

Words of Wall Street:

2000 Investment Terms Defined

**Allan H. Pessin
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Preface

Every profession centers on three elements:

- The problems that people bring to the professionals
- The words and expressions that are unique to the profession
- The systems and procedures whereby professionals use the tools of the profession to solve the problems of the people who use the services of the profession.

It is no different with the securities profession. People use the services of the securities professional, there are delivery systems, and there are words and expressions unique to the profession.

This is not a how-to-do-it book; instead, it concentrates on the terms and expressions used in the securities industry and it describes many of the delivery systems used in the securities industry.

We have tried to make this book less than a dictionary, but more than a glossary of terms. We have given extensive explanations and, wherever examples will help to illustrate a term, we have added them.

The book is easy to use. Entries are alphabetized letter-by-letter. Before the main glossary, we have placed an alphabetical Table of Cross References, which contains many synonyms, abbreviations, and terms related to the terms in the main glossary. Beside each term in this table is the entry related to it. If you do not find a term in the glossary, check the Table of Cross References.

The book has two audiences:

- The individual investor who wants to learn more about the securities industry: its terms, its delivery systems, and the colorful slang that surrounds the securities industry.
- The industry professional who wants more specific information about a term or expression.

This book will not make you rich. Its goal is not problem solving, nor does it teach one how to pick this or that security. However, it does teach the reader the language of the securities industry—in many cases, this is more than half the problem.

Allan H. Pessin
Joseph A. Ross

Table of Cross References

AMEX *see* **AMERICAN STOCK EXCHANGE**
AND INTEREST *see* **ACCRUED INTEREST**
AON *see* **ALL OR NONE**
APPROXIMATE MARKET *see* **NOMINAL QUOTATION**
ASE *see* **AMERICAN STOCK EXCHANGE**
BA *see* **BANKER'S ACCEPTANCE**
BAN *see* **BOND ANTICIPATION NOTE**
BOM *see* **BRANCH OFFICE MANAGER**
BOP *see* **BALANCE OF PAYMENTS**
BP *see* **BASIS POINT**
BW *see* **BID WANTED**
CARRY *see* **COST OF CARRY**
CBT *see* **CHICAGO BOARD OF TRADE**
CERTIFICATE OF INCORPORATION *see* **CHARTER**
CFTC *see* **COMMODITIES FUTURES TRADING COMMISSION**
CIF *see* **CORPORATE INCOME FUND**
CME *see* **CHICAGO MERCANTILE EXCHANGE**
COD *see* **CASH ON DELIVERY**
COMMISSION HOUSE BROKER *see* **FLOOR BROKER**
CONFIDENCE INDEX *see* **BARRON'S CONFIDENCE INDEX**
COST AVERAGING *see* **DOLLAR COST AVERAGING**
CPI *see* **CONSUMER PRICE INDEX**
CROP *see* **COMPLIANCE REGISTERED OPTIONS PRINCIPAL**
CURRENT COUPON *see* **GINNIE MAE PASS-THROUGH and CURRENT PRODUCTION RATE**
CUSIP *see* **COMMITTEE ON UNIFORM SECURITIES IDENTIFICATION PROCEDURES**
CUSTOMER AGREEMENT *see* **MARGIN AGREEMENT and HYPOTHECATION AGREEMENT**
DBA *see* **DOING BUSINESS AS**
DD *see* **DELAYED DELIVERY**
DDB *see* **DOUBLE-DECLINING BALANCE METHOD**

DEEP DISCOUNT *see* **DEEP DISCOUNT BOND**
DESIGNATED ORDER *see* **DESIGNATED NET** *and* **DESIGNATED CONCESSION**
DJIA *see* **DOW JONES INDUSTRIAL AVERAGE**
DK *see* **DON'T KNOW**
DNR *see* **DO NOT REDUCE**
DOT *see* **DESIGNATED ORDER TURNAROUND**
DTC *see* **DEPOSITORY TRUST COMPANY**
EARNED SURPLUS *see* **RETAINED EARNINGS**
EBT *see* **EARNINGS BEFORE TAXES**
EXERCISE AN OPTION *see* **EXERCISE**
EXPIRATION MONTH *see* **EXPIRATION CYCLE** *and* **EXPIRATION DATE**
FAIL *see* **FAIL TO RECEIVE** *and* **FAIL TO DELIVER**
FASB *see* **FINANCIAL ACCOUNTING STANDARDS BOARD**
FC *see* **FIRST CALL DATE**
FDIC *see* **FEDERAL DEPOSIT INSURANCE CORPORATION**
FED *see* **FEDERAL RESERVE BOARD** *and* **FEDERAL RESERVE SYSTEM**
FHA *see* **FEDERAL HOUSING ADMINISTRATION**
FHLB *see* **FEDERAL HOME LOAN BANK**
FIFO *see* **FIRST IN, FIRST OUT**
FLB *see* **FEDERAL LAND BANKS**
FLOOR GIVE UP *see* **GIVE UP**
FNMA *see* **FEDERAL NATIONAL MORTGAGE ASSOCIATION** *and* **FANNIE MAE**
FOK *see* **FILL OR KILL**
FOMC *see* **FEDERAL OPEN MARKET COMMITTEE**
FOREIGN BOND *see* **YANKEE BOND**
FORWARD *see* **FORWARD CONTRACT**
FRB *see* **FEDERAL RESERVE BOARD**
FREDDIE MAC *see* **FEDERAL HOME LOAN MORTGAGE CORPORATION**
FREE TO TRADE *see* **FREED UP**
FRN *see* **FLOATING RATE NOTE**
FUNDS RATE *see* **FEDERAL FUNDS RATE**
FYI *see* **FOR YOUR INFORMATION**
GINNIE MAE *see* **GOVERNMENT NATIONAL MORTGAGE ASSOCIATION**
GNMA *see* **GOVERNMENT NATIONAL MORTGAGE ASSOCIATION**
GNMA PRODUCTION RATE *see* **PRODUCTION RATE**
GNP *see* **GROSS NATIONAL PRODUCT**

GO *see* GENERAL OBLIGATION BOND
GROUP LESS CONCESSION ORDER *see* DESIGNATED CONCESSION
GTC *see* GOOD TILL CANCELLED ORDER
GTD *see* GUARANTEED BOND
HEDGE RATIO *see* DELTA
HUD *see* HOUSING AND URBAN DEVELOPMENT
IA *see* INVESTMENT ADVISER
IB RATE *see* INTER-BANK RATE
ICC *see* INTERSTATE COMMERCE COMMISSION
IDB *see* INDUSTRIAL DEVELOPMENT BOND
IMM *see* INTERNATIONAL MONETARY MARKET
INDUSTRIAL REVENUE BOND *see* INDUSTRIAL DEVELOPMENT BOND
IOC *see* IMMEDIATE-OR-CANCEL ORDER
IRA *see* INDIVIDUAL RETIREMENT ACCOUNT
ISO *see* INCENTIVE STOCK OPTION
ISSUE PRICE *see* PUBLIC OFFERING PRICE
ITC *see* INVESTMENT TAX CREDIT
ITS *see* INTERMARKET TRADING SYSTEM
JTWROS *see* JOINT TENANTS WITH RIGHT OF SURVIVORSHIP
KCBT *see* KANSAS CITY BOARD OF TRADE
LEGALS *see* LEGAL TRANSFER
LETTER STOCK *see* LETTER SECURITY
LIFO *see* LAST IN, FIRST OUT
LIVING TRUST *see* INTER VIVOS TRUST
LOIS *see* LIMIT ORDER INFORMATION SYSTEM
MIT *see* MARKED IF TOUCHED ORDER *or* MUNICIPAL INVESTMENT TRUST
MUNICIPAL SECURITY *see* MUNICIPAL BOND
NET WORKING CAPITAL *see* NET CURRENT ASSETS
NEW HOUSING AUTHORITY BONDS *see* PUBLIC HOUSING AUTHORITY BONDS
NYSE *see* NEW YORK STOCK EXCHANGE
OPEN BOX *see* ACTIVE BOX
PFD *see* PREFERRED STOCK
PRICE SPREAD *see* VERTICAL SPREAD
RECEIVER IN BANKRUPTCY *see* RECEIVER
REGISTERED BOND *see* REGISTERED SECURITY
REGULAR SPECIALIST *see* SPECIALIST

REVERSE REPO *see* REVERSE REPURCHASE AGREEMENT
RP *see* REPURCHASE AGREEMENT
RW *see* REGULAR-WAY SETTLEMENT
S & P *see* STANDARD & POOR'S; *also its* INDEX *and its* RATING
SALLIE MAE *see* STUDENT LOAN MARKETING ASSOCIATION
SBA *see* SMALL BUSINESS ADMINISTRATION
SDR *see* SPECIAL DRAWING RIGHTS
SEC *see* SECURITIES AND EXCHANGE COMMISSION *and* SEC RULES
SEC REGULATIONS *see* SEC RULES
SEP *see* SIMPLIFIED EMPLOYEE PENSION PLAN
SF *see* SINKING FUND
SIA *see* SECURITIES INDUSTRY ASSOCIATION
SIAC *see* SECURITIES INDUSTRY AUTOMATION CORPORATION
SIMULTANEOUS TRANSACTION *see* RISKLESS TRANSACTION
SIPC *see* SECURITIES INVESTORS PROTECTION CORPORATION
SMA *see* SPECIAL MISCELLANEOUS ACCOUNT
SOP *see* STATEMENT OF POLICY
SRDP *see* SENIOR REGISTERED OPTION PRINCIPAL
STANDARD & POOR'S INDEX *see* S & P INDEX
STOCKHOLDERS' EQUITY *see* SHAREHOLDERS' EQUITY
SUBCHAPTER S *see* SUBCHAPTER S CORPORATION
TAB *see* TAX ANTICIPATION BILL
TAN *see* TAX ANTICIPATION NOTE
T-BILL *see* TREASURY BILL
T-BOND *see* TREASURY BOND
TIME SPREAD *see* CALENDAR SPREAD
TTV *see* TRADING TO TOTAL VOLUME
TVA *see* TENNESSEE VALLEY AUTHORITY
UNDERWRITERS' RETENTION *see* RETENTION
UNDIVIDED ACCOUNT *see* EASTERN ACCOUNT
UNIFIED MORTGAGE BOND *see* CONSOLIDATED MORTGAGE BOND
UNITED ACCOUNT *see* EASTERN ACCOUNT
UPTICK *see* PLUS TICK
USASLE *see* UNIFORM SECURITIES AGENT STATE LAW EXAMINATION
VISIBLE SUPPLY *see* THIRTY-DAY VISIBLE SUPPLY
WAREHOUSING *see* PARKING
WARRANT *see* SUBSCRIPTION WARRANT
WD *see* WHEN DISTRIBUTED

WI *see* WHEN ISSUED

WORKING CAPITAL RATIO *see* CURRENT RATIO

WOW *see* WITH OR WITHOUT

YTM *see* YIELD TO MATURITY

Glossary

A

A

- 1 Lowercase: used in newspaper stock transaction tables after dividend to designate that extra cash dividends were paid during previous year. For example, 2.40a.

Formerly used in option transaction table to designate that no trades in an option series occurred that day.

- 2 Uppercase: used in the newspaper reports of a corporation's earnings to designate that the principal marketplace for the corporation's securities is the American Stock Exchange. For example, Atlas Van (A).

ABC AGREEMENT

New York Stock Exchange term to designate this situation: a member uses borrowed funds to purchase an exchange seat. So called because the exchange-approved agreement has three provisions: the member may (1) retain the seat and purchase another seat for a designee of the lender's choice, (2) sell the seat and remit the proceeds to the lender, (3) transfer the seat, at a nominal consideration, to another person in the employ of the lending member firm.

ACCOUNT

General industry term for:

- 1 The bookkeeping record of a client's transactions and credit or debit balances of either cash or securities with the member firm. The term also is used of the conduct of such business relationships. For example, "Our firm emphasizes accounts productive to the firm and to client."
- 2 The books of an investment syndicate that indicate contractual relationships, the securities owned and sold, and the final financial balance between a participant in a syndicate and the syndicate.

ACCOUNT EXECUTIVE

Commonly used term for an employee of a broker-dealer who has been registered with the NASD and/or one of the exchanges. Such employees are permitted to solicit buy and sell orders for securities and, in general, to handle client accounts.

Technically, the term applies to a registered representative, although some member firms use other designations for registered employees.

ACCOUNT STATEMENT

General name for the periodic statement that gives the status of a client's account with a broker-dealer. Such statements, which must be sent at least quarterly to clients with open accounts, give a summary of all transactions during the previous period, plus a recounting of debits, credits, and long and short positions.

In practice, most broker-dealers send account statements monthly if the client has bought or sold during the previous month.

Also used of the option agreement that must be signed when a client opens an option account.

ACCREDITED INVESTOR

Term used by SEC in Regulation D of private placements.

Concept: although 35 is the upper limit of persons who may purchase a private placement, accredited investors are not included in this number.

General definition of accredited investors: institutional-type accounts and persons of wealth (persons with a net worth of \$1 million or more; persons with an annual income of \$200,000 or more; persons who purchase \$150,000 or more of the offering and this does not represent more than 20% of their net worth).

ACCRETION

Technical term for the upward adjustment of the cost of acquisition of a bond purchased at an original issue discount. Internal Revenue rules adopted in July 1982 give precise provisions for this upward adjustment. The difference between the adjusted cost basis in successive tax years is considered interest income for the tax year in which the adjustment is made.

ACCRUAL BASIS

Designation of an accounting procedure whereby debits and credits are entered in the books of the company on the date they are incurred, rather than on the date they are paid or received. For example, ABC Corporation sells an item worth \$20 on credit. It would debit inventory

and credit accounts receivable by \$20. Then, when the \$20 is actually received, it will credit cash and debit accounts receivable.

ACCRUED INTEREST

Term designating the interest due on a bond or other fixed-income security that must be paid by the buyer of a security to its seller.

Usual computation: coupon rate of interest times elapsed days from prior interest payment date (i.e., coupon date) up to but not including settlement date. Principal exceptions: money market securities that are sold at a discount do not have accrued interest.

Antonym: flat (i.e., without accrued interest).

Synonym: and interest (used as a qualifier). For example, The trade was made "and interest" (i.e., the accrued interest must be added to the contract price).

ACCUMULATION AREA

Term used by technical analysts if the market price of a security tends to move sideways. The term implies that buyers are willing to purchase at present prices.

Because prices tend to reflect the accumulated decisions of buyers and sellers, it is difficult to tell in practice whether a sideways price movement results from buying (accumulation) or from selling (distribution).

See also DISTRIBUTION AREA.

ACCUMULATION UNITS

Term used of annuities if a person buys an annuity, either fixed or variable, through a lump-sum purchase for future payout or by periodic purchases (i.e., accumulation). When the purchaser elects a payout method, these units will be converted to annuity units.

Basic concept: accumulation units remain the property of the purchaser; upon election of a payout method, the annuitant surrenders the property and, in exchange, receives a right to future payments from the insurance company. These payments are fixed if the annuity is a fixed annuity; variable if the annuity is variable.

ACID-TEST RATIO

A measurement of corporate liquidity. Accepted measurement: subtract inventory from current assets; divide the remainder by current liabilities. For example, a company has current assets of \$10 million and inventory of \$3 million. Net: \$7 million. It has current liabilities of \$3.5 million. Its acid-test ratio is:

$$\frac{\$7 \text{ million}}{\$3.5 \text{ million}} = \frac{2}{1}$$

Ratios below 1 to 1 are considered low. However, ratios that are extremely high may indicate that a company is not using assets effectively, may be cash rich, and is subject to a takeover by other companies.

ACQ

Abbreviation used on the consolidated tape for a transaction that represents an exchange acquisition (i.e., a block trade initiated by a buyer with all transaction costs paid by a purchaser). Such transactions are infrequent.

ACTING IN CONCERT

Basic concept: two or more persons who, either collectively or through a common agent, endeavor to achieve an investment goal.

Basic restrictions against acting in concert: such persons may not (1) exceed the position and exercise limits set by the option exchanges, (2) work to change the management of a registered corporation without filing with the SEC, (3) accumulate a control position in the security of a corporation without reporting to the SEC, (4) manipulate the price of a security. Each of these restrictions also applies to individuals.

ACTIVE BOND CROWD

New York Stock Exchange term for the combination of these two ideas: (1) the bond floor members who (2) most frequently trade in actively traded bonds. Antonym: the can, or cabinet crowd.

In practice, all NYSE members who trade on the bond floor act as agents. Therefore, the distinction between active-crowd and can-crowd brokers refers more to the securities traded than to the designation of the NYSE members who trade on the bond floor. For example, if you were to trade bond A you could be in the can crowd, and if you trade bond B you could be in the active crowd.

See also CABINET CROWD.

ACTIVE BOX

Jargon for location of securities, held in the vault of a broker-dealer, that are eligible for use as collateral for broker or customer account financing. To be eligible for broker financing, the securities must be owned by the broker-dealer. To be eligible for customer account financing, the securities must be customer owned but held as a pledge for margin loan made by the broker to the customer.

ACTIVE MARKET

Term used to describe either a marketplace or the buying and selling of an individual security that is so marked by: (1) frequent transactions

with (2) reasonable volume and (3) relatively narrow spreads between the bids-offers that successive transactions are made at moderate price changes.

The term is relative; thus, no precise definition can be given. In practice, what is active for security A may be inactive for security B.

A/D

Often used to abbreviate advance(s) versus decline(s) in a particular marketplace or of equity securities in general.

See also ADVANCE DECLINE INDEX.

AD HOC

Latin: for this purpose. Commonly used of an action that is taken to solve a particular problem. For example, "Let's appoint an ad hoc committee." Or, "Joe, this is an ad hoc solution." The term may imply a permanent or a temporary solution. For example, "This is a very complex situation, but—ad hoc—let's concentrate on the financial effects of Plan A."

ADJUSTED DEBIT BALANCE

The ledger debit balance (i.e., the dollar amount a client owes a broker) plus any available special miscellaneous account (SMA) adjusted by any paper profits on short accounts. The ADB determines whether a client's margin account is subject to the retention requirement.

In practice, following the Regulation-T adjustments made in February 1982, the term adjusted debit balance is meaningless, with this exception: withdrawals of cash or securities based on the SMA entries are not permitted if the client's account would thereby be in violation of margin maintenance requirements.

ADJUSTED EXERCISE PRICE

Term used of GNMA put and call options. Contract is for \$100,000 unpaid principal balance on a GNMA pass-through security with an 8% nominal coupon. If GNMA pass-throughs with higher coupon rates are delivered, the exercise (strike) price will be so adjusted that the yield is the same. For example, the strike price on a GNMA call is 56. The yield will be 11%. If the call is exercised and the writer delivers a GNMA pass-through with an 11% coupon, the adjusted exercise price will be par, or 100.

ADJUSTMENT BOND

Bond, issued in exchange for other bonds, that promises to pay interest only if earned or to the extent earned. Authorization for the

exchange must come from the bondholders who accept the adjustment bonds. Normally, the exchange will be made only if the company will otherwise be bankrupt—and bondholders give their authorization in an endeavor to avoid liquidation of the company.

Also called **INCOME BOND**.

ADMINISTRATOR

- 1 Person responsible for the supervision of state securities laws.
- 2 Court-appointed person to oversee the distribution of the estate of a person who dies intestate.

The feminine term *administratrix* is occasionally used.

AD VALOREM

Latin: according to the value. Used both of the assessed valuation of property and of the tax on such property. For example, the Township of Southhold has an ad valorem tax of 76 mills (\$.076) per dollar of assessed valuation.

See also **ASSESSED VALUATION**.

ADVANCE DECLINE INDEX

Often used as a measurement of market sentiment (i.e., relative bullishness or bearishness of the stock market).

One frequently used formula: divide number of advancing issues by number of declining issues on a market day. For example, if 900 issues advance and 450 decline on a market day, the A-D index is 2. Numbers greater than 1 are bullish, numbers less than 1 are bearish.

Another formula: divide number of advances plus one half of stocks unchanged by number of issues traded. Numbers above 50% are bullish, numbers less than 50% are bearish.

ADVANCE REFUNDING

Term used to describe this situation: A municipality has outstanding bonds that are not yet callable (e.g., the earliest call date is 1988). If general interest rates drop, the municipality may find it advantageous to issue new bonds at a lower rate. The proceeds are invested in government securities that will mature in 1988, at which time the money will be used to call the earlier issue.

Also called **prerefunding**.

ADVERTISEMENT

In securities industry usage, any material for use in a newspaper or magazine, or on radio or television, or with another public medium. Substantially identical letters to 10 or more people are considered advertisements.

Industry rules require: truthfulness and good taste; approval by a designated person within the issuing firm; and adequate record keeping of all advertisements. Also, the National Association of Securities Dealers requires that advertising copy be filed with the association within five days of use (three days if the advertisement pertains to investment company securities).

AFFIDAVIT OF DOMICILE

Statement by executor or administrator of an estate attesting to the domicile of a decedent at the time of death. The affidavit is important for the transfer of securities from an estate because it, together with the tax waiver from the state of domicile, shows that no tax liens are outstanding against the securities about to be transferred.

AFFILIATED PERSON

General name for a person who can influence the management decisions of a corporation. Although legal advice may be needed in specific situations, the term includes: holders of 10% or more of the outstanding stock of a corporation, directors, elected officers (chairman, president, vice presidents, secretary, and treasurer), and members of their immediate family.

Also called control person.

AFTERMARKET

General name for the trading activity in a security during the period of its initial offering to the public, and immediately thereafter, until the syndicate account is closed.

More popular name: secondary market.

AFTERTAX BASIS

Used to identify an investor's average rate of return on a bond purchased at a discount (i.e., the return after federal tax on the income and on the capital gain). Normally based on a corporate holder paying the maximum corporate tax on income and capital gains.

Often given by government bond dealers on their offer sheets so prospective purchasers can compare directly the aftertax yield with the nontaxable yield on municipal bonds selling at par.

AGED FAIL

Industry jargon for a contract between two broker-dealers that remains unsettled after 30 days from the time that delivery and payment should have been completed. Term is important because aged fails severely affect the capital of the affected firm, in that an aged

fail may no longer be considered an asset because the chances of its successful completion are negligible.

AGENCY

- 1 A security, almost always debt, issued by a corporation sponsored by the U.S. government. Examples: bonds of the Federal Intermediate Credit Banks (FICB) or the Tennessee Valley Authority. Agency securities are exempt from registration under the Securities Act of 1933.
- 2 The act of buying or selling for the account and risk for another person.
See also **BROKER**.

AGENT

- 1 A person who buys or sells for the account and risk of another. Generally, an agent takes no financial risk and charges a commission for his services.
- 2 In state securities law, any person who represents an issuer or a broker-dealer in the purchase or sale of securities to, or for, a person domiciled in that state.

AGE OF MAJORITY

Age at which a person may legally contract. Depending on state law, the age of majority is from 18 to 21.

AGGREGATE EXERCISE PRICE

Term in security options: the exercise (strike) price times the number of securities involved in the contract. For example, a call is purchased at 50 for 100 shares. The aggregate exercise price is \$5,000. Exception: GNMA options and T-bill, T-note, and T-bond options, in which the aggregate exercise price is the strike price times the face value of the underlying contract. For example, a GNMA call at 68 is 68% times \$100,000, the face value of the underlying contract.

See also **ADJUSTED EXERCISE PRICE**.

AGGREGATE INDEBTEDNESS

Term used by the SEC in the computation of broker-dealer compliance with the SEC's net capital requirements. Best definition: the total of the broker-dealer's indebtedness to customers. For example, a broker-dealer owes \$200,000: \$50,000 is owed to a partner in the business and \$150,000 is owed to customers for their credit balances in their accounts. The broker-dealer's aggregate indebtedness is the \$150,000 owed to customers.