annuitant once the annuitant reaches retirement and requests commencement of payments. Essentially, it guarantees risk-free retirement income.

Appraisal

A valuation of property (e.g. real estate, a business, an antique) by the estimate of an authorized person. Appraisals are typically used either for taxation purposes or to determine a possible selling price for the property in question.

Appraisal Ratio

A ratio used to measure the quality of a fund's investment picking ability. It compares the fund's alpha (or the adjusted return of the fund assuming the market return is zero) to the portfolio's unsystematic risk (or the risk that could be diversified away).By selecting a basket of investments, the managers of an active investment fund attempt to beat the returns of a relevant benchmark or of the overall market. The appraisal ratio measures the performance of managers by comparing the return of their stock picks to the specific risk of those selections. The higher the ratio, the better the performance of the manager in question.

Arbitrage Pricing Theory – APT.

alternative to the CAPM, APT differs in its assumptions and explanation of risk factors associated with the risk of an asset. This is a relatively new theory that predicts a relationship between the returns of portfolio and the returns of a single asset through a linear combination of variables. Sometimes market theories can be as confusing as calculus.

Arbitrage Trading Program - ATP

A program used to place simultaneous orders for stock index futures and the underlying stocks. The ATP attempts to exploit price variations (market arbitrage). The term is better known as program trading.

Arbitration

An informal hearing regarding a dispute. The dispute is judged by a group of people (generally three) who have been selected by an impartial panel. Once a decision has been reached, there is no further appeal process. We frequently hear this term when professional sports teams are negotiating contracts with their athletes. Typically, one party aims unrealistically high and the other one aims really low, and the settlement occurs somewhere in the middle.

Arm's Length Transaction

A transaction in which the buyers and sellers of a product act independently of each other and have no relationship to each other. Such a transaction is absent of any pressure sales tactics or relationships among the various parties

Aroon Indicator

A technical indicator, developed by Tushar Chande in 1995, used for identifying trends in an underlying security and the likelihood that the trends will reverse. It is made up of two lines: one line is called "Aroon up", which measures the strength of the uptrend, and the other line is called "Aroon down", which measures the downtrend. The indicator reports the time it is taking for the price to reach, from a starting point, the highest and lowest points over a given time period, each reported as a percentage of total time. Both the Aroon up and the Aroon down fluctuate between zero and 100, with values close to 100 indicating a strong trend, and zero indicating a weak trend. The lower the Aroon up, the weaker the uptrend and the stronger the downtrend, and vice versa. The main assumption underlying this indicator is that a stock's price will close at record highs in an uptrend, and record lows in a downtrend.

Articles Of Incorporation

A set of documents filed with a government body for the purpose of legally documenting the creation of a corporation. Also referred to as the "corporate charter." Articles of incorporation typically contain pertinent information such as the firm's address, profile, distribution of corporate powers and the amount/type of stock to be issued. Some states will offer more favorable environments and, as a result, attract a greater proportion of firms seeking incorporation.

Asset Allocation Fund - AAF

A mutual fund that splits its investment assets among stocks, bonds and other investment vehicles in an attempt to provide a consistent return for the investor. Also referred to as a "diversification fund".In other words, this is a mutual fund that diversifies your assets among different investment products such as stocks, international stocks, corporate bonds, money market securities and cash. This type of fund offers wide diversification in one fund, as opposed to investing in several funds to obtain this.

Asset Class

A specific category of assets or investments, such as stocks, bonds, cash, international securities and real estate. Assets within the same class generally exhibit similar characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations. Asset classes exist to provide structure to the vast array of financial instruments available in today's market. Although no two stocks are exactly the same (and some differ quite significantly from each other in terms of volatility, dividend yield, etc), most equity shares are sufficiently similar to each other, and are different enough from other financial instruments that they are reasonably grouped together into the same asset class.Assets are also grouped together based on the characteristics of their underlying companies. For example, a micro-cap and mega-cap stock can both belong to the same industry sector, while two mid-cap stocks can be involved in entirely different business sectors. Investors often build portfolios which make use of several asset classes, changing the proportional weighting of each asset class to suit their changing needs.

Asset Coverage Ratio

A test that determines a company's ability to cover debt obligations with its assets after all liabilities has been satisfied. It is calculated as the following: When calculating the asset coverage ratio, investors should exercise caution with respect to asset value. Using the book value of assets may result in an inaccurate asset coverage ratio if the actual liquidation value of assets is significantly less. As a rule of thumb, utilities should have an asset coverage ratio of at least 1.5, and industrial companies should have a ratio of at least 2.

Asset Performance

A business's ability to take productive resources and manage them within its operations to produce subsequent returns. Asset performance is typically used to compare one company's performance over time or against its competition. Possessing strong asset performance is one of the criteria for determining whether a company is considered a good investment.

Asset Play

An incorrectly valued stock that is attractive because it's combined asset value is greater than its market capitalization. This type of stock is called an asset play because the impetus for purchase is the fact that the company's assets are being offered to the market relatively cheap. Typically, investors involved in an asset play will buy these stocks in hopes that there will be price corrections causing the market capitalization to increase and thus lead to a capital gain.

Asset Quality Rating

A review or evaluation assessing the credit risk associated with a particular asset. These assets usually require interest payments - such as a loans and investment portfolios. How effective management is in controlling and monitoring credit risk can also have an affect on the what kind of credit rating is given.

Asset Redeployment.

The strategic relocation of company assets in order to increase profitability.

Asset Stripper

An individual who determines if the value of a company is worth more purchased as a whole or divided into separate assets, which are sold off. This is usually done in order to fulfill debt agreements. In essence, this is a corporate bargain finder who discovers discounts amongst financially troubled companies preparing to liquidate their assets. The job description is almost as exciting as the name.

Asset Stripping

The process of buying an undervalued company with the intent to sell off its assets for a profit. The individual assets of the company, such as its equipment and property, may be more valuable than the company as a whole due to such factors as poor management or poor economic conditions. For example, imagine that a company has three distinct businesses: trucking, golf clubs and clothing. If the value of the company is currently $100 million but another company believes that it can sell each of its three businesses to other companies for $50 million each, an asset stripping opportunity exists. The purchasing company will then purchase the three-business company for $100 million and sell each company off, potentially making $50 million.

Asset Swap

Similar in structure to a plain vanilla swap, the key difference is the underlying of the swap contract. Rather than regular fixed and floating loan interest rates being swapped, fixed and floating investments are being exchanged. In a plain vanilla swap, a fixed libor is swapped for a floating libor. In an asset swap, a fixed investment such as a bond with guaranteed coupon payments is being swapped for a floating investment such as an index.

Asset/Liability Management

A technique companies employ in coordinating the management of assets and liabilities so that an adequate return may be earned. Also known as "surplus management." By managing a company's assets and liabilities, executives are able to influence net earnings, which may translate into increased stock prices.

Asset-Based Finance

A short-term loan that is typically repaid by converting an asset, usually inventory or receivables, into cash. For example, let's say the TSJ Sports Conglomerate is short on cash and need cash to pay their employees this month. One option they might explore is trying to get an asset-conversion loan to fill that short-term cash void.

A specialized method of providing structured working capital and term loans that are secured by accounts receivable, inventory, machinery, equipment and/or real estate. This type of funding is great for startup companies, refinancing existing loans, financing growth, mergers and acquisitions, and management buy-outs (MBOs) and buy-ins (MBIs). An example of asset-based finance would be purchase order financing; this may be attractive to a company that has stretched its credit limits with vendors and has reached its lending capacity at the bank. The inability to finance raw materials to fill all orders would leave a company operating under capacity. The asset-based lender finances the purchase of the raw material, and the purchase orders are then assigned to the lender. After the orders are filled, payment is made to the lender, and the lender then deducts its cost and fees and remits the balance to the company. The disadvantage of this type of financing, however, is the high interest typically charged - which can be as high as prime plus 10%.

Asset-Conversion Loan

A futures contract with a provision permitting the contract holder to convey his or her rights of assignment to a third party. This enables the contract holder to assign the rights and obligations of a contract to another to perform and receive the benefits of that contract before it closes. For example, if an investor holds a futures contract and the holder finds that the security has appreciated by 1% at or before the contract is closed, then the contract holder may decide to assign the contract to a third party for the appreciated amount, thus making a profit on the contract before it even closes.Not all futures contacts have this provision. In fact, most exchange-traded contracts are not assignable.

Assets Under Management – AUM

In general, the market value of assets an investment company manages on behalf of investors. There are widely differing views on what the term means. Some financial institutions include bank deposits, mutual funds and institutional money in their calculations. Others limit it to funds under discretionary management where the client delegates responsibility to the company.

Assignable Contract.

Associated people are bound by the rules and regulations of different futures exchanges and regulatory bodies.

Associated Person.

The name given to participants within the futures market that are involved in the solicitation or facilitation of transacting customer orders, the maintenance of discretionary accounts, or the true participatory involvement in the futures market.

Association of Southeast Asian Nations - ASEAN

An organization of countries in southeast Asia set up to promote cultural, economic and political development in the region. ASEAN was officially formed in 1967 with the signing of the Bangkok Declaration. The original five members included Indonesia, Malaysia, Philippines, Singapore, and Thailand. Since its formation, ASEAN has been growing slowly, and more countries in the region have gained membership. Through co-operation the goal of the organization is to increase the welfare of the people in the region, both economically and culturally.

Assurance.

Coverage of an event that is certain to happen. Assurance is similar to insurance (and sometimes the terms are interchangeable) except that insurance protects policyholders from events that might happen. For example, a person can choose to purchase life assurance or term life insurance. (Note in the U.K. "life assurance" is another term for "life insurance".) The event in question is the death of the person the policy covers. Since the death of this person is certain, a life assurance policy results in payment to the beneficiary when the policyholder dies. A term life insurance policy, however, will cover a set period of time, such as 30 years, from the time the policy was bought. If the policyholder dies during that time, the beneficiary receives money, but if the policyholder dies after the 30 years, no money is received. The assurance policy covers an event that will happen no matter what, while the insurance policy covers a event that might happen (the policyholder might die within the next 30 years).

Attrition

The reduction in staff and employees in a company through normal means, such as retirement and resignation. This is natural in any business and industry. This type of reduction in staff is one way a company can decrease labor costs: the company simply waits for its employees to leave and freezes hiring. Such a method contrasts the more severe labor-reduction techniques, such as mass layoffs. Waiting for attrition is usually better for company morale.

Auction Rate

The interest rate that will be paid on a specific security as determined by the Dutch auction process. The auctions take place at periodic intervals, and the interest rate is fixed until the next auction is held. This process is commonly used to determine the interest rate on Treasury bills. The auction rate is also used in other debt securities, such as municipal bonds. This is a good way for both the investor and the issuer to forecast their returns and costs, respectively, as the auctions can be held as often as annually or even weekly. The auction process also allows investors to mitigate reinvestment risk because the interest rate fluctuations are generally less volatile.

Authorized Stock

The maximum number of shares that a corporation is legally permitted to issue, as specified in its articles of incorporation. This figure is usually listed in the capital accounts section of the balance sheet. Also known as "authorized shares" or "authorized capital stock”. This number can be changed only by a vote of all the shareholders. Management will typically keep the number of authorized shares higher than those actually issued. This allows the company to sell more shares if it needs to raise additional funds.

Automatic Investment Plan

An investment program that allows you to contribute small amounts of money (as little as $20 a month) in regular intervals. Funds are automatically deducted from your checking/savings account or your paycheck, and invested in a retirement account or mutual fund. This is one of the best ways to save money. By "paying yourself first" many people find they invest more in the long run. Their investments are treated as another part of their regular budget. It also helps to force you to pay for investments automatically, so don't forget and spend all your money on impulse.

Automatic Reinvestment Plan

An investment program in which capital gains or other income received from investments are automatically used for reinvestment purposes. In the case of a mutual Fund, for example, capital gains produced by the fund would be used to automatically purchase more shares of the fund, instead of being distributed to the investor as cash. By utilizing an automatic reinvestment plan, an investor is able to easily make use of their investment gains to produce further gains, taking advantage of compounding. Over a period of years, the added value produced by automatic reinvestment can turn out to be worth a substantial sum.

Autoregressive

Using past data to predict future data. Essentially it's forecasting, similar to predicting the weather. Unfortunately, sometimes even the weatherman can be caught in an unexpected downpour.

Autotrading

A trading strategy where buy and sell orders are placed automatically based on an underlying system or program. The buy or sell orders are sent out to be executed in the market when a certain set of criteria is met. Some investment newsletters provide an auto trading feature where, based on the newsletter's recommendation, an order to buy or sell a position is sent to the subscriber brokers automatically.. Autotrading and systems or programs to form buy and sell signals are used typically by active traders who enter and exit positions at a much higher rate than the average investor. There are also a wide range of systems that differ on the set of criteria used to generate the buy or sell signals. Typically, the criteria used is more technical in format - in that it focuses on price movement and technical indicators. These auto trading systems are used in a wide range of markets including stocks, futures, options and Forex.

Avalize

The act of having a third party (usually a bank or lending institution) guarantee the obligations of a buyer to a seller per the terms of a contract such as a promissory note or purchase agreement. The bank, by "avalizing" the document (usually "by aval" will be written on the document itself), acts as a cosigner with the buyer in the transaction. To avalize means, "to give one's accord". It is a rarely used but is an effective method of securing the rights of the receiving party in the transaction. This is an obligation that a bank will only take on with lucrative customers. It is seen as an act of good faith by both parties.

Average Annual Growth Rate - AAGR

The average increase in the value of a portfolio over the period of a year. Just as the name says, it is the average growth rate. For example, if your portfolio grows 10% one year and 20% the next, your AAGR would be 15%.

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Average Daily Balance Method

A finance/accounting method where costs (and interest) are based on the amount(s) owing at the end of each day. Most department store credit cards use this system. Interest payable is calculated daily, this results in less interest payable because payments on the card lower the interest payable immediately. We should note that the interest rate on department store credit cards are usually higher than normal credit cards, so this isn't to say that there is a huge interest savings.

Average Directional Index - ADX

An indicator used in technical analysis to determine the strength of a prevailing trend. The ADX is measured on a scale between zero and 100. Readings below 20 are used to indicate a weak trend, while readings over 40 indicate a strong trend. ADX is not used to determine the direction of a particular trend, but only to gauge its strength. Traders use a move above 20 to suggest the start of a new trend (either up or down) and a move below 40 to suggest that the current trend may be coming to an end. The ADX is a derivation of two separate indicators known as direction momentum indicators (+DI and -DI). Unlike the ADX, these direction momentum indicators can be used to gauge trend direction and are commonly plotted alongside the ADX.

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Average Return

The simple mathematical average of a series of returns generated over a period of time. An average return is calculated the same way a simple average is calculated for any set of numbers; the numbers are added together into a single sum, and then the sum is divided by the count of the numbers in the set. For example, suppose an investment had returned the following annual returns over a period of five full years: 10%, 15%, 10%, 0% and 5%. To calculate the average return for the investment over this five-year period, the five annual returns would be added together and then divided by five. This produces an annual average return of 8%.

Average Up

The process of buying additional shares at higher prices. This raises the average price that the investor pays for all the shares. In the context of short selling, averaging up is achieved by selling additional shares at a price higher than that of the first transaction Say you buy XYZ at $20 per share, and as the stock rises you buy equal amounts at $24, $28 and $32 per share. This would bring your average purchase price to $26 per share.

B

Beta

A measure of the price volatility of a security or portfolio, compared with the market

Back bond

The security created when a debt warrant is converted. Also virgin bond.

Big Bang

The freeing up of the UK stockmarket which took place on 27 October 1986, when stockbroking ...

Bond market
A statement of debt, similar to an IOU. Bonds are issued by governments, companies, other ...

Bond tender
An option whose underlying security/instrument is a bond.

Bonus issue
A form of auction through which Australian commonwealth bonds have been sold since July 1982. ...
Shares in a company which are issued free to existing shareholders, sometimes called a 'scrip .

Bottomish

Jargon to describe a market that has fallen to a level that indicates an imminent reversal

Broad money

The widest measure of Australia's money-supply growth, showing the liabilities of all financial

Bridging finance

Short-term funding from a bank, finance company or other source pending arrangements by the

Bulldog bonds

Sterling-denominated bonds issued in the UK by foreign borrowers; the UK equivalent of Samurai ...

Buffer stock

What is kept on hand for a rainy day or unexpected demand. Also parcels of stock which have ...

Bullet loan

A euromarket term denoting a single-repayment loan with no amortisation; that is, a loan that .

Business cycle

Fluctuations between good times and bad times. Also known as the trade cycle. As the term ...

Baby Bells

A common nickname given to the U.S. regional telephone companies that were formed from the breakup of AT&T in 1984, which was done to create more competition within the industry.

Baby Bond

Any bond issued with a par value less than $1,000.

Back Door Listing

A strategy of going public used by a company that fails to meet the criteria for listing on a stock exchange. To get onto the exchange, the company desiring to go public acquires an already listed company. Believe it or not, purchasing a public company can be a cost-effective way for some firms to go public.

Back Month Contract

A type of futures contract that expires in any month past the front month futures contract. The price of the first back month futures contract is often used along with the front month futures price to calculate the calendar spread.

Also referred to as a "far month contract".

Back Months

The available futures contracts for a particular commodity that possess expirations or delivery dates furthest into the future. Also referred to as deferred futures or forward months.

Back Stop

The act of providing last-resort support or security in a securities offering for the unsubscribed portion of shares. A company will try and raise capital through an issuance and to guarantee the amount received through the issue, the company will get a back stop from an underwriter or major shareholder to buy any of the unsubscribed shares.

Back Up the Truck

The act of a large buyer scooping up huge quantities of a stock. In other words, when somebody likes a stock enough to back up the truck, the buyer is very bullish on it.

Back-End Ratio

A ratio that indicates what portion of a person's monthly income goes toward paying debts. Total monthly debt includes expenses such as mortgage payments (made up of PITI), credit-card payments, child support and other loan payments. Lenders use this ratio in conjunction with the front-end ratio to approve mortgages.
Also known as "debt-to-income ratio".

$$\text{Back - endRatio} = \frac{\text{Total Monthly Debt Expense}}{\text{Gross Monthly Income}} \times 100$$

Backing Away

The act of a market maker failing to honor a posted bid or ask even though the price and quantity are valid. The NASD does not condone the act of backing away from transactions and will take disciplinary action if certain regulations are broken. For example, if a market maker backs away from transactions near the end of a trading day, he or she is violating NASD regulations.

Backlog

The total value of sales orders waiting to be fulfilled. This figure is used mainly in the manufacturing industry. Increases or decreases in a company's backlog indicate the future direction of sales and earnings.

Backorder Costs

A cost incurred by a business when it is unable to fill an order and must complete it later. A backorder cost can be discrete, as in the cost to replace a specific piece of inventory, or intangible, such as the effects of poor customer service. Backorder costs are usually computed and displayed on a per-unit basis. Backorder costs are important for companies to track, as the relationship between holding costs of inventory and backorder costs will determine whether a company should over- or under-produce. If the carrying cost of inventory is less than backorder costs (this is true in most cases), the company should over-produce and keep an inventory.

Backspread

A type of options spread in which a trader holds more long positions than short positions. The premium collected from the sale of the short option is used to help finance the purchase of the long options. This type of spread enables the trader to have significant exposure to expected moves in the underlying asset while limiting the amount of loss in the event prices do not move in the direction the trader had hoped for. This spread can be created using either all call options or all put options. An example of a backspread using call options would be selling one $45 call option for $5 and purchasing two $50 call options for $2.10 each. The trader in this case would benefit from a large move past $50 because he/she is holding more long options than short.

Backtesting

The process of testing a trading strategy on prior time periods. Instead of applying a strategy for the time period forward, which could take years, a trader can do a simulation of his or her trading strategy on relevant past data in order to gauge the its effectiveness. Most technical-analysis strategies are tested with this approach. When you backtest a theory, the results achieved are highly dependent on the movements of the tested period. Backtesting a theory assumes that what happens in the past will happen in the future, and this assumption can cause potential risks for the strategy. For example, say you want to test a strategy based on the notion that Internet IPOs outperform the overall market. If you were to test this strategy during the dotcom boom years in the late 90s, the strategy would outperform the market significantly. However, trying the same strategy after the bubble burst would result in dismal returns. As you'll frequently hear: "past performance does not necessarily guarantee future returns".

Back-to-Back Loan
A loan in which two companies in different countries borrow offsetting amounts from one another in each other's currency. The purpose of this transaction is to hedge against currency fluctuations. With the advent of currency swaps this type of transaction is no longer used very often. In a back-to-back loan, a U.S. company would loan US$1000 to a U.K. company in the U.S., and the U.K. company would loan an equivalent amount (at spot exchange rates) in sterling to the U.S. firm in the U.K. Both companies get the currency needed without going to the forex market.
Backward Integration
A form of vertical integration that involves the purchase of suppliers in order to reduce dependency. A good example would be if a bakery business bought a wheat farm in order to reduce the risk associated with the dependency on flour.
Backwardation
A theory developed in respect to the price of a futures contract and the contract's time to expire. Backwardation says that as the contract approaches expiration, the futures contract will trade at a higher price compared to when the contract was further away from expiration. This is said to occur due to the convenience yield being higher than the prevailing risk free rate. When backwardation does occur in a futures market it has been suggested that an individual in the short position would benefit the most by delivering as late as possible. Backwardation in futures contracts was called "normal backwardation" by economist John Maynard Keynes. This is because he believed that a price movement like the one suggested by backwardation was not random but consistent with the prevailing market conditions.
Bad Debt Reserve
An account set aside by a company to account for and offset losses that arise as a result of defaults from futures loans. This figure may be calculated based on historical norms or other known information about the relative safety of the debt.

Also known as a "loss reserve".
A debtor with a history of bad debts will see their credit rating decline, which makes it difficult for the debtor to access any additional form of credit.
Bag Man
Any person in charge of organizing and collecting contributions to political parties or funds gathered for political reasons. These contributions may be legitimate or illegitimate.
Bailout
A situation in which a business, individual or government offers money to a failing business in order to prevent the consequences that arise from a business's downfall. Bailouts can take the form of loans, bonds, stocks or cash. They may or may not require reimbursement. Bailouts have traditionally occurred in industries or businesses that may be perceived no longer being viable, or are just sustaining huge losses. Typically, these companies employ a large number of people, leading some people to believe that the economy would be unable sustain such a huge jump in unemployment if the business. folded. For example, Chrysler, a large U.S. automaker was in need of a bailout in the early 1980s. The U.S. government stepped in and offered roughly $1.2 billion to the failing company. Chrysler was able to pay the entire bailout back, and is currently a profitable firm.
Balance Of Payments - BOP
A record of all transactions made between one particular country and all other countries during a specified period of time. BOP compares the dollar difference of the amount of exports and imports, including all financial exports and imports. A negative balance of payments means that more money is flowing out of the country than coming in, and vice versa. Balance of payments may be used as an indicator of economic and

political stability. For example, if a country has a consistently positive BOP, this could mean that there is significant foreign investment within that country. It may also mean that the country does not export much of its currency. This is just another economic indicator of a country's relative value and, along with all other indicators, should be used with caution. The BOP includes the trade balance, foreign investments and investments by foreigners.

Balance Of Trade - BOT

The largest component of a country's balance of payments. It is the difference between exports and imports. Debit items include imports, foreign aid, domestic spending abroad and domestic investments abroad. Credit items include exports, foreign spending in the domestic economy and foreign investments in the domestic economy. A country has a trade deficit if it imports more than it exports; the opposite scenario is a trade surplus. The balance of trade is one of the most misunderstood indicators of the U.S. economy. For example, many people believe that a trade deficit is a bad thing. However, whether a trade deficit is bad thing or not is relative to the business cycle and economy. In a recession, countries like to export more, creating jobs and demand. In a strong expansion, countries like to import more, providing price competition, which limits inflation and, without increasing prices, provides goods beyond the economy's ability to meet supply. Thus, a trade deficit is not a good thing during a recession but may help during an expansion.

Balance Sheet

A financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time. These three balance sheet segments give investors an idea as to what the company owns and owes, as well as the amount invested by the shareholders.

The balance sheet must follow the following formula:

Assets = Liabilities + Shareholders' Equity

Each of the three segments of the balance sheet will have many accounts within it that document the value of each. Accounts such as cash, inventory and property are on the asset side of the balance sheet, while on the liability side there are accounts such as accounts payable or long-term debt. The exact accounts on a balance sheet will differ by company and by industry, as there is no one set template that accurately accommodates for the differences between different types of businesses. It's called a balance sheet because the two sides balance out. This makes sense: a company has to pay for all the things it has (assets) by either borrowing money (liabilities) or getting it from shareholders (shareholders' equity). The balance sheet is one of the most important pieces of financial information issued by a company. It is a snapshot of what a company owns and owes at that point in time. The income statement, on the other hand, shows how much revenue and profit a company has generated over a certain period. Neither statement is better than the other - rather, the financial statements are built to be used together to present a complete picture of a company's finances

Balanced Investment Strategy

A portfolio allocation and management method aimed at balancing risk and return. Such portfolios are generally divided equally between equities and fixed-income securities. Although the balanced investment strategy aims to balance risk and return it does carry more risk than those strategies aiming at capital preservation or current income. In other words, the balanced investment strategy is a somewhat aggressive strategy, and is suitable for those investors with a longer time horizon (generally over five years), and have some risk tolerance.

Balanced Scorecard

A performance metric used in strategic management to identify and improve various internal functions and their resulting external outcomes. The balanced scorecard attempts to measure and provide feedback to organizations in order to assist in implementing strategies and objectives. This management technique isolates four separate areas that need to be analyzed: (1) learning and growth, (2) business processes, (3) customers, and (4) finance. Data collection is crucial to providing quantitative results, which are interpreted by managers and executives and used to make better long-term decisions.

Balloon Maturity

1. A repayment schedule for a bond issue where a large number of the bonds come due at a one time (normally at the final maturity date).
2. A final loan payment that is considerably higher than prior payments. This is also known as a "balloon payment."
3. When a balloon maturity occurs, a company must pay the principle back to borrowers on many bonds at once. If the company is short on cash then it may have trouble making all the payments.

Balloon Option

An option whose notional payments increase significantly after a set threshold is broken.
Commonly used in foreign exchange markets, these options provide greater leverage to the holder. The main idea behind the balloon option is that after the threshold is exceeded, the regular payout is increased. For example, let's say that the threshold is $100. After the underlying exceeds this amount, rather than paying the regular dollar-for-dollar amount, the option payment would balloon to $2 for every $1 change against the strike price.

Bancassurance

A French term referring to the selling of insurance through a bank's established distribution channels. The result is a bank that can offer banking, insurance, lending, and investment products to a customer.

Bank For International Settlements - BIS

An international organization fostering the cooperation of central banks and international monetary policy makers. Established in 1930, it is the oldest international financial organization

Bank Guarantee

A guarantee from a lending institution ensuring that the liabilities of a debtor will be met. In other words, if the debtor fails to settle a debt, the bank will cover it. A bank guarantee enables the customer (debtor) to acquire goods, buy equipment, or draw down loans, and thereby expand business activity.

Bank Insurance

A guarantee on a specified amount of deposits in a bank. The guarantee is made by a public or private corporation and protects against losses if the bank goes bankrupt. This is referred to by different names, depending on the country.

Bank Investment Contract - BIC

A security with an interest rate guaranteed by a bank. It provides a specific yield on a portfolio over a specified period. A BIC is a relatively safe investment, but it provides a low rate of return.

Bank Rate

The rate at which central banks lend funds to national banks. A central bank adjusts the supply of currency within national borders by adjusting the bank rate. When the central bank reduces the bank rate, it increases the attractiveness for commercial banks to borrow, thus increasing the money supply. When the central bank increases the bank rate, it decreases the attractiveness for commercial banks to borrow, consequently decreasing the money supply.

Bank Reconciliation Statement
A form that allows individuals to compare their personal bank account records to the bank's records of the individual's account balance in order to uncover any possible discrepancies. Since there are timing differences between when data is entered in the banks systems and when data is entered in the individual's system, there is sometimes a normal discrepancy between account balances. The goal of reconciliation is to determine if the discrepancy is due to error rather than timing.
Banker's Acceptance - BA
A short-term credit investment created by a non-financial firm and guaranteed by a bank. Acceptances are traded at a discount from face value on the secondary market. Banker's acceptances are very similar to T-bills and are often used in money market funds.
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Bankruptcy
The state of a person or firm unable to repay debts. If the bankrupt entity is a firm, the ownership of the firm's assets is transferred from the stockholders to the bondholders. Shareholders are the last people to get paid if a company goes bankrupt. Secure creditors always get first grabs at the proceeds from liquidation.
Bankruptcy Financing
Financing arranged by a company while under the chapter 11 bankruptcy process. Clearly, such financing is extremely high risk and is done at a relatively high interest rate.
Sometimes referred to as "turnaround financing" or "debtor in possession financing". It can be very profitable to lend to companies that need money this badly, but at the same time, a lender runs a high risk of the creditor defaulting.
Baptism of Fire
A difficult situation that a company or individual experiences that will result in either success or failure. Examples include Initial Public Offerings (IPOs), a new CEO hired to manage a struggling company, and hostile takeover attempts. A baptism of fire will either weaken or strengthen the entity involved. The phrase is an allusion to the Bible in both Acts 2:3-4 and Matthew 3:11.
Bar Chart
A style of chart used by some technical analysts, on which, as illustrated below, the top of the vertical line indicates the highest price a security traded at during the day, and the bottom represents the lowest price. The closing price is displayed on the right side of the bar, and the opening price is shown on the left side of the bar. A single bar like the one below represents one day of trading.

These are the most popular type of chart used in technical analysis. The visual representation of price activity over a given period of time is used to spot trends and patterns.

Barbell

A bond investment strategy that concentrates holdings in both very short-term and extremely long-term maturities. This is also known as the "dumbbell" or "barbelling."

Barometer

An investment instrument whose movements forecast trends. For example, a barometer stock has a price trend that is indicative of the market. And, the stock market as a whole is said to be a barometer because it can be used to forecast the growth or slowdown in the economy.

Barron's Confidence Index

A confidence indicator calculated by dividing the average yield on high-grade bonds by the average yield on intermediate-grade bonds. The discrepancy between the yields is indicative of investor confidence. A rising ratio indicates investors are demanding a lower premium in yield for increased risk and so are showing confidence in the economy. The theory is that if investors are optimistic they are more likely to invest in the more speculative grade of bonds, driving yields downwards and the confidence index upwards. The opposite is true if investors are pessimistic.

Base Period

A particular time period whose data is used for comparative purposes when measuring economic data of other periods.

Basis Quote

A method for simplifying and shortening the quoted price of a futures contract. Used in the futures markets, a basis quote gives the variation above or below the price of a futures contract. For example, a basis quote for pork bellies at $3 above January expiry can easily be converted to the actual price by finding the price of a January pork belly contract and adding $3 to the price.

Basis Rate Swap

A type of swap in which two parties swap variable interest rates based on different money markets. This is usually done to limit interest-rate risk that a company faces as a result of having differing lending and borrowing rates. For example, a company lends money to individuals at a variable rate that is tied to the London Interbank Offer (LIBOR) rate but they borrow money based on the Treasury Bill rate. This difference between the borrowing and lending rates (the spread) leads to interest-rate risk. By entering into a basis rate swap, where they exchange the T-Bill rate for the LIBOR rate, they eliminate this interest-rate risk.

Bear

An investor who believes that a particular security or market is headed downward. Bears attempt to profit from a decline in prices. Bears are generally pessimistic about the state of a given market. For example, if an investor were bearish on the S&P 500 they would attempt to profit from a decline in the broad market index. Bearish sentiment can be applied to all types of markets including commodity markets, stock markets and the bond market. Although you often hear that the stock market is constantly in a state of flux as the bears and their optimistic counterparts, "bulls", are trying to take control, do remember that over the last 100 years or so the U.S. stock market has increased an average 11% a year. This means that every single long-term market bear has lost money.

Bear Hug

An offer made by one company to buy the shares of another for a much higher per-share price than what that company is worth. A bear hug offer is usually made when there is doubt that the target company's management will be willing to sell. By offering a price far in excess of the target company's current value, the offering party can usually obtain an agreement. The target company's management is essentially forced to accept such a generous offer because it is legally obligated to look out for the best interests of its shareholders. The name "bear hug" reflects the persuasiveness of the offering company's overly generous offer to the target company. By offering such a large premium, the acquiring company essentially uses its clout to squeeze an agreement out of the target company's management.

Bear Market

A market condition in which the prices of securities are falling or are expected to fall. Although figures can vary, a downturn of 15-20% or more in multiple indexes (Dow or S&P 500) is considered an entry into a bear market. When you see a bear what do you do? Tuck in your arms and play dead! Fighting back can be extremely dangerous. It is quite difficult for an investor to make stellar gains during a bear market, unless he or she is a short seller.

Bear Trap

A false signal that the rising trend of a stock or index has reversed when it has not. This can occur during a bear market reversal when short sellers believe the markets will sink back to its declining ways. If the market continues to rise, the short sellers get trapped and are forced to cover their positions at higher prices.

Behavioral Economics

A field of economics that studies how the actual decision-making process influences the decisions that are reached.

The two most important questions in this field are:

1. Are the assumptions of utility or profit maximization good approximations of real behavior?
2. Do individuals maximize subjective expected utility?

Behavioral Finance

A field of finance that proposes psychology-based theories to explain stock market anomalies. Within behavioral finance, it is assumed that the information structure and the characteristics of market participants systematically influence individuals' investment decisions as well as market outcomes.

There have been many studies that have documented long-term historical phenomena in securities markets that contradict the efficient market hypothesis and cannot be captured plausibly in models based on perfect investor rationality. Behavioral finance attempts to fill the void.

Bellwether

A leading indicator of trends. A bellwether stock is a stock that is used to gauge the performance of the market in general. General Motors was an example of a bellwether stock, hence the saying "What's good for GM is good for America."

Benefit Cost Ratio - BCR

A ratio attempting to identify the relationship between the cost and benefits of a proposed project.This ratio is used to measure both quantitative and qualitative factors since sometimes benefits and costs cannot be measured exclusively in financial terms.

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Benefit Offset

A reduction in the amount of benefit payments received by a member of a retirement plan which may result when the member owes money to the plan.

Beneish Model

A mathematical model that uses financial ratios and eight variables to identify whether a company has manipulated its earnings. The variables are constructed from the data in the company's financial statements and, once calculated, create an M-Score to describe the degree to which the earnings have been manipulated.

The eight variables are:

1. DSRI - Days' sales in receivable index
2. GMI - Gross margin index
3. AQI - Asset quality index
4. SGI - Sales growth index
5. DEPI - Depreciation index
6. SGAI - Sales and general and administrative expenses index
7. LVGI - Leverage index
8. . TATA - Total accruals to total assets

Once calculated, the eight variables are combined together to achieve an M-Score for the company. An M-Score of less than -2.22 suggests that the company will not be a manipulator. An M-Score of greater than -2.22 signals that the company is likely to be a manipulator.

Benjamin Graham

A scholar and financial analyst who is widely recognized as the father of value investing. His famous book, "The Intelligent Investor", has gained recognition as one of the best and most important investment pieces written illustrating the fundamentals of a value-investing strategy. Graham had a profound influence on his pupil Warren Buffett, who would become the most famous investor of all time, in grad school at Columbia University. Graham instilled the fundamental principles of value investing into Buffett - principles upon which he relied to amass one of the world's largest personal fortunes.

Bequest

The process of giving stocks, bonds, or any other assets to beneficiaries through the provisions of a will. Bequests can be made to family, friends, institutions, or charities.

Berry Ratio

The ratio of a company's gross profits to operating expenses. This ratio is used as an indicator of a company's profits in a given period of time. A ratio coefficient of 1 or more indicates that the company is making profit above all variable expenses, whereas a coefficient below 1 indicates that the firm is losing money.

The formula is as follows:

$$\text{Berry Ratio} = \frac{\text{Gross Margin}}{\text{Operating Expenses}}$$

This ratio attempts to measure a firm's profitability. A higher coefficient means that the firm is more profitable, while a lower coefficient means the firm in not as profitable. Using this method in conjunction with other profit-level indicators will ensure a higher level of validity.

Best-Price Rule - Rule 14D-10

An SEC regulation that stipulates that a tender offer is open to all security holders of that class of security and the amount paid to the security holder is the highest paid to any other holder of the same security. Having a premise similar to that of the all-holders rule, the best-price rule facilitates equality for shareholders and their tendered shares.

Bid Size

The number of shares a buyer is willing to purchase at the quoted bid price. For example, if the bid price is $20 and the bid size is 2000, that means someone is willing to purchase 2000 shares @ $20 per share.

Bid Tick

An indication of whether the latest bid price is higher, lower, or the same as the previous bid. The direction of the bid tick is important to institutional traders, who move large amounts of stock within a small period of time. Day traders also rely heavily on the direction of the bid tick when making their trade decisions.

Bid-Ask Spread

The amount by which the ask price exceeds the bid. This is essentially the difference in price between the highest price that a buyer is willing to pay for an asset and the lowest price for which a seller is willing to sell it. For example, if the bid price is $20 and the ask price is $21 then the "bid-ask spread" is $1. The size of the spread from one asset to another will differ mainly because of the difference in liquidity of each asset. For example, currency is considered the most liquid asset in the world and the bid-ask spread in the currency market is one of the smallest (one-hundredth of a percent). On the other hand, less liquid assets such as a small-cap stock may have spreads that are equivalent to a percent or two of the asset's value.

Big Board

A nickname for the New York Stock Exchange.

Big Uglies

Old industrial companies in gritty industries (such as mining, steel and oil) and as a result, they tend to be unpopular stocks with investors. While big uglies are not as sexy as tech stocks, they do provide solid long-term earnings, growth and dividends. They are often overlooked by investors seeking fast profits, but not by value investors looking for bargain-priced stocks with a low price-to-earnings ratio. On the other hand, when markets tumble, the bulletproof earnings of the big uglies attract investors of all types.

Bilateral Monopoly

A market that has only one supplier and one buyer. The one supplier will tend to act as a monopoly power, and look to charge high prices to the one buyer. The lone buyer will look towards paying a price that is as low as possible. Since both parties have conflicting goals, the two sides must negotiate based on the relative bargaining power of each, with a final price settling in between the two sides's points of maximum profit. Bilateral monopoly systems have most commonly been used by economists to describe the labor markets of industrialized nations in the 1800s and the early 20th century. Large companies would essentially monopolize all the jobs in a single town and use their power to drive wages to lower levels. Workers, to increase their bargaining power, formed labor unions with the ability to strike, and became an equal force at the bargaining table with egard to wages paid. As capitalism continued to thrive in the U.S. and elsewhere, more companies were competing for the labor force, and the power of a single company to dictate wages decreased substantially. As such, the percentage of workers that are members of a union has fallen, while most new industries have formed without the need for collective bargaining groups among workers.

Bill of Exchange

A non-interest-bearing written order used primarily in international trade that binds one party to pay a fixed sum of money to another party at a predetermined future date. Bills of exchange are similar to checks and promissory notes. They can be drawn by individuals or banks and are generally transferable by endorsements. The difference between a promissory note and a bill of exchange is that this product is transferable and can bind one party to pay a third party that was not involved in its creation. If these bills are issued by a bank, they can be referred to as bank drafts. If they are issued by individuals, they can be referred to as trade drafts.

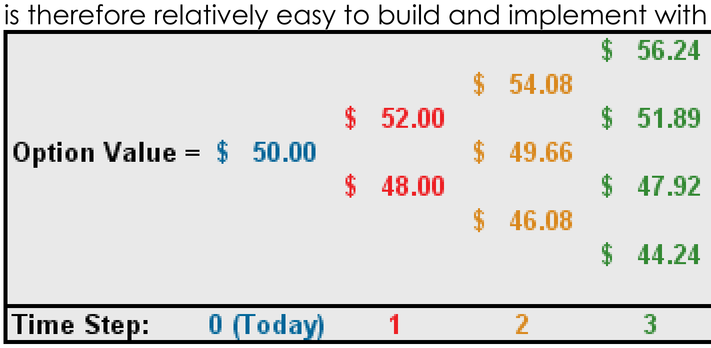
Bill Of Lading

A legal document between the shipper of a particular good and the carrier detailing the type, quantity and destination of the good being carried. The bill of lading also serves as a receipt of shipment when the good is delivered to the predetermined destination. This document must accompany the shipped goods, no matter the form of transportation, and must be signed by an authorized representative from the carrier, shipper and receiver. For example, suppose that a logistics company must transport gasoline from a plant in Texas to a gas station in Arizona via heavy truck. A plant representative and the driver would sign the bill of lading after the gas is loaded onto the truck. Once the gasoline is delivered to the gas station in Arizona, the truck driver must have the clerk at the station sign the document as well.

Binomial Option Pricing Model

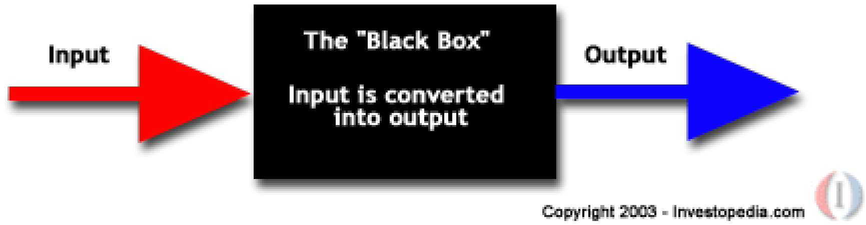
An options valuation method developed by Cox, et al, in 1979. The binomial option-pricing model uses an iterative procedure, allowing for the specification of nodes, or points in time, during the time span between the valuation date and the option's expiration date. The model reduces possibilities of price changes, removes the possibility for arbitrage, assumes a perfectly efficient market, and shortens the duration of the option. Under these simplifications, it is able to provide a mathematical valuation of the option at each point in time specified. The binomial model takes a risk-neutral approach to valuation. It assumes that underlying security prices can only either increase or decrease with time until the option expires worthless. A simplified example of a binomial tree might look something like this:

Due to its simple and iterative structure, the model presents certain unique advantages. For example, since it provides a stream of valuations for a derivative for each node in a span of time, it is useful for valuing derivatives such as American options which allow the owner to exercise the option at any point in time until expiration (unlike European options which are exercisable only at expiration). The model is also somewhat simple mathematically when compared to counterparts such as the Black-Scholes model, and is therefore relatively easy to build and implement with a computer spreadsheet.



Black Box Model

A computer program into which users enter information and the system utilizes pre-programmed logic to return output to the user.



The "black box" portion of the system contains formulas and calculations that the user does not see nor need to know to use the system. Black box systems are often used to determine optimal trading practices. These systems generate many different types of data including buy and sell signals.

Black Friday

1. A day of stock market catastrophe. Originally, Sept 24, 1869 was deemed Black Friday. The crash was sparked by gold speculators, including Jay Gould and James Fist, who attempted to corner the gold market. The attempt failed and the gold market collapsed, causing the stock market to plummet.
2. The day after Thanksgiving in the United States. Retailers generally see an upward spike in sales and consider this to be the start of the holiday shopping season. It's common for retailers to offer special promotions and to open early to draw in customers.

1. The term "black" has been used to describe other disastrous days in financial markets. For example, on Black Tuesday, Oct 29, 1929, the market fell precipitously signaling the start of the Great Depression. Additionally, the largest one-day drop in stock market history occurred on Black Monday, Oct 19, 1987, when the Dow Jones Industrial Average plummeted more than 22%.
2. The idea behind the term Black Friday is that this is the day in which retail stores have enough sales to put them "in the black" - an accounting expression that alludes to the practice of recording losses in red and profits in black.

Black Knight

A company that makes a hostile takeover offer on a target company.

An allusion to the fairytale villains, this term demonstrates how a targeted company sees its adversary. Fairytale black knights are associated with kidnapping princesses, slaying peasants, burning villages, and generally having unpleasant personalities.

Black Market

A type of economic activity that takes place outside of government-sanctioned channels. Black-market transactions typically occur as a way for participants to avoid government price controls or taxes, conducting transactions 'under the table'. The black market is also the means by which illegal substances or products - such as illicit drugs, firearms or stolen goods - are bought and sold. While the black market is commonly associated with criminal activities involving drugs or weapons, it also has a financial component: black currency-exchange markets almost always appear when government controls on exchange rates prevent the use of natural exchange rates in the global marketplace.

Black Monday

The title given to one of the most notorious days in recent financial history. On October 19, 1987 the Dow Jones Industrial Average (DJIA) lost almost 22% in a single day. That event marked the beginning of a global stock market decline. By the end of the month, most of the major exchanges had dropped over 20%. Interestingly enough, the cause of the massive drop cannot be attributed to any single news event, because no major news event was released on the weekend preceding the crash. While there are many theories that attempt to explain why the crash happened, no consensus argument can explain why Black Monday happened, but most agree that mass panic had caused the crash to escalate. Since Black Monday, there have been multiple mechanisms built into the market to prevent panic selling, such as trading curbs and circuit breakers.

Black Scholes Model

A model of price variation over time of financial instruments such as stocks that can, among other things, be used to determine the price of a European call option. The model assumes that the price of heavily traded assets follow a geometric Brownian motion with constant drift and volatility. When applied to a stock option, the model incorporates the constant price variation of the stock, the time value of money, the option's strike price and the time to the option's expiry. The Black Scholes Model is one of the most important concepts in modern financial theory. It was developed in 1973 by Fisher Black, Robert Merton and Myron Scholes and is still widely used today, and regarded as one of the best ways of determining fair prices of options. There are a number of variants of the original Black-Scholes model.

Black Thursday

The name given to Thursday, October 24, 1929, when the New York Stock Exchange plummeted, leading to the Great Depression of the 1930s. As a result of this day, the Securities Act of 1933 and the Securities Exchange Act of 1934 were formed in order to increase market regulation in the hope of preventing future catastrophic events

Black Tuesday

October 29, 1929, when the DJIA fell 12% - one of the largest one-day drops in stock market history. More than 16 million shares were traded in a panic selloff. By many, Black Tuesday is considered the end of the Roaring '20s and the start of the Great Depression.

Blackboard Trading

The trading of commodities and futures contracts off a blackboard found on the wall of a commodity exchange. Not all commodity- and futures-contract transactions occur electronically. On some smaller exchanges or on certain contracts where the volume of trade is relatively small, blackboard trading is a cheaper and logical alternative to electronic trading.

Blackout Period

1. A term that refers to a temporary period in which access is limited or denied.
2. A period of around 60 days during which employees of a company with a retirement or investment plan cannot modify their plans. Notice must be given to employees in advance of a pending blackout.
3. This term is often in regards to contracts, policies and business activities. For example, when a political party is unable to advertise for a set amount of time before an election.
4. In a firm, a blackout period may happen because a plan is being restructured or altered, for example, if a pension fund is shifting from one fund manager to another at a different bank.

Black's Model

A variation of the Black-Scholes model that allows for the valuation of options on futures contracts. In 1976, Fisher Black, one of the developers of the Black-Scholes model (introduced in 1973), demonstrated how the Black-Scholes model could be modified in order to value European call or put options on futures contracts.

Blanket Bond

Insurance coverage carried by brokerages, investment bankers, and other financial institutions to protect them against losses due to employee dishonesty. Examples of things that a blanket bond might cover are forged checks, counterfeit currency, fraudulent trading, and property damage.

Blanket Lien

A lien covering nearly all types of assets and collateral owned by a debtor. A lien usually only gives the creditor the right to a specific asset. A blanket lien gives the creditor a legal interest in all the debtor's assets and other collateral. Defaulting on a debt in this situation can result in "losing your shirt".

Bloodletting

A period of severe investing losses. The term comes from a medieval medical practice that involved bleeding out a patient. It was believed that afflictions resided in the blood and could be eliminated by draining away a large quantity. Thankfully, this practice has been abandoned.

Bloomberg

A major global provider of 24-hour financial news and information including real-time and historic price data, financials data, trading news and analyst coverage, as well as general news and sports. Its services, which span their own platform, television, radio and magazines, offer professionals analytic tools. One of its key revenue earners and what they are well known for is the Bloomberg Terminal - an integrated platform that streams together price data, financials, news, trading data, and much more to more than 250,000 customers worldwide.

Blotter

A record of trades and the details of the trades made over a period of time (usually one trading day). The details of a trade will include such things as the time, price, order size and a specification of whether it was a buy or sell order. The blotter is usually created through a trading software program that records the trades made through a data feed. The purpose of a trade blotter is to carefully document the trades so that they can be reviewed and confirmed by the trader or the brokerage firm. The blotter is used in the stock market, foreign exchange market, and the bond market and can be customized based on the needs of the user.

Board Of Directors - B Of D

A group of individuals that are elected as, or elected to act as, representatives of the stockholders to establish corporate management related policies and to make decisions on major company issues. Such issues include the hiring/firing of executives, dividend policies, options policies and executive compensation. Every public company must have a Board of Directors. In general, the Board makes decisions on your behalf for the company in which you invest.

Bond Anticipation Note - BAN

A short-term interest-bearing security issued in the anticipation of larger future bond issues.

Bond option

The market trading bonds - commonwealth, state and corporate. Bond trading is carried out ...

Book Value

1. The value at which an asset is carried on a balance sheet. In other words, the cost of an asset minus accumulated depreciation

2. The net asset value of a company, calculated by total assets minus intangible assets (patents, goodwill) and liabilities.

3. The initial outlay for an investment. This number may be net or gross of expenses such as trading costs, sales taxes, service charges and so on.

In the U.K., book value is known as "net asset value".

Book value is the accounting value of a firm. It has two main uses:
It is the total value of the company's assets that shareholders would theoretically receive if a company were liquidated.

By being compared to the company's market value, the book value can indicate whether a stock is under- or overpriced.

Book Value Per Common Share

A measure used by owners of common shares in a firm to determine the level of safety associated with each individual share after all debts are paid accordingly.

Formula:

$$\text{Book Value Per Share} = \frac{\text{Total Shareholder Equity} - \text{Preferred Equity}}{\text{Total Outstanding Shares}}$$

Should the company decide to dissolve, the book value per common indicates the dollar value remaining for common shareholders after all assets are liquidated and all debtors are paid.

In simple terms it would be the amount of money that a holder of a common share would get if a company were to liquidate.

Bounce

(of cheques) to be dishonoured. A cheque bounces when a bank declines to pay the amount for ...

Break-Even Point – BEP

1. In general ,the point at which gains equal losses.
2. In options, the market price that a stock must reach for option buyers to avoid a loss if they exercise. For a call, it is the strike price plus the premium paid. For a put, it is the strike Price minus the premium paid.
3. Also referred to as a "breakeven". For businesses, reaching the break-even point is the first major step towards profitability.

Bureau Of Labor Statistics - BLS

A government agency that produces economic data reflecting the state of the U.S. economy, with the most well-known being the Consumer Price Index, Unemployment Rate and the Producer Price Index's This arm of the U.S. Department of Labor that researches and publishes a range of data from inflation and consumer spending to employment, productivity and wages, and other economic measures. These reports can have a significant effect on market sentiment

Buy-back

An agreement that the seller will repurchase securities within a specified time at a predetermined ...

C

Cherry Picking

1. The act of investors choosing investments that have performed well within another portfolio in anticipation that the trend will continue.
2. Relating to bankruptcy proceedings whereby the courts uphold contracts favorable to bankrupt companies, but annul those that are unfavorable.

Often underwriters will require a company to have more qualified management before they can go public. They attract these qualified individuals by giving options with a low exercise price.

Commercial Paper

An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities.

Maturities on commercial paper rarely range any longer than 270 days. The debt is usually issued at a discount, reflecting prevailing market interest rates.

Cafeteria Plan

An employee benefit plan that allows staff to choose from a variety of benefits to formulate a plan that best suits their needs. Also known as "cafeteria employee benefit plan" or "flexible benefit plan".

Caisse Populaire

A cooperative, member-owned financial institution that fulfills traditional banking roles as well as diverse activities such as lending, insurance, investment dealing. Caisses Populaires are primarily found in the province of Quebec in Canada, as caisses populaires are essentially the francophone equivalent of a credit union.

Calendar Spread

An options or futures spread established by simultaneously entering a long and short position on the same underlying asset but with different delivery months. Sometimes referred to as an interdelivery, intramarket, time or horizontal spread.

Call

1. The period of time between the opening and closing of some future markets wherein the prices are established through an auction process.
2. An option contract giving the owner the right (but not the obligation) to buy a specified amount of an underlying security at a specified price within a specified time.

Call Option

An agreement that gives an investor the right (but not the obligation) to buy a stock, bond, commodity, or other instrument at a specified price within a specific time period.

Call Premium

1. The dollar amount over the par value of a callable fixed-income debt security that is given to holders when the security is called by the issuer.
2. The amount the purchaser of a call option must pay to the writer.

Call Risk

The risk, faced by a holder of a callable bond, that a bond issuer will take advantage of the callable bond feature and redeem the issue prior to maturity. This means the bondholder will receive payment on the value of the bond and, in most cases, will be reinvesting in a less favorable environment (one with a lower interest rate).

Call Warrant

A warrant that gives the holder the right to buy the underlying share for an agreed price, on or before a specified date.

Callable Bond

A bond that can be redeemed by the issuer prior to its maturity. Usually a premium is paid to the bond owner when the bond is called.
Also known as a "redeemable bond".

Candlestick :

A price chart that displays the high, low, open, and close for a security each day over a specified period of time.

Capacity Utilization Rate

A metric used to measure the rate at which potential output levels are being met or used. Displayed as a percentage, capacity utilization levels give insight into the overall slack that is in the economy or a firm at a given point in time. If a company is running at a 70% capacity utilization rate, it has room to increase production up to a 100% utilization rate without incurring the expensive costs of building a new plant or facility. Also known as "operating rate".
Graphically:

$$= \frac{\text{Actual Output - Potential Output}}{\text{Potential Output}} \times 100$$

Capital

1. Financial assets or the financial value of assets such as cash.
2. . The factories, machinery and equipment owned by a business.

Capital Account

The net result of public and private international investments flowing in and out of a country.

Capital Adequacy Ratio

A measure of a bank's capital. It is expressed as a percentage of a bank's risk weighted credit exposures.

$$CAR = \frac{\text{Tier One Capital} + \text{Tier Two Capital}}{\text{Risk Weighted Assets}}$$

Also known as "Capital to Risk Weighted Assets Ratio (CRAR)."

Capital Allocation Line

A line created in a graph of all possible combinations of risky and risk-free assets. Also known as the "reward-to-variability ratio".

Capital Appreciation

A rise in the market price of an asset.

Capital Appreciation Fund

A mutual fund that attempts to increase asset value primarily through investments in growth stocks. The heavy investment in growth stocks increases the risk associated with these types of funds. Also called "aggressive growth fund".

Capital Asset

A long-term asset that is not bought or sold in the regular course of business

Capital Asset Pricing Model

A model that describes the relationship between risk and expected return and that is used in the pricing of risky securities.

$$\overline{r_a} = r_f + \beta_a(\overline{r_m} - r_f)$$

Where:

r_f = Risk free rate

β_a = Beta of the security

$\overline{r_m}$ = Expected market return

Capital Base

1. The capital acquired during an IPO, or the additional offerings of a company, plus any retained earnings.
2. An initial investment plus subsequent investments made by an investor into their portfolio.

Capital Budgeting

The process of determining whether or not projects such as building a new plant or investing in a long-term venture are worthwhile. Also known as "investment appraisal".

Capital Cost Allowance

A rate of depreciation used for income tax purposes only. This term primarily relates to Canadian taxation. The CCA rate that can be claimed depends on the asset itself, for example computer software has a much higher CCA rate than buildings or furniture.

Capital Dividend Account

A unique account where untaxed gains are deposited within a private company.

Capital Expenditure

Funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment. This type of outlay is made by companies to maintain or increase the scope of their operation. These expenditures can include everything from repairing a roof to building a brand new factory.

Capital Flight
The action of investors moving their securities out of a particular country because of a fear of country-specific risks or political instability, or because of the lure of higher returns in a different country.
Capital Gain
An increase in the value of a capital asset (investment or real estate) that gives it a higher worth than the purchase price. The gain is not realized until the asset is sold. A capital gain may be short term (one year or less) or long term (more than one year) and must be claimed on income taxes.
Capital Gains Distribution
Distributions that are paid to an investment company's shareholders out of the capital gains of the company's investment portfolio. Capital gains distributions typically occur near the end of the calendar year and are taxable to the shareholder of the investment company.
Capital Gains Treatment
The specific taxes assessed on investment capital gains as determined by the U.S. Tax Code. When a stock is sold for a profit, the portion of the proceeds over and above the purchase value (or cost basis) is known as capital gains. Capital gains tax is broken down into two categories: short-term capital gains and long-term capital gains. Stocks held longer than one year are considered long term for the treatment of any capital gains, and are taxed a maximum of 15% depending on the investor's tax bracket. Stocks held less than one year are subject to short-term capital gains at a maximum rate of 35% depending again on the investor's tax bracket.
Capital Growth Strategy
An asset allocation strategy that seeks to maximize capital appreciation, or the increase in value of a portfolio or asset over the long term.
Capital Improvement
The addition of a permanent structural improvement or the restoration of some aspect of a property that will either enhance the property's overall value or increases its useful life. Although the scale of the capital improvement can vary, capital improvements can be made by both individual homeowners and large-scale property owners
Capital Intensive
A process or industry that requires large sums of financial resources to produce a particular good.
Capital Lease
A lease considered to have the economic characteristic of asset ownership.
Capital Loss
The loss incurred when a capital asset (investment or real estate) decreases in value. This loss is not realized until the asset is sold for a price that is lower than the original purchase price.
Capital Market Line
A line used in the capital asset pricing model to illustrate the rates of return for efficient portfolios depending on the risk-free rate of return and the level of risk (standard deviation) for a particular portfolio.
Capital Markets
Markets where capital, such as stocks and bonds, are traded.
Capital Note

Fixed income products issued by companies as a source of short term debt.

Capital Rationing

The act of placing restrictions on the amount of new investments or projects undertaken by a company. This is accomplished by imposing a higher cost of capital for investment consideration or by setting a ceiling on the specific sections of the budget.

Capital Requirement

The standardized requirements in place for banks and other depository institutions that relates to how much liquidity is required to be held for a certain level of assets through regulatory agencies such as the Bank for International Settlements, Federal Deposit Insurance Corporation or Federal Reserve Board. These requirements are put into place to ensure that these institutions are not participating or holding investments that increase the risk of default and that they have enough capital to sustain operating losses while still honoring withdrawals.

Capital Reserve

A type of account on a municipality's or company's balance sheet that is reserved for long-term capital investment projects or any other large and anticipated expense(s) that will be made in the future. This type of reserve fund is set aside to ensure that the company or municipality has adequate funding to at least partially finance the project.

Capital Risk :

1. The risk an investor faces that he or she may lose all or part of the principal amount invested.

2. The risk a company faces that it may lose value on its capital. The capital of a company can include equipment, factories and liquid securities.

Capital Share

The class of shares offered by a dual-purpose fund that has opportunity for capital appreciation but does not offer the holder any portion of the fixed income earned within the portfolio.

Capital Stock

The common and preferred stock a company is authorized to issue, according to their corporate charter.

Capital Structure

A mix of a company's long-term debt, specific short-term debt, common equity and preferred equity. The capital structure is how a firm finances its overall operations and growth by using different sources of funds.

Capitalism

An economic system based on a free market, open competition, profit motive and private ownership of the means of production. Capitalism encourages private investment and business, compared to a government-controlled economy. Investors in these private companies (i.e. shareholders) also own the firms and are known as capitalists.

Capitalization

1. In accounting, it is where costs to acquire an asset are included in the price of the asset.

2. The sum of a corporation's stock, long-term debt and retained earnings. Also known as "invested capital".

3. A company's outstanding shares multiplied by its share price, better known as "market capitalization".

Capitalization Rate

According to the Appraisal Institute, it is a method used to convert an estimate of a single year's income expectancy into an indication of value in one direct step, by dividing the income estimate by an appropriate rate.

Capitalize
An accounting method used to delay the recognition of expenses by recording the expense as a long-term asset

Capitalized Interest
An account created in the income statement section of a business' financial statements that holds a suitable amount of funds meant to pay off upcoming interest payments. Furthermore, this type of interest is seen as an asset and unlike most conventional types of interest, it also is expensed over time.

Capitulation
A military term. Capitulation refers to surrendering or giving up.

Capped Option
An option with a pre-established profit cap. A capped option is automatically exercised when the underlying security closes at or above (for a call) or at or below (for a put) the Option's cap price.

Capping
1. The practice of selling large amounts of a commodity or security close to the options expiry date in order to prevent a rise in market price.
2. An attempt to keep a stock's price low or move its price lower by putting selling pressure on it.

Captive Fund
A fund that provides investment services solely to the one firm holding ownership.

Caput :
A type of exotic option that consists of a call option on a put option. Essentially it gives the holder the right to purchase another option. This type of option is also known as a "compound option".

Carrot Equity
: Equity which allows for the opportunity to purchase more equity if the company reaches certain financial goals.

Cash and Carry Trade :
A trading strategy that involves the simultaneous trading of two similar securities in order to recognize an arbitrage profit. Also known as "basis trading" or "buying the basis."

Cash And Cash Equivalents :
An item on the balance sheet that reports the value of a company's assets that are cash or can be converted into cash immediately.

Cash Basis :
A major accounting method that recognizes revenues and expenses at the time physical cash is actually received or paid out. This contrasts to the other major accounting method, accrual accounting, which requires income to be recognized in a company's books at the time the revenue is earned (but not necessarily received) and records expenses when liabilities are incurred (but not necessarily paid for).

Cash Budget :
An estimation of the cash inflows and outflows for a business

Cash Conversion Cycle
A metric that expresses the length of time, in days, a company takes in order to convert resource inputs into actual cash flows. It attempts to measure the amount of time each net input dollar is tied up in the production and sales process before it is converted into cash through sale to customers. This metric looks at the amount of time needed to sell inventory, the amount of time needed to collect receivables and the length of time the company is afforded to pay its bills without incurring penalties. Also known as "cash cycle".
Calculated as: $CCC = DIO + DSO - DPO$

Where:
DIO represents days inventory outstanding
DSO represents days sales outstanding
DPO represents days payable outstanding

Cash Cost :

A cash basis accounting cost recognition process that classifies costs as they are paid for in cash, and is recognized in the general ledger at the point of sale. This method is contrary to the accrual cost recognition method, which directly influences the operating cash flow figure.

Cash Cow :

1. One of the four categories (quadrants) in the BCG growth-share matrix that represents the division within a company that has a large market share within a mature industry.

2. A business, product or asset that, once acquired and paid off will produce consistent cash flow over its lifespan.

Cash Delivery

1. The same-day settlement of a currency trade in the forex market. This means that delivery and settlement of the transaction occur on the same date that the currency trade is made. In order for this to occur, the forex position must be opened and closed within the same trading day. Also referred to as "same-day settlement".
2. In the context of futures contracts, a settlement term in a contract that stipulates that the underlying asset of the contract will not be delivered on the delivery date - rather, the net cash value of the position will be transferred to the applicable party instead.

Cash Dividend

Money paid to stockholders, normally out of the corporation's current earnings or accumulated profits. All dividends must be declared by the board of directors and are taxable as income to the recipients

Cash Earnings Per Share

A measure of financial performance that looks at the cash flow generated by a company on a per share basis. This differs from basic earnings per share (EPS), which looks at the net income of the company on a per share basis. The higher a company's cash EPS, the better it is considered to have performed over the period. A company's cash EPS can be used to draw comparisons to other companies or to the company's own past results.

$$\text{Cash EPS} = \frac{\text{Operating Cash Flow}}{\text{Diluted Shares Outstanding}}$$

Cash Flow

A revenue or expense stream that changes a cash account over a given period. Cash in-flows usually arise from one of three activities - financing, operations or investing - though they also occur as a result of donations or gifts in the case of personal finance. Cash out-flows result from expenses or investments. This holds true for both business and personal finance.

Cash Flow After Taxes

A measure of financial performance that looks at the company's ability to generate cash flow through its operations. It is calculated by adding back non-cash accounts such as amortization, depreciation, restructuring costs and impairments to net income.

$$\text{Cash Flow After Tax} = \text{Net Income} + \text{Depreciation} + \text{Amortization} + \text{Other Non - Cash Charges}$$

Also known as "After-Tax Cash Flow".

Cash Flow from Financing Activities

A category in the cash flow statement that accounts for external activities such as issuing cash dividends, adding or changing loans, or issuing and selling more stock. The formula for cash flow from financing activities is as follows:

Cash Received from Issuing Stock or Debt - Cash Paid as Dividends and for Re-Acquisition of Debt/Stock

Cash Flow From Investing Activities

An item on the cash flow statement that reports the aggregate change in a company's cash position resulting from any gains (or losses) from investments in the financial markets and operating subsidiaries, and changes resulting from amounts spent on investments in capital assets such as plant and equipment.

Cash Flow Loan

Borrowing cash typically to meet day-to-day operations or acquisitions. Reasons for needing a cash flow loan could be seasonal-demand changes, business expansion or changes in the business cycle.

Cash Flow Per Share

A measure of a firm's financial strength, calculated as follows:

$$\text{Cash Flow Per Share} = \frac{\text{Operating Cash Flow - Preferred Dividends}}{\text{Common Shares Outstanding}}$$

Cash Flow Return on Investment

A valuation model that assumes the stock market sets prices based on cash flow, not on corporate performance and earnings.

$$\text{CFROI} = \frac{\text{Cash Flow}}{\text{Market Value of Capital Employed}}$$

Cash Flow Statement

One of the quarterly financial reports any publicly traded company is required to disclose to the SEC and the public. The document provides aggregate data regarding all cash inflows a company receives from both its ongoing operations and external investment sources, as well as all cash outflows that pay for business activities and investments during a given quarter

Cash In Advance

When an importer must pay the exporter in cash before a shipment is made. The logic behind the structure of such a transaction is that if an exporter ships a product to an importer and the importer does not pay for the item, the exporter has very little recourse. This term can be used in a variety of businesses, but it is most common in the import/export business.

Cash Investment

Short-term obligations, usually ninety days or less, that provide a return in the form of interest payments

Cash Market

The market for a cash commodity or actual, as opposed to the market for its futures contract

Cash On Delivery – COD

A type of transaction in which payment for a good is made at the time of delivery. If the purchaser does not make payment when the good is delivered, then the good will be returned to the seller.

Payment can be made by cash, certified check or money order, depending on what is stipulated in the shipping contract.

Cash Price

The price of the purchase and delivery of cash commodities.

Cash Settlement

A settlement method used in certain future and option contracts whereby, upon expiry or exercise, the seller of the financial instrument does not deliver the actual but transfers the associated cash position.

Cash Transaction

A transaction that is settled with cash on the same day as the trade.

Cash Trigger

A condition that triggers an investor to make a trade or take a specific action, such as a purchase, sale of the security, or the purchase or sale of a derivative (such as an option) of that security.

Cash Value Added

A measure of the amount of cash generated by a company through its operations. It is computed by subtracting the 'operating cash flow demand' from the 'operating cash flow' from the cash flow statement.

Cashier's Check

A check written by a financial institution on its own funds. It is then signed by a representative of the financial institution and made payable to a third party. A customers who purchases a cashier's check pays for the full face value of the check and usually also pays a small premium for the service. These checks are secured by the funds of the issuer - usually a bank - and include the name of a payee (the entity to which the check is payable), and the name of the remitter (the entity that paid for the check).

Cashless Exercise

A transaction that is used when exercising employee stock options (ESO). Essentially, what you do here is borrow enough money from your broker to exercise the options. You then simultaneously sell enough shares to pay for the purchase, taxes, and broker commissions.

Cash-on-Cash Yield

A comparative measure using the total amount of distributions paid upon an income trust divided by its market value.

Casino Finance

Any investment strategy that is classified as extremely high risk.

Casualty Insurance

A broad category of coverage against loss of property, damage or other liabilities, including such things as vehicle insurance, liability insurance, theft insurance and elevator insurance

Catalyst

Something that initiates or causes an important event to happen. Originally a term used in chemistry for the volatile (active) chemical in a formula.

Catastrophe Bond

A high-yield debt instrument that is usually insurance linked and meant to raise money in case of a catastrophe such as a hurricane or earthquake. It has a special condition that states that if the issuer (insurance or reinsurance company) suffers a loss from a particular pre-defined catastrophe, then the issuer's obligation to pay interest and/or repay the principal is either deferred or completely forgiven

Centralized Market

A financial market structure that consists of having all orders routed to one central exchange with no other competing market. The quoted prices of the various securities listed on the exchange represent the only price that is available to investors seeking to buy or sell the specific asset.

Certainty Equivalent

The return that would be accepted for the chance at a higher, but uncertain, amount.

Certificate Of Deposit

A savings certificate entitling the bearer to receive interest. A CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination. CDs are generally issued by commercial banks and are insured by the FDIC. The term of a CD generally ranges from one month to five years.

Certificated Stock

A stock of commodity that has been inspected by qualified representatives and determined to be of basis grade

Certified Annuity Specialist

A certification indicating expertise and commitment to fixed-rate and variable annuities. Individuals with the CAS designation offer clients expert advice in regards to investment opportunities in annuities.

Certified Investment Management Consultant

CIMC's have completed extensive course work and passed NASD proctored examinations for Levels I and II of the Institute for Certified Investment Management Consultants' course. CIMCs must also meet the Institute's requirements concerning experience in consulting and managed accounts, and adhere to its Code of Ethics and continuing education requirements.

Certified Investment Management Specialist

A designation by the Institute for Investment Management Consultants to associate members who pass an exam and meet financial services work-experience requirements

Certified Management Accountant

An accounting designation whose holder has formally demonstrated a mix of expertise in financial accounting and strategic management. This certification expands on financial accounting by adding management skills that help to make strategic business decisions based on financial information.

Certified Public Accountant

A designation given by the American Institute of Certified Public Accountants to those who pass an exam and meet work-experience requirements.

CFA Institute

Formerly known as the Association for Investment Management and Research (AIMR), the CFA Institute is an international organization comprised of more than 70,000 members who hold the Chartered Financial Analyst (CFA) designation or are otherwise bound by its rules. Its primary mandate is to specify and maintain a high standard for the investment industry.

Chameleon Option

An option that has the ability to change its structure, should certain pre-determined terms of the contract be met.

Channel Stuffing

A deceptive business practice used by a company to inflate its sales and earnings figures by deliberately sending retailers along its distribution channel more products than they are able to sell to the public.

Chaos Theory

A mathematical concept that explains that it is possible to get random results from normal equations. The main precept behind this theory is the underlying notion of small occurrences significantly affecting the outcomes of seemingly unrelated events. Also referred to as "non-linear dynamics".

Charge Card

A card that charges no interest but requires the user to pay his/her balance in full upon receipt of the statement, usually on a monthly basis. While it is similar to a credit card, the major benefit offered by a charge card is that it has much higher, often unlimited, spending limits.

Charter

A legal document that provides for the creation of a corporate entity. A corporation's charter is issued by either a federal or a regional government and effectively creates a legal entity out of the business, which existed only as a partnership, sole proprietorship or similar business before incorporating. Also referred to as "articles of incorporation".

Chartered Market Technician

A professional designation given by the Market Technicians Association (MTA) to financial professionals who prove their proficiency in technical analysis.

Chartist

Another name for a technical analyst. This is a person who uses charts to identify patterns that can suggest future activity.

Chastity Bond

A bond designed to prevent unwanted takeovers by having a maturity that is activated once a takeover is complete.

Cheap Stock

The illegal practice of issuing stock options at artificially low prices shortly before an initial public offering.

Choice Market

A market in which the spread between the bid and the ask for a given financial instrument is zero - meaning that, at any point in time, the instrument can be bought for the same price as it can be sold in the market. This type of market only occurs when there is extreme liquidity and a limited number of intermediaries.

Choppy Market

A stock market condition whereby prices swing up and down considerably but with no resulting overall price movement in either direction.

Christmas Tree

: An options trading strategy that is generally achieved by purchasing one call option and selling two other call options at different strike prices. When drawn structurally, the strike price of the long option is located below the two successively higher written calls

Circuit Breaker

Refers to any of the measures used by stock exchanges during large sell-offs to avert panic selling. Sometimes called a "collar."

Circus Swap

A swap with the features of both a currency swap and an interest rate swap.

Classified Shares :

The separation of company equity into more than one class of common shares, usually called "Class A" and "Class B."

Clawback

1. Previously given monies or benefits that are taken back due to specially arising circumstances.
2. A retraction of stock prices or of the market in general.

Clean Balance Sheet

Refers to a company whose balance sheet has very little or no debt.

Clean Price

The price quoted for a bond excluding accrued interest.

Clearing House

An agency or separate corporation of a futures exchange responsible for settling trading accounts, clearing trades, collecting and maintaining margin monies, regulating delivery and reporting trading data. Clearing houses act as third parties to all futures and options contracts - as a buyer to every clearing member seller and a seller to every clearing member buyer.

Clientele Effect

The theory that a company's stock price will move according to the demands and goals of investors in reaction to a tax, dividend or other policy change affecting the company. The clientele effect assumes that investors are attracted to different company policies, and that when a company's policy changes, investors will adjust their stock holdings accordingly. As a result of this adjustment, the stock price will move.

Clinton Bond

A bond that is said to have no principal, no interest and no maturity

Close Period

The time period between the completion of a company's balance sheet and the announcing of the results to the public.

Closely Held Shares

The shares held by individuals closely related to a company.

Closet Indexing

A portfolio strategy used by some portfolio managers to achieve returns similar to those of their benchmark index, without exactly replicating the index.

Coattail Investing

An investment strategy where investors mimic the trades of well-known and historically successful investors.

Cockroach Theory

A market theory that states bad news tends to be released in bunches.

Coefficient Of Variation – CV

A statistical measure of the dispersion of data points in a data series around the mean. It is calculated as follows:

$$\text{Coefficient of Variation} = \frac{\text{Standard Deviation}}{\text{Expected Return}}$$

The coefficient of variation represents the ratio of the standard deviation to the mean, and it is a useful statistic for comparing the degree of variation from one data series to another, even if the means are drastically different from each other.

Collar

1. A protective options strategy that is implemented after a long position in a stock has experienced substantial gains. It is created by purchasing an out of the money put option while simultaneously writing an out of the money call option. Also known as "hedge wrapper".

2. A general restriction on market activities.

COMEX

The primary market for trading metals such as gold, silver, copper and aluminum. Formerly known as the Commodity Exchange Inc., the COMEX merged with the New York Mercantile exchange in 1994 and became the division responsible for metals trading.

Commercial Bank

financial institution that provides services such as a accepting deposits and giving business loans

Commercial Grain Stock

A term used to describe any grain stored within U.S. Borders.

Commodities Exchange

An entity, usually an incorporated non-profit association, that determines and enforces rules and procedures for the trading of commodities and related investments, such as commodity futures. Commodities exchange also refers to the physical center where trading takes place.

Commoditization

1. A situation when illiquid financial contracts are changed or modified in a way that promotes trading and results in a more liquid market.
2. Making a product into a commodity.

Commodity Channel Index – CCI

An oscillator used in technical analysis to help determine when an investment vehicle has been overbought and oversold. The Commodity Channel Index, first developed by Donald Lambert, quantifies the relationship between the asset's price, a moving average (MA) of the asset's price, and normal deviations (D) from that average. It is computed with the following formula:

$$CCI = \frac{Price - MA}{0.015 \times D}$$

Commodity Futures Contract

An agreement to buy or sell a set amount of a commodity at a predetermined price and date. Buyers use these to avoid the risks associated with the price fluctuations of the product or raw material, while sellers try to lock in a price for their products. Like in all financial markets, others use such contracts to gamble on price movements.

Commodity Index

An index that tracks a basket of commodities to measure their performance. These indexes will often be traded on exchanges, allowing investors to gain easier access to commodities without having to enter the futures market. The value of these indexes fluctuates based on the underlying commodities, and this value can be trade on the exchange much in the same way as stock-index futures.

Commodity Pool

A fund that collects investor contributions for use in future and commodity option trading

D

Daily Chart

A line graph that displays the intraday movements of a given security. This contrasts to longer term charts, such as those that show a security's movement over a period of days, months or even years. Daily charts display all of the price movement for the period and are typically used by day traders to implement short-term strategies.Because the forex operates 24 hours a day, there is technically no stoppage of trading between one trading day and the next as there is in other markets. As a result, the convention is to consider a forex day to be from 5pm EST to the same time on the following day, and most daily charts are displayed this way.

In the forex market, a particular point in time specified by a forex dealer to stand as the end of the current trading day and the beginning of a new trading day. This is done for primarily administrative and logistical reasons, because although the forex market trades 24 hours a day, the market and its intermediaries require a specified beginning and end to each trading day in order to record trade dates and define settlement periods. For example, let's say a forex dealer specified that the daily cut-off was 5pm every day, and a trader placed two forex trades on the evening of January 1 - one at 4:50pm and another at 5:15pm. Since the daily cut-off is 5pm, the first trade would be booked as taking place on January 1, while the second would be recorded as a January 2 trade, since it took place after the daily cut-off.

Daily Cut-Off

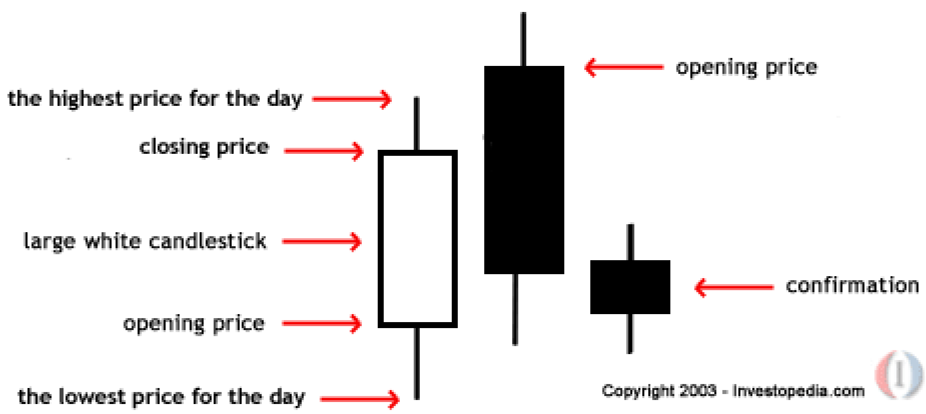
A group of unscrupulous investors who, practicing a kind of fictitious trading or wash selling, artificially inflate the price of a security so that they sell it at a profit. Investors who do not look carefully at a stock are the usual prey of a daisy chain. As a stock rises due to increased volume, investors who didn't do all their homework may be attracted to the stock because they want to participate in the rising price. These investors are typically caught owning a stock that continues to depreciate long after the daisy chain sells out their positions for a profit. Manipulating price is typically very difficult in stocks with heavy volumes, so those stocks with low liquidity are much more susceptible.

Daisy Chain

A term that refers to the Bombay Stock Exchange, the major stock exchange in India. The street is home not only the Bombay Stock Exchange but also a large number of other financial institutions. The term "Dalal Street" is used in the same way as "Wall Street" in the U.S., referring to the country's major stock exchanges and overall financial system. These terms are often seen in the financial media.

In candlestick charting, a pattern where a black candlestick follows a long white candlestick. It can be an indication of a future bearish trend.

Dalal Street



Dark Cloud Cover

Essentially, the large black candle is forming a "dark cloud" over the preceding bullish trend.

The dark cloud must have a closing price that is:
1) within the price range of the previous day, but
2) below the mid-point between open and closing prices of the previous day.

A trading strategy that was developed in 1956 by former ballroom dancer Nicolas Darvas. Darvas' trading technique involved buying into stocks that were trading at new 52-week highs with correspondingly high volumes

A Darvas box is created when the price of a stock rises above the previous 52-week high, but then falls back to a price not far from that high. If the price falls too much, it can be a signal of a false breakout; otherwise the lower price is used as the bottom of the box and the high as the top. In 1956, Darvas was able to turn an investment of $10,000 into $2 million over an 18-month period. While traveling for his dancing, Darvas would obtain copies of *The Wall Street Journal* and *Barron's*, but he would only look at the stock prices to make his decisions. It has been said that Darvas was less happy about the profits that he made than he was about the ease and peace of mind that he got from implementing his system. Skeptics of Darvas' technique attribute his success to the fact that he was trading in a very bullish market. They also say that returns comparable to the ones he saw can't be attained if this technique is used in a bear market.

Darvas Box Theory

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A type of database application that looks for hidden patterns in large groups of data. For example, data mining software can help grocery stores target customers based on their recent purchases.

The action of a firm or investor buying a substantial amount of shares in a company (making it a target firm) first thing in the morning when the stock markets open. This is done by a stockbroker acting on behalf of a company. Because the bidding company builds a substantial stake in its target at the prevailing stock market price, the takeover costs are likely to be significantly lower than they would be had the acquiring company first made a formal takeover bid. Like the dawn raid in war, the corporate dawn raid is done early in the morning, so by the time the target realizes it's being attacked, it's too late - the investor has already scooped up some controlling interest. However, only a maximum of 15% of a firm's shares can be bought this way. So, after a successful dawn raid, the raiding firm is likely to make a takeover bid to acquire the rest of the target company.

Data Mining

A stock trader who holds positions for a very short time (from minutes to hours) and makes numerous trades each day. Most trades are entered and closed out within the same day. This is a highly speculative practice. The reality is that most day traders lose money.

Dawn Raid

The costs to society created by inefficiency in the market. Mainly used in economics, the term "deadweight loss" can be applied to any deficiency due to an inefficient allocation of resources. Lost production due to inaccurate forecasting for labor is an example of a deadweight loss.

Day Trader

The rate at which new proposals are flowing to the underwriters of an investment bank. Proposals include initial public offerings (IPO) of securities, takeovers, acquisitions, and mergers.

Days Sales Of Inventory - DSI

A financial measure of a company's performance that gives investors an idea of how long it takes a company to turn its inventory (including goods that are work in progress, if applicable) into sales. Generally, the lower (shorter) the DSI the better, but it is important to note that the average DSI varies from one industry to another.
Here is how the DSI is calculated:

$$\text{Days Sales of Inventory} = \left(\frac{\text{Inventory}}{\text{Cost of Sales}}\right) \times 365$$

This measure is one part of the cash conversion cycle, which represents the process of turning raw materials into cash. The day's sales of inventory is the first stage in that process. The other two stages are days sales outstanding and days payable outstanding. The first measures how long it takes a company to receive payment on accounts receivable, while the second measures how long it takes a company to pay off its accounts payable. Also known as days inventory outstanding (DIO).

Days Sales Outstanding - DSO

A measure of the average number of days that a company takes to collect revenue after a sale has been made. A low DSO number means that it takes a company fewer days to collect its accounts receivable. A high DSO number shows that a company is selling its product to customers on credit and taking longer to collect money. Days sales outstanding is calculated as:

$$= \frac{\text{Accounts Receivable}}{\text{Total Credit Sales}} \times \text{Number of Days}$$

OR

$$= \left[\frac{\text{Accounts Receivable}}{\left(\frac{\text{Total Credit Sales}}{\text{Number of Days}} \right)} \right]$$

Due to the high importance of cash in running a business, it is in a company's best interest to collect outstanding receivables as quickly as possible. By quickly turning sales into cash, a company has the chance to put the cash to use again - ideally, to reinvest and make more sales. The DSO can be used to determine whether a company is trying to disguise weak sales, or is generally being ineffective at bringing money in. For most businesses, DSO is looked at either quarterly or annually.

Deadweight Loss

1. An individual or firm willing to buy or sell securities for their own account.
2. One who purchases goods or services for resale to consumers.

Deal Flow

A dealer differs from an agent in that a dealer acts as a principal in a transaction. That is, a dealer takes ownership of assets and is exposed to inventory risk, while an agent only facilitates a transaction on behalf of a client.

Dealer Market

A market where dealers are assigned for specific securities. The dealers create liquid markets by purchasing and selling against personal inventory. Unlike auction markets, the benefit of this type of market is the rapid access that investors have to buyers and sellers of a particular security. The best example of a dealer market is the Nasdaq.

An option created upon physical commodities, outside of regular exchange regulations.

Dealer Option

These options are typically written by firms such as clearing houses, which hold the physical commodities and offer them to the public.

Dear Money

A situation in which money or loans are very difficult to obtain in a given country. If you do have the opportunity to secure a loan, then interest rates are usually extremely high. Also known as "tight money". This situation can be a result of a restricted money supply, causing interest rates to be pushed up due to the forces of supply and demand. Businesses may have a tough time raising capital during a period of dear money.

Debasement

1. To lower the value, quality or status of something or someone.
2. To lower the value (of a coin) by adding metal of inferior value.

In other words, debasement is the degrading of the value of something or character of someone. In the context of coins, it is the process of melting down a coin and mixing it with a lower quality metal to create additional coins of the same denomination.

Debenture

A type of debt instrument that is not secured by physical asset or collateral. Debentures are backed only by the general creditworthiness and reputation of the issuer. Both corporations and governments frequently issue this type of bond in order to secure capital. Like other types of bonds, debentures are documented in an indenture. Debentures have no collateral. Bond buyers generally purchase debentures based on the belief that the bond issuer is unlikely to default on the repayment. An example of a government debenture would be any government-issued Treasury bond (T-bond) or

Treasury bill (T-bill). T-bonds and T-bills are generally considered risk free because governments, at worst, can print off more money or raise taxes to pay these type of debts.

Debenture Redemption Reserve

A provision that was added to the Indian Companies Act of 1956 during an amendment in the year 2000. The provision states that any Indian company that issues debentures must create a debenture redemption service to protect investors against the possibility of default by the company. Under the provision, debenture redemption reserves will be funded by company profits every year until debentures are to be redeemed. If a company does not create a reserve within 12 months of issuing the debentures, they will be required to pay 2% interest in penalty to the debenture holders. Only debentures that were issued after the amendment in 2000 are subject to the debenture redemption service.

Debit

An accounting entry which results in either an increase in assets or a decrease in liabilities on a company's balance sheet or in your bank account. The opposite transaction is called a credit.

Debit Balance

In a margin account, money owed by the customer to the broker for funds advanced to purchase securities. The debit balance is the amount of funds the customer must put into his or her margin account, following the successful execution of a security purchase order, in order to properly settle the transaction. When buying on margin, investors borrow funds from their brokerage and then combine those funds with their own to purchase a greater number of shares than they would have been able to purchase with their own funds. The debit amount recorded by the brokerage in an investor's account represents the cash cost of the transaction to the investor.

Debit Card

An electronic card issued by a bank, which allows bank clients access to their account to withdraw cash or pay for goods and services. This removes the need for bank clients to go to the bank to remove cash from their account as they can now just go to an ATM or pay electronically at merchant locations. This type of card, as a form of payment, also removes the need for checks as the debit card immediately transfers money from the client's account to the business account. The major benefits to this type of card are convenience and security. Along with the convenience of accessing account funds at anytime it also removes the hassles associated with having to write checks as payment like showing ID and associated fees. Debit cards are also considered to be a safer form

Debit Spread

Two options with different market prices that an investor trades on the same underlying security. The higher priced option is purchased and the lower premium option is sold - both at the same time. The higher the debit spread, the greater the initial cash outflow the investor will incur on the transaction. For example, assume that there is a investor holding a call option who sells it for $2.50. Immediately following this sale, the investor buys another call option on the same underlying security for $2.65. The debit spread is $0.15, which results in a loss of $15 ($0.15 * 100). Although there is an initial loss on the transaction, the investor is betting that there will be a significant change in the price of the underlying security, making the purchased option more valuable in the future

Debt

An amount of money borrowed and owed by one party to another. Bonds, loans and commercial paper are all examples of debt.

Debt Assignment
A transfer of debt from a creditor to a third party. In a debt assignment, a creditor assigns the debt that is owed and all rights associated with it to a third party. This may occur at a personal or corporate level, and the debtor should remain unaffected unless new terms are agreed upon.

Debt Bomb
This occurs when a major financial institution, such as a multinational bank, defaults on its obligations that causes disruption not only in the financial system of the institution's home country, but also in the global financial system as a whole. A debt bomb can occur also if consumer spending is based heavily on debt. For example, if a nation incurred huge credit card debt, individual debt holders could default en masse and create trouble for creditors.

Debt Consolidation
The action of combining several loans or liabilities into one loan. Put another way, debt consolidation is the process of taking out a new loan to pay off a number of other debts. Most people who consolidate their debt are usually doing it to attain a lower interest rate, or the simplicity of a single loan. Also known as a "consolidation loan". This is common among companies or people with credit problems (maxed-out credit cards, car loans, student loans, etc.), who combine all their debts into one loan to create greater ease in repayment. In the case of credit card debt, this can often be advantageous since credit cards generally carry a high interest rate.

Debt Deflation
A situation in which the collateral used to secure a loan, or another form of debt, decreases in value. This can be detrimental to the borrower, as it may lead to a restructuring of the loan agreement or even a loan recall.Also known as "worst deflation" and "collateral deflation". A mortgage, which is a form of secured debt, presents a good example. Let's say you purchased a home by taking out a mortgage. That same home would be secured as collateral for the loan, meaning that if you defaulted on payments to the bank, the home would be repossessed by that same bank. If the potential selling price of the home decreased in value while you were still making payments to the bank, you would be in the middle of a debt deflation scenario.

Debt Exchangeable for Common Stock - DECS
A debt instrument that provides the holder with coupon payments in addition to an embedded short put option and a long call on the issuing company's stock. DECS instruments provide the holder with the right to convert the security into the underlying company's common stock. PRIDES securities are one example of debt exchangeable for common stock.

Debt Financing
When a firm raises money for working capital or capital expenditures by selling bonds, bills, or notes to individual and/or institutional investors. In return for lending the money, the individuals or institutions become creditors and receive a promise that the principal and interest on the debt will be repaid. The other way of raising capital is to issue shares of stock in a public offering. This is called equity financing.

Debt Fund
An investment pool, such as a mutual fund or ETF, in which core holdings are fixed income investments. A debt fund may invest in short-term or long-term bonds, GNMAs and other securitized products, money market instruments or floating rate debt. The fee ratios on debt funds are lower, on average, than equity funds because the overall management costs are lower. The man investing objectives of a debt fund will usually be preservation of capital and generation of income. Performance against a benchmark is considered to be a secondary consideration to absolute return when investing in a debt fund.

Debt Instrument
A paper or electronic obligation that enables the issuing party to raise funds by promising to repay a lender in accordance with terms of a contract. Types of debt instruments include notes, bonds, certificates, mortgages, leases or other agreements between a lender and a borrower. Debt instruments are a way for markets and participants to easily transfer the ownership of debt obligations from one party to another. Debt obligation transferability increases liquidity and gives creditors a means of trading debt obligations on the market. Without debt instruments acting as a means to facilitate trading, debt is an obligation from one party to another. When a debt instrument is used as a medium to facilitate debt trading, debt obligations can be moved from one party to another quickly and efficiently.

Debt Overhang
A situation where the debt stock of a country exceeds the country's future capacity to repay it. A debt overhang occurs when the cost of debt is combined with a fall in a country's trade and economic health. As a result there is decreased spending on education, health, and infrastructure which puts the country in even worse economic shape.

Debt Ratio
A ratio that indicates what proportion of debt a company has relative to its assets. The measure gives an idea to the leverage of the company along with the potential risks the company faces in terms of its debt-load.
A debt ratio of greater $\text{Debt Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$ than 1 indicates that a company has more debt than assets, meanwhile, a debt ratio of less than 1 indicates that a company has more assets than debt. Used in conjunction with other measures of financial health, the debt ratio can help investors determine a company's level of risk.

Debt Restructuring
A method used by companies with outstanding debt obligations to alter the terms of the debt agreements in order to achieve some advantage. Companies use debt restructuring to avoid default on existing debt or to take advantage of a lower interest rate. A company will often issue callable bonds to allow them to readily restructure debt in the future. The existing debt is called and then replaced with new debt at a lower interest rate. Companies can also restructure their debt by altering the terms and provisions of the existing debt issue.

Debt Security
A security representing a loan given by an investor to an issuer. In return for the loan, the issuer promises to pay interest and to repay the debt on a specified date. Issuers may include corporations, municipalities, the federal government, or a federal agency

Debt Service
Cash required over a given period for the repayment of interest and principal on a debt. Your monthly mortgage payments are a good example of debt service.

Debt Signaling
A theory that states an announcement regarding the debt of a firm can be used as a signal of the stock's future performance. A company announcement regarding the issuance of debt is said to signal positive news. While an announcement that states debt will be taken on at a future date is said to be a negative signal about the company. The reasoning behind these signals is that when a company agrees to take on more debt they are making a commitment to pay interest on the debt. In doing so they are showing Shat the company is in a stable financial situation. Conversely, when the amount of future debt is reduced, investors may see this as a sign the company is unable to make its interest payments and is in a weak financial situation. Studies regarding debt announcements and the signals they provide have shown statistically significant results

that this theory does actually occur in real life. Subsequently, the theory has been used by proponents of the inefficient market hypothesis.

Debt/Equity Ratio

A measure of a company's financial leverage calculated by dividing long-term debt by stockholder equity. It indicates what proportion of equity and debt the company is using to finance its assets.

$$= \frac{\text{Total Liabilities}}{\text{Shareholders Equity}}$$

Note: Sometimes only interest-bearing long-term debt is used instead of total liabilities in the calculation. A high debt/equity ratio generally means a company has been aggressive in financing its growth with debt. This can result in volatile earnings as a result of the additional interest expense. If a lot of debt is used to finance increased operations (high debt to equity), the company could potentially generate more earnings than it would have without this outside financing. If this were to increase earnings by a greater amount than the debt cost (interest), then the shareholders benefit as more earnings are being spread around to the same amount of shareholders. However, the cost of this debt financing may outweigh the return that the company generates on the debt through investment and business activities and become too much for the company to handle. This might lead to bankruptcy, which would leave shareholders with nothing, so it is a delicate balance. This is what the leverage effect is about and what the debt/equity ratio measures. The debt/equity ratio will also be dependent on the industry in which the company operates. For example, capital-intensive industries such as auto manufacturing tend to have a debt/equity ratio above 2, while personal computer companies have a debt/equity of under 0.5.

Debt/Equity Swap

A refinancing deal in which a debt holder gets an equity position in exchange for cancellation of the debt. There are several reasons why a company may want to swap debt for equity. For example, a firm may be in financial trouble and a debt/equity swap could help avoid bankruptcy, or the company may want to change capital structure to take advantage of current stock valuation. Covenants in the bond indenture may prevent a swap from happening without consent.

Debtor

A company or individual who owes money. If the debt is in the form of a loan from a financial institution, the debtor is referred to as a borrower. If the debt is in the form of securities, such as bonds, the debtor is referred to as an issuer. It is not a crime to fail to pay a debt. Except in certain bankruptcy situations, debtors can choose to pay debts in any priority they choose. But if you've failed to pay a debt, you have broken a contract or agreement between you and a creditor. Generally, most oral and written agreements for the repayment of consumer debt - debts for personal, family or household purposes secured primarily by a person's residence - are enforceable. However, most debts for business or commercial purposes must be in writing to be enforceable. If the agreement requires the debtor to pay a certain amount of money, then the creditor does not have to accept a lesser amount. Also, if there was no actual agreement but the creditor has loaned money, performed services or provided the debtor with a product, that debtor must pay the creditor.

Debtor in Possession - DIP

A company that continues to operate while under the Chapter 11 bankruptcy process. Chapter 11 gives the debtor a fresh start, subject to the debtor's fulfillment of its obligations under its plan of reorganization.

Debt-Service Coverage Ratio - DSCR

1. In corporate finance, it is the amount of cash flow available to meet annual interest and principal payments on debt, including sinking fund payments.
2. In government finance, it is the amount of export earnings needed to meet annual interest and principal payments on a country's external debts.
3. In personal finance, it is a ratio used by bank loan officers in determining income property loans. This ratio should ideally be over 1. That would mean the property is generating enough income to pay its debt obligations.

In general, it is calculated by:

$$= \frac{\text{Net Operating Income}}{\text{Total Debt Service}}$$

A DSCR of less than 1 would mean a negative cash flow. A DSCR of less than 1, say .95, would mean that there is only enough net operating income to cover 95% of annual debt payments. For example, in the context of personal finance, this would mean that the borrower would have to delve into his or her personal funds every month to keep the project afloat. Generally, lenders frown on a negative cash flow, but some allow it if the borrower has strong outside income.

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Debt-To-Capital Ratio

A measurement of a company's financial leverage, calculated as the company's debt divided by its total capital. Debt includes all short-term and long-term obligations. Total capital includes the company's debt and shareholders' equity, which includes common stock, preferred stock, minority interest and net debt. Calculated as:

$$\text{Debt To Capital Ratio} = \frac{\text{Debt}}{\text{Shareholders' Equity} + \text{Debt}}$$

Companies can finance their operations through either debt or equity. The debt-to-capital ratio gives users an idea of a company's financial structure, or how it is financing its operations, along with some insight into its financial strength. The higher the debt-to-capital ratio, the more debt the company has compared to its equity. This tells investors whether a company is more prone to using debt financing or equity financing. A company with high debt-to-capital ratios, compared to a general or industry average, may show weak financial strength because the cost of these debts may weigh on the company and increase its default risk. Because this is a non-GAAP measure, in practice, there are many variations of this ratio. Therefore, it is important to pay close attention when reading what is or isn't included in the ratio on a company's financial statements.

Debt-To-GDP Ratio

A measure of a country's federal debt in relation to its gross domestic product (GDP). By comparing what a country owes and what it produces, the debt-to-GDP ratio indicates the country's ability to pay back its debt. The ratio is a coverage ratio on a national level. This measure gives an idea of the ability of a country to make future payments on its debt. If a country were unable to pay its debt, it would default, which could cause a panic in the domestic and international markets. The higher the debt-to-GDP ratio, the less likely the country will pay its debt back, and the higher its risk of default.

Debt-To-Income Ratio - DTI

A personal-finance measure that compares an individual's debt payments to the income he or she generates. This measure is important in the lending industry as it gives lenders an idea of how likely they will receive payments from the borrower. The higher this ratio, the more burden there is on the individual to make payments on his or her debts. If the ratio is too high, the individual will have a hard time accessing other forms of financing.

Decentralized Market

A market structure that consists of a network of various technical devices that enable investors to create a marketplace without a centralized location. In a decentralized market, technology provides investors with access to various bids/ask prices and makes it possible for them to deal directly with other investors/dealers rather than with a given exchange. The foreign exchange market is an example of a decentralized market because there is no one physical location where investors go to buy or sell currencies. Forex traders can use the Internet to check the quotes of various currency pairs from different dealers from around the world.

Decimalization

The process of changing the prices that securities trade at from fractions to decimals. The reasoning behind this was to make prices more easily understood by investors, and to bring the United States into conformity with international practices.

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Deck

A term used to refer to the open orders held by floor brokers on futures exchanges. The deck consists of buy and sell orders for futures and options. In equity markets, this is also known as "the book

Declaration Date

1. The date on which the next dividend payment is announced by the directors of a company. This statement includes the dividend's size, ex-dividend date and payment date. It is also referred to as the "announcement date".

2. The last day on which the holder of an option must indicate whether they will exercise the option. Also known as the "expiration date".
3. Once it is authorized, it is known as a declared dividend and becomes the company's legal liability to pay it. The declaration date of all listed stock options in the U.S. is on the third Friday of the listed month. If there is a holiday on the Friday then the declaration date falls on the third Thursday.

Declining Balance Method

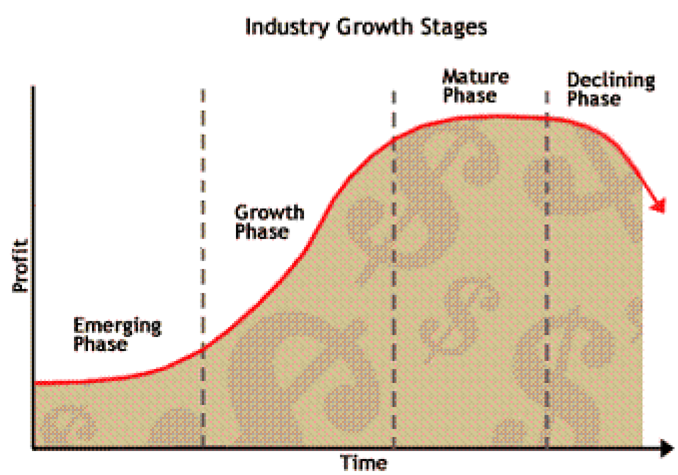
A common depreciation-calculation system that involves applying the depreciation rate against the non-depreciated balance. Instead of spreading the cost of the asset evenly over its life, this system expenses the asset at a constant rate, which results in declining depreciation charges each successive period. For example, if an asset that costs $1,000 is depreciated at 25% each year, the deduction is $250.00 in the first year and $187.50 in the second year, and so forth.

Declining Industry

An industry where growth is either negative or is not growing at the broader rate of economic growth. There are many reasons for a declining industry: consumer demand may be steadily evaporating, the depletion of a natural resource may be occurring, or there may be the emergent substitutes because of technological innovation. An example of a declining industry is the railroad industry, which has experienced decreased demand - largely due to newer and faster means of transporting goods (primarily air transport and trucking) - and has failed to remain competitive in pricing, at least in relation to the benefits of faster and more efficient transport provided by airlines and trucking services.

Decoupling

The occurrence of returns on asset classes diverging from their normal pattern of correlation. Take for example stock and corporate bond returns,



which normally rise and fall together. If returns on stocks were to increase and returns on bonds were to decrease this would illustrate an example of decoupling.

Dedicated Portfolio

A passive form of portfolio management that involves the matching of future cash flows with future liabilities. The process of dedicating a portfolio may be used as an alternative to multiperiod immunization. Since the portfolio is usually comprised of investment-grade instruments, there is usually no need to rebalance the portfolio. Additionally, the payments are almost always guaranteed.

Dedicated Short Bias
A hedge fund strategy with which the fund manager takes more short positions than long positions. Before the 1990s, there were funds called "short-only funds," which would do nothing but short securities. The long bull market of the 1990s crushed this strategy, and short-bias funds emerged

Deductible

1. The amount you have to pay out-of-pocket for expenses before the insurance company will cover the remaining costs.
2. An amount subtracted from an individual's adjusted gross income to reduce the amount of taxable income.
3. Also known as "tax deductible".

1. For example, if you get into an accident and your medical expenses are $2,000 and your deductible is $300, then you would have to pay the $300 out-of-pocket first before the insurance company paid the remaining $1,700. However, if your accident only resulted in $300 in medical expenses, then you would pay the $300 deductible and the insurance company would pay nothing.
2. There are many types of expenses you can use to reduce the amount of your taxable income such as health-care expenses, interest expenses (i.e. mortgages, car loans), legal fees and investment-related expenses. However, for those with brokerage accounts, fees such as commissions paid for trades are not deductible.

Deduction
Any item or expenditure subtracted from gross income to reduce the amount of income subject to tax. Also referred to as "allowable deduction". For example, if you make $40,000 and you have a deduction for $1,000, then your taxable income is reduced to $39,000.

Deed
A legal document that grants the bearer a right or privilege, provided that he or she meets a number of conditions. In order to receive the privilege - usually ownership, the bearer must be able to do so without causing others undue hardship. A person who poses a risk to society as a result of holding a deed may be restricted in his or her ability to use the property. Deeds are most known for being used to transfer the ownership of automobiles or land between two parties. For example, an individual who holds a deed for a particular section of land has a legal right to possess that land, but may not be able to build a shooting range on it because of the danger it would pose. In other cases, a holder of the title to a piece of property may be able to own the land but, for environmental reasons, not be allowed to develop it. Some other popular examples of deeds are commissions, academic degrees, licenses to practice, patents and powers of attorney, each of which grant the holder a given right or privilege.

Deep-Discount Bond

1. A bond that sells at a significant discount from par value.
2. Typically, a deep-discount bond will have a market price of 20% or more below its face value. These bonds are perceived to be riskier than similar bonds and are thus priced accordingly.
3. These low-coupon bonds are typically long term and issued with call provisions. Investors are attracted to these discounted bonds because of their high return or minimal chance of being called before maturity.
4. A bond that is selling at a discount from par value and has a coupon rate significantly less than the prevailing rates of fixed-income securities with a similar risk profile

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Default

1. The failure to promptly pay interest or principal when due.
If you can't make the monthly loan service payments then you are said to have "defaulted" on the loan.
2.The failure to perform on a futures contract as required by an exchange.

Default Model

A type of model used by financial institutions to determine the likelihood of a default on credit obligations by a corporation or sovereign entity. These statistical models often use regression analysis (analyzing changes to certain market variables that are pertinent to a company's financial situation) to identify credit risk.

Default Premium

The additional amount a borrower must pay to compensate the lender for assuming default risk. The default premium is paid by companies with lower grade bonds or by individuals with poor credit. As an illustration, companies with poor financials will tend to compensate investors for the additional risk by issuing bonds with high yields. Individuals with poor credit must pay higher interest rates in order to borrow money from the bank.

Default Probability

The degree of likelihood that the borrower of a loan or debt will not be able to make the necessary scheduled repayments. Should the borrower be unable to pay, they are then said to be in default of the debt, at which point the lenders of the debt have legal avenues to attempt obtaining at least partial repayment. Generally speaking, the higher the default probability a lender estimates a borrower to have, the higher the interest rate the lender will charge the borrower (as compensation for bearing higher default risk). most people encounter the concept of default probability when they go through the process of purchasing a residence. When a home buyer obtains a mortgage on a piece of real estate, the lending bank makes an assessment of the buyer's default risk and estimates their default probability. The higher this estimated probability, the greater the interest rate applied to the loan. The same logic comes into play when investors buy and sell fixed-income securities on the open market. Companies that are cash-flush and have a low default probability will be able to issue debt at lower interest rates. Investors trading their bonds on the open market will price safer debt with a bit of a premium compared to riskier debt. If a company's financial health worsens over time, investors in the bond market will adjust to the increased risk and trade its bonds at lower prices.

Default Risk

The risk that companies or individuals will be unable to pay the contractual interest or principal on their debt obligations. In other words, this is the risk that you will not get paid.

Defeasance

A provision that voids a bond or loan when the borrower sets aside cash or bonds sufficient enough to service the borrower's debt. Also referred to as "defease." The borrower sets aside cash to pay off the bonds, therefore the outstanding debt and cash offset each other on the balance sheet and don't need to be recorded.

Defeased Securities

Securities that have been secured by another asset, such as cash or a cash equivalent, by the debt-issuing firm. Firms that have created defeased securities, which are typically bonds, will have sufficient cash set aside for retirement of the debt upon maturity. For example, the U.S. government could place the funds necessary to pay off a series of Treasury bonds in a trust account specifically created to pay the outstanding bonds upon maturity. The government sets aside these funds to ensure that it has enough cash to pay its bonds when they are due. Commonly, defeased securities are retractable. Securities than can be defeased will often carry a lower yield than comparable securities, as the option to retire the debt early favors the issuer and caps the potential investment return for the bondholder. However, for a risk averse investor, this feature proves beneficial because it lowers the default risk of the security.

Defensive Acquisition

The act of firms acquiring other firms and assets as a defense against market downturns or possible takeovers. A defensive acquisition contrasts with the normal impetus for an acquisition, which is usually increased market share or revenue. A company will sometimes engage in a defensive acquisition strategy by purchasing smaller firms that are in the same business. By acquiring these firms, the company protects itself from takeovers from other companies, which, as a result of antitrust laws, may not be able to merge with the enlarged company without creating a monopoly.
If a North American car company acquired an SUV company as a result of the projected rise in demand for SUVs, this would be an example of a defensive strategy through the purchase of assets.

Defensive Buy

An investment that is an attractive buy because it is low risk, not because of its return potential. Many investors view utility stocks as a defensive buy.

Defensive Company

A company whose sales and earnings remain relatively stable during both economic upturns and downturns. Companies within the utilities industry, such as water and electricity companies, are defensive companies since their goods and services have inelastic demand. The stock of defensive companies is often classified as defensive stock

Defensive Investment Strategy

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

Defensive Stock

A stock that provides a constant dividend and stable earnings regardless of the state of the overall stock market. This is not to be confused with a "defense stock", which refers to stock in companies which manufacture things like weapons, ammunition and fighter jets. Defensive stocks remain stable during the various phases of the business cycle. During recessions they tend to perform better than the market; however, during an expansion phase it performs below the market. Betas of defensive stocks are less than one. To illustrate this phenomenon, consider a stock with a beta of 0.5. If the market is expected to drop 15%, and the existing risk-free rate is 3%, a defensive stock will only drop 9% (0.5*(-15%-3%)). On the other hand, if the market is expected to increase 15%, with a risk-free rate of 3%, a defensive stock will only increase 6% (0.5*(15%-3%)). The utility industry is an example of defensive stocks because during all phases of the business cycle, people need gas and electricity. Many active investors will invest in defensive stocks if a market downturn is expected. However, if the market is expected to prosper, active investors will often choose stocks with higher betas in an attempt to maximize return.
Also known as a "non-cyclical stock" because it is not highly correlated with the business cycle

Deferment Period

The period after the issue of callable security during which it cannot be called by the issuer. Different types of securities will have a call option allowing the issuer to buy them back at a predetermined price. The issuer cannot call the security back during the deferment period, which is uniformly predetermined by the underwriter and the issuer at the time of issuance. For example, European options have a deferment period for the life of the option (they can be called only on expiry). Most municipal bonds are callable and have a deferment period of 10 years.

Deferred Annuity

A type of annuity contract that delays payments of income, installments or a lump sum until the investor elects to receive them. This type of annuity has two main phases, the savings phase in which you invest money into the account, and the income phase in which the plan is converted into an annuity and payments are received. A deferred annuity can be either variable or fixed. earnings on a deferred annuity account are taxed only upon withdrawal, providing the annuity with a tax benefit. This type of annuity also provides a death benefit, so that the beneficiary of the annuity is guaranteed the principal and the investment earnings.For example, an investor may choose to defer annuity payments until she retires.

Deferred Interest Bond

A debt instrument that pays no interest until a date specified in the future. Zero-coupon bonds are a form of deferred interest bond.

Deferred Payment Option

An option with all the characteristics of an American vanilla option, with one exception: payment is deferred until the original expiration date. The option can be exercised at any time; however, payment is deferred until the original expiration date of the option. These options are considered long term options, with expiration dates at least one year away.

Deferred Revenue

A liability account used to collect deposits and other cash receipts prior to the completion of the sale. Deferred revenue is important because it's the money a company collects before it actually delivers a product. For example, a software company sells and receives payment for a computer program before it gets delivered or installed. This doesn't get recorded as straight revenue because, if something goes wrong with the job, the money is at risk.

Deferred Share

1. A share that does not have any rights to the assets of a company undergoing bankruptcy until all common and preferred shareholders are paid.
2. A method of stock payment to directors and executives of a company through the deposit of shares into a locked account. The value of these shares fluctuate with the market and cannot be accessed by the beneficiary for the purpose of liquidation until they are no longer employees of the company.
3. A share generally issued to company founders that restricts their receipt of dividends until dividends have been distributed to all other classes of shareholders.
4. Subordinate to all other classes of common and preferred stock, these shares are last in line when a company goes bankrupt and liquidates all assets.
5. These are different from phantom stocks because they don't allow for payment in cash. Also, rather than actual deposits of securities, companies sometimes maintain bookkeeping entries of cash equaling an offsetting security position. When the executive or director leaves the company, the cash is converted into stocks at market value.

6. No longer commonly used, these shares provided its holders with large dividend payouts only after all other classes of shareholders are paid. Holders of deferred shares had access to all the

Deficit

Situations in which liabilities exceed assets, expenditures exceed income, imports exceed exports, or losses exceed profits. A deficit is the opposite of a surplus. If a country imports more than it exports, it is said to have a trade deficit. Many scholars feel that a trade deficit cannot be sustained in perpetuity.

Deflation

A general decline in prices, often caused by a reduction in the supply of money or credit. Deflation can be caused also by a decrease in government, personal or investment spending. The opposite of inflation, deflation has the side effect of increased unemployment since there is a lower level of demand in the economy, which can lead to an economic depression. Declining prices, if they persist, generally create a vicious spiral of negatives such as falling profits, closing factories, shrinking employment and incomes, and increasing defaults on loans by companies and individuals. To counter deflation, the Federal Reserve (the Fed) can use monetary policy to increase the money supply and deliberately induce rising prices, causing inflation. Rising prices provide an essential lubricant for any sustained recovery because businesses increase profits and take some of the depressive pressures off wages and debtors of every kind.

Defunct

The condition of a company, whether publicly traded or private, that has gone bankrupt and ceased to exist. If the company was publicly traded, it will be de listed from the exchange where it was listed, and its stock will be worth nothing. This term also applies to currencies that are no longer in circulation. In exceptional situations, the Securities and Exchange Commission does allow the stock of a defunct company to continue to trade for a period of time, but this is as a result of legal technicalities rather than a particular right or privilege. History has seen many defunct currencies (e.g. the Greek drachma and the Dutch guilder). Currencies can become defunct for many reasons - for example, due to political upheaval or revolution, or because the currency has become worthless in the foreign exchange market.

Degearing

The action of a company altering its capital structure by replacing long-term debt with equity, thereby easing the burden of interest payments and also increasing management's flexibility. A company is highly geared or leveraged when a large portion of its capital structure is made up of long-term debt. Degearing is a movement away from this capital structure in the effort to decrease financial risk.

Deleverage

A company's attempt to decrease its financial leverage. The best way for a company to delever is to immediately pay off any existing debt on its balance sheet. If it is unable to do this, the company will be in significant risk of defaulting. Companies will often take on excessive amounts of debt to initiate growth. However, using leverage substantially increases the riskiness of the firm. If leverage does not further growth as planned, the risk can become too much for the company to bear. In these situations, all the firm can do is delever by paying off debt. Any sign of deleverage shown by a company is a red flag to investors who require growth in their companies.

Deleveraged Floater

A fixed-income investment with a floating rate tied to a specific index with less than a one for one payback ratio. These investment products are generally linked to different rates like the Fed Fund rate, LIBOR, or Treasury rates. This provides investors with the ability to match the differing cash flows of their assets and liabilities.

Delinquent

A term describing the failure to meet required obligations according to schedule. In the world of finance, this term is used in a number of ways from describing a company late in filing its regulatory requirements to failure to meet required loan obligations. Generally, companies that are delinquent in their obligations receive a some sort of punishment.

Delisting

The removal of a listed security from the exchange on which it trades. Stock is removed from an exchange because the company for which the stock is issued, whether voluntarily or involuntarily, is not in compliance with the listing requirements of the exchange. The reasons for delisting include violating regulations and/or failing to meet financial specifications set out by the stock exchange. Companies that are delisted are not necessarily bankrupt, and may continue trading over the counter. In order for a stock to be traded on an exchange, the company that issues the stock must meet the listing requirements set out by the exchange. Listing requirements include minimum share prices, certain financial ratios, minimum sales levels, and so on. If listing requirements are not met by a company, the exchange that lists the company's stock will probably issue a warning of non-compliance to the company. If the company's failure to meet listing requirements continues, the exchange may delist the company's stock.

Delivery

The action by which an underlying commodity, security, cash value, or delivery instrument covering a contract is tendered and received by the contract holder. Delivery can occur in option, forward, or futures contracts. In most instances, the delivery of the actual underlying is rare--contracts are typically closed before settlement.

Delivery Date

1. The final date by which the underlying commodity for a futures contract must be delivered in order for the terms of the contract to be fulfilled.
2. The maturity date of a currency forward contract.

Delivery Instrument

A document that, during the delivery of the futures contract, stands in lieu of the physical asset underlying the contract. Delivery instruments can include warehouse receipts, shipping certificates, and vault receipts. These all are more transferable than physical commodities, and provide investors with a more efficient method of settlement.

Delivery Option

A feature added to some futures contracts permitting the short position to determine the combination of timing, location, quantity, and quality of the underlying commodity stated in the delivery notice. A delivery option provides a great deal of flexibility for the deliverer of the underlying commodity, but it poses a risk for the investors expecting delivery of the underlying.

Delivery Price

The price for the delivery of underlying commodities occurring upon the expiration of a futures contract. This price is fixed by clearing houses. Because the spot prices of commodities fluctuate during the day, it is necessary for clearing houses to set a price by which the commodity can be delivered and paid for.

Delivery Versus Payment - DVP

A securities industry procedure in which the buyer's payment for securities is due at the time of delivery. Security delivery and payment are simultaneous. Also known as delivery against payment, delivery against cash, or from the sell side.

Delta

The ratio comparing the change in the price of the underlying asset to the corresponding change in the price of a derivative. Sometimes referred to as the "hedge ratio". For example, with respect to call options, a delta of 0.7 means that for every $1 the underlying stock increases, the call option will increase by $0.70.

Put option deltas; on the other hand, will be negative, because as the underlying security increases, the value of the option will decrease. So a put option with a delta of -0.7 will decrease by $0.70 for every $1 the underlying increases in price. As an in-the-money call option nears expiration, it will approach a delta of 1.00, and as an in-the-money put option nears expiration, it will approach a delta of -1.00.

Delta Hedging

An options strategy that aims to reduce (hedge) the risk associated with price movements in the underlying asset by offsetting long and short positions. For example, a long call position may be delta hedged by shorting the underlying stock. This strategy is based on the change in premium (price of option) caused by a change in the price of the underlying security. The change in premium for each basis-point change in price of the underlying is the delta and the relationship between the two movements is the hedge ratio. For example, the price of a call option with a hedge ratio of 40 will rise 40% (of the stock-price move) if the price of the underlying stock increases. *Typically, options with high hedge ratios are usually more profitable to buy rather than write since the greater the percentage movement - relative to the underlying's price and the corresponding little time-value erosion - the greater the leverage.* The opposite is true for options with a low hedge ratio.

Delta Neutral

A portfolio consisting of positions with offsetting positive and negative deltas. The deltas balance out to bring the net change of the position to zero. As a result, you neutralize the response to market movements for a certain range.

Demand

A consumer's desire and willingness to pay for a good or service. Think of demand as what you want. For example, market demand is the total of what everybody in the market wants.

Demand Deposit

An account from which deposited funds can be withdrawn at any time without any notice to the depository institution. This account allows you to "demand" your money at any time, unlike a term deposit, which cannot be accessed for a predetermined period (the loan's term). Most checking and savings accounts are demand deposits, accessible by the account holder at any time.

Demand Draft

A method used by individuals to make transfer payments from one bank account to another. Demand drafts are marketed as a relatively secure method for cashing checks. The major difference between demand drafts and normal checks is that demand drafts do not require a signature in order to be cashed. Also known as "remotely created checks". Demand drafts were originally designed to benefit legitimate telemarketers who needed to withdraw funds from customer checking accounts. However, the lack of a signature required to authorize the transfers have left demand drafts open to fraudulent use. The only information needed to create a demand draft is a bank account number and a bank routing number - this information is found on a standard check.
In 2005, the Federal Reserve proposed new regulations over the fraudulent use of demand drafts. The regulation increases a victim's ability to claim a refund and makes banks more accountable for cashing fraudulent checks.

Demand Guarantee

A type of protection that one party in a transaction can impose on another party in the event that the second party does not perform according to predefined specifications. In the event that the second party does not perform as promised, the first party will receive a predefined amount of compensation by the guarantor, which the second party will be required to repay. For example, an importer of cars in the U.S. can ask a Japanese

exporter for a demand guarantee. The exporter goes to a bank to purchase a guarantee and sends its to the American importer. If, for example, the exporter does not fulfill its end of the agreement, the importer can go to the bank and present the demand guarantee. The bank will then give the importer the predefined amount of money specified, which the exporter will be required to repay to the bank.
A demand guarantee is very similar to a letter of credit except that the demand guarantee provides much more protection. For instance, the letter of credit only provides protection against non-payment, whereas a demand guarantee can provide protection against non-performance, late performance and even defective performance.

Demand Note

A loan with no fixed term or set duration of repayment. It can be recalled upon the lenders request, assuming the notice required by the provisions of the loan are met. A demand note provides flexibility for the borrower, so long as the lender does not wish to call back the loan. Also referred to as a demand loan

Demand Shock

A sudden surprise event that temporarily increases or decreases demand for goods or services. A positive demand shock increases demand, while a negative demand shock decreases demand. Both positive and negative demand shock have an effect on the prices of goods and services. When demand for a good or service increases (decreases) the price of that good or service typically increases (decreases) due to a shift in the demand curve to the right (left). This type of shock can come from such things as tax cuts or increases, loosening or tightening of the money supply and increases or decreases in government spending. For example, a tax cut reduces the amount of money that taxpayers owe the government and frees up money for personal spending. This money is then used by taxpayers to consume certain products and services, which bids up their prices.

Demand-Pull Inflation

A situation in which inflation increases because of a continual increase in consumer demand. This type of inflation is simply a result of the interaction between supply and demand. As consumers demand a scarce good more and more, the price will inevitably increase. When this happens across the entire economy, inflation results.

Demarker Indicator

An indicator used in technical analysis that compares the most recent price action to the previous period's price in an attempt to measure the demand of the underlying asset. This indicator is generally used to identify price exhaustion and can also be used to identify market tops and bottoms. This oscillator is bounded between -100 and +100 and, unlike many other oscillators, it does not use smoothed data. Technical traders primarily use this indicator as a method of identifying the riskiness of the levels in which they wish to place a transaction. Generally, values above 60 are indicative of lower volatility and risk, while a reading below 40 is a sign that risk is increasing.

Dematerialization - DEMAT

The move from physical certificates to electronic bookkeeping. Actual stock certificates are slowly being removed and retired from circulation in exchange for electronic recording. With the age of computers and the Depository Trust Company, securities no longer need to be in certificate form. They can be registered and transferred electronically.

Demutualization

The process of changing corporate structure from a mutual fund company to some other form, such as a limited liability or corporation. This means mutual/life insurance companies convert from policyholder companies to stock companies.

Denomination

The stated value found on financial instruments. This term applies to most financial instruments with monetary values. The denomination for bonds and securities would be face value or par value. Whereas, for currency, the denomination would be the printed amount. For example, when you go to the bank to withdraw $100, the teller may ask you in what denominations; 5's, 10's, 20's, 50's, 100's, or some combination thereof.

Depletion

An accounting term describing the amortization of assets that can be physically reduced. Unlike depreciation and amortization, which mainly describe the deduction of expenses due to the aging of equipment and property, depletion is the actual physical reduction of natural resources by companies. For example, coalmines, oil fields and other natural resources are depleted on company accounting statements. This reduction in the quantity of resources is meant to assist in accurately identifying the value of the asset on the balance sheet.

Deposit

1. A transaction involving a transfer of funds to another party for safekeeping.
2. A portion of funds that is used as security or collateral for the delivery of a good.

1. This type of deposit is identical to the money an investor transfers into a bank's savings or checking accounts.
2. 2. Some contracts require a percentage of funds to be transferred before delivery as an act of good faith. An example is the initial margin deposit required for entering into a new futures contract.

Depositary Receipt

A negotiable financial instrument issued by a bank to represent a foreign company's publicly traded securities. The depositary receipt trades on a local stock exchange. Depositary receipts make it easier to buy shares in foreign companies because the shares of the company don't have to leave the home state.
When the depositary bank is in the U.S., the instruments are known as American Depositary Receipts (ADRs). European banks issue European depositary receipts, and other banks issue global depositary receipts (GDRs).

Depreciation

1. In accounting, an expense recorded to allocate a tangible asset's cost over its useful life. Since it is a non-cash expense, it increases free cash flow while decreasing reported earnings.
2. . A decrease in the value of a particular currency relative to other currencies.

1. Depreciation is used in accounting to try to match the expense of an asset to the income that the asset helps the company earn. For example, if a company bought a piece of equipment for $1 million and expected it to have a useful life of 10 years, it would be depreciated over the 10 years. Every accounting year, the company would expense $100,000 (assuming straight line depreciation), and this would be matched with the money that the equipment helps to make each year.
2. Examples of currency depreciation are the infamous Russian rouble crisis in 1998, which saw the rouble lose 25% of its value in one day.

Depressed

A description of a market, security, or product that is experiencing weak demand and lowering prices. A depressed market, security, or product implies that prices and volume are low. There are many reasons for a depressed market, security, or product. For example, a market might be depressed due to poor earnings figures by only a few of the large bellwether companies.

Depression

A severe and prolonged recession characterized by inefficient economic productivity, high unemployment and falling price levels. In times of depression, consumers' confidence and investments decrease, causing the economy to shut down. The classic example of this occurred in the 1930s, when the Great Depression shook the global economy.

Deregulation

The reduction or elimination of government power in a particular industry usually enacted to create more competition within the industry. Traditional areas that have been deregulated are the telephone and airline industries. In the late 1990s and early 2000s the utility industry (power companies) in North America started to deregulate

Derivative

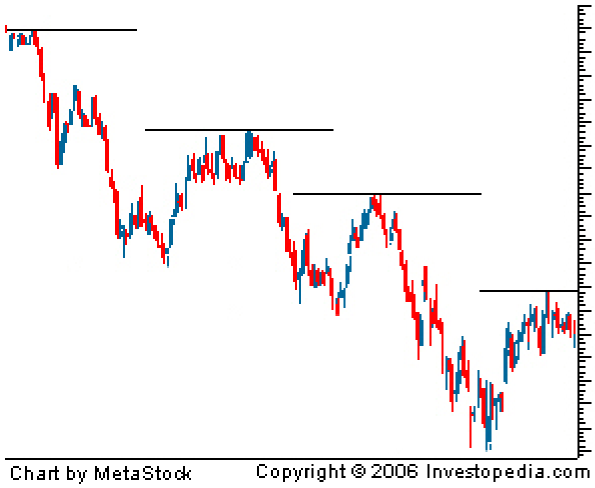
In finance, a security whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes. Most derivatives are characterized by high leverage. Futures contracts, forward contracts, options and swaps are the most common types of derivatives. Because derivatives are just contracts, just about anything can be used as an underlying asset. There are even derivatives based on weather data, such as the amount of rain or the number of sunny days in a particular region.
Derivatives are generally used to hedge risk, but can also be used for speculative purposes. For example, a European investor purchasing shares of an American company off of an American exchange (using American dollars to do so) would be exposed to exchange-rate risk while holding that stock. To hedge this risk, the investor could purchase currency futures to lock in a specified exchange rate for the future stock sale and currency conversion back into euros.

Derivatives Time Bomb

A term expressing the possibility that the financial markets could plunge into chaos if the massive derivatives positions owned by hedge funds and the large banks were to move against those parties. Institutional investors have increasingly used derivatives to either hedge their existing positions, or to speculate on given markets or commodities. The growing popularity of these instruments is both good and bad because although derivatives can be used to mitigate portfolio risk, institutions that are highly leveraged can suffer huge losses if their positions move against them. A number of well-known hedge funds have imploded in recent years as their derivative positions declined dramatically in value, forcing them to sell their securities at markedly lower prices to meet margin calls and customer redemptions. One of the largest hedge funds to collapse in recent years as a result of adverse movements in its derivatives positions was Long Term Capital Management (LTCM). Investors use the leverage afforded by derivatives as a means of increasing their investment returns. When used properly, this goal is met. However, when leverage becomes too large, or when the underlying securities decline substantially in value, the loss to the derivative holder is amplified. The term "derivatives time bomb" relates to the speculation that the large number of derivatives positions and increasing leverage taken on by hedge funds and investment banks could lead to an industry-wide meltdown.

Descending Tops

A pattern in charts where each peak in price is lower then the previous peak in price. The pattern signals a bearish trend in the security.



The above is an example of descending tops. If the current peak in the price is higher then the previous peak in a descending top environment, the trend is broken and this is a bullish signal.

Descending Triangle

A bearish chart pattern used in technical analysis that is created by drawing one trend line that connects a series of lower highs and a second trend line that has historically proven to be a strong level of support. Traders watch for a move below support, as it suggests that downward momentum is building. Once the breakdown occurs, traders enter into short positions and aggressively push the price of the asset lower. The chart below is an example of a descending triangle:

This is a very popular tool among traders because it clearly shows that the demand for an asset is weakening, and when the price breaks below the lower support, it is a clear indication that downside momentum is likely to continue or become stronger. Descending triangles give technical traders the opportunity to make substantial profits over a brief period of time. The most common price targets are generally set to equal the entry price minus the vertical height between the two trend lines. A descending triangle is the bearish counterpart of an ascending triangle.

Desk Trader

A trader who is restricted to instituting trades for a firm's clients and who is unable to trade with his/her firm's own accounts. If you telephone a brokerage firm to order shares in a company, you'll most likely end up talking to a desk trader who will take the order and send it to the market. Desk traders must be registered with the relevant securities regulators, such as the Securities & Exchange Commission.

Detrend

In forecasting models, the process of removing the effects of accumulating data sets from a trend to show only the absolute changes in values and to allow potential cyclical patterns to be identified. This is done using regression and other statistical techniques. Different charting services include the use of a detrend price oscillator, which gives traders a method for analyzing shorter-term cyclical patterns. These patterns can then be used to more effectively identify major turning points in the longer-term cycle.

Devaluation

A deliberate downward adjustment to a country's official exchange rate relative to other currencies. In a fixed exchange rate regime, only a decision by a country's government (i.e. central bank) can alter the official value of the currency. Contrast to "revaluation". There are two implications for currency devaluation. First, devaluation makes a country's exports relatively less expensive for foreigners and second; it makes foreign products relatively more expensive for domestic consumers, discouraging imports. As a result, this may help to reduce a country's trade deficit.

Dhaka Stock Exchange - DSE

The stock exchange headquartered in Dhaka, Bangladesh. Formal trading on the DSE began in 1956.

Diagonal Spread

An options strategy established by simultaneously entering into a long and short position in two options of the same type (two call options or two put options) but with different strike prices and expiration dates. This strategy is called a diagonal spread because it combines a horizontal spread, which represents the difference in expiration dates, with a vertical spread, which represents the difference in strike prices. An example of a diagonal spread is the purchase of a December $20 call option and the sale of an April $25 call.

Dialing and Smiling

A slang term for the practice of cold calling. When brokers use cold-calling to attract new customers, they typically use a friendly tone of voice to encourage trust.

Diamond Top Formation

A technical analysis reversal pattern that is used to signal the end of an uptrend. Identifying a period in which the price trend of an asset starts to widen and then starts to narrow find this relatively uncommon pattern. This pattern is called a diamond because of the shape it creates on a chart. Since technical traders use this pattern to predict a reversal of an uptrend, a short position is taken when the price falls below the lower ascending trend line. In general, price targets are usually set to be equal to the entry price minus the distance between the top and the bottom of the pattern.

Diamonds

1. An extremely hard gemstone used mainly for jewelry and tools.
2. An exchange traded security, issued by the American Stock Exchange that replicates the movements in the Dow Jones Industrial Average.

Diffusion Index

1. A measure of the percentage of stocks that have advanced in price or are showing a positive momentum over a defined period. It is used in the technical analysis of stocks.
2. A measure of the breadth of a move in any of the Conference Boards Business Cycle Indicators (BCI), showing how many of an indicators components are moving together with the overall indicator index.

1. The diffusion index is one of the many different tools used by technical analysts to increase the probability of picking winning stocks. Also known as the advance/decline diffusion index.
2. The diffusion index can help an economist or trader interpret any of the composite indexes of the BCI more accurately - the diffusion index breaks down the indexes and analyzes the components separately, exhibiting the degree to which they are moving in agreement with the dominant direction of the index.

Diluted Earnings Per Share - Diluted EPS

A performance metric used to gauge the quality of a company's earnings per share (EPS) if all convertible securities were exercised. Convertible securities refer to all outstanding convertible preferred shares, convertible debentures, stock options (primarily employee based) and warrants. Unless the company has no additional potential shares outstanding (a relatively rare circumstance) the diluted EPS will always be lower than the simple EPS. Remember that earnings per share are calculated by dividing the company's profit by the number of shares outstanding. Warrants, stock options, convertible preferred shares, etc. all serve to increasing the number of shares outstanding. As a shareholder, this is a bad thing. If the denominator in the equation (shares outstanding) is larger, the earnings per share are reduced (the same profit figure is used in the numerator). This is a conservative metric because it indicates somewhat of a worst-case scenario. On one hand, everyone holding options, warrants, convertible preferred shares, etc. is unlikely convert their shares all at once. At the same time, if things go well, there is a good chance that all options and convertibles will be converted into common stock. A big difference in a company's EPS and diluted EPS can indicate high potential dilution for the company's shares, an attribute almost unanimously ostracized by analysts and investors alike.

Diluted Founders

A slang term often used by venture capitalists to describe the process by which the founders of a startup gradually lose ownership of the company they founded. As a startup that is using venture capital for funding progresses through multiple rounds of financing, the venture capitalists providing the financing will often want more and more ownership of the company. In other words, the founders dilute their ownership in the company in exchange for capital to grow their business. What percentage of the company should a founder hold onto, ideally, after the venture capitalists take their piece of the pie? There is no gold standard, but generally anything between (or above) 15-25% ownership for the founders is considered a success. It is important to note that the trade of ownership for capital is beneficial to both venture capitalist and founder. Diluted ownership of a $500 million company is a lot more valuable than sole ownership of a $10 million company.

Dilution

A reduction in earnings per share of common stock that occurs through the issuance of additional shares or the conversion of convertible securities. Adding to the number of shares outstanding reduces the value of holdings of existing shareholders.

Dilutive Acquisition

An acquisition that will decrease the acquiring company's EPS. These acquisitions will tend to cause a firm's market price to decline, as they are expected to decrease the company's future earnings. In essence, the price paid by the acquiring firm exceeds its addition to EPS. As a general rule, a dilutive merger or acquisition occurs when the P/E ratio of the acquiring firm is less than that of the target firm.

Direct Cost

A cost that can be directly traced to producing specific goods or services. For example, the cost of meat in a hamburger can be attributed directly to the cost of manufacturing that product. Other costs, such as depreciation or administrative expenses, are more difficult to assign to a specific product, and so are not considered direct costs.

Direct Public Offering - DPO

When a company raises capital by marketing its shares directly to its own customers, employees, suppliers, distributors and friends in the community. DPOs are an alternative to underwritten public offerings by securities broker-dealer firms where a company's shares are sold to the broker's customers and prospects. Direct public offerings are considerably less expensive than traditional underwritten offerings. Additionally, they don't have the restrictions that are usually associated with bank and venture capital financing. On the other hand, a DPO will typically rise much less than a traditional offering.

Direct Quote

A foreign exchange rate quoted as the domestic currency per unit of the foreign currency. In other words, it involves quoting in fixed units of foreign currency against variable amounts of the domestic currency. For example, in the U.S., a direct quote for the Canadian dollar would be US$0.85 = C$1. Conversely, in Canada, a direct quote for U.S. dollars would be C$1.17 = US$1.

Direct Repurchase

A company's plan to buy backs its own shares from the marketplace, thereby reducing the number of outstanding shares. Generally speaking, this is an indication that the company's management thinks the shares are undervalued.

Direct Rollover

A distribution of eligible rollover assets from a qualified plan, 403(b) plan, or a governmental 457 plan to a Traditional IRA, qualified plan, 403(b) plan, or a governmental 457 plan; or a distribution from an IRA to a qualified plan, 403(b) plan or a governmental 457 plan. Direct rollover assets are made payable to the qualified plan or IRA Custodian/Trustee, never to the individual. A direct rollover is reportable but not taxable.

Direct Stock Purchase Plan - DSPP

An investment service that allows individuals to purchase stock directly from a company or through a transfer agent. Not all companies offer DSPPs and the plans often have restrictions on when an individual can purchase shares. The greatest benefit of using a DSPP for investors is the ability to avoid commissions by not going through brokers. DSPPs often have minimum deposit requirements that range from $100 to $500. They are perfect for investors who have a long-term trading strategy and are looking for a cheap way to begin investing.

Direct Tax

A tax that cannot be shifted onto others. Income and property taxes are good examples of direct taxes

Directional Movement Index - DMI

An indicator developed by J. Welles Wilder for identifying when a definable trend is present in an instrument. That is, the DMI tells whether an instrument is trending or not. The scale for the DMI is from 0 to 100. The average directional movement index (ADX) is a moving average of the DMI.

Directional Trading

A general term referring to the strategy used by investors that open positions, either long or short, on the belief that they are able to correctly predict the movement of price in a security. Simple investing. If you think a security is going up, you buy, if you think the security is going down, you sell. This is directional trading, no complicated strategies.

Dirty Float

A system of floating exchange rates in which the government or the country's central bank occasionally intervenes to change the direction of the value of the country's currency. In most instances, the intervention aspect of a dirty float system is meant to act as a buffer against an external economic shock before its effects become truly disruptive to the domestic economy. Also known as a "managed float". For example, country X may find that some hedge fund is speculating that its currency will depreciate substantially, thus the hedge fund is starting to short massive amounts of country X's currency. Because country X uses a dirty float system, the government decides to take swift action and buy back a large amount of its currency in order to limit the amount of devaluation caused by the hedge fund. A dirty float system isn't considered to be a true floating exchange rate because, theoretically, true floating rate systems don't allow for intervention.

Dirty Price

A bond price that includes accrued interest. The dirty price is sometimes called the "price plus accrued." It differs from the clean price, which is quoted more often.

Disclaim

To renounce an interest or obligation by way of a legal instrument - usually a written disclaimer, or a disclaiming trust. Property may be disclaimed for several reasons: because it is unwanted, because it carries heavy liabilities, because of tax reasons, or because the intended beneficiary wants to pass the property to another beneficiary. Liabilities, obligations, beneficial ownership, or rights may also be disclaimed.

1. When analyzing a company's proxy statement, it is common to read that a member of an executive's family owns a number of shares, but the executive disclaims beneficial ownership in the stock
2. In succession planning, a beneficiary may disclaim an inheritance, thus passing the inherited property to the contingent beneficiary and avoiding inheritance taxes, as well as any liabilities that may come with the property.

Disclosure

The act of releasing all relevant information pertaining to a company that may influence an investment decision. In order to be listed on major U.S. stock exchanges, companies must follow all of the Securities and Exchange Commission's disclosure requirements and regulations. To make investing as fair as possible for everyone, companies must disclose both good and bad information. In the past, selective disclosure was a serious problem for investors because insiders would frequently take advantage of information for their own gain - at the expense of the general investing public. Companies are not the only entities that are subject to strict disclosure regulations. By law, brokerage firms and analysts must also disclose any sort of information that they have that relates to investment decisions. For example, in order to limit conflict of interest issues, analysts must disclose any equities that they own.

Discount Bond

A bond that is valued at less than its face amount. This either means the bond is high risk or it offers a low coupon rate.

Discount Margin - DM

The return earned in addition to the index underlying the floating rate security. The size of the discount margin depends on the price of the floating rate security. There are three basic situations:

1. If the price of a floater is equal to par, the investor's discount margin would be equal to the reset margin.
2. Due to the tendency for bond prices to converge to par as the bond reaches maturity, the investor can make an additional return over the reset margin if the floating rate bond was priced at a discount. The additional return plus the reset margin equals the discount margin.
3. Should the floating rate bond be priced above par, the discount margin would equal the reference rate less the reduced earnings.

Discount Points

A type of prepaid interest mortgage borrowers can purchase that lowers the amount of interest they will have to pay on subsequent payments. Each discount point generally costs 1% of the total loan amount and depending on the borrower, each point lowers your interest rate by one-eighth to one one-quarter of your interest rate. Discount points are tax deductible only for the year in which they were paid. For example, on a $200,000 loan, each point would cost $2,000. Assuming the interest rate on the mortgage is 5% and each point lowers the interest rate by 0.25%. Buying 2 points will cost $4,000 and will result in an interest rate of 4.50%. Both lenders and borrowers gain benefits from discount points. Borrowers gain the benefit of lowered interest payments down the road, but the benefit applies only if the borrower plans on holding onto the mortgage long enough to save money from the decreased interest payments. Lenders benefit by receiving cash upfront instead of waiting for money in the form of interest payments over time, which enhances the lenders liquidity situation.

Discount Rate

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1. This type of borrowing from the Fed is fairly limited. Institutions will often seek other means of meeting short-term liquidity needs. The Federal funds discount rate is one of two interest rates the Fed sets, the other being the overnight lending rate, or the Fed funds rate

2. The interest rate used in determining the present value of future cash flows

2. For example, let's say you expect $1,000 dollars in one year's time. To determine the present value of this $1,000 (what it is worth to you today) you would need to discount it by a particular rate of interest (often the risk-free rate but not always). Assuming a discount rate of 10%, the $1,000 in a year's time would be the equivalent of $909.09 to you today (1000/[1.00 + 0.10]).

Discount Window

The location at the Federal Reserve where financial institutions go to borrow money at the discount rate. The discount window functions as a safety valve for relieving pressures in reserve markets. It helps to reduce liquidity problems for banks and assists in assuring the basic stability of financial markets. Banks are discouraged from using this type of borrowing

Discounted Cash Flow - DCF

A valuation method used to estimate the attractiveness of an investment opportunity. Discounted cash flow (DCF) analysis uses future free cash flow projections and discounts them (most often using the weighted average cost of capital) to arrive at a present value, which is used to evaluate the potential for investment. If the value arrived at through DCF analysis is higher than the current cost of the investment, the opportunity may be a good one.

Calculated as:

$$DCF = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \ldots + \frac{CF_n}{(1+r)^n}$$

CF = Cash Flow

r = discount rate (WACC)

There are many variations when it comes to what you can use for your cash flows and discount rate in a DCF analysis. Despite the complexity of the calculations involved, the purpose of DCF analysis is just to estimate the money you'd receive from an investment and to adjust for the time value of money. DCF models are powerful, but they do have shortcomings. DCF is merely a mechanical valuation tool, which makes it subject to the axiom "garbage in, garbage out". Small changes in inputs can result in large changes in the value of a company. Instead of trying to project the cash flows to infinity, a terminal value approach is often used. A simple annuity is used to estimate the terminal value past 10 years, for example. This is done because it is harder to come to a realistic estimate of the cash flows as time goes on.

Discretionary Account

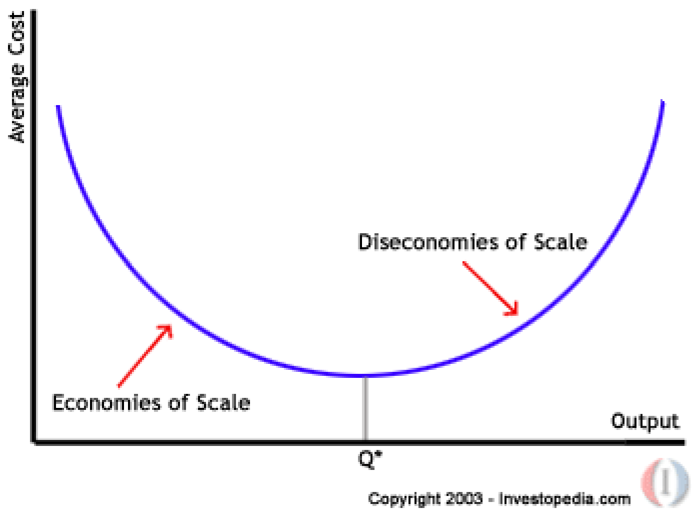
An account that allows a broker to buy and sell securities without the client's consent. The client must sign a discretionary disclosure with the broker as documentation of the clients consent. This is sometimes referred to as a "managed account". The client regarding trading in the account sets sometimes-broad guidelines. For example, a client might only permit investments in blue chip stocks.

Discretionary cash flow

Discretionary cash flow is any money left over once all possible capital projects with positive net present values have been financed, and all mandatory payments have been paid. The capital can be used to pay for other responsibilities such as giving out cash dividends to stockholders, buying back common stock and paying off any outstanding debt. How discretionary cash flow is distributed is the responsibility of management. They decide how to use the funds to benefit the company the most. The way these funds are allocated can have huge affects on the performance of the company, and as a result the evaluation of the effectiveness of management.

Diseconomies of Scale

An economic concept referring to a situation in which economies of scale no longer function for a firm. Rather than experiencing continued decreasing costs per increase in output, firms see an increase in marginal cost when output is increased. Diseconomies of scale can sometimes occur for the follow reasons:



1) A specific process within a plant cannot produce the same quantity of output as another related process. For example, if in a product required both gadget A and gadget B, diseconomies of scale might occur if gadget B is produced at a slower rate than gadget A.

2) As output increases, costs of transporting the good to distant markets can increase enough to offset any economies of scale. For example, when a firm has a large plant capable of producing a large output located in one location, the more the firm produces, the more it needs to ship to distant locations.

Disequilibrium

When internal or external forces prevent market equilibrium from being reached or cause the market to fall out of balance. This can be a short-term byproduct of a change in variable factors or a result of long-term structural imbalances. This theory was originally put forth by economist John Maynard Keynes. Many modern economists have likened using the term "general disequilibrium" to describe the state of the markets as we most often find them. Economist John Maynard Keynes noted that markets will most often be in some form of disequilibrium - there are so many variable factors that affect financial markets today that true equilibrium is more of an idea; it is helpful for creating working models, but lacks real-world validation.

Disinflation

A slowing of the rate at which prices increase. Typically, this occurs during a recession as sales drop and retailers are not able to pass on higher prices to customers.
Disinflation is not to be confused with deflation, where prices actually drop.

Disintermediation

1. In finance, withdrawal of funds from intermediary financial institutions, such as banks and savings and loan associations, in order to invest them directly.
2. Generally, removing the middleman or intermediary.

Disintermediation is usually done in order to invest in instruments yielding a higher return.

Disinvestment

1. The action of an organization or government selling or liquidating an asset or subsidiary. Also known as "divestiture".

2. A reduction in capital expenditure, or the decision of a company not to replenish depleted capital goods.

1. A company or government organization will divest an asset or subsidiary as a strategic move for the company, planning to put the proceeds from the divestiture to better use that garners a higher return on investment.

Dismal Science

A slang term used to describe the discipline of economics. It was given this description by Thomas Carlyle, who was inspired to coin the phrase by T. R. Malthus's gloomy prediction that population would always grow faster than food, dooming mankind to unending poverty and hardship. While this story is well known, it has been debated and deemed to be inaccurate by some. Those doubting the story say that Carlyle was reacting not to Malthus but economists such as John Stuart Mill, who argued that institutions, not race, explained why some nations were rich and others poor. Carlyle attacked Mill, not for supporting Malthus's predictions about the dire consequences of population growth, but for supporting the emancipation of slaves. It was the discipline's assumption that people are basically all the same and thus entitled to liberty that led Carlyle to label the study of economics "the dismal science". The connection was so well known throughout the 19th century, that even cartoonists would refer to it knowing that their audience would understand the reference.

Disparity Index

A technical indicator that measures the relative position of the most recent closing price to a selected moving average and reports the value as a percentage. A value greater than zero suggests that the asset is gaining upward momentum, while a value less than zero can be interpreted as a sign that selling pressure is increasing. Extreme values of this indicator can be a very useful tool for contrarians investors to foretell periods of exhaustion. Once the price is excessively pushed in one direction, there are very few investors to take the other side of the transaction when the participants wish to close their position, ultimately leading to a price reversal. Similar to the ROC indicator, important signals are generated when the indicator crosses over the zero line because it is an early signal that momentum is building.

Displaced Moving Average

A moving average that has been adjusted forward or back in time in order to forecast trends. Displaced moving averages are constructed by taking the moving average and shifting it by a number of intervals, either positive or negative. If the number is negative, the displaced moving average will lag the original moving average, and if the number is positive the displaced moving average will lead the original moving average. The aim behind displaced moving averages is to allow traders to center the moving average or make the displaced moving average fit better with the price movement, thereby removing some of the noise in the moving average. Some traders believe that displaced moving averages have more predictive power than basic moving averages such as simple and exponential.

Disposable Income

The amount of after-tax income that is available to divide between spending and personal savings. This is also known as your take-home pay.

Disposition

Getting rid of an asset or security through a direct sale or some other method. Quite often you will see insider trades report a "disposition" of a certain number of shares, this just means that they sold them.

Distressed Sale

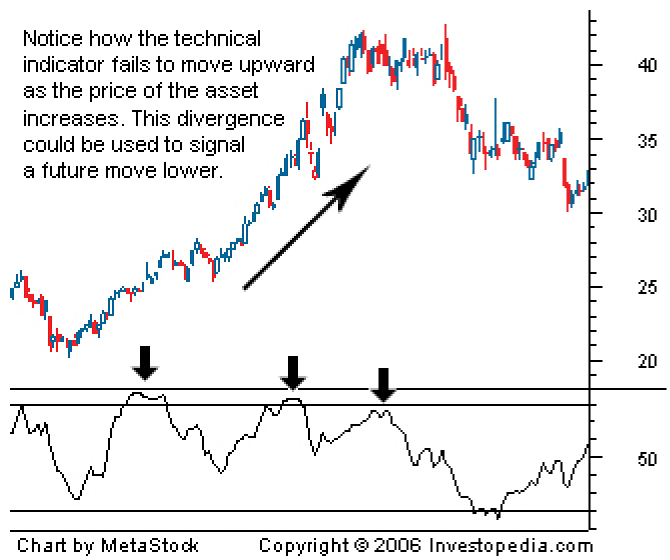
An urgent sale of assets because of negative conditions. For example, securities may have to be sold because there is a margin call. Because a distressed sale is happening under unfavorable conditions, the seller generally receives a worse price.

Distressed Securities

A financial instrument in a company that is near or is currently going through bankruptcy. This usually results from a company's inability to meet its financial obligations. As a result, these financial instruments have suffered a substantial reduction in value. Distressed securities can include common and preferred shares, bank debt, trade claims (goods owed) and corporate bonds. Due to their reduction in value, distressed securities often become attractive to investors who are looking for a bargain and are willing to accept a risk. Because most of the time these companies end up filing for Chapter 11 or 7, there are substantial risks involved in investing in them. As a result of bankruptcy, equity (common shares) is rendered worthless so those who invest depressed securities look at more senior instruments such as bank debt, trade claims and bonds. The logic behind this investment is that the company's situation is not as bad as the market believes it to be and either the company will survive or there will be enough money upon liquidation to cover the original investment.

Divergence

A situation in which the price of an asset and an indicator, index or other related asset move in opposite directions. In technical analysis traders make transaction decisions by identifying situations of divergence, where the price of a stock and a set of relevant indicators, such as the money flow index (MFI), are moving in opposite directions. In technical analysis, divergence is considered either positive or negative, both of which are signals of major shifts in the direction of the price. Positive divergence occurs when the price of a security makes a new low while the indicator starts to climb upward. Negative divergence happens when the price of the security makes a new high, but the indicator fails to do the same and instead closes lower than the previous high.



Diversification

The process of adding to one's portfolio in such a way that the risk/return tradeoff is worsened. Investors often achieve this by investing in a number of different mutual funds that have similar investment strategies within the same grouping of shares. A diversification strategy usually involves the accumulation of assets with negative correlations, which reduces risk and can increase potential returns by minimizing the negative effect of any one asset on portfolio performance. However, investing in too many assets with similar correlations will result in an averaging effect where risk is at its lowest level and additional assets reduce potential portfolio returns as well as the chances of outperforming a benchmark.

Diversification

A risk-management technique that mixes a wide variety of investments within a portfolio. The rationale behind this technique contends that a portfolio of different kinds of

investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio.
Diversification strives to smooth out unsystematic risk events in a portfolio so that the positive performance of some investments will neutralize the negative performance of others. Therefore, the benefits of diversification will hold only if the securities in the portfolio are not perfectly correlated. Studies and mathematical models have shown that maintaining a well-diversified portfolio of 25 to 30 stocks will yield the most cost-effective amount of risk reduction. Investing in more securities will still yield further diversification benefits, albeit at a drastically smaller rate.
Further diversification benefits can be gained by investing in foreign securities because they tend be less closely correlated to domestic investments. For example, an economic downturn in the U.S. economy may not affect Japan's economy in the same way. Therefore, having Japanese investments would allow an investor to have a small cushion of protection against losses due to an American economic downturn.
Most non-institutional investors have a limited investment budget, and may find it difficult to create an adequately diversified portfolio. This fact alone can explain why mutual funds have been increasing in popularity. Buying shares in a mutual fund can provide investors with an inexpensive source of diversification.

Diversity Score

A measure, created by Moody's Investors Service, to estimate the diversification in a portfolio, specifically in the context of a collateralized debt obligation (CDO). The calculation methodology for a diversification score takes into account the extent to which a portfolio is diversified by industry. Technically speaking, the diversification score measures the number of uncorrelated assets that would have the same loss distribution as the actual portfolio of correlated assets. For example, if a portfolio of 100 assets had a diversification score of 50, this means that the 100 correlated assets have the same loss distribution as 50 uncorrelated assets.

Divestiture

The partial or full disposal of an investment or asset through sale, exchange, closure or bankruptcy. Divestiture can be done slowly and systematically over a long period of time, or in large lots over a short time period. For a business, divestiture is the removal of assets from the books. Businesses divest by the selling of ownership stakes, the closure of subsidiaries, the bankruptcy of divisions, and so on. In personal finance, investors selling shares of a business can be said to be divesting their interests in the company being sold.

Divestment

The process of selling an asset. Also known as divestiture, it is made for either financial or social goals. Divestment is the opposite of investment. Generally you'd just say that you are selling an asset. The term divestment is more appropriate however in the following contexts:

1) A change in corporate strategy - a firm might say that they are divesting a particular subsidiary to focus on their core business.
2) Social goals - there are many political reasons why investors might reduce investments. A notable example was the withdrawal of American firms from South Africa during apartheid.

Dividend

Distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. The dividend is most often quoted in terms of the dollar amount each share receives (i.e. dividends per share or DPS). It can also be quoted in terms of a percent of the current market price, referred to as dividend yield. Dividends may be in the form of cash, stock or property. Most secure and stable companies offer dividends to their stockholders. Their share prices might not move much, but the dividend attempts to make up for this. In the U.S., dividends face double taxation - the amount comes from after-tax income the company generated and the recipients pay taxes on them. As of 2003, cash dividends are taxed at a maximum rate of 15% as long as the stock has been held for at least 60 out of the 120 days beginning 60 days prior to the ex-dividend date. If you have held the stock for a period of less than this the dividend will be taxed at your regular income level. High-growth companies rarely offer dividends because all their profits are reinvested to help sustain higher-than-average growth.

Dividend Clawback

An arrangement under which those financing a project agree to contribute, as equity, any prior dividends received from the project to cover any cash shortages. When there is no cash shortfall, those investors who provided funding are able to keep their dividends. A dividend clawback arrangement provides incentive for a project to remain on budget so that investors do not have to return dividends received prior to a cost overrun.

Dividend Discount Model - DDM

A procedure for valuing the price of a stock by using predicted dividends and discounting them back to present value. The idea is that if the value obtained from the DDM is higher than what the shares are currently trading at, then the stock is undervalued.

$$\text{Value of Stock} = \frac{\textbf{Dividend per share}}{\textbf{Discount Rate - Dividend growth rate}}$$

This procedure has many variations, and it doesn't work for companies that don't pay out dividends.

Dividend Imputation

An arrangement in Australia that eliminates the double taxation of dividends. Double taxation of dividends occurs when both a company and a shareholder pay tax on the same income. The company pays taxes on profits and subsequently distributes a dividend out of their after-tax profits. Shareholders must then pay tax on the dividend received. The tax imputations indicate to the government that the company issuing the dividend has already paid a portion of the tax due. The shareholder is able to reduce the tax paid on the dividend by the amount of the tax imputation credits.

Dividend Irrelevance Theory

A theory that investors are not concerned with a company's dividend policy since they can sell a portion of their portfolio of equities if they want cash. The dividend irrelevance theory essentially indicates that an issuance of dividends should have little to no impact on stock price.

Dividend Payout Ratio

The percentage of earnings paid to shareholders in dividends. Calculated as:

$$= \frac{\textbf{Yearly Dividend per Share}}{\textbf{Earnings per Share}}$$

or equivalently:

$$= \frac{\textbf{Dividends}}{\textbf{Net Income}}$$

The payout ratio provides an idea of how well earnings support the dividend payments. More mature companies tend to have a higher payout ratio. In the U.K. there is a similar ratio, which is known as dividend cover. It is calculated as earnings per share divided by dividend per share.

Dividend Policy

The policy a company uses to decide how much it will pay out to shareholders in dividends. Lots of research and economic logic suggests that dividend policy is irrelevant (in theory).

Dividend Recapitalization

When a company incurs a new debt in order to pay a special dividend to private investors or shareholders. This usually involves a company owned by a private investment firm, which can authorize a dividend recapitalization as an alternative to selling its equity stake in the company. Also known as a "dividend recap". The dividend recap has seen explosive growth, primarily as an avenue for private investment firms to recoup some or all of the money they used to purchase their stake in a business. It is generally not looked upon favorably by creditors or common shareholders because it reduces the credit quality of the company while only benefiting a select few.

Dividend Reinvestment Plan - DRIP

A plan offered by a corporation allowing investors to reinvest their cash dividends by purchasing additional shares or fractional shares on the dividend payment date. A DRIP is an excellent way to increase the value of your investment. Most DRIPs allow you to buy shares commission free and at a significant discount to the current share price. Most DRIPS don't allow reinvestments much lower than $10. This term is sometimes abbreviated as "DRP".

Dividend Signaling

A theory that suggests company announcements of an increase in dividend payouts act as an indicator of the firm possessing strong future prospects. The rationale behind dividend signaling models stems from game theory. A manager who has good investment opportunities is more likely to "signal" than one who doesn't because it is in his or her best interest to do so. Over the years the concept that dividend signaling can predict positive future performance has been a hotly contested subject. Many studies have been done to see if the markets reaction to a "signal" is significant enough to support this theory. For the most part, the tests have shown that dividend signaling does occur when companies either increase or decrease the amount of dividends they will be paying out. The theory of dividend signaling is also a key concept used by proponents of inefficient markets

Dividend Yield

A financial ratio that shows how much a company pays out in dividends each year relative to its share price. In the absence of any capital gains, the dividend yield is the return on investment for a stock. Dividend yield is calculated as follows:

$$= \frac{\text{Annual Dividends Per Share}}{\text{Price Per Share}}$$

Dividend yield is a way to measure how much cash flow you are getting for each dollar invested in an equity position - in other words, how much "bang for your buck" you are getting from dividends. Investors who require a minimum stream of cash flow from their investment portfolio can secure this cash flow by investing in stocks paying relatively high, stable, dividend yields. For example, if two companies both pay annual dividends of $1 per share, but ABC company's stock is trading at $20 while XYZ company's stock is trading at $40, then ABC has a dividend yield of 5% while XYZ is only yielding 2.5%. Thus, assuming all other factors are equivalent, an investor looking to supplement his/her income would likely prefer ABC's stock over that of XYZ.

Dividends Received Deduction - DRD

A tax deduction received by a corporation on the dividends paid to it by companies in which it has an ownership stake. The purpose of this deduction is to soften the consequences of triple taxation. Triple taxation occurs because the company paying the dividend does so with after-tax money and the receiving company is subject to income tax on the dividends. Therefore, if the company that receives the dividends decides to pay out its shareholders, the money will have been taxed three times. If a company owns less than 20% of another company, it is able to deduct 70% of the dividends it receives. If the company owns more than 20% but less than 80% of the company paying the dividend, it is able to deduct 80% of the dividend received. If it owns more than 80% of the dividend-paying company, it is allowed to deduct 100% of the dividends it receives.

Doctrine Of Utmost Good Faith

A fundamental requirement of the parties to a transaction or contractual agreement. The doctrine of utmost good faith is a minimum standard that requires both the buyer and seller in a transaction to act honestly toward each other and to not mislead or refrain from providing critical information to the other party. The doctrine of utmost good faith applies to many common financial transactions. In the insurance market, the doctrine of utmost good faith requires the party seeking insurance to disclose all relevant personal information. For example, if you are applying for life insurance, you are required to disclose any previous health problems you may have had. Likewise, the insurance agent selling you the coverage must disclose the critical information you need to know about your contract and its terms.

Dog And Pony Show

A slang term referring to a financial seminar that presents new products or issues of securities to potential buyers. Also known as a "road show". The term originated in the late 19th century to describe circuses which featured dog and pony acts that toured towns and cities across the United States.

Dog Eat Dog

When the market for a good or service is ruthlessly competitive. Electronics retail is often thought to be a dog eats dog market. Blockbuster sales every weekend, bashing competitor products, and "lowest price guaranteed" tactics are characteristics of dog eat dog competition.

Dogs Of The Dow

An investing strategy that consists of buying the 10 DJIA stocks with the highest dividend yield at the beginning of the year. The portfolio should be adjusted at the beginning of each year to include the 10 highest yielding stocks. The strategy was formulated in 1972 and has proven to be successful. In fact, as Dog of the Dow investors readjust their portfolios each year, it places pressure on the stocks involved.

Dollar Drain

A situation that occurs when a country imports more goods and services from another country than it exports back to the same country. The net effect of spending more money importing than is received from exporting causes a net reduction in the importing country's reserves of the exporting country's currency. For example, if Canada has exported $500 million worth of goods and services to the U.S. and has also imported $650 million worth of goods and services from the U.S., the net effect will be a reduction in Canada's U.S. dollar reserves. A dollar drain position should not be maintained indefinitely. As a result of the laws of supply and demand, importing more than exporting will likely cause a devaluation of the importing country's currency. However, this effect will be mitigated if foreign investors pour their money into the importing country's stocks and bonds, as these actions will increase the demand for the importing country's currency, causing it to appreciate in value.

Dollar Price

Percentage of par, or face value, that a bond is quoted at. The other way bonds are often quoted is in terms of their yield. For example, if the price of the bond is $1,120 and the par value of the bond is $1,000, the bond would be quoted at 112% in dollar terms.

Dollar Roll

A special type of repurchase agreement in which the security, transferred to the investor as collateral, is a mortgage-backed security. The investor who sells the security gives up the cash flows during the roll period, but has use of the proceeds. This is similar to a reverse repurchase agreement

Domicile

The location where an individual, partnership, or corporation establishes permanent residence as per legal obligations. In order to file taxes, collect insurance, or create a company, firms and individuals must have a recognized place of residence under law.

Doomsday Call

A call provision added to fixed income securities that allows for early redemption by the issuer if certain conditions are favorable. Also known as Canada calls, these provisions are typically found on corporate debt issues made by Canadian corporations. With a doomsday call provision, issuers are able to redeem at either par value upon maturity of the fixed income security or at a predetermined rate, which is usually a benchmark +/- basis points.

Dotcom

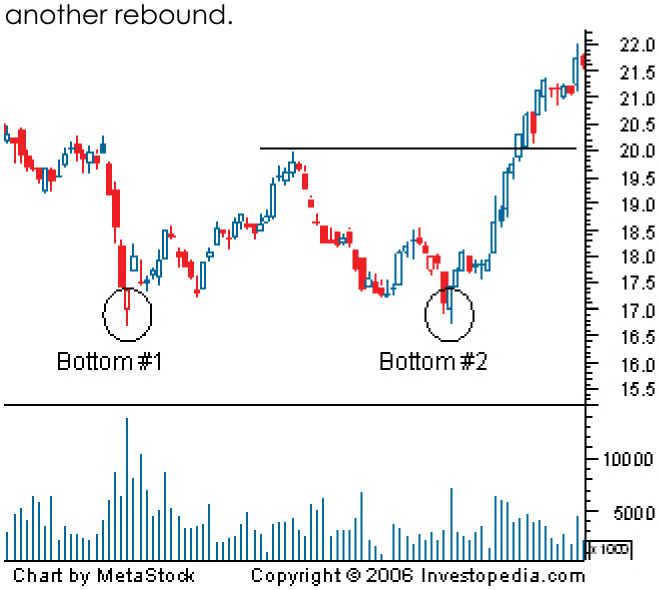
A company that embraces the internet as the key component in its business. The dotcoms took the world by storm in the late '90s, rising faster than any industry in recent memory. Despite the fact that most internet companies were losing money hand over fist, they were given huge valuations on the stock market - but it didn't last for long. The NASDAQ hit its high in March 2000, and within a few years most of the dotcom sector was wiped out.

Double Barreled

Bonds secured by the pledge of two or more sources of repayment. This term is often synonymous with revenue bonds.

Double Bottom

A charting pattern used in technical analysis. It describes the drop of a stock (or index), a rebound, another drop to the same (or similar) level as the original drop, and finally another rebound.



The double bottom looks like the letter "W". The twice-touched low is considered a support level. Most technical analysts believe that the advance off of the first bottom should be 10-20%. The second bottom should form within 3-4% of the previous low, and volume on the ensuing advance should increase.

Double Dip Recession

When the gross domestic product (GDP) growth slides back to negative after a quarter or two of brief positive growth. In other words, a recession followed by a short-lived recovery, followed by another recession. The causes for a double-dip recession vary. However, they often include a slowdown in the demand for goods and services because of layoffs and spending cutbacks from the previous downturn. A double-dip (or even triple-dip) is a worst-case scenario. Fear that the economy will move back into a deeper and longer recession makes recovery even more difficult.

Double Dipping

For brokerage firms, when a broker puts commissioned products into a fee-based account. The broker makes money from both the client and the commission. There is more than one meaning for the term depending on the context. For example, the practice of drawing two incomes from the government, usually by holding a government job and receiving a pension is also referred to as double dipping.

Double Taxing

A tax law that causes the same earnings to be subjected to taxation twice. A company's income is taxed initially and then the shareholders and investors are taxed on the distributions they receive from the company. In some countries, dividends are double taxed.

Double Top

A term used in technical analysis to describe the rise of a stock, a drop, another rise to the same level as the original rise, and finally another drop.

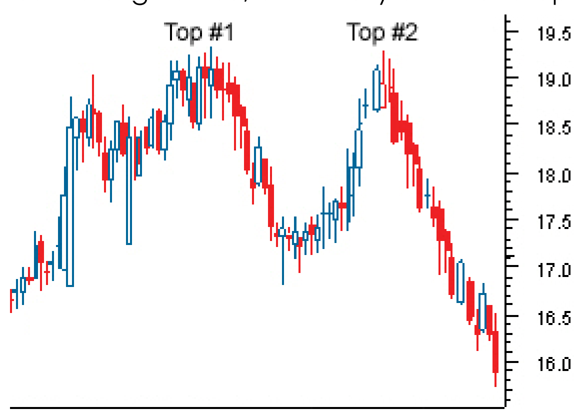


Chart by MetaStock Copyright © 2006 Investopedia.com

The double top looks like the letter "M". The twice-touched high is considered a resistance level.

Double Witching

Similar to triple witching, but instead of three classes of options or futures expiring on the same day, double witching is when only two classes (any two) are expiring. The three classes are stock options, index options, and index futures. In other words, this is when option contracts and futures contracts expire on the exact same day. Double and triple witching days can be volatile at times as arbitrageurs scramble to close out their positions.

Dove

An economic policy advisor who promotes monetary policies that involve the maintenance of low interest rates, believing that inflation and its negative effects will have a minimal impact on society. This term is derived from the docile and placid nature of the bird of the same name, and is the opposite of the term "hawk". Statements that suggest that inflation will have a minimal impact are called "dovish". Doves prefer low interest rates as a means of encouraging growth within the economy because this tends to lead to increased demand for consumer borrowing and spurs an increase in consumer spending. As a result, doves believe the negative effects of low interest rates are negligible in the larger scheme of things. However, if interest rates are kept low for an indefinite period of time, inflation could rise considerably.

Dow Divisor

A number used in the calculation of the Dow Jones Industrial Average that accounts for stock splits and stock dividends. While most market indexes are market-capitalization weighted, the DJIA (and other Dow Jones indexes) are price-weighted. That is, the DJIA was originally calculated by simply adding up the price of Dow components and dividing by the number of stocks in the index. (That's why it's called an average.) However, when companies had stock splits or gave out stock dividends, the stock prices changed even though the value of the company didn't. The index, because it is price-weighted, would be distorted. To solve this problem, Dow Jones introduced the Dow Divisor. It's modified downward to reflect corporate actions that don't fundamentally change the value of the company.

Dow Jones CDX Indexes

A series of indices that track North American and emerging market credit derivative indexes. The purpose of the combined indexes is to track the performance of the various segments of credit derivatives so that the overall return can be benchmarked against funds that invest in similar products. This family of indices comprises a basket of credit derivatives that are representative of certain segments such as North American investment grade credit derivatives, high volatility, high yield, high yield non-investment grade, as well as emerging markets.

Dow Jones Industrial Average - DJIA

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. Charles Dow invented the DJIA back in 1896. Often referred to as "the Dow", the DJIA is the oldest and single most watched index in the world. The DJIA includes companies like General Electric, Disney, Exxon and Microsoft. When the TV networks say "the market is up today", they are generally referring to the Dow.

Dow Jones Utility Average - DJUA

The Dow Jones Utility Average is a price-weighted average of 15 utility stocks traded in the United States. The DJUA was started back in 1929. The utility average tends to decline when investors expect rising interest rates. Utilities tend to borrow a lot of money and, consequently, are more sensitive to changes in interest rates.

Down Round

A round of financing where investors purchase stock from a company at a lower valuation than the valuation placed upon the company by earlier investors. Down rounds cause dilution of ownership for existing investors. This often means the companyâ€™s founders stock or options are worth much less, or even nothing at all. Unfortunately, sometimes the only other option is going out of business. In this case down rounds are necessary and welcomed. Down rounds are commonplace when a red-hot economy turns bad. A perfect example was the dot-com crash of 2000-2001.

Downsize

Reducing the size of a company by eliminating workers and/or divisions within the company. When a company downsizes, it is attempting to find ways to improve efficiency and increase profitability. It is sometimes referred to as trimming the fat.

E

Eurodollar Bond

A U.S.-dollar denominated bond issued by an overseas company and held in a foreign institution outside both the U.S. and the issuer's home nation. Eurodollar bonds are an important source of capital for multinational companies and foreign governments. A Eurodollar bond is a type of Eurobond. Don't let the name confuse you! Although the Eurodollar originated in London, the name today refers only to the history, not the currency. For example, if a Chinese bank held dollar-denominated bonds issued by a Japanese company, this would be considered a Eurodollar bond. Eurodollar bonds are advantageous because they are subject to fewer regulatory restrictions. They are not registered with the United States' Securities and Exchange Commission and can be sold at lower interest rates than in the U.S.

Euro Deposit

The equivalent of a money market rate on cash deposits made in the euro currency. Euro deposit rates will usually be quoted as "money market euro deposit rates" and are typically only offered to U.S. investors with minimum investments of greater than 10,000 euros. Euro deposits pay a floating interest rate (like money market accounts) and offer the chance for capital appreciation if the euro appreciates against the investor's home currency (presumably the dollar). Euro deposit rates are based on the euro interbank offer rate, which is set by the European Central Bank. There has been increased investor demand for cash equivalents in currencies outside of the U.S. dollar. If the dollar decreases in value compared to other currencies, there is little recourse for the investor's loss of global purchasing power, but by holding a euro-denominated asset, the investor can diversify some of his currency risk and possibly reduce overall portfolio risk in the process.

Eurocredit

A type of loan whose denominated currency is not the lending bank's national currency. A U.S. bank lending a corporation 10 million Russian rubles is an example of Euro credit. Euro credit helps the flow of capital between countries and the financing of investments at home and abroad.

Equal Weight

A type of weighting that gives the same weight, or importance, to each stock in a portfolio or index fund. The smallest companies are given equal weight to the largest companies in an equal-weight index fund or portfolio. This allows all of the companies to be considered on an even playing field. The Rydex S&P Equal Weight Exchange Traded Fund, for example, provides the same exposure to the smallest companies in the S&P 500 as it does to corporate giants such as General Electric and Exxon. Equal weighting differs from the weighting method more commonly used by funds and portfolios in which stocks are weighted based on their market capitalizations. Equal-weighted index funds tend to have higher stock turnover than market-cap weighted index funds and, as a result, they usually have higher trading costs.

Equity

1. Stock or any other security representing an ownership interest.
2. On the balance sheet, the amount of the funds contributed by the owners (the stockholders) plus the retained earnings (or losses). Also referred to as "shareholder's equity".
3. In the context of margin trading, the value of securities in a margin account minus what has been borrowed from the brokerage.
4. In the context of real estate, the difference between the current market value of the property and the amount the owner still owes on the mortgage. Thus, it is the amount, if any, the owner would receive after selling a property and paying off the mortgage. Equity is a term whose meaning depends very much on the context. In general, you can think of equity as ownership in any asset after all debts associated with that asset are paid off. For example, a car or house with no outstanding debt is considered the owner's equity since he or she can readily sell the items for cash. Stocks are equity because they represent ownership of a company, whereas bonds are classified as debt because they represent an obligation to pay and not ownership of assets.

Equity Accounting

A method of accounting whereby a corporation will document a portion of the undistributed profits for an affiliated company in which they own a position. The amount of undistributed profits that the corporation decides to document is generally equal to the percentage of equity it controls. In many cases, the profits of the affiliated company are never distributed to the corporation.

Equity Risk Premium

The excess return that an individual stock or the overall stock market provides over a risk-free rate. This excess return compensates investors for taking on the relatively higher risk of the equity market. The size of the premium will vary as the risk in a particular stock, or in the stock market as a whole, changes; high-risk investments are compensated with a higher premium. Also referred to as "equity premium". The reason behind this premium stems from the risk-return tradeoff, in which a higher rate of return is required to entice investors to take on riskier investments. The risk-free rate in the market is often quoted as the rate on longer-term government bonds, which are considered risk free because of the low chance that the government will default on its loans. On the other hand, an investment in stocks is far less guaranteed, as companies regularly suffer downturns or go out of business. If the return on a stock is 15% and the risk-free rate over the same period is 7%, the equity-risk premium would be 8% for this stock over that period of time.

Equity Market Capitalization

A measure of the total market value of an equity market. Taking the market capitalization of all companies in the equity market and adding them together to arrive at the capitalization for the market as a whole calculate the measure. The measure is used to compare the increase or decrease in the size of the market as a whole. The measure is also used to compare the value of the equity market to other segments of the economy, such as the value of the real estate market.

Equity Financing

The act of raising money for company activities by selling common or preferred stock to individual or institutional investors. In return for the money paid, shareholders receive ownership interests in the corporation. Also known as "share capital". This is when a company raises money by issuing stock. The other way to raise money is through debt financing, which is when the company borrows money.

Equity Method

An accounting technique used by firms to assess the profits earned by their investments in other companies. The firm reports the income earned on the investment on its income statement and the reported value is based on the firm's share of the company assets. The reported profit is proportional to the size of the equity investment. This is the standard technique used when one company has significant influence over another. When a company holds approximately 20-25% or more of another company's stock, it is considered to have significant control, which signifies the power that a company can exert over another company. This power includes representation on the board of directors, partaking in company policy development and the interchanging of managerial personnel. If a firm owns 25% of a company with a $1 million net income, that firm would report earnings of $250,000.

Equity Income

1.Income that is earned through an investment in equity.
2. A type of mutual fund whose portfolio is invested in companies that are determined to be of high quality and have a strong history of dividend growth.
3. A shareholder receives equity income usually through dividends or capital gains.
4. This type of investment strategy attempts to provide a stable income for investors by choosing securities that will provide both capital appreciation and consistent dividends.

Equity Multiplier

A measure of financial leverage. Calculated as:

Total Assets / Total Stockholders' Equity

Like all debt management ratios, the equity multiplier is a way of examining how a company uses debt to finance its assets. Also known as the financial leverage ratio or leverage ratio. In other words, this ratio shows a company's total assets per dollar of stockholders' equity. A higher equity multiplier indicates higher financial leverage, which means the company is relying more on debt to finance its assets.

Enterprise Value – EV

A measure of a company's value often used as an alternative to straightforward market capitalization. EV is calculated as market cap plus debt, minority interest and preferred shares, minus total cash and cash equivalents. Think of enterprise value as the theoretical takeover price. In the event of a buyout, an acquirer would have to take on the company's debt, but would pocket its cash. EV differs significantly from simple market capitalization in several ways, and many consider it to be a more accurate representation of a firm's value. The value of a firm's debt, for example, would need to be paid by the buyer when taking over a company, and thus EV provides a much more accurate takeover valuation because it includes debt in its value calculation.

Endorsement

1. A legal term that refers to the signing of a document, which allows for the legal transfer of a negotiable from one party to another.
2. 2. An attachment to a document that amends or adds to it. Typically, it is an added provision to an insurance policy. Also referred to as a "rider".
3. When an employer signs a check, they are endorsing the transfer of money from the business accounts to the account of the employee.
4. If an insurance contract has a provision stating that in the event of the policy holder's death the family of the policyholder will continue to receive the policy holder's monthly income for a period of time, this is an example of an endorsement or a rider. Endorsements and riders cause the price of the premium to rise as they provide a positive benefit.

Enron

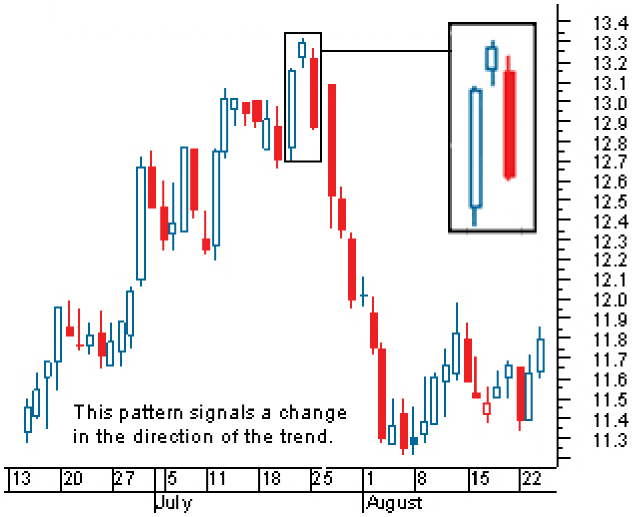
A U.S. energy-trading and utilities company that housed one of the biggest accounting frauds in history. Enron's executives employed accounting practices that falsely inflated the company's revenues, which, at the height of the scandal, made the firm become the seventh largest corporation in the United States. Once the fraud came to light, the company quickly unraveled and filed for Chapter 11 bankruptcy on Dec. 2, 2001.

Enron shares traded as high as $85 before the fraud was discovered, but plummeted to $0.30 in the sell-off after the fraud was revealed. Shareholders received company payouts as compensation for their losses, but former company executives also settled to pay shareholders out of their own pockets. Enron was the first big-name account scandal, but it was soon followed by the uncovering of frauds at other companies such as WorldCom and Tyco International, and has become a symbol of modern corporate crime.

Endowment
Assets, funds, or property donated to an institution, individual, or group as a source of income. An endowment is basically a charitable gift, such as donating stocks to the United Way or donating funds to a university library.
Equity Fund
A mutual fund that invests in a broad, well-diversified group of stocks. An equity fund typically won't invest in any bonds or notes. The invested funds will either be in cash or stock.
Euro
The official currency of the European Union's (EU) member states. The EU in to the financial community in 1999 and physical euro coins introduced the euro and paper notes were introduced in 2002. Euros are printed and managed by the European System of Central Banks (ESCB). The euro is abbreviated by the symbol "EUR". The euro is the national currency of the EU member states that have adopted it, including Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. Together, these countries create what is called the Euro zone, a region where the euro serves as a common national currency for all of the separate nations. This has important benefits, such as removing exchange rate risk from businesses and financial institutions operating in an increasingly globalize economy. On the other hand, critics of the euro system argue that it produces negative consequences, such as concentrating the power to set monetary policy in the European Central Bank. This removes the ability of the EU's member nations to implement monetary policies specific to them, locking them into the monetary policy established for the entire Euro zone, even though local monetary conditions may differ substantially from the overall Euro zone.
Euromarket
The market that includes all of the European Union member countries - many of which use the same currency, the euro. All tariffs between Euromarkets member countries have been abolished, and import duties from all non-member countries have been fixed for all of the member countries. The Euromarket also has one central bank for all of the member countries, the European Central Bank (ECB). Also known as "the common market". The Euromarket is a large single market comprised of all member countries, allowing for more efficient trade and the centralization of monetary policy through the ECB. The Euromarket is considered a major finance source for international trade, through the money market or Eurocurrency, euro credit and Eurobonds.
Evening Star
.
A bearish candlestick pattern consisting of three candles that have demonstrated the following characteristics:

1. The first bar is a large white candlestick located within an uptrend.
2. The middle bar is a small-bodied candle (red or white) that closes above the first white bar.
3. The last bar is a large red candle that opens below the middle candle and closes near the center of the first bar's body.

As shown by the chart below, this pattern is used by traders as an early indication that the uptrend is about to reverse



Evening star formations can be useful in determining trend changes, particularly when used in conjunction with other indicators. Many traders use price oscillators and trend lines to confirm this candlestick pattern.

Excess Returns

Returns in excess of the risk-free rate or in excess of a market measure (such as an index fund). In other words, when you have excess returns you are making more money than if you put your money into an index fund like the Dow (DJIA).

Exchange

A market in which securities, commodities, options or futures are traded. The NYSE, NASDAQ and Amex are some examples of exchanges.

Exchange Rate

The price of one country's currency expressed in another country's currency. In other words, the rate at which one currency can be exchanged for another. For example, the higher the exchange rate for one euro in terms of one yens, the lower the relative value of the yen. In most financial papers, currencies are expressed in terms of U.S. dollars, while the dollar is commonly compared to the Japanese yen, the British pound and the euro. As of the beginning of 2006, the exchange rate of one U.S. dollar for one euro was about 0.84, which means that one-dollar can be exchanged for 0.84 euros.

Exemption

A deduction allowed by law to reduce the amount of income that would otherwise be taxed. An exemption is based on a status or circumstance rather than economic standing. There are two types of exemptions: personal and dependency. An example of an exemption is the reduction in taxes you are granted for the dependent children (under the age of 18) living with you.

Expectations Theory

A theory proposing that long-term interest rates can act as a predictor of future short-term interest rates. Empirical evidence suggests this hypothesis often overstates future short-term interest rates. This over-estimation may be due to the higher risk premium associated with holding a long-term debt security whose yield is more uncertain due to potential changes in interest rates.

Expected Return

The average of a probability distribution of possible returns, calculated by using the following formula

$$E(R) = \sum_{i=1}^{n} P_i \times R_i$$

How do you calculate the average of a probability distribution? As denoted by the above formula, simply take the probability of each possible return outcome and multiply it by the return outcome itself. For example, if you knew a given investment had a 50% chance of earning a 10% return, a 25% chance of earning 20% and a 25% chance of earning -10%, the expected return would be equal to 7.5%:

= (0.5) (0.1) + (0.25) (0.2) + (0.25) (-0.1)

= 0.075

= 7.5%

Although this is what you expect the return to be, there is no guarantee that it will be the actual return.

Expiration Date

The day on which an options or futures contract is no longer valid and, therefore, ceases to exist. The expiration date for all listed stock options in the U.S. is the third Friday of the expiration month (except when it falls on a holiday, in which case it is on Thursday).

Explicit Cost

A business expense that is easily identified and accounted for. Explicit costs represent clear, obvious cash outflows from a business that reduce its bottom-line profitability. This contrasts with less-tangible expenses such as goodwill amortization, which are not as clear cut regarding their effects on a business's bottom-line value. Good examples of explicit costs would be items such as wage expense, rent or lease costs, and the cost of materials that go into the production of goods. With these expenses, it is easy to see the source of the cash outflow and the business activities to which the expense is attributed.

Export

In international trade, goods that are shipped from one country to another. Goods that are made in the U.S. and sold in Japan are exported to Japan

Extendable Bond

A bond issue with a maturity that can be extended to a longer period at the option of the issuer. If interest rates are higher at maturity (than they previously were before) then the issuer is more likely to try and extend the bond.

Extra Dividend

A non-recurring distribution of company assets, usually in the form of cash, to shareholders which is of unusually large size or different date of issue compared to normal dividends paid out by the given company. Also referred to as a "special dividend". Generally, extra dividends are declared following exceptionally strong company earnings results, as a way for a company to distribute exceptional profits directly to shareholders. Extra dividends can also occur when a company wishes to make changes to its financial structure or to spin-off a subsidiary company to its shareholders. For example, GenTek Inc issued a special cash dividend of $31 per share paid on Mar 16, 2005, in order to restructure towards a more debt-based financing mix.

Extraordinary General Meeting – EGM

A meeting other than the annual general meeting between a company's shareholders, executives and any other members. An EGM is usually called on short notice and deals with an urgent matter. In most cases the only time shareholders and executives meet is during the annual general meeting, which is usually at a set time. However, certain events may require shareholders to come together to solve a certain problem, such as the removal of an executive.

Extrinsic Value
The difference between an option's price and the intrinsic value. For example, an option that has a premium price of $10 and an intrinsic value of $5 would have an extrinsic value of $5. Denoting the amount that the option's price is greater than the intrinsic value, the extrinsic or time value of the option declines as the expiration date of an option draws closer.

G

Gross Domestic Product - GDP
The monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

GDP = C + G + I + NX
Where:

"C" is equal to all private consumption, or consumer spending, in a nation's economy
"G" is the sum of government spending
"I" is the sum of all the country's businesses spending on capital
"NX" is the nation's total net exports, calculated as total exports minus total imports. (NX = Exports - Imports)

Global Depositary Receipt - GDR
1. A bank certificate issued in more than one country for shares in a foreign company. A foreign branch of an international bank holds the shares. The shares trade as domestic shares, but are offered for sale globally through the various bank branches.
2. A financial instrument used by private markets to raise capital denominated in either U.S. dollars or euros.

GDP is commonly used as an indicator of the economic health of a country, as well as to gauge a country's standard of living. Critics of using GDP, as an economic measure say the statistic does not take into account the underground economy - transactions that, for whatever reason, are not reported to the government. Others say that GDP is not intended to gauge material well-being, but serves as a measure of a nation's productivity, which is unrelated.

Gordon Growth Model

1. A GDR is very similar to an American Depositary Receipt.
2. These instruments are called EDRs when private markets are attempting to obtain euros.

A model for determining the intrinsic value of a stock, based on a future series of dividends that grow at a constant rate. Given a dividend per share that is payable in one year, and the assumption that the dividend grows at a constant rate in perpetuity, the model solves for the present value of the infinite series of future dividends.

$$\text{Stock Value (P)} = \frac{D}{k - G}$$

Where:
D = Expected dividend per share one year from now
k = Required rate of return for equity investor
G = Growth rate in dividends (in perpetuity)
Because the model simplistically assumes a constant growth rate, it is generally only used for mature companies (or broad market indices) with low to moderate growth rates.

GBP

In the currency market, this is the abbreviation for the British pound. The currency market, also known as the foreign exchange market or forex, is the largest financial market in the world, with a daily average volume of over US$1 trillion.

Generally Accepted Accounting Principles - GAAP

The common set of accounting principles, standards and procedures that companies use to compile their financial statements. GAAP are a combination of authoritative standards (set by policy boards) and simply the commonly accepted ways of recording and reporting accounting information. GAAP are imposed on companies so that investors have a minimum level of consistency in the financial statements they use when analyzing companies for investment purposes. GAAP cover such things as revenue recognition, balance sheet item classification and outstanding share measurements. Companies are expected to follow GAAP rules when reporting their financial data via financial statements. If a financial statement is not prepared using GAAP principles, be very wary! That said, keep in mind that GAAP is only a set of standards. There is plenty of room within GAAP for unscrupulous accountants to distort figures. So, even when a company uses GAAP, you still need to scrutinize its financial statements.

Group of Ten - G10

Eleven industrialized nations that meet on an annual basis to consult each other, debate and cooperate on international financial matters. The member countries are: France, Germany, Belgium, Italy, Japan, the Netherlands, Sweden, the United Kingdom, the United States and Canada, with Switzerland playing a minor role. The G10 has been criticized for its lack of responsiveness to the needs of developing countries. G10 meetings are politically charged events that often make headlines in the international press for the protests that follow them. G10 governors usually meet every second month at the Bank for International Settlements.

Group of Eight - G-8

Eight of the world's economically leading countries that in a cooperative effort meet periodically to address international economic and monetary issues. G-8 is considered global policy making at its highest level. The G-8 includes the Group of Seven countries along with Russia. Russia, although not a full member, has been in attendance since 1994

Group Of Seven - G-7

Seven of the world's leading countries that meet periodically to achieve a cooperative effort on international economic and monetary issues. The G-7 includes the Group of Five countries along with Canada and Italy.

Group of Five - G-5

Name given to the five industrialized nations that meet periodically to achieve a cooperative effort on international economic and monetary issues. The G-5 consists of five of the world's leading industrialized countries: France, Germany, Japan, the United Kingdom, and the United States.

Growth Rate

The amount of increase that a specific variable has gained within a specific period and context. For investors, this typically represents the compounded annualized rate of growth of a company's revenues, earnings, dividends and even macro concepts - such as the economy as a whole. Expected forward-looking or trailing growth rates are two common kinds of growth rates used for analysis purposes. -Different types of industries have different benchmarks for rates of growth. For instance, companies that are on the cutting edge of technology would be more likely to have higher annual rates of growth compared to a mature industry, like retail sales. The use of historical growth rates is one of the simplest methods of estimating future growth. However, historically high growth rates don't always mean a high rate of growth looking into the future, because industrial and economic conditions change constantly. For example, the auto industry has higher rates of revenue growth during good economic times. However, in times of recession, consumers would be more inclined to be frugal and not spend their disposable income on a new car.

Growth Investing

A strategy whereby an investor seeks out stocks with what they deem good growth potential. In most cases a growth stock is defined as a company whose earnings are expected to grow at an above-average rate than its industry or the overall market. Growth investors often call growth investing a capital growth strategy, since investors seek to maximize their capital gains. Although it is often said that growth investing and value investing are diametrically opposed, a better way to view these two strategies is to consider a quote by Warren Buffett: "growth and value investing are joined at the hip". Another very famous investor, Peter Lynch, pioneered a hybrid of growth and value investing with what is now commonly referred to as a GARP (growth at a reasonable price) strategy.

Growth Industry
A sector of the economy experiencing a higher-than-average growth rate. If companies across an industry exhibit solid earnings and revenue figures, that industry may be showing signs that it is in its growth stage. Growth industries tend to be composed of relatively volatile and risky stocks. Often investors must be willing to accept increased risk in order to take part in the potentially large gains offered by stocks within a particular growth industry.

Growth Stock
Shares in a company whose earnings are expected to grow at an above average rate relative to the market. Also known as a "glamor stock". A growth stock usually does not pay a dividend, as the company would prefer to reinvest retained earnings in capital projects. Most technology companies are growth stocks. Note that a growth company's stock is not always classified as growth stock. In fact, a growth company's stock is often overvalued.

Gross Spread
The difference between the underwriting price received by the issuing company and the actual price offered to the public. By charging the public a higher price for an IPO than the price paid to the issuing company, the underwriters are able to make a profit. For example a company might get $15 per share for their IPO, but the underwriters sell the stock to the public at $17--profiting $2 per share.

Gross National Product - GNP
An economic statistic that includes GDP, plus any income earned by residents from overseas investments, minus income earned within the domestic economy by overseas residents. GNP is a measure of a country's economic performance, or what its citizens produced (i.e. goods and services) and whether they produced these items within its borders.

Gross Margin Return On Investment - GMROI
An inventory profitability evaluation ratio that analyzes a firm's ability to turn inventory into cash above the cost of the inventory. It is calculated by dividing the gross margin by the average inventory cost and is used often in the retail industry. To illustrate:

$$\text{GMROI} = \frac{\text{Gross Margin}}{\text{Average Inventory Cost}}$$

Gross Margin
1) A company's total sales revenue minus its cost of goods sold. Also known as "gross profit".
2) A company's total sales revenue minus cost of goods sold, divided by the total sales revenue, expressed as a percentage.
3) In the case of an adjustable-rate mortgage, the interest rate (expressed as a percentage) that is added on to the base index rate in order to establish the actual interest rate the borrower will pay on the loan.

Gross Income

1. An individual's total personal income before taking taxes or deductions into account.
2. A company's revenue minus cost of goods sold. Also called "gross margin" and "gross profit".
3. Your gross income is how much you make before taxes. It is the figure people are looking for when they ask how much you gross a month.
4. This is an important number when analyzing a company, it indicates how efficiently management uses labor and supplies in the production process. Keep in mind that gross income varies significantly from industry to industry.

Gross Estate

The total dollar value of all property and assets in which an individual had an interest at the time of his or her death. The gross estate figure is commonly produced for federal income tax purposes. It does not include any deductions for outstanding debts, taxes or liabilities; it is the gross value of the deceased person's assets.

Gross Debt Service Ratio - GDS

A debt service measure that financial lenders use as a rule of thumb to give a preliminary assessment about whether a potential borrower is already in too much debt. Receiving a ratio of less than 30% means that the potential borrower has an acceptable level of debt.

Calculated as:

$$GDS = \frac{\text{Annual Mortgage Payments} + \text{Property Taxes}}{\text{Gross Family Income}}$$

For example, Jack and Jill, two law students, have a monthly mortgage payment of $1,000 (annual payment of $12,000), property taxes of $3,000 and a gross family income of $45,000. This would give a GDS of 33 %. Based on the benchmark of 30%, Jack and Jill appear to be carrying an unacceptable amount of debt.
Keep in mind that this ratio is only a very rough benchmark. The acceptance of a loan application is not solely determined by this ratio. Since this is a very simple ratio, there are a lot of subsequent factors that lenders consider. For example, even though Jack and Jill's GDS is above the benchmark, a lender may still lend to Jack and Jill because of their future earning potential as lawyers. When combined with other personal information, GDS can be a good way for lenders to screen borrowers.

Grinder
A slang term for a person who works in the investment industry and makes small amounts of money at a time on small investments, over and over again. Grinders are typically hard working and highly respected investors who value every cent they make off of investments. Grinders who are investment advisors keep in regular contact with their clients

Gridlock
A government, business or institution's inability to function at a normal level due either to complex or conflicting procedures within the administrative framework or to impending change in the business. In business as in traffic, little to nothing gets done when gridlock happens. This can be highly problematic and costly for a company or industry. For example, gridlock can occur if there is infighting within a company, with two groups competing to gain control of the company. This infighting can effectively create a situation in which business transactions cannot be completed until the problem is solved.

Grey Market
1. A market where a product is bought and sold outside of the manufacturer's authorized trading channels.
2. The unofficial trading of a company's shares, usually before they are issued in an initial public offering (IPO).

For example,
1. If a storeowner is an unauthorized dealer of a certain high-end electronics brand, the product is considered to be sold in the grey market. If the product is illegal, it would be selling on the "black market".
2. The grey market is an over-the-counter market where dealers may execute orders for preferred customers as well as provide support for a new issue before it is actually issued. This activity allows underwriters and the issuer to determine demand and price the securities accordingly before the

Greenspan Put
A description of the perceived attempt of then-chairman of the Federal Reserve Board, Alan Greenspan, of propping up the securities markets by lowering interest rates and thereby helping money flow into the markets. Investors assumed that they would be able to liquidate their stocks at a set price at or before a future date as if there was a built-in put option. They believed that Greenspan would manipulate monetary policy and continue to maintain market stability. While the former Fed chair's actions did have an effect on the markets, it was not necessarily his objective. The term was coined in 1998 after the Fed lowered interest rates following the collapse of the investment firm Long-Term Capital Management. The effect of this rate reduction was that investors borrowed funds more cheaply to invest in the securities market, thereby averting a potential downswing in the markets. On February 1, 2006, Ben Bernanke replaced Alan Greenspan as the Federal Reserve Board chairman.

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Greenshoe Option

Legally referred to as an over-allotment option, a provision contained in an underwriting agreement, which gives the underwriter the right to sell investors more shares than originally planned by the issuer. This would normally be done if the demand for a security issue proves higher than expected. A greenshoe option can provide additional price stability to a security issue, since the underwriter has the ability to increase supply and smooth out price fluctuations if demand surges too high. Greenshoe options typically allow underwriters to sell up to 15% more shares than the original number set by the issuer, if demand conditions warrant such action. However, some issuers prefer not to include greenshoe options in their underwriting agreements under certain circumstances - for example, if the issuer wants to fund a specific project with a fixed amount of cost and does not want more capital than it originally sought. The term is derived from the fact that the Green Shoe Company was the first to issue this type of option.

Greensheet

An information circular prepared by an underwriter that summarizes the main components of a new issue's prospectus. A greensheet contains both advantages and disadvantages of a new issue so salespeople can attempt to solicit the issue to the public. A greensheet is created solely for the use of the employees of the underwriting firm.

Greenmail

A situation in which an unfriendly company holds a large block of stock. This forces the target company to repurchase the stock at a substantial premium to prevent a takeover. It is also known as a "Bon Voyage Bonus" or a "Goodbye Kiss". Not unlike blackmail, this is a dirty tactic, but it's very effective.

Greenback

A slang term for U.S. paper dollars. Greenbacks got their name from their color. However, in the mid-1800s, "greenback" was a negative term. During this time, the Continental Congress did not have taxing authority. As a result, the greenbacks did not have a secure financial backing and banks were reluctant to give customers the full value of the dollar.

Green Field Investment

A form of foreign direct investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up. In addition to building new facilities, most parent companies also create new long-term jobs in the foreign country by hiring new employees. This is opposite to a brown field investment. Green field investments occur when multinational corporations enter into developing countries to build new factories and/or stores. Developing countries often offer prospective companies tax-breaks, subsidies and other types of incentives to set up green field investments. Governments often see that losing corporate tax revenue is a small price to pay if jobs are created and knowledge and technology is gained to boost the country's human capital.

Green Economics

A methodology of economics that supports the harmonious interaction between humans and nature and attempts to meet the needs of both simultaneously. The green economic theories encompass a wide range of ideas all dealing with the interconnected relationship between people and the environment's Green economists assert that the basis for all economic decisions should be in some way tied to the ecosystem. Green economists perceive nature as being extremely valuable and seek to maintain it. Supporters of this branch of economics are concerned with the environment and believe that actions should be taken to protect nature and encourage the positive co-existence of both humans and nature. Emphasis is placed on creating value through quality rather than on accumulating material items and money.

Greeks

Dimensions of risk involved in taking a position in an option (or other derivative). Each risk variable is a result of an imperfect assumption or relationship of the option with another underlying variable. Various sophisticated hedging strategies are used to neutralize or decrease the effects of each variable of risk. Neutralizing the effect of each variable requires substantial buying and selling and, as a result of such high transactions costs, many traders only make periodic attempts to rebalance their options portfolios. With the exception of Vega (which is not a Greek letter), each measure of risk is represented by a different letter of the Greek alphabet:

Greater Fool Theory

A theory that it is possible to make money by buying securities, whether overvalued or not, and later selling them at a profit because there will always be someone (a bigger fool) who is willing to pay the higher price. When acting in accordance with the greater fool theory, an investor buys questionable securities not with any regard to their quality, but with the hope of quickly selling them off to another investor (the greater fool), who might also be hoping to flip it quickly. Unfortunately, speculative bubbles always burst eventually, leading to a rapid depreciation in share price due to the sell off.

Gray Market

1. An unofficial market where new issues of shares are bought and sold before they become officially available for trading on the stock exchange.
2. The sale or import of goods by unauthorized dealers. In some parts of the world "gray" is spelled "grey".
3. Trading in gray or "when-issued" markets can provide a good indication of demand for a new issue.
4. In this case, items those were manufactured abroad and imported into a country without the consent of the trademark holder would be a gray market good.

Graveyard Market

The period near the end of a prolonged bear market. In a graveyard market, long-time investors have taken large losses, while new investors prefer to stay liquid by sitting on the sidelines and keeping their money in cash or cash-equivalent securities until market conditions improve. The term graveyard market is an apt description of this market phenomenon: the investors in a graveyard market can't get out of it, and the investors who aren't in it don't want to be.

Grantor Retained Annuity Trust - GRAT

An estate planning technique that minimizes the tax liability existing when intergenerational transfers of estate assets occur. Under these plans, an irrevocable trust is created for a certain term or period of time. The individual establishing the trust pays a tax when the trust is established. Assets are placed under the trust and then an annuity is paid out every year. When the trust expires the beneficiary receives the assets tax free.

Under these plans, the annuity payments come from interest earned on the assets underlying the trust or as a percentage of the total value of the assets. If the individual who establishes the trust dies before the trust expires the assets become part of the taxable estate of the individual, and the beneficiary receives nothing.

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Δ (Delta) represents the rate of change between the option's price and the underlying asset's price - in other words, price sensitivity.

Θ (Theta) represents the rate of change between an option portfolio and time, or time sensitivity.

Γ (Gamma) represents the rate of change between an option portfolio's delta and the underlying asset's price - in other words, second-order time price sensitivity.

 (Vega) represents the rate of change between an option portfolio's value and the underlying asset's volatility - in other words, sensitivity to volatility.

ρ (Rho) represents the rate of change between an option portfolio's values and the interest rate, or sensitivity to the interest rate.

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Grandfathered Bond

A classification for bonds in the European Union that excludes the payments made on these bonds from retention taxes. For a bond to fall into this classification it has to have been issued before March 1, 2001, or had its prospectus certified before this date, and has not had any re-issues at any point after February 28, 2002. The retention tax, which became effective on July 1, 2005 when the European Union Savings Tax Directive was implemented, is a withholding tax on interest payments. The retention tax starts out at 15%, but will be raised to 20% on July 1, 2008 and 35% on July 1, 2011. This tax simply withholds some of the interest and the ultimate amount taxed on the interest will depend on several factors including the individual's overall income. This tax only applies to the residents of a EU member state and does not affect the interest payments made to non-EU residents. It also covers savings accounts, fiduciary deposits and investment funds.

Grandfather Clause

An exemption that allows persons or entities to continue with an activity they were engaging in before it became illegal through a change in regulation. For example, imagine there's a passing of a new law that states restaurants can serve only food with less than ten grams of fat per serving. If accompanied by a grandfather clause, the law would affect only new restaurants. All restaurants that began operating prior to the law would therefore be allowed to continue selling their products, regardless of whether their fat content exceeds the ten-gram limit. Because of the change in regulation, however, new restaurants must abide by the new law. Grandfathering is a debatable practice that often hinders some and benefits others.

Graduated Lease

A lease (usually long-term) that is periodically adjusted to reflect the appraised value of the asset being leased. For example, if under a graduated lease a company was leasing land for 25 years, every 5 years the lease payments might be adjusted to reflect the current market value of the land.

Grading Certificate

A document issued by inspectors or approved graders that formally signify the quality of a commodity. The grading certificate is important, as many futures contracts permit a spread in the basis grade of a deliverable commodity.

Gordon Growth Model

A model for determining the intrinsic value of a stock, based on a future series of dividends that grow at a constant rate. Given a dividend per share that is payable in one year, and the assumption that the dividend grows at a constant rate in perpetuity, the model solves for the present value of the infinite series of future dividends.

$$\text{Stock Value (P)} = \frac{D}{k - G}$$

Where:
D = Expected dividend per share one year from now
k = Required rate of return for equity investor
G = Growth rate in dividends (in perpetuity)
Because the model simplistically assumes a constant growth rate, it is generally only used for mature companies (or broad market indices) with low to moderate growth rates

Goodwill

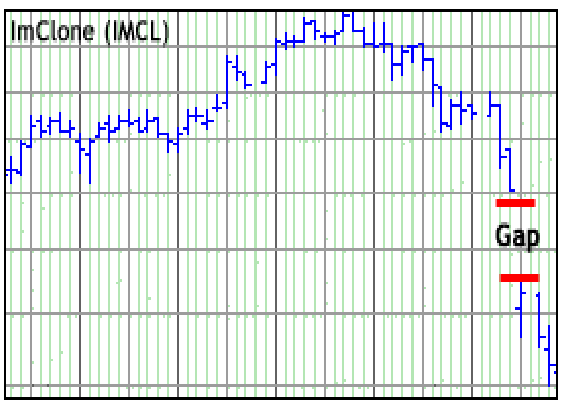
An account that can be found in the assets portion of a company's balance sheet. Goodwill can often arise when another company purchases one company. In an acquisition, the amount paid for the company over book value usually accounts for the target firm's intangible assets. Goodwill is seen as an intangible asset on the balance sheet because it is not a physical asset such as buildings and equipment. Goodwill typically reflects the value of intangible assets such as a strong brand name, good customer relations, good employee relations and any patents or proprietary technology.

Good Through

Also known as "work in process". Goods in process are one of three manufacturing inventory classifications. It is found in between raw materials and finished goods. Goods in process differ from raw materials because it also includes some labor and overhead.

An order to buy or sell a security or commodity at a certain price for a certain period of time, unless it is canceled or changed. Good through is a type of limit order that can be set as GTW (Good-This-Week), GTM (Good-This-Month), or for any other specified period of time.

Gap
A break between prices on a chart that occurs when the price of a stock makes a sharp move up or down with no trading occurring in between. Gaps can be created by factors such as regular buying or selling pressure, earnings announcements, a change in an analyst's outlook or any other type of news release.



An example of two different gaps can be seen in the chart above. Notice how the stock closes the trading session before the first gap at $50 and opens the next trading day near $46 with no trading occurring between the two prices. Gaps are a regular occurrence in all financial markets. However, they are rarely seen in the forex market since it is highly liquid and trades 24 hours a day.

GDP Price Deflator
An economic metric that accounts for inflation by converting output measured at current prices into constant-dollar GDP. The GDP deflator shows how much a change in the base year's GDP relies upon changes in the price level. Also known as the "GDP implicit price deflator". Because it isn't based on a fixed basket of goods and services, the GDP deflator has an advantage over the Consumer Price Index. Changes in consumption patterns or the introduction of new goods and services are automatically reflected in the deflator.

Gearing
A fundamental analysis ratio of a company's level of long-term debt to its equity capital and is expressed in percentage form. A company with a high gearing - more long-term liabilities than shareholder equity - is considered speculative. In simpler terms the gearing explains how a company finances its capital, either through outside lenders or through shareholders. Also known as "financial leverage".

Gearing Ratio
A general term describing a financial ratio that compares some form of owner's equity (or capital) to borrowed funds. Gearing is a measure of financial leverage, demonstrating the degree to which a firm's activities are funded by owner's funds versus creditor's funds. The higher a company's degree of leverage, the more the company is considered risky. As for most ratios, an acceptable level is determined by its comparison to ratios of companies in the same industry. The best known examples of gearing ratios include the debt-to-equity ratio (total debt / total equity), times interest earned (EBIT / total interest), equity ratio (equity / assets), and debt ratio (total debt / total assets). A company with high gearing (high leverage) is more vulnerable to downturns in the business cycle because the company must continue to service its debt regardless of how bad sales are. A greater proportion of equity provides a cushion and is seen as a measure of financial strength.

Gemology
The combined art and science of studying, cutting, valuing, buying and selling precious stones. Some of the most precious stones that gemologists deal in include diamonds, rubies, sapphires and emeralds. Gemology is spelled gemology outside of North America. With advances in gemstone synthesis, gemology has become a much more important field of study. Gemologists value stones based on a number of factors, including cut, color, quality and clarity. When returns in the stock market decline, aggressive investors often seek out alternative investments that hold more promise of increasing returns on invested capital. Gemstone investing can appeal to people who want to make quick returns, but it is highly speculative and should be left to experienced professionals.

Gap Insurance
A type of auto insurance that car owners can buy to protect themselves against losses that can arise when the amount of compensation received from a total loss does not fully cover the amount the insured owes on the vehicle's financing or lease agreement. This situation arises when the balance owed on a car loan is greater than the book value of the vehicle. For example, according to the blue book, John's car is worth $15,000. However, he still owes a total of $20,000 worth of car payments. In the event that John's car is completely written off as a result of an accident or theft, John's car insurance policy will reimburse him with $15,000. Because John owes the car financing company $20,000, however, he will still be $5,000 short, even though he no longer has a car. If John had purchased gap insurance, the gap insurance policy would cover the $5,000 "gap", or the difference between the money received from reimbursement and the amount still owed on the car.

Gap Risk
The risk that an investment's price will change from one level to another with no trading in between. Usually such movements occur when there are adverse news announcements, which can cause a stock price to drop substantially from the previous day's closing price. For example, gap risk is the chance that a stock's price closes at $50 and opens the following trading day at $40 - even though no trades happen between these two times.

Garbatrage
An increase in price and trading volume in a particular sector of the economy that results from a recent takeover creating a change in sentiment towards the sector. Also known as rumortrage. The term is usually used in reference to firms not directly related to the takeover. Speculators feel that the initial takeover is a precursor to more takeovers within the sector. Proponents of behavioral finance theory would view this psychological impact as evidence that supports their theory.

Garnishment
Money withheld from an individual's paycheck and remitted to another party, usually a creditor. When reporting taxable income, you must include the amounts garnisheed from your wages.

Gate Provision
A restriction placed on a hedge fund limiting the amount of withdrawals from the fund during a redemption period. The implementation of a gate on a hedge fund is up to the hedge fund manager. The purpose of the provision is to prevent a run on the fund, which could cripple its operations, as a large number of withdrawals from the fund would force the manager to sell off a large number of positions. This is a very common provision on a hedge fund and the exact percent of restriction can be found in the hedge fund prospectus. This is a less severe withdrawal restriction than an all out redemption suspension, which doesn't allow for withdrawals at all. But a gate provision is still seen generally as a negative event.

Gatekeeper
Requirements that must be met before an individual can qualify for a long-term care plan. A person must qualify for the plan's benefits before he or she can be paid out. These standards are called gatekeepers because they are what stand between the individual and the policy payouts.

Gather In The Stops
A trading strategy of driving down a stock's price by selling large amounts of stock in order to trigger preset stop-loss orders, which in turn enhances the decline of the stock.

This strategy may seem confusing at first, but is actually rather simple. Gathering in the stops occurs when traders sell large quantities of stock with the intention of triggering stop orders. Once a set of stop prices is reached, new sell orders are activated and transacted, causing the stock price to fall once again. This effect is continuously repeated, triggering more stop orders and therefore a rapid decrease in the stock's price. Some exchanges may decide to suspend stop orders to mitigate this continuous effect.

A company growing at an annual rate of 20% or more. This is usually measured by growth in sales revenue.

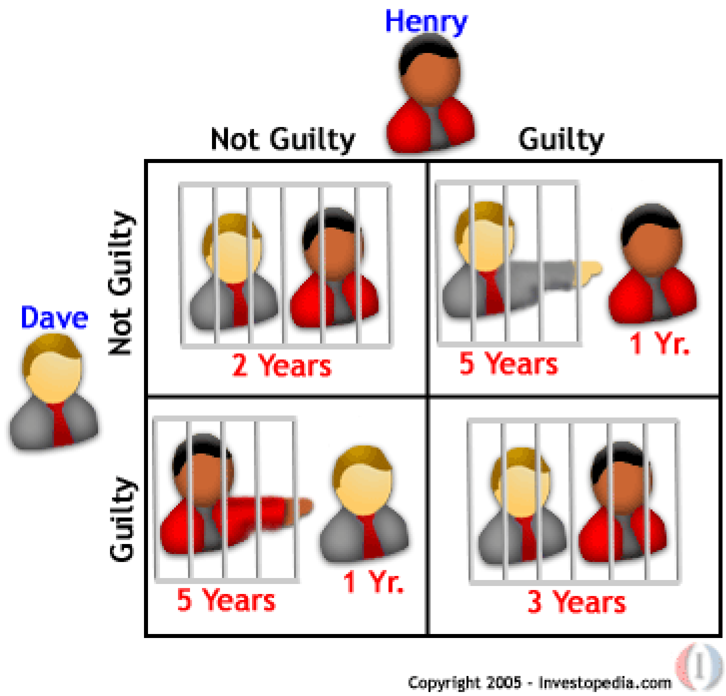
Gazump
A situation in which the price for real estate or land is raised to a higher price than what was previously verbally agreed upon. Basically, raising the price just before the papers are signed and the deal is delivered.

Gann Angles
Created by W.D. Gann, a method of predicting price movements through the relation of geometric angles in charts depicting time and price. The ideal balance between time and price exists when prices move identically to time, which occurs when the Gann angle is at 45 degrees. In total, there are nine different Gann angles that are important for identifying trend lines and market actions. When one of these trend lines is broken, the following angle will provide support or resistance.

Gamma Neutral
An asset portfolio whose delta rate of change is zero. A gamma neutral portfolio can be created by taking positions with offsetting deltas. This helps to reduce variations due to changing market prices and conditions.

Gamma
The rate of change for delta with respect to the underlying asset's price. Mathematically, gamma is the first derivative of delta and is used when trying to gauge the price of an option relative to the amount it is in or out of the money. When the option being measured is deep in or out of the money, gamma is small. When the option is near the money, gamma is largest

Game Theory
A model of optimality taking into consideration not only benefits less costs, but also the interaction between participants.
The prisoner's dilemma described above is illustrated in the following diagram:



Game theory attempts to look at the relationships between participants in a particular model and predict their optimal decisions. One frequently cited example of game theory is the prisoner's dilemma. Suppose there is two brokers accused of fraudulent trading activities: Dave and Henry. Both Dave and Henry are being interrogated separately and do not know what the other is saying. Both brokers want to minimize the amount of time spent in jail and here lies the dilemma. The sentences vary as follows:
1) If Dave pleads not guilty and Henry confesses, Henry will receive the minimum sentence of one year, and Dave will have to stay in jail for the maximum sentence of five years.
2) If nobody makes any implications they will both receive a sentence of two years.
3) If both decide to plead guilty and implicate their partner, they will both receive a sentence of three years.

4) If Henry pleads not guilty and Dave confesses, Dave will receive the minimum sentence of one year, and Henry will have to stay in jail for the maximum five years. Obviously, pleading guilty is the most attractive should the other plead not guilty since the sentence is only one year. However, if the other party also chooses to plead guilty, both will have to serve three years. On the other hand, if both parties plead not guilty, they'd have to serve two years in jail. Consequently, the risk of pleading not guilty is a five-year sentence, should the other choose to confess.

Gambler's Fallacy
When an individual erroneously believes that the onset of a certain random event is less likely to happen following an event or a series of events. This line of thinking is incorrect because past events do not change the probability that certain events will occur in the future. For example, consider a series of 20 coin flips that have all landed with the "heads" side up. Under the gambler's fallacy, a person might predict that the next coin flip is more likely to land with the "tails" side up. This line of thinking represents an inaccurate

understanding of probability because the likelihood of a fair coin turning up heads is always 50%. Each coin flip is an independent event, which means that any and all previous flips have no bearing on future flips. This can be extended to investing as some investors believe that they should liquidate a position after it has gone up in a series of subsequent trading session because they don't believe that the position is likely to continue going up.

General Partner

A partner in a business who has unlimited liability. If a general partner is ever required to meet the partnership's obligations, even his or her personal assets may be subject to liquidation . Often a general partner is also the managing partner, which means this person is active in the day-to-day operations of the partnership. In the case of a limited partnership, only one of the partners will be the general partner and have unlimited liability. The other partners will have limited liability, so their personal assets would not be at risk.

General Partnership

A arrangement by which partners conducting a business jointly have unlimited liability, which means their personal assets are liable to the partnership's obligations. Since all partners have unlimited liability, even innocent partners can be held responsible when another partner commits inappropriate or illegal actions. This fact alone demonstrates how an investor should heed caution when deciding on whether to become a general partner.

Generation-Skipping Trust

A type of legally binding trust agreement in which the contributed assets are passed down to the grantor's grandchildren, not the grantor's children. The generation to which the grantor's children belong skips the opportunity to receive the assets in order to avoid the estate taxes that would apply if the assets were transferred to them. Because a generation-skipping trust effectively transfers assets from the grantor's estate to his or her grandchildren, the children of the grantor never take title to the assets. This is what allows the grantor to avoid the estate taxes that would apply if the assets were transferred to his or her children first. Generation-skipping trusts can still be used to provide some financial benefits to a grantor's children, however, because any income generated by the trust's assets can be made accessible to the grantor's children while still leaving the assets in trust for his or her grandchildren.

Gentleman's Agreement

An unwritten agreement or transaction backed only by the integrity of the counterparty to actually abide by the terms of the agreement. An agreement like this is not legally binding and could have a negative effect on business relationships if one party decides to default on their promise. For example, if an employee at a company says they will get you a job and you have nothing to worry about, this is an example of a gentleman's agreement. However if they are unable to get you the job then you have no legal recourse.

Genuine Progress Indicator - GPI

A metric used to measure the economic growth of a country. It is often considered as a replacement to the more well-known gross domestic product (GDP) economic indicator. The GPI indicator takes everything the GDP uses into account, but also adds other figures that represent the cost of the negative effects related to economic activity (such as the cost of crime, cost of ozone depletion and cost of resource depletion, among others). The GPI nets the positive and negative results of economic growth to examine whether or not it has benefited people overall. The GPI metric was developed out of the theories of green economics (which sees the economic market as a piece within a ecosystem). Proponents of the GPI see it as a better measure of the sustainability of an economy when compared to the GDP measure. Since 1995 the GPI indicator has grown in stature and is used in Canada and the United States. However, both these countries still report their economic information in GDP to remain in line with the more widespread practice.

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George Soros

Born in Budapest, Hungary, in 1930, George Soros is considered by many to be one of the world's greatest investors. A famous hedge fund manager, Soros managed the Quantum Fund, a fund that achieved an average annual return of 30% from 1970-2000. Besides his investing prowess, Soros is also known for his vast philanthropic activities, donating billions of dollars to various causes through the Soros Foundation. Soros is most famous for his single-day gain of US$1 billion on Sept 6, 1992, which he made by short selling the British pound. At the time, England was part of the European Exchange Rate Mechanism, a fixed exchange-rate system that included other European countries. The other countries were pressuring England to devalue its currency in relation to the other countries in the system or to leave the system. England resisted the devaluation, but with continued pressure from the fixed system and speculators in the currency market, England floated its currency and the value of the pound suffered.
By leveraging the value of his fund, Soros was able to take a $10 billion short position on the pound, which made him US$1 billion. This trade is considered one of the greatest trades of all time.

Ghosting

An illegal practice whereby two or more market makers collectively attempt to influence and change the price of a stock. Corrupt companies to affect stock prices so they can profit from the price movement use ghosting. This practice is illegal because market makers are required by law to act in competition with each other. It is known as "ghosting" because, like a spectral image or a ghost, this collusion among market makers is difficult to detect. In developed markets, the consequences of ghosting can be severe.

GIP
In currencies, this is the abbreviation for the Gibraltar Pound. The currency market, also known as the Foreign Exchange market, is the largest financial market in the world, with a daily average volume of over US $1 trillion.

General Motors (GM) Indicator
A theory stating that the performance of automaker giant General Motors (GM) is a pre-cursor to the performance of the U.S. economy and stock market. In other words, when people are confident and making money one of the first things they would do is go out and buy a new car. There is still some stalk behind this strategy as there is a correlation between auto sales and the overall economic standing of individuals. But this theory had more weight in the 1970s-80s when GM was by far the largest carmaker in North America. Since then GM's importance to the U.S. economy has declined due to greater competition.

General And Administrative Leverage
A variable within a cost benefit analysis of an acquisition where the potential reduction in overall general and administrative expenses of the combined company are considered. Through synergies and cost-saving programs, the general and administrative costs of the combined company often will be considerably less than the sum of the general and administrative costs of the two independent companies. The more the potential savings, the more attractive the acquisition becomes, when all else is equal. When valuing an acquisition it is essential that a company accurately value the benefit of a target company's general and administrative leverage. One of the reasons, a company would want to acquire another company is the economies of scale that can be achieved. Subsequently, if the cost savings that have been identified from general and administrative leverage are overestimated, the acquiring company may be worse off after the acquisition. But it is important to note that this is only one aspect of the overall analysis of a potential acquisition.

Global Registered Share
A share issued and registered in multiple markets around the world. Global registered shares represent the same class of shares. Also known as a "global share". These shares are issued in the U.S. and registered in different countries, thereby making them foreign securities. They provide shareholders across the globe with equal corporate rights. Global registered shares should not be confused with American depositary receipt (ADRs) or global depositary receipts (GDRs), which are domestic securities representing a foreign (outside the U.S.) interest.

Globex
An electronic trading platform used for derivative, futures, and commodity contracts. Globex runs continuously, so borders or time zones do not restrict it. Globex was introduced in 1992 by Reuters. The popularity of this platform has declined as exchanges such as the CBOT have moved towards different vehicles for matching and executing trades.

Global Depositary Receipt - GDR

1. A bank certificate issued in more than one country for shares in a foreign company. The shares are held by a foreign branch of an international bank. The shares trade as domestic shares, but are offered for sale globally through the various bank branches.
2. A financial instrument used by private markets to raise capital denominated in either U.S. dollars or euros.
3. A GDR is very similar to an American Depositary Receipt.
4. These instruments are called EDRs when private markets are attempting to obtain euros.

Global Crossing

A communication services company that filed for bankruptcy protection amid an accounting scandal where it had allegedly inflated earnings by using capacity swaps, among other things. Capacity swaps are the exchange of telecommunications capacity between carriers that is booked as revenue without money ever being exchanged. This scandal happened around the same time as the Enron transgression. In early 2002, the Global Crossing bankruptcy was the fourth largest in U.S. history. In 2005, it settled with the SEC, having been determined that it did not comply with numerous accounting laws and is to refrain from violating any other accounting laws.

Global Bond

Bonds that can be offered within the euromarket and several other markets simultaneously. Unlike eurobonds, global bonds can be issued in the same currency as the country of issuance. For example, a global bond could be both issued in the United States and denominated in U.S. dollars. Global bonds are usually issued by entities that have high credit ratings.

Godfather Offer

An irrefutable takeover offer made to a target company by an acquiring company. The Godfather offer is usually extremely generous, so if the target company refuses, shareholders may initiate lawsuits or other forms of revolt against the target company. Like the Godfather in the famous movies, the bidding company is essentially making an offer the target company cannot refuse.

Going Concern

A term for a company that has the resources needed in order to continue to operate. If a company is not a going concern, it means the company has gone bankrupt. In other words, this refers to a company's ability to make enough money to stay afloat. For example, many dotcoms are no longer a going concern.

Going Public

The process of selling shares that was formerly privately held to new investors for the first time. Otherwise known as an initial public offering (IPO). When a company "goes public," it is the first time the general public has the ability

Globalization

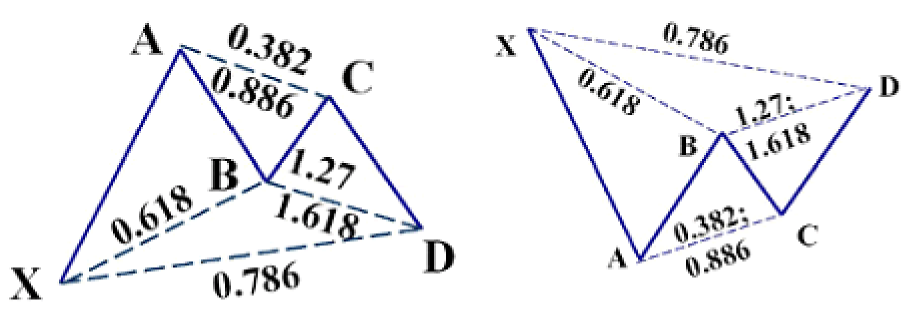
The tendency of investment funds and businesses to move beyond domestic and national markets to other markets around the globe, thereby increasing the interconnectedness of different markets. Globalization has had the effect of markedly increasing not only international trade, but also cultural exchange. The advantages and disadvantages of globalization have been heavily scrutinized and debated in recent years. Proponents of globalization say that it helps developing nations "catch up" to industrialized nations much faster through increased employment and technological advances. Critics of globalization say that it weakens national sovereignty and allows rich nations to ship domestic jobs overseas where labor is much cheaper.

GBP

In the currency market, this is the abbreviation for the British pound. The currency market, also known as the foreign exchange market or forex, is the largest financial market in the world, with a daily average volume of over US$1 trillion.

Gartley Pattern

In technical analysis, it is a complex price pattern based on Fibonacci numbers/ratios. It is used to determine buy and sell signals by measuring price retracements of a stock's up and down movement in stock price.



Bullish Gartley Bearish Gartley

The above Gartley example shows an uptrend XA with a price reversal at A. Using Fibonacci ratios, the retracements AB should be 61.8% of the price range A minus X, as shown by line XB. At B, the price reverses again. Ideally, retracements BC should be between 61.8% and 78.6% of the AB price range, not the length of the lines, and is shown along the line AC. At C, the price again reverses with retracements CD between 127% and 161.8% of the range BC and is shown along the line BD. Price D is the point to buy/sell (bullish/bearish Gartley pattern) as the price is about to increase/decrease.

Gold Bug
A person who is bullish on gold. Gold bugs believe that gold is still a stable source of wealth like it was during the years of the gold standard international currency system. A gold bug invests in gold for (what they perceive) as financial security in the event of a currency devaluation, and often also believe that the price of gold will continue to rise in the future. The term also refers to analysts who consistently recommend gold buys.
Gold bugs view gold as a safe investment that will protect them from currency fluctuations or downturns in the financial markets. Although gold is widely known as a standard of value, its price - like that of any other precious metal or commodity - fluctuates widely. For example, the price of gold declined from more than $800/oz in the 1980s to less than $350/oz in the 1990s. This is a point frequently brought up by critics, who view gold as a standard of wealth from the past.
However, while there is no consensus, the market does continue to view gold as the traditional "safe harbor" during times of economic crisis. For example, following September 11, 2001, gold prices saw sharp increases as investors sold what they believed were riskier assets.

Gold Certificate
A certificate of ownership that gold investors hold instead of storing the actual gold bullion. Gold certificates allow investors to buy and sell the security without the hassles associated with the transfer of actual physical gold.

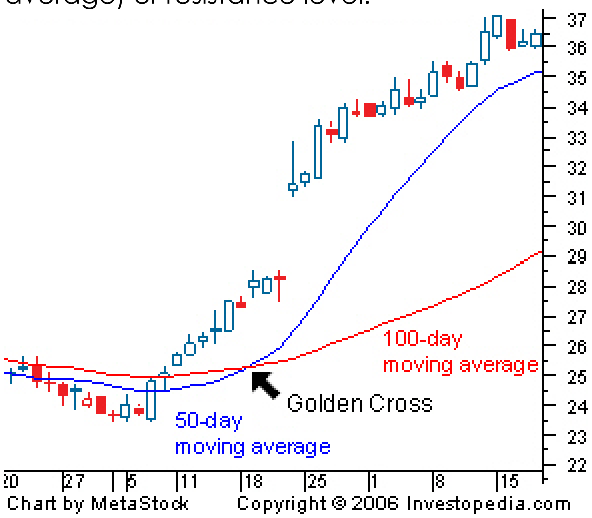
Gold Standard
A monetary system in which a country's government allows its currency unit to be freely converted into fixed amounts of gold and vice versa. The exchange rate under the gold standard monetary system is determined by the economic difference for an ounce of gold between two currencies. The gold standard was mainly used from 1875 to 1914 and also during the interwar years. The use of the gold standard would mark the first use of formalized exchange rates in history. However, the system was flawed because countries needed to hold large gold reserves in order to keep up with the volatile nature of supply and demand for currency. After World War II, a modified version of the gold standard monetary system, the Bretton Woods monetary system, was created as its successor. This successor system was initially successful, but because it also depended heavily on gold reserves, it was abandoned in 1971 when U.S president Nixon "closed the gold window".

Goldbrick Shares

A stock that bears the surface appearance of quality and worth but is in fact worth very little. The term "goldbrick" is normally used to describe objects that are fraudulent or a sham. It can also be applied to securities and the corporations that issue them.

Golden Cross

A crossover involving a security's short-term moving average (such as 15-day moving average) breaking above its long-term moving average (such as 50-day moving average) or resistance level.



As long-term indicators carry more weight, the Golden Cross indicates a bull market on the horizon and is reinforced by high trading volumes. Additionally, the long-term moving average becomes the new support level in the rising market. Technicians might see this cross as a sign that the market has turned in favor of the stock.

Golden Life Jacket

An exceptional compensation package offered by the acquiring company to the top executives of the company being bought. The offer is meant to keep those executives interested in retaining their positions. A form of sweetheart deal, golden life jacket benefits include in-the-money options and additional large bonuses. The options offered may not be in the best interests of shareholders, as the executive holding the options could be unaffected by large swings in share prices.

Furthermore, there is less incentive to make the best possible decisions, which could impact its share price, because the executives often receive the benefits, irregardless of how well the company performs.

Guaranteed Death Benefit
A benefit term that guarantees that the beneficiary, as named in the contract, will receive a death benefit if the annuitant dies before the annuity begins paying benefits. The benefit received differs among companies and contracts, but the beneficiary is guaranteed an amount equal to what was invested or the value of the contract on the most recent policy anniversary statement, whichever is higher. This benefit gives the annuitant peace of mind by guaranteeing that his or her beneficiary will be protected from down markets and decreases in account value. For example, if there is an economic downturn and the overall market falls by 20% when the annuitant dies, the beneficiary will still receive the full guaranteed amount as dictated by the terms of the annuity and death benefit.

Guaranteed Investment (Interest) Certificate - GIC
A deposit investment security sold by Canadian banks and trust companies. They are often bought for retirement plans because they provide a low-risk fixed rate of return. The principal is at risk only if the bank defaults. The bank's profit is the difference between mortgage rates and GIC rates. If mortgages are at 8% and GICs are at 5%, then the bank makes 3%. GICs offer a return that is slightly higher than T-bills.

Guaranteed Minimum Income Benefit - GMIB
A type of option that annuitants can purchase for their retirement annuities. When the annuity has been annuitized, this specific option guarantees that the annuitant will receive a minimum value's worth of payments. Receiving a guaranteed minimum income benefit ensures that an annuitant will receive a payment regardless of market conditions. Assessing the future value of the initial investment predetermines this minimum payment amount. This option is only beneficial to annuitants who plan to annuitize their annuity.

Guaranteed Minimum Withdrawal Benefit - GMWB
A type of option that annuitants can purchase for their retirement annuities. This specific option gives annuitants the ability to protect their retirement investments against downside market risk by allowing the annuitant the right to withdraw a maximum percentage of their entire investment each year until the initial investment amount has been recouped. The best aspect of this guarantee is that it protects annuitants against any investment losses that have been incurred without losing the benefit of upside gain. For example, suppose that Jamie's initial investment was $100,000, but due to downturns in the economy, the investment is now only worth $85,000. Since Jamie had purchased a guaranteed minimum withdrawal benefit with a rate of 10%, she will be able to withdraw a certain percentage each year (in this case, $8,500) until the entire $100,000 is recovered.
Gain

An increase in the value of an asset or property. A gain is measured as the amount of capital realized from selling a good at a price higher than the original purchase price. When most gains are realized, they are subject to capital-gains tax.

Gambling Loss

A loss resulting from games of chance or wagers on events with uncertain outcomes (gambling). These losses can only be claimed against gambling income. Gambling losses include the cash lost at the slot machines or when a "sure bet" comes up lame in the race. Total gambling losses claimed cannot exceed gambling income.

Garnishment

Money withheld from an individual's paycheck and remitted to another party, usually a creditor. When reporting taxable income, you must include the amounts garnisheed from your wages.

Gas Guzzler Tax

An additional tax on the sale of vehicles that have poor fuel economy. A vehicle is subject to a tax if it gets less than a certain number of miles per gallon. This is one of many reasons why you no longer see car manufacturers producing 1970s-style gas-guzzling, oil-burning, road-crushing beasts.

Gazunder

When a buyer reduces his or her bid for a property before the transaction has been signed and finalized. If the real estate market is crashing, a buyer might offer less because he or she knows that the seller desperately wants to sell the property.

General Agreement On Tariffs And Trade - GATT

The formation of GATT - and its subsequent amendments up to 1994 - laid the framework for the creation of the WTO in 1995.

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General Collateral Financing Trades - GCF

General collateral repurchase agreements executed on a blind broker basis through the Government Securities Clearing Corporation. This method of trading allows dealers and agents to trade government issued fixed-income securities on a term and rate basis, rather than waiting for settlement on a trade-by-trade basis. For participating institutions, this allows for faster transaction times and greater trading mobility.

General Ledger

A company's accounting records. This formal ledger contains all the financial accounts and statements of a business. The ledger uses two columns: one records debits, the other has offsetting credits.

Gilt Edged Bond

A bond that is issued by a blue chip company. These bonds are considered to be high grade, with little risk of interest payment interruption or default. This is the closest you can get to a government issue without actually buying one.

Ginzy Trading

An illegal trading practice used by floor brokers. It is considered to be non-competitive, as it involves the execution of large trades at different prices. Floor brokers attempt to Ginzy trade in order to create "split ticks" or fractional increments in prices that are unacceptable under exchange rules.

Global Fund

A mutual fund that can invest in companies located anywhere in the world, including your own country. Many people confuse a global fund with an international fund. The difference is that a global fund includes the entire world, whereas an international fund includes the entire world except for your home country.

Glocalization

A combination of the words globalization and localization to describe a product or service that is developed and distributed globally, but is also fashioned to accommodate the user or consumer in a local market. This means that the product/service may be tailored to conform with local laws, customs or consumer preferences. Products or services that are effectively "globalized" are by definition going to be of much greater interest to the end user. Yahoo! is an example of a company that practices globalization. It markets a portal that is viewed worldwide. Although at the same time, different versions of the site (and its related services) are offered for different users. For example, it offers content and language variations in some 25 countries including China, Russia and Canada. It also customizes content to appeal to individuals in those locations as well. A multitude of both public and private companies currently practice globalization in an effort to build their customer base and grow revenues.

Going-Concern Value

The value of a company as an ongoing entity. This value differs from the value of a company's assets if they were to be liquidated in that an ongoing operation has the ability to continue to earn profit, while a liquidated company does not. Going-concern value includes the liquidation value of a company's tangible assets as well as the value of its intangible assets, such as goodwill. This is the main reason why the purchase price of a company tends to be higher than the current value of the assets of the company.

Golden Boot

An inducement, using maximum incentives and financial benefits, for an older worker to take "voluntary" early retirement. Companies planning on downsizing or hiring new employees usually offer a golden boot. The goal for these companies is to avoid potential lawsuits stemming from labor laws that protect employees from age discrimination.

Golden Handcuffs

An incentive given to existing employees in hopes that they will decide to stay with the company. Employee stock options are an example of golden handcuffs. Often, much of the compensation received must be given back if the employee leaves for another company.

Golden Hello

A signing bonus offered by a securities firm to a key executive from a competing firm. The firm offering the golden hello hopes the executive of the competing company will be persuaded to leave his or her existing employer and join the firm giving the offer.

Golden Parachute

Lucrative benefits given to top executives in the event that a company is taken over by another firm, resulting in the loss of their job. Benefits include items such as stock options, bonuses, severance pay, etc. A golden parachute can be used as a measure to discourage an unwanted takeover attempt. A type of bond in which the interest and principal on the bond are guaranteed to be paid by a firm other than the issuer of the bond. This guarantee limits the impact on bondholders if the issuer of the bond goes into default. For example, in Canada, the federal government guarantees bonds issued by crown corporations. If the issuer defaults on the debt obligation, the government is on the hook for the interest and principal payments.

Golden Share

A type of share that gives its shareholder veto power over changes to the company's charter. These shares were most popular during the 1980s with governments who wanted to maintain control over privatized companies. Golden shares are used mainly in the United Kingdom.

Goldilocks Economy

An economy that is not so hot that it causes inflation, and not so cold that it causes a recession. This term is used to describe the U.S. economy of the mid- to late-1990s - it was "not too hot, not too cold, but just right." Everything in the Goldilocks economy is fine until the three bears (or bear market) come home for their porridge!

Good This Month - GTM

A limit order placed with a broker that will last until the end of the current month. If the order is not filled before the end of the month, it will expire.

Goods In Process

An inventory account that is usually identified on the balance sheets of manufacturing companies. Goods in process relates to the partially completed goods that are somewhere in the manufacturing process and are not ready for sale. It is calculated as:

Operating Inventory Goods In Process +
Raw Materials Used +
Direct Labor +
Factory Overhead +
Total Manufacturing Costs
- Ending Inventory
Goods In Process Used

Gorilla

A company that dominates an industry without having a complete monopoly. This term is a reference to the old jokes about the 800-pound gorillas, which "do whatever they want." For example, you'll hear people say "Microsoft is an 800-pound gorilla."

Gray Knight

A second, unsolicited bidder in a corporate takeover. A gray knight enters the scene in order to take advantage of any problems between the first bidder and the target company. Think of a gray knight as a circling vulture waiting to pick clean the leftovers. In some parts of the world gray is spelled "grey."

Group of Five - G-5

Name given to the five industrialized nations that meet periodically to achieve a cooperative effort on international economic and monetary issues. The G-5 consists of five of the world's leading industrialized countries: France, Germany, Japan, the United Kingdom, and the United States.

Growth At A Reasonable Price - GARP

An approach to investing that combines the two popular strategies of value and growth investing. It seeks stock that has both growth potential and a reasonable price.
More recently, the GARP name has been associated with another great acronym: SWAN (sleep well at night).

Guaranteed Stock

Common or preferred stock whose dividends are guaranteed. This guarantee gives the stock a higher value.

Guarantor

A person who guarantees to pay for someone else's debt if he or she should default on a loan obligation. Usually, people with poor credit can only get a loan if they have a guarantor

Guilder Share - New York Share

Shares representing Dutch companies that are not permitted to trade outside of national borders. Also known as a "New York share". Normally, foreign equities are traded in America as ADRs. However, the Dutch regulatory body does not permit their companies

to issue ADRs linked to active home country shares (which is the normal procedure). Instead, a number of underlying home country shares are cancelled and the equivalent amount of guilder shares are issued
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Guilt-Edged Investment

A transaction that makes money by unethical means. Culprits supposedly feel guilty having made money in such an unscrupulous way. The person isn't necessarily using illegal practices, but they're certainly doing something very shady.

Gun Jumping

1. The illegal practice of soliciting orders to buy a new issue before registration of the initial public offering (IPO) has been approved by the Securities and Exchange Commission (SEC).
The theory behind gun jumping is that investors should make decisions based on the full disclosure in the prospectus, not on the information disseminated by the company that has not been approved by the SEC. If a company is found guilty of "jumping the gun", the IPO will be delayed.

Guns And Butter Curve

The classic economic example of the "Production Possibility Curve" that demonstrates the idea of opportunity cost. In a theoretical economy with only two goods, a choice must be made between how much of each good to produce. As an economy produces more guns (military spending) it must reduce its production of butter (food), and vice versa. The chart below illustrates this concept. The red curve represents all possible choices that the economy can produce at. The black dots represent two possible choices of outputs. The point here is that every choice has an opportunity cost, you can get more of something only by giving up something else. Also notice that the curve is the limit to the production--you cannot produce outside the curve unless there is an increase in productivity.

Gunslinger

A high-strung portfolio manager who, looking for high returns, invests in very high-risk stock. Stay away from these guys, or they could end up shooting you in the foot!

Gut Spread

An option strategy created by selling an in-the-money put at the same time as an in-the-money call. By entering into this position, the investor, receiving a large premium up-front, hopes that the options expire worthless

Gypsy Swap

An exchange of restricted shares for freely exchangeable shares between two separate parties. This generally occurs when companies exchange restricted treasury shares with stockholders in order to liquidate a position.

H

Hedonic Pricing

HedgeStreet is regulated by the Commodity Futures Trading Commission.
A model identifying price factors according to the premise that price is determined both by internal characteristics of the good and external factors affecting it. The most common example of the hedonic pricing method is in the housing market: the price of a property is determined by the characteristics of the house (size, appearance, features, condition) as well as the characteristics of the surrounding neighborhood (accessibility to schools and shopping, level of water and air pollution, value of other homes, etc.) The hedonic pricing model would be used to estimate the extent to which each factor affects the price.

. Herd Instinct

A mentality characterized by a lack of individuality, causing people to think and act like the general population. This term is used in the investing world to refer to the forces that cause unsubstantiated rallies or sell-offs.

. High Net Worth Individual – HNWI

A classification used by the financial services industry to denote an individual or a family with high net worth. Although there is no precise definition of how rich somebody must be to fit into this category, high net worth is generally quoted in terms of liquid assets over a certain figure. The exact amount differs by financial institution and region. The categorization is relevant because high net worth individuals generally qualify for separately managed investment accounts instead of regular mutual funds. The most commonly quoted figure for membership in the high net worth "club" is $1 million in liquid financial assets. An investor with less than $1 million but more than $100,000 is considered to be "affluent", or perhaps even "sub-HNWI". The upper end of HNWI is around $5 million, at which point the client is then referred to as "very HNWI". More than $50 million in wealth classifies a person as "ultra HNWI".

. Horizontal Spread

An options strategy involving the simultaneous purchase and sale of two options of the same type, having the same strike price, but different expiration dates. An example of this would be the purchase of a Dec 20 call and the sale of a June 20 call. This strategy is used to profit from a change in the price difference as the securities move closer to maturity. Also referred to as "calendar spread" or "time spread".

Haircut

The realized volatility of a financial instrument over a given time period. Generally, this measure is calculated by determining the average deviation from the average price of a financial instrument in the given time period. Standard deviation is the most common but not the only way to calculate historical volatility. This measure is frequently compared with implied volatility to determine if options prices are over- or undervalued. Historical volatility is also used in all types of risk valuations. Stocks with a high historical vol atility usually require a higher risk tolerance
1.The difference between prices at which a market maker can buy and sell a security.
2.The percentage by which an asset's market value is reduced for the purpose of calculating capital requirement, margin and collateral levels.

Hamada Equation

1. The term haircut comes from the fact that market makers can trade at such a thin spread.
   2. When they are used as collateral, securities will generally be devalued since a cushion is required by the lending parties in case the market value falls

A fundamental analysis method of analyzing a firm's costs of capital as it uses additional financial leverage, and how that relates to the overall riskiness of the firm. The measure is used to summarize the effects this type of leverage has on a firm's cost of capital (over and above the cost of capital as if the firm had no debt). The equation is:

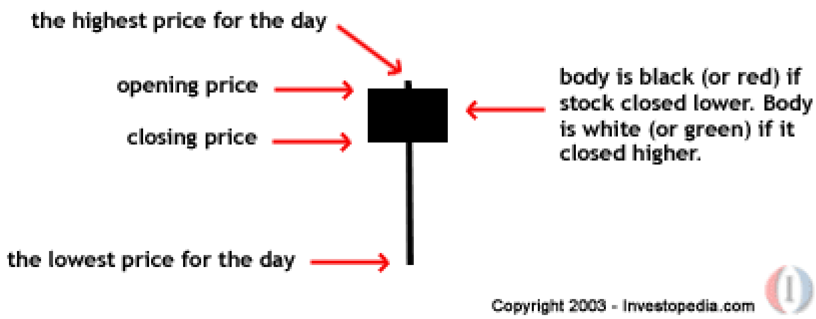
$$\text{Hamada Equation} = B_l[1 + (1 - T)(D/E)]$$

Where:

B_l = Firm's Beta with zero debt
T = Tax rate
D/E = Debt to equity ratio

Hammer

The equation is used to determine the effects of financial leverage on a firm, as measured by the Hamada coefficient. The higher the coefficient, the higher the risk associated with the firm. For example, say a firm has a debt to equity ratio of 0.60, a tax rate of 33%, and a debt free beta of 0.95. The Hamada coefficient would be about 1.33 {0.95[1+(1-0.33)(0.60)]}. This means that financial leverage, for this firm, increases the overall risk by a factor of 0.38, or by 40%. This equation quantifies the effects financial leverage has on a firm, and can serve as a quick and dirty analysis of a firm's overall business risk as it relates to the returns from the market overall.
A price pattern in candlestick charting that occurs when a security trades significantly lower than its opening, but rallies later in the day to close either above or close to its opening price. This pattern forms a hammer-shaped candlestick



Hammering

A hammer occurs after a security has been declining, possibly suggesting the market is attempting to determine a bottom. The signal does not mean bullish investors have taken full control of a security, it simply indicates that the bulls are strengthening.
The rapid and concentrated sale of a stock thought to be overvalued by the market. It performed by investors and speculators who beleive that prices are inflated and that a

period of liquidation is imminent. Hammering the market is achieved through large sale orders or many small sell orders. In some cases, investors may even collaborate on orders toattempt to push the share's price even lower

Hands-Off Investor

An investor who holds a large portion of a company's shares and takes an active management role The majority shareholders are usually hands-on investors and have the a great influence on the company's management decisions

Hands-On Investor

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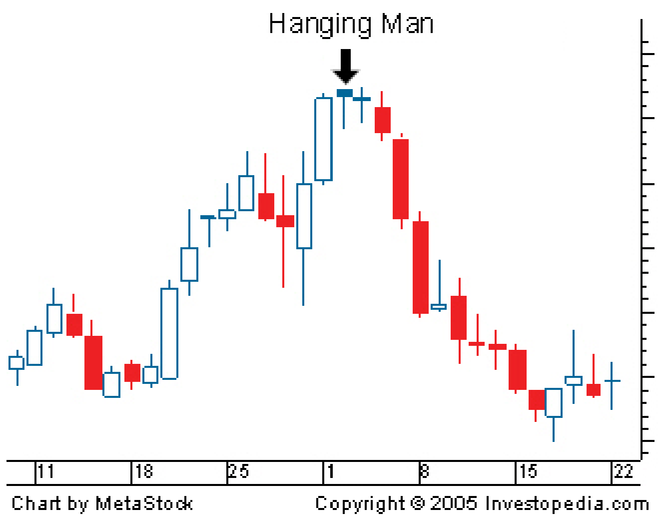
Hanging Man

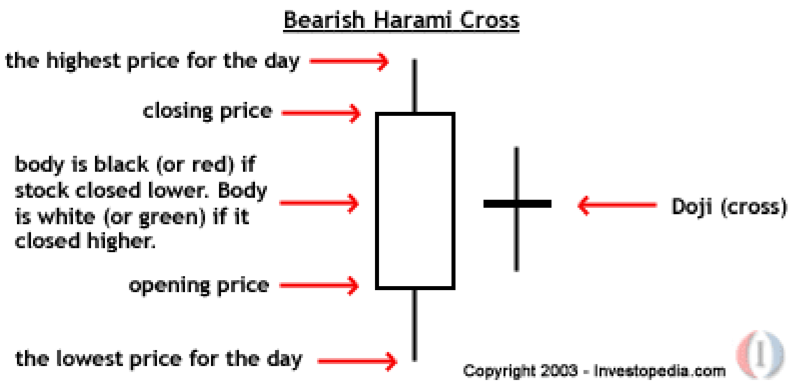
A bearish candlestick pattern that forms at the end of an uptrend. It is created when there is a significant sell-off near the market open, but buyers are able to push this stock back up so that it closes at or near the opening price. Generally the large sell-off is seen as an early indication that the bulls (buyers) are losing control and demand for the asset is waning.

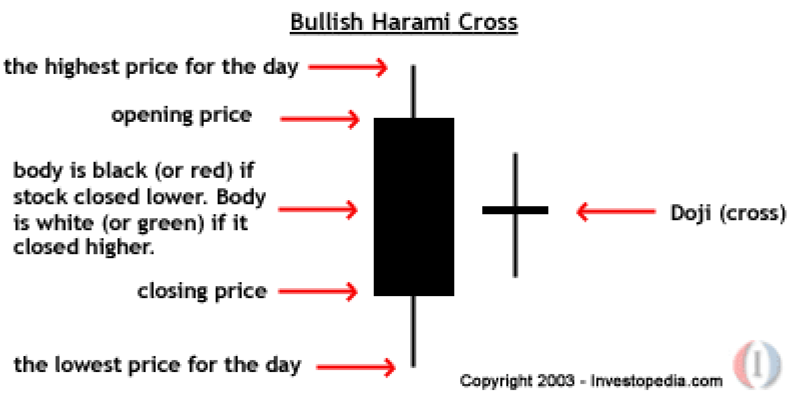


Harami Cross

A trend indicated by a large candlestick followed by a doji that is located within the top and bottom of the candlestick's body. This indicates that the previous trend is about to reverse.

A Harami cross can be either bullish or bearish, depending on the previous trend. The appearance of a Harami Cross, rather than a smaller body, increases the likelihood that the trend will reverse





Hard Currency
A currency, usually from a highly industrialized country, that is widely accepted around the world as a form of payment for goods and services. A hard currency is expected to remain relatively stable through a short period of time, and to be highly liquid in the forex market. A currency, usually from a highly industrialized country, that is widely accepted around the world as a form of payment for goods and services. A hard currency is expected to remain relatively stable through a short period of time, and to be highly liquid in the forex market

Hard Dollars
Fees or payments paid to brokerage firms in return for their services. For example, let's say that Cory's Large Cap Value Fund wants to buy some research from XYZ brokerage. However, Cory's doesn't want to make any trades through the brokerage. In this case, the company could make a hard dollar payment (cash) and simply pay for the research outright. This is the opposite of making a soft dollar payment in which a brokerage firm is paid with the commission revenue from making trades

Hard Landing
A term used to describe an economy going into recession as the government attempts to slow down inflation. The Fed will try to avoid a hard landing by raising interest rates only enough to slow the economy down without putting it into recession (a soft landing).

Hard Loan
A foreign loan that must be paid in the currency of a nation that has stability and a reputation abroad for economic strength (a hard currency. For example, a loan agreement between a Brazilian company and an Argentinean company where the debt is to be paid in U.S. dollars

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Hard Money

1. Funding by a government or organization that is repetitive, rather than a one-time grant. Examples include ongoing government daycare subsidies or firms that pay annual scholarships to post-secondary students.

2. Describes gold/silver/platinum (bullion) coins. A government that uses a hard money policy backs the value of the currency it uses with a hard, tangible and lasting material that will retain its relative value over time
3. Governments and organizations prefer hard money because it provides a predictable stre
4. For example, in the early 1900s, the U.S. dollar was backed by the value of gold. Today, most countries use fiat money, which is made legal tender by government decree but has no intrinsic value of its own.

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Harmonized Index of Consumer Prices – HICP

An inflation indicator used by the European Central Bank. New prices of products are added to the HICP only after these products have become significant in the market. Every month, each country publishes a report containing data about the HICP.

Harry Markowitz

A Nobel prize winning economist who devised the modern portfolio theory in 1952. Markowitz's theories emphasized the importance of portfolios, risk, the correlations between securities and diversification. His work changed the way that people invested

Haurlan Index

Prior to Markowitz's theories, emphasis was placed on picking single high-yield stocks without any regard to their effects on portfolios as a whole. Markowitz's portfolio theory would be a large stepping stone towards the creation of the capital asset pricing model

Hawk

A technical analysis indicator, developed by P.N. Haurlan, that is used to detect market breadth. There are three components of the Haurlan index:
Short Term: a 3-day exponential moving average is taken of the net NYSE advances over declines. Intermediate Term: same, using a 20-day exponential moving average. Long Term:same, using a 200-day exponential moving average. Each of the three components is used to detect a different movement, whether it is momentum, breakouts, or resistance. An economic policy advisor who has a negative view toward inflation and its effects on society. Also known as "inflation hawk". Hawks carefully monitor and control economic inflation through interest-rate adjustments and monetary-policy controls. In general, hawkish investors prefer higher interest rates in order to maintain reduced inflation

Hazard Insurance

Insurance that protects a property owner against damage caused by fires or severe storms. If the owner lives in an area that is prone to natural disasters like earthquakes and floods, he or she may need a separate policy. This is generally separate from homeowner's insurance in high-risk areas. For example, Florida is prone to hurricanes and is, therefore, considered high risk

Headline Effect

The effect that negative news in the popular press has on a corporation or an economy. Whether it is justified or not, the investing public's reaction to various headlines can be very dramatic. Many economists believe that negative news headlines make consumers more reluctant to spend money. An example of a headline effect is the media's extensive coverage of the impact of rising gas prices on consumers. Some economists believe that the more attention that is paid to small increases in the price of gasoline, the more likely it is that consumers will be more cautious about spending their discretionary dollars. The headline effect can be regarded as the difference between rationally justifiable decreases in discretionary spending and those that occur as the result of a newsworthy event.

Heath-Jarrow-Morton Model - HJM Model

A model that applies forward rates to an existing term structure of interest rates to determine appropriate prices for securities that are sensitive to changes in interest rates. The HJM model is very theoretical and is used at the most advanced levels of financial analysis. It is used mainly by arbitrageurs seeking arbitrage opportunities

Hedge

Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract. An example of a hedge would be if you owned a stock, then sold a futures contract stating that you will sell your stock at a set price, therefore avoiding market fluctuations. Investors use this strategy when they are unsure of what the market will do. A perfect hedge reduces your risk to nothing (except for the cost of the hedge).

Hedge Clause

A provision included in published financial reports that indemnifies the author, or authors, against any responsibility for any errors, omissions, or oversights contained within the report. Hedge clauses can be found predominately in analyst reports, company press releases and on most investing websites. A hedge clause is also known as a "disclaimer". Investors will find hedge clauses in nearly every financial report published today, and even though they are often glossed over, they are very important for investors to read and understand. One example is the "safe harbor" provision found in most company understand. One example is the "safe harbor" provision found in most company press releases. Potential conflicts of interest from say, a stock analyst writing a recommendation for one of his own holdings, must also be included in the hedge clause for that report.

Hedge Fund

the U.S., laws require that the majority of investors in the fund be accredited. That is, they must earn a minimum amount of money annually and have a net worth of over $1 million, along with a significant amount of investment knowledge. You can think of hedge funds as mutual funds for the super-rich. They are similar to mutual funds in that investments are pooled and professionally managed, but differ in that the fund has far more flexibility in its investment strategies. It is important to note that hedging is actually the practice of attempting to reduce risk, but the goal of most hedge funds is to maximize return on investment. The name is mostly historical, as the first hedge funds tried to hedge against the downside risk of a bear market with their ability to short the market (mutual funds generally can't enter into short positions as one of their primary goals). Nowadays, hedge funds use dozens of different strategies, so it isn't accurate to say that hedge funds just "hedge risk". In fact, because hedge fund managers make speculative investments, these funds can carry more risk than the overall market.

1. A ratio comparing the value of a position protected via a hedge with the size of the entire position itself.

1. Say you are holding $10,000 in foreign equity, which exposes you to currency risk. If you hedge $5,000 worth of the equity with a currency position, your hedge ratio is 0.5 (50 / 100). This means that 50% of your equity position is sheltered from exchange rate risk.
2. The hedge ratio is important for investors in futures contracts, as it will help to identify and minimize basis risk.

A strategy in a tender offer where an investor short sells a portion of the shares he or she owns. This strategy is used to protect against the risk of loss in the event that the tender offer does not go through. For example, imagine a stock was trading at $30, and there was a tender offer for $40 per share. A hedged tender would attempt to lock in the $40 per share even if the offer does not go through.

A simplified derivative instrument that allows investors to hedge or speculate on economic events such as housing prices, commodity prices, interest rates, currencies and economic indicators. The price for a hedgelet contract is based on the prevailing market price determined by participants in the market. Every contract has the same defined payout scheme: $10 for a correct contract and $0 for an incorrect one. Each hedgelet contract is set so that investors must make a decision on whether an economic event will occur or not occur. For example, on a "Crude Oil > $64" contract an investor can either choose Yes (oil will be more than $64 at expiration) or No (oil will be less than $64 at expiration). If the investor purchases one Yes "Crude Oil > $64" contract for $2, and crude oil ends at $80 when the contract expires, the investor will receive $10 - an $8 profit. However, if the price of crude oil ends at less than $64, the contract will be worthless and the investor will lose the initial $2 investment.

HedgeStreet

An internet-based, government-regulated market that allows traders to perform hedging activities or speculate on specific economic events. Binaries and futures contracts are provided on different markets including commodities, currencies, employment, inflation and other economic indicators. HedgeStreet was developed to give the average investor the ability to profit from the outcomes of certain economic events HedgeStreet benefits small investors by having small contract sizes at low prices.

Heikin-Ashi Technique

A type of candlestick chart that shares many characteristics with standard candlestick charts, but differs because of the values used to create each bar. Instead of using the open-high-low-close (OHLC) bars like standard candlestick charts, the Heikin-Ashi chnique uses a modified formula:

Close = (Open+High+Low+Close)/4

Open = [Open (previous bar) + Close (previous bar)]/2

High = Max (High,Open,Close)

Low = Min (Low,Open, Close)

The Heikin-Ashi technique is used by technical traders to identify a given trend more easily. Hollow candles with no lower shadows are used to signal a strong uptrend, while filled candles with no higher shadow are used to identify a strong downtrend.

This technique should be used in combination with standard candlestick charts or other indicators to provide a technical trader the information needed to make a profitable trade.

Heir

A person who inherits some or all of the estate of a recently deceased person. The legal successor is usually selected because they are related to the deceased by a direct bloodline or have been designated in a will or by a legal authority. Originating in feudal times, the heir was usually the oldest male child in the family.

Held

A situation where a security is temporarily unavailable for trading. A good example is when market makers are not allowed to display quotes for various reasons.

Held-to-Maturity Securities

Debt securities that a firm has the ability and intent to hold until maturity. These are reported at amortized cost, therefore, they are not affected by swings in the financial markets.

Hell or High Water Contract

A non-cancelable contract whereby the purchaser must make the specified payments to the seller, regardless of any difficulties they may encounter. Hell or high water clauses bind the purchaser or lessee to the terms of the contract until the contract's expiration. Also known as a promise to pay contract

Herfindahl-Hirschman Index - HHI

A commonly accepted measure of market concentration. It is calculated by squaring the market share of each firm competing in a market, and then summing the resulting numbers. The HHI number can range from close to zero to 10,000. The HHI is expressed as:

HHI = s1^2 + s2^2 + s3^2 + ... + sn^2 (where sn is the market share of the ith firm).

The closer a market is to being a monopoly, the higher the market's concentration (and the lower its competition). If, for example, there were only one firm in an industry, that firm would have 100% market share, and the HHI would equal 10,000 (100^2), indicating a monopoly. Or, if there were thousands of firms competing, each would have nearly 0% market share, and the HHI would be close to zero, indicating nearly perfect competition.

The U.S. Department of Justice uses the HHI for evaluating mergers. The U.S. Department of Justice considers a market with a result of less than 1,000 to be a competitive marketplace; a result of 1,000-1,800 to be a moderately concentrated marketplace; and a result of 1,800 or greater to be a highly concentrated marketplace. As a general rule, mergers that increase the HHI by more than 100 points in concentrated

Heteroskedastic

A measure in statistics that refers to the variance of the errors over the sample. Most financial instruments, such as stocks, follow a heteroskedastic error pattern. For example, in regression, a mathematical relationship between a stock and some other type of measure is to be discovered over a period of time; the error found between the line of best fit and the actual data point will vary - for instance, as each variable gets larger the error may increase.

Heteroskedasticity

In statistics, when the standard deviations of a variable, monitored over a specific amount of time, are non-constant. Heteroskedasticity often arises in two forms, conditional and unconditional. Conditional heteroskedasticity identifies non-constant volatility when future periods of high and low volatility cannot be identified. Unconditional heteroskedasticity is used when futures periods of high and low volatility can be identified. In finance, conditional heteroskedasticity often is seen in the prices of stocks and bonds. The level of volatility of these equities cannot be predicted over any period of time. Unconditional heteroskedasticity can be used when discussing variables that have identifiable seasonal variability, such as electricity usage.

Hidden Values

Hidden values can be in the form of assets such as patents, trademarks, or undervalued real estate. Investors who are value-oriented will often try to identify a company's hidden values. Assets that may be undervalued on a company's balance sheet and therefore not incorporated into or reflected in the company's share price. In the U.K., hidden values are called "hidden reserves."

High Beta Index

An index composed of companies with high betas trading on the NYSE. Beta is a measure of a stock's volatility in relation to the market as a whole, and the high beta index takes account of those stocks considered to have higher volatilities.

High Close

A tactic used by stock manipulators; they make small trades at high prices during the final minutes of trading to give the impression that the stock did very well. Since the closing prices are widely quoted, stock manipulators hope to create a buzz on a particular stock in order to attract investors to the it.

High Watermark

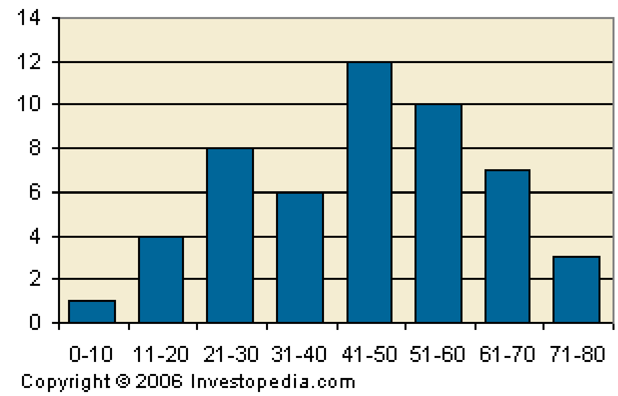
The highest peak in value that an investment fund/account has reached. This term is often used in the context of fund manager compensation, which is performance based. The high watermark ensures that the manager does not get paid large sums for poor performance. So if the manager loses money over a period, he or she must get the fund above the high watermark before receiving a performance bonus. For example, say after reaching its peak a fund loses $100,000 in year one, and then makes $250,000 in year two. The manager therefore not only reached the high watermark but exceeded it by $150,000 ($250,000 - $100,000), which is the amount on which the manager gets paid the bonus.

Hindenburg Omen

A technical indicator named after the famous crash of the German airship of the late 1930s. The Hindenburg omen was developed to predict the potential for a financial market crash. It is created by monitoring the number of securities that form new 52-week highs relative to the number of securities that form new 52-week lows - the number of securities must be abnormally large. This criteria is deemed to be met when both numbers are greater than 2.2% of the total number of issues that trade on the NYSE (for that specific day). Traders use an abnormally high number of 52-week highs/lows because it suggests that market participants are starting to become unsure of the market's future direction and therefore could be due for a major correction. Proponents of this indicator argue that it has been very accurate in predicting sharp sell-offs in the past and that there are few indicators that can predict a market crash as accurately.

Histogram

1. A graphical representation, similar to a bar chart in structure, that organizes a group of data points into user-specified ranges. The histogram condenses a data series into an easily interpreted visual by taking many data points and grouping them into logical ranges or bins.
2. The MACD histogram is a very common technical indicator that illustrates the difference between the MACD line and the trigger line. This difference is then plotted on a chart in the form of a histogram to make it easy for a trader to determine a specific asset's momentum.



1. Histograms are commonly used in statistics to demonstrate how many of a certain type of variable occurs within a specific range. For example, a census focused on the demography of a country may use a histogram of how many people there are between the ages of 0 and 10, 11 and 20, 21 and 30, 31 and 40, 41 and 50 etc. This histogram would look similar to the graph above.
2. . MACD histograms are a popular tool used in technical analysis to gauge the strength of an asset's momentum. An increasing MACD histogram signals an increase in upward momentum while a decreasing histogram is used to signal downward momentum.

Historic

1. Trying performance appraisal and compensation to competencies.
2. Developing competencies that enhance individual and organizational performance al Volatility - HV
3. Increasing the innovation, creativity and flexibility necessary to enhance competitiveness.
4. Applying new approaches to work process design, succession planning, career development and inter-organizational mobility.
5. Managing the implementation and integration of technology through improved staffing, training and communication with employees.

Hit The Bid

A buzzword used to describe an event where a broker agrees to sell at a bid price quoted by another broker. The broker is ultimately agreeing to sell a given stock at the highest price that another broker is willing to buy at. For example, suppose a dealer is asking $20 for a particular security and another dealer's bid price for that same security is

$19. If the dealer selling the security for $20 agrees to sell at the other dealer's bid price of $19, they are said to "hit the bid".

Hobby Loss

A non-deductible loss incurred as a result of a personal hobby. The loss could possibly be claimed if the activity was "for profit."

Hockey Stick Bidding

An anti-competitive bidding practice of a market participant (or trader) offering an extremely high price for a small portion of a good. The name derives from the price curve of this practice, which resembles a hockey stick. This is considered to be a fraudulent practice of pushing up prices. Market participants submit offers at extremely high prices because they know that the demand for their good is sure to be high.

A good example of this occurred during the California energy crisis of 2001. Energy traders knew that California would need all available power and would be willing to pay any price to get it.

Hold

An analyst's recommendation to neither buy nor sell a security. A company with a hold recommendation generally is expected to perform with the market or at the same pace as comparable companies. Exact definitions vary by brokerage, but this rating is better than sell, but worse than buy. It means that if you own a security you still shouldn't sell, but you also should not buy the security if you don't own it already (or do not buy more of it if you do). Also known as neutral or market perform.

Holding Company Depository Receipt – HOL

A classification used by the financial services industry to denote an individual or a family with high net worth. Although there is no precise definition of how rich somebody must be to fit into this category, high net worth is generally quoted in terms of liquid assets over a certain figure. The exact amount differs by financial institution and region. The categorization is relevant because high net worth individuals generally qualify for separately managed investment accounts instead of regular mutual funds. The most commonly quoted figure for membership in the high net worth "club" is $1 million in liquid financial assets. An investor with less than $1 million but more than $100,000 is considered to be "affluent", or perhaps even "sub-HNWI". The upper end of HNWI is around $5 million, at which point the client is then referred to as "very HNWI". More than $50 million in wealth classifies a person as "ultra HNWI".

Holding Period

The real or expected period of time during which an investment is attributable to a particular investor. In a long position, holding period refers to the time between an asset's purchase and its sale. In a short sale, the holding period is the time between when a short seller initially borrows an asset from a brokerage, and when he or she sells it back - in other words, the length of time for which the short position is held. An investment's holding period is used for a number of different functions, including evaluating an investment's performance, calculating loss or gain from the investment and determining whether an investment is worthwhile. The holding period of an investment is also used to determine how the capital gain or loss should be taxed because long-term investments tend to be taxed at a lower rate than short-term investments.

Home Bias

The tendency for investors to invest in a large amount of domestic equities, despite the purported benefits of diversifying into foreign equities. This bias is believed to have arisen as a result of the extra difficulties associated with investing in foreign equities, such as legal restrictions and additional transaction costs. Investing in foreign equities tends to lower the amount of systematic risk in a portfolio because foreign investments are less likely to be affected by domestic market changes. However, investors from all over the world tend to be biased toward investing in domestic equities. For example, an academic study from the late 1980s showed that although Sweden possessed a capitalization that only represented about 1% of the world's market value of equities, Swedish investors put their money almost exclusively into domestic investments.

Home-Equity Loan

A consumer loan secured by a second mortgage, allowing home owners to borrow against their equity in the home. The loan is based on the difference between the homeowner's equity and the home's current market value. The mortgage also provides collateral for an asset-backed security issued by the lender and sometimes tax deductible interest payments for the borrower.

Also known as "equity loan" or "second mortgage". A home-equity loan is basically a line of credit secured by your home. When the line of credit is drawn down, the financial institution providing it places a second mortgage loan on your home until the loan is paid off, after which the you can use the loan to finance other purchases. However, if the loan is not paid off, your home could be sold to pay off the remaining debt. Interest rates on such loans are usually adjustable rather than fixed and lower than standard second mortgages or credit cards.

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Homemade Dividends

A form of investment income that comes from the sale of a portion of shares held by a shareholder. This differs from dividends that shareholders receive from a company according to the number of shares the shareholder has. The existence of homemade dividends is the reason some financial analysts believe that looking at a companies dividend policy is not important. If investors desires an income stream they will either sell their shares when they want the income or they will invest in other income-generating assets.

Homemade Leverage

A substitution of risks that investors may undergo in order to move from overpriced shares in highly levered firms to those in unlevered firms by borrowing in personal accounts. Mainly attributed to the Modigliani-Miller Theorem, homemade leverage describes the situation where individuals borrowing on the exact same terms as large firms can duplicate corporate leverage through purchasing and financing options.

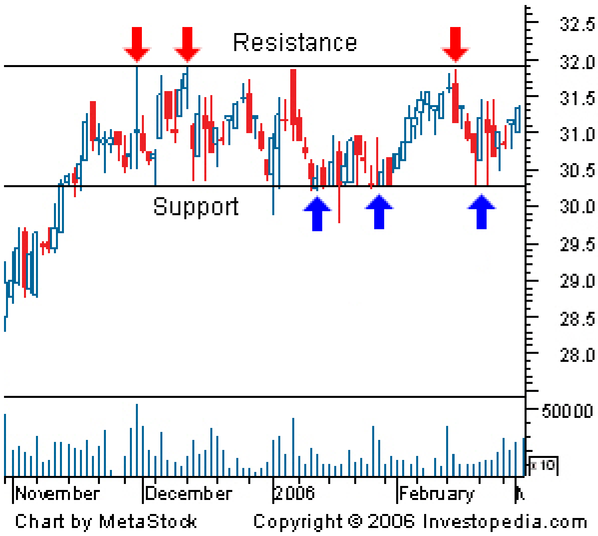
Honorarium

Payment that is given to a professional for services which fees are not legally or traditionally required. For example, when a past President or Prime Minister makes a speech at a party they might receive an honorarium.

Hook Reversal

A short-term candlestick pattern, occurring in either an uptrend or a downtrend, that is used to predict a reversal in the trend's direction. The pattern is identified when a candlestick has a higher low and a lower high compared to the previous day's candlestick. This pattern is unique because the difference in size between the first and second bar's body is small, compared to that seen in other types of engulfing patterns. If this pattern is found in an uptrend, then the open must be near the prior high, and the low must be near the prior low. This pattern is often classified as a type of harami position because the real body of the second candle forms within the body of the previous candle. It should be noted that the reversal suggested by this pattern is considered to be more significant if it is identified within a strong trend

Horizontal Channel



Two parallel horizontal trendlines acting as very strong support and resistance. The upper trendline connects a stock's highs over a period of time, and each high is equal to the previous high. Similarly, the lower trendline connects the stock's lows, and each low is also equal to the previous. Once the price of a stock breaks out of the upper or lower part of a horizontal channel, a large price movement in the direction of the break usually follows. Once through the upper area of resistance, this level will now become support. Horizontal channels are mainly used in range-bound trading, where the investor will buy the stock at the bottom of the channel and sell it near the top.

Horizontal Equity

The theory stating that people in the same income bracket should be taxed at the same rate. This is the case in many westernized countries.

Horizontal Integration

When a company expands its business into different products that are similar to current lines. For example, a hot dog vendor expanding into selling hamburgers. Compare this to vertical integration.

Horizontal Market

A market diversified so that the products created are able to meet the needs of more than one industry. The profitability for companies producing goods in a horizontal market is determined more by internal rather than external factors, as their products are commonly used. An example of a horizontal market is the demand and production of plastic pellets.

Horizontal Merger

A merger occurring between companies producing similar goods or offering similar services. This type of merger occurs frequently as a result of larger companies attempting to create more efficient economies of scale. The amalgamation of Daimler-Benz and Chrysler is a popular example of a horizontal merger

Hostile Takeover

A takeover attempt that is strongly resisted by the target firm. Hostile takeovers are usually bad news, as the employee moral of the target firm can quickly turn to animosity against the acquiring firm.

Hot Money

Money that flows regularly between financial markets in search for the highest short term interest rates possible. CDs are an example of hot money. Should a borrower offer the lender a higher rate of interest than that offered by the current borrower, the current borrower stands to lose their loan.

Hounding Analysts
A slang phrase that refers to the relentless phone calls that some hedge fund managers make to analysts in an attempt to persuade the analysts to change their rating on a stock. Hedge fund managers will often call analysts and present a very persuasive argument as to why a stock deserves an upgraded rating. The hounding does not always lead an analyst to change his or her rating, but it works enough of the time for the practice to persist. An upgraded rating usually results in an increase in share price. Alternatively, hedge funds will often call company executives in an attempt to decipher why a share price is being depressed for seemingly no reason. This shows that some hedge funds are not picky as to who they harass or hound--their primary concern is fund performance.
House Call
A brokerage house notification that the customer's equity in a margin account has fallen below the maintenance requirement level. If the client fails to immediately deliver the required margin by depositing more funds or securities into the account, his or her position will be liquidated. Also known as a "margin call".
House Excess
House call limits are usually higher than the limits mandated by the National Association of Securities Dealers (NASD), a self-regulatory group, and the major exchanges with jurisdiction over these rules. For example, if a brokerage set its house call limits equal to the limits mandated by NASD, the brokerage would violate this mandate each time a client required additional margin. Thus, the house limit provides the brokerage with a cushion and is in addition to the initial margin requirements set by Regulation T of the Federal Reserve Board.
A term used by brokerage houses to describe the amount you are in excess of the minimum margin requirements, based upon the last days closing prices of your portfolio. In other words, this is the amount you have left over to purchase more stock or use as a safety cushion should your portfolio decline in value.
Housing Bonds
Bonds that are secured by mortgage re-payments on homes or rental properties. If the housing market and economic outlook are not good, then housing bonds have a higher risk of default.
Housing Market Index
An index of over 300 home builders, which shows the demand for new homes. The index runs from 0-100, so a rating of 50 would mean that demand for new homes was average. This index is used in conjunction with the latest "housing starts" figure to forecast demand for new homes. The forecast is then used as an indicator of economic growth.
Housing Starts
The number of residential building construction projects that have begun during any particular month. This is considered to be a crucial indicator of economic strength. If the economy is strong, people are more likely to buy new homes.
Human Capital
A measure of the economic value of an employee's skill set. This measure builds on the basic production input of labor measure where all labor is thought to be equal. The concept of human capital recognizes that not all labor is equal and that the quality of employees can be improved by investing in them. The education, experience and abilities of an employee have an economic value for employers and for the economy as a whole. Economist Theodore Schultz invented the term in the 1960s to reflect the value of our human capacities. He believed human capital was like any other type of capital; it could be invested in through education, training and enhanced benefits that will lead to an improvement in the quality and level of production.
Human resources(HR)

A financial product created by Merrill Lynch and traded daily on the American Stock Exchange that allows investors to buy and sell a basket of stocks in a particular sector, industry or other classification in a single transaction. There is a wide range of HOLDRs, covering various segments of the market such as biotech, internet and Europe 2001. Each HOLDR represents individual ownership in the stocks underlying the HOLDR. The value of the HOLDR fluctuates with the change in value of the underlying stocks. The benefit of this instrument is that it enables an investor to gain exposure to a segment of the market and diversify within that sector. To gain the same level of diversification without this vehicle, the investor would need to purchase each company individually, thus increasing the amount of commissions.

The company department charged with finding, screening, recruiting and training job applicants, as well as administering employee-benefit programs. As companies reorganize to gain competitive edge, human resources plays a key role in helping companies deal with a fast-changing competitive environment and the greater demand for quality employees. Research conducted by The Conference Board has found six key people-related activities that human resources completes to add value to a company:

2. Effectively managing and utilizing people.
2. Trying performance appraisal and compensation to competencies.
3. Developing competencies that enhance individual and organizational performance.
4. Increasing the innovation, creativity and flexibility necessary to enhance competitiveness.
5. Applying new approaches to work process design, succession planning, career development and inter-organizational mobility.
6. Managing the implementation and integration of technology through improved staffing, training and communication with employees.

Human-Life Approach

A method of calculating the amount of life insurance a family will need based on the financial loss the family would incur if the insured person were to pass away today. It is usually calculated by taking into account a number of factors including but not limited to the insured individual's age, gender, planned retirement age, occupation, annual wage, employment benefits, as well as the personal and financial information of the spouse and/or dependent children. Since the value of a human life has economic value only in its relation to other lives such as a spouse or dependent children, this method is typically only used for families with working family members. The human-life approach contrasts the needs approach. Remember, when using the human-life approach, you'll want to replace all of the income that's lost when an employed spouse dies. To be more precise, you'll want to include only the after-tax pay, and make adjustments for expenses (like a second car) incurred while earning that income. Also, don't forget to add the value of health insurance or other employee benefits to the income number.

Hurdle Rate

The minimum amount of return that a person requires before they will make an investment in something. This is the rate of return that will get someone "over the hurdle" and invest their money.

Hybrid Security

A security that combines two or more different financial instruments. Hybrid securities generally combine both debt and equity characteristics. The most common example is a convertible bond that has features of an ordinary bond, but is heavily influenced by the price movements of the stock into which it is convertible. Often referred to as "hybrids". New types of hybrid securities are being introduced all the time to meet the needs of sophisticated investors. Some of these securities get so complicated that it's tough to define them as either debt or equity.

Hyperinflation

Extremely rapid or out of control inflation. There is no precise numerical definition to hyperinflation. This is a situation where price increases are so out of control that the concept of inflation is meaningless. The most famous example of hyperinflation occurred in Germany between January 1922 and November 1923. By some estimates, the average price level increased by a factor of 20 billion!

Hypothecation

When a person pledges a mortgage as collateral for a loan, it refers to the right that a banker has to liquidate goods if you fail to service a loan. The term also applies to securities in a margin account used as collateral for money loaned from a brokerage. You are said to "hypothecate" the mortgage when you pledge it as collateral for a loan.

I

Iceberg Order

A large single order that has been divided into smaller lots, usually by the use of an automated program, for the purpose of hiding the actual order quantity. When large participants, such as institutional investors, need to buy and sell large amounts of securities for their portfolios, they can divide their large orders into smaller parts so that the public sees only a small portion of the order at a time--just as the 'tip of the iceberg' is the only visible portion of a huge mass of ice. By hiding its large size, the iceberg order reduces the price movements caused by substantial changes in a stock's supply and demand.

Ichimoku Kinko Hyo

A technical indicator that is used to gauge momentum along with future areas of support and resistance. The Ichimoku indicator is comprised of five lines called the tenkan-sen, kijun-sen, senkou span A, senkou span B and chickou span. This indicator was developed so that a trader can gauge an asset's trend, momentum and support and resistance points without the need of any other technical indicator. "Ichimoku" is a Japanese word that means "one look." A Japanese newspaper writer created this charting technique. It does look very complicated when a trader sees the indicator for the first time, but don't hesitate to give this indicator a try because the complexity quickly disappears once you gain an understanding of what the various lines mean and why they are used.

Identity Theft

The crime of obtaining the personal or financial information of another person for the sole purpose of assuming that person's name or identity in order to make transactions or purchases. Identity theft is committed many different ways. Some identity thieves sift through trash bins looking for bank account and credit card statements; other more high-tech methods involve accessing corporate databases to steal lists of customer information. Once they have the information they are looking for, identity thieves can ruin a person's credit rating and the standing of other personal information. Many types of identity theft can be prevented. One way is to continually check the accuracy of personal documents and promptly deal with any discrepancies.

Idiosyncratic Risk

Risk that affects a very small number of assets, and can be almost eliminated with diversification. Similar to unsystematic risk. This is news that is specific to a small number of stocks. One example is a sudden strike by employees.

Idle Funds

Money that is not invested and, therefore, earning no income. For example, funds in a checking account. If you want to increase your income, try to place your idle funds into a money market account (or some other interest bearing account).

Idle Time

Unproductive time spent by employees due to factors beyond their control. A power outage is an example.

Illiquid

An asset or security that cannot be converted into cash very quickly (or near prevailing market prices). A house or delisted shares of a company are a good examples of an illiquid assets.

Immunization

A strategy that matches the durations of assets and liabilities, thereby minimizing the impact of interest rates on the net worth. For example, large banks must protect their current net worth, whereas pension funds have the obligation of payments after a number of years. These institutions are both concerned about protecting the future value of their portfolios and therefore have the problem of dealing with uncertain future interest rates. By using an immunization technique, large institutions can protect (immunize) their firm from exposure to interest rate fluctuations. A perfect immunization strategy establishes a virtually zero-risk profile in which interest rate movements have no impact on the value of a firm. Also known as multiperiod immunization.

Impact Day

The day that a corporation has a secondary offering of shares to the public. This typically results in a downward movement in share prices because of the excess supply.

Impaired Asset

An asset with a market value that is worth less than its book value. If the sum of all estimated future cash flows is less than the carrying value of the asset, then the asset would be considered impaired and would have to be written down to its fair value.

Impaired Credit

The deterioration of a borrower's credit rating. Any weakening of a company's finances will cause an impairment of credit. Consequently, it results in a reduction of the credit offered by lenders.

Impairment

1. A reduction in a company's stated capital.
2. The total capital that is less than the par value of the company's capital stock.
3. This is usually reduced because of poorly estimated losses or gains.
4. Impairment can be used in many contexts. Whatever the situation, impairment is bad for the company.

Implicit Cost

A cost that is represented by lost opportunity in the use of a company's own resources, excluding cash. These are intangible costs that are not easily accounted for. For example, the time and effort that an owner puts into the maintenance of the company rather than working on expansion.

Implied Rate

An interest rate that is determined by the difference between the spot rate and the forward/futures rate. The degree of relative costliness of a future rate can be assessed by comparing the implied rate with the spot rate.

Calculated as:

$$\text{Implied Rate} = \text{Future Rate} - \text{Spot Rate}$$

Implied Volatility - IV

The estimated volatility of a security's price. In general, implied volatility increases when the market is bearish and decreases when the market is bullish. This is due to the common belief that bearish markets are more risky than bullish markets. In addition to known factors such as market price, interest rate, expiration date, and strike price, implied volatility is used in calculating an option's premium. IV can be derived from a model such as the Black-Scholes Model. Implied volatility is sometimes referred to as "vols."

Import

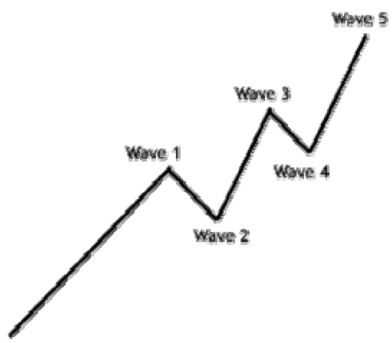
In reference to international trade, these are goods brought into one country from another. Goods that are made in Japan and sold in the US are imported into the US.

Impression

An advertisement's (usually a banner ad) appearance on a web page. Ad space is often sold on a CPM basis. For example, if the page you're on shows five ads, that's five impressions. On this particular page there are two impressions, one for the banner at the top and one for the banner on the bottom of the page.

Impulse Wave Pattern

In technical analysis, it is a term used in the Elliott Wave Theory to describe the strong move in a stock's price coinciding with the main direction of the underlying trend. These impulse waves are shown in the illustration below as wave 1, wave 3 and wave 5. Impulse waves also refer to the strong downward movements in a down trend.



The interesting thing about the Elliott Wave Theory is that it is not limited to a certain time period. This allows some waves to last for several hours, several years or even decades. Regardless of the time frame used, impulse waves always run in the same direction as the primary trend.

Imputed Interest

A term used to describe interest considered to be paid, even through no interest payment has been made. Imputed interest is calculated based upon actual payments that are to be paid, but have not yet been paid. This interest is important for discount bonds and other securities that are sold below face value and mature at par. The IRS uses an accretive method for calculating the imputed interest on treasury bonds, which are taxed yearly, even though no interest is paid until maturity.

In Street Name

A brokerage account where the customer's securities and assets are held in the name of the brokerage firm, rather than you holding the stock certificate yourself. The customer is still listed as the real or beneficial owner. In street name accounts are very common. You won't get a certificate, but you will receive a monthly/quarterly statement showing your holdings.

In the Penalty Box

When a company's stock price is in the doldrums and has yet to rebound because of poor earnings, government regulation, or some other reason. Sometimes you'll hear an analyst say "they are going to be in the penalty box for some time to come." This means that it'll be awhile before the company turns things around.

In the Pink

An informal expression used to describe a situation in which an investor or an economy is in a good financial position. More generally, it refers to being in the best of health or condition. Blue chip stocks and healthy economies are examples of in-the-pink (or rosy) financial positions.

Incentive Stock Option - ISO

A type of employee stock option with a tax benefit, when you exercise, of not having to pay ordinary income tax. Instead, the options are taxed at a capital gains rate. Although ISOs have more favorable tax treatment than non-qualified stock options (NSOs), they also require the holder to take on more risk by having to hold onto the stock for a longer period of time in order to receive the better tax treatment.
Also, numerous requirements must be met in order to qualify as an ISO.

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Income Bond

A type of debt security in which only the face value of the bond is promised to be paid to the investor, with any coupon payments being paid only if the issuing company has enough earnings to pay for the coupon payment. The income bond is a somewhat rare financial instrument which generally serves a corporate purpose similar to that of preferred shares. It may be structured so that unpaid interest payments accumulate and become due upon maturity of the bond issue, but this is usually not the case; as such, it can be a useful tool to help a corporation avoid bankruptcy during times of poor financial health or ongoing reorganization.

Income Deposit Security - IDS

A security that combines common stock and notes of the issuer to provide regular income payments to the holder of the security. The holder of the income deposit security receives dividends from the common stock, and fixed income from the debt instrument in the IDS. These types of securities are traded on stock exchanges and can be purchased by any type of investor. The companies that use this form of security are usually very stable and mature businesses. (This type of security is similar to the Canadian income trust, whose structure helps efficient distribution of a company's cash flow to investors.)

Income Elasticity Of Demand

A measure of the relationship between a change in income and a change in quantity of a good demanded:

$$= \frac{\text{\% change in quantity demanded}}{\text{\% change in consumer income}}$$

The degree to which a demand for a good changes with respect to a change in income depends on whether the good is a necessity or a luxury. The demand for necessities will increase with income, but at a slower rate. This is because consumers, instead of buying more of only the necessity, will want to use their increased income to buy more of a luxury. During a period of increasing income, demand for luxury products tends to increase at a higher rate than the demand for necessities.

Income From Operations - IFO

The profit realized from a business' own operations. This is the same as operating income.

Income Share

A class of shares offered by a dual purpose fund that has little room for capital appreciation but gives the holder a portion of all income earned in the portfolio. This type of share typically attracts those investors looking for a steady stream of income rather than capital appreciation. The holders receive their portion of all income created in the portfolio plus any additional returns on the stocks' par value at the time of the fund's dissolution.

Income Splitting

A tax reduction strategy employed by families living in areas that are subject to bracketed tax regulations. The goal of using an income-splitting strategy is to reduce the family's gross tax level, at the expense of some family members paying higher taxes than they otherwise would. An example of income splitting is a higher-income family member transferring a portion of their income to a lower-income family member through some legal means, such as hiring the lower income family member to work for them, and deducting the cost of the labor as a legitimate business expense. Though the family still earns the same level of money, the overall amount of tax they pay is reduced.
Another example is the transfer of tax credits from a lower-income family member to a higher-income family member. This can be done by transferring tuition credits from students to parents funding their children's post-secondary educations. In Canada, an income-splitting technique can be used to reduce tax liability through RRSP contributions because money contributed to RRSPs is tax deductible. A higher-income family member can contribute to a lower-income family member's RRSP, thus lowering their overall tax liability and potentially moving the higher-income family member into a lower tax bracket.

Income Spreading

A tax reduction strategy that is typically used by people with highly volatile incomes to reduce the overall marginal tax rate paid on a large sum of income. This strategy involves taking the particularly large source of income and dividing the amount realized over a period of years in order to reduce the overall amount of taxes paid. Professional sport stars and actors in the entertainment industry are examples of people who may want to employ some sort of income spreading strategy in order to smooth out the volatility of their income streams. Another usage of non-retirement related income spreading in Canada is to place a portion of income into an RRSP and then withdraw the amount when the person decides to return for more schooling. Because RRSPs do not penalize people for withdrawing funds early if they are used for educational purposes, a person would effectively be paying less tax on the sum because, as a student, the person's marginal tax rate would be lower.

Income Statement

A financial statement that measures a company's financial performance over a specific accounting period. Financial performance is assessed by giving a summary of how the business incurred its revenues and expenses - due to both operating and non-operating activities. It also shows the net profit or loss incurred over a specific accounting period, typically over a fiscal quarter or year. Also known as the "profit and loss statement" or "statement of revenue and expense". The income statement is the one of the three major financial statements, the other two being the balance sheet and the statement of cash flows. The income statement is divided into two parts: the operating and non-operating sections. The portion of the income statement that deals with operating items is interesting to investors and analysts alike, because this section discloses information about revenues and expenses that are a direct result of the regular business operations. For example, if a business creates sports equipment, then the operating items section would talk about the revenues and expenses involved with the production of sports equipment. The non-operating items section discloses revenue and expense information about activities that are not tied directly to a company's regular operations. For example, if the sport equipment company sold a factory and some old plant equipment, then this information would be in the non-operating items section.

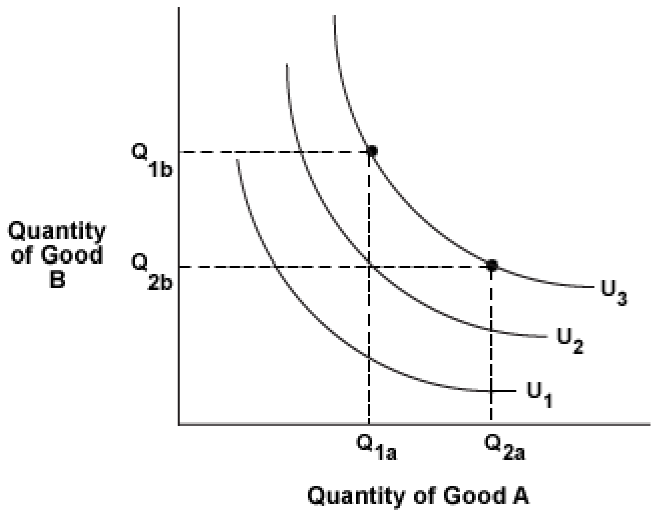
Income Stock
A stock with a history of regular dividend payments that constitute the largest portion of the stock's overall return. REITs and utility stocks are good examples of income stocks.
Income Tax
A tax on any money earned during a fiscal year, usually filed on a yearly basis. All businesses except partnerships must file an annual income tax return. Partnerships file an information return. Essentially a direct tax on any income, this includes capital gains, wages, etc.
Indemnity
A contractual agreement made between different parties to compensate for any damages or losses. Most commonly used in the wording of insurance policies, the company will indemnify the policy holder for any losses that are insured for.
Index
A statistical measure of change in an economy or a securities market. In the case of financial markets, an index is essentially an imaginary portfolio of securities representing a particular market or a portion of it. Each index has its own calculation methodology and is usually expressed in terms of a change from a base value. Thus, the percentage change is more important than the actual numeric value. For example, knowing that a stock exchange is at, say, 5,000 doesn't tell you much. However, knowing that the index has risen 30% over the last year to 5,000 gives a much better demonstration of performance. The plural of index can be either "indexes" or "indices". The Standard & Poor's 500 is one of the world's best known indexes, and is the most commonly used benchmark for the stock market. Technically, you can't actually invest in an index. Rather, you invest in a security such as an index fund or exchange-traded fund that attempts to track an index as closely as possible.
Index Amortizing Note - IAN
A type of structured note whose payment schedule is determined by the behavior of interest rates. Similar to the maturity of collateralized mortgage obligations, the maturity of an index amortizing note extends when interest rates rise and shortens when interest rates decline. Some investors, however, choose IANs as an alternative to CMOs since IANs are exposed to less extension and contraction risk
Index Futures
A futures contract on a stock or financial index. For each index there may be a different multiple for determining the price of the futures contract. For example, the S&P 500 index is one of the most widely traded index futures contracts in the U.S. Often stock portfolio managers who want to hedge risk over a certain period of time will use the S&P 500 index future to do so. By shorting these contracts, stock portfolio managers can protect themselves from downside price risk of the broader market. However, by using this hedging strategy, if perfectly done, the manager's portfolio will not participate in any gains on the index; instead the portfolio will lock in gains equivalent to the risk-free rate of interest. Alternatively stock portfolio managers can use index futures to increase their exposure to movements in a particular index, essentially leveraging their portfolio
Index Option
A call or put option on a financial index. Investors trading index options are essentially betting on the overall movement of the stock market as represented by a basket of stocks. Options on the S&P 500 are some of the most actively traded options in the world.
Indexing

1. The adjustment of the weights of assets in an investment portfolio so that its performance matches that of an index.
2. Linking movements of rates to the performance of an index.

3. Indexing is a passive investment strategy. An investor can achieve the same risk and return of an index also by investing in an index fund.
4. Types of rates that could be linked to the performance of an index are wage or tax rates.

Indifference Curve

A diagram depicting equal levels of utility (satisfaction) for a consumer faced with various combinations of goods.



As an example, consider the diagram above. This consumer would be most satisfied with any combination of products along curve U3. This consumer would be indifferent between combination Qa1, Qb1, and Qa2, Qb2

Industrial Production Index - IPI

An economic indicator that is released monthly by the Federal Reserve Board. The indicator measures the amount of output from the manufacturing, mining, electric and gas industries. The reference year for the index is 2002 and a level of 100. Production data is often received directly from the Bureau of Labor Statistics and trade associations, both on physical output and inputs used in the production process. Each individual index is calculated using the Fischer index formula. Investors can use the IPI of various industries to examine the growth in the respective industry. If the IPI is growing month-over-month for a particular industry, this is a sign that the companies in the industry are performing well.

Inflation

The rate at which the general level of prices for goods and services is rising, and, subsequently, purchasing power is falling. As inflation rises, every dollar will buy a smaller percentage of a good. For example, if the inflation rate is 2%, then a $1 pack of gum will cost $1.02 in a year. Most countries' central banks will try to sustain an inflation rate of 2-3%.

Inflation-Protected Annuity - IPA

An annuity investment that guarantees a real rate of return at or above inflation. The real rate of return is the nominal return, less the inflation rate, thus protecting annuitants and beneficiary investors from inflation. Inflation-protected annuities are becoming more popular with annuity investors who are worried about the risk of inflation decreasing the purchasing power of their money as they age.

Inflation-Protected Security - IPS

A type of fixed-income investment that guarantees a real rate of return. The real rate of return is the nominal return, less the inflation rate, thus protecting investors from inflation. The purchase of IPS products is most often done with government products, such as

Treasury inflation-protected securities (TIPS), but private sector companies also offer these products.

Initial Public Offering - IPO

The first sale of stock by a private company to the public. IPOs are often issued by smaller, younger companies seeking capital to expand, but can also be done by large privately-owned companies looking to become publicly traded. In an IPO, the issuer obtains the assistance of an underwriting firm, which helps it determine what type of security to issue (common or preferred), best offering price and time to bring it to market. Also referred to as a "public offering". IPOs can be a risky investment. For the individual investor, it is tough to predict what the stock will do on its initial day of trading and in the near future since there is often little historical data with which to analyze the company. Also, most IPOs are of companies going through a transitory growth period, and they are therefore subject to additional uncertainty regarding their future value.

INR

In currencies, this is the abbreviation for the Indian Rupee. The currency market, also known as the Foreign Exchange market, is the largest financial market in the world, with a daily average volume of over US $1 trillion.

Institutional Fund

A mutual fund targeting high value investors with low fees, but high minimum requirements. These funds must indicate within their prospectuses or name that they're institutional and typically solicit managers of retirement plans, institutional investors, and large endowment trusts

Institutional Investor

A non-bank person or organization that trades securities in large enough share quantities or dollar amounts that they qualify for preferential treatment and lower commissions. Institutional investors face fewer protective regulations because it is assumed that they are more knowledgeable and better able to protect themselves. Watching what the big money is buying can sometimes be a good indicator, as they (supposedly) know what they are doing. Some examples of institutional investors are pension funds and life insurance companies.

Institutional Shares

A class of mutual fund shares available for sale to investing institutions, either on a load or no-load basis. With sizable minimum investments, usually around $500,000 or more, funds will typically waive any front-end sales charges on these shares. Institutions, such as large money managers, often buy a significant number of shares in mutual funds at any one time. Buyers of big blocks of mutual fund shares expect, and often receive, a break on commission charges. Because of the large investments required to receive these breaks, individual investors typically cannot afford these shares.

Insurance

A contract (policy) in which an individual or entity receives financial protection or reimbursement against losses from an insurance company. The company pools clients' risks to make payments more affordable for the insured. When shopping around for an insurance policy, look for the best priced package that is right for you - prices can vary from one insurance company to the next. And make sure you know what you want. Some individuals, for example, prefer 24-hour claims service or face-to-face contact with an insurance representative. Also consider the claims settlement process, the amount of the deductible and the extent of the replacement coverage. Insurance companies and the policies they offer are not all the same, so think about more than just the price.

Intellectual Property

A broad categorical description for the set of intangibles owned and legally protected by a company from outside use or implementation without consent.

Intellectual property can consist of patents, trade secrets, copyrights and trademarks, or simply ideas. The concept of intellectual property relates to the fact that certain products of human intellect should be afforded the same protective rights that apply to physical property. Most developed economies have legal measures in place to protect both forms of property. Companies are diligent when it comes to identifying and protecting intellectual property because it holds such high value in today's increasingly knowledge-based economy. Extracting value from intellectual property and preventing others from deriving value from it is an important responsibility for any company. Many forms of IP cannot be listed on the balance sheet as assets, but the value of such property tends to be reflected in the price of the stock. Management's ability to manage these effectively and turn profits is just one example.

Interbank Market

The financial system and trading of currencies among banks and financial institutions, excluding retail investors and smaller trading parties. While some interbank trading is performed by banks on behalf of large customers, most interbank trading takes place from the banks' own accounts. The interbank market for forex serves commercial turnover of currency investments as well as a large amount of speculative, short-term currency trading. According to data compiled in 2004 by the Bank for International Settlements, approximately 50% of all forex transactions are strictly interbank trades

Interbank Rate

The rate of interest charged on short-term loans made between banks. Banks borrow and lend money in the interbank market in order to manage liquidity and meet the requirements placed on them. The interest rate charged depends on the availability of money in the market, on prevailing rates and on the specific terms of the contract, such as term length. Banks are required to hold an adequate amount of liquid assets, such as cash, to manage any potential withdrawals from clients. If a bank can't meet these liquidity requirements, it will need to borrow money in the interbank market to cover the shortfall. Some banks, on the other hand, have excess liquid assets above and beyond the liquidity requirements. These banks will lend money in the interbank market, receiving interest on the assets. There is a wide range of published interbank rates, including the LIBOR, which is set daily based on the average rates on loans made within the London interbank market.

Interest

1. The charge for the privilege of borrowing money, typically expressed as an annual percentage rate.
2. The amount of ownership a stockholder has in a company, usually expressed as a percentage.
3. Lenders make money from interest, borrowers pay it.
4. Someone who holds more than 5-10% of the stock in a company is said to hold significant interest.

Interest Rate Parity

A theory that the interest rate differential between two countries is equal to the differential between the forward exchange rate and the spot exchange rate. Interest rate parity plays an essential role in foreign exchange markets, connecting interest rates, spot exchange rates and foreign exchange rates. The relationship can be seen when you follow the two methods an investor may take to convert foreign currency into U.S. dollars. Option A would be to invest the foreign currency locally at the foreign risk-free rate for a specific time period. The investor would then simultaneously enter into a forward rate agreement to convert the proceeds from the investment into U.S. dollars, using a forward exchange rate, at the end of the investing period. Option B would be to convert the foreign currency to U.S. dollars at the spot exchange rate, then invest the dollars for the same amount of time as in option A, at the local (U.S.) risk-free rate. When no arbitrage opportunities exist, the cash flows from both options are equal.

Internal Rate Of Return - IRR

The discount rate often used in capital budgeting that makes the net present value of all cash flows from a particular project equal to zero. Generally speaking, the higher a project's internal rate of return, the more desirable it is to undertake the project. As such, IRR can be used to rank several prospective projects a firm is considering. Assuming all other factors are equal among the various projects, the project with the highest IRR would probably be considered the best and undertaken first. IRR is sometimes referred to as "economic rate of return (ERR)". You can think of IRR as the rate of growth a project is expected to generate. While the actual rate of return that a given project ends up generating will often differ from its estimated IRR rate, a project with a substantially higher IRR value than other available options would still provide a much better chance of strong growth. IRRs can also be compared against prevailing rates of return in the securities market. If a firm can't find any projects with IRRs greater than the returns that can be generated in the financial markets, it may simply choose to invest its retained earnings into the market

International Accounting Standards - IAS

An older set of standards stating how particular types of transactions and other events should be reflected in financial statements. In the past, the Board of the International Accounting Standards Committee (IASC) issued international accounting standards (IAS). Since 2001, the new set of standards has been known as the international financial reporting standards (IFRS) and has been issued by the International Accounting Standards Board (IASB). IASC has no authority to require compliance with its accounting standards. However, many countries require the financial statements of publicly traded companies to be prepared in accordance with IAS.

International Association of Financial Engineers - IAFE

An organization comprised of scholars and specialists from various areas of financial concern. The IAFE allows professionals within various areas of finance to converge and share their knowledge with one another. It serves to improve one's skills within finance and provides rewards for individuals with innovative ideas.

International Banking Facility - IBF

Facilities that accept deposits and offer loans to foreign customers and businesses. These institutions aren't bound by the interest rate restrictions and reserve requirements that domestic lenders are confined to. Therefore, they are competitive with foreign banks enjoying the same liberties.

International Depository Receipt - IDR

A negotiable, bank-issued certificate representing ownership of stock securities by an investor outside the country of origin. An IDR is the non-U.S. equivalent of an American Depositary Receipt (ADR).

International Monetary Fund - IMF

An international organization created for the purpose of:

1. Promoting global monetary and exchange stability.
2. Facilitating the expansion and balanced growth of international trade.
3. Assisting in the establishment of a multilateral system of payments for current transactions.

The IMF plays three major roles in the global monetary system. The Fund surveys and monitors economic and financial developments, lends funds to countries with balance-of-payment difficulties, and provides technical assistance and training for countries requesting it.

International Securities Identification Number - ISIN

A code that uniquely identifies a specific securities issue. The organization that allocates ISINs in any particular country is the country's respective National Numbering Agency (NNA). All internationally traded securities issuers are urged to use this numbering scheme, which is now the accepted standard by virtually all countries. The United States and Canada primarily use a similar scheme known as a CUSIP number.

International Securities Market Association - ISMA

A self-regulatory organization and trade association originally located in Zürich, Switzerland, that encourages systematic and compliant trading in the international securities market. It also promotes the development of the Euromarkets and is acknowledged as a designated investment exchange by the Financial Services Authority, which regulates the financial services industry in the U.K. ISMA helped to establish standardized trading procedures in the international bond market. It had 430 members in 49 different countries, representing all of the major securities firms active in the secondary international debt market. In July 2005, the ISMA and International Primary Market Association merged to become the International Capital Market Association.

International Swaps and Derivatives Association - ISDA

An association created by the private negotiated derivatives market that represents participating parties. This association helps to improve the private negotiated derivatives market by identifying and reducing risks in the market. Created in 1985, the ISDA has members from institutions around the world. It was created to improve the private negotiated derivatives market by making it easier for the institutions that deal in the market to network.

Inverse Floater

A bond or other type of debt whose coupon rate has an inverse relationship to short-term interest rates. With an inverse floater, as interest rates rise, the coupon rate falls. When short-term interest rates fall, an inverse floater holder benefits in two ways:

1) The bond appreciates in price
2) The yield increases

Inverted Market

In the context of options and futures, this is when the current (or short-term) contract prices are higher than the long-term contracts. This usually occurs because a good is currently in short supply, which drives up prices in the short term.

Investment Bank - IB

A financial intermediary that performs a variety of services. This includes underwriting, acting as an intermediary between an issuer of securities and the investing public, facilitating mergers and other corporate reorganizations, and also acting as a broker for institutional clients. The role of the investment bank begins with pre-underwriting counseling and continues after the distribution of securities in the form of advice.

Investment Policy Statement - IPS

A document drafted between a portfolio manager and a client that outlines general rules for the manager. This statement provides the general investment goals and objectives of a client and describes the strategies that the manager should employ to meet these objectives. Specific information on matters such as asset allocation, risk tolerance, and liquidity requirements would also be included in an IPS. For example, an individual may have an IPS stating that by the time he or she is 60 years old his or her job will become optional, and his or her investments will annually return $65,000 in today's dollars given a certain rate of inflation. This would be only one of many points included in an IPS; however, it probably would also include such things as general guidelines outlining what the individual wants to leave behind to loved ones when he or she dies.

Investor Relations - IR

A department, present in most medium to large public companies, that provides investors with an accurate account of the company's affairs. This helps investors to make informed buy or sell decisions. A company's investor relations department serves as a bridge for providing market intelligence to corporate management.

Iridium
A corrosive resistant element that is sometimes used to harden platinum. Iridium is considered to be a precious metal.

Irrational Exuberance
An infamous phrase uttered by Alan Greenspan in 1996 to describe the overvalued market at the time. Although every word spoken by Mr.Greenspan, former chairman of the Federal Reserve Board, is scrutinized, this phrase was even more so examined as market analysts tried to uncover any and all possible results. The phrase even became the title of a New York Times best-selling book by Robert Schiller. On February 1, 2006, Ben Bernanke replaced Alan Greenspan as the Federal Reserve Board chairman.

Irredeemable Convertible Unsecured Loan Stock - ICULS
A type of security that can be used to purchase underlying common shares. It is similar to a warrant except that it is subject to the conversion ratio. In essence, an ICULS provides the benefits of a bond until it is converted to an equity. ICULS pays a coupon to the holder every six months at a predetermined rate. The ICULS can be converted to equities at any time up to the expiration date, but if it is not converted by then, it will expire and be worthless. Because an ICULS is based on a conversion to common shares, its price is determined by the conversion ratio. For example, if the conversion ratio is 5:1 (five ICULSs for each common share) and the price of the common share is $20, the price of the ICULS will be $4.

Irrelevant Cost
A managerial accounting term that represents a cost, either positive or negative, that does not relate to a situation requiring management's decision. As with relevant costs, irrelevant costs may be irrelevant for some situations but relevant for others. Examples of irrelevant costs are fixed overheads, notional costs, sunk costs and book values

Irrevocable Letter Of Credit - ILOC
A letter of credit that can't be canceled. This guarantees that a buyer's payment to a seller will be received on time and for the correct amount. This is often used in international transactions.

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ISLM Model
A macroeconomic model that graphically represents two intersecting curves, called the IS and LM curves. The investment/saving (IS) curve is a variation of the income-expenditure model incorporating market interest rates (demand for this model), while the liquidity preference/money supply equilibrium (LM) curve represents the amount of money available for investing (supply for this model). The model attempts to explain the investing decisions made by investors given the amount of money they have available and the interest rate they will receive. Equilibrium occurs when the amount of money invested equals the amount of money available for investing.

J

January Barometer
A theory stating that the movement of the S&P 500 during the month of January sets the stock market’s direction for the year (as measured by the S&P 500). In other words, if the S&P 500 was up at the end of January compared to the beginning of the month, proponents would expect the stock market to rise during the rest of the year. If an investor believes in the ability of the January barometer to predict the equity market's

performance, he or she will only invest in the market in the years when the barometer predicts the market will rise, and stay out of the market when it forecasts a market pullback. While the January barometer has been seen to produce better than 50% accuracy rates during 20-year periods, it is difficult to produce excess returns by using it since the improved performance by staying out of the market during bad times can be more than offset by larger losses incurred when the barometer incorrectly predicts a bull market.

January Effect

A general increase in stock prices during the month of January. This rally is generally attributed to investors buying stocks that have dropped in price following a sell-off at the end of December by investors seeking to create tax losses to offset any capital gains. The January effect is said to affect small-caps more than mid/large caps. This historical trend, however, has been less pronounced in recent years because the markets have adjusted for the effect. Another reason the January effect is now considered less important is that more people are using tax-sheltered retirement plans and therefore have no reason to sell at the end of the year for a tax loss.

Japan Inc.

A nickname for the corporate world of Japan that came about during the 1980s boom, when Western business people saw how closely the Japanese government worked with its nation's business sector. The high degree of collusion between Japan's corporate and political sectors led to corruption throughout the system and contributed to the downfall of the overvalued Nikkei.

Jarrow Turnbull Model

A credit-pricing model that utilizes multi-factor and dynamic analysis of interest rates. Jarrow and Turnbull created this model in the attempt to identify a pattern between interest rate fluctuations and the probability of default over a specified time period. The significance of this model is its usage in pricing credit-based vehicles.

Jekyll and Hyde

1. A slang term referring to the strengths and weaknesses of a company's financial statements.
2. An asset that suddenly increases or decreases in value.
3. A senior manager's good and bad qualities, or the polarized views between two key officers within a corporation.

This term is derived from R. L. Stevenson's "The Strange Case of Dr Jekyll and Mr. Hyde." Dr Jekyll, the atypical good scientist, unleashes his dark side, nicknamed Mr. Hyde, through self-experimentation. Although Jekyll and Hyde has contradictory natures, they are one and the same person.

1. At first glance Jekyll and Hyde financial statements may seem to show strong performance, but a closer look reveals covert weaknesses.
2. Volatile stock that fluctuates widely in price is an example of a Jekyll and Hyde.
3. If two officials of a company both envision important but conflicting goals, it is called a Jekyll and Hyde situation.

Jennifer Lopez - J.Lo

A slang technical analysis term referring to a rounding bottom in a stock's price pattern. Traders like the rounding bottom in a stock pattern because it can be an indication of a positive market reversal, meaning expectations are gradually shifting from bearish to bullish. For those unaware, Ms. Lopez is often criticized (or praised) for her round bottom.

Jensen's Measure

A risk-adjusted performance measure that represents the average return on a portfolio over and above that predicted by the capital asset pricing model (CAPM), given the portfolio's beta and the average market return. This is the portfolio's alpha. In fact, the concept is sometimes referred to as "Jensen's alpha." If the definition above makes your head spin, don't worry: you aren't alone! This is a very technical term that has its roots in financial theory. The basic idea is that to analyze the performance of an investment manager you must look not only at the overall return of a portfolio, but also at the risk of that portfolio. For example, if there are two mutual funds that both have a 12% return, a rational investor will want the fund that is less risky. Jensen's measure is one of the ways to help determine if a portfolio is earning the proper return for its level of risk. If the value is positive, then the portfolio is earning excess returns. In other words, a positive value for Jensen's alpha means a fund manager has "beat the market" with his or her stock picking skills.

Jitney

1. A situation in which one broker who has direct access to a stock exchange performs trades for a broker who does not have access.
2. A fraudulent activity in the penny stock market involving two brokers trading a stock back and forth to rack up commissions and give the impression of trading volume.

For example,

1. A small firm whose volume of business is not sufficient enough to maintain a trader on the exchange would give its orders to a large dealer for execution.

2. Jitney, or "the jitney game," is basically the same thing as circular trading. The term originated from "Jitney buses," which was a derogatory slang term for Ford buses at the beginning of the century. A reporter coined the term by alluding to the five-cent piece it cost back then for a bus ride. It has since been used to refer to something that is cheaply and poorly made.

Job Lot

A futures contract with a minimum trading unit smaller than the levels required in regular contracts. Job lot contracts create a market for smaller participants wishing to enter into futures contracts. For example, western barley future contracts trade in 100 tonne board or round lots and 20 tonne job lots.

Jobber

A slang term for a market maker on the London stock exchange. Jobbers hold shares on their books and trade with the brokers.

Jobs Growth

A component of the Employment Situation Summary, reported monthly by the Bureau of Labor Statistics. The job growth figure is expressed as the gross number of jobs created in the American economy in the previous month. A job growth figure between 100,000 and 150,000 new jobs per month is considered to be the minimum level of job growth needed to mitigate the effects of new entrants to the workforce.

Joint and Survivor Annuity

A type of annuity that makes payments for the lifetime of two or more beneficiaries. Also referred to as a "joint life annuity", these are often purchased by a husband and wife

Joint Bond

A bond that is guaranteed by a party other than the issuer. Also called a "joint-and-several bond." These are commonly used when a parent company is required to guarantee the bonds of a subsidiary.

Joint Stock Company

An organization that falls between the definitions of a partnership and corporation. This type of company issues stock and allows for secondary market trading; however, stockholders are liable for company debts. This is a type of company that has access to the liquidity and financial reserves of stock markets, but also has the restrictions of a partnership.

Jonestown Defense

A defensive strategy by which the target company engages in an activity that might actually ruin the company rather than prevent the hostile takeover. Also known as a "suicide pill." The term refers to the 1978 Jonestown massacre, where a religious cult (the People's Temple) led by Jim Jones committed mass suicide in Guyana.

Joseph Effect

The idea that movements in a time series tend to be part of larger trends and cycles more often than they are completely random. The Joseph Effect is quantified by the Hurst component, where movements fall between Hurst ranges of 0 to 1. Benoit Mandelbrot coined the term. If a series of movements is calculated to be between 0 and 0.5 in the Hurst range, then the movement is larger and more random than what are thought to be normal random movements. If the measure is 0.5, then the movements are thought to be random movements. If it is between 0.5 and 1, the movements are thought to be part of a long-term trend. The term "Joseph Effect" alludes to an Old Testament story about Joseph, where Egypt would experience seven years of feast followed by seven years of famine.

Judgment

A court order to pay a party a certain amount of money. For example, a court may order a person convicted of insider trading to pay a judgment equal to all profits made from the illegal trades.

Jumbo CD

A certificate of deposit (CD) with a minimum denomination of $100,000. Jumbo CDs are typically bought and sold by large institutional investors, such as banks and pension funds, because of the high minimum denomination

Jumbo Loan

Any residential or commercial mortgage with a loan amount exceeding the guidelines of Fannie Mae and Freddie Mac. Rates tend to be slightly higher on jumbo loans because lenders generally have a higher risk.

Junk Bond

A bond rated 'BB' or lower because of its high default risk. Also known as a "high-yield bond" or "speculative bond". These are usually purchased for speculative purposes. Junk bonds typically offer interest rates three to four percentage points higher than safer government issues.

Just In Case - JIC

An inventory strategy in which companies keep large inventories on hand. This type of inventory management strategy aims to minimize the probability that a product will sell out of stock. A company practicing this strategy essentially incurs higher inventory holding costs in return for a reduction in the number of sales lost due to sold out inventory. The JIC inventory strategy is much different than the newer 'just in time' (JIT) strategy where companies try to minimize inventory costs by producing the goods after the orders have come in. The older 'just in case' strategy is used by companies that have trouble forecasting demand. With this strategy, the companies have enough production material on hand to meet unexpected spikes in demand. Higher storage costs are the main disadvantage of this strategy.

Just In Time - JIT

An inventory strategy companies employ to increase efficiency and decrease waste by receiving goods only as they are needed in the production process, thereby reducing inventory costs. This method requires that producers are able to accurately forecast demand. A good example would be a car manufacturer that operates with very low inventory levels, relying on their supply chain to deliver the parts they need to build cars. The parts needed to manufacture the cars do not arrive before nor after they are needed, rather they arrive just as they are needed. This inventory supply system represents a shift away from the older "just in case" strategy where producers carried large inventories in case higher demand had to be met.

K

Kaffirs
South African gold mining stock that trade on the London Stock Exchange.
Kaldor-Hicks test
A change in production or distribution is desirable only if those who gain can compensate those who lose, and still be better off.
Kangaroos
Australian equity
Kappa
The ratio of the dollar price change in the price of an option to a 1% change in the expected price volatility.
Karat
A measure of the purity of gold. Twenty-four karat (24K) is considered as pure gold. Keep up with the Jones. Strive, especially beyond one's income to socialize and spend like others in the same neighborhood.
Kerb market
In the US, trading in shares of companies not listed on the main stock exchange board is referred to as kerb trading. In the UK, kerb trading is trading in commodities outside official market hours. In Australia the term 'kerb market' has been applied to 'junior' shares, which have little turnover.
Key employee
Any employee that is considered to be critical to the business of the enterprise. Eynesian Economics. The economic theory that active government intervention in the marketplace and monetary policy is the best method of ensuring economic growth and stability.
Killer bee
An investment banker helping companies go about soliciting a hostile takeover. Omorian Franc from the Comoros.
Knock-in option
An option that begins to function as a normal option ("knocks in") once a certain price level is reached before expiration. Might not knock in at all.
Knock-out option
An option with a built in mechanism to expire worthless should a specified price level be exceeded.
Kondratiev Wave
Named after Soviet economist Mikhail Kondratiev, the theory that Western capitalist economies are susceptible to high performance volatility. Sometimes called Kondratiev cycles, it refers to stock market cycles, which last 50-60 years.

L

Labor Intensive
A process or industry that requires large amounts of human effort to produce goods. A good example is the hospitality industry (hotels, restaurants, etc), they are considered to be very people oriented.
Ladder Option
An option that locks-in gains once the underlying reaches predetermined price levels or "rungs," guaranteeing some profit even if the underlying security falls back below these

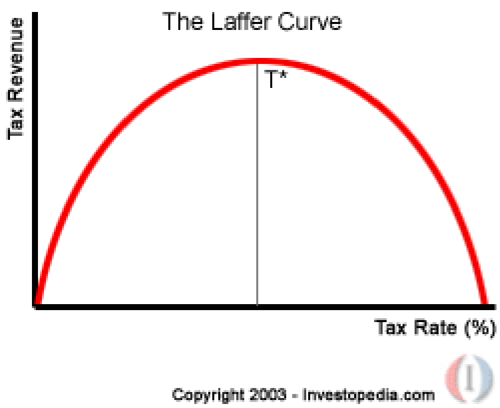
levels before the option expires. For example, consider a ladder call option with an underlying price of 50, with a strike price of 55 and rungs at 60, 65 and 70. If the underlying price reached 62, the profit would be locked-in to be at least 5 (60-55); however, if the underlying reached 71, then the profit would be locked-in to being at least 15 (70-55), even if the underlying falls below these levels before the expiration date.

Lady Macbeth Strategy

A corporate-takeover strategy with which a third party poses as a white knight to gain trust, but then turns around and joins with unfriendly bidders. Lady Macbeth, one of Shakespeare's most frightful and ambitious characters, devises a cunning plan for her husband, the Scottish general, to kill Duncan, the King of Scotland. The success of Lady Macbeth's scheme lies in her deceptive ability to appear noble and virtuous, and thereby secure Duncan's trust in the Macbeths' false loyalty.

Laffer Curve

Invented by Arthur Laffer, this curve shows the relationship between tax rates and tax revenue collected by governments. The chart below shows the Laffer Curve:



Lagging Indicator

1. A measurable economic factor that changes after the economy has already begun to follow a particular pattern or trend.
2. A technical indicator that trails the price action of an underlying asset and is used by traders to generate transaction signals or to confirm the strength of a given trend. Since these indicators lag the price of the asset, a significant move will generally occur before the indicator is able to provide a signal.
3. Lagging indicators confirm long-term trends, but they do not predict them. Some examples are unemployment, corporate profits and labor cost per unit of output. Interest rates are another good lagging indicator; rates change after severe market
4. An example of a lagging indicator is a moving average crossover, because it occurs after a certain price move has already happened. Technical traders use a short-term average crossing above a long-term average as confirmation when placing buy orders since it suggests an increase in momentum. The drawback of using this method is that a significant move may have already occurred, resulting in the trader entering a position too late.

Laissez Faire

An economic theory from the 18th century that is strongly opposed to any government intervention in business affairs. Sometimes referred to as "let it be economics." People who support a laissez faire system are against minimum wages, duties, and any other trade restrictions. Laissez faire is French for "leave alone."

Lambda

A ratio comparing change in option price to a 1% change in option volatility. It is the partial derivative of the option price with respect to the option volatility. Lambda is used as a synonym for Vega, kappa, or sigma.

Lame Duck

A person who has defaulted on his or her debts or has gone bankrupted due to the stock market. The financial use of the term is most commonly used in Europe.

A trader or investor who makes poor trades and ends up with heavy losses over time would be considered a lame duck. Often, if a trader goes bankrupt, it is not the result of one bad trade but a long string of them - such a trader is called a lame duck because he or her is ineffective as a trader. (The term lame duck also refers to a politician who has chosen not to seek re-election, is ineligible to run for office again or has lost an election but is still in office until the election winner takes control of the office. The politician is considered a lame duck, as he or she is not accountable to the constituency he or she represents.)

Landominium

A type of residential property in which the owner owns both the home and the land on which the home is built. The home is a part of a community, like a condominium, where a homeowners' association provides the landscaping, maintenance and other services. Landominium communities often provide several amenities to their members. Such amenities include, tennis courts, man-made lakes, club houses and walking trails. However, these extra benefits can be offset by restrictions applied to residents by the homeowners' association. Restrictions include limitations on the type and color of flowers, trees, bushes and even fences.

Lapping Scheme

An accounting method that involves altering the accounts receivable section of the balance sheet when cash that is intended for the payment of a receivable is stolen. The method involves taking the first receivable collected and using that to cover the theft, while the second receivable collected is accounted to the first, the third receivable to the second, and so on. For example, assume that $100 that was to be used to pay for a receivable is stolen from ZXC Inc. The next receivable ($125) is paid to ZXC a few days later. In a lapping scheme, the first $100 of this second payment will be accounted to the first receivable account, while the remaining $25 will be put toward the second receivable. A lapping scheme may initially be a convenient way for a company to account for theft, but the firm must eventually account for the theft as a loss and deduct it from net income.

Large Cap (Big Cap)

Companies with a market capitalization between $10 billion and $200 billion.

Last In, First Out - LIFO

An asset-management and valuation method that assumes that assets produced or acquired last are the ones that are used sold or disposed of first. LIFO assumes that an entity sells, uses or disposes of its newest inventory first. If an asset is sold for less than it is acquired for, then the difference is considered a capital loss. If an asset is sold for more than it is acquired for, the difference is considered a capital gain. Using the LIFO method to evaluate and manage inventory can be tax advantageous, but it may also increase tax liability.

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Last Trading Day

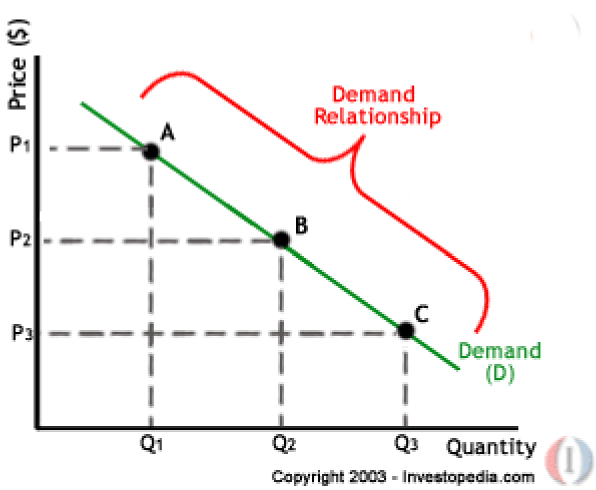
The final day that a futures or options contract may trade or be closed out before delivery of the underlying asset must occur. If the buying and selling parties do not arrange an alternate agreement, the physical commodity must be delivered from the seller to the buyer. For example, if you were long on a pork belly futures contract and didn't close out the position by the end of the last trading day, you should be prepared to accept delivery of real pork bellies.

Late-Day Trading

An unethical (if not illegal) practice of a hedge fund purchasing and then selling securities (usually shares of a mutual fund) after the close of a trading day, but making the transactions appear as though they occurred before the market close. For mutual funds, net asset value is (NAV) determined at 4pm EST (the market close), and it does not change until the market opens again. Hedge funds involved in late-day trading work out a special relationship with a mutual fund that, usually for higher-than-average fees/commissions, allows the hedge fund to buy and sell mutual fund shares after hours but record the trade at 4pm. This practice gives the hedge fund an opportunity to profit when material information affecting the fund is released after the market close. In such cases, because it is stagnant, the NAV may not represent the actual asset value, which won't materialize until the market opens again - at which time late-day traders sell their shares at a profit. New York Attorney General Spitzer has compared late-day trading to "betting on yesterday's horse races".

Law Of Demand

A microeconomic law that states that, all other factors being equal, as the price of a good or service increases, consumer demand for the good or service will decrease and vice versa.



This law summarizes the effect price changes have on consumer behavior. For example, a consumer will purchase more pizzas if the price of pizza falls. The opposite is true if the price of pizza increases

Law of Diminishing Marginal Returns

A law of economics stating that, as the number of new employees increases, the marginal product of an additional employee will at some point be less than the marginal product of the previous employee. Consider a factory that employs laborers to produce its product. If all other factors of production remain constant, at some point each additional laborer will provide less output than the previous laborer. At this point, each additional employee provides less and less return. If new employees are constantly added, the plant will eventually become so crowded that additional workers actually decrease the efficiency of the other workers, decreasing the production of the factory.

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Law Of Large Numbers

In statistical terms, a rule that assumes that as the number of samples increases, the average of these samples is likely to reach the mean of the whole population. When relating this concept to finance, it suggests that as a company grows, its chances of sustaining a large percentage in growth diminish. This is because as a company continues to expand, it must grow more and more just to maintain a constant percentage of growth. As an example, assume that company X has a market capitalization of $400 billion and company Y has a market capitalization of $5 billion. In order for company X to grow by 50%, it must increase its market capitalization by $200 billion, while company Y would only have to increase its market capitalization by $2.5 billion. The law of large numbers suggests that it is much more likely that company Y will be able to expand by 50% than company X. The law of large numbers makes logical sense. If a large company continues to grow at 30-50% every year, it would eventually become bigger than the economy itself! Obviously, this can't happen and eventually growth has to slow down. As a result, investing in companies with very high market capitalization can dampen the potential for stock appreciation.

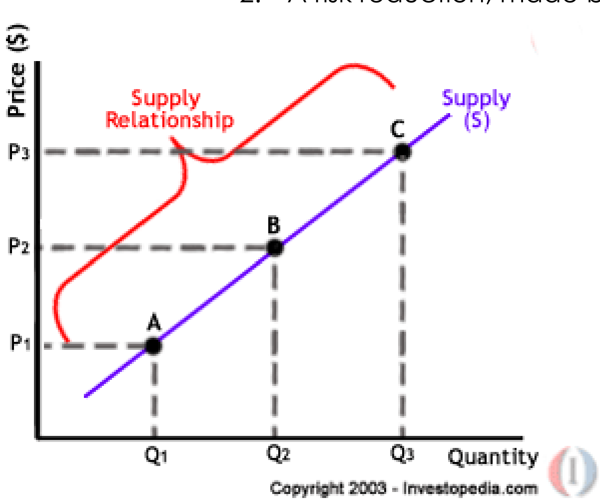
Law Of Supply

As the price of good increases, suppliers will attempt to maximize profits by increasing the quantity of the product sold.

A microeconomic law stating that, all other factors being equal, as the price of a good or service increases, the quantity of goods or services offered by suppliers increases and vice versa.

Layoff

1. When a company eliminates jobs regardless of how good the employees' performance.
2. A risk reduction, made by investment bankers, that minimizes the potential downside associated with a commitment to purchase and sell a stock issue unsubscribed by stockholders holding rights.



3. This is usually because the company is facing financial difficulties.
4. This is a method whereby an investment-banking firm, who has committed to buying up all the unsubscribed shares during a rights offering, will reduce the time risk involved due to the difference between entering into the contract and selling the shares. In other words, they are hedging against any losses due to time.

Lead Time

In terms of a supply chain, the total time needed for an order to be processed. Lead-time starts when the order is received by the sales department and ends when the client pays the invoice.

Leading Lipstick Indicator

An indicator based on the theory that a consumer turns to less-expensive indulgences, such as lipstick, when she (or he) feels less than confident about the future. Therefore, lipstick sales tend to increase during times of economic uncertainty or a recession. This term was coined by Leonard Lauder (chairman of Estee Lauder), who consistently found that during tough economic times, his lipstick sales went up. Believe it or not, the indicator has been quite a reliable signal of consumer attitudes over the years. For example, in the months following the Sept 11 terrorist attacks, lipstick sales doubled.

Leads And Lags

The alteration of normal payment or receipts in a foreign exchange transaction because of an expected change in exchange rates. An expected increase in exchange rates is likely to speed up payments, while an expected decrease in exchange rates will probably slow them down. Accelerating the transaction is known as "leads", while slowing it down is known as "lags". Leads will result when firms or individuals making payments expect an increase in the foreign-exchange rate, while lags arise when the exchange rate is expected to fall. Leads and lags are used in an attempt to improve profits.

Leaseback

An arrangement where the seller of an asset leases backs the same asset from the purchaser. The lease arrangement is made immediately after the sale of the asset with the amount of the payments and the time period specified. Essentially, the seller of the asset becomes the lessee and the purchaser becomes the lessor in this arrangement.
A leaseback arrangement is useful when companies need to untie the cash invested in an asset for other investments, but the asset is still needed in order to operate. Leaseback deals can also provide the seller with additional tax deductions. The lessor benefits in that they will receive stable payments for a specified period of time.
Also known as a "sale and leaseback."

Leg

1. Term describing an order entry technique used by brokers. A leg occurs when a broker executes contingent orders in separate phases, thus increasing the risk for price swings through time delays.
2. A description of different aspects in a combination option.
3. An example is when a broker attempts to execute an option straddle order as two separate transactions. The possibility for profit and loss occurs though the fluctuating price of the options. Sometimes referred to as a leg plant.
4. A straddle has two legs, one put and one call.

Legacy Costs

The costs involved with a company paying increased healthcare fees and other benefit-related costs for its current employees and retired pensioners. It is believed that escalating legacy costs can be a very large contributing factor towards limiting a company's competitiveness. Typically, it is the larger, older and more established companies that have problems with spiraling legacy costs, because they have the most pension and healthcare liabilities. In the face of these costs, many companies are taking measures to lower legacy costs as much as possible. One example of this can be seen by the trend of companies changing their employee retirement plans from defined-benefit plans to defined-contribution plans.

Legal Monopoly

A company that is operating as a monopoly under a government mandate. A legal monopoly offers a specific product or service at a regulated price and can either be independently run and government regulated, or government run and regulated. Also known as a "statutory monopoly". A legal monopoly is set up in the beginning as a perceived best option for both government and its citizens. For example, AT&T operated as a legal monopoly until 1982 because it was deemed vital to have cheap and reliable service for everyone. Railroads and airlines have also been operated as legal monopolies at different periods in history. In most cases, capitalism has won out over legal monopolies as technology and the economy have become more advanced..

Legislative Overkill

A law enacted to stop or prevent the abuse of a loophole, but ends up imposing more restrictions than are necessary for reasonable prevention. In the context of the market, many people believe that investor education and further transparency do much more for the market than stricter legislation.

Legislative Risk

The risk that legislation by the government could significantly alter the business prospects of one or more companies, adversely affecting investment holding in that company. This may occur as a direct result of government action or by altering the demand patterns of the company's customers, An example of an industry with high legislative risk is healthcare. Drug manufacturers and healthcare providers both must contend with many ongoing legislative issues related to Medicare, insurance coverage and other customer payment issues.

Lemon

A very disappointing investment. Your expected return wasn't even close to being achieved. Just like the used car that breaks down while driving out of the lot, these investments leave a bitter taste.

Lender of Last Resort

An institution, usually a country's central bank, that offers loans to banks or other eligible institutions that are experiencing financial difficulty or are considered highly risky or near collapse. In the U.S. the Federal Reserve acts as the lender of last resort to institutions that do not have any other means of borrowing and whose failure to obtain credit would dramatically affect the economy. The lender of last resort functions both to protect individuals who have deposited funds, and to prevent panic withdrawing from banks who have temporary limited liquidity. Commercial banks usually try not to borrow from the lender of last resort because such action indicates that the bank is experiencing financial crisis. Critics of the lender-of-last-resort methodology suspect that the safety it provides inadvertently tempts qualifying institutions to acquire more risk than necessary - since they are more likely to perceive the potential consequences of risky actions to be less severe.

Leprechaun Leader

A corporate manager or an executive who, like the fabled Irish elf, is a mischievous and elusive creature said to possess buried treasures of money and gold. According to Irish folklore, the location of hidden treasure is revealed only when the leprechaun is caught. In the case of a leprechaun leader, the "buried treasure" is not usually buried, but rather in a protected offshore account! Examples of leprechaun leaders are the executives of Enron, who stowed away millions of dollars until they were finally caught. Also spelled "Lepre-con Leader".

Lessee

The person who rents land or property from a lessor. The lessee is known also as the "tenant". Always read your lease agreement carefully, it is a legally binding document.

Lessor

The person who rents land or property to a lessee. The lessor is known also as the "landlord".

Letter of Comfort

A letter issued to a lending institution by a parent company acknowledging the approval of a subsidiary company's attempt for financing. The 'letter of comfort' in no way guarantees the loans approval for the subsidiary company. It merely gives reassurance to the lending institution that the parent company is aware and approves of the situation.

Letter Of Credit

A letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the event that the buyer is unable to make payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase. Letters of credit are often used in international transactions to ensure that payment will be received. Due to the nature of international dealings including factors such as distance, differing laws in each country and difficulty in knowing each party personally, the use of letters of credit has become a very important aspect of international trade. The bank also acts on behalf of the buyer (holder of letter of credit) by ensuring that the supplier will not be paid until the bank receives a confirmation that the goods have been shipped.

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Letter of Intent - LOI

1. A letter that describes in details a corporation's intention to act on something.
2. It is also a way to protect your son or daughter from unnecessary chaos and turmoil when he or she must depend upon someone other than you for care and support (if you suddenly pass away).

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Level 1

A trading service consisting of real-time bid/ask quotes for securities trading on the NASDAQ stock market and comparable information for securities quoted in the OTC Bulletin Board Service. Basically, this just consists of real-time quotes. Also known as Level I.

Level 2

A trading service consisting of real-time access to the quotations of individual market makers registered in every NASDAQ listed security, as well as market makers' quotes in OTC Bulletin Board securities. This allows you to watch the trades being executed right in front of you. Also known as Level II.

Level 3

A trading service consisting of everything in Level 2, plus the ability to enter quotes, execute orders and send information. This service is restricted to NASD member firms that function as registered market makers. Also know as "Level III". This allows you to enter bid/ask quotes as the trades are being executed right in front of you. It's the fastest way to execute a trade.

Level Load

An annual load charged to a mutual fund holder for the time he or she is invested in the fund. The loads in level-load funds are essentially management fees such as 12b-1 fees. Unlike front-end or back-end (deferred) loads in which the investor is charged (on top of the yearly fees) a fee upfront (front-end) or upon redemption of his or her shares (back-end), level loads simply charge the same fee, which is a percentage of the value of the investment, each year. Though these funds may seem superior to front-end or deferred loads, their yearly fees will typically never decrease, and, over time, actually become more expensive as the yearly fee continuously erodes the fund's return.

Leverage

1. The use of various financial instruments or borrowed capital, such as margin, to increase the potential return of an investment.
2. The amount of debt used to finance a firm's assets. A firm with significantly more debt than equity is considered to be highly leveraged. Leverage helps both the investor and the firm to invest or operate. However, it comes with greater risk. If an investor uses leverage to make an investment and the investment moves against the investor, his or her loss is much greater than it would've been if the investment had not been leveraged - leverage magnifies both gains *and* losses. In the business world, a company can use leverage to try to generate shareholder wealth, but if it fails to do so, the interest expense and credit risk of default destroys shareholder value.
3. Leverage can be created through options, futures, margin and other financial instruments. For example, say you have $1,000 to invest. This amount could be invested in 10 shares of Microsoft stock, but to increase leverage, you could invest the $1,000 in five options contracts. You would then control 500 shares instead of just
4. Most companies use debt to finance operations. By doing so, a company increases its leverage because it can invest in business operations without increasing its equity. For example, if a company formed with an investment of $5 million from investors, the equity in the company is $5 million - this is the money the company uses to operate. If the company uses debt financing by borrowing $20 million, the company now has $25 million to invest in business operations and more opportunity to increase value for shareholders.

Leverage Ratio

1. Any ratio used to calculate the financial leverage of a company to get an idea of the company's methods of financing or to measure its ability to meet financial obligations. There are several different ratios, but the main factors looked at include debt, equity, assets and interest expenses.
2. A ratio used to measure a company's mix of operating costs, giving an idea of how changes in output will affect operating income. Fixed and variable costs are the two types of operating costs; depending on the company and the industry, the mix will differ.
3. The most well-known financial leverage ratio is the debt-to-equity ratio. For example, if a company has $10M in debt and $20M in equity, it has a debt-to-equity ratio of 0.5 ($10M/$20M).
4. Companies with high fixed costs, after reaching the breakeven point, see a greater increase in operating revenue when output is increased compared to companies with high variable costs. The reason for this is that the costs have already been incurred, so every sale after the breakeven transfers to the

operating income. On the other hand, a high variable cost company sees little increase in operating income with additional output, because costs continue to be imputed into the outputs. The degree of operating leverage is the ratio used to calculate this mix and its effects on operating income.

Leveraged Buyout - LBO

The acquisition of another company using a significant amount of borrowed money (bonds or loans) to meet the cost of acquisition. Often, the assets of the company being acquired are used as collateral for the loans in addition to the assets of the acquiring company. The purpose of leveraged buyouts is to allow companies to make large acquisitions without having to commit a lot of capital. In an LBO, there is usually a ratio of 90% debt to 10% equity. Because of this high debt/equity ratio, the bonds usually are not investment grade and are referred to as junk bonds. Leveraged buyouts have had a notorious history, especially in the 1980s when several prominent buyouts led to the eventual bankruptcy of the acquired companies. This was mainly due to the fact that the leverage ratio was nearly 100% and the interest payments were so large that the company's operating cash flows were unable to meet the obligation. As of 2006, the largest LBO to date was the acquisition of HCA Inc. in 2006 by Kohlberg Kravis Roberts & Co. (KKR), Bain & Co., and Merrill Lynch. According to the Washington Post, the three companies paid around $33 billion for the acquisition. It can be considered ironic that a company's success (in the form of assets on the balance sheet) can be used against it as collateral by a hostile company that acquires it. For this reason, some regard LBOs as an especially ruthless, predatory tactic

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Leveraged Lease

A lease agreement wherein the lessor, by borrowing funds from a lending institution, finances the purchase of the asset being leased. The lessor pays the lending institution back by way of the lease payments received from the lessee. Under the loan agreement, the debtor has rights to the asset and the lease payments if the lessor defaults.

Leveraged Recapitalization

A strategy where a company takes on significant additional debt with the purpose of either paying a large dividend or repurchasing shares. The result is a far more financially leveraged company. This is often used in risk arbitrage. It is also a form of shark repellent.

Liability

A company's legal debts or obligations that arise during the course of business operations. These are settled over time through the transfer of economic benefits including money, goods or services. Recorded on the balance sheet (right side), liabilities include loans, accounts payable, mortgages, deferred revenues and accrued expenses. Liabilities are a vital aspect of a company's operations because they are used to finance operations and pay for large expansions. They can also make transactions between businesses more efficient. For example, the outstanding money that a company owes to its suppliers would be considered a liability.

Outside of accounting and finance this term simply refers to any money or service that is currently owed to another party. One form of liability, for example, would be the property taxes that a homeowner owes to the municipal government.

Current liabilities are debts payable within one year, while long-term liabilities are debts payable over a longer period.

Liability Driven Investment - LDI

A form of investing in which the main goal is to gain sufficient assets to meet all liabilities, both current and future. This form of investing is most prominent with defined-benefit pension plans, whose liabilities can often reach into the billions of dollars for the largest of plans. LDIs are most prominent in the funding schemes of defined-benefit pension plans, which are designed to provide a predetermined pension upon retirement. The liabilities in these funds arise as a result of the "guaranteed" pensions they are supposed to provide to members upon retirement. In the early 2000s, the entire structure of the defined-benefit scheme was criticized as being faulty. The liabilities that sponsoring companies and plan members must pay for has increased substantially, which has caused some pension plans to reduce benefits to retired members, or even to shut down entirely.

Liability Swap

An exchange of debt related interest rates between two parties - usually large corporations. In a liability swap, two currently identical (in nominal value) cash flows are exchanged. Usually a variable (floating) rate is exchanged for a fixed rate of income. Swaps are undertaken because each company receives a better rate of interest by trading with the other than they would if they chose a more traditional financing route. For example, XYZ may swap a six-month LIBOR interest rate for ABC's six-month fixed rate of 5% on a notional principal of $10 million dollars. Due to the split, XYZ will pay a fixed interest payment of 5%, instead of the floating rate.

A swap will have an initial value of zero because the initial cash flows are the same. Over time, however, this will change as interest rates change and the swap will have either a positive or negative value for each contract holder. In certain cases, the swap can be marked-to-market periodically to clear out the unrealized gains and losses by making any payments due.

Lien

When a creditor or bank has the right to sell the mortgaged or collateral property of those who fail to meet the obligations of a loan contract. This is typically enforced under provincial or state laws.

Life Annuity

An insurance product that features a predetermined periodic payout amount until the death of the annuitant. These products are most frequently used to help retirees budget their money after retirement. Typically, the annuitant pays into the annuity on a periodic basis when he or she is still working. However, annuitants may also buy the annuity product in one large purchase. When the annuitant retires, the annuity makes periodic (usually monthly) payouts to the annuitant, providing a reliable source of income. When a triggering event (such as death) occurs, the periodic payments from the annuity usually cease. Because of the complex nature of annuity products and their implications for the annuitant's standard of living, people are well advised to consult a reputable professional before purchasing any annuity product.

Due to the tax-preferred nature of annuities, very wealthy investors or above-average income earners often use these life insurance products to transfer large sums of money or to mitigate the effects of taxes on their annual income.

Life Cycle

The course of events that brings a new product into existence and follows its growth into a mature product and into eventual critical mass and decline. The most common steps in the life cycle of a product include the following phases:

• *Product Development Phase* - Includes market analysis, product design, conception, and testing

• *Market Introduction Phase* - Initial release of the product, usually marked with high levels of advertising

• *Growth Phase* - Sales growth begins to accelerate, characterized with increasing sales year over year. As production levels increase, gross margins should steadily decline, making the product less profitable on a per-unit basis. An increase in competition is probable.

• *Maturity Phase* - The product will reach the upper bounds of its demand cycle and further spending on advertising will have little to no effect on increasing demand.

• *Decline/Stability Phase* - This is where a product has reached or passed its point of highest demand. At this point, demand will either remain steady or slowly decline as a newer product makes it obsolete.

It is important for investors to understand a company's product life cycle. Firms that are predominately in the development phase will likely be characterized with small levels of sales and are more speculative in nature than firms in the growth or maturity phase. When a firm reaches the maturity stage, it does not mean that a product is no longer a growing income source for the company, as there may still be further margin improvements and innovations. Furthermore, a more mature firm with mature products may be more likely to issue dividends than firms in the other phases.

Life Expectancy

1. The age until which a person is expected to live.
2. The remaining number of years an individual is expected to live based on IRS issued life expectancy tables. The life expectancy, for required minimum distribution (RMD) calculation purposes, is determined by the current age of the individual.
3. Also referred to as the average life span. Mainly insurance companies to determine your premium use it.
4. The IRS life expectancy tables are used to calculate the RMD for retirement account owners and their beneficiaries.

Life Insurance

A protection against the loss of income that would result if the insured passed away. The named beneficiary receives the proceeds and is thereby safeguarded from the financial impact of the death of the insured. The goal of life insurance is to provide a measure of financial security for your family after you die. So, before purchasing a life insurance policy, you should consider your financial situation and the standard of living you want to maintain for your dependents or survivors. For example, who will be responsible for your funeral costs and final medical bills? Would your family have to relocate? Will there be adequate funds for future or ongoing expenses such as daycare, mortgage payments and college? It is prudent to re-evaluate your life insurance policies annually or when you experience a major life event like marriage, divorce, the birth or adoption of a child, or purchase of a major item such as a house or business.

Lifelong Learning Plan

A provision applicable to the Canadian Registered Retirement Savings Plan (RRSP). The plan allows RRSP contributors a non-taxable temporary withdrawal of up to $20,000 from their accounts in order to finance their education or that of their spouse. The provision is subject to limitations, such as a $10,000 annual withdrawal limit and a maximum repayment period of 10 years, after which the ability to recon tribute the borrowed sum is lost. Similar to the Canadian government's Home Buyer's Plan, this provision is intended to allow Canadians to finance their education without losing the benefits of tax-deferral in building their retirement nest egg.

Lifestyle Fund

An investment fund featuring an asset mix determined by the level of risk and return that is appropriate for an individual investor. Factors that determine this mix include an investor's age, level of risk aversion, the investment's purpose and the length of time until the principal will be withdrawn. Lifestyle funds can feature conservative, moderate or aggressive growth strategies. Aggressive growth lifestyle funds are targeted to investors in their late 20s, while conservative growth lifestyle funds are targeted to investors in their late 50s.Lifestyle funds are designed to be the main investment in a person's portfolio. The purpose of a lifestyle fund may be defeated if other funds are chosen at the same time because the asset allocation ratio will become distorted.

Limited Liability Company - LLC

A corporate structure whereby the shareholders of the company have a limited liability to the company's actions. Basically, an LLC is a hybrid between a partnership and a corporation.

Limited Partnership - LP

Two or more partners formed to conduct a business jointly, and in which one or more of the partners is liable only to the extent of the amount of money they have invested. Limited partners do not receive dividends, but enjoy direct access to the flow of income and expenses. The main advantage is the owners are generally not liable for the debts of the company. This term is also referred to as a Limited Liability Partnership (LLP).

Line Of Credit - LOC

An arrangement between a financial institution (usually a bank) and a customer establishing a maximum loan balance that the bank will permit the borrower to maintain.

The advantage of a line of credit over a regular loan is that you usually don't pay interest on the part of the line of credit that you don't use.

Lobster Trap

A strategy used by a target firm to prevent a hostile takeover. In a lobster trap, the company passes a provision preventing anyone with more than 10% ownership from converting convertible securities into voting stock. Examples of convertible securities include convertible bonds, convertible preferred stock, and warrants.

Lock Limit

Commonly associated with the futures market, a lock limit occurs when the trading price of a futures contract arrives at the exchanges predetermined limit price. At the lock limit, trades above or below the lock price are not executed. For example, if a futures contract had a lock limit of $5, as soon as the contract traded at $5 the contract would no longer be permitted to trade above this price if the market is on an up trend, and the contract would no longer be permitted to trade below this price if the market is on a down trend. The main reason for these limits is to prevent investors from substantial losses due to the volatility found in futures markets.

Lockbox Banking

A service provided by banks to companies for the receipt of payment from customers. Under the service, the payments made by customers are directed to a special post office box, rather than going to the company. The bank will then go to the box, retrieve the payments, process them and deposit the funds directly into the company bank account. As with most payment processing services, there are both pros and cons to lockbox banking. As benefits go, lockbox banking provides companies with a very efficient way of depositing customer payments. This is especially beneficial if a company is unable to deposit checks on a timely basis and/or if it is constantly receiving customer payments through the mail. On the other hand, lockbox banking can also be very risky. Bank employees who have access to lockboxes are rarely supervised, which opens the situation up to possible fraud. The fraud primarily occurs in the form of check counterfeiting because the checks that are in the lockboxes provide all the information needed to make counterfeit checks. Companies can protect themselves from such fraud by using a bank that they trust and by constantly monitoring their lockboxes.

Lockdown

A specified period when an employee of a public company is barred from selling - and occasionally buying - their company's stock. Securities regulators can impose these types of equity transaction restrictions or underwriting firms if a company has recently issued public securities. They can also be self-imposed by a corporation as an impetus for employees to retain company stock.

Locked Market

Logarithmic price scales are generally accepted as the default setting for most charting services, and the majority of technical traders use them. An equal spacing between the numbers in the scale represents common percent changes. For example, the distance between $10 and $20 is equal to the distance between $20 and $40 because both scenarios represent a 100% increase in price. Contrast this to "linear price scale".

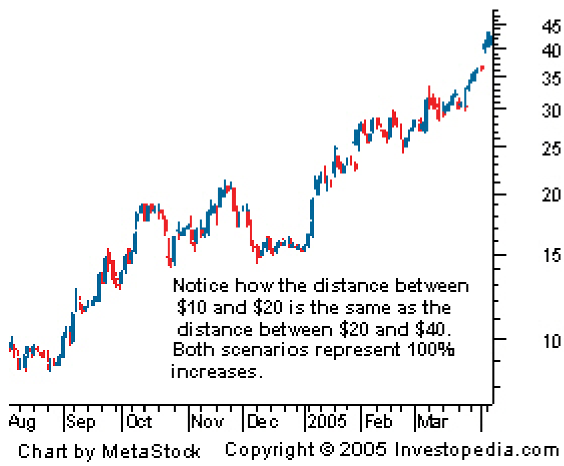
A short-term situation occurring within a market where both the bid and ask are identical, resulting in no bid-ask spread. This usually occurs in stocks that are highly volatile and experience a significant trading volume. Locked markets are typically corrected immediately through subsequent trades. This abnormal market condition occurs mainly on the NASDAQ exchange for orders entered before the opening bell

Lock-Up Option

A stock option offered by a target company to a white knight for additional equity or for the purchase of a valuable portion of their company. An undesired third party is deterred from acquiring a major portion of the target company due to the very high value of the lockup option. Also known as Lock-Up Defense.

Logarithmic Price Scale

A type of scale used on a chart that is plotted in such a way that two equivalent percent changes are represented by the same vertical distance on the scale, regardless of what the price of the asset is when the change occurs. The distance between the numbers on the scale decreases as the price of the underlying asset increases. This is the case because a $1 increase in price becomes less influential as the price heads higher since it now corresponds to less of a percentage change than it did when the price of the asset was at a lower level. Also referred to as a "log scale".



Logistics

The overall management of the way resources are moved to the areas where they are required. This term originated in a military context, referring to how personnel acquire, transport and store supplies and equipment. In the business community, the term is used to refer to how resources are acquired, transported and stored along the supply chain. By having an efficient supply chain and proper logistical procedures, a company can cut costs and increase efficiency.

London Interbank Bid Rate - LIBID

This is the rate bid by banks on Eurocurrency deposits. This would be the international rate that banks lend to other banks.

London Interbank Offered Rate - LIBOR

An interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market. The British Bankers' Association fixes the LIBOR on a daily basis. The LIBOR is derived from a filtered average of the world's most creditworthy banks' interbank deposit rates for larger loans with maturities between overnight and one full year. The LIBOR is the world's most widely used benchmark for short-term interest rates. It's important because it is the rate at which the world's most preferred borrowers are able to borrow money. It is also the rate upon which rates for less preferred borrowers are based. For example, a multinational corporation with a very good credit rating may be able to borrow money for one year at LIBOR plus 4 or 5 points. Countries that rely on the LIBOR for a reference rate include the United States, Canada, Switzerland and, of course, England.

London Metal Exchange - LME

A commodities exchange in London, England, that deals in metal futures. Contracts on the exchange include aluminum, copper and zinc. Trading on the LME can be done in three main ways: through open outcry, a telephone system between member companies or the LME Select, an electronic trading platform. The LME is a non-ferrous exchange, which means that iron and steel are not traded on the exchange. The LME is one of the main metal markets in the world and allows for the hedging of metals risk through highly liquid and standardized exchange-traded futures contracts. The LME also trades plastics on its exchange and has an LME index option that allows traders to speculate or hedge the broader metals market as a whole.

Long (or Long Position)

1. The buying of a security such as a stock, commodity or currency, with the expectation that the asset will rise in value.
2. In the context of options, the buying of an options contract. Opposite of "short (or short position)".
3. For example, an owner of shares in McDonald's Corp. is said to be "long McDonald's" or "has a long position in McDonald's".

4. For example, buying a call (or put) options contract from an options writer entitles the you the right, not the obligation to buy (or sell) a specific commodity or asset for a specified amount at a specified date.

Long Bond

A bond that matures in more than 10 years. When people refer to "the long bond," this typically is the 30-year U.S. treasury. Because they tie up money for such a long time, a long bond will usually pay investors a higher yi

Long Hedge

A situation where an investor has to take a long position in futures contracts in order to hedge against future price volatility. A long hedge is beneficial for a company that knows it has to purchase an asset in the future and wants to lock in the purchase price. A long hedge can also be used to hedge against a short position that has already been taken by the investor. For example, assume it is January and an aluminum manufacturer needs 25,000 pounds of copper to manufacture aluminum and fulfill a contract in May. The current spot price is $1.50 per pound, but the May futures price is $1.40 per pound. In January the aluminum manufacturer would take a long position in 1 May futures contract on copper. This locks in the price the manufacturer will pay. If in May the spot price of copper is $1.45 per pound the manufacturer has benefited from taking the long position, because the hedger is actually paying $0.05/pound of copper compared to the current market price. However if the price of copper was anywhere below $1.40 per pound the manufacturer would be in a worse position than where they would have been if they did not enter into the futures contract.

Long Jelly Roll

An option strategy that aims to profit from a time value spread through the sale and purchase of two call and two put options, each with different expiration dates. Entering into two separate positions simultaneously creates a jellyroll. One position involves buying a put and selling a call with the same strike price and expiration. The second position involves selling a put and buying a call. The strike prices of the put and call in the second position is identical but different from the previous position, and the duration of the second position is longer than the previous position. This position creates a synthetic near-term short position and long-term long position that work to capitalize upon the time differential between futures prices.

Long Market Value

The aggregate worth, in dollars, of a group of securities held in a cash or margin brokerage account, calculated using the prior trading day's closing prices of each security in the account. The long market value figure includes most common investment vehicles, but excludes commercial paper, options, annuities and precious metals. Convention dictates that if there is no previous closing price available for a given asset to be included in the calculation, a third party valuation or previous bid price can be used.

Long Run

In terms of operating activities, a period of time in which all costs are variable. In most cases, long run refers to a period longer than one year.

Long Squeeze

A long squeeze, which involves a single stock, occurs when a sudden drop in price incites further selling, pressuring long holders of the stock into selling their shares to protect against a dramatic loss. Less popular than its more famous brother, the short squeeze, long squeezes are most apt to be found in smaller, more illiquid stocks, where a few determined or panicking shareholders can create unwarranted price volatility in a short period of time. Short sellers can monopolize the trading in a stock for a brief period of time, creating a sudden drop in price. The main reason why long squeezes are so rare is that value buyers will step in once the price falls to a point deemed "too low", and bid the shares back up. A rapidly falling stock, without a fundamental basis for the drop, will soon be seen as a "value" play, but a rapidly rising stock will be seen as increasingly risky with every upward tick.

Long Straddle

A strategy of trading options whereby the trader will purchase a long call and a long put with the same underlying asset, expiration date and strike price. The strike price will usually be at the money or near the current market price of the underlying security. The strategy is a bet on increased volatility in the future as profits from this strategy are maximized if the underlying security moves up or down from present levels. Should the underlying security's price move a small amount, (or not at all), the options will be worthless at expiration.

Long Term

Holding an asset for an extended period of time. Depending on the type of security, a long-term asset can be held for as little as one year or for as long as 30 years or more. The media frequently advises people to "invest for the long term", but determining whether or not an investment is long term is very subjective. A day trader, for example, would define "long term" much differently than a buy-and-hold investor, who would consider anything less than several years to be short-term trading.

Long/Short Fund

A type of mutual fund that mimics some of the trading strategies typically employed by a hedge fund. Unlike most mutual funds, long/short funds use leverage, derivatives and short positions in an attempt to maximize total returns, regardless of market conditions. Law limits the amount of leverage used and the number of derivatives and short positions that long/short funds may contain. These funds invest primarily in stocks. Long/short funds are the mutual fund industry's attempt to bring some of the advantages of a hedge fund to the common investor. Most long/short funds feature higher liquidity than hedge funds, no lock-in period and lower fees. However, they still have higher fees and less liquidity than most mutual funds. Furthermore, unlike most mutual funds, long/short funds usually require a minimum investment of more than $1,000, although some do not. Long/short funds aren't allowed to use as many derivative and short positions nor as much leverage as hedge funds, but they do provide some diversification to the average investor in down markets.

Longevity Risk

The risk to which a pension fund or life insurance company could be exposed as a result of higher-than-expected payout ratios. Increasing life expectancy trends among policyholders and pensioners can result in payout levels that are higher than what a company or fund originally accounts for. The types of plans exposed to the greatest levels of longevity risk are defined-benefit pension plans and annuities, which guarantee lifetime benefits for policy or plan holders. Average life expectancy figures are on the rise, but even a very small change in life expectancies can create severe solvency issues for pension plans and insurance companies. Precise measurements of longevity risk are still unattainable because the limits of medicine and its impact on life expectancies have not been quantified.

Long-Term Assets

1. Reported on the balance sheet, it's the value of a company's property, equipment and other capital assets, minus depreciation.
2. A stock, bond or other asset that you plan on holding in your portfolio for a lengthy period of time.

Be aware that these are usually recorded at the price at which they were purchased and so do not always reflect the current value of the assets.

Long-Term Capital Management - LTCM

A large hedge fund led by Nobel Prize-winning economists and renowned Wall Street traders that nearly collapsed the global financial system in 1998 as a result of high-risk arbitrage trading strategies. The fund formed in 1993 and was founded by renowned Salomon Brothers bond trader John Meriwether. LTCM started with just over $1 billion in initial assets and focused on bond trading. The trading strategy of the fund was to make convergence trades, which involve taking advantage of arbitrage between securities that are incorrectly priced relative to each other. Due to the small spread in arbitrage opportunities, the fund had to leverage itself highly to make money. At its height in 1998, the fund had $5 billion in assets, controlled over $100 billion and had positions whose total worth was over a $1 trillion. Due to its highly leveraged nature and a financial crisis in Russia (i.e. the default of government bonds) which led to a flight to quality, the fund sustained massive losses and was in danger of defaulting on its loans. This made it difficult for the fund to cut its losses in its positions. The fund held huge positions in the market, totaling roughly 5% of the total global fixed-income market. LTCM had borrowed massive amounts of money to finance its leveraged trades. Had LTCM gone into default, it would have triggered a global financial crisis, caused by the massive write-offs its creditors would have had to make. In September 1998, the fund, which continued to sustain losses, was bailed out with the help of the Federal Reserve and its creditors and taken over. A systematic meltdown of the market was thus prevented.

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Long-Term Debt/Capitalization

A ratio showing the financial leverage of a firm, calculated by dividing long-term debt by the amount of capital available:

$$= \frac{\text{Long Term Debt}}{\text{Long Term Debt} + \text{Preferred Stock} + \text{Common Stock}}$$

A variation of the traditional debt-to-equity ratio, this value computes the proportion of a company's long-term debt compared to its available capital. By using this ratio, investors can identify the amount of leverage utilized by a specific company and compare it to others to help analyze the company's risk exposure. Generally, companies who finance a greater portion of their capital via debt are considered riskier than those with lower leverage ratios.

Long-Term Investments

An account on the asset side of a company's balance sheet that represents the investments that a company intends to hold for more than a year. They may include stocks, bonds, real estate and cash. The long-term investments account differs largely from the short-term investments account in that the short-term investments will most likely be sold, whereas the long-term investments may never be sold. A common form of this type of investing occurs when company A invests largely in company B and gains significant influence over company B without having a majority of the voting shares. In this case, the purchase price would be shown as a long-term investment

Long-Term Liabilities

Recorded on the balance sheet, a company's liabilities for leases, bond repayments and other items due in more than one year. A company's long-term liabilities are accounted for by its debt obligations to other parties, which last longer than one year.

Look Thru

An accounting method for calculating taxes owed on income from controlled foreign corporations. Just about any foreign partnerships/entities are subject to look-thru treatment

Loophole

A technicality that allows a person or business to avoid the scope of a law without directly violating the law. Someone who wants to evade certain taxes might find a loophole that allows them to avoid penalties legally.

Lottery Bond

A bond issued in the U.S. and U.K. with a rate of return dependent upon a lottery style payout. The lottery payout structure involves a method of random draws. Every issued bond is similar to a lottery ticket with an equal opportunity at winning payments in monthly draws for cash prizes. These prizes are generally larger than coupon payments on regular payout bonds. However, there is always the possibility that a bondholder will not win any of the cash prizes during the life of the bond. These bonds are now issued as premium bonds, but be warned, sometimes these bonds are used as scams for unwitting investors. The only corporation permitted to sell these bonds in the U.S. is National Savings.

Love Money

Seed money or capital given by family or friends to an entrepreneur to start a business. In this type of situation, the decision to lend money and the terms of the agreement are usually based on qualitative factors and the relationship between the two parties, rather than on a formulaic risk analysis. Love money is usually given to entrepreneurs who have proved their responsibility to close family and friends over the years, but who fail to meet the capital requirements financial institutions require for borrowers. An angel investor's love money is sometimes the only way a business can get off the ground; this type of financing can create growth that would be impossible through traditional financing channels.

Low Ball

A slang term for an offer that is significantly below the fair value of an asset or group of assets. This tactic is often used when a potential seller is in desperation and may need to liquidate assets quickly. For example, if someone were to offer $2500 for an $8000 asset, this would likely be considered a low-ball offer.

M

M1

The category of the money supply that includes all physical money like coins and currency. It also includes demand deposits, which are checking accounts and NOW accounts. M1 is the narrowest idea of "money." This is used as a measurement for economists trying to quantify the amount of money in circulation.

M2

A category within the money supply that includes M1 in addition to all time-related deposits, savings deposits, and non-institutional money-market funds. M2 is a broader classification of money than M1. Economists use M2 when looking to quantify the amount of money in circulation and trying to explain different economic monetary conditions.

M3

The category of the money supply that includes M2 as well as all large time deposits, institutional money-market funds, short-term repurchase agreements, along with other larger liquid assets. This is the broadest measure of money; it is used by economists to estimate the entire supply of money within an economy.

Macaroni Defense

An approach taken by a company that does not want to be taken over. The company issues a large number of bonds with the condition they must be redeemed at a high price if the company is taken over. Why is it called Macaroni Defense? Because if a company is in danger, the redemption price of the bonds expands like Macaroni in a pot!

Macaulay Duration

The weighted-average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price. The metric is named after its creator, Frederick Macaulay. Macaulay duration is frequently used by portfolio managers who use an immunization strategy.

Macro Risk

A type of political risk in which political actions in a host country can adversely affect all foreign operations. Macro risk can come about from events that may or may not be in the reigning government's control. For example, any company that is engaging in foreign direct investment in a country that is on the verge of switching to an anti-foreigner slanted government would be facing tremendous macro risk, because the government is likely to expropriate any and all foreign operations, regardless of industry. There are many organizations that provide reports and information on the degree of political risk that a country may possess. Furthermore, companies have the opportunity to purchase political risk insurance from a variety of organizations in order to mitigate potential losses.

Macroeconomics

The field of economics that studies the behavior of the aggregate economy. Macroeconomics examines economy-wide phenomena such as changes in unemployment, national income, rate of growth, gross domestic product, inflation and price levels. Macroeconomics is focused on the movement and trends in the economy as a whole, while in microeconomics the focus is placed on factors that affect the decisions made by firms and individuals. The factors that are studied by macro and micro will often influence each other, such as the current level of unemployment in the economy as a whole will affect the supply of workers which an oil company can hire from, for example.

Macro-Hedge

An investment technique used to eliminate the risk of a portfolio of assets. In most cases, this would mean taking a position that offsets the whole portfolio. But this technique is difficult in practice because there is rarely one asset that will offset the risk of a broader portfolio, so applying a macro-hedge most likely requires taking an offsetting position in each individual asset. Here's an example of a macro-hedge: an index-fund manager believes there will be a loss in the index in the upcoming period. To eliminate the risk of a downward turn in the index, the manager can take a short position in the index fund's futures market that will lock in a price for the index.

Majority Shareholder

A person or conglomerate who owns more than 50% of the outstanding shares of a corporation. Owning that much of a corporation gives an entity a huge amount of control. The majority shareholder is often the founder of the corporation.

Management And Employee Buyout – MEBO

A restructuring initiative that involves both managerial and non-managerial employees buying out a firm in order to concentrate ownership into a small group from a widely dispersed group of shareholders. MEBOs are generally used to privatize a publicly traded company, but can also be used as an exit strategy for venture capitalists or other shareholders in an already private firm. MEBOs can often be seen as bringing greater efficiency to a firm's production because it can provide added job security to employees, which motivates them to give a stronger effort to improve company profitability.

Management Buy-In – MBI

A corporate action in which an outside manager or management team purchases an ownership stake in the first company and replaces the existing management team. This type of action can occur due to a company appearing undervalued or having a poor management team. There are a wide range of management teams, such as hedge funds and other companies, that look for undervalued companies to purchase. If they find a company that fits with their investment criteria, they will often purchase the company and make it private to unlock the value. More often than not, they replace the management team with their own, which they feel will do a better job at running the company.

Management Buyout – MBO

When the managers and/or executives of a company purchase controlling interest in a company from existing shareholders. In most cases, the management will buy out all the outstanding shareholders and then take the company private because it feels it has the expertise to grow the business better if it controls the ownership. Quite often, management will team up with a venture capitalist to acquire the business because it's a complicated process that requires significant capital.

Management Discussion and Analysis - MD&A

A section of a company's annual report in which management discusses numerous aspects of the company, both past and present. Among other things, the MD&A provides an overview of the previous year of operations and how the company faired in that time period. Management will usually also touch on the upcoming year, outlining future goals and approaches to new projects.

Manufactured Payment

A tax concept whereby the lender of a stock receives the equivalent dividend payment from the borrower of the stock. When lending stock, the lender usually maintains the right to ownership of dividend payments and special disbursements. Thus, the borrower is responsible for payment of such distributions when they occur.

Margin

1. Borrowed money that is used to purchase securities. This practice is referred to as "buying on margin".

2. In a general business context, the difference between a product's (or service's) selling price and the cost of production.
3. 1. Buying with borrowed money can be extremely risky because both gains and losses are amplified. That is, while the potential for greater profit exists, this comes at a hefty price - the potential for greater losses. Margin also subjects the investor to a number of unique risks such as interest payments for use of the borrowed money.
4. For example, if you hold futures contracts in a margin account, you have to maintain a certain amount of margin depending on how the market value of the contracts change.
5. Gross profit margin (which is the difference between revenue and expenses) is one measure of a company's performance.
6. The portion of the interest rate on an adjustable-rate mortgage that is over and above the adjustment-index rate. This portion is retained as profit by the lender.
7. The amount of equity contributed by a customer as a percentage of the current market value of the securities held in a margin account.

Margin Of Safety

A principle of investing in which an investor only purchases securities when the market price is significantly below its intrinsic value. In other words, when market price is significantly below your estimation of the intrinsic value, the difference is the margin of safety. This difference allows an investment to be made with minimal downside risk. The term was popularized by Benjamin Graham (known as "the father of value investing") and his followers, most notably Warren Buffett. Margin of safety doesn't guarantee a successful investment, but it does provide room for error in an analyst's judgment. Determining a company's "true" worth (its intrinsic value) is highly subjective. Each investor has a different way of calculating intrinsic value which may or may not be correct. Plus, it's notoriously difficult to predict a company's earnings. Margin of safety provides a cushion against errors in calculation. Margin of safety is a concept used in many areas of life, not just finance. For example, consider engineers building a bridge that must support 100 tons of traffic. Would the bridge be built to handle exactly 100 tons? Probably not. It would be much more prudent to build the bridge to handle, say, 130 tons, to ensure that the bridge will not collapse under a heavy load. The same can be done with securities. If you feel that a stock is worth $10, buying it at $7.50 will give you a margin of safety in case your analysis turns out to be incorrect and the stock is really only worth $9. There is no universal standard to determine how wide the "margin" in margin of safety should be. Each investor must come up with his or her own methodology.

Markdown

The difference between the highest current bid price among broker-dealers in the market and the lower price that a dealer charges a customer. The broker offers a lower price to try stimulate trading in hopes that they will make the money back on the extra commissions.

Market

1. Typically refers to the equity market where stocks are traded, but can also refer to the bond, options, or commodity market.
2. "The market was down today" means the value of the stock market dropped.
3. People with the desire and ability to buy a specific product.

Market Arbitrage

A measure of the overall price level of a given market, as defined by a specified group of stocks or other securities. A market average equals the sum of all current values of stocks in the group divided by the total number of shares in the group. An arbitrageur would short sell the higher priced stock and buy the lower priced one. The profit is the spread between the two assets.

Market Average

A measure of the overall price level of a given market, as defined by a specified group of stocks or other securities. A market average equals the sum of all current values of stocks in the group divided by the total number of shares in the group. A market average measurement is a simple way to evaluate the price level of a group of stocks. For example, the Dow Jones Industrial Average, which is a price-weighted average, covers 30 blue chip stocks listed on the NYSE and is widely used to track overall U.S. stock market performance.

Market Cannibalization

The negative impact of a company's new product on the sales performance of its existing related products. If a company is practicing market cannibalization, it is eating its own market. For example, say Coca Cola puts out a new product called Coke2, and customers buy Coke2 instead of regular Coke. Although sales may be up for the new product, these sales may be eating into Coke's original market, in which case the overall company sales would not be increasing. Because of the possibility of market cannibalization, investors should always dig deeper, analyzing the source and impact of the success of a company's new but similar product.

Market Capitalization

A measure of a company's total value. It is estimated by determining the cost of buying an entire business in its current state. Often referred to as "market cap", it is the total dollar value of all outstanding shares. It is calculated by multiplying the number of shares outstanding by the current market price of one share. Brokerages vary on their exact definitions, but the current approximate classes of market capitalization are:

Big/Large Cap: $10 billion to $200 billion

Small Cap: $300 million to $2 billion

Nano Cap: Under $50 million

Mega Cap: Market cap of $200 billion and greater

Mid Cap: $2 billion to $10 billion

Micro Cap: $50 million to $300 million

If a business has 50 shares, each with a market value of $10, the business's market capitalization is $500 (50 shares x $10/ share).

Market Depth

The market's ability to sustain relatively large market orders without impacting the price of the security. This considers the overall level and breadth of open orders and usually refers to trading within an individual security. For example, if the market for a stock is "deep", there will be a sufficient volume of pending orders on both the bid and ask side, preventing a large order from significantly moving the price. Market depth is closely related to liquidity and volume within a security, but does not mean that every stock showing a high volume of trades has good market depth. On any given day there may be an imbalance of orders large enough to create high volatility, even for stocks with the highest daily volumes. The decimalization of ticks on the major U.S. exchanges has been said to increase overall market depth, as evidenced by the decreased importance of market makers, a position needed in the past to prevent order imbalances.

Market Disruption

A situation where markets cease to function in a regular manner, typically characterized by rapid and large market declines. Market disruptions can result from both physical threats to the stock exchange or a unusual trading (as in a crash). In either case, the disruption creates widespread panic and results in disorderly market conditions. Following the 1987 market crash, systems were put in place to minimize the risks associated with market disruptions including circuit breakers and price limits. These systems are designed to halt trading in rapidly declining markets to avoid panic conditions.

Market Economy

An economic system in which economic decisions and the pricing of goods and services are guided solely by the aggregate interactions of a country's citizens and businesses and there is little government intervention or central planning. This is the opposite of a centrally planned economy, in which government decisions drive most aspects of a country's economic activity. Market economies work on the assumption that market forces, such as supply and demand, are the best determinants of what is right for a nation's well being. These economies rarely engage in government interventions such as price fixing, license quotas and industry subsidizations.

While most developed nations today could be classified as having mixed economies, they are often said to have market economies because they allow market forces to drive most of their activities, typically engaging in government intervention only to the extent that it is needed to provide stability. Although the market economy is clearly the system of choice in today's global marketplace, there is significant debate regarding the amount of government intervention considered optimal for efficient economic operations.

Market Exposure

The amount of funds invested in a particular type of security and/or market sector or industry and usually expressed as a percentage of total portfolio holdings. Thus, it is the amount an investor has at risk or the amount he/she can lose. Also known as "exposure". The exposure of a portfolio to particular securities/markets/sectors must be considered when determining asset allocation since it can greatly increase returns or, if properly done, minimizes losses. For example, a portfolio with both stocks and bonds holdings will typically have less risk than a portfolio with exposure only to stocks.

Market Failure

An economic term that encompasses a situation where, in any given market, the quantity of a product demanded by consumers does not equate to the quantity supplied by suppliers. This is a direct result of a lack of certain economically ideal factors, which prevents equilibrium. Market failures have negative effects on the economy because an optimal allocation of resources is not attained. In other words, the social costs of producing the good or service (all of the opportunity costs of the input resources used in its creation) are not minimized, and this results in a waste of some resources. Take, for example, the common argument against minimum wage laws. Minimum wage laws set wages above the going market-clearing wage in an attempt to raise market wages. Critics argue that this higher wage cost will cause employers to hire fewer minimum-wage employees than before the law was implemented. As a result, more minimum wage workers are left unemployed, creating a social cost and resulting in market failure.

Market If Touched – MIT

An order to purchase or sell a security as soon as a specific price is reached. Once the security reaches a certain price, the order automatically becomes a market order.

Market Index

An aggregate value produced by combining several stocks or other investment vehicles together and expressing their total value against a base value from a specific date. Market indexes are intended to represent an entire stock market and thus track the market's changes over time. Index values are useful for investors to track changes in market values over long periods of time. For example, the widely used Standard and Poor's 500 Index is computed by combining 500 large-cap U.S. stocks together into one index value. Investors can track changes in the index's value over time and use it as a benchmark to compare their own portfolio returns to.

Market Is Off

A common phrase meaning that the market (or a major market index) is trading below the previous closing price.

The opposite would be the "market is up".

Market Is Up

A common phrase meaning the market (or a major market index) is trading higher than the previous closing price.

The opposite would be the "market is down" or the "market is off".

Market Jitters

Feelings of nervousness created by uncertainty or fear about the current investment environment. Market jitters can be caused by (among other things) poor corporate earnings, high rates of unemployment, or uncertainty with the Federal Reserve interest rate decisions.

Market Maven

Slang used to describe a good investor who is "in-the-know." It also implies opinion leadership. In general, the term is used to describe consumers who have up-to-date information about products, places to shop, and different markets. This definition makes sense when talking in the context of the stock market.

Market Neutral

A strategy undertaken by an investor or an investment manager that seeks to profit from both increasing and decreasing prices in a single or numerous markets. Market-neutral strategies are often attained by taking matching long and short positions in different stocks to increase the return from making good stock selections and decreasing the return from broad market movements. Market neutral strategists may also use other tools such as merger arbitrage, shorting sectors, and so on. There is no single accepted method of employing a market-neutral strategy. Managers who hold a market-neutral position are able to exploit any momentum in the market. Hedge funds commonly take a market-neutral position because they are focused on absolute as opposed to relative returns. A market-neutral position may involve taking a 50% long, 50% short position in a particular industry, such as oil and gas, or taking the same position in the broader market.

Market Overhang

An observational theory stating that in certain stocks at certain times, there is a buildup of selling pressure. This occurs as a combined result of sales and a strong wish to sell among those who still hold the stock but fear that selling it may cause further declines. Depending on the overall liquidity in the stock, a market overhang can last for weeks, months or longer. Market overhang usually relates to trading in one security but can also apply to larger areas of the market, such as an entire sector. Market overhang is most often felt and created by institutional investors, who may have a large block of shares they wish to sell and are aware of high selling interest across the market for the stock. Another scenario arises when a large shareholder is thought to be looking at selling his or her stake. This creates an overhang in the stock, which prevents investors from buying the stock until the large shareholder is done selling his stake. Market overhang can also develop in a poorly-performing IPO when the lockup period ends and insiders look to unload their recently-acquired shares.

Market Perform

An investment rating used by analysts when the expectation for a given stock or investment is that it will provide returns in line with those of the S&P 500 or other leading market averages. Market perform is a neutral assessment of a stock and is neither strongly positive or negative. If, however, the stock has gone through a period of market underperformance, it is an indication that the stock is expected to improve its performance relative to market averages. The phrase "market perform" tends to be a fairly lukewarm recommendation overall. A preferred investment vehicle would be one that is expected to outperform, or do better than, leading market averages. A "market perform" rating can be equated to such ratings as "hold" or "peer perform".

Market Psychology

The overall sentiment or feeling that the market is experiencing at any particular time. Greed, fear, expectations and circumstances are all factors that contribute to the group's overall investing mentality or sentiment. While conventional financial theory describes situations in which all the players in the market behave rationally, not accounting for the emotional aspect of the market can sometimes lead to unexpected outcomes that can't be predicted by simply looking at the fundamentals.

Market Risk

The day-to-day potential for an investor to experience losses from fluctuations in securities prices. This risk cannot be diversified away. Also referred to as "systematic risk". The beta of a stock is a measure of how much market risk a stock faces.

Market Risk Premium

The difference between the expected return on a market portfolio and the risk-free rate. It is equal to the slope of the security market line (SML).

Market Saturation

When the amount of product provided in a market has been maximized in the current state of the marketplace. At the point of saturation, further growth can only be achieved through product improvements, market share gains or a rise in overall consumer demand. Many companies are already aware of the problems of market saturation and have intentionally designed their products to "wear down" or otherwise need replacement at some point. For example, selling a light bulb that never burned out would limit consumer demand for more of this product. Services revenue also becomes an important consideration when product revenue begins to slow; IBM smartly changed its business model toward providing services once it saw saturation in the large computer server market.

Market Segmentation

A marketing term referring to the aggregating of prospective buyers into groups (segments) that have common needs and will respond similarly to a marketing action. For example, an athletic footwear company might have market segments for basketball players and long-distance runners. As distinct groups, basketball players and long-distance runners will respond to very different advertisements.

Market Sentiment

The feeling or tone of a market (i.e. crowd psychology). It is shown by the activity and price movement of securities. For example, rising prices would indicate a bullish market sentiment. A bearish market sentiment would be indicated by falling prices.

Market Share

The percentage of total industry sales that is made up by a particular company's individual sales. For example, because Coca-Cola's sales have historically made up a large percentage of the total sales of the cola beverage industry, the company has held a large portion of its industry's market share.

Market Surveillance

A department responsible for investigating and preventing abusive, manipulative, or illegal trading practices on the Nasdaq. This department conducts daily, weekly, and monthly computer surveillance to detect any fraudulent activity in a stock's price.

Market Technicians Association – MTA

A not-for-profit organization located in the US that promotes ethical trading practices among technical analysts. Only paying MTA members may enroll in the Chartered Market Technician (CMT) program. The MTA serves to educate the public on the benefits and hindrances associated with technical analysis and provides a means for technical analysts to communicate with one another.

Market Timing

1. The act of attempting to predict the future direction of the market, typically through the use of technical indicators or economic data.

   2. The practice of switching among mutual fund asset classes in an attempt to profit from the changes in their market outlook.

Some investors, especially academics, believe it is impossible to time the market. Other investors, notably active traders, believe strongly in market timing. Thus, whether market timing is possible is really a matter of opinion.What we can say with certainty is that it's very difficult to be successful at market timing continuously over the long-run. For the average investor who doesn't have the time (or desire) to watch the market on a daily basis, there are good reasons to avoid market timing and focus on investing for the long-run.

Market Value

1. The current quoted price at which investors buy or sell a share of common stock or a bond at a given time. Also known as "market price".
2. The market capitalization plus the market value of debt. Sometimes referred to as "total market value".

Market Value Added – MVA

A calculation that shows the difference between the market value of a company and the capital contributed by investors (both bondholders and shareholders). In other words, it is the sum of all capital claims held against the company plus the market value of debt and equity.

Calculated as: **MVA = Company's Market Value - Invested Capital**

The higher the MVA, the better. A high MVA indicates the company has created substantial wealth for the shareholders. A negative MVA means that the value of management's actions and investments are less than the value of the capital contributed to the company by the capital market (or that wealth and value have been destroyed).

Marketable Securities

Very liquid securities that can be converted into cash quickly at a reasonable price. Marketable securities are very liquid as they tend to have maturities of less than one year. Furthermore, the rate at which these securities can be bought or sold has little effect on their prices. Examples of marketable securities include commercial paper, banker's acceptances, Treasury bills and other money market instruments.

Marketing

The activities of a company associated with buying and selling a product or service. It includes advertising, selling and delivering products to people. People who work in marketing departments of companies try to get the attention of target audiences by using slogans, packaging design, celebrity endorsements and general media exposure. The four 'Ps' of marketing are product, place, price and promotion. Many people believe that marketing is just about advertising or sales. However, marketing is everything a company does to acquire customers and maintain a relationship with them. Even the small tasks like writing thank-you letters, playing golf with a prospective client, returning calls promptly and meeting with a past client for coffee can be thought of as marketing. The ultimate goal of marketing is to match a company's products and services to the people who need and want them, thereby ensure profitability

Markup

The difference between an investment's lowest current offering price among dealers and the higher price a dealer charges a customer. Markups occur when dealers act as principals (buying and selling securities from their own accounts, at their own risk), as opposed to brokers (receiving a fee for facilitating a transaction). Certain securities are available for purchase by retail investors from dealers who sell the securities directly from their own accounts. The dealer's only compensation for the sale comes in the form of the markup, the difference between the price the security was purchased at and the price the dealer charges to the retail investor. The dealer assumes some risk by acting in this capacity, as the market price of the security in his or her inventory could drop before he/she is able to sell to investors. Note that most dealers are also brokers, and vice versa, so the term broker-dealer is common.

Marlboro Friday

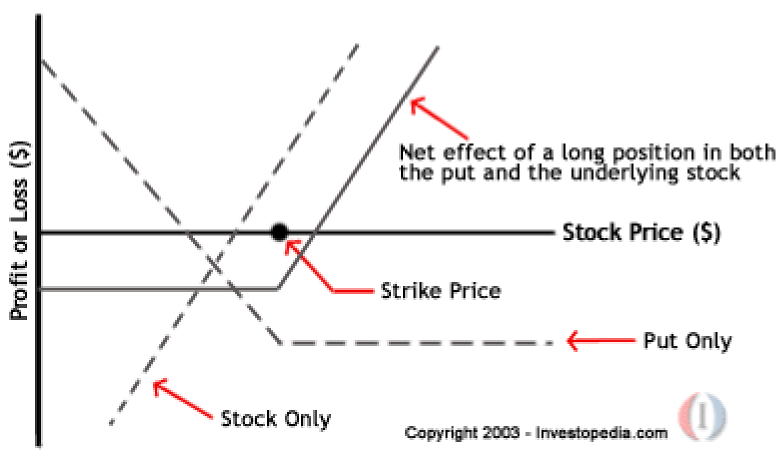
A reference to Friday, Apr 2, 1993, when Philip Morris, the maker of Marlboro cigarettes, announced that it would be cutting the price of Marlboros to compete with generic cigarette makers. The company's stock tanked 26% following the announcement, losing about $10 billion off its market cap in a single day. The day is remembered as a landmark moment in the 1990s consumer movement away from name brand products in favor of cheaper generic products with prices 50% lower than their branded competitors. In its wake, money managers moved cash from name brand consumer goods makers like Coca-Cola and Tambrands (the former maker of Tampax tampons) to technology stocks and generic consumer goods producers. Even though Philip Morris's announcement caused the company to initially lose $10 billion in market cap, the event marked the end of a price war. Competitors were priced out of the market, and only two years later, Philip Morris's stock had fully recovered from Marlboro Friday's loss. One analyst (James A. Taylor) was quoted in the *New York Times* as saying, "I believe the 1990s officially began with Marlboro's inability to sustain its price."

Marquee Asset

A company's most appealing asset. Also referred to as a trophy asset. This is usually the asset that is worth the most or makes the largest contribution to a company's bottom line.

Married Put

An option strategy whereby an investor, holding a long position in stock, purchases a put on the same stock to protect against a depreciation in the stock's price.



Potential gains or losses from a married put strategy are created from the net effect of a long position in both the put and its underlying stock. This strategy establishes a floor, allowing unlimited profits while limiting the potential loss. Should the stock price decline below the strike price before expiration of the option, the investor would exercise the put option and sell his or her stock at the strike price. Should the stock price increase above the strike price, the option would not be exercised and the investor could sell the stock at the higher price and recognize a profit if the stock price is above the overall cost of the position. In essence, this is like purchasing insurance against your stock

Martingale System

A money management system of investing in which the dollar values of investments continually increase after losses, or the position size increases with lowering portfolio size. This is a very risky method of investing. The main idea behind the Martingale system is that statistically you cannot lose all the time, and therefore you should increase the amount allocated in investments--even if they are declining in value--in anticipation of a future increase. The Martingale system is commonly compared to betting in a casino. When a gambler using this method loses, he or she doubles his or her bet. By repeatedly doubling the bet when he or she loses, the gambler will (in theory) eventually even out with a win. Of course, this is assuming the gambler has an unlimited supply of money to bet with.

Mass Customization

The process of delivering wide-market goods and services that are customized to satisfy a specific customer need. Basically, this combines the best of "custom-made" and "mass produced" goods. Computer purveyor Dell and many auto makers are good examples of companies providing mass customization.

Matador Bond

A foreign bond denominated in pesetas and issued in Spain by a non-Spanish company. Matadors are the bullfighters in Spain.

Material News

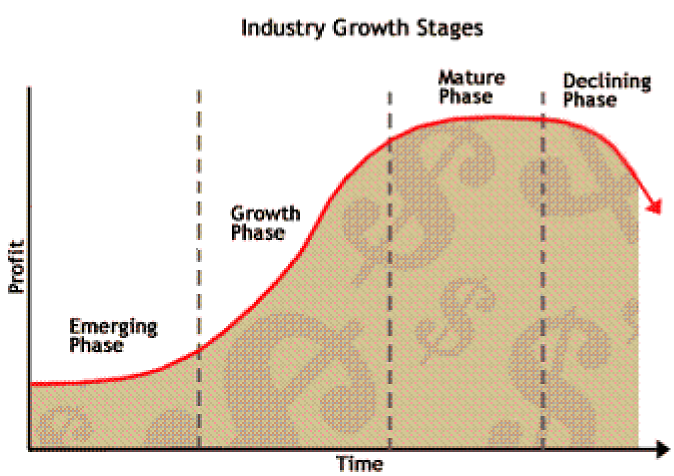
News released by a company that might affect the value of its securities or influence investors' decisions. Also known as "materiality." Material news includes information such as unusual corporate events, unexpected earnings results (whether good or bad), stock splits, etc.

Material Weakness

When one or more of a company's internal controls, put in place to prevent significant financial statement irregularities, is considered to be ineffective. If a deficiency in an internal control is thought to be of material weakness, this means that it could lead to a material misstatement in a company's financial statements. A material weakness, when reported by an auditor, simply suggests that a misstatement could occur. If a material weakness remains undetected and unresolved, a material misstatement could eventually occur in a company's financial statements, which would have a tangible effect on a company's valuation. For example, a $100 million overstatement in revenue would be a material misstatement for a company generating sales of $500 million annually.

Mature Industry

An industry which has passed both the emerging and the growth phases of industry growth. Earnings and sales grow slower in mature industries than in growth and emerging industries.



As can be seen above, the third phase is the mature industry phase. A mature industry may be at its peak or just past it. While earnings may be stable, growth prospects are few and far between. Mature industries are characterized by low price to earnings ratios (P/E) and high dividend yields.

Maturity

1. The length of time until the principal amount of a bond must be repaid.
2. The end of the life of a security.

Maturity by Maturity Bidding - MBM

-A bond auction that allows bidders (who are underwriters) to submit bids for selected maturities in its issue, rather than requiring buyers to bid for the entire issue on an all-or-none (AON) basis. This gives smaller underwriting firms more flexibility, allowing them to bid for part of the issue.

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Maturity Date

The date on which the principal amount of a note, draft, acceptance bond or other debt instrument becomes due and is repaid to the investor and interest payments stop. It is also the termination or due date on which an installment loan must be paid in full.

Maximizer™

A brand of customer relationship management software popularly used by brokers and investment advisors for tracking clients and leads. Brokers and investment dealers often use Maximizer™ software to make cold-calls to client leads.

McClellan Oscillator

A market breadth indicator that is based on the difference between the number of advancing and declining issues on the NYSE. It is primarily used for short and intermediate term trading. To calculate subtract a 39 day EMA (of advancing issues - declining issues) from a 19 day EMA (of advancing issues - declining issues).

McClellan Summation Index

The McClellan Summation Index is a long-term version of the McClellan Oscillator. It is a market breadth indicator, and interpretation is similar to that of the McClellan Oscillator, except that it is more suited to major trends.

Medium Term Note – MTN

1. 1.A note that usually matures in five to 10 years.
2. Notes range in maturity from one to 10 years. By knowing that a note is medium term, investors have an idea of what its maturity will be when they compare its price to that of other fixed-income securities. All else being equal, the coupon rate on medium-term notes will be higher than those achieved on short-term notes.
3. 2. A corporate note continuously offered by a company to investors through a dealer. Investors can choose from differing maturities, ranging from nine months to 30 years.
4. This type of debt program is used by a company so it can have constant cash flows coming in from its debt issuance; it allows a company to tailor its debt

issuance to meet its financing needs. Medium-term notes allow a company to register with the SEC only once, instead of every time for differing maturities.

Mega Cap

Companies having a market capitalization greater than $200 billion.

Mello-Roos

In the U.S., a form of financing that can be used by cities, counties and special districts (such as school districts) to finance major improvements and services within the particular district. Special taxes and bonds used for Mello-Roos financing can only be issued by counties or districts in which two-thirds of the voters in the area have voted in favor of becoming a Mello-Roos district.

Memorandum of Understanding - MOU

A legal document outlining the terms and details of an agreement between parties, including each parties requirements and responsibilities. The MOU is often the first stage in the formation of a formal contract. An MOU is far more formal then a handshake and is given weight in a court of law should one party fail to meet the obligations of the memorandum.

Mental Accounting

An economic concept established by economist Richard Thaler, which contends that individuals divide their current and future assets into separate, non-transferable portions. The theory purports individuals assign different levels of utility to each asset group, which affects their consumption decisions and other behaviors.

Mercantilism

The main economic system used during the 16th to 18th centuries. The main goal was to increase a nation's wealth by imposing government regulation concerning all of the nation's commercial interests. It was believed that national strength could be maximized by limiting imports via tariffs and maximizing exports.

Merchant Bank

A bank that deals mostly in (but is not limited to) international finance, long-term loans for companies and underwriting. Merchant banks do not provide regular banking services to the general public.

Merger Arbitrage

A hedge fund strategy with which the stocks of two merging companies are simultaneously bought and sold to create a riskless profit.

Merger Securities

A non-cash asset paid to the shareholders of a corporation that is being acquired or is the target of a merger. Theses securities generally consist of bonds, options, preferred stock and warrants, among others.

Mergers And Acquisitions - M&A

A general term used to refer to the consolidation of companies. A merger is a combination of two companies to form a new company, while an acquisition is the purchase of one company by another with no new company being formed. An example of a major merger is the merging of JDS Fitel Inc and Uniphase Corp in 1999 to form JDS Uniphase. An example of a major acquisition is Manulife Financial Corporation's 2004 acquisition of John Hancock Financial Services Inc.

The term M&A also refers to the department at financial institutions that deals with mergers and acquisitions.

Michigan Consumer Sentiment Index – MCSI

A survey of consumer confidence conducted by the University of Michigan. The preliminary report is released on the tenth (except on weekends) of each month. A final report for the prior month is released on the first of the month. The index is becoming more and more useful for investors. It gives a snapshot of whether or not consumers feel like spending money.

Micro Cap
Companies having a market capitalization between $50 million and $300 million.
Microfinance
A type of banking service that is provided to unemployed or low-income individuals or groups who would otherwise have no other means of gaining financial services. Ultimately, the goal of microfinance is to give low income people an opportunity to become self-sufficient by providing a means of saving money, borrowing money and insurance.
Micro-Hedge
An investment technique used to eliminate the risk of a single asset. In most cases, this means taking an offsetting position in that single asset.
A type of political risk that refers to political actions in a host country that can adversely affect selected foreign operations. Micro risk can come about from events that may or may not be in the reigning government's control.
Modern Portfolio Theory – MPT
A theory on how risk-averse investors can construct portfolios in order to optimize market risk for expected returns, emphasizing that risk is an inherent part of higher reward. Also called portfolio theory or portfolio management theory. According to the theory, it's possible to construct an "efficient frontier" of optimal portfolios offering the maximum possible expected return for a given level of risk. This theory was pioneered by Harry Markowitz in his paper "Portfolio Selection," published in 1952 by the Journal of Finance.
There are four basic steps involved in the portfolio construction:
-Security Valuation
-Asset Allocation
-Portfolio Optimization
Modified Internal Rate Of Return - MIRR
While the internal rate of return (IRR) assumes the cash flows from a project are reinvested at the IRR, the modified IRR assumes that all cash flows are reinvested at the firm's cost of capital. Therefore, MIRR more accurately reflects the profitability of a project.
Modigliani-Miller Theorem - M&M
A financial theory stating that the market value of a firm is determined by its earning power and the risk of its underlying assets, and is independent of the way it chooses to finance its investments or distribute dividends. Remember, a firm can choose between three methods of financing: issuing shares, borrowing or spending profits (as opposed to dispersing them to shareholders in dividends). The theorem gets much more complicated, but the basic idea is that, under certain assumptions, it makes no difference whether a firm finances itself with debt or equity. In "Financial Innovations and Market Volatility" Merton Miller explains the concept using the following analogy:
"Think of the firm as a gigantic tub of whole milk. The farmer can sell the whole milk as is. Or he can separate out the cream and sell it at a considerably higher price than the whole milk would bring. (That's the analog of a firm selling low-yield and hence high-priced debt securities.) But, of course, what the farmer would have left would be skim milk with low butterfat content and that would sell for much less than whole milk. That corresponds to the levered equity. The M and M proposition says that if there were no costs of separation (and, of course, no government dairy-support programs), the cream plus the skim milk would bring the same price as the whole milk."
Mom and Pop
An adjective denoting a small-scale and family-like atmosphere, often used to describe these types of businesses and investors.
Momentum Fun

Investment funds that invest in companies based on current trends in such things as earnings or price movement. The portfolio manager will look for companies that have been trending in a certain direction (e.g. a series of extremely positive earnings releases or upward price momentum in the short term). The manager will then take positions in the same direction as the trend and attempt to ride the wave and sell once it has peaked.

Monetarism

A set of views based on the belief that inflation depends on how much money the government prints. It is closely associated with Milton Friedman, who argued, based on the Quantity Theory of Money, that the government should keep the money supply fairly steady, expanding it slightly each year mainly to allow for the natural growth of the economy.

Monetarist

An economist who holds the strong belief that the economy's performance is determined almost entirely by changes in the money supply.

Monetary Conditions Index - MCI

A measure of monetary conditions in the Canadian economy, giving an idea of the relative ease or tightness of monetary policy. MCI gauges the effect that Canada's monetary policy has on the Canadian economy through changes in the exchange rate and interest rates.

Monetary Conditions Index – MCI

A measure of monetary conditions in the Canadian economy, giving an idea of the relative ease or tightness of monetary policy. MCI gauges the effect that Canada's monetary policy has on the Canadian economy through changes in the exchange rate and interest rates. The index looks at interest rates in Canada and the exchange rate Canada has relative to its major trading partners to give an idea of how these factors are working together to influence the economy. It is calculated as the change in the 90-day commercial paper rate since 1987 plus one third of the percentage change in the exchange rate of the Canadian dollar against the currencies of six of Canada's major trading partners (U.S., EU, Japan, U.K., Switzerland and Sweden), each with a different weighting.

Monetary Policy

The actions of a central bank, currency board or other regulatory committee, that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Monetize

1. To convert into money.
2. To convert from securities into currency that can be used to purchase goods and services.

Money

1. A commodity or asset, such as gold, an officially issued currency, coin or paper note, that can be legally exchanged for something equivalent, such as goods or services.
2. As defined by common law: a medium of exchange that is authorized or adopted by a domestic or foreign government and includes a monetary unit of account established by an intergovernmental organization or by agreement between two or more nations.

Money Laundering

The process of creating the appearance that large amounts of money obtained from serious crimes, such as drug trafficking or terrorist activity, originated from a legitimate source.

Money Management

The process of budgeting, saving, investing, spending or otherwise in overseeing the cash usage of an individual or group. The predominant use of the phrase in financial markets is that of an investment professional making investment decisions for large pools of funds, such as mutual funds or pension plans.

Money Market

The securities market dealing in short-term debt and monetary instruments. Money market instruments are forms of debt that mature in less than one year and are very liquid.

Monoline

A business that focuses on operating in one specific financial area. The main advantage of this structure is that these companies have specialized skills and provide expertise beyond what can usually be expected

Monopsony

A market similar to a monopoly except that a large buyer not seller controls a large proportion of the market and drives the prices down. Sometimes referred to as the buyer's monopoly

Monte Carlo Simulation

A problem solving technique used to approximate the probability of certain outcomes by running multiple trial runs, called simulations, using random variables.

Montreal Exchange

A Canadian derivatives exchange that facilitates the trading of stock options, interest rate futures and options, as well as index options and futures. Located in Montreal, Quebec, it is the country's main financial derivative market, while the Winnipeg Commodities Exchange in Manitoba is the home to Canadian commodity derivative trading.

Moore's Law

An observation made by Intel co-founder Gordon Moore in 1965. He noticed that the number of transistors per square inch on integrated circuits had doubled every year since their invention. Moore predicted the trend would continue for the foreseeable future.

Moral Suasion

A persuasion tactic used by an authority (i.e. Federal Reserve Board) to influence and pressure, but not force, banks into adhering to policy

Morgan Stanley Capital International – MSCI

A series of indexes constructed by Morgan Stanley to help institutional investors benchmark their returns. These indexes are also used for investment purposes - in the form of exchanged-traded funds - by all types of investors. There are a wide range of indexes created by Morgan Stanely covering a wide range of developed and emerging economies and a wide range of economic sectors. Most of these indexes can be purchased through iShares by institutional and retail investors around the world.

In providing benchmarks for institutional investors such as mutual funds and hedge funds, MSCI offers region- and sector-specific indexes that may be more relevant compared to a large market index such as the S&P 500. For example, a more appropriate index for a mutual fund that invests in small-cap stocks in the U.S. would be the 'MSCI US Small Cap 1750 Index' instead of the S&P 500.

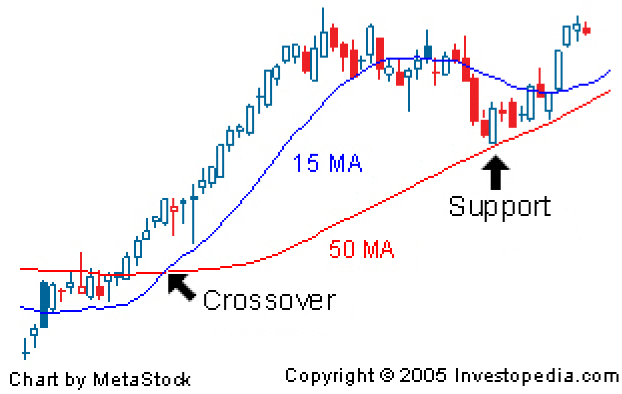
Mosaic Theory

A method of analysis used by security analysts to gather information about a corporation. Mosaic theory involves collecting public, non-public and non-material information about a company in order to determine the underlying value of the company's securities and to enable the analyst to make recommendations to clients based on that information.

Mothballing

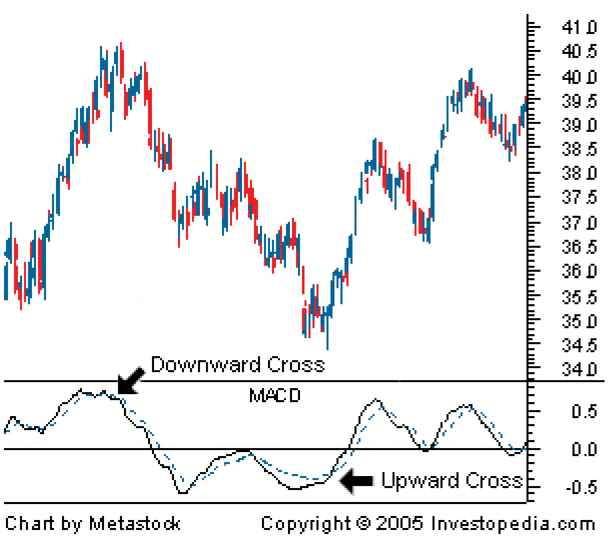
The preservation of a production facility without using it to produce. Machinery in a mothballed facility is kept in working order so that production may be restored quickly if needed.

Moving Average – MA
An indicator frequently used in technical analysis showing the average value of a security's price over a set period. Moving averages are generally used to measure momentum and define areas of possible support and resistance.



Moving averages are used to emphasize the direction of a trend and to smooth out price and volume fluctuations, or "noise" that can confuse interpretation. Typically, upward momentum is confirmed when a short-term average (e.g.15-day) crosses above a longer-term average (e.g. 50-day). Downward momentum is confirmed when a short-term average crosses below a long-term average.

Moving Average Convergence Divergence – MACD
A trend-following momentum indicator that shows the relationship between two moving averages of prices. The MACD is calculated by subtracting the 26-day exponential moving average (EMA) from the 12-day EMA. A nine-day EMA of the MACD, called the "signal line", is then plotted on top of the MACD, functioning as a trigger for buy and sell signals.



There are three common methods used to interpret the MACD:
1. Crossovers - As shown in the chart above, when the MACD falls below the signal line, it is a bearish signal, which indicates that it may be time to sell. Conversely, when the MACD rises above the signal line, the indicator gives a bullish signal, which suggests that the price of the asset is likely to experience upward momentum. Many traders wait for a

confirmed cross above the signal line before entering into a position to
avoid getting getting "faked out" or entering into a position too early, as shown by the first arrow.
2. Divergence - When the security price diverges from the MACD. It signals the end of the current trend.
3. Dramatic rise - When the MACD rises dramatically - that is, the shorter moving average pulls away from the longer-term moving average - it is a signal that the security is overbought and will soon return to normal levels.

Traders also watch for a move above or below the zero line because this signals the position of the short-term average relative to the long-term average. When the MACD is above zero, the short-term average is above the long-term average, which signals upward momentum. The opposite is true when the MACD is below zero. As you can see from the chart above, the zero line often acts as an area of support and resistance for the indicator.

Multinational Corporation - MNC

A corporation that has its facilities and other assets in at least one country other than its home country. Such companies have offices and/or factories in different countries and usually have a centralized head office where they co-ordinate global management. Very large multinationals have budgets that exceed those of many small countries. Sometimes referred to as a "transnational corporation". Nearly all major multinationals are either American, Japanese or Western European, such as Nike, Coca-Cola, Wal-Mart, AOL, Toshiba, Honda and BMW. Advocates of multinationals say they create jobs and wealth and improve technology in countries that are in need of such development. On the other hand, critics say multinationals can have undue political influence over governments, can exploit developing nations as well as create job losses in their own home countries.

Multiples Approach

A valuation theory based on the idea that similar assets sell at similar prices. This assumes that a ratio comparing value to some firm-specific variable (operating margins, cash flow, etc.) is the same across similar firms

Multiplier

In Keynesian economic theory, a factor that quantifies the change in total income as compared to the injection of capital deposits or investments which originally fueled the growth. It is usually used as a measurement of the effects of government spending on income, and it can be calculated as one divided by the marginal propensity to save.

Multiplier Effect

The expansion of a country's money supply that results from banks being able to lend. The size of the multiplier effect depends on the percentage of deposits that banks are required to hold as reserves. In other words, it is money used to create more money and is calculated by dividing total bank deposits by the reserve requirement.

Multistage Dividend Discount Model

An equity valuation model that builds on the Gordon growth model by applying varying growth rates to the calculation. Under the multistage model, changing growth rates are applied to different time periods. Various versions of the multistage model exist including the two-stage, H, and three-stage models.

Mutual Company

A private company whose ownership base is made of customers. Also referred to as a "co-operative".

Mutual Fund Liquidity Ratio

A ratio published monthly by the Investment Company Institute that compares the amount of cash relative to total assets held by a mutual fund. Equity investors to gauge the demand for shares and the bullishness or bearishness of portfolio managers use the mutual fund liquidity ratio.

Mutual Fund Theorem

An investing theory, postulated by Nobel laureate James Tobin, that states that all investors should hold an identically comprised portfolio of "risky assets" combined with some percentage of risk-free assets or cash. A conservative investor would hold a higher percentage of cash, but would have the same basket of risky investments in his or her portfolio as an aggressive investor

Mutual Fund Timing

legal but frowned-upon practice whereby traders attempt to profit from the short-term differences between the daily closing prices of a mutual fund.

Mutualization

The process of changing a firm's business structure so the owners of the company are eligible to receive cash distributions from the company in direct proportion to the amount of revenue the company earns from each member. This form of business structure is also known as a cooperative in some jurisdictions.

P

Primary Offering

The first of issuance of stock for public sale from a private company. This is the means by which a private company can raise equity capital through the financial markets in order to expand its business operations. This can also include debt issuance. Also known as an "initial public offering" (IPO). A primary offering is usually done to help a young, growing company expand its business operations, but can also be done by a mature company that still happens to be a private company. Primary offerings can be followed by secondary offerings, which serve as a way for a company that is already publicly traded to raise further equity capital for its business. After the offering and the receipt of the funds raised, the securities are traded on the secondary market, where the company does not receive any money from the purchase and sale of the securities they previously issued.

Prime Bank

This term usually describes the top 50 banks (or thereabouts) in the world. Prime banks trade instruments such as world paper, International Monetary Fund bonds, and Federal Reserve notes. Be extremely wary when you hear this term. It is often used by fraudsters looking to give some legitimacy to their cause. Prime bank programs often claim investors' funds will be used to purchase and trade "prime bank" financial instruments for huge gains. Unfortunately, these "prime bank" instruments often never exist and people lose all of their money.

Prime Rate

The interest rate that commercial banks charge their most credit-worthy customers. Generally a bank's best customers consist of large corporations. Default risk is the main determiner of the interest rate a bank will charge a borrower. Because a bank's best customers have little chance of defaulting, the bank can charge them a rate that is lower than the rate that would be charged to a customer who has a higher likelihood of defaulting on a loan.

Private Banking

Beyond just providing credit or managing investments, private banking addresses your entire financial situation. Services include everything from protecting and growing your assets in the present, to planning retirement and passing wealth on to future generations. This is usually only for high net worth clients.

Private Company

A company whose ownership is private. As a result, it does not need to meet the strict Securities and Exchange Commission filing requirements of public companies.Private companies may issue stock and have shareholders. However, their shares do not trade on public exchanges and are not issued through an initial public offering. In general, the shares of these businesses are less liquid and the values are difficult to determine

Private Equity

Equity capital that is made available to companies or investors, but not quoted on a stock market. The funds raised through private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company's balance sheet. The average individual investor will not have access to private equity because it requires a very large investment.

Private Placement

Raising of capital via private rather than public placement. The result is the sale of securities to a relatively small number of investors. Investors involved in private placements are usually large banks, mutual funds, insurance companies, and pension funds. Since a private placement is offered to a few, select individuals, the placement does not have to be registered with the Securities and Exchange Commission. In many cases detailed financial information is not disclosed and a the need for a prospectus is waived. Finally since the placements are private rather than public, the average investor is only made aware of the placement usually after it has occurred

Privatization

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

Pro Bono

To work for the good of the public rather than for a profit or income. For example, working "Pro Bono" means you work without charging a fee.

Probate

The legal process in which a will is reviewed to determine whether it is valid and authentic. Probate also refers to the general administering of a deceased person's will or the estate of a deceased person without a will. The curt appoints either an executor named in the will (or an administrator if there is no will) to administer the process of collecting the assets of the deceased person, paying any liabilities remaining on the person's estate and finally distributing the assets of the estate to beneficiaries named in the will or determined as such by the executor. Because o the costs of court involvement in the probate process and the potential for involvement of lawyers ho collect fees from the estate of the deceased, many people try to minimize costs associated with the probate process. There are tremendous legal and tax complexities in the probate process, so it is advisable to have a will and speak with a lawyer and financial professional in order to insure that your loved ones are not left with the complicated and often messy task of distributing the assets of your estate upon your passing.

Problem Child

One of the four categories (quadrants) in the BCG growth-share matrix that represents the division within a company that has a small market share within a rapidly expanding industry. A problem child or question mark requires investment capital in order to expand and grow. However, uncertainty exists in this department's profitability because success is not guaranteed.

Profit

The same as net income: total earnings less expenses. In other words, profit is the money a business makes after accounting for all the expenses. Profit is the goal of every company.

Profit Before Tax - PBT

A profitability measure that looks at a company's profits before the company has to pay corporate income tax. This measure deducts all expenses from revenue including interest expenses and operating expenses, but it leaves out the payment of tax. Also referred to as "earnings before tax ". This measre combines all of the company's profits before tax, including operating, non-operating, continuing operations and non-continuing operations. PBT exists because tax expense is constantly changing and taking it out helps to give an investor a good idea of changes in a company's profits or earnings from year to year.

Profit Center

The branch or division of a company that creates profits individually and separately from the main organization. The profit center's revenues and expenses are held separate from the main company's in order to determine their profitability.

Profit Margin

A ratio of profitability calculated as net income divided by revenues, or net profits divided by sales. It measures how much out of every dollar of sales a company actually keeps in earnings. Profit margin is very useful when comparing companies in similar industries. A higher profit margin indicates a more profitable company that has better control over its costs compared to its competitors. Profit margin is displayed as a percentage; a 20% profit margin, for example, means the company has a net income of $0.20 for each dollar of sales. Looking at the earnings of a company often doesn't tell the entire story. Increased earnings are good, but an increase does not mean that the profit margin of a company is improving. For instance, if a company has costs that have increased at a greater rate than sales, it leads to a lower profit margin. This is an indication that costs need to be under better control. Imagine a company has a net income of $10 million from sales of $100 million, giving it a profit margin of 10% ($10 million/$100 million). If in the next year net income rose to $15 million on sales of $200 million, its profit margin would fall to 7.5%. So while the company increased its net income, it has done so with diminishing profit margins.

Profit Taking

The action of selling stock to cash in on a sharp rise. This action pushes prices down temporarily. When traders are profit taking, the implication is that there is an upward trend in the security. For example, in the media you might hear something like this: "Markets were down today as traders took some profits off the table." It's common for prices to retract to some extent even in bull markets.

Profit Warning

When a company advises its earnings won't meet analyst expectations. A profit warning is usually done two or more weeks before an earnings announcement. Companies do this to soften the blow to investors.

Profit-Sharing Plan

A plan that gives employees a share in the profits of the company. Each employee receives a percentage of those profits based on the company's earnings. Also known as "deferred profit-sharing plan" or "DPSP". This is a geat way to give employees a sense of ownership in the company. The company decides what portion of the profit will be shared. And there are typically restrictions as to when and how you can withdraw these funds without penalties.

Pro-Forma Earnings

Projected earnings based on a set of assumptions and often used to present a business plan (in Latin pro forma means "for the sake of form"). It also refers to earnings which exclude non-recurring items. Pro-forma earnings are not derived by standard GAAP methods. Items sometimes excluded in pro-forma earnings figures include write-downs, goodwill amortization, depreciation, restructuring and merger costs, interest, taxes, stock based employee pay and other expenses. The company excludes these items with the intent to present its figures more clearly to investors. However, whether or not this is accomplished is debatable. This has spawned such nicknames for pro-forma earnings as EEBS (earnings excluding bad stuff). Investors should exercise caution when using pro-forma earnings figures in their fundamental analysis. Unlike GAAP earnings, pro-forma earnings do not comply with any standardized rules or regulations. As a result, positive pro-forma earnings can become negative once GAAP requirements are applied and certain items are included in the calculations!

Progressive Tax

A tax that takes a larger percentage from the income of high-income people than it does from low-income people. Most income taxes are considered progressive

Promissory Note

A written, dted and signed two-party instrument containing an unconditional promise by the maker to pay a definite sumof money to a payee on demand or at a specified future date. The only difference between a promissory note and a bill of exchange is that the maker of a note pays the payee personally, rather than ordering a third party to do so. When a bank is the maker promising to repay money it has received plus interest, the promissory note is called a certificate of deposit (CD).

Property Tax

A tax assessed on real estate by the local government. The tax is usually based on the value of property (including the land) you own. This tax is mainly used by municipalities for repairing roads, building schools and snow removal, or other similar services.

Pro-Rata

Used to describe a proportionate allocation. For example, a pro-rata dividend means that every shareholder gets an equal proportion for each share they own.

Proration

A situation during a corporate action in which the available cash or shares are not sufficient to satisfy the offers tendered by shareholders. Therefore, a proportion of both cash and shares is granted for each offer tendered. When you tender an offer for a corporate action, the company making the bid will attempt to fulfill the tender as you requested. However, if the company does not have enough stock or cash, a mixture will be given in order to appease all stockholders.

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Prospect Theory

A theory that people value gains and losses differently and, as such, will base decisions on perceived gains rather than perceived losses. Thus, if a person were given two equal choices, one expressed in terms of possible gains and the other in possible losses, people would choose the former. Also known as "loss-aversion theory". To demonstrate, say one investor was presented with the same mutual fund by two different financial advisors. The first tells the investor that the mutual fund has had an average return of 7% over the past five years. The second advisor tells the investor that the mutual fund has seen above-average returns in the past 10 years but has been declining in recent years. According to prospect theory, even though the investor is presented with the same mutual fund, he or she is more likely to buy the mutual fund from the first advisor, who expressed the rate of return as an overall 7% gain, rather a combination of both high returns and losses.

Prospectus

1. A formal legal document describing details of a corporation. The prospectus is generally created for a proposed offering (usually an IPO), but it can still be obtained from existing businesses as well. The prospectus includes company facts that are vitally important to potential investors.
2. In the case of mutual funds, a prospectus describes the fund's objectives, history, manager background and financial statements.

The prospectus is a document that makes investors aware of the risks of an investment.

Proxy

1. An agent legally authorized to act on behalf of another party. Shareholders not attending a company's annual meeting may choose to vote their shares by proxy by allowing someone else to cast votes on their behalf. A formal power of attorney document that may be signed by a shareholder to authorize another shareholder, a representative of the shareholder or the company's management, to vote on behalf of the shareholder at the annual meeting. Proxy statements must be filed with regulatory authorities (the Securities and Exchange Commission in the U.S.) on an annual basis prior to the company's annual meeting. Proxy documents are meant to provide shareholders with the information necessary to make informed votes on issues important to the company's performance. They are known to offer shareholders and prospective investors tremendous insight into a company's governance as well as a glance at the way that a company's management operates.

1. 1.Management often encourages shareholders to vote by proxy so that ownership interests are fully represented even if shareholders are unable to attend the company's annual meetings in person.

2. 2. The proxy discloses important information about issues to be discussed at an annual meeting, lists the qualifications of management and board members, serves as a ballot for elections to the board of directors, lists the largest shareholders of a company's stock and provides detailed information about executive compensation.

Public Company

A company that has issued securities through an initial public offering and which are traded on at least one stock exchange or over-the-counter market. These companies must file documents and meet stringent reporting requirements set out by the Securities and Exchange Commission, including the public disclosure of financial statements. Any company whose shares are available to the public is a public company.

Public Limited Company - PLC

The standard legal form for a limited, public company in the UK. Only PLCs can be listed on the London Stock Exchange.

Public Offering

The sale of equity shares or other financial instruments by an organization to the public in order to raise funds for business expansion and investment. Public offerings of corporate securities in the U.S. must be registered with and approved by the SEC and are normally conducted by an investment underwriter. Generally, any sale of securities to more than 35 people is deemed to be a public offering, and thus requires the filing of registration statements with the appropriate regulatory authorities. The offering price is predetermined and established by the issuing company and the investment bankers handling the transaction. The term public offering is equally applicable to a company's initial public offering, as well as subsequent offerings.

Public Offering Price - POP

The price at which new issues are offered to the public by an underwriter. When underwriters determine the public offering price, they look at a number of factors. Some of these include the company's financial statements (how profitable it is), public trends, growth rates and even investor confidence.

Puke

Slang for selling off a losing position even if the loss is substantial. The point at which an investor decides to sell regardless of price has been dubbed "the puke point." This follows the theory that successful trading means always cutting your losses and letting your winners ride.

Pullback

A falling back of a price from its peak. This type of price movement might be seen as a brief reversal of the prevailing upward trend, signaling a slight pause in upward momentum. Often pullbacks are seen as buying opportunities after a security has had a large upward price movement. It is important, however, to analyze closely any pullback as it may be a sign of a definite trend reversal or a slight pause in the upward trend, each having very different trading implications

Pump And Dump

A scheme attempting to boost the price of a stock through recommendations based on false, misleading, or greatly exaggerated statements. The perpetrators of this scheme, who already have an established position in the company's stock, sell their position after the hype has led to a higher share price. This practice is illegal based on securities law and can lead to heavy fines. The victims of this scheme will often lose a considerable amount of their investment as the stock often falls back down after the process is complete. Traditionally, this type of scheme was done through the cold-calling of individuals but with the advent of the internet this illegal practice has become even more prevalent. Pump and dump schemes usually target micro- and small-cap stocks, as they are the easiest to manipulate. Due to the small float of these types of stocks it does not take a lot of new buyers to push a stock higher. Claims being made about how a stock is set to break out based on the next greatest thing or generate returns of hundreds or thousands of percent, should be met with a considerable amount of caution. It is important to always do your own research in a stock before making an investment.

Punter

1. A trader who hopes to make quick profits. Basically, another term for "speculator".
2. A British and Australian term for one who gambles, a bettor.

A punter's approach is to speculate rather than invest. Thus, punters aren't concerned with the fundamentals of an investment; instead, they attempt to make a quick profit by selling to somebody else at a higher price. Punters speculate in any market, but especially like options, futures and forex because of the leverage.

Purchase Acquisition

An accounting method used in mergers and acquisitions with which the purchasing company treats the target firm as an investment, adding the target's assets to its own fair market value. If the amount paid for a company is greater than fair market value, the difference is reflected as goodwill. Because goodwill must be written-off against future earnings, this makes the pooling-of-interests method preferable.

Purchasing Managers' Index - PMI

An indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries, and the employment environment. A PMI of more than 50 represents expansion of the manufacturing sector, compared to the previous month. A reading under 50 represents a contraction, while a reading at 50 indicates no change. Prior to September 1, 2001, the acronym (PMI) stood for Purchasing Managers' Index. The Institute of Supply Management (ISM) now uses only the acronym, PMI. Although the ISM publishes numerous indexes, the PMI is the most widely followed and so is sometimes referred to as the ISM index.

Purchasing Power

1. The value of a currency expressed in terms of the amount of goods or services that one unit of money can buy. Purchasing power is important because, all else being equal, inflation decreases the amount of goods or services you'd be able to purchase.
2. In investment terms, the dollar amount of credit available to a customer to buy additional securities against the existing marginable securities in the brokerage account.
3. To measure purchasing power, you'd compare against price index such as CPI. A simple way to think about purchasing power is to imagine if you made the same salary as your grandfather. Clearly you could survive on much less a few generations ago, however, because of inflation, you'd need a greater salary just to maintain the same quality of living.

2. 2. Each jurisdiction has its own rules governing margin transactions. In the United States you can purchase up to 50% of securities on margin, so, if you had $10,000 in a margin account, you'd be able to purchase up to $20,000 worth of securities. Said another way, you have an extra $10,000 of purchasing power (buying power).

Purchasing Power Parity - PPP

An economic theory that estimates the amount of adjustment needed on the exchange rate between countries in order for the exchange to be equivalent to each currency's purchasing power.

The relative version of PPP is calculated as:

$$S = \frac{P_1}{P_2}$$

"P1" represents the cost of good "x" in currency 1

Where:
"S" represents exchange rate of currency 1 to currency 2
"P2" represents the cost of good "x" in currency 2
In other words, the exchange rate adjusts so that an identical good in two different countries has the same price when expressed in the same currency.
For example, a chocolate bar that sells for C$1.50 in a Canadian city should cost US$1.00 in a U.S. city when the exchange rate between Canada and the U.S. is 1.50 USD/CDN. (Both chocolate bars cost US$1.00.)

Pure Play

A company devoted to one line of business, or a company whose stock price is highly correlated with the fortunes of a specific investing theme or strategy. For example, a startup R&D company developing a new technology would be considered pure play because its success depends upon a single product. Coca-Cola would also be considered a pure play in the beverage business. Whereas Pepsi wouldn't be pure play, because it has activities in the food business.

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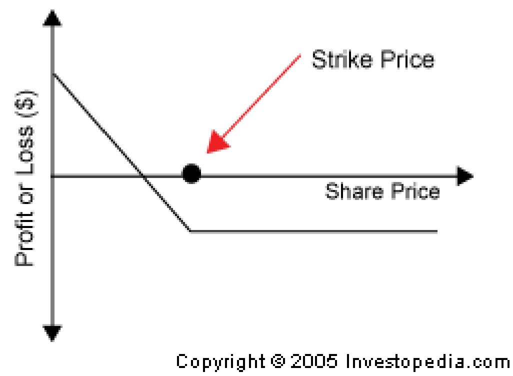
Put

An option contract giving the owner the right, but not the obligation, to sell a specified amount of an underlying asset at a set price within a specified time. The buyer of a put option estimates that the underlying asset will drop below the exercise price before the expiration date. The possible payoff for a holder of a put option contract is illustrated by the following diagram:



When an individual purchases a put, they expect the underlying asset will decline in price. They would then profit by either selling the put options at a profit, or by exercising the option. If an individual writes a put contract, they are estimating the stock will not decline below the exercise price, and will not increase significantly beyond the exercise price. Consider if an investor purchased one put option contract for 100 shares of ABC Co. for $1, or $100 ($1*100). The exercise price of the shares is $10 and the current ABC share price is $12. This contract has given the investor the right, but not the obligation, to sell shares of ABC at $10. If ABC shares drop to $8, the investor's put option is in-the-money and he can close his option position by selling his contract on the open market. On the other hand, he can purchase 100 shares of ABC at the existing market price of $8, then exercise his contract to sell the shares for $10. Excluding commissions, his total profit for this position would be $100 [100*($10 - $8 - $1)]. If the investor already owned 100 shares of ABC, this is called a "married put" position and serves as a hedge against a decline in share price.

Put Bond

A bond that allows the holder to force the issuer to repurchase the security at specified dates before maturity. The repurchase price is set at the time of issue, and is usually par value. Bondholders have the option of putting bonds back to the issuer either once during the lifetime of the bond (known as a one-time put bond), or on a number of different dates. Of course, the special advantages of put bonds mean that some yield must be sacrificed. This type of bond is also known as a multimaturity bond, an option tender bond, a variable rate demand obligation (VRDO).

Put Option

An option contract giving the owner the right, but not the obligation, to sell a specified amount of an underlying security at a specified price within a specified time. This is the opposite of a call option, which gives the holder the right to buy shares. A put becomes more valuable as the price of the underlying stock depreciates relative to the strike price. For example, if you have one Mar 07 Taser 10 put, you have the right to sell 100 shares of Taser at $10 until March 2007 (usually the third Friday of the month). If shares of Taser fall to $5 and you exercise the option, you can purchase 100 shares of Taser for $5 in the market and sell the shares to the option's writer for $10 each, which means you make $500 (100 x $10-$5) on the put option.

Put Ratio Backspread

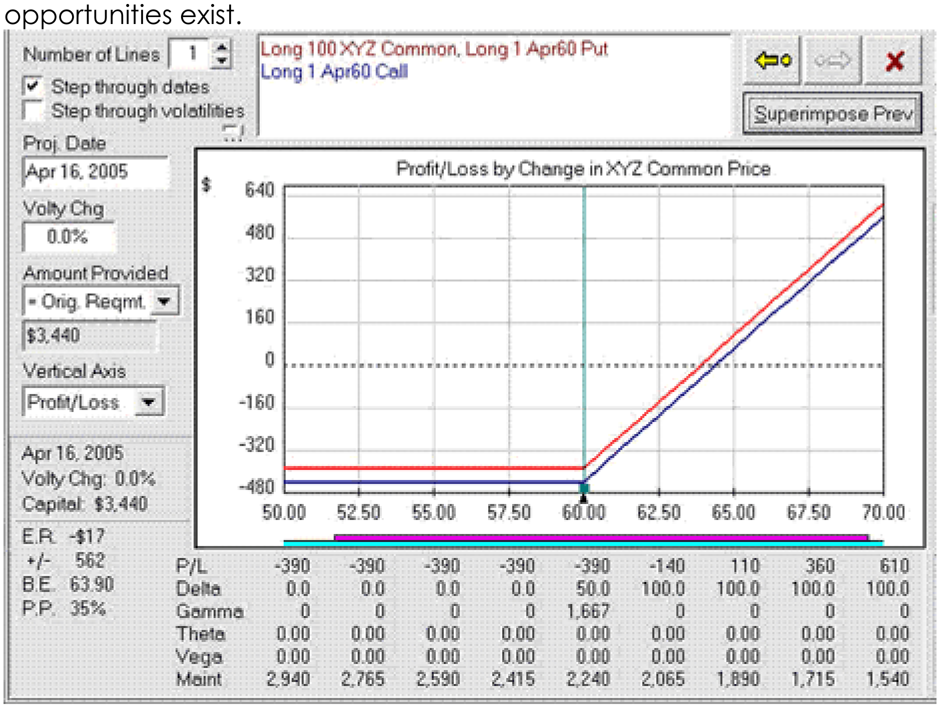
An investment strategy that combines options to create a spread which has limited loss potential and a mixed profit potential. It's created by combining long and short puts in a ratio such as 2:1 or 3:1.

Put Warrant

A warrant that gives the holder the right to sell the underlying share for an agreed price, on or before a specified date. Basically, it's a warrant that gives the right to sell.

Put-Call Parity

A principle referring to the static price relationship, given a stock's price, between the prices of European put and call options of the same class (i.e. same underlying, strike price and expiration date). This relationship is shown from the fact that combinations of options can create positions that are the same as holding the stock itself. These option and stock positions must all have the same return or an arbitrage opportunity would be available to traders. Any option pricing model that produces put and call prices that don't satisfy put-call parity should be rejected as unsound because arbitrage opportunities exist.



Pyramid Scheme

An illegal investment scam based on a hierarchical setup. New recruits make up the base of the pyramid and provide the funding, or so-called returns, given to the earlier investors/recruits above them. A pyramid scheme is initiated by an individual or a company that starts recruiting investors with an offer of guaranteed high returns. As the scheme begins, the earliest investors do receive a high rate of return, but these gains are paid for by new recruits and are not a return on any real investment.

From the day the scam is initiated, a pyramid scheme’s liabilities exceed its assets. The only way it can generate wealth is by promising extraordinary returns to new recruits; the only way these returns can be paid is by getting additional investors. Invariably these schemes lose steam and the pyramid collapses.

Pyramiding

A method of increasing a position size by using unrealized profits from successful trades to increase margin. An investor who is pyramiding uses excess margin from the increasing price of a security in his or her portfolio to purchase more of the same security. This is generally a slow method of increasing one's position size as the margin increases will permit successively smaller purchases.

Pyrrhic Victory

A victory or success that comes at the expense of great losses or costs. In business, examples of such a victory could be succeeding at a hostile takeover bid or winning a lengthy and expensive lawsuit. In 2001, Microsoft won a Pyrrhic victory in its antitrust case when the Appeals Court decided the software giant was not to be broken up. However, Microsoft was still branded a monopoly and was subject to other punishment.

The expression alludes to the Greek King Pyrrhus who, after defeating the Romans in battle, stated: "If we win another such battle against the Romans, we will be completely lost."

R

Reverse Triangular Merger

When the subsidiary of the acquiring corporation merges with the target firm. In this case, the subsidiary's equity merges with the target firm's stock. As a result of the merger, the target would become a wholly-owned subsidiary of the acquirer and shareholders of the target would get shares of the acquirer. This form of acquisition is often used for regulatory reasons.

Rho

The rate at which the price of a derivative changes relative to a change in the risk-free rate of interest. Rho measures the sensitivity of an option or options portfolio to a change in interest rate.

Ricardian Equivalence

An economic theory that suggests that when a government tries to stimulate demand by increasing debt-financed government spending, demand remains unchanged. This is because the public will save its excess money in order to pay for future tax increases that will be initiated to pay off the debt. This theory was developed by David Ricardo in the nineteenth century, but Harvard professor Robert Barro would implement Ricardo's ideas into more elaborate versions of the same concept.

Also known as "Barro-Ricardo equivalence proposition"

Rider

A provision in an insurance policy allowing for amendments to its terms and/or coverage.

Rights Offering (Issue)

Issuing rights to a company's existing shareholders to buy a proportional number of additional securities at a given price (usually at a discount) within a fixed period.

Rings

Trading arenas, located on the floor of an exchange, in which traders execute orders. Rings are also referred to as pits.

Rio Trade

In the securities market, a transaction made in a desperate attempt to recover previous losses.

Ripple

A metaphor for a short-term market trend.

Rising Bottom

A pattern on a security's chart that results from the daily low price rising over time, creating a series of ascending troughs. Technical traders use this pattern to confirm that the trend of the underlying security is heading upward. The chart below illustrates a security that has three rising bottoms, indicating progressively higher lows over time. Also known as "ascending bottom".

Risk

The chance that an investment's actual return will be different than expected. This includes the possibility of losing some or all of the original investment. It is usually measured by calculating the standard deviation of the historical returns or average returns of a specific investment.

Risk Adjusted Return on Capital - RAROC

In financial analysis, riskier projects and investments must be evaluated differently from their riskless counterparts. By discounting risky cashflows against less risky cashflows RAROC accounts for changes in the profile of the investment

Risk Arbitrage

A broad definition for three types of arbitrage that contain an element of risk:
1) Merger and acquisition arbitrage - The simultaneous purchase of stock in a company being acquired and the sale (or short sale) of stock in the acquiring company.
2) Liquidation arbitrage - The exploitation of a difference between a company's current value and its estimated liquidation value.
3) Pairs trading - The exploitation of a difference between two very similar companies in the same industry that have historically been highly correlated. When the two company's values diverge to a historically high level you can take an offsetting position in each (e.g. go long in one and short the other) because, as history has shown, they will inevitable come to be similarly valued.

Risk Averse

Describes an investor who, when faced with two investments with a similar expected return (but different risks), will prefer the one with the lower risk.

Risk Capital

The money that a person allocates to investing in high-risk securities.

Risk Discount

A situation where a particular investor, either an individual or firm, decides to receive less of a return on their investment in exchange for less risk. The risk discount is the exact opposite of the risk premium, and the degree to which any one person chooses the amount of the discount will vary by person to person

Risk Graph

A two-dimensional graphical representation that displays the profit or loss of an option at various prices. The x-axis represents the price of the underlying security and the y-axis represents the potential profit/loss. Often called a "profit/loss diagram", this graph provides an easy way to understand and visualize the effects of what may happen to an option in various situations.

Risk Lover

An investor who is willing to take on additional risk for an investment that has a relatively low expected return. This contrasts with the typical investor mentality - risk aversion. Risk averse investors tend to take on increased risks only if they are warranted by the potential for higher returns.

Risk Management

The process of identification, analysis and either acceptance or mitigation of uncertainty in investment decision-making. Essentially, risk management occurs anytime an investor or fund manager analyzes and attempts to quantify the potential for losses in an investment and then takes the appropriate action (or inaction) given their investment objectives and risk tolerance.

Risk Neutral

A description of an investor who purposely overlooks risk when deciding between investments.

Risk Premium

The return in excess of the risk-free rate of return that an investment is expected to yield. An asset's risk premium is a form of compensation for investors who tolerate the extra risk - compared to that of a risk-free asset - in a given investment

Risk Reversal

1. In commodities trading, it is a hedge strategy that consists of selling a call and buying a put option. This strategy protects against unfavorable, downward price movements but limits the profits that can be made from favorable upward price movements.

Risk Tolerance

The degree of uncertainty that an investor can handle in regards to a negative change in the value of their portfolio.

Risk/Reward Ratio

A ratio used by many investors to compare the expected returns of an investment to the amount of risk undertaken to capture these returns. This ratio is calculated mathematically by dividing the amount of profit the trader expects to have made when the position is closed (i.e. the reward) by the amount he or she stands to lose if price moves in the unexpected direction (i.e. the risk).

Risk-Adjusted Return

A measure of how much risk a fund or portfolio takes on to earn its returns, usually expressed as a number or a rating.

Risk-Free Asset

An asset which has a certain future return. Treasuries (especially T-bills) are considered to be risk-free because they are backed by the U.S. government. Risk-Based Capital Requirement A stated requirement of liquid reserves placed upon banks and institutions that deal in risky ventures.

Risk-Free Rate Of Return

The theoretical rate of return of an investment with zero risk. The risk-free rate represents the interest an investor would expect from an absolutely risk-free investment over a specified period of time.

Risk-Free Rate Puzzle - RFRP

An anomaly in the difference between the lower historic real returns of government bonds compared to equities. This puzzle is the inverse of the equity premium puzzle, and looks at the disparity from the perspective from the lower returning government bonds.

Risk-Free Return

The theoretical rate of return attributed to an investment with zero risk. The risk-free rate represents the interest on an investor's money that he or she would expect from an absolutely risk-free investment over a specified period of time.

Risk-Return Tradeoff

The principle that potential return rises with an increase in risk. Low levels of uncertainty (low risk) are associated with low potential returns, whereas high levels of uncertainty (high risk) are associated with high potential returns. In other words, the risk-return tradeoff says that invested money can render higher profits only if it is subject to the possibility of being lost.

Risk-Weighted Assets

In terms of the minimum amount of capital that is required within banks and other institutions, based on a percentage of the assets, weighted by risk.

Rocket Scientist

In the world of finance, these are people with science and math degrees who work in the finance field building highly advanced quantitative finance models. These models help banking, insurance and investment firms to price financial instruments.

Rolling EPS
Measuring a company's EPS by using the previous 2 quarters and adding them to the following 2 quarter's estimated EPS.
Rollover
1. The process of reinvesting funds from a mature security into a new issue of the same or a similar security.
Royalty Units
An ownership unit in a royalty trust. A royalty unit gives the unit holder a stake in the income generated by the holdings of the trust. A royalty trust takes ownership stakes in operating companies or in their cash flows. The royalty trust owns the income or cash flow that the company generates and passes this income on to the royalty unit holders of that trust. Royalty units are seen as an attractive investment because the income generated by the assets is subject to taxes at the individual level, rather than the double taxation which is seen with dividends on common stock.

S

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Sacrifice Ratio
An economic ratio that measures the costs associated with slowing down economic output to change inflationary trends. The ratio is calculated by taking the cost of lost production and dividing it by the percentage change in inflation, and its quotient gives the loss of output per 1% change in inflation:

$$\text{Sacrifice Ratio} = \frac{\text{Dollar Cost of Production Loss}}{\text{Percentage Change in Inflation}}$$

If inflation is becoming a problem, central banks will try to cool economic growth in a bid to reduce inflationary pressures. However, this reduction in output costs the economy in the short term, and the sacrifice ratio tries to measure that cost.
Safekeeping
The storage of assets or other items of value in a protected area. Individuals may use self-directed methods of safekeeping or the services of a bank or brokerage firm. Financial institutions are custodians and are therefore legally responsible for the items in safekeeping. Also known as "safekeep". Individuals who place an asset in safekeeping are also issued a safekeeping receipt. These receipts indicate that the asset of the individual does not become an asset of the institution and that the asset may be returned to the individual upon request. A fee may be required for these services.
One of the worst corporate scandals of its time. It occurred when Allied Crude Vegetable Oil Company discovered that banks would make loans secured by its salad oil inventory. When the ships full of salad oil would arrive in the docks, inspectors would test it and confirm that the ship was full of salad oil. However, the company didn't remind anyone that oil floats on water. They had filled salad oil tanks with water and put a few feet of oil on top, fooling everyone. The company would even transfer oil to different tanks while taking inspectors out to lunch. In 1963, the scam was busted and over $175 million worth of salad oil was missing.

American Express took one of the biggest hits from the scandal, losing nearly $58 million and experiencing a 50% drop in AMEX stock as a result.

Salad Oil Scandal

Salomon Brothers World Equity Index - SBWEI

An index that measures the performance of fixed-income and equity securities from domestic and international markets that consist of companies with a float of at least $100 million. The Salomon Brothers World Equity Index uses a top-down approach to evaluating companies. Each security within the SBWEI index is weighted according to its float. The SBWEI index includes securities from over 6000 companies located in 22 different countries.

Sandbag

A stalling tactic used by management to deter a company that is showing interest in taking them over. The company stalls in hopes that a more favorable company will take them over.

Sandwich Generation

The generation of middle-aged individuals who are pressured to support both aging parents and growing children. Those of the sandwich generation are caught between the obligation to care for their parents--who may be ill, unable to perform various tasks or in need of financial support--and children, who require financial, physical and emotional support. These obligations demand considerable time and money. With the added burdens of work and personal issues, as well as the need to contribute to their own retirement, the individuals of the sandwich generation are under significant stress.

Santa Claus Rally

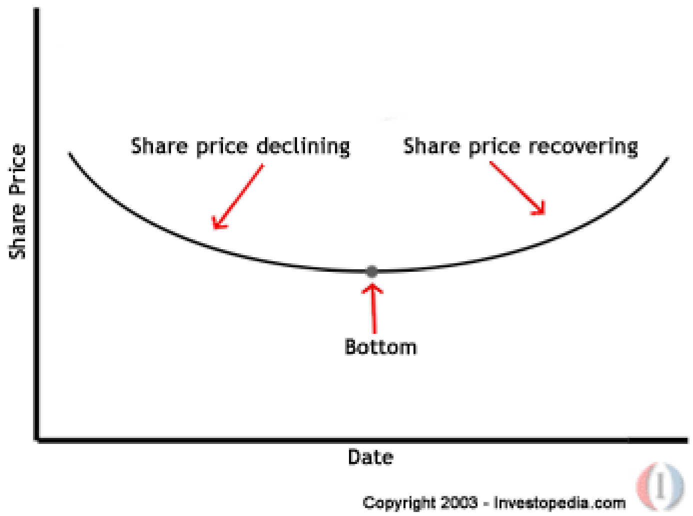
A surge in the price of stocks that often occurs in the week between Christmas and New Year's. There are numerous explanations for this phenomenon, including tax considerations, happiness around Wall Street, people investing their Christmas bonuses and the fact that the pessimists are usually on vacation this week. Many consider the Santa Claus rally to be a result of people buying stocks in anticipation of the rise in stock prices during the month of January, otherwise known as the January effect.

Saturday Night Special

A slang term used to refer to a surprise takeover attempt. The term alludes to the fact that many takeover bids are announced over the weekend in order to avoid too much publicity.

Saucer

A technical charting formation that indicates that a stock's price has reached its low and that the downward trend has come to a close.



Saucer formations will exhibit very low volume figures at the point when the stock's price was the lowest.

Scalpers

A person trading in the equities or options and futures market who holds a position for a very short period of time, attempting to make money off of the bid-ask spread. This rapid trading usually results in small gains, but several small gains can add up to large gains at the end of the day.

Scalping

A trading strategy that attempts to make many profits on small price changes. Traders who implement this strategy will place anywhere from 10 to a couple hundred trades in a single day in the belief that small moves in stock price are easier to catch than large ones. Traders who implement this strategy are known as scalpers. The main goal is to buy (or sell) a number of shares at the bid (or ask) price and then quickly sell them a few cents higher (or lower) for a profit. Many small profits can easily compound into large gains if a strict exit strategy is used to prevent large losses.

Secured Card

A type of credit card that is backed by a savings account used as collateral on the credit available with the card. Money is deposited and held in the account backing the card. The limit will be based on both your previous credit history and the amount deposited in the account. The limit as a percent of the deposit tends to range between 50% and 100%. This type of credit card is used by people with little to no credit or a past history of bad credit. The major benefit that these cards provide is the ability to rebuild or establish a credit history which at some point may allow users to gain unsecured credit cards or other forms of credit finance. Another benefit of secured cards is that holders can purchase products that can only be paid for with credit cards such as with some online retailers.

Secured Debt

Debt backed or secured by collateral to reduce the risk associated with lending. An example would be a mortgage, your house is considered collateral towards the debt. If you default on repayment, the bank seizes your house, sells it and uses the proceeds to pay back the debt. Assets backing debt or a debt instrument are considered security, which means they can be claimed by the lender if default occurs. Obviously unsecured debt is higher risk, and as such lenders of unsecured money typically require a much higher return.

Securities And Exchange Board Of India - SEBI

The regulatory body for the investment market in India. The purpose of this board is to maintain stable and efficient markets by creating and enforcing regulations in the marketplace. The Securities and Exchange Board of India is similar to the U.S. SEC. The SEBI is relatively new (1992) but is a vital component in improving the quality of the financial markets in India, both by attracting foreign investors and protecting Indian investors.

Securitization

The process of creating a financial instrument by combining other financial assets and then marketing them to investors. Mortgage-backed securities are a perfect example of securitization.

Securitize

The practice of a company selling accounts receivables or other debts owed to it. The third party that buys the debt assumes ownership of it and the responsibility for collecting the debts, and keeps the repayments when made. When it sells the debt to the third party, the company recognizes the sale price of debts as a positive cash flow under GAAP rules. There are times when a business may need the help of specialized collections abilities of a third party collections agency in order to spur debt reconciliation from delinquent debtors. But companies sometimes securitize to materially adjust their operating cash flow performance. By selling their debts to a third party - at a price usually significantly less than the value of the debts themselves - a company claims the cash flows sooner. If the company has poor cash flow in a given quarter, the securitizing helps cover up the poor performance on the financial statements. Investors therefore need to scrutinize the rationale behind a company's choice to securitize their debts, ensuring its purpose is to serve the company's bottom line instead of dressing up the financial statements.

Security Analyst

A financial professional who studies various industries and companies, providing research and valuation reports, and making buy, sell, and hold recommendations. Be very wary of a broker who calls an investment a "sure thing" or "easy money." There's no such thing! You can usually trust analysts with the Chartered Financial Analyst (CFA) designation, as they are required to follow a code of ethics.

Security Market Line - SML

The line that graphs the systematic, or market, risk versus return of the whole market at a certain time and shows all risky marketable securities. The SML essentially graphs the results from the capital asset pricing model (CAPM) formula. The X-axis represents the risk (beta), and the Y-axis represents the expected return. The market risk premium is determined from the slope of the SML. It is a useful tool in determining if an asset being considered for a portfolio offers a reasonable expected return for risk. Individual securities are plotted on the SML graph. If the security's risk versus expected return is plotted above the SML, it is undervalued since the investor can expect a greater return for the inherent risk. And a security plotted below the SML is overvalued since the investor would be accepting less return for the amount of risk assumed.

Seed Capital

The initial equity capital used to start a new venture or business. This initial amount is usually quite small because the venture is still in the idea or conceptual stage. Also, there's a high risk that the venture will fail.

Sentiment Indicator

A general term used to describe indicators that gauge investor attitudes toward the market. Sentiment indicators are employed in technical analysis to quantify the levels of optimism or pessimism present in various markets. For example, some indicators will account for all the long and short positions on a particular exchange in order to determine a bearish or bullish market.

Serial Bond
A bond issue in which a portion of the outstanding bonds matures at regular intervals until eventually all of the bonds have matured. As they mature gradually over a period of years, these bonds are used to finance a project providing regular, level or predictable income streams. Serial bonds are also used to finance projects with regular, level debt payments such as residential developments. Serial bonds are issued on the same date and are quoted by their yield, as opposed to their price. The maturity date of the final group of serials is usually closely associated with the predicted apex of income streams from the project that the bonds financed.
Service Shares
Mutual fund units that charge service fees to their shareholders. The purpose of these fees is to compensate individuals who answer investor inquiries and provide information to the public or to investors about the fund. The NASD limits funds from charging service fees in excess of 0.25% of their average net assets per year.
Settlement Date
1. The date by which an executed security trade must be settled. That is, the date by which a buyer must pay for the securities delivered by the seller.
2. The payment date of benefits from a life insurance policy.
Settlement Price
The average price at which a contract trades, calculated at both the open and close of each trading day. Settlement prices are necessary for determining whether gains or losses were made on a contract held during a certain time period. Settlement prices are also required to determine if an investor's margin account requires a margin call for any day a particular security is held.
Settlement Risk
The risk that one party will fail to deliver the terms of a contract with another party at the time of settlement. Settlement risk can be the risk associated with default at settlement and any timing differences in settlement between the two parties. This type of risk can lead to principal risk. Settlement risk is the possibility your counter party will never pay you. Settlement risk was a problem in the forex market up until the creation of continuously linked settlement (CLS), which is facilitated by CLS Bank International, which eliminates time differences in settlement, providing a safer forex market. Settlement risk is sometimes called "Herstatt risk", named after the well-known failure of the German bank Herstatt. On Jun 26, 1974, the bank had taken in its foreign-currency receipts in Europe, but had not made any of its U.S. dollar payments when German banking regulators closed the bank down, leaving counter parties to incur the substantial losses.
Severability
A clause in a contract that allows for the terms of the contract to be independent of one another, so that if a term in the contract is deemed unenforceable by a court, the contract as a whole will not be deemed unenforceable. If there were no severability clause in a contract, a whole contract could be deemed unenforceable because of one unenforceable term. Also known as a "severability clause" or a "savings clause". A contract with a severability clause is essentially one contract divided into many different parts: default on one component of the contract does not prevent the rest of the contract from being fulfilled. If a sentence, clause or term in a contract is deemed invalid by a court, then this problem area of the contract will most often be rewritten to fit both the contract's original intent and the requirements of the court.
Severance Pay
Compensation that an employer gives to someone who is about to lose his or her job. Severance pay is not always paid to employees. It depends on the situation in which the employee is losing his or her job and whether legislation requires severance to be paid.
Shadow

A small line found on a candle in a candlestick chart that is used to indicate where the price of a stock has fluctuated relative to the opening and closing prices. Essentially, these shadows illustrate the highest and lowest prices at which a security has traded over a specific time period. A shadow can be located either above the opening price or below the closing price. When there is a long shadow on the bottom of the candle (like that of a hammer) there is suggestion of an increased level of buying and, depending on the pattern, potentially a bottom.

Shadow Pricing

The arbitrary assignment of dollar values to non-marketed goods. When performing different types of cost-benefit analyses, certain costs or benefits are intangible and, in order for full analysis of the scenario, all these variables must be assigned values.
For example, when performing a cost-benefit analysis on a mining operation, the lost intangible value associated with the scenic views must be priced and factored in as a cost.

Shadow Rating

1. The name given to a bond rating performed on an issuing party by a credited institution, but without any public announcement of the results.
2. A rating given by S&P to Israel Bonds, which are not permitted to be traded on the secondary market.

Shakeout

A situation in which many investors exit their positions, often at a loss, because of uncertainty or recent bad news circulating around a particular security or industry. During the dotcom boom and bust, numerous shakeouts occurred. During these shakeouts many investors experienced tremendous losses.

Share Capital

Funds raised by issuing shares in return for cash or other considerations. The amount of share capital a company has can change over time because each time a business sells new shares to the public in exchange for cash, the amount of share capital will increase. Share capital can be composed of both common and preferred shares.
Also known as "equity financing".
The amount of share capital a company reports on its balance sheet only accounts for the initial amount for which the original shareholders purchased the shares from the issuing company. Any price differences arising from price appreciation/depreciation as a result of transactions in the secondary market are not included. For example, suppose ABC Inc. raised $2 billion from its initial public offering. Over the next year, the total value of its shares increases to $5 billion. In this case, the value of the share capital is still only $2 billion because ABC Inc. had received only $2 billion from the sale of its securities to the investing public.

Share Premium Account

Usually found on the balance sheet, this is the account to which the amount of money paid (or promised to be paid) by a shareholder for a share is credited to, only if the shareholder paid more than the cost of the share. The share premium account may be used to issue bonus shares, write-off equity related expenses like underwriting costs, etc.

Share Repurchase

A program by which a company buys back its own shares from the marketplace, reducing the number of outstanding shares. This is usually an indication that the company's management thinks the shares are undervalued. Because a share repurchase reduces the number of shares outstanding (i.e. supply), it increases earnings per share and tends to elevate the market value of the remaining shares. When a company does repurchase shares, it will usually say something along the lines of, "We find no better investment than our own company."

Share Turnover

A measure of stock liquidity calculated by dividing the total number of shares traded over a period by the average number of shares outstanding for the period. The higher the share turnover, the more liquid the share of the company. For example, if the total amount of shares traded over the year was 10 billion and the average amount of shares outstanding for the year was 100 million, the share turnover for the year is 100 times.

Shareholder

Any person, company, or other institution that owns at least 1 share in a company. A shareholder may also be referred to as a stockholder. Shareholders are the owners of a company. They have the potential to profit if the company does well, but that comes with the potential to lose if the company does poorly.

Shareholder Equity Ratio

A ratio used to help determine how much shareholders would receive in the event of a company-wide liquidation. The ratio, expressed as a percentage, is calculated by dividing total shareholders' equity by total assets of the firm, and it represents the amount of assets on which shareholders have a residual claim. The figures used to calculate the ratio are taken from the company's balance sheet.

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For example, let's say a company has a shareholder equity ratio of 45% and total assets of $500 million. This would mean that, in the event of liquidation, all shareholders would receive $225 million (45% * $500). The higher the ratio, the more shareholders may receive - and of course, the reverse holds true.

Shareholder Value Added - SVA

A value-based performance measure of a company's worth to shareholders. The basic calculation is net operating profit after tax (NOPAT) minus the cost of capital from the issuance of debt and equity, based on the company's weighted average cost of capital:

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Using the market value of the company, rather than the accounting-based value in the above calculation, will give the market value added to shareholders.

Shareholder Value Transfer - SVT

A measurement of the amount of shareholders' equity flowing out of a company to its executives through exercised stock options. This is usually a dollar based cost, the value is measured as the difference between the strike price of the executive's options and the market value at the time of exercise.

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Shareholders' Agreement

An arrangement among a company's shareholders describing how the company should be operated and the shareholders' rights and obligations. It also includes information on the regulation of the shareholders' relationship, the management of the company, ownership of shares and privileges and protection of shareholders. The shareholders' agreement is intended to make sure that shareholders are treated fairly and that their rights are protected. The agreement includes sections outlining the fair and legitimate pricing of shares (particularly when sold). It also allows shareholders to make decisions about what outside parties may become future shareholders and provides safeguards for minority positions.

Shareholders' Equity

A firm's total assets minus its total liabilities. Equivalently, it is share capital plus retained earnings minus treasury shares. Shareholders' equity represents the amount by which a company is financed through common and preferred shares.
Also known as "share capital", "net worth" or "stockholders' equity".

$$\text{Shareholders' Equity} = \text{Total Assets} - \text{Total Liabilities}$$

OR

$$\text{Shareholders' Equity} = \text{Share Capital} + \text{Retained Earnings} - \text{Treasury Shares}$$

Shareholders' equity comes from two main sources. The first and original source is the money that was originally invested in the company, along with any additional investments made thereafter. The second comes from retained earnings which the company is able to accumulate over time through its operations. In most cases, the retained earnings portion is the largest component.

Shares

A unit of ownership interest in a corporation or financial asset. While owning shares in a business does not mean that the shareholder has direct control over the business's day-to-day operations, being a shareholder does entitle the possessor to an equal distribution in any profits, if any are declared in the form of dividends. The two main types of shares are common shares and preferred shares. In the past, shareholders received a physical paper stock certificate that indicated that they owned "x" shares in a company. Today, brokerages have electronic records that show ownership details. Owning a "paperless" share makes conducting trades a simpler and more streamlined process, which is a far cry from the days were stock certificates needed to be taken to a brokerage before a trade could be conducted. While shares are often used to refer to the stock of a corporation, shares can also represent ownership of other classes of financial assets, such as mutual funds.

Shark Repellent

Slang term for any one of a number of measures taken by a company to fend off an unwanted or hostile takeover attempt. In many cases, a company will make special

amendments to its charter or bylaws that become active only when a takeover attempt is announced or presented to shareholders with the goal of making the takeover less attractive or profitable to the acquisitive firm. Also known as a "porcupine provision". Most companies want to decide their own fates in the marketplace, so when the sharks attack, shark repellent can send the predator off to look for a less feisty target.
While the concept is a noble one, many shark repellent measures are not in the best interests of shareholders, as the actions may damage the company's financial position and interfere with management's ability to focus on critical business objectives. Some examples of shark repellents are poison pills, scorched earth policies, golden parachutes and safe harbor strategies

Shark Watcher

A firm specializing in the early detection of takeovers. The firm's primary business is usually the solicitation of proxies for client corporations. A shark watcher monitors trading patterns in a client's stock and attempts to determine who is accumulating shares.

Sharpe Ratio

A ratio developed by Nobel Laureate William F. Sharpe to measure risk-adjusted performance. It is calculated by subtracting the risk-free rate from the rate of return for a portfolio and dividing the result by the standard deviation of the portfolio returns. The Sharpe ratio tells us whether the returns of a portfolio are due to smart investment decisions or a result of excess risk. This measurement is very useful because although one portfolio or fund can reap higher returns than its peers, it is only a good investment if those higher returns do not come with too much additional risk. The greater a portfolio's Sharpe ratio, the better its risk-adjusted performance has been. A variation of the Sharpe ratio is the Sortino ratio, which removes the effects of upward price movements on standard deviation to instead measure only return against downward price volatility.

Sheep

An investor who lacks a focused trading strategy and trades on emotion and the suggestions of others, including friends, family and financial gurus. This type of investor often makes rash investments without reviewing their financial viability. The behavior of sheep contrasts with that of bulls and bears, who have focused views about the market. Like a sheep, this type of investor is a follower, relying on a shepherd for guidance. These shepherds can come in the form of financial pundits or the latest trend or market story. Sheep-like investors are often the last to get in on a major market move, such as the tech boom of the late '90s, because they base their investments on what is being talked about the most. Many experts believe that sheep-like investors are the most likely to sustain investment losses because they have no clear investment strategy.

Shelf Offering

An SEC provision allowing an issuer to register a new issue security without selling the entire issue at once. The issuer can sell portions of the issue over a two-year period without re-registering the security or incurring penalties.

Shell Corporation

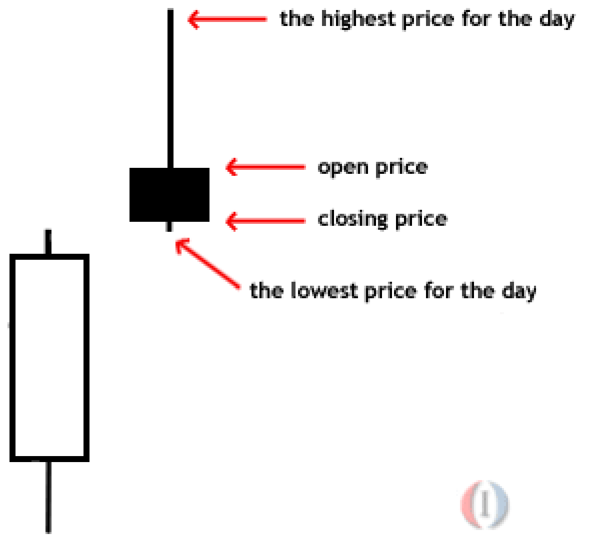
A corporation without active business operations or significant assets. Shell corporations are often formed before commencing operations to obtain financing. Sometimes, they may be used as a front in tax evasion.

Shock Absorber

A temporary restriction placed on the trading of index futures because of substantial intraday decreases in the underlying indexes. Shock absorbers are very similar to circuit breakers. However, these restrictions are more specific as they isolate a single index and are enacted at a tighter level. The shock absorbers restrict trading and provide a period of information and pricing absorption for the holders of index futures contracts.

Shooting Star

A type of candlestick formation that results when a security's price, at some point during the day, advances well above the opening price but closes lower than the opening price.



In order for a candlestick to be considered a shooting star, the formation must be on an upward or bullish trend. Furthermore, the distance between the highest price for the day and the opening price must be more than twice as large as the shooting star's body. Finally, the distance between the lowest price for the day and the closing price must be very small or nonexistent.

Short (or Short Position)

1. The sale of a borrowed security, commodity or currency with the expectation that the asset will fall in value.
2. In the context of options, it is the sale (also known as "writing") of an options contract. Opposite of "long (or long position)".

1. For example, an investor who borrows shares of stock from a broker and sells them on the open market is said to have a short position in the stock. The investor must eventually return the borrowed stock by buying it back from the open market. If the stock falls in price, the investor buys it for less than he or she sold it, thus making a profit.
2. For example, selling a call (or put) options contract to a buyer entitles the buyer the right, not the obligation to buy from (or sell to) you a specific commodity or asset for a specified amount at a specified date.

Short Covering

The act of purchasing securities in order to close an open short position. This is done by buying the same type and number of securities that were sold short. Most often, traders cover their shorts whenever they speculate that the securities will rise. In order to make a profit, a short seller must cover the shorts by purchasing the security below the original selling price. Also referred to as buy to cover or buy back. For example, suppose a trader has sold short 50 shares of ABC stock at a price of $10.00/share, because he speculated that ABC will not be successful in the near future. Unfortunately for the trader, the company has been recently very lucky and its price rose to $15.00/share. In order to limit his losses, this trader decides to cover his short position by buying back the 50 short sold shares at a price of $15.00/per share.

Short Exempt

A short sale order in which the uptick rule doesn't apply to the trade. The trade can go through on a down tick, or a downward move in price, where a traditional short order trade has to be done on an uptick, or upward move in price. Any order that goes through needs to be marked long, short or short exempt, with short and short exempt being marked with SSH and SSE, respectively. The uptick rule is in place to prevent short sellers from unduly putting downward pressure on a stock with heavy selling volume.

Short Interest Ratio

A sentiment indicator that is derived by dividing the short interest by the average daily volume for a stock. This indicator is used by both fundamental and technical traders to identify the prevailing sentiment the market has for a specific stock. Also known as the "short ratio".

$$PVIF = \frac{1}{(1+r)^t}$$

This ratio provides a number that is used by investors to determine how long it will take short sellers, in days, to cover their entire positions if the price of a stock begins to rise. The short interest ratio can also be applied to entire exchanges to determine the sentiment of the market as a whole. If an exchange has a high short interest ratio of around five or greater, this can be taken as a bearish signal, and vice versa.

Short Interest Theory

The theory that a large short interest is the predecessor of a rise in the price of a stock. The reasoning behind this is that the short positions must eventually be covered, which means that there will be more purchasers of the stock who in turn drive the price up.

Short Market Value

The total value of all short sales in place in a customer's account at the end of the trading day. The short market value of an account is taken into consideration when determining whether a customer has met the margin requirement on a brokerage account. If the account has both a short market position and a long market position, both margin requirements must be met individually, or the account may be restricted until the margin requirement is met.

Short Run

A period of time in which the quantity of some inputs cannot be increased beyond the fixed amount that is available. For example,what quantity of inventory to order is a short run decision. Whether or not to build a new factory would be considered a long run decision.

Short Sale

A market transaction in which an investor sells borrowed securities in anticipation of a price decline and is required to return an equal amount of shares at some point in the future. The payoff to selling short is the opposite of a long position. A short seller will make money if the stock goes down in price, while a long position makes money when the stock goes up. The profit that the investor receives is equal to the value of the sold borrowed shares less the cost of repurchasing the borrowed shares. Suppose 1,000 shares are short sold by an investor at $25 apiece and $25,000 is then put into that investor's account. Let's say the shares fall to $20 and the investor closes out the position. To close out the position, the investor will need to purchase 1,000 shares at $20 each ($20,000). The investor captures the difference between the amount that he or she receives from the short sale and the amount that was paid to close the position, or $5,000. There are also margin rule requirements for a short sale in which 150% of the value of the shares shorted needs to be initially held in the account. Therefore, if the value is $25,000, the initial margin requirement is $37,500 (which includes the $25,000 of proceeds from the short sale). This prevents the proceeds from the sale from being used to purchase other shares before the borrowed shares are returned. Short selling is an advanced trading strategy with many unique risks and pitfalls. Novice investors are advised to avoid short sales because this strategy includes unlimited losses. A share price can only fall to zero, but there is no limit to the amount it can rise.

Short Sell Against the Box

The act of short selling securities that you already own. This results in a neutral position where your gains in a stock are equal to the losses. For example, if you own 100 shares of ABC and you tell your broker to sell short 100 shares of ABC, you have shorted against the box. An alternative to short selling against the box is to buy a put on your stock. This may or may not be less expensive than doing the short sale.

Also known as "shorting against the box". Before 1997, the sole rationale for shorting against the box was to delay a taxable event. According to tax laws that preceded 1997, owning both long and short positions in a stock meant that any papers gains from the long position would be removed temporarily due to the offsetting short position. All in all, the net effect of both positions is zero, meaning that no taxes need to be paid.

Let's say that you have a big gain on some shares of ABC. You think that ABC has reached its peak and you want to sell. However, the tax on the capital gain may leave you under-withheld for the year and subject to penalties. Perhaps the next year you expect to make a lot less money, putting you in a lower bracket and causing you to want to take the gain at that time. However, the Taxpayer Relief Act of 1997 (TRA97) no longer allows short selling against the box as a valid tax deferral practice. Under TRA97, capital gains or losses incurred from short selling against the box are not deferred. The tax implication is that any related capital gains taxes will be owed in the current year.

Short Straddle

An options strategy carried out by holding a short position in both a call and a put that have the same strike price and expiration date. The maximum profit is the amount of premium collected by writing the options. If a trader writes a straddle with a strike price of $25 and the price of the stock jumps up to $50, the trader would be obligated to sell the stock for $25. If the investor did not hold the underlying stock, he or she would be forced to buy it on the market for $50 and sell it for $25. The short straddle is a very risky strategy an investor uses when he or she believes that a stock's price will not move up or down significantly. Because of its riskiness, the short straddle should be employed only by advanced traders due to the unlimited amount of risk associated with a very large move up or down.

Short Tender

An investing practice that involves using borrowed stock to respond to an offer made during an attempted acquisition of some or all of a shareholders' shares. The purchase price is usually at a premium to the market price. This practice is restricted by the Securities and Exchange Commission under rule 14e-4 of the Securities Exchange Act. Officially, an investor must have a net long position that is equal to or greater than the tender offer made, in order to respond to the offer. A net long position refers to the amount of shares an investor is long reduced by any shares the investor is short in the respective security. Although borrowing shares is allowed in short selling, any attempt to borrow shares in response to a tender offer will lead the SEC to take legal action against such participants.

Short Term

1.In general, holding an asset for short period of time.

2. In accounting, an asset expected to be converted into cash in the next year, or a liability coming due in the next year. Also known as current assets and liabilities.

3.For investing, a security that matures in one year or less.

4. For taxes, a holding period of less that one year.

As you can see from above, the exact definition depends on the context. However, in general, you can think of short term as within the next year.

The determination can be very important for taxes. Assets held short-term are generally taxed at a higher rate than assets held for more than a year.

Shortfall

The amount by which the capital required to fulfill a financial obligation exceeds available capital. Shortfall risk is often combated with an efficient hedging strategy created by a fund, group, institution, or individual. This strategy aims to protect investments from price movements. Hedging helps to ensure that the finances required for a future financial obligation are available.

Short-Swing Profit Rule

A Securities & Exchange Commission regulation that requires company insiders to return any profits made from the purchase and sale of company stock if both transactions occur within a six-month period. A company insider, as determined by the rule, is any officer, director or holder of more than 10% of the company's shares. The rule was implemented to prevent insiders, who have greater access to material company information, from taking advantage of information for the purpose of making short-term profits. For example, if an officer buys 100 shares at $5 in January and sells these same shares in February for $6, he/she would have made a profit of $100. Because the shares were bought and sold within a six-month period, the officer would have to return the $100 to the company under the short-swing profit rule.

Short-Term Debt

An account shown in the current liabilities portion of a company's balance sheet. This account is comprised of any debt incurred by a company that is due within one year. The debt in this account is usually made up of short-term bank loans taken out by a company. The value of this account is very important when determining a company's financial health. If the account is larger than the company's cash and cash equivalents, this suggests that the company may be in poor financial health and does not have enough cash to pay off its short-term debts. Although short-term debts are due within a year, there may be a portion of the long-term debt included in this account. This portion pertains to payments that must be made on any long-term debt throughout the year.

Shout Option

An exotic option that allows the holder to lock in a defined profit while maintaining the right to continue participating in gains without a loss of locked-in monies. Shout options can be structured so that holders of this contract have more than one opportunity to "shout" or lock in profits. This allows holders to continue to benefit from positive market movements without the possibility of losing already locked-in profits.

Shrinkage

The amount by which inventory on hand is shorter than the amount of inventory recorded. The missing inventory could be due to theft, damage, or book keeping errors.

Side Pocket

A type of account used in hedge funds to separate illiquid assets from other more liquid investments. Once an investment enters a side pocket account, only the present participants in the hedge fund will be entitled to a share of it. Future investors will not receive a share of the proceeds in the event the asset's returns get realized. Investors who leave the hedge fund will still receive a share of the side pocket's value when it gets realized. Usually only the most illiquid assets, such as delisted shares of a company, receive this type of treatment, because holding illiquid assets in a standard hedge fund portfolio can cause a great deal of complexity when investors liquidate their position. Overall, side pocket accounts resemble single asset private equity funds in structure.

Signaling Approach

The idea that insiders have information not available to the market. Moves made by insiders can signal information to outsiders and change the stock price. The thinking goes that if a high level executive, such as a CEO, is selling, he or she is probably doing so for a reason that you, as the public, don't know yet, so you should get out also. The same is true for the opposite. If an insider is buying stocks in his or her company, it signals outsiders to also buy based on the idea that the insider knows more than he or she is letting on to the public.

Silent Partner

An investor who does not have any management responsibilities but provides capital and shares liability for any losses experienced by the entity. Silent partners are liable for in any losses up to the amount of their invested capital and participate in any tax and cash flow benefits. Also known as a "sleeping partner".

Sinful Stock

Stock from companies that are associated with (or are directly involved in) activities considered unethical or immoral. Examples of activities some people may consider sinful include the distribution or production of alcohol, tobacco, weapons, and sex-related products. Also known as "sin stock."

Sinker

A bond whose payments are provided by the issuer's sinking fund. A portion of these bonds are retired by the issuer each year.

Sinking Fund

A means of repaying funds that were borrowed through a bond issue. The issuer makes periodic payments to a trustee who retires part of the issue by purchasing the bonds in the open market. Rather than the issuer repaying the entire principal of a bond issue on the maturity date, another company buys back a portion of the issue annually and usually at a fixed par value or at the current market value of the bonds, whichever is less. Should interest rates decline following a bond issue, sinking-fund provisions allow a firm to lessen the interest rate risk of its bonds as it essentially replaces a portion of existing debt with lower-yielding bonds. From the investor's point of view, a sinking fund adds safety to a corporate bond issue: with it, the issuing company is less likely to default on the repayment of the remaining principal upon maturity since the amount of the final repayment is substantially less. This added safety affects the interest rate at which the company is able to offer bonds in the marketplace.

Skirt Length Theory

The idea that skirt lengths are a predictor of the stock market direction. According to the theory, if skirts are short, it means the markets are going up. And if skirt are long, it means the markets are heading down. The idea behind this theory is that shorter skirts tend to appear in times when general consumer confidence and excitement is high, meaning the markets are bullish. In contrast, the theory says long skirts are worn more in times of fear and general gloom, indicating that things are bearish. Although some investors may secretly believe in such a theory, serious analysts and investors - instead of examining skirt length to make investment decisions - insist on focusing on market fundamentals and data.

Sleeping Beauty

A company that is prime for takeover but has not been approached by an acquiring company. A company may be considered a sleeping beauty because it has large cash reserves, undervalued real estate, or huge potential.

Slippage

The difference between estimated transaction costs and the amount actually paid. Slippage is usually attributed to a change in the spread

Sluggish Economy

A state in the economy in which the growth is slow, flat or declining. The term can refer to the economy as a whole or a component of the economy, such as weak housing starts.

When the economy is in a sluggish state, it is generally harmful for a business since consumers and other businesses are less likely to purchase its products. A sluggish economy also has a negative effect on the labor market as businesses are less willing to hire more staff in times of weak economic growth. Financial media often use the term "sluggish economy". For example, you will often see headlines like "Economy Sluggish due to Rising Oil Prices."

Small and Midsize Enterprises - SME

A business that maintains revenues or a number of employees below a certain standard. Every country has its own definition of what is considered a small and medium-sized enterprise. In the United States, there is no distinctive way to identify SME - typically it depends on the industry in which it competes. In the European Union, a small-sized enterprise is a company with less than 50 employees while a medium-sized enterprise is one with fewer than 250 employees.

SME firms tend to spend a lot of money on IT and as a result, these businesses are strongest in the area of innovation. The need to attract capital to fund projects is therefore essential for small and medium-sized enterprises. To be competitive SME firms require "out of the box" solutions even if it involves surrendering some functionality.

Small Cap

Refers to stocks with a relatively small market capitalization. The definition of small cap can vary among brokerages, but generally it is a company with a market capitalization of between $300 million and $2 billion. One of the biggest advantages of investing in small-cap stocks is the opportunity to beat institutional investors. Because mutual funds have restrictions that limit them from buying large portions of any one issuer's outstanding shares, some mutual funds would not be able to give the small cap a meaningful position in the fund. To overcome these limitations, the fund would usually have to file with the SEC, which means tipping its hand and inflating the previously attractive price. Keep in mind that classifications such as "large cap" or "small cap" are only approximations that change over time. Also, the exact definition can vary between brokerage houses.

Small Firm Effect

A theory that holds that smaller firms, or those companies with a small market capitalization, outperform larger companies. This market anomaly is a factor used to explain superior returns in the Three Factor Model, created by Gene Fama and Kenneth French - the three factors being the market return, companies with high book-to-market values, and small stock capitalization. The theory holds that smaller companies have a greater amount of growth opportunities than larger companies. Small cap companies also tend to have a more volatile business environment, and the correction of problems - such as the correction of a funding deficiency - can lead to a large price appreciation. Finally, small cap stocks tend to have lower stock prices, and these lower prices mean that price appreciations tend to be larger than those found among large cap stocks.

Smoking Gun

Something that serves as indisputable evidence or proof, especially of a crime. Here is an example used in everyday language from CNN.com on Feb 6, 2002: "Maybe there was no proof before, but there is now; a secret memo - personally handed to [U.S. Vice-President Dick] Cheney by Ken Lay [ex-Enron chairman and CEO], which helps explain why the White House is so skittish about Enron and why Cheney and [U.S. President George W.] Bush stubbornly refuse to release the records of those energy task force meetings. The memo was obtained by the San Francisco Chronicle and reported exclusively there last week. This is the Enron smoking gun."

Social Capital

An economic idea that refers to the connections between individuals and entities that can be economically valuable. Social networks that include people who trust and assist each other can be a powerful asset. These relationships between individuals and firms can lead to a state in which each will think of the other when something needs to be done. Along with economic capital, social capital is a valuable mechanism in economic growth. For example, if you know someone at a company where you are applying for a job and this connection helps you get the job at the company, you have used social capital. Social capital can also have negative effects. For example, if a social network is used for manipulative or destructive purposes that will affect the economy negatively, such as when a group colludes to fix market prices.

Social Responsibility

The principle that companies should contribute to the welfare of society and not be solely devoted to maximizing profits. Socially responsible companies can act in a number of ways to benefit society. For example, companies can give money to the arts, fund academic scholarships, support community-building initiatives, and so on. They can also commit to not pollute or to reduce the pollution they put out, to not build weapons, and so forth.

Social Security

A U.S. federal benefits program developed in 1935. The program includes retirement benefits, disability income, veteran's pension, public housing and even the food stamp program. The funding for Social Security is done through a tax levied equally on employers and employees.

Socially Responsible Investment - SRI

Investments or funds containing stock in companies whose activities are considered ethical. There is a large variety of socially responsible investments available, depending on the ethical issues with which the socially responsible investor is concerned

Special Purpose Vehicle/Entity - SPV/SPE

1. Also referred to as a "bankruptcy-remote entity" whose operations are limited to the acquisition and financing of specific assets. The SPV is usually a subsidiary company with an asset/liability structure and legal status that makes its obligations secure even if the parent company goes bankrupt.

Thanks to Enron, SPVs/SPEs are household words. These entities aren't all bad though. They were originally (and still are) used to isolate financial risk.

A corporation can use such a vehicle to finance a large project without putting the entire firm at risk. Problem is, due to accounting loopholes, these vehicles became a way for CFOs to hide debt. Essentially, it looks like the company doesn't have a liability when they really do. As we saw with the Enron bankruptcy, if things go wrong, the results can be devastating.

Standard & Poor's - S&P

A financial services company that rates stocks and corporate and municipal bonds according to risk profiles. Additionally, Standard & Poor's produces and tracks the S&P indexes and publishes a variety of financial and investment reports.

Subindex

A group of securities that is part of an index but is also tracked separately as a smaller, separate index. A software index, for example, would be a sub-index of a computer index.

Subordinated Debt

A loan (or security) that ranks below other loans (or securities) with regard to claims on assets or earnings. Also known as "junior security" or "subordinated loan". In the case of default, creditors with subordinated debt wouldn't get paid out until after the senior debtholders were paid in full. Therefore, subordinated debt is more risky than unsubordinated debt.

Subsidiary

A company whose voting stock is more than 50% controlled by another company, usually referred to as the parent company. As long as the parent company has more than 50% of the voting stock in the subsidiary, it has control. In the case of a foreign subsidiary, the company under which the subsidiary is incorporated must adhere to the laws of the country in which the subsidiary operates, although the parent company still carries the foreign subsidiary's financials on its books (consolidated financial statements).

Subsidiary Bank

A type of foreign bank that is incorporated in the host country but is considered to be owned by a foreign parent bank. The subsidiary bank only needs to operate under the host country's regulations. One of the drawbacks of operating a subsidiary bank is that the amount of loans that the bank can make is much less than what a foreign branch bank can make. However, one benefit that makes up for that drawback is a subsidiary bank's ability to underwrite securities. That being said, the type of international banking office that a parent bank chooses to set up would depend on the role that the office holds. For example, if a U.S.-based bank wants to underwrite securities in Canada, the bank should set up a subsidiary bank, whereas if the U.S.-based bank wants to make loans to Canadian companies, the bank should set up a foreign branch bank.

Succession

The action of one party, person or product being replaced by another that has become obsolete, incapacitated, retired or deceased. Ideally, a successor will fill the role of its predecessor, being fully compatible with all other entities in place and perfectly functional without any interruption in service. Since the Sarbanes-Oxley Act, planning for succession of a executive officer in a corporation has become a very important issue in the field of corporate governance. Ensuring that, in the event of a problem with one employee, a company will continue to function adequately creates tremendous value for shareholders. Family succession is the passing of one person's assets and role in the family onto an heir. With the increasing pace of technological change, when new products replace old ones, it is important those new ones can fill the role of the old products without interruption in service and without the need to replace other functional elements of a network of products.

Suicide Pill

A defensive strategy by which a target company engages in an activity that might actually ruin the company rather than prevent the hostile takeover. Also known as the "Jonestown Defense." This is an extreme version of the poison pill.

Sundry Income

External income that results from factors outside of a firm's control. Examples of sundry income include gains from foreign exchange, royalty income, or even income from the sale of various investments. This is sometimes called miscellaneous income.

Sunk Cost

A cost that has been incurred and cannot be reversed. Also referred to as "stranded cost." A worn-out piece of equipment bought several years ago is a sunk cost because the cost of buying it cannot be reversed.

Sunrise Industry

Slang for a new, emerging growth industry that is expected to be a strong sector in the future. The sectors that sunrise industries replace are sometimes referred to as sunset industries. An example would be the DVD industry back in the 1990s; it was expected to be strong and eventually overtake the VCR, which it eventually did.

Sustainable Growth Rate - SGR

The maximum growth rate that a firm can sustain without having to increase financial leverage.

Calculated as:

ROE x (1 - dividend-payout ratio)

The sustainable growth rate is a measure of how much a firm can grow without borrowing more money. After the firm has passed this rate, it must borrow funds from another source to facilitate growth.

Swap

Traditionally, the exchange of one security for another to change the maturity (bonds), quality of issues (stocks or bonds), or because investment objectives have changed. Recently, swaps have grown to include currency swaps and interest rate swaps. If firms in separate countries have comparative advantages on interest rates, then a swap could benefit both firms. For example, one firm may have a lower fixed interest rate, while another has access to a lower floating interest rate. These firms could swap to take advantage of the lower rates.

Swap Bank

A financial institution that acts as an intermediary for interest and currency swaps. The function of these intermediaries is to find counterparties for those who want to participate in swap agreements. The swap bank typically earns a slight premium for facilitating the swap. Generally speaking, companies do not directly approach other companies in an attempt to create swap agreements. Instead, swap banks coordinate the swap agreements for companies. In most cases, companies don't even know the identities of their swap counterparties.

Swap Curve

The name given to the swap's equivalent of a yield curve. The swap curve identifies the relationship between swap rates at varying maturities. Used in similar manner as a bond yield curve, the swap curve helps to identify different characteristics of the swap rate versus time.

Swap Dealer

An individual who acts as the counterparty in a swap agreement for the fee (called a spread). These are the market makers for the swap market. Because swap arrangements aren't actively traded, swap dealers allow broker to standardize swap contracts to some extent.

Swap Rate

The rate of the fixed portion of a swap as determined by its particular market. This is the rate at which the swap will occur for one of the parties entering into the agreement. These rates are quoted by the market and will be almost identical to the rate used for the swaps, minus any premiums added.

For example:

1) The interest rate associated with the fixed portion of an interest rate swap.

2) The exchange rate associated with the fixed portion of a currency swap.

Swap Spread

1. The difference between the negotiated and fixed rate of a swap. The spread is determined by characteristics of market supply and creditor worthiness.

2. The difference between the swap rate and the lending rate offered through other investment vehicles with comparable characteristics.

Swaption (Swap Option)

The option to enter into an interest rate swap. In exchange for an option premium, the buyer gains the right but not the obligation to enter into a specified swap agreement with the issuer on a specified future date. The agreement will specify whether the buyer of the swaption will be a fixed-rate receiver (like a call option on a bond) or a fixed-rate payer (like a put option on a bond).

Sweat Equity

The equity that is created in a company or some other asset as a direct result of hard work by the owner(s). For example, rebuilding the engine on your 1968 Mustang to increase its value.

Sweep Account
A bank account that, at the close of each business day, automatically transfers amounts that exceeds (or falls short of) a certain level into a higher-interest earning account. In a sweep program, a bank's computers analyze customer use of checkable deposits and "sweep" funds into money market deposit accounts. The purpose is to provide the customer with the greatest amount of interest with the minimum amount of personal intervention. That said, sweep accounts were originally devised to get around an old government regulation that prohibited banks from offering interest on commercial checking accounts.
SWOT Analysis

A tool that identifies the **s**trengths, **w**eaknesses, **o**pportunities and **t**hreats of an organization. Specifically, SWOT is a basic, straightforward model that assesses what an organization can and cannot do as well as its potential opportunities and threats.
The method of SWOT analysis is to take the information from an environmental analysis and separate it into internal (strengths and weaknesses) and external issues (opportunities and threats). Once this is completed, SWOT analysis determines what may assist the firm in accomplishing its objectives, and what obstacles must be overcome or minimized to achieve desired results.

SWOT Analysis

Strengths	**Weaknesses**
Opportunities	**Threats**

When using SWOT analysis, be realistic about the strengths and weaknesses of your organization. Distinguish between where your organization is today, and where it could be in the future. Also remember to be specific by avoiding gray areas and always analyze in relation to the competition (i.e. are you better or worse than competition?). Finally, keep your SWOT analysis short and simple, and avoid complexity and over-analysis since much of the information is subjective. Thus, use it as a guide and not a prescription.
Syndicate
A group of bankers, insurers, etcetera, who work together on a large project. A syndicate only works together temporarily. They are commonly used for large loans or underwritings to reduce the risk that each individual firm must take on.
Syndicate Bid
A bid that can be entered in the Nasdaq system to stabilize the price of a Nasdaq security prior to the date of a secondary offering. A secondary offering increases the float. Therefore, stock prices of that security may fluctuate; a syndicate bid tries to stabilize this.
Syndicated Loan

A very large loan in which a group of banks work together to provide funds for one borrower. There is usually one lead bank that takes a small percentage of the loan and syndicates the rest to other banks. Also known as a "syndicated bank facility."

Synergy

The idea that the value and performance of two companies combined will be greater than the sum of the separate individual parts. This term is used mostly in the context of mergers and acquisitions. For example, if Company A has an excellent product but lousy distribution whereas Company B has a great distribution system but poor products, the companies could create synergy with a merger.

Synthetic

A financial instrument that is created artificially by simulating another instrument with the combined features of a collection of other assets. For example, you can create a synthetic stock by purchasing a call option and simultaneously selling a put option on the same stock. The synthetic stock would have the same capital-gain potential as the underlying security.

Synthetic Dividend

A type of incoming cash flow that an investor creates with certain financial securities to produce a dividend-like payment stream that resembles the periodic cash receipts from a dividend-paying stock. For example, suppose an investor owns shares in a company that does not pay a quarterly dividend. In order to create a cash-flow stream from the shares, the investor could write covered call options on the underlying stock. By doing so, he or she would receive the option premiums as an incoming cash flow, but would be obligated to sell the shares to the option-buyer should that person choose to exercise the options. This situation, while limiting the potential price appreciation the investor can realize from his or her own shares, creates a dividend-like cash flow stream.

Synthetic Lease

An operating lease that is structured in a way so that it is not recorded as a liability on the balance sheet. Instead, it is considered to be an expense on the income statement. Basically, a synthetic lease allows a company to control real estate without being required to show the real estate as an asset on the financial statements

Synthetic Put

An investment strategy of short selling a security and entering a long position on its call. This almost has the same effect as buying a put; the downside loss potential of the short position is capped with the strike price of the call.

Systematic Risk

The risk inherent to the entire market or entire market segment. Also known as "un-diversifiable risk" or "market risk." Interest rates, recession and wars all represent sources of systematic risk because they affect the entire market and cannot be avoided through diversification. Whereas this type of risk affects a broad range of securities, unsystematic risk affects a very specific group of securities or an individual security. Systematic risk can be mitigated only by being hedged. Even a portfolio of well-diversified assets cannot escape all risk.

T

Tactical Asset Allocation – TAA

An active management portfolio strategy that rebalances the percentage of assets held in various categories in order to take advantage of market pricing anomalies or strong market sectors. This strategy allows portfolio managers to create extra value by taking advantage of certain situations in the marketplace. It is as a moderately active strategy since managers return to the portfolio's original strategic asset mix when desired short-term profits are achieved.

Tailgating

The action of a broker or advisor purchasing or selling a security for his or her client(s) and then immediately making the same transaction in his or her own account. This is not illegal like front running, but it is not looked upon favorably because the broker is mostly likely placing a trade for his or her own account based on what the client knows (like inside information).

Take A Bath

A slang term referring to the situation of an investor who has experienced a large loss from an investment or speculative position. Investors whose shares have declined significantly are said to have taken a bath. For example, following the technology boom of the late 1990s and early 2000s, many investors, because of their huge losses, were said to have taken a bath.

Take A Flier

The slang term for a decision to invest in highly speculative investments. When an investor is taking a flier, he or she is knowingly acquiring a high-risk, speculative instrument that may end up with them taking a bath.

Take or Pay

A provision, written into a contract, whereby one party has the obligation of either taking delivery of goods or paying a specified amount. This is used in some contracts as a method to ensure that the transaction occurs. For example, a Banana farmer will enter into a take or pay contract with a fruit retailer so that the retailer will buy all the bananas from the farmer or pay a provision for not buying them.

Takedown

1. The price at which underwriters obtain securities to be offered to the public.
2. The portion of securities that each investment banker will distribute in a secondary or initial pubic offering.

1. The takedown will be a factor in determining the spread or commission underwriters will receive once the public has purchased securities from them. A full takedown will be received by members of a syndicate. Dealers outside of the syndicate receive a portion of the takedown while the remaining balance remains with the syndicate.
2. In a shelf offering, underwriters essentially 'take-down' securities off the shelf.

Takeover

A corporate action where an acquiring company makes a bid for an acquiree. If the target company is publicly traded, the acquiring company will make an offer for the outstanding shares. A welcome takeover is usually referring to a favorable and friendly takeover. Friendly takeovers generally go smoothly because both companies consider it a positive situation. In contrast, an unwelcome or hostile takeover can get downright nasty!

Takeover Bid

A type of corporate action in which an acquiring company makes an offer to the target company's shareholders to buy the target company's shares in order to gain control of the business. Takeover bids can either be friendly or hostile. Some examples of takeover bids include:

Takeunder

A corporate takeover where the target firm is offered a price per share that is less than its current market value. For example, a company offers to takeover another for $20 per share, but the target company's stock is trading at $25 per share.

Tangible Asset

An asset that has a physical form such as machinery, buildings and land. This is the opposite of an intangible asset such as a patent or trademark. Whether an asset is tangible or intangible isn't inherently good or bad. For example, a well-known brand name can be very valuable to a company. On the other hand, if you produce a product solely for a trademark, at some point you need to have "real" physical assets to produce it.

Tangible Net Worth

A measure of the physical worth of a company, which does not include any value derived from intangible assets such as copyrights, patents and intellectual property. Tangible net worth is calculated by taking a firm's total assets and subtracting the value of all liabilities and the value of all intangible assets.

Tangible Net Worth = Total Assets - Liabilities - Intangible Assets

In terms of a consumer, tangible net worth is the sum of all your tangible assets (cash, home, cars, etc) less any liabilities you may have. In the financial markets, tangible net worth represents the amount of physical assets a company has net of its liabilities. Thus, it represents the supposed liquidation proceeds a company would fetch if its operations were to cease immediately and the firm was sold off.

Tankan Survey

An economic survey of Japanese business issued by the central Bank of Japan, which it then uses to formulate monetary policy. The report is released four times a year in April, July, October and mid-December. The survey covers thousands of Japanese companies with a specified minimum amount of capital, although firms deemed sufficiently influential may also be included. The companies are asked about current trends and conditions in the business place and their respective industries as well as their expected business activities for the next quarter and year.

Taping Rule

A rule created by the National Association of Securities Dealers (NASD) that requires that special supervisory procedures be put in place when a specific percentage of a firm's employees are hired from brokers/dealers that have been expelled or have had their registration revoked because they breached trading regulations. The percentage that is used to determine whether the supervisory procedures need to be enacted depends on the size of the firm - it ranges from 40% for a small firm to 20% for a large firm. The supervisory procedures involve recording all of the telephone conversations made between registered employees and both potential and existing customers for three years. There are currently 25 firms that are recognized by the NASD as disciplined firms.

Tax Evasion

An illegal practice whereby an individual intentionally avoids paying their true tax liability. Anyone caught evading taxes is generally subject to criminal charges and substantial penalties. There is a difference between tax minimization and tax evasion. All citizens have the right to reduce the amount of taxes they pay as long as it is by legal means.

Tax Gain/Loss Harvesting

A process of selling securities at a loss to offset a capital-gains tax liability. It is typically used to limit the recognition of short-term capital gains, which are normally taxed at higher federal income-tax rates than long-term capital gains. Also known as "tax-loss selling". For many investors, tax gain/loss harvesting is the single most important area for reducing taxes now and in the future. If properly applied, it can save you taxes and help you diversify your portfolio in ways you may not have considered. Although it can't restore your losses, it can certainly soften the blow. For example, a loss in the value of Security A could be sold to offset the increase in value of Security B, thus eliminating the capital-gains tax liability of Security B.

Tax Haven

A country that offers individuals and businesses little or no tax liability. There are several countries in the Caribbean that are considered tax havens.

Tax Liability
The total amount of tax that an entity is legally obligated to pay to an authority as the result of the occurrence of a taxable event. Taxable events include, but are not limited to, annual income, the sale of an asset, a fiscal year-end or an inheritance. Tax liability can be calculated by applying the appropriate tax rate to the taxable event's tax base. A tax liability is a legal claim on assets. Should an entity default on paying its taxes, the governing authority may foreclose on the delinquent account, take out a lien or encumbrance on an asset.

Tax Liability
The total amount of tax that an entity is legally obligated to pay to an authority as the result of the occurrence of a taxable event. Taxable events include, but are not limited to, annual income, the sale of an asset, a fiscal year-end or an inheritance. Tax liability can be calculated by applying the appropriate tax rate to the taxable event's tax base. A tax liability is a legal claim on assets. Should an entity default on paying its taxes, the governing authority may foreclose on the delinquent account, take out a lien or encumbrance on an asset.

Taxable Gain
The portion of a sale that is liable to taxation. When redistributing mutual fund shares that have increased in value, returns may be subject to taxation.

Taxable Income
The amount of net income used in calculating income tax. This is your gross income minus all adjustments, deductions, and exemptions.

Technical Analysis
A method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity. Technical analysts believe that the historical performance of stocks and markets are indications of future performance. In a shopping mall, a fundamental analyst would go to each store, study the product that was being sold, and then decide whether to buy it or not. By contrast, a technical analyst would sit on a bench in the mall and watch people go into the stores. Disregarding the intrinsic value of the products in the store, his or her decision would be based on the patterns or activity of people going into each store.

Technically Weak Market
A situation in which the stock market is rising on low volume or falling on high volume. In technical analysis, volume is extremely important in determining the strength of a trend or market movement.

Term Deposit
A deposit held at a financial institution that has a fixed term. These are generally short-term with maturities ranging anywhere from a month to a few years. When a term deposit is purchased, the lender (the customer) understands that the money can only be withdrawn after the term has ended or by giving a predetermined number of days notice. Term deposits are an extremely safe investment and are therefore very appealing to conservative, low-risk investors. By having the money tied up you'll generally get a higher rate with a term deposit compared with a demand deposit.

Term Life Insurance
A policy with a set duration limit on the coverage period. Once the policy is expired, it is up to the policy owner to decide whether to renew the term life insurance policy or to let the coverage end. This type of insurance policy contrasts with permanent life insurance, in which duration extends until the policy owner reaches 100 years of age (i.e. death). These types of policies provide a stated benefit upon the death of the policy owner, provided that the death occurs within a specific time period. However, the policy

does not provide any returns beyond the stated benefit, unlike permanent life insurance policies, which have a savings component that can be used for wealth accumulation.

Term Loan

A loan from a bank for a specific amount that has a specified repayment schedule and a floating interest rate. Term loans almost always mature between one and 10 years. For example many banks have term-loan programs that can offer small businesses the cash they need to operate from month to month. Often a small business will use the cash from a term loan to purchase fixed assets such as equipment used in its production process.

Tight Monetary Policy

A course of action undertaken by the Federal Reserve to constrict spending in an economy that is seen to be growing too quickly, or to curb inflation when it is rising too fast. The Fed will "make money tight" by raising short-term interest rates (also known as the Fed funds, or discount rate), which increases the cost of borrowing and effectively reduces its attractiveness. The Fed can sell Treasuries on the open market in order to absorb some extra capital during a tight monetary policy. This effectively takes capital out of the open markets as the Fed takes in funds from the sale with the promise of paying the amount back with interest. The Fed will often look at tightening monetary policy during times of strong economic growth.

Timberland Investment

An investment instrument used primarily by large institutional investors (such as public and private pension funds). The two main assets that underlie timberland investments are tree farms and managed natural forests. The returns on these forestland investments come from biological growth, upward product class movement, timber price appreciation and land price appreciation. The benefits of timberland investments arise from the tendency for the investments to be negatively correlated with other investment instruments such as stocks and bonds. This negative correlation allows timberlands to be used to diversify a portfolio. Timberland investments also provide relatively high returns for the low risk they carry. However, timberland investments are not perfect investments; they are still open to risks such as high purchase prices that can depress returns, natural disasters that can destroy the forestland underlying the investment and price risks associated with the price of the trees on the land.

Time Deposit

A savings account or CD held for a fixed-term with the understanding that the depositor can only withdraw by giving written notice. The term generally is at least 30 days.

Time Horizon

The length of time for which an investment is made, or held, before it is liquidated. Time horizons can range from seconds, in the case of a day trader, all the way up to decades for a buy-and-hold investor. There is no "right" time frame - it depends on the investor's individual objectives. Knowing your time horizon is extremely important when it comes to choosing the type of investments you want and your asset allocation. All things being equal, you can afford to be more aggressive with a longer time horizon. For example, most advisors would recommend that the asset allocation of a 30 year old be more heavily weighted in equities than that of someone who is close to retirement.

That said, age isn't the only determinant of time horizon. A 30 year old who is saving money for a down payment on a house in one year would be investing with a one-year time horizon, despite the fact that retirement is years away. Given the short time frame, it would be prudent to invest more conservatively because there is little time to make up any losses.

Time Value

The portion of the option premium that is attributable to the amount of time remaining until the expiration of the option contract. Basically, time value is the value the option has in addition to its intrinsic value.

Top-Down Investing

An investment approach that involves looking at the "big picture" in the economy and financial world and then breaking those components down into finer details. After looking at the big picture conditions around the world, the different industrial sectors are analyzed in order to select those that are forecasted to outperform the market. From this point, the stocks of specific companies are further analyzed and those that are believed to be successful are chosen as investments. An investor may use different criteria when deciding to employ the top-down approach. For example, an investor may consider such factors as geography, sector and size. What is important with this approach is that a big picture perspective is taken first before looking at the details. Although there is some debate as to whether the top-down approach is better than the bottom-up approach, many investors have found the top-down approach useful in determining what sectors are superior.

Total Debt To Total Assets

A metric used to measure a company's financial risk by determining how much of the company's assets have been financed by debt. Calculated by adding short-term and long-term debt and then dividing by the company's total assets.

$$\text{Total Debt To Total Assets} = \frac{\text{Short Term Debt} + \text{Long Term Debt}}{\text{Total Assets}}$$

This is a very broad ratio as it includes short- and long-term debt as well as all types of both tangible and intangible assets.

Total Enterprise Value - TEV

A valuation measurement used to compare companies with varying levels of debt. This is calculated as:

Some people just use market capitalization as the value of a company, but some companies issue more equity than others, so this is why we include debt.

TEV = Market Capitalization + Interest Bearing Debt + Preferred Stock - Excess Cash.

Total Shareholder Return - TSR

1. The total return of a stock to an investor (capital gain plus dividends). 2. The internal rate of return of all cash flows to an investor during the holding period of an investment.
2. Whatever way you calculate TSR, it means the same thing - the total amount returned to investors.

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Touchline

The highest bid and lowest ask at market for a particular security during a given time in the trading day. The touchline just specifies the best bid or ask available for a particular stock.

Toxic Waste

A slang term referring to securities that are unattractive due to certain underlying provisions or risks making them generally illiquid with poor pricing schemes and transparency. Mainly used in reference to CMOs, toxic waste represents the small portion of these products that are byproducts created as a result of providing the majority of CMOs with minimal risk. In effect, this small portion of byproducts is used as outlets for transferring a substantial portion of the underlying risks involved in making the obligations and then marketed to investors.

Tracking Error

A divergence between the price behavior of a position or a portfolio and the price behavior of a benchmark. This is often in the context of a hedge that did not work as effectively as intended, creating an unexpected profit or loss instead. Tracking errors are reported as a "standard deviation percentage" difference. Basically, it tells you the difference between the return you received and that of the benchmark you were trying to copy.

Tracking Stock

1. Common stock issued by a parent company that tracks the performance of a particular division without having claim on the assets of the division or the parent company. Also known as "designer stock".
1. When a parent company issues a tracking stock, all revenues and expenses of the applicable division are separated from the parent company's financial statements and bound to the tracking stock. Oftentimes, this is done to separate a subsidiary's high-growth division from a larger parent company that is presenting losses. The parent company and its shareholders, however, still control the operations of the subsidiary.
2. The most popular tracking stock is the QQQQ, which is an exchange-traded fund that mirrors the returns of the Nasdaq 100 index. Another type of tracking stock is Standard & Poor's depository receipts (SPDRs), which mirror the returns of the S&P 500 index.
2. A type of security specifically designed to mirror the performance of a larger index.

Trade Finance

The science that describes the management of money, banking, credit, investments and assets for international trade transactions. Companies involved with trade finance include importers and exporters, financiers, insurers and other service providers.

Trade or Fade Rule

An option exchange rule that prevents the occurrence of a trade through. If a better bid is posted on another exchange for an option and a market maker is unwilling or unable to match it for a client order, the market maker may offer to trade with the other market maker. The market maker offering the better price must accept the offer and trade at the price offered or adjust the bid.

Trade Resumption

To resume trading activities after having been shut down (halted) for some period of time. This can relate to trading between nations, or the resumption of open-market trading in a security such as a common stock or even an entire exchange. Trading will be halted in a security if there is material information that needs time to disseminate, or fundamental questions have been raised about the reliability of previously-released information.

Trade Sanction

A trade penalty imposed by one nation onto one or more other nations. Import tariffs, licensing costs and administrative hurdles are often enforced, making it more difficult if not impossible for the nation(s) bearing the sanction to trade with the nation imposing it. An example of a trade sanction is the set of stringent penalties the United States' imposed against Cuba from 1963 to 2000. In the year 2000 some of the sanctions were repealed, specifically those on medical and agriculture goods. Sanctions can be unilateral, imposed by only one country on one other country, or multilateral, imposed by one or more countries on a number of different countries. Often allies will impose multilateral sanctions on their foes.

Trade Through

The completion of a client's order at a price inferior to the best posted bid or ask. Basically, the market maker who received the order is unable or unwilling to fill it at the best posted bid or ask price. As a result, the trade is instead executed at the market maker's price. A trade through will usually only occur if an exchange has not made specific rules to prevent it.

Trade Volume Index - TVI

A technical indicator that measures the amount of money flowing in and out of an asset. Unlike many technical indicators, the TVI is generally created using intraday price data. The underlying assumption of this indicator is that there is buying pressure when the price trades near the asking price and selling pressure when it trades near the bid. This indicator is very similar to the on-balance volume indicator except that it focuses on the volume attributed to every trade rather than the closing volume that is attributable to all trades. This indicator is primarily used by day traders to identify whether a security is being accumulated (bought) or distributed (sold).

Trade Working Capital

The difference between current assets and current liabilities directly associated with everyday business operations. This measure is relevant in analyzing the near-term financial health of a company, as only current assets and current liabilities used for everyday business are considered.

Trade-Weighted Dollar

A representation of the foreign currency price of the U.S. dollar or the export value of the U.S. dollar. When this index increases, the value of the dollar increases, making it easier for Americans to afford imports. However, an increase in the index also makes American exports more expensive in other countries.

Trading Channel

When charting the price of an asset, this is the space on the chart between an asset's support and resistance levels. The price of the asset will stay within the support and resistance levels until a breakout occurs. Range traders will buy an asset when its price is near the bottom of the trading channel and sell it when the price gets close to the top of the trading channel, making a profit on the price spread. Trading channels may be flat, ascending or descending.

Trading Curb

A temporary restriction on program trading in a particular security or market, usually to reduce dramatic price movements. Also known as a collar or circuit breaker. When the "curbs are in" at the NYSE, it means that certain types of trading are restricted to prevent volatility. Depending on the situation, this can mean that either all trading is halted or that certain sales can be executed only on an uptick. This kind of rule was implemented after the crash of 1987 (Black Monday), as program trading was thought to be a primary cause of the drop.

Trading Desk

A desk where transactions for buying and selling securities occur. Trading desks can be found in most organizations (banks, finance companies, etc.) involved in trading investment instruments such as equities, fixed-income securities, futures, commodities and foreign exchange. A trading desk provides traders with access to instantaneous trade executions. Also known as "dealing desk". Trading desks can be either large or small depending on the organization and are occupied by licensed traders, usually specializing in trading one particular type of investment product (e.g. forex traders, commodities traders, stock traders, etc.). The instantaneous trade executions can be particularly important for day traders looking for arbitrage opportunities that usually last only minutes or even seconds.

Trading Halt

A temporary suspension in the trading of a particular security on one or more exchanges, usually in anticipation of a news announcement or to correct an order imbalance. A trading halt may also be imposed for purely regulatory reasons. During a trading halt, open orders may be canceled and options may be exercised. A trading halt gives all investors equal opportunity to evaluate news and make buy, sell or hold decisions on that basis. The stock exchange can also halt a stock at any time if it suspects unusual activity related to a stock's price. The stock will typically resume trading after 30 minutes, once news from the issuing company has been disseminated.

Trading Session

A period of time consisting of one day of business in a financial market, from the opening bell to the closing bell. Within the time frame of the trading session, all orders for the day must be placed, and buyers and sellers both participate in setting current market prices. The investor's concept of the trading session has broadened in the past decade as after-hours markets, ECN exchanges and other technologies have entered the marketplace. This increased access to the markets and information can overwhelm an individual investor with news, but long-term investors know that tuning out the day-to-day noise of the stock market is a key element of success.

Trailer Fee

A fee that a mutual fund manager pays to a salesperson who sells the fund to investors. The trailer fee pays the salesperson for providing the investor with ongoing investment advice and services. It is important to know whether your mutual fund salesperson is receiving a trailer fee because it may cause him or her to try to sell you a particular fund not because it is a good investment but because selling it to you will make him or her money. Also known as a "trailer commission," this fee is paid annually for as long as the investor holds shares in the fund.

Trailing

A term used to describe the most recent time period. Most often you will hear the term "trailing 12 months", and, from time to time, "trailing three months" or "trailing six months". The term may also modify a reported metric. For example, the earnings in a trailing price-to-earnings ratio refers to the past earnings per share over a certain period - usually 12 months. Trailing 12 months is denoted by the acronym "TTM".

Trailing EPS

The sum of a company's earnings per share for the previous four quarters. The descriptive word "trailing" implies "previous years" versus a present or forward EPS. Most recorded and quoted EPS values are trailing.

Trailing Price-To-Earnings - Trailing P/E

The sum of a company's price-to-earnings, calculated by taking the current stock price and dividing it by the trailing earnings per share for the past 12 months. This measure differs from forward P/E, which uses earnings *estimates* for the next four quarters. The trailing P/E ratio is calculated as follows:

$$\text{Trailing P/E Ratio} = \frac{\text{Current Share Price}}{\text{Trailing Twelve Months' Earnings Per Share}}$$

This is the most commonly used P/E measure because it is based on actual earnings and, therefore, is the most accurate. However, stock prices are constantly moving while earnings remain fixed. As a result, forward P/E can sometimes be more relevant to investors when evaluating a company.

Trailing Stop

A stop-loss order set at a percentage level below the market price - for a long position. The price is adjusted as the price fluctuates. This is such a useful tool, yet many fail to use it. Using a trailing stop allows you to let profits run while cutting losses at the same time.

Tranches

A piece, portion or slice of a deal or structured financing. This portion is one of several related securities that are offered at the same time but have different risks, rewards and/or maturities. "Tranche" is the French word for "slice". Tranche is a term often used to describe a specific class of bonds within an offering wherein each tranche offers varying degrees of risk to the investor. For example, a CMO offering a partitioned MBS portfolio might have mortgages (tranches) that have one-year, two- year, five-year and 20-year maturities. It can also refer to segments that are offered domestically and internationally.

Transaction

An agreement between a buyer and a seller for the exchange of goods or services for payment. The parties participating in a transaction have an obligation to perform their part. For example, for two parties involved in a futures contract, the seller is obligated to sell and deliver the underlying asset and the buyer is contractually obligated to pay the agreed upon price and accept the delivery.

Transaction Costs

Costs incurred when buying or selling securities. These include brokers' commissions and spreads (the difference between the price the dealer paid for a security and the price at which it can be sold). Also referred to as "Transaction Fees." This is what a broker or bank makes for being the middleman in a transaction.

Transaction Exposure

The risk, faced by companies involved in international trade, that currency exchange rates will change after the companies have already entered into financial obligations. Such exposure to fluctuating exchange rates can lead to major losses for firms. Often, when a company identifies such exposure to changing exchange rates, it will choose to implement a hedging strategy, using forward rates to lock in an exchange rate and thus eliminate the exposure to the risk.

Transaction Risk

The exchange rate risk associated with the time delay between entering into a contract and settling it. The greater the time differential between the entrance and settlement of the contract, the greater the transaction risk, because there is more time for the two exchange rates to fluctuate. Transaction risk creates difficulties for individuals and corporations dealing in different currencies, as exchange rates can fluctuate significantly over a short period of time. This volatility is usually reduced, or hedged, by entering into currency swaps and other similar securities.

Transfer Of Risk

The underlying tenet behind insurance transactions. The purpose of this action is to take a specific risk, which is detailed in the insurance contract, and pass it from one party who does not wish to have this risk (the insured) to a party who is willing to take on the risk for a fee, or premium (the insurer). For example, whenever someone purchases home insurance, he or she is essentially paying an insurance company to take the risk involved with owning a home. In the event that something does happen to the house, such as property damage from a fire or natural disaster, the insurance company will be responsible for dealing with any resulting consequences. In today's financial marketplace, insurance instruments have grown more and more intricate and complex, but the transfer of risk is the one requirement that is always met in any insurance contract.

Transfer Price

The price at which divisions of a company transact with each other. Transactions may include the trade of supplies or labor between departments. Transfer prices are used when individual entities of a larger multi-entity firm are treated and measured as separately run entities. Also known as "transfer cost". In managerial accounting, when different divisions of a multi-entity company are in charge of their own profits, they are also responsible for their own "Return on Invested Capital". Therefore, when divisions are required to transact with each other, a transfer price is used to determine costs. Transfer prices tend not to differ much from the price in the market because one of the entities in such a transaction will lose out: they will either be buying for more than the prevailing market price or selling below the market price, and this will affect their performance.

Translation Exposure

The risk that a company's equities, assets, liabilities or income will change in value as a result of exchange rate changes. This occurs when a firm denominates a portion of its equities, assets, liabilities or income in a foreign currency. Also known as "accounting exposure". Accountants use various methods to insulate firms from these types of risks, such as consolidation techniques for the firm's financial statements and the use of the most effective cost accounting evaluation procedures. In many cases, this exposure will be recorded in the financial statements as an exchange rate gain (or loss).

Translation Risk

The exchange rate risk associated with companies that deal in foreign currencies or list foreign assets on their balance sheets. The greater the proportion of asset, liability and equity classes denominated in a foreign currency, the greater the translation risk. This poses a serious threat for companies conducting business in foreign markets. Exchange rates usually change between quarterly financial statements, causing significant variances between the reported figures. Companies attempt to minimize these transaction risks by purchasing currency swaps or hedging through futures contracts.

Transparency

The extent to which investors have ready access to any required financial information about a company such as price levels, market depth and audited financial reports. Classically defined as when "much is known by many", transparency is one of the silent prerequisites of any free and efficient market. When transparency relates to information flow from the company to investors, it is also known as "full disclosure". Transparency helps to prevent the corruption that inevitably occurs when a select few have access to important information, allowing them to use it for personal gain. Reduced price volatility also tends to be a byproduct of a transparent market because all the market participants can base decisions of value on the same data. There are dozens of federal regulations in place to ensure transparency in our markets. Companies also have a strong motivation to provide disclosure, as transparency is generally rewarded through the stock's performance.

Traunch

One of many influxes of cash that is part of a single round of investment. For example, you might hear: "The $6.3 million is the first traunch of an $8 million round, with the extra $1.7 million expected over the next three months."

Traveler's Check

A medium of exchange that can be used in place of hard currency. Travelers' checks are often used by individuals who are traveling on vacation to foreign countries. The checks were first introduced by American Express back in 1891. The use of travelers' checks has exploded over the years as a safe way to carry currency abroad. Security is provided against lost or stolen checks by the issuing party - usually a bank. Specific checks are given unique check numbers, similar to a normal check. When a lost or stolen check is identified, it is simply canceled and the individual is re-issued a new check. Although banks issue the checks directly to individuals, they are produced by a separate party. Currently, the leading provider of travelers' checks is American Express.

Treasury Bill - T-Bill

A short-term debt obligation backed by the U.S. government with a maturity of less than one year. T-bills are sold in denominations of $1,000 up to a maximum purchase of $5 million and commonly have maturities of one month (four weeks), three months (13 weeks) or six months (26 weeks). T-bills are issued through a competitive bidding process at a discount from par, which means that rather than paying fixed interest payments like conventional bonds, the appreciation of the bond provides the return to the holder.

For example, let's say you buy a 13-week T-bill priced at $9,800. Essentially, the U.S. government (and its nearly bulletproof credit rating) writes you an IOU for $10,000 that it agrees to pay back in three months. You will not receive regular payments as you would with a coupon bond, for example. Instead, the appreciation - and, therefore, the value to you - comes from the difference between the discounted value you originally paid and the amount you receive back ($10,000). In this case, the T-bill pays a 2.04% interest rate ($200/$9,800 = 2.04%) over a three-month period.

Treasury Bond - T-Bond

A marketable, fixed-interest U.S. government debt security with a maturity of more than 10 years. The bonds make interest payments semi-annually and the income that holders receive is only taxed at the federal level. Treasury bonds are issued with a minimum denomination of $1,000. The bonds are initially sold through auction in which the maximum purchase amount is $5 million if the bid is non-competitive or 35% of the offering if the bid is competitive. A competitive bid states the rate that the bidder is willing to accept; it will be accepted depending on how it compares to the set rate of the bond. A non-competitive bid ensures that the bidder will get the bond but he or she will have to accept the set rate. After the auction, the bonds can be sold in the secondary market.

Treasury Index

An index based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. It is commonly used in determining mortgage rates for mortgages with an unfixed component and as a performance benchmark for investors in the capital markets as it represents a rate of return that investors would be able to get from almost any bank, with minimal effort. Treasury indexes are proprietary. The calculations of treasury indexes and their components vary by the financial institution calculating the index. Components of a treasury index are likely to be the weighted average prices of five-year, ten-year and bond-futures contracts. Because the components have different investment time frames, each weighting, based on investment duration, is adjusted for equal contribution to the index.

Treasury Lock

A customized derivative security used by investors to lock in the yield or price of a treasury security. The lock acts like a separate security in addition to the treasury because it guarantees a fixed return. Treasury locks are cash settled, and the parties involved, depending on their respective side of the transaction, pay the difference between the lock price and the market interest rates. For example, an investor purchasing a treasury lock at 5% is required to pay the seller the difference between the market interest rate and the lock rate if the market rate is higher. Conversely, if the market rate is lower than the lock price, then the investor will receive the difference.

Treasury Stock

Stock that has been repurchased by the issuing company. These shares don't pay dividends, have no voting rights, and should not be included in shares outstanding calculations. Treasury stock is created when a company does a share buyback and purchases its shares on the open market. This can be advantageous to shareholders because it lowers the number of shares outstanding. However, not all buybacks are a good thing. For example, if a company merely buys stock to improve financial ratios such as EPS or P/E, then the buyback is detrimental to the shareholders, and it is done without the shareholders' best interests in mind.

Treasury Stock Method

The component of the diluted earnings per share denominator that includes the net of new shares potentially created by unexercised in-the-money warrants and options. This method assumes that the proceeds that a company receives from an in-the-money option exercise are used to repurchase common shares in the market. In order to comply with generally accepted accounting principles (GAAP), the treasury stock method must be used by a company when computing its diluted earnings per share (EPS). The net of new shares that are potentially created is calculated by taking the number of shares that the in-the-money options purchase, then subtracting the number of common shares that the company can purchase from the market with the option proceeds. This adds to the total number of shares in the denominator and lowers the EPS number. For example, assume that a company currently has in-the-money options that cover 10,000 shares with an exercise price of $50. If the current market price is $100, the options are in-the-money and, based on the treasury method, need to be added to the diluted EPS denominator. The proceeds the company will receive will be $500,000 ($50 x 10,000), which allows them to repurchase 5,000 shares on the market ($500,000/$100). Therefore, the net of new shares is 5,000 (10,000 option shares - 5,000 repurchased shares).

Treasury STRIPS

An acronym for 'separate trading of registered interest and principal securities'. Treasury STRIPS are fixed-income securities sold at a significant discount to face value and offer no interest payments because they mature at par. Backed by the U.S. government, STRIPS, which were first introduced in 1985, offer minimal risk and some tax benefits in certain states, replacing TIGRs and CATS as the dominant zero-coupon U.S. security. Although you receive no tangible income, you typically still have to pay federal income tax on the bond's accretion for the year.

Treble Damages

A law that permits a court to triple the amount of damages awarded in cases where the defendant willfully acted in a prohibited way. Usually a court will require substantial evidence proving that the defendant's actions were willful in nature or done in bad faith before treble damages are awarded. In the corporate world treble damages often arise in regard to patent infringement, willful counterfeiting and antitrust lawsuits. Damages are calculated against the financial loss incurred by the plaintiff directly resulting from the actions of the defendant.

Trend Analysis

An aspect of technical analysis that tries to predict the future movement of a stock based on past data. Trend analysis is based on the idea that what has happened in the past gives traders an idea of what will happen in the future. There are three main types of trends: short-, intermediate- and long-term. Trend analysis tries to predict a trend like a bull market run and ride that trend until data suggests a trend reversal (e.g. bull to bear market). Trend analysis is helpful because moving with trends, and not against them, will lead to profit for an investor.

Trend Trading

A trading strategy that attempts to capture gains through the analysis of an asset's momentum in a particular direction. The trend trader enters into a long position when a stock is trending upward (successively higher highs). Conversely, a short position is taken when the stock is in a down trend (successively lower highs). This strategy assumes that the present direction of the stock will continue into the future. It can be used by short-, intermediate- or long-term traders. Regardless of their chosen time frame, traders will remain in their position until they believe the trend has reversed - but reversal may occur at different times for each time frame.

Trendline

A line on the price or value chart of a security depicting the general direction in which the security is headed. This chart shows an example of an upward trendline: Many people believe that prevailing trends, either up or down, will determine where a security is headed. Trendlines can be used to analyze individual securities, such as stocks, commodities or indexes, among other things.

Treynor Ratio
A ratio developed by Jack Treynor that measures returns earned in excess of that which could have been earned on a riskless investment per each unit of market risk.
The Treynor ratio is calculated as:

Treynor-Black Model

A type of asset allocation model that was developed by Jack Treynor and Fischer Black. The model tries to determine the optimal combination of passively and actively managed assets in an investment portfolio.When determining the optimal allocation of assets, the model focuses primarily on securities' systematic and unsystematic risk. If using the Treynor-Black model, an individual can see that the model focuses less on the Beta of a security and more on its unsystematic risk. The more unsystematic risk a security has, the less weight it is given in the Treynor-Black model. As a result of this tendency, the Treynor-Black model is said to favor low-return, low-risk securities over those with higher return and higher risk.

Triangular Arbitrage
The process of converting one currency to another, converting it again to a third currency and, finally, converting it back to the original currency within a short time span. This opportunity for riskless profit arises when the currency's exchange rates do not exactly match up. Triangular arbitrage opportunities do not happen very often and when they do, they only last for a matter of seconds. Traders that take advantage of this type of arbitrage opportunity usually have advanced computer equipment and/or programs to automate the process.
As an example, suppose you have $1 million and you are provided with the following exchange rates: EUR/USD = 0.8631, EUR/GBP = 1.4600 and USD/GBP = 1.6939.

Trickle Down Theory
An economic theory which states that investing money in companies and giving them tax breaks is the best way to stimulate the economy. Proponents of this theory believe that when government helps companies, they will produce more and thereby hire more people and raise salaries. The people, in turn, will have more money to spend in the economy.

Triggering Event
1. A tangible or intangible barrier or occurrence that, once breached or met, causes the occurrence of another event. Triggering events are written into contracts to prevent or ensure that after a given occurrence, the terms of the original agreement are abandoned or changed to suit the party that included the triggering event in the agreement.
2. A certain milestone or event that a participant in a qualified plan must experience in order to be eligible to receive a distribution from a qualified plan.
1. It is common for banks to issue debt at a given interest rate on certain terms. For example, one of the bank's terms could be that the borrowing party does not incur any more debt for the term of the loan. Should the borrower incur more debt - the triggering event - the bank may foreclose on the loan or increase the original rate of interest accordingly.
2. Triggering events are typically characterized by the attainment of retirement age (as defined under the plan), termination of employment, termination of the plan, the participant becoming disabled (as defined under the plan) or the death of the participant.

In some cases, in-service withdrawals may be permitted within the plan, allowing for tax and penalty free distributions before a triggering event occurs.

TRIN

A short-term technical analysis breadth indicator calculated as the following:

A ratio of 1 means the market is in balance; above 1 indicates that more volume is moving into declining stocks; and below 1 indicates that more volume is moving into advancing stocks. This indicator was developed by Richard Arms.

TRIN

Short for TRaders INdex. A technical analysis indicator calculated by taking the advances-to-declines spread and dividing that by the volume of advances to declines. If the value of this is less than 1, then it is considered to be a very bullish indicator

Triple Bottom

A pattern used in technical analysis to predict the reversal of a prolonged downtrend. The pattern is identified when the price of an asset creates three troughs at nearly the same price level. The third bounce off the support is an indication that buying interest (demand) is outweighing selling interest (supply) and that the trend is in the process of reversing. Once the first bottom is created, the price reaches a peak and retraces back toward the prior support. This is when buyers enter again and push the price of the asset higher, creating bottom No.2. The price of the asset then creates another peak and heads lower for its final test of the support. The final bounce off the support level creates bottom No.3 and traders will get ready to enter a long position once the price breaks above the previous resistance (illustrated by the black line on the chart). This pattern is considered to be a very reliable indication that the downtrend has reversed and that the new trend is in the upward direction.

Triple Net Lease

A lease that designates the tenant as being solely responsible for all of the costs relating to the asset being leased. The costs could include any upgrades, utilities, repairs, etc. In other words, if you lease a warehouse under a triple net lease, then you are responsible for paying utility bills, shoveling walks, cutting grass and so on.

Triple Top

A pattern used in technical analysis to predict the reversal of a prolonged uptrend. This pattern is identified when the price of an asset creates three peaks at nearly the same price level. The bounce off the resistance near the third peak is a clear indication that buying interest is becoming exhausted. It is used by traders to predict the reversal of the uptrend. The three consecutive tops make this pattern visually similar to the head and shoulders pattern but, in this case, the middle peak is nearly equal to the other peaks rather than being higher. Many traders will enter into a short position once the price of the asset falls below the identified support level (shown by the black line in the chart above)

Triple Witching

An event that occurs when the contracts for stock index futures, stock index options and stock options all expire on the same day. Triple witching days happen four times a year: the third Friday of March, June, September and December. This phenomenon is sometimes referred to as "freaky Friday". The final trading hour for that Friday is the hour known as triple witching. The markets are quite volatile in this final hour, as traders are quickly offsetting their option/futures orders before the closing bell. If you are a long-term investor, triple witching will have a minimal impact on you.

Trough

The stage of the economy's business cycle that marks the end of a period of declining business activity and the transition to expansion. In general, the business cycle is said to go through expansion, then the peak, followed by contraction, and then it finally bottoms out with the trough.

Troy Ounce

A unit of measure for weight that dates back to the Middle Ages. Originally used in Troyes, France, the troy ounce was used when dealing with precious metals. One troy ounce is equal to 31.1034768 grams. The troy ounce is the only measure of the troy weighting system that is still used in modern times. It is used in the pricing of metals such as gold, platinum and silver. When the price of gold is said to be US$653/ounce, the ounce being referred to is a troy ounce, not a standard ounce. There are 14.58 troy ounces in one pound.

True Strength Index - TSI

A technical momentum indicator that helps traders determine overbought and oversold conditions of a security by incorporating the short-term purchasing momentum of the market with the lagging benefits of moving averages. Generally a 25-day exponential moving average (EMA) is applied to the difference between two share prices, and then a 13-day EMA is applied to the result, making the indicator more sensitive to prevailing market conditions. After the data is smoothed, some calculations are done to make the indicator fall in a range from +100 to -100, or from +1 to -1. A signal line (7-day EMA) is usually added - as it is to the moving average convergence divergence indicator - to help identify reversals. In addition, values of -25 and +25, like the levels of 30 and 70 used in the relative strength index, can also be used to identify levels where a security is overbought or oversold. The true strength indicator is a variation of the relative strength index.

Trust Company

A legal entity that acts as fiduciary, agent or trustee on behalf of a person or business entity for the purpose of administration, management and the eventual transfer of assets to a beneficial party. The entity acts as a custodian for trusts, estates, custodial arrangements, asset management, stock transfer, beneficial ownership registration and other related arrangements. A trust company does not own the assets its customers assign to its management, but it may assume some legal obligation to take care of assets on behalf of other parties. A trust company or trust department is usually a division or an associated company of a commercial bank. Trusts and similar arrangements managed for eventual transfer are managed for profit, which may be taken out of the assets on an annual basis or upon transfer to the beneficial third party. There are often tax advantages associated with using trusts to transfer ownership of assets, but any trust arrangement should be made through qualified professionals that are capable of giving tax and legal advice.

Trust Deed

1. A formal document which outlines the terms of a trust agreement.
2. A common way to structure real estate purchases, where the title to a property is held in trust until the loan for the property is paid.

Trustee

An individual who holds or manages assets for the benefit of another. For example, an indenture trustee is the agent of a bond issuer who handles all the administrative aspects of a loan, including ensuring that the borrower complies with the terms in the indenture

Trustor

An individual or organization that gifts funds or assets to others by transferring fiduciary duty to a third party trustee that will maintain the assets for the benefit of the beneficiaries. Also referred to as a grantor, the trustor is the party that generally donates or gifts assets to others.

Tuck-In Acquisition
The acquisition of a company made for the sole purpose of merging it into a division of the acquirer. Sometimes referred to as "bolt-on acquisitions." This type of corporate strategy is generally used to acquire companies with technological breakthroughs or comparative advantages at a cost less than implementing the changes themselves.

Tunneling
An illegal business practice in which a majority shareholder or high-level company insider directs company assets or future business to themselves for personal gain. Actions such as excessive executive compensation, dilutive share measures, asset sales and personal loan guarantees can all be considered tunneling. The common thread is the loss to the minority shareholders, whose ownership is lessened or otherwise devalued through inappropriate actions that harm the overall value of the business. This risk is especially prevalent for investors in emerging markets, where government and regulatory controls may not be sufficient to stop the practice from occurring, often under legal guises. The practice is not reserved to moderately advanced economies; many instances can be found in advanced economies, especially those under systems of "civil law". The U.S. legal system is rooted in "common law", which provides broad enforceable laws with simple maxims like "fairness" and "for the common good". Under civil law, the letter of the law is the most respected measure, so would-be tunnelers can pass an act of tunneling off under certain technicalities, which often hold up in court.

Turkey
Slang for an investment that yields disappointing results or turns out worse than expected. Failed business deals, securities that realize significant losses and unsuccessful IPOs could all be called "turkeys". For an individual investor, a turkey could be a speculative equity investment in a startup technology company that subsequently goes bankrupt. For a corporation, a turkey could be the purchase of a smaller company that ends up producing much less revenue than anticipated, making it an investment that gobbles up the company's profits.

Turnaround
A situation where a company, who has had poor performance for an extended period of time, experiences a positive reversal. A speculator may profit from a turnaround if he or she accurately anticipates the improvement of a poorly performing company.

Turnkey Business
A situation where the high level management of a firm is in charge of the planning and execution of all business strategy. The client, who buys a franchise or part of the business, only has to "turn the key" for the operation to start.
Most franchises are done this way.

Turnover
1. In accounting, the number of times an asset is replaced during a financial period.
2. The number of shares traded for a period as a percentage of the total shares in a portfolio or of an exchange.
1. In accounting turnover often refers to inventory or accounts receivable. A quick turnover is desired because it means that inventory is not sitting on the shelves for too long.
2. In a portfolio, a small turnover is desired because it means the investor is paying less in commissions to the broker. It is called "churning" when a broker unethically generates numerous trades solely in order to increase commissions.

Turnover Ratio
For a mutual fund or other investment vehicle, the turnover ratio measures the percentage of holdings that have been "turned over", or replaced with other holdings, in the past year. A higher turnover ratio could lead to more short-term gains for the investor (assuming the fund appreciates), as more of the assets are only held for a short time, but

it also causes the fund to incur greater transaction costs. The investment style of the mutual fund will play an important role in its turnover ratio. For example, a conservative (such as index-matching) fund will have a lower turnover ratio than an aggressive growth fund, which would look to quickly turn profits and look for new opportunities. Turnover ratios at a mutual fund will vary from year to year, but the general range can be assessed by looking at the figure over a few consecutive years.

Turtle

A nickname given to a group of traders who were a part of an 1983 experiment run by two famous commodity traders, Richard Dennis and Bill Eckhardt. The goal of the study was to prove whether being a great trader was a genetic predisposition or whether it could be taught. Dennis believed that a person could be trained while Eckhardt thought it was an innate skill. To test the idea, a trading system was taught to the participants in the research group (consisting of 10 to 12 individuals), where each were given a monetary amount - as high as $2 million - to trade. Over time it became clear that Dennis was correct in stating a person can learn to be a great trader as the research-group traders generated average annual returns of up to 80%. The title, turtles, was based on a 1989 *Wall Street Journal* article, where Dennis was quoted as saying, "We are going to grow traders just like they grow turtles in Singapore."

Two-Step Earnings

A slang reference to two companies whose earnings tend to move in tandem. The earnings for the companies tend to increase in a slow-slow, quick-quick fashion. This slang term is a reference to the country-style dance called the two-step because when performing the two-step, the two individuals dancing move in tandem at a slow-slow, quick-quick pace.

Two-Way Quote

A type of quote that gives both the bid and the ask price of a security, informing would-be traders of the current price at which they could buy or sell the security. The two-way quote also shows the spread between the bid and the ask, giving traders an idea of the current liquidity in the security (a smaller spread indicates more liquidity). This type of quote provides more information to users than a last-trade quote, which quotes only the price at which the security last traded. An example of a two-way quote would be: Citigroup quote of $52.50/$53.30. This tells traders they can currently purchase Citigroup shares for $53.30 or sell them for $52.50. The spread between the bid and the ask is $0.80 ($53.30-$52.50).

With these exchange rates there is an arbitrage opportunity:

Sell dollars for euros: $1 million x 0.8631 = 863,100 euros

U

U.S. Treasury

Created in 1798, the United States Department of the Treasury is the government (Cabinet) department responsible for issuing all Treasury bonds, notes and bills. Some of the government branches operating under the U.S. Treasury umbrella include the IRS, U.S. Mint, Bureau of the Public Debt, and the Alcohol and Tobacco Tax Bureau

Ultimate Oscillator

A technical indicator invented by Larry Williams that uses the weighted average of three different time periods to reduce the volatility and false transaction signals that are associated with many other indicators that mainly rely on a single time period

Unbundling

The process of taking over a large company with several different lines of business, and then, while retaining the core business, selling off the subsidiaries to help fund the takeover

Under pricing

The pricing of an initial public offering (IPO) below its market value. When the offer price is lower than the price of the first trade, the stock is considered to be underpriced. A stock is usually only underpriced temporarily because the laws of supply and demand will eventually drive it toward its intrinsic value.

Undercapitalization

When a company does not have sufficient capital to conduct normal business operations and pay creditors. This can occur when the company is not generating enough cash flow or is unable to access forms of financing such as debt or equity. If a company can't generate capital over time, it increases its chance of going bankrupt as it loses the ability to service its debts. Undercapitalized companies also tend to choose high-cost sources of capital, such as short-term credit, over lower-cost forms such as equity or long-term debt.

Underpayment Penalty

A tax penalty enacted on an individual for not paying enough of his or her total estimated tax and withholding. If an individual has an underpayment of estimated tax, they may be required to pay a penalty (on Form 2210).

Undersubscribed

A situation in which the demand for an initial public offering of securities is less than the number of shares issued. Also known as an "under booking".

Undertakings for the Collective Investment of Transferable Securities – UCITS

A public limited company that coordinates the distribution and management of unit trusts amongst countries within the European Union.

Undervalued

A stock or other security that is trading below its true value

Underwriter

A company or other entity that administers the public issuance and distribution of securities from a corporation or other issuing body. An underwriter works closely with the issuing body to determine the offering price of the securities, buys them from the issuer and sells them to investors via the underwriter's distribution network.

Underwriting

1. The process by which investment bankers raise investment capital from investors on behalf of corporations and governments that are issuing securities (both equity and debt).
2. The process of issuing insurance policies

Underwriting Spread

The spread between the amount underwriters pay an issuing company for its securities and the amount the underwriters receive from selling the securities in the public offering.

Undisclosed Reserves

The unpublished or hidden reserves of a financial institution that may not appear on publicly available documents such as a balance sheet, but are nonetheless real assets, which are accepted as such by most banking institutions.

Undivided Account

An underwriting system in which each underwriter in the group is responsible not only for selling its allotted amount of the new issue but also for selling any excess issue not sold by the underwriting group as a whole. This is also referred to as an "Eastern account", and it is the opposite of a divided account.

Unearned Income

Any income that comes from investments and other sources unrelated to employment services

Unearned Revenue

When an individual or company receives money for a service or product that has yet to be fulfilled

Unissued Stock

When a corporation possesses authorized common and preferred shares, but never actually exchanges them for money or services.

Unleveled Cost Of Capital

An evaluation that uses either a hypothetical or actual debt-free scenario when measuring the cost to a firm to implement a particular capital project. The unleveled cost of capital should illustrate that it is a cheaper alternative than a levered cost of capital investment program. A variation of the cost of capital calculation.

Unlisted Security

A security that is not traded on an exchange, usually because of an inability to meet listing requirements

Unrealized Gain

A profit that results from holding on to an asset rather than cashing it in and using the funds.

Unrealized Loss

A loss that results from holding onto an asset rather than cashing it in and officially taking the loss.

Unrelated Business Taxable Income – UBTI

Income regularly generated by a tax-exempt entity by means of taxable activities. This income is not related to the main function of the entity, but is needed to generate a small portion of income.

Unsecured

A loan or equity interest that is given without any guarantee of payment, performance, satisfaction or opportunity for return from the recipient. No property, interest or security is used as collateral in either a guarantee or a pledge

Unsecured Creditor

An individual or institution that lends money without obtaining specified assets as collateral. This poses a higher risk to the creditor because they have nothing to fall back on should the borrower default on the loan. A debenture holder is an unsecured creditor.

Unsecured Debt

A loan not secured by an underlying asset or collateral. Unsecured debt is the opposite of secured debt.

Unsecured Loan

A loan that is issued and supported only by the borrower's creditworthiness, rather than by some sort of collateral

Unsubscribed

Newly issued securities those have not seen much interest, or subscriptions, from investors ahead of the issue date or have not been offered by brokerages. If you wanted to own the newly issued shares, you'd only be able to purchase them as you would any other stock through the secondary markets.

Unsuitable (Unsuitability)

A situation where an investment strategy does not meet the objectives and means of an investor. In most parts of the world, financial professionals have a duty to take steps that ensure that an investment is suitable for a client. For example, in the United States the NASD enforces these rules.

Unsystematic Risk

Risk that affects a very small number of assets. Sometimes referred to as specific risk.

Unweighted Index
A simple arithmetic or geometric average used to calculate stock indexes. Equal weight is invested in each of the stocks in an index with equal dollar amounts invested in each underlying stock. Because the stocks are equally weighted, one stock's performance will not have a dramatic effect on the performance of the index as a whole. This differs from weighted indexes, where some stocks are given more weight than others, usually based on their market capitalizations.
Up tick Rule
A rule established by the SEC that requires that every short sale transaction be entered at a price that is higher than the price of the previous trade. This rule was introduced in the Securities Exchange Act of 1934 as Rule 10a-1. The uptick rule prevents short sellers from adding to the downward momentum when the price of an asset is already experiencing sharp declines.
Up Volume
A stock's volume when the security closes at a price higher than the previous day's close.
Up-and-In Option
An option that can only be exercised when the price of the underlying asset reaches a set barrier level. This is a type of a knock-in barrier option.
Upgrade
A positive change in the rating of a security
Upside
The potential dollar or percentage amount by which the market or a stock could rise. This is basically an educated guess on how high a stock could go in the near future.
Upside/Downside Ratio
The volume of advancing NYSE issues divided by the volume of declining NYSE issues
Upstairs Trade
When a trade in a listed stock is not executed through the listing exchange.
Upstream
Operations stages in the oil and gas industry that involve exploration and production
Uptrend
Describes the price movement of a financial asset when the overall direction is upward. A formal uptrend is when each successive peak and trough is higher than the ones found earlier in the trend
Usury
The act of lending money at an interest rate higher than that permitted by law.

V

Vacation Home
A home separate from an individual's primary residence that is used for recreational purposes and may also be rented out at unused times. For tax purposes, those who rent their vacation homes may result in a lower amount of allowable expense deductions.
Valuation
The process of determining the current worth of an asset or company. There are many techniques that can be used to determine value, some are subjective and others are objective. For example, an analyst valuing a company may look at the company's management, the composition of its capital structure, prospect of future earnings, and market value of assets. Judging the contributions of a company's management would be more of a subjective valuation technique, while calculating intrinsic value based on future earnings would be an objective technique.

Value at Risk - VaR
A technique used to estimate the probability of portfolio losses based on the statistical analysis of historical price trends and volatilities. VaR is commonly used by banks, security firms and companies that are involved in trading energy and other commodities. VaR is able to measure risk while it happens and is an important consideration when firms make trading or hedging decisions. A renewable fixed income security with variable coupon rates that are periodically reset. Usually the coupon is set on a weekly basis at a fixed spread over the T-bill rate In currencies, this is the abbreviation for the Venezuelan Bolivar. The currency market, also known as the Foreign Exchange market, is the largest financial market in the world, with a daily average volume of over US $1 trillion.
Value Chain
A high-level model of how businesses receive raw materials as input, add value to the raw materials through various processes, and sell finished products to customers. Value-chain analysis looks at every step a business goes through, from raw materials to the eventual end-user. The goal is to deliver maximum value for the least possible total cost.
Value Date
A future date used in determining the value of a product that fluctuates in price. Typically, you will see the use of value dates in determining the payment of products and accounts where there is a possibility for discrepancies due to differences in the timing of valuation. Such products include forward currency contracts, option contracts, and the interest payable or receivable on personal accounts. Also referred to as "valuta". For example, in the case of savings bonds, the interest is compounded semi-annually so the value date is every six months. This removes any uncertainty for investors because their calculations of interest payments will be the same as the government's
Value Investing
The strategy of selecting stocks that trade for less than their intrinsic value. Value investors actively seek stocks of companies that they believe the market has undervalued. They believe the market overreacts to good and bad news, causing stock price movements that do not correspond with the company's long-term fundamentals. The result is an opportunity for value investors to profit by buying when the price is deflated.
Typically, value investors select stocks with lower-than-average price-to-book or price-to-earnings ratios and/or high dividend yields. The big problem is estimating the intrinsic value. Remember, there is no "correct" intrinsic value. Two investors can be given the exact same information and place a different value on a company. For this reason, another central concept to value investing that of "margin of safety". This just means that you buy at a big enough discount to allow some room for error in your estimation of value. Also keep in mind that the very definition of value investing is subjective. Some value investors only look at present assets/earnings and don't place any value on future growth. Other value investors base strategies completely around the estimation of future growth and cash flows. Despite the different methodologies, it all comes back to trying to buy something for less than its worth.
Value Stock
A stock that tends to trade at a lower price relative to it's fundamentals (i.e. dividends, earnings, sales, etc.) and thus considered undervalued by a value investor. Common characteristics of such stocks include a high dividend yield, low price-to-book ratio and/or low price-to-earnings ratio. A value investor believes that the market isn't always efficient and that it's possible to find companies trading for less than they are worth. An easy way to attempt to find value stocks is to use the "Dogs of the Dow" investing strategy - buying of the 10 highest dividend-yielding stocks on the Dow Jones at the beginning of each year and adjusting it every year thereafter.
Value Trap

A stock that has experienced a large price depreciation and is mistaken to be a value stock. When a company's stock seems undervalued, investors are sometimes drawn into purchasing it in hopes of a stock price appreciation. If stock price is the only factor an investor looks at before buying a stock, he or she could end up with a stock whose value is likely to decline even further.

Value-Added Tax - VAT

A type of consumption tax that is placed on a product whenever value is added at a stage of production and at final sale. Value-added tax is most often used in the European Union. The amount of VAT that the user pays is the cost of the product less any of the costs of materials used in the product that have already been taxed. For example when a television is built by a company in Europe the manufacturer is charged a VAT on all of the supplies they purchase for producing the television. Once the television reaches the shelf, the consumer who purchases it must pay the VAT that applies to him or her.

Value-Based Pricing

A pricing strategy in which a product's price is actively dependant upon its demand. This method of pricing allows companies to take advantage of highly demanded products by charging more. A good example is how refreshments generally costs more at sporting events.

Vanilla Option

A normal option with no special or unusual features. A plain vanilla option is your plain run-of-the-mill option, with your standard expiry and strike price

Variable Cost

A cost that changes in proportion to a change in a company's activity or business. A good example of variable cost is the fuel for an airline. This cost changes with the number of flights and how long the trips are.

Variable Death Benefit

The amount paid to a decedent's beneficiary that is dependent on the investment performance of an insurance company's separate account. The amount is added to any guaranteed minimum death benefit.

Variable Interest Rate

An interest rate that moves up and down based on the changes of an underlying interest rate index.

Variance

A measure of the dispersion of a set of data points around their mean value. It is a mathematical expectation of the average squared deviations from the mean. Variance measures the variability (volatility) from an average. Volatility is a measure of risk, so this statistic can help determine the risk an investor might take on when purchasing a specific security le, a credit card might have a variable rate that is a certain spread over the prime rate.

Variance Swap

A type of volatility swap where the payout is linear to variance rather than volatility. Therefore, the payout will rise at a higher rate than volatility. Variance is the square of standard deviation. Because of this, a variance swaps' payout will be larger than that of a volatility swap, as these products are based upon variance rather than standard deviation.

Variation Margin

A variable margin payment that is made by clearing members to their respective clearing houses based upon adverse price movements of the futures contracts that these members hold. Variation margin is paid by clearing members on a daily or intraday basis in order to reduce the exposure created by carrying highly risky positions. By demanding variation margin from its members, clearing organizations are able to maintain a suitable level of risk and cushions against significant devaluations.

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Vault Receipt
A document frequently used as a delivery instrument to indicate ownership of precious metals stored in a bank, warehouse, or depository. Also known as warrant or warehouse receipt for metals. Vault receipts indicate ownership of precious metal commodities certified for delivery upon futures contract.

Visible Supply
The deliverable commodities in licensed warehouses and approved delivery facilities. The visible supply of commodities generally includes afloat and insight commodities within production areas. This supply is important as it identifies a definite quantity of commodities available for purchase or delivery upon futures contracts.

VND
In currencies, this is the abbreviation for the Vietnamese Dong. The currency market, also known as the Foreign Exchange market, is the largest financial market in the world, with a daily average volume of over US $1 trillion.

Volatility Quote Trading
A method of quoting option contracts whereby bids and asks are quoted according to their implied volatilities rather than prices. Used mainly by sophisticated investors, volatility quotes benefit those investors who trade upon volatility rather than price. These investors are typically interested in the likelihood of a contract moving up or down in price rather than in its actual cost.

Volatility Smile
A common graphical shape that results from plotting the strike price and implied volatility of a group of options with the same expiration date. A volatility smile is used by investors to price options in the foreign currency market and the equity option market.

Volatility Swap
A forward contract whose underlying is the volatility of a given product. This is a pure volatility instrument allowing investors to speculate solely upon the movement of a stock's volatility without the influence of its price. Thus, just like investors trying to speculate on the prices of stocks, by using this instrument investors are able to speculate on how volatile the stock will be. Volume is an important indicator in technical analysis as it is used to measure the worth of a market move. If the markets have made strong price move either up or down the perceived strength of that move depends on the volume for that period. The higher the volume during that price move the more significant the move.

Volume Price Trend Indicator - VPT
A technical indicator consisting of a cumulative volume line that adds or subtracts a multiple of the percentage change in share price trend and current volume, depending upon their upward or downward movements. This indicator is used to determine the balance between a stock's demand and supply. The percentage change in the share price trend denotes the relative supply or demand of a particular security, while volume indicates the actual size of the forces.

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Volume Weighted Average Price - VWAP

A trading benchmark used especially in pension plans. VWAP is calculated by adding up the dollars traded for every transaction (price multiplied by number of shares traded) and then dividing by the total shares traded for the day.

$$\text{VWAP} = \frac{\sum \text{Number of Shares Bought} \times \text{Share Price}}{\text{Total Shares Bought}}$$

The theory is that if the price of a buy trade is lower than the VWAP, then it is a good trade. The opposite is true if the price is higher than the VWAP. In other words, a trade that is made at a share price lower than the volume weighted average price is usually considered a bargain.

Voodoo Accounting

Any form of accounting that does not follow principles of conservatism. While there are many methods by which financial statements can be fudged, it always comes down to inflating revenue or hiding expenses. Examples of accounting shenanigans include the big bath, cookie jar accounting and improper recognition of revenue. Any method that boosts profitability through accounting tricks eventually catches up with the company. As soon as it does "poof", past profits disappear like magic. (Hence the name "voodoo accounting

Voodoo Economics

A slanderous term used by President George H. W. Bush in reference to President Reagan's economic policies known as Reaganomics. Before President Bush became Reagan's Vice President, he viewed his eventual running mate's economic policies less then favorably. Reagan was a proponent of supply-side economics, favoring reduced income and capital gains tax rates.

Vostro Account

The account a correspondent bank, usually U.S. or UK, holds on behalf of a foreign bank. Also known as a loro account. Vostro is latin for yours.

Voting Right

The right of a stockholder to vote on matters of corporate policy as well as on who is to compose the board of directors. Most voting involves decisions on issuing securities, initiating stock splits, and making substantial changes in the corporation's operations.

Voting Shares

Shares that give the stockholder the right to vote on matters of corporate policy making as well as who will compose the members of the board of directors. Different classes of shares, such as preferred stock, sometimes don't allow for voting rights.

Voucher

A document recording a liability or allowing for the payment of a liability, or debt. A voucher would be held by the person or company who will receive payment. For example, if a supplier has documentation that provides evidence that they are owed money for supplies they sold, they would have a voucher. Vouchers are used as evidence that a transaction has taken place and that there is a liability by one of the

Vulture Fund

A fund that buys securities in distressed investments, such as high-yield bonds in or near default, or equities that are in or near bankruptcy. Even highly leveraged firms may be targeted if there is a chance that the owners will not be able to make all required debt payments. As the name implies, these funds are like circling vultures patiently waiting to pick over the remains of a rapidly weakening company. The goal is high returns at bargain prices. Some people have looked down upon hedge funds that operate like vulture funds, which have preyed on the cheap debt of struggling companies and forced these companies to pay it back, plus interest.

X

Ex-Dividend
The trading of shares when a declared dividend belongs to the seller rather than the buyer .A stock trades ex-dividend on or after the ex-dividend date (ex-date).
Ex-Rights
Shares of stock that are trading but no longer have rights attached because they have either expired, been transferred to another investor or been exercised. The rights originally assigned to the stockholder are, for whatever reason, no longer valid or no longer applicable to the stock. Ex-rights shares are worth less than shares which are not yet ex-rights - the ex-rights shares do not give a shareholder access to a rights offering. Renounceable rights may trade separately, allowing shareholders to choose to sell their rights rather than exercise them.
Ex-Warrant
The trading of shares when a warrant has been declared but not distributed. In this case, the distribution would still belong to the seller rather than someone looking to buy the shares.
Xenocurrency
A currency that trades in markets outside of its domestic borders. "Xeno" is a prefix meaning foreign or strange. An example of a xenocurrency is the Chinese yuan when it is traded in the United States. When currency is deposited by national governments or corporations in banks outside their home market, it is sometimes referred to as a "eurocurrency" (this applies to any currency and to banks in any country).

Y

Yankee Bond
A bond denominated in U.S. dollars and issued in the United States by foreign banks and corporations. This type of a bond is known as a foreign bond.
Yard
Slang for one billion units in currency. The term also refers to "milliard," which is a European term for 1,000 million (a billion). If a person wanted to buy one billion U.S. dollars, he or she might say, "I would like to buy a yard of U.S. dollars." By using the word "yard" in place of "billion," the person ensures that the counter-party will not misunderstand billion for "million" or "trillion." A certificate of deposit (CD) issued in the U.S. market, typically in New York, by a branch of a foreign bank. Yankee CDs are negotiable instruments, and most have a minimum face value of $100,000.
Yellow Knight
A company that was once making a takeover attempt but ends up discussing a merger with the target company. The implication is that the company attempting the takeover has chickened out, deciding to discuss things instead of making an aggressive move.

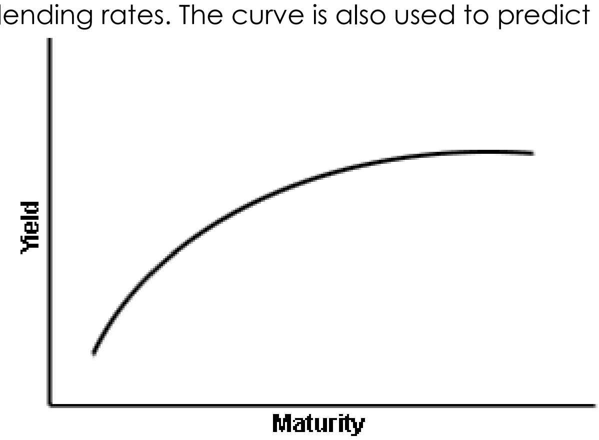
Yellow Sheets
A U.S. bulletin that gives updated bid and ask prices as well as other information on OTC bonds. Similar to the pink sheets that track non-exchange traded OTC micro-cap stocks, the yellow sheets are a primary source of information for investors who track OTC bonds or fixed income securities.

Yield
1. In general, yield is the annual rate of return for any investment and is expressed as a percentage.
2. With stocks, yield can refer to the rate of income generated from a stock in the form of regular dividends. This is often represented in percentage form, calculated as the annual dividend payments divided by the stock's current share price.
3. With bonds, yield is the effective rate of interest paid on a bond, calculated by the coupon rate divided by the bond's market price:

$$\text{Bond Yield} = \frac{\text{Coupon Rate}}{\text{Current Market Price of Bond}}$$

1. Investors can use yield to measure the performance of their investments and compare it to the yield on other investments or securities. Higher risk securities generally offer higher expected yields as compensation for the additional risk incurred through ownership of the security.
2. Investors looking to generate income or cash flow streams from equity investments commonly look for stocks that pay high dividend yields, in other words, stocks that provide a relatively large amount of annual cash dividends for a relatively low share price.
3. Bonds are typically issued with fixed coupon payments (regular cash payments of a fixed dollar amount). Thus, bonds are typically valued in terms of the their yield - what dollar amount as coupon payments is received as compared to the bond's current market price.

Yield Curve
A line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt. This yield curve is used as a benchmark for other debt in the market, such as mortgage rates or bank lending rates. The curve is also used to predict changes in economic output and growth.



The shape of the yield curve is closely scrutinized because it helps to give an idea of future interest rate change and economic activity. There are three main types of yield curve shapes: normal, inverted and flat (or humped). A normal yield curve (pictured here) is one in which longer maturity bonds have a higher yield compared to shorter-term bonds due to the risks associated with time. An inverted yield curve is one in which the shorter-term yields are higher than the longer-term yields, which can be a sign of upcoming recession. A flat (or humped) yield curve is one in which the shorter- and longer-term yields are very close to each other, which is also a predictor of an economic transition. The slope of the yield curve is also seen as important: the greater the slope, the greater the gap between short- and long-term rates.

Yield Equivalence

The interest rate on a taxable security that would render a return equivalent to that of a tax-exempt security, and vice versa, calculated as follows:

Taxable Yield Equivalence (YE) :

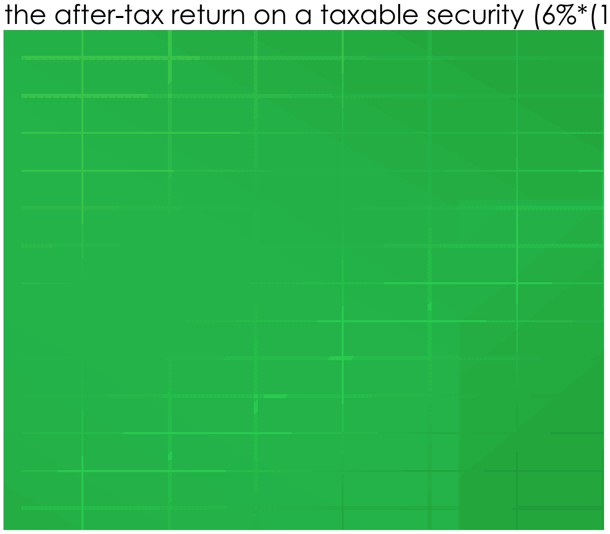
$$YE = \frac{\text{Tax - Exempt Yield}}{(1 - \text{Tax Rate})}$$

AND

Tax - Exempt Yield Equivalence (YE) :

$$YE = \text{Taxable Yield} \times (1 - \text{Tax Rate})$$

In order to calculate yield equivalence, divide the tax-exempt yield by 1 minus the investor's tax rate. For example, say you were considering a 6% tax-exempt municipal bond, but you would like to calculate what the interest rate on a taxable investment would have to be to give you the same return. If you have a 20% rate of taxation, you would need a return of 7.5% on your taxable investment to match the 6% return on the tax-exempt investment (6%/(1-0.20)=7.5%). Conversely, if you know your taxable rate of return, you can calculate the equivalent rate on a tax-exempt investment. This is done by multiplying the taxable rate by 1 minus your tax rate. If your taxable return is 6% and your rate of taxation is 20%, you need a 4.8% return on a tax-exempt security to match the after-tax return on a taxable security (6%*(1-0.20)=4.8%).



Yield Spread

The difference between yields on differing debt instruments, calculated by deducting the yield of one instrument from another. The higher the yield spread, the greater the difference between the yields offered by each instrument. The spread can be measured between debt instruments of differing maturities, credit ratings and risk. Looking at the yield spread, often with historical spreads, can give investors ideas for potential investment opportunities. For example, if the five-year Treasury bond is at 5% and the 30-year Treasury bond is at 6%, the yield spread between the two debt instruments is 1% (6% - 5%). If the yield spread has historically been closer to 5%, the investor is much more likely to invest in the five-year bond compared to the 30-year bond (as it should be trading around 1% instead of 6%). In other words, if the 30-year bond is trading at 6%, then based on the historical yield spread, the five-year should be trading at around 1%, making it very attractive at its current yield of 5%.

Yield To Call

The yield of a bond or note if you were to buy and hold the security until the call date. This yield is valid only if the security is called prior to maturity. The calculation of yield to call is based on the coupon rate, the length of time to the call date and the market price. Generally speaking, bonds are callable over several years and are normally called at a slight premium.

Yield To Maturity - YTM

The rate of return anticipated on a bond if it is held until the maturity date. YTM is considered a long-term bond yield expressed as an annual rate. The calculation of YTM takes into account the current market price, par value, coupon interest rate and time to maturity. It is also assumed that all coupons are reinvested at the same rate. Sometimes this is simply referred to as "yield" for short. An approximate YTM can be found by using a bond yield table. However, because calculating a bond's YTM is complex and involves trial and error, it is usually done by using a programmable business calculator.

Yield to Worst

The yield to maturity if the worst possible bond repayment takes place. If market yields are higher than the coupon, the yield to worst would assume no prepayment. If market yields are below the coupon, the yield to worst would assume prepayment. In other words, yield to worst assumes that market yields are unchanged. Yield to worst is the lowest quoted yield

Yo-Yo

Slang for a very volatile market. Basically, a yo-yo market moves up and down like its toy namesake

Z

ZBA(ZERO BALANCE ACCOUNT)

A checking account in which a balance of zero is maintained by automatically transferring funds from a master account in an amount only large enough to cover checks presented. A zero balance account is used by corporations to eliminate excess balances in separate accounts and maintain greater control over disbursements.

ZBB(ZERO BASED BUDGETING)

A method of budgeting in which all expenditures must be justified each new period, as opposed to only explaining the amounts requested in excess of the previous period's funding. or example, if an organization used ZBB, each department would have to justify its funding every year. That is, funding would have a base at zero. A department would have to show why its funding efficiently helps the organization toward its goals.

ZBB is especially encouraged for Government budgets because expenditures can easily run out of control if it is automatically assumed what was spent last year must be spent this year.

Z-SCORE

A statistical measure that quantifies the distance (measured in standard deviations) a data point is from the mean of a data set. In a more financial sense, Z-score is the output from a credit-strength test that gauges the likelihood of bankruptcy. A z-score of 0 is equal to a 50% probability of bankruptcy.

ZARABA METHOD

A method of matching orders that involves using an auction-like process to trade securities. The orders are organized by both their prices and the time that they were taken. As soon as an order for a security is delivered, it is compared and matched with orders already in the order book. When a bid comes in that matches the price requested by another order, the two orders are executed and taken out of the order book. The zaraba method is most often associated with the Japanese stock exchanges. Typically, the zaraba method is used during normal trading sessions, whereas a different order matching method, which is called the itayose method, is used to determine the opening and closing prices for each morning and afternoon trading session.

Zero Balance Account – ZBA

A checking account in which a balance of zero is maintained by automatically transferring funds from a master account in an amount only large enough to cover checks presented. A zero balance account is used by corporations to eliminate excess balances in separate accounts and maintain greater control over disbursements.

Zero Cost Collar

A type of positive-carry collar that secures a return through the purchase of a cap and sale of a floor. Also called "zero cost options" or "equity risk reversals." This investment strategy is sometimes used in relation to interest rates, commodities, options, and equities. Investors looking to secure a return will sell a cap and buy a floor, whereas borrowers will sell a floor and buy a cap. For investors, the cost of the cap is offset by the income received from the floor. An example of a zero cost option collar is the purchase of a put option and the sale of a call option with a lower strike price. The sale of the call will cap the return if the underlying falls in price, but it will also offset the purchase of the put. Obviously, upside risk is still unlimited.

Zero Minus Tick

A transaction made at the same price as the preceding trade, but at a lower price than the last trade at a different price. Also known as a zero downtick. For example, when trades are executed at $11, $10, and $10, the last trade at $10 is a zero-minus tick. A short sale is not permitted on a zero minus tick.

Zero Plus Tick

A transaction at the same price as the preceding trade, but at a higher price than the last different trade.

Also known as a "zero uptick

For example, when trades are executed at $10, $11, and $11, the last trade at $11 is a zero-plus tick. A short sale is only permitted on a zero plus tick.

Zero-Beta Portfolio

Such a portfolio would have the same expected return as the risk-free rate.

A portfolio constructed to have zero systematic risk or, in other words, a beta of zero.

Zero-Coupon Bond

Also known as an "accrual bond".

A debt security that doesn't pay interest (a coupon) but is traded at a deep discount, rendering profit at maturity when the bond is redeemed for its full face value.

Some zero-coupon bonds are issued as such, while others are bonds that have been stripped of their coupons by a financial institution and then repackaged as zero-coupon bonds. Because they offer the entire payment at maturity, zero-coupon bonds tend to fluctuate in price much more than coupon bonds.

Zero-Sum Game

A situation in which one participant's gains result only from another participant's equivalent losses. The net change in total wealth among participants is zero; the wealth is just shifted from one to another Options and future contracts are examples of zero-sum games (excluding costs). For every person who gains on a contract, there is a counterparty who loses. Gambling is also an example of a zero-sum game. A stock market, however, is not a zero-sum game because wealth can be created in a stock market.

Zig Zag

A technical analysis indicator that filters out changes in an underlying plot that are less than a specified amount. In other words, it helps to show only significant changes.

Zombies

Companies that continue to operate even though they are insolvent. Also known as living dead. It's advisable to avoid investing in zombies at all costs; their life expectancies are highly unpredictable