CFA Institute®

Investment Foundations Glossary

The A to Z of finance and investments. Expand your business vocabulary and master the key concepts of the financial industry.

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H I J K L M N
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U V W X Y Z

A

Absolute advantage	When a country is more efficient in producing a good or a service than other countries — that is, it needs less resources to produce the good or service.
Absolute returns	The returns achieved over a certain time period. Absolute returns do not consider the risk of the investment or the returns achieved by similar investments.
Accounting profit	Difference between the revenue generated from selling products and services and the explicit costs of producing them.
Accounts payable	Money owed by a company to suppliers that have extended the company credit.
Accounts receivable	Money owed to a company by customers who purchase on credit.
Accrual accounting	A method of financial accounting where revenue or expenses are recorded when a transaction occurs versus when payment is received or made.
Accrued liabilities	Liabilities related to expenses that have been incurred but not yet paid as of the end of an accounting period.
Active investment managers	Managers who try to predict which securities and assets will outperform or underperform comparable securities and assets and who act on their opinions by buying the securities and assets that they expect to outperform and selling (or simply not buying) the securities and assets that they expect to underperform.
Adverse selection	Tendency of people who are most at risk to buy insurance, causing insured losses to be greater than average losses.
Alpha	Outperformance relative to a relevant market benchmark.
Alternative investments	A diverse asset class that typically includes private equity, real estate, and commodities. It provides an alternative to traditional investments, such as debt and equity securities.
Amortisation	The process of expensing the costs of intangible assets over their useful lives.
Animal welfare	How an animal copes with the conditions in which it lives.
Annual percentage rate (APR)	The cost of borrowing expressed as a yearly rate without compounding.
Annuity	The exchange of an initial amount for a fixed number of future payments of a certain amount.
Appraisal	Assessment or estimation of the value of an asset, such as real estate, that is subject to certain assumptions, which may not always be realistic.
Appreciation	A situation in which a currency is getting stronger relative to other currencies.
Arithmetic mean	The sum of the items in a data set divided by the number of items.
Ask price	Price at which a dealer is willing to sell an asset or a security, typically qualified by a maximum quantity (ask size). Also called *offer price*.

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A

Asset allocation	The process to determine the proportion of a portfolio to hold in various asset classes or the proportion of a portfolio held in various asset classes.
Asset class	A broad grouping of similar types of investments, such as shares, bonds, real estate, and commodities.
Asset-backed securities	Financial securities created by securitisation whose associated payments and value are backed by a pool of underlying assets, such as car loans, credit card receivables, bank loans, or airplane leases.
Assets under management (AUM)	The market value of an investment portfolio that is managed by an investment manager.
Assets	Items that have value and include real assets and financial assets.
Automated market maker (AMM)	A program that allows for trading in decentralised exchanges and prices assets using algorithms.

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B

Back office	Administrative and support functions necessary to run the firm, including accounting, human resources, payroll, and operations.
Back-end sales loads	Fees associated with open-end mutual funds that are paid at the time of the sale of mutual fund interests.
Balance of payments	Record that tracks transactions between residents of one country and residents of the rest of the world over a period of time, usually a year.
Balance sheet	A statement of the company's financial position at a specified point in time; essentially, it shows the company's assets, liabilities or debt, and owner-supplied capital or equity.
Banks	Financial institutions that collect deposits from savers and transform them into loans to borrowers.
Barriers to entry	Obstacles, such as licences, brand loyalty, or control of natural resources, that prevent competitors from entering the market.
Basic earning power	A measure that compares the profit generated from operations with the assets used to generate that income.
Basis point	A measure equal to 0.01% or 0.0001.
Benchmark	A comparison portfolio (e.g., the S&P 500 Index).
Best efforts offering	Type of public offering in which the investment bank acts only as a broker and does not take the risk of having to buy securities.
Best-in-class investment	Investment approach of selecting only the companies that overcome a defined ranking hurdle, established using ESG criteria within each sector or industry.
Beta	A generic term for market risk, systematic risk, or non-diversifiable risk.
Bias	A set of assumptions and stereotypes that people have about those different from themselves. Biases may be conscious or unconscious — that is, intentional or unintentional.
Bid exchange rate	The exchange rate at which a bank or currency dealer will buy foreign currency.
Bid price	Price at which a dealer is willing to buy an asset or a security, typically qualified by a maximum quantity (bid size).
Block brokers	Brokers who help investors who want to trade large blocks of securities.
Blockchain	A system of record-keeping that is maintained by independent computers in a peer-to-peer (decentralised) network.
Board of directors	A group of people whose job is to monitor the company's business activities on behalf of its shareholders.

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B

Bond	A formal contract that represents a loan from an investor (bondholder) to an issuer. The contract describes the key terms of the debt obligation, such as the interest rate and the maturity.
Book values	Balance sheet values of a company's assets, liabilities, and equity.
Bought deal	An underwriting arrangement whereby the underwriter buys the securities issue from the issuer and then sells the securities to investors. Also known as a *firm commitment agreement*.
Breakeven point	The number of units produced and sold at which the company's profit is zero — that is, revenues exactly cover total costs. If the company sells less units than the breakeven point, it will suffer a loss. In contrast, if it sells more units than the breakeven point, it will make a profit.
Brokerage services	Trading services provided to clients who want to buy and sell securities; they include not only execution services (that is, processinecurers on behalf of clients) but also investment advice and research.
Brokered markets	Markets in which brokers arrange trades among their clients, particularly for such assets as large blocks of securities or real estate that are unique and thus of interest as potential investments to only a limited number of investors.
Brokers	Trading services providers who act as agents and, in exchange for a commission, arrange trades by finding sellers for their clients who want to buy and buyers for their clients who want to sell.
Business cycles	Economy-wide fluctuations in economic activity.
Buy-side analysts	Analysts who work for organisations, typically a type of institutional investor, that buy securities. They analyse data about companies and the markets in which they operate and review potential investments.
Buy-side firms	Institutional investors and investment managers who purchase investment products and services from sell-side firms.
Buying on margin	When an investor uses a margin loan to purchase securities, this action is referred to as 'buying on margin'. See *margin loan*.
Buyouts	Private equity investment strategy that consists of financing established companies that require capital to restructure and facilitating a change of ownership.

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C

Call market	Market in which trades can be arranged only when the market is called, which is usually once a day.
Call option	The right (but not the obligation) to buy an underlying at the exercise price until the option expires.
Call risk	The risk that the issuer will buy back the bond issue prior to maturity through the exercise of a call provision.
Callable bond	A bond that provides the issuer with the right to buy back (call) the bond from bondholders prior to the maturity date at a pre-specified price.
Capital account	A component of the balance of payments that reports capital transfers between domestic entities and foreign entities, such as debt forgiveness or the transfer of assets by migrants entering or leaving the country. Also called *financial account*.
Capitalisation-weighted indices	Indices for which the weight assigned to each security depends on the security's market capitalisation—that is, the market price of the security multiplied by the number of units outstanding of the security. Also called *cap-weighted, market-weighted*, or *value-weighted indices*.
Capitalised	Classifying a cost as generating long-term economic benefits and reporting it as an asset rather than charging it as an expense to current operations.
Capitalism	An economic system that promotes private ownership as the means of production and markets as the means of allocating scarce resources.
Carried interest	A form of incentive fee that general partners deduct before distributing the profit made on investments to the limited partners. It is designed to ensure that general partners' interests are aligned with the limited partners' interests.
Cash flow rights	The rights of shareholders to distributions, such as dividends, made by the company.
Churning	Excessive trading to increase commissions.
Circular economy	An economic model based inter alia on sharing, leasing, reuse, repair, refurbishment and recycling, in an (almost) closed loop, which aims to retain the highest utility and value of products, components and materials at all times.
Clearing houses	Trading services providers that arrange for final settlement of trades.
Clearing	All activities that occur from the arrangement of the trade to its settlement.
Closed-end funds	Pooled investment vehicles that have a fixed number of shares and thus do not issue or redeem shares on demand. Investors who want to buy or sell closed-end funds must trade with investors willing to sell or buy these funds.
Coincident indicators	Measures of economic activity that are intended to measure the current state of the economy rather than the past or to predict the future. Coincident indicators have a tendency to change at the same time as the economy measured as a whole.

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C

Collateral	Specific assets (generally a tangible asset) that a borrower pledges to a lender to secure a loan.
Commingled account	Pooling together the capital of two or more investors, which is then jointly managed.
Commodities	Physical products, such as precious and base metals (e.g., gold, copper), energy products (e.g., oil), and agricultural products that are typically consumed (e.g., corn, cattle, wheat) or used in the manufacture of goods (e.g., lumber, cotton, sugar).
Common stock	Also known as common shares, ordinary shares, or voting shares, it is the main type of equity security issued by a company. It represents an ownership stake in the company.
Comparative advantage	A country's ability to produce a good or service relatively more efficiently (that is, at a lower relative cost) than other countries.
Complementary products	Products that are frequently consumed together, such as printers and ink cartridges. Also called complements.
Compliance risk	The risk that an organisation fails to comply with all applicable rules, laws, and regulations and faces sanctions and damage of its reputation as a result of non-compliance.
Compound interest	Interest that is calculated on principal and interest; it assumes reinvestment of interest received. Compound interest is often referred to as interest on interest.
Confirmation	Clearing activity that takes place before settlement in which the buyer and seller must confirm that they traded and the exact terms of their trade.
Conflict of interest	When either the employee's personal interests or the employer's interests conflict with the interests of the client. Conflicts of interest can also arise when employee's and employer's interests conflict.
Consumer price index (CPI)	Constructed by determining the weight (or relative importance) of each product and service in a typical household's spending in a particular base year and then measuring the overall price of that basket of goods from year to year.
Continuous trading market	Market in which trades can be arranged and executed any time the market is open.
Controversial sourcing	Ethically debatable cost-driven practices of companies in their value chain.
Convertible bond	A bond that offers the bondholder the right to convert the bond into a pre-specified number of shares of common stock of the issuing company.
Correlation	A measure of the strength of a relationship between two variables; essentially, two variables are correlated when a change in one variable is always accompanied by a change in another variable. Variables can be positively or negatively correlated.
Correlation coefficient	A number between –1 and +1 that measures the consistency or tendency for two variables to move in tandem with each other.

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C

Corruption	The abuse of power for private gain.
Counterparty risk	Risk that one of the parties to a contract will fail to honour the terms of the contract.
Coupon rate	The interest rate for a bond. The bond's coupon rate multiplied by its par value equals the annual interest owed to the bondholders.
Covenants	Actions that the issuer must perform (positive covenants) or is prohibited from performing (negative covenants).
Credit default swap (CDS or CDX)	A contract that protects the buyer against a loss of value in a debt security (CDS) or index of debt securities (CDX). The contract will specify under what conditions the other party has to make payment to the buyer of the CDS or CDX.
Credit rating agencies	Investment research service providers that specialise in providing opinions about the credit quality of bonds and of their issuers.
Credit rating	Assessment of the credit quality of a bond based on the creditworthiness of the issuer.
Credit risk	For a lender, the risk of loss caused by a borrower's failure to honour the contract and make a promised payment in a timely manner.
Credit spread	The difference between a risky bond's yield and the yield on a government bond with the same maturity.
Cross-price elasticity of demand	The percentage change in quantity demanded of a product or service in response to a percentage change in the price of another product.
Crossing network	Type of alternative trading venue in which an electronic trading system matches buyers and sellers who are willing to trade at prices obtained from exchanges or other alternative trading venues. Popular with investors who are concerned about moving the price of the securities by submitting an order to an exchange.
Crypto wallet	A digital account that enables the user to access cryptocurrency and transact on a blockchain.
Cryptocurrency	A digital currency composed of encrypted data that acts as a medium of exchange.
Currency risk	The risk associated with the fluctuation of exchange rates. Also called *foreign exchange risk*.
Currency swap	The exchange of debt service obligations denominated in different currencies.
Current account balance	The sum of the goods and services, income, and current transfers accounts.
Current account deficit	A negative current account balance.
Current account surplus	A positive current account balance.

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C

Current account	A component of the balance of payments that indicates how much a country consumes and invests (outflows) with how much it receives (inflows). It includes three components, the goods and services account, the income account, and the current transfers account.
Current assets	Short-term assets that are expected to be converted into cash, used up, or sold within the current operating period (usually one year), such as cash, inventories, and accounts receivable.
Current liabilities	Short-term liabilities that must be repaid within the next year.
Current ratio	A liquidity ratio calculated as current assets divided by current liabilities.
Current yield	The annual coupon payment divided by the current market price.
Custodians	Typically, banks and brokerage firms that hold money and securities for safekeeping on behalf of their clients.

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D

Dark pools	Type of alternative trading venue that does not display orders from clients to other market participants.
Data vendors	Investment research service providers of historical and real-time data about companies and market conditions.
Day orders	Order execution instructions specifying that the order can only be executed on the day submitted, with the order cancelled at the end of that day if it is not filled.
Dealer markets	See *quote-driven markets*.
Dealers	Trading services providers who participate in their clients' trades and stand ready to buy or sell when their clients want to sell or buy, providing liquidity and profiting when they can buy securities for less than they sell them. Also called *market makers*.
Debt-to-equity ratio	A measure of financial leverage that indicates the extent to which debt is used in the financing of the company.
Default	A situation in which the bond issuer fails to make the promised payments.
Defined benefit pension plans	Pension plans that promise a certain amount to their beneficiaries during their retirement.
Defined contribution pension plans	Pension plans in which participants contribute to their own retirement plan accounts, usually through employee payroll deductions. In some cases, the pension sponsor also contributes an agreed-on amount to the participants' accounts.
Deflation	A persistent and pronounced decrease in prices across most products and services in an economy.
Demand	The quantity of a product or service buyers are willing and able to buy at a given price.
Demand Curve	The curve that shows the quantity of a product or service demanded at different prices.
Deposit-taking institutions	Financial institutions that take deposits, such as banks; also called *depository institutions*.
Depositary receipt	A security issued by a financial institution that represents an economic interest in a foreign company. The financial institution holds the foreign company's shares in custody and issues depositary receipts against the shares held. These depositary receipts trade like common stock on the local stock exchange.
Depositories	Typically, banks and brokerage firms that are regulated and act not only as custodians but also as monitors, playing an important role in preventing investment fraud.
Depreciation	The process of allocating the cost of an asset over the asset's estimated useful life; a situation in which a currency is getting weaker relative to other currencies.
Depreciation expense	The amount of depreciation allocated each year and reported on the income statement as an expense.

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D

Derivatives	Contracts (agreements to do something in the future) that derive their value from the performance of an underlying asset, event, or outcome.
Devaluation	The decision made by a country's central bank to decrease the value of the domestic currency relative to other currencies.
Direct discrimination	When an individual is discriminated against because of a personal characteristic they possess or are perceived to possess.
Direct finance	When providers and users of capital interact, the providers usually have a direct claim on the users (e.g., right to certain assets and earnings generated by the user). See also direct investments.
Direct investments	Purchase of securities issued by companies, governments, and individuals and of real assets, such as real estate, art, or timber.
Direct listing	Some regulators and markets allow an issuer to use a direct listing, which permits raising capital outside of the traditional IPO process. In a direct listing, the issuer does not need to use the services of an underwriter. The shares that are involved in the IPO are shares owned by existing investors, founders, or employees. Although a direct listing does not provide a cash flow to the company, it does provide liquidity for the issuer's existing shareholders.
Discount rate	The rate used to calculate the present value of some future amount.
Distressed	Private equity investment strategy that focuses on purchasing the debt of troubled companies that may have defaulted or are on the brink of defaulting.
Distributed ledger	A database that is shared among many parties and is not controlled by a single entity, but rather involves many independent computers recording and confirming the transactions.
Distribution	The set of values that a variable can take, showing their observed or theoretical frequency of occurrence.
Diversification	The practice of combining assets and types of assets with different characteristics in a portfolio for the purpose of reducing risk.
Diversity	Refers to the full spectrum of human attributes, perspectives, identities, and backgrounds.
Dividend per share	The amount of cash dividends the company pays for each share outstanding.
Dividend yield	A preferred or common stock's dividend yield is the expected annual dividend to be paid over the next year, divided by the price.
Downside deviation	A measure of return dispersion similar to standard deviation but that focuses only on negative deviations.

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E

Earnings per share (EPS)	The amount of income earned during a period per share of common stock; net income divided by the number of shares outstanding.
Economic growth	The percentage change in real output (real GDP) for an economy.
Economic indicators	Measures of economic activity that are regularly reported and analysed. These measures may be leading, lagging, or coincident indicators.
Economic profit	Equal to accounting profit minus the implicit opportunity costs not included in total accounting costs; the difference between total revenue and total cost.
Economic sanctions	Commercial and financial penalties that are designed to reduce international trade with another country.
Economics	The study of production, distribution, and consumption or the study of choices in the presence of scarce resources.
Economies of scale	Cost savings arising from a significant increase in output without a simultaneous increase in fixed costs.
Effective annual rate (EAR)	The amount by which a unit of currency will grow in a year, with interest on interest included.
Elasticity	In economics, how the quantity demanded or supplied changes in response to small changes in a related factor, such as price, income, and the price of a substitute or complementary product.
Embargoes	Measures that prohibit trade with a country.
Emissions	Pollution discharged into the atmosphere from smokestacks, other vents, and surface areas of commercial or industrial facilities; residential chimneys; and motor vehicle, locomotive, or aircraft exhausts.
Endowment funds	Long-term funds owned by non-profit institutions.
Enterprise risk management (ERM)	A framework that helps organisations manage all their risks together in an integrated fashion.
Environmental, social, and governance (ESG) factors	Environmental factors pertain to the natural world. Social factors affect the lives of humans. Governance factors involve issues tied to countries or jurisdictions or are common practice in an industry as well as the interests of broader stakeholder groups.
Equal-weighted indices	Indices for which equal weight is assigned to each security included in the index.
Equilibrium price	The price at which the quantity of a product or service demanded equals the quantity supplied. Point at which the demand and supply curves intersect.
Equity	Fairness of access, opportunity, and advancement for all within an organisation, which requires eliminating barriers and addressing root causes that have prevented underrepresented groups from fully participating in the workplace.

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E

Equity (market) risk premium (ERP)	The extra annual return that an equity investor expects to earn above a risk-free asset on an average-risk equity security.
Equity multiplier ratio	A measure of financial leverage that indicates the amount of total assets supported by one monetary unit of equity.
ESG investing	An approach to managing assets in which investors explicitly acknowledge the relevance of environmental, social, and governance (ESG) factors in their investment decisions as well as their own role as owners and creditors, with the long-term return of an investment portfolio in mind. It aims to correctly price social, environmental, and economic risks and opportunities.
Ethical and faith-based investment	Ethical (also known as values-driven) and faith-based investment refers to investing in line with certain principles, usually using negative screening to avoid investing in companies whose products and services are deemed morally objectionable by the investor or certain religions, international declarations, conventions, or voluntary agreements.
Ethical dilemmas	Situations in which values, interests, and/or rules potentially conflict.
Ethical standards	Principles that support and promote desired values or behaviours.
Ethics	A set of moral principles, or the principles of conduct governing an individual or a group.
Exchange rate	The rate at which one currency can be exchanged for another.
Exchange-traded funds (ETFs)	Pooled investment vehicles that are typically passively managed to track a particular index or sector and that trade continuously as common stocks on exchanges or through dealers.
Exercise price	Specified in an options contract, the price to trade the underlying in the future. Also called the *strike price*.
Expenses	The cost of using up company resources to earn revenues. Typical expenses include operating expenses (such as cost of sales; selling, general, and administrative expenses; and depreciation expenses); interest expenses; and income taxes.
Experienced investor	An investor, whether an individual or business, that has sufficient net worth and investing experience as defined by the regulator. Also called an *accredited investor*.
Exports	Products and services that are produced within a country's borders and then transported to another country.

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F

Fair value	Value that reflects the amount for which an asset could be sold in an arm's length transaction between willing and unrelated parties.
Family office	Private company that manages the financial affairs of one or more members of a family or of multiple families.
Fiduciary duty	The responsibility borne by a trustee and indeed, any investor charged with looking after assets on behalf of another. At its core, it is the responsibility to always act in the client's best interest and with due care.
Financial assets	Claims on other assets; for example, a share of stock represents ownership in a company or a claim to some of the company's assets and earnings.
Financial capital	Money provided to individuals, companies, and governments to finance their needs.
Financial institutions	Financial intermediaries, such as banks and insurance companies, whose role is to collect money from savers and to invest it in financial assets.
Financial intermediaries	Organisations that go between those who have money and those who need money.
Financial markets	Places where buyers and sellers can trade securities; also called securities markets or capital markets.
Financial planners	Investment professionals who help their clients set their financial goals and determine how much money they should save for future expenses and/or how much money they can spend on current expenses while still preserving their capital.
Financial services industry	Industry that offers a range of products and services to those who have money to invest and those who need money and help channel funds between them.
Fintech	Refers to technology-driven innovation in the financial services industry, and can also refer to companies — often new, start-up companies — involved in developing these technologies and to the wider sector they are a part of.
Firm commitment agreement	See *bought deal*.
Fiscal policy	The use of taxes and government spending to affect the level of aggregate expenditures.
Fixed costs	Costs that do not fluctuate with the level of output of the company. Also called *overhead*.
Fixed exchange rate system	An exchange rate system that does not allow for fluctuations of currencies. The value of a country's currency is tied to the value of another country's currency or a commodity, such as gold.
Fixed-rate bonds	A bond with a finite life that offers a coupon rate that does not change over the life of the bond. Also known as straight bonds.

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F

Floating-rate bonds	A bond with a finite life that offers a coupon rate that changes over time. Also known as variable-rate bonds. Also called *variable-rate bonds and floating-rate notes (FRNs)*.
Floating exchange rate system	An exchange rate system driven by supply and demand for each currency, allowing exchange rates to adjust to correct imbalances, such as current account deficits.
Foreign direct investments (FDIs)	Direct investments made by foreign investors and companies.
Foreign exchange market	A highly integrated decentralised network in which currencies are traded.
Forward contract	An agreement between two parties in which one party agrees to buy from the seller an underlying at a later date for a price established at the start of the contract.
Forward market	Foreign exchange market in which currencies are traded now but delivered at some future date.
Forward rate	The exchange rate for forward market transactions.
Foundations	Grant-making institutions funded by gifts and by the investment income that they produce.
Fraud	Intentional deception, such as deliberately causing or falsely reporting losses to collect insurance settlements.
Front office	Client-facing activities that provide direct revenue generation, such as sales, marketing, and customer service activities.
Front-end sales loads	Fees associated with open-end mutual funds that are paid at the time of purchase of mutual fund interests.
Front-running	The act of placing an order ahead of a customer's order to take advantage of the price impact that the customer's order will have.
Full replication	The management strategy for an index fund in which the fund invests in every security in the benchmark index.
Funds of funds (FOF)	Investment vehicles that invest in other funds.
Future value	The amount to which a payment or series of payments will grow by a stated future date.
Futures contract	An agreement that obligates the seller, at a specified future date, to deliver to the buyer a specified underlying in exchange for the specified futures price.

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G

Gas	In the context of Ethereum, a transaction fee.
GDP per capita	Gross domestic product divided by the population; a measure of average output or income per person.
General partner (GP)	In a partnership, the partner that sets the partnership, raises capital, finds suitable investments, and make decisions. Unlike limited partners, the general partner has unlimited personal liability for all the debts of the partnership.
Geometric average	The average compounded return for each period; the average return for each period assuming that returns are compounding. Also called the geometric mean.
Good-until-cancelled orders	Order instructions that remain executable until they are expressly cancelled.
Goodwill	An intangible asset that arises when a company purchases another company and pays more than the fair value of the net assets (assets minus liabilities) of the purchased company.
Green bonds	Innovative financial instruments from which the proceeds are invested exclusively (either by specifying the use of the proceeds, direct project exposure, or securitisation) in green projects that generate climate or other environmental benefits.
Green investment	Allocating capital to assets that mitigate one or more of the following issues: climate change, biodiversity loss, resource inefficiency, and other environmental challenges (e.g., low carbon power generation and vehicles, smart grids, energy efficiency, pollution control, recycling, and waste management).
Greenhouse gas (GHG)	Gases (including carbon dioxide (CO2), water vapour, methane, and nitrous oxide) that interact with infrared radiation and, when present in the atmosphere, have the effect of warming the global climate. Without naturally occurring GHGs, the earth's temperature would be several tens of degrees Celsius colder than it is now (and life would not have evolved in its current form).
Gross domestic product (GDP)	The total value of all final products and services produced within an economy in a given period of time (output definition), or equivalently, the aggregate income earned by all households, all companies, and the government within an economy in a given period of time (income definition). Nominal GDP uses current market values. Real GDP adjusts for changes in price levels.
Gross profit	Sales minus the cost of sales.
Growth equity	Private equity investment strategy that usually focuses on financing companies with proven business models, good customer bases, and positive cash flows and profits but that need additional capital to support their growth plans.

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H

Harassment	Unwanted conduct, verbal and/or physical, that has the effect of making a person uncomfortable, embarrassed, intimidated, or distressed. Sexual harassment is one of the most common types of harassment.
Hash	A set of code that converts data into encrypted output, like a fingerprint of that data, in a blockchain.
Hedge funds	Private investment pools that investment managers organise and manage. They are characterised by their availability to only a limited number of investors, agreements that lock up the investors' capital for fixed periods, and performance-based managerial compensation.
Hedge	To reduce or eliminate risk caused by fluctuations in the prices of commodities, securities, or currencies.
Hidden orders	Orders that are only seen by the brokers or trading venues that receive them and cannot be seen by other traders until the orders can be filled.
High-net-worth investors	Individual investors with a higher amount of investable assets relative to retail investors.
High-water mark	Highest value, net of fees, that a fund has reached in the past. The investment manager usually earns the performance fee only if the fund is above its high-water mark.
Histogram	A diagram with bars that are proportional to the frequency of occurrence in each group of observations.
Historical cost	The actual cost of acquiring an asset.
Holding-period return	The return generated for investors over a specific time frame, usually annually; also called total return.
Human rights	Rights inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion, or any other status. Human rights include the right to life and liberty, freedom from slavery and torture, freedom of opinion and expression, the right to work and education, and many more. Everyone is entitled to these rights without discrimination.
Hurdle rate	Minimum annual rate of return that the fund must generate before the investment manager can receive a performance fee.
Hyperinflation	Price increases so large and rapid that people find it difficult to purchase products and services.

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Immediate or cancel (IOC) orders	Order execution instructions that are to be executed immediately by the broker or trading venue and not later. Any unfilled portion(s) of IOC orders not executed immediately are cancelled.
Impact investing	Impact investing refers to investments made with the specific intent of generating positive, measurable social and environmental impact alongside a financial return (which differentiates it from philanthropy).
Imports	Products and services that are produced outside a country's borders and then brought into the country.
Inclusion	A dynamic state of operating in which any employee can be and feel respected, valued, safe, and fully engaged.
Income effect	A change in demand for a product or service as a result of a change in purchasing power.
Income elasticity of demand	The percentage change in the quantity demanded of a product or service divided by the corresponding percentage change in income.
Income statement	A financial statement that identifies the profit or loss of a company during a given time period, such as one year.
Index fund	A portfolio of securities structured to track the returns of a specific index called the benchmark index.
Index rebalancing	The process of adjusting the weights of the securities in an index. That is, the weights given to securities whose prices have risen must be decreased and the weights given to securities whose prices have fallen must be increased.
Index reconstitution	The process of adding or removing securities included in the index.
Indirect discrimination	A situation in which a condition, which has no objective justification, applies equally to everyone but puts individuals that share a personal characteristic at a disadvantage.
Indirect finance	Use of financial intermediaries to find and channel funds between providers and users of capital. Because financial intermediaries sit between providers and users, the former do not have direct claims on the latter. See also *indirect investments*.
Indirect investments	Purchase of securities of companies, trusts, and partnerships that make direct investments, such as shares in mutual funds and exchange-traded funds, limited partnership interests in hedge funds, and asset-backed securities.
Inferior goods	Products whose consumption decreases as income increases.
Inflation	The percentage increase in the general price level from one period to the next; a sustained rise in the overall level of prices for products and services.
Inflation-linked bonds	Bonds that contain a provision that adjusts the bond's par value for inflation and thus mitigates inflation risk.
Inflation risk	The risk associated with inflation.

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Information ratio	A reward-to-risk ratio defined as the portfolio's mean active return (the difference in average return between the portfolio and its benchmark) over its active risk (tracking error).
Initial margin	The amount that must be deposited on the day the transaction is opened.
Initial public offering (IPO)	The first issuance of common shares to the public by a formerly private corporation.
Insider trading	Trading while in possession of material non-public information.
Insurance companies	Financial institutions that help individuals and companies offset the risks they face, and among the largest investors.
Intangible assets	Assets lacking physical substance, such as patents and trademarks.
Interest rate risk	The risk associated with decreases in bond prices resulting from increases in interest rates.
Interest	Payment for the use of borrowed money.
Interest rate risk	The risk associated with decreases in bond prices resulting from increases in interest rates.
Interest rate swap	An agreement between two parties to exchange interest rate obligations for the benefit of both parties; usually exchanges a fixed-rate payment for a floating-rate payment.
Internal audit	A function independent from other business functions that delves into the details of business processes and ensures that IT and accounting systems accurately reflect transactions.
Internal risk limits	Limits that incorporate an organisation's overall risk tolerance and risk management strategy — for example, the maximum amount of a risky security that can be held or the maximum aggregate exposure to one asset type or to one counterparty.
International trade	The exchange of goods, services, and capital between countries.
Inventories	The unsold units of production on hand.
Investment banks	Financial intermediaries that assist companies and governments in raising capital and can provide other services, such as strategic advisory services, brokerage and dealing services, and research services; also known as *merchant banks*.
Investment companies	Companies that exist solely to hold investments on behalf of their shareholders, partners, or unitholders, including mutual funds, hedge funds, venture capital funds, and investment trusts.
Investment industry	Subset of the financial services industry that comprises all the participants that are instrumental in helping savers invest their money and spenders raise capital in financial markets.

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I

Investment managers	Investment professionals who receive authority from their clients to trade securities and assets on their behalf. Also called *asset managers*.
Investment policy statement (IPS)	A written planning document describing a client's investment objectives — return requirements and risk tolerance — over a relevant time horizon, along with constraints that apply to the client's portfolio. The IPS serves as a guide to what is required and acceptable in the investment portfolio.
Investment risk	The risk associated with investing that arises from the fluctuation in the value of investments.
Investment vehicles	Any investments that can be made with the expectation that by putting their money to use, the investor will enjoy some combination of an increase in the value of their money and a stream of cash flows. They may be built with securities, such as shares, bonds, and warrants; real assets, such as gold, and real estate; or vehicles that include entirely different investments.
Investment-grade bonds	Bonds rated BBB– or higher by Standard & Poor's and Fitch or Baa3 or higher by Moody's.
Issuers	Typically companies and governments that sell securities to investors in exchange for cash to raise money.

J K

J curve	The graphical representation of net cash flow (that is, the cash distributions net of carried interest minus the sum of the capital calls and management fees) for limited partners. It shows that net cash flows are negative in the early years of a fund but turn positive towards the end of a fund's life.
Keepers	Parties that monitor collateralised positions in smart contracts and take actions if a position becomes undercollateralised.
Key risk measures	Measures that provide a warning when risk levels are rising.

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L

Lagging indicators	Turning points that signal a change in economic activity after output has already changed.
Law of demand	The economic principle that as the price of a product increases, buyers will buy less of it, and as its price decreases, they will buy more of it.
Law of diminishing returns	The economic principle that the gain in output from adding variable inputs of one factor, such as labour, will increase at a decreasing rate even if the fixed inputs of production remain unchanged.
Law of supply	The economic principle that when the price of a product increases, the quantity supplied increases too.
Leading indicators	Turning points that signal changes in the economy in the future, and thus are considered useful for economic prediction and policy formulation.
Legal risk	The risk that an external party could sue an organisation for breach of contract or other violations.
Leverage ratio	The ratio of a position's value to the value of the equity in it.
Leveraged buyouts (LBOs)	Buyouts for which the financing of the transaction involves high financial leverage — that is, a high proportion of debt relative to equity.
Limit order	Instruction to obtain the best price immediately available when filling an order, but a trade cannot be arranged at a price higher than the specified limit price when buying or a price lower than the specified limit price when selling.
Limit price	Ceiling price for a buy order and floor price for a sell order. A trade cannot be arranged at a price higher than the specified limit price when buying or a price lower than the specified limit price when selling.
Limited liability	Liability that does not exceed an investor's initial contribution of capital. For example, shareholders are protected by limited liability, which means that higher claimants — particularly debt investors — cannot recover money from the personal assets of the shareholders if the company's assets are insufficient to fully cover their claims.
Limited partners (LPs)	In a partnership, partners who contribute capital to the partnership. Limited partners are typically investors who are not involved in the selection and management of investments. Unlike general partners, limited partners have limited personal liability.
Liquidity risk	The risk that an asset or security cannot be bought or sold quickly without a significant concession in price.
Long positions	Positions for which investors own assets or securities. These positions increase in value when prices rise.
Long-term debt	Money borrowed from banks or other lenders that is to be repaid during periods of greater than one year.

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L

Loyalty	An expectation that employees will place the employer's interests above their own and will not misappropriate a company's property.
Luxury product	A product that has positive own price elasticity of demand — that is, a product for which demand increases as price increases.

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M

Macroeconomics	The branch of economics that studies the economy as a whole.
Maintenance margin	The minimum amount of equity an investor must hold in a margin account after a purchase has been made. When an investor buys on margin, there is the potential for a margin call, which occurs when the percentage of equity an investor has in the security falls below the maintenance margin. In these cases, investors must either put up more collateral or sell the security to pay off the margin loan.
Managed account	An investment service that assembles and manages an investment portfolio for an investor.
Managed floating exchange rate system	A floating exchange rate system in which the central bank intervenes to stabilise its country's currency, usually to maintain the value of the country's currency within a certain range.
Management fees	Fees that limited partners must pay general partners to compensate them for managing investments. Management fees are typically set as a percentage of the amount the limited partners have committed rather than the amount that has been invested.
Margin	Cash or securities that are pledged as collateral.
Margin loan	Money that investors typically borrow from their brokers to purchase securities. The maximum amount an investor can borrow is often set by the government, the trading venue, or another trading services provider, such as a clearing house. Brokers may lend an investor less than the maximum amount, particularly if the broker wants to limit its exposure to that investor. The loan does not have a repayment schedule and must be repaid on demand, including any interest on the borrowed money.
Marginal cost	The cost of producing an additional unit of a product or service.
Marginal revenue	The amount of money from selling an additional unit of a product or service.
Market bid–ask spread	Difference between the bid price and the offer price quoted by a dealer, which represents the compensation dealers expect for taking the risk of buying and selling securities.
Market equilibrium	The price at which quantity demanded equals quantity supplied. At the equilibrium price, demand and supply in the market are balanced, and neither buyers nor sellers have an incentive to try to change the price, all other factors remaining unchanged.
Market manipulation	Abusive trading practice that involves taking actions intended to move the price of a stock to make a short-term profit.
Market order	Instructions to obtain the best price immediately available when filling the order.
Market risk	The risk caused by changes in market conditions affecting prices.
Marking to market	The settlement of profits or losses based on current spot (market) prices.
Maturity date	Date when the borrower must repay the amount borrowed.

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M

Median	The value of the middle term in a data set that has been sorted into ascending or descending order; the value for which as many outcomes are above it as there are below it.
Microeconomics	The branch of economics that studies how individuals and companies make decisions to allocate scarce resources.
Middle office	Core activities of a firm, such as risk management, information technology, corporate finance, portfolio management, and research.
Mode	The most frequently occurring value in a data set.
Model risk	The risk arising from the use of models and associated with inappropriate underlying assumptions, the unavailability or inaccuracy of historical data, data errors, and misapplication of models.
Monetary policy	Actions taken by a nation's central bank to affect aggregate output and prices through the money supply or credit.
Money laundering	A process in which criminals use financial services to transfer money from illegal operations to other legal activities; the money becomes "clean" in the process.
Money market funds	Special class of open-end mutual funds that investors view as uninsured interest-paying bank accounts. Unlike other open-end mutual funds, regulators permit money market funds to accept deposits and satisfy redemptions at a constant price per share if they meet certain conditions.
Monopolistic competition	A market in which there are many buyers and sellers who are able to differentiate their products to buyers and in which each company may have a limited monopoly because of the differentiation of their products.
Moral hazard	Tendency of people to be less careful about avoiding losses once they have purchased insurance, potentially leading to losses occurring more often when they are insured than when they are not.
Multiplier effect	An initial increase (decrease) in spending produces an increase (decrease) in GDP and consumption greater than the initial change in spending.

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N

Net asset value (NAV)	Total net value of a fund (the value of all assets minus the value of all liabilities) divided by the fund's current total number of shares outstanding.
Net book value	Calculated as the gross value of an asset minus accumulated depreciation, where accumulated depreciation is the sum of all reported depreciation expenses for the particular asset.
Net exports	The difference between exports and imports of goods and services. Also called *balance of trade* or *trade balance*.
Net income	The difference between revenue and expenses; income available to distribute to shareholders. Also called *net profit* or *profit after tax*.
Net present value (NPV)	The present value of future cash flows minus the cost of the investment, or the present value of cash inflows minus the present value of cash outflows.
Net profit margin	A profitability ratio that indicates how much (percentage) of each monetary unit of revenue is left after all costs and expenses are covered.
No-load funds	Open-end mutual funds that do not charge deposit or redemption fees.
Nominal GDP	A measure of GDP that uses the current market value of products and services.
Non-current assets	Assets used over a number of years to generate income for the company; examples include machinery, equipment, buildings, land, and intangible assets.
Non-investment-grade bonds	Bonds rated BB+ or lower by Standard & Poor's and Fitch and Ba1 or lower by Moody's. Also called *high-yield bonds* or *junk bonds*.
Non-tariff barriers	A range of measures, such as certification, licensing, sanctions, or embargoes, that make it more difficult and expensive for foreign producers to compete with domestic producers.
Normal distribution	A symmetrical distribution in which the mean, median, and mode are the same value. The distribution is completely described by its mean and variance (or standard deviation).
Normal goods	Products whose consumption increases as income increases.

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Offer exchange rate	The exchange rate at which the bank or dealer will sell the foreign currency. Also called *ask exchange rate*.
Offer price	See *ask price*.
Oligopoly	A market dominated by a small number of large companies because the barriers to entry are high.
Open market operations	Activities that involve the purchase and sale of government bonds by a central bank.
Open-end mutual funds	Pooled investment vehicles that have the ability to issue or redeem (repurchase) shares on demand. When investors want to invest in a mutual fund, the fund issues new shares in exchange for cash that the investors deposit. When existing investors want to withdraw money, the fund redeems the investors' shares and pays them cash.
Operating income	Income generated by the company from its usual business activities before taking into account financing costs and taxes. It is often referred to as earnings before interest and taxes (EBIT). Also called *operating profit*.
Operating profit margin	A profitability ratio calculated as operating income divided by revenue.
Operational risk	The risk of losses from inadequate or failed people, systems, and internal policies and procedures, as well as from external events that are beyond the control of the organisation but that affect its operations.
Opportunity cost	The cost of any activity measured in terms of the value of the best alternative that is not chosen; the value that investors forgo by choosing a particular course of action. For example, the cost of not having money to invest, spend, or hold; the cost of giving up opportunities to use money.
Option contract	An agreement in which the buyer of the option has the right, but not the obligation, to trade the underlying.
Option premium	The amount paid by the option buyer to the option seller, at the initiation of the option contract, to compensate option sellers for their risk.
Oracle	Data external to the blockchain that is used in smart contracts.
Order execution instructions	Instructions on how an order is to be filled. For example, as a market order or a limit order, two of the most common execution instructions.
Order-driven markets	Markets that arrange trades using rules to match buy orders with sell orders.
Orders	Instructions that those who want to trade give brokers or trading venues that specify what security to trade, whether to buy or sell, and how much should be bought or sold. They also have other instructions attached to them, such as order execution, exposure, and time-in-force instructions.

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Outliers	Values that are unusual compared with the rest of the data set by being especially small or large in numerical value.
Over-the-counter (OTC) markets	Another name for quote-driven markets dating from when securities were literally traded over a counter in the dealer's office. See *quote-driven markets*.
Own price elasticity of demand	The percentage change in the quantity demanded of a product or service as a result of the percentage price change in that product or service.

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P

Par value	The stated value or face value of a security; the amount the investor would be entitled to receive in a liquidation scenario, which also serves as the principal value on which coupon payments are calculated.
Passive investment managers	Managers who follow a buy-and-hold approach and seek to match the return and risk of a benchmark.
Payments in lieu of dividends	Payments made to security lenders for dividends paid on stock borrowed in a short sale.
Payments in lieu of interest	Payments made to security lenders for interest paid on debt securities borrowed in a short sale.
Payout policies	Guiding principles that specify how much money an institution, such as a foundation or an endowment fund, can take from long-term funds to use for current spending.
Pension plans	Institutional investors who hold investment portfolios for the benefit of future and current retirees.
Perfectly competitive market	A market that consists of buyers and sellers trading a uniform commodity and in which there is a high degree of competition.
Performance attribution	The process of identifying the source of a fund manager's return. Potential sources include asset allocation, sector selection, stock selection, and currency exposure.
Performance bond	A guarantee, usually provided by a third party, such as an insurance company, to ensure payment in case a party fails to fulfil its contractual obligations.
Performance measurement	The process of measuring the performance of investments, including the calculation of reward-to-risk ratios.
Physical capital	The means of production; tangible goods such as equipment, tools, and buildings.
Physical climate-related risks	Risks resulting from extreme weather events, either acute or chronic risks from longer-term shifts in climate patterns — for example, higher temperatures.
Political risk	The risk of a change in the ruling political party of a country leads to changes in policies that can affect everything from monetary and fiscal policies to investment incentives, public investments, and procurement.
Pooled investment vehicles	Investment companies that pool funds from many investors for common management.
Pooled investments	Investment vehicles in which investors pool their funds to invest, such as a mutual fund. Also known as *collective investment schemes*.
Portfolio	The group of assets in which savings are invested.
Position	A position is the quantity of an asset or security that a person or institution owns or owes.

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P

Preferred stock	Also known as preference shares; a type of equity security that ranks between debt securities and common stock. It typically does not carry voting rights but has priority over common stock in the receipt of dividends.
Present value	The present discounted value of future cash flows.
Price-driven markets	See *quote-driven markets*.
Price-to-book ratio (P/B)	The ratio of a company's share price to its book value per share.
Price-to-earnings ratio (P/E)	The ratio of a company's share (market) price to its earnings per share. Also called *P/E multiple*.
Price-weighted index	Indices for which the weight assigned to each security is determined by dividing the price of the security by the sum of all the prices of the securities.
Primary dealers	Dealers with which central banks trade when conducting monetary policy.
Primary markets	Markets in which issuers, such as companies and governments, sell their securities to investors.
Prime brokerage	Bundle of services that brokers provide some of their clients, including typical brokerage services and financing of their clients' positions.
Principal	The money initially lent on which interest is paid.
Private equity	A type of alternative investment that consists of investing in private companies — that is, companies that are not listed on a stock exchange.
Private equity partnership	Partnership that specialises in private equity investments. It usually includes two types of partners: the general partner, which is typically a private equity firm, and limited partners, who are investors contributing capital to the partnership.
Private key	A type of password used in accessing a crypto wallet.
Private placement	Type of primary market transaction in which companies sell securities directly to a small group of qualified investors, usually with the assistance of an investment bank.
Producer price index (PPI)	Reflects the price changes experienced by domestic producers in a country.
Product liability	The legal responsibility imposed on a business for the manufacturing or selling of defective goods.
Productivity gains	Increases in the ratio of gross domestic product (GDP) to units of labour expended to produce that GDP; increases in output per unit of labour.
Professional standards	Guidelines set by professional associations based on fundamental ethical principles to guide the behaviour of individuals within the profession.

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P

Proof of stake (POS)	The validation of the next block in a blockchain, with other validators providing consensus that the next block can be created.
Proof of work (POW)	Vetting and confirming accuracy of a transaction that is being added to a blockchain.
Proprietary traders	Traders who trade directly with their clients rather than by arranging trades with others on behalf of their clients.
Prospectus	Document that discloses the investment policies, deposit and redemption procedures, fees and expenses, and past performance statistics associated with an investment vehicle.
Purchase fees	Fees paid to the fund by investors to compensate existing shareholders for costs imposed on the fund when other shareholders buy and sell the fund's shares. Also known as *redemption fees*.
Purchasing power parity	Economic theory based on the principle that a basket of goods in two different countries should cost the same after taking into account the exchange rate between the two countries' currencies.
Pure monopoly	A market in which there is no competition. Also called a *monopoly*.
Put option	The right (but not the obligation) to sell the underlying at the exercise price until expiration.
Putable bond	A bond that provides bondholders with the right to sell (or put back) their bonds to the issuer prior to the maturity date at a pre-specified price.

Q

Quick ratio	A liquidity ratio that indicates a company's ability to satisfy current liabilities with its most liquid assets.
Quotas	Limits on the quantity of goods that can be imported.
Quote-driven markets	Markets in which investors trade with dealers at the prices quoted by these dealers. Also called dealer markets, price-driven markets, or over-the-counter markets.

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R

Range	The difference between the highest and lowest values in a data set.
Real assets	Physical assets, such as land, buildings, machinery, cattle, and gold.
Real estate equity funds	Often open-end funds that hold investments in hundreds of commercial properties.
Real estate investment trusts (REITs)	Public companies that mainly own, and in most cases operate, income-producing real estate.
Real estate limited partnerships	Partnerships that specialise in real estate investments.
Real estate	Land and buildings. Also, a type of alternative investment that consists of direct and indirect investments in land and buildings.
Real GDP	The value of products and services produced, measured at base-year prices; nominal GDP adjusted for changes in price levels.
Rebalancing	The process of adjusting the weights of the constituent securities in an index or the weights of assets in a portfolio.
Recession	A period during which real GDP decreases (i.e., negative growth) for at least two successive quarters, or a period of significant decline in total output, income, employment, and sales lasting more than a few months.
Reference rate	An interest rate that serves as the benchmark to set the coupon rate of a floating-rate bond.
Regulations	Rules that set standards for conduct and carry the force of law. They are set and enforced by legislative bodies and by other entities authorised by legislative bodies.
Reinvestment risk	Risk that in a period of falling interest rates, the periodic coupon payments received during the life of a bond and/or the principal payment received from a bond that is called early must be reinvested at a lower interest rate than the bond's original coupon rate.
Relative returns	The difference between an investment's absolute return and the benchmark return.
Reserve currency	A currency held in significant quantities by many governments and institutions as part of their foreign exchange reserves.
Reserve requirement	The requirement for banks to hold reserves in proportion to the size of deposits.
Residual claimants	Investors whose claims rank last. Common shareholders are residual claimants. In the event of a company's liquidation, common shareholders share proportionately in the remaining company assets after all other claimants have been satisfied.
Responsible investment	A strategy and practice to incorporate ESG factors into investment decisions and active ownership. It considers both how ESG might influence the risk-adjusted return of an asset and the stability of an economy as well as how investment in and engagement with assets and investees can impact society and the environment.

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R

Retail investors	Individual investors with the least amount of investable assets.
Retained earnings	The accumulated net income that is retained by the company rather than distributed to its owners (shareholders) as dividends.
Return on assets (ROA)	A profitability ratio that indicates a company's net income generated per monetary unit invested in total assets.
Return on equity (ROE)	A profitability ratio calculated as net income divided by average shareholders' equity.
Revenues	The amount charged (and expected to be received) for the delivery of products or services in the ordinary activities of a business.
Reward-to-risk ratio	Metric that divides a measure of portfolio total return by a measure of portfolio risk. The higher the value of this metric, the more return an investment portfolio has generated per unit of risk.
Rights offering	Companies can also raise capital and issue new shares with a rights offering, whereby a company allows shareholders to buy more shares at a fixed price, the exercise price (see next term), in proportion to their existing holdings. Shareholders given this option are said to hold pre-emptive rights because they have the right of first refusal on new equity offerings. Without such rights, upon the issuance of new shares, the company could dilute the ownership of existing investors.
Risk	The effect of uncertain future events on an organisation or on the outcomes the organisation achieves.
Risk appetite	An organisation's willingness to take on risk, which depends on its attitude towards risk and on its risk culture.
Risk budgeting	An approach to determining how risk should be allocated among different business units, portfolios, or individuals.
Risk management	An iterative process used by organisations to support the identification and management of risk (or uncertainty) and reduce the chances and/or effects of adverse events while enhancing the realisation of opportunities and the ability to achieve company objectives.
Risk tolerance	The level of risk an organisation is able and willing to take on.
Rogue trading	An example of operational risk wherein traders bypass management controls and place unauthorised trades, at times causing large losses for the firms they work for.

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S

Sampling replication	The management strategy for an index fund in which the fund invests in only a representative sample of the benchmark index's securities.
Seasoned equity offering	Selling shares to the public after the IPO in a secondary (or seasoned) offering.
Secondaries	Private equity investment strategy that involves buying or selling existing private equity investments.
Secondary markets	Market in which investors trade securities and contracts with each other but not with the original security issuer.
Securities	Financial assets that can be traded, such as shares and bonds.
Securitisation	Creation of new financial products by buying and repackaging securities or other assets; the creation and issuance of new debt securities that are backed by a pool of other debt securities.
Security lenders	Investors who have long positions and lend their securities to short sellers.
Security lending agreements	Agreements between the security lender and short sellers specifying that the short sellers will pay to the lenders all dividends or interest that the lender would have received on the security.
Security market index	A group of securities representing a given security market, market segment, or asset class.
Sell-side analysts	Analysts who work for the organisations, typically an investment bank, that sell securities. They collect and analyse information about a company and its competitors and then prepare a report that is shared with potential investors.
Sell-side firms	Typically, investment banks, brokers, and dealers that provide investment products and services.
Seniority ranking	A priority of claims among a company's providers of capital, which affects the amounts investors will receive upon the company's liquidation and, in the case of equity capital, the order in which dividends are paid.
Settlement risk	The risk that when settling a transaction, a firm performs one side of the deal but the counterparty does not complete its side of the deal as agreed, often because it has declared bankruptcy.
Settlement	Activity that consists of the final exchange of cash for securities following a trade.
Share repurchase	A transaction in which a company uses its cash to buy back its own shares from existing shareholders. This transaction reduces the number of shares outstanding. Also called a share buyback.
Shareholder engagement	The active process of dialogue with a company in which the investor is seeking specific change. This can often be a lengthy process and involve many iterations of contact with senior representatives of the company.

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S

Shareholders	The owners of shares (stock) of a corporation.
Sharpe ratio	A reward-to-risk ratio defined as the excess portfolio return (portfolio return minus risk-free return) over the standard deviation of portfolio returns.
Shelf registration	Sale of new issues of seasoned securities directly to the public little by little over a long period of time rather than in a single transaction.
Short positions	Positions for which investors sell assets or securities that they do not own, a process that involves borrowing the assets or securities, selling them, and repurchasing them later to return them to their owner. These positions increase in value when prices fall.
Simple interest rate	The cost to the borrower or the rate of return to the lender, per period, on the original principal borrowed.
Skewed	A distribution is skewed when the bulk (majority) of the values (possibly including the median) lie either to the right or to the left of the mean; the distribution is not symmetrical.
Smart contract	A transaction protocol that automatically records, executes, and controls processes or transactions for the parties to an agreement using a blockchain network.
Social investment	Allocating capital to assets that address social challenges.
Sovereign risk	The risk that a foreign government will not repay its debt because it does not have either the ability or the willingness to do so.
Sovereign wealth funds	Funds created by governments to invest surpluses for the benefit of current and future generations of their citizens.
Specific risk	Risk that is specific to a certain company (e.g., risk of poor performance due to a number of factors including, but not limited to, increased competition, operational challenges, and increased regulatory oversight) or security. Also called *idiosyncratic, non-systemic*, or *unsystematic risk*.
Spinoff	A form of restructuring in which a company creates a new entity and distributes the shares of this new entity to existing shareholders in the form of a non-cash dividend. Shareholders end up owning stock in two different companies.
Sponsor	An organiser of a pooled investment vehicle, which may organise the vehicle in the form of a trust, a limited partnership, or a limited liability company.
Spot market	Foreign exchange market in which currencies are traded now and delivered immediately.
Spot rate	The exchange rate for spot market transactions.
Stablecoin	Cryptocurrency that is pegged to another asset or a basket of assets.
Stagflation	When a high inflation rate is combined with a high level of unemployment and a slowdown of the economy.

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S

Standard deviation	A measure, in the same units as the original data, of the variability, volatility, or dispersion of a data set around the average value of that data set (i.e., the arithmetic mean). It is the positive square root of the variance.
Statement of cash flows	A financial statement that identifies the sources and uses of cash over a time period and explains the change in the company's reported cash balance during the period.
Sterling Overnight Index Average (SONIA)	The effective overnight interest rate paid by banks for unsecured transactions in the British sterling market; used as a reference, or benchmark, interest rate for short-term financial transactions.
Stewardship	The broad term for an investor operating as a good long-term owner of assets, standing in the shoes of their underlying clients to ensure that value is added or preserved over time.
Stock dividend	A transaction in which a company distributes additional shares of its common stock to shareholders instead of cash. This transaction increases the number of shares outstanding but does not affect the company's value because the stock price decreases accordingly.
Stock split	A transaction in which a company increases the number of shares outstanding. For example, in a two-for-one stock split, the company doubles the number of shares outstanding, and the stock price is halved, but the company's value is unaffected.
Stop order	Order for which a trader has specified a stop price, a price that triggers the conversion of a stop order into a market order. The stop order may not be filled until a trade occurs at or above the stop price for a buy order and at or below the stop price for a sell order.
Stop price	Price that triggers the conversion of a stop order into a market order.
Strategic asset allocation	The long-term mix of assets that is expected to achieve the client's long-term objectives, given the client's investment constraints.
Substitute product	A product that could generally take the place of (substitute for) another product. Also called a *substitute*.
Supply curve	The curve that shows the quantity of a product or service supplied at different prices.
Supply	The quantity of a product or service sellers are willing and able to sell at a given price
Sustainable Development Goals (SDGs)	A set of global goals set in 2015 by the UN General Assembly (UNGA), succeeding the Millennium Development goals. The SDGs seek to address the key global challenges, including those related to poverty, inequality, climate change, environmental degradation, peace, and justice. There are 17 interconnected goals.
Sustainable investment	Sustainable investment refers to the selection of assets that contribute in some way to a sustainable economy; that is, an asset that minimises natural and social resource depletion. It is a broad term that may be used for the consideration of typical ESG issues and may include best-in-class. It can also include ESG integration, which considers how ESG issues impact a security's risk and return profile.

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S

Swaps	Derivatives in which two parties swap cash flows or other financial instruments over multiple periods (months or years) for mutual benefit, usually to manage risk.
Systematic risk	The risk created by general economic conditions that affect all risky investments. Systematic risk factors include changes in macroeconomic conditions, interest rate risk, and political risk, among others. Also called *market risk*.
Systemic failure	Failure of the financial system as a whole, including loss of access to credit and collapse of capital markets.

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T

Tactical asset allocation	The decision to deliberately deviate from the strategic asset allocation in an attempt to add value based on forecasts of the short-term relative performance of asset classes.
Tariffs	Taxes (duties) levied on imported goods and services, which allow governments not only to establish trade barriers but also to raise revenue.
Tax haven	A country with low or no tax on income, with financial centers that facilitate banking such that businesses and individuals avoid taxes in their home country.
Tax-advantaged accounts	Accounts that allow investors to avoid paying taxes on investment income and capital gains as they earn them. In exchange for these privileges, investors must accept stringent restrictions on when the money can be withdrawn from the account and sometimes on how the money can be used.
Term structure of interest rates	The relationship between the yields to maturity offered by government bonds and the maturities of these government bonds.
Thematic investment	Selecting companies that fall under a sustainability-related theme, such as clean-tech, sustainable agriculture, healthcare, or climate change mitigation.
Time-in-force instructions	Order execution instructions that indicate when an order can be filled.
Time-weighted rate of return	A measure of investment performance in which the overall measurement period is divided into sub-periods. The timing of each individual cash flow is identified and then defines the beginning of the sub-period in which it occurs.
Total asset turnover	A measure that indicates the volume of revenues being generated by the assets used in the business, or how effectively the company uses its assets to generate revenue.
Total return	The return generated for investors over a specific time frame, usually annually; also called holding-period return. Total return includes income and dividends received on investments and capital gains and losses.
Total return swap	The total return from an asset — a stock or an index — exchanged for a fixed rate, allowing an investor paying the fixed rate obligation to receive the capital appreciation or depreciation, and dividend payments, of a stock or an index.
Tracking error	The standard deviation of the differences between the deviation over time of the returns on a portfolio and the returns on its benchmark; a synonym of active risk.
Trade barriers	Restrictions, typically imposed by governments, on the free exchange of goods and services.
Trade deficits	When the value of exports is lower than the value of imports.
Trade execution	Refers to the seller and buyer agreeing on a price for a given security. Brokers and trading venues typically use intermediaries to help traders clear and settle orders that have been filled.
Trade surplus	When the value of exports is higher than the value of imports.

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T

Transaction costs	Costs associated with trading, which include explicit costs (mainly brokerage commissions) and implicit costs (bid–ask spreads, price impact, and opportunity costs).
Transfer agent	Typically, a bank or trust company that maintains a registry of who owns a company's securities.
Transition risk	Transition risk relates to risks that result from changes in climate and energy policies, a shift to low-carbon technologies and liability issues.
Treynor ratio	A reward-to-risk ratio defined as the excess portfolio return (portfolio return minus risk-free return) over the beta of portfolio returns.
Triple bottom line (TBL)	The triple bottom line (TBL or 3BL) is an accounting framework with three parts: social, environmental (or ecological), and financial (people, planet, and profit).

U

Underlying	The asset, event, or outcome on which the value of a derivative is dependant.
Underwritten offerings	Type of public offering in which the (lead) investment bank guarantees the sale of the securities at an offering price that is negotiated with the issuer.

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V

Value at risk (VaR)	An estimate of the minimum loss of value that can be expected for a given period within a given level of probability.
Variable costs	Costs that fluctuate with the level of output of the company.
Variance	A measure of dispersion that is equal to the standard deviation squared (i.e., the standard deviation multiplied by itself).
Venture capital	Private equity investment strategy that consists of financing 'start-up' companies that exist merely as an idea or a business plan.
Voting rights	The rights of shareholders to vote — for example, to elect the members of the board of directors.

W X Y Z

Warrant	An equity-like security that entitles the holder to buy a pre-specified amount of common stock of the issuing company at a pre-specified stock price prior to a pre-specified expiration date.
Wrap account	Accounts that give retail investors access to services of fee-based investment professionals and wrap charges for investment services, such as brokerage, investment advice, financial planning, and investment accounting, into a single bundled fee.
Yield curve	Term structure of interest rates presented in graphical form.
Yield to maturity (YTM)	The discount rate that equates the present value of a bond's promised cash flows to its market price.
Zero-coupon bonds	Bonds that do not offer periodic interest payments during the life of the bond. The only cash flow offered by a zero-coupon bond is a single payment equal to the bond's par value to be paid on the bond's maturity date.

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