

## GLOSSARY OF INVESTMENT TERMS

### A

<b>Acceptance Paper</b>	A colloquial term for short-term promissory notes issued by sales finance companies to fund loans to consumers for cars, appliances, etc. See also Finance Company Paper.
<b>Accounts Payable</b>	Money owed by a company for goods or services purchased, payable within one year. A current liability on the balance sheet.
<b>Accounts Receivable</b>	Money owed to a company for goods or services it has sold, for which payment is expected within one year. A current asset on the balance sheet.
<b>Accrued Interest</b>	Interest accumulated on a bond or debenture since the last interest payment date.
<b>Acquisition Fee</b>	See Load.
<b>Additional Offering</b>	An offering that is subsequent to an initial public offering and adds to the outstanding number of shares a company has previously issued.
<b>Adjusted Cost Base</b>	The deemed cost of an asset representing the sum of the amount originally paid plus any additional costs, such as brokerage fees and commissions.
<b>Administrators</b>	A general term used to describe the regulatory authorities in Canada.
<b>Affiliated Company</b>	A company with less than 50% of its shares owned by another corporation, or one whose stock, with that of another corporation, is owned by the same controlling interests.
<b>After Acquired Clause</b>	A protective clause found in a bond's indenture or contract that binds the bond issuer to pledging all subsequently purchased assets as part of the collateral for a bond issue.
<b>Agent</b>	An investment dealer operates as an agent when it acts on behalf of a buyer or a seller of a security and does not itself own title to the securities at any time during the transactions. See also Principal.
<b>Allocation</b>	The administrative procedure by which income generated by the segregated fund's investment portfolio is flowed through to the individual contract holders of the fund.
<b>Alternative Trading Systems (ATS)</b>	Privately-owned computerized networks that match orders for securities outside of recognized exchange facilities. Also referred to as Proprietary Electronic Trading Systems (PETS) or Non-SRO-Operated Trading Systems (NETS).
<b>American Depositary Receipts (ADRs)</b>	A system devised by the American investment community, whereby the original stock certificate of a foreign security is registered in the name of an American trust company or a U.S. bank and held in safekeeping by them. The trust company or bank then issues receipts against this stock, and these are traded as ADRs. The system developed because purchasers of foreign securities found that it could take several months to have foreign stock shares registered in their name.
<b>American Option</b>	An option that can be exercised at any time during the option's lifetime. See also European Option.

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<b>Amortization</b>	Gradually writing off the value of an intangible asset over a period of time. Commonly applied to items such as goodwill, improvements to leased premises, or expenses of a new stock or bond issue. See also Depreciation.
<b>Annual Information Form (AIF)</b>	A document which contains information, required by law, which is not included in a mutual fund or other company's simplified prospectus or annual financial statements. Investors do not have to be given a copy of the AIF but the prospectus must state that it is available on request.
<b>Annual Report</b>	The formal financial statements and report on operations issued by a company to its shareholders after its fiscal year-end.
<b>Annuitant</b>	Person on whose life the maturity and death benefit guarantees are based. It can be the contract holder or someone else designated by the contract holder. In registered plans, the annuitant and contract holder must be the same person.
<b>Annuity</b>	A contract usually sold by life insurance companies that guarantees an income to the beneficiary or annuitant at some time in the future. The income stream can be very flexible. The original purchase price may be either a lump sum or a stream of payments. See Deferred Annuity and Immediate Annuity.
<b>Arbitrage</b>	The simultaneous purchase of a security on one stock exchange and the sale of the same security on another exchange at prices which yield a profit to the arbitrageur.
<b>Arrears</b>	Interest or dividends that were not paid when due but are still owed. For example, dividends owed but not paid to cumulative preferred shareholders accumulate in a separate account (arrears). When payments resume, dividends in arrears must be paid to the preferred shareholders before the common shareholders.
<b>Ask</b>	The lowest price a seller will accept for the financial instrument being quoted. See also Bid.
<b>Asset Allocation</b>	Apportioning investment funds among different categories of assets, such as cash, fixed income securities and equities. The allocation of assets is built around an investor's risk tolerance.
<b>Asset Mix</b>	The percentage distribution of assets in a portfolio among the three major asset classes: cash and equivalents, fixed income and equities.
<b>Assets</b>	Everything a company or a person owns or has owed to it. A balance sheet category.
<b>Assignment</b>	The random process by which the clearing corporation allocates the exercise of an option to a member firm. A client of that member firm is then chosen to fulfil the obligation taken on when the option was written, by: in the case of a put, purchasing the underlying security from the put holder; or, in the case of a call, delivering the underlying security to the call holder. See also Exercise.
<b>Associated Company</b>	A company owned jointly by two or more other companies.

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<b>At-the-Money</b>	An option with a strike price equal to (or almost equal to) the market price of the underlying security.
<b>Attribution Rules</b>	A Canada Customs and Revenue Agency rule stating that an investor cannot avoid paying taxes at their marginal rate by transferring assets to other family members who have lower personal tax rates.
<b>Auction Market</b>	Market in which securities are bought and sold by brokers acting as agents for their clients, in contrast to a dealer market where trades are conducted over-the-counter. For example, the Toronto Stock Exchange is an auction market.
<b>Audit</b>	A professional review and examination of a company's financial statements required under corporate law for the purpose of ensuring that the statements are fair, consistent and conform with Generally Accepted Accounting Principles (GAAP).
<b>Authorized Shares</b>	The maximum number of common (or preferred) shares that a corporation may issue under the terms of its charter.
<b>Automatic Stabilizers</b>	Elements in the economy which mitigate the extremes of the business cycle by running counter to it. Example: government payouts for unemployment insurance in recessionary periods.
<b>Averages</b>	A statistical tool used to measure the direction of the market. The most common average is the Dow Jones Industrial Average.
<b>Averaging</b>	See Dollar Cost Averaging.
<b>Averaging Down</b>	Buying more of a security at a lower price than the original investment. Aim: to reduce the average cost per unit. See Dollar Cost Averaging.

### B

<b>Back-End Load</b>	A sales charge applied on the redemption of a mutual fund.
<b>Balance of Payments</b>	Canada's interactions with the rest of the world which are captured in both the current and capital accounts. The balance of payments is divided into two components: the current account and the capital account.
<b>Balance Sheet</b>	A financial statement showing a company's assets, liabilities and shareholders' equity on a given date.
<b>Balloon</b>	In some serial bond issues or mortgages an extra-large amount may mature in the final year of the series - the "balloon" payment.
<b>Bank Rate</b>	The minimum rate at which the Bank of Canada makes short-term advances to the chartered banks, other members of the Canadian Payments Association and investment dealers who trade in the money market.
<b>Bankers' Acceptance</b>	A type of short-term negotiable commercial paper issued by a non-financial corporation but guaranteed as to principal and interest by its bank. The guarantee results in a higher issue price and consequent lower yield.

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<b>Banking Group</b>	A group of investment firms, each of which individually assumes financial responsibility for part of an underwriting.
<b>Bankrupt</b>	The legal status of an individual or company that is unable to pay its creditors and whose assets are therefore administered for its creditors by a Trustee in Bankruptcy.
<b>Basis Point</b>	A phrase used to describe differences in bond yields, with one basis point representing one-hundredth of a percentage point. Thus, if Bond X yields 11.50% and Bond Y 11.75%, the difference is 25 basis points.
<b>Bear</b>	One who expects that the market generally, or the market price of a particular security, will decline. See also Bull.
<b>Bear Market</b>	A sustained decline in equity prices. Bear markets are usually associated with a downturn (recession or contraction) in the business cycle. As a memory aid, it is said that a bear walks with his head down while a bull walks with his head up.
<b>Bearer Security</b>	A security (stock or bond) which does not have the owner's name recorded in the books of the issuing company nor on the security itself and which is payable to the holder, i.e., the holder is the deemed owner of the security. See also Registered Security.
<b>Beneficial Owner</b>	The real owner of shares (or other assets). An investor may own shares which are registered in the name of a broker, trustee or bank to facilitate transfer or to preserve anonymity, but the investor would be the beneficial owner.
<b>Beneficiary</b>	The individual or individuals who have been designated to receive the death benefit. Beneficiaries may be either revocable or irrevocable.
<b>Best Efforts Underwriting</b>	The underwriter agrees to use its best efforts to sell a new issue of securities, but does not guarantee to the issuing company that any or all of the issue will be sold. The underwriter acts as an agent for the issuer in distributing the issue to its clients.
<b>Beta</b>	A measure of the sensitivity (i.e., volatility) of a stock or a mutual fund to movements in the overall stock market. The beta for the market is considered to be 1. A fund that mirrors the market, such as an index fund, would also have a beta of 1. Funds or stocks with a beta greater than 1 are more volatile than the market and are therefore riskier. A beta less than 1 is not as volatile and can be expected to rise and fall by less than the overall market.
<b>Bid</b>	The highest price a buyer is willing to pay for the financial instrument being quoted. See also Ask.
<b>Black-Scholes Formula</b>	An option pricing model developed by Fischer Black and Myron Scholes for European options on an underlying security that pays little or no dividends. Although dated, it is still used extensively for valuing options and warrants.
<b>Blue Chip</b>	An active, leading, nationally known common stock with a record of continuous dividend payments and other strong investment qualities. The implication is that the company is of "good" investment value.

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<b>Blue Sky</b>	A slang term for laws that various Canadian provinces and American states have enacted to protect the public against securities frauds. The term blue skyed is used to indicate that a new issue has been cleared by a securities commission and may be distributed.
<b>Board Lot</b>	A regular trading unit which has uniformly been decided upon by stock exchanges, in most cases 100 shares. See also Odd Lot.
<b>Bond</b>	A certificate evidencing a debt on which the issuer promises to pay the holder a specified amount of interest based on the coupon rate, for a specified length of time, and to repay the loan on its maturity. Strictly speaking, assets are pledged as security for a bond issue, except in the case of government "bonds", but the term is often loosely used to describe any funded debt issue.
<b>Bond Contract</b>	The actual legal agreement between the issuer and the bondholder. The contract outlines the terms and conditions - the coupon rate, timing of coupon payments, maturity date and any other terms. The bond contract is usually administered by a trust company on behalf of all the bondholders. Also called a Bond Indenture or Trust Deed.
<b>Bond Indenture</b>	See Bond Contract
<b>Book Value</b>	The amount of net assets belonging to the owners of a business (or shareholders of a company) based on balance sheet values. Also represents the original cost of the units allocated to a segregated fund contract.
<b>Bottom-Up Investment Approach</b>	An investment approach that seeks out undervalued companies. A fund manager may find companies whose low share prices are not justified. They would buy these securities and when the market finally realizes that they are undervalued, the share price rises giving the astute bottom up manager a profit. See also Top-Down Investment Approach.
<b>Bought Deal</b>	A new issue of stocks or bonds bought from the issuer by an investment dealer, frequently acting alone, for resale to its clients, usually by way of a private placement or short form prospectus. The dealer risks its own capital in the bought deal. In the event that the price has to be lowered to sell out the issue, the dealer absorbs the loss.
<b>Broker</b>	A securities firm or a duly registered individual associated with one. The broker does not usually own the securities that it buys and sells, but acts as agent for the buyer or seller and charges a commission for its services.
<b>Broker of Record</b>	The broker named as the official advisor to a corporation on financial matters; has the right of first refusal on any new issues.
<b>Bull</b>	One who expects that the market generally or the market price of a particular security will rise. See also Bear.
<b>Bull Market</b>	A general and prolonged rising trend in security prices. Bull markets are usually associated with an expansionary phase of the business cycle. As a memory aid, it is said that a bull

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<b>Business Cycle</b>	walks with his head up while a bear walks with his head up. The recurrence of periods of expansion and recession in economic activity. Each cycle is expected to move through five phases - the trough, recovery, expansion, peak, contraction (recession). Given an understanding of the relationship between the business cycle and security prices an investor or fund manager would select an asset mix to maximize returns.
<b>Business Days</b>	See Day Business Day.
<b>Business Risk</b>	The risk inherent in a company's operations, reflected in the variability in earnings. A weakening in consumer interest or technological obsolescence usually causes the decline. Examples include manufacturers of vinyl records, eight track recording tapes and beta video machines.
<b>Buy-Back</b>	A company's purchase of its common shares either by tender or in the open market for cancellation, subsequent resale or for dividend reinvestment plans.
<b>Buy-ins</b>	If a client or a broker fails to deliver securities sold to another broker within a specified number of days after the value (settlement) date, the receiving broker may buy-in the securities in the open market and charge the client or the delivering broker the cost of such purchases. See also Fails.
<b>C</b>	
<b>Call Feature</b>	A clause in a bond or preferred share agreement that allows the issuer the right to "call back" the securities prior to maturity. The company would usually do this if they could refinance the debt at a lower rate (similar to refinancing a mortgage at a lower rate). Calling back a security prior to maturity may involve the payment of a penalty known as a call premium.
<b>Call Loan</b>	A loan which may be terminated or called at any time by the lender or borrower. Used to finance purchases of securities.
<b>Call Option</b>	The right to buy a specific number of shares at a specified price (the strike price) by a fixed date. The buyer pays a premium to the seller of the call option contract. An investor would buy a call option if the underlying stock's price is expected to rise. See also put option.
<b>Call Premium</b>	An amount paid by the call option buyer to the seller for the right to buy the stock at the strike price. For bonds, preferreds and convertibles the premium refers to the amount in addition to par that an issuers must pay as a penalty for redeeming a security prior to maturity.
<b>Call Price</b>	The price at which a bond or preferred share with a call feature is redeemed by the issuer. This is the amount the holder of the security would receive if the security was redeemed prior to maturity. The call price is equal to par (or a stated value for preferred shares) plus any call premium. See also Redemption Price.

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<b>Callable</b>	May be redeemed (called in) upon due notice by the security's issuer.
<b>Canada Pension Plan (CPP)</b>	A pension plan designed to provide retirement, disability and survivor benefits. Quebec has its own pension plan (QPP). Contributions to the CPP/QPP are funded on a pay-as-you-go basis.
<b>Canadian Council of Insurance Regulators</b>	The association of insurance regulators in jurisdictions across Canada.
<b>Canadian Dealing Network Incorporated (CDN)</b>	An organized over-the-counter market in Canada, which became a subsidiary of the Toronto Stock Exchange in 1991. The CDN consists of a network of computers and telephone equipment that links brokers and investment dealers across the country. The CDN was previously known as the Canadian Over-The-Counter Automated Trading System (COATS).
<b>Canadian Investor Protection Fund (CIPF)</b>	A fund set up by the stock exchanges and the Investment Dealers Association to protect investors from losses resulting from the bankruptcy of a member firm.
<b>Canadian Life and Health Insurance Association Incorporated (CLHIA)</b>	The national trade group of the life insurance industry, which is actively involved in overseeing applications and setting industry standards.
<b>Canadian Originated Preferred Securities (COPrS)</b>	Introduced to the Canadian market in March 1999, as long-term junior subordinated debt instruments. This type of security offers features that resemble both long-term corporate bonds and preferred shares.
<b>Canadian Payments Association</b>	Established in the 1980 revision of the Bank Act, this association operates a highly automated national clearing system for interbank payments. Members include chartered banks, trust and loan companies and some credit unions and caisses.
<b>Canadian Securities Administrators (CSA)</b>	An association that is comprised of the administrators of each province that meets regularly to discuss regulatory issues of national importance as well as to coordinate the implementation of national policies.
<b>Capital</b>	Has two distinct but related meanings. To an economist, it means machinery, factories and inventory required to produce other products. To an investor, it may mean the total of financial assets invested in securities, a home and other fixed assets, plus cash.
<b>Capital Account</b>	Account which reflects the transactions occurring between Canada and foreign countries with respect to the acquisition of assets, such as land or currency. Along with the current account a component of the balance of payments.
<b>Capital Asset Pricing Model (CAPM)</b>	A model that looks at the relationship between risk and return. In simple terms, the CAPM says that the return on an asset or security is equal to the risk-free return plus a risk premium.
<b>Capital Cost Allowance (CCA)</b>	An amount allowed under the Income Tax Act to be deducted from the value of certain assets and treated as an expense in computing an individual's or company's income for a taxation year. It may differ from the amount charged for the period in depreciation accounting.

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<b>Capital Gain</b>	Selling a security for more than its purchase price. For non-registered securities, 67% of the gain would be added to income and taxed at the investor's marginal rate.
<b>Capital Loss</b>	Selling a security for less than its purchase price. Capital losses can only be applied against capital gains. Surplus losses can be carried forward indefinitely and used against future capital gains. Only 67% of the loss can be used to offset any taxable capital loss.
<b>Capital Market</b>	Financial markets where debt and equity securities trade. Capital markets include organized exchanges as well as private placement sources of debt and equity.
<b>Capital Stock</b>	All shares representing ownership of a company, including preferred as well as common. Also referred to as equity capital.
<b>Capitalization or Capital Structure</b>	Total dollar amount of all debt, preferred and common stock, contributed surplus and retained earnings of a company. Can also be expressed in percentage terms.
<b>Capitalize</b>	Recording an expenditure initially as an asset on the balance sheet rather than as an earnings statement expense, and then writing it off or amortizing it (as an earnings statement expense) over a period of years. Examples include capitalized leases, interest, and research and development.
<b>Carry Forward</b>	The amount of RRSP contributions that can be carried forward from previous years. For example, if a client was entitled to place \$13,500 in an RRSP and only contributed \$10,000, the difference of \$3,500 would be the unused contribution room and can be carried forward indefinitely.
<b>Cash Account</b>	A type of brokerage account where the investor is expected to have either cash in the account to cover their purchases or where an investor will deliver the required amount of cash before the settlement date of the purchase.
<b>Cash Flow</b>	A company's net income for a stated period plus any deductions that are not paid out in actual cash, such as depreciation and amortization, deferred income taxes, and minority interest. For an investor, any source of income from an investment including dividends, interest income, rental income, etc.
<b>Cash value</b>	The current market value of a segregated fund contract, less any applicable deferred sales charges or other withdrawal fees
<b>CDNX</b>	The acronym for the Canadian Venture Exchange, the result of the merger of the Vancouver and Alberta stock exchanges in 1999.
<b>Central Bank</b>	A body established by a national Government to regulate currency and monetary policy on a national-international level. In Canada, it is the Bank of Canada; in the United States, the Federal Reserve Board; in the U.K., the Bank of England.
<b>Certificate</b>	The document evidencing ownership of a bond, stock or other security.



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<b>Certificate of Deposit (CD)</b>	A fixed-income debt security issued by most chartered banks, usually in minimum denominations of \$1,000 with maturity terms of one to six years.
<b>Charting</b>	The use of charts and patterns to forecast buy and sell decisions. See also Technical Analysis.
<b>Chinese Walls</b>	Policies implemented to separate and isolate persons within a firm who make investment decisions from persons within a firm who are privy to undisclosed material information which may influence those decisions. For example, there should be separate fax machines for research departments and sales departments.
<b>Class A and B Stock</b>	Shares that have different classes sometimes have different rights. Some may have superior claims over other classes or may have different voting rights. Class A stock is often similar to a participating preferred share with a prior claim over Class B for a stated amount of dividends or assets or both, but without voting rights; the Class B may have voting rights but no priority as to dividends or assets. Note that these distinctions do not always apply.
<b>Clear</b>	The process of settling (or exchanging cash for securities and vice versa) the day's trading through a not-for-profit service corporation, by the exchanges for member firms.
<b>Clearing Corporation</b>	A not-for-profit service organization owned by the exchanges and their members for the clearance, settlement and issuance of options and futures. A clearing corporation provides a guarantee for all options and futures contracts it clears, by becoming the buyer to every seller and the seller to every buyer.
<b>Closed-end Fund</b>	See Investment Company.
<b>Closed-end Investment Company</b>	See Investment Company.
<b>Closing Transaction</b>	A secondary transaction that eliminates an option position. Initial sellers of options execute Closing Buys while initial buyers of options execute Closing Sales. See also Opening Transaction.
<b>Coincident Indicators</b>	Statistical data that, on average, change at approximately the same time and in the same direction as the economy as a whole.
<b>Collateral</b>	Securities or other property pledged by a borrower as a guarantee for repayment of a loan.
<b>Collateral Trust Bond</b>	A bond secured by stocks or bonds of companies controlled by the issuing company, or other securities, which are deposited with a trustee.
<b>Comfort Letter</b>	A letter filed with applicable securities commission(s) by a company's auditor when submitting unsigned financial statements for use in a prospectus. The letter says that the final format of the statements should not be materially different from those presently being filed. A letter is needed because the auditor does not sign the report before or when the financial statements are filed with the preliminary prospectus. The signing is done after the securities commission(s) has reviewed the prospectus and any required

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	changes have been made.
<b>Commercial Paper</b>	Short-term negotiable debt securities issued by non-financial corporations with terms of a few days to a year.
<b>Commission</b>	The fee charged by a stockbroker for buying or selling securities as agent on behalf of a client.
<b>Commodity</b>	A product used for commerce that is traded on an organized exchange. A commodity could be an agricultural product such as canola or wheat, or a natural resource such as oil or gold. A commodity can be the basis for a futures contract.
<b>Commodity- Indexed Warrants</b>	This type of warrant offers the holder the right to purchase the underlying security at a ratio in relation to the price of a specified commodity. As an example, ABC Corp., a large copper manufacturer, might issue a warrant that allows the holder to buy one share of ABC common at 15 times the closing price of copper on June 15, 2000.
<b>Common Stock</b>	Securities representing ownership in a company. They carry voting privileges and are entitled to the receipt of dividends, if declared.
<b>CompCorp</b>	The short-form name of the Canadian Life and Health Insurance Compensation Corp., a not for profit company whose member firms are issuers of life-insurance contracts and whose mandate is to provide protection to contract holders against the insolvency of a member company.
<b>Competitive Tender</b>	A distribution method used in particular by the Bank of Canada in distributing new debt issues. Bids are requested from primary distributors and the higher bids are awarded the securities for distribution. See also non-competitive tender.
<b>Compound Interest</b>	Interest earned on an investment at periodic intervals and added to the amount of the investment; future interest payments are then calculated and paid at the original rate but on the increased total of the investment. In simple terms, interest paid on interest.
<b>Confirmation</b>	A printed acknowledgement giving details of a purchase or sale of a security which is normally mailed to a client by the broker or investment dealer within 24 hours of an order being executed. Also called a contract.
<b>Conglomerate</b>	A company directly or indirectly operating in a variety of industries, usually unrelated to each other. Conglomerates often acquire outside companies through the exchange of their own shares for the shares of the majority owners of the outside companies.
<b>Consolidated Financial Statements</b>	A combination of the financial statements of a parent company and its subsidiaries, presenting the financial position of the group as a whole.
<b>Consolidation</b>	See Reverse Split.
<b>Constrained Share Companies</b>	Include Canadian banks, trust, insurance, broadcasting and communication companies having constraints on the transfer of shares to persons who are not Canadian citizens or not Canadian residents.

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<b>Consumer Price Index (CPI)</b>	Price index which measures the cost of living by measuring the prices of a given basket of goods. The CPI is often used as an indicator of inflation.
<b>Continuous Disclosure</b>	In Ontario, a reporting issuer must issue a press release as soon as a material change occurs in its affairs and, in any event, within ten days. See also Timely Disclosure.
<b>Contra Order</b>	See Cross on the Board.
<b>Contract</b>	See Confirmation.
<b>Contract holder</b>	The owner of the segregated fund contract, otherwise known as the contract holder.
<b>Contraction</b>	Represents a downturn in the economy and can lead to a recession if prolonged.
<b>Contributed Surplus</b>	A component of shareholders' equity which originates from sources other than earnings, such as the initial sale of stock above par value.
<b>Contributions in Kind</b>	Transferring securities into an RRSP. The general rules are that when an asset is transferred there is a deemed disposition. Any capital gain would be reported and taxes paid. Any capital losses that result cannot be claimed.
<b>Conversion Price</b>	The dollar value at which a convertible bond or security can be converted into common stock.
<b>Conversion Ratio</b>	The number of common shares for which a convertible security can be exchanged. Convertible preferreds and debentures would have a stated number outlined in their prospectus or indenture as to the exchange rate. For example, the conversion ratio on a bond may be 25. This means that the bond could be exchanged for 25 common shares. If the conversion ratio is divided into par value, the result is called the conversion price.
<b>Convertible</b>	A bond, debenture or preferred share which may be exchanged by the owner, usually for the common stock of the same company, in accordance with the terms of the conversion privilege. A company can force conversion by calling in such shares for redemption if the redemption price is below the market price.
<b>Corporate Note</b>	An unsecured promise made by the borrower to pay interest and repay the principal at a specific date.
<b>Corporation or Company</b>	A form of business organization created under provincial or federal statutes which has a legal identity separate from its owners. The corporation's owners (shareholders) have no personal liability for its debts. See also Limited Liability.
<b>Correlation</b>	A measure of the relationship between two or more securities. If two securities mirror each other's movements perfectly, they are said to have a positive one (+1) correlation. Combining securities with high positive correlations does not reduce the risk of a portfolio. Combining securities that move in the exact opposite direction from each other are said to have perfect negative one (-1) correlation. Combining two securities with perfect negative correlation reduces risk. Very few, if any, securities

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have a perfect negative correlation. However, risk in a portfolio can be reduced if the combined securities have low positive correlations.

**Cost Accounting Method**

Used when a company owns less than 20% of a subsidiary.

**Cost of Goods Sold**

An earnings statement account representing the cost of buying raw materials that go directly into producing finished goods.

**Country Banks**

A colloquial term for non-bank lenders who provide short-term sources of credit for investment dealers; e.g., corporations, insurance companies and other institutional short-term investors, none of whom is under the jurisdiction of the Bank Act. See also Purchase and Resale Agreement.

**Coupon Rate**

The rate of interest that appears on the certificate of a bond. Multiplying the coupon rate times the principal tells the holder the dollar amount of interest to be paid by the issuer until maturity. For example, a bond with a principal of \$1,000 and a coupon of 10% would pay \$100 in interest each year. Coupon rates remain fixed throughout the term of the bond. See also Yield.

**Covenant**

A pledge in a bond indenture indicating the fulfilment of a promise or agreement by the company issuing the debt. An example of a covenant may include the promise not to issue any more debt.

**Cover**

Buying a security previously sold short. See also Short Sale.

**Covered Writer**

The writer of an option who also holds a position that is equivalent to, but on the opposite side of the market from the short option position. In some circumstances, the equivalent position may be in cash, a convertible security or the underlying security itself. The rules for establishing whether a position is covered or not are detailed in the CSI's Canadian Options Course. See also Naked Writer.

**Cross on the Board**

Also called a put-through or contra order. When a broker has both an order to sell and an order to buy the same stock at the same price, a cross is allowed on the exchange floor without interfering with the limits of the prevailing market.

**Cum Dividend**

With dividend. If you buy shares quoted cum dividend, i.e., before the ex dividend date, you will receive an upcoming already-declared dividend. If shares are quoted ex-dividend (without dividend) you are not entitled to the declared dividend.

**Cum Rights**

With rights. Buyers of shares quoted cum rights, i.e., before the ex-rights date, are entitled to forthcoming already-declared rights. If shares are quoted ex rights (without rights) the buyer is not entitled to receive the declared rights.

**Cumulative Preferred**

A preferred stock having a provision that if one or more of its dividends are not paid, the unpaid dividends accumulate in arrears and must be paid before any dividends may be paid on the company's common shares.

**Current Account**

Account that reflects all payments between Canadians and foreigners for goods, services, interest and dividends. Along

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	with the capital account it is a component of the balance of payments.
<b>Current Assets</b>	Cash and assets which in the normal course of business would be converted into cash, usually within a year, e.g. accounts receivable, inventories. A balance sheet category.
<b>Current Liabilities</b>	Money owed and due to be paid within a year, e.g. accounts payable. A balance sheet category.
<b>Current Ratio</b>	A liquidity ratio that shows a company's ability to pay its current obligations from current assets. A current ratio of 2:1 is the generally accepted standard. See also Quick Ratio.
<b>Current Yield</b>	The annual income from an investment expressed as a percentage of the investment's current value. On stock, calculated by dividing yearly dividend by market price; on bonds, by dividing the coupon by market price. See also Yield.
<b>CUSIP</b>	Committee on Uniform Security Identification Procedures is the trademark for a standard system of securities identification (i.e., CUSIP numbering system) and securities description (i.e., CUSIP descriptive system) that is used in processing and recording securities transactions in North America.
<b>Custodian</b>	A firm that holds the securities belonging to a mutual fund or a segregated fund for safekeeping. The custodian can be either the insurance company itself, or a qualified outside firm based in Canada.
<b>Cyclical Stock</b>	A stock in an industry that is particularly sensitive to swings in economic conditions. Cyclical Stocks tend to rise quickly when the economy does well and fall quickly when the economy contracts. In this way, cyclicals move in conjunction with the business cycle. For example, during periods of expansion auto stocks do well as individuals replace their older vehicles. During recessions, auto sales and auto company share values decline.
<b>Cyclical Unemployment</b>	The amount of unemployment that rises when the economy softens, firms' demand for labour moderates, and some firms lay off workers in response to lower sales. It drops when the economy strengthens again.

### D

<b>Day</b>	Business Day - Refers to those days when most corporate and government offices are open for business, generally excluding weekends and statutory holidays. Calendar Day - Refers to any day of the year.
<b>Day Order</b>	An order to buy or sell a security valid only for the day the order is given.
<b>Dealer Market</b>	A market in which securities are bought and sold over-the-counter in which dealers acts as principals when buying and selling securities for clients. Also referred to as the unlisted market.

## GLOSSARY OF INVESTMENT TERMS

<b>Dealer's Spread</b>	The difference between the bid and ask prices on a security.
<b>Death benefit</b>	The amount that the policy agrees to pay to the beneficiary or the estate on the death of the annuitant.
<b>Debenture</b>	A certificate of indebtedness of a government or company backed only by the general credit of the issuer and unsecured by mortgage or lien on any specific asset. In other words, no specific assets have been pledged as collateral.
<b>Debt</b>	Money borrowed from lenders for a variety of corporate purposes. The borrower typically pays interest for the use of the money and is obligated to repay it at a set date.
<b>Debt Ratios</b>	Financial ratios that show how well the company can deal with its debt obligations.
<b>Debt/Equity Ratio</b>	A ratio that shows whether a company's borrowing is excessive. The higher the ratio, the higher the financial risk.
<b>Declining Industry</b>	An industry moving from the maturity stage. It tends to grow at rates slower than the overall economy, or the growth rate actually begins to decline.
<b>Deemed Disposition</b>	Under certain circumstances, taxation rules state that a transfer of property has occurred, even without a purchase or sale, e.g., there is a deemed disposition on death or emigration from Canada.
<b>Default</b>	A bond is in default when the borrower has failed to live up to its obligations under the trust deed with regard to interest, sinking fund payments or has failed to redeem the bonds at maturity.
<b>Default Risk</b>	The risk that a debt security issuer will be unable to pay interest on the prescribed date or the principal at maturity. Default risk applies to debt securities not equities since equity dividend payments are not contractual.
<b>Defensive Stock</b>	A stock of a company with a record of stable earnings and continuous dividend payments and which has demonstrated relative stability in poor economic conditions. For example, utility stock values do not usually change from periods of expansion to periods of recession since most individuals use a constant amount of electricity.
<b>Deferred Annuity</b>	This type of contract, usually sold by life insurance companies, pays a regular stream of income to the beneficiary or annuitant at some agreed-upon start date in the future. The original payment is usually a stream of payments made over time, ending prior to the beginning of the annuity payments. See also Annuity.
<b>Deferred Charges</b>	An asset shown on a balance sheet representing payments made by the company for which the benefit will extend to the company over a period of years. Similar to a prepaid expense except that the benefit period is for a longer period. Deferred charges may include expenses incurred in issuing bonds, organizational expenses or research expenses.
<b>Deferred Income</b>	Results when a company receives payment for goods or services that it has not yet provided. For example, a prepaid subscription to a magazine.

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<b>Deferred Income Taxes</b>	Income tax that would otherwise be payable currently, but which is deferred by using larger allowable deductions in calculating taxable income than those used in calculating net income in the financial statements. An acceptable practice, it is usually the result of timing differences and represents differences in accounting reporting guidelines and tax reporting guidelines.
<b>Deferred Profit Sharing Plan (DPSP)</b>	A trust arrangement whereby an employer distributes a certain percentage of company profits to his/her employees. It must be an arms length transaction, and employees are not eligible to make a contribution.
<b>Deferred Sales Charge</b>	The fee charged by a mutual fund or insurance company for redeeming units. It is otherwise known as a redemption fee or back-end load. These fees decline over time and are eventually reduced to zero if the fund is held long enough.
<b>Deficiency Letter</b>	A securities commission letter sent to a company submitting a preliminary prospectus on a contemplated new issue of the company's securities. The letter poses any questions the commission wants answered, and outlines any recommendations for changes. When all points raised in the letter are resolved, the issue's final prospectus is filed.
<b>Defined Benefit Plan</b>	A type of registered pension plan in which the annual payout is based on a formula. The plan pays a specific dollar amount at retirement using a predetermined formula.
<b>Defined Contribution Plan</b>	A type of registered pension plan where the amount contributed is known but the dollar amount of the pension to be received is unknown. Also known as a money purchase plan.
<b>Delayed Floater</b>	A type of variable rate preferred share that entitles the holder to a fixed dividend for a predetermined period of time after which the dividend becomes variable. Also known as a fixed-reset or fixed floater.
<b>Delayed Opening</b>	Postponement in the opening of trading of a security the result of a heavy influx of buy and/or sell orders.
<b>Delist</b>	Removal of a security's listing on a stock exchange.
<b>Delivery</b>	Delayed Delivery - A transaction in which there is a clear understanding that delivery of the securities involved will be delayed beyond the normal settlement period. Good Delivery - When a security that has been sold is in proper form to transfer title by delivery to the buyer. Regular Delivery - Unless otherwise stipulated, sellers of stock must deliver it on or before the third business day after the sale.
<b>Demutualization</b>	The process by which insurance companies, owned by policy holders, reorganize into companies owned by shareholders. Policy holders become shareholders in an insurance company.
<b>Depletion</b>	Refers to consumption of natural resources that are part of a company's assets. Producing oil, mining and gas companies deal in products that cannot be replenished and as such are known as wasting assets. The recording of depletion is a bookkeeping entry similar to depreciation and does not

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	involve the expenditure of cash.
<b>Deposit-based guarantee</b>	A maturity guarantee consisting of separate guarantees and guarantee dates for each of the deposits made in a segregated fund policy over time.
<b>Depreciation</b>	Systematic charges against earnings to write off the cost of an asset over its estimated useful life because of wear and tear through use, action of the elements, or obsolescence. It is a bookkeeping entry and does not involve the expenditure of cash.
<b>Derivative</b>	A type of financial instrument whose value is based on the performance of an underlying financial asset, commodity, or other investment. Derivatives are available on interest rates, currency, stock indexes. For example, a call option on IBM is a derivative because the value of the call varies in relation to the performance of IBM stock. See also Options.
<b>Diamonds</b>	An index participation unit that reflects the performance of the Dow Jones Industrial Average of 30 blue chip stocks.
<b>Dilution</b>	Reducing the actual or potential earnings per share by issuing more shares or giving options to obtain them.
<b>Direct and Indirect Holdings</b>	The holding(s) of an individual or company in other companies. For example: Company A owns 500,000 of Company B's 1,000,000 outstanding shares. Company A therefore has a 50% direct interest in Company B. Company B, in turn, owns 300,000 of Company C's outstanding 500,000 shares. Company B therefore has a 60% direct interest in Company C. Company A (by virtue of its 50% direct interest in Company B) has a 30% indirect interest in Company C.
<b>Direct Bonds</b>	This term is used to describe bonds issued by governments that are first-hand obligations of the government itself. See also Guaranteed Bonds.
<b>Director</b>	Person elected by voting common shareholders at the annual meeting to direct company policies.
<b>Disaster Out Clause</b>	A clause in an underwriting agreement allowing the underwriter to rescind the agreement, should a law, event or major financial occurrence transpire that adversely affects financial markets in general or the issuer in particular.
<b>Disclaimer Clause</b>	Securities commissions require that all prospectuses carry on their front page the disclaimer that the commission itself has in no way approved the merits of the securities being offered for sale.
<b>Discount</b>	The amount by which a preferred stock or bond sells below its par value.
<b>Discount Brokers</b>	Brokerage house that buys and sells securities for clients at a greater commission discount than full-service firms.
<b>Discounted</b>	When some anticipated event such as increased dividends or lower earnings has already been reflected in the market price of a stock, it is said to be "already discounted" by the market.
<b>Discretionary Account</b>	A securities account where the client has given specific



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	written authorization to a partner, director or qualified portfolio manager to select securities and execute trades for him. See also Managed Account and Wrap Account.
<b>Disposable Income</b>	Personal income minus income taxes and any other transfers to government.
<b>Diversification</b>	Spreading investment risk by buying different types of securities in different companies in different kinds of businesses and/or locations.
<b>Dividend</b>	An amount distributed out of a company's profits to its shareholders in proportion to the number of shares they hold. Over the years a preferred dividend will remain at a fixed annual amount. The amount of common dividends may fluctuate with the company's profits. A company is under no legal obligation to pay preferred or common dividends.
<b>Dividend Discount Model</b>	The relationship between a stock's current price and the present value of all future dividend payments. It is used to determine the price at which a stock should be selling based on projected future dividend payments.
<b>Dividend Reinvestment Plan</b>	The automatic reinvestment of shareholder dividends in more shares of the company's stock.
<b>Dividend Tax Credit</b>	A procedure to encourage Canadians to invest in preferred and common shares of taxable, dividend-paying Canadian corporations. The taxpayer pays tax based on grossing up (i.e., adding 25% to the amount of dividends actually received) and obtains a credit against federal and provincial tax based on the grossed up amount in the amount of 131/3%.
<b>Dividend Yield</b>	A value ratio that shows the annual dividend rate expressed as a percentage of the current market price of a stock. Dividend yield represents the investor's percentage return on investment at its prevailing market price.
<b>Dollar Cost Averaging</b>	Investing a fixed amount of dollars in a specific security at regular set intervals over a period of time, thereby reducing the average cost paid per unit. See also Averaging Down.
<b>Domestic Bonds</b>	Bonds issued in the currency and country of the issuer. For example, a Canadian dollar-denominated bond, issued by a Canadian company, in the Canadian market would be considered a domestic bond.
<b>Dow Jones Industrial Average (DJIA)</b>	A price-weighted average that uses 30 actively traded blue chip companies as a measure of the direction of the New York Stock Exchange.
<b>Dow Theory</b>	A theory of market analysis based upon the performance of the Dow Jones Industrial Average and the Dow Jones Transportation Average. The theory states that the market is in a basic upward trend if one of these averages advances above a previous important high, accompanied or followed by a similar advance in the other. When both averages dip below previous important lows, this is regarded as confirmation of a basic downward trend.
<b>Draft Prospectus</b>	A prospectus prepared for internal use and discussion by the company issuing securities and the underwriters. It is not for

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outside distribution and shows only basic data on the company with little final detail about the terms of the planned underwriting. It is not a legal document and does not have to be drawn up strictly to securities commission standards. It is an earlier version of a preliminary prospectus and cannot be used in offering the security.

### **Drawdown and Redeposit**

An open-market operation pursued by the Bank of Canada to influence interest rates through the management of highly liquid cash deposits in the banking system. This process is known as cash management.

### **Duration**

A measure of bond price volatility. The weighted average of the present value of a bond's coupon payments and principal expressed in years. The longer the duration of a bond the greater its risk.

## **E**

### **Earned Income**

Income that is designated by Canada Customs and Revenue Agency for RRSP calculations. Most types of revenues are included with the exception of any form of investment income and pension income.

### **Earnings or Income Statement**

A financial statement which shows a company's revenues and expenditures resulting in either a profit or a loss during a financial period.

### **Earnings Per Share (EPS)**

A value ratio that shows the portion of net income for a period attributable to a single common share of a company. For example, a company with \$100 million in earnings and with 100 million common shareholders would report an EPS of \$1 per share.

### **Efficient Market Hypothesis**

The theory that a stock's price reflects all available information and reflects its true value.

### **Election Period**

When an investor purchases an extendible or retractable bond, they have a time period in which to notify the company if they want to exercise the option.

### **Elliot Wave Theory**

A theory used in technical analysis based on the rhythms found in nature. The theory states that there are repetitive, predictable sequences of numbers and cycles found in nature similar to patterns of stock movements.

### **Embedded Option**

A term used to describe the convertible, retractable or extendible features of some securities. These features can often be valued using the same techniques used to value options.

### **Emerging Industries**

Brand new industries in the early stages of growth. Often considered as speculative because they are introducing new products that may or may not be accepted and may face strong competition from other new entrants.

### **Equipment Trust Certificate**

A type of debt security that was historically used to finance "rolling stock" or railway boxcars. The cars were the collateral behind the issue and when the issue was paid down the cars reverted to the issuer. In recent times, equipment trusts are

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	used as a method of financing containers for the offshore industry. A security, more common in the U.S. than in Canada.
<b>Equity Capital</b>	See capital stock.
<b>Equity Cycle</b>	The cyclical pattern of stock prices over time.
<b>Equity Dividend Shares</b>	Shares that trade like bonds and preferred shares, but can benefit from increases in dividends paid on the underlying common shares. Also known as structured preferreds. See also Split Shares.
<b>Equity Earnings</b>	A company's share of an unconsolidated subsidiary's earnings. The equity accounting method is used when a company owns 20% to 50% of a subsidiary.
<b>Equity or Shareholders' Equity</b>	Ownership interest of common and preferred shareholders in a company. The difference between the assets and liabilities of a company which is sometimes called net worth.
<b>Escrowed or Pooled Shares</b>	Outstanding shares of a company which, while entitled to vote and receive dividends, may not be bought or sold unless special approval is obtained. Mining and oil companies commonly use this technique when treasury shares are issued for new properties. Shares can be released from escrow (i.e. freed to be bought and sold) only with the permission of applicable authorities such as a stock exchange and/or securities commission.
<b>Eurobonds</b>	Bonds denominated in Canadian dollars or other currencies and sold to investors in currencies other than the country of issue. For example, a bond denominated in Canadian dollars and issued in Germany would be classified as a Eurobond.
<b>European Option</b>	An option that can only be exercised on a specified date - normally the business day prior to expiration.
<b>Ex-Ante</b>	A projection of expected returns - what investors expect to realize as a return.
<b>Ex-Dividend</b>	A term that denotes that when a person purchases a common or preferred share, they are not entitled to the dividend payment. Shares go ex-dividend two business days prior to the shareholder record date. See also cum dividend.
<b>Ex-Post</b>	The rate of return that was actually received. This historic data is used to measure actual performance.
<b>Ex-Rights</b>	A term that denotes that the purchaser of a common share would not be entitled to a rights offering. Common shares go ex-rights two business days prior to the shareholder of record date.
<b>Exchange Fund Account</b>	A special federal government account operated by the Bank of Canada to hold and conduct transactions in Canada's foreign exchange reserves on instructions from the Minister of Finance.
<b>Exempt List</b>	Large professional buyers of securities, mostly financial institutions, that are offered a portion of a new issue by one member of the banking group on behalf of the whole syndicate. The term exempt indicates that this group of investors is exempt from receiving a prospectus on a new

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issue as they are considered to be sophisticated and knowledgeable.

### **Exempt Market**

An unregulated market for sophisticated participants in government bonds, corporate issues and commercial paper. A prospectus has not been required to raise money privately from private investors (largely institutions, but also individuals) and registration with a securities commission for those so dealing has not been needed.

### **Exempt Purchaser**

A category of institutional investors to which the sale of a new issue of securities does not require the issuer to file a prospectus with the applicable securities commission.

### **Exercise**

The process of invoking the rights of the option or warrant contract. It is the holder of the option who exercises his or her rights. See also Assignment.

### **Exercise Notice**

The instructions tendered by the option holder, through the investment dealer, which states the holder's decision to activate the rights given in the option contract. Once tendered, it is irrevocable. The holder of a call will buy the underlying security while the holder of a put will sell the underlying security.

### **Exercise Price**

The price at which a warrant can be exchanged for a share of the underlying security. For an option, it is the price at which the underlying security can be purchased, in the case of a call, or sold, in the case of a put, by the option holder. Synonymous with strike price.

### **Expansion**

A phase of the business cycle characterized by increasing corporate profits and hence increasing share prices, an increase in the demand for capital for business expansion, and hence an increase in interest rates.

### **Expectations Theory**

A theory stating that yield curve is shaped by a market consensus about future interest rates.

### **Expiry Date**

The date on which certain rights or contracts cease to exist. For equity options, this date is usually the Saturday following the third Friday of the month listed in the contract. This term can also be used to describe the day on which warrants and rights cease to exist.

### **Extendible Bond or Debenture**

A bond or debenture with terms granting the holder the option to extend the maturity date by a specified number of years.

### **Extra**

A dividend in the form of stock or cash in addition to the regular common dividend the company has been paying.

### **Extraordinary Items**

An event not typical of normal business activity and do not occur on a regular basis. For example, a company may write-off an underperforming division or it may sell a large amount of real estate in a given fiscal year. The results of these special gains or losses are included as an extraordinary item on the earnings statement.

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<b>Face Value</b>	The value of a bond or debenture that appears on the face of the certificate. Face value is ordinarily the amount the issuer will pay at maturity. Face value is no indication of market value.
<b>Fails</b>	Short for failed deliveries. Failure to deliver a security on settlement date.
<b>Fiduciary Responsibility</b>	The responsibility of an investment advisor, mutual fund salesperson or financial planner to always put the client's interests first. The fiduciary is in a position of trust and must act accordingly.
<b>Final Prospectus</b>	The prospectus which supersedes the preliminary prospectus and is accepted for filing by applicable provincial securities commissions. The final prospectus shows all required information pertinent to the new issue and a copy must be given to each first-time buyer of the new issue.
<b>Finance or Acceptance Company Paper</b>	Short-term negotiable debt securities similar to commercial paper, but issued by finance companies.
<b>Financial Intermediary</b>	An institution such as a bank, life insurance company, credit union or mutual fund which receives cash, which it invests, from suppliers of capital.
<b>Financial Risk</b>	The additional risk placed on the common shareholders from a company's decision to use debt to finance its operations.
<b>Financing</b>	The purchase for resale of a security issue by one or more investment dealers. The formal agreement between the investment dealer and the corporation issuing the securities is called the underwriting agreement. A term synonymous with underwriting.
<b>Firm Bid - Firm Offer</b>	An undertaking to buy (firm bid) or sell (firm offer) a specified amount of securities at a specified price for a specified period of time, unless released from this obligation by the seller in the case of a firm bid or the buyer in the case of a firm offer.
<b>Fiscal Agent</b>	An investment dealer appointed by a company or government to advise it in financial matters and to manage the underwriting of its securities.
<b>Fiscal Policy</b>	The policy pursued by the federal government to influence economic growth through the use of taxation and government spending to smooth out the fluctuations of the business cycle.
<b>Fiscal Year</b>	A company's accounting year. Due to the nature of particular businesses, some companies do not use the calendar year for their bookkeeping. A typical example is the department store that finds December 31 too early a date to close its books after the Christmas rush and so ends its fiscal year on January 31.
<b>Fixed Asset</b>	A tangible long-term asset such as land, building or machinery, held for use rather than for processing or resale. A balance sheet category.
<b>Fixed Exchange Rate Regime</b>	A country whose central bank maintains the domestic currency at a fixed level against another currency or a

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	composite of other currencies.
<b>Fixed Floater Preferred</b>	See Delayed Floater.
<b>Fixed Income Securities</b>	Securities that generate a predictable stream of interest or dividend income, such as bonds, debentures and preferred shares.
<b>Fixed Rate</b>	A term used to describe the interest payments payable in a particular contract. In this case, a fixed rate is one that is stated clearly in the contract, for example 8% per annum. See also Floating Rate.
<b>Fixed-Reset Preferred</b>	See Delayed Floater.
<b>Flat</b>	Means that the quoted market price of a bond or debenture is its total cost (as opposed to an accrued interest transaction). Bonds and debentures in default of interest trade flat.
<b>Floating Exchange Rate Regime</b>	A country whose central bank allows market forces alone to determine the value of its currency, but will intervene if it thinks the move in the exchange rate is excessive or disorderly.
<b>Floating Rate</b>	A term used to describe the interest payments negotiated in a particular contract. In this case, a floating rate is one that is based on an administered rate, such as the Prime Rate. For example, the rate for a particular note may be 2% over Prime. See also Fixed Rate.
<b>Floor Trader</b>	Employee of a member of a stock exchange, who executes buy and sell orders on the floor (trading area) of the exchange for the firm and its clients.
<b>Flow- Through Shares</b>	Tax deductions and credits, normally available only to a corporation, may flow through to owners of the corporation's flow-through shares. Canadian exploration and mining companies are able to issue such shares at a premium because investors are considered to be funding exploration and development costs and are therefore entitled to deduct these expenses from all other income.
<b>Forced Conversion</b>	When a company's stock rises in value above the conversion price a company may force the convertible security holder to exchange the security for stock by calling back the security. Faced with receiving a lower call price (par plus a call premium) or higher valued shares the investor is forced to convert into common shares.
<b>Foreign Bonds</b>	If a Canadian company issues debt securities in another country, denominated in that foreign country's currency, the bond is known as a foreign bond. A bond issued in the U.S. payable in U.S. dollars is known as a foreign bond or a "Yankee Bond". See also Eurobond.
<b>Foreign Exchange Rate Risk</b>	When an investor invests in a foreign security, fund, or any investment that pays in a denomination other than Canadian dollars, the investor is subject to the risk that the foreign currency may depreciate in value.
<b>Foreign Pay</b>	A Canadian debt security issued in Canada but pays interest and principle in a foreign currency is known as a foreign pay bond. This type of security allows Canadians to take

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	advantage of possible shifts in currency values.
<b>Forward</b>	A forward contract is similar to a futures contract but trades on an OTC basis. The seller agrees to deliver a specified commodity or financial instrument at a specified price sometime in the future. The terms of a forward contract are not standardized but are negotiated at the time of the trade. There may be no secondary market.
<b>Front-End Load</b>	A sales charge applied to the purchase price of a mutual fund when the fund is originally purchased.
<b>Fully Diluted Earnings per Share</b>	Earnings per common share calculated on the assumption that all convertible securities are converted into common shares and all outstanding rights, warrants, options and contingent issues are exercised.
<b>Fundamental Analysis</b>	Security analysis based on fundamental facts about a company as revealed through its financial statements and an analysis of economic conditions that affect the company's business. See also Technical Analysis.
<b>Funded Debt</b>	All outstanding bonds, debentures, notes and similar debt instruments of a company not due for at least one year.
<b>FundSERV</b>	The co-operatively owned and operated industry organization that provides central clearing and settlement services for automated investment-funds transactions in Canada.
<b>Futures</b>	A contract in which the seller agrees to deliver a specified commodity or financial instrument at a specified price sometime in the future. A futures contract is traded on a recognized exchange. Unlike a forward contract, the terms of the futures contract are standardized by the exchange and there is a secondary market. See also Forwards.
<b>G</b>	
<b>GAAP</b>	Acronym for Generally Accepted Accounting Principles which are conventions, procedures and guidelines for accounting practices.
<b>Good Delivery Form</b>	When a security is sold it must be delivered to the broker properly endorsed, not mutilated and with (if any) coupons attached. To avoid these difficulties and as a general practice most securities are held in street form with the broker.
<b>Good Faith Money</b>	A deposit of money by the buyer or seller of a futures product which acts as a financial guarantee as to the fulfilment of the contractual obligations of the futures contract. Also called a performance bond or margin.
<b>Goodwill</b>	Generally understood to represent the value of a well-respected business - its name, customer relations, employee relations, among others. Considered an intangible asset on the balance sheet.
<b>Grey Market</b>	A colloquialism used to describe the unlisted if, as, and when market for newly issued but as of yet, unlisted securities. It is an over-the-counter market.
<b>Gross Domestic Product (GDP)</b>	The value of all goods and services produced in a country in a

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	year.
<b>Gross National Product (GNP)</b>	The value of all goods and services produced by Canadian nationals, whether at home or abroad. It is equal to GDP plus profits and interest on Canadian investments in other countries, minus profits and interest paid to foreign holders of Canadian investments.
<b>Gross Profit Margin</b>	A profitability ratio that shows the company's rate of profit after allowing for cost of goods sold.
<b>Growth Stock</b>	Common stock of a company with excellent prospects for above-average growth; a company which over a period of time seems destined for above-average expansion.
<b>Guarantee date</b>	Otherwise known as the maturity date, this is the applicable date for any maturity guarantees associated with the contract. Normally, the guarantee date will be 10 years after the deposit was made.
<b>Guaranteed amount</b>	The minimum amount payable under death benefits or maturity guarantees provided for under the terms of the segregate fund contract.
<b>Guaranteed Bonds</b>	Bonds issued by a crown corporation but guaranteed by the applicable government as to interest and principal payments.
<b>Guaranteed Income Supplement (GIS)</b>	A pension payable to OAS recipients with no other or limited income.
<b>Guaranteed Investment Certificate (GIC)</b>	A deposit instrument most commonly available from trust companies, requiring a minimum investment at a predetermined rate of interest for a stated term. Generally non-redeemable prior to maturity but there can be exceptions.
<b>Guaranteed Investment Fund (GIF)</b>	A type of segregated fund whose underlying asset is a mutual fund. GIFs are often described as consisting of mutual funds with segregated fund "wrappers."
<b>H</b>	
<b>Halt in Trading</b>	A temporary halt in the trading of a security to allow significant news to be reported and widely disseminated. Usually the result of a pending merger or a substantial change in dividends or earnings.
<b>Hedge</b>	A protective manoeuvre; a transaction intended to reduce the risk of loss from price fluctuations.
<b>Holding Company</b>	A company that owns the securities of another company, in most cases with voting control.
<b>Holding Period Return</b>	A transactional rate of return measure that takes into account all cash flows and increases or decreases in a security's value for any time frame. Time frames can be greater or less than a year.
<b>Hypothecate</b>	To pledge securities as collateral for a loan. Referred to as collateral assignment or hypothec in Quebec for segregated funds.



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### I

<b>i60s</b>	A type of investment known as index participation units that trade on the Toronto Stock Exchange. They provide an easy way for investors to participate in the performance of the S&P/TSE 60 Index, as each unit represents an equal beneficial interest in a trust that holds stocks of companies included in that Index. The Fund holds company shares in the same proportion as they are reflected in the Index. The Fund is designed to provide economic benefits similar to a direct investment in the shares of the Index.
<b>If, As and When</b>	New issues are sold before the security certificates are printed. This clause in the contract protects the dealer against delay in receiving the certificates.
<b>In-the-Money</b>	A call option is in-the-money if its strike price is below the current market price of the underlying security. A put option is in-the-money if its strike price is above the current market price of the underlying security. The in-the-money amount is the option's intrinsic value.
<b>Income Bond</b>	Generally, an income bond promises to repay principal but to pay interest only when earned. In some cases, unpaid interest on an income bond may accumulate as a claim against the company when the bond matures.
<b>Income Splitting</b>	A tax planning strategy whereby the higher-earning spouse transfers income to the lower-earning spouse to reduce taxable income.
<b>Income Statement</b>	See Earnings Statement.
<b>Income Stock</b>	A stock that provides a generous dividend yield that is relatively well assured.
<b>Income Tax Act (ITA)</b>	The legislation dictating the process and collection of federal tax in Canada, administered by Canada Customs and Revenue Agency.
<b>Index</b>	A measure of the market as measured by a basket of securities. An example would be the TSE 300 Index or the S&P 500. Fund managers and investors use a stock index to measure the overall direction and performance of the market
<b>Index Participation Unit</b>	Shares of an exchange-traded fund that trade on a major stock exchange. Like index mutual funds, index-participation units are designed to match the performance of a certain index by investing in the constituent companies included in that index. Like the stocks in which they invest, shares can be traded throughout the trading day.
<b>Indexing</b>	A portfolio management style that involves buying and holding a portfolio of securities that matches, closely or exactly, the composition of a benchmark index.
<b>Individual variable insurance contract (IVIC)</b>	The term used in the IVIC Guidelines to describe a segregated fund context.
<b>Inflation</b>	A generalized, sustained trend of rising prices.
<b>Inflation Rate</b>	The rate of change in prices. See also Consumer Price Index.
<b>Inflation Rate Risk</b>	The risk that the value of financial assets and the purchasing

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	power of income will decline due to the impact of inflation on the real returns produced by those financial assets.
<b>Information Circular</b>	Document sent to shareholders with a proxy, providing details of matters to come before a shareholders' meeting.
<b>Initial Public Offering (IPO)</b>	A new issue of securities offered to the public for investment for the very first time. IPOs must adhere to strict government regulations as to how the investments are sold to the public.
<b>Initial sales charge</b>	A commission paid to the financial adviser at the time that the policy is purchased. This type of sales charge is also known as an acquisition fee or a front-end load.
<b>Insider</b>	All directors and senior officers of a corporation and those who may also be presumed to have access to non-public or inside information concerning the company; also anyone owning more than 10% of the voting shares in a corporation. Insiders are prohibited from trading on this information.
<b>Insider Report</b>	A report of all transactions in the shares of a company by those considered to be insiders of the company and submitted each month to securities commissions.
<b>Instalment Debentures</b>	A bond or debenture issue in which a predetermined amount of principal matures each year.
<b>Instalment Receipts</b>	A new issue of stock sold with the obligation that buyers will pay the issue price in a specified series of instalment payments instead of one lump sum payment. Also known as Partially Paid Shares.
<b>Intangible Asset</b>	An asset having no physical substance (e.g., goodwill, patents, franchises, copyrights).
<b>Interest</b>	Money charged by a lender to a borrower for the use of his or her money.
<b>Interest Coverage Ratio</b>	A debt ratio that tests the ability of a company to pay the interest charges on its debt and indicates how many times these charges are covered based upon earnings available to pay them.
<b>Interest Rate Risk</b>	The risk that changes in interest rates will adversely affect the value of an investor's portfolio. For example, a portfolio with a large holding of long-term bonds is vulnerable to significant loss from changes in interest rates.
<b>Interim Certificate</b>	When a new issue is marketed, initial delivery of temporary certificates is sometimes made, to be exchanged for permanent or definitive certificates when these become available.
<b>Interim Statement</b>	A financial statement issued for a period within a fiscal year, e.g., a three-month or first quarter interim statement.
<b>International Monetary Fund (IMF)</b>	Entity whose purpose is to promote cooperation and collaboration on international monetary and trade issues.
<b>Interpretation (IT) Bulletin</b>	An advisory notice published by Canada Customs and Revenue Agency that explains in detail specific aspects of the Income Tax Act.
<b>Intrinsic Value</b>	That portion of a warrant or call option's price that represents the amount by which the market price of a security exceeds

## GLOSSARY OF INVESTMENT TERMS

	the price at which the warrant or call option may be exercised (exercise price). Considered the theoretical value of a security (i.e., what a security should be worth or priced at in the market).
<b>Inventory</b>	The goods and supplies that a company keeps in stock. A balance sheet item.
<b>Inventory Turnover Ratio</b>	Cost of goods sold divided by inventory. The ratio may also be expressed as the number of days required to sell current inventory by dividing the ratio into 365.
<b>Investment</b>	The use of money to make more money, to gain income or increase capital or both.
<b>Investment Advisor</b>	A salesperson employed by a securities firm who must be registered by the securities commission of the province in which he or she works.
<b>Investment Company, or Fund</b>	A company which uses its capital to invest in other companies. There are two principal types: closed-end and open-end or mutual fund. Shares in closed-end investment companies are readily transferable in the open market and are bought and sold like other shares. Capitalization is fixed. Open-end funds sell their own new shares to investors, buy back their old shares, and are not listed. Open-end funds are so-called because their capitalization is not fixed; they normally issue more shares or units as people want them.
<b>Investment Counsellor</b>	A professional engaged to give investment advice on securities for a fee.
<b>Investment Dealer</b>	A securities firm or an individual associated with one. When underwriting new securities or in most bond trading, the dealer acts as a principal, owning the securities bought or sold.
<b>Investment Dealers Association (IDA) of Canada</b>	The Canadian investment industry's national trade association and self-regulatory organization. The IDA seeks to foster efficient capital markets by encouraging participation in the savings and investment process, and by ensuring the integrity of the marketplace.
<b>Investment Policy Statement</b>	The agreement between a portfolio manager and a client that provides the guidelines for the manager.
<b>Investor</b>	One whose principal concern is the minimization of risk, in contrast to the speculator, who is prepared to accept calculated risk in the hope of making better-than-average profits, or the gambler, who is prepared to take even greater risks.
<b>Irrevocable beneficiary</b>	A beneficiary whose entitlements under the segregated fund contract cannot be terminated or changed without his or her consent.
<b>Issue</b>	Any of a company's securities; the act of distributing such securities.
<b>Issued Shares</b>	That part of authorized shares that have been issued by a corporation.
<b>Issuer Bid</b>	An offer by an issuer to security holders to buy back any of its own shares or other securities convertible into its shares.

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<b>IVIC Guidelines</b>	The Canadian Life and Health Insurance Association's regulatory guidelines regarding segregated fund contracts, which have been approved by the CCIR and which first went into effect on July 1, 1997.
<b>J</b>	
<b>Jitney</b>	The execution and clearing of orders by one member of a stock exchange for the account of another member. Example: Broker A is a small firm whose volume of business is not sufficient to maintain a trader on the floor of the exchange. Instead it gives its orders to Broker B for execution and clearing and pays a reduced percentage of the normal commission.
<b>Junior Bond Issue</b>	A corporate bond issue, the collateral for which has been pledged as security for other more senior debt issues and is therefore subject to these prior claims.
<b>Junior Debt</b>	One or more junior bond issues.
<b>K</b>	
<b>Keynesian Policy</b>	Economic policy developed by British economist John Maynard Keynes who proposed that active government intervention in the market was the only method of ensuring economic growth and prosperity. See also monetarism.
<b>Know Your Client (KYC)</b>	The cardinal rule in making investment recommendations. All relevant information about a client must be known in order to ensure that the registrant's recommendations are suitable.
<b>L</b>	
<b>Labour Sponsored Venture Capital Corporations (LSVCC)</b>	LSVCCs are investment funds, sponsored by labour organizations, that have a specific mandate to invest in small to medium-sized businesses. To encourage this mandate, governments offer generous tax credits to investors in LSVCCs.
<b>Lagging Indicators</b>	A selection of statistical data, which on average indicate highs and lows in the business cycle behind the economy as a whole. These relate to business expenditures for new plant and equipment, consumers' instalment credit, short-term business loans, the overall value of manufacturing and trade inventories.
<b>Law of Large Numbers</b>	An insurance concept that not all bad events happen at the same time. For example, statistics may point out that there is on average one death per thousand for a given age group. The premiums for the whole group compensate those that die and allow the insurance company to make money.
<b>Leading Indicators</b>	A selection of statistical data that, on average, indicate highs and lows in the business cycle ahead of the economy as a whole. These relate to employment, capital investment,

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business starts and failures, profits, stock prices, inventory adjustment, housing starts and certain commodity prices.

### **LEAPS**

Long Term Equity Anticipation Securities are long-term (2-3 year) option contracts.

### **Leverage**

The effect of fixed charges (i.e., debt interest or preferred dividends, or both) on per-share earnings of common stock. Increases or decreases in income before fixed charges result in magnified percentage increases or decreases in earnings per common share. Leverage also refers to seeking magnified percentage returns on an investment by using borrowed funds, margin accounts or securities which require payment of only a fraction of the underlying security's value (such as rights, warrants or options).

### **Leveraged Buy Out (LBO)**

A takeover financed to a large degree by debt that is secured, serviced and repaid through the cash flow and assets of the acquired company. Typically, an LBO is financed predominantly by bank debt and low quality (junk) bonds and to a minimum degree by equity. Its extreme leverage makes an LBO dependent upon a stable economy and stable interest rates for its success.

### **Liabilities**

Debts or obligations of a company, usually divided into current liabilities - those due and payable within one year - and long-term liabilities - those payable after one year. A balance sheet category.

### **Life Cycle**

A model used in financial planning that tries to link age with investing. The underlying theory is that an individual's asset mix will change, as they grow older. However the life cycle is not a substitute for the "know your client rule".

### **Limit Order**

A client's order to buy or sell at a specific price or better. The order can be executed only at that price or a better one.

### **Limited Liability**

The word limited at the end of a Canadian company's name implies that liability of the company's shareholders is limited to the money they paid to buy the shares. By contrast, ownership by a sole proprietor or partnership carries unlimited personal legal responsibility for debts incurred by the business.

### **Liquidation**

The process of converting securities or other property into cash. When a company is dissolved, cash remaining after sale of its assets and payment of all liabilities is distributed to the shareholders.

### **Liquidity**

1. The ability of the market in a particular security to absorb a reasonable amount of buying or selling at reasonable price changes. 2. A corporation's current assets relative to its current liabilities; its cash position.

### **Liquidity Preference Theory**

A theory that tries to explain the shape of the yield curve. It postulates that investors want to invest for the short-term because they are risk averse. Borrowers, however, want long-term money. In order to entice investors to invest long-term, borrowers must offer higher rates for longer-term money. This being the case, the yield curve should slope upwards reflecting the higher rates for longer borrowing

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	periods.
<b>Liquidity Ratios</b>	Financial ratios that are used to judge the company's ability to meet its short-term commitments. See current ratio.
<b>Liquidity Risk</b>	The risk that an investor will not be able to buy or sell a security quickly enough because buying or selling opportunities are limited.
<b>Listed Stock</b>	The stock of a company which is traded on a stock exchange.
<b>Listing Statement</b>	A stock exchange document published when a company's shares are accepted for listing. It provides basic information on the company, its business, management, assets, capitalization and financial status.
<b>Load</b>	The portion of the offering price of shares of most open-end investment companies (mutual funds) which covers sales commissions and all other costs of distribution.
<b>London InterBank Offered Rate (LIBOR)</b>	The rate of interest charged by large international banks dealing in Eurodollars to other large international banks.
<b>Long</b>	Signifies ownership of securities. "I am long 100 BCE common" means that the speaker owns 100 common shares of BCE Inc.
<b>Long-Term Bond</b>	A bond or debenture maturing in more than ten years.

### M

<b>Macroeconomic Policy</b>	Government policy that tries to influence the performance of the economy as a whole through monetary policy and fiscal policy.
<b>Major Trend</b>	Underlying price trend prevailing in a market despite temporary declines or rallies.
<b>Managed Account</b>	Similar to a Discretionary Account but more long-term in nature. May be solicited.
<b>Management Expense Ratio</b>	The total expense of operating a mutual fund expressed as a percentage of the fund's net asset value. It includes the management fee as well as other expenses charged directly to the fund such as administrative, audit, legal fees etc., but excludes brokerage fees. Published rates of return are calculated after the management expense ratio has been deducted.
<b>Management Fee</b>	The fee that the manager of a mutual fund or a segregated fund charges the fund for managing the portfolio and operating the fund. The fee is usually set as fixed percentage of the fund's net asset value.
<b>Managers' Discussion and Analysis (MD&amp;A)</b>	A discussion and analysis by the company's own managers of the information contained in the Annual Information Form.
<b>Manipulation</b>	The illegal practice of buying or selling a security for the purpose of creating a false or misleading appearance of active trading or for the purpose of raising or depressing the price to induce purchases or sales by others.
<b>Margin</b>	The amount paid by a client when he uses credit to buy a security, the balance being loaned by his broker against

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	acceptable collateral.
<b>Margin Call</b>	When an investor purchases an account on margin in the expectation that the share value will rise, or shorts a security on the expectation that share price will decline, and share prices go against the investor, the brokerage firm will send out a margin call requiring that the investor add additional funds or marketable securities to the account to protect the broker's loan.
<b>Market Correction</b>	A price reversal that typically occurs when a security has been overbought or oversold in the market.
<b>Market Maker</b>	A trader employed by a securities firm who is authorized and required, by applicable self-regulatory organizations (SROs), to maintain reasonable liquidity in securities markets by making firm bids or offers for one or more designated securities.
<b>Market Order</b>	An order placed to buy or sell a security immediately at the best current price.
<b>Market Price</b>	The most recent price at which a security transaction took place.
<b>Market Risk</b>	The non-controllable or systematic risk associated with equities.
<b>Market Segmentation Theory</b>	A theory on the structure of the yield curve. It is believed that large institutions shape the yield curve. The banks prefer to borrow short term while the insurance industry, with a longer horizon, prefers long-term money. The supply and demand of the large institutions shapes the curve.
<b>Market Timing</b>	Decisions on when to buy or sell securities based on economic factors, such as the strength of the economy and the direction of interest rates, or based on stock price movements and the volume of trading through the use of technical analysis.
<b>Marketable</b>	A security that is easily bought or sold.
<b>Material Change</b>	A change in the affairs of a company that is expected to have a significant effect on the market value of its securities.
<b>Mature Industry</b>	An industry that experiences slower, more stable growth rates in earnings and sales than growth or emerging industries, for example.
<b>Maturity</b>	The date on which a loan or a bond or debenture comes due and is to be paid off.
<b>Maturity date</b>	The date at which the contract expires, and the time at which any maturity guarantees are based. Segregated fund contracts normally mature in 10 years, although companies are allowed to set longer periods. Maturities of less than 10 years are permitted only for funds such as protected mutual funds, which are regulated as securities and are not segregated funds.
<b>Maturity guarantee</b>	The minimum dollar value of the contract after the guarantee period, usually 10 years. This amount is also known as the annuity benefit.
<b>Medium-Term Bond</b>	A bond or debenture maturing in over three but less than ten

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	years.
<b>Member Firm</b>	A stock brokerage firm or investment dealer which is a member of a stock exchange or the Investment Dealers Association of Canada.
<b>Microeconomic Policy</b>	Economic policies which focus on the functions of firms, workers, labour and product markets which are the main determinant of a country's prosperity over time.
<b>Minority Interest</b>	1. The equity of the shareholders who do not hold controlling interest in a controlled company; 2. In consolidated financial statements (i) the item in the balance sheet of the parent company representing that portion of the assets of a consolidated subsidiary considered as accruing to the shares of the subsidiary not owned by the parent; and (ii) the item deducted in the earnings statement of the parent and representing that portion of the subsidiary's earnings considered as accruing to the subsidiary's shares not owned by the parent.
<b>Monetarism</b>	School of economic theory which states that the level of prices as well as economic output is determined by an economy's money supply. This school of thought believes that control of the money supply is more vital to economic prosperity than the level of government spending, for example. See also Keynesian Policy.
<b>Monetary Policy</b>	A policy implemented by the federal government through the Bank of Canada to control credit and the money supply in the economy.
<b>Money Market</b>	That part of the capital market in which short-term financial obligations are bought and sold. These include treasury bills and other federal government securities maturing in three years or less and commercial paper, bankers' acceptances, trust company guaranteed investment certificates and other instruments with a year or less left to maturity. Longer term securities, when their term shortens to the limits mentioned, are also traded in the money market.
<b>Money Purchase Plan (MPP)</b>	A type of Registered Pension Plan; also called a Defined Contribution Plan. In this type of plan, the annual payout is based on the contributions to the plan and the amounts those contributions have earned over the years preceding retirement. In other words, the benefits are not known but the contributions are.
<b>Montreal Exchange (ME)</b>	A stock exchange that deals exclusively with non-agricultural options and futures in Canada, including all options that previously traded on the TSE and all futures products that previously traded on the Toronto Futures Exchange.
<b>Morbidity</b>	The risk of disability. It is commonly expressed in terms of disability per thousand per year for a specific age group.
<b>Mortality</b>	The risk of death. It is commonly expressed in terms of death per thousand per year for a specific age group.
<b>Mortgage</b>	A contract specifying that certain property is pledged as security for a loan.
<b>Mortgage Backed Securities</b>	Similar to bonds, the current \$ 5,000 units with five-year



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terms are backed by a share in a pool of home mortgages insured under the National Housing Act. Units pay interest and a part of principal each month and, if homeowners prepay their mortgages, may pay out additional amounts of principal before normal maturity. They trade in the bond market at prices reflecting current interest rates.

**Mortgage Bond**

A bond issue secured by a mortgage on the issuer's property.

**Multiple**

A colloquial term for the price earnings ratio of a company's common shares.

**Mutual Fund**

An investment fund operated by a company that uses the proceeds from shares and units sold to investors to invest in stocks, bonds, derivatives and other financial securities. Mutual funds offer investors the advantages of diversification and professional management and are sold on a load or no load basis. Mutual fund shares/units are redeemable on demand at the fund's current net asset value per share (NAVPS).

**Mutual Fund Dealers Association (MFDA)**

A recently established self regulatory organization that will monitor and regulate mutual fund dealers and salespeople.

### N

**Naked Writer**

A seller of an option contract who does not own an offsetting position in the underlying security or a suitable alternative. The rules for establishing whether a position is naked or uncovered are detailed in the CSI's Canadian Options Course.

**NASDAQ**

An acronym for the National Association of Securities Dealers Automated Quotation System. NASDAQ is a computerized system that provides brokers and dealers with price quotations for securities traded OTC.

**National Policies**

The Canadian Securities Administrators have developed a number of policies that are applicable across Canada. These coordinated efforts by the CSA are an attempt to create a national securities regulatory framework. Copies of policies are available from each provincial regulator.

**Near Banks**

See Country Banks.

**Near Date**

A term used to describe one side of a swap transaction. The near date is always the contract with the shortest maturity or expiration date.

**Negative Pledge Provision**

A protective provision written into the trust indenture of a company's debenture issue providing that no subsequent mortgage bond issue may be secured by all or part of the company's assets, unless at the same time the company's debentures are similarly secured.

**Negotiable**

A certificate that is transferable by delivery and which, in the case of a registered certificate, has been duly endorsed and guaranteed.

**Negotiated Offer**

A term describing a particular type of financing in which the investment dealer negotiates with the corporation on the issuance of securities. The details would include the type of

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	security to be issued, the price, coupon or dividend rate, special features and protective provisions.
<b>Net Asset Value</b>	For a mutual fund, net asset value represents the market value of the fund's share and is calculated as total assets of a corporation less its liabilities. Net asset value is typically calculated at the close of each trading day. Also referred to as the book value of a company's different classes of securities.
<b>Net Change</b>	The change in the price of a security from the closing price on one day to the closing price on the following trading day. In the case of a stock which is entitled to a dividend one day, but is traded ex-dividend the next, the dividend is not considered in computing the change. The same applies to stock splits. A stock selling at \$100 the day before a two-for-one split and trading the next day at \$50 would be considered unchanged. The net change is ordinarily the last figure in a stock price list. The mark + 1.10 means up \$1.10 a share from the last sale on the previous day the stock traded.
<b>Net Earnings</b>	That part of a company's profits remaining after all expenses and taxes have been paid and out of which dividends may be paid.
<b>Net Profit Margin</b>	A profitability ratio that indicates how efficiently the company is managed after taking into account both expenses and taxes.
<b>New Issue</b>	An offering of stocks or bonds sold by a company for the first time. Proceeds may be used to retire outstanding securities of the company, to purchase fixed assets or for additional working capital. New debt issues are also offered by government bodies.
<b>New York Stock Exchange (NYSE)</b>	Oldest and largest stock exchange in North America with more than 1,600 companies listed on the exchange.
<b>No Par Value (n.p.v.)</b>	Indicates a common stock has no stated face value.
<b>Nominal Rate</b>	The quoted or stated rate on an investment or a loan. This rate allows for comparisons but does not take into account the effects of inflation.
<b>Non-Competitive Tender</b>	A method of distribution used in particular by the Bank of Canada for Government of Canada bonds. Primary distributors are allowed to request bonds at the average price of the accepted competitive tenders. There is no guarantee as to the amount, if any, received in response to this request.
<b>Non-Cumulative</b>	A preferred dividend that does not accrue or accumulate if unpaid.
<b>Note</b>	An unsecured promise to pay.
	<b>O</b>
<b>Odd Lot</b>	A number of shares which is less than a board lot. Usually refers to a securities trade for less than 100 shares, sometimes called a broken lot. Trading in less than 100

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	shares typically incurs a higher per share commission.
<b>Of Record</b>	On the company's books or records. If, for example, a company announces that it will pay a dividend on January 15 to shareholders of record, every shareholder whose name appears on the company's books on that date will be sent a dividend cheque from the company.
<b>Off-the-Board</b>	This term may refer to transactions over-the-counter in unlisted securities, or, in a special situation, to a transaction involving a block of listed shares which is not executed on a recognized stock exchange.
<b>Offer</b>	The lowest price at which a person is willing to sell; as opposed to bid which is the highest price at which one is willing to buy.
<b>Offering Memorandum</b>	This document is prepared by the dealer involved in a new issue outlining some of the salient features of the new issue, but not the price or other issue-specific details. It is used as a pre-marketing tool in assessing the market for the issue as well as for obtaining expressions of interest.
<b>Offering Price</b>	The price that an investor pays to purchase shares in a mutual fund. The offering price includes the charge or load that is levied when the purchase is made.
<b>Office of the Superintendent of Financial Institutions (OSFI)</b>	The federal regulatory agency whose main responsibilities regarding insurance companies and segregated funds are to ensure that the companies issuing the funds are financially solvent.
<b>Old Age Security (OAS)</b>	A government pension plan payable at age 65 to all Canadian citizens and legal residents.
<b>Open Interest</b>	The total number of outstanding option contracts for a particular option series. An opening transaction would increase open interest, while a closing transaction would decrease open interest. It is used as one measure of an option class's liquidity.
<b>Open Market Operations</b>	Method through which the Bank of Canada influences interest rates by trading securities with participants in the money market.
<b>Open Order</b>	An order to buy or sell a security at a specified price, valid until executed or cancelled.
<b>Open-End Fund</b>	See Mutual Fund.
<b>Opening Transaction</b>	An option transaction that is considered the initial or primary transaction. An opening transaction creates new rights for the buyer of an option, or new obligations for a seller. See also Closing Transaction.
<b>Operating Profit Margin</b>	A profitability ratio that is a stringent measure of a company's ability to manage its resources effectively.
<b>Option</b>	A right to buy or sell specific securities or properties at a specified price within a specified time. See Puts and Calls.
<b>Out-of-Line</b>	A security which appears to be selling too low or too high in relation to comparable issues.
<b>Out-of-the-Money</b>	A call option is out-of-the-money if the market price of the

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underlying security is below its strike price. A put option is out-of-the-money if the market price of the underlying security is above the strike price.

### **Output Gap**

The difference between the actual level of output and the potential level of output when the economy is using all available resources of capital and labour.

### **Outside Deals**

Deals made while selling away, i.e., dealing in securities outside of the normal business of the firm.

### **Outstanding Shares**

That part of issued shares which remains outstanding in the hands of investors.

### **Over-the-Counter (OTC)**

A market for securities made up of securities dealers who may or may not be members of a recognized stock exchange. Over-the-counter is mainly a market conducted over the telephone. Also called the unlisted, inter-dealer or street market. The Canadian Dealing Network Inc. is an example of an over-the-counter market.

### **Over contribution**

An amount made in excess to the annual limit made to an RRSP. An over contribution in excess of \$2,000 is penalized at a rate of 1 percent per month.

## **P**

### **Paper Profit**

An unrealized profit on a security still held. Paper profits become realized profits only when the security is sold. A paper loss is the opposite to this.

### **Par Value**

The stated face value of a bond or stock (as assigned by the company's charter) expressed as a dollar amount per share. Par value of a common stock usually has little relationship to the current market value and so no par value stock is now more common. Par value of a preferred stock is significant as it indicates the dollar amount of assets each preferred share would be entitled to should the company be liquidated.

### **Pari Passu**

A legal term meaning that all securities within a series have equal rank or claim on earnings and assets. Usually refers to equally ranking issues of a company's preferred shares.

### **Participating Feature**

Preferred shares which, in addition to their fixed rate of prior dividend, share with the common in further dividend distributions and in capital distributions above their par value in liquidation.

### **Participation Rate**

The share of the working-age population (15 to 65) that is in the labour market, either working or looking for work.

### **Partnership**

A form of business organization that involves two or more people contributing to the business and legislated under the federal Partnership Act.

### **Past Service Pension Adjusted (PSPA)**

An employer may increase a member's pension by the granting of additional past service benefits to an employee in a defined benefit plan. Plan members who incur a PSPA will have their RRSP contribution room reduced by the amount of this adjustment.

### **Penny Stocks**

Low-priced speculative issues selling at less than \$1 a share.

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	<p>Frequently used as a term of disparagement, although some penny stocks have developed into investment calibre issues.</p>
<b>Pension Adjustment (PA)</b>	<p>The amount of contributions made or the value of benefits accrued to a member of an employer-sponsored retirement plan for a calendar year. The PA enables the individual to determine the amount that may be contributed to an RRSP that would be in addition to contributions into a Registered Pension Plan.</p>
<b>Permanent Insurance</b>	<p>A type of insurance that has a savings component and a death benefit.</p>
<b>Perpetual Bonds</b>	<p>A unique type of debt security that has no maturity date.</p>
<b>Piggyback Warrants</b>	<p>A second series of warrants acquired upon exercise of primary warrants sold as part of a unit.</p>
<b>Point</b>	<p>Refers to security prices. In the case of shares, it means \$1 per share. In the case of bonds and debentures, it means 1% of the issue's par value, which is almost universally 100. On a \$1,000 bond, one point represents 1% of the face value of the bond or \$10.</p>
<b>Poison Pill</b>	<p>A corporate provision to combat a hostile takeover. When triggered, the poison pill allows shareholders to acquire additional shares at below market price, thereby increasing the number of shares outstanding and making the takeover prohibitively expensive. Such plans are relatively new in corporate Canada and are the subject of some controversy regarding whom they are designed to protect.</p>
<b>Policy-based guarantee</b>	<p>A maturity guarantee based on the date when the policy was first issued. This type of guarantee may involve restrictions on the size of and date of subsequent deposits.</p>
<b>Political Risk</b>	<p>The risk associated with a government introducing unfavourable policies making investment in the country less attractive. Political risk also refers to the general instability associated with investing in a particular country.</p>
<b>Pooled Shares</b>	<p>See Escrowed Shares.</p>
<b>Pooling of Interest</b>	<p>Occurs when a company issues treasury shares for the assets of another company so that the latter becomes a division or subsidiary of the acquiring company. Subsequent accounts of the parent company are set up to include the retained earnings and assets at book value (subject to certain adjustments) of the acquired company.</p>
<b>Portfolio</b>	<p>Holdings of securities by an individual or institution. A portfolio may contain debt securities, preferred and common stocks of various types of enterprises and other types of securities.</p>
<b>Pre-emptive Rights Clause</b>	<p>A term in a company's charter that states that if a company wishes to issue additional new shares they must give the "right of first refusal" to the existing shareholders. This allows the existing shareholders to maintain their proportionate interest.</p>
<b>Preferred Stock</b>	<p>A class of share capital that entitles the owners to a fixed dividend ahead of the company's common shares and to a</p>

## GLOSSARY OF INVESTMENT TERMS

	stated dollar value per share in the event of liquidation. Usually do not have voting rights unless a stated number of dividends have been omitted.
<b>Premium</b>	The amount by which a preferred stock or debt security may sell above its par value. In the case of a new issue of bonds or stocks, the amount the market price rises over the original selling price. Also refers to that part of the redemption price of a bond or preferred share in excess of face value, par value or market price. In the case of options, the price paid by the buyer of an option contract to the seller.
<b>Prepaid Expenses</b>	Payments made by the company for services to be received in the near future. For example, rents, insurance premiums and taxes are sometimes paid in advance. A balance sheet item.
<b>Prescribed Rate</b>	A quarterly interest rate set out, or prescribed by Canada Customs and Revenue Agency under attribution rules. The rate is based on the Bank of Canada rate.
<b>Present Value</b>	The current worth of a sum of money that will be received sometime in the future.
<b>Price Earnings Ratio</b>	A value ratio that gives investors an idea of how much they are paying for a company's earnings. Calculated as the current price of the stock divided current earnings per share. (P/E Ratio)
<b>Primary Distribution or Primary Offering of a New Issue</b>	The original sale of any issue of a company's securities.
<b>Primary Market</b>	The market for new issues of securities. The proceeds of the sale of securities in a primary market go directly to the company issuing the securities. See also Secondary Market.
<b>Prime Rate</b>	The interest rate chartered banks charge to their most credit-worthy borrowers.
<b>Principal</b>	The person for whom a broker executes an order, or a dealer buying or selling for its own account. The term may also refer to a person's capital or to the face amount of a bond.
<b>Prior Preferred</b>	A preferred stock which in liquidation of the issuing company would rank ahead of other classes of preferred shares as to asset and dividend entitlement.
<b>Private Placement</b>	The underwriting of a security and its sale to a few buyers, usually institutional, in large amounts.
<b>Pro Forma</b>	A term applied to a document drawn up after giving effect to certain assumptions or contractual commitments not yet completed. For example, an issuer of new securities is required to include in the prospectus a statement of its capitalization on a pro forma basis after giving effect to the new financing.
<b>Pro Rata</b>	In proportion to. For example, a dividend is a pro rata payment because the amount of dividend each shareholder receives is in proportion to the number of shares he owns.
<b>Probate</b>	A provincial fee charged for authenticating a will. The fee charged is usually based on the value of the assets in an estate rather than the effort to process the will.

## GLOSSARY OF INVESTMENT TERMS

<b>Productivity</b>	Economic output per worker.
<b>Profit Taking</b>	Selling to take a profit - the process of converting paper profits into cash.
<b>Profitability Ratios</b>	Financial ratios that illustrate how well management has made use of the company's resources.
<b>Program Trading</b>	A sophisticated computerized trading strategy whereby a portfolio manager attempts to earn a profit from the price spreads between a portfolio of equities similar or identical to those underlying a designated stock index, e.g., the Standard & Poor 500 Index, and the price at which futures contracts (or their options) on the index trade in financial futures markets. Also refers to switching or trading blocks of securities in order to change the asset mix of a portfolio.
<b>Prompt Offering Qualification System (POP)</b>	This system allows reporting issuers to issue a short form prospectus that contains only information not previously disclosed to regulators. The short form prospectus contains by reference the material filed by the corporation in the Annual Information Form.
<b>Prospectus</b>	A legal document that describes securities being offered for sale to the public. Must be prepared in conformity with requirements of applicable securities commissions. See also Red Herring and Final Prospectus.
<b>Protected Funds</b>	A fund legally structured as a mutual fund trust and not governed by insurance legislation. This type of segregated fund can be sold by registered mutual fund salespeople at bank branches and by individual financial advisors who lack life insurance licenses.
<b>Proxy</b>	Written authorization given by a shareholder to someone else, who need not be a shareholder, to represent him or her and vote his or her shares at a shareholders' meeting.
<b>Prudent Man Rule</b>	An investment standard. In some provinces, the law requires that a fiduciary, such as a trustee, may invest funds only in a list of securities designated by the province or the federal government. In other provinces, the trustee may invest in a security if it is one that an ordinary prudent person would buy if he were investing for the benefit of other people for whom he felt morally bound to provide. Most provinces apply the two standards.
<b>Public Float</b>	That part of the issued shares that are outstanding and available for trading by the public. A company's public float is different from its outstanding shares as it does not include those shares owned in large blocks by institutions.
<b>Purchase and Resale Agreement</b>	The method by which country banks lend temporarily idle funds to money market dealers. The country bank buys short-term securities from the money market dealer who agrees to repurchase the securities from the country bank at a higher price at a specified future date.
<b>Purchase Fund</b>	A fund set up by a company to retire through purchases in the market a specified amount of its outstanding preferred shares or debt if purchases can be made at or below a stipulated price. See also sinking fund.

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<b>Pure Insurance</b>	See Term Insurance.
<b>Put Option</b>	A right to sell the stock at a stated price within a given time period. Those who think a stock may go down generally purchase puts. See also call option.
<b>Q</b>	
<b>Quantitative Analysis</b>	The study of economic and stock valuation patterns in order to identify and profit from any anomalies.
<b>Quick Ratio</b>	A more stringent measure of liquidity compared with the current ratio. Calculated as current assets less inventory divided by current liabilities. By excluding inventory, the ratio focuses on the company's more liquid assets.
<b>Quotation or Quote</b>	The highest bid to buy and the lowest offer to sell a security at a given time. Example: A quote of 45.40 - 45.50 means that 45.40 is the highest price a buyer will pay and 45.50 the lowest price a seller will accept.
<b>R</b>	
<b>Rally</b>	A brisk rise in the general price level of the market or in an individual stock.
<b>Random Walk Theory</b>	The theory that stock price movements are random and bear no relationship to past movements.
<b>Rate of Return</b>	See Yield.
<b>Rational Expectations</b>	School of economic theory which argues that firms and workers are rational thinkers and can make intelligent economic decisions after evaluating all available information.
<b>Reaction</b>	Temporary price weakness following a price upswing.
<b>Real Estate Investment Trust (REIT)</b>	An investment trust that specializes in real estate related investments including mortgages, construction loans, land and real estate securities in varying combinations. A REIT invests in and manages a diversified portfolio of real estate.
<b>Real Interest Rate</b>	The nominal rate of interest minus the percentage change in the Consumer Price Index (i.e. the rate of inflation).
<b>Record Date</b>	The date on which a shareholder must officially own shares in a company to be entitled to a declared dividend. Also referred to as the date of record.
<b>Red Herring</b>	A preliminary prospectus so called because certain information is printed in red ink around the border of the front page. It does not contain all the information found in the final prospectus. Its purpose: to ascertain the extent of public interest in an issue while it is being reviewed by a securities commission.
<b>Redemption</b>	The purchase of securities by the issuer at a time and price stipulated in the terms of the securities. See also call feature.
<b>Redemption Price</b>	The price at which debt securities or preferred shares may be redeemed, at the option of the issuing company.



## GLOSSARY OF INVESTMENT TERMS

<b>Refinancing or Refunding</b>	New debt securities are sold by a government or a company and the money is used to pay off existing loans. The object may be to save interest costs, extend the maturity of the loan, or both.
<b>Registered Pension Plan (RPP)</b>	A trust registered with Canada Customs and Revenue Agency and established by an employer to provide pension benefits for employees when they retire. Both employer and employee may contribute to the plan and contributions are tax-deductible. See also Defined Contribution Plan and Defined Benefit Plan.
<b>Registered Retirement Income Fund (RRIF)</b>	A tax deferral vehicle available to RRSP holders. The planholder invests the funds in the RRIF and must withdraw a certain amount each year. Income tax would be due on the funds when withdrawn.
<b>Registered Retirement Savings Plan (RRSP)</b>	A vehicle available to individuals to defer tax on a specified amount of money to be used for retirement. The holder invests money in one or more of a variety of investment vehicles which are held in trust under the plan. Income tax on contributions and earnings within the plan is deferred until the money is withdrawn at retirement. RRSPs can be transferred into Registered Retirement Income Funds upon retirement.
<b>Registered Security</b>	A security recorded on the books of a company in the name of the owner. It can be transferred only when the certificate is endorsed by the registered owner. Registered debt securities may be registered as to principal only or fully registered. In the latter case, interest is paid by cheque rather than by coupons attached to the certificate. See also Bearer Security.
<b>Registrar</b>	Usually a trust company appointed by a company to monitor the issuing of common or preferred shares. When a transaction occurs, the registrar receives both the old cancelled certificate and the new certificate from the transfer agent and records and signs the new certificate. The registrar is, in effect, an auditor checking on the accuracy of the work of the transfer agent, although in most cases the registrar and transfer agent are the same trust company.
<b>Registration</b>	Before a public offering of new securities by a company or of outstanding securities by controlling stockholders may be made, the securities must be registered under the Securities Act of each province in which the securities will be offered. This usually involves filing a prospectus.
<b>Regular Delivery</b>	The date a securities trade settles - i.e., the date the seller must deliver the securities. See also settlement date.
<b>Regular Dividends</b>	A term that indicates the amount a company usually pays on an annual basis.
<b>Reinvestment Risk</b>	The risk that interest rates will fall causing the cash flows on an investment, assuming that the cash flows are reinvested, to earn less than the original investment. For example, yield to maturity assumes that all interest payments received can be reinvested at the yield to maturity rate. This is not necessarily true. If interest rates in the market fall the

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	<p>interest would be reinvested at a lower rate. Reinvestment risk recognizes this risk.</p>
<b>Reporting Issuer</b>	<p>Usually, a corporation that has issued or has outstanding securities that are held by the public and is subject to continuous disclosure requirements of securities administrators.</p>
<b>Reset</b>	<p>A contract provision which allows the segregated fund contract holder to lock in the current market value of the fund and set a new maturity date 10 years after the reset date. Depending on the contract, the reset dates may be chosen by the contract holder or be triggered automatically.</p>
<b>Resistance Level</b>	<p>The opposite of a support level. A price level at which the security begins to fall as the number of sellers exceeds the number of buyers of the security.</p>
<b>Restricted Shares</b>	<p>Shares that participate in a company's earnings and assets (in liquidation), as common shares do, but generally have restrictions on voting rights or else no voting rights.</p>
<b>Retained Earnings</b>	<p>The cumulative total of annual earnings retained by a company after payment of all expenses and dividends. The earnings retained each year are reinvested in the business.</p>
<b>Retained Earnings Statement</b>	<p>A financial statement that shows the profit or loss in a company's most recent year.</p>
<b>Retractable</b>	<p>A feature which can be included in a new debt or preferred issue, granting the holder the option under specified conditions to redeem the security on a stated date - prior to maturity in the case of a bond.</p>
<b>Return Forecasting</b>	<p>The prediction of rates of return for each of the three major asset classes as part of the asset allocation process.</p>
<b>Return on Equity</b>	<p>A profitability ratio expressed as a percentage representing the amount earned on a company's common shares. Return on equity tells the investor how effectively their money is being put to use.</p>
<b>Return on Invested Capital</b>	<p>A profitability ratio that shows the amount earned on a company's total capital - the sum of its common and preferred shares and long-term debt. It is a useful measure of management efficiency.</p>
<b>Reverse Split</b>	<p>A process of retiring old shares with fewer shares. For example, an investor owns 1,000 shares of ABC Inc. pre split. A 10 for 1 reverse split or consolidation reduces the number held to 100. Results in a higher share price and less shares outstanding.</p>
<b>Revocable beneficiary</b>	<p>A beneficiary whose entitlements under the segregated fund contract can be terminated or changed without his or her consent.</p>
<b>Right</b>	<p>A short-term privilege granted to a company's common shareholders to purchase additional common shares, usually at a discount, from the company itself, at a stated price and within a specified time period. Rights of listed companies trade on stock exchanges from the ex-rights date until their expiry.</p>

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<b>Right of Action</b>	Most securities legislation provides that those who sign a prospectus may be liable for damages if the prospectus contains a misrepresentation. This right extends to experts e.g., lawyers, auditors, geologists, etc., who report or give opinions within the text of the document.
<b>Right of Redemption</b>	A mutual fund's shareholders have a continuing right to withdraw their investment in the fund simply by submitting their shares to the fund itself and receiving in return the dollar amount of their net asset value. This characteristic is the hallmark of mutual funds. Payment for the securities that have been redeemed must be made by the fund within five business days from the determination of the net asset value.
<b>Right of Rescission</b>	The right of a purchaser of a new issue to rescind the purchase contract within the applicable time limits if the prospectus contained an untrue statement or omitted a material fact.
<b>Right of Withdrawal</b>	The right of a purchaser of a new issue to withdraw from the purchase agreement within two business days after receiving the prospectus.
<b>Risk Free Rate</b>	The rate of return an investor would receive if he or she invested in a risk free investment, such as a treasury bill.
<b>Risk Premium</b>	A rate that has to be paid in addition to the risk free rate (T-bill rate) to compensate investors for choosing securities that have more risk than T-Bills.
<b>Risk Return Trade-off</b>	A graph that shows the relationship between the risk associated with an investment and the expected return on that investment. Investors hope to get higher returns when investing in higher risk securities.
<b>Risk-averse</b>	Descriptive term used for an investor unable or unwilling to accept the probability or chance of losing capital. See also risk-tolerant.
<b>Risk-tolerant</b>	Descriptive term used for an investor willing and able to accept the probability of losing capital. See also risk-averse.

### S

<b>Sale and Repurchase Agreements (SRAs)</b>	An open-market operation by the Bank of Canada to offset undesired downward pressure on overnight financing costs.
<b>Scrip</b>	A certificate exchangeable for cash before a specified date, after which it may have no value. Usually issued for fractions of shares in connection with a stock dividend or split or in a reorganization of a company. For example, a one-for-three stock dividend would result in many shareholders being entitled to a fraction of a share (1/3 or 2/3) for which scrip would be issued instead of a stock certificate.
<b>Seat</b>	A traditional term for membership on a stock exchange.
<b>SEC</b>	The Securities and Exchange Commission, a federal body established by the United States Congress, to protect investors in the U.S. In Canada there is no national regulatory authority; instead, securities legislation is

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	provincially administered.
<b>Secondary Distribution or Secondary Offering</b>	The redistribution of a block of stock sometime after it has been sold by the issuing company. Usually a large block of shares is involved (e.g., from the settlement of an estate) and these are offered to the public at a fixed price, set in relationship to the stock's market price.
<b>Secondary Market</b>	The market where securities are traded through an exchange or over-the-counter subsequent to a primary offering. The proceeds from trades in a secondary market go to the selling dealers and investors, rather than to the companies that originally issued the shares in the primary market.
<b>Securities Acts</b>	Provincial Acts administered by the securities commission in each province, which set down the rules under which securities may be issued and traded.
<b>Securities Administrator</b>	A general term referring to the provincial regulatory authority (e.g., Securities Commission or Provincial Registrar) responsible for administering a provincial Securities Act.
<b>Securities Advisor</b>	A person or firm registered with applicable securities commissions to advise the public generally with regard to specific securities, often through publications.
<b>Securities Eligible for Reduced Margin</b>	Securities which demonstrate sufficiently high liquidity and low price volatility based on meeting specific price risk and liquidity risk measures.
<b>Securitization</b>	Refers in a narrow sense to the process of converting loans of various sorts into marketable securities by packaging the loans into pools. In a broader sense, refers to the development of markets for a variety of debt instruments that permit the ultimate borrower to bypass the banks and other deposit-taking institutions and to borrow directly from lenders.
<b>Security Market Line</b>	A formula that depicts the risk-return trade-off for securities. The formula can be used to calculate the expected return on a stock or an equity fund.
<b>Segregated Funds</b>	Insurance companies sell these funds as an alternative to conventional mutual funds. Like mutual funds, segregated funds offer a range of investment objectives and categories of securities e.g. equity funds, bond funds, balanced funds etc. These funds have the unique feature of guaranteeing that, regardless of how poorly the fund performs, at least a minimum percentage (usually 75% or more) of the investor's payments into the fund will be returned when the fund matures.
<b>Self Directed RRSP</b>	A type of RRSP whereby the holder invests funds or contributes certain acceptable assets such as securities directly into a registered plan which is usually administered for a fee by a Canadian financial services company.
<b>Self Regulatory Organization (SRO)</b>	An organization, such as the IDA or an exchange, recognized by the securities administrators as having powers to establish and enforce industry regulations to protect investors and to maintain fair, equitable and ethical practices in the industry. The SROs are also responsible for industry conformity with

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	securities legislation.
<b>Selling Group</b>	Investment dealers or others who assist a banking group in marketing a new issue of securities without assuming financial liability if the issue is not entirely sold. The use of a selling group widens the distribution of a new issue.
<b>Senior Debt</b>	One or more senior bond issues.
<b>Sentiment Indicators</b>	Measure investor expectations or the mood of the market. These indicators measure how bullish or bearish investors are.
<b>Serial Bond or Debenture</b>	See Installment Debenture.
<b>Settlement Date</b>	The date on which a securities buyer must pay for a purchase or a seller must deliver the securities sold. For most securities, settlement must be made on or before the third business day following the transaction date.
<b>Shareholders' Equity</b>	A balance sheet item that represents the excess of the company's assets over its liabilities and shows shareholder's interest in the company. Also referred to as net worth.
<b>Short Sale</b>	The sale of a security which the seller does not own. This is a speculative practice done in the belief that the price of a stock is going to fall and the seller will then be able to cover the sale by buying it back later at a lower price, thereby making a profit on the transactions. It is illegal for a seller not to declare a short sale at the time of placing the order. See also Margin.
<b>Short-term Bond</b>	A bond or debenture maturing within three years.
<b>Short-term Debt</b>	Company borrowings repayable within one year that appear in the current liabilities section of the balance sheet. The most common short-term debt items are: bank advances or loans, notes payable and the portion of funded debt due within one year.
<b>Sinking Fund</b>	A fund set up to retire most or all of a debt or preferred share issue over a period of time. See also purchase fund.
<b>Small Cap</b>	Reference to smaller growth companies. Small cap refers to the size of the capitalization or investments made in the company. A small cap company has been defined as a company with an outstanding stock value of under \$50 million. Small cap companies are considered more volatile than large cap companies.
<b>Sole Proprietorship</b>	A form of business organization that involves one person running a business whereby the individual is taxed on earnings at their personal income tax rate.
<b>SPDRs</b>	An acronym for the Standard & Poor Depository Receipts (a type of derivative). These mirror the S&P 500 Index. They are referred to as "Spiders".
<b>Special Purchase and Resale Agreements (SPRAs)</b>	An open-market operation used by the Bank of Canada to relieve undesired upward pressure on overnight financing rates.
<b>Speculator</b>	One who is prepared to accept calculated risks in the marketplace. Objectives are usually short to medium-term capital gain, as opposed to regular income and safety of

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	principal, the prime objectives of the conservative investor.
<b>Split Shares</b>	A type of common share that has been split into two components. The dividend payments are directed to the equity dividend share, while the capital gain potential is assigned to the capital share. Also known as structured preferreds and equity dividend shares.
<b>Spot Price</b>	The market price of a commodity or financial instrument that is available for immediate delivery.
<b>Spousal RRSP</b>	A special type of RRSP to which one spouse contributes to a plan registered in the beneficiary spouse's name. The contributed funds belong to the beneficiary but the contributor receives the tax deduction. If the beneficiary removes funds from the spousal plan in the year of the contribution or in the subsequent two calendar years, the contributor must pay taxes on the withdrawn amount.
<b>Spread</b>	The gap between bid and ask prices in the quotation for a security. Also a term used in option trading.
<b>SRO</b>	Short for self regulatory organization such as the Investment Dealers Association of Canada and the principal stock exchanges.
<b>Standard Deviation</b>	A statistical measure of risk. The larger the standard deviation, the greater the volatility of returns and therefore the greater the risk.
<b>Statement of Changes in Financial Position</b>	A financial statement which provides information as to how a company generated and spent its cash during the year. Assists users of financial statements in evaluating the company's ability to generate cash internally, repay debts, reinvest and pay dividends to shareholders.
<b>Statement of Investment Portfolio</b>	A statement, included as part of a mutual fund's annual financial statements, which describes the securities held by the fund.
<b>Statement of Material Facts</b>	A document presenting the relevant facts about a company and compiled in connection with an underwriting or secondary distribution of its shares. It is used only when the shares underwritten or distributed are listed on a recognized stock exchange and takes the place of a prospectus in such cases.
<b>Stock Dividend</b>	A pro rata payment to common shareholders of additional common stock. Such payment increases the number of shares each holder owns but does not alter a shareholder's proportional ownership of the company.
<b>Stock Exchange</b>	A marketplace where buyers and sellers of securities meet to trade with each other and where prices are established according to laws of supply and demand.
<b>Stock Savings Plan</b>	Some provinces allow individual residents of the particular province a deduction or tax credit for provincial income tax purposes on investments made in certain prescribed vehicles. The credit or deduction is a percentage figure based on the value of investment.
<b>Stock Split</b>	An increase in a corporation's number of shares outstanding

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without any change in the shareholders' equity or market value. When a stock reaches a high price making it illiquid or difficult to trade, management may split the stock to get the price into a more marketable trading range. For example, an investor owns one board lot of a stock that now trades at \$70 each (portfolio value is \$7,000). Management splits the stock 2:1. The investor would now own 200 new shares at a market value, all things being equal, of \$35 each, for a portfolio value of \$7,000.

### **Stop Buy and Stop Loss Orders**

Orders to buy or sell, placed above or below the market price, which become market orders as soon as the price of a board lot of the stock rises or falls to the specified price. A stop buy order is used to protect against losses in a short sale, whereas a stop loss order may be used to protect a paper profit or to limit a possible loss when shares are already owned. Since such orders become market orders when the stop price is reached, there is no certainty they will be executed at that price.

### **Street Certificate**

A stock certificate registered in the name of an investment dealer or stock broker in order to increase its negotiability, but beneficially owned by someone else.

### **Street Name**

Securities registered in the name of a broker, instead of the real or beneficial owner.

### **Strike Price**

The price, as specified in an option contract, at which the underlying security will be purchased in the case of a call or sold in the case of a put. See also exercise price.

### **Strip Bonds or Zero Coupon Bonds**

Usually high quality federal or provincial government bonds originally issued in bearer form, where some or all of the interest coupons have been detached. The bond principal and any remaining coupons (the residue) then trade separately from the strip of detached coupons, both at substantial discounts from par.

### **Structural Unemployment**

amount of unemployment that remains in an economy even when the economy is strong. Also known as the natural unemployment rate, the full employment unemployment rate, or the non-accelerating inflation rate of unemployment (NAIRU).

### **Structured Preferreds**

See Equity Dividend Shares.

### **Subject Bid; Subject Offer**

A bid or offer made for a security that indicates the buyer's interest in the case of a bid and the seller's interest in the case of an offer, but does not commit the bidder or offeror to the purchase or sale of the security at that price or time.

### **Subordinate Debenture**

A type of junior debenture. Subordinate indicates that another debenture ranks ahead in terms of a claim on assets and profits.

### **Subscription or Exercise Price**

The price at which a right or warrant holder would pay for a new share from the company. With options the equivalent would be the strike price.

### **Subsidiary**

Company which is controlled by another company usually through its ownership of the majority of shares.

### **Successor Contract Holder**

The beneficiary of the contract, who becomes the new

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contract owner if the original owner of the policy died before the person (the annuitant) on whose life the contract is based. In Quebec, the equivalent of the successor owner is the subrogated owner.

<b>Support Level</b>	A price level at which a security stops falling because the number of investors willing to buy the security is greater than the number of investors wishing to sell the security.
<b>Surrender Value</b>	The cash value of a contract as of the date that the policy is being redeemed. This amount is equal to the market value of the segregated fund, less any applicable sales charges or administrative fees.
<b>Suspension of Trading</b>	An interruption in trading imposed on a company if their financial condition does not meet an exchange's requirements for continued trading or if the company fails to comply with the terms of its listing agreement.
<b>Swaps</b>	An OTC derivative that obligates the parties to exchange the financial returns from one asset, or the payment obligations of one liability, for those of another at a specified rate of exchange over a pre-determined period of time.
<b>Sweetener</b>	A feature included in the terms of a new issue of debt or preferred shares to make the issue more attractive to initial investors. Examples include warrants and/or common shares sold with the issue as a unit or a convertible or extendible or retractable feature.
<b>Switching</b>	Selling one security and buying another.
<b>Syndicate</b>	A group of investment dealers who together underwrite and distribute a new issue of securities or a large block of an outstanding issue.
<b>Systematic Risk</b>	A non-controllable, non-diversifiable risk that is common to all investments within a given asset class. With equities it is called market risk, with fixed income securities it would be interest rate risk.
<b>Systematic Withdrawal Plan</b>	A plan that enables set amounts to be withdrawn from a mutual fund or a segregated fund on a regular basis.

### T

<b>T-Bills</b>	See Treasury bills.
<b>Take-Over Bid</b>	An offer made to security holders of a company to purchase voting securities of the company which, with the offeror's already owned securities, will in total exceed 20% of the outstanding voting securities of the company. For federally incorporated companies, the equivalent requirement is more than 10% of the outstanding voting shares of the target company.
<b>Talon</b>	A coupon or a certificate similar to a warrant, attached to another security and carrying some right or privilege.
<b>Tariff</b>	Taxes on goods imported into a country either as a percentage of the price or weight of the product.



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<b>Tax Loss Selling</b>	Selling a security for the sole purpose of generating a loss for tax purposes. There may be times when this strategy is advantageous but investment principles should not be ignored.
<b>Technical Analysis</b>	A method of market and security analysis that studies investor attitudes and psychology as revealed in charts of stock price movements and trading volumes to predict future price action.
<b>Term Deposit Receipt</b>	A deposit instrument most commonly available from chartered banks, requiring a minimum investment at a predetermined rate of interest for a stated term. The interest rate varies according to the amount invested and the term to maturity but is competitive with comparable alternative investments. A reduced interest rate usually applies if funds are withdrawn prior to maturity.
<b>Term Insurance</b>	A type of insurance policy that pays a death benefit if the insured dies within the given contracted period. It is sometimes called pure insurance as it does not have a savings component and is put in place strictly for insurance purposes.
<b>Term to Maturity</b>	The length of time that a segregated fund policy must be held in order to be eligible for the maturity guarantee. Normally, except in the event of the death of the annuitant, the term to maturity of a segregated-fund policy is 10 years.
<b>Thin Market</b>	A market in which there are comparatively few bids to buy or offers to sell or both. The phrase may apply to a single security or to the entire stock market. In a thin market, price fluctuations between transactions are usually larger than when the market is liquid. A thin market in a particular stock may reflect lack of interest in that issue, or a limited supply of the stock.
<b>Tilting Yield Curve</b>	The yield curve that results from a decline in long-term bond yields while short-term rates are rising.
<b>Time to Expiry</b>	The number of days or months or years until expiry of an option or other derivative instrument.
<b>Time Value</b>	The amount, if any, by which the current market price of a right, warrant or option exceeds its intrinsic value.
<b>Timely Disclosure</b>	An obligation imposed by securities administrators on companies, their officers and directors to release promptly to the news media any favourable or unfavourable corporate information which is of a material nature. Broad dissemination of this news allows non-insiders to trade the company's securities with the same knowledge about the company as insiders themselves. See also Continuous Disclosure.
<b>Toronto Stock Exchange (TSE)</b>	The largest stock exchange in Canada with over 1,700 companies listed on the exchange.
<b>Trade-weighted Exchange Rate</b>	Rate produced by the Bank of Canada that measures the Canadian dollar's movements against ten major currencies.
<b>Trader</b>	Employee of a securities firm who executes buy and sell orders for the firm and its clients either on a stock exchange

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or the OTC market. Also a client who buys and sells frequently, with the objective of short-term profit.

### **Trailer Fee**

Fee that a mutual fund manager may pay to the individual or organization that sold the fund for providing services such as investment advice, tax guidance and financial statements to investors. The fee is paid annually and continues for as long as the investor holds shares in the fund.

### **Transaction Date**

The date on which the purchase or sale of a security takes place.

### **Transfer Agent**

A trust company appointed by a company to keep a record of the names, addresses and number of shares held by its shareholders. Frequently, the transfer agent also distributes dividend cheques.

### **Treasury Bills**

Short-term government debt issued in denominations ranging from \$1,000 to \$1,000,000. Treasury bills do not pay interest, but are sold at a discount and mature at par (100% of face value). The difference between the purchase price and par at maturity represents the lender's (purchaser's) income in lieu of interest. In Canada, such gain is taxed as interest income in the purchaser's hands.

### **Treasury Shares**

Authorized but unissued stock of a company or previously issued shares that have been re-acquired by the corporation. The amount still represents part of those issued but is not included in the number of shares outstanding. These shares may be resold or used as part of the option package for management. Treasury shares do not have voting rights nor are they entitled to dividends.

### **Trend**

Shows the general movement or direction of securities prices. The long-term price or trading volume of a particular security is either up, down or sideways

### **Trust Deed (Bond Contract)**

This is the formal document that outlines the agreement between the bond issuer and the bondholders. It outlines such things as the coupon rate, if interest is paid semi-annually and when, and any other terms and conditions between both parties.

### **Trustee**

For bondholders, usually a trust company appointed by the company to protect the security behind the bonds and to make certain that all covenants of the trust deed relating to the bonds are honoured. For a segregated fund, the trustee administers the assets of a mutual fund on behalf of the investors.

### **Two Way Security**

A security, usually a debenture or preferred share, which is convertible into or exchangeable for another security (usually common shares) of the same company. Also indirectly refers to the possibility of profiting in the future from upward movements in the underlying common shares as well as receiving in the interim interest or dividend payments.

## **U**

### **Underlying Fund**

The fund or funds in which a segregated fund or portfolio of

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	segregated funds invests its assets.
<b>Underlying Security</b>	The security upon which a derivative contract, such as an option, is based. For example, the ABC June 35 call options are based on the underlying security ABC.
<b>Underwriting</b>	The purchase for resale of a security issue by one or more investment dealers or underwriters. The formal agreements pertaining to such a transaction are called underwriting agreements.
<b>Unemployment Rate</b>	The percentage of the work force that is looking for work but unable to find jobs.
<b>Uniform Application for Registration Approval</b>	The application for registration in the mutual fund industry.
<b>Unit</b>	Two or more corporate securities (such as preferred shares and warrants) offered for sale to the public at a single, combined price.
<b>Unit Value</b>	The value of one unit of a segregated fund. The units have no legal status, and are simply an administrative convenience used to determine the income attributable to contract holders and the level of benefits payable to beneficiaries.
<b>Unlisted</b>	A security not listed on a stock exchange but traded on the over-the-counter market.
<b>Unlisted Market</b>	See also dealer market.
<b>V</b>	
<b>Valuation day</b>	The day on which the assets of a segregated fund are valued, based on its total assets less liabilities. Most funds are valued at the end of every business day.
<b>Value Date</b>	See Settlement Date.
<b>Value Manager</b>	A manager that takes a research intensive approach to finding undervalued securities.
<b>Value Ratios</b>	Financial ratios that show the investor the worth of the company's shares or the return on owning them.
<b>Variable Rate Preferreds</b>	A type of preferred share that pays dividends in amounts that fluctuate to reflect changes in interest rates. If interest rates rise, so will dividend payments, and vice versa.
<b>Variance</b>	Another measure of risk often used interchangeably with volatility. The greater the variance of possible outcomes the greater the risk.
<b>Velocity</b>	The rate at which money circulates through the economy.
<b>Vested</b>	The employee's right to the employer contributions made on his or her behalf during the employee's period of enrollment.
<b>Volatility</b>	A measure of the amount of change in the daily price of a security over a specified period of time. Usually given as the standard deviation of the daily price changes of that security on an annual basis.
<b>Voting Right</b>	The stockholder's right to vote in the affairs of the company. Most common shares have one vote each. Preferred stock

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usually has the right to vote only when its dividends are in arrears. The right to vote may be delegated by the shareholder to another person. See also Proxy.

### **Voting Trust**

An arrangement to place the control of a company in the hands of certain managers for a given period of time, or until certain results have been achieved, by shareholders surrendering their voting rights to a trustee for a specified period of time.

## **W**

### **Warrant**

A certificate giving the holder the right to purchase securities at a stipulated price within a specified time limit. Warrants are usually issued with a new issue of securities as an inducement or sweetener to investors to buy the new issue.

### **WEBS**

An index based on a basket of stocks from 17 different countries.

### **When Issued**

Indicates a conditional transaction in a security authorized for issuance, but not as yet actually issued.

### **Working Capital**

Current assets minus current liabilities. This figure is an indication of the company's ability to meet its short-term debts.

### **Working Capital Ratio**

Current assets of a company divided by its current liabilities.

### **Working Control**

Theoretically, ownership of 51% of a company's voting stock is necessary to exercise control. In practice - and this is particularly true in the case of a large corporation - effective control sometimes can be exerted through ownership, individually or by a group acting in concert, of less than 50%.

### **Wrap Account**

Also known as a wrap fee program. A type of fully discretionary account where a single annual fee, based on the account's total assets, is charged, instead of commissions and advice and service charges being levied separately for each transaction. The account is then managed separately from all other wrap accounts, but is kept consistent with a model portfolio suitable to clients with similar objectives.

### **Writer**

The seller of either a call or put option. The option writer receives payment, called a premium. The writer is then obligated to buy (in the case of a put) or sell (in the case of a call) the underlying security at a specified price, within a certain period of time, if called upon to do so.

## **Y**

### **Yield - Bond & Stock**

Return on an investment. A stock yield is calculated by expressing the annual dividend as a percentage of the stock's current market price. A bond yield is more complicated, involving annual interest payments plus amortizing the difference between its current market price and par value over the bond's life. See also Current Yield.

### **Yield Curve**

A graph showing the relationship between yields of bonds of

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the same quality but different maturities. A normal yield curve is upward sloping depicting the fact that short-term money usually has a lower yield than longer-term funds. When short-term funds are more expensive than longer-term funds the yield curve is said to be inverted.

### **Yield to Maturity**

The rate of return investors would receive if they purchased a bond today and held it to maturity. Yield to maturity is considered a long term bond yield expressed as an annual rate.

## **Z**

### **Zero Coupon Bonds**

See Strip Bonds.