

DEFINITIONS

1. General

- *Money* (cash, currency) is a generally accepted medium of exchange officially issued by a government. Typically include coins and paper banknotes (or bills). Money is also used as a measure of value.
- An *asset* is something that has monetary value.
 - *Tangible* or *physical assets* are represented by physical goods, such as real estate, precious metals, collectibles, and so on.
 - A *financial asset* is represented by a claim on an asset that arises from a contractual relationship. Examples include bank deposits, bonds and shares of stock.
- A *corporation* is an entity separate from its owners that has legal existence whereby it may trade, enter into a contract, and even commit offense.
- *Fungibility* indicates the interchangeability of an asset with an asset of the same type.
- A *commodity* is a fungible physical substance.
- A *financial instrument* is a document that has monetary value or stands for a contract specifying a transfer of assets.
- A *security* is a financial instrument (excluding insurance policies) specifying a debt, or a right or interest in another asset.
- New securities are issued on *primary markets*.
- Previously issued securities are traded on *secondary markets*.
- *Ask* is the price at which someone is willing to sell a security.
- *Bid* is the price someone is willing to pay for a security.
- *Spread* is the difference between the ask and bid prices.
- An *investment* is an asset acquired with the purpose of producing income for its holder.
- *Speculation* refers to taking on the risk of financial loss in exchange for the prospect of elevated profits.
- *Arbitrage* refers to a costless transaction resulting in a risk-free future profit.
- *Cash flow* denotes the amount of money generated by an investment during a specific period.
- *Indenture* is a deed or legal contract between two or more parties.
- *Short selling* or *shorting* involves borrowing an asset and selling it with the understanding of buying it back in the future.

- *Hedge* indicates a transaction aimed to reduce the risk on an existing investment.
- *Covering a short* indicates purchasing an asset that has been previously shorted.

2. Bonds etc.

- A *promissory note* denotes an unconditional promise in writing by a party to remit a sum of money to another party under specified terms.
- A *debenture* is an unsecured debt backed by indenture.
- A *bond* is a contract by the *issuer* secured by underlying assets to repay borrowed money plus interest by the *maturity* date.
- *Interest* is a fee charged by the lender to the borrower for the use of the moneys received.
- *Accrued interest* is the interest earned on an investment but not yet paid.
- A *callable bond* allows the issuer to redeem the bond before the bond's maturity at *call price* which is specified at the bond's issuance.
- The *face* or *par value* is the sum of money a bond holder will be paid by issuer at the bond's *maturity*.
- A *coupon* is a fixed, periodic payment the holder of a bond receives.
- A *zero-coupon* bond only pays the face value of the bond at maturity.
- A bond's *duration* is the sum $\sum_{i=1}^n w_i t_i$ over all future payments, where $w_i = c_i \exp(-rt_i)/B$ is ratio of the discounted present value of a payment c_i remitted at time t_i to the bond's present value $B = \sum_{i=1}^n w_i$. It is used to measure the sensitivity of the bond's price to interest rates.
- *Yield curve* is a plot of interest rates as a function of time.
- *Yield-to-maturity* denotes the rate of return an investor buying a bond at the current market price earns when all its the future payments are taken into account. YTM is often quoted at a semi-annual rate.
- *Current yield* is the interest rate a buyer of a bond earns when paying the current market value of the bond.
- *Treasury bill* is a debt obligation issued by a national government with maturity of one year or less.
- *Treasury note* is debt obligation issued by a national government with maturity of one to ten years.
- *Treasury bond* is a debt obligation issued by a national government with maturity of over ten years.

3. Stocks, Derivatives, etc.

- A *stock* represents a fractional ownership in a corporation.
- A *share* represents a fractional ownership in a corporation.
- *Dividend* is a proportional payment remitted to the shareholders of a corporation.
- A *derivative* is a financial instrument specifying a future payoff which depends on the value of an underlying asset or some condition.
- An *exchange* is an organization providing an structured marketplace for financial instruments.
- An *over-the-counter* or *OTC* is a security that is not traded on an established exchange.
- To *exercise* is to make use of a right specified in a contract.
- *Expiration* or *expiry* is the last date on which a contract is in effect or an option can be exercised.
- An *option* is a financial derivative specifying a contract between two parties that grants the right to the buyer or the holder without the obligation either to purchase or sell an asset at a specified price.
- The *strike* or *exercise price* is the price at which an option can be exercised.
- An *option writer* has the obligation to fulfill the contract upon exercise.
- *Option chain* provides quotes for all options with different strike prices and expiries that are traded for a particular security.
- *Premium* denotes the amount an option buyer pays to the writer for an option.
- A *call option* is an option to buy an asset.
- A *put option* is an option to sell an asset.
- A *European option* can be exercised only at expiry.
- An *American option* can be exercised any time until expiry.
- A *plain vanilla option* is a standard call or put option.
- An *exotic option* is an option with non-standard features and are typically traded OTC.
- *LEAPS* (Long term equity anticipation security) is an American call or put option expiring in at least a year in the future.
- *Perpetual options* never expire and can be exercised at any time.
- A *warrant* gives the holder the right to purchase securities from the issuer at a specified price and within a specified time-frame. Unlike call options, warrants are issued by corporations.
- A *repurchase agreement* or a *repo* is a sale of securities with an agreement for the

seller to buy back the securities at a later date.

- *Spot price* is the price at which an asset can be purchased for immediate payment and delivery.
- A *forward contract* is a contract between two parties to buy or sell an asset at a certain price called the *forward* or *strike price* at a specified date.
- A *futures contract* is a standardized contract between two parties to buy or sell an asset at a certain price at a specified date. These are traded on futures exchanges.
- A *forex future* or an *FX* is a futures contract on some currency.
- A commodity is said to be in *backwardation* if futures contracts' strike prices decrease with the length of contracts.
- A commodity is said to be in *contango* if futures contracts' strike prices increase with the length of contracts.
- A *swap* is a contract to exchange an asset, an investment, a debt, or cash flow.

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