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A shares

1. In a mutual fund with multiple share classes, the mutual fund class that typically comes with a *front-end load*, which is a sales charge that is paid when investing in the fund.
2. In China, the shares of stock that are denominated in local currency and traded on stock exchanges in Shanghai and Shenzhen. These markets have been closed to foreign investment since they were established.

A/B trust See *bypass trust*.

AAII See *American Association of Individual Investors*.

AB Stands for *aktiebolag*, which is a Swedish company designation, similar to *Inc.* Companies with the AB designation can be publicly traded or privately held. The designation also is used in Switzerland.

abatement The reduction or suspension of payments. For example, a municipality may give a corporation tax abatements to lure the corporation to the city. An abatement also may be used in a contract in the event that some extraordinary situation arises. See also *tax abatement*.

ABC agreement An agreement that outlines a brokerage firm's rights when it purchases a *seat*, or membership, on the New York Stock Exchange for one of its employees. The membership must be purchased for the employee, and not for the company, because only individuals may own an NYSE membership. The term *ABC agreement* may have gotten its name from the options that the employee who is given the seat has when leaving the brokerage firm. The employee can a) keep the seat but buy another seat for a person named by the company; b) sell the seat and give the sale proceeds to the brokerage firm; or c)

transfer the seat to another of the firm's employees.

ABC News/Money Magazine Consumer Comfort Index A survey, released weekly, that has information from interviews with about 1,000 adults nationwide that took place during the previous four weeks. Telephone survey respondents are asked to rate the national economy, the buying climate, and their personal financial condition, and they are asked if they agree with positive or negative comments about the economy. The most positive score the index can have is +100 and the most negative is -100. The index has a relatively low impact on the financial markets. However, if confidence shows a multi-week decline, it is viewed as an indicator that consumer spending will decline.

The data is not seasonally adjusted. It is broken down into responses by age, employment status, education, income, and gender. It also is calculated for four different U.S. regions.

abeyance

1. A suspension of the title to real estate while the rightful ownership is being discovered.
2. Temporarily setting aside, such as holding a plan in abeyance.

abnormal rate of return A return on a security that differs from the market's expected rate of return, or the return that a security would normally produce.

ABS

1. See *asset-backed security*.
2. See *automated bond system*.

absolute priority rule A legal concept used in bankruptcy proceedings that says that creditors' claims are given priority over shareholders' claims if a company is liquidated or reorganized. Shareholders receive a payout if anything is left after debtors have been fully paid off.

absorption rate In the real estate industry, the speed at which vacant properties are able to be sold or leased.

abusive tax shelter An investment that is being used to avoid taxes illegally. The Internal Revenue Service lists abusive shelters and gives people using those shelters a limited time to propose settlement options. Some abusive transactions involve inaccurately setting the price that an asset or business is acquired at in order to decrease the amount of taxes that have to be paid. Abusive tax shelters may involve contingent liabilities.

ACARS See *American Corporate Accrual Receipts*.

acceleration clause A clause in a loan agreement that can be invoked by the lender when the borrower fails to make payments, files bankruptcy, or otherwise breaks a loan agreement. The clause allows the lender to demand that the borrower pay the outstanding loan balance or provide additional collateral.

accommodative monetary policy A policy of having low interest rates; a central bank is attempting to stimulate economic growth by lowering short-term interest rates. If interest rates are lower, more people and businesses may borrow money, thus stimulating growth. The opposite is a *tight monetary policy*, which signifies increasing interest rates. Accommodative monetary policy may also be referred to as *easy monetary policy*.

account executive

1. A person who sells securities and who works for a brokerage firm. In order to be an account executive, a person must pass the Series 7 and Series 63 exams, which are administered by the National Association of Securities Administrators (NASD). Also called *stock broker* or a *registered representative*.
2. In companies other than brokerage firms, salespeople, often salespeople who

work for a professional services organization, such as an advertising agency.

account reconciliation The act of matching a checkbook balance to its bank statement. Charges are subtracted from the checkbook balance; interest earned is added. Checks that haven't been cleared are added back into the checkbook balance. When these steps are completed, the checkbook balance and the balance shown on the bank statement should equal each other.

accountant A highly trained professional who is responsible for reporting financial results for a company or individual in accordance with governmental and professional regulations. A *certified public accountant* is a person who has passed a licensing test, has taken a minimum number of college courses, and has met experience guidelines established by the state of residence. See also *certified public accountant*.

accounting A system that measures, organizes, and communicates financial information about a specific business, government, or other entity.

accounting equation The foundation of the accounting system used in the United States, which states that assets equal liabilities plus owners' equity. The two sides of the equation must always be in balance.

accounting fraud Knowingly falsifying accounting records, such as sales or cost records, in order to boost net income or sales figures. Accounting fraud is illegal and subjects the company and the executives involved to civil lawsuits. Company officials may resort to accounting fraud to reverse a loss or to ensure that they meet Wall Street's earnings expectations.

accounts payable The amount of money that a company owes for goods and services received. The amount of accounts payable is listed on the company's balance sheet as a liability.

accounts receivable

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accounts receivable Money that is owed to a company by a customer. Accounts receivable are listed on a company's balance sheet under assets. Reserves can be set aside to provide the company with a cushion in the event that the accounts receivable are not paid. In order to obtain quick cash, accounts receivable may be sold to another party that will provide the value of the receivables at a discount from what the company would have received.

accounts receivable financing Obtaining funds by selling a company's accounts receivable. Typically, a company that sells accounts receivable takes less than the full amount for the money owed on the accounts. The advantage is that the funds are obtained now rather than later, which eliminates credit risk. It also allows company management to focus on business issues instead of on collecting payments.

accounts receivable turnover Net sales divided by average net accounts receivable. This financial measure shows the relative size of a company's accounts receivables and how well the company is doing at collecting the money it is owed. In order to be relevant, a company's turnover must be compared with others in the industry.

accredited investor A legal term defined by federal securities law to mean an investor who is financially knowledgeable. An accredited investor is someone who has a net worth over \$1 million, or who has a trust with over \$5 million in total assets that is managed by a professional. Another measure of an accredited investor is someone who has had an individual annual income in excess of \$200,000 for the past 2 years or \$300,000 for a married couple with reasonable expectations of achieving the same income in the current year.

accretive A term commonly used to refer to a merger, acquisition, or joint venture that will be *accretive to earnings*, meaning that it is expected to add to earnings per share. When equity markets

become bearish and merger, acquisition, and joint venture activity slows in response, a merger, acquisition, or joint venture must be perceived as being accretive to earnings, or shareholders will not be supportive.

accrual accounting A type of accounting system that records income when products or services are sold and recognizes expenses when they are incurred. In contrast, the *cash method of accounting* recognizes expenses and income when the actual money is received.

accrual basis accounting The most frequently used accounting method, it records income when it is earned and expenses when they are incurred, regardless of when the money is actually received or spent. Guidelines govern the timing of when income and expenses must be recognized. This contrasts with *cash-basis accounting*, which reports income and expenses when they are received or paid.

accrual bond See *zero-coupon bond*.

accrued benefit Pension benefits that have been earned by an employee based on years of employment, but not yet paid. The benefits are paid to the employee upon leaving employment.

accrued dividend A regular dividend issued by a company that is anticipated, but hasn't been declared or paid.

accrued interest Interest that is owed on a fixed-income security such as a bond. Interest accrues on bonds between regularly scheduled interest payments, which usually occur every six months. When a bond is sold in the secondary market, the buyer pays the price and the accrued interest and is reimbursed for it when the issuer makes the next interest payment. For corporate and municipal bonds, accrued interest is calculated using a 360-day year; for government bonds, accrued interest is calculated on an actual calendar-day basis. If a bond is in default, there is no accrued interest. Accrued interest also shows up as a current liability on a company's balance sheet.

accumulated dividend A dividend that has been declared, but hasn't yet been paid to stockholders.

ACH See *Automatic Clearing House*.

acid-test ratio The ratio of current assets, minus inventories, to total current liabilities. This ratio shows how well a company is covering its short-term obligations. It also indicates how much of a company's short-term debt could be paid off if the company sold its liquid assets.

acquisition An act by one company to acquire control of another company, either through an agreed-upon deal or a hostile takeover. Companies also may acquire units of a company, property, or other assets. Often used interchangeably with *merger*.

acreage report A yearly report, produced by the U.S. Department of Agriculture, that surveys farmers to ask them what crops they have planted that will be harvested in the fall. The report also provides the total acreage planted for each crop.

across-the-board An action or event that affects a market or a group of people in the same way. For instance, stocks may be rising across-the-board or a pay cut may be made across-the-board.

active income Income that is actively earned such as a salary, hourly wages, fees, and commissions. For tax purposes, the Internal Revenue Service distinguishes between active income and *passive income*, such as income from real estate limited partnerships or other real estate activities that don't occupy more than 50 percent of a person's time.

active market Heavy volume; can be used for an exchange or a specific security. An active market is more liquid and has a smaller *bid/ask spread*, which is the difference between the sell and purchase prices.

active month In the futures market, the active month is the nearest base contract month that is not the current delivery month. For example, if the current delivery

month is August, the active month is September. The August contract will be significantly less active because traders will be closing out their positions in order to avoid having to buy or sell the actual product or financial instruments. See also *nearby month*.

acts of God A phrase that is found in legal and financing agreements that refers to events that are beyond either party's control, such as earthquakes, floods, or riots.

actual/360 A method of calculating the accrued interest that is earned on a bond. The actual number of days in each month and a 360-day year are used to calculate the interest payments.

actual/actual A method of calculating the accrued interest that is earned on a bond. The actual number of days in each month and the actual number of days in the year are used to calculate the interest payments.

actuary A specialist in mathematics who is employed by an insurance company or other financial institution. For example, an insurance actuary reviews the data of claims filed by policyholders to determine how risk should be priced. The actuary recommends the amount of premiums that should be charged, the amount of reserves that should be kept, and the amount of dividends paid. Actuaries in other companies attempt to project results and potential outcomes by analyzing numerical data.

ACUs See *Asian currency units*.

ad valorem A Latin term that means "according to the value." It frequently is used to refer to a way of assessing taxes on property or duties on goods in which a percentage of the value of the item is paid as the tax or duty.

additional paid-in capital Capital that is received from investors after the initial capital infusion from when the company was established. Also called *contributed capital*.

adequacy of coverage The extent to which the value of an asset, such as real

adjustable-rate mortgage

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estate, an investment, or a security, is insulated from loss either through insurance coverage or by hedging using futures contracts.

adjustable-rate mortgage A mortgage with an interest rate that will rise or fall over time as interest rates fluctuate. The interest rate of an ARM, as they are frequently referred to, will change every year, every 3 years, or every 5 years. Lenders peg the interest rate on an ARM to an index. For example, a lender might use as a benchmark the interest rates that Treasury bills are paying for the equivalent time frame or a national or regional average cost of funds; alternatively, the lender may develop its own index. Thanks to low interest rates, adjustable-rate mortgages have grown in popularity in recent years, enabling people to buy homes that they normally couldn't afford. If interest rates rise, however, the monthly payment of an ARM will rise in kind.

adjustable-rate preferred stock Preferred stock in which the dividend changes according to a pre-set formula matched to movements in a benchmark such as the U.S. Treasury bill rate. Typically, these stock prices are less volatile than fixed-rate preferred stock. Adjustable-rate preferred stock is quite rare. May also be called *variable rate stock* or *floating rate preferred stock*.

adjusted basis The price of an asset or security that has been altered to reflect commissions paid, improvements made to the asset, or stock splits that have occurred. Adjusted basis is used for income tax purposes.

adjusted book value The value of an asset that has been adjusted to reflect market prices. Also referred to simply as *book value*.

adjusted funds from operations A calculation used for Real Estate Investment Trusts (REITs) that measures a real estate company's cash flow generated from operations. This calculation is often referred to as

AFFO, or may be called cash available for distribution (CAD) or funds available for distribution (FAD). To arrive at the adjusted funds from operations, two expenses are subtracted from funds from operations (FFO): 1) straight-line rents, which averages the tenant's fixed-rent payments over the life of the lease, and 2) routine expenses, such as carpeting, painting, or leasing expenses, which are capitalized by the REIT and then amortized.

adjusted gross income (AGI) The amount used in the calculation of an individual or couple's income tax liability after deductions, such as IRA contributions, half of self-employment taxes, and health insurance and alimony payments, have been subtracted. AGI is income before the standard or itemized deductions or personal exemptions are subtracted.

administrator

1. A person who is appointed by a probate court to manage the settlement of an estate of someone who died *intestate*, or without a will. If there is a will, the person who settles the estate is an *executor*.
2. A person who manages an organization, often a non-profit organization.

adoption credit A tax credit given by the Internal Revenue Service for expenses incurred in the adoption of a child. For 2002, the tax credit was \$5,000 per child, unless the child has special needs, in which case the credit was \$6,000.

adoption tax credit A tax credit of up to \$10,000 for expenses associated with the adoption of a child, such as attorneys' fees, travel expenses, and other qualifying expenses.

ADP See *Alternative Delivery Procedure*.

ADR American Depository Receipts, sometimes called American Depository Shares. These represent shares of a foreign company that can be purchased in the U.S., with transactions settled and dividends paid

in dollars. When an investor purchases ADR shares, the bank makes a deposit abroad to buy the actual shares of the foreign stock. Companies issuing ADRs have to follow U.S. regulatory and accounting rules.

advance refunding Issuing a bond or note with a longer maturity period than the original issue in order to pay off that original issue. Advance refunding is done to take advantage of decreased interest rates, which makes the new debt less expensive than the current debt. Also called *prefunding*.

advance/decline ratio A ratio that is commonly used to determine the strength of a stock market. The ratio is the number of stocks whose price rose compared with the number of stocks whose price fell. The more rising stocks, the more bullish the market; the more stocks declining, the less bullish the market.

advancing volume A breakdown of the trading volume produced during a trading session on an exchange by those stocks whose prices rose, in contrast to that produced by the stocks that declined, which is the *declining volume*. By looking at the volume of stocks advancing and comparing it to the volume of those stocks declining, it is possible to determine how strong the market move was. Advancing volume details are published daily in financial newspapers.

adverse opinion An opinion by an independent auditor that a company's financial statements are not accurate. An adverse opinion is worse than a *qualified opinion*, which says that only some areas of the financial reports are problematic. Adverse opinions occur infrequently and typically lead to investors selling their shares in the company.

AEX See *Amsterdam Exchange Index*.

affidavit A sworn, written statement made in the presence of a notary public or a person who is authorized to administer an oath. Affidavits are used in legal proceedings and may be submitted in lieu of having a person appear in court.

affiliated company The definition of "affiliated company" will vary, depending on the context in which the term is used. One way that companies are considered affiliated is when one company owns less than the majority interest in another company. Companies also may be affiliated when they are subsidiaries of a third company. Another test of affiliation is the amount of effective control that a company has over another company, even though a relatively small percentage of stock may be held, such as 10 percent or 25 percent.

affordability index An index that measures how affordable housing is. Compiled by the National Association of Realtors, it measures whether a family earning the median family income, as reported by the U.S. Bureau of the Census, could qualify for a mortgage loan on an existing single-family home priced at the national median. To make the calculation, the prevailing mortgage interest rate on loans closed on existing homes from the Federal Housing Finance Board and HSH Associates is used.

An index value of 100 means that the average family has exactly enough income to qualify for a mortgage. An index value over 100 means that the family has more than enough income, while a value below 100 means that a family doesn't have enough income to qualify for a mortgage loan. The calculation assumes a 20 percent down payment and that the loan doesn't exceed 25 percent of the median family income. The index is calculated for fixed mortgages, adjustable-rate mortgages, and composite mortgages.

afghani The currency unit of Afghanistan, comprised of 100 pul.

after-acquired clause A paragraph found in a mortgage that says that any additional mortgages acquired after the first mortgage is obtained will be additional collateral for the first mortgage.

after-hours trading The trading of securities after the official close of a market. The proliferation of Internet trading sites has allowed individuals to trade after the

markets have closed, which once was something only institutional investors could do. Exchanges may have their own electronic trading services or traders may use ECNs (electronic communications networks). However, the liquidity may be limited, which means that the investor may not receive the best price after hours.

AG Stands for *aktiengesellschaft*, which is a German company designation, similar to *Inc.* Aktiengesellschaft translates to “stock corporation.” In Germany, all publicly traded companies are AG’s, but not all AG’s are publicly traded.

AGA See *American Gas Association*.

against actuals A method of settling a futures contract that is used by two hedgers who want to exchange their futures positions for cash, instead of delivering the actual commodity or underlying financial instrument. Also called an *exchange for physicals*.

aged fail A contract or trade between two brokers or dealers that remains unsettled after 30 days of the settlement date. The account can no longer be treated as an asset for the firm on the receiving end of the transaction.

agency An arrangement in which a person, or agent, matches up buyers and sellers and charges a commission.

agency cross A trade in which one broker acts as the agent for both the buyer and the seller. This typically occurs when a broker receives orders from two different customers for the same number of shares for the same security. The order can be processed without sending it to the exchange because both parties already have been identified.

agency securities Fixed-income securities that are issued by U.S. government-sponsored entities (GSEs) that were started to reduce borrowing costs for students, farmers, and homeowners. Agency securities are issued by organizations such as Government National Mortgage Association

(Ginnie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), and Federal National Mortgage Association (Fannie Mae). Only the securities issued by the Farm Credit Financial Assistance Corp. are backed by the U.S. government. However, because of their special GSE status, the market doesn’t demand as high of an interest rate as it would from an equivalent private sector issuer because of the perception that the government would step in to back the securities in the case of a default. However, the U.S. government does not actually back these debt issues.

agency trade A buy or sell order that is initiated by a brokerage firm on behalf of a customer. An agency trade is in contrast to a trade that is initiated directly by the customer. If a customer has given a brokerage firm discretion to manage his or her account, then any trades from that account are agency trades.

aggressive growth fund A mutual fund that invests primarily in common stock of small growth companies that have potential for capital appreciation. An aggressive growth fund does not attempt to generate income through dividends.

aging schedule A list of accounts receivables that is broken down into groups such as 0–30 days, 31–60 days, 61–90 days, and over 90 days from date of sale. A company uses an aging schedule to show how effectively it is collecting on its accounts receivables.

agreement among underwriters A contract signed by the members of an investment banking syndicate that has been established to sell stock or bonds for a corporation. It appoints the managing agents, defines how much each firm is allowed to sell, outlines each firm’s liability, determines how costs will be allocated, and sets other rules as needed.

agricultural futures Futures whose underlying instruments are based on agricultural commodities, such as grains, cattle, coffee, or butter. Agricultural futures have

had a long history, with the first contracts originating in 1865 on the Chicago Board of Trade. Wheat and corn futures and options have traded since 1877 on the Chicago Board of Trade. Agricultural futures are in contrast to financial futures, which are based on financial instruments such as the U.S. Treasury bond or stock market indices.

AICPA See *American Institute of Certified Public Accountants*.

AIMR See *Association for Investment Management and Research*.

air pocket A sharp drop in the price of a stock or a futures or option contract in response to unexpected negative news gaps. Often air pockets are indicated on a price chart by a discrepancy between the previous day's closing price and the next day's price.

Allen, William M. The president of Boeing Co. in 1945 when the U.S. government cancelled all of the company's World War II contracts, forcing Boeing to cut its workforce from 63,000 to 8,000 employees. To keep the company alive, Allen pushed Boeing into the commercial aircraft market. Although Boeing remained in the defense business, producing the B-52 bomber, it also produced the first commercial jet airplane, the Boeing 707.

alligator spread A combination of call options and put options that produces excessively high commissions, making it nearly impossible for an investor to make a profit. The term is so named because such a combination, like an alligator, can eat an investor alive.

all-in cost The total amount of costs that a bank incurs when it creates and sells a certificate of deposit to its customers. These costs include the interest rate it has to pay to the CD owner, the premium it pays for insurance from the Federal Deposit Insurance Corp., and the cost it incurs because it has to keep some of the money on deposit at the Federal Reserve in a non-interest bearing account in order to meet reserve requirements.

all-or-none A type of buy or sell order placed with a broker to indicate it cannot be partially filled. The broker must fill the entire order or not fill it at all. Unlike a *fill-or-kill* order, an all-or-none order will not be automatically canceled if a broker can't fill it fully right away.

allotment The number of securities that each company in an underwriting syndicate is given to sell.

allowance method A method of writing off bad debts in which uncollectible accounts are expensed in the period when the related sales take place. The allowance method contrasts with the *direct charge-off method*, which directly debits an expense account when bad debts are discovered.

alpha A measure of the risk-adjusted performance of an investment that factors in the individual risk of the security and not the overall market risk. A large alpha indicates that the stock or mutual fund has performed better than would be predicted given its beta, which is a measurement of an investment's volatility.

Alternative Delivery Procedure (ADP)

A provision in a futures contract that allows buyers and sellers to make and take delivery of the underlying product under terms or conditions that differ from those outlined by the contract. An ADP may be invoked at any time during the delivery period after long and short futures positions have been matched for the purpose of delivery.

alternative minimum tax (AMT)

A federal income tax provision that ensures that wealthy individuals, estates, trusts, and corporations pay a minimum level of tax. To arrive at AMT, certain items, such as passive losses from tax shelters, are added to adjusted gross income. The tax rate charged to individuals varies, though the tax rate a corporation pays is 20 percent.

amended tax return A tax return, filed on a 1040X Form, that is filed because mistakes were made on the original tax return. Amended returns have to be filed within three years of the original filing date.

American Association of Individual Investors (AII)

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American Association of Individual Investors (AII) A not-for-profit organization formed in 1978 whose purpose is to educate investors about investing in a variety of investment vehicles including stocks, bonds, and mutual funds. The AII also provides information about tax planning, portfolio management, and retirement planning and offers guidelines about working with a broker.

American Corporate Accrual Receipts (ACARS) The coupon, or interest payments, of corporate bonds that have been separated from the principal payments. It is the corporate bond equivalent of STRIPS, which are U.S. Treasury bonds whose interest payments have been stripped from the principal payments.

American Eagle A popular bullion coin that is minted by the U.S. government. American Eagles are purchased by coin collectors and precious metals investors from traders in the secondary market. They are made of gold, silver, or platinum.

American Gas Association (AGA) The major natural gas industry trade association, based in Alexandria, Virginia. AGA conducts technical research and helps create standards for equipment and products involved in every facet of the natural gas industry. It also compiles the statistics that are considered to be industry standards. The AGA's weekly report on how much natural gas is in storage is closely watched by traders. If gas supplies increase, then prices are likely to decline and vice versa. AGA also creates outlooks for the industry and compiles heating degree and cooling degree data. See also *heating degree day* and *cooling degree day*.

American Institute of Certified Public Accountants (AICPA) The professional association of certified public accountants, formed in 1887. Membership is open to CPAs who pass an exam and agree to pursue continuing education, along with other requirements. The organization promotes continued learning, ethical behavior, and professionalism.

American Petroleum Institute (API)

The primary U.S. oil industry trade association, based in Washington, D.C. API conducts research and sets technical standards for industry equipment and products, from wellheads to retail outlets. It also compiles statistics that are regarded as industry benchmarks. A widely watched statistics is its weekly stock report that shows what crude oil inventories are and how much product has been imported. The API also reports data for derivative products, such as gasoline.

American Stock Exchange (AMEX)

The third largest exchange in the United States, behind the New York Stock Exchange and the NASDAQ. It offers trading on equities, options, and exchange traded funds (ETFs). Companies with shares traded on the AMEX are generally smaller than those listed on the New York Stock Exchange. In 1993, it created the first domestic product market for ETFs and listed 122 at the end of 2002. The AMEX is the listing exchange for most U.S.-registered ETFs and a variety of listed derivative securities including equity and index options.

The AMEX is the second largest options exchange in the United States. It also lists over 100 closed-end funds ranging from single-state tax-free bond funds to global equity funds. The benchmark index is the AMEX Composite whose symbol is XAX. The AMEX also allows trading on NASDAQ-listed stocks.

In 1998, AMEX was purchased by the National Association of Securities Dealers (NASD), which operates the NASDAQ stock market.

American-style option An option that can be exercised at any time before its expiration date. An American option contrasts with a European option, which can be executed on its expiration date only. (An option gives the holder the right to purchase or sell a security during a specific time and price.)

AMEX See American Stock Exchange.

Amex Composite Index A composite value of all of the stocks traded on the American Stock Exchange. The value of each stock in the American Stock Exchange is derived by multiplying the stock's market price by the number of shares outstanding. The trading symbol is XAX.

Amivest Liquidity Ratio A liquidity measure that calculates the dollar value of trading that would occur if prices changed 1 percent. The Amivest Liquidity Ratio shows how well a stock or investment is able to absorb trading volumes without a significant move in its price. A high ratio means that large amounts of stock can be traded with little effect on prices.

amortization

1. An accounting technique that reduces the cost of an intangible asset, such as goodwill, by assessing the charge against income over a specific amount of time. For a tangible asset, such as machinery, the term *depreciation* is used.
2. The act of reducing debt by making regular principal and interest payments.

Amsterdam Exchange Index (AEX)

A weighted arithmetic average index of the top stocks that are traded on the Amsterdam Stock Exchange. The value of the exchange was adjusted to 538.36 on January 4, 1999, after the euro was adopted.

AMT See *alternative minimum tax*.

analog In telecommunications terms, an early technology that frequently has been superseded by digital technology. For example, to transmit sound in analog, as broadcast and telephone companies did, the frequency is altered by amplifying the strength of the signal or varying the frequency in order to transmit information. In contrast, *digital*, which is now the dominant technology, uses a series of electronic data represented by ones and zeros to store or transmit data.

analyst An employee of a sell-side firm (a Wall Street broker), a buy-side firm (a mutual fund or investment management company), or an independent research firm that makes buy and sell recommendations on companies in a particular industry. Analysts also are employed by companies involved in commodities trading to recommend when customers should buy and sell futures contracts and suggest appropriate trading strategies.

anchor A term used by Federal Reserve Governor Edward M. Gramlich in January 2003 to say that U.S. monetary policy needed an *anchor*, or a long-term strategy. He said that a clear strategy would help the Federal Reserve react to economic problems such as a surge in unemployment without riling financial markets.

angel A wealthy individual who agrees to invest money with a start-up company in what is likely its first funding. Angels invest even before venture capital firms do so. Typically, the amount of money invested by an angel is smaller than the amount that would be received from a venture capitalist, and may be \$10,000 up to about \$200,000. *Angel* also is used in the context of a *fallen angel*, which is a bond that has been reduced to junk status.

Annan, Kofi The secretary-general of the United Nations, as of this printing. He was awarded the Nobel Peace Prize for 2001.

annual meeting Public companies hold an annual meeting once a year. During the meeting, members of the board of directors are elected, the selection of an auditor is voted on, and shareholders may bring forth other issues. Shareholders unable to attend may vote through a proxy, which may be mailed in or transmitted over the Internet or telephone. In an annual meeting, the chief executive officer or chief financial officer typically will discuss the company's performance during the last year as well as its outlook.

annual percentage rate (APR)

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annual percentage rate (APR) The interest expense a consumer pays for debt that is expressed in simple, annual-percentage terms. The Federal Truth in Lending Act requires that each consumer loan agreement includes the APR.

annual percentage yield (APY) The effective interest rate from the standpoint of a person receiving interest. For instance, compare two interest-bearing accounts: one pays 1 percent interest monthly and the other pays 3 percent interest quarterly. The account paying monthly interest will have a higher annual percentage yield than the account paying quarterly interest, because interest is credited to the account more frequently, which increases the amounts of funds in the account that interest is paid upon.

annual report Once a year, public companies summarize their financial results, outline their competitive accomplishments, and outline the various areas of their business and product lines to shareholders. Typically, financial results will go back over a multi-year period. The annual report is mailed to all shareholders. Formats of the annual report vary depending on the financial health of the company. For instance, companies that are losing money may produce a plain report on white paper with black ink that is relatively inexpensive to print. Other companies that are established and profitable are likely to produce magazine-quality reports with lots of design elements, photography, and the use of color throughout.

annualized gain The amount of appreciation of an investment during a 12-month period. If an investment appreciates 1.5 percent during one month, the annualized gain is 18 percent, which is 12 multiplied by 1.5 percent.

annuitant A person who receives the benefits from an annuity. When the owner decides to receive regular payments, it is called annuitizing the policy or contract. See also *annuity*.

annuity A financial instrument that pays out the investor's earnings on a regular, periodic basis for a set amount of time. Annuities typically are used to provide funds for retirement. Annuities may be paid for the duration of a person's life or may be set for a certain period of time. Annuities are tax-deferred, so the earnings from investments in these accounts grow without tax liability until the benefits are paid out.

annuity certain A financial instrument which pays out the investor's earnings in a specific amount of money each month for a set amount of time, often ten years. If the annuitant dies before the time period is up, the payments are made to the beneficiary. See also *annuity*.

annuity in arrears An annuity whose first payment occurs at the end of the year rather than at the beginning. Annuity in arrears also may be used to refer to periodic payments that must be made by the annuitant that falls behind schedule.

annuity starting date The date on which annuity payments begin. The longer the annuitant waits to begin receiving payments, the higher the payments will be because the life expectancy period is shortened and the insurance company paying the annuity has a longer time to invest the money. Typically, people don't begin receiving an annuity until after 59½ years of age because withdrawals before then are subject to a 10 percent penalty from the Internal Revenue Service. See also *annuity*.

anticipated growth rate An approximation of the annual rate of return that an investor can expect for bond mutual funds based on the maturity of the fund's bond portfolio. The anticipated growth rate is calculated using the fund's weighted-average maturity and assumes that all dividends and capital gains are reinvested. The calculation also assumes that bonds are held until maturity and are not sold or recalled early by the issuers.

anticipated value at maturity Although this can be a generic term, for a mutual bond fund it indicates the expected redemption value of one share of a portfolio based on the portfolio's weighted-average maturities. There is no guarantee that the bond mutual fund's share price will reach its anticipated value at maturity.

antidilution right See *dilution protection*.

antitrust laws A collection of different laws and court rulings that have evolved over time to govern the anti-competitive behavior of large business. Some of the business practices that may be illegal are agreements among competing businesses, such as agreements on price or related matters; agreements to restrict output; group boycotts, which drive up prices; and agreements among competitors to divide sales territories or allocate customers.

The Sherman Antitrust Act of 1890 prohibits contracts, conspiracies, and combinations that would restrain trade or create a monopoly. The Act provides criminal penalties as an enforcement tool.

The Clayton Antitrust Act of 1914 outlaws exclusive dealing arrangements, tie-in sales, price discrimination, and mergers that would restrain trade and interlocking directorates. It carries only civil penalties and is enforced by both the Department of Justice and the Federal Trade Commission. The Clayton Act was significantly amended in 1936 by the Robinson-Patman Act and in 1950 by the Celler-Kefauver Antimerger Act.

The Federal Trade Commission Act was passed in 1914. It created a governmental agency whose responsibility is to protect consumers against illegal business practices and may catch loopholes in the other statutes.

The antitrust laws are enforced by the Federal Trade Commission and the Antitrust Division of the U.S. Department of Justice.

APAC The Asia Pacific Advisory Committee is a governmental committee that includes representatives from Asia-Pacific

countries. It meets periodically to discuss economic and trade issues as well as topics important to the international capital markets.

API See *American Petroleum Institute*.

appraisal The evaluation of a property and assessment of its worth by an independent professional. Typically, appraisals are done on property before a bank approves a mortgage. Appraisals also may be done on other assets, such as jewelry or a business. The person conducting the appraisal is called an *appraiser*.

appreciation The increase in value, over time, of an asset, stock or investment. The opposite is *depreciation*.

apps Short for *software applications*; jargon that is often found in technology research reports written by Wall Street analysts.

APR See *annual percentage rate*.

APY See *annual percentage yield*.

ARA An abbreviation used in Europe, usually in conjunction with the futures market, which stands for *Antwerp, Rotterdam, and Amsterdam*.

arbitrage A situation in which a trader attempts to profit from minute differences in price for the same security on different stock or futures markets. Traders that employ this strategy are called arbitrageurs and use specially designed computer programs to identify price discrepancies.

arbitrage pricing theory A mathematical theory that attempts to determine the expected or required rates of return on risky assets based on the asset's systemic relationship to more than one risk factor. The theory was developed by Stephen Ross in the early 1970s and was initially published in 1976. It assumes that capital markets are perfectly competitive and investors always prefer more wealth to less wealth, even if less wealth comes with more certainty. In contrast, another popular theory,

arbitrage trading program (ATP)

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the *Capital Asset Pricing Model*, focuses on a single risk factor.

arbitrage trading program (ATP) A computer program that traders rely on to indicate when stocks or investments should be bought or sold. Because many people use the same program, program trading often produces excessive volatility in the market.

arbitration A binding dispute-resolution process in which an impartial person or group of people hear the facts and decides how the matter should be resolved. Arbitration has the effect of a court order. Many brokerage firms require their clients to sign agreements stating that they will use arbitration, rather than take legal action, in the event that there is a disagreement. Stock, futures, or options exchanges, and other professional or regulatory associations are often involved in administering arbitration proceedings. Arbitration contrasts with *mediation*, which isn't binding on the parties.

Archer Medical Savings Account (Archer MSA) A savings account that is set up to pay qualified medical expenses of the account holder or a family member. It is used by employees who work for a small business, which is usually 50 employees or less, and contrasts with a *Flexible Spending Plan*, which is offered by large corporations. In order to use the Archer MSA, a company must have a high-deductible health plan. For medical expenses to qualify for payment from an Archer MSA, they generally must be unreimbursed and could be deducted on Schedule A of the 1040 Income Tax Return form.

Arpanet The first generation of the Internet, which consisted of electronic mail and software that allowed users to transfer files. The second generation of the Internet is the World Wide Web, which allows people to connect to databases in addition to Arpanet services. Today, the third generation of the Internet allows people to connect directly to the Internet's computers via software.

ARPS See *Dutch auction*.

ARPU Average revenue per user is calculated by dividing revenues by the subscriber base. Non-service revenues, such as equipment or other sales, are included in the calculation. The definition often is used in the telecom industry. User refers to one customer, such as a cell phone user.

articles of incorporation This is a document that is filed by a company with the Secretary of State in the state where the company wants to incorporate. The articles include the names of the major shareholders, the officers, and the number of authorized shares, and describe the corporation's purpose. They also list the registered address for the business. Once the articles are approved by the state, the corporation is issued a *charter*, or right to do business.

artificial currency A substitute for an actual currency that is used in economic transactions. An example of an artificial currency is the special drawing rights (SDR) that were created by the International Monetary Fund (IMF). SDRs are used by the members of the IMF to pay their dues and transfer funds between countries. The value of the SDR is computed using a grouping of currencies and adjusts as the prices of the underlying currencies change.

ascending tops In technical analysis, a chart pattern in which the peaks in a security's price are increasingly higher than the previous peaks. A *descending top* is the opposite of an ascending top.

ascending triangle A price-chart pattern that indicates that a market is consolidating and is about to break out to either the upside or downside. Ascending triangles are identified by charting the closing prices of a stock, futures contract or other financial instrument in a technique called technical analysis.

ASEAN Association of Southeast Asian Nations. A cooperative group formed in 1967 that focuses on economic, social, and cultural issues. It has a political objective of

regional peace and stability, but does not require member countries to adopt common political views. Member countries are Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

Asian currency units (ACUs) Dollar deposits that are held in Asian financial centers, such as Singapore. *Dollar deposits* are funds that have been deposited into a bank outside of the United States.

Asian Financial Crisis A chain of events that led to turmoil in the financial markets during the latter half of 1997 and continued into 1998. The crisis began when traders decided that Thailand's currency, the baht, was too highly valued given that country's financial situation. Thailand had a very large current account deficit, a growing foreign debt, and a governmental budget shortfall. To stop the baht from falling, the Thai government used its currency reserves to buy baht. The effort was short lived and the Thai government had to let the baht trade freely, instead of being linked to the U.S. dollar.

As the baht weakened, so, too, did other currencies in the region, particularly the Philippines' peso, Malaysia's ringgit, and Indonesia's rupiah. Stock markets, such as Hong Kong's market, posted sharp declines. South Korea was drawn into the turmoil when it spent much of its foreign currency reserves to protect the value of the won.

In January, attention turned to Indonesia, which agreed to implement economic reforms in order to continue receiving IMF assistance. In particular, the IMF wanted to reduce the country's use of crony capitalism, whereby many large businesses were controlled by members of the then-President Suharto's family.

In March, the Thai baht and South Korean won began to firm as investors confidence began to return to the markets. However, by May riots in Indonesia left Jakarta in ruins, and President Suharto resigned after 32 years in office. Currencies

in emerging markets also begin to weaken. Although the situation has stabilized, the emerging Asian countries still haven't regained their former status as attractive places to invest.

Asian option A specialized form of option whose payoff is connected to the average value of the underlying security on specific dates. An Asian option's strike price is equal to either the lowest underlying security value (call option) or the highest underlying security value (put option) over a period of time that ends on the option expiration date. An Asian option is typically more expensive than a regular option. Also called *average rate option*.

ask The price at which someone is willing to sell a financial contract or security. Also synonymous with sell.

Aspirin An acronym for *Australian Stock Price Riskless Indexed Notes*. These are four-year, zero-coupon bonds that are guaranteed by the Treasury of New South Wales. The bonds are repayable at face value plus a percentage increase that the Australian All Ordinaries stock index rises above a predetermined level during the time period.

assay The process of testing a metal or an oil for its purity or quality. The term is often used in the context of metal and energy products that are delivered against futures contracts on futures exchanges and which have to meet certain minimum requirements.

assessed valuation The value that is assigned to a property by a state or municipality in order to assess taxes. The assessed valuation of properties is important to municipal bond investors when the bonds are backed by the property taxes collected by the governmental unit.

asset Cash, accounts receivables, property, or equipment that has value and is listed on a company's balance sheet. An asset may be bought or sold and its price can range from hundreds of dollars to millions of dollars.

asset allocation The allocation of investment dollars between major asset classes such as stocks, bonds, precious metals, real estate, and cash. Asset allocation is a highly recommended investment strategy because it lets investors diversify risk between different investments. For example, if the stock market is performing poorly, then it is likely that the fixed-income market is performing well as investors shift money from stocks to bonds in order to lock in a return. In this case, an investor with a well-allocated portfolio will lose money on stocks but gain money on bonds. Asset allocation is a way for investors to weather market downturns by spreading their risk.

asset allocation fund A mutual fund that invests in a set mixture of equities, fixed-income securities, and money market instruments. These funds are required to maintain a precise weighting in each asset class, unlike a flexible portfolio fund. See also *flexible portfolio fund*.

asset allocation mutual fund A type of a mutual fund that divides its investment dollars among stocks, bonds, and money market securities in order to maximize the return to investors and minimize risk.

asset class A class of investments that have similar characteristics, including risk factors and how returns are created. Stocks, bonds, real estate, precious metals, and cash are different types of asset classes.

Asset Depreciation Range (ADR) System A schedule that the Internal Revenue Service accepts for determining the depreciable lives of different assets. Business managers can select the ADR system or may elect a straight-line depreciation schedule.

asset financing A financing method available to businesses in which lenders look at the cash flow from a particular asset and base a loan on the asset's expected rate of return. The asset secures the loan. Most common forms of asset financing are loans made against account receivables and

inventory. Second mortgages also are frequent sources of asset financing.

asset impairment Impairment occurs when the sum of the expected cash flows from the asset is less than the book value of the asset. Accounting practices require that long-term assets be evaluated for impairment. If a reduction is made in the carrying value because of impairment, it is recorded as a loss.

asset management The professional management of financial assets by managers who make investment decisions for individuals, institutions, or pension funds. Although asset management has existed since the early 1900s, it began to show strong growth in the 1970s. Concerns about the solvency of the Social Security Administration increased individual's attention to their retirement planning. The Employment Retirement Income Security Act (ERISA), which passed in 1974, created private retirement plans called 401(k) plans. Those changes paved the way for firms to specialize in managing money for individuals and institutions. Also called and often used interchangeably with *investment management*. A professional referring to the job he or she holds is likely to use the term *investment manager*. A person referring to the industry itself is likely to use the term *asset management industry*.

asset management account An account at a brokerage house or other financial services institution that combines checking account features and the ability to make investments including buying stocks, bonds, and other investments.

asset play A stock that is attractive because the current price doesn't reflect the true value of the company's assets. Companies that are an asset play are a tempting target for takeovers because they are an inexpensive way to buy assets, thereby guaranteeing a certain return.

asset stripper A type of corporate takeover in which the buyer is taking over a company in order to sell the company's

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assets. The income from the sale of the assets pays for the debt incurred in funding the takeover. The buyer will profit if the value of the assets sold exceeds the liabilities incurred in acquiring the target company.

asset turnover Net sales divided by average total assets. Asset turnover measures how much each dollar of assets produced in sales.

asset/equity ratio A ratio calculated by dividing total assets by stockholder equity. The ratio number is not important by itself and must be compared to other companies in the same industry to have relevance.

asset-backed commercial paper Commercial paper that is backed by assets of the issuer and is often abbreviated ABCP. *Commercial paper* is an unsecured promissory note that is sold by a corporation. It has a fixed maturity of 1 to 270 days and is usually sold at a discount from face value.

asset-backed security (ABS) A fixed-income security that is collateralized, or backed by, mortgages, credit card or other receivables, installment contracts, or by some other type of asset. These securities have become increasingly popular during the last several decades. Government-sponsored entities, such as Fannie Mae and Freddie Mac, have issued an increasing amount of ABS securities that are backed by home mortgages. By removing those mortgages from their balance sheet, the agencies are able to loan additional money so that more people can receive home mortgages.

asset-for-asset swap A situation in which creditors exchange the debt of one defaulting borrower for the debt of another defaulting borrower. Typically, debt is exchanged for new debt that reduces the amount owed but increases the interest that is paid. Debt also may be swapped for additional equity.

assign To transfer ownership from one party to another by signing a contract. The *assignor* gives up ownership and the *assignee* becomes the owner.

assignment The act of telling a futures or options writer that his or her contract has been exercised and that he or she must purchase or sell the underlying security at the specified strike price. At expiration, the exchange or clearinghouse *assigns* the futures or options contract to either a randomly or systematically chosen party.

assimilation The absorption by the public of a new stock issue after it has been sold in its entirety by the underwriter.

associated gas Natural gas that is present in a crude oil reservoir, either separate from the oil or mixed in with it. Associated gas may increase the value of the crude oil if the cost involved in extracting the gas doesn't exceed its value.

associated person A person engaged in the investment-banking or securities business who is either directly or indirectly controlled by a member firm of the National Association of Securities Dealers. It doesn't matter whether this person is registered with the NASD or exempt from registration. An associated person also is every sole proprietor, partner, officer, director, or branch manager of any NASD member. An associated person is also someone who is involved in business dealings with a member firm of the National Futures Association that requires the person to be registered with the Commodity Futures Trading Commission.

Association for Investment Management and Research (AIMR) An international, nonprofit organization of more than 50,000 investment practitioners and educators in over 100 countries. The organization was founded in January 1990 when the Financial Analysts Federation (FAF) and the Institute of Chartered Financial Analysts (ICFA) merged. Its purpose is to educate and examine investment managers and analysts and to ensure that high standards of professional conduct and financial analysis are followed. AIMR administers the Chartered Financial Analyst (CFA) program, which is a three-year testing and study program to certify that

assumed interest rate

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investment management professionals are qualified. Pass rates for the CFA exam in 1963, the first year it was introduced, was 94 percent. That rate declined steadily to 54 percent in 2001. AIMR's members are securities analysts, portfolio managers, strategists, consultants, educators, and other investment specialists who work in a variety of financial services companies.

assumed interest rate An interest rate used by an insurance company to calculate the payout on an annuity contract. Typically, a monthly annuity payment correlates to the level of interest rates. See also *annuity*.

assumption The act of taking responsibility for another person or corporation's liabilities. For example, a mortgage may be assumed by another buyer. In this case, the seller remains secondarily responsible for the mortgage payment unless the seller is relieved of those responsibilities by the lender.

ASX See *Australian Stock Exchange*.

asymmetric information Information that is known to some people but not to others. For example, in a merger situation, the parties involved in the deal have more knowledge than their competitors that the industry is about to undergo a significant change.

asynchronous transfer mode (ATM) A network that divides messages into small cells, or fixed-size units, that establish a switched connection between two computers. By separating the transmission into small pieces, different types of signals (such as data, voice, and audio) can be sent over a single line without any one type dominating the transmission. It provides fast transmission speeds.

at In trading jargon, a stock is offered for sale "at" a certain price. In a trading transaction the syntax is "quantity-at-price."

at par At a price that is equal to the *nominal*, or face value, of a security.

at risk Exposed to the danger of loss. The concept of at risk is used in limited partnerships in which the investor deducting a loss must prove to the Internal Revenue Service that there was a chance of never realizing any profit and that the investment may be lost as well.

ATM

1. See asynchronous transfer mode.
2. Stands for *automatic teller machine*, which a consumer can use to withdraw funds from his or her bank account or to obtain a cash advance on a credit card.

ATP See *arbitrage trading program*.

at-the-close order A trade order for a stock, futures, or options contract that is to be executed at the closing price of the security. If the execution can't occur at the close, then the order is cancelled. In this respect, it is a particular type of all-or-none market order. On futures and options exchanges, there often is a closing period that lasts for approximately ten minutes when at-the-close orders can be executed.

auction markets A securities market in which price is determined through the open and free interaction of buyers and sellers. In contrast, electronic trade processing systems are not auction markets.

auction rate preferred stock (ARPS) See *Dutch auction*.

audit The process of verifying a company's financial information. Auditors are certified public accountants who are independent of the corporation. An auditor examines a company's accounting books and records in order to determine whether the company is following appropriate account procedures. An auditor issues an opinion in a report that says whether the financial statements "present fairly" the company's financial position and its operational results in accordance with Generally Accepted Accounting Principles (GAAP). Corporate financial statements are audited once a year.

audit committee A committee made up of some of the members of a company's board of directors that is responsible for the overall management of the auditing process and the auditors. The audit committee assists the board of directors in overseeing the integrity of the company's financial statements and also may be involved with legal and regulatory compliance, including the internal audit function. The board of directors appoints the audit committee. The audit committee also recommends whether shareholders should approve the choice of an independent auditor.

Under the 2002 Sarbanes-Oxley legislation, members of an audit committee must be independent directors. This means those members cannot be company executives and they must limit business involvement between their employer and the company on whose board they serve. The rules also require that the board of directors evaluate whether a board member serving simultaneously on more than two companies' boards would impair an audit member's performance; membership on different audit boards must be disclosed in the company's proxy statement. In addition, the rules require that at least one member have significant financial expertise, although exactly what constitutes significant financial expertise is left up to the companies.

The Sarbanes-Oxley law requires companies to have an internal audit function, which may be outsourced to independent auditors. The audit committee also is required to have a charter that specifies the purpose, duties, and evaluation procedures of the committee.

audit trail

1. The papers that validate accounting records. The audit trail shows how financial numbers and conclusions were developed.
2. The record of trading information that identifies the brokers participating in each transaction, the firms clearing the trade and its terms, the customers

involved, and the time the transaction occurred.

Aunt Millie A rude term applied to an unsophisticated investor by a market professional. If an investment interests Aunt Millie, it is simple and not too complicated.

Australasia Australia and the Far East.

Australian All Ordinaries Index A market capitalization-weighted index comprised of the largest 500 companies listed on the Australian Stock Exchange. It was developed in 1979 with a base value of 500.

Australian Kangaroo A popular bullion coin that is minted by the Australian government. Kangaroos are purchased by coin collectors and precious metals investors from the Australian government or from traders in the secondary market. They are made of gold, silver, or platinum.

Australian Stock Exchange (ASX) An exchange formed in 1987 by the Australian Parliament by consolidating six independent stock exchanges that had operated in the capital cities of the Australian states. Those individual exchanges had been in existence since the 19th century. In 1994, the first stage of an electronic clearing and settlement system (CHES) was introduced and was fully implemented in 1996. During that same year, the ASX voted to demutualize, and phase two of CHES was implemented, which allowed the shares of foreign companies to be settled. During the latter half of the 1990s, the number of finance, insurance, communications, and media companies increased dramatically, thereby diversifying the stock market from its heavy concentration of mining and natural resources companies. Equities, fixed-income securities, and derivatives trade on the ASX. Its lead index is the *All Ordinaries Index*, which is comprised of the largest 500 companies.

Autex An automated trading system used by broker/dealers, exchanges, and others.

authentication

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authentication The process of validating a bond certificate to determine that it is genuine and not a fraud.

authority bond A bond that is issued by a government entity to provide funds for revenue-producing agencies. The bond is paid for from revenues earned by the agency, or authority, which may operate toll roads, transportation hubs such as bridges and airports, or public utilities. The authority bond contract may include bondholder protections. Authority bonds are similar to *revenue bonds*, which are paid for from the taxing revenues of a public agency.

authorized shares The number of stock shares that a company may issue as authorized by its articles of incorporation or by its shareholders. Often, a company does not issue all of its authorized stock shares. If a company has issued all its authorized shares and wants to issue more shares, it usually has to obtain permission from the board of directors and/or the shareholders.

authorized stock The maximum number of shares of stock that a corporation is allowed to issue. If corporate management wants to exceed that limit, typically they have to obtain approval from shareholders in order to issue more shares.

automated bond system (ABS) An electronic bond information and trading system operated by the New York Stock Exchange that allows subscriber firms to automatically execute orders in corporate, agency, Treasury, and municipal securities. Most of the trading occurs in corporate debt, including convertible bonds. ABS allows trading for over 2,000 debt securities.

automated order system A computerized trading order-entry system that sends single-order entries directly to the appropriate specialist on the exchange floor. The New York Stock Exchange's system is called Super DOT. The Philadelphia Stock Exchange uses PACE (Philadelphia Automated Communication and Execution System) and Autom (Automated Options Market). The NASDAQ stock market uses

the Small Order Execution System (SOES), which automatically executes agency orders in NASDAQ SmallCap securities for 1,000 shares or less. Another system is Auto-Ex.

Automatic Clearing House (ACH) A nationwide electronic funds transfer network that lets financial institutions distribute electronic credit and debit entries to bank accounts and settle them. The ACH enables banks to settle accounts with other banks.

automatic extension The extension that is granted by the Internal Revenue Service to taxpayers giving them 90 additional days beyond the April 15 deadline to file their tax returns.

automatic funds transfer The movement of funds from one account to another using electronic technology.

automatic investment program An investment plan where money is added automatically each month (or at another interval) to a checking account, savings account, mutual fund, or another investment vehicle.

automatic rebalancing A portfolio-management process in which investments that have appreciated are sold in order to take a profit and the profits are reinvested into sectors that are out of favor. Automatic rebalancing helps investors keep the asset allocation of their portfolios in line with their stated investment goals. Often, automatic rebalancing is used for managing mutual funds, retirement accounts and variable annuities.

automatic stay A provision allowed under U.S. Bankruptcy law that prevents the commencement or continuation of most judicial, administrative, or other proceedings against the debtor or the debtor's estate after bankruptcy is filed. The purpose behind an automatic stay is to give breathing room to a debtor filing a Chapter 11 or Chapter 13 bankruptcy, and to give a Chapter 7 trustee the time and protection to administer the assets of the estate. The

automatic stay also stops Chapter 7 debtors from being pressured by collection agencies. However, anyone who doesn't want to abide by the automatic stay can file a motion with the bankruptcy court and ask for an exception.

automatic withdrawal A type of mutual fund that lets shareholders receive a fixed payment from dividends on a monthly or quarterly basis.

average A number arrived at by totaling a set of values and then dividing that sum by the number of values in the set. Averages, such as the Dow Jones Industrial Average (DJIA), are cited as a measure of the stock market's performance. To arrive at the DJIA, the prices of the 30 stocks in the DJIA are added and divided by an adjusted divisor whose value is printed daily in the *Wall Street Journal*.

average accounting return The average return that is calculated on an investment. It is calculated by taking the average projected earnings after taxes and depreciation and dividing them by the average book value of the investment during its projected lifetime.

average annual return While this term has many different uses, it generally means the annually compounded return that would have been produced for a mutual fund or other investment's cumulative total returns if the performance had been constant over the entire period. Average annual return is used to smooth out variations in a fund's return and is not the same as individual fiscal year results.

average cost

1. The average cost of shares of a stock or mutual fund that were bought at different prices over a period of time.
2. In a manufacturing context, the total amount of costs divided by the number of units produced.

average cost inventory method A method of pricing inventory at the average cost of goods that are available for sale

during the period. The average cost is computed by dividing the total cost of goods available for sale by the total units available for sale. The average unit cost is applied to the units in ending inventory.

average daily balance

1. A method that credit card companies use to calculate how much interest is owed by a customer.
2. A method used by a bank or savings and loan to calculate how much interest is payable to the customer in the case of a savings account or interest-bearing checking account.

average days payable A ratio calculated by dividing 365 days by the payables turnover ratio. *Payables turnover ratio* is calculated by adding cost of goods sold to any change in inventory and dividing that number by average accounts payable. Average days payable gives an idea of how much time passes before a company pays its accounts payables. If the time increases, then the company may be having difficulty paying its bills.

average days' inventory on hand The number of days in the year divided by *inventory turnover*, which is cost of goods sold divided by average inventory. The ratio shows how many times inventory turns over during a year, which indicates how vibrant sales are.

average down An investment strategy that reduces the average cost of shares purchased. When prices are falling, then the same amount of money buys more shares. See also *average up*.

average life The average number of years before the principal of a debt or mortgage remains outstanding. Businesses calculate average life; individuals typically do not. Also called *weighted-average life*.

average maturity The average time before bonds or other fixed-income investments mature. Often cited as a measure in mutual fund portfolios. The longer the

average rate of return (ARR)

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average maturity, the greater the risk of rising interest rates.

average rate of return (ARR) The ratio of the average cash flow received to the amount of funds invested.

average receivable collection period

The amount of receivables turnover (net sales divided by average receivables) divided by the average receivables to calculate how many times during the year that accounts receivable turns over. *Average receivables* are equal to the sum of beginning receivables and ending receivables, divided by two. The number alone doesn't provide much information. It must be compared to average receivable collection periods for other companies in the industry, as well as past collection periods, to find out if collection times are increasing or decreasing.

average tax rate The amount of taxes paid as a percentage of income. The average

tax rate is calculated by combining the different rates weighted to the payment amounts in order to arrive at an average tax rate. Corporations usually have an average tax rate of 35 percent to 40 percent. The rate declines if a company's profits fall and it often rises as profits increase.

average up An investment strategy used in a rising market that is designed to reduce the overall cost of purchasing securities. For example, purchasing equal amounts of shares at \$40, \$43, \$45, and \$49 means that the average share cost is \$44.25.

away from the market In a limit order, a situation in which an order to buy is lower than the current market price for the security or in which the offer price, or sell price, is higher than the current market price. The opposite is *in-line order*. Away-from-the-market orders typically are held for later execution, unless they are specified as fill-or-kill orders.