Index

A
Accounts:
corporate, 296
customer, see Customer accounts
discretionary, 297–298
for employees of other broker
dealers, 301–302
foreign, 447
margin, see Margin accounts
partnership, 297
tax-deferred, 337–339
trust, 296–297
U.S., 447
Account transfers, 302
Accrued interest, 354–356
Accumulation units, 231–232
Additional issues (term), 247
Adjustment bonds, 39
ADRs (American depositary
receipts), 22
ADSs (American depositary shares), 22
Advertising regulations, 436–438
Aftermarket purchasers, prospectus
for, 243
Agency issues (government), 57–59
Agent, specialist/DMM as, 264–266
All or none (AON) underwriting, 247
Alpha (of stock), 410–411
Alternative minimum tax (AMT), 416
American style options, 178–179
Amortization (municipal bond
premiums), 89
AMT (alternative minimum tax), 416
Annual compliance review, 448
Annuities:
payout options, 232–233
purchase options, 231
tax-sheltered, 337–339
variable, see Variable annuities
Annuity units, 232
At the money options, 137
Average cost, 216
AON (all or none) underwriting, 247
Arbitrage in trading securities, 286
Arbitration, 444–445
Assets:
distribution of, 15
junior claim on, 13
residual claim to, 11
Asset allocation funds, 202
At the money options, 137
Authorized stock, 3
Automatic reinvestment of
distributions, 211
B
Back-end loads, 206–207
Balanced funds, 201
Balance sheet, 370–377
Balloons, 37
Bankers’ acceptances (BAs), 106
Bearer bonds, 30
Bear call spreads, 156–157
Breakeven (continued)
bull put spread, 162
long calls, 132
long puts, 134–135
long stock long puts, 139–140
long stock short calls, 141
long straddle, 149–150
short calls, 133
short puts, 136
short stock long calls, 144
short stock short put, 146
short straddle, 151–152
Breakpoint sales, 210
Breakpoint schedule, 209
Brokers, 281
Brokerage office procedure, 349–367
accrued interest, 354–356
clearly erroneous reports in, 352
customer accounts, 359–361
delivery, 357–359
DK procedures, 359
due bills, 359
executing orders, 349–352
pretest, 363–367
proxies, 361
settlement options, 352–354
when-issued securities, 353
Broker call loan rate, 109
Broker dealer:
acting as fiduciary, 80–81
websites of, 435–436
Bull call spreads, 154–155
Bullish (investors), 128–129
Bullish options, 128–129
Bullish options, 128–129
Bull put spreads, 161
Business continuity plan, 448
Buy limit orders, 260
Buy stop orders, 261

C
Calendar spreads, 153
Call feature, 44
Call options (calls), 127–128,
131–134
bear call spreads, 156–157
broker call loan rate, 109
bull call spreads, 154–155
covered, 181
credit call spreads, 156–157
debt call spreads, 154–155
exercising, 180
foreign currency, 174
long stock short calls, 141–143
short stock long calls, 143–145
Call risk, 410
Capital gains distribution, 213–214
Capitalization (fundamental
analysis), 373
Capital losses, 413
Capital risk, 409
Capped index options, 170
Carrying (customer accounts),
360–361
Cashiering department, 350
Cash on delivery (COD), 353
CMO (collateralized mortgage
obligation), 45–48
COD (cash on delivery), 353
Code of arbitration, NASD,
426–427, 444
Code of procedure, NASD, 426
Coincident indicators, 116
Collateralized mortgage obligation
(CMO), 45–48
Collateral trust certificates, 38
Combinations (of options), 163
Combination annuities, 229
Combination funds, 201
Combination privileges, 211
Combined margin accounts, 323
Commercial paper, 106
Commissions, continuing, 431
Commission house brokers, 176, 269
Committee on Uniform Securities
Identification Procedures
(CUSIP), 11
Common stock, 2–14, 40–41
Communication:
ERISA guidelines for, 343
with the public, 432–438
Community factors, 91–92
Complaints:
by customers, 405
regulations for, 443–444
Compliance review, annual, 448
Confirmations (municipal bonds),
84–85
Conflicts of interest (underwriters),
80–81
Consolidated tape, 279–281
Consumer price index (CPI), 121
Continuing education, 429–430
Contract, annuitizing, 235
Contraction (phase of economy),
114
Contractual accumulation plans,
218
Contributions:
to educational IRAs/Coverdell
IRAs, 336–337
to SEP IRAs, 332–333
to TSAs/TDAs, 338–339
Conversion privileges, 211–212
Convertible bonds, 39–42
Corporate accounts, 296
Corporate bond(s), 29
pricing, 32
retiring, 43–45
types of, 37–40
Corporate bond funds, 202
Corporate dividend exclusion, 416
Corporate money market
instruments, 105–107
Corporate retirement plans,
339–341
Corporate securities, 241–258
free riding and withholding/ FINRA Rule 5130, 244–245
pretest, 255–258
prospectus, 242–244
regulations for, 251–254
Securities Act, 241–242
settlement of, 352–353
tombstone ads for, 244
underwriting for, 245–250
Correspondence, and FINRA Rule
2210, 435
Cost base (multiple purchases),
215–216, 412–413
Coverdell IRAs, 334–335
Covered calls, 181. See also Long stock short calls
CPI (consumer price index), 121
Credit:
    extension of, 425
    regulation of, 309
Credit call spreads, 156–157
Credit put spreads, 161
Credit risk, 410
Crossing stock, 266
C shares, 207
Currency risks, 22
Currency transactions, 446
Current yield:
    of bonds, 33–34
    of mutual fund, 403
CUSIP (Committee on Uniform Securities Identification Procedures), 11
Custodian banks:
    functions of, 22–23
    for investment companies, 196–197
Customer accounts, 291–308
    brokerage office procedure for, 359–361
    commingling pledged securities, 304
    holding securities, 293–294
    mailing instructions, 294
    pretest, 305–308
    Regulation S-P, 304
    types of accounts, 294–304
Customer complaints, 405
Customer confirmations, 84–85, 351
Customer recommendations,
    397–398, 406–410
    and alpha, 410–411
    and beta, 411
    investment objectives, 407–409
    NYSE/FINRA requirements of customer knowledge, 406–407
    pretest, 417–421
    risk vs. reward, 409–410
Debit call spreads, 154–155
Debit put spreads, 159
Debt securities, 29–52
    bonds, 29–45
    CMO, 45–48
    ETNs, 48
    pretest, 49–52
    Trust Indenture Act (1939), 42
Debt statement, 90–91
Deceptive devices, 399–400
Deferred annuity:
    periodic-payment, 231
    single-payment, 231
Deferred compensation plans, 340
Deflation, 121
Delivery, 357–359
    rejection of, 358–359
    rules for good, 357
Delivery vs. payment (DVP), 294, 353
Depression, 115
Designated market makers (DMMs), 263–266
Designated orders, 75
Diagonal spreads, 153–154
Direct participation programs,
    385–395
    dissolving partnerships, 392
    equipment leasing programs, 390–391
    limited partnership analysis, 391
    limited partnerships, 385–389
    oil and gas sharing arrangements, 390
    pretest, 393–395
    tax considerations, 391–392
Disciplinary actions, 428
Discount bond, 32, 34–35
Discount rate, 109, 118
Discretionary accounts, 297–298
Disintermediation, 119
Disputes (in arbitration), 445
Distribution(s):
    automatic reinvestment of, 211
    of corporate assets, 15
    of dividends, 18–20
    from mutual funds, 197–198, 213–214
    from TSAs/TDAs, 339
    Diversified mutual funds, 192–193
Dividends:
    of common stocks, 12
    corporate exclusion, 416
    disbursement process for, 20–21
    distribution of, 18–20
    and options, 179–180
    payment of, 15
    selling, 20, 401
    taxation of, 20
    types of, 17–18
    DK (don’t know) procedures, 359
    DMMs (designated market makers), 263–266
    DNR (do not reduce) orders, 267
    Dollar-cost averaging (mutual funds), 217–218
    Do not reduce (DNR) orders, 267
    Don’t know (DK) procedures, 359
    Double-barreled bonds, 66
    D shares, 207
    Due bills, 359
    DVP (delivery vs. payment), 294, 353
E
Economic indicators, 115–117
Economic policy, 117
Economics, 113–125
    CPI, 121
    depression, 115
    economic indicators, 115–117
    Federal Reserve Board tools, 117–120
    fiscal policy, 120
    GDP, 113–115
    inflation/deflation, 121
    international issues in, 122
    pretest, 123–125
    real GDP, 121
    recession, 115
    Educational IRAs, 334–335
    Efficient market theory, 382
    Employees of other broker dealers, accounts for, 301–302
    Employee Retirement Income Security Act (1974, ERISA), 342–344
    Employment, outside, 404–405
    Equipment leasing programs, 390–391
Equipment trust certificates, 38
Equity funds, 200
Equity income funds, 200–201
Equity indexed annuities, 230
Equity securities, 1–28
common stock, 2–14
currency risks in, 22
custodian bank functions, 22–23
preferred stock, 14–22
pretest, 25–28
REITs, 23
securities defined, 1–2
stock as term, 2
ERISA (Employee Retirement Income Security Act), 342–344
Errors, 352
Estate taxes, 415
ETFs (exchange-traded funds), 206
ETNs (exchange-traded notes), 48
European style options, 178–179
Exchanges, 263
Exchange order priority, 263
Exchange privileges, 211–212
Exchange qualifiers, 281
Exchange-traded funds (ETFs), 206
Exchange-traded notes (ETNs), 48
Exempt securities, 250
Exempt transactions, 250
Exercise:
of index options, 169
of options, 129–130, 178, 179
Exercise price (options), 130
Expansion (phase of economy), 114
Expenses (variable annuities), 235–236
Expiration (options), 130, 178

F
Face-amount certificate companies, 190
Fail to deliver, 359
Fail to receive, 359
Fair dealings with customers, 398–402
Federal Farm Credit System (FFCS), 58–59
Federal fund loans, 106
Federal funds rate, 109
Federal Home Loan Mortgage Corporation (FHLMC), 58
Federal National Mortgage Association (FNMA), 58
Federal Open Market Committee (FOMC), 118
Federal Reserve Board, 117–120
FFCS (Federal Farm Credit System), 58–59
FHLMC (Federal Home Loan Mortgage Corporation), 58
Fidelity bond, 439
Fiduciary, acting as, 80–81
Fiduciary accounts, 298–299
FIFO (first in, first out), 215
Final confirmations, 76–77
Final prospectus, 242–243
Financial adviser:
acting as, to issuer, 80
acting as underwriter and, 81
Financial ratios (general obligation bonds), 93
FINRA:
5% markup policy, 282
registered representatives, 427–432
requirements of customer knowledge, 406–407
FINRA Rule 2210, 433–435
FINRA Rule 5130, 244–245
Firewalls, 441
Firm commitment underwriting, 246
First in, first out (FIFO), 215
Fiscal policy, 120
529 plans, 335
Fixed annuities, 228
Fixed dollar amount withdrawals (mutual funds), 220
Fixed percentage withdrawals (mutual funds), 220
Fixed repurchase agreements, 107
Fixed share withdrawals (mutual funds), 220
Fixed time withdrawals (mutual funds), 220
FNMA (Federal National Mortgage Association), 58
FOMC (Federal Open Market Committee), 118
Foreign accounts, 447
Foreign currency calls, 174
Foreign currency options, 172–174
Foreign currency puts, 174
Foreign securities, 416
45-day free look (mutual funds), 219
401K thrift plans, 341
Fourth market, 279
Fraud, 400
Freely transferable securities, 10
Free riding and withholding rule, 244–245
Front-end loads, 206
Fully registered bonds, 30
Fundamental analysis, 369–384
balance sheet, 370–377
industry fundamentals, 377–378
pretest, 383–384
Funding, ERISA guidelines for, 343
G
Gains:
calculating for taxation, 412
maximum, see Maximum gain in mutual funds, 213–215
Gas sharing arrangements, 390
GDP (gross domestic product), 113–115, 121
General obligation bonds, 64–65, 90, 93
Gift rule, 404
Gift taxes, 415
GNMA (Government National Mortgage Association), 57–58
Government bonds, accrued interest for, 356
Government bond funds, 202–203
Government money market instruments, 107
Government National Mortgage Association (GNMA), 57–58
Government notes, accrued interest for, 356
Government securities, 53–62
agency issues, 57–59
pretest, 61–62
settlement of, 353–354
TIPS, 57
Treasury bills, notes, and bonds, 53–56
Treasury receipts, 56
Treasury STRIPS, 56
Index

Gross domestic product (GDP), 113–115, 121
Group net orders, 75
Growth, as investment objective, 407
Growth and income funds, 201
Guarantees:
and professional conduct, 402
for variable annuities, 235–236
Guaranteed bonds, 39
H
Hedge, 139
Holding securities, 293–294
House rules (margin accounts), 312
I
Immediate annuity, single-payment, 231
Income:
from common stocks, 12
equity income funds, 200–201
growth and income funds, 201
interest, 414
as investment objective, 407
Income bonds, 39
Income statement, 375–377
Index funds, 201
Index options, 168–170
Individual accounts, 294
Individual plans, 329–330
Individual Retirement Accounts (IRAs), 330–337
Industrial development bonds, 65
Industrial revenue bonds, 65
Industry categories, 377–378
Inflation, 121
Information:
disclosure of client, 404
investor, 405
from issuer, 403
sources of, for municipal bond market, 86
Informational quotes, 82
Inherited securities, 414–415
Initial public offering (IPO), 247
Insider Trading and Securities Fraud Enforcement Act (1988), 440
Institutional communication, FINRA Rule 2210 and, 434–435
Institutional customer recommendations, 402
Interest income, 414
Interest-only CMOs, 46–47
Interest rates, 108–109
AIR, 234
and CMOs, 45–46
stock sensitivity to, 15
Interest rate options, 170
International monetary considerations, 122
International money market instruments, 108
Intrastate offerings, 253–254
Intrinsic value, 138
Investment advisers, 196
Investment companies:
components of, 195–197
for mutual funds, 189–191
registration of, 193–195
Investment management fees, 236
Investment objectives, 200–202, 407–409
Investment taxation, 411
IPO (initial public offering), 247
IRAs (Individual Retirement Accounts), 330–337
Issues:
additional, 247
agency, 57–59
awarding, 72
municipal securities, 68
series, 37
Issued stock, 3
J
Joint accounts, 294
Joint tenants in common (JTIC), 295
Joint tenants with rights of survivorship (JTWROS), 295
Joint with last survivor, annuity payout options, 233
Journal entry (for bonds), 30–31
JTIC (joint tenants in common), 295
JTWROS (joint tenants with rights of survivorship), 295
Junior claim on assets, 13
K
Keogh plans (HR-10), 336
L
Lagging indicators, 116–117
Leading indicators, 116
Lease rental bonds, 66
Legal opinion (term), 79–80
Legislative risk, 410
Lending money, 404
Letter of intent, 209–210
LGIPS (Local Government Investment Pools), 335–336
Life only/straight life (annuity payout), 233
Life with period certain (annuity payout), 233
Limited liability, 10
Limited partnerships, 385–389, 391
Limit Up Limit Down (LULD), 285–286
Liquidity, as investment objective, 408
Liquidity risk, 410
Local Government Investment Pools (LGIPS), 335–336
Long market value (margin accounts), 313–317
Long position (margin accounts), 312–313
Long stock long puts, 139–141
Long stock short calls, 141–143
Long straddles, 148–153
Losses:
calculating for taxation, 412
capital, 413
maximum, see Maximum loss in mutual funds, 214–215
stop-loss orders, 260–261
LULD (Limit Up Limit Down), 285–286
Lump sum deposit, 216–217
M
Mailing instructions (customer accounts), 294
Management fees, 72, 248–249
Management investment company, 191
Manipulative devices, 399–400
Margin accounts, 309–327
combined, 323
as customer accounts, 303
house rules for, 312
long, minimum equity
requirements for, 317–318
long market value, 313–317
long position in, 312–313
portfolio, 323–324
pretest, 325–327
regulation of credit for, 309
Regulation T, 309–312
short, minimum equity
requirements for, 322–323
short market value, 319–321
short position in, 318–319
SMA, 315–316, 320–321
Margin department, 350
Markdowns, when acting as
principal, 282–283
Market indicators, 380–382
Market makers, 274
Market orders, 260
Market out clause, 246
Market risk, 409
Market theories, 380–382
Markups, when acting as principal, 282–283
Married puts, 139–141
Material facts, omission of, 402
Maturities (bonds), 36–37
Maximum gain:
bull put spread, 162
long calls, 131
long puts, 134
long stock long puts, 140–141
long stock short calls, 143
long straddle, 149
short calls, 133
short puts, 135–136
short stock long calls, 145
short stock short put, 147–148
short straddle, 151
Minor rule violation, 443–444
Money, borrowing and lending, 404
Money market, 105–112
defined, 105
instruments in, 105–108
interest rates, 108–109
pretest, 111–112
Money market funds, 203–204
Money market instruments,
105–108
Money supply, 119
Moral obligation bonds, 66–67
Moral suasion, 120
Mortality expense risk fee, 235–236
Mortgage bonds, 37–38
MSRB (Municipal Securities
Rulemaking Board), 63, 95–98
Municipal bonds:
defined, 63
in IRAs, 333
issued in state of residence, 88
market information sources, 86
trading, 81–82
Municipal bond funds, 203
Municipal CMOs, confirmations
for, 85
Municipal financing, short-term, 67
Municipal fund securities, 94–95
Municipal money market
instruments, 108
Municipal securities, 63–98
allocation of municipal bond
orders, 74–75
amortization of municipal bond
premium, 89
analyzing general obligation
bonds, 90
analyzing municipal bonds, 89
analyzing revenue bonds, 93
awarding the issue, 72
bond counsel, 79
bond swaps, 89
community factors of issuers,
91–92
confirmations, 76–77
conflicts of interest for
underwriters, 80–81
customer confirmations, 84–85
debt statement, 90–91
executing municipal bond orders,
83–84
financial ratios for general
obligation bonds, 93
issuing, 68
legal opinion (term), 79–80
MSRB, 95–103
municipal bond market
information sources, 86
municipal bonds, 63
municipal bond trading, 81–82
municipal fund securities, 94–95
municipal underwritings, 77
official statement, 78–79
OID and secondary market
discounts, 88–89
order period for, 74
pretest, 99–103
quotes, 82–83
recommending, 86–87
sale date, 75–76
settlement of, 352–353
syndicate operation and
settlement, 77–78
syndicates for, 69–71
taxation of municipal bonds,
87–88
tax revenue sources, 92
types of municipal bonds, 64–67
types of revenue pledge, 93–94
underwriter's compensation, 72–73
yield disclosure, 85

Index

Municipal Securities Rulemaking Board (MSRB), 63, 95–98

Mutual funds, 189–225

automatic reinvestment of distributions, 211
breakpoint sales, 210
breakpoint schedule, 209
cost base of multiple purchases, 215–216
current yield of, 403
distribution of, 197–198
diversified vs. nondiversified, 192–193
features of, 211–215
investment companies, 189–191
investment company components, 195–197
investment company registration, 193–195
investment objectives, 200–202
letter of intent, 209–210
NAV, 204–205
open-end mutual fund shares, 199–200
open-end vs. closed-end funds, 191–192
POP, 208
pretest, 221–225
prospectus, 198–199
purchasing shares in, 216–218
recommending, 402
rights of accumulation, 210–211
sales charges, 205–209, 219
selling group member, 197
types of funds, 202–204
withdrawal plans, 219–220

N

NASD (National Association of Securities Dealers), 425–427
Nasdaq Market Center Execution System (NMCES), 277
National Association of Securities Dealers (NASD), 425–427

Negotiable certificates of deposit, 106
Net asset value (NAV), 204–205
Net capital requirement, 438–439
Net direct debt, 90–91
Net total debt, 91
New housing authority bond, 67
NMCES (Nasdaq Market Center Execution System), 277
No-load mutual fund shares, 198
Nominal yield (bonds), 33
Nondiversified mutual funds, 192–193
Non-Nasdaq Over the Counter Bulletin Board (OTCBB), 278
Nonprofit organizations (501C3), 338
Nonqualified corporate retirement plans, 339–340
Nonsystematic risk, 409
Nonvoting nature of preferred stock, 15
Numbered accounts, 302
NYSE:
listing requirements of, 273–274
requirements of customer knowledge, 406–407

O

OATS (Order Audit Trail System), 284
OCC (Option Clearing Corporation), 174–175
Offers, tender, 45
Offerings:
awarding, 248
of corporate securities, 247–248, 251–254
of limited partnerships, 387–388
rights, 6
Official statement (municipal bonds), 78–79
OID (original issue discount) bonds, 88–89
Oil sharing arrangements, 390
Open-end mutual funds, 191–192
Open-end mutual fund shares, 199–200
Open market purchases (corporate bonds), 45
Open repurchase agreements, 107
Operating expense risk fee, 235–236
Options, 127–188
American vs. European style, 178–179
bullish vs. bearish, 128–129
calls, 131–134
CBOE, 175–177
characteristics of, 130
classes of, 128
classification of, 127–128
closing an option position, 180
combinations, 163
compliance with, 181
covered calls, 181
exercising a call, 180
exercising a put, 181
expiration and exercise, 178
foreign currency options, 172–174
as hedge, 139
index options, 168–170
interest rate options, 170
managing a position, 130–131
markets for, 175
multiple option positions and strategies, 148
OCC, 174–175
opening and closing prices, 177
option agreement, 181–182
order execution, 177
outcomes for, 129–130
position and exercise limits, 179
positions, 139–148
premiums, 137–138
pretest, 183–188
price-based options, 170–171
prices of, 177
protective puts, 181
puts, 134–136
rate-based, 172
spreads, 152–163
stock splits and dividends, 179–180
straddles, 148–152
taxation of, 180
T chart to evaluate positions, 164–168
Option accounts, 302–303
Option agreement, 181–182
Option Clearing Corporation (OCC), 174–175
Option market makers, on CBOE, 176
Option markets, 175
Option positions, 139–148
Option premiums, 137–138
Orders: executing, 83–84, 177, 349–352
Order book officials, 176
Order period (municipal securities), 74
Order room, 350
Original issue discount (OID) bonds, 88–89
OTCBB (non-Nasdaq Over the Counter Bulletin Board), 278
Out firm quotes, 83
Out of the money options, 138
Outside employment, 404–405
Outstanding stock, 3
Over the counter trading, 274
PACs (planned amortization class CMOs), 47
Participation:
ERISA guidelines for, 343 in SEP IRAs, 332
Partnerships, dissolving, 392
Partnership accounts, 297
Par value, 4–5, 32
Patriot Act, 446–447
Payments (annuities), 233
Payment plans, periodic, 403
Payout options (annuities), 232–233
Peak (phase of economy), 114
Penny stock cold call rule, 442
Periodic-payment deferred annuity, 231
Periodic payment plans, 403
Perpetual nature of preferred stock, 15
Pink sheets, 278–279
PIPE (Private Investment in a Public Equity), 252–253
Planned amortization class CMOs (PACs), 47
Pledged securities, commingling, 304
POP (public offering price), 208
Portfolio margin accounts, 323–324
Preemptive rights, 5–6
Preferred stock, 14–22
Premiums: municipal bonds, 89
options, 137–138
spread, 156, 158–163
Premium bond, 32, 34
Prerefunding (corporate bonds), 44
Presale orders (municipal bonds), 74
Preservation of capital, 408
Price-based options, 170–171
Price spreads, 153, 154
Pricing (bonds), 31–32
Primary offerings, 247–248
Prime rate, 109
Principal:
markups/markdowns when acting as, 282–283
riskless transactions, 283
role of, 442
specialist/DMM as, 264
Principal-only CMOs, 46
Principal-only registration (for bonds), 30
Private Investment in a Public Equity (PIPE), 252–253
Private-label CMOs, 47–48
Private placements, 251
Private securities transactions, 405
Proceeds transactions, 284
Product, as dividend, 18
Professional conduct, 398–405
borrowing and lending money, 404
customer complaints, 405
default deals with customers, 398–402
gift rule, 404
information, handling of, 403–405
mutual fund current yield, 403
outside employment, 404–405
periodic payment plans, 403
pretest, 417, 419–420
private securities transactions, 405
in the securities industry, 398
Profit sharing plans, 341
Property, as dividend, 18
Property taxes, 92
Prospectus:
for corporate securities, 242–244
for mutual funds, 198–199
Protective puts, 181
Proxies, 361
Public educational institutions (403B), 338
Public housing authority, 67
Public offering price (POP), 208
Purchase and sales department, 350
Purchase options (annuities), 231
Put feature, 44–45
Put options (puts), 134–136
bear put spreads, 159
bull put spreads, 161
buying, 134–135
credit put spreads, 161
debit put spreads, 159
exercising, 181
foreign currency, 174
long stock long puts, 139–141
married, 139–141
protective, 181
selling, 135–136
short stock short puts, 145–148
Q
Qualified plans, 340
R
Rate-based options, 172
Ratings (debt securities), 42–43
Real estate investment trusts (REITs), 23
Real GDP, 121
Receipt vs. payment (RVP), 294, 353
Recession, 115
Records, stockholders’ inspection of, 11
Refunding (corporate bonds), 44
Refunding (corporate bonds), 44
Registered bonds, 30
Registered traders, 269
<table>
<thead>
<tr>
<th>Registrars, 11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulations (corporate securities), 251–254. See also Securities industry rules and regulations</td>
</tr>
<tr>
<td>Regulation A offerings, 253</td>
</tr>
<tr>
<td>Regulation D offerings, 251</td>
</tr>
<tr>
<td>Regulation T, 309–312</td>
</tr>
<tr>
<td>Reinvestment, automatic, 211</td>
</tr>
<tr>
<td>Reinvestment risk, 410</td>
</tr>
<tr>
<td>REITs (real estate investment trusts), 23</td>
</tr>
<tr>
<td>Reoffering yield, 71</td>
</tr>
<tr>
<td>Reorganization department, 350</td>
</tr>
<tr>
<td>Repurchase agreements, 107</td>
</tr>
<tr>
<td>Reserve requirement, 117–118</td>
</tr>
<tr>
<td>Residual claim to assets, 11</td>
</tr>
<tr>
<td>Resignation (FINRA registered representative), 428–429</td>
</tr>
<tr>
<td>Retail communication, FINRA Rule 2210 and, 433–434</td>
</tr>
<tr>
<td>Retirement plans, 329–347</td>
</tr>
<tr>
<td>corporate, 339–341</td>
</tr>
<tr>
<td>educational IRAs/Coverdell IRAs, 334–335</td>
</tr>
<tr>
<td>ERISA, 342–344</td>
</tr>
<tr>
<td>individual, 329–330</td>
</tr>
<tr>
<td>IRAs, 330</td>
</tr>
<tr>
<td>pretest, 345–347</td>
</tr>
<tr>
<td>rolling over, 342</td>
</tr>
<tr>
<td>Roth IRAs, 331</td>
</tr>
<tr>
<td>SEP IRAs, 332–334</td>
</tr>
<tr>
<td>traditional IRAs, 330–331</td>
</tr>
<tr>
<td>TSAs/TDAs, 337–339</td>
</tr>
<tr>
<td>Revenue bonds, 65, 93</td>
</tr>
<tr>
<td>Revenue pledge, 93–94</td>
</tr>
<tr>
<td>Reverse repurchase agreements, 107</td>
</tr>
<tr>
<td>Reward, risk vs., 409–410</td>
</tr>
<tr>
<td>Risk(s):</td>
</tr>
<tr>
<td>of accumulation, 210–211</td>
</tr>
<tr>
<td>preemptive, 5–6</td>
</tr>
<tr>
<td>of stockholders, 5</td>
</tr>
<tr>
<td>voting, 9</td>
</tr>
<tr>
<td>Right cum rights, 6–7</td>
</tr>
<tr>
<td>Right ex rights, 7–8</td>
</tr>
<tr>
<td>Rights offering, 6</td>
</tr>
<tr>
<td>Riskless principal transactions, 283</td>
</tr>
<tr>
<td>Rollover:</td>
</tr>
<tr>
<td>of pension plans, 342</td>
</tr>
<tr>
<td>SEP IRAs, 333–334</td>
</tr>
<tr>
<td>Roth IRAs, 331</td>
</tr>
<tr>
<td>Round lots, delivery of, 357–358</td>
</tr>
<tr>
<td>Rule 144, 251–252</td>
</tr>
<tr>
<td>Rule 145, 253</td>
</tr>
<tr>
<td>Rule 147, 253–254</td>
</tr>
<tr>
<td>Rule 200, 270–271</td>
</tr>
<tr>
<td>Rule 203, 271–272</td>
</tr>
<tr>
<td>RVP (receipt vs. payment), 294, 353</td>
</tr>
<tr>
<td>Safe Harbor (ERISA Rule 404C), 343–344</td>
</tr>
<tr>
<td>Sale date (municipal securities), 75–76</td>
</tr>
<tr>
<td>Sales charges:</td>
</tr>
<tr>
<td>for mutual funds, 205–209, 219</td>
</tr>
<tr>
<td>for variable annuities, 236</td>
</tr>
<tr>
<td>Sarbanes-Oxley Act, 448–449</td>
</tr>
<tr>
<td>SDBK (Super Display Book), 269</td>
</tr>
<tr>
<td>SEC (Securities and Exchange Commission), 424</td>
</tr>
<tr>
<td>SEC disclaimer (corporate securities), 243</td>
</tr>
<tr>
<td>Secondary market discounts, 88–89</td>
</tr>
<tr>
<td>Secondary offerings, 247–248</td>
</tr>
<tr>
<td>Sector funds, 201</td>
</tr>
<tr>
<td>Secured bonds, 37</td>
</tr>
<tr>
<td>Securities:</td>
</tr>
<tr>
<td>defined, 1–2</td>
</tr>
<tr>
<td>donated to charity, 415</td>
</tr>
<tr>
<td>foreign, 416</td>
</tr>
<tr>
<td>inherited, 414–415</td>
</tr>
<tr>
<td>Securities Act (1933), 241–242</td>
</tr>
<tr>
<td>Securities Acts Amendments (1975), 440</td>
</tr>
<tr>
<td>Securities and Exchange Commission (SEC), 424</td>
</tr>
<tr>
<td>Securities Exchange Act (1934), 423–424</td>
</tr>
<tr>
<td>Securities industry, professional conduct in, 398</td>
</tr>
<tr>
<td>Securities industry rules and regulations, 423–455</td>
</tr>
<tr>
<td>annual compliance review, 448</td>
</tr>
<tr>
<td>arbitration, 444–445</td>
</tr>
<tr>
<td>business continuity plan, 448</td>
</tr>
<tr>
<td>Self-supporting debt, 90</td>
</tr>
<tr>
<td>Selling calls, 132–134</td>
</tr>
<tr>
<td>Selling concession, 73, 249</td>
</tr>
<tr>
<td>Selling group, 248</td>
</tr>
<tr>
<td>Selling group member, 197</td>
</tr>
<tr>
<td>Selling puts, 135–136</td>
</tr>
<tr>
<td>Sell limit orders, 260</td>
</tr>
<tr>
<td>Sell stop orders, 261</td>
</tr>
<tr>
<td>SEP (Simplified Employee Pension) IRAs, 332–334</td>
</tr>
<tr>
<td>Serial maturity, 37</td>
</tr>
<tr>
<td>Series EE bonds, 53</td>
</tr>
<tr>
<td>Series HH bonds, 54</td>
</tr>
<tr>
<td>Series issue (bonds), 37</td>
</tr>
<tr>
<td>communications with public, 432–438</td>
</tr>
<tr>
<td>currency transactions, 446</td>
</tr>
<tr>
<td>extension of credit, 425</td>
</tr>
<tr>
<td>fidelity bond, 439</td>
</tr>
<tr>
<td>FINRA registered representatives, 427–432</td>
</tr>
<tr>
<td>FINRA Rule 2210, 433–435</td>
</tr>
<tr>
<td>firewalls, 441</td>
</tr>
<tr>
<td>foreign accounts, 447</td>
</tr>
<tr>
<td>Insider Trading and Securities Fraud Enforcement Act, 440</td>
</tr>
<tr>
<td>mediation, 445–446</td>
</tr>
<tr>
<td>NASD, 425–427</td>
</tr>
<tr>
<td>net capital requirement of, 438–439</td>
</tr>
<tr>
<td>Patriot Act, 446–447</td>
</tr>
<tr>
<td>penny stock cold call rule, 442</td>
</tr>
<tr>
<td>pretest, 451–455</td>
</tr>
<tr>
<td>role of principal, 442</td>
</tr>
<tr>
<td>Sarbanes-Oxley Act, 448–449</td>
</tr>
<tr>
<td>SEC, 424</td>
</tr>
<tr>
<td>Securities Acts Amendments of 1975, 440</td>
</tr>
<tr>
<td>SIPC, 438–439</td>
</tr>
<tr>
<td>Telephone Consumer Protection Act, 441</td>
</tr>
<tr>
<td>Uniform Securities Act, 449–450</td>
</tr>
<tr>
<td>U.S. accounts, 447</td>
</tr>
<tr>
<td>violations and complaints, 443–444</td>
</tr>
<tr>
<td>Securities Investor Protection Corporation (SIPC), 438–439</td>
</tr>
<tr>
<td>Securities Investor Protection Corporation Act (1970), 438</td>
</tr>
<tr>
<td>Self-supporting debt, 90</td>
</tr>
<tr>
<td>Selling calls, 132–134</td>
</tr>
<tr>
<td>Selling concession, 73, 249</td>
</tr>
<tr>
<td>Selling group, 248</td>
</tr>
<tr>
<td>Selling group member, 197</td>
</tr>
<tr>
<td>Selling puts, 135–136</td>
</tr>
<tr>
<td>Sell limit orders, 260</td>
</tr>
<tr>
<td>Sell stop orders, 261</td>
</tr>
<tr>
<td>SEP (Simplified Employee Pension) IRAs, 332–334</td>
</tr>
<tr>
<td>Serial maturity, 37</td>
</tr>
<tr>
<td>Series EE bonds, 53</td>
</tr>
<tr>
<td>Series HH bonds, 54</td>
</tr>
<tr>
<td>Series issue (bonds), 37</td>
</tr>
</tbody>
</table>
Settlement:
  brokerage office procedure for, 352–354
  of index options, 168–169
Share identification, 215
Shipment (holding securities), 293
Short market value (margin accounts), 319–321
Short position (margin accounts), 318–319
Short sales, 270
Short stock long calls, 143–145
Short stock short put, 145–148
Short straddles, 148–152
Short-term municipal financing, 67
Specialists:
  on CBOE, 176
  trading securities, 263–266
Special memorandum account (SMA), 315–316, 320–321
Special tax bonds, 66
Speculation, as investment objective, 408–409
Spreads, 152–163
Spread brokers, 177
Spread premiums:
  bear call spread, 158–159
  bear put spread, 160–161
  bull call spread, 156
  bull put spread, 162–163
Standby underwriting agreement, 247
State registration, 431
Stock (as term), 2
Stockholders’ rights, 5
Stock splits, 8
  and convertible bonds, 42
  and options, 179–180
Stock split adjustments, 267–268
Stop-limit orders, 261–262
Stop-loss orders, 260–261
Stop orders, 260–261
Stopping stock, 268
Straddles, 148–152
Street name (holding securities), 293
Subordinated debentures, 38–39
Super Display Book (SDBK), 269
Syndicates (municipal securities), 69–71
Syndicate accounts, 70–71
Syndicate bid submission, 71
Syndicate operation, 77–78
Syndicate orders (municipal bonds), 75
Syndicate settlement, 77–78
T
Targeted amortization class CMOs (TACs), 47
Taxation, 411–416
AMT, 416
  calculating gains and losses for, 412
corporate dividend exclusion, 416
cost base of multiple purchases for, 412–413
deducting capital losses, 413
and direct participation programs, 391–392
distributions from TSAs/TDAs, 339
donating securities to charity, 415
estate taxes, 415
on foreign securities, 416
gift taxes, 415
of inherited securities, 414–415
of interest income, 414
investment, 411
of municipal bonds, 87–88
of mutual funds, 212–213
of options, 180
pretest, 417, 419
property taxes, 92
on SEP IRA, 332
tax revenue sources, 92
tax structure, 411
of variable annuities, 234
wash sales, 413–414
withholding tax, 416
Tax benefits, as investment objective, 408
Tax-deferred accounts (TDAs), 337–339
Tax equivalent yield, 87–88
Tax-exempt organizations (501C3), 338
Tax revenue sources, 92
Tax-sheltered annuities, 337–339
T chart, 164–168
TDAs (tax-deferred accounts), 337–339
Technical analysis, 378–384
  market theories and indicators, 380–382
  pretest, 384
Telephone Consumer Protection Act (1991), 441
Tender offers, 45
Termination for cause, 430
Term maturity, 36
Testimonials, 437–438
Third market, 279
Third-party accounts, 298–299
30-day emergency withdrawal (mutual funds), 212
Threshold securities, 272–273
Time spreads, 153
Time value, 138
Timing risk, 410
TIPS (Treasury inflation-protected securities), 57
TOD (transfer on death), 295
Tombstone ads, 244, 437
Total takedown, 73
Trade Reporting and Compliance Engine (TRACE), 284–285
Trade Reporting Facility (TRF), 276–277
Trading:
  authorization, for customer accounts, 297
  municipal bonds, 81–82
  unauthorized, 400
Trading securities, 259–289
ACT/TRF, 276–277
arbitrage, 286
broker vs. dealer, 281

circuit breakers, 285

commission house broker, 269

crossing stock, 266

DMMs, 263–266

DNR, 267

exchange order priority, 263

exchange qualifiers, 281

exchanges for, 263

FINRA 5% markup policy, 282

LULD, 285–286

market makers in, 274

markups/markdowns when acting as principal, 282–283

and Nasdaq, 274–277

non-Nasdaq, 278–279

NYSE listing requirements, 273–274

OATS, 284

over the counter, 274

pretest, 287–289

proceeds transactions, 284

reading consolidated tape, 279–281

registered traders, 269

riskless principal transactions, 283

Rule 200, 270–271

Rule 203, 271–272

SDBK, 269

short sales, 270

specialists/DMMs, 263–266

stock split adjustments, 267–268

stopping stock, 268

threshold securities, 272–273

TRACE, 284–285

two-dollar broker, 269

types of orders, 259–262

Traditional IRAs, 330–331

Transfer:

holding securities, 293

SEP IRAs, 333–334

Transfer agent, 10–11, 197

Transfer on death (TOD), 295

Treasury bills, 54–55, 171

Treasury bonds, 53–56, 171

Treasury inflation-protected securities (TIPS), 57

Treasury notes, 55–56, 171

Treasury receipts, 56

Treasury stock, 3–4

Treasury STRIPS, 56

TRF (Trade Reporting Facility), 276–277

Triple tax free, 88

Trough (phase of economy), 115

Trust accounts, 296–297

Trust Indenture Act (1939), 42

TSAs (tax-sheltered annuities), 337–339

Two-dollar brokers, 177, 269

UGMAs (uniform gift to minors accounts), 299–301

UIT (unit investment trust), 190–191

Unauthorized trading, 400

Underwriter:

acting as financial adviser, 81

for municipal securities, 68–69

Underwriters’ compensation, 72–73, 248–250

Underwriting:

for corporate securities, 245–250

municipal, 77

Underwriting commitments, 246–247

Underwriting fees, 73, 249

Underwriting spread, 249–250

Underwriting syndicate, 248

Uniform gift to minors accounts (UGMAs), 299–301

Uniform practice code, NASD, 426

Uniform Securities Act, 449–450

U.S. accounts, 447

Unit investment trust (UIT), 190–191

Unsecured bonds, 38

Variable annuities, 227–239

accumulation units, 231–232

AIR, 234

annuitizing the contract, 235

annuity units, 232

charges, 236

equity indexed, 230

expenses and guarantees, 235–236

factors affecting size of payment, 233

payout options, 232–233

pretest, 237–239

purchase options, 231

taxation of, 234

types of, 227–230

types of withdrawals, 235

Variable rate municipal bonds, 85

Vertical spreads, 153

Vesting, ERISA guidelines for, 343

Violations, of regulations, 443–444

Voting (stockholders), 9–10

W

Warrants, 21

Wash sales, 413–414

Websites, broker dealer, 435–436

When issued confirmations, 76

When-issued securities, 353

Wire room, 350

Withdrawals (annuities), 235

Withdrawal plans (mutual funds), 219–220

Withholding tax, 416

Wrap accounts, 304

Y

Yields:

bond, 32–36

disclosure of, 85

municipal securities, 85

mutual funds, 403

reoffering, 71

tax equivalent, 87–88

Yield to call (bonds), 36

Yield to maturity (bonds), 34–36

Z

Zero-coupon bonds, 39, 85