

Investment and Securities Dictionary

Compiled by
Michael C. Thomsett

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Introduction: What This Book Will Do for You

The Investment and Securities Dictionary is a comprehensive summary of terms used in the markets of stock exchanges, syndications, broker-dealers, investment managers, sponsors and financial planners.

The more than 2,000 entries include technical words and phrases, industry agencies and associations, and regulatory bodies. References are included to those laws and regulations affecting investors and investment professionals in their everyday lives.

Major sections of the book include:

Glossary of Terms. The body of the book, fully cross-referenced for complete and thorough research, with many illustrations.

Abbreviations List. A summary of abbreviations used in the industry, including agencies and organizations, laws, and jargon of the investment community.

Guide to Prospectus and Offering Documents. A summary of the major sections of prospectuses and circulars, including the primary purpose and subject matter of each.

Bond Classification List. A complete alphabetical listing of every type of bond, all of which may be cross-referenced to the Glossary of Terms.

Whether you are an active professional in investing, a financial planner, or involved in a related service industry, this book summarizes the terminology of the business. If you are a part-time enthusiast or an investor, *The Investment and Securities Dictionary* will help you to converse and correspond with professionals with whom you deal. It provides you with a wide range of information and allows you to quickly gain insights into specific areas of interest, with the complete cross-referencing feature.

This book will become one of your most valuable references whenever you need clarification of a term, or when you need to increase your understanding of a new or complex investment subject.

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Glossary of Terms

A

A-B deal a structure of real estate partnerships under which two classes of investors are sought. One group acts strictly as creditors, loaning funds to the partnership. The other group purchases units of limited partnership interest in the same way as a standard real estate program.

An advantage of the A-B deal is that no outside financing is needed for leveraging. A-B creditor investors do not share equity in properties, and are not equity participants. See **leverage**.

ABC agreement an arrangement under which a seat on the New York Stock Exchange (NYSE) may be purchased with funds borrowed or advanced by another party. There are three primary options: (a) the existing seat is kept by the individual in the agreement, and another purchased for the outside party; (b) the seat is sold and proceeds remitted to a lender; and (c) the seat is transferred to an individual employed by the lender. See **New York Stock Exchange (NYSE)**.

abandonment a method for disposing of a capital asset no longer useful, useable or valuable. An abandonment may be treated in the same way as a sale, in which case capital gain or loss rates would apply. In other instances, abandoned property is not considered a capital sale or exchange, and ordinary gain or loss rates would apply. Assets damaged or obsolete may be abandoned, and the term may also be applied to inventory no longer useable. See **capital gain; capital loss**.

accelerated cost recovery system (ACRS) a system replacing an older method for depreciation of capital assets, originated as part of the Economic Recovery Tax Act of 1981 (ERTA). ACRS provides for the recovery of asset costs over a defined period of time (class life). All assets fit into one of several class lives and rates are set. Elections may be made to apply straight-line depreciation to assets in a single class life, whereas ACRS rates are accelerated, reverting to straight-line in the latter portion of the life of the asset. The result of ACRS is more rapid depreciation of assets and the elimination of previously mandated salvage values. See **class life; depreciation; Economic Recovery Tax Act of 1981 (ERTA)**.

accelerated depreciation a method of writing off the basis of a capital asset which achieves deductions more rapidly than straight-line depreciation would allow. Acceleration is built into the ACRS rates of the Economic Recovery Tax Act of 1981 (ERTA).

The degree of acceleration is identified as a percentage. For example, a 200% DB (declining balance) would allow depreciation of each year's beginning balance remaining in the asset at twice the rate (200%) that would be allowed under

accelerated depreciation
\$5,000 asset

Year	Straight Line	150% DB	175% DB	200% DB
1	\$1,000	\$1,500	\$1,750	\$2,000
2	1,000	1,050	1,138	1,200
3	1,000	735	739	720
4	1,000	515	481	432
5	1,000	360	312	259

straight-line rules. 175% DB would indicate a rate of depreciation one and three-quarters faster than that allowed under straight-line. See **depreciation**; **Economic Recovery Tax Act of 1981 (ERTA)**; **straight-line depreciation**.

acceleration clause a provision allowing a lender to call a mortgage principal balance immediately or on an accelerated basis, if a certain event occurs. The clause may indicate the lender's acceleration rights if payments are delinquent, for example. See **mortgage**.

acceptance ratio a comparison between the volume of bonds sold during a week, and the volume of new issue bonds offered. Also referred to as "placement ratio," this comparison is an indicator of investor attitude. A high ratio—above 90%—indicates a high ratio of acceptance. See **bond**.

accounting rate of return a test applied to real estate investments which identifies net cash returns after taxes, in a given tax rate or bracket. The method does not reflect the timing of returns and so cannot be called a true investor rate. Its major strength as a means to compare investment performance is the wide acceptance of the calculation as a means for qualification and success of a program, and its wide application by analysts of real estate programs. See **real estate**.

accounts payable a liability reflected under the "current" section of a balance sheet, which may include the total of amounts due within one year for the purchase of inventory or other direct costs, general overhead expenses, and other amounts owed. Excluded are liabilities for payroll, notes, and taxes payable. See **balance sheet**.

accredited investor an investor exempted from the limitation of total investors allowed to participate in a private placement. Generally, no more than 35 persons may purchase units. However, with the meeting of certain suitability standards, it is assumed the investor is sophisticated enough not to need the protection of regulation.

Those suitability standards are: (a) institutional investors; (b) individuals with net worth of \$1 million or more; (c) individuals earning \$200,000 or more per year;

or (d) individuals who purchase \$150,000 or more of an offering when that purchase does not exceed 20 percent or more of their total net worth. See **limited partnership**; **Securities Act of 1933**; **Securities and Exchange Commission (SEC)**.

accretion the process of adjusting in equal installments the difference between cost and redemption value of a bond. This difference, the original issue discount, is treated as interest income in the year of adjustment. See **bond**; **original issue discount (OID)**.

accrual (1) an entry on the books of an organization recognizing an item of income, cost or expense before cash has exchanged hands, set up to reflect an impact on profits and losses in the period during which the income was earned or the cost/expense incurred.

(2) an accounting basis which recognizes income, costs and expenses in the applicable period, as opposed to the cash method, under which no entries are made until a cash transaction has occurred.

(3) the designation of an amount of interest payable on a bond, by the buyer to the seller, to reimburse the seller for interest accrued during the holding period up to the day before settlement. See **and interest**; **cash basis**.

accrual of bond interest

\$1,000 bond
 6% coupon rate
 last interest payment date, March 15
 transaction settlement date, May 28

 number of days to accrue interest: 68

formula:

$$\frac{\text{accrual days}}{\text{one year}} \times \text{interest rate} \times \text{bond value} = \text{accrued interest}$$

$$\frac{68}{360} \times 6\% \times \$1000 = \$11.33$$

accumulated earnings tax a penalty assessed against corporations deemed to have earned net profits in excess of their reasonable needs. It is intended to cause the payment of appropriate dividends to shareholders, as opposed to the retention of those earnings. See **corporation**; **dividend**; **earned surplus**; **net income**.

accumulation (1) applied to discounted bonds, the appreciation in value from purchase date until (a) maturity or (b) the call date, if a callable bond.

(2) a technical term generally referring to the activity of buying and holding securities. See **appreciation**; **buy**; **callable bond**; **discount**; **maturity date**; **security**.

accrual examples

a) Income Accrual:

1. Income is earned
 2. Payment is received
- net result

Cash		Accounts Receivable		Income	
DR	CR	DR	CR	DR	CR
		\$1,000			\$1,000
\$1,000			\$1,000		
<u>\$1,000</u>		<u>\$ -0-</u>			<u>\$1,000</u>

b) Expense Accrual:

1. Expense is incurred
 2. Payment is made
- net result

Cash		Accounts Payable		General Expense	
DR	CR	DR	CR	DR	CR
				\$ 500	
\$ 500		\$ 500			
<u>\$ 500</u>			<u>\$ -0-</u>		<u>\$ 500</u>

accumulation area a term used in technical analysis to identify "support" areas in an issue; when a series of low points are established over a period of time (floor), the accumulation area, or support level may indicate investor willingness to purchase that issue at that price. See **floor**; **support level**; **technical analysis**.

accumulation unit indication of the level of **equity** held in an annuity. A purchaser of fixed and variable annuities deposits sums with an insurer which are referred to as accumulation units and are the property of the annuitant. These units may be surrendered (returned to the annuitant) before the selected date of annuitization, or converted (exchanged) for one of several annuity options at a pre-selected date. See **annuity**; **fixed annuity**; **variable annuity**.

acid test ratio a ratio used to measure liquidity of an organization, involving the comparison between current assets without inventories, to total current liabilities. An acid test ratio of "1 to 1" is considered acceptable in most industries. Below that is unfavorable. See **balance sheet ratios**.

acid test ratio

$$\frac{CA - I}{CL} = X/Y$$

CA = current assets

I = inventory

CL = current liabilities

X = asset factor of ratio

Y = liability factor of ratio

active bond a type of bond for which a high volume of trading is expected, to the extent that it will be freely handled as are stock issues. See **floor**; **free security**.

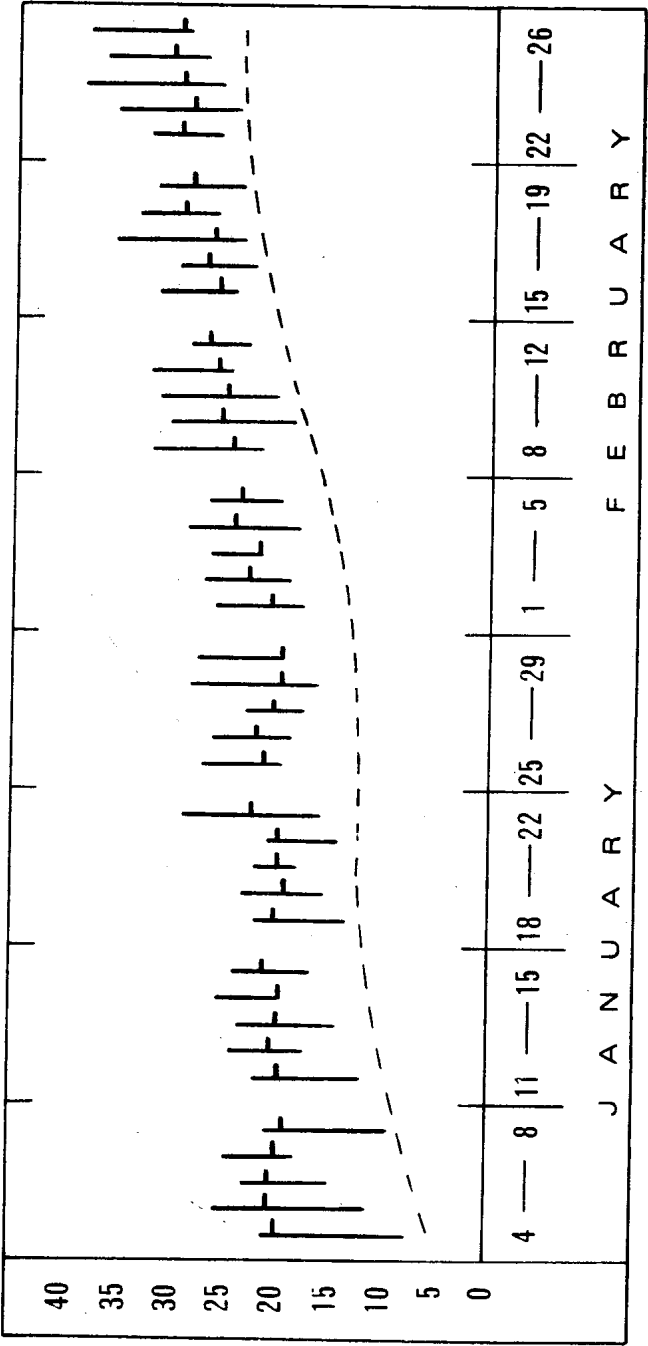
active box broker-dealer industry slang indicating the place where securities are held for one of several reasons: (a) awaiting instructions from their owner; (b) being held for financing, if owned by the broker-dealer; or (c) held in pledge against customer margin loans. See **broker-dealer**; **margin account**.

active market (1) description of a high level of transactions in a single security.

(2) description of a grouping of securities characterized by a high volume of trading activity. See **security**; **volume**.

actual cash value (ACV) a contract's value upon maturity or redemption. See **cash value**; **maturity date**; **redemption**.

accumulation area



----- accumulation area

actuarial assumptions projections of future values or events, especially those of individual mortality, compensation, appreciation of assets, and earning power; such projections are used to estimate future pension and retirement values and annuity and life mortality valuations in variable annuity products. See **fixed annuity**; **pension plan**; **profit sharing plan**; **variable annuity**.

ad valorem "value added"; an assessment based on the value of products, descriptive of a fixed percentage tax. See **tax basis**.

add-on minimum tax a feature of federal tax law, by which certain tax preference income is subject to tax above and beyond regular tax rates. This tax was created and amended by the Tax Reform Acts of 1969 and 1976 to minimize the advantages of tax-advantaged investments (tax shelters). See **minimum tax**; **tax preference**; **Tax Reform Act of 1969**; **Tax Reform Act of 1976**; **tax shelter**.

adjustable rate mortgage (ARM) a real estate mortgage with a rate of interest that is modified periodically based upon the relative change in a predetermined, independent interest rate index. See **fixed-rate mortgage**; **flexible-rate mortgage**; **mortgage**; **real estate**.

adjusted basis (1) the net value of a capital asset for tax purposes, consisting of the original purchase price; increased by the value of capital improvements; decreased by depreciation claimed or allowable.

(2) for investors, the net purchase price of a security after broker commissions; or investment amount adjusted by the operations and financing of a partnership. See **capital gain**; **commission**; **depreciation**; **partnership**.

Sales Price		\$ 84,600
Purchase Price	\$ 57,000	
Plus: Capital Improvements	15,000	
Less: Accumulated Depreciation	<u>(45,800)</u>	
Adjusted Basis		<u>\$ 26,200</u>
Net Capital Gain		<u>\$ 58,400</u>

adjusted basis

adjusted gross income the amount of income reported by an individual for federal income purposes, consisting of total income and loss from all sources, less allowable adjustments. These adjustments include moving expenses, employee business expenses, IRA deductions, payments to a Keogh retirement plan, penalty on early withdrawal of savings, alimony paid, deduction for a working couple when both work, and disability income exclusion. See **Federal Income Tax Act of 1913**; **individual retirement account (IRA)**; **Keogh plan**.

adjustment bond a bond normally issued when the issuing company would otherwise become bankrupt. It is exchanged with other outstanding bonds on the

condition that interest will accrue and be payable only if earned. Bondholders of outstanding issues must authorize the exchange. See **income bond**.

advance-decline index a comparison between daily or weekly numbers of traded issues which have risen in price to those that have declined. This index is used as a gauge of current market sentiment and trends. For example, one theory holds that three consecutive days in which advances lead declines by 1,000 issues or more is a very bullish signal.

The index may be expressed numerically (advances led declines 3 to 1) or as a factor (1200 advances and 400 declines is an index of "3").

Advance-decline analysis is based on the premise that general market sentiment is reflected in the relative numbers of issues trading at higher and lower prices than the previous period. See **bear; bull; issue; technical analysis**.

advance refunding a practice to fully ensure against default of municipal securities, also known as prerefunding. Proceeds of the issue are invested in U.S. Government securities, which are placed into an escrow account. The maturity dates of the government securities are coordinated with those of the municipals. They can be used only for redemption of the municipals. See **prerefunding; redemption**.

advance ruling a decision as to the tax status of proposed investments, particularly partnerships, that is requested from the Internal Revenue Service before the offering is sold. See **limited partnership**.

advertising a communication intended for public distribution concerned with the offering or sale of services or products or recruiting activities.

The NASD has specified that advertisements by securities dealers may not be false or misleading. A broker-dealer is responsible for all advertisements that will be used by members of that firm. A general securities principal of the broker-dealer must approve each advertisement and retain a copy for three years. Additional restrictions apply to ads other than tombstone ads. See **general securities principal; National Association of Securities Dealers (NASD); rules of fair practice; tombstone ad**.

advisor's client account an account opened for a client by an investment advisor. When such an account is opened, the advisor is required to obtain information necessary to ensure proper suitability of the client for the activities anticipated, and proper supervision by the broker-dealer. See **broker-dealer; investment advisor; new account form; suitability**.

affidavit of domicile an executor's statement required at the time of death, so that securities may be transferred. The affidavit attests to the domicile state at the time of death and, together with a state's tax waiver, is required before transfer may be completed. See **estate planning**.

affiliated member a corporation contracted with stock exchanges other than New York, who have agreed to abide by exchange rules. This agreement, signed with the Stock Clearing Corporation, enables the corporations to make payments and deliveries within the rules of the NYSE. See **clearing member; control person; Stock Clearing Corporation (SCC)**.

affiliated person an individual in a position to materially affect the management decisions of an organization. Included are officers, directors, members of immediate families, or anyone holding or controlling 10 percent or more of the company's stock. See **control person; control stock**.

aftermarket a term used to describe the trading in a security following its initial public offering. See **freeriding**; **hot issue**; **offering**; **over-the-counter (OTC)**; **secondary market**; **security**; **stabilization**; **withholding**.

aftertax a rate of return applied to bonds which are purchased at a discount. The rate is used to compare yields net of taxation, and assumes a maximum tax and capital gains rate that would be paid by a corporate holder. See **bond**; **discount**.

agency arrangement (1) acting as an agent for the account of someone else, by agreement.

(2) A type of bond exempted from registration under terms of the Securities Act of 1933.

(3) In the cattle feeding industry, an agreement under which a feed operator manages a herd and contracts directly with investors. See **agent**; **cattle feeding**; **Federal Intermediate Credit Bank (FICB)**; **Securities Act of 1933**; **Tennessee Valley Authority (TVA)**.

agency bond a category of bonds issued and backed by the credit of the United States, yet yielding rates competitive with or higher than Treasury obligations. See **Bank for Cooperatives (CO-OP)**; **Export-Import Bank**; **Federal Home Loan Bank (FHLB)**; **Federal Intermediate Credit Bank (FICB)**; **Federal Land Bank (FLB)**; **Government National Mortgage Association (GNMA)**; **Inter-American Development Bank (IADB)**; **Tennessee Valley Authority (TVA)**; **World Bank**.

agent (1) One who acts in behalf of another, having been given the power to represent, including the buying, selling and commitment for the account of the principal.

(2) Under the laws of state securities trading, one who acts in behalf of a broker-dealer or an issuer for securities transactions in that state. See **agency arrangement**.

aggregate exercise price (AEP) (1) descriptive of the total amount that may be exercised under the terms of stock option contracts. When more than one option is bought or sold, it is the aggregate total exercise potential of those options which makes up the AEP.

(2) the strike price multiplied by the face value of underlying securities, in cases of Treasury bills and notes the Ginnie-Mae options. As in the case of bond premiums, the option value (strike price) also represents a percentage of face value. See **call**; **option**; **put**; **strike price**; **Treasury bill**; **Treasury note**.

aggregate indebtedness Used in the broker-dealer industry, the total of amounts payable to customers. Generally, this debt would consist of amounts due to customer credit balances. Computing of aggregate indebtedness is required by the Securities and Exchange Commission. See **broker-dealer**; **net capital requirement**; **SEC Rule 15c3-1**; **Securities and Exchange Commission (SEC)**.

aggrieved party (1) one who files a complaint against an NASD member or member agent as defined by the rules of fair practice.

(2) one requesting stock exchange, NASD or MSRB arbitration to settle disputes with a member or member agent. See **arbitration**; **member organization**; **Municipal Securities Rulemaking Board (MSRB)**; **National Association of Securities Dealers (NASD)**; **rules of fair practice**.

allied member (1) a term for individuals who are partners, officers, employees or directors of a member firm, but who are not exchange members.

(2) employees who are also voting stockholders in a member organization who also act as members of the board of directors; own five percent or more of the voting stock; or are identified in the organization as principal executive officers. See **board of directors**; **member organization**; **National Association of Securities Dealers (NASD)**.

alligator spread reference to an option spread transaction in which the broker commissions are greater than the profits to the client would be. See **broker**; **commission**; **option**; **spread**.

all or none (AON) (1) a condition attached to a buy or sell order. It specifies that a transaction is to be completed in total or not at all. Thus, the total size of a transaction is conditional. An AON condition may be expanded to restrict the time of execution by indicating FOK, fill or kill. If immediate execution of the entire order is not possible, then the entire order is cancelled and no partial order may be filled.

(2) In an underwriting, the AON condition may be attached to the subscription offering. Failing subscription of all shares, the issuer may cancel the entire offering. See **buy**; **fill or kill (FOK)**; **offering**; **round lot**; **sell order**.

alternate energy classification of investment program in non-traditional energy sources, including all areas except oil and gas: solar, thermal, wind energy. See **private placement**; **program**; **public offering**; **tax shelter**.

alternative minimum tax a tax effective since 1979 designed to ensure a liability in most circumstances. See **add-on minimum tax**; **tax basis**; **tax preference**.

alternative order a two-part order in which the successful execution of one part automatically cancels the other part. It is a combination of a limit order (to transact below current value) and a stop order (to transact above current value) on the same issue. These are also called either-or orders. See **buy**; **limit order**; **sell order**; **stop order**.

American Commodity Exchange (ACE) 711 NE Third Street, Gresham OR 97030; a regional commodity exchange for the Pacific Northwest region. See **commodity**; **exchange**; **regional exchanges**.

American depository receipt (ADR) a receipt for shares held in a deposit in a foreign branch of an American bank, when those shares are in a foreign corporation. ADR's are negotiable and are used by foreign corporations to sell shares in the United States. See **beneficial owner**.

American Municipal Bond Assurance Corporation (AMBAC) an insuring organization covering municipal bonds to the extent of both principal and interest. Premiums for coverage are paid by the bond issuer. See **guaranteed payment**; **municipal bond**.

American Stock Exchange (AMEX) 86 Trinity Place, New York NY 10006; the second largest U.S. stock exchange. Until 1971, AMEX was the New York Curb Exchange. The organization deals in markets for the issues of organizations that do not meet the criteria for membership of the New York Stock Exchange, where listing

requirements and minimum size of an organization are more demanding. See **curb exchange**.

American Stock Exchange Clearing Corporation (ASECC) a subsidiary of AMEX formed to help member organizations with trading activities. Apart from its rulemaking, this organization has subcontracted its duties to the Securities Industry Automation Corporation (SIAC). See **member organization**; **Securities Industry Automation Corporation (SIAC)**.

American Stock Exchange Market Value Index an index prepared each trading day of all AMEX issues grouped geographically and by industry. See **common stock**; **index**.

American Stock Exchange Price Change Index an index prepared each trading hour of all AMEX common stock issues, reflecting unweighted prices movements. See **common stock**; **index**.

AMEX Options Switching System (AMOS) an automated system for directing option orders to trade locations and, upon execution, reporting back to the member who placed the order. See **execution**; **option**.

AMEX Rule 411 A dictate of the American Stock Exchange similar to the NYSE "know your customer" rule. See **American Stock Exchange (AMEX)**; **know your customer**.

amortization (1) an accounting term referring to the recognition of expense over a period of use or application. For example, an insurance premium paid for a three-year period would be amortized over 36 months, in equal installments.

(2) a general term in accounting covering the practices under which an asset is deducted as a business expense. This includes depreciation and depletion. Example: "Depreciation is used to amortize the cost of a fixed asset over the term of that asset's class life."

(3) the method of expensing organization costs of business or intangible assets. Generally, costs to organize are amortized over a sixty-month period. The costs of improvements are amortized in a method similar to straight-line depreciation, with the distinction that the reduction of improvements is referred to on a balance sheet as "accumulated amortization." Under an alternate method, the accumulation is not shown separately but the gross value of the asset is reduced.

(4) a term used in reference to the payments on a loan in which interest is charged only on the new outstanding principal balance, commonly used in mortgages on real estate over long terms.

(5) the process of recognizing for tax purposes the premium paid on purchase of a bond. If a bond is purchased "at a premium," a higher amount is paid than the bond's redemption value. This premium is amortized over the period of time between purchase and the redemption date. See **deferred asset**; **depletion**; **depreciation**; **interest**; **premium**; **prepaid assets**; **prepaid expenses**; **prepaid interest**; **redemption**.

and interest in the transaction of a bond, a reference to the payment on interest from the previous interest payment date to the date immediately before settlement. The buyer pays the seller for the interest earned during this holding period. See **accrual**; **bond**; **interest**.

annual audit (1) an accounting term referring either to an internal examination and closing of the company's books, or an external and independent examination by

amortization of expense

Insurance premium paid for three years, \$180.00.

Amortization:

Description	Month	Asset: Prepaid Insurance		Insurance Expense	
		Dr.	Cr.	Dr.	Cr.
Premium Paid	January	1800.00			
Amortization	January		50.00	50.00	
"	February		50.00	50.00	
"	March		50.00	50.00	
Sub-total		1650.00		150.00	