Investment Vocabulary

A

Accretion of a Discount: A type of portfolio accounting in which there is a straight-line accumulation of capital gains on discount notes and bonds.

Accrued Interest: The interest accumulated on a security since the issue date or since the last coupon payment. The buyer of the security pays the market price plus accrued interest.

Active Market: A securities market in which a high volume of trading activity takes place.

Advance Refunding: A treasury operation that offers owners of outstanding federal obligations the opportunity to exchange securities for longer-term issues that may bear a higher yield to maturity. Advance refunding on a municipal bond refers to the sale of a refunding issue several years prior to the issue's first call date, with the proceeds being held in trust. Also called prerefunding.

Advancing Market: A market in which prices are generally rising.

Agent: Executes an order for or acts on behalf of someone else, the principal. The agent, whether a firm or an individual, is subject to the control of the principal and does not have title to the principal's property. The agent may charge a fee or commission for this service.

All or None (AON): An all or none order requires that none of the order be executed unless all of it can be executed at the specified price. An AON order usually involves an offering of new securities.

American Stock Exchange: A leading securities exchange located in New York City. Also called AMEX or ASE.

Amortization: The gradual reduction of a debt by means of equal periodic payments sufficient to meet current interest charges and to pay off the debt at maturity.

Amortization of Premium: The periodic charges made against the interest received on bonds in order to offset any premium price paid for the bonds.

Arbitrage: Effecting sales and purchases simultaneously in the same or related securities to take advantage of a market inefficiency.

Arrears: Amounts, such as interest or preferred stock dividends, that are overdue.

Asked Price: *See* Bid and Asked.

Assessed Valuation: The valuation placed on property for the purpose of taxation. In some areas, the property is assessed below 100 percent of the market value. *See* Assessment Ratio.

Assessment Ratio: The ratio of the assessed value of property to the full or actual property value. Full value is the fair market value at the bid side of the market, less an allowance for sales and other expenses. The normal standard in California is of full value.

At the Market: A trading term for the buying or selling of securities at the current market price rather than at a predetermined price.

At-the-Opening Order: A trading term for an order that is to be executed at the opening of the market or not at all.

Auction Coverage: The ratio of the total bids offered in an auction to the number of accepted bids. This ratio is used to evaluate general interest in any given auction.

Authorized Capital Stock: The total amount of stock that a company is permitted to issue under its charter.

Average Life: The average holding period of a mortgage-backed security. It is calculated mathematically by weighting the time the investment is outstanding by the amount of principal returned each month.

Averaging Up or Down: The practice of purchasing the same security at various prices to arrive at a higher or lower average cost.

Investment Vocabulary

B

Baby Bonds: Bonds whose face value is usually $100 or less.

Balloon Maturity: Describes a bond issue in which bonds that come due close to the maturity date of the issue have a substantially larger value than those bonds that came due earlier in the issue. Very often, a provision is made for the redemption of part or all of these bonds by purchase or call prior to maturity.

Basis Book: A book of mathematical tables used to convert yield-to-maturity to the equivalent dollar prices at different rates of interest. *See* Discount Book.

Basis Point: One-hundredth of 1 percent. One hundred basis points equals 1 percent.

Basis Price: Price expressed in yield to maturity or the annual rate of return on the investment.

Bearer Form: A negotiable instrument format that has no registered owner. The instrument is therefore payable to the person who has physical possession of the security.

Bearer Security: A security that does not have the name of the owner or owner's agent registered on the books of the issuer. This allows the proceeds (principal as well as interest) to be paid to the current holder of the security.

Bear Market: A period of generally pessimistic attitudes and declining market prices. Compare Bull Market.

Below the Market: A price below the current market price for a particular security.

Best-Efforts Basis: Where a securities dealer does not underwrite a new issue but sells it on the basis of what can be sold. In the money market, this usually refers to a firm order to buy or sell a given amount of securities or currency at the best price that can be found over a given period of time. It can also refer to a flexible amount up to a certain limit at a given rate.

Bid and Asked/Bid and Offer: The price at which an owner offers to sell (asked or *offer)* and the price at which a prospective buyer offers to buy (bid). It is often referred to as a quotation or a quote. The difference between the two is called the spread.

Big Board: The New York Stock Exchange (NYSE).

Blanket Bond: A bond secured by the general assets of a company, as opposed to an unsecured bond or one secured by specific assets. *See* Bond.

Block: A large number of securities dealt with as a unit.

Blue-Chip Stocks: The securities of major companies known nationally for their record of earnings, dividend payments, and general price stability. This term denotes high esteem on the part of investors.

Blue List: A trade publication, published each business day, that shows current municipal bond offerings by banks and municipal bond dealers throughout the country.

Blue-Sky Laws: Laws enacted by states to regulate the issuance and sale of securities.

Bond: An interest-bearing security issued by a corporation, government, governmental agency, or other body. It is a form of debt with an interest rate, maturity, and face value, and it is usually secured by specific assets. Most bonds have a maturity of greater than one year and generally pay interest semiannually. *See* Debenture.

Bond Anticipation Notes (BANS): Short-term notes sold by states and municipalities to obtain interim financing for projects that will eventually be financed by the sale of bonds.

Bond Averages: The average prices of certain bonds over a specific period. They usually reflect trends in the bond market.

Bond Buyer: A trade publication that describes upcoming municipal bond sales, posts the results of those sales, and carries news items of special interest to the municipal bond industry.

Bond Buyer Index: An index published weekly by the *Bond Buyer* to indicate the level of longterm municipal bond yields.

Bond Discount: The difference between a bond's face value and a selling price, when the selling price is lower than the face value.

Bond Power: A "power of attorney" used in connection with the sale and transfer of registered bonds. It is necessary to obtain bond powers whenever registered bonds are pledged as collateral. *See* Power of Attorney.

Bond Rating: The classification of a bond's investment quality. *See* Rating.

Investment Vocabulary

Bond Resolution: A legal order or contract by a governmental unit to authorize a bond issue. A bond resolution carefully details the rights of the bondholders and the obligations of the issuer.

Book-Entry Securities: Securities that are not represented by engraved certificates but are maintained in computerized records of the issuer.

Book Value: The amount at which a security is carried on the books of the holder or issuer. The book value is often the original cost of the security plus or minus amortization and accretion; it may differ significantly from the market value.

Broker: An intermediary who brings buyers and sellers together and handles their orders, generally charging a commission for this service. In contrast to a principal or a dealer, the broker does not own or take a position in securities.

Broker or Dealer Loans: Loans made to securities brokers and dealers, mainly by money center banks and secured by securities. These are usually overnight call loans to finance stock inventories, underwriting activities, or brokers' credit. *See* Call Loans.

Bull Market: A period of generally optimistic attitudes and increasing market prices. Compare Bear Market.

Buyer's Market: A market in which supply is greater than demand, giving buyers an advantage.

Investment Vocabulary

C

Call: An option to buy a specific asset at a certain price within a certain period of time.

Callable: A bond or preferred stock that may be redeemed by the issuer before maturity for a call price specified at the time of issuance.

Call Date: The date before maturity on which a bond may be redeemed at the option of the issuer.

Called Bonds: Bonds redeemed before maturity.

Call Loans: Loans that may be terminated at the discretion of the borrower or the lender.

Call Money: Money loaned to brokers by banks and subject to call at the discretion of the lender. *See* Call Loans.

Call Premium: The excess paid for a bond or security over its face value.

Call Price: The price paid for a security when it is called. The call price is equal to the face value of the security plus the call premium, if any.

Call Provision: The details by which a bond may be redeemed by the issuer, in whole or in part, prior to maturity. A security with such a provision will usually have a higher interest rate than comparable noncallable securities.

Capital Gain/Loss: The amount that is made or lost, depending upon the difference between the sale price and the purchase price of any capital asset or security.

Capital Market: The market in which buyers and sellers, including institutions, banks, governments, corporations, and individuals, trade debt and equity securities.

Carry: The cost incurred in interest charges for financing and holding a securities inventory. *See* Positive Carry; Negative Carry.

Cash Sale: A transaction calling for the delivery and payment of the securities on the same day that the transaction takes place.

Circle: Indicating an interest in a specified amount of bonds by making a nonbinding commitment to buy the issue; may become a final sale that is binding to both parties.

Clear: To carry out a trade: the seller delivers securities, and the buyer delivers funds. A trade that does not clear is said to fail.

Clearing House Funds: Monies within the New York Clearing House Interbank Payments System. Funds are transferred from bank to bank to allow settlement in the various areas served by a particular clearing house. Clearing house funds are available the next day.

CMO Class: A group of bonds within a collateralized mortgaged obligation (CMO) issue. Each class has a specific rate and principal-redemption schedule. Also referred to as a tranche.

Collateral: Securities or other property that a borrower pledges as security for the repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Collateral Note: A promissory note that specifically mentions the collateral pledged by the borrower as security for the repayment of a loan or other obligation.

Collateral Trust Bonds: Bonds secured by a lien on specified securities pledged as collateral and held by a trustee as collateral.

Commercial Paper: Short-term, unsecured, negotiable promissory notes issued by businesses.

Commission: Broker's or agent's fee for purchasing or selling securities for a client.

Consolidated Debt: A debt in which all of the separate entities of an organization are equally responsible for repayment of the debt.

Convertible: A feature of certain bonds, debentures, or preferred stocks that allows them to be exchanged for another class of securities. A convertible bond contains a provision that permits conversion to the issuer's common stock at some fixed exchange ratio.

Cornering the Market: Buying securities on a scale large enough to give a buyer control over the market price. This practice is illegal.

Correspondent: A bank, securities firm, or other financial organization that regularly performs services for another in a market to which the other does not have direct access.

Investment Vocabulary

Correspondent Bank: A bank that is the depository for another bank. The correspondent bank accepts all deposits in the form of cash letters, and collects items for its bank depositor. The depository bank will render all banking services to its correspondent in the region in which the depository bank is located.

Coupon Rate: The annual rate of interest that the issuer of a bond promises to pay to the holder of the bond.

Coupons: Certificates attached to a bond that indicate the interest due on a payment date. The coupons are detached as they come due (usually semiannually) and are presented for payment of interest. The term Coupon also refers to the rate of interest the issuer promises to pay the issue holder.

Coupon Yield: The annual interest rate of a bond, divided by the bond's face value and stated as a percentage. This usually is not equal to the bond's current yield or its yield to maturity.

Covenant: A pledge on the part of an issuer of a security to perform in a way that may benefit the security holders or to refrain from doing something that might be disadvantageous to them.

Cover: The spread between the winning bid/ offer and the next highest bid/next lowest offer. It is useful as a basis for evaluation of the bids.

Coverage Ratio: The ratio of income available to pay a specific obligation versus the total amount obligated. This is a measure of a firm's financial stability.

Covering: Buying back a security previously sold short, in order to eliminate one's short position *(see* Short Sale). Also refers to the rate of return on a bondholder's investment.

Credit Analysis: A critical review and appraisal of the economic and financial condition of a government agency or corporation. Evaluates the issuing entity's ability to meet its debt obligations, and the suitability of such obligations underwriting or investment.

Current Maturity: The amount of time left until an obligation matures. For example, a oneyear bill issued nine months ago has a current maturity of three months.

Current Yield: The coupon payments on a security as a percentage of the security's market price. In many instances the price should be gross of accrued interest, particularly on instruments where no coupon is left to be paid until maturity.

CUSIP: The Committee on Uniform Security Identification Procedures, which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, U.S. government, and corporate securities.

Investment Vocabulary

D

Dated Date, or Issue Date: The date of a municipal bond issue from which the bond holder is entitled to receive interest, even though the bonds may actually be delivered at some other date.

Day Loan: A one-day loan granted for the purchase of securities. When the securities are delivered, they are pledged as collateral to secure a regular call loan for a few hours of the business day in order to finance the securities.

Day Order: An order placed to buy or sell securities on a specific day. If the order is not executed, it expires at the end of that trading session.

Dealer: An individual or firm that ordinarily acts as a principal in security transactions. Typically, dealers buy for their own account and sell to a customer from their inventory. The dealer's profit is determined by the difference between the price paid and the price received.

Dealer Loans: *See* Broker or Dealer Loans.

Dealer Market: The market for trading government securities.

Debenture: A bond secured only by the general credit of the issuer rather than by a specific lien on property, as is a mortgage bond. Agency bonds are frequently called debentures.

Debt Coverage: The margin of safety for payment of debt, reflecting how much the earnings for a certain period of time exceed the debt payable during that same period. Normally used in connection with revenue bonds and corporate bonds.

Debt Instrument: A written pledge to repay debt, such as a bill, a note, or a bond.

Debt Limit, or Debt Ceiling: The maximum amount of debt that can legally be acquired under the debt-incurring power of a state or municipality.

Debt Service: Interest and principal obligation on an outstanding debt. This is usually for a one-year period.

Default: Failure to pay principal or interest promptly when it is due.

Delivery: Either of two methods of delivering securities: delivery vs. payment and delivery vs. receipt (also called "free"). Delivery vs. payment is delivery of securities with an exchange of money for the securities. Delivery vs. receipt is delivery of securities with an exchange of a signed receipt for the securities.

Demand Loan: A loan that has no fixed maturity date but that is payable upon demand.

Direct Debt: Debt incurred or assumed by an entity in its own name. Occasionally one government assumes the debt of another. When adjoining lands are annexed to a school district, for example, there may be some assumed debt.

Direct Placement: Selling a new issue not by offering it for sale publicly but by placing it with one or several institutional investors.

Discount: The reduction in the price of a security; the difference between its selling price and its face value at maturity. A security may sell below face value in return for such things as prompt payment and quantity purchase. "At a discount" refers to a security selling at less than the face value, as opposed to "at a premium," when it sells for more than the face value.

Discount Book: A book of mathematical tables used to determine the rate of return on a dollar bond for a specified discounted rate at a certain maturity. *See* Basis Book.

Discount Window: A facility provided by the Federal Reserve Bank.

Discretionary Order: A securities transaction offer placed by a broker who is empowered to act on behalf of a customer with regard to price and timing.

Dollar Bond: A bond that is quoted and traded in dollars rather than on a yield basis. Not to be confused with the term US. *dollar bonds,* which is commonly used in the Eurobond market.

Don't Know: Also DK or DKed, as in "don't know the trade." An expression used to denote a lack of knowledge of a particular trade or transaction. Trades are often DKed due to conflicting instructions from one party or the other.

Double Exemption: Being exempt from both state and federal income taxes. Term used in relation to municipal bonds

Downside Risk: The maximum amount that can be lost in an investment.

Dumping: Selling large amounts of securities without regard to the effect on the marketplace.

Investment Vocabulary

E

Exempt Securities: Securities that are exempt from the registration requirements of the Securities and Exchange Commission.

Ex-Rights: Without rights. When a security is sold ex-rights, the buyer of that security is not entitled to the rights to purchase a new issue of the security at a discount. *See* Rights.

Extraordinary Redemption: Redemption occurring under an unusual circumstance such as destruction of the facility financed. Different from optional redemption or mandatory redemption on municipal issues. *Compare* Optional Redemption.

F

Face Amount: The par value (i.e., principal or maturity value) of a security appearing on the face of the instrument.

Fail: The failure of a seller to deliver securities to the purchaser or of the buyer to deliver the proper funds as contracted.

Fannie Mae: Trade name for the Federal National Mortgage Association (FNMA).

Fiduciary: An individual or group, such as a bank or trust company, that acts for the benefit of another party or to which property is given to hold in trust.

Fill or Kill : The instructions to fill an entire order immediately or kill (cancel) the entire order.

Firm: A term designating a buy or sell order made for a security that will not change in price for a specified period of time. It is sometimes accompanied by a recall within a specified time, such as five or ten minutes.

Firming of the Market: A period of improvement when security prices tend to rise or to stabilize at current levels.

Fiscal Year: An accounting or tax period comprising any 12-month period. The federal government's fiscal year starts October 1; the fiscal year of national chartered banks begins on January 1.

Flat: The price at which a bond is traded, including consideration for all unpaid interest accrued. Bonds that are in default of interest or principal are traded flat. Income bonds, which pay interest only to the extent earned, are usually traded flat. With most other bonds, the buyer pays the market price plus interest accrued since the last coupon or payment date, which is referred to as "and interest."

Floating-Rate Note/Bond: A note or bond with a fluctuating interest rate. The rate is adjusted periodically according to a predetermined formula, based upon specific market indicators. Thus, it provides the investor with a rate of return comparable to the rate prevailing in the current market environment.

Floating Supply: The total amount of securities available for immediate purchase from dealers and other investors who wish to sell.

Freddie Mac: Trade name for the Federal Home Loan Mortgage Corporation (FHLMC).

Free: Delivery of securities upon presentation of a signed receipt. Payment is received by debiting or crediting accounts or by check, wire transfer, or other means.

Free and Open Market: A market in which supply and demand indicate prices for securities.

Full Faith and Credit: Indicator that the unconditional guarantee of the United States government backs the repayment of a debt.

Investment Vocabulary

G

General Obligation Bonds (GOs): Bonds secured by the pledge of the municipal issuer's full faith and credit, which usually includes unlimited taxing power.

General Property Taxes: Taxes that are placed on real estate and personal property.

Ginnie Mae: Trade name for the Government National Mortgage Association (GNMA).

Good Delivery: A security that meets all the requirements of the stock exchange for delivery to a banker when the security is sold.

Good-Faith Check: The check that must be included with a bid on a bond sale. Usually, if the bonds are awarded to a syndicate that does not pick them up as agreed, the good-faith check is kept. The good-faith checks of unsuccessful bidders are returned.

Good `till Canceled (GTC) Order: An order for securities that may be limited in terms of price but not in terms of time. *See* Open Order.

Government Bonds: Securities issued by the federal government; they are obligations of the US. Treasury. Also known as "governments."

Gross Debt: The sum total of a debtor's obligations.

Gross Yield: The percentage of return on a security, determined by dividing the dollar price into the annual interest payment and calculating the return to maturity. Also, the return on an investment before deduction of costs.

Guaranteed Bond: A bond in which repayment is guaranteed by someone other than the debtor.

Investment Vocabulary

H

Hedging: A method used by traders to minimize losses resulting from price fluctuations in the money market. The method involves counterbalancing a present sale or purchase with the purchase or sale of a similar or different security, usually for delivery at some future date. The desired result is that the profit or loss on a current sale or purchase will be offset by the loss or profit on the future purchase or sale.

Holder: The person or entity that has possession of a negotiable instrument.

Hypothecation: An agreement that pledges securities to guarantee a loan without transferring title to the securities.

I

Immediate or Cancel Order: An order at market price (or some other limited price) that is to be executed in whole, or in part, as soon as it is received. The portion that is not transacted is considered canceled.

In and Out: Describes the purchase and sale of the same security within a short period of time to take advantage of price fluctuations.

Income Bonds: Bonds on which the payment of interest is due only when the issuer has attained sufficient income. There is no guaranteed return. In some cases, unpaid interest may accumulate as a claim against the issuer when the principal comes due.

Indebtedness: The obligation assumed by a borrower, guarantor, or endorser to repay funds that have been or will be paid out on the borrower's behalf.

Indenture: A written agreement used in connection with a security issue. The document sets the maturity date, interest rate, security, and other terms for the issue holder, the issuer, and (when appropriate) the trustee.

Interest: Compensation paid or to be paid for the use of money. The rate of interest is generally expressed as an annual percentage.

Interest Rate: The interest payable each year on borrowed funds, expressed as a percentage of the principal.

Investment Banking: A term used to describe the financing of the capital requirements of an enterprise, as opposed to the working capital of a business. Investment bankers buy and sell securities, such as stocks, bonds, and mortgages. They act as the intermediaries between the investor and the corporation or government that needs to finance its operations. An investment bank charges a fee for services relating to securities, such as advisory, negotiation, and distribution services. *See* Syndicate; Underwriter.

Investment Portfolio: A collection of securities held by a bank, individual, institution, or government agency for investment purposes.

Investment Securities: Securities purchased for an investment portfolio, as opposed to those purchased for resale to customers.

Investor: A person who purchases securities with the intention of holding them to make a profit.

Issue: A group of identical securities, or the marketing and selling of such securities.

Issue Price: The price at which a new group of identical securities (new issue) is put on the market.

Issuer: Any corporation or governmental unit that borrows money through the sale of securities.

Investment Vocabulary

J

Joint and Several Obligation: A guarantee to the holder of a security in which the liability for a bond or note issue may be enforced against all parties jointly or any one of them individually. One party, several, or all may be held responsible for payment.

L

Legal List, or Legal Investment: A list of securities in which certain institutions and fiduciaries, such as insurance companies and banks, may invest. For the protection of depositors or liability holders, legal lists are restricted by regulatory agencies to high-quality securities that meet certain specifications. Also known as legals. *See* Prudent Man Rule.

Legal Opinion: An opinion concerning the validity of a municipal issue with respect to statutory authority, constitutionality, procedural conformity, and usually the exemption of interest from federal income taxes. The legal opinion is usually rendered by a law firm recognized as specializing in public borrowings, often referred to as "bond counsel."

Limited Order: An order to buy or sell a certain amount of a security at a minimum price within a specific period of time.

Limited-Tax Bond: A bond guaranteed by a special tax or taxes, or by a specified portion of the real estate tax. The rate and amount of such a bond is limited.

Liquidity: The ease at which a security can be bought or sold (converted to cash) in the market. A large number of buyers and sellers and a high volume of trading activity are important components of liquidity.

Listed Securities: Securities that have been admitted for trading on a recognized securities exchange. Unlisted securities are usually sold over the counter.

Locked Market: A securities market in which the bid price is the same as the asked price.

London Interbank Offered Rate (LIBOR): The interest rate on Eurodollar deposits traded between banks. The rate depends on the maturity of the deposit as well as on which bank quotes the rate.

Long: Owning more securities than one has contracted to deliver.

M

Making a Market: Any specialist permitted to act as a dealer, any dealer acting in the capacity of a block positioner, and any dealer who, with respect to a security, holds himself/herself out (by entering quotations in an interdealer communications system) or otherwise as being willing to buy and sell a security for his/her own account on a regular or continuous basis.

Margin: The difference between the collateral pledged to secure a loan and the amount of the loan itself. Federal Reserve Board requirements for margin on stocks have ranged from 40 to 100 percent of the purchase price.

Marketability: The ease with which a security can be sold in the secondary market.

Market Order: An order to buy or sell securities at the market's prevailing bid or asked price.

Market Value: The price at which a security is currently being sold in the market.

Market vs. Quote: Quote designates the current bid and asked price on a security, as opposed to the price at which the last security order was sold.

Maturity: The date that the principal or stated value of a debt instrument becomes due and payable. Also used to denote the length of time between the issue date and the due date.

Money Market Instruments: Private and government obligations with maturities of one year or less.

Money Market *Securities:* *Short-term* securities with market prices more closely tied to the current interest rate than to a company's standing or to general business conditions.

Moral Obligation Bond: A revenue bond that, in addition to its primary source of security, possesses a structure whereby a state pledges to make up shortfalls in a debt service reserve fund, subject to legislative appropriation. The state has no legal obligation to make such a payment, but market participants recognize that failure to honor the "moral" pledge would have negative consequences for the state's own creditworthiness.

Mortgage Bond: A bond secured by a mortgage on property. The value of the property used as collateral usually exceeds that of the mortgage bond issued against it.

Municipals: Securities, usually bonds, issued by a state or its agencies. The interest on "munis" is usually exempt from federal income taxes and state and local income taxes in the state of issuance. Municipal securities may or may not be backed by the issuing agency's taxation powers.

Municipal Securities Rulemaking Board (MSRB): Registered under the Maloney Act in 1975, MSRB is designed to create rules and regulations for municipal bond trading among brokers, dealers, and banks.

Investment Vocabulary

N

National Association of Securities Dealers (NASD): A self-regulatory organization that regulates the over-the-counter market.

Negative Carry: Negative carry occurs when the cost of borrowing to finance the holding of securities is in excess of the income on those securities. Compare also Positive Carry.

Negotiable: A term used to designate a security, the title to which is transferable by delivery. The term also indicates that the securities can be exchanged for cash or near-cash instruments.

Negotiated Sale: An arrangement in which the terms of a securities issue are made privately between the parties involved, without competitive public bidding.

Net Change: The difference in the closing price of a security from one day to the next.

Net Debt: The gross debt of a state or governmental agency, not including sinking-fund accumulations and all self-supporting debt.

Net Interest Cost (NIC): The average interest rate an issuer must pay in order to borrow funds over the life of a bond.

Net Yield: *See* Yield.

New Issue: The first offering of a security.

New Issue Market: The market for new issues of securities, as opposed to the secondary market, in which securities that have already been issued are sold.

New York Stock Exchange: A corporation operated by a board of directors responsible for setting policy, supervising exchange and member activities, listing securities, overseeing the transfer of members' seats on the exchange, and judging whether an applicant is qualified to be a specialist.

No Par Value: Describes a security issued with no stated face or par value.

No-Litigation Certificate: A statement issued by the bond attorney and the issuer's counsel that no legal suits are pending against the bond issue, nor is there any knowledge of threatened litigation that might affect the validity of the bonds.

Noncallable: Describes a security that does not contain a call provision. *See* Call Provision.

Nonlegals: Securities that do not conform to the requirements of a state's legal list of lawful investments for savings banks and trust funds. *See* Legal List.

Nonnegotiable: Describes a security whose title or ownership is not transferable through simple delivery or endorsement. *See* Negotiable.

Note: A written document that contains a promise to pay a specified amount to a certain entity on a particular date.

Investment Vocabulary

O

Obligation: A responsibility for repaying a debt.

Odd Lot: A securities holding that contains less than the normal trading unit. Compare Round Lot.

Odd-Lot Dealer: A broker or dealer who buys or sells securities in quantities smaller than the normal trading unit.

Offer: The price at which an owner is willing to sell a security.

Offering: The means by which securities are sold to buyers. Usually states the price and terms.

Offering Price: The price at which members of an underwriting syndicate for a new issue will offer securities to investors.

Official Statement: Document prepared by or for the issuer that gives detailed security and financial information about the issue.

Offset: The buying or selling of a security in an exact amount to counterbalance the sale or purchase of a similar type of security. Upon completion of an offset transaction, the initiator's position remains unchanged.

Open Order: An order to buy or sell a security at a designated price, usually within a certain time limit. *See* Good 'till Canceled Order.

Option: The right to trade a security during a certain period of time.

Optional Redemption: A right to retire all or part of an issue prior to the stated maturity during a specified period of years, often at a premium. The right can be exercised at the option of the issuer.

Original Issue Discount: A municipal bond issued at a dollar price less than par that qualifies for special treatment under federal tax law. Under that law, the difference between the issue price and par is treated as tax-exempt income rather than capital gain, if the bonds are held to maturity.

Overbought/Oversold: Describes a security or a market that has undergone a sharp rise or fall due to vigorous buying or selling. Being overbought or oversold indicates that such buy ing or selling may have left prices temporarily too high or too low.

Overlay or Overlevy: An amount included in the general property tax to cover abatements and taxes that will probably not be collected.

Over the Counter: A securities market in which dealers negotiate directly, as opposed to an organized securities exchange auction system. The market for U.S. government and municipal bonds is primarily an over-the-counter market.

Investment Vocabulary

P

Paper Gain/Loss: Unrealized capital gain or loss on securities held in portfolio, based on a comparison of current market price and the original cost of the securities. Actual appreciation or depreciation is realized when the security is sold. Compare Realized Gain/Loss.

Par Value: The value of a security expressed as a specific dollar amount marked on the face of the security, or the amount of money due at maturity. Par value should not be confused with market value.

Paydown: The net reduction in debt that occurs when the amount of a new issue is less than the maturing issue.

Paying Agent: Usually a commercial bank that dispenses the principal and interest payable on a maturing issue. Municipal bonds are usually also payable at the office of a public treasurer.

Pledged Assets: Bank-owned securities that are pledged as collateral for funds deposited by the federal government or by a state or municipal government. These pledged assets are generally U.S. government or municipal obligations or other types of obligations as specified by law.

Pool: A collection of mortgages assembled by an originator or master servicer as the basis for a security. Pools are identified by a number.

Portfolio: A collection of securities held by an individual or institution.

Positive Carry: A condition in which the yield on a security is greater than the cost of borrowing funds to hold it. Compare Negative Carry.

Power of Attorney: The legal authorization for one party to sign for and act on behalf of another party.

Premium: The amount by which the price paid for a security exceeds the par value of the security. Also, the amount that must be paid over the par value to call or refund an issue before maturity.

Prepayment: An unscheduled principal payment on a mortgage or mortgage-backed security that forms part of the collateral for a mortgage-backed security. This usually occurs when homeowners sell their homes or otherwise prepay their mortgage loans prior to maturity. Prepayments may significantly affect the weighted average life and yield of mortgage-backed bonds.

Prepayment Speed: *See* Prepayment and PSA Prepayment Model.

Prerefunding: *See* advance refunding.

Primary Distribution, or Offering: The initial sale and distribution of an issuer's securities. *See* Secondary Distribution.

Primary Market: The demand for first issues of securities.

Principal: The face or par value of a security. It does not include accrued interest.

Pro Forma Statement: A financial statement based on assumptions usually made on the basis of past account relationships, how these relationships might change in the future, and likely financial developments. A pro forma would be used, for example, to determine the amount and timing of a company's future cash requirements.

Prospectus: A document issued by a company prior to the sale of a new issue of securities. The prospectus gives detailed information about the company, the offering, the prospects, and the risks, as required by the Securities and Exchange Commission.

Prudent Man Rule: A long-standing common-law rule that requires a trustee who is investing for another to behave in the same way as a prudent individual of reasonable discretion and intelligence who is seeking a reasonable income and preservation of capital.

PSA Prepayment Model: The Public Securities Association prepayment model is used in the mortgage-backed securities market as a measurement of prepayment speed. The 100% PSA model assumes that a brand-new mortgage will prepay at an annualized rate of 0.2 percentage point in its first month and increase by 0.2 percentage point each month thereafter until the 30th month, at which time it reaches 6%, where it remains for the life of the mortgage. Sometimes referred to as standard prepayment assumption model, or simply PSA.

Public Debt: The total outstanding debt of the federal government. May also refer to the total outstanding debt of the federal government along with that of states, municipalities, and other political subdivision.

Public Offering: The offering of securities for sale to the public.

Investment Vocabulary

Quotation, or Quote: The highest bid to buy or the lowest offer to sell a security in any market at a particular time. *See* Bid and Asked.

Investment Vocabulary

R

Rally: A brisk rise in the price of a security or a recovery in the market.

Rate of Return: The yield that can be attained on a security, based on its purchase price or its current market price. On a bond, the rate of return may be the amortized yield to maturity or the current income return. Also refers to income earned on an investment, expressed as a percentage of the cost of the investment.

Rating: The designation used by investors' services to rate a security. Moody's ratings range from Aaa (the highest) through Aa, A, Baa, Ba, B, and so on. Standard and Poor's ratings range from AAA (the highest) through AA, A, BBB, BB, B, and so on.

Realized Gain/Loss: Actual profit or loss experienced upon the sale of a security. Compare Paper Gain/Loss.

Redemption: Liquidating debt by retiring an outstanding obligation. This may occur at maturity but usually occurs at the issuer's option, such as when a bond issue is retired before its maturity date.

Redemption Fund: A fund created for the purpose of retiring a callable obligation that matures in stages or for purchasing such an obligation as funds become available.

Redemption Price: The price at which a bond may be redeemed, at the issuer's option, before maturity.

Refinancing: Rolling over the principal on securities that have reached maturity or replacing them with the sale of new issues. The object may be to save interest costs or to extend the maturity of the loan. *See* Refunding.

Refunding: Replacing an outstanding obligation on or before its maturity with a new issue in order to extend the length of the borrowing, change the interest rate, consolidate issues, or postpone payment until a more opportune time.

Registered Bond: A bond whose principal and/or interest is payable only to the person or organization registered with the issuer. This bond can be transferred only when endorsed by the registered owner.

Regular-Way Delivery: Unless otherwise specified, most government securities sold are to be delivered and paid for on the business day following the transaction. Regular delivery for municipal and corporate securities, however, is three business days.

Retire: To withdraw a security from circulation, usually by redeeming it.

Revenue Anticipation Notes (RANs): Short-term notes sold in anticipation of receiving future revenues. The notes are to be paid from the proceeds of those revenues.

Revenue Bond: A state or local bond secured by revenues derived from the operations of specific public enterprises, such as bridges, toll roads, or utilities. Such bonds are not generally backed by the taxation power of the issuer unless otherwise specified in the bond indenture.

Rich: Description of the price of a security when the current market quotation appears to be high (or the income return low) in comparison with either the past price record of the security or the current prices of comparable securities.

Rights: The privilege extended by an issuer to the holder of a security to subscribe to new or additional securities, sometimes at a price lower than the subscription price. This allows current stockholders the opportunity to avoid diluting their percentage of ownership.

Roll Over: To reinvest in a new issue of the same or a similar security after receiving funds from a matured security.

Round Lot: The normal minimum unit of trading for a particular issue or type of security. Compare Odd Lot.

Investment Vocabulary

S

Safekeeping: Holding securities in a bank's vaults for protection. This is a service banks offer to customers for a fee.

Sallie Mae: Trade name for the Student Loan Marketing Association (SLMA).

Scale: The terms on a serial bond issue that is reoffered to the public; the scale shows the prices or yields offered for each maturity in the issue.

Seasoned Securities: Recognized securities that are generally accepted by the investing public.

Secondary Distribution, or Offering: The redistribution of a large block of securities previously sold by the issuer or underwriting group in an initial or primary offering. *See* Primary Distribution.

Secondary Market: The market in which previously issued securities are traded, as compared to the new issue market. Also, the purchase or sale of securities in a special offering or through a means other than the regular channel of trading.

Secured Deposit: Bank deposits of state or local government funds that, under the laws of certain jurisdictions, must be secured by the pledge of acceptable securities.

Secured Loan: A loan that is secured by marketable securities or other marketable valuables. Secured loans may be either time or demand loans.

Securities: Investment instruments such as stocks and bonds.

Securities and Exchange Commission (SEC): An agency created by Congress to regulate securities issuance and trading. The SEC enforces various securities acts that are intended to protect investors.

Security Dealer: An individual or firm who buys and sells securities for his or her own account, acting as principal and taking title of the securities until they are sold to someone else. *See* Dealer.

Self-Liquidating Bonds: Bonds that are paid for from the earnings of a municipally owned enterprise, usually a utility. The earnings of the enterprise must be sufficient to cover the debt with a reasonable margin of protection in order for the bonds to be regarded as entirely self-liquidating.

Self-Supporting Debt: Debt that requires only the support of taxes that have been designated specifically for its repayment and for no other purpose.

Selling below the Market: A security that is currently quoted at a price less than that quoted for similar securities.

Senior Securities: Securities that have priority over other obligations for claims on the issuer's assets and earnings.

Serial Bonds: Bonds of the same issue that have different maturities over a number of years. This allows the issuer to retire the issue in small amounts over a long period of time.

Short Covering: Buying back securities that were previously sold, to make delivery on a short sale.

Short Sale: The sale of a security that is not owned by the seller on the expectation that the security can be bought or borrowed from a broker in time to be delivered to the buyer. The short seller's intent is to profit by buying the security at a lower price than it sold for.

Sinking Fund: A reserve fund set aside over a period of time for the purpose of liquidating or retiring an obligation, such as a bond issue, at maturity.

Special Assessment Bonds: Bonds that are paid back from taxes on a property that is being improved with funds financed by the bonds. The issuing governmental entity agrees to make the assessments and to earmark the tax proceeds to repay the debt on these bonds.

Special Tax Bond: A bond secured by a special tax, such as a gasoline tax.

Spread: The difference between two figures or percentages. For example, the difference between the bid and asked prices of a quote or between the amount paid when a security is bought and the amount received when it is sold.

Stop Out: The lowest price that the US. Treasury will accept for a new issue of bills, notes, or bonds in a particular auction.

Subscription: An agreement to purchase a certain offering for a specific price. The offer is not binding unless it is accepted by the properly authorized representatives of the issuer. Also refers to the order made for the purchase of new securities.

Investment Vocabulary

Swap: The sale of a block of securities and the purchase of another block with similar market value. May be made to achieve many goals, including establishing a tax loss, upgrading credit quality, or extending or shortening maturity.

Syndicate: A partnership of banks or brokers that join together in enterprises that are too large for any member to handle individually. An investment banking syndicate is headed by a manager who has made a successful bid for the wholesale purchase of a securities lot. The syndicate members agree to distribute a specified amount of the securities. The manager may allot the securities to them on a pro-rata or other agreed-upon basis. On final distribution of all securities, the syndicate is broken, and the obligation of all members to the terms of the agreement is terminated. *See* Underwriter.

Investment Vocabulary

T

Taking a Position: The activities of a dealer who purchases a block of a certain security as inventory for the purpose of resale at a profit.

Tax and Revenue Anticipation Notes (TRANs): Short-term notes issued by states or municipalities to finance current operations in anticipation of future tax receipts and revenue that will be used to repay the debt.

Tax Anticipation Notes (TANS): Short-term notes issued by states or municipalities to finance current operations in anticipation of future tax collections that will be used to repay the debt.

Tax-Exempt Bonds: Bonds for which the interest paid is usually exempt from federal taxes and, in some cases, from state and local taxes in state of issuance. The interest rate paid on these bonds is generally lower than rates on securities that are not tax-exempt.

Term Issue: A bond issue that matures all at once on a specific date.

Terms: The conditions of the sale or purchase of a security.

Thin Market: A market in which trading volume is low, with very few bids to buy or offers to sell.

Trade Date: The date when a security transaction is executed.

Trader: Someone who buys and sells securities for a personal account or a firm's account for the purpose of short-term profit.

Trading Market: The secondary market for bonds that have already been issued. *See* Secondary Market.

Tranche: *See* CMO Class.

Treasury Bill (T Bill): An obligation of the U.S. government with a maturity of one year or less. T-bills bear no interest but are sold at a discount.

Treasury Bonds and Notes: Obligations of the U.S. government that bear interest. Notes have maturities of one to ten years; bonds have longer maturities.

Trustee: A bank designated as the custodian of funds and the official representative of bondholders. In this capacity, the trustee is responsible for enforcing the bondholders' contract with the issuer.

Investment Vocabulary

U

Underwriter: A bank or other financial institution that arranges for the sale and distribution of securities and assumes the responsibility for paying the net purchase price. In most instances, the underwriter deals in new issues and with the issuing entity. An investment underwriter guarantees the sale of a securities issue by purchasing the entire issue from the company and then selling it to the public. Underwriting is one function of an investment banker. *See also* Syndicate.

Unlimited Tax Bond: A municipal bond secured by the pledge of taxes that are not limited by rate or amount.

Unlisted Securities: Securities that are traded in the over-the-counter markets rather than through a recognized exchange.

Validation Proceedings: The legal proceedings required in some states whereby the courts decide the validity of proposed bond issues.

Visible Supply: The total dollar volume of new municipal bond issues coming up for sale within the next 30 days.

V

When-Issued Basis (WIB): Describes securities that are traded before they are actually issued, with the stipulation that the transactions are null and void if the securities are not issued. Usually abbreviated to "w.i." following a market quotation for such securities.

Winning Bid: The successful bid for a particular issue. Generally, it produces the lowest net interest cost (NIC) to a municipal borrower or offers the highest premium in a single coupon bid.

Y

Yield: The annual rate of return on an investment, expressed as a percentage of the investment. Income yield is obtained by dividing the current dollar income by the current market price for the security. Net yield, or yield to maturity, is the current income yield minus any premium above par or plus any discount from par in the purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Yield to Maturity: The average annual yield on a security, assuming it is held to maturity; equal to the rate at which all principal and interest payments would be discounted to produce a present value equal to the purchase price of the bond. Also called net yield.

Z

Zero Coupon Bonds: Zeros do not pay periodic coupon payments. They are sold at a discount from face value. Interest income, which is received at maturity, is the difference between the purchase price and the amount at maturity.