
Glossary



This glossary provides a set of terms that are commonly used. It is not exhaustive and some of the terms are not used in the book but provided here for information.

- AAA** the highest credit rating that can be issued. Implies that bonds issued by the issuer are extremely safe with a very low probability of default.
- Abnormal Return** a return in excess of what could be expected given the risk characteristics of a security.
- Active Management** the buying and selling of securities designed to achieve high levels of returns compared to passive management or just tracking an index.
- Alternative Investment Market (AIM)** a market for smaller companies that may not meet the listing requirements of the main UK Stock Exchange. The market was set up in June 1995.
- American Depository Receipt** a security that is traded on the American stock exchange, which represents an underlying share in a foreign company that is not formally listed on the US stock exchange.
- American Option** an option that can be exercised at any time prior to maturity.
- Annuity** a policy which makes a series of fixed payments over a specified period of time.
- Arbitrage** the process of exploiting a pricing anomaly to make riskless guaranteed profits.
- Aribtrageur** a person that seeks to exploit a pricing anomaly to make riskless profits. In practice the term can be used to describe risk taking individuals/funds that take on risky takeovers.
- Asian Option** an option whose payoff depends upon the average price of the underlying over a specified period of time rather than a traditional option whose payoff depends upon the price of the underlying upon maturity. Also known as an average option.
- Asset Backed Security (ABS)** a security that is backed by real underlying assets or cash flows.
- At the Money Option** an option whose strike price is the same as the price of the underlying.
- Assurance** part of the insurance business dealing with life insurance and pensions.
- Back Office** part of a financial institution that deals with accounting, settlement, record maintenance etc.
- Backwardation** when one market maker's selling (offer) price rate is less than another's buy (bid) price, this means there is an arbitrage opportunity. In normal market conditions the selling price is above the bid price.

- Balance Sheet** an accounting statement of a company's assets and liabilities and net worth.
- Bancassurance** a French term used to describe banks involved in the selling of insurance products along with traditional deposit and lending services.
- Bank for International Settlements (BIS)** Based in Basle and is known as the central banker's bank since it specializes in central banking issues and the stability of the financial system.
- Bankruptcy** a situation where an individual or company is unable to repay its debts.
- Barrier Option** an option whose payoff depends upon whether or not the underlying asset price has passed a particular point.
- Basis Point** one hundredth of one per cent, i.e. 0.01%, e.g. 5 basis points = 0.05%.
- Basis Risk** the risk that a particular hedging strategy will not work as well as intended since the futures/options positions and cash market may not move to exactly offset the hedged risk.
- Bear** an expression that describes a pessimist that thinks that the prices of shares/bonds or other securities/assets will fall in price.
- Bear Market** a market in which security prices fall by a substantial amount. In the US a fall in the S&P 500 or Dow Jones by 20% or more is often classified as a bear market.
- Bearer Bond** a bond whose coupon and principal is payable to whoever is in possession, there is no central register of the bond's ownership.
- Benchmark Bond** usually a government bond the interest upon which provides a benchmark to measure the performance of other bonds such as corporate bonds. For international comparisons the yield on 10 year government bonds is often used.
- Beta** a measure of a security's sensitivity to market movements or systematic risk. A share with a beta of 1 tends to move by a similar percentage to the market. While one with a beta of 2 tends to move up or down twice as much as the market over time.
- Bid-Ask Spread** the amount by which the ask rate exceeds the bid rate, e.g. a bid rate of £10 and ask rate of £11 implies a bid-ask spread of £1.
- Bid Rate** a dealer's rate at which the dealer buys a security, e.g. bank deposit, bonds, foreign exchange, shares – it will be lower than the offer (ask or selling) rate.
- Big Bang** a term used to describe the deregulation of the UK stock exchange in October 1986.
- Bill of Exchange** a signed promise to pay by the receiver of goods/services to the supplier a certain sum of money. The supplier may sell the bills at a discount to a third party.
- Black-Scholes formula** a model used to price a European call option premium which was published in 1973 by Fisher Black and Myron Scholes.
- Blue Chip** a term used to describe the shares of a well known and well regarded company. The company will have a good track record.
- Bond** a security issued by a borrower in return for funds which has longer than 1 year to maturity. The issuer agrees to pay the bond buyer a series of cash flows over the life of the bond.
- Book Value** the net asset value of a company, that is, the value of tangible assets less intangible assets and less liabilities.
- Bretton Woods** a fixed but adjustable exchange rate system agreed at Bretton Woods in 1944 in which major currencies were pegged to the US dollar \pm 1% either side of an assigned central parity. Also set up the International Monetary Fund and the World Bank.
- Broker** an agent (individual or firm) that buys/sells securities on behalf of a client in return for a fee.
- Bubble** a term used to describe fast dramatic price rises of shares or something else that is likely to prove unsustainable.

- Bull** an expression that describes an optimist that thinks that the prices of shares/bonds or other securities assets will rise in price.
- Bull Market** a market which experiences strong sustained price rises.
- Bulldog** a bond issued by a foreign entity on the UK market in pounds.
- Bund** A German government bond
- Buy and Hold** a passive investment strategy in which one buys shares etc and holds onto them through market fluctuations in the belief that they will perform well in the long term.
- Cable** a term used by dealers to describe the pound in terms of the dollar on the foreign exchange market.
- Call Back Feature** a clause giving the issuer of a security the right to redeem the security prior to maturity.
- Call Money** money lent by banks to other banks/security houses that can be recalled at noon each day.
- Call Option** the right but not the obligation to buy a security/commodity/asset at a predetermined price.
- Cap** an agreement between a borrower and a lender to set an upper limit to the interest rate payable on a loan.
- Capital Adequacy** the amount of capital needed by a financial institution to cover potential losses.
- Capital Adequacy Ratio** a ratio of a bank's capital to its weighted risk adjusted assets.
- Capital Asset Pricing Model (CAPM)** a model that is used to determine the expected rate of return on a security, based on its risk characteristics as measured by its beta.
- Capitalization** the market capitalization of a company is the number of shares times the price per share.
- Capital Markets** the markets where economic agents such as governments and firms raise capital for more than a year and where such financial securities are traded, such as the equity and bond markets.
- CBOE** Chicago Board Option's Exchange.
- CBOT** Chicago Board of Trade.
- Certificate of Deposit** a certificate which certifies that a deposit of a certain amount has been made at a bank and specifying the interest to be paid, usually issued by a commercial bank. Can be used as collateral for a loan.
- Cheapest to Deliver Bond** a bond whose price is the cheapest to deliver in fulfilment of a bond futures contract upon expiry.
- Chinese Wall** a barrier put in place within a financial institution to prevent conflicts of interest within the institution.
- Chooser Option** an option where the holder has the choice whether it is a put or call option at a given point of time.
- Clean Price** the price of a bond excluding the accrued interest since the last coupon payment.
- Clearing House** a central body that clears and guarantees futures and options contracts and monitors the positions of parties to the contracts.
- CME** Chicago Mercantile Exchange.
- Collar** a contractual limit within which the interest rate on a loan or the exchange rate on a contract may lie, e.g. 8%–10% or \$1.25/€1 to \$1.30/€1. As such it is a combination of a Cap and a Floor.
- Commercial Bank** a bank that is primarily involved in the traditional line of banking that is taking in deposits and making loans.
- Common Stock** an American term for ordinary shares which confer ownership rights of the company and entitle the owner to voting rights and a share of the profits. However, as an owner the stockholder is last in line if the company is liquidated.
- Convertible Bond** a bond that can be converted into either shares or some other asset at some point.

- Corporate Bond** a bond issued by a company.
- Counterparty Risk** the risk that a counterparty to a contract will fail to settle the contract.
- Coupon** the rate of interest payable on a bond when issued. Usually paid semi-annually.
- Credit Derivative** a derivative whose price is determined by the credit risk of economic agents.
- Credit Rating** an assessment of a company's credit worthiness, that is, its ability to repay its debt. The two main credit rating agencies are Moody's and Standard and Poors.
- Cross Rate** the rate of exchange between two currencies implied by their exchange rates vis-à-vis a third currency, e.g. \$1.80/£1 and \$1.20/€1 implies a cross rate of €1.50/£1.
- Cumulative Dividend** a limitation placed upon a company, ensuring the payment of preferred dividends before making distributions to common shareholders. If a company fails to make a dividend payment to a preferred shareholder with a cumulative dividend, the company is required to catch up the payment before any other payments can be made to common shareholders.
- Currency Option** an option that gives the holder the right but not the obligation to buy/sell a particular currency at a predetermined rate at a given point in time.
- Currency Swap** a swap that involves the two parties exchanging cash flows in two different currencies.
- Debenture** in the UK it is a bond secured against assets. In the USA and Canada it is an unsecured bond backed only by the credit worthiness of the issuer.
- Debt-Equity Ratio** the ratio of a firm's debt to its equity.
- Delivery Month** the month in which a contract expires and delivery of the underlying asset is required or the contract is settled for cash.
- Default** a situation when an economic agent fails to meet a contractual payment of interest or principal.
- Default Risk** the risk that an economic agent (company, government or individual) will not pay either the interest and or principal on a debt obligation.
- Derivative** a contract the price of which is derived from the price of an underlying asset. Examples of derivatives are futures, forwards, options and swaps.
- Devaluation** situation where a currency is devalued in a fixed exchange rate regime to a new lower value against another currency.
- Dividend** a cash payout per share to shareholders announced by a company's board.
- Dividend Discount Model** a model for valuing shares.
- Dividend Yield** the annual dividend per annum as a percentage of the share price.
- Dirty Price** the price of a bond including the accrued interest.
- Discount** the difference between the lower price paid for a security and its face value on issue. For example, a Treasury bill with a face value of \$1000 is sold at \$970 implying a discount of \$30.
- Disintermediation** the process of borrowing or lending by a company without going to a bank. For example, the issuance of a corporate bond rather than the taking out of a loan from a bank.
- Dow Jones Industrial Average** a price weighted index of 30 major US companies. The index was originally based on 12 stocks and created by Charles Dow in 1896, the modern index of 30 companies began in 1928.
- Dragon Bond** A dollar denominated bond issued in Asia.
- Duration** a measure of the sensitivity of a bond's price to changes in bond yields.
- Earnings** the profits of a company over a specified period of time usually after tax.
- Earnings Yield** earnings per share (net of tax) as a percentage of the share price.
- Efficient Market Hypothesis (EMH)** a theory that says security prices reflect all available information thus making it difficult for investors to make abnormal returns.

- Emerging Market** the market of a country which is experiencing rapid economic growth but whose income per capita usually makes it a low to middle income economy.
- Equity** shares which represent ownership of a company.
- Equity Risk Premium** the expected excess return above the risk-free rate of interest which is required to compensate for the riskiness of investing in shares.
- EUREX** the European Exchange which is a merger of the German DTB exchange and the Swiss SOFFEX exchange.
- Euro Libor** the London interbank offer (lending) interest rate on the Euro.
- Eurobond** a bond denominated in a different currency to the country of issue, e.g. a dollar bond issued in London is a dollar denominated Eurobond.
- Eurocurrency** a short term deposit/loan made outside of the country of that currency, for example, a 3 month yen deposit/loan made in London.
- Eurodollar** a short term deposit or loan made in dollars outside the United States.
- Eurobank** a bank that specializes in making short-term deposits and loans in a variety of foreign currencies.
- European Option** an option that can only be exercised upon maturity.
- Exchange Rate** the rate at which one currency can be exchanged for another.
- Exercise Price** the price at which an option may be exercised. Also known as the strike price.
- Exotic Option** an option which has special features compared to standard put/call options.
- Factoring Agency** usually a subsidiary of a bank that specializes in buying trade debts at a discount to the face value, this helps provide companies with cash flow more speedily.
- Federal Funds Rate** an overnight interest rate at which one US bank lends funds to another. The Federal Reserve Open Market Committee sets a target for such interest rates at its FOMC meeting.
- Federal Reserve Bank** the central bank of the United States, it is made up of 12 Regional Reserve Banks that carry out the monetary policy set by the FOMC.
- Floating Rate Note** a bond (note) that has a variable coupon or rate of interest. For example, it may be expressed at 1% above dollar LIBOR and will fluctuate according to changes in dollar LIBOR.
- Footsie** a term used to describe the FTSE100 share index.
- Foreign Bond** a bond issued in the domestic currency of the country of issue but by a foreign entity. For example, IBM (a US company) issues a sterling bond in London.
- Forward Contract** a contract to buy/sell a security or commodity at a predetermined price and a predetermined date in the future.
- Forward/Forward** an agreement to lend/borrow money at a predetermined interest rate in the future for a given amount of time. For example, an agreement to lend/borrow \$1million for three months in six months' time at 4%.
- Free Cash Flow** the amount of net cash generated by a company after paying ongoing expenses.
- FSA** the Financial Services Authority, a financial regulator in the UK.
- FTSE100** an index of 100 of the largest capitalization company shares listed on the UK market.
- Fund Manager** the person responsible for investing a unit trust/mutual funds assets and investment strategy.
- Futures Contract** a standardized agreement to buy/sell a security at a predetermined price at a given date in the future.
- GAAP** Generally Accepted Accounting Principles, the US system of rules, procedures and conventions governing the reporting of accounts by companies.
- Gearing** the ratio of a company's debt to equity.

- Global Depository Receipt (GDR)** a security issued in more than one foreign country which represents ownership of shares in a foreign company. The shares are held by the issuer of the receipt and they trade like domestic shares in the market in which they are traded. *See also* American Depository Receipt.
- Gilts** the name used to describe bonds issued by the UK Treasury. The name comes from the fact that they used to be issued with gilt edges.
- Gordon Growth model** a model used to value a share assuming that dividends on the share grow at a constant rate.
- Grey Market** an informal market for a security that sets a price for a security prior to the opening of the official market.
- Growth stock** a term that describes shares in a company that is expected to grow very rapidly over the next few years.
- G7** the group of 7. UK, USA, France, Germany, Italy, Canada and Japan.
- Hedge Fund** a term used to describe a fund which actively seeks to make high returns for its investors, it may go both long and short on securities including use of derivatives for this purpose. The fund usually raises its capital from wealthy individuals and increasingly institutional investors.
- Hedging** the process of undertaking a transaction to reduce or eliminate risk.
- Holder** the agent that buys a call or put option.
- Hostile Takeover** a takeover bid for a company that is strongly resisted by the target company.
- Immunization** a hedging strategy that matches the duration of assets and liabilities and so minimizes the impact of interest rate changes on net worth.
- Implied Volatility** the volatility that is expected in the market implicit from the option premium.
- Indenture** the terms associated with a bond contract. For example, the coupon to be paid, conversion rights, call back features etc.
- Index** usually refers to a stock index like FTSE 100, S&P500, CAC40, Dax etc.
- Index Arbitrage** a strategy which aims to make a profit at any significant departure of stock exchange futures prices from their theoretical values. It involves selling futures and buying shares if the futures premium is too big and buying futures and selling shares if the futures premium is too small. It may involve the use of programme trades.
- Interbank Market** the market which deals with bank lending and borrowing with other banks.
- Initial Margin** the initial deposit required by an Exchange/Broker when opening a futures contract or writing an option contract.
- Insider Trading** the buying or selling of a security by someone who has access to privileged information not publicly available. In most countries such trading is illegal.
- Insurance** the business of collecting premiums so that policy holders can claim money if they suffer losses when insured.
- International Banking Facility (IBF)** a facility whereby an institution based in the US can make short-term deposits/loans in dollars in the United States without the need to meet regulatory requirements or hold reserves. This enables US banks to compete with Eurobanks but they can only conduct business with foreign residents not US residents.
- In the Money Option** an option that would have some intrinsic value if exercised immediately. For a call option the current price of the underlying is above the strike price. For a put option the current price of the underlying is below the strike price.
- Intrinsic Value** the value that would be realized if an option were exercised immediately. For a call option the intrinsic value is the amount by which the current price of the underlying exceeds the exercise price. For a put option the intrinsic value is the amount by which the current price of the underlying is below the strike price.

- Inverted Yield Curve** a yield curve that has a negative slope, that is short-term interest rates are higher than long-term interest rates.
- Investment Banking** that part of banking that deals with corporations and high end securities. For example new equity issues (IPOs), rights issues, bond issues, mergers and acquisitions, fund management, investment management etc.
- Investment Grade** a bond that has a credit rating of BBB (Standard and Poors) or Baa (Moody's) or better.
- Investment Trust/Company** a company that holds stakes in the form of shares in other companies. It can engage in takeovers, breakups and falls under company law.
- IPO** Initial Public Offering, an American term used to describe the floating of a company on the stockmarket for the first time.
- IPMA** International Primary Markets Association, oversees Eurobond issues.
- Issuer** an entity, e.g. company or government that sells a security to raise funds.
- Junior Security** bond with less claim to income and assets than a senior security.
- Junk Bond** a high risk high yield bond with a credit rating of below BBB (Standard and Poors) or Baa (Moody's).
- Kangaroo Bond** a bond issued in Australia in Australian dollars but by a foreign entity.
- Knock In Option** an option that will 'kick in' only once a certain price has been reached.
- Knock Out Option** an option contract that will no longer be valid if a certain price is met.
- Lead Manager** a bank that takes a lead role in the issue of a corporate bond or a syndicated bank loan.
- Letter of Credit** a guarantee (letter) made by a bank that a buyer of a product/service will make a payment. Should they not, then the payment will be made by the Bank.
- Leverage** a company's debt to equity ratio. Also used to describe the use of a limited amount of capital to make large financial bets on the financial markets.
- Leveraged Buyout** a term used to describe the takeover of a company primarily financed by the issuance of debt in the form of bonds or bank loans by the acquiring company.
- Libor** London interbank offer (lending) rate. A rate of interest at which one bank will lend to another on the London interbank market. There is dollar LIBOR, Euro LIBOR, sterling LIBOR and Yen LIBOR according to which currency is being lent.
- LIFFE** London International Financial Futures Exchange.
- Liquidity** the extent to which a security/asset can be easily traded in large volumes with moving the price. A share or bond with high liquidity can be bought and sold quite easily and will usually have a low bid offer spread.
- Liquidity Ratio** the ratio of a bank's liquid assets to its eligible liabilities.
- Listed Security** a security that receives a listing by a recognized Exchange due to it meeting the requirements of that Exchange for listing purposes. A listing usually ensures good liquidity and that the company issuing the security is committed to making certain information publicly available.
- LME** London Metals Exchange.
- Long Position** describes the position of a trader/institution that has a positive net holding balance in financial securities or commodities. They will benefit if the price rises.
- Macaulay Duration** The weighted-average term to maturity of the cash flows on a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price of the bond.
- Margin Call** a demand for a cash deposit by a broker/exchange in order to bring a margin account to a required level.
- Market Maker** a broker/dealer that will buy/sell up to a specified amount of a security by quoting bid-offer price.

- Management Buyout (MBO)** a buyout of shares by the management/directors of a company, usually results in the company being made private.
- Matador Bond** a bond issued in Spain in Euros by a non Spanish entity.
- MATIF** Marche a Terme Internationale de France. The French Futures Exchange.
- Medium Term Note** a bond (note) that matures in 5–10 years. May pay a fixed or variable rate of interest.
- Merchant Bank** a bank that deals mainly with trade finance, underwriting and medium to long term company loans. *See also* Investment Bank.
- Merger** a situation when two companies agree to become one company. This involves shares in one of the companies being replaced by shares in the acquiring company.
- Mezzanine Finance** finance that lies between debt and equity, it is less senior than debt but more senior than equity.
- Modified Duration** a formula that measures the sensitivity of the price of a bond to changes in the rate of interest.
- Money Laundering** the process of recycling illegal money (e.g. obtained through trading illegal drugs) through the money markets so as to make it appear to be a legitimate source of funds.
- Money Market** the market for money market securities with a maturity of less than one year.
- Mutual Fund** an American term for a fund that pools funds from a variety of investors and invest them in shares and/or bonds. In the UK it is known as a Unit Trust.
- NASDAQ** National Association of Securities Dealers Automated Quotation system, an electronic stockmarket in the United States which started in 1971 and tends to specialize in fast growing technology companies, although over 5000 companies are quoted on the system.
- Notional Principal Amount** the value of the principal in a swap agreement upon which the exchanged interest rate payments are based.
- Nikkei 225** a well known index measuring the performance of 225 Japanese shares.
- Off Balance Sheet Liability** a bank liability that is not recorded on the bank's balance sheet. For example, an underwriting liability or a letter of credit.
- Offer for Sale** a way of bringing a company to market either via an auction process or at a fixed price per share.
- Offshore Market** a market for loans or deposits of a currency outside of the country of issue of that currency. For example, dollar loans/deposits made outside of the United States. *See also* Eurocurrency.
- Open Market Operation** the buying or selling of money market securities by the central bank aimed at expanding or contracting the money supply and influencing money market rates of interest.
- Open Outcry** a system for setting prices on securities/commodities in a trading pit by traders shouting out buy/sell orders in a face to face scenario.
- Option** the right but not the obligation to buy/sell shares, bonds, foreign exchange, commodities etc at a given (exercise/strike) price at or before a predetermined date in the future.
- Out of the Money Option** an option that has no intrinsic value. For a call option the price of the underlying is below the strike price. For a put option the price of the underlying is above the strike price.
- Over the Counter Market** a market where trading does not take place in an organized Exchange. For example, a bank might sell an option to buy or sell a currency at a given exchange rate. Contracts are typically tailor made by a bank or financial institution to meet the specific need of the buyer.
- Par Value** the nominal face value of a security upon issue eg a £100 Treasury bill or a \$1000 Eurobond.
- Passive Management** a strategy that involves buying and holding shares usually to track a well known market index.

- Payout Ratio** the percentage of earnings paid out in dividends. It is calculated as dividend per share divided by earnings per share.
- Perpetuity** a security that pays out a constant stream of cash flows into the indefinite future with no redemption date.
- Pit** a place where futures, options and other securities and commodities are traded via an open outcry system.
- Preference Shares** shares where the holder is entitled to a given dividend. Holders of preference shares have a priority over ordinary shareholders with regard to dividends and also entitlement to a share of the assets should the firm go into liquidation. However they have a lower priority than debt holders.
- Present Value** the value of a future series of cash flows at today's value when discounted at a certain rate of interest.
- Price-Earnings (PE) Ratio** the price of a share divided by the earnings per share after payment of tax.
- Primary Market** the market where securities are sold when first issued.
- Private Banking** Banking which specializes in providing services for wealthy clients.
- Promissory Note** a signed note promising to pay a specified sum of money on a given date.
- Purchasing Power Parity** a theory that exchange rates are determined by relative goods prices in two countries. For example if the same car costs \$40,000 in the US and £20,000 in the UK then the appropriate PPP rate is \$2/£1.
- Put Option** the right but not the obligation to sell a security/commodity/asset at a predetermined price.
- Quanto Option** an option on a share price in one currency but which pays out in a different currency.
- Rating** the credit rating assigned to a company. Also, a share analyst might make a rating on whether to buy or sell a share.
- Real Interest Rate** the amount by which the rate of interest exceeds the inflation rate. For example, if the rate of interest is 6% and the inflation rate is 3.5% then the real interest rate is 2.5%.
- Real Option** a right to do something that arises from a business investment decision. For example, an investment of £100 million in China might create the option to expand the investment in the future or provide an option to set up a factory in India as well etc.
- Redeemable** a security such as a share or bond that can be redeemed by the issuer in accordance with the conditions set out when the security was issued.
- Red Herring** a preliminary prospectus that is issued by a company prior to an IPO or a bond issue outlining the basic proposed terms of issue and basic information about the company.
- Reinsurance** the business of laying off potential insurance liabilities with a reinsurer.
- Repo** a sale and repurchase agreement. An agreement by the seller to buy back the security at a future date. As such, the discount at which it is sold determines the rate of interest.
- Reverse Repo** the same as a repo, but the deal has been initiated by the buyer of the security.
- Reverse Takeover** the takeover of a company listed on the stock exchange by an unlisted company. The unlisted company is normally smaller but via this process can obtain a stock exchange listing in the newly merged company.
- Revolving Credit** a commitment by a lender to lend money on a recurring basis under predefined conditions.
- Rights Issue** the issuance of new shares by a company to raise new finance. The shares are offered to current shareholders first in proportion to the number of shares that they own. A shareholder can transfer their rights to a third party.

- Risk Averse** an investor that will only take on increased risk if there is sufficient prospective return to compensate.
- Russell 2000** an index of the performance of 2000 smaller size US companies shares.
- Schatz** a short term German government bond of 2–5 years till maturity.
- Secondary Market** the market for buying and selling a security that has already been issued on the primary market.
- Securities Exchange Commission (SEC)** a powerful US regulatory body responsible for overseeing US securities markets and investor protection.
- Securitization** the process of borrowing money through issuance of a security which is backed by stream cash flows or other assets. For example, a bond may be issued, the payments of which may be financed from mortgage or rental income.
- Senior Security** a security such as debt instrument the holder of which must be paid before holders of other junior securities such as equity are paid.
- Settlement Date** the date by which a security trade must be settled, that is, the date when a buyer of the security must pay for the security and by which the seller must deliver the security to the buyer.
- Settlement Price** the price at which a security is settled. For derivatives, it is an important price since the daily settlement price will determine the amount of variation margin that may be required.
- Share** a security that signifies partial ownership of a company, the shareholder has a part claim on the company's assets and may be paid a dividend from the company's profits. The value of the share will fluctuate with the company's performance and prospects.
- Short Selling** to sell a bond or share that the seller does not own in the hope that the price will fall and can be bought back at a lower price. Traders are short on a security if they have a negative net position in that security or asset.
- Short Squeeze** a situation where there has been heavy short selling of a stock but a price rise means that the short sellers find they have to buy the stock back to cover their losses, but this then forces the price further upwards.
- Soft Commodities** coffee, sugar, orange juice, tea etc. non metals.
- Sovereign Risk** the risk that a country will default on its debt.
- Spot Market** a market in which the commodity/asset/security is paid for and delivered immediately. Often used in the currency market when talking about the spot exchange rate between one currency and another.
- Spread** the difference between the bid and offer rate.
- Stag** a person that buys a newly issued share in the hope of selling it quickly after issue at a premium to the price paid for it.
- Standard & Poor's 500 index (S&P500)** an index made up of 500 major US shares which are chosen by market capitalization, liquidity, and industry group. The index is value weighted and calculated on a continuous basis throughout the day. It is one of the most widely watched stock indices in the world.
- Stock Split** a process of splitting up a stock into smaller parts normally done to improve liquidity in the share. For example, a \$200 share may be split into 5 shares of \$40 each in a 5 for 1 stock split. In the UK it is known as scrip issue.
- Straddle** an option strategy that involves the simultaneous purchase of call and put options on a share at the same strike price.
- Strangle** an option strategy that involves the simultaneous purchase of call and put options on a share at different strike prices.
- Strike Price** the price at which an option holder has the right to buy or sell a security.
- Subordinated Debt** a bond or loan that should a company go into liquidation is less senior to other bonds, the bondholder can only expect payout once the more senior debt holders have been paid. Also known as junior debt.
- Sumarai Bond** a yen denominated bond issued in Japan by a foreign entity

- Swap** an exchange of cash flow obligations between two parties.
- Swaption** an option to do a swap sometime in the future.
- Syndicate** a term used to describe a group of financial institutions that underwrite a debt issue or undertake a joint bank loan known as a syndicated bank loan.
- Syndicated Bank Loan** a large bank loan made to a borrower by a group of banks. The syndicate is usually led by a lead bank which makes a percentage of the loan itself and then syndicates the rest to the other banks.
- Takeover** a situation where an acquiring company makes a bid for a target company. A hostile takeover ensues if the acquired company resists the takeover or a friendly takeover occurs if the target company welcomes the bid.
- Tender** to make a bid to buy Treasury bills or bonds or other financial securities.
- Tick** the smallest possible price movement in a security eg 0.01 or 1/32.
- Time Value** the part of an option premium that is not part of the intrinsic value.
- Tombstone** a formal advertisement in the financial press of a potential or successful issue of a bond, syndicated bank loan, issue of commercial bond etc.
- Traded Option** a standardized option contract that is traded on an exchange and which can be sold prior to maturity.
- Tranche** related securities that are offered at the same time but which have different risk/reward characteristics and/or different maturities. For example, one tranche of a bond issue might be partly in dollars and the other tranche in euros or one part at 5 years to maturity and another tranche at 10 years till maturity.
- Treasury Bill** a short term debt instrument issued by the Treasury of 12 or less months till maturity. Treasury bills are issued at a discount to their face value.
- Treasury Bond** a long-term debt instrument issued by the Treasury which makes fixed coupon payments to the holder and pays the principal back upon maturity. In the US the bond is usually 10 years or over with 2–9 year bonds being called Treasury Notes.
- Underwriting** the process of issuing an insurance policy.
- Underwriting Syndicate** a group of banks that agree to buy any unsold part of a newly issued security.
- Unit Trust** a fund that pools money from investors and then invests them in a range of securities. *See also* Mutual Fund.
- Unsubordinated Debt** debt which is senior with respect to repayment than other debt or junior securities.
- Value at Risk** a statistical modelling technique used to estimate the probability of portfolio losses based on an analysis of the behaviour of past prices and volatilities.
- Volatility** a statistical measure of the tendency of a security to rise or fall over a given time frame. Usually calculated by looking at a security's variance.
- Warrant** an option attached to a bond that gives the holder the right to buy or sell a security at a given price. It differs from a normal option in that the company issuing the bond is issuing the warrant rather than an Exchange. In addition a warrant may be exercisable in several years compared to several months as is the case with an exchange traded option. Warrants can be detached from the bond and traded separately from the bond.
- Withholding Tax** a tax on investment income aimed specifically at non residents (ie foreigners).
- Yankee Bond** a bond issued in the United States in dollars but by a foreign entity.
- Yield to Maturity (YTM)** the rate of return on a bond expressed as a percentage per annum if it is held till maturity. The YTM takes account of all coupon payments and any prospective capital gains/losses as well as the term to maturity and assumes that coupon payments can be reinvested at the YTM.