

Index

- 2007–2008, events of, xxiii, 170–171, 368, 372, 419, 439–441, 468, 517
- Accounts, receivable/payable, 10–11
- Accounting identity, 7, 12, 15, 22
- Algorithmic execution, *See* Electronic trading
- American depository receipt (ADR), 120–121
- American option(s), 301, 334
put trading below intrinsic value, 334–335
- Analysis:
fundamental, 51
technical, 51–54
- Arbitrage, 59, 62, 168–170, 233, 310–311
- Asia ex-Japan, 163–165, 469–471
- Ask, *See* Offer
- Assets, 6–7, 10
- “At the touch,” 73
- Authorized participant, 204
- Average daily volume (ADV), 110, 176
- Average price account, *See* Wash account
- Back office, 399–400
- Balance sheet, 5, 6–14, 295
- Baltic Dry Index (BDI), 428
- Bank of England (BoE), 461, 462
- Bank of Japan (BoJ), 467
- Base effects, 435
- Basis, 218
- Basis trade, 254–259, 264
- Bellweather companies, 478
- Best execution guidelines, 82, 100
- Beta, 196, 251, 408
- Bid, 71–72
- Bid-offer spread, 72, 187, 199, 238
- Bid sheet, 193, 195–197
- Black-Scholes formula, 326–333
- Blind risk bid, 193–201
- Bloomberg, 39–40
- AQR (*Average Quote Recap*), 88
- BBAM (*British Banking Association*), 270
- BBO (*Best Bid and Offer*), 73
- BQ (*Block Quote*), 76
- CACS (*Corporate Actions*), 55
- CALL (*Calls*), 341
- CDR (*Calendar*), 220
- CN (*Corporate News*), 40
- COMP (*Comparison*), 54
- CT (*Contract Table*), 261
- DES (*Description*), 40, 510
- DVD (*Dividends*), 57
- ECO (*Economics*), 432
- ECOS (*Economist Estimates*), 432
- EQ (*Equity Quote*), 76
- ERN (*Earnings*), 40
- FA (*Financial Analysis*), 40
- FFIP (*Fed Funds Implied Probability*), 456
- FVD (*Fair Value Detail*), 237
- G (*Graph*), 54
- GIP (*Graph of Intraday Price*), 54
- GMOV (*Group Movers*), 155
- GP (*Graph Price*), 54
- GPC (*Candlestick Graph*), 54
- GPO (*Hi-Lo Graph*), 54
- GRPS (*Groups*), 155
- HCP (*Historical Change in Price*), 54
- HDS (*Holdings*), 509
- HIVG (*Historical Implied Volatility Graph*), 341
- HP (*Historical Price*), 54
- HVG (*Historical Volatility Graph*), 338
- IGPO (*Intraday Hi-Lo Graph*), 88
- IMAP (*Index Map*), 155
- MEMB (*Members*), 134, 510
- MOV (*Movers*), 154
- PUT (*Puts*), 341
- OMON (*Options Monitor*), 340
- OSA (*Option Scenario Analysis*), 377

- Bloomberg (*continued*)
OV (*Option Valuation*), 337
Q (*Quote*), 73
QR (*Quote Recap*), 76
QRM (*Quote Recap & Market*), 76
REQ (*Related Equities*), 40
RV (*Relative Value*), 40
SKEW (*Skew*), 377
TRA (*Total Return Analysis*), 145
WEI (*World Equity Indices*), 160
WGT (*Weight*), 134, 510
VAP (*Volume at Price*), 88
- Book value, 10
“Bottom line,” 15, 19, 20
Brady Commission report, 168–169
Breakeven level, 312
BRIC countries, 158, 163, 164
Business cycle, 411–414
Buy-in, 392
Buy-side, 509
- Calendar spread, *See* Roll, futures
Call option(s), 300
 overwriting, 377
Capital, 14
 total, 14
 weighted average cost of (WACC),
 35–36, 44
 working, 14
Capital introduction, 396
Capital Asset Pricing Model (CAPM),
 408
Carry costs, 242
Cash, and marketable securities, 10
Cash drag, 211
Cash market, 69
Cash settlement, 400
Charting, 52
Chinese wall, 105, 509
Circuit breakers, 171
Commodity prices, 428, 479
Compliance, 396–397
Conference Board, The, 449–450, 451
Confirmation, long-form, 272
Controllers, 403
Conversion, 308
Corporate actions, 54–64
Correlation, 291, 381, 501–504
Corruption Perception Index (CPI), 469
Cost of goods sold (COGS), 16, 507
- Cover, program trading risk bid, 197–198
Creation and redemption process, 204–205
Credit risk, 296, 404
Cross, 94
Cumulative distribution function, 333,
 504
Currency, 115–120, 274, 289–292, 381
Current, definition of, 9, 14
Customer facilitation, 93
Customized baskets, 284
Cyclical, defensives versus, 478
- Daily Program Trading Report (DPTR),
 172–173
Day count, 219, 276
Days:
 in accounts payable, 30
 in accounts receivable, 30
 in inventory, 29–30
Dealer (buy-side trader), 104, 105–107
Debt, long term, 11
Deferred-month futures contract, 241
Delta, 356–360
 adjustment of option prices, 345, 515
 adjustment in EFP, 246–247
 equivalent share position, 321
 hedge, 331
 neutral option trade, 345
 neutral portfolio, 330–331, 343
 of an option, 319–323
Depository Trust and Clearing Corporation
 (DTCC), 400
Depository Trust Company (DTC), 400
Depreciation, and amortization, 17, 21
Derivative, 217
Diffusion index, 435–436
Direct market access (DMA), 83
Discount rate, 418
Discount window, 419
Dividend yield, 37
Dividends, 56–58, 204, 220, 230–231, 239,
 294
 index points of, 142–143
 preferred, 19
Divisor, index, 132, 133, 140–141
DK (“Don’t know”), 400
Double-entry bookkeeping, 7–9
Dual-listed securities, 121
DuPont Model, 33–34
Durable goods, 442, 518

- Early termination, mutual right of, 277
- Earnings:
- before interest and taxes (EBIT), 18, 20
 - before interest, taxes, depreciation and amortization (EBITDA), 18, 20
 - per share (EPS), 19
 - retained, 13
 - yield, 49
- Economic statistics, 431–471
- coincident, leading and lagging, 433
 - Europe:
 - CPI, German states and preliminary national, 465
 - Euroland M3, 466
 - Euroland Purchasing Managers Index, 464–465
 - Flash GDP Estimates, 463–464
 - German unemployment report, 466
 - Harmonized Index of Consumer Prices (HICP), 462, 465–466
 - IFO Business Survey, 464
 - ZEW Financial Market Report, 464
 - Japan:
 - Consumer Price Index (CPI), 468
 - Corporate Goods Price Survey (CGPS), 468
 - TANKAN survey, 468–469
 - Tertiary Industry Activity Index (TIAI), 469
 - United States:
 - advance retail sales, 437, 474–475
 - consumer confidence survey, 449–450
 - Consumer Price Index (CPI), 444–446
 - continuing claims, 449
 - crude oil and distillate inventory data, 452–453
 - durable goods orders, 442
 - Employment Costs Index (ECI), 444, 447–448
 - Employment Report, 448–449
 - GDP Price Deflator, 444, 446–447
 - advance GDP estimate, 437
 - housing starts, 439
 - Index of Leading Economic Indicators, 451
 - industrial production report, 442
 - initial jobless claims, 449
 - ISM Report on Business, 438
 - National Income and Product Accounts (NIPA), 410, 432, 437
 - non-farm payrolls, 448
 - non-farm productivity, 448
 - Producer Price Index (PPI), 444, 446
 - Productivity and Costs Report, 444, 448
 - trade balance, 443
 - unit labor costs (ULC), 448
 - University of Michigan Consumer Sentiment Survey, 451, 475
- Economic value added (EVA), 35–36
- Effective date, 274
- Electronic trading, 101–102
- Emerging market access, 285–286
- Employment, 414–415, 448–449
- Enterprise value, 50
- Equity:
- cost of, 43, 44
 - finance, 389
 - indices, global listing of, 147–165
 - risk premium, 43
 - total, 14
- Error account, 82
- Exchange-traded fund (ETF), 203–216
- most popular, 215
 - popularity of, 208–210
 - trading, 205–207, 388
- Europe, 159–163, 458, 510
- European Central Bank (ECB), 458, 461–462
- European exercise, 301
- European Political and Monetary Union, 458
- Eurostat, 459
- Eurozone, 458
- Exchange for physical (EFP), 245–254
- Exchange, stock:
- structure, 76–81, 91–93
 - centralization of orders, 70–71
 - role as counterparty, 70
- Expenses, 15
- financing, 18
 - operating, 16
 - prepaid, 10
 - selling, general and administrative (SG&A), 17
- Expiration (also Expiry), 219, 239–240, 261–262
- Extraordinary items, 18–19
- “Fair and orderly market,” 78
- Fair value, futures, 218–221, 234–240, 511
- Fed Funds Overnight Rate, 270, 418

- Federal Depository Insurance Company (FDIC), 420
- Federal Open Market Committee (FOMC), 418, 453–454
- Federal Reserve Board, 282, 442
- Federal Reserve System ("The Fed"), 400, 417–424
- Financial Industry Regulatory Authority (FINRA), 398
- Financial Information Exchange (FIX), 174
- Financing activities, 20, 23
- Fixed assets, *See* Long-term assets
- "Flight to quality," 480
- "Flow begets flow," 190, 200
- Flow product, 282
- Force majeure, 195
- Foreign ownership limits (FOL), 285
- Forward contract, 217–222
 - limitations of, 222–223
- Fractional reserve banking, 419–420
- Free cash flow, 23–24
 - to equity (FCFE), 44–45
 - to the firm (FCFF), 44–45
 - yield, 51
- Free float, 127
- Front month, 224, 241, 261
- Front-running, 100
- Futures contracts, 223–264
 - Fed Funds, 455–456
 - hedging versus speculation, 226–228
 - most popular, 261
 - symbolology, 259–261
 - trading, 262–263, 389
- Gamma, 360–363
 - relationship to theta, 364–370
- Gap risk, 352
- Gearing, 30
- Generally accepted accounting principles (GAAP), 5, 6, 11, 16, 17
- Global Industry Classification System (GICS), 154
- Goodwill, 10
- Greeks, 354–374, 515
- Gross Domestic Product (GDP), 410, 411, 432, 437, 446–447
 - components of:
 - consumer purchases, 410, 424
 - fixed investment, 410, 425
 - government expenditure, 410, 425
 - net exports, 410–411, 425–426
- Gross profit, 17, 20
- Growth stock, 38
- Housing, 439–441
- Humphrey-Hawkins, 423–424
- Implementation shortfall, 187–189
- Income:
 - statement, 5, 15–20
 - net, 19, 21
 - net from continued operations, 18, 19
 - non-operating, 18, 21
 - operating, 15, 20
- Index:
 - calculation of multicurrency, 145–147
 - changes, 139–141
 - composition updates of, 124
 - implied level from portfolio execution, 137–133, 186–187
 - level, calculation of, 131–133
 - loss of information in, 129–130
 - options, 390
 - replication via ETFs, 211, 212–214
 - replication via swaps, 282–283
 - replication, risks of, 295
 - scope of coverage, 125–126
 - selection criteria, 126–127
 - shares, 131, 133
 - weighting schemes, 127–129
- Infinite sums, 45–46, 263
- Inflation, 415–417, 444
 - hawkish versus dovish, 453
- In-kind crossing, 190
- In-kind transfers, 205
- Inside quote, 72
- Institute for Supply Management (ISM), 438, 517
- Intangible assets, 10
- Inter-dealer brokers (IDB), 254
- Interest rate(s), 295, 427
 - risk-free, 218, 220, 331
- International Swaps and Derivatives Association (ISDA), 293
- Intrinsic value, 305
- Inventory, 10, 16–17
- Investing activities, 20, 23
- Investments, long term, 10
- Ito's Lemma, 330

- Japan, 163, 467
- Kappa, 515
- Labor force, 414
- Legacy portfolio, 190
- Legal department, 396–397
- Levels, support and resistance, 52
- Leverage, 8, 31, 282
- Liabilities, 6–7, 11
- Limit price, 71
- Liquidation value, 10
- Liquidity, 72, 238
 - of a company, 21
 - of a portfolio, 196
- Listed lookalike, 378
- Lognormal distribution, 328
- London Interbank Offer Rate (LIBOR), 269–270
- Long position:
 - option, 300
 - stock, 71
- Long Term Capital Management, 233, 421
- Long-term, definition of, 9
- Loss ratio, 94, 195
- “Making a market,” 77
- Margin, 204, 231–233
 - as measure of profitability, 31–32
 - gross profit, 31
 - net profit, 32
 - operating profit, 32
- Market:
 - access, 268
 - capitalization, 55, 477
 - depth, 73
 - impact, 109–110
 - makers, 76–77
 - risk, 108–109
- Mark-to-market accounting, 90
- Maturity date, 219, 274, 300
- Mergers and acquisitions, 59–64
- Middle office, 401
- Minority interest, 12, 14
- Monetary aggregates, 427
- Monetary policy, 418, 421–423
- Money multiplier effect, 419–420
- Money supply, 427
- Moneyiness, 304–305, 315,–316
- Moral suasion, 421
- MSCI Barra, 156–158
- Multiplier, 223, 300
- NAHB/Wells Fargo Housing Market Index, 441
- NASDAQ, 149–150
- National investor number (NIN), 285
- National Securities Clearing Corporation (NSCC), 400
- Net asset value (NAV), 203, 204, 207–208
- Net present value (NPV), 229, 287–289
- Normal distribution, 333, 500
- Notional, 274
- Offer, 71, 72
- Open interest, 224
- Operating activities, 20, 71
- Option(s):
 - contract, 300
 - exotic, 379–383, 390
 - pricing of a trade, 344–345
- Options Clearing Corporation, 400
- Order book, 73, 75
- Order(s):
 - agency, 82–93
 - communication of, 112–115
 - matching on the exchange, 73–76
 - principal, 93–99
 - submitting to the exchange, 72
 - instruction
 - buy-minus, 169
 - sell-plus, 169
 - beat the close, 97–98, 192
 - block trade, 95–96
 - course of day (COD), 88
 - descriptive, 86
 - good ‘til cancelled (GTC), 89–90
 - guaranteed VWAP, 96, 192
 - held, 84
 - in line, 85
 - limit (LMT), 84
 - limit-price stop, 98
 - market (MKT), 75, 84
 - market-on-close (MOC), 90–91
 - market-on-open (MOO), 91
 - not held (NH), 84
 - percentage of volume (POV), 84
 - risk price (bid or offer), 93
 - stop, 89
 - time-weighted average price (TWAP), 88

- Order(s): (*continued*)
 volume-weighted average price (VWAP), 86–88
 work, 85
 would, 85
Output gap, 442
Over-the-counter (OTC), 222, 377–379, 512
Owner's Equivalent Rent (OER), 445, 466
- Paid-in capital, 13
"Painting the tape," 95
Participation rate, 414
Path dependence, 379–380, 471
Payments, calculation of swap, 277–279
Payoff structure of options, 301–304
Pension obligation, deferred, 12
Percentage weight of an index constituent, 133
Pin risk, 359
Plant, property and equipment, 10
Poison pill, 61
Portfolio execution, analysis of, 184–189
Portfolio manager (PM), 104, 105
Portfolio:
 construction of an index replicating, 134–136
 rebalance of an index replicating, 141–142
Preferred stock, 13, 19
Premium, option, 300
 buyers versus sellers, 366–368
Pre-trade analysis, 176–178
Price:
 action, 100
 multiples, 49–51
 return, 143, 275–276
Prime brokerage, 394–396
Productivity, 448
Profit:
 net operating, after taxes (NOPAT), 36
 pretax operating, *See* Earnings before interest and taxes (EBIT)
Profitability:
 measures of, 19–20
 non-GAAP measures of, 35–37
Program trading, 167–202, 388
 order management system, 174–176, 178
 benefits of, 172, 183–184
 quality of execution, 180–181
Proprietary trade, 99–101
Put, 300, 313
Put-call combo, 306–308
Put-call parity, 308–311
- Quant funds, 367–368
Quantitative and derivative strategies group, 390–391
Quanto, 261, 290
Quote, 72
- Rate reset, 275
Ratio:
 acid test, *See* quick ratio
 activity, 29–30
 cash, 29
 current, 28
 debt-to-equity, 30
 dividend, 37–38
 enterprise value to EBITDA, 50
 interest coverage, 31
 payout, 37
 PEG, 50
 price-to-book (PB), 50–51
 price-to-cash-flow (PCF), 51
 price-to-earnings (PE), 49–50, 508
 price-to-sales (PS), 51
 profitability, 31–37
 quick, 28–29
 retention, 37
 risk/leverage, 30–31
 times interest earned, 31
 liquidity, 28–29
Reaction function, 431, 471
Real return, 416
Regulation, financial services industry, 397–399
 Regulation SHO, 170, 394
 Regulation T, 282, 512
 Rule 10a-1, 170
 Rule 80A, 169
 Rule 80-B, 171
Reserve requirement, 419
Reset, 274–275
Return, 31
 on investment, cash flow (CFROI), 36–37
 measures of, 32–35
 on assets (ROA), 33, 34
 on capital employed (ROCE), 34–35
 on (common) equity (ROE), 33, 34
 on invested capital (ROIC), 35–36
 on investment (ROI), 32, 64

- Revenue, 15
- Reverse conversion (reversal), 308
- Rho, 372–373
- Rights offering, 59
- Risk:
 - arbitrage, 62
 - EFP, 253–254
 - management, 401–404
- Roll, futures, 240–245
- Russell, 150–152
 - Rebalance, 151–152
- Sales, 103–105, 388
 - net, 15, 19
- Sales-trading, 105–107, 387
- Seasonal adjustments, 434
- Secondary offering, 59
- Sectors, 154–156, 176, 188, 197, 478–479
- Securities and Exchange Commission (SEC), 398
- Securities lending, *See* Stock loan
- Self-regulatory organizations (SRO), 398
- Sell-side, 509
- Settlement:
 - cash versus physical, 224–226, 301
 - of trade, 57, 509
- Shareholders' equity, 7, 12–13
- Short:
 - option position, 300
 - sale, 71, 394
 - covering, 71
 - term financing, 11
- Solvency ratios, *See* Liquidity ratios
- Special situations, 60
- Specialist system, 77–78
- Spin-off, 58–59
- Spot, 217
 - convergence of futures to, 221–222
- Standard and Poors, 148–149
- Statement of cash flows, 5, 20–24
- Statement of shareholders' equity, 13
- Stochastic process, 327
- Stock loan, 239, 268, 294, 391–394
- Stock split, 55–56
- STOXX, 159–160
- Strategic Petroleum Reserve, 452
- “Street-side,” 82, 399
- Strike price:
 - of a portfolio, 187
 - option, 300
- Style, 478
- Subject, declaration of an order as, 93
- Swap, equity:
 - back-to-back, 280–281
 - bullet, 274
 - hedging of, 286–287
 - legs of, 274
 - long, 269
 - (pre)definition, 268, 272
 - short, 279–280
 - trading, 389
- Synthetic stock, 287, 306
- Tailing futures, 248–252, 263
- Tape, printing to, 74
- Target portfolio, 190
- Tax liability, deferred income, 11
- Tender offer, 60
- Term borrow, 392
- Term sheet, 272–277
- Termination date, 274
- Theta, 363–370
- Tick, 74
- Time decay, 364
- Time to maturity, 315, 317–319
- Time value, 313–315
- “Top line,” 15, 19, 20
- Total return, 143, 144–145, 275
- Tracking, 196, 199, 295
- Trade date, 274
- Trader, 107–112, 386–387
- Trading floor, 385–390
- Trading halt, 78
- Transaction costs, 238, 268, 507
- Transition management, 189–191
- Transparency International, 469
- Treasury stock, 13
- Triple-witch, 262
- Turnover:
 - asset, 33
 - inventory, 29–30
 - payables, 30
 - receivables, 30
- Two-pillar strategy, 462
- Two-way market, 93
- Underground economies, 414
- Underlier, 300
- Unemployment rate, 414, 449

- University of Michigan Survey Research Center, 451
- Unwind price, 276
- Upstairs, 93
- Valuation, 40–51
 - discounted cash flow, 41–48
 - dividend discount model, 43–44
 - Gordon growth model, 46–47
 - relative, 41, 48–51
- Valuation date, 274
- Value stock, 39
- Value-at-Risk (VaR), 402
- Variance swaps, 382–383
- Vega, 370–372, 515
- Volatility, 196, 199, 291, 315, 316–317
 - calculation of, 323–324
 - Index (VIX), 479
 - scaling with square root of time, 324–325, 329
- skew, 375–377
- smile, 375
- surface, 374
- swaps, 382–383
 - term structure of, 374–375
- trader, 343–344, 353–354
- volatility of, 380
 - historical, 338
 - implied, 338–341, 345–346
 - versus realized, 346–352
- Volume smile, 508
- Wash account, 75, 82
- Wealth effect, 422
- Whisper number, 473
- White knight, 61
- Writer, option, 300
- Zero interest rate policy (ZIRP), 467–468

<http://www.pbookshop.com>