

A

Actuarial risk

A type of risk, typically associated with insurance.

Annuity Investment

that generates a stream of equal cash flows.

Arbitrage (risk arbitrage)

Simultaneous purchase of a security and sale of another to generate a risk-free profit.

Arbitrage

A transaction which generates a risk-free profit.

Arbitrage Free Model

A type of financial model which generates market scenarios which entail no arbitrage opportunities.

Arbitrageur

A person involved in arbitrage.

ARCH

A technique for projecting future implied volatilities.

Ask

The highest price anyone wants to pay for the security at a given time.

Asset Allocation

The process of determining the optimal division of an investor's portfolio among different assets. Most frequently this refers to allocations between debt, equity, and cash.

asset/liability management

A risk management technique for protecting an institution's capital.

asset-backed securit

A securitized interest in a pool of assets.

Assets

Anything that the firm owns.

Average Maturity

The average time to maturity of securities held by a mutual fund. Changes in interest rates have greater impact on funds with longer average life.

Average Tax Rate

The rate calculated by dividing the total tax liability by the entity's taxable income.

B

Backwardation

A condition where spot prices exceed forward prices.

Barrier option

A type of path-dependent option.

Base currency

The currency in which a risk is quantified.

Basis Point

01 percent. Used to measure changes in yields of bonds.

Basis Ris

Risk from changes in spreads.

Bear Mark

General decline in security prices.

Beginning Net Asset Value :The market value of a fund share on a predetermined start date.

Best Effort Purcha

A method of selling newly issued securities whereby the underwriters are expected to sell as many securities as possible. They are not obligated to sell the entire subscription. Also see "firm commitment."

Bet

A relative (to a benchmark) measure of risk. Measures of an asset's non-diversifiable -- market-- risk. See also systematic risk.

Bi

The lowest price anyone wants to sell the security for at a given time.

Bid-Ask Sprea

The difference between the bid and the ask for a security at a given time.

Bilateral Nettin

Netting between two parties.

Bill Deb

that has less than 1-year maturity at time of issue.

Bond Long-Term IOU

whereby the holder (lender or buyer) is promised to receive fixed payments over a pre-specified time period. Corporate bonds are one of the available instruments that companies can resort to for their financing needs.

Bond Par Value

The face value that is to be returned to a bondholder at maturity.

Book Value

The depreciated value of a company's assets (original cost less accumulated depreciation) less the outstanding liabilities.

Broker

A person who facilitates transactions (buy and sell) in the secondary market.

Brokerage Commission

The amount of money your brokerage house would charge for a given transaction (buy/sell). This is how these firms make their living.

Bull Market General

increase in security prices.

Bullish

One who believes the general market will rise. (See: Bear)

Buyback

When a firm repurchases its own stock from the public.

C**Call Option**

An option to purchase an asset.

Call Premium

The difference between the call price and the security's value.

Call Provision

A provision that entitles the corporation to repurchase its bonds or preferred stock from their holders at stated prices over specified periods.

Callable Bond

A bond which may be terminated prior to maturity by its issuer.

Cap

A derivative instrument which is linked to interest rates.

Capital Asset

All property used in conducting a business other than assets held primarily for sale in the ordinary course of business or depreciable, and real property used in conducting a business.

Capital At Risk

A measure of market risk.

CD (Certificate of Deposit)

Receipts for funds deposited in bank or S&L for a fixed period. The funds earn a fixed interest rate.

Cheap

An asset is said to be cheap when it is worth (intrinsic value) more than its market value.

Closed-End Fund

An investment fund that does not stand ready to purchase its own shares from its owners. Its shares can trade on an exchange.

Collateral Assets

That are used as security for a loan.

Commercial Paper

Unsecured debt (IOU), issued by large corporations, with maturities (at time of issue) less than a year. They can be traded on OTC.

Competitive Bid

A mechanism to select a lead investment bank in which investment banks submit a bid representing their compensation. The issuing firm solicits bids on the underwriting and chooses the underwriter who offers the most favorable terms.

Compounding

A process whereby the value of an investment appreciates exponentially over time as interest is earned on interest.

Consol

A perpetual bond issued by the British government. Sometimes used as a general term for perpetuity.

Constant Maturity Treasury

A type of yield index.

Consumer Price Index (CPI)

The CPI measures the prices of consumer goods and services and is a measure of the pace of Indian inflation.

Conversion Ratio

The number of shares of common stock for which a convertible security can be exchanged for.

Convertible Bond

Bond that can be converted to equity at a pre-specified conversion ratio.
convexity A measure of second-order exposure to interest rates.

Core Investor

A shareholder or a group of investors that holds enough shares to be able to influence management decisions.

Corporation

A legal entity that functions separate and apart from its owners. correlated exposure. Exposure to a risk factor, taking into account the impact of correlated risk factors.

Correlation

A notion from probability.

CounterParty

A party with whom one transacts business.

Coupon Interest Rate

The Interest to be annually paid by the issuer of a bond as a percent of per value, which is specified in the contractual agreement.

Covariance

A measure of co-movement between two variables.

Credit Default Swap

:A type of credit derivative.

Credit Enhancement

Any methodology that reduces the credit exposure of a transaction with a counterparty.

Credit Exposure

Exposure to possible default by a counterparty.

Credit Linked Note

A debt instrument with an imbedded credit derivative.

Credit Risk :The risk that a counterparty may fail to perform on its obligations.

Credit Scoring

A procedure for assigning scores to companies or individuals on the basis of the risk of default.

Credit Spread

A spread in prices or interest rates resulting from credit risk. Cum dividend With ividend.
Cum Rights With rights.

Custodian

A bank which holds securities on behalf of investors.

D**Date of Record**

The date on which a shareholder must officially own shares in order to be entitled to a dividend.

Day High

This is the highest price that a security has traded at during the day.

Day Low

This is the lowest price that a security has traded at during the day.

Debentures

Unsecured debt

Declaration Date

The date on which a firm announces a future dividend payment.

Default Risk Premium (DRP)

The additional return lenders require to compensate them for default risk.

Default Risk

Uncertainty of a firm's ability to meet its debt obligations on time and in full.

Delta-Gamma Value At Risk

A method for estimating value at risk.

Discount

(1) The amount by which a bond or preferred stock may sell below its par value.

(2) The notion that market prices "takes into account" or include all publicly available relevant information.

Discount Bond

A bond that sells at value below par value.

Discounting

The inverse of compounding. This process is used to determine the present value of a cash flow.

Distribution Date

Date on which the payout of realized capital gains on securities in the fund portfolio occurred.

Diversifiable Risk

The components of an asset's risk that can be eliminated when the asset is combined in a well-diversified portfolio.

Diversification

A technique for managing risk where risk is divided among multiple, uncorrelated exposures.

Dividend

Distribution of wealth by firm to shareholders based on number of shares owned.
Dividend Yield Dividends per share divided by the price of the security.

Duration

A measure of exposure to interest rates.

E**Ending Net Asset Value**

The market value of a fund share on a predetermined end date.
enterprise risk management The process whereby an organization optimizes the manner in which it takes risks.

Euribor

Euro Interbank Offered Rate.

Eurobonds

Bonds that are marketed internationally.

Eurodollar Future

A type of futures contract.

Eurodollar Market

A banking market in U.S. dollars outside the U.S.

Evidence : Few Brokerage Firms Beat the Market Last Year

Exact :Both accurate and precise.

Exchange Traded

Traded on an exchange, as opposed to being traded over the counter.

Ex-Dividend Date

The date which determines ownership of stock for the purpose of paying dividends.
Owners purchasing shares on or after the ex-dividend date do not receive the dividends.
Only owners before this date would be registered to receive the declared dividend. The

date is set at four business days prior to the record date. Also see dividend.

Expected return

The average possible return for an investment

.

Expected Value

The mean or average of a random variable.

External Financing

Financing projects through new issues of securities; debt and/or equity.

F

Face Value

Value of security shown on certificate. Also called par value, which is typically \$1,000.
factor sensitivity A measure of exposure to a single risk factor.

Financial Intermediaries

Financial institutions that assist the transfer of savings from economic agents with excess savings to those that need capital for investments.

Financial Risk

Additional risk borne by shareholders because of a firm's use of debt.

Firm Specific Risk

Uncertainty in returns due to factors specific to the company. See diversifiable risk.

Float :The float is the number of shares of a security that are outstanding and available for trading by the public.

Floatation Cost

The underwriter's revenue associated with assisting a firm in issuing and marketing new securities.

Floater

A type of fixed income instrument.

Floor

A type of derivative instrument which is linked to interest rates.

Forward

An agreement to execute a transaction at some time in the future.

Forward Rate Agreement

A type of forward contract which is linked to interest rates.

Free Cash Flow Value

The value of a firm based on the cash flow available for distributing to any of the providers of long-term capital to the firm. The free cash flows equal operating cash flow less any incremental investments made to support a firm's future growth.

Front Running

refers to situations when a manager who has private information about the direction of movement of an asset takes a private position in the asset before purchasing it for the fund.

G

GARCH

A technique for projecting future implied volatilities.

Growth

Stocks Stocks of companies that have an opportunity to invest in projects that earn more than the required rate of return.

H

Hedging

The purchase or sale of a derivative security (such as options or futures) in order to reduce or eliminate risk associated with undesirable price changes of another security.

Heteroscedasticity

Non-constant volatility.

High-Yield Bond

A bond which pays a high yield due to significant credit risk.

Historical Value At Risk

A method for estimating value at risk.

Historical Volatility

An estimate of volatility based upon historical data.

Homoscedasticity

Constant volatility.

Hurdle Rate

The minimum required return on a project.

Hypothecation

The posting of collateral.

I

Implied Volatility

An estimate of volatility based upon option prices.

Income Stocks

Companies with high dividend yield or no NPV > 0 opportunities.

Indenture

The legal agreement between the firm issuing the bond and the bondholders, providing the specific terms of the loan agreement.

Inflation

A general increase in prices of goods and services.

Inflationary Premium (IP)

Additional compensation over the T-bill that lenders require to compensate them for the risk of expected inflation.

Inside Market

The highest bid and the lowest offer prices among all competing dealers in a Nasdaq security, i.e., the best bid and offer prices.

Insiders

These are directors and senior officers of a corporation -- in effect those who have access to inside information about a company. An insider also is a shareholder who owns more than 10 percent of the voting shares of a company.

Interest Rate Cap

A derivative instrument which is linked to interest rates.

Interest Rate Floor

A derivative instrument which is linked to interest rates.

Interest Rate Parity

A relationship which must hold between the interest rates of two countries.

Intermediaries :See Financial Intermediaries.

Inverse Floater

A type of fixed income instrument

IP (Inflationary Premium)

Additional return required to compensate asset holders for inflation uncertainty.

IPO (Initial Public Offering)

Securities are offered for the first time to the public.

J

Junk bond

A bond which pays a high yield due to significant credit risk.

K

Key factor

A risk factor which is used in estimating value at risk.

Knock-In Option

A type of path-dependent option.

KnockOut Option

A type of path-dependent option.

Kurtosis

A notion from statistics.

L

Legal Risk

Risk relating to legal uncertainties

Letter of Credit

Letter from a bank stating that it has established credit in the company's favor.

Leverage

The compounding of risks. Use of debt financing.

(LIBOR) London InterBank Offered Rate

The lending rate among international banks in London.

Liquidity

It refers to an investor's ability to convert an asset into cash. The faster the conversion the more liquid the asset. Illiquidity is a risk in that an investor might not be able to convert the asset to cash when most needed. Moreover, having to wait for the sale of an asset can pose an additional risk if the price of the asset decreases while waiting to liquidate.

Liquidity Risk Premium (LP)

The additional return required by investors in securities that cannot be converted into cash at a reasonably predictable price or time.

Listing

When a company's stock trades on an official exchange.

M

Macaulay Duration

A technique for calculating duration.

Market Portfolio

A theoretical portfolio which comprises all risky assets available to investors.

Market Timing

Ability to determine the time occurrence of peaks and troughs of stock markets.

Marketable Securities Security investments that the firm can quickly convert into cash balances.

Maturity Date

The date on which the last payment on a bond is due.

Maturity Matching

The practice of financing long-term projects with long-term assets, while financing short-term projects with short-term financing.

Maturity Risk Premium (MRP)

Risk associated with interest rate uncertainty. The longer the time to maturity, the higher the premium.

Maximum Credit Exposure

A measure of potential credit exposures.

Monitoring Costs

An agency cost that arises when bondholders take steps to ensure that protective covenants in the bond indenture are adhered to by the firm. Similarly, shareholders take steps to ensure that management is acting in the best interest of the owners, i.e., that managers are maximizing the wealth of shareholders.

.

Morbidity

The rate at which people become sick.

Mortgage Backed Security

A security interest in a pool of mortgages.

N

NAV (Net Asset Value)

The market value of a fund share, synonymous with a bid price. In the case of no-load funds, the NAV, market price, and offering price are all the same figure, which the public pays to buy shares; load fund market or offer prices are quoted after adding the sales charge to the net asset value. NAV is calculated by most funds after the close of the exchanges each day by taking the closing market value of all securities owned plus all other assets such as cash, subtracting all liabilities, then dividing the result (total net assets) by the total number of shares outstanding. The number of shares outstanding can vary each day depending on the number of purchases and redemptions

Net Change

The difference between today's price of last trade and the previous day's last price. For mutual funds, it is the difference between today's closing Net Asset Value (NAV) and the previous day's closing.

Net Worth Book

Value of a company's common stock, surplus, and retained earnings.

Netting

The reduction of offsetting obligations to a single "net" obligation.

Nominal Interest

Rate Interest as expressed in money terms. See real interest rate

Non-Parallel Shifts

A type of yield curve shift.

Note

Unsecured debt with a maturity of up to 10 years at the time of issue.

Notional Amount

The quantity of an underlier to which a derivative contract applies.

O

OID Debt

Original Issue Discount Debt

Open Order

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

Operating Leverage Amount of fixed operating costs.

Overbought

Typically a reference to a security or the general market after it exhibits a sharp rise in prices.

Over-Rewarded

A security whose expected (average) return is above its required return. Also called under-priced.

Over-Valued

An asset whose market value is greater than its intrinsic (formula or theoretical) value.

P**Par**

A notion relating to fixed income instruments.

Parallel Shift

A type of yield curve shift.

Passive Management

An investment strategy that does not involve the periodic shuffling of a portfolio's components.

Payment Date

Date on which dividends are paid to registered owners.

Pension Fund

Assets held in trust to cover the costs of pension benefits to participants.

PIBOR

Paris Interbank Offered Rate.

Premium

- (1) This generally refers to extra money an investor is willing to pay to buy something.
- (2) For a bond, a premium is the amount for which the security sells above its par value.

Prepayment

The payment of a debt prior to its being due.

Primary Instrument

A financial instrument whose value is not derived from that of another instrument, but instead is determined by the market.

Primary Market

Where firms sell new financial assets typically with the assistance of an investment banker.

Prime Rate

:The interest rate that banks charge their "best" clients, , i.e., those with the lowest possibility of default.

Principal

(1) Shareholders; (2) Amount of debt that must be paid at maturity.

Private Placement

A direct sale, by the issuing firm, of newly issued securities to a small group of investors.

Promissory Note (PN)

Promise to pay.

Prospectus

Summary of the registration statement providing information to investors on an issue of securities.

Protective Covenants Clauses in a loan agreement aimed at reducing default risk to the bondholders.

Q

Quote

The highest bid to buy and the lowest offer to sell a security at a given time

R

Rally

An increase in the price of a stock or the level of the market.

Rate Of Return

A measure of investment performance.

Real Interest Rate Interest

Rate that is adjusted for inflation.

Record Date

Date set by the company when dividends are declared. Owners who are registered on this date receive dividends. Also see ex-dividend date.

Red Herring

A preliminary prospectus.

Refunding

Replacement of existing debt with a new issue of debt.

Regression Analysis

A statistical technique for fitting best line through data.

Regular Dividend

Dividend that is expected to be maintained at regular time intervals.

Rehypothecation

Reuse of collateral received as security for an obligation.

Reinvestment Risk

Risk from uncertainty in the interest rate at which future cash flows may be invested.

Repo (Repurchase Agreement)

Purchase of Treasury securities from a securities dealer with an agreement that the dealer will repurchase them at a specified price.

Required Return

Minimum return required by investors to compensate them for assuming risk.

Residual Dividend

An approach to dividends that suggests a firm pay dividends if and only if acceptable investment opportunities for those funds are currently unavailable.

Rho

A measure of exposure to interest rates.

Risk Factor

A random variable whose uncertainty represents a source of risk.

Risk Limit

A procedural tool for managing risk.

Risk Neutrality

A theoretical condition where investors require no compensation for taking risk.

Risk Premium

Additional return, over the risk-free rate, to compensate investors for accepting (holding) risk.

Risk-Free-Rate

A theoretical interest rate at which an investment may earn interest without incurring any risk.

S

Seasoned New Issue

Additional issue of shares.

Secondary Market

Where trading (exchange of ownership) of financial assets takes place.

Securities Lending

The lending of securities in exchange for a fee.

Securitization

The creation of security interests in an asset.

Senior Debt

Debt which, in the event of liquidation, must be repaid before subordinated debt receives any payment. Also see Junior Debt.

Sensitivity

Exposure to a risk factor.

Settlement Risk

Risk from possible default by a counterparty at the time an obligation is to be settled.

Shogan Bond

Dollar-denominated bond issued in Japan by a non-resident.

Short Interest

The total number of shares of a security that have been sold short by customers and securities firms. (see Short Selling)

Short Sale

Sale of an asset that the investor does not own or any sale that is completed by the delivery of a security borrowed by the seller. Short selling is a legitimate trading strategy. Short sellers assume the risk that they will be able to buy the stock at a more favorable price than the price at which they sold short.

Short Term Gain (Loss)

The gain (loss) realized from the sale of securities or other capital assets held six months or less.

Simulation

Analysis based on determining the consequences of possible scenarios.

Sinking Fund

A requirement specified in a bond indenture that obligates the firm to annually retire a specified portion of the debt.

Specific Risk

Risk which is unique to a particular asset or liability.

Spin-Off

A newly created company that used to be part of a parent company. Parent company shareholders receive a pro rata ownership in the new company.

Spread Risk

Risk from changes in spreads.

Statistical Risk Measure

A risk measure which is based upon a probability distribution relating to a risk.

Stress Test

A type of single-scenario risk measure.

Structured Note

A type of security.

Subordinated Debt (Junior debt)

Debt whose holders, in the event of liquidation, get paid only after senior debt is paid off in full. (Also see senior debt)

Sunk Cost

Cost that has been incurred and cannot be recoverable.

Swap

A type of derivative instrument.

Swaption

An option on a swap.

Syndicate

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

T**Tax Risk**

Risk from uncertainty in taxes.

T-Bill (Treasury Bill)

Debt issued by the RBI with maturity less than a year.

Time Value

A component of the market value of an option.

Transaction Costs

The costs of transacting trades.

Triple Witching Hour

Slang used for the last hour of trading before the simultaneous expiration of stock options, index options, and index futures. This occurs four times a year on the third Friday of each quarter's end.

U

Uncorrelated Exposure

Exposure to a risk factor, assuming that all other risk factors will remain constant.

Underlier

A primary instrument or variable upon which the value of a derivative instrument depends.

Under-Perform

A security whose expected (average) return is below its required return. Also called over-priced, over-valued, or under-rewarded.

Underpricing

Issue of securities below their market value.

Under-Rewarded

A security whose expected (average) return is below its required return. Also called over-priced.

Under-Valued

An asset that is selling at a price below its intrinsic (theoretical or formula) value.

Underwriter

(Investment Banker) Firm that buys an issue from a company and resells it to investors; a primary market activity.

Underwriter Discount

Underwriters buy the to be issued securities at a reduced (discounted) price. This discount is usually measured as a percent of the price of the issue.

V

Value at Risk

A measure of market risk.

Variance

A measure of a variable's volatility relative to its average.

Volatility

The range of possible outcomes. A measure of risk of an individual asset when held in isolation, i.e., not as part of a portfolio.

Volume

The number of shares or contracts traded in a security or an entire market during a given period, typically a day.

W

Warrant

A financial asset, issued by the firm, which gives its holder the right to purchase a fixed number of shares of common stock at a predetermined price.

White Knight

A firm that comes to the rescue of a corporation that is being taken over.

Worst-Case Credit Exposure

A measure of potential credit exposure.

Y

Yield

A measure of a bond's potential return.

Yield Curve

A description of yields for multiple horizons.

Yelling Markets

Also referred to as "public outcry", refers to markets where transactions involve the yelling of prices and quantities, just as in the movies.

Yield to Maturity (YTM)

The market interest rate on a bond. It is the yield an investor would receive in the bond is held to maturity.

Z

Zero Coupon Bond

A bond that has no coupon payments. It pays only a single cash flow at maturity.