Securities Training Corporation®

Securities Industry Glossary

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A

Accredited Investor: To qualify as an accredited investor for a Regulation D Private Placement, an investor must be:

(a) an affiliate of the issuer,
(b) a financial institution, or
(c) an individual with $1 million net worth, or $200,000 annual income.

An investor who doesn't meet one of these tests is considered non-accredited.

Accretion: A method of adjusting a taxpayer's cost basis of a bond bought at an original issue discount. The annual accretion is treated as interest for tax purposes. See also: Original Issue Discount; Constant Yield Method; and Straight-line.

Accrued Interest: The interest due on a bond since the last interest payment was made. The buyer of the bond pays the market price plus accrued interest.

Accumulation Account: An account used by the sponsor of a unit investment trust to acquire securities for the eventual placement within the trust. See also: Unit Investment Trust.

Accumulation Period: In a variable annuity, the time when the client is contributing money into the annuity and purchasing accumulation units. See also: Accumulation Unit.

Accumulation Unit: An accounting measure that represents a contract owner's proportionate unit of interest in a separate account during the accumulation period of a variable annuity.

Acid Test Ratio: A more stringent test of a corporation's liquidity than the current ratio. It's calculated by adding cash, cash equivalents, and accounts and notes receivable and dividing that sum by the total current liabilities. (Current assets less inventories divided by current liabilities) Also referred to as the Quick Asset Ratio.

Accelerated Cost Recovery System (ACRS): The IRS-approved method of calculating depreciation expense for tax purposes. Also referred to as Accelerated Depreciation. See also: Depreciation.

Additional Bonds Test: A requirement that before additional bonds can be issued (which will be secured by assets or revenues already pledged to existing bonds) specific financial requirements must be met. Generally, the main requirement is that debt service coverage for the original and new bonds must be at a specific level. See also: Open-end Indenture.

Additional Takedown: A portion of the underwriting spread for a municipal issue defined as total takedown less concession.

Adjustment Bond: See: Income Bond.

Administrator:

(1) A person appointed by the court to handle the assets and liabilities of a decedent, typically when the deceased died without a will (intestate).
(2) The official or agency that's empowered to supervise or conduct the Uniform Securities Act in each state.

Ad Valorem Tax: A tax based on the assessed value of real property.

Advance/Decline Theory: Measures the number of stocks that have increased compared to the number that have decreased during a trading session or other period. If more have advanced than declined, it's a bullish indicator. If more have declined than advanced, it's a bearish indicator.

Advance Refunded Bonds: Bonds whose debt service is paid by escrowed funds. See Defeasance.

Advance Refunding: A method of eliminating a bond issue as an obligation of the issuer. This is accomplished by issuing a new bond and using the proceeds to purchase government obligations which will be escrowed and used to provide debt service on the original issue. The escrowed funds may provide debt service until maturity of the original issue (escrowed to maturity) or until the first call date (prerefunded to the call). See also: Defeased Bonds.

Advisory Fee: The fee paid to an investment adviser (portfolio manager) as compensation for managing a portfolio of securities. The fee is typically based on a percentage of assets under management or on an incentive schedule which provides compensation based on a comparison of fund performance to a particular index or average.

Affidavit of Domicile: A notarized affidavit executed by the legal representative of an estate reciting the residence of the decedent at the time of death. This document is required when transferring ownership of a security from a deceased person's name.

Affiliate: See: Control Person.t

Aftermarket: Also considered the secondary market. This term is used in reference to trading in a new issue. See also: Effective Date; Secondary Market.

Agency:

(1) Government securities issued by entities other than the U.S. Treasury
(2) A transaction in which the broker-dealer acts as an agent (Broker). See also: Agent.

Agency Cross: A transaction in which a broker-dealer matches a sale from one of its clients with a purchase from another client and charges both a commission.

Agent: A securities firm or individual acting on behalf of a client. The agent acts as intermediary between buyer and seller, undertaking no financial risk, and charging a commission (versus Principal). See also: Broker.

Agreement of Limited Partnership: For a limited partnership this document defines the relationship between the general partner and the limited partners.

All-or-None (AON):

(1) A type of order in which the client wants the entire order executed or none of it.
(2) A type of best efforts underwriting in which the issuer will sell the entire amount, or cancel the entire issue.

Alpha: A statistical measure of a security's price volatility caused by factors other than the stock market as a whole. (versus Beta.)

Alternative Display Facility (ADF): The Alternative Display Facility is an electronic quotation system operated by FINRA which provides market makers and ECNs with the ability to display quotes for Nasdaq-listed securities. ADF-eligible securities include Nasdaq Global Select, Nasdaq Global Market, Nasdaq Capital Market, Nasdaq Convertible Debt Securities, and other exchange-listed securities trading over-the-counter (CQS securities).

Alternative Minimum Tax (AMT): A tax designed to prevent wealthy investors from using tax shelters to avoid other (income) taxes. The calculation of the AMT takes into account tax preference items. See also: Tax Preference Item.

American Depositary Receipt (ADR): A security issued by a U.S. bank in place of the foreign shares held in trust by that bank, thereby facilitating the trading of foreign shares in U.S. markets.

American-Style Exercise: Allows options to be exercised at any time up to the day on which they expire. All listed equity options use American-style exercise.

Amortization:

(1) Accounting procedure which gradually reduces the book value of an intangible asset through periodic charges to income; similar to depreciation for fixed assets. See also: Capitalize.
(2) Method of reducing a taxpayer's cost basis in a bond purchased at a premium. (versus Accretion.)
(3) Reduction of debt through periodic payments of principal—as in "self-amortizing" mortgages.

Annual Report: The formal financial statement issued yearly by a corporation. The annual report contains a balance sheet, income statement, and other information of interest to shareholders.

Annuitant: An investor who receives fixed or variable annuity payments.

Annuitize: An investor's decision to end the accumulation period and begin receiving periodic payments from an annuity.

Annuity: A contract between an insurance company and an individual, which generally guarantees lifetime income to the person on whose life the contract is based in return for either a lump-sum or a periodic payment to the insurance company. A fixed annuity guarantees a specific amount of payment each month. In a variable annuity, the amount of the monthly check will fluctuate according to the value of the securities in the separate account.

Annuity Period: In a variable annuity, the time when the client is receiving benefits from the contract based on the number of units owned, payout option selected, and the performance of the separate account. See also: Annuity Unit; Separate Account.

Annuity Unit: The accounting measure used to determine the amount of each payment to an annuitant during the payout period.

Anti-Money Laundering (AML) Rules: Laws designed to reduce financial transactions linked to illegal activities. See also: Currency Transaction Reports (CTRs), Currency and Monetary Instrument Transportation Reports (CMIRs), and Suspicious Activity Reports (SARs).

Arbitrage: A technique employed to take advantage of differences in prices across markets. Arbitrage may also involve the purchase of rights to subscribe to a security, or a convertible security, and the sale at or about the same time of the security underlying the rights or convertible security.

Arbitration: A method of settling a dispute by using an impartial individual or individuals. All exchanges and securities associations have adopted a Code of Arbitration through which all disputes between firms, employees and firms, and firms and clearing corporations are settled.

Arrearage: A past due obligation such as interest on a bond or dividends on a cumulative preferred stock. See also: Cumulative Preferred.

Ascending Yield Curve: See: Positive Yield Curve.

Ask: See: Offer; Bid and Asked.

Assessed Valuation: The value of real estate that's used for tax purposes.

Asset Allocation Fund: A fund that invests in stocks, bonds, and money-market instruments. The proportion allocated to each asset class is determined by market conditions and any of the percentages may drop to zero based on projections.

Assets: All that a corporation owns or is due. Cash, investments, accounts receivable, as well as materials and inventories are considered current assets. Buildings, machinery, as well as furniture and fixtures are considered fixed assets. Patents and goodwill are examples of intangible assets.

Assignment:

(1) To sign a document to authorize transfer of ownership, either the stock/bond certificate itself or a separate authorization that's referred to as a stock power/bond power.
(2) Notice that an option has been exercised.

Associated Person: Under industry rules,(i) a natural person who's registered or has applied for registration under FINRA rules or (ii) a sole proprietor, partner, officer, director, or branch manager of a member, or other natural person occupying a similar status or performing similar functions, or a natural person engaged in the investment banking or securities business who's directly or indirectly controlling or controlled by a member, whether or not that person is registered.

Assumed Interest Rate (AIR): Rate of growth built into an annuity table which determines payout on a variable annuity.

At-the-Close Order: An order to buy or sell at the closing price. If not executed at the closing price, the order is cancelled.

At-the-money: An option in which the underlying stock is trading at the same price as the option's exercise price.

At-the-Opening Order: An order to buy or sell at the opening price. If not executed at the opening, it will be canceled.

Auction Market: The system of trading securities through brokers or agents on an exchange, such as the New York Stock Exchange. Exchange participants compete for trade executions in which the best price wins. For investors seeking to buy securities, the highest bidder will obtain the securities, while for investors seeking to sell, the lowest offer receives priority.

Auction Rate Securities: Long-term investments that have short-term features; the interest rates or dividends they pay are reset at frequent intervals through auctions.

Authorized Shares: The maximum number of common shares that a corporation is permitted to issue. This amount is set at the time of incorporation and is part of the Corporate Charter.

Automated Customer Account Transfer Service (ACATS): System that facilitates the transfer of securities from one trading account to another at a different brokerage firm or bank.

Average Life: The average length of time that a bond issue is expected to be outstanding.

Averages: Various ways of measuring the trend of securities prices. See: Dow Jones Industrial Average.

B

Back-End Load: See: Contingent Deferred Sales Charge.

Backing Away: The failure of a market maker to fulfill its obligation to buy or sell the minimum amount for a bona fide quote.

Balanced Fund: A type of mutual fund which has a balanced portfolio consisting of bonds and preferred stock (providing income) as well as common stock (providing growth potential).

Balanced Program: An oil/gas drilling program which drills in both areas of known production and in unproven areas.

See also: Developmental Program; Wildcatting.

Balance Sheet: A condensed financial statement showing the nature and amount of a company's assets, liabilities, and net worth (shareholder equity) as of a given date.

Balance Sheet Formula: Basic balance sheet equation: Total Assets = Total Liabilities + Stockholders' Equity.

Balloon Maturity: A type of maturity schedule for an issue of bonds that shows a relatively small number of bonds maturing serially (each year) and a large number maturing in a later year.

Bank Guarantee Letter: The document supplied by an approved bank which certifies that a put writer has sufficient funds on deposit at the bank to equal the aggregate exercise price of the put.

Bankers' Acceptance (BA): A money-market instrument used to finance international and domestic trade. A BA is a check drawn on a bank by an importer or exporter of goods representing the bank's unconditional promise to pay the face amount of the note at maturity.

Bankruptcy: An inability to pay debts; insolvency. Creditors may petition the courts which results in involuntary bankruptcy. Voluntary bankruptcy results from the debtor petitioning for court protection. Chapter 11 of the bankruptcy code deals with "reorganization," which allows the debtor to remain in business and negotiate for a restructuring of debt.

Bank Secrecy Act (BSA): The primary U.S. anti-money laundering (AML) law.

Bank Secrecy Act Currency Transaction Reports (BCTRs): The form (FinCEN Form 104) that's required to be filed for daily customer cash transactions that cumulatively exceed $10,000.

Banks for the Cooperatives: A government-sponsored, privately owned enterprise that's part of the Federal Farm Credit System. It provides short-term loans to farmers' cooperative associations. See also: Federal Farm Credit System.

Basis:

(1) Bonds: An investor's yield-to-maturity.
(2) Taxation: Cost used to determine capital gain or loss on an investment.
(3) Used in DPPs to calculate maximum losses allowed for tax purposes. In general, basis consists of the investor's original contribution plus recourse loans.

Basis Point: A unit equal to 1/100 of 1% (0.01%) used in expressing variations in the yields of bonds. For example, the difference between 12.83% and 12.88% is 5 basis points.

Bear: An investor who believes the market will decline.

Bear Market: A declining market.

Bear Spread: An option spread position in which the investor profits from a decline in the underlying stock price (versus Bull Spread).

Bearer Bond: A bond which doesn't include the owner's name registered on the books of the issuer. Interest is paid by means of attached coupons. Interest and principal, when due, are payable to the holder. (versus Registered) See also: Certificate.

Beneficial Owner: The person(s) entitled to the benefits of ownership despite the fact that another party (a broker or bank is the nominal owner) actually holds the security. See also: Street Name.

Best Efforts: An offering in which the investment banker agrees to distribute as much of the offering as possible and to return any unsold shares to the issuer. See also: All-or-None.

Beta: A statistical measure of the price volatility of a security in relation to the entire stock market's volatility. For example, a Beta of 2.0 indicates a stock that's twice as volatile as the market as a whole. Often referred to as Systematic Risk. See also: Alpha.

Bid and Asked: These are the two components of a quotation or quote. The bid is the highest price a person is willing to pay for a security at a given time, while the asked is the lowest price a person is willing to receive at the same time. Investors typically buy securities at the ask price and sell them at the bid.

Bid Form: A document used to submit a bid to an issuer of a competitive municipal bond underwriting.

Big Board: See: New York Stock Exchange.

Blind Pool: A limited partnership that doesn't specify the assets or properties to be acquired.

Block: A large holding or transaction of stock (generally considered to be 10,000 shares or more).

Blotter: A record of daily activity such as orders placed and executed, securities received or delivered, etc.

Blue Chip Stock: A company known nationally for the quality and wide acceptance of its products or services as well as for its ability to profit and pay dividends.

Blue Sky Laws: State securities regulations. Also refers to the model law on which many states base their regulations (i.e., the Uniform Securities Act).

Bond: A debt issue or promissory note of a corporation, municipality, or the U.S. government, which is typically issued in multiples of $1,000 or $5,000, with maturities of more than 10 years.

Bond Anticipation Note (BAN): A short-term security issued by a municipality. Payment of the note at maturity will be accomplished with the proceeds of a bond issue.

Bond Buyer: The newspaper of the municipal industry containing news and announcements primarily related to new issues. The Bond Buyer publishes a variety of statistics including the Visible Supply, Placement Ratio,
20-Bond Index, 11-Bond Index, and Revenue Bond Index.

Bond Counsel: The attorney or law firm that reviews the legal documents pertaining to a municipal new issue and that writes the legal opinion. See also: Legal Opinion.

Bond Equivalent Yield: A discount yield restated to make it directly comparable to an interest-bearing investment. See also: Discount Yield.

Bond Fund: A fund that creates a portfolio of bonds and has objectives of current income and capital preservation.

Book-Entry: A method of registering securities. There's no physical certificate since evidence of ownership is reflected by an entry recorded on the books of the issuer.

Book Value: The theoretical liquidation value of a company determined by adding all current and fixed assets and then deducting all debts, other liabilities, and the liquidation price of any preferred issues. The sum arrived at is divided by the number of common shares outstanding and the result is book value per common share. Book value of the assets of a company or a security often has little correlation to the market value.

Bottom-Up Analysis: Focuses on fundamental analysis and the evaluation of companies based on a number of factors. The goal is to find stable companies that have a history of profits and to determine whether a company is undervalued relative to its peers.

Branch Office: An office of a member firm from which investment banking or securities business is conducted. Contrast with: Office of Supervisory Jurisdiction.

Breakeven: A situation in which an investor closes a position without experiencing either a gain or loss.
For options, the market price of the underlying security that results in an investor having no gain or loss.

Breakout: Movement of a stock price out of an established trading range either above a resistance level or below a support level.

Breakpoint: The dollar level of an investment in a mutual fund at which a purchaser qualifies for a sales charge reduction.

Breakpoint Sales: Solicited sales at dollar amounts just below the point at which a breakpoint (reduced sales charges) occurs. A breakpoint sale is a violation of industry rules.

Broker: An agent who handles the public's orders to buy and sell securities, commodities, or other property. For this service a commission is charged. See also: Agent.

BrokerCheck: Provides information on individuals who are currently registered or have been registered within the last 10 years.

Broker's Broker: A securities firm acting as agent on behalf of another securities firm.

Broker's Loan: Money borrowed by brokers from banks or other brokers for a variety of uses.

Build America Bonds (BABs): Taxable municipal bonds that were intended to help state and local governments finance capital projects at a much lower cost. (Discontinued in 2010).

Bull: An investor who believes the market will rise.

Bull Market: An advancing market.

Bull Spread: An option spread position in which the investor profits from a rise in the underlying security's price (versus Bear Spread).

Business Cycle: The recurring periods of expansion and contraction in economic activity which affect inflation, unemployment, business profits, and interest rates.

Business Development Company (BDC): A type of publicly traded investment company that's designed to aid in the process of capital formation (raising money) for small and middle-market companies.

Business Risk: Risk that certain circumstances or factors may have a negative impact on the operation or profitability of a specific company.

Butterfly Spread: This position consists of two spreads that are established simultaneously—one is a bullish spread and the other is a bearish spread. The resulting position is neutral, with the investor realizing a profit if the stock is stable.

Buy-In: A procedure that's followed when the seller of a security fails to complete the contract by not delivering the securities according to the contract's terms. The buyer can close out the contract by buying the securities in the open market and charging the account of the seller who failed to complete the contract.

Buying Power: The dollar value of marginable securities which could be purchased by an investor in a margin account using SMA. Overall, buying power is equal to two times the amount of SMA.

C

Calendar Spread: An option spread position in which the expiration dates of the options are different, but the strike prices are the same. Also referred to as a Horizontal or Time Spread.

Call:

(1) An option in which the holder has the right to buy a fixed amount of the underlying security at a stated price within a specified period. However, the seller (if exercised against) is obligated to sell the underlying security at a stated price.
(2) To redeem a bond before maturity. See also: Callable.

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

Call Loan: A collateralized loan obtained by a brokerage firm from a bank with no fixed maturity date, that can be called (terminated) at any time, and has fluctuating interest rates that are computed daily. See: Broker's Loan.

Call Rate: The rate of interest a bank charges a brokerage firm on collateralized loans for its margin account clients. (Also referred to as call money rate)

Call Price: The price at which an issuer may redeem a bond prior to maturity; typically at a slight premium to par.

Call Risk: The risk to a bondholder that the bond may be redeemed prior to maturity.

Cancel and Re-bill: A correction of an error in a transaction that involves a wrong account number. In such a case, a registered representative will transfer the transaction to the correct account with the permission of a registered principal.

Capital Appreciation Bond (CAB): Similar to a zero-coupon bond since it doesn't pay periodic interest. Its cost basis equals the compound accreted value (CAV), which is calculated by adding the initial principal amount to the accreted value to date.

Capital Asset Pricing Model (CAPM): A theory which concludes that investors are rewarded for taking systematic risk, but not for taking non-systematic risk.

Capital Gain or Capital Loss: The profit or loss from the sale of stocks, bonds, options, real estate, and other capital assets.

Capitalization: The total amount of the various securities issued by a corporation including bonds, debentures, preferred stock, common stock, and surplus, which represent the sources of long-term financing of the company.

Capitalize: An accounting method that records an outlay as an Asset (versus Expense) that's subject to depreciation or amortization. See also: Depreciation; Amortization.

Capital Market: That segment of the securities market that deals in instruments with more than one year to maturity, e.g., long-term debt and equity securities.

Capital Risk: The risk of losing some or all of the principal invested.

Capital Surplus: An entry on a corporation's balance sheet in stockholders' equity. It's the amount received from sale of stock by a corporation in excess of the stock's par value. Also referred to as Paid-in Surplus, or Paid-in Capital.

Cash Account: A brokerage account in which the client pays in full for any purchases. (versus Margin Account)

Cash Asset Ratio: The most stringent test of liquidity. It's calculated by adding cash and marketable securities and dividing that sum by the total current liabilities.

Cash Flow: Reported net income of a corporation plus bookkeeping deductions that are not paid out in actual dollars and cents, including depreciation, depletion, amortization, and extraordinary charges to reserves.

Cashiering Department: The area of broker-dealer in which cash and securities are received and disbursed.

Cash Management Bill (CMB): An unscheduled short-term debt offering by the U.S. Treasury.

Cash On Delivery Transaction (COD): A type of securities transaction in which the purchaser pays for the securities when they're delivered to the purchaser or the purchaser's bank. Regulation T requires that the purchaser have funds available for payment and that the seller make delivery within 35 days of the trade date. It's also referred to as a DVP (Delivery Versus Payment) transaction.

Cash Surrender Value: The amount that a contract owner may receive if she cancels (surrenders) her variable at any time during the accumulation period.

Cash Trade/Settlement: A transaction which calls for settlement in cash on the same business day as the trade date.

Catastrophe Call: A provision which may be enacted only if a bond's underlying collateral is destroyed.

Central Registration Depository (CRD): A computerized system in which FINRA maintains the employment, qualification, and disciplinary histories of registered persons. The CRD processes Forms U-4, U-5, and BD, and makes the disciplinary history of registered representatives available to the public through BrokerCheck.

Certificate: The actual piece of paper which represents evidence of ownership of a security (versus Book-Entry). Certificates may be issued in registered or bearer form. See also: Bearer Bond; Book-Entry; Registered.

Certificate of Deposit (CD): A money-market instrument issued by banks. Negotiable CDs trade in the secondary market. Occasionally, long-term CDs may be issued that are callable.

Certificate of Limited Partnership: The document that sets forth the terms of the business relationship that's been created. It identifies the general and limited partners.

Chartist: A technical analyst who uses price trend charts to predict the future prices of securities. See: Technical Analysis.

Chicago Board Options Exchange (CBOE): The largest national options exchange.

Churning: Excessive trading in a customer's account. The term suggests that the registered representative ignores the objectives and interests of the client and seeks only to increase commission revenue.

Class A Shares: Shares of a mutual fund that charges a front-end load and a small or no 12b-1 fee.

Class B Shares: Shares of a mutual fund that generally assesses a contingent deferred sales charge if the shares are sold within a certain period. Class B shares generally have higher 12b-1 fees than Class A shares.

Class C Shares: Shares of a mutual fund that assess what's referred to as a level load, which means there's an ongoing fee (typically 1.0%) for as long as the investor holds the shares.

Class of Options: All option contracts of the same type (puts or calls) covering the same underlying security.

Clearing: The process of reconciling information about transactions between broker-dealer counter-parties in preparation for settlement of the trades.

Clearing Corporations: An organization affiliated with a securities exchange that expedites the clearance and settlement of securities purchased or sold by members of that exchange.

Clearing Rate: For auction rate securities, this is the rate that's paid on the entire issue for the upcoming period.

Closed-End Indenture: Secured bond indenture which prohibits the repledging of collateral for additional bonds.

Closed-End Investment Company: See: Investment Company.

Close-out: The offsetting of a long or short position by making the opposite transaction. Also referred to as liquidating or trading the position.

Closing Transaction: The sale or purchase of an option contract to eliminate or undo an existing option position.

Code of Arbitration: See: Arbitration.

Code of Procedure: A section of FINRA rules which describes the procedure to be used when dealing with violations or complaints related to the Conduct Rules.

COD Transaction: See: Cash on Delivery Transaction.

Coincident Indicator: An economic measure used to determine current economic activity published by The Conference Board. Indicators include employment, sales, industrial production, etc.

Cold Call Rule: Established time of day (8:00 a.m. until 9:00 p.m.) for contacting prospective clients. Firm must also establish policies and procedures for cold calling and retaining a Do-Not-Call list.

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

Collateral Trust Bond: A corporate bond which is secured by securities deposited as collateral by the issuing corporation.

Collateralized Debt Obligation (CDO): A type of privately issued asset-backed security which is sold as a bond that's backed (collateralized) by a pool of bonds, loans, and various other assets.

Collateralized Mortgage Obligation (CMO): A type of security that attempts to customize the amount of prepayment risk associated with investments in mortgage-backed securities. The CMO creates bonds collateralized by a pool of mortgages or agency Pass-Through Securities. Each bond (referred to as a Tranche) has a different rate of interest, repayment schedule, and priority level for receiving principal payments.

Combination: An option position in which an investor either purchases (is long) a call and a put contract or sells (is short) a call and put contract with different expiration months and/or different strike prices.

Combined (Split) Offering: A primary distribution in which the proceeds are divided between the issuer and individual shareholders. See also: Registered Secondary Offering.

Commercial Paper: Debt instruments issued by well established companies to meet short-term financing needs. Commercial paper is unsecured debt and has a maximum maturity of 270 days.

Commingling: The illegal mixing of client owned securities or funds with those that are owned by the broker-dealer.

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

Commodity Futures Contract: A contract for the purchase or sale at a specified price of a commodity that will be physically delivered on a future date. These contracts typically trade on organized exchanges under set rules and regulations.

Common Stock:

(1) Securities that represent an ownership interest in a corporation. If the company has also issued preferred stock, both common and preferred have ownership rights. Common stockholders assume the greater risk, but generally exercise greater control and may gain the greater reward in the form of dividends and capital appreciation. The terms common stock and capital stock are often used interchangeably when the company has no preferred stock.
(2) An accounting measure, carried at par value on the books of the company. Common stock plus capital surplus represent the stockholders' initial investment in the company.

Competitive Issue: A method of selecting an underwriting syndicate using a sealed bid process.

Complaint: A customer grievance involving the activities of a broker-dealer or an associated person in connection with the solicitation or execution of any transaction or the disposition of securities or funds of that customer. Under industry rules, the term complaint includes written statements only, which include e-mails, text messages, and tweets.

Comptroller of the Currency: A government office that regulates national banks responsible for the enforcement of MSRB rules for banks dealing in municipal securities.

Concession: Part of the underwriting spread that the selling group receives from the syndicate for helping to sell a new issue. Also, part of a mutual fund's sales charge paid to a member broker.

Conduct Rules: Industry rules relating to a broker-dealer's transactions with the public. Every exchange and securities association has a similar set of rules.

Conduit (Pipeline) Theory: IRS rule which avoids double taxation by allowing qualifying investment companies and real estate investment trusts (REITs) to pass income (without taxation) directly to investors, who are taxed as individuals.

Confirmation: A written notice summarizing the details of a transaction.

Consolidated Balance Sheet: A balance sheet showing the financial condition of a corporation and its subsidiaries.

Consolidated Quotation System (CQS): An electronic service that provides quotations on issues listed on the NYSE and other regional stock exchanges that are traded by FINRA member firms in the third market.

Consolidated Tape: The ticker tape reporting round lot transactions in NYSE-listed securities that take place on the NYSE or any of the participating regional stock exchanges and other markets.

Constant Dollar Plan: See: Dollar Cost Averaging.

Constant Yield Method: A method used for tax purposes to accrete the cost of a bond purchased at an original issue discount. Also referred to as Constant Interest Method. See also: Accretion.

Construction Loan Note (CLN): A municipal note typically issued to finance construction of multi-family housing projects. The notes are generally repaid from the proceeds of a bond issue after the project is completed.

Consumer Price Index (CPI): A measure of prices of consumer goods, also referred to as a cost-of-living index. See: Inflation; Deflation.

Contingent Deferred Sales Charge (CDSC): A method of assessing a sales charge in variable annuities and mutual funds where the actual percentage of the sales charge is dependent on the length of time that the investor holds the contract and is payable upon redemption of the shares. (Also referred to as a Back-End Load.) See: Class B Shares.

Continuing Education: The industry-mandated program prescribed for certain broker-dealer personnel. See also: Regulatory Element and Firm Element.

Contra Broker: The opposing broker in a broker-dealer-to-broker-dealer securities transaction.

Control Person: A person who's in a position to influence management policies due to equity ownership rather than an official position.

Control Relationship: A situation in which a person or firm is in a position to influence the actions of an issuer.

Control Stock: Registered stock owned by a control person. See also: Control Person.

Conversion Price: The price stated in the indenture at which the convertible security may be converted.

Conversion Ratio: The number of shares of stock into which a convertible security may be converted. The conversion ratio equals the par value of the convertible security divided by the conversion price.

Convertible Securities: A bond, debenture or preferred stock that may be exchanged by the owner for common stock or another security, typically of the same company, in accordance with the terms of the issue.

Cooling-Off Period: For a new issue, it's the period that begins with the filing date of the registration statement and ends on the effective date. According to federal regulations, it must be a minimum of 20 days. During the cooling-off period, the issuing corporation and underwriters will prepare and distribute a preliminary prospectus, blue-sky the issue, hold a due diligence meeting, and prepare the final prospectus.

Co-Ops: See: Banks for Cooperatives.

Corporate Charter: The document that's prepared when a corporation is formed and it sets forth the objectives and goals of the corporation as well as a complete statement as to what the corporation may and may not do while attempting to achieve these goals. A securities firm must obtain a copy of the corporate charter when a corporation opens a margin or options account.

Corporate Resolution: A document which states that the corporation's board of directors has authorized particular individuals to act on behalf of the corporation. This document is necessary when the corporation opens a cash or margin account.

Corporation: A legal, taxable entity chartered by a state or the federal government and owned by its shareholders.

Correspondence: Any written or electronic communication that's distributed or made available to 25 or fewer retail investors within a 30-calendar-day period.

Cost Basis: The cost used to determine a capital gain or loss on an investment. Represents the total cost to acquire an asset.

Coterminous Debt: See: Overlapping Debt.

Coupon Bond: A bearer bond with interest coupons attached that are clipped as they come due and are presented by the holder for payment of interest.

Coupon Rate: The stated, fixed, or nominal interest rate for a bond.

Covenant: A protective clause in a bond's indenture.

Coverage: The number of times income will meet (or exceed) fixed charges.

(1) Municipal bonds coverage: Net revenues divided by annual debt service.
(2) Corporate interest coverage: Earnings Before Interest and Taxes (EBIT) divided by interest expense.
(3) Preferred dividend coverage: Net Income divided by preferred dividends.

Coverdell Education Savings Account (CESA): A tax-deferred account that provides tax-free withdrawals to cover educational expenses. Formerly referred to as an Education IRA.

Covered: A short option position in which the investor has another investment position that will meet the obligation of the option contract. A covered short call involves owning the underlying security or a security that's convertible into the underlying security. A covered put requires cash or a short stock position.

Covered Call: The position created when an investor sells a call against stock that's already owned. The purpose is to generate income on stock that's expected to remain stable.

Covered Put: The position created when an investor sells stock short and sells a put against it. Although the purpose is to generate income, if the stock increases, the potential loss is unlimited.

Covering a Short Sale: The purchase of a security to close an existing short position.

Credit Agreement: A part of an overall margin agreement that discloses the nature of a loan made by a broker-dealer to its customer.

Credit Balance (CR): In a cash account, the amount that a firm owes to a customer. In a short margin position, the sum of the proceeds of the sale plus the required margin.

Creditor: Any person who has loaned money, goods, or services. The claim of the creditor may be secured (by collateral) or unsecured (in which case the lender is referred to as a general creditor). See also: Secured Bond; Debenture.

Credit Risk: The risk that the issuer of a security may default on interest and/or principal payments and cause investors to lose all or part of their investment.

Credit Spread: An option spread position in which the premium of the option sold is greater than the premium of the option purchased.

Crowdfunding: Provisions established by the JOBS Act which allow small businesses to raise capital using the internet. This process gives certain members of the general public the ability to invest in start-up companies.

Crowding Out: The situation in which government borrowing forces interest rates to go up, squeezing the private sector (business and consumers) from the credit markets.

Cumulative Preferred: Preferred stock that has a provision stating that omitted dividends (arrearages) must be paid before any other future dividends.

Cumulative Voting: A method of voting for corporate directors that enables the shareholder to multiply the number of shares owned by the number of directorships being voted on and cast the total for one director or a selected group of directors. Cumulative voting tends to benefit the small investor.

Currency and Monetary Instrument Transportation Reports (CMIRs): A report (FinCEN Form 105) that's required to be filed when a single day's cumulative transportation of cash into or out of the U.S. exceeds $10,000.

Current Assets: The assets of a company that have a reasonable expectation of being realized in cash or sold within one year. These include cash, marketable securities, accounts receivable, and inventories.

Current Liabilities: Money owed and payable by a company, usually within one year.
Current Ratio: A test of a corporation's liquidity, which is found by dividing current assets by current liabilities.

Current Yield: A security's annual income divided by its current market price.

CUSIP (Committee on Uniform Securities Identification Procedures): The committee that assigns codes and numbers to securities for identification purposes.

Custodian: A person or financial institution that has charge or custody of securities or property of another. Under the Uniform Gifts to Minors Act and the Uniform Transfers to Minors Act, the custodian is the person or financial institution that operates the account as a fiduciary for the minor who's the beneficial owner.

Custodian Account: See: Uniform Gifts to Minors Act.

Custodian Bank: The bank designated by a mutual fund to hold the cash and securities of the fund and maintain fund level account records.

Customer Identification Program (CIP): As a part of a firm's AML compliance program, broker-dealers must create a CIP to verify the identity of any person seeking to open an account.

Cycle: A system regulating the expiration of options.

Cyclical Stock: Stocks that are strongly affected by the business cycle—for example, automobile, steel, and paper stocks (versus Defensive Stock).

D

Dark Pool: A system that provides liquidity for large institutional investors and high-frequency traders, but it doesn't disseminate quotes. Quotes are concealed from the public.

Dated Date: The date from which interest begins accruing on a newly issued bond.

Day Order: An order to buy or sell that, if not executed, expires at the end of the trading day on which it was entered.

Day Trade: The purchasing and selling—or the selling and purchasing—of the same security, on the same day, in a margin account.

Dealer: A firm that buys and sells securities for its own account rather than as an agent. The dealer's profit or loss is the difference between the price it pays and the price it receives for the same security. The dealer's confirmation must disclose to customers that the dealer has acted as principal. A firm may function, at different times, either as a broker or dealer, but may not act as both in the same transaction.

Debenture: A corporate bond backed by the general credit of a company and not secured by a mortgage or lien on any specific property.

Debit Balance (DR): In a customer's margin account, the portion of the purchase price of stocks or bonds that's covered by credit extended by the broker to the margin customer. The balance on which interest is charged.

Debit Spread: An option spread position in which the premium of the purchased option is greater than the premium of the option sold.

Debt: A legal obligation to pay. The written agreement promising to pay is referred to as a debt instrument. Examples include bonds, notes, bills, mortgages, etc.

Debt Ceiling: See: Debt Limit.

Debt Limit: The maximum amount of debt that a municipality may incur.

Debt Service: The yearly amount of interest and principal payable on a bond issue.

Debt Service Coverage Ratio: See: Coverage.

Debt-to-Equity Ratio: The ratio of those securities that compares fixed charges for a corporation to the company's common stock. It's calculated by dividing the total amount of bonds and preferred stock by the amount of common stock outstanding, retained earnings, and paid-in surplus.

Declaration Date: The date the board of directors declares that a dividend will be paid to stockholders of record.

Deduction: An expense allowed by the IRS in calculating tax liability. See: Expense, Tax Credit.

Deed of Trust: See: Indenture.

Deep Discount: A bond trading substantially below its face value, typically a zero-coupon bond. See also: Discount.

Default: Failure of a debtor to make principal and/or interest payments. See also: Bankruptcy.

Default Risk: See: Credit Risk.

Defeasance: The elimination of a bond contract which removes the liability and restrictive covenants of a bond issue, generally accomplished by refunding the issue.

Defeased Bonds: See: Advance Refunding.

Defense Company: A company that produces armaments (military weapons and equipment).

Defensive Stock: A stock that's resistant to changes in general economic activity. Examples include food, utility, and tobacco stocks.

Deferred Annuity: A type of annuity that delays payments to the annuitant for an undetermined period after the date of purchase.

Deferred Compensation Plan: A type of non-qualified retirement plan under which participants agree to defer receipt of part of their compensation until retirement, disability, termination, or death. The theory is that, by deferring some of their compensation, employees may pay taxes on that compensation when they're retired and in a lower tax bracket.

Deficiency Letter: A notice sent by the SEC to the issuer of a new issue regarding omissions of a material fact in the registration statement.

Defined Benefit Plan: A qualified retirement plan in which the employer will make contributions into the plan based on a specific formula that will yield sufficient assets to pay retirement benefits. The formula primarily considers years of service and the compensation level at the time of retirement.

Defined Contribution Plan: A qualified retirement plan in which the level of contributions is based on a percentage of the employee's compensation. The money is invested by the employee according to the options available. The benefit at retirement depends on the performance of the investment account.

Deflation: A persistent and appreciable fall in the general level of prices. It's characterized by production exceeding demand and normally takes place during a recession.

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

Delivery: The physical act of exchanging securities and monies on the settlement date. The industry has established rules regarding the condition of the securities in order to be considered in good deliverable form.

Delivery Versus Payment (DVP): See: COD Transaction.

Demand Deposit: A deposit in a bank where the depositor retains the right to withdraw it at any time (on demand) without giving prior notice. Checking accounts are examples of demand deposits.

Depletion Accounting: An accounting practice, similar to depreciation, which consists of charges against earnings based on the amount of natural resources taken out of total reserves during an accounting period. As a bookkeeping entry, it doesn't represent any cash outlay or funds earmarked for that purpose.

Depository Trust Company (DTC): A central securities certificate depository through which members effect security deliveries between each other via computerized bookkeeping entries, thereby reducing the physical movement of stock certificates.

Depreciation: Normally, charges against earnings to write off the cost of an asset over its estimated useful life. It's a bookkeeping entry and doesn't represent any cash outlay or funds earmarked for that purpose. See also: Accelerated Cost Recovery System (ACRS); Straight-Line.

Derivative: A financial product that derives its value from movements in another financial product. Examples include call and put options.

Descending Yield Curve: See: Inverted Yield Curve.

Designated Examining Authority (DEA): The self-regulatory organization (SRO) that's designated by the SEC as being responsible for determining a particular firm's financial soundness and operating condition (e.g., FINRA).

Designated Market Maker (DMM): A member, but not an employee, of the New York Stock Exchange that has two primary functions. First, to maintain an orderly market, insofar as reasonably practicable, in the stocks in which that person is registered as a DMM. Second, the DMM acts as a broker's broker and maintains an order book of stop and limit orders. DMMs are also allowed to trade for their own account. See also Specialist.

Designated Order: An order given to a municipal syndicate that designates one or more members to receive credit for the sale. The order is generally from an institutional investor.

Developmental Program: A type of oil/gas program which drills in areas of proven reserves (versus Wildcatting).

Diagonal Spread: An option spread position in which both the expiration dates and strike prices of the options are different.

Dilution: A reduction in the percentage ownership of a corporation by existing stockholders that occurs when a company issues additional shares. Dilution also occurs when convertible securities are converted or warrants and employee stock options are exercised.

Direct Debt: The total debt issued by a municipality. See also: Overlapping Debt; Net Direct Debt.

Director: A person elected by shareholders to serve on the board of directors. The board appoints the president, vice presidents, and other operating officers. Among other matters, directors decide whether dividends will be paid.

Direct Participation Program (DPP): A business venture structured to pass through income and tax losses to investors. Commonly structured as a limited partnership. See also: Tax Shelter; Limited Partnership.

Disclosure Document:

(1) A booklet outlining the risk associated with option trading, which must be given to clients at or prior to the time their account is approved for option trading.
(2) A general term for any document (e.g., a prospectus) that describes the features and risks of a security, especially new issues.

Discount:

(1) A bond trading in the market at a price below its face value.
(2) The amount that a bond's market price is below its face value.
(3) Securities that are issued for less than their face value and mature at par, such as T-bills. At maturity, the difference between the purchase price and the face amount is considered interest.

Discount Bond: A bond that's trading in the market at a price below its face value.

Discount Rate: The rate of interest charged by a Federal Reserve Bank on a loan to a member bank.

Discount Window: The mechanism by which member banks may borrow from the Federal Reserve. See also: Discount Rate.

Discount Yield: The yield on a discount security (most notably T-bills). The computation of a discount yield differs from the calculation of yield-to-maturity on interest-bearing securities. Therefore, the discount yield must be adjusted in order to compare it with yields on interest-bearing securities. See also: Discount; Bond Equivalent Yield; Yield-to-Maturity.

Discretionary Account: An account in which the customer gives the broker or another person the authorization to buy and/or sell securities or commodities in her account. Discretionary authority includes control over selection and amount of securities that are bought or sold.

Disinflation: The situation in which the rise in the general level of prices slows down resulting in a decline in the rate of inflation. See also: Inflation; Deflation.

Disintermediation: The withdrawal of funds from low-yielding financial investments and the reinvestment in other, higher-yielding securities.

Disproportionate: A sharing arrangement in an oil/gas program in which the general partner assumes a part of the program's cost in return for a greater percentage of the income.

Dissolution: The termination of a business venture.

Diversification: The spreading of investment risk among different types of securities and various companies in different fields.

Diversified Investment Company: A requirement under the Investment Company Act of 1940. In order to advertise itself as diversified, an investment company must invest a minimum of 75% of its assets, so that no more than 5% of its assets are invested in any one issuer's securities, and it owns no more than 10% of the voting shares of any one company.

Divided Account: A form of a new issue syndicate in which a member is only liable for the percentage of the issue that's equal to its participation. The member's liability ceases after selling its participation amount. Also referred to as a Western Account.

Dividend: A payment designated by a company's board of directors to be distributed pro rata among the shares outstanding. On preferred shares, it's generally a fixed amount. On common shares, the dividend varies with the profits of the company.

Dividend Payout Ratio: The percentage of a corporation's earnings that's paid out to its shareholders. The ratio is calculated by dividing the dividends paid on common stock by the net income available for common stockholders (earnings per share).

Dividend Reinvestment: A program in which a dividend-paying company (especially mutual funds) will automatically apply an investor's dividend to the purchase of additional shares. The IRS taxes the dividend as ordinary income regardless of whether it's received as cash or reinvested.

Dividend Yield: The annual percentage of return that an investor receives on either common or preferred stock. The yield is based on the amount of the annual dividend divided by the current market price of the stock.

DK Notice: A notification of a perceived discrepancy in, or failure to receive, a broker-to-broker confirmation.

Dollar Bond: A term issue which is quoted and traded at a dollar price rather than at a yield-to-maturity.

Dollar Cost Averaging: A system of buying securities at regular intervals with a fixed-dollar amount. If each investment is for the same number of dollars, payments will buy more shares when the price is low and fewer when it rises. Over time, and given fluctuating prices, dollar cost averaging will result in a lower average cost than the average price of the shares.

Dollar Price: The price of a bond expressed as a percentage of its face value. A bond's dollar price of 85 represents 85% of its $1,000 face value, or $850.

Do-Not-Call List: According to the Telephone Consumer Protection Act of 1991, broker-dealers must maintain a listing of individuals who have asked not to be contacted in the future. The broker-dealer is responsible for training personnel as to the proper use of this list.

Do Not Reduce (DNR): A designation on an order that the price should not be reduced for subsequent cash dividends.

Double-Barreled Bond: A municipal bond secured by the revenues of a project or special revenues provided by the initial security, with secondary security provided by the general obligation taxing powers of the issuer.

Dow Jones Industrial Average: An average of 30 of the largest stocks. The prices of the 30 stocks are totaled and then divided by a divisor which is intended to compensate for past stock splits and stock dividends and that's changed from time to time. Other Dow Jones averages include the Transportation (20 stocks), Utilities (15 stocks), and the Composite (65 stocks).

Downtick: A downtick, or minus tick, is a term used to designate a transaction made at a price lower than the preceding trade. See: Uptick.

Dow Theory: A theory of market analysis based on the performance of the Dow Jones Industrial and Transportation stock price averages. The theory states that the market is in a basic upward trend if one of these averages advances above a previous important high, accompanied or followed by a similar advance in the other average. When the averages both drop below previous important lows, this is regarded as a confirmation of a downward trend.

DPP: See: Direct Participation Program.

Dual Listings: The same security is listed on both on the New York Stock Exchange and on a regional exchange.

Dual-Purpose Fund: A closed-end investment company that issues two types of shares – income and capital. The income shares receive all of the income (dividends and/or interest), and the capital shares receive all of the capital gains.

Due Bill: A printed statement that shows the transfer of a security's title or rights, or shows the obligation of a seller to deliver the securities or rights to the purchaser. If a security is purchased prior to the ex-date, but delivered after the record date, the security will be delivered with a due bill attached. The due bill states that the purchaser is entitled to receive the dividend, rights, or additional shares of stock.

Due Diligence: A phrase referring to careful consideration of a new issue. Underwriters will conduct meetings, typically during the cooling-off period, to assure that all pertinent information has been considered before issuance.

Durable Power of Attorney: Provides a third party with the power to manage another person's financial affairs even if that person becomes incapacitated.

Duration: The measure, expressed in years, of a fixed-income security's price sensitivity to changes in interest rates.

Dutch Auction: A method of awarding securities to successful bidders. This method is used when the Treasury is selling new securities. The Treasury opens all bids and determines the lowest acceptable bid price (stop-out price). All successful bidders then pay the stop-out price.

E

Earned Income: Income generated from employment (e.g., wages, salary, commissions, bonuses, etc.).

Earned Surplus: See: Retained Earnings.

Earnings Before Interest and Taxes (EBIT): The earnings of a company prior to paying bond interest and taxes.

Earnings Per Share (EPS): The amount of a corporation's earnings that's available to each share of common stock. The formula for calculating EPS is (net income minus preferred dividends) divided by the number of outstanding common shares. See: Fully Diluted EPS.

Earnings Report: A statement (also referred to as a profit and loss, or income statement) which is issued by a company and shows its earnings or losses over a given period.

Earnings Test: See: Additional Bonds Test.

Eastern Account: See: Undivided Account.

Easy Money: A period during which there's an ample supply of money available for loan purposes as indicated by relatively low interest rates. Also called Loose Credit.

Education IRA: See: Coverdell ESA.

Effective Date: The day on which the SEC first permits a new issue to be sold to investors.

Effective Yield: The rate of return for a bond that assumes the bond will be held to maturity or the first call date, if the bond is callable at par, and is currently trading at a premium to par. Also referred to as Yield-to-Worst.

Efficient Frontier: A theoretical collection of optimal portfolios based on risk/return trade-offs. Efficient frontiers are a part of what's referred to as the Modern Portfolio Theory.

Electronic Communication Network (ECNs): Market centers that allow subscribers to quote and trade exchange listed and Nasdaq securities.

11 Bond Index: The average yield (on a particular day) of 11 selected general obligation municipal bonds with 20-year maturities. The index is comprised of 11 of the 20 bonds from the 20-Bond Index. It's calculated on Thursday afternoon and published in the Daily Bond Buyer on Friday.

Electronic Municipal Market Access (EMMA) System: This is a website conducted by the MSRB that provides access to municipal disclosures, market transparency data, and educational materials about the municipal securities market.

Employee Stock Ownership Plan (ESOP): A plan that encourages employees to buy the stock of their employer.

Engineering Report: A study followed by a report that's done by an engineering firm. The report is created as part of the feasibility study for a proposed municipal revenue bond issue.

Equipment Leasing Program: In a typical arrangement, a manufacturer will sell the equipment to a syndicate that had obtained the capital for the purchase from investors and bank borrowing. The equipment is then leased for a fixed rental fee.

Equipment Trust Certificate: A type of secured bond, generally issued by a railroad to pay for new equipment. Title to the equipment, such as a locomotive, is held by a trustee until the bonds are paid off.

Equity:

(1) Balance Sheet: The ownership interest in a business venture; net worth.

(2) Securities: The ownership interest in a corporation, such as preferred or common stock.
(3) Margin Account: The customer's ownership in the account, defined as market value of long positions minus the debit balance, or credit balance minus the market value of short positions.
(4) Cash Account: Value of Securities and cash in the account.

Equity Income Fund: A mutual fund whose main objective is income. The fund invests in the common and preferred stock of companies that pay high dividends.

Emerging Markets Fund: A fund that invests in the stocks and bonds of emerging market countries that are evolving from an undeveloped agricultural economy to a modern industrial one, or from a socialist economy to a free market system.

Employee Retirement Income Security Act (ERISA): The federal law that regulates private sector pensions and retirement plans.

Erroneous Report Rule: A rule which states that a client must accept a valid execution as it occurred, regardless of any mistake in reporting.

Error Account: Account used by a broker-dealer when the firm or an RR executes a trade in error (e.g., the wrong security or the wrong side of the market). All adjustments or cancellations that are routed through the error account must be approved by a supervising principal.

Escrow: Money or securities held by a third party until conditions of a contract are met.

Escrowed to Maturity (ETM): See: Advance Refunding.

Escrow Receipt: The certificate provided by an approved bank which guarantees that the underlying securities of an option contract are on deposit at the bank and will be delivered if the option is exercised.

Estate Tax: A tax paid by the estate of a decedent.

Euro: The single currency adopted by most members of the European Union.

Eurobond: A bond that's sold in one country, but denominated in the currency of another country.

Eurodollar: A dollar-denominated deposit that's made outside of the United States.

Eurodollar Bond: A dollar-denominated bond issued outside the United States. These bonds pay principal and interest in U.S. dollars.

European-Style Exercise: Allows options to be exercised only at a specified point in time, usually on the day of expiration. European-style exercise is prevalent with index and currency options.

Excess Equity: Any amount of equity that exceeds the Reg T requirement of 50%. See: Special Memorandum Account.

Exchange:

(1) A centralized location where security or commodity transactions occur.
(2) A switch from one mutual fund to another at little or no cost. See also: Family of Funds.
(3) An offer made by a corporation to replace one type of security with another.

Exchange Privilege: A privilege that allows a fund shareholder to exchange shares of one fund for the shares of another in a family of funds without incurring an additional sales charge. Such an exchange may be a taxable event.

Exchange Rate: The price at which one country's currency can be converted into another country's currency.

Exchange-Rate (Currency) Risk: The risk that the value of foreign currency will change unfavorably in relation to the U.S. dollar.

Exchange-Traded Fund (ETF): A type of investment company that represents a basket of securities and is traded on an exchange. The basket of securities typically represents an index, such as the Nasdaq 100 or the S&P 500.

Exchange-Traded Note (ETN): A type of unsecured debt security that offers a return that's often linked to the performance of an index. Since ETNs are unsecured, they carry credit risk which is tied to the creditworthiness of the financial institution backing the note.

Ex-Dividend Date: A synonym for without dividend. The first day that a buyer could purchase a security and not be entitled to receive the dividend. The ex-date is set by an SRO and is typically one business day before the record date.

Exempt Securities: Securities that are exempt from the filing provision of the Securities Act of 1933. Exempt securities include those issued by municipalities, the U.S. government and agencies, non-profit organizations, and also corporate debt securities with a maturity of less than 270 days (versus Non-exempt).

Exempt Transaction: A transaction that permits the security involved to be sold without registration under the Securities Act of 1933. Examples include Regulation A and Regulation D (Private Placement) offerings.

Exercise Limit: The maximum number of option contracts that an investor may exercise within five consecutive business days.

Exercise Price: The price at which the underlying security in an option contract can be bought (called) or sold (put). Also referred to as the Strike Price.

Ex-Legal: The situation in which a municipal bond will be delivered without a legal opinion.

Expense:

(1) For accounting purposes, the recording of an outlay against revenue in the period incurred (versus capitalize).
(2) An item which reduces income.

Expense Ratio: For mutual funds, this is the percentage of a fund's assets that are used to pay its operating costs.

Expiration Date: The day on which an option contract becomes void.

Exploratory Program: See: Wildcatting.

Ex-Rights: The first day that a buyer can purchase a security and not be entitled to receive any preemptive rights.

F

Face-Amount Certificate Company: A type of investment company into which an investor makes periodic payments and at the end of a specified period, the company pays the investor the face amount of the security.

Face Value: The value of a bond that represents the amount the issuer promises to pay at maturity, but it's not an indication of market value. Face value is also referred to as par value or principal amount.

Fallen Angels: Bonds that have dropped from investment grade to junk bond status.
Family of Funds: A group of mutual funds sold by the same sponsor. Typically, investors may apply purchases in all funds (within the family) toward sales charge

breakpoints, and may switch from one fund to another as conditions change. See also: Breakpoint; Exchange Privilege.

Fannie Mae: See: Federal National Mortgage Association.

Feasibility Study: A study done for a proposed municipal revenue issue to determine the feasibility of the project. The study involves estimating the service needs, construction costs, as well as future revenues and expenses.

Federal Deposit Insurance Corporation (FDIC): A federally sponsored, privately held corporation that insures commercial bank deposits of up to $250,000.

Federal Farm Credit System: A group of government agencies that extend credit to farmers. The system will raise money by selling debt instruments. See also: Banks for Cooperatives; Federal Intermediate Credit Banks; Federal Land Bank.

Federal Financing Bank (FFB): Established by Congress, it's authorized to acquire any obligation that's issued or guaranteed by a federal agency with the exception of the Federal Farm Credit System, the Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association. This aids agencies in issuing obligations. The FFB borrows from the Treasury.

Federal Home Loan Banks (FHLB): A government agency that's operated as a credit reserve system for savings-related institutions in the U.S. and is supervised by the Federal Home Loan Bank Board.

Federal Home Loan Mortgage Corporation (Freddie Mac): A privately held, NYSE-listed corporation that purchases residential, Federal Housing Administration, and Veterans Administration mortgages from savings institutions, and resells them by means of mortgage-backed securities. These securities are not guaranteed by the U.S. government.

Federal Housing Administration (FHA): A federal agency that insures lenders against defaults on residential mortgages.

Federal Intermediate Credit Banks (FICB): A part of the Federal Farm Credit System that provides intermediate-term loans for agricultural purposes.

Federal Land Bank (FLB): A part of the Federal Farm Credit System that provides long-term loans to farmers and ranchers for various agricultural purposes.

Federal National Mortgage Association (FNMA): A privately held corporation that purchases residential, Federal Housing Administration, and Veterans Administration mortgages from savings institutions, and resells them by means of mortgage-backed securities. These securities are not guaranteed by the U.S. government.

Federal Open Market Committee (FOMC): A committee of the Federal Reserve Board that operates by selling and buying U.S. government securities to and from member banks in the open market. The Fed's open market operations are its most effective tool of monetary control.

Federal Reserve Board: A quasi-governmental entity responsible for monetary policy within the United States. It seeks to control the supply of money and credit to control inflation and create a stable, growing economy.

Fed Funds (Federal Funds):

(1) The overnight borrowing of reserves by one bank from another bank.
(2) Immediately available funds, i.e., cash, wires, or certified checks (versus Clearing House Funds).

Fed Funds Rate: The market rate banks charge one another on overnight loans of reserves held at the FRB. See also: Fed Funds.

Fidelity Bond: An insurance policy required of every broker-dealer to provide protection for the firm in the event of fraud or theft by broker-dealer employees.

Fiduciary: A person who's acting on another person's behalf and is therefore in a position of trust.

FIFO: See: First-In, First-Out.

Filing Date: The date on which the issuer of new securities files the registration statement with the SEC. This ends the preregistration period.

Fill-or-Kill (FOK): An order qualifier which indicates that an entire order must be executed immediately. However, if the order cannot be immediately executed, it's cancelled.

Financial Advisory Relationship: A situation whereby a broker-dealer is paid to provide advice to a municipality regarding a new issue of bonds.

Financial Exploitation:

(1) Wrongful or unauthorized taking, withholding, appropriation, or use of a specified adult's funds or securities.
(2) Any act or omission taken by a person, regarding a specified adult, to:

- Obtain control, through deception or intimidation, over the specified adult's money, assets or property; or
- Convert the specified adult's money, assets or property

Financial Futures: Futures contracts based on financial instruments such as U.S. Treasury bonds, CDs and other interest-sensitive issues, currencies, and stock market indices.

Financial Guaranty Insurance Company (FGIC): See: Insured Bonds.

Financial Industry Regulatory Authority (FINRA): Created through the consolidation of the NASD and NYSE regulatory units. This self-regulatory organization is the primary regulator for all U.S. broker-dealers.

Finder: A person who helps to arrange a transaction.

Firm Commitment: A type of underwriting in which the underwriters agree to purchase the entire issue from the issuer. If they're unable to sell the entire issue, they cannot return the unsold portion to the issuer.

Firm Element: The continuing education plan that broker-dealers must develop internally.

Firm Quote: A quote provided by a dealer that obligates the firm to trade a minimum of 100 shares (one round lot) based on the information provided. See: Backing Away.

First-In, First-Out (FIFO):

(1) A method used when calculating capital gains and losses from redemptions of mutual fund shares, or the sale of other corporate securities, in which the first shares purchased are assumed to be the first shares sold when calculating the amount of gain or loss. If no designation is made to the IRS by the investor, FIFO will be required.
(2) A method of inventory valuation that assumes the oldest inventory (first-in) is sold first (first-out) (versus LIFO).

Fiscal Policy: Government decisions made by the U.S. Congress affecting taxation and government spending.

Fitch's Rating Service: A rating agency used by some municipal bond issuers.

5% Markup Policy: A guideline used when determining the price that a broker-dealer charges a customer or pays a customer for securities.

501(c)(3): A section of the Internal Revenue Code that provides tax-exempt status to certain organizations. Such organizations may also set up a 403(b) plan for their employees.

529 Plan: See: Section 529 Plan.

529 ABLE Plan: See: Section 529 A (ABLE) Plan.

Fixed Annuity: An annuity contract in which the insurance company makes fixed (guaranteed) dollar payments to the annuitant for the term of the contract (usually until he dies).

Fixed Assets: The tangible assets of a corporation that are not readily liquidated, which includes buildings, machinery, equipment, furniture, and fixtures.

Fixed Charges: A company's fixed expenses (e.g., bond interest) that it has agreed to pay and that are deducted from income before earnings on equity are computed.

Flat: A term that refers to bonds that are traded without accrued interest. Bonds that are in default, income bonds, and zero-coupon bonds are typically traded flat. All other bonds generally trade with interest, where the buyer pays to the seller the market price plus interest accrued since the last payment date. See also: Accrued Interest.

Float:

(1) The process of issuing or underwriting securities.
(2) The number of shares of a corporation that are available to the investing public.
(3) The time it takes for a check to clear the banking system.

Floater: A term used to describe a CMO tranche that's tied to some fluctuating interest-rate index.

Floor: The area where stocks and bonds are bought and sold on an exchange.

Floor Broker: A member of an exchange who executes orders on the floor of the exchange to buy or sell listed securities.

Flow of Funds: The sequence of payments to different accounts that will be used in a municipal revenue bond issue. See: Net Revenue Pledge. See: Gross Revenue Pledge.

Follow-On Offering: After a company conducts its initial public offering, this is the subsequent offering of common stock to raise additional capital.

Forced Conversion: An issuer's mandatory call that requires bondholders to redeem their bonds or convert them.

Form CRS: As a requirement of Reg BI, the Client Relationship Summary (Form CRS) is designed to provide retail investors with information about the nature of their relationship with their financial professional in a simple, easy-to-understand format.

Form 8-K: A report that must be filed by an issuer under SEC rules when a material event occurs that could affect the price of the issuer's securities. Form 8-K must be filed within four business days of such an event.

Form 10-K: An annual report that issuers must file with the SEC. The form includes financial information concerning a company's assets, liabilities, earnings, profits, and other year-end statistics.

Form 10-Q: A quarterly report that issuers must file with the SEC. The form provides unaudited financial information and other selected material.

Form U4: The uniform application for securities industry registration or transfer.

Form U5: The uniform termination notice for securities industry registration.

Form U6: Used to report disciplinary actions and final arbitration awards against an RRs and/or firms.

Forward Pricing: The method in which the price of a mutual fund transaction is determined. Orders for the purchase or redemption of mutual fund shares will be executed at the next calculated NAV (plus a sales charge if any).

401(k) Plan: A type of qualified retirement plan in which employees make pre-tax contributions into an employee trust. In many cases, the employer will match employee contributions up to specified levels.

403(b) Plan: A tax-deferred retirement plan that may only be established by certain non-profit organizations, such as churches and public school systems.

457 Plan: A tax advantage retirement plan that may be established by a government (a municipality) or non-government (non-profit) employer.

Fourth Market: The direct trading of securities between institutional investors to avoid brokerage commissions. In some cases, this is done through an electronic system.

Freddie Mac: See: Federal Home Loan Mortgage Corporation.

Freeriding: The prohibited action of a client who buys securities and then sells them without paying for the initial purchase. See also: Frozen Account.

Front-end Load: See: Class A Shares.

Frontrunning: The prohibited practice of trading in advance of a large customer order about which a trader has information.

Frozen Account: An account in which the customer has violated Reg. T by not paying within five business days. A purchase or sale in a frozen account will only be executed when sufficient funds or securities are in the account.

Full Faith and Credit: A pledge by an issuer to pay interest and principal on debt securities when due.

Fully Diluted Earnings Per Share: A calculation which assumes all common stock equivalents (convertible bonds, preferred stock, warrants, rights) have been converted into common stock.

Functional Allocation: An arrangement between the general partner and limited partner of an oil/gas program in which the limited partners are allocated the tax-deductible expenses and the general partner bears non-deductible costs.

Fundamental Analysis: The analysis of industries and companies based on factors such as sales, assets, earnings, products or services, markets, and management. See also: Technical Analysis

Funded Debt: The long-term debt of a company. Relative to municipalities, it refers to the total outstanding bonded debt.

Futures: Exchange-traded contracts which specify a future date of delivery or receipt of a certain amount of a specific tangible or intangible product, including wheat, soybeans, pork bellies, metals, and financial instruments. Futures are used by businesses as a hedge against unfavorable price changes and by speculators who hope to profit from such changes.

G

General Account: The account in which an insurance company invests premiums from traditional (guaranteed) fixed insurance products. This account will invest in fixed-income and other conservative investments to provide for minimum payouts to policyholders.

General Obligation Bond (GO): A municipal bond secured by the taxing power of the issuer. A GO bond is also referred to as a full-faith-and-credit bond since it's secured by the full faith and credit of the issuer.

General Partner: The partner in a limited partnership who's responsible for all management decisions of the partnership. The general partner has a fiduciary responsibility to act for the benefit of the limited partners. The general partner is fully liable for its actions. See also: Limited Partner.

Gift Rule: A restriction on gifts of material value that a firm may give to another firm's employees (generally no more than $100 per year).

Gift Tax: A tax paid on gifts of cash or property. The tax is paid by the donor.

Ginnie Mae: See: Government National Mortgage Association.

Global Fund: A fund that invests in stocks of companies all around the world, but in the U.S. and abroad.

Good Delivery: Certain basic qualifications that must be met before a security that has been sold may be delivered.

Good Faith Deposit: The amount of funds that accompany a syndicate's bid for a new municipal issue.

Good-'Til-Cancelled Order (GTC): An order to buy or sell that remains in effect until it's either executed or cancelled. Also called an Open Order.

Government Bonds: Debt obligations of the U.S. government; regarded as the highest grade securities issued. Also referred to as Treasury securities.

Government National Mortgage Association (GNMA or Ginnie Mae): A wholly owned government agency that helps raise funds for the mortgage market by issuing securities backed by pools of mortgages with the full faith and credit of the U.S. Treasury.

Government Sponsored Agency: A publicly chartered, but privately owned corporation. Examples include the Student Loan Marketing Association (SLMA), Federal Farm Credit Banks (FFCBs), and Federal Home Loan Banks (FHLBs).

Grant Anticipation Note (GAN): A short-term security issued by a municipality. Payment is normally paid from future funding provided by the federal government.

Green Shoe: A disclosed provision which allows underwriters to purchase additional shares (up to a maximum of 15%) from an issuer to meet the demands of an oversubscribed offering (also referred to as Overallotment Provision).

Gross Domestic Product (GDP): The total value of all goods and services produced within the borders of a country.

Gross National Product (GNP): The total value of goods and services produced by a country in a given period. Real GNP measures economic production in constant dollars, taking into account the effect of inflation.

Gross Revenue Pledge: For a municipal revenue offering, this pledge states that debt service is paid prior to operating and maintenance expenses being deducted (versus net revenue pledge).

Group Order: An order placed with a municipal syndicate in which the entire syndicate (group) will share in the takedown.

Growth Stock: The stock of a company with a record of growth in earnings at a relatively rapid rate.

Growth Fund: With capital appreciation as it's main objective, this fund invests in stocks believed to show potential above-average growth in share price.

Guaranteed: A security that has a guarantee, from a source other than the issuer, as to payment of principal, interest, or dividends.

Guardian: A person who's legally vested with the power and responsibility to act on another person's behalf and manage that person's property and rights. This can occur when a person is incapacitated due to illness or age, or because the person is a minor.

H

Head and Shoulders: A technical trading pattern that resembles a head and two shoulders. In a head and shoulders top formation, the stock reaches one plateau (the left shoulder), then goes still higher (the top of the head), and then drops back to the plateau again (the right shoulder). The head and shoulders top pattern signifies the reversal of an upward trend. A head and shoulders bottom pattern is the opposite and signifies the reversal of a downward trend.

Hearing Officer: A person appointed to oversee a panel sitting in judgment on a case brought by the Department of Enforcement under the Code of Procedure.

Hedge Funds: These private investment pools are generally limited to accredited investors Hedge funds qualify for exemptions from the federal regulations that govern short selling, use of derivatives, leverage, fee structures, and the liquidity of the investment.

Hedging: The use of a security (e.g., an option) to reduce the market risk of a current holding. The hedging security (the option) is expected to perform well under market conditions in which the other security will perform poorly.

High-Yield Bonds: Non-investment grade bonds. Also referred to as Junk Bonds. See also: Investment Grade.

Holder: The buyer or owner of a security; also considered long.

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

Holding Period: The time that an investor has owned a security which determines whether a gain or loss is considered short-term or long-term.

Horizontal Spread: See: Calendar Spread.

Hypothecation: The pledging of securities as collateral (e.g., to secure the debit balance in a margin account).

I

Immediate Annuity: An annuity that begins payments to the annuitant one payment period after a lump-sum deposit has been made to fund the annuity.

Immediate Family Member: Under the New Issue Rule, an RR's immediate family members include parents, mother-in-law or father-in-law, husband or wife, brother or sister, brother-in-law or sister-in-law, son-in-law or daughter-in-law, and children. In addition, the term includes any other person who's supported, directly or indirectly, to a material extent by the RR.

Immediate-or-Cancel (IOC): An order qualifier which indicates that as much of the order as possible must be executed immediately, with any unexecuted portion being cancelled.

Inactive: The registration status of RRs who have failed to complete their Regulatory Element of Continuing Education training within the required time. Inactive RRs may not be compensated for securities activities or perform activities for which registration is required.

Income Bond: A corporate debt issue that pays interest only when, and if, the company has income. Also referred to as an Adjustment Bond.

Income Fund: A type of mutual fund whose portfolio consists of income-producing securities such as bonds and preferred stock.

Income Program: An oil/gas direct participation program designed to primarily generate income by purchasing and operating producing wells. See: Wildcatting, Developmental Program.

Income Statement: See: Earnings Report.

Income Stock: A stock that pays a relatively high dividend (e.g., utility stock).

Indenture: A written agreement under which bonds are issued, setting forth the maturity date, interest rate, and other terms. It's the contract executed by the issuer and trustee (who acts for the bondholders). Also referred to as a Deed of Trust, Bond Resolution.

Independent Third-Party Research Report: A report prepared by a person or firm that 1) has no affiliation or contractual relationship with the disturbing member, and 2) makes content determinations without any input from the distributing member or that member's affiliates. This report is not required to be approved by a supervisor of the broker-dealer.

Index:

(1) A statistical benchmark expressed in terms of percentages of a base year or years. For instance, the Federal Reserve Board's index of industrial production is based on 1967 as 100. An index is not an average.
(2) A statistical measure of a group of stocks, such as the S&P 500. Indices can be broad-based (which cover a wide range of companies and mirror the market as a whole) or narrow-based (which consist of securities from a particular industry).

Index Fund: A mutual fund with the objective to mirror the performance of a given benchmark (e.g., S&P 500, DJIA, FTSE 100).

Indexing: An investment approach in which investors seek to find the least expensive and most tax-efficient products that reconcile with their objectives.

Index Option: Option contract traded on an underlying index—for example, the S&P 100 (OEX), Major Market Index, and NYSE Index Option Contracts.

Indication of Interest: A non-binding indication of a client that's received before the effective date for the possible purchase of a new issue.

Indicators:

(1) Measures of economic activity used by economists to predict or confirm the general direction of the economy as a whole.
(2) Measures used by technical analysts to forecast the movement of a stock or the market in general.

Individual Account: A securities account registered in the name of one person as opposed to a joint account, which has more than one owner.

Individual Retirement Account (IRA): A self-directed retirement plan for individuals with earned income as well as their non-working spouses. Maximum contributions are up to $6,000 annually. IRAs permit investment through intermediaries such as mutual funds, insurance companies, banks, and securities firms.

Industrial Development Revenue Bond (IDR): A bond issued by a municipality that's secured by a lease agreement with a private corporation.

Inflation: The persistent and appreciable rise in the general level of prices. Inflation is typically associated with periods of expansion and rising interest rates.

Inflation Risk: See: Purchasing-Power Risk.

Information Barrier: A physical or operational barrier between two departments of a broker-dealer that's designed to prevent the flow of material, non-public information from one department to the other. Formerly referred to as a Chinese Wall.

Inheritance Tax Waiver: A document used in the settlement of an individual's estate.

Initial Public Offering (IPO): The first public issue of stock from a company that has not been publicly traded before.

Inside Market: The highest bid and lowest offer currently being published for a specific security.

Insider:

(1) Defined by the Securities Exchange Act of 1934 as any officer, director, or any person owning more than 10% of a company's stock. These individuals are required to file reports of their transactions in the subject securities with the SEC.
(2) The rules related to insider trading extend the definition of an insider to any person who's in possession of material, non-public information.

Insider Trading: The use of inside (material non-public) information to make a profit or avoid a loss when buying or selling securities.

Institutional Communication: Any written or electronic communication that's distributed or made available to institutional investors only.

Institutional Investor: An organization that invests its own assets or those held in trust by it for others (e.g., pension funds, banks, investment companies, insurance companies, universities, broker-dealers and their RRs, as well as individuals or entities with total assets of at least $50 million).

Insured Bonds: Municipal bonds that are covered by an insurance policy that will pay all interest and principal due if the issuer defaults.

Intangible Assets: The assets of a corporation that are not physical. These include goodwill, trademarks, and patents.

Intangible Drilling Costs: The expenses associated with drilling an oil or gas well that have no lasting physical value (e.g., labor, geologist expense, core analysis, etc.). Most of these costs are tax-deductible in the year in which they're incurred.

Interbank Market: The unregulated international trading of foreign currencies between banks that establishes foreign exchange rates.

Interest: Payments made by a borrower to a lender for the use of its funds. A corporation pays interest on its bonds to the bondholders.

Interest Only (IO) Securities: A type of CMO security that receives interest payments from the underlying collateral and little or no principal payments. This type of security does well when prepayment schedules are slow, since interest payments are based on remaining principal balances.

Interest-Rate Options: Option contracts traded on underlying debt instruments.

Interest-Rate Risk: The risk that a fixed-income security will decrease in value as interest rates rise.

International Fund: A fund that invests in stocks of foreign companies (i.e., outside of the United States).

Interpositioning: The placing of a third party between a broker-dealer and its customer when filling a trade. This practice is prohibited unless it results in a better execution for the customer.

Interval Fund: A type of closed-end fund with shares that don't trade in the secondary market. Instead, the fund periodically (at specific intervals) offers to buy back a percentage of outstanding shares at net asset value (NAV).

In-the-Money: An option with intrinsic value. For example: A call option in which the underlying security is selling above the strike price, or a put option in which the underlying security is selling below the strike price.

Intrastate Offering: A new issue of securities by an issuer domiciled in one particular state that will be sold only to investors residing in that state. An intrastate issue is exempt from the filing provisions of the Securities Act of 1933 under Rule 147.

Intrinsic Value: The amount that the market price of a stock is above the strike price of a call option on that stock or below the strike price of a put option on that stock. Also considered the in-the-money amount of the option.

Inverted Yield Curve: The curve formed when plotting yield versus maturity during a period when short-term yields (interest rates) are higher than long-term yields. It's also referred to as a negative sloping yield curve or a descending yield curve.

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

Investment Adviser (IA): Typically a firm that provides investment advice about securities, is in the business of giving advice, and is compensated for that advice. Mutual funds have an investment adviser to manage the fund's portfolio.

Investment Advisers Act of 1940: The federal act that regulates investment advisers.

Investment Banker: An investment banker assists corporations and other issuers in distributing new securities to the public and provides advice relating to securities transactions, mergers, and acquisitions. Also referred to as an underwriter.

Investment Company: A company or trust engaged in the business of investing shareholders' pooled funds. The definition includes face-amount certificate companies, unit investment trusts, as well as closed-end and open-end (mutual fund) management companies.

Investment Company Act of 1940: The federal law that regulates investment companies.

Investment Counsel: One whose principal business consists of acting as investment adviser and rendering investment supervisory services.

Investment Grade: Refers to bonds rated in the top four rating categories by Moody's (Baa or higher) or Standard & Poor's (BBB or higher) that are eligible for investment by fiduciaries. See also: Legal List.

Investment Income: See: Portfolio Income.

Investment Letter: A letter signed by an investor purchasing unregistered securities under Regulation D. By signing the letter, the investor attests to the long-term investment nature of the purchase. These securities, also referred to as letter stock, must be held for a minimum of six months before they may be sold to the general public. See also: Rule 144.

IRA: See: Individual Retirement Account.

IRA Rollover: The reinvestment of assets received as a lump-sum distribution from a tax-deferred retirement plan. If the reinvestment is done within 60 days, there are no tax consequences.

IRA Transfer: The movement of IRA assets from one custodian directly to another, in which the account owner is never in direct possession of those assets.

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

Issued Shares: The amount of common shares that a corporation has sold (issued).

Issuer: The organization issuing or proposing to issue a security.

J

Jawboning: See: Moral Suasion.

Joint Tenants (JT): An account with more than one owner.

(1) With Rights of Survivorship (WROS): In the event of the death of one party, the survivor receives total ownership.
(2) Tenants in Common (TIC): In the event of the death of one party, the survivors receive only their portion of the account. The remaining assets go to the deceased's estate.

Junk Bond: A term for a speculative, non-investment-grade bond. See also: Investment Grade.

K

Keogh Plan (HR-10 Plan): A qualified retirement plan that may be established by self-employed individuals for themselves and any qualified employees.

Keynesian Economics: The theory advanced by John Maynard Keynes which suggests that governments should attempt to influence the economy using fiscal policy.

Know Your Customer Rule: The rule that requires a broker-dealer to obtain essential information regarding each of its customers.

L

Lagging Economic Indicator: An economic measure used to determine past economic activity published by The Conference Board. Indicators include corporate profits, prime rate, and inventories.

Last-In, First-Out (LIFO):

(1) An inventory valuation method that assumes the newest inventory (last-in) is sold first (first-out) (versus FIFO).
(2) The method of determining the taxable portion of a random withdrawal from an annuity. Taxable earnings are treated as being withdrawn before the tax-free return of contributions.

Leading Economic Indicator: An economic measure used to predict future economic activity published by The Conference Board. Indicators include the Money Supply (M2), the S&P 500, new building permits, etc.

LEAPS (Long-Term Equity Anticipation Securities): Long-term call and put equity options with expirations of up to 39 months.

Legal List: A list of investments selected by various states in which certain institutions and fiduciaries (e.g., insurance companies and banks) may invest. Legal lists are often restricted to high quality securities meeting certain specifications.

Legal Opinion: The written opinion of the bond counsel that attests to the fact that the municipal issue was legally authorized and issued, and to the tax status of the interest. See also: Qualified Legal Opinion; Ex-Legal.

Legislative Risk: Risk that profit potential from a securities investment may be adversely affected by new or revised legislation (e.g., tax law changes).

Letter of Intent (LOI): A document signed by an investor when purchasing shares of a mutual fund. The LOI indicates the investor's intention to invest enough during the coming 13 months to reach a breakpoint and thereby receive a reduced sales charge. The letter of intent may be backdated a maximum of 90 days.
See also: Breakpoint.

Letter of Notification: A document filed with regional SEC office by issuers utilizing Regulation A. See also: Regulation A Offering.

Letters Testamentary: A certificate issued by the court which evidences the appointment of the executor of an estate.

Letter Stock: See: Investment Letter.

Level Debt Service: Yearly interest and principal payments that remain relatively constant for the life of the bond issue.

Levels I, II, and III: See: Nasdaq.

Leveraged Buyout (LBO): The acquisition of a company using borrowed funds. In many cases, the loans for an LBO are secured by the assets of the company being acquired.

Liabilities: The claims by creditors against a corporation including short-term liabilities (accounts payable, wages and salaries payable, dividends payable, accrued taxes payable), and long-term liabilities (mortgage bonds, debentures, and bank loans).

LIFO: See: Last-In, First-Out.

Limited Liability: A situation in which an investor can lose no more than the amount invested.

Limited Partner: An investor in a limited partnership who has no voice in the management of the partnership. Limited partners have limited liability and typically have priority over general partners upon liquidation of the partnership.

Limited Partnership: A non-taxable business entity used primarily in DPPs. Each investor is responsible for the taxes on her portion of the income or loss generated by the business. See also: Direct Participation Program.

Limited Tax Bond: A municipal bond issue secured by a pledge of taxes, but where the tax rate is capped.

Limit Order: An order to buy or sell a stated amount of a security at or better than a specified price.

Liquidation:

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

Liquidity:

(1) The ability of an investor to find a willing buyer or seller for a particular security in the secondary market.
(2) The ability of a corporation or other entity to meet short-term expenses.

Liquidity Risk: The risk that an issue cannot be sold at or near its market value. The size of the spread between the bid price and ask price quoted by a dealer is the primary measure of liquidity. The wider the dealer's spread, the greater the liquidity risk.

Listed Stock: The stock of a company that's traded on a securities exchange.

Load: See: Sales Charge, Class A Shares.

Loan Consent: An agreement signed by a margin client that allows the broker-dealer to lend securities to a third party. A loan consent is not required to be part of an overall margin agreement.

Loan Value: The maximum amount of credit a broker-dealer may extend to a client under Reg. T of the FRB. Since Reg T is currently 50%, marginable securities have a loan value of 50% of their value.

Local Government Investment Pools (LGIPs): Created by state and local governments to provide municipal entities a place to invest funds; similar to money market funds.

London Interbank Offered Rate (LIBOR): The average rate that banks charge one another on loans for London deposits of Eurodollars.

Long: A term that signifies ownership of securities. The phrase, "I am long 100 IBM" means "I own 100 shares of IBM stock."

Long Coupon: The first interest payment (from dated date to first payment date) on a bond representing interest for a period of more than six months. A short coupon represents interest for less than six months.

Long Market Value (LMV): The current value of all long securities held in a customer's margin account.

Long Straddle: The purchase of both a call and a put on the same underlying security, the same exercise price, and the same expiration date.

Long-Term Liabilities: A corporation's liabilities that are due in more than one year. These include bonds and long-term loans.

Loose Credit: See: Easy Money.

L-Share Variable Annuity: A class of variable annuity that has a short surrender period. Suitable for investors who want the option to withdraw funds after a short period.

M

M1: The basic money supply definition that includes currency in circulation and demand deposits (checking accounts), NOW accounts, and Super-NOW accounts.

M2: A wider definition of money supply that includes all of M1 plus savings accounts and other time deposits.

Modified Accelerated Cost Recovery System (MACRS): See: Accelerated Cost Recovery System.

Maintenance: The minimum equity required to be kept in a margin account. Current maintenance requirements are 25% for a long position and 30% for a short position.

Maloney Act of 1938: An amendment to the Securities Exchange Act of 1934 that made possible self-regulation by securities firms involved in the over-the-counter market. The NASD was established as a result of this act.

Management Company: A type of investment company that actively manages a portfolio of securities for the benefit of its shareholders. See also: Investment Company.

Management Fee: The expense paid by an investment company to its investment adviser for managing the portfolio. The fee is typically a management company's largest expense.

Manager's Fee: A portion of the underwriting spread paid to the syndicate manager. This fee is typically the smallest portion of the underwriting spread.

Managing Underwriter: The firm or firms that lead an underwriting syndicate.

Manipulation: The illegal practice of buying or selling a security for the purpose of creating a false or misleading appearance of active trading or for the purpose of raising or depressing the price to induce the purchase or sale by others.

Margin:

(1) Profit e.g., Gross Margin.
(2) On Margin: The use of credit to finance securities transactions.
(3) Account: An account established by a broker-dealer to extend credit to a customer.

Marginable Securities: Securities (including ETFs) which are listed on a registered stock exchange, such as the NYSE or Nasdaq, that are able to be purchased on margin.

Margin Agreement: A document signed by a customer when opening a margin account, which consists of the credit agreement, the hypothecation agreement, and the optional loan consent form.

Marginal Tax Rate: The tax rate that applies to any additional dollars of taxable income earned by a person.

Margin Call: A demand made to a customer to deposit money or securities with a broker. A Reg. T margin call is sent when a purchase is made, while a maintenance margin call is sent because equity has fallen below specific levels. See also: Maintenance; Regulation T.

Margin Department: The area within a broker-dealer that handles the calculation of cash requirements for both cash and margin accounts.

Mark Down: The process of reducing the price of a security, usually when a dealer buys a security from a customer.
See: Mark Up.

Market Capitalization: See: Capitalization

Market Maker: A dealer that stands ready to buy or sell a specific security or securities at all times.

Market Momentum: A situation in which prices are moving either up or down along with a high level of trading volume and this trading pattern is expected to continue in the near future.

Market Neutral: Attempting to profit by buying some securities, but also selling other securities short at the same time.

Market Order: An order to buy or sell a stated amount of a security at the most advantageous price that's obtainable immediately after the order is entered.

Market Out Clause: A written agreement entered into by the underwriting syndicate to cancel the agreement based on certain events occurring that make marketing the issue difficult or impossible.

Market Price: The last reported price at which a stock or bond transaction took place in the secondary market. (Also referred to as last sale)

Market Risk: The risk that the value of a security will decline. For stocks, this risk is measured by Beta. For bonds, it's a function of interest rates. Also referred to as non-diversifiable risk.

Marking the Close: The manipulative practice of executing a series of transactions at or near the close of trading to either increase or decrease a security's price.

Marking the Opening: The manipulative practice of executing a series of transactions at the opening of trading to either increase or decrease a security's price.

Mark-to-Market: The process of comparing and adjusting a contract price to the current market price of the underlying security.

Mark Up: The process of increasing the price of a security, usually when a dealer sells a security to a customer.

Married Put: The purchase of a put option and the underlying stock on the same day. Special tax rules apply.

Matched Sale: See: Reverse Repo.

Material Information: Information that's considered relevant to the decision-making process of a reasonable investor.

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

Mediation: An informal process in which the two parties to a dispute attempt to reach a mutually acceptable resolution without resorting to arbitration or litigation.

Member Order: An order given to a municipal syndicate in which a single member receives credit for the sale. Typically, this is the last type of order to be filled by the syndicate.

Member Firm: A securities brokerage firm that's a member of FINRA.

Merger: The combining of two or more corporations into a single entity.

Mill: A unit used in computing the property tax owed on real estate. A mill equals 0.1% (.001) of assessed value or $1 per $1,000 of assessed value.

Mini-Maxi Offering: A distribution that's contingent on the sale of a specified minimum amount of the offering, but in which sales may continue up to a specified maximum amount.

Minimum Maintenance Requirement: The minimum level for equity in a margin account. The requirements are set by self-regulatory organizations (SROs) and are 25% equity for a long position and 30% equity for a short position. Failure to maintain the minimum equity will result in a margin maintenance call.

Modern Portfolio Theory: A sophisticated approach to investing that attempts to create an optimal portfolio for each client, given the client's risk tolerance and investment objectives, by allocating the investor's portfolio among the various asset classes. See: Diversification.

Monetary Policy: The attempt to influence the economy through management of the money supply. In the U.S., this policy is conducted by the Federal Reserve Board.

Money Market: The market for short-term debt instruments maturing in one year or less. Money market instruments include T-bills, Commercial Paper, Bankers' Acceptances, CDs, Repos, and Federal Funds.

Money-Market Fund: A mutual fund that invests in money-market instruments.

Money Spread: See: Price Spread.

Money Supply: A measurement of the amount of money in the economy. See: M1; M2.

Moody's: A company that publishes a variety of resource materials relating to securities including ratings for both municipal and corporate securities.

Moral Obligation Bond: A bond secured by revenues that's additionally secured by a moral (but not legal) pledge from the state to make up any deficiencies. The state legislature's approval must be obtained to provide any makeup funds.

Moral Suasion: The influence used by the Federal Reserve to persuade the banking system to comply with FRB objectives. Also referred to as Jawboning.

Mortgage-Backed Security: A debt issue secured by pools of mortgages. Mortgage loans made by banks and savings and loan associations are pooled together and sold to investors. Each investor purchases an undivided interest in the pool and receives interest and principal payments from the underlying mortgages. See: Collateralized Mortgage Obligation (CMO).

Mortgage Bond: A bond secured by a mortgage on real property owned by the issuer.

Multiplier:

(1) Effect: The ability of the commercial banking system to create money through lending activity.
(2) Options: The $100 multiplier used to determine aggregate strike price and premiums on index options.
(3) The P/E ratio of a company. See also: Price-Earnings Ratio.

Municipal Bond: A bond issued by a state or a political subdivision, such as a county, city, town or village, or by state agencies and authorities. In general, interest paid on municipal bonds is exempt from federal income taxes as well as state and local income taxes within the state of issue.

Municipal Finance Professional (MFP): A term used in MSRB Rule G-37 to mean (i) a representative primarily engaged in the underwriting, trading, or sales of municipal securities, the provision of financial advisory services to municipal issuers, or research or provision of investment advice regarding municipal securities, (ii) any solicitation of municipal securities business (underwriting or other services provided on other than a competitive basis), or (iii) the supervision of the activities of persons described (i) or (ii).

Municipal Securities Rulemaking Board (MSRB): The self-regulatory organization of the municipal securities industry. Created in 1975, it has primary responsibility for the development of rules and regulations to govern the activities of municipal securities dealers.

Mutual Fund: A type of investment company, specifically an open-end management company, that pools investors' money and then invests in a diversified portfolio of securities. Shares are then offered for sale that are redeemable on demand by the fund at the current net asset value.

N

Naked: See: Uncovered.

NASD: See: FINRA

Nasdaq: An exchange that provides brokers and dealers with price quotations on securities traded over-the-counter. The system has three levels. Level I shows the highest bid and lowest offer in the system (the inside market). Level II shows individual market maker's quotes. Level III is used by market makers to enter their quotes into the system.

Nasdaq Capital Market (NCM) Security: A Nasdaq security that has met the system's basic listing standards, but has not met the standards needed for inclusion as a Nasdaq Global Market security.

National Adjudicatory Council (NAC): The entity that hears appeals of Hearing Panel decisions under the Code of Procedure.

National Global Market (NGM) Security: A Nasdaq security that has met stringent listing requirements, but is less exclusive than the Global Select Market.

National Global Select Market (NGS): A Nasdaq security that has met stringent listing requirements, and is more exclusive than the Global Market.

Negative Consent Letter: This letter generally informs the recipient of an impending action, and requires the recipient to respond or act within a specified period if the recipient objects to the action. A recipient who fails to respond is deemed to have consented to the action.

Negative Yield Curve: See: Inverted Yield Curve.

Negotiable Security: A security that can be traded in a secondary market.

Negotiated Issue: A new issue in which the issuer appoints an underwriter rather than having a number of underwriters compete for the issue. See: Competitive Issue.

Net Asset Value (NAV): The market value of an investment company's portfolio less any expenses. The NAV is typically calculated on a daily basis, or more frequently if stipulated in the company's prospectus. The NAV per share of a mutual fund (open-end investment company) is also considered the bid or redemption price.

Net Change: The change in the price of a security from the closing price of the previous day. It's ordinarily the last figure in a newspaper stock price table.

Net Direct Debt: The total debt issued by a municipality, less any self-supporting (revenue) debt.

Net Income: The earnings of a corporation after deducting all costs of selling, depreciation, interest expense, and taxes.

Net Interest Cost (NIC): The average weighted coupon rate for a new municipal issue. For a competitive issue the issuer may request that the syndicates submit their bids in the form of an NIC. The lowest NIC bid will be awarded the issue.

Net Revenue Pledge: For a municipal revenue offering, this pledge states that operating and maintenance expenses are deducted from the gross project revenues before the revenues are applied to debt service (versus Gross Revenue Pledge).

Net Worth: The total value of an entity's assets minus any liabilities.

Net Yield: The tax-adjusted yield on a taxable bond. Net yield is used for comparison with a tax-exempt municipal yield. The formula is Taxable Yield x (100% - Tax Bracket %).

New Account Form: A document that includes the basic background information, financial status, and investment objectives that's used to open and maintain a customer account.

New Housing Authority (NHA): See: Public Housing Authority.

New Issue: New issues include all initial public offerings (IPOs) of equity securities that are sold under a registration statement or offering circular.

New York Stock Exchange (NYSE): The largest organized securities market in the United States. Also referred to as the Big Board.

No-Load Fund: A mutual fund that has no front-end or back-end sales charge. The fund's NAV and POP are equal.

Nominal Owner: See: Street Name.

Nominal Quote: See: Quote.

Nominal Yield: The stated rate of interest that a bond pays the holder, based on its par value. It's also referred to as the coupon, coupon rate, or fixed-interest rate.

Non-Accredited: An investor who's not considered accredited for a Reg. D offering (private placement). See also: Accredited Investor.

Non-Competitive Tender: A method that small investors use to purchase Treasury securities at the original auction.

Non-Cumulative: A type of preferred stock on which unpaid dividends don't accrue.

Non-Exempt Securities: Securities (generally corporate) that are subject to the filing requirements of the Securities Act of 1933 and the provisions of the other federal securities acts (versus Exempt).

Non-Issuer: Securities transactions made for the benefit of a person other than the issuer.

Non-Marginable Securities: These securities cannot be purchased on margin:

(1) OTC equities—those quoted on the OTC Bulletin Board (OTCBB) or in the OTC Pink Market
(2) Standard listed options (those with nine-month maturities)
(3) New issues (e.g., IPOs)

Non-Nasdaq Security: (also referred to as OTC Equity) Any equity security that's neither included in The Nasdaq Stock Market nor traded on any other national securities exchange.

Non-Qualified Annuity: A retirement plan in which after-tax dollars are invested and payments from the plan are considered part return of principal (not taxed) and part earnings (taxed).

Non-Recourse Loan: A loan obtained by a limited partnership in which the lender has a claim only against the partnership as a whole, not against the individual limited partners. For tax purposes, if the partnership invests in real estate, the limited partner may include its portion of the non-recourse loan in its basis. See also: Basis.

Normal Yield Curve: See: Positive Sloping Yield Curve.

Notes: Corporate or U.S. government debt instruments with maturities of between two and 10 years. For municipalities, notes are short-term debt instruments, such as a Bond Anticipation Note (BAN).

Not-Held Order: An order that gives the floor broker discretion as to time and/or price of execution.

Notice of Sale: The advertisement used by a municipal issuer to announce its intention to sell a new issue and invite municipal underwriters to enter bids for the issue.

NYSE Common Stock Index: A composite index covering price movements of all common stocks listed on the New York Stock Exchange. The composite index is supplemented by separate indices for four industry groups—industrial, transportation, utility, and finance.

O

Odd Lot: An amount of stock less than the established unit of trading (round lot): from 1 to 99 shares for the great majority of issues, 1 to 9 shares for certain inactive stocks.

Odd-Lot Theory: An investment strategy which assumes that the small investor is always wrong. Using odd-lot buying and selling patterns as indicators of small investor activity, this theory maintains that an investor should buy as odd-lot selling increases and vice versa.

Off-Board: The term for transactions of exchange-listed shares that are executed over-the-counter.

Offer: The price at which a person is ready to sell, as opposed to the bid, which is the price at which a person is ready to buy.

Offering Circular: A new issue disclosure document, typically for an offering that's exempt under the Securities Act of 1933, such as a Regulation A offering.

Office of Supervisory Jurisdiction (OSJ): A designated office of a member firm in which certain management reviews take place, including reviews of customer orders, approval of new accounts, and approval of retail communication. Contrast with: Branch Office.

Official Statement: A disclosure document prepared for a new municipal issue by or for the issuer. It contains a complete description of the issue and financial details about the issuer. MSRB rules require that a copy of the official statement be given to each purchaser of a new issue as long as one has been prepared.

Oil Depletion Allowance: An allowable percentage of tax-free income that an investor in an oil and gas limited partnership may receive from the gross revenues generated by the sale of oil and gas from a producing property.

Omitting Prospectus: A type of mutual fund advertisement that will satisfy the definition of a prospectus under certain conditions. It may contain performance data, but may not contain an application to invest in the investment company.

Open-End Indenture: A secured bond indenture that allows the repledging of collateral for additional bonds, but is typically subject to certain limitations. See also: Additional Bonds Test.

Open-End Investment Company: See: Investment Company.

Opening Transaction: The purchase or sale of an option transaction to establish or increase a position.

Open Market Committee: See: Federal Open Market Committee.

Open Order: See: Good-'Til-Cancelled Order.

Operating Income: An entry on a company's income statement which represents the company's net sales minus cost of goods sold, selling and administrative costs, and depreciation. It's an indication of the company's profit directly related to its primary business.

Option: A right to buy (call) or sell (put) a fixed amount of a given security at a specified price within a limited period. Individuals may write (sell) as well as purchase options.

Options Clearing Corporation (OCC): The organization through which the various options exchanges clear their trades. The OCC supervises the listing of options and guarantees performance on exercised option contracts.

Options Disclosure Document (ODD): A brochure that offers investors a description of the options market and describes the relevant terminology, tax implications, transaction costs, margin requirements, and trading risks.

Option Series: A complete description of an option contract including the name of the underlying security, the contract size, expiration date, and strike price.

Order Audit Trail System (OATS): The Order Audit Trail System (OATS) is a system that enables FINRA to effectively review market activity as it relates to customer orders within a member firm, conduct surveillance, and enforce rules. OATS records the life of an order from receipt, to routing, to modification (if applicable), and cancellation or execution.

Order Room: The department in a brokerage firm that receives and transmits orders to buy or sell securities. Also referred to as the wire room.

Order Ticket: A document required to be completed prior to a trade. Today, most order tickets are electronic.

Ordinary Income: Income generated by normal activities of an individual or business (e.g., salary, bonus, dividends, interest income). This amount is taxable at the individual's tax rate.

Original Issue Discount (OID): A bond that's initially offered in the market at a discount (below par). The bond's value must be increased (accreted) over its life from the original discounted price up to par. See also: Accretion, Zero-Coupon Bond.

Out Firm: A quotation that a dealer is committed to honor, usually for a set period.

Out-of-the-Money: An option that has no intrinsic value. For example, a put option in which the underlying security is selling above the exercise price, or a call option in which the underlying security is selling below the exercise price.

Outstanding Stock: The amount of common shares of a corporation that are in the hands of investors. It's equal to the amount of issued shares less treasury stock.

Overbought: An opinion as to price levels where a security or the overall market has had a sharp rise after a period of vigorous buying, leaving prices unreasonably high (versus Oversold). See also: Resistance.

Overlapping Debt: Debt of a political entity (e.g., a county) in which its tax base overlaps the tax base of another political entity, such as a city within the county.

Overriding Royalty Interest: An arrangement between the general partner and limited partner of an oil and gas program in which the general partner doesn't share in the costs, but does share in the revenue.

Oversold: The reverse of overbought. A single security or a market that, it's believed, has declined to an unreasonable level (versus Overbought). See also: Support.

OTC Pink Market: The provider of inter-dealer, wholesale quotes for over-the-counter stocks that are not listed on an exchange.

Over-The-Counter (OTC): A negotiated market for securities that has no physical location.

Over-the-Counter Reporting Facility (ORF): The platform for reporting transactions in OTC equity securities

P

Paid-In Surplus: See: Capital Surplus.

Painting the Tape: The illegal manipulation of a security done by entering orders that give the appearance of active trading in a security.

Paper Profit (Loss): An unrealized profit or loss on a security that's still held. Paper profits and losses become realized (and taxable) only when the security is sold.

Parity: The price at which a convertible security's value is equal to that of the underlying stock if converted.

Participating Preferred: A preferred stock in which the holder is entitled to its stated dividend and also to additional dividends on a specified basis upon payment of dividends on the common stock.

Partnership: A non-taxable entity in which each partner shares in the profits, losses, and liabilities of the partnership. See also: Limited Partnership.

Par Value:

(1) The face value or principal value of a bond, typically $1,000 per bond.
(2) A bond trading in the market at its face value.
(3) The face value of a preferred stock on which book value, liquidating value, and dividend payments are based; typically, $100 per share.
(4) The stated value of common stock used primarily for bookkeeping purposes. It has no relationship to market value.

Pass-Through Securities: Securities that pool debt obligations and pass through the principal and interest payments made by debtors to the security holders. See: Mortgage-Backed Security.

Passed Dividend: A regular or scheduled dividend that has been omitted. See: Cumulative Preferred.

Passive Income: A category of income, for tax purposes, consisting of income (or losses) generated by limited partnerships and rental activities.

Pattern Day Trader: A customer who executes four or more day-trades over a five-business-day period.

Payment Date:

(1) The date on which a dividend is paid.
(2) Under Reg T, the date on which payment is due for a purchase. Payment must be made no later than two business days after the settlement date (i.e., S + 2).

Payment For Order Flow: Compensation paid by an executing broker to an introducing broker for routing orders to the executing broker.

Payout Option: The choice made during the annuitization period that determines how cash payments will be made. A straight life annuity will generally provide the highest monthly payout to the annuitant.

Pegging: The illegal manipulation of a security designed to keep its price above a certain level.

Penalty Bid: A term used to refer to a syndicate's bid to stabilize the price of a new issue in the aftermarket. See also: Stabilization.

Penny Stocks: As defined under SEC rules, a low-priced, non-Nasdaq, unlisted issue, often highly speculative, selling at less than $5 per share.

Period Certain: An annuity payout option which assures a minimum number of annuity payments to the annuitant (or beneficiaries).

Personal Property: Assets that are not considered real estate.

Phantom Income: Non-cash income on which taxes must be paid. For example, accreted interest on an Original Issue Discount (OID) corporate or U.S. Treasury bond.

Placement Ratio: A statistic published in The Bond Buyer which shows the ratio of the par value of new issues sold (placed) compared to the total par value of new issues that came to market during a one-week period.

Planned Amortization Class (PAC): A type of CMO tranche that uses support tranches to absorb the risk of prepayment, if actual prepayment doesn't conform to anticipated levels. If actual prepayments for the mortgage pool are within a specified range, the PAC tranche will experience its originally computed return. If actual prepayments are less than or greater than the range allows, investors are subject to extension and contraction risk.

Point: An incremental unit measure of value.

(1) Stock: 1point = $1
(2) Bond: 1 point = $10 (1% of Par).
(3) Index or Average: A statistical amount not directly translatable into dollar terms.

Political Risk: The risk that a political event outside if the U.S. could adversely affect the domestic markets.

POP: See: Public Offering Price.

Portfolio: Holdings of securities by an individual or institution that may contain bonds, preferred stocks, common stocks, and other securities.

Portfolio-Based Margin: For eligible institutional clients, a margin calculation based on the net risks of the eligible instruments in a customer's account. It's based on the assumption that the combinations of positions being established by investors may have offsetting risk characteristics.

Portfolio Income: A category of income, for tax purposes, generated by investments in securities consisting of dividends, interest, and capital gains. Also referred to as Investment Income.

Position Limit: The limitation established by the listed options exchanges that prohibits an investor from having more than an established number of option contracts of the same security on the same side of the market.

Positive Sloping Yield Curve: The curve formed when plotting yield versus maturity during a period when short-term yields (interest rates) are lower than long-term yields. It's also referred to as an ascending or normal yield curve.

Power of Attorney: See: Trading Authorization.

Preemptive Right: The right of common shareholders to retain their percentage ownership of a corporation. When new shares of a corporation are to be sold, current shareholders are given the opportunity to purchase additional shares. This enables them to maintain the same proportional ownership as they had prior to the new issue. See also: Right.

Preferred Stock:

(1) A class of stock with a claim on the company's earnings before payment may be made on the common stock and usually entitled to priority over common stock if the company liquidates. It's usually entitled to dividends at a specified rate when declared by the board of directors and before payment of a dividend on the common stock.
(2) An accounting measure carried at par (typically $100) on the books of the corporation.

Preliminary Prospectus: See: Prospectus.

Premium:

(1) A bond trading in the market above its par value.
(2) The amount that a bond's current price exceeds its par value.
(3) The amount that a bond's redemption price exceeds its par value. Referred to as the call premium.
(4) The market price of an option contract set by supply and demand.

Prepayment Risk: The risk that, due to falling interest rates, mortgage holders will pay off their mortgages at accelerated rates. For the holders of mortgage-backed securities, this occurrence may greatly affect their overall return.

Prerefunded: See: Advance Refunding.

Presale Order: An order placed for a municipal new issue with a syndicate prior to the time the syndicate actually wins the issue. This type of order is typically given the highest priority by the syndicate.

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

Price Spread: An option spread position in which the strike prices of the options are different, but the expiration dates are the same. Also referred to as a Vertical, Dollar, or Money Spread.

Primary Dealer: A dealer in U.S. government securities with whom the Federal Reserve will conduct open market operations.

Primary Distribution: The original sale of a company's securities. Also referred to as a Primary or Public Offering.

Primary Market: The market for new issues or underwritings (versus Secondary Market). See also: New Issue.

Prime Brokerage: A service which involves a clearing firm offering a bundled package of services to sophisticated clients. The clearing firm acts as a centralized location for holding the customer's securities positions that are created by several executing firms through which the client trades.

Prime Rate: The lowest interest rate charged by commercial banks to their most creditworthy and largest corporate customers.

Principal:

(1) The face or par value of a debt instrument.
(2) A transaction in which a broker-dealer buys or sells for its own account (versus agent). See also: Dealer.
(3) A person within a securities firm who has supervisory responsibilities.
(4) In general, a person's capital or the amount invested.

Principal Only (PO) Securities: A type of CMO security created by stripping the interest from a mortgage and then selling it at a discount. Investors are compensated by return of the face amount through scheduled and early repayments of principal.

Priority:

(1) The first determinant of order execution in an auction market. Priority states that orders at a given price are auctioned on a first-come, first-served basis.
(2) For Municipal Underwritings: The first orders to be filled by a municipal syndicate (Presale Orders, Group Orders, Designated Orders, and Member Orders).

Privacy Notice: Under Regulation SP, firms must provide this notice to indicate the types of personal information that it collects and the categories of both affiliated and non-affiliated parties with whom the formation is shared.

Private Activity Bonds: A category of municipal bonds for which the funds will generally be used for a private enterprise. The interest may (or may not) be taxable for federal income tax purposes.

Private Label CMO: CMOs backed by private companies such as banks and lenders. The underlying collateral typically includes different or specialized types of mortgage loans or mortgage loan pools that don't qualify as agency securities.

Private Placement: See: Regulation D Offering.

Private Securities Transaction: A transaction by a person who's associated with a member firm that's outside the scope of that person's regular employment. Written permission is required from the firm if the transaction involves compensation. If compensation is NOT involved, a registered representative must notify the member and the member may still set conditions on the RR's participation. Failure to notify the employing broker-dealer is referred to as Selling Away.

Proceeds Transaction: The use of sales proceeds to effect a purchase of new securities.

Production: Another term for the public offering price of a new municipal issue.

Profit-Sharing Plan: A tax-deferred retirement account that allows employers to make flexible, non-mandatory contributions that are typically based on corporate profitability.

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

Progressive Tax: A tax in which the tax rate increases as the taxable amount goes up. Also referred to as graduated income tax.

Proprietorship: An unincorporated business owned by one person who's entitled to all income (or losses) of the business and responsible for all taxes and other liabilities of the business.

Prospectus: The official selling circular that must be given to purchasers of new securities that are registered with the SEC. It summarizes the longer registration statement filed with the Commission and discloses such material information as the issuer's property and business, the nature of the security offered, the use of proceeds, the issuer's competition and prospects, management's experience, history, and remuneration, and certified financial statements. A preliminary version of the prospectus, used by brokers to obtain indications of interest from investors, is referred to as a Red Herring.

Protective Call: The purchase of a call option to hedge (protect) a short stock position.

Protective Put: The purchase of a put option to hedge (protect) a long stock position.

Proxy: Written authorization given by shareholders to another person to represent them and vote their shares at a shareholders' meeting.

Proxy Statement: Information given to stockholders in conjunction with the solicitation of proxies.

Prudent Man Rule: An investment standard applied to a fiduciary, such as a trustee. The trustee may invest in a security if it's one which would be bought by a prudent person of discretion and intelligence, who's seeking a reasonable income and preservation of capital.

PSA Model: A benchmark created by the Public Securities Association (now referred to as The Bond Market Association) to aid in the prediction of prepayment rates for mortgage pools. This model is one of several used in the market to arrive at anticipated overall yield and average life figures for CMOs.

Public Appearance: Any conference call, seminar, or public speaking engagement being delivered to 15 or more persons, or one or more representatives of the media, by means of a radio, TV, or print media interview in which a research analyst makes a recommendation or offers an opinion concerning an equity security.

Public Housing Authority Bonds (PHA): Municipal bonds issued by local housing authorities to build low-income housing. The bonds are secured by the revenues of the local authority and are further secured by the U.S. government. They're also referred to as New Housing Authority (NHAs) bonds

Public Investment in Public Offering (PIPE): A private placement of securities in which a broker-dealer assists an issuer by distributing restricted (i.e., unregistered) securities to a small group of accredited investors (e.g., hedge funds). The issuer of the securities already has publicly traded securities outstanding.

Public Offering: See: Primary Distribution.

Public Offering Price (POP): The amount paid by a purchaser of a primary offering. For an IPO, the POP is fixed on the effective date and may appear on a final prospectus. For the Class A Shares of a mutual fund, the POP is equal to the Net Asset Value plus any Sales Charge.

Purchase and Sales Department (P & S): The department of a brokerage firm that's responsible for trade and customer confirmation.

Purchaser Representative: A person experienced in financial and business matters who represents or advises a non-accredited investor in a Regulation D offering.

Purchasing-Power Risk: The risk that, due to inflation, the money returned from an investment will not purchase as much as the original invested dollars.

Put: An option in which the holder has the right to sell a fixed amount of the underlying security at a stated price within a specified period. However, the seller (if exercised against) is obligated to buy the underlying security at a stated price.

Put Bond: A bond that can be redeemed (sold back to the issuer) at the holder's option on a specific date or dates.

Pyramiding: The practice of using unrealized paper profits in trading to make additional commitments.

Q

Qualified Institutional Buyer (QIB): An institutional investor that meets the financial and other standards required to participate as a purchaser in a Rule 144A transaction. A QIB must be an institution (insurance company, investment company, small business development company, pension plan, bank trust, corporation, partnership, investment adviser), must purchase for its own account of the account of another QIB, and must own and invest at least $100 million of securities.

Qualified Legal Opinion: A conditional affirmation of the legal issuance of a municipal bond issue. An unqualified opinion is given when there are no reservations concerning the issuance of the bonds.

Qualified Plan: A retirement plan into which tax-deductible contributions are made and invested. The investment's earnings are tax-deferred. Taxes are paid only when money is withdrawn. Keogh Plans and most corporate pension plans are considered qualified.

Qualified Cash Dividend: A type of dividend that's taxed at the same rate as long-term capital gains, rather than at an investor's ordinary rate. Generally, most regular dividends from U.S. companies that have normal company structures (i.e., corporations) are considered qualified.

Quick Asset Ratio: See: Acid Test Ratio.

Quick Assets: A firm's current assets that can be quickly converted to cash. Defined as current assets less inventory. See also: Acid Test Ratio.

Quote: A market maker's bid and offer price and size for a specific security. A market maker is obligated to purchase or sell at its published prices if the quote is firm. A nominal quote is one that's provided for information only and doesn't obligate the dealer to trade at the prices stated.

R

Rally: A quick rise following a decline in the general price level of the market or an individual security.

Random Walk Theory: A theory which assumes that the future price movement of a security cannot be predicted from past price movement (directly refuting technical analysts' use of charts as a method of forecasting stock prices) and that the random nature of securities prices makes it impossible to outperform the market.

Rate Covenant: A revenue bond issuer's commitment to maintain rates at a level sufficient to produce a specified debt service coverage.

Rating: An evaluation of credit risk of securities by an established rating service, such as Moody's, Standard & Poor's, or Fitch.

Ratio Writing: An aggressive option strategy that involves a long stock position with an unequal number of calls written against it. Since at least one call is uncovered, the potential loss is unlimited.

Raw Land Limited Partnership: With a goal of capital appreciation, this partnership purchases large tracts of raw (undeveloped) land.

Real Estate Investment Trust (REIT): A publicly traded security representing holdings in real estate investments. An REIT is neither an investment company nor a DPP.

Realized Capital Gain (Loss): The taxable profit or loss resulting from the purchase and sale of a security. It's the difference between the sales proceeds and the investment's cost basis. See: Paper Profit (Loss).

Reallowance: The amount received by a broker-dealer that's not a member of the syndicate or selling group.

Real Property: Real estate, such as land and/or buildings.

Real-Time Transaction Reporting System (RTRS): The MSRB's automated matching and reporting system to which all trades must be reported within 15 minutes of their execution.

Recapture: The reclamation by the IRS of a portion of the tax deductions or credits previously taken by a taxpayer. In particular, depletion, accelerated depreciation, and tax credits are subject to recapture.

Receivership: A form of bankruptcy in which a court appointed person (receiver) manages the affairs of the business.

Recession: A phase of the business cycle characterized by reduced business activity, reduced corporate and personal borrowing, and rising unemployment. Generally defined as two consecutive quarters of decline in GDP.

Reclamation: The process whereby securities, once already accepted at settlement, are returned because of non-deliverable form. See also: Good Delivery; Rejection.

Record Date: The date on which a person must be registered as a shareholder of a company in order to receive a declared dividend.

Recourse Loan: A note or loan signed by a limited partner, for which the signer is personally responsible (at risk). Recourse loans are included in the partner's basis for tax purposes. See also: Basis.

Redemption:

(1) The repayment of principal on a debt security at or before maturity.
(2) The repayment of a preferred stock.
(3) The sale of mutual fund shares by the owner to the fund sponsor.

Redemption Fee: A fee that some mutual funds subtract from the proceeds when a shareholder redeems shares after holding them for only a short period. Unlike a contingent deferred sales charge, which is used to pay distribution costs, a redemption fee goes back into the fund's portfolio.

Redemption Price: For bonds and preferred stocks, See: Call Price. For mutual funds, see: Net Asset Value.

Red Herring: See: Prospectus.

Refinancing: Another term for refunding. New securities are sold by an issuer and the funds are used to retire existing securities. The objective may be to reduce interest costs, alter the maturity of the loan, or both.

Refunding: The issuance of a new bond offering for the purpose of retiring an outstanding bond issue.

Registered:

(1) A certificate in which the name of the owner is recorded on the books of the issuer. It can be transferred only when endorsed by the registered owner (versus Bearer). See also: Certificate.
(2) A security that has been issued in compliance with the registration requirements of the Securities Act of 1933. See also: Registration Statement.

Registered Options Principal (ROP): An individual who supervises registered representatives regarding options account activities and is responsible for supervising the firm's options business.

Registered Representatives (RRs): The employees of a member firm whose job function requires them to be registered with an SRO. Specifically, the individual employees who are responsible for serving the customers of a broker-dealer. Also referred to as Account Executives.

Registered Secondary Offering: A public offering in which the proceeds are paid to selling shareholders.

Registrar: Typically a trust company or bank charged with the responsibility of auditing the firm's transfer agent and keeping a record of the owners of a corporation's securities to prevent the issuance of more than the authorized number of shares.

Registration Statement: A disclosure document filed with the SEC under the Securities Act of 1933 to register an offering under the Act. A company must disclose pertinent information relating to its operations, securities, management, and purpose of the public offering.

Regressive Tax: A flat tax that tends to affect low-income persons more heavily as a proportion of income, (e.g., a sales tax) (versus Progressive Tax).

Regular-Way Settlement: The conclusion of a securities transaction when a broker-dealer pays for securities purchased or delivers securities sold and receives from the contra broker the proceeds of a sale. For corporate and municipal securities trades, regular-way settlement is two business days from the trade date. Government bonds and option trades settle on the next business day. Trades that are done for cash settle on the same day.

Regulation A Offering: A type of new issue offering that's partially exempt from the filing provisions of the Securities Act of 1933. The exemption has two tiers. Tier 1 is for offerings up to $20 million in a 12-month period, while Tier 2 is for offerings up to $75 million in a 12-month period.

Regulation BI (Best Interest): Rule that requires broker-dealers to only recommend financial products to their customers that are in their customers' best interests, and to clearly identify any potential conflicts of interest and financial incentives the broker-dealer may have for the sale of those products.

Regulation D Offering: A type of exempt offering that's sold directly to accredited investors and/or a maximum of 35 non-accredited investors. Also referred to as a Private Placement, Restricted Stock, Lettered Stock, Legend Stock.

Regulation FD: The federal regulation that requires corporate officials to make public disclosure (fair disclosure) of any information that's being provided to analysts or investors.

Regulation M: A federal regulation which restricts distribution participants (such as underwriters and issuers) from bidding for or making secondary market purchases of a stock that's currently being offered in a distribution.

Regulation NMS (National Market System): Regulation NMS requires non-discriminatory access to quotations, automated execution of orders, and limit order protection on an inter-exchange basis. As a result of rules imposed by Regulation NMS, market centers participating in the National Market System must provide automated trading systems, and implement procedures designed to prevent trade-throughs at inferior prices of protected quotations. For a quotation to be protected, it must be the best price in its respective market center and it must be immediately and automatically accessible.

Regulation S: A federal regulation which allows a U.S. company to issue an unlimited number of securities outside of the country without filing documentation with the SEC. Only a non-U.S. person may purchase the offering.

Regulation SHO: A regulatory addition by the Securities and Exchange Commission that expands and updates the restrictions placed on short sale transactions. A primary goal of this regulation is to require broker-dealers to locate securities that are being sold short.

Regulation SP: The federal regulation governing the privacy of customer information.

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

Regulation U: The federal regulation governing the amount of credit that may be advanced by a bank to its customers for the purchase of securities.

Regulatory Element: The portion of the securities industry's continuing education requirement that's administered in a three-hour training session at a testing center. All RRs must complete a training session within 120 days of their second registration anniversary and every three years thereafter. RRs who fail to complete this requirement will have their registration deemed inactive.

Regulatory Risk: Risk that regulatory changes may have a negative impact on an investment's value.

Reinvestment Risk: The risk that an investor in bonds may experience due to changing interest rates if she chooses to spend the interest or reinvest the coupon payments. Ultimately, the investor will fail to receive the calculated yield-to-maturity. Yield-to-maturity assumes the reinvestment (or compounding) of interest.

Rejection: A refusal to accept securities in non-deliverable form on the settlement date. See also: Good Delivery; Reclamation.

Related Portfolio Order: An order placed by a syndicate member on behalf of a unit investment trust that it sponsors.

Reoffering: The yield at which a municipal new issue will be offered to the public based on current market conditions.

Reorganization:

(1) The financial restructuring of a company in bankruptcy. See also: Bankruptcy.
(2) The department within a brokerage firm that handles mergers, conversions, etc. May simply be referred to as Reorg.

Repurchase Agreement (REPO or RP): A negotiated transaction in which a securities dealer sells a security (typically U.S. Treasuries) with the agreement to repurchase them after a relatively short period at a predetermined price.

Required Minimum Distribution (RMD): The minimum amount that a person must withdraw from his account each year once he reaches age 72. Applies to Traditional IRAs, SEP IRAs, 401(k) plans, 403(b) plans, etc.

Research Report: A broker-dealer publication evaluating the investment merits of a specific security or industry sector.

Reserve Requirement: The federal regulation that governs the percentage of deposits that a bank must keep in reserve. The remainder of the deposits are available for loans.

Resistance: The upper boundary of an established trading range where selling pressure tends to cause the price of a stock to decline (versus Support). See also: Overbought.

Resolution:

(1) Another term for indenture. See also: Indenture.
(2) See: Corporate Resolution.

Respondent: A member firm or employee of a member firm who has been named in an arbitration proceeding or a disciplinary action.

Restricted Account: A margin account in which the equity is below the initial FRB equity requirement.

Restricted Person: Under the New Issue Rule, a restricted person is not permitted to purchase any shares of a new issue unless an exemption applies. Restricted persons include member firms, associated personnel of member firms, immediate family members of employees of member firms, finders and fiduciaries, portfolio managers, and persons who own broker-dealers.

Restricted Stock: Stock that was not registered under the Securities Act of 1933. Stock purchased through a company's stock option plan or a private placement will be unregistered. The purchaser will sign a letter agreeing that the purchase is for investment and not a short-swing profit. The holding period for restricted stock is six months. The sale of restricted stock is covered by Rule 144. See also: Rule 144; Letter Stock; Short-Swing Profit.

Retail Communication: This category is defined as any written or electronic communication that's distributed or made available to more than 25 retail investors within a 30-calendar-day period. A retail investor is considered any person who doesn't meet the definition of an institutional investor.

Retained Earnings: The net profits that a corporation doesn't pay out in dividends. Also referred to as Earned Surplus.

Retirement: The repayment of debt obligations.

Revenue Anticipation Note (RAN): A short-term municipal security used by a municipality to help its cash flow. RANs have a maximum maturity of one year and repayment that's based on certain anticipated revenues of the municipality.

Revenue Bond: A bond issue that's secured by a pledge of the revenues generated by a specific project.

Revenue Bond Index: The average yield (on a particular day) on 25 selected revenue bonds with 30-year maturities. It's computed on Thursday afternoon and published in The Bond Buyer on Friday.

Reverse Repo: The opposite of a Repurchase Agreement. Also referred to as a matched sale. See also: Repurchase Agreement.

Reverse Split: A stock split in which the number of outstanding shares is reduced and the stock price is increased. See also: Stock Split.

Reversionary Working Interest: An arrangement in an oil and gas limited partnership in which the limited partners bear all expenses. The general partner's claim on revenues is subordinate to the limited partners' until the limited partners' costs are reimbursed. Also referred to as a subordinated working interest.

Right: A short-term equity security that gives stockholders the opportunity, ahead of others, to buy the new securities in proportion to the number of shares each owns. Since the additional stock is usually offered to stockholders below the current market price, rights ordinarily have a market value of their own and are actively traded. In most cases, they must be exercised within a relatively short period or they will expire worthless. See also: Preemptive Right.

Rights of Accumulation: A privilege that allows mutual fund shareholders to receive sales charge discounts based on the current value of their investment in a fund or all funds in a family.

Rights Offering: See: Preemptive Right.

Risk: The potential for loss on an investment due to many factors including, inflation, interest rates, default, politics, foreign exchange, call provisions, etc.

Riskless Transaction: See: Simultaneous Transaction.

Rollover: See: IRA Rollover.

ROP: See: Registered Options Principal.

Roth IRA: An individual retirement account funded with after-tax contributions that allows for tax-free withdrawals.

Round Lot: A unit of trading or a multiple thereof, generally 100 shares of stock.

Rule 144: A regulation that provides for the sale of restricted stock and control stock. Filing Form 144 with the SEC is required prior to selling restricted and control stock. The number of shares that may be sold is limited.

Rule 144A: An exemption to the holding period and volume restrictions of Rule 144 for qualified institutional buyers (QIBs).

Rule 145: Requires prospectuses to be delivered to shareholders based on specific business events such as mergers, acquisitions, business consolidation, and reorganization. Rule 145 specifically excludes issuers from the requirement to deliver a prospectus to existing shareholders in the case of a stock split or stock dividend.

Rule 147: An exemption from the registration requirements of the Securities Act of 1933 for intrastate offerings if certain requirements are met. One such requirement is that 100% of the purchasers are from within one state.

Rule 415: The Securities Act of 1933 rule that permits an issuer to register securities for up to three years in advance of their sale (shelf registration).

S

Safekeeping: An arrangement in which a broker-dealer takes custody of client assets to protect them from theft or other possible problems.

Sales Charge: The amount of the purchase price of mutual fund shares that the underwriter will receive and will therefore not be invested in shares.

Sales Proceeds: The amount received upon the sale of an asset. When calculating the tax implications of an asset sale, the sales proceeds are compared to the investor's cost basis to determine the taxable amount.

Sallie Mae: See: Student Loan Marketing Association.

Same Side of the Market: A term relating to an option investor's expectations for the underlying security (i.e., bullish or bearish). Long calls and short puts are on the bullish side of the market. Short calls and long puts are on the bearish side of the market. See also: Position Limit.

SAR: See: Suspicious Activity Report.

Savings Bonds: Non-negotiable bonds backed by the full faith and credit of the U.S. government that are issued in denominations ranging from $50 to $10,000. See also: Series EE

Scale: The reoffering yields for each maturity of a serial bond issue.

Seasonal Stock: A company whose earnings and sales vary because of weather, holidays, etc. (E.g., a toy manufacturer with heavy sales at the holidays.)

Secondary Distribution: The sale by a shareholder of a block of stock at some point after it has been distributed by the issuing company. Typically, the block is a large one, such as may be involved in the settlement of an estate. The security may be listed or unlisted. Also referred to as a secondary offering.

Secondary Market: The trading in existing or outstanding securities (versus new issues). Secondary market transactions take place on exchanges or over-the-counter.

Secondary Offering: See: Secondary Distribution.

Section 8 Program: A limited partnership designed to take advantage of tax benefits in providing government assisted housing.

Section 529 Plan: A municipal fund security that serves as a state-sponsored college savings vehicle.

Section 529A (ABLE) Plan: A municipal fund security that serves to help support individuals with disabilities.

Secured Bond: A corporate bond that has specific assets pledged as collateral (versus debenture). See also: Open-End Indenture; Closed-End Indenture.

Securities Act of 1933: The federal law that covers new issues of securities. It requires the full disclosure of pertinent information relating to the new issue and also contains antifraud provisions.

Securities and Exchange Commission (SEC): As established by Congress to help protect investors, the Commission administers the Securities Act of 1933, the Securities Exchange Act of 1934, the Securities Act Amendments of 1975, the Trust Indenture Act, the Investment Company Act, the Investment Advisers Act, and the Public Utility Holding Company Act.

Securities Exchange Act of 1934: The federal law that regulates broker-dealers and secondary market securities transactions.

Securities Investor Protection Corporation (SIPC): A non-profit membership corporation created by an act of Congress to protect clients of brokerage firms if the firms are forced into bankruptcy. Membership is composed of all brokers and dealers registered under the Securities Exchange Act of 1934, all members of national securities exchanges, and most members. SIPC provides firm customers with protection of up to $500,000 of cash and securities, of which no more than $250,000 may be in cash.

Security: Any instrument such as stocks, bonds, or notes. However, a fixed insurance or endowment policy, credit union shares, or fixed annuities are not considered securities.

Segregation: The requirement to hold securities separate from one another, as when customer securities are held separately from firm securities.

Self-Regulatory Organization (SRO): Organizations and associations that set industry rules (e.g., exchanges, FINRA, and the MSRB).

Seller's Option: A special transaction that gives the seller the right to deliver the stock or bond at any time within a specified period.

Selling Away: The failure to provide a member firm with written notice of involvement in a private securities transaction by a person associated with the member. See also: Private Securities Transaction.

Selling Dividends: A violation of the Conduct Rules. If a registered representative convinces a client to purchase shares of common stock or a mutual fund because of an impending dividend, the representative can be cited for this action. Since both common stock and mutual fund market prices are adjusted downward in the amount of the dividend, there's no monetary benefit to acquiring securities in order to receive a dividend.

Selling Group: A group of securities firms that assist in distributing a new issue. The firms act as agents and receive a concession, but they're not members of the syndicate.

Sell Out: The action taken by a broker-dealer when a customer fails to pay for securities by the required date, or when a margin maintenance call is not met.

Senior Securities: Securities that have a preferential claim over common stock on a company's earnings if liquidation occurs. Generally, preferred stock and bonds are considered senior securities.

Setting Every Community Up for Retirement Enhancement (SECURE) Act: Designed to make it easier to save for retirement and to make plans more accessible to people.

Simplified Employee Pension (SEP): A type of pension plan that combines a corporate pension plan and an IRA. Under a SEP, the employer makes a contribution to the employee's IRA.

Separate Account: An investment pool funded by contributions to variable contracts, including variable annuities and variable life insurance. These assets are kept separate from the insurance company's general account.

Serial Bonds: Bonds of the same issue that have different maturity dates. They mature each year for a set number of years.

Series EE Bond: A type of debt issue that's backed by the full faith and credit of the United States Government. They're 30-year investments that are issued at a discount and mature at face value. These bonds are non-callable, non-transferable, and must be fully registered.

The appreciation of the bond is considered interest income that's subject to federal tax, but exempt from state and local tax. This income can be reported annually as it accrues or can be deferred until the bond is cashed in or reaches final maturity.

Series of Options: See: Option Series.

Series K Preferred Stock: Shares that begin with a fixed rate, but after a certain amount of time (approximately five years), they switch to a floating or adjustable rate.

Settlement: See: Regular-Way Settlement.

Sharing Arrangement: The details of how costs will be borne and how revenues will be split among the partners in a limited partnership.

Shelf Registration: A type of new issue registration that allows the issuer some flexibility as to the timing of the issue (up to three years from filing).

Short Coupon: See: Long Coupon.

Short Interest: The total number of shares of a particular stock that has been sold short and remains uncovered (not repurchased). Followers of the Short Interest Theory believe an increase in short interest is a bullish signal since the short sellers will eventually need to purchase stock to cover their shorts. This cushion of potential buyers will tend to support a declining market or accelerate a rising market.

Short Market Value (SMV): In a margin account, the current value of all securities that have been sold short.

Short Position: The amount of borrowed stock that an individual has sold short and has not covered as of a particular date.

Short Sale: The practice of selling borrowed securities in hopes that the price will decline.

Short Straddle: The sale of both a call and a put on the same underlying security, the same exercise price, and the same expiration date.

Short-Swing Profit: The profit made on stock held less than six months. Insiders are prohibited from taking short-swing profits on the stock of their firm.

Simplified Arbitration: Procedure used if the amount in dispute doesn't exceed $50,000. One public arbitrator decides the case based on written evidence and arguments.

Simultaneous Transaction: A transaction in which the dealer matches purchase and sale orders and therefore assumes no risk in the trades.

Sinking Fund: Money regularly set aside by a company to redeem its bonds, debentures, or preferred stock from time to time as specified in the indenture or charter. Relative to a municipality, monies set aside to provide for the retirement of a term issue at or before maturity.

Size: The number of shares for which a quote is valid. For example, if a stock is quoted at 49.00 x 50.00, 5 by 7, the size of the bid is 500 shares and the size of the offer is 700 shares.

Skip Day: Settlement for U.S. government bond trades that occurs two business days after the trade date (versus Next Business Day or T + 1).

Small Business Administration (SBA): A federal agency which provides loans to small business investment companies (SBICs) that supply venture capital and financing to small businesses. Debentures sold by SBICs are fully guaranteed by the SBA.

Soft-Dollar Arrangement: Commission rebates that money managers (IAs) receive for channeling some or all of their trades through certain brokerage firms. The service(s) received by the adviser as part of a soft-dollar arrangement must benefit its clients.

Sole Proprietorship: A business that's often opened under the name of the individual owner. The account is held by the individual and vulnerable to the owner's personal creditors.

Sovereign Bond: Debt that's issued by foreign national governments.

Special Assessment Bond: A bond secured by a compulsory levy on the benefitted property.

Specialist: A member, but not an employee, of the New York Stock Exchange who has two primary functions. First, to maintain an orderly market in the stocks for which that person is registered as a DMM. Second, the DMM acts as a broker's broker and maintains an order book of stop and limit orders. DMMs are also allowed to trade for their own account. See also Designated Market Maker.

Specialized (Sector) Fund: A type of mutual fund whose portfolio consists of stocks in a specific industry or geographical area.

Specially Designated Nationals (SDN) List: A list that's maintained by the Treasury Department Office of Foreign Assets Control (OFAC). This list identifies known and suspected terrorists, other criminals, as well as pariah nations with whom doing business is prohibited.

Special Memorandum Account (SMA): A line of credit established when a margin account has excess equity (above FRB initial requirement). SMA may be withdrawn by the client or used to purchase additional securities. However, any use of SMA will increase the account's debit balance.

Special Tax Bond: A municipal revenue bond that's secured by a pledge of a specific, special tax. It's not a standard general obligation since it's limited to a specific tax source.

Specified Adult:

(1) Any person who's age 65 or older
(2) Any person who's age 18 or older and who the firm reasonably believes has a mental or physical impairment that renders the person unable to protect his own interests.

Speculation: The employment of funds by a speculator, whose primary concern is for a high return on investment. Safety of principal is a secondary factor.

Speculator: A person who's willing to assume a relatively large risk in the hopes of earning a return.

Sponsor:

(1) For limited partnerships: The general partner that organizes and sells the partnership.
(2) For mutual fund: The underwriter of the fund.

Spot Price: The current exchange rate of foreign currencies that's set in the unregulated interbank market.

Spread:

(1) The difference between the bid and offer price of a security.
(2) The difference between the public offering price of a new issue and the proceeds received by the issuer (i.e., the underwriting spread).
(3) The purchase and sale of puts or calls on the same underlying security with different expirations and/or strike prices.

Stabilization: The ability of an underwriter of a new issue to act in the secondary market to maintain the price of a security at the highest independent bid price.

Stagflation: A prolonged period during which the economy has a high rate of inflation at the same time as a high rate of unemployment.

Standard and Poor's (S&P): A company that publishes a variety of resource materials relating to securities, including a rating service for both municipal and corporate securities.

Standard & Poor's 500 Index (S&P 500): A composite index consisting of 500 stocks further divided into four other indexes: S&P Industrial (400 stocks), S&P Transportation (20 stocks), S&P Utilities (40 stocks), and S&P Financial (40 stocks).

Standby Underwriting: An arrangement whereby a securities firm is used to underwrite any unsubscribed shares of a rights offering. See also: Right.

Statement: A summary of the contents of and activity in a client's account that's periodically sent to the customer.

Statutory Disqualification: An automatic disqualification of a person seeking to be associated with a securities firm. A person will have a statutory disqualification if expelled from membership in a self-regulatory organization or from association with a member.

Only the SEC has the authority to reinstate a person who's been subject to statutory disqualification.

Statutory Voting: A method of voting for members of the board of directors of a corporation. With this method, a shareholder receives one vote for each share owned and may cast those votes for each of the directorships. For example, an individual who owns 100 shares of stock of a corporation that's electing six directors is able to cast no more than 100 votes for each of six candidates. This method tends to favor the larger stockholder (versus Cumulative Voting).

Step-Down Certificate of Deposit: A long-term CD that offers investors an interest rate that's initially higher than current market rates; subsequent interest rates paid to investors will be lower and may be adjusted more than once.

Stepped Coupon Bond: A bond that's issued with a low coupon, but it increases at regular intervals.

Step-Up Certificate of Deposit: A long-term CD that offers investors an interest rate that's initially lower than current market rates; subsequent interest rates paid to investors will be higher and may be adjusted more than once.

Stock Ahead: The situation in which an investor enters an order to buy or sell a stock at a certain price and sees transactions being executed at that price while her order has not been executed. The reason is that the other orders were received by the DMM before hers and had priority.

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

Stock Exchange: See: Exchange.

Stockholder: The owner of common or preferred stock.

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

Stockholders' Equity: The total equity ownership of a corporation by its stockholders. It consists of preferred stock, common stock, retained earnings, and capital surplus. Also called: Net Worth.

Stock Power: See: Assignment.

Stock Split: The division of the outstanding shares of a corporation into a larger number of shares. For example, a 3-for-1 split by a company with 1 million shares outstanding will result in 3 million shares outstanding, but proportionate equity in the company will remain the same. Ordinarily, splits must be voted on by directors and approved by shareholders.

Stock Symbols: A unique identification symbol of up to five letters to facilitate trading and ticker reporting.

Stop-Limit Order: A stop order that becomes a limit order after the specified stop price has been reached or passed.

Stop Order:

(1) An order to buy or sell that becomes a market order when the stock sells at or through a specified price.
(2) A notice sent by the SEC that prevents the offering of a new issue.

Stopping Stock: The ability of a DMM to guarantee a specific price for a customer order.

Straddle: An option position in which the investor purchases or sells a call option and a put option on the same underlying stock. The expiration month and exercise price of each contract must be the same.

Straight Life Annuity: The payout option that will guarantee an annuity payment for the remainder of an individual's life. This option typically provides the largest monthly payment. See Also: Payout Option; Period Certain.

Straight-Line: A method of calculating depreciation or amortization that results in a uniform expense that's spread evenly over the life of the asset (versus Accelerated Depreciation). See also: Depreciation; Amortization.

Street Name: Securities that are held in the name of a broker-dealer rather than in the customer's name. This occurs when the securities have been purchased on margin or when the customer (the beneficial owner) wants his securities to be held by the broker-dealer (the nominal owner).

Strike Price: See: Exercise Price.

STRIP: A U.S. Treasury-sanctioned brokerage house practice of separating a bond (which is held in trust) into its face value and coupons which are then sold separately as zero-coupon bonds.

Structured Products: These derivative securities that may be linked to a variety of underlying (reference) assets. They're considered a form of corporate debt and are typically created by major financial services institutions.

Student Loan Marketing Association (SLMA): An agency that provides a secondary market for insured student loans made under the Guaranteed Student Loan Program. This private, for-profit corporation is also referred to as Sallie Mae.

Subaccounts: Within the separate account, these contain a number of different underlying portfolios into which a contract owner may allocate his payments according to his investment objectives.

Subject Quote: A nominal quote. See also: Quote.

Subordinate: The placing of a claim below other interests.

(1) Subordinated Debenture: An unsecured bond that has a junior claim to all other general creditors.
(2) Subordinated Working Interest. See also: Reversionary Working Interest.

Subscription: The purchase of stock at a preset (subscription) price under the terms of a right or warrant.

Subscription Agreement: The application submitted by an investor who wants to join a limited partnership. All prospective investors must be approved by the general partner prior to admission as a partner.

Suitability: An investment that meets a client's investment objectives and financial situation.

Supply-Side Economics: The theory that reduced taxation and government regulation will stimulate investment and spur economic growth.

Support: The lower band of an established trading range where buying pressure tends to bid up the price of the stock (versus Resistance). See also: Oversold.

Suspicious Activity Report (SAR): A report that must be filed whenever a firm suspects that transactions of $5,000 or more may be related to illegal activities.

Swapping: The act of selling securities that are owned and almost simultaneously purchasing different securities. A swap is often done to establish losses for tax purposes (tax-swap). Relative to bonds, a swap may be done to increase income, alter maturity, and/or upgrade quality.

Switching: The act of moving money from one mutual fund to another either within the same family of funds or between totally unrelated funds.

Syndicate: A group of investment banks that together underwrite and distribute a new issue of securities or a large block of an outstanding issue.

Syndicate Letter: An invitation to participate in an underwriting syndicate that details the rules of the syndicate.

Systematic Risk: See: Market Risk.

T

Takedown: The discount from the public offering price that a member will receive when buying bonds from the syndicate. Also referred to as the total takedown, it's comprised of the Additional Takedown plus the Concession.

Tape: See: Ticker.

Targeted Amortization Class (TAC): A type of CMO tranche that provides protection from refinancing risk through the use of support tranches. These support tranches absorb prepayment in excess of a targeted amount up to a specified point where the TAC may experience a shorter maturity schedule.

Taxable Equivalent Yield: An adjustment made to a tax-free yield for comparison to taxable yields. The formula is Tax-Free Yield ÷ (100% - Tax Bracket %).

Tax Anticipation Note (TAN): A short-term municipal security used by a municipality to help its cash flow. It has a maximum maturity of one year and repayment based on specific future tax collections of the municipality.

Tax Credit: A direct dollar-for-dollar offset of tax liability (versus a deduction that offsets taxable income). See also: Deduction.

Tax-Exempt Commercial Paper: A short-term note of a tax-exempt issuer.

Tax Preference Item: An item that's typically deductible for federal income tax purposes, but nonetheless is included in the calculation of the alternative minimum tax. See also: Alternative Minimum Tax.

Tax Shelter: A medium or process intended to reduce or eliminate the tax burden of an individual. Tax shelters range from municipal securities to sophisticated DPPs in real estate, cattle raising, equipment leasing, oil drilling, research and development activities, and motion picture production.

Technical Analysis: The study of price movements, volume, and trends and patterns to assess the possible effect on future market direction.

Telephone Consumer Protection Act of 1991: A federal law that places restrictions on telephone solicitations.

Tenants-In-Common: See: Joint Tenants.

Tender:

(1) The act of surrendering securities in response to an offer to buy them at a set price as in a sinking fund call or tender offer. See also: Tender Offer.
(2) The process of submitting a bid to buy a security, as in a U.S. Treasury bill auction.

Tender Offer: A public offer to buy shares from existing stockholders of one public corporation by another company or other organization under specified terms good for a certain period.

1035 Exchange: Named after IRS Section 1035, this provision permits the exchange of annuity contracts without creating a taxable event.

Term Bond: Bonds of a new municipal issue in which the entire issue has one maturity date.

Third Market: The trading of exchange listed securities in the over-the-counter market.

Third-Party Research Report: A report that has been prepared by an affiliate of the broker-dealer and must be approved by a supervisor of the broker-dealer.

Ticker: The system that prints or displays last sale prices and the volume of securities transactions on exchanges on a moving tape. Also referred to as the tape.

Tight Credit: See: Tight Money.

Tight Money: A period during which there's little money available for loans.

Time Deposit: An arrangement in which the depositor has agreed to leave money in an account for a given period (versus Demand Deposit).

Time Horizon: The amount of time that a client has available to achieve her financial goals.

Time Spread: See: Calendar Spread.

Time Value: The amount of an option premium that exceeds the intrinsic value of an option contract. For example, if an option's premium is 5 and it's in-the-money by 3, the time value is 2.

Tip: Alleged inside information on corporate affairs that may likely provide a trading advantage.

Tombstone Ad: An advertisement of a new issue of securities that's placed by the underwriters and gets its name from the fact that it's bordered in black.

Top-Down Analysis: Begins with a broad analysis of the economy and then specific industries are identified that seem to benefit from the anticipated future economic conditions.

Trade Date: The day on which a transaction is executed.

Trade Reporting and Compliance Engine (TRACE): Used to report corporate bond transactions in the over-the-counter market to FINRA. TRACE disseminates bond transaction information to the public.

Trade Reporting and Comparison Service (TRACS): TRACS is a trade reporting service operated by FINRA for the reporting of transactions in ADF eligible securities by ADF

Trader: An individual who buys and sells for her own account for short-term profit. Also, an employee of a broker-dealer or financial institution who specializes in handling purchases and sales of securities for the firm and/or its clients.
participants.

Trade Reporting Facility (TRF): Nasdaq's service that receives trade reports from market makers in Nasdaq Global Select Market securities, Nasdaq Global Market securities, Nasdaq Capital Market securities, CQS issues, OTC equity securities, and Nasdaq-listed convertible bonds within 10 seconds (during applicable hours). Formerly referred to as the Automated Confirmation Transaction (ACT) Service.

Trading Authorization: Written permission which is signed by an account owner and provides a third party with the ability to transact business on his behalf. Also referred to as Power of Attorney.

Trading Floor: See: Floor.

Trading Post: The physical location on the floor of the New York Stock Exchange at which various stocks are bought and sold.

Tranche: The different classes into which Collateralized Mortgage Obligations (CMOs) are split. Each tranche will have it's own yield and maturity.

Transfer:

(1) The delivery of a stock certificate from the seller's broker to the buyer's broker and legal change of ownership.
(2) The process of recording the change of ownership on the books of the corporation by the transfer agent. When the purchaser's name is recorded, dividends, notices of

meetings, proxies, financial reports and all pertinent literature sent by the issuer to its securities holders are mailed directly to the new owner.

Transfer Agent: An entity that represents and issuer by keeping a record of the name of all registered shareowners, their addresses, the number of shares owned, and assures that certificates being presented to the agent's office for transfer are properly canceled and new certificates are issued in the name of the new owner.

Transfer Initiation Form (TIF): A form that's filled out by a customer who wants to transfer her account from one brokerage firm to another.

Treasury Bills (T-Bills): Short-term obligations of the U.S. government. T-bills have 4-week, 13-week, 26-week, and 52-week maturities and are purchased at a discount, but will mature at face value. The difference between the purchase price and maturity value (the amount of the discount) is considered interest.

Treasury Bonds: U.S. government obligations with original maturities of more than 10 years. T-bonds are issued in minimum denominations of $100 and pay interest semiannually.

Treasury Inflation Protected Securities (TIPS): Marketable Treasury securities which offer a fixed coupon, but have a principal amount that varies with changes to the Consumer Price Index (CPI).

Treasury Notes: U.S. government obligations with original maturities of more than one year and up to 10 years. T-notes are issued in minimum denominations of $100 and pay interest semiannually.

Treasury Receipt: See: STRIP.

Treasury Stock: Stock issued by a company, but later reacquired. Treasury stock receives no dividends and doesn't carry voting rights while held by the company.

Treasury STRIP (T-STRIP): See: STRIP.

Triple Net Lease: A lease arrangement in which the lessee will pay rent to the lessor, plus taxes, insurance, and maintenance on the property.

Triple-Tax Exempt: Municipal bonds on which the bondholder pays no federal, state, or local taxes on the interest. In general, bonds issued by possessions and territories of the U.S. (e.g., Puerto Rico) are triple-tax exempt.

True Interest Cost (TIC): A calculation used when bidding on a new municipal issue that takes into account the time value of money. See also: Net Interest Cost.

Trust: A fiduciary relationship in which a person (the trustee) holds title to property for the benefit of another party(ies).

Trusted Contact Person: A person who's age 18 or older and is essential in assisting a firm in protecting the customer's account and its assets and also responding to possible financial exploitation.

Trust Indenture Act of 1939: A federal law that regulates bond offerings by requiring a corporation to appoint a trustee to act for the benefit of the bondholders.

12b-1 Fee: A fee charged against a mutual fund's average net assets and used to pay for promotional expenses.

20-Bond Index: The average yield-to-maturity (on a particular day) on 20 selected general obligation bonds with 20-year maturities.

Two-and-20 Fee: A typical hedge fund fee arrangement in which a hedge fund manager charges a 2% management fee and then takes 20% of any gains as measured against a base rate.

Type of Option: A call or put.

U

Uncovered: A short option position in which the investor doesn't currently have another investment position that will meet the obligation of the option contract (versus Covered). Also referred to as Naked.

Underwriter: See: Investment Banker.

Underwriting: The process of selling a new issue.

Underwriting Spread: The difference between the public offering price of a new issue and the proceeds received by the issuer.

Undisclosed Account: The situation in which a broker-dealer receives an order for the purchase of a new issue through a third party. The broker-dealer must receive assurances from the third party that the end purchaser is not a restricted party.

Undivided Account: A form of a new issue syndicate in which a member will be liable for a percentage of the issue and any unsold balance equal to its participation regardless of the amount the member has sold. Also referred to as an Eastern Account.

Unfunded Pension Liabilities: Funds that are owed by an employer to a retirement fund.

Uniform Gifts To Minors Act (UGMA): The act that established rules governing the purchase of securities for a minor. A gift to a minor is irrevocable and securities must be registered in the name of an adult as custodian for the minor. See also: Uniform Transfers to Minors Act.

Uniform Practice Code: The rules established by an exchange or securities association that establish proper methods and procedures for transactions between members.

Uniform Transfers To Minors Act (UTMA): Legislation that allows for postponement of the transfer of assets to the former minor's control beyond the age of majority.

Unit Investment Trust: A type of investment company in which a portfolio is purchased and held with little or no change to the investments. Commonly used with municipal bond investments.

Unlisted Stock: A security that's not listed on a registered stock exchange. See also: Over-the-Counter.

Unsecured Bond: See: Debenture.

Unsystematic (Diversifiable) Risk: Risk that's based on circumstances that are unique to a specific security and may be managed by diversifying the assets in a portfolio (e.g., business risk, political risk, currency risk).

Uptick: A term used to designate a transaction made at a price higher than the preceding transaction. Also referred to as a plus tick. Conversely, a downtick or minus tick, is a term used to designate a transaction that's made at a price lower than the preceding trade.

USA PATRIOT Act: As the primary U.S. anti-money laundering (AML) law, the Bank Secrecy Act (BSA) was amended to include certain provisions of the USA PATRIOT Act to detect, deter, and disrupt terrorist financing networks. The Act requires broker-dealers to verify the identity of individuals who intend to open accounts.

V

Variable Annuity: A contract issued by an insurance company in which the annuity payments are invested in a separate account that varies according to the performance of the securities in the account.

Variable Life Insurance: A form of permanent insurance which requires fixed premiums, but have death benefits and cash values that may vary based on the performance of the investment options.

Variable Universal Life (VUL) Insurance: A type of insurance which combines the flexibility of a universal life policy with the investment aspect of a variable life policy. Policyholders may adjust their premiums and death benefits to meet their changing circumstances.

Variable Rate Demand Obligation (VRDO): A municipal security that will adjust its interest rate at specific short-term intervals and will allow the owner to sell or put the security back to the issuer on the date the rate is reset.

Vertical Spread: See: Price Spread.

Vesting: The process by which an employee gradually becomes entitled to benefits in a retirement plan.

Veterans Administration (VA) Mortgage: A mortgage granted to a veteran of the U.S. Armed Forces that's guaranteed by the VA.

Visible Supply: The total par value of all competitive and negotiated municipal issues scheduled to come to market during the next 30 days. It's published each day in The Bond Buyer.

Volatility: Price fluctuation.

Volatility Index (VIX): Often considered to be a gauge of investors' sentiments or fears of expected stock market volatility over the next 30 days.

Volume: The number of shares traded in a security or an entire market during a given period.

Voting Right: The common stockholders' right to vote their stock in the affairs of their company. The right to vote may be delegated by the stockholder to another person through a proxy. See also: Statutory Voting; Cumulative Voting; Proxy.

W

Warrant: A certificate giving the holder the right to purchase securities at a stipulated price within a specified time limit. Warrants are typically offered in a unit along with other securities as an inducement to buy. Warrants are long-term and may be perpetual.

Wash Sale: A sale of securities at a loss with the subsequent disallowance of the loss by the IRS. If an individual sells a security at a loss and, within 30 days, repurchases substantially the same security, the IRS will consider it a wash sale and will disallow the loss.

Western Account: See: Divided Account.

When Issued (WI): The shortened form of "when, as, and if issued" which indicates a conditional transaction in a security that's authorized for issuance, but has not yet been issued.

Wildcatting: Drilling for oil or gas in an unproven area (versus Developmental Program). Also referred to as an Exploratory Program.

Wilshire Associates Equity Index: Consists of exchange-listed stocks. The index represents the dollar value of all of the stocks and is considered to broadest of all indexes and averages.

Wire Room: See: Order Room.

Withholding: The process of deducting taxes from wages or distributions. The IRS requires financial institutions to use backup withholding for certain retirement plan withdrawals.

Working Capital: A financial calculation equal to a corporation's current assets minus its current liabilities.

Working Control: Theoretically, ownership of 51% or more of a company's voting stock. In practice, effective control may at times be exerted through ownership, individually or by a group acting in concert, of less than 50%.

Working Interest: Direct participation with unlimited liability in a drilling program (versus Limited Liability in a Limited Partnership).

Workout: A nominal or subject quote. See also: Quote.

Wrap Account: An account in which one fee is charged by a broker-dealer for a number of services, including administrative, portfolio management, and transaction costs.

Writer: The seller of an option contract.

Y

Yankee Bond: A foreign issuer's dollar-denominated bond that's registered with the SEC and traded in the U.S. markets.

Yield: The annual dividends or interest income paid by a security expressed as a percentage of the current price.

Yield-Based Options: Option contracts that trade on the underlying yield of certain Treasury securities.

Yield-to-Call (YTC): The rate of return an investor earns from a bond assuming the bond is redeemed (called) at the first call date.

Yield-to-Maturity (YTM): The rate of return an investor earns assuming a bond is held to maturity.

Yield-to-Worst: See: Effective Yield.

Z

Zero-Coupon Bonds: A bond sold at a substantial discount that doesn't pay periodic interest. See: Original Issue Discount (OID).

Z-Tranche: A type of CMO tranche that has the longest average life of any tranche.