BARRON'S

FINANCE AND INVESTMENT HANDBOOK

John Downes and Jordan Elliot Goodman

BARRON'S FINANCE AND INVESTMENT HANDBOOK

Second Edition

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BARRON'S
FINANCE AND INVESTMENT
HANDBOOK

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JD Resources
American Association of Individual Investors
The American Banker
A.M. Best and Company
The Securities Industry Association
Robert Stanger & Company
Public Accounting Report
The Investment Company Institute
The No-Load Mutual Fund Association
Thomas J. Herzfeld and Company
American Stock Exchange
Chicago Board of Trade
Chicago Board Options Exchange
Chicago Mercantile Exchange
Chicago Rice and Cotton Exchange
Coffee, Sugar and Cocoa Exchange
Commodity Exchange, Inc.
Kansas City Board of Trade
MidAmerica Commodity Exchange
Montréal Exchange
Minneapolis Grain Exchange
The National Association of Securities Dealers
New York Cotton Exchange
New York Futures Exchange
New York Mercantile Exchange
New York Stock Exchange
Pacific Stock Exchange
Philadelphia Stock Exchange
Toronto Stock Exchange

Vancouver Stock Exchange
Winnipeg Commodity Exchange
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John Downes
Jordan Elliot Goodman

INTRODUCTION

Not since the Great Depression spurred massive reforms in banking and the securities markets has the world of finance and investment seen changes as revolutionary as those of the 1970s and 80s. Deregulation, major tax-law revisions, globalization of markets, and widespread applications of advanced computer and communications technology have altered the world of finance and investment in ways that affect everybody.

As those developments were reshaping the finance and investment landscape in fundamental ways, other historic—sometimes traumatic—events were taking place on the economic and monetary fronts—record high interest rates, world-wide double-digit inflation followed by a major international recession and then disinflation, unprecedented swings in the value of the dollar relative to foreign currencies, and new highs in stock and bond prices.

The far-reaching results include a wider, more complex range of investment choices available to an investment public much more broadly based economically and conscious of such factors as volatility, interest-rate risk, inflation protection, and foreign exchange risk; financial news and corporate reports that are more complex and difficult to understand; an expanded and revised finance and investment vocabulary; a financial marketplace that has increased in size and diversity while spawning a burgeoning information industry using both print and electronic means of communication; and a regulatory establishment that has grown and adapted to a more consumer-oriented investment industry. This *Handbook* is designed as a self-contained reference covering each of these areas — for the individual investor, the student, and the professional.

Deregulation in the brokerage and banking industries, beginning with the "May Day" lifting of fixed commission rates on United States stock exchanges May 1, 1975, and gaining major international thrust with London's "Big Bang" of October 27, 1986, has transformed the financial marketplace. Traditional financial institutions have become diversified organizations mass-marketing a bewildering variety of investment products and services.

The Tax Reform Act of 1986, the most sweeping income tax overhaul in U.S. history, was the last of five major federal tax bills to influence financial and investment decision-making in a single ten-year period. With its enactment, a burdensome marginal tax system fraught with loopholes that had made "tax effects" a key basis of investment judgments has given way to a promising new era of lower tax rates, fewer tax brackets, and investment choices based primarily on economic values.

Internationally, the world has emerged much more interdependent, giving rise to a wide range of investment options denominated in both dollars and foreign currencies, created by firms competing for debt and equity in world-wide markets. Generally, international investment activity has increased as foreign markets have also become deregulated, as communications have improved, and as businesses and financial institutions have expanded beyond national boundaries.

Advances in computer and communications technology, by making possible the linking of markets and the instant processing of tremendous amounts of data, have at once brought greater simplicity and greater complexity to the world of finance and investment, inspiring new investment vehicles, transactions, and methods of limiting risk not previously imaginable.

The *Finance and Investment Handbook* begins with a discussion of 30 key investment alternatives—with their many variations—as they have emerged from this period of historic change. Some are new, others are modernized versions of traditional investment vehicles. Each is presented with an introductory overview followed by questions and answers offering concise information on such crucial matters as costs; minimum purchase amounts; risks; liquidity; tax implications; and suitability for tax-deferred retirement plans. The section's purpose is not to offer specific recommendations, but rather to set forth in an easy-to-read format the vital features distinguishing the various investments so you will be able to make better-informed investment decisions.

Corporate annual reports and other communications of publicly held corporations, as an ironic result of stricter disclosure requirements, have become increasingly elaborate and difficult to understand, leaving many investors more befuddled than enlightened. The second section of the *Handbook* explains what corporate reports contain, what to focus on, and how to analyze and interpret the data provided.

You must know how to read and understand financial information in newspapers in order to make intelligent investment choices and then to follow their progress. Not surprisingly, the proliferation of investment products and the broadening of public participation in the securities markets has fattened the financial sections of daily newspapers with information aimed at individual and institutional investors. Also, with the growth of cable television, many investors are getting their financial news from channels displaying a running ticker tape throughout the business day. The third part of the *Handbook* explains how to read the financial pages and the ticker tape.

Essential to decision-making in any field is understanding the language in which information is communicated. In a technical, dynamic field like finance and investment, keeping up with changing terminology would be a challenge in any event, but developments of the last decade have added a whole new lexicon of finance and investment terms and largely redefined the traditional vocabulary. The argot of the field has also been spiced by a wave of new Wall Street takeover buzzwords, like "greenmail," "poison pill," and "white knight." These and more than 2500 other key terms are defined clearly and comprehensively, with examples and illustrations, in the *Handbook's* fourth major section, the Dictionary of Finance and Investment.

The fifth section of the *Handbook* presents wide-ranging reference material. The information, arranged in an easily accessible manner, is designed to be *used* by investors—beginners and professionals alike—to locate specific data as well as to gain a broader understanding of finance and investment.

The finance and investment marketplace has not only grown in size but has changed character as a result of diversification, mergers, and the introduction of new firms that exist either to market new investment products or to provide information on them. The regulatory establishment, which consists of federal and state government agencies as well as self-regulatory organizations, and relevant trade association and consumer protection groups have expanded and adapted to an industry that has become more consumer-oriented. The most important of these government and nongovernment organizations—including those of Canada—are listed in the opening portions of the *Handbook's* reference listings.

The growing importance of the individual consumer in the investment community has been a catalyst for the burgeoning financial information industry. The *Handbook* lists the major finance and investment publications from national magazines to specialized newsletters, providing addresses and telephone numbers so they can be contacted easily. The industry also has an important electronic dimension in the form of computer databases and software, and the major sources of these products are presented.

"You can't tell the players without a scorecard" goes an old baseball adage, which certainly applies to today's major leagues of financial services. Despite diversification, financial institutions continue to be discussed mainly in terms of their principal and traditional activities—that is, as commercial banks, thrifts, brokerage firms, and life insurance companies. The *Handbook* lists the 100 largest in each of these categories. Also listed are the Federal Reserve and Federal Home Loan banks and branches, the primary government securities dealers, major limited partnership sponsors, the 25 largest accounting firms, and the world's major security and commodity exchanges.

Highly useful information, including name, address, phone number, and investment objective of both open-end and closed-end mutual funds and fund families is provided for those who would rather leave portfolio decisions to a professional manager.

Increasingly, U.S. and Canadian exchanges, in response to growing investor interest, are listing options and futures on financial instruments, stock indexes, and foreign currencies, as well as traditional stock options and futures on agricultural and other commodities. The *Handbook* provides a complete and detailed summary of contracts of all types on all U.S. and Canadian exchanges.

No handbook would be complete if it didn't supply the historical framework of the investment markets and the overall economy. This *Handbook* includes easy to understand but telling historical graphs together with background information and related statistical data on the principal stock and bond market indexes, as well as key economic indicators.

To facilitate ordering through brokers, particularly discount brokers, and to help you take advantage of an increasing willingness on the part of corporations to communicate directly with shareholders or potential shareholders, the *Handbook* provides a list—not readily available elsewhere—of the name, stock symbol, address, phone number, and line of business of approximately 4700 public companies in which you can buy shares or American Depositary Receipts on the New York Stock Exchange, the American Stock Exchange, the Toronto Stock Exchange, and over the counter on the NASDAQ National Market System. In addition, we indicate stocks on which listed options are traded and those offering dividend reinvestment plans. A limited number of companies offer free merchandise or other items or services of value as part of their shareholder relations efforts. You'll find a list of companies providing such "freebies."

The Appendix is an important part of the *Handbook*. In it you will find an annotated bibliography of selected key works on finance and investment. There is also a listing of the currencies of independent countries, which will be helpful in tracking international developments. At the conclusion of the *Handbook* is one of its most important assets — the index — which will make it easier to find all the information on a particular topic in the book.

HOW TO USE THIS *HANDBOOK* EFFECTIVELY

Each section of this *Handbook* is a self-contained entity. At the same time, however, the relevance of the various sections to each other is clear, since the objective of the *Handbook* is to join in one volume the different elements that together make up today's world of finance and investment. Tempting though it was from an editorial standpoint, cross-referencing has been kept to a minimum in the belief that readers would prefer not to be distracted by such editorial devices. At certain points, however, where reliance on the fuller explanation of a term in the *Handbook's* Dictionary of Finance and Investment seemed preferable to a discussion, cross-references to the dictionary are indicated by small capitals (for instance, ABC AGREEMENT). In any case, the dictionary is a source of comprehensive information on terms and concepts used throughout the *Handbook* and should be consulted whenever an aspect of finance and investment is not clear to you. The Table of Contents and especially the Index will also help you locate related information in different parts of the *Handbook* and should be consulted regularly.

* * *

Although the *Handbook* was a collaborative effort in every sense of the word, primary responsibility was divided as follows: The sections on investment alternatives and reading financial reports were written by John Downes. The section on reading the financial pages was written by Charles Koshetz and edited by John Downes and Jordan Elliot Goodman. The Dictionary of Finance and Investment was authored coequally by John Downes and Jordan Elliot Goodman. The reference lists and the accompanying explanatory material were compiled, edited, and written by Jordan Elliot Goodman.

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APPENDIX

PART I

How to Invest Your Money: 30 Key Personal Investment Opportunities

INTRODUCTION

Perhaps the most important benefit of deregulation and other recent landmark changes in the securities and banking industries has been the availability to the average individual of investment alternatives that were formerly reserved for the wealthy. But welcome though this development is, it has brought with it choices that are bewildering both in range and complexity. Traditional investment vehicles have been modernized, new ones have been introduced, and, as the marketing departments of financial services conglomerates have sought to give their products mass appeal, the distinctions between different investment alternatives have become blurred.

This section presents 30 basic investment alternatives as they have emerged from the revolutionary events of the 1970s and 80s. It is divided into 30 *basic* alternatives; each discussion, however, includes important variations, which, if counted separately, would more than double the number of alternatives.

The purpose of the section is not to provide advice. Investment decisions must always be made in subjective terms, taking into account one's financial position, risk comfort level, and goals. Rather, the section is designed to set forth in current terms the vital features distinguishing different investments, so you can talk knowledgeably with your investment counselor or, if you are a finance or investment professional, so you can be a better source of advice.

Preceding the discussions of investments is a table showing important characteristics of each investment. The chart is a quick way to learn pertinent facts, but should be used in conjunction with the discussions themselves to make sure you are aware of nuances and exceptions associated with a particular type of investment.

The discussions of investment alternatives begin with short overviews designed to describe the essential features of the investment and, where helpful, provide some historical perspective. These overviews are followed by sections in question-and-answer format designed to present concisely and informatively the basic data needed to evaluate investment alternatives. Let's look at the questions and what they mean. (Remember, if you don't understand a finance or investment term, consult the extensive dictionary in this *Handbook*.)

Buying, Selling, and Holding

How do I buy and sell it? A few years ago, things were simpler: you bought your stocks and bonds from a broker, your life insurance from an insurance agent, and went to a bank with your savings or your loan request. The trend today is toward FULL-SERVICE BROKERS and FINANCIAL SUPERMARKETS that offer all these services and more. We have tried to be as helpful as possible, but there is no universality as to what full-service means from one firm to the next. One thing can be said for certain, though: you won't sound foolish these days if you ask a bank or broker if a given investment—no matter how specialized—can be bought or sold through his or her firm. DISCOUNT BROKERS are a special breed. They handle a variety of securities, but as a rule function strictly as brokers; do not look to them for investment guidance.

Is there a minimum purchase amount, and what is the price range? This question is aimed at giving you an idea of what it costs to get in the game, which is often more than just the minimum DENOMINATION or UNIT in which an investment is issued. The question cannot always be answered in absolute terms, since broker policies vary in terms of minimum orders and there may be SUITABILITY RULES requiring that you prove a certain financial capacity to take the risks associated with a particular investment. Certain securities trade in ROUND LOTS (for instance, 100 shares of common stock), though it is usually possible to buy ODD LOT quantities (for instance, 35 shares) at a higher commission per unit. In any event, call the broker and ask; many large firms have special programs that combine small orders from different investors and thereby make it possible to buy and sell modest amounts at modest commissions.

What fees and charges are involved? Again, we have been specific wherever possible, but with some investments, notably common stocks, commissions are sometimes negotiated, based on the size and nature of the transaction. DISCOUNT BROKERS, which as a rule do not give investment advice but execute trades at rates that are roughly half those of most full-service brokers, also have different rates for different transactions. See the entries for SHARE BROKER and VALUE BROKER in this *Handbook*'s dictionary for discussions of different categories of discount broker. You will also frequently see references to DEALER spreads. This term refers to the MARKDOWNS and markups that are deducted from your selling price or added to your buying price when a broker-dealer is operating as a DEALER rather than simply as a BROKER.

Does it mature, expire, or otherwise terminate? Some investments are issued with a fixed MATURITY DATE, others are not. But even those with a fixed maturity date may be CALLABLE—that is, bought back at the pleasure of the issuer, or as part of a SINKING FUND provision. Others may have PUT OPTIONS, permitting REDEMPTION by the investor before maturity.

Can I sell it quickly? This question has to do with LIQUIDITY, the ability to convert an investment into cash without significant loss of value. Investments normally enjoying high liquidity are those with an active SECONDARY MARKET, in which they are actively traded among other investors subsequent to their original issue. Shares of LISTED SECURITIES have high liquidity. Liquidity can also be provided in other ways: for example, the SPONSOR of a unit investment trust might offer to MAKE A MARKET—to find a buyer to match you as a seller, should the need arise for you to sell.

How is market value determined and how do I keep track of it? MARKET VALUE is the price your investment would fetch in the open market, assuming that it is traded in a SECONDARY MARKET. In these discussions you will often encounter the word, VOLATILE, referring to the extent to which the market price of an investment fluctuates. Professionals use the term SYSTEMATIC RISK or its synonym market risk when discussing an investment's tendency to rise or fall in price as a result of market forces.

Investment Objectives

Should I buy this if my objective is capital appreciation? The purpose here is to identify investments likely to gain in value—to produce CAPITAL GAINS. Although APPRECIATION does not refer to capital growth due to factors such as reinvested dividends or compound interest, such factors are noted as a matter of relevance where they exist to a substantial degree. In the same category is appreciation due to ORIGINAL ISSUE DISCOUNT on fixed-income securities, which is considered interest. Other fixed-income investments bought in the market at a DISCOUNT from PAR because rising rates (or other factors) caused lower prices, create appreciation in the sense of capital gains either at REDEMPTION or when resold in the market at a higher price. Prices can also be at a PREMIUM, meaning higher than par value, when speaking of fixed-income investments.

Should I buy this if my objective is income? Here the purpose is to identify investments whose primary feature is providing regular income, as distinguished from alternatives primarily featuring capital gains or other potential values.