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A

after-hours trading: Trading done after the market closes at 4:00 Eastern Standard Time

all or none order (AON): A limited price order that can only be executed in its entirety or not at all

American Depository Receipts (ADRs): Shares of foreign companies listed on U.S. exchanges trading in U.S. dollars

American Option: An option that may be exercised at any time up to and including the expiration date

ask: The price at which a holder of a financial instrument is willing to sell

assignment: The receipt of an exercise notice by an options seller/writer that requires the writer to sell (in the case of a call) or purchase (in the case of a put) the underlying security at the specified strike price.

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At the money: An option is said to be at the money if its strike price is equal to the market price of the underlying (stock, or index). For example, if IBM stock is trading at 90, then the IBM 90 option is at the money.

B

balance sheet: A firm's financial statement that provides a picture of its assets, debts, and net worth at a specific time

bear market: When the general market or a particular stock falls for a prolonged period of time, usually by 20% or more.

bear spread: Applies to derivative products. Options trading strategy designed to take advantage of a fall in the price of a stock, index, or future where one buys a combination of calls and puts on the same underlying instrument at different strike prices in order to profit as the security's price falls.

beta: An indicator that measures a stock or fund's risk relative to the market. The market's beta is always 1.0. A beta higher than 1.0 indicates that when the market rises, the stock or fund will rise to a greater extent than the market; likewise, when the market falls, the stock or fund will fall to a greater extent. A beta lower than 1.0 indicates that the stock will usually change to a lesser extent than the market. The higher the beta, the greater the investment risk. A stock with a beta of 1.25 is expected to move 1.25 times the market excess returns. e.g., if market excess return is 10%, then we expect, on average, the stock return to be 12.5%.

bid price: The price one is willing to pay for a security

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Black-Scholes option-pricing model: A model for pricing call options based on arbitrage arguments. Uses the stock price, the exercise price, the risk-free interest rate, the time to expiration, and the expected standard deviation of the stock return. Developed by Fischer Black and Myron Scholes in 1973.

block: Large quantity of stock or large dollar amount of bonds held or traded. A block is generally defined as 10,000 shares or more of stock and \$200,000 or more worth of bonds.

bond: A debt security that pays a set amount of interest on a regular basis. Investors make loans to issuers such as corporations or the government in return for the interest. Issuers also promise to pay back the loan to the lender.

book value per share: The accounting value of a share of common stock, determined by dividing the company's net worth by the number of shares that are circulating.

breakout: A stock is said to break out when its price rises above a resistance level or drops below a support level. Technical analysts/traders take a breakout to signify a continuing move in the same direction and use breakouts as buy or sell indicators.

bull market: When the general market or a particular stock rises for a prolonged period of time, usually by 20% or more.

bull spread: A option trading strategy where an investor buys an out-of-the-money put option financing it by selling an out-of-the-money call option on the same underlying stock, index, or future.

buy-and-hold: A strategy in which the stock portion of one's portfolio is fully invested, including dividends reinvestments, at all times.

C

call option: A contract that gives its buyer the right to buy stock at a specified price within a certain time period

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capital gain/loss: An increase or decrease from the purchase price to the selling price of common stock or any other capital asset; profit or loss from the sale of investments or property (A capital gain that persists for one year or less is called a short-term capital gain. Likewise, one that persists for more than one year is called a long-term capital gain.)

cash flow per share: Earnings after taxes and depreciation, divided by the number of a firm's shares

closed-end fund: A type of mutual fund issuing a set number of shares. Share prices of closed-end funds are based on supply and demand.

closing tick: The net of the number of stocks whose closing prices are higher than their previous trades (uptick) against the number of stocks whose closing prices were lower than their previous trades (downtick). A positive closing tick indicates "buying at the close" (a bullish indicator); a negative closing tick indicates "selling at the close," (a bearish indicator).

commodity: A bulk good such as grain, metal, cotton, and coffee

credit spread: Applies to derivative products. Difference in the value of two options, when the value of the option bought is less than the value of the one sold. One buys a "credit spread."

cyclical stocks: Stocks whose success is closely linked to the rise and fall of the general economy (Automobile companies are cyclical stocks.)

D

day order: An order to buy or sell a stock at a specific price but expires at the end of the day if not fulfilled

Diamonds: An index fund tracking the 30 Dow stocks

diversification: The process of buying securities in different investment types, industry types, risk levels, and companies in order to reduce the loss from a possible company-local or industry-local loss of business

dividend yield: The yield found by dividing the annual dividends per share by the price per share (an indication of the income from a share of stock).

dividend: A portion of a company's profit that is paid to stockholders.

Dogs of the Dow: An investment strategy where investors buy the 10 Dow stocks with the highest dividend yields and hold onto them for a year

dollar-cost averaging (DCA): A system of buying securities at regular intervals, using a fixed amount of cash over a considerable period of time regardless of the prevailing prices of the securities (DCA protects against the risk of losing a sum of money invested all at once at an inopportune time, e.g., right before a price drop.)

Dow Jones industrial Average (DJIA): An indicator showing generally how well the market is doing, found by averaging the prices of 30 industrial blue-chip stocks trading on the New York Stock Exchange

E

earnings per share: Earnings found by dividing the net income of the company by the number of shares of common outstanding stock

ex-dividend date: The first day of trading when the seller, rather than the buyer, of a stock will be entitled to the most recently announced dividend payment. The date set by the NYSE (and generally followed on other U.S. exchanges) is currently two business days before the record date. A stock that has gone ex-dividend is denoted by an x in newspaper listings on that date.

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F

52-week high/ 52-week low: The highest/lowest price for a stock during the past year

fundamental analysis: An analysis of stocks based on fundamental factors, such as company earnings, growth potential, etc., to determine a company's worth, strength, and potential for growth

futures contract: Agreement to buy or sell a set number of shares of a specific future in a designated future month at a price agreed upon today by the buyer and seller. A futures contract differs from an option because an option is the right to buy or sell, while a futures contract is the promise to actually make a transaction. A future is part of a class of securities called derivatives that derive their value from the worth of an underlying investment.

G

good-til-canceled order (GTC): An order to buy or sell a stock at a specified price that does not expire unless it is filled or the investor cancels it.

growth stock: A stock that generally grows faster than the S&P 500 and will likely produce consistent profits

H

head & shoulders: A technical pattern that results where a stock price reaches a peak and declines; rises above its former peak and again declines; and rises a third time but not to the second peak, and then again declines. The first and third peaks are shoulders, while the second peak is the formation's head. Technical analysts generally consider a head and shoulders formation to be a very bearish indicator.

I

in-the-money: A put option is in-the money if its strike price is higher than the underlying stock, option, or future, a call option is in-the-money if its strike price is lower than the underlying stock, option, or futures contract. For example, if the IBM is trading at 99, the IBM January 90 2002 call is 9 points in-the-money.

income stock: A stock that generally grows more slowly than the S&P 500, pays a dividend, and will produce long-term profits.

index: A quantity whose variation represents market fluctuation (The Standard & Poor's 500 index measures the overall change in the value of 500 stocks of the largest firms in the US.)

initial public offering (IPO): The first time a company sells stock to the public. An IPO is a type of a primary offering, which occurs whenever a company sells new stock, and differs from a secondary offering, which is the public sale of previously issued securities, usually held by insiders.

J

junk bond: A weak bond, rated BB or lower, that has a high default risk, and thus carries a high interest rate

L

large cap stock: Large Cap stocks are companies that have a market capitalization of over 5 billion dollars.

limit order: An order to buy or sell a stock, option, or other financial instrument at a specific limit price or better.

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long straddle: Buying both a put and a call on the same underlying issue.

Long-Term Anticipation Securities (LEAPS): Long-term options.

M

margin: Borrowing money from a broker to buy securities. The margin is the amount of money an investor deposits in order to borrow money from the broker. The margin must be at least 50% of the total cost of the purchase.

margin call: A demand for additional funds because margin account equity falls below a required percentage due to adverse price movement.

market capitalization: The value found by multiplying the number of outstanding common stock shares by the share price; indicates firm size and total value held in stock

market maker: One who maintains a market (firm bid and offer prices) in a particular stock by standing ready to buy or sell round lots at publicly quoted prices.

market-on-close (MOC) order: An order to trade stocks, options, or futures as close as possible to the market close.

market order: An order to purchase or sell stock at a current price

mid cap stock: A stock or company that has a market capitalization between one and five billion dollars.

momentum: The amount of acceleration of an economic, price, or volume movement. Momentum traders often purchase stocks that have recently risen in price.

money market fund: A type of mutual fund that invests in short-term securities such as Certificates of Deposits and Treasury Bills

moving average: An average calculated every new period by putting in latest value and taking out oldest value of previous period

mutual fund: An investment vehicle pooling money from many individual investors to purchase stocks or other types of investments. A professional fund manager handles the money and investments. Mutual funds tend to invest in hundreds of companies and, thus, provide high diversification.

N

net asset value (NAV): The price per share for a mutual fund. The NAV, calculated at the end of each business day, is found by dividing the fund's assets by the number of shares outstanding

New York Stock Exchange (NYSE): The largest stock exchange in the U.S. located in New York City (Also known as "Wall Street," this stock exchange carries stocks of well-established companies on its trading floor.)

O

odd lot: A lot that is less than 100 shares, or less than a round lot

open-ended fund: A mutual fund issuing as many shares to fit investor demand. Most mutual funds are open ended and trade like stocks after the shares are issued.

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options analytics: eSignal supports the following analytics for stock options. You can add any of the following column headings to an eSignal Options window:

- 1 **delta** – the amount by which the price of an option changes for every dollar move in the underlying instrument. Also called the hedge ratio. Applies to derivative products. Measure of the relationship between an option price and the underlying futures contract or stock price. A call option with a delta of .50 will rise a half-point in premium for every dollar that the stock goes up. As options near expiration, in-the-money call options approach a delta of 1.0, while in-the-money put options approach a delta of –1.
- 1 **gamma** – the degree by which the delta changes with respect to changes in the underlying instrument's price
- 1 **implied volatility** – calculated by using an option pricing model (Black-Scholes for stocks and indices and Black for futures) and is the amount of price change that can be expected over a given period of time, expressed as a percentage. A stock's volatility percentage is derived using an option price model such as Black-Scholes and takes into account variables such as: option price, maturity date, exercise price, and riskless rate of return.
- 1 **intrinsic value** - the amount by which an option is "in the money."
- 1 **premium** – the cost of an option
- 1 **rho** -a measure of change in an option's theoretical value due to a change in interest rates
- 1 **theoretical value** – an option value generated by a mathematical option pricing model to determine the true value of an option
- 1 **theta** – the measurement of an option's time decay. The ratio of change in an option's price to the decrease in time to expiration.

- 1 **vega** – the amount by which the price of an option changes as its volatility changes

option: Gives the buyer the right, but not the obligation, to buy or sell an asset at a set price on or before a given date. Call option buyers bet that the stock price will be higher than the option's strike price, plus the price they pay for the option itself. Put option buyers bet that the stock's price will drop below the price set by the option, minus the price they pay for the put option itself.

Options strategies and terminology:

- 1 **covered call** A short call option position where the writer (seller) owns the number of shares of the underlying stock represented by the option contracts. Covered calls limit the risk of the writer because the stock does not have to be bought at the market price, if the buyer of the call option decides to exercise the call.
- 1 **covered put** A short put option position where the option writer is also short the underlying stock or has deposited cash or cash equivalents that cover the exercise of the option. This strategy limits the option writer's risk because money or stock is already set aside. In the event that the holder of the put option decides to exercise the option, the writer's risk is more limited than it would be on an uncovered or naked put option.
- 1 **debit spread** Applies to derivative products. Difference in the value of two options, when the value of the option bought exceeds the value of the one sold. One buys a "debit spread."

outstanding shares: The total number of a company's publicly traded shares

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P

penny stock: A stock trading under \$5. Penny stocks tend to be very speculative and volatile, most ending up worthless in the long run.

premium: (1) The difference between the price an investor paid for a stock and the price at which the stock was sold. Also, a group of securities that are selling at a higher price than others are considered to be selling at a premium. (2) A bond sold above its par value. (3) the price of an option contract; also, in futures trading, the amount by which the futures price exceeds the price of the spot commodity.

premium income: The income received by an investor who sells an option contract(s).

preferred stock: Stock whose holders have precedence over common stock in claiming dividends and assets.

price-to-earnings ratio (P/E): The ratio found by dividing market price per share by earnings per share (This ratio indicates what investors think of the firm's earnings' growth and risk prospects.)

price-to-book ratio: The ratio found by dividing a stock's market price per share by its book value (defined as being assets minus all liabilities) per share (This ratio measures the stock's value relative to its net assets. A high ratio, for instance, might suggest that a stock is overvalued.)

price-to-cash-flow ratio: The ratio found by dividing a stock's price per share by its cash flow per share (This ratio, similar in type to the price-earnings ratio, serves as a measure of investors' expectations on a firm's future financial success.)

put option: The right given a buyer to sell stock at a specified price within a specified period of time

Q

quick ratio: Indicator of a company's financial strength (or weakness). Calculated by taking current assets less inventories, divided by current liabilities. This ratio provides information regarding the firm's liquidity and ability to meet its obligations. Also called the Acid Test Ratio.

R

Real Estate Investment Trust (REIT): A publicly traded association which pools investors' money to purchase a variety of real estate-related investments such as office buildings, shopping centers, medical facilities, and hotels.

real rate of return: The percentage of return on an investment over one year after adjustments for inflation or deflation

regional stock exchanges: Organized national securities exchanges located outside of New York City and registered with the SEC. They include: the Boston, Cincinnati, Intermountain (Salt Lake City-dormant, owned by COMEX), Midwest (Chicago), Pacific (Los Angeles and San Francisco), Philadelphia (Philadelphia and Miami), and Spokane (local mining and Canadian issues, non-reporting trades) Stock Exchanges.

return on equity (ROE): The value found by dividing the company's net income by its net assets (ROE measures the amount a company earns on investments).

Roth IRA: An IRA allowing workers to withdraw all earnings completely tax-free after the age of 59½

S

S&P 500 Composite Index: Index of 500 widely held common stocks that measures the general market performance

sector fund: A mutual fund investing in a particular industry such as technology, natural resources, and real estate.

short interest: Total number of shares of a stock that investors have sold short and that have not been repurchased to close out the short position. The short interest is often an indicator of the amount of pessimism in the market about a particular security, although there are other reasons to short that are not related to pessimism.

short selling: A trading strategy where an investor anticipates a drop in share price and borrows a certain number of shares from a broker. The investor then sells the stock and buys it back if the share price drops, pocketing the difference from the borrowed price.

small cap issue: A company that has a market capitalization between 1 and 5 Billion dollars.

Spiders: An index fund tracking the S&P 500 **SPDRs** (Spiders) are designed to track the value of the Standard & Poors 500 Composite Price Index. They trade on the AMEX under the symbol SPY. SPDRs are similar to closed-end funds but are formally known as a unit investment trust. One SPDR unit is valued at approximately one-tenth (1/10) of the value of the S&P 500. Dividends are disbursed quarterly, and are based on the accumulated stock dividends held in trust, less any expenses of the trust.

spread: The difference between the bid (purchase) and ask (sell) prices

spread option position A position consisting of the purchase of one option and the sale of another option on the same underlying security with a different exercise price and/or expiration date.

Standard & Poor's 500 Index (S&P 500): A well-known, value-rated index of 500 major US companies: 400 industrial firms, 20 transportation firms, 40 utilities firms, and 40 financial firms. eSignal symbol is \$SPX.

stock: An investment that represents partial ownership of a company. After buying a stock, investors will receive a stock certificate and take part in the gains and losses of the corporation.

stock option: An agreement giving an investor the right to buy or sell a certain stock at a preset price within a specific time period

stock split: The splitting or dividing of shares to reduce the price needed for the formation of a round lot (To illustrate, in a 2-for-1 split, when 1 shares splits into 2, an investor would receive one additional share for each he formerly owned.)

stop-limit order: An order placed to buy or sell at a certain price or better during a limited period of time

stop-loss order An order to sell a stock when its price falls to a specified level.

stop order: An order placed to buy or sell a designated stock once a designated price has been reached (This order limits the amount an investor can lose on that investment.)

straddle: Purchase/sale of an equal number of puts and calls with the same terms at the same time.

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strike price: The stated price per share for which the underlying may be purchased (in the case of a call) or sold (in the case of a put) by the option holder upon exercise of the option contract.

T

technical analysis: Analysis that seeks to detect and interpret patterns in past security prices.

tick indicator: A market index based on the number of stocks whose last trade was an uptick or a downtick. Used as an indicator of market sentiment or psychology to try to predict the market's trend.

time value of an option: The portion of an option's premium that is based on the amount of time remaining until the expiration date of the option contract, and the idea that the underlying components that determine the value of the option may change during that time. Time value is generally equal to the difference between the premium and the intrinsic value.

tracking stock: A stock that is issued to track a certain division of a company. This allows managers and executives for each division to have rewards and compensation tied to the overall performance of the part of the company they control.

trading range: The difference between the high and low prices traded during a period of time; for commodities, the high/low price limit an exchange establishes for a specific commodity for any one day's trading.

treasury bills: Debt obligations of the U.S. Treasury that have having maturities of one year or less. Maturities for T-bills are usually 91 days, 182 days, or 52 weeks.

treasury bonds: Debt obligations of the U.S. Treasury having maturities of 10 years or more.

Trin: Used in the context of general equities. Short-term trading index that shows a minute-by-minute correlation of the ratio of advances to declines to the ratio of advancing volume to declining volume. Depicts whether changes in the relationship of advances and declines are taking place more quickly or more slowly than changes in the general volume movement of the market, <1 indicates a bull market, 1 = neutral; and > 1 bear market.

U

uncovered call: A short (naked) call option position where the writer (seller) of the call(s) does not own shares of the underlying stock represented by the option contracts. Uncovered calls are much riskier for the writer than a covered call where the writer of the uncovered call owns the underlying stock. If the person long the call exercises the option to call the stock, the writer is forced to buy the stock at the current market price in order to deliver it to the person long the call(s).

uncovered put: A short (naked) put option position where the seller (writer) has not established a short stock position or has not deposited, in a cash account, cash or cash equivalents equal to the exercise value of the put. The writer is obligated to buy the asset at a certain price if the buyer of the put option decides to exercise it. Uncovered put options limit the writer's risk to the value of the stock (adjusted for premium received.)

undervalued: A stock price perceived to be too low or cheap, as indicated by a particular valuation model. For instance, some might consider a particular company's stock price cheap if the company's price-earnings ratio is much lower than the industry average.

V

volatility: A measure of risk based on the standard deviation of the asset return. Volatility is a variable that appears in option pricing formulas, where it denotes the volatility of the underly-

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ing asset return from now to the expiration of the option. There are volatility indexes. Such as a scale of 1-9; a higher rating means higher risk.

W

when issued (W.I.): Refers to a transaction made conditionally, because a security, although authorized, has not yet been issued. Treasury securities, new issues of stocks and bonds, stocks that have split, and in-merger situations after the time the proxy has become effective but before completion are all traded on a when-issued basis.

whisper number or forecast: An unofficial earnings estimate of a company given to clients by a security analyst if there is more optimism or pessimism about earnings than shown in the published number. These are often found on the Internet.

writing puts to acquire stock: Selling put options at an exercise price that would represent a good investment by an option writer who believes a stock's value will fall, so that the writer cannot lose. If the stock price unexpectedly goes up, the option will not be exercised and the writer is at least ahead the amount of the premium received. If the stock loses value, as expected, the option will be exercised, and the writer has the stock at what he had earlier decided was originally a good buy, and he has the premium income in addition.

Y

Yield: The percentage rate of return paid on a stock in the form of dividends, or the effective rate of interest paid on a bond or note.

Yield curve: The graphic depiction of the relationship between the yield on bonds of the same credit quality but different maturities. Related: Term structure of interest rates. Harvey (1991) finds that the inversions of the yield curve (short-term rates greater than long term rates) have

preceded the last five U.S. recessions. The yield curve can accurately forecast the turning points of the business cycle.

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Z

Zero-coupon bond: A bond in which no periodic coupon is paid over the life of the contract. Instead, both the principal and the interest are paid at the maturity date.