

Index

A

AAA/Aaa rating, 50, 52, 76
Accelerated depreciation, 150
Access person, 304
Accredited investors, 305
Accumulation stage, 117, 118
Accumulation units, 118
Acid test/quick ratio, 151
Active portfolio management, 62–63
Active rebalancing, 204
Adjustable rate preferred stock, 14
Adjustment bonds, 45–46
Administrative orders, 355–356
Administrative records, 357
ADRs (American depository receipts), 22–23, 260
ADSs (American depository shares), 22–23
Advance decline line, 160
Advertising, 225, 228–231, 324
Affiliated person, 88
Agency cross transaction, 326
Agency issues, 74–78
Agency securities, 74, 75
Agent(s):
 changes in employment of, 319
 defined, 301
 registration of, 315–320
 specialist/DMM as, 248–249
AIR (assumed interest rate), 120–121
All-or-none orders, 246
Alpha, 198
Alternative minimum tax (AMT), 55, 214
American depository receipts (ADRs), 22–23, 260

American depository shares (ADSs), 22–23
American Stock Exchange (Amex), 253, 272
Amortization, of bond premium, 41, 60
AMT (alternative minimum tax), 55, 214
Analysis:
 fundamental, 145–155
 of limited partnerships, 28
 of municipal bonds, 60–61
 technical, 155–161
Annualized rate of return, 203
Annuities, 113–122
 mutual funds vs., 122
 payment size of, 120
 payout options with, 119–120
 pretest, 141–143
 purchase options with, 117–118
 types of, 113–117
Annuitizing the contract, 121–122
Annuity units, 117, 118, 120–121
Arbitrage, 264
Arithmetic mean, 161
“A” shares, 98
Assets, 146–147. *See also* Residual assets, shareholders’ claims to
Asset allocation, 204
Asset allocation funds, 94
Asset rebalancing, 204
Assumed interest rate (AIR), 120–121
At-the-money options, 279–280
Auction Rate Securities, 51
Authorized stock, 3
Automatic reinvestment, 103
Average cost, 208–209

B

Backdating, 102
Back-end loads, 99
Backing away, 259
Balanced funds, 94
Balance of payments, 175
Balance of trade, 175
Balance sheet, 146–151
Balloon maturity, 44
BANs (bond anticipation notes), 57
Banking, retail, 318
Bank of the Cooperatives, 76
BBB/Baa rating, 50
Bearer bonds, 36
Bearish option investors, 271
Beneficiaries (annuity), 118
Best market, 249
Beta, 198–199
Blanket bonds, 88
Blanket recommendations, 185–186
Blind pools, 28
Blind recruiting advertisements, 229
Blocked Persons, 237
Blue sky laws, 236
Boards of directors, 87–88
Bonds, 35–67
 in balanced funds, 94
 convexity of, 62
 corporate, 35–53. *See also* Corporate bonds
 municipal, 53–62. *See also* Municipal bonds
 and portfolio management, 62–63
 pretest, 65–67
Bond anticipation notes (BANs), 57
Bond certificates, 37

- Bond funds, 94
 - Bond immunization, 63
 - Bonding, of key employees, 88
 - Bond ratings, 49–50
 - Bond ratio, 151
 - Bond swaps, 60
 - Bonus annuities, 115–116
 - Book entry bonds, 37
 - Book value, 4
 - Book value per share, 151
 - Borrowing from clients, 188
 - Bottom up analysis, 155
 - Breakpoints, 101–102
 - Breakpoint sales, 102
 - Breakpoint schedules, 101
 - Brochures, 325
 - Brokers, dealers vs., 261
 - Broker dealers:
 - defined, 300–301
 - and firewalls, 234
 - registration of, 315–320
 - regulation of, 223
 - and Rule 200 updates, 254–255
 - “B” shares, 99
 - Bullish option investors, 271
 - Business decision exception (to ERISA rules), 135
 - Buy-and-hold managers, 63
 - Buy limit orders, 244, 251
 - Buy stop orders, 245
 - Bypass trusts, 211
- C**
- Calls, 269–271, 273–276, 279–280
 - Callable bonds, 62
 - Callable preferred stock, 17
 - Call-adjusted duration, 61
 - Call feature, 17, 52–53
 - Call protection, 17, 53
 - Call risk, 198
 - Canadian firms/agents, 320
 - Cancellation, of registration, 354
 - Capital asset pricing model (CAPM), 196
 - Capital gain, 59
 - Capital gains, 207–208, 212
 - Capitalization, 148
 - Capitalization weighted index, 162
 - Capital losses, 207–209
 - Capital preservation, 194–195
 - Capital risk, 196
 - CAPM (capital asset pricing model), 196
 - Capping, 184
 - Cap rate, 116
 - Cash accounts, 232
 - Cash assets ratio, 151
 - Cash dividends, 17–18
 - CBOE (Chicago Board Options Exchange), 272
 - C corporations, 193
 - CDs (certificates of deposit), 308
 - CDSCs (contingent differed sales charges), 99. *See also* Back-end loads
 - Cease-and-desist orders, 361
 - Central registration depository (CRD) system, 319
 - Certificates of deposit (CDs), 308
 - Certificate of limited partnership, 25–26
 - Charitable donations, 210
 - Chicago Board Options Exchange (CBOE), 272
 - Churning, 183–184
 - Civil penalties, 358
 - Classical economics, 169
 - Client information, disclosure of, 188
 - Client profile, developing, 188–189
 - Closed-end companies, 83
 - Closed-end funds, 83
 - Closed-end indentures, 49
 - Closed-end mutual funds, 83–84, 98
 - Closing cross, 260
 - CMOs (collateralized mortgage obligations), 76–78
 - Coincident indicators, 168
 - Collateralized mortgage obligations (CMOs), 76–78
 - Collateral trust certificates, 45
 - College savings plans, 128
 - Combination annuities, 115
 - Combination (growth and income) funds, 93
 - Combination privileges, 103
 - Commissions, 261
 - Commission house broker, 253
 - Committee on Uniform Securities Identification Procedures (CUSIP), 11
 - Commodities contracts, 232, 291
 - Common stock, 2–14
 - authorized stock, 3
 - book value of, 4
 - converting bonds into, 47–48
 - corporate timeline for sale of, 2–4
 - income from, 11–12
 - issued stock, 3
 - outstanding stock, 3
 - par value of, 5
 - reasons for buying, 11–12
 - risks of ownership, 12
 - and stockholders’ rights, 5–9
 - transferability of, 9–10
 - treasury stock, 3–4
 - values of, 4–5
 - and voting rights, 8–9
 - and warrants, 21–22
 - Common stock ratio, 151
 - Communications, 225–231
 - Compensation, investment advisor, 325
 - Competitive tender, 70
 - Complaints, customer, 184–185
 - Consolidation, 156
 - Consumer Price Index (CPI), 73, 174
 - Contingent differed sales charges (CDSCs), 99. *See also* Back-end loads
 - Continuous primary offering, 83, 91
 - Contracts, investment adviser, 328
 - Contraction, 166
 - Contractual plan (nonfixed UIT), 83
 - Contumacy, 307
 - Conversion price, 16
 - Conversion privileges, 103–104
 - Convertible bonds, 46–48
 - Convertible preferred stock, 16–17
 - Convertible securities, 150
 - Convexity, 62
 - Cooling-off period, 220
 - Coordination (simultaneous registration), 340–341
 - Coordination Act, *see* National Securities Market Improvement Act of 1996
 - Corporate bonds, 35–53
 - balance sheet and redemption of, 150
 - bearer bonds, 36
 - bond certificates, 37
 - in bond funds, 94
 - book entry/journal entry, 37
 - convertible, 46–48
 - convexity of, 62
 - discount, 38
 - fully registered, 36

- indenture with, 49
- maturities of, 43–44
- municipal, 53–62
- par value of, 38
- and portfolio management, 62–63
- premium, 38
- pretest, 65–67
- pricing of, 37–38
- and principal-only registration, 36
- ratings of, 49–50
- registered, 36
- retirement of, 51–53
- secured, 44–45
- and Trust Indenture Act of 1939, 224
- types of, 36–37, 44–46
- unsecured, 45–46
- warrants attached to, 21
- yields on, 39–43
- Corporate bond funds, 94
- Corporate dividends, 214
- Corporate websites, 228–229
- Corporations, as investment clients, 193
- Correlation, 291
- Correspondence, 228
- Cost base, 207–210
- Coterminous debt, 54
- Coupon return, 62
- Coverdell IRA, 128
- Covered calls, 283–285
- CPI (Consumer Price Index), 73, 174
- CRD (central registration depository) system, 319
- Credit risk, 50, 69, 197
- Criminal penalties, 358
- Crossing stock, 250–251
- “C” shares, 99
- Cum-rights formula, 7
- Cumulative preferred stock, 16
- Cumulative voting method, 8–9
- Currency markets, 291
- Currency risk, 22–23, 50–51
- Currency transactions, 236–238
- Currency values, 175
- Current assets, 146
- Current liabilities, 147
- Current ratio, 151
- Current yield, 12, 39–40
- CUSIP (Committee on Uniform Securities Identification Procedures), 11
- CUSIP numbers, 11
- Custodian banks, 23, 89
- Customer complaints, 184–185
- Customer losses, 232
- Cyclical industries, 154
- D**
- Day orders, 243
- Death:
 - of IRA owner, 127–128
 - of minor, 192
- Debentures, 75
- Debt securities, *see* Bonds
- Debt service ratio, 153
- Debt-to-equity ratio, 151
- Declaration date, 19
- Dedicated portfolio management, 63
- Default risk, 69
- Defeasance, 52
- Defensive industries, 154
- Deferred compensation plans, 132
- Defined benefit plans, 133
- Defined contribution plans, 133–134
- Deflation, 174
- Depreciation, 150
- Depression, 167
- Designated examining authority, 222
- Designated market maker (DMM), 247–250
- Directed transactions, 329
- Direct investment, 115
- Direct participation programs, 23–24, 27–28. *See also* Limited partnerships
- Direct participation programs (DPPs), 260
- Disbursement of dividends, 21
- Disclosure, 188, 224, 326–327
- Discount bonds, 38, 41
- Discount rate, 171
- Disintermediation, 172
- Dissolving a partnership, 29
- Distributions, 18–20, 89, 90, 103
- Diversification, 63
- Diversified mutual funds, 84–85
- Dividends:
 - and balance sheet, 150
 - on cumulative preferred stock, 16
 - disbursement process for, 21
 - distribution of, 18–20
 - on preferred stock, 15
 - on REITs, 23
- and risks of common stock
 - ownership, 12
 - selling, 20, 186
 - on straight preferred stock, 16
 - taxation of, 20
 - types of, 17–18
- Dividend discount model, 155
- Dividend growth model, 155
- Dividend payout ratio, 153
- Dividend yield, 12
- DMM (designated market maker), 247–250
- DNR (do not reduce), 251
- Dodd Frank Wall Street Reform Act of 2010, 321–322
- Dollar cost averaging, 104–106
- Donations, charitable, 210
- Do not reduce (DNR), 251
- Double-barreled bonds, 56
- Double-entry bookkeeping, 148
- Double ETFs, 98
- Downward trend lines, 156, 158
- DPPs (direct participation programs), 260
- “D” shares, 99
- Dual-auction markets, 247
- Durable power of attorney, 307
- Duration (bonds), 61
- E**
- Earnings available to common, 152
- Earnings per share fully diluted, 153
- Earnings per share primary, 153
- ECNs (electronic communication networks), 257
- Economics, 165–179
 - domestic policy, 170–174
 - GDP, 165–167
 - international monetary considerations, 175
 - pretest, 177–179
 - schools of economic thought, 169–170
- Economic indicators, 167–169
- Economic policy, 170–173
- Educational IRA, 128
- EE Bonds, 69
- Effective duration, 61
- Efficient frontier, 204
- Efficient market theory, 160
- Electronic communication networks (ECNs), 257

- Electronic trading, 253–254
 - Emergency withdrawal, 104
 - Employee Retirement Income Security Act of 1974 (ERISA), 135–136
 - Employees, bonding of, 88
 - Employee stock options, 134–135
 - Employers, 401K plans and, 134
 - Equipment, cash purchases of, 150
 - Equipment trust certificates, 45
 - Equities, 1–34
 - ADRs/ADSSs, 22–23
 - in balanced funds, 94
 - book value of, 4
 - common stock, 2–14
 - defined, 2
 - direct participation programs, 23–24, 27–28
 - dividends on, 17–21
 - limited partnerships, 23–29
 - preferred stock, 14–17
 - pretest, 31–34
 - REITs, 23
 - Equity funds, 92
 - Equity income funds, 93
 - Equity-indexed annuities, 116
 - Equity-linked notes, 50
 - ERISA (Employee Retirement Income Security Act of 1974), 135–136
 - ERISA 404C Safe Harbor, 136–137
 - Estate taxes, 213
 - ETFs (exchange-traded funds), 98
 - ETNs (exchange-traded notes), 50
 - Eurobonds, 50–51
 - Eurodollar bonds, 51
 - Examinations, for investment advisers, 323
 - Exchange member broker dealers, 89
 - Exchange (conversion) privileges, 103–104
 - Exchange-traded funds (ETFs), 98
 - Exchange-traded notes (ETNs), 50
 - Ex-dividend date (ex date), 19–20
 - Execution system, Nasdaq, 259
 - Exempt issuers, 344
 - Exempt securities, 339, 343–344, 349–352
 - Exempt transactions, 344–347
 - Exercised option, 271
 - Exercise price, 272
 - Expansion, 166
 - Expected return, 199–200
 - Expired option, 272
 - Ex-rights date, 7–8
 - Extension risk, 78
- F**
- Face-amount certificates, 82
 - Face-amount companies, 82
 - Family limited partnerships, 193
 - Federal Farm Credit System, 76
 - Federal Home Loan Mortgage Corporation (Freddie Mac), 75
 - Federal Housing Administration (FHA), 74
 - Federal Intermediate Credit Bank, 76
 - Federal Land Bank, 76
 - Federally covered exemptions, 307, 343–344
 - Federally covered investment advisers, 307
 - Federally covered securities, 307
 - Federal National Mortgage Association (Fannie Mae), 75
 - Federal Open Market Committee (FOMC), 171
 - Federal Reserve Board, 13, 170–171, 173, 223
 - Fee-based management, 122
 - FHA (Federal Housing Administration), 74
 - Fidelity bond, 233
 - Fiduciaries, 345
 - Fiduciary accounts, 189–191
 - FIFO (first-in, first-out) method, 208
 - Fifth Amendment, 361
 - Fill or kill orders, 246
 - Final prospectus, 220–221
 - Financial Crimes Enforcement Network (FinCEN), 238
 - Financial Industry Regulatory Authority (FINRA), 223–231
 - corporate website regulations, 228–229
 - 5 percent markup policy, 262–264
 - member communications with the public, 225–231
 - Rule 2210 communications with the public, 226–228
 - Financial institutions, transactions with, 345
 - Financial records, 11
 - FinCEN (Financial Crimes Enforcement Network), 238
 - FINRA, *see* Financial Industry Regulatory Authority
 - FINRA Rule 2210, 226–228
 - Firewalls, 234
 - First-in, first-out (FIFO) method, 208
 - Fiscal policy, 173–174
 - 501C3 organizations, 130–131
 - Five percent markup policy, 262–264
 - 529 plans, 128
 - Fixed annuities, 114, 116–117
 - Fixed assets, 147
 - Fixed unit investment trusts, 82–83
 - Floor rate, 116
 - FOMC (Federal Open Market Committee), 171
 - Footnotes (balance sheet), 154
 - Foreign securities, taxes on, 214
 - Form ADV, 303
 - Forwards, 291
 - 401k plans, 134
 - 403B (public educational institutions), 130
 - Fourth market, 261
 - Fraud, 185
 - Free services, 231
 - Friedman, Milton, 170
 - Front-end loads, 98
 - Front running, 184
 - Fulcrum fees, 329
 - Full discretion, 190, 323
 - Full power of attorney, 190, 307
 - Fully registered bonds, 36
 - Fundamental analysis, 145–155
 - balance sheet, 146–151
 - capitalization, 148
 - dividend valuation models, 155
 - income statements, 152–153
 - pretest, 163–164
 - top down/bottom up analysis, 154–155
 - and type of industry, 154
 - Funded debt, 147
 - Futures, 291
- G**
- GDP (Gross Domestic Product), 165–167
 - General obligation bonds (GOs), 54–55, 61
 - General partners, 24–25
 - General securities principal, 230

- Generational skipping transfer tax (GSTT), 211–212
 Generational skipping trust, 211–212
 Generic advertising, 229
 Gifted securities, 210
 Gifts (UGMA accounts), 192
 Gift taxes, 212–213
 Ginnie Mae, *see* Government National Mortgage Association (Ginnie Mae)
 Globalization, 175
 Good ‘til cancel (GTC), 243, 251–252
 GOs (general obligation bonds), 54–55, 61
 Government bond funds, 95
 Government debt securities, 83
 Government National Mortgage Association (Ginnie Mae), 74–75, 95
 Government securities, 69–78
 agency issues, 74–78
 pretest, 79–80
 TIPS, 73–74
 Treasury bills, notes, and bonds, 70–72
 Treasury receipts, 72–73
 Treasury STRIPs, 72
 Grantor retained annuity trust (GRAT), 212
 Gross Domestic Product (GDP), 165–167
 Growth, as investment objective, 194
 Growth and income (combination) funds, 93
 Growth funds, 92
 Growth industries, 154
 GSTT (Generational skipping transfer tax), 211–212
 GTC (good ‘til cancel), 243, 251–252
 Guam, 59
 Guarantees, 187, 306
 Guaranteed bonds, 46
- H**
- Head-and-shoulders bottom, 159
 Head-and-shoulders reversal, 158
 Hedge, options as, 281
 Hedge funds, 328–329
 HH Bonds, 70
 Highly leveraged company, 148
 Holding period return, 203
- I**
- Immediate or cancel (IOC) orders, 246
 Incentive stock option plans, 135
 Income, 11–12, 194
 Income bonds, 45–46
 Income statements, 152–153
 Indenture, 49
 Index funds, 93
 Indexing, 63
 Index-linked notes, 50
 Indirect investment, 115
 Individual retirement accounts (IRAs), 123–128
 Individual retirement plans, 123–131
 Industrial development bonds, 55
 Industrial revenue bonds, 55
 Inflation, 43, 73, 174
 Inherited securities, 210
 Initial public offerings (IPOs), 21, 83, 340–341
 Inside information, 234
 Inside market, 249, 258
 Insider Trading and Securities Fraud Enforcement Act of 1988, 233–234
 INSTINET, 261
 Institutional communications, 227–228
 Institutional investors, 304–305
 Insurance companies, 63, 114
 Intangible assets, 147
 Interest income, taxation of, 209–210
 Interest-only CMOs, 77–78
 Interest rates:
 and bond yields, 43
 and CMOs, 76–77
 and convexity, 62
 and general obligation bonds, 61
 and reserve requirement, 171
 and zero-coupon bonds, 46
 Interest rate risk, 197
 Interest rate sensitivity, 15
 Internal rate of return (IRR), 202–203
 Interpretive opinions, 356–357
 Inter vivos trusts, 211
 In-the-money options, 279
 Intrinsic value, of options, 280–281
 Inverse relationships, 15
 Investigations, 357
 Investment advisers:
 capital requirements for, 323
 contracts with, 328
 defined, 302
 and 401K plans, 134
 for investment companies, 88
 registration process for, 320–330
 role of, 325
 Investment adviser representatives, 304, 322
 Investment Advisers Act of 1940, 182, 224, 358
 Investment banks, firewalls for, 234
 Investment companies. *See also* Mutual funds
 components of, 87–89
 for mutual funds, *see* Mutual funds
 philosophy of, 81–82
 pretest, 109–111
 registration requirements for, 85–87
 types of, 82–83
 Investment Company Act of 1940, 138, 224–225
 and asset allocation model, 84
 board of directors requirements, 87–88
 investment company regulation under, 82, 85
 nonissuer transactions, 347
 notice filing, 341
 75-5-10 test, 84
 variable annuity company registration, 115
 Investment grade bonds, 50
 Investment objectives:
 and client profile, 188–189
 with mutual funds, 92–94
 ways to achieve, 194–195
 IOC (immediate or cancel) orders, 246
 IPOs, *see* Initial public offerings
 IRAs (individual retirement accounts), 123–128
 IRR (Internal rate of return), 202–203
 Irrevocable trusts, 211
 Isolated nonissuer transactions, 347
 Issued stock, 3
 Issuer (defined), 301
- J**
- Joint annuity with last survivor, 119–120
 Journal entry bonds, 37

Jumbo certificate of deposit, 308
 Junk bonds, 50
 Jurisdiction of state securities
 administrator, 358–361

K

Keogh (HR-10) plans, 129
 Key employees, bonding of, 88
 Keynes, John Maynard, 169, 173
 Keynesian economics, 169

L

Lagging indicators, 168–169
 Large capitalization, 162
 Last in, first out (LIFO), 121
 Leading indicators, 168
 Lease rental bonds, 56
 Legal list, 190
 Legislative risk, 29, 197
 Letters of intent, 101–102
 Level-load funds, 99
 Liabilities, 9, 146, 147
 Life insurance, 137–139
 universal life, 138
 universal variable life, 139
 variable life, 138
 variable universal life, 139
 whole life, 137–138
 Life only (straight life) annuity, 119
 Life with period certain annuity, 119
 LIFO (last in, first out), 121
 Limited discretion, 190
 Limited liability, of common
 stockholders, 9
 Limited liability companies (LLCs),
 193
 Limited partnerships, 23–29
 analysis of, 28
 dissolution of, 29
 as investment clients, 193
 structuring/offering of, 25–26
 tax considerations with, 28–29
 types of, 26–27
 Limited power of attorney, 190
 Limit orders, 246, 259
 Liquidity, 195
 Liquidity risk, 29, 198
 Listed securities, 247
 LLCs (limited liability companies),
 193
 Loans, 29, 188

Long calls, 273–274
 Long positions, 254–255
 Long puts, 276–277
 Long stock long puts/married puts,
 281–283
 Long stock short calls/covered calls,
 283–285
 Long straddles, 290
 Long-term liabilities, 147
 Low-income housing, 57
 Lump sum withdrawal (annuity), 121

M

M1/M2/M3 money supply, 172
 Maloney Act of 1938, 223
 Margin accounts, 232
 Markdown, 262–263
 Market arbitrage, 264
 Market capitalization, 162
 Market indexes, 162
 Market indicators, 159–160
 Market makers, 257, 258
 Market on close orders, 246
 Market on open orders, 246
 Market orders, 244, 259
 Market risk, 196–197
 Market theories, 159–160
 Markup, 262–263
 Married puts, 281–283
 Master limited partnerships (MLPs),
 26
 Material facts, omitting, 187
 Material information, 233–234
 Maturities, 43–44
 Median, 161
 Mergers and acquisitions, 319
 Middle capitalization, 162
 MIG ratings, 57
 Misleading communications, 231
 Misrepresentations, 186–187, 221
 MLPs (master limited partnerships),
 26
 Mode, 161
 Modern portfolio theory, 199, 204
 Monetary economics, 169–170
 Money laundering, 236–238
 Money market funds, 95–96
 Money supply, 169–170, 172
 Moody's, 49–50, 57
 Moral obligation bonds, 56–57
 Moral suasion, 173
 Mortgage-backed bonds, 62, 74–75
 Mortgage-backed securities, 62,
 74–78, 346
 Mortgage bonds, 44
 MSRB (Municipal Securities Rule
 Making Board), 233
 Municipal bonds, 53–62
 analysis of, 60–61
 in bond funds, 94, 95
 convexity of, 62
 and IRAs, 127
 premium amortization with, 60
 and Securities Acts Amendments
 of 1975, 233
 taxation of, 58–59
 types of, 54–57
 Municipal bond funds, 94, 95
 Municipal Securities Rule Making
 Board (MSRB), 233
 Mutual funds, 83, 89–104, 187
 automatic reinvestment of
 distributions from, 103
 breakpoint sales of, 102
 combination privileges with, 103
 conversion/exchange privileges
 with, 103–104
 diversified vs. nondiversified,
 84–85
 dollar cost averaging with, 104–106
 and financial advisers'
 recommendations, 187
 investment companies for, 83
 investment company philosophy
 for, 81–82
 investment objectives with, 92–94
 investor voting rights with,
 106–107
 open-end fund share characteristics
 of, 91–92
 open-end vs. closed-end, 83–84
 portfolio turnover rates for, 107
 pretest, 109–111
 prospectus for, 90–91
 rights of accumulation with, 102
 sales charges on, 97–103
 share distribution from, 89, 90
 share valuation of, 96–97
 30-day emergency withdrawal of,
 104
 variable annuity vs., 122
 yields on, 107

N

Naked calls, 274, 275
 NASD (National Association of Securities Dealers), 223
 Nasdaq, 256–261
 execution systems of, 259
 fourth market, 261
 market makers and, 257
 nominal quotes and, 259
 opening cross of, 260
 and OTCBB, 260
 and Pink Sheets, 260
 subscription levels for, 257–258
 third market, 260–261
 Nasdaq closing cross, 260
 Nasdaq Market Center Execution System (NMCES), 259
 Nasdaq official opening price (NOOP), 260
 Nasdaq opening cross, 260
 Nasdaq TotalView, 258
 National Association of Securities Dealers (NASD), 223
 National Association of Securities Dealers Quotation System, *see* Nasdaq
 National Securities Market Improvement Act of 1996, 235–236, 321, 341, 343–344
 Negative convexity, 62
 Negotiable certificate of deposit, 308
 Net asset value (NAV), 89, 95–97
 Net capital, 232
 Net income after taxes, 152
 New housing authority (NHA) bonds, 57
 New York Stock Exchange, 96, 246, 247, 253
 NMCES (Nasdaq Market Center Execution System), 259
 No-load mutual funds, 90
 Nominal interest rate, 43
 Nominal quotes, 259
 Nominal yield, 39
 Noncompetitive tenders, 70
 Noncumulative preferred stock, 16
 Nondiversified mutual funds, 84–85
 Nonestablished issuers, 341–342
 Nonfixed unit investment trust, 83
 Noninterested person, 88
 Nonissuer, 302

Nonissuer transactions, 347
 Non-Nasdaq OTCBB, 260
 Nonprofit organizations/tax-exempt organizations (501C3), 130–131
 Nonpublic material information, 233–234
 Nonqualified retirement plans, 123, 124, 131–132
 Nonqualified stock option plan, 134–135
 Nonrecourse loan, 29
 Nonsystematic risk, 197
 Nonvoting stock, 15
 NOOP (Nasdaq official opening price), 260
 Not held orders, 246
 Notice filing, 341

O

OCC (Options Clearing Corporation), 272
 Odd lot trading theory, 159
 Offer (to sell/to buy), 306, 360
 Office of Foreign Assets Control (OFAC), 237
 OID (original issue discount), 59
 Open-end indentures, 49
 Open-end mutual funds, 83–84, 91–92
 Opening cross, 260
 Operating income, 152
 Opportunity risk, 198
 Options, 269–295
 calls, 269–271, 273–276, 279–280
 characteristics of, 272
 classification of, 269–270
 and correlation, 291
 futures and forwards, 291
 as hedge, 281
 and managing a position, 272–273
 possible outcomes for, 271–272
 pretest, 293–295
 puts, 53, 269–271, 276–283, 288–291
 tombstone advertisement approval with, 230
 Option premiums, 279–281
 Options Clearing Corporation (OCC), 272
 Option series, 270
 Order shredding, 259

Original issue discount (OID), 59
 OTC bulletin board (OTCBB), 260, 341
 OTC market, *see* Over-the-counter market
 Out-of-the-money options, 280
 Outside solicitors, 328
 Outstanding stock, 3
 Overlapping debt, 54–55
 Over-the-counter (OTC) market, 83, 223, 256–261. *See also* Nasdaq

P

PAC (planned amortization class) CMOs, 78
 Painting the tape, 184
 Parity price, 47–48
 Participating preferred stock, 16
 Partnership agreements, 25
 Partnerships, *see* Limited partnerships
 Par value, 5, 14, 38
 Passive portfolio management, 63
 Patriot Act, 237–238
 Payment date, 13, 19
 Payout, annuity, 119–120
 Payroll deduction plans, 132
 Peak, 166
 Pegging, 184
 Penalties, civil/criminal, 358
 Penny stocks, 260
 Pension consultants, 302
 Pension fund managers, 63
 Pension plans, 135–136
 Performance-based compensation, 328–329
 Periodic payment deferred annuities, 117
 Periodic payment plans, 187–188
 Perpetual income accounts, 205–206
 Person (defined), 299–300
 PHA (public housing authority) bonds, 57
 Pink OTC Market, 260
 Pink Sheets, 260, 341
 Plan administrators/trustees, 134
 Planned amortization class (PAC) CMOs, 78
 Pledges of securities, 346
 POP (public offering price), 89–90, 100

- Portfolio income, 204–206
 Portfolio management, 62–63
 Portfolio turnover rate, 107
 Positive convexity, 62
 Power of attorney, 190, 307
 PPNs (principal protected notes), 50
 Preemptive rights, 5–6
 Preferred stock, 14–17
 Preferred stock ratio, 151
 Preliminary prospectus, 220
 Premiums, 279–281
 Premium bonds, 38, 40, 60
 Premium enhancement, 115–116
 Preopening orders, 253–254
 Preorganization certificates, 346–347
 Prepaid tuition plans, 128
 Prerefunded bonds, 52
 Preservation of capital, 194–195
 Price earnings ratio, 153
 Price return, 62
 Price weighted index, 162
 Pricing:
 of bonds, 37–38
 of mutual fund shares, 96
 of Treasury bonds/notes, 71–72
 Primary dealers, 70
 Principal, specialist/DMM as, 248
 Principal-only bond registration, 36
 Principal-only CMOs, 77
 Principal protected notes (PPNs), 50
 Private investment companies, 306, 328–329
 Private-label CMOs, 78
 Private placements, 26, 344–345
 Proceeds transactions, 264
 Professional conduct, 182–187, 215, 217, 218
 Profit-sharing plans, 133
 Progressive taxes, 206
 Property taxes, 54–55
 Proprietary trading systems, 261
 Prospectus, 90–91, 220
 Prudent man rule, 190
 Public educational institutions (403B), 130
 Public housing authority (PHA)
 bonds, 57
 Public offerings, 26
 Public offering price (POP), 89–90, 100
 Public Utilities Holding Company Act of 1935, 223
 Puerto Rico, 59
 Puts, 53, 269–271, 276–283, 288–291
- Q**
 Qualification, 341–342
 Qualified purchasers, 305
 Qualified retirement plans, 123, 132
 Quantitative analysis, 161
 Quick assets, 151
 Quick ratio, 151
- R**
 Random walk theory, 160
 Random withdrawal, 121
 RANs (revenue anticipation notes), 57
 Ratings, 49–50
 Real estate investment trusts (REITs), 23
 Real GDP, 174
 Real interest rate, 43
 Realized compound yield, 42
 Rebalancing, 204
 Recession, 167
 Reciprocal immunity, 58
 Recommendations, 181–206
 and alpha, 198
 and beta, 198–199
 blanket, 185–186
 and CAPM, 196
 and client profile, 188–189
 dividends as basis for, 186
 and expected return, 199–200
 and investment objectives, 194–195
 misrepresentation in, 186–187
 and modern portfolio theory, 204
 of mutual funds, 187
 of periodic payment plans, 187–188
 and portfolio income predictions, 204–206
 pretest, 215–218
 and report contents, 181–182
 risk vs. reward, 196–198
 and weighted returns, 202–203
 Record date, 19
 Recourse loan, 29
 Redemption of corporate bonds, 52
 Red herrings, 220
 Reductions of sales charges, 100–101
 Referrals, 328
 Refunding of corporate bonds, 52
 Registered bonds, 36
 Registered traders, 253
 Registrars, 10–11
 Registration of firms/personnel,
 315–330
 agents, 315–320
 broker dealers, 315–320
 cancellation of, 354
 investment advisers, 320–330
 pretest, 333–337
 withdrawal of registration, 355
 Registration of securities, 339–352
 exempt securities, 339, 343–344
 exempt transactions, 344–347
 federally covered exemptions,
 343–344
 pretest, 349–352
 through coordination, 340–341
 through notice filing, 341
 through qualification, 341–342
 Registration statements, 219–220, 340
 Regressive taxes, 207
 Regulation D, 344–345
 Regulation Filing Application (RFA),
 256
 Regulation SHO, 254
 Regulation T, 13
 Reinvestment of distributions, 103
 Reinvestment return, 62
 Reinvestment risk, 197
 REITs (real estate investment trusts),
 23
 Renewals, registration, 319
 Rescission, 361–362
 Research, 329
 Research reports, 230
 Reserve requirement, 170–171
 Residual assets, shareholders' claims
 to, 11, 12, 15
 Resistance, 156
 Retail banking, 318
 Retail communications, 226–227
 Retail trading departments, 234
 Retirement of corporate bonds, 51–53
 Retirement plans, 122–137
 corporate plans, 131–135
 individual plans, 123–131
 IRAs, 123–128
 Keogh plans, 129
 pretest, 141–143
 TSAs/TDAs, 129–131
 Revenue anticipation notes (RANs),
 57

- Revenue bonds, 55
- Reversals, 156, 158–159
- Reverse churning, 183–184
- Revocable trusts, 211
- Rewards, risk vs., 196–198
- RFA (Regulation Filing Application), 256
- Right cum rights, 7
- Right ex rights, 7–8
- Rights of accumulation, 102
- Rights of common stockholders, 5–9, 11
- Rights of rescission, 361–362
- Rights offerings, 5–7
- Risk, 12, 29, 196–198. *See also specific types, e.g.:* Currency risk
- Risk arbitrage, 264
- Risk aversion, 204
- Riskless principal transactions, 263–264
- Risk premium, 196, 199
- Rollover, 127, 134
- Roth IRAs, 124–125
- Round lot, 272
- Rule 200, 254–255
- Rule 203, 255–256
- Rule 2210, 226–228
- Rules and regulations, 219–241. *See also specific rules and regulations*
 - FINRA, 223–231
 - Insider Trading and Securities Fraud Enforcement Act of 1988, 233–234
 - Investment Advisers Act of 1940, 224
 - Investment Company Act of 1940, 224–225
 - National Securities Market Improvement Act of 1996, 235–236
 - Patriot Act, 237–238
 - pretest, 239–241
 - SEC, 222–223
 - Securities Act Amendments of 1975, 233
 - Securities Act of 1933, 219–221
 - Securities Exchange Act of 1934, 221–223
 - SIPC, 231–233
 - Telephone Consumer Protection Act of 1991, 234–235
 - Trust Indenture Act of 1939, 224
 - USA, 236
- Rule changes, by state securities administrators, 355
- Rule of 72, 206
- S**
- “Safe Harbor” (ERISA 404C), 136–137
- Sale (defined), 306
- Sales charges, 89, 97–103, 122
- SAR (Suspicious Activity Report), 237
- S corporations, 27, 193
- SDBK (super display book system), 253–254
- SEC, *see* Securities and Exchange Commission
- SEC disclaimer, 221
- Secondary markets, 22, 59, 74, 222
- Sector funds, 93
- Secured bonds, 44–45
- Securities:
 - defined, 1–2, 297–299
 - registration of, *see* Registration of securities
 - trading of, *see* Trading securities
 - types of, 1–2
- Securities Act Amendments of 1975, 233
- Securities Act of 1933, 82, 85, 219–221, 339
- Securities Acts Amendments of 1975, 233
- Securities and Exchange Commission (SEC), 222–223
 - creation of, 222
 - FOK/IOC order rules, 246
 - investment adviser registration with, 321
 - investment company registration with, 85–87
 - IPO registration with, 340
 - and registration statements, 219–220, 340
 - Regulation SHO, 254
 - and soft dollars, 329–331
 - transaction regulations, 219–221
- Securities Exchange Act of 1934, 13, 221–223, 235–236, 347
- Securities Investor Protection Corporation Act of 1970 (SIPC), 231–233
- Securities transactions, 358–361
- Self-directed 401K plans, 134
- Self-incrimination, 361
- Self-regulatory organizations (SROs), 222
- Sell (defined), 306
- Selling:
 - calls, 274–276
 - dividends, 20, 186
 - puts, 277–278
- Selling group members, 89–90
- Sell limit orders, 244
- Sell stop orders, 245, 251
- Semi-strong-form efficiency, 160
- SEP (simplified employee pension) IRA, 125–126
- Serial bonds, 44
- Serial maturity, 44
- Series EE Bonds, 69
- Series HH Bonds, 70
- Series issue, 44
- Services, free, 231
- Settlement dates, 13
- Settlor function, 135
- 75-5-10 test, 84–85
- Share identification, 208
- Sharpe ratio, 198–199
- Short calls, 274–276
- Short interest theory, 159
- Short puts, 277–278
- Short sales, 254–256
- Short stock long calls, 285–288
- Short stock short puts, 288–291
- Short straddles, 290–291
- Short-term municipal financing, 57
- Shredding, 259
- Simplified employee pension (SEP) IRA, 125–126
- Single payment deferred annuity, 117
- Single payment immediate annuity, 117
- “Sin” taxes, 56
- SIPC (Securities Investor Protection Corporation Act of 1970), 231–233
- SLP (supplemental liquidity provider), 253
- Small capitalization, 162
- Soft dollars, 329–331
- Sold option, 272
- Solicitors, 304, 328
- S&P (Standard & Poor’s), 49–50
- S&P 500, 93, 116, 329
- Special assessment bonds, 56
- Specialists/DMMs, 247–250

- Specialist bills, 249
 - Specially Designated Nationals, 237
 - Special tax bonds, 56
 - Specified program, 28
 - Speculation as investment objective, 195
 - Speculative rate bonds, 50
 - Spread (defined), 257
 - SROs (self-regulatory organizations), 222
 - Standard & Poor's, *see* S&P
 - Standard power of attorney, 307
 - State regulation:
 - broker dealer registration, 315–316
 - and coordination, 340–341
 - and exempt securities, 343–344
 - State securities administrators, 353–362
 - actions by, 353–358
 - broker dealer registration with, 317
 - and civil/criminal penalties, 358
 - jurisdiction of, 358–361
 - notice filing with, 341
 - pretest, 363–368
 - and right of rescission, 361–362
 - and statute of limitations, 362
 - Uniform Securities Act and, 236
 - Statistical analysis, 161
 - Statute of limitations, 362
 - Statutory debt limit, 54
 - Statutory voting method, 8–9
 - Stocks, *see* Common stock; Equities; Preferred stock; Securities
 - Stock dividends, 18
 - Stock exchanges, 247
 - Stockholders' equity, 148
 - Stockholders' rights, 5–9
 - Stock splits, 48, 151, 251–252
 - Stop limit orders, 246
 - Stop loss orders, 244–245
 - Stop orders, 244–245
 - Stopping stock, 252–253
 - Stop price, 245
 - Straddles, 290–291
 - Straight life annuity, 119
 - Straight line depreciation, 150
 - Straight preferred stock, 16
 - Strategic asset allocation, 204
 - Street name, 21
 - Strike price, 272
 - STRIPs, 72
 - Strong-form efficiency, 160
 - Subchapter S corporations, 27, 193
 - Subordinated debentures, 45
 - Subscription price, 6, 21
 - Suitability obligation, 118
 - Summary order, 356
 - Super display book system (SDBK), 253–254
 - Supplemental liquidity provider (SLP), 253
 - Supply side economics, 169
 - Support (technical analysis), 156
 - Suspicious Activity Report (SAR), 237
 - Systematic rebalancing, 204
 - Systematic risk, 196–197
- T**
- T+3 (settlement date), 13
 - T+5 (payment date), 13
 - Targeted amortization class (TAC) CMOs, 78
 - Tax and revenue anticipation notes (TRANs), 57
 - Tax anticipation notes (TANs), 57
 - Taxation, 207–214
 - AMT, 214
 - and annuities, 121
 - and charitable donations, 210
 - corporate dividend exclusion, 214
 - and cost base of multiple purchases, 208–209
 - and direct participation programs, 27–28
 - of dividends, 20
 - estate taxes, 213
 - as fiscal policy, 173
 - and foreign securities, 214
 - gains and losses, 207–209
 - and inherited/gifted securities, 210–213
 - of interest income, 209–210
 - and Keogh plans, 129
 - and municipal bonds, 58–59
 - of partnerships, 25
 - pretest, 215, 217
 - and SEP IRAs, 126
 - of trusts, 211–212
 - of TSA/TDA distributions, 131
 - of UGMA accounts, 192
 - and wash sales, 209
 - withholding tax, 213–214
 - Tax benefits, as investment objective, 195
 - Tax credits, 28
 - Tax deductions, 28
 - Tax-deferred accounts (TDAs), 129–131
 - Tax-equivalent yields, 58
 - Tax-exempt organizations (501C3), 130–131
 - Tax-sheltered annuities (TSAs), 129–131
 - Technical analysis, 155–161
 - and efficient market theory, 160
 - market theories/indicators, 159–160
 - pretest, 164
 - and statistical analysis, 161
 - Telemarketing, 234–235
 - Telephone Consumer Protection Act of 1991, 234–235
 - Tender offers, 53
 - Term bonds, 43
 - Term definitions under USA, 297–313
 - Testamentary trusts, 211
 - Testimonials, 230–231
 - Third market, 260–261
 - Third-person accounts, 189–191
 - 30-day emergency withdrawal, 104
 - 3C7 funds, 328–329
 - Thrift plans, 134
 - Time value:
 - of money, 200–202
 - of options, 280–281
 - Timing risk, 197
 - TIPS (Treasury inflation protected securities), 73–74
 - Tombstone advertisements, 229–230
 - Top down analysis, 154–155
 - Total return, 203
 - Trading ahead, 184
 - Trading securities, 243–267
 - arbitrage, 264
 - brokers vs. dealers, 261
 - crossing stock, 250–251
 - DNR, 251
 - FINRA 5 percent markup policy, 262–264
 - over the counter/Nasdaq, 256–261
 - pretest, 265–267
 - regulation of, 254–256
 - by specialists/DMMs, 247–250
 - state securities administrator's jurisdiction over, 358–361
 - stock exchanges, 247

- stock splits, 251–252
 - stopping stock, 252–253
 - types of orders, 243–246
 - Traditional IRAs, 124
 - Tranches, 76
 - TRANs (tax and revenue anticipation notes), 57
 - Transactions, *see* Trading securities
 - Transfer agents, 10, 89
 - Treasury, U.S. Department of, 237
 - Treasury bills, 70–72
 - Treasury bonds, 71–72
 - Treasury inflation protected securities (TIPS), 73–74
 - Treasury notes, 71–72
 - Treasury receipts, 72–73
 - Treasury stock, 3–4
 - Treasury STRIPs, 72
 - Trend lines, 156
 - Trigger prices, 245
 - Troughs, 166–167
 - Trusts, 211–212
 - Trust accounts, 190
 - Trust indentures, 224
 - Trust Indenture Act of 1939, 49, 55, 224
 - TsAs (tax-sheltered annuities), 129–131
 - Two-dollar brokers, 253
 - Two-sided markets, 257
- U**
- UGMA (Uniform Gift s to Minors Act), 191–192
 - UITs (unit investment trusts), 82–83
 - Ultra ETFs, 98
 - Unauthorized transactions, 185
 - Uncovered calls, 274, 275
 - Underwriters, transactions with, 345
 - Uniform Gift s to Minors Act (UGMA), 191–192
 - Uniform Prudent Investors act of 1994 (UPIA), 182–183
 - Uniform Securities Act (USA), 236
 - agent registration under, 316
 - civil/criminal penalties under, 358
 - and exempt financial institution transactions, 345
 - and exempt securities, 339
 - penalties under, 358
 - state administrator's powers under, 358–359
 - State Securities Administrator pretest, 363–368
 - State Securities Administrator role/responsibilities, 353–362
 - term definitions, 297–313
 - term definitions pretest, 309–313
 - Units (common shares with warrants), 21
 - Unit investment trusts (UITs), 82–83
 - Universal life insurance, 138
 - Universal variable life insurance, 139
 - Unsecured bonds, 45–46
 - Unsolicited orders, 346
 - UPIA (Uniform Prudent Investors act of 1994), 182–183
 - Upward trend lines, 156, 157
 - USA, *see* Uniform Securities Act
 - USA PATRIOT Act, 237–238
 - Utility stocks, 93, 198
- V**
- Valuation ratios, 151
 - Variable annuities, 114, 116–117, 122
 - Variable life insurance, 138
 - Variable Rate Demand Obligations (VRDOs), 51
 - Variable rate securities, 51
 - Variable universal life insurance, 139
 - Veterans Affairs, U.S. Department of (VA), 74
 - Voting rights, 8–9, 106–107
 - VRDOs (Variable Rate Demand Obligations), 51
- W**
- Warrants, 21–22
 - Wash sales, 60, 209
 - Weak-form efficiency, 160
 - Websites, FINRA regulations for, 228–229
 - Weighted returns, 202–203
 - Whole life insurance, 137–138
 - Withholding tax, 213–214
 - Working capital, 151
 - Wrap accounts, 329
- Y**
- Yankee bonds, 51
 - Yields, 39–43, 107
 - Yield spreads, 43
 - Yield to call, 42
 - Yield to maturity, 40–42
- Z**
- Zero-coupon bonds, 46, 61, 72
 - Z tranches, 76