

GLOSSARY

Absolute advantage

When a country is more efficient in producing a good or a service than other countries—that is, it needs less resources to produce the good or service.

Absolute returns

The returns achieved over a certain time period. Absolute returns do not consider the risk of the investment or the returns achieved by similar investments.

Accounting profit

Difference between the revenue generated from selling products and services and the explicit costs of producing them.

Accounts payable

Money owed by a company to suppliers that have extended the company credit.

Accounts receivable

Money owed to a company by customers who purchase on credit.

Accrual basis

Accounting method in which revenues and related expenses are recorded when the revenues are earned and the expenses are recognised rather than when the cash is received and paid.

Accrued liabilities

Liabilities related to expenses that have been incurred but not yet paid as of the end of an accounting period.

Active investment managers

Managers who actively buy and sell assets and/or alter asset allocations and seek to earn excess risk-adjusted returns.

Active investment managers

Investment managers who try to predict which securities and assets will outperform or underperform comparable securities and assets and who act on their opinions by buying the securities and assets that they expect to outperform and selling (or simply not buying) the securities and assets that they expect to underperform.

Ad hoc documents

Documents that are typically informal, such as letters, memos, and e-mails.

Adverse selection

Tendency of people who are most at risk to buy insurance, causing insured losses to be greater than average losses.

Allocationally efficient economies

Economies that use resources where they are the most valuable.

Alpha

Outperformance relative to a relevant market benchmark.

Alternative investments

A diverse asset class that typically includes private equity, real estate, and commodities. It provides an alternative to traditional investments, such as debt and equity securities.

Amortisation

The process of expensing the costs of intangible assets over their useful lives.

Annual percentage rate

The cost of borrowing expressed as a yearly rate without compounding.

Annuity

The exchange of an initial amount for a fixed number of future payments of a certain amount.

Appraisal

Assessment or estimation of the value of an asset, such as real estate, that is subject to certain assumptions, which may not always be realistic.

Appreciation

A situation in which a currency is getting stronger relative to other currencies.

Arbitrage opportunity

An opportunity to make money by taking advantage of a price difference between two markets.

Arithmetic mean

The sum of the items in a data set divided by the number of items.

Ask exchange rate

See *offer exchange rate*.

Ask prices

Prices at which a dealer is willing to sell an asset or a security, typically qualified by a maximum quantity (ask size). Also called *offer price*.

Asset allocation

The process to determine the proportion of a portfolio to hold in various asset classes or the proportion of a portfolio held in various asset classes.

Asset class

A broad grouping of similar types of investments, such as shares, bonds, real estate, and commodities.

Asset managers

See *investment managers*.

Asset turnover

A measure that indicates the volume of revenues being generated by the assets used in the business, or how effectively the company uses its assets to generate revenue.

Asset-backed securities

Financial securities created by securitisation whose associated payments and value are backed by a pool of underlying assets, such as car loans, credit card receivables, bank loans, or airplane leases.

Assets

Items that have value and include real assets and financial assets.

Back office

Administrative and support functions necessary to run the firm, including accounting, human resources, payroll, and operations.

Balance of payments

Record that tracks transactions between residents of one country and residents of the rest of the world over a period of time, usually a year.

Balance of trade

See *net exports*.

Balance sheet

A statement of the company's financial position at a specified point in time; essentially, it shows the company's assets, liabilities or debt, and owner-supplied capital or equity.

Banks

Financial institutions that collect deposits from savers and transform them into loans to borrowers.

Barriers to entry

Obstacles, such as licences, brand loyalty, or control of natural resources that prevent competitors from entering the market.

Basic earning power

A measure that compares the profit generated from operations with the assets used to generate that income.

Basis point

A measure equal to 0.01% or 0.0001.

Benchmark

A comparison portfolio (e.g., the S&P 500 Index).

Best efforts offering

Type of public offering in which the investment bank acts only as a broker and does not take the risk of having to buy securities.

Beta

A generic term for market risk, systematic risk, or non-diversifiable risk.

Bid exchange rate

The exchange rate at which a bank or currency dealer will buy foreign currency.

Bid prices

Prices at which a dealer is willing to buy an asset or a security, typically qualified by a maximum quantity (bid size).

Bid–ask spreads

Difference between the bid price and the offer price quoted by a dealer, which represents the compensation dealers expect for taking the risk of buying and selling securities.

Block brokers

Brokers who help investors who want to trade large blocks of securities.

Board of directors

A group of people whose job is to monitor the company's business activities on behalf of its shareholders.

Bond

A formal contract that represents a loan from an investor (bondholder) to an issuer. The contract describes the key terms of the debt obligation, such as the interest rate and the maturity.

Book values

Balance sheet values of a company's assets, liabilities, and equity.

Breakeven point

The number of units produced and sold at which the company's profit is zero—that is, revenues exactly cover total costs. If the company sells less units than the breakeven point, it will suffer a loss. In contrast, if it sells more units than the breakeven point, it will make a profit.

Brokerage services

Trading services provided to clients who want to buy and sell securities; they include not only execution services (that is, processing orders on behalf of clients) but also investment advice and research.

Brokered markets

Markets in which brokers arrange trades among their clients, particularly for such assets as large blocks of securities or real estate that are unique and thus of interest as potential investments to only a limited number of investors.

Brokers

Trading services providers who act as agents and, in exchange for a commission, arrange trades by finding sellers for their clients who want to buy and buyers for their clients who want to sell.

Business cycles

Economy-wide fluctuations in economic activity.

Buy-side firms

Institutional investors and investment managers who purchase investment products and services from sell-side firms.

Buyouts

Private equity investment strategy that consists of financing established companies that require capital to restructure and facilitating a change of ownership.

Call market

Market in which trades can be arranged only when the market is called, which is usually once a day.

Call option

The right (but not the obligation) to buy an underlying at the exercise price until the option expires.

Call risk

The risk that the issuer will buy back the bond issue prior to maturity through the exercise of a call provision.

Callable bond

A bond that provides the issuer with the right to buy back (call) the bond from bondholders prior to the maturity date at a pre-specified price.

Cap-weighted indices

See *capitalisation-weighted indices*.

Capital account

A component of the balance of payments that reports capital transfers between domestic entities and foreign entities, such as debt forgiveness or the transfer of assets by migrants entering or leaving the country.

Capital markets

See *financial markets*.

Capitalisation-weighted indices

Indices for which the weight assigned to each security depends on the security's market capitalisation—that is, the market price of the security multiplied by the number of units outstanding of the security. Also called *cap-weighted*, *market-weighted*, or *value-weighted indices*.

Capitalised

Classifying a cost as generating long-term economic benefits and reporting it as an asset rather than charging it as an expense to current operations.

Capitalism

An economic system that promotes private ownership as the means of production and markets as the means of allocating scarce resources.

Carried interest

A form of incentive fee that general partners deduct before distributing the profit made on investments to the limited partners. It is designed to ensure that general partners' interests are aligned with the limited partners' interests.

Cartel

A special case of oligopoly in which a group of producers jointly control the production and pricing of products or services produced by the group.

Cash flow rights

The rights of shareholders to distributions, such as dividends, made by the company.

Churning

Excessive trading to increase commissions.

Clearing

All activities that occur from the arrangement of the trade to its settlement.

Clearing houses

Trading services providers that arrange for final settlement of trades.

Client on-boarding

The process by which an organisation accepts a new client and inputs the client's details into its records to enable the organisation to conduct transactions with and on behalf of the client.

Closed-end funds

Pooled investment vehicles that have a fixed number of shares and thus do not issue or redeem shares on demand. Investors who want to buy or sell closed-end funds must trade with investors willing to sell or buy these funds.

Coincident indicators

Measures of economic activity that are intended to measure the current state of the economy rather than the past or to predict the future. Coincident indicators have a tendency to change at the same time as the economy measured as a whole.

Collateral

Specific assets (generally a tangible asset) that a borrower pledges to a lender to secure a loan.

Commercial real estate

Income-generating real estate that includes, for example, offices, multifamily residential dwellings, retail and industrial properties, and hotels.

Commingled account

Pooling together the capital of two or more investors, which is then jointly managed.

Commodities

Physical products, such as precious and base metals (e.g., gold, copper), energy products (e.g., oil), and agricultural products that are typically consumed (e.g., corn, cattle, wheat) or used in the manufacture of goods (e.g., lumber, cotton, sugar).

Common stock

Also known as common shares, ordinary shares, or voting shares, it is the main type of equity security issued by a company. It represents an ownership stake in the company.

Comparative advantage

A country's ability to produce a good or service relatively more efficiently (that is, at a lower relative cost) than other countries.

Complementary products

Products that are frequently consumed together, such as printers and ink cartridges.

Complements

See *complementary products*.

Compliance risk

The risk that an organisation fails to comply with all applicable rules, laws, and regulations and faces sanctions and damage of its reputation as a result of non-compliance.

Compound interest

Interest that is calculated on principal and interest; it assumes reinvestment of interest received. Compound interest is often referred to as interest on interest.

Confirmation

Clearing activity that takes place before settlement in which the buyer and seller must confirm that they traded and the exact terms of their trade.

Conflict of interest

When either the employee's personal interests or the employer's interests conflict with the interests of the client. Conflicts of interest can also arise when employee's and employer's interests conflict.

Consumer price index

Constructed by determining the weight (or relative importance) of each product and service in a typical household's spending in a particular base year and then measuring the overall price of that basket of goods from year to year.

Continuous data

Data that can take on an infinite number of values between whole numbers.

Continuous trading market

Market in which trades can be arranged and executed any time the market is open.

Convertible bond

A bond that offers the bondholder the right to convert the bond into a pre-specified number of shares of common stock of the issuing company.

Correlation

A measure of the strength of a relationship between two variables; essentially, two variables are correlated when a change in one variable is always accompanied by a change in another variable. Variables can be positively or negatively correlated.

Correlation coefficient

A number between -1 and $+1$ that measures the consistency or tendency for two variables to move in tandem with each other.

Corruption

The abuse of power for private gain.

Counterparty risk

Risk that one of the parties to a contract will fail to honour the terms of the contract.

Coupon rate

The interest rate for a bond. The bond's coupon rate multiplied by its par value equals the annual interest owed to the bondholders.

Covenants

Actions that the issuer must perform (positive covenants) or is prohibited from performing (negative covenants).

Credit default swap

A contract that protects the buyer against a loss of value in a debt security or index of debt securities. The contract will specify under what conditions the other party has to make payment to the buyer of the CDS.

Credit rating

Assessment of the credit quality of a bond based on the creditworthiness of the issuer.

Credit rating agencies

Investment research service providers that specialise in providing opinions about the credit quality of bonds and of their issuers.

Credit risk

The risk for a lender that a borrower fails to honour a contract and make timely payments of interest and principal.

Credit risk

For a lender, the risk of loss caused by a borrower's failure to honour the contract and make a promised payment in a timely manner.

Credit spread

The difference between a risky bond's yield and the yield on a government bond with the same maturity.

Cross-price elasticity of demand

The percentage change in quantity demanded of a product or service in response to a percentage change in the price of another product.

Crossing network

Type of alternative trading venue in which an electronic trading system matches buyers and sellers who are willing to trade at prices obtained from exchanges or other alternative trading venues but who are concerned about moving the price of the securities by submitting an order to an exchange.

Currency risk

The risk associated with the fluctuation of exchange rates; also called foreign exchange risk.

Currency swap

The exchange of debt service obligations denominated in different currencies.

Current account

A component of the balance of payments that indicates how much a country consumes and invests (outflows) with how much it receives (inflows). It includes three components, the goods and services account, the income account, and the current transfers account.

Current account balance

The sum of the goods and services, income, and current transfers accounts.

Current account deficit

A negative current account balance.

Current account surplus

A positive current account balance.

Current assets

Short-term assets that are expected to be converted into cash, used up, or sold within the current operating period (usually one year), such as cash, inventories, and accounts receivable.

Current liabilities

Short-term liabilities that must be repaid within the next year.

Current ratio

A liquidity ratio calculated as current assets divided by current liabilities.

Current yield

The annual coupon payment divided by the current market price.

Custodians

Typically, banks and brokerage firms that hold money and securities for safekeeping on behalf of their clients.

Dark pools

Type of alternative trading venue that does not display orders from clients to other market participants.

Data vendors

Investment research service providers of historical and real-time data about companies and market conditions.

Dealers

Trading services providers who participate in their clients' trades and stand ready to buy or sell when their clients want to sell or buy, providing liquidity and profiting when they can buy securities for less than they sell them. Also called *market makers*.

Debt-to-equity ratio

A measure of financial leverage that indicates the extent to which debt is used in the financing of the company.

Default

A situation in which the bond issuer fails to make the promised payments.

Defined benefit pension plans

Pension plans that promise a certain amount to their beneficiaries during their retirement.

Defined contribution pension plans

Pension plans in which participants contribute to their own retirement plan accounts, usually through employee payroll deductions. In some cases, the pension sponsor also contributes an agreed-on amount to the participants' accounts.

Deflation

A persistent and pronounced decrease in prices across most products and services in an economy.

Demand

The quantity of a product or service buyers are willing and able to buy at a given price.

Demand curve

The curve that shows the quantity of a product or service demanded at different prices.

Deposit-taking institutions

Financial institutions that take deposits, such as banks; also called depository institutions.

Depository receipt

A security issued by a financial institution that represents an economic interest in a foreign company. The financial institution holds the foreign company's shares in custody and issues depository receipts against the shares held. These depository receipts trade like common stock on the local stock exchange.

Depositories

Typically, banks and brokerage firms that are regulated and act not only as custodians but also as monitors, playing an important role in preventing investment fraud.

Depreciation

A situation in which a currency is getting weaker relative to other currencies.

Depreciation

The process of allocating the cost of an asset over the asset's estimated useful life.

Depreciation expense

The amount of depreciation allocated each year and reported on the income statement as an expense.

Derivatives

Contracts (agreements to do something in the future) that derive their value from the performance of an underlying asset, event, or outcome.

Devaluation

The decision made by a country's central bank to decrease the value of the domestic currency relative to other currencies.

Direct investments

Purchase of securities issued by companies, governments, and individuals and of real assets, such as real estate, art, or timber.

Disclosure-based

Regulatory system in which regulators emphasise disclosure of material information.

Discount rate

The rate used to calculate the present value of some future amount.

Discrete data

Data that show observations only as distinct values.

Discretionary relationships

Relationships that permit the service provider to act on behalf of the client.

Distressed

Private equity investment strategy that focuses on purchasing the debt of troubled companies that may have defaulted or are on the brink of defaulting.

Distribution

The set of values that a variable can take, showing their observed or theoretical frequency of occurrence.

Diversification

The practice of combining assets and types of assets with different characteristics in a portfolio for the purpose of reducing risk.

Dividend per share

The amount of cash dividends the company pays for each share outstanding.

Document

A piece of written, printed, or electronic matter that provides information or evidence or that serves as an official record.

Downside deviation

A measure of return dispersion similar to standard deviation but that focuses only on negative deviations.

Earnings per share

The amount of income earned during a period per share of common stock; net income divided by the number of shares outstanding.

Economic growth

The percentage change in real output (real GDP) for an economy.

Economic indicator

A measure that offers insight regarding economic activity.

Economic profit

Equal to accounting profit minus the implicit opportunity costs not included in total accounting costs; the difference between total revenue and total cost.

Economics

The study of production, distribution, and consumption or the study of choices in the presence of scarce resources.

Economies of scale

Cost savings arising from a significant increase in output without a simultaneous increase in fixed costs.

Effective annual rate

The amount by which a unit of currency will grow in a year, with interest on interest included.

Elasticity

In economics, how the quantity demanded or supplied changes in response to small changes in a related factor, such as price, income, and the price of a substitute or complementary product.

Endowment funds

Long-term funds owned by non-profit institutions.

Enterprise risk management (ERM)

A framework that helps organisations manage all their risks together in an integrated fashion.

Equal-weighted indices

Indices for which an equal weight is assigned to each security included in the index.

Equilibrium price

Price at which the quantity of a product or service demanded equals the quantity supplied.
Point at which the demand and supply curves intersect.

Equity

Assets minus liabilities; the shareholders' (owners') investment in the company.

Equity multiplier ratio

A measure of financial leverage that indicates the amount of total assets supported by one monetary unit of equity.

Ethical dilemmas

Situations in which values, interests, and/or rules potentially conflict.

Ethical standards

Principles that support and promote desired values or behaviours.

Ethics

A set of moral principles, or the principles of conduct governing an individual or a group.

Exchange rate

The rate at which one currency can be exchanged for another.

Exchange-traded funds (ETFs)

Pooled investment vehicles that are typically passively managed to track a particular index or sector and that trade continuously as common stocks on exchanges or through dealers.

Exercise price

Specified in an options contract, the price to trade the underlying in the future. Also called the *strike price*.

Expenses

The cost of using up company resources to earn revenues. Typical expenses include operating expenses (such as cost of sales; selling, general, and administrative expenses; and depreciation expenses); interest expenses; and income taxes.

Exports

Products and services that are produced within a country's borders and then transported to another country.

External documents

Documents that articulate business relationships and obligations undertaken by the parties involved and that are often legally binding.

Fair value

Value that reflects the amount for which an asset could be sold in an arm's length transaction between willing and unrelated parties.

Family office

Private company that manages the financial affairs of one or more members of a family or of multiple families.

Financial account

A component of the balance of payments that reflects investments domestic entities make in foreign entities and investments foreign entities make in domestic entities. It includes direct investments, portfolio investments, other investments, and the reserve account.

Financial assets

Claims on other assets; for example, a share of stock represents ownership in a company or a claim to some of the company's assets and earnings.

Financial capital

Money provided to individuals, companies, and governments to finance their needs.

Financial contagion

A situation in which financial shocks spread from their place of origin to other locales; in essence, a faltering economy infects other healthier economies.

Financial institutions

Financial intermediaries, such as banks and insurance companies, whose role is to collect money from savers and to invest it in financial assets.

Financial intermediaries

Organisations that act as middlemen between those who have money and those who need money.

Financial markets

Places where buyers and sellers can trade securities; also called securities markets.

Financial planners

Investment professionals who help their clients set their financial goals and determine how much money they should save for future expenses and/or how much money they can spend on current expenses while still preserving their capital.

Financial services industry

Industry that offers a range of products and services to those who have money to invest and those who need money and help channel funds between them.

Fiscal policy

The use of taxes and government spending to affect the level of aggregate expenditures.

Fixed costs

Costs that do not fluctuate with the level of output of the company.

Fixed exchange rate system

An exchange rate system that does not allow for fluctuations of currencies. The value of a country's currency is tied to the value of another country's currency or a commodity, such as gold.

Fixed-rate bonds

A bond with a finite life that offers a coupon rate that does not change over the life of the bond. Also known as *straight bonds*.

Floating exchange rate system

An exchange rate system driven by supply and demand for each currency, allowing exchange rates to adjust to correct imbalances, such as current account deficits.

Floating-rate bonds

A bond with a finite life that offers a coupon rate that changes over time. Also known as *variable-rate bonds*.

Foreign direct investments (FDIs)

Direct investments made by foreign investors and companies.

Foreign exchange market

A highly integrated decentralised network in which currencies are traded.

Foreign exchange risk

See *currency risk*.

Forward contract

An agreement between two parties in which one party agrees to buy from the seller an underlying at a later date for a price established at the start of the contract.

Forward market

Foreign exchange market in which currencies are traded now but delivered at some future date.

Forward rate

The exchange rate for forward market transactions.

Foundations

Grant-making institutions funded by gifts and by the investment income that they produce.

Fraud

Intentional deception, such as deliberately causing or falsely reporting losses to collect insurance settlements.

Front office

Client-facing activities that provide direct revenue generation, such as sales, marketing, and customer service activities.

Front running

The act of placing an order ahead of a customer's order to take advantage of the price impact that the customer's order will have.

Funds of funds

Investment vehicles that invest in other funds.

Future value

The amount to which a payment or series of payments will grow by a stated future date.

Futures contract

An agreement that obligates the seller, at a specified future date, to deliver to the buyer a specified underlying in exchange for the specified futures price.

GDP per capita

Gross domestic product divided by the population; a measure of average output or income per person.

General partner

In a partnership, the partner that sets the partnership, raises capital, finds suitable investments, and make decisions. Unlike limited partners, the general partner has unlimited personal liability for all the debts of the partnership.

Geometric average

The average compounded return for each period; the average return for each period assuming that returns are compounding.

Geometric mean

See *geometric average*.

Goodwill

An intangible asset that arises when a company purchases another company and pays more than the fair value of the net assets (assets minus liabilities) of the purchased company.

Gross domestic product

The total value of all final products and services produced within an economy in a given period of time (output definition), or equivalently, the aggregate income earned by all households, all companies, and the government within an economy in a given period of time (income definition). Nominal GDP uses current market values. Real GDP adjusts for changes in price levels.

Gross profit

Sales minus the cost of sales.

Growth equity

Private equity investment strategy that usually focuses on financing companies with proven business models, good customer bases, and positive cash flows and profits but that need additional capital to support their growth plans.

Hedge

To reduce or eliminate risk caused by fluctuations in the prices of commodities, securities, or currencies.

Hedge funds

Private investment pools that investment managers organise and manage. They are characterised by their availability to only a limited number of investors, agreements that lock up the investors' capital for fixed periods, and performance-based managerial compensation.

Hidden orders

Orders that are only seen by the brokers or trading venues that receive them and cannot be seen by other traders until the orders can be filled.

High-water mark

Highest value, net of fees, that a fund has reached in the past. The investment manager usually earns the performance fee only if the fund is above its high-water mark.

High-yield bonds

See *non-investment-grade bonds*.

Histogram

A diagram with bars that are proportional to the frequency of occurrence in each group of observations.

Historical cost

The actual cost of acquiring an asset.

Holding-period return

The return generated for investors over a specific time frame, usually annually; a synonym for total return.

Hurdle rate

Minimum annual rate of return that the fund must generate before the investment manager can receive a performance fee.

Hyperinflation

Price increases so large and rapid that people find it difficult to purchase products and services.

Implicit GDP deflator

A gauge of prices and inflation that measures the aggregate changes in prices across the overall economy.

Imports

Products and services that are produced outside a country's borders and then brought into the country.

Income effect

A change in demand for a product or service as a result of a change in purchasing power.

Income elasticity of demand

The percentage change in the quantity demanded of a product or service divided by the corresponding percentage change in income.

Income statement

A financial statement that identifies the profit or loss of a company during a given time period, such as one year.

Index fund

A portfolio of securities structured to track the returns of a specific index called the benchmark index.

Index of leading economic indicators

A composite of economic indicators used to predict future economic conditions.

Index rebalancing

The process of adjusting the weights of the securities in an index. That is, the weights given to securities whose prices have risen must be decreased and the weights given to securities whose prices have fallen must be increased.

Index reconstitution

The process of adding or removing securities included in the index.

Indirect investments

Purchase of securities of companies, trusts, and partnerships that make direct investments, such as shares in mutual funds and exchange-traded funds, limited partnership interests in hedge funds, asset-backed securities, and interests in pension funds, foundation funds, and endowment funds.

Industrial production

A measure of economic output by the following three segments of an economy: manufacturing, mining, and utilities.

Inferior products

Products whose consumption decreases as income increases.

Inflation

The percentage increase in the general price level from one period to the next; a sustained rise in the overall level of prices for products and services.

Inflation risk

The risk associated with inflation.

Inflation-linked bonds

Bonds that contain a provision that adjusts the bond's par value for inflation and thus mitigates inflation risk.

Information ratio

A reward-to-risk ratio defined as the portfolio's mean active return (the difference in average return between the portfolio and its benchmark) over its active risk (tracking error).

Informationally efficient prices

Prices that reflect all available information about fundamental values.

Initial margin

The amount that must be deposited on the day the transaction is opened.

Initial public offering

The first issuance of common shares to the public by a formerly private corporation.

Insider trading

Trading while in possession of material non-public information.

Insurance companies

Financial institutions that help individuals and companies offset the risks they face; also among the largest investors.

Insurance company

A company that sells insurance contracts (policies) that provide payments in the event that losses occur.

Intangible assets

Assets lacking physical substance, such as patents and trademarks.

Interest

Payment for the use of borrowed money.

Interest rate risk

The risk associated with decreases in bond prices resulting from increases in interest rates.

Interest rate swap

An agreement between two parties to exchange interest rate obligations for the benefit of both parties; usually exchanges a fixed-rate payment for a floating-rate payment.

Internal audit

A function independent from other business functions that delves into the details of business processes and ensures that IT and accounting systems accurately reflect transactions.

Internal documents

Documents that are generally administrative and that formalise policies, procedures, and processes.

Internal risk limits

Limits that incorporate an organisation's overall risk tolerance and risk management strategy—for example, the maximum amount of a risky security that can be held or the maximum aggregate exposure to one asset type or to one counterparty.

International trade

The exchange of goods, services, and capital between countries.

Inventories

The unsold units of production on hand.

Investment banks

Financial intermediaries that assist companies and governments raise capital and can provide other services, such as strategic advisory services, brokerage and dealing services, and research services; also known as merchant banks.

Investment companies

Companies that exist solely to hold investments on behalf of their shareholders, partners, or unitholders, including mutual funds, hedge funds, venture capital funds, and investment trusts.

Investment industry

Subset of the financial services industry that comprises all the participants that are instrumental in helping savers invest their money and spenders raise capital in financial markets.

Investment managers

Investment professionals who receive authority from their clients to trade securities and assets on their behalf. Also called *asset managers*.

Investment policy statement (IPS)

A written planning document describing a client's investment objectives—return requirements and risk tolerance—over a relevant time horizon, along with constraints that apply to the client's portfolio. The IPS serves as a guide to what is required and acceptable in the investment portfolio.

Investment risk

The risk associated with investing that arises from the fluctuation in the value of investments.

Investment vehicles

Assets, such as securities and real assets, created by the investment industry to help investors move money from the present to the future, with the hope of increasing the value of their money.

Investment-grade bonds

Bonds rated BBB– or higher by Standard & Poor's and Fitch or Baa3 or higher by Moody's.

Issuers

Typically companies and governments that sell securities to investors in exchange for cash to raise money.

J curve

The graphical representation of net cash flow (that is, the cash distributions net of carried interest minus the sum of the capital calls and management fees) for limited partners. It shows that net cash flows are negative in the early years of a fund, but turn positive toward the end of a fund's life.

Junk bonds

See *non-investment-grade bonds*.

Key risk measures

Measures that provide a warning when risk levels are rising.

Keynesians

Economists who believe that fiscal policy can have powerful effects on aggregate demand, output, and employment when there is substantial spare capacity in an economy.

Lagging indicators

Turning points that signal a change in economic activity after output has already changed.

Law of demand

The economic principle that as the price of a product increases, buyers will buy less of it, and as its price decreases, they will buy more of it.

Law of diminishing marginal utility

The economic principle that the additional satisfaction consumers get from each additional unit of a product decreases as the total amount consumed increases.

Law of diminishing returns

The economic principle that the gain in output from adding variable inputs of one factor, such as labour, will increase at a decreasing rate even if the fixed inputs of production remain unchanged.

Law of supply

The economic principle that when the price of a product increases, the quantity supplied increases too.

Leading indicators

Turning points that signal changes in the economy in the future, and thus are considered useful for economic prediction and policy formulation.

Legal risk

The risk that an external party could sue an organisation for breach of contract or other violations.

Leveraged buyouts

Buyouts for which the financing of the transaction involves high financial leverage—that is, a high proportion of debt relative to equity.

Liability

A monetary obligation of a company as a result of previous events.

Limit order

Instruction to obtain the best price immediately available when filling an order, but a trade cannot be arranged at a price higher than the specified limit price when buying or a price lower than the specified limit price when selling.

Limit price

Ceiling price for a buy order and floor price for a sell order. A trade cannot be arranged at a price higher than the specified limit price when buying or a price lower than the specified limit price when selling.

Limited liability

Liability that does not exceed an investor's initial contribution of capital. For example, shareholders are protected by limited liability, which means that higher claimants—particularly debt investors—cannot recover money from the personal assets of the shareholders if the company's assets are insufficient to fully cover their claims.

Limited partners

In a partnership, partners who contribute capital to the partnership. Limited partners are typically investors who are not involved in the selection and management of investments. Unlike general partners, limited partners have limited personal liability.

Liquidity risk

The risk that an asset or security cannot be bought or sold quickly without a significant concession in price.

Liquidity risk

The risk that a financial instrument cannot be purchased or sold in a timely manner without a significant concession in price.

London Interbank Offered Rate

The most widely used reference rate, defined as the average interest rate that banks charge each other in the London interbank market. Also called Libor.

Long positions

Positions for which investors own assets or securities. These positions increase in value when prices rise.

Long-term debt

Money borrowed from banks or other lenders that is to be repaid during periods of greater than one year.

Loyalty

An expectation that employees will place the employer's interests above their own and will not misappropriate a company's property.

Luxury product

A product that has positive own price elasticity of demand—that is, a product for which demand increases as price increases.

Macroeconomics

The branch of economics that studies the economy as a whole.

Managed floating exchange rate system

A floating exchange rate system in which the central bank intervenes to stabilise its country's currency, usually to maintain the value of the country's currency within a certain range.

Management fees

Fees that limited partners must pay general partners to compensate them for managing investments. Management fees are typically set as a percentage of the amount the limited partners have committed rather than the amount that has been invested.

Marginal cost

The cost of producing an additional unit of a product or service.

Marginal revenue

The amount of money from selling an additional unit of a product or service.

Margins

Cash or securities that are pledged as collateral.

Market bid–ask spread

Difference between the best bid price and the best offer price.

Market equilibrium

The situation in which, at a particular price, no buyer or seller has any incentive or desire to change the quantity demanded or supplied, all other factors remaining unchanged.

Market makers

See *dealers*.

Market manipulation

Abusive trading practice that involves taking actions intended to move the price of a stock to make a short-term profit.

Market order

Instructions to obtain the best price immediately available when filling the order.

Market risk

The risk caused by changes in market conditions affecting prices.

Market-weighted indices

See *capitalisation-weighted indices*.

Marking to market

The settlement of profits or losses based on current spot (market) prices.

Maturity date

Date when the borrower must repay the amount borrowed.

Median

The value of the middle term in a data set that has been sorted into ascending or descending order; the value for which as many outcomes are above it as there are below it.

Merit-based

Regulatory system in which regulators attempt to protect investors by limiting the products sold to investors.

Microeconomics

The branch of economics that studies how individuals and companies make decisions to allocate scarce resources.

Middle office

Core activities of a firm, such as risk management, information technology, corporate finance, portfolio management, and research.

Mode

The most frequently occurring value in a data set.

Model risk

The risk arising from the use of models and associated with inappropriate underlying assumptions, the unavailability or inaccuracy of historical data, data errors, and misapplication of models.

Monetarists

Economists who believe that the rate of growth of the money supply is the primary determinant of the rate of inflation.

Monetary policy

Actions taken by a nation's central bank to affect aggregate output and prices through the money supply or credit.

Money laundering

A process in which criminals use financial services to transfer money from illegal operations to other legal activities; the money becomes “clean” in the process.

Money market funds

Special class of open-end mutual funds that investors view as uninsured interest-paying bank accounts. Unlike other open-end mutual funds, regulators permit money market funds to accept deposits and satisfy redemptions at a constant price per share if they meet certain conditions.

Monopolistic competition

A market in which there are many buyers and sellers who are able to differentiate their products to buyers and in which each company may have a limited monopoly because of the differentiation of their products.

Monopoly

See pure monopoly.

Moral hazard

Tendency of people to be less careful about avoiding losses once they have purchased insurance, potentially leading to losses occurring more often when they are insured than when they are not.

Multiplier effect

An initial increase (decrease) in spending produces an increase (decrease) in GDP and consumption greater than the initial change in spending.

Net asset value (NAV)

Total net value of a fund (the value of all assets minus the value of all liabilities) divided by the fund's current total number of shares outstanding.

Net book value

Calculated as the gross value of an asset minus accumulated depreciation, where accumulated depreciation is the sum of all reported depreciation expenses for the particular asset.

Net exports

The difference between exports and imports of goods and services; also called balance of trade or trade balance.

Net income

The difference between revenue and expenses; income available to distribute to shareholders.

Net present value

The present value of future cash flows minus the cost of the investment, or the present value of cash inflows minus the present value of cash outflows.

Net profit margin

A profitability ratio that indicates how much (percentage) of each monetary unit of revenue is left after all costs and expenses are covered.

Nominal GDP

A measure of GDP that uses the current market value of products and services.

Non-current assets

Assets used over a number of years to generate income for the company; examples include machinery, equipment, buildings, land, and intangible assets.

Non-discretionary relationship

Relationship that permits the service provider to undertake only specific tasks that are authorised on a per task basis.

Non-investment-grade bonds

Bonds rated BB+ or lower by Standard & Poor's and Fitch and Ba1 or lower by Moody's. Also called high-yield bonds or junk bonds.

Non-tariff barriers

A range of measures, such as certification, licensing, sanctions, or embargoes, that make it more difficult and expensive for foreign producers to compete with domestic producers.

Normal distribution

A symmetrical distribution in which the mean, median, and mode are the same value. The distribution is completely described by its mean and variance (or standard deviation).

Normal products

Products whose consumption increases as income increases.

Offer exchange rate

The exchange rate at which the bank or dealer will sell the foreign currency; also called the ask exchange rate.

Offer prices

See *ask prices*.

Oligopoly

A market dominated by a small number of large companies because the barriers to entry are high.

Open market operations

Activities that involve the purchase and sale of government bonds by a central bank.

Open-end mutual funds

Pooled investment vehicles that have the ability to issue or redeem (repurchase) shares on demand. When investors want to invest in a mutual fund, the fund issues new shares in exchange for cash that the investors deposit. When existing investors want to withdraw money, the fund redeems the investors' shares and pays them cash.

Operating income

Income generated by the company from its usual business activities before taking into account financing costs and taxes. It is often referred to as earnings before interest and taxes (EBIT).

Operating leverage

The extent to which fixed costs are used in production. The higher the fixed costs relative to variable costs, the higher the operating leverage.

Operating profit margin

A profitability ratio calculated as operating income divided by revenue.

Operational risk

The risk of losses from inadequate or failed people, systems, and internal policies and procedures, as well as from external events that are beyond the control of the organisation but that affect its operations.

Operationally efficient markets

Markets in which trades are easy to arrange and that have low transaction costs. These markets have small bid–ask spreads, and they can absorb large orders without substantial price impacts.

Opportunity cost

The cost of any activity measured in terms of the value of the best alternative that is not chosen; the value that investors forgo by choosing a particular course of action. For example, the cost of not having money to invest, spend, or hold; the cost of giving up opportunities to use money.

Opportunity cost

The value forgone by choosing a particular course of action relative to the best alternative that is not chosen. For example, the cost of not having cash to invest, spend, or hold; the cost of giving up opportunities to use cash.

Option contract

An agreement in which the buyer of the option has the right, but not the obligation, to trade the underlying.

Option premium

The amount paid by the option buyer to the option seller, at the initiation of the option contract, to compensate option sellers for their risk.

Order-driven markets

Markets that arrange trades using rules to match buy orders with sell orders.

Orders

Instructions that people who want to trade give brokers or trading venues and that specify what security to trade, whether to buy or sell, and how much should be bought or sold. They also have other instructions attached to them, such as order execution, exposure, and time-in-force instructions.

Outliers

Values that are unusual compared with the rest of the data set by being especially small or large in numerical value.

Over-the-counter (OTC) markets

Another name for quote-driven markets dating from when securities were literally traded over a counter in the dealer's office.

Overhead

See *fixed costs*.

Own price elasticity of demand

The percentage change in the quantity demanded of a product or service as a result of the percentage price change in that product or service.

Par value

The stated value or face value of a security; the amount the investor would be entitled to receive in a liquidation scenario, which also serves as the principal value on which coupon payments are calculated.

Passive investment managers

Managers who follow a buy-and-hold approach and seek to match the return and risk of a benchmark.

Passive investment managers

Investment managers who seek to match the return and risk of an appropriate benchmark.

Payout policies

Guiding principles that specify how much money an institution, such as a foundation or an endowment fund, can take from long-term funds to use for current spending.

Pension plans

Institutional investors who hold investment portfolios for the benefit of future and current retirees.

Perfectly competitive market

A market that consists of buyers and sellers trading a uniform commodity and in which there is a high degree of competition.

Performance attribution

The process of identifying the source of a fund manager's return. Potential sources include asset allocation, sector selection, stock selection, and currency exposure.

Performance bond

A guarantee, usually provided by a third party, such as an insurance company, to ensure payment in case a party fails to fulfil its contractual obligations.

Performance measurement

The process of measuring the performance of investments, including the calculation of reward-to-risk ratios.

Physical capital

The means of production; tangible goods such as equipment, tools, and buildings.

Policies

Principles of action adopted by a company.

Political risk

The risk of a change in the ruling political party of a country leads to changes in policies that can affect everything from monetary and fiscal policies to investment incentives, public investments, and procurement.

Pooled investment vehicles

Investment companies that pool funds from many investors for common management.

Pooled investments

Indirect investment vehicles in which investors pool their money together to gain the advantages of being part of a large group. The resulting economies of scale can significantly improve investment returns.

Portfolio

The group of assets in which savings are invested.

Position

Quantity of an asset or security that a person or institution owns or owes.

Preferred stock

Also known as preference shares; a type of equity security that ranks between debt securities and common stock. It typically does not carry voting rights but has priority over common stock in the receipt of dividends.

Present value

The present discounted value of future cash flows.

Price-to-book ratio

The ratio of a company's share price to its book value per share.

Price-to-earnings ratio

The ratio of a company's stock price to its earnings per share.

Price-to-earnings ratio

The ratio of a company's share (market) price to its earnings per share.

Price-weighted index

Indices for which the weight assigned to each security is determined by dividing the price of the security by the sum of all the prices of the securities.

Primary dealers

Dealers with which central banks trade when conducting monetary policy.

Primary market

Markets in which issuers, such as companies and governments, sell their securities to investors.

Prime brokerage

Bundle of services that brokers provide some of their clients, including typical brokerage services and financing of their clients' positions.

Principal

The money initially lent on which interest is paid.

Principles-based

Regulatory system in which regulators set up broad principles within which an industry is expected to operate.

Private equity

A type of alternative investment that consists of investing in private companies—that is, companies that are not listed on a stock exchange.

Private equity partnership

Partnership that specialises in private equity investments. It usually includes two types of partners: the general partner, which is typically a private equity firm, and limited partners, who are investors contributing capital to the partnership.

Private placement

Type of primary market transaction in which companies sell securities directly to a small group of qualified investors, usually with the assistance of an investment bank.

Procedures

What the company must do to achieve a desired outcome.

Processes

Individual steps that a company must take, from start to finish, to achieve a desired outcome. They divide procedures into manageable actions.

Producer price index

Reflects the price changes experienced by domestic producers in a country.

Productivity gains

Increases in the ratio of gross domestic product (GDP) to units of labour expended to produce that GDP; increases in output per unit of labour.

Professional standards

Guidelines set by professional associations based on fundamental ethical principles to guide the behaviour of individuals within the profession.

Proprietary traders

Traders who trade directly with their clients rather than by arranging trades with others on behalf of their clients.

Prospectus

Document that discloses the investment policies, deposit and redemption procedures, fees and expenses, and past performance statistics associated with an investment vehicle.

Purchasing power parity

Economic theory based on the principle that a basket of goods in two different countries should cost the same after taking into account the exchange rate between the two countries' currencies.

Pure monopoly

A market in which there is no competition.

Put option

The right (but not the obligation) to sell the underlying at the exercise price until expiration.

Puttable bond

A bond that provides bondholders with the right to sell (or put back) their bonds to the issuer prior to the maturity date at a pre-specified price.

Quick ratio

A liquidity ratio that indicates a company's ability to satisfy current liabilities with its most liquid assets.

Quotas

Limits on the quantity of goods that can be imported.

Quote-driven markets

Markets in which investors trade with dealers at the prices quoted by these dealers. Also called dealer markets, price-driven markets, or over-the-counter markets.

Range

The difference between the highest and lowest values in a data set.

Real GDP

The value of products and services produced, measured at base-year prices; nominal GDP adjusted for changes in price levels.

Real assets

Physical assets, such as land, buildings, machinery, cattle, and gold.

Real estate

Land and buildings. Also a type of alternative investment that consists of direct and indirect investments in land and buildings.

Real estate equity funds

Often open-end funds that hold investments in hundreds of commercial properties.

Real estate investment trusts (REITs)

Public companies that mainly own, and in most cases operate, income-producing real estate.

Real estate limited partnerships

Partnerships that specialise in real estate investments.

Rebalancing

The process of adjusting the weights of the constituent securities in an index or the weights of assets in a portfolio.

Recession

A period during which real GDP decreases (i.e., negative growth) for at least two successive quarters, or a period of significant decline in total output, income, employment, and sales lasting more than a few months.

Reference rate

An interest rate that serves as the benchmark to set the coupon rate of a floating-rate bond.

Registers

Documents containing obligations, past actions, and future or outstanding requirements.

Regulations

Rules that set standards for conduct and carry the force of law.

Reinvestment risk

Risk that in a period of falling interest rates, the periodic coupon payments received during the life of a bond and/or the principal payment received from a bond that is called early must be reinvested at a lower interest rate than the bond's original coupon rate.

Relative returns

The difference between holding-period returns (absolute returns) and returns on a benchmark over the same holding period.

Reserve currency

A currency held in significant quantities by many governments and institutions as part of their foreign exchange reserves.

Reserve requirement

The requirement for banks to hold reserves in proportion to the size of deposits.

Residual claimants

Investors whose claims rank last. Common shareholders are residual claimants. In the event of a company's liquidation, common shareholders share proportionately in the remaining company assets after all other claimants have been satisfied.

Retained earnings

The accumulated net income that is retained by the company rather than distributed to its owners (shareholders) as dividends.

Return on assets (ROA)

A profitability ratio that indicates a company's net income generated per monetary unit invested in total assets.

Return on equity (ROE)

A profitability ratio calculated as net income divided by average shareholders' equity.

Revenues

The amount charged (and expected to be received) for the delivery of products or services in the ordinary activities of a business.

Reward-to-risk ratio

Metric that divides a measure of portfolio holding-period return by a measure of portfolio risk. The higher the value of this metric, the more return an investment portfolio has generated per unit of risk.

Risk

The effect of uncertain future events on an organisation or on the outcomes the organisation achieves.

Risk appetite

An organisation's willingness to take on risk, which depends on its attitude toward risk and on its risk culture.

Risk budgeting

An approach to determining how risk should be allocated among different business units, portfolios, or individuals.

Risk management

An iterative process that helps organisations reduce the chances and effects of adverse events while enhancing the realisation of opportunities.

Risk matrix

A matrix that reflects the expected frequency of an event and the expected severity of its consequences and that can be used to prioritise risks and to select the appropriate risk response for each risk identified.

Risk tolerance

The level of risk an organisation is able and willing to take on.

Rogue trading

An example of operational risk wherein traders bypass management controls and place unauthorised trades, at times causing large losses for the firms they work for.

Rules-based

Regulatory system in which explicit regulations are provided that, in theory, offer clarity and legal certainty to industry participants.

Seasoned equity offering

The issuance by a publicly traded company of additional common shares subsequent to the initial public offering.

Secondaries

Private equity investment strategy that involves buying or selling existing private equity investments.

Secondary equity offering

See *seasoned equity offering*.

Secondary market

Market in which investors trade securities and contracts with each other but not with the original security issuer.

Securities

Financial assets that can be traded, such as shares and bonds.

Securitisation

Creation of new financial products by buying and repackaging securities or other assets; the creation and issuance of new debt securities that are backed by a pool of other debt securities.

Security lenders

Investors who have long positions and lend their securities to short sellers.

Security market index

A group of securities representing a given security market, market segment, or asset class.

Sell-side firms

Typically, investment banks, brokers, and dealers that provide investment products and services.

Seniority ranking

A priority of claims among a company's providers of capital, the ranking affects the amounts investors will receive upon the company's liquidation and, in the case of equity capital, the order in which dividends are paid.

Seniority ranking

A priority of claims among a company's providers of capital, which affects the amounts investors will receive upon the company's liquidation.

Settlement

Activity that consists of the final exchange of cash for securities following a trade.

Settlement risk

The risk that when settling a transaction, a firm performs one side of the deal but the counterparty does not complete its side of the deal as agreed, often because it has declared bankruptcy.

Settlement risk

The risk that counterparties will not settle their trades.

Share buyback

See *share repurchase*.

Share repurchase

A transaction in which a company uses its cash to buy back its own shares from existing shareholders. This transaction reduces the number of shares outstanding.

Shareholders

The owners of shares (stock) of a corporation.

Sharpe ratio

A reward-to-risk ratio defined as the excess portfolio return (portfolio return minus risk-free return) over the standard deviation of portfolio returns.

Shelf registration

Sale of new issues of seasoned securities directly to the public little by little over a long period of time rather than in a single transaction.

Short positions

Positions for which investors sell assets or securities that they do not own, a process that involves borrowing the assets or securities, selling them, and repurchasing them later to return them to their owner. These positions increase in value when prices fall.

Simple interest rate

The cost to the borrower or the rate of return to the lender, per period, on the original principal borrowed.

Skewed

A distribution is skewed when the bulk (majority) of the values (possibly including the median) lie either to the right or to the left of the mean; the distribution is not symmetrical.

Sovereign risk

The risk that a foreign government will not repay its debt because it does not have either the ability or the willingness to do so.

Sovereign wealth funds

Funds created by governments to invest surpluses for the benefit of current and future generations of their citizens.

Spinoff

A form of restructuring in which a company creates a new entity and distributes the shares of this new entity to existing shareholders in the form of a non-cash dividend. Shareholders end up owning stock in two different companies.

Spot market

Foreign exchange market in which currencies are traded now and delivered immediately.

Spot rate

The exchange rate for spot market transactions.

Stagflation

When a high inflation rate is combined with a high level of unemployment and a slowdown of the economy.

Standard deviation

A measure, in the same units as the original data, of the variability, volatility, or dispersion of a data set around the average value of that data set (i.e., the arithmetic mean). It is the positive square root of the variance.

Standardised documents

Pre-established documents that are crafted for a specific purpose. Some standard contracts are tailored by negotiation, but their form, content, and purpose are still pre-established.

Statement of cash flows

A financial statement that identifies the sources and uses of cash over a time period and explains the change in the company's reported cash balance during the period.

Stock dividend

A transaction in which a company distributes additional shares of its common stock to shareholders instead of cash. This transaction reduces the number of shares outstanding but does not affect the company's value because the stock price decreases accordingly.

Stock split

A transaction in which a company increases the number of shares outstanding. For example, in a two-for-one stock split, the company doubles the number of shares outstanding and the stock price is halved, but the company's value is unaffected.

Stop order

Order for which a trader has specified a stop price, a price that triggers the conversion of a stop order into a market order. The stop order may not be filled until a trade occurs at or above the stop price for a buy order and at or below the stop price for a sell order.

Stop price

Price that triggers the conversion of a stop order into a market order.

Strategic asset allocation

The long-term mix of assets that is expected to achieve the client's long-term objectives, given the client's investment constraints.

Strike price

See *exercise price*.

Substitute product

A product that could generally take the place of (substitute for) another product.

Substitutes

See *substitute products*.

Substitution effect

Consumers substitute relatively cheaper products for relatively more expensive ones. So, if the price of a substitute product decreases, demand for this substitute may increase and demand for the original product may decrease.

Supply

The quantity of a product or service sellers are willing and able to sell at a given price.

Supply curve

The curve that shows the quantity of a product or service supplied at different prices.

Swaps

Derivatives in which two parties swap cash flows or other financial instruments over multiple periods (months or years) for mutual benefit, usually to manage risk.

Systematic risk

Also known as market risk, it is the risk created by general economic conditions that affect all risky investments. Systematic risk factors include changes in macroeconomic conditions, interest rate risk, and political risk, among others.

Systemic failure

Failure of the financial system as a whole, including loss of access to credit and collapse of capital markets.

Tactical asset allocation

The decision to deliberately deviate from the strategic asset allocation in an attempt to add value based on forecasts of the short-term relative performance of asset classes.

Tariffs

Taxes (duties) levied on imported goods and services, which allow governments not only to establish trade barriers but also to raise revenue.

Tax-advantaged accounts

Accounts that allow investors to avoid paying taxes on investment income and capital gains as they earn them. In exchange for these privileges, investors must accept stringent restrictions on when the money can be withdrawn from the account and sometimes on how the money can be used.

Term structure of interest rates

The relationship between the yields to maturity offered by government bonds and the maturities of these government bonds.

Time-weighted rate of return

A measure of investment performance in which the overall measurement period is divided into sub-periods. The timing of each individual cash flow is identified and then defines the beginning of the sub-period in which it occurs.

Tracking error

The standard deviation of the differences between the deviation over time of the returns on a portfolio and the returns on its benchmark; a synonym of active risk.

Trade balance

See *net exports*.

Trade barriers

Restrictions, typically imposed by governments, on the free exchange of goods and services.

Trade deficits

When the value of exports is lower than the value of imports.

Trade surplus

When the value of exports is higher than the value of imports.

Transaction costs

Costs associated with trading, which include explicit costs (mainly brokerage commissions) and implicit costs (bid–ask spreads, price impact, and opportunity costs).

Transfer agent

Typically a bank or trust company that maintains a registry of who owns companies' securities.

Treynor ratio

A reward-to-risk ratio defined as the excess portfolio return (portfolio return minus risk-free return) over the beta of portfolio returns.

Underlying

The asset, event, or outcome on which the value of a derivative is dependant.

Underwritten offerings

Type of public offering in which the (lead) investment bank guarantees the sale of the securities at an offering price that is negotiated with the issuer.

Utility

A measure of relative satisfaction.

Value at risk

An estimate of the minimum loss of value that can be expected for a given period within a given level of probability.

Value-weighted indices

See *capitalisation-weighted indices*.

Variable costs

Costs that fluctuate with the level of output of the company.

Variable-rate bonds

See *floating-rate bonds*.

Variance

A measure of dispersion that is equal to the standard deviation squared (i.e., the standard deviation multiplied by itself).

Venture capital

Private equity investment strategy that consists of financing “start-up” companies that exist merely as an idea or a business plan.

Voting rights

The rights of shareholders to vote—for example, to elect the members of the board of directors.

Warrant

An equity-like security that entitles the holder to buy a pre-specified amount of common stock of the issuing company at a pre-specified stock price prior to a pre-specified expiration date.

Wrap account

Accounts that give retail investors access to services of fee-based investment professionals and wrap charges for investment services, such as brokerage, investment advice, financial planning, and investment accounting, into a single flat fee.

Yield curve

Term structure of interest rates presented in graphical form.

Yield to maturity

The discount rate that equates the present value of a bond's promised cash flows to its market price.

Zero-coupon bonds

Bonds that do not offer periodic interest payments during the life of the bond. The only cash flow offered by a zero-coupon bond is a single payment equal to the bond's par value to be paid on the bond's maturity date.