Index

A

accountant, getting a job as, 29-30 accounting rate of return (ARR), 128-130 accounting records, as source for looking for data to forecast finances, 265 accounts payable, 28, 54 accounts receivable, 28, 50 accounts receivables turnover, 77-78 accounts receivables turnover in days, 78 accrued compensation, 55 accrued expenses, 55 acid test ratio (aka Quick Ratio), 82-83 acid test ratio (Quick Ratio), 82-83, 253 acquisitions. See also mergers and acquisitions (M&A) acquisition of Xilnix by AMD, 286 defined, 285 organizational sovereignty, 286 partial acquisitions, 286 active portfolio management, 200 activity-based costing, 306 additional paid-in capital, 57-58 adjuster, getting a job as, 29 agency problem, 16 algorithms, building quantitative algorithms, 230-231 Ally Bank (formerly GMAC), 24 Altman's Z-score, 275 AMD, acquisition of Xilnix by, 286 American Institute of Certified Public Accountants (AICPA), 26 analyst, getting a job as, 29 anti-money laundering (AML), 196 arbitrage pricing theory (APT), 208, 211, 214, 236 arithmetic rate of returns, 261 ARR (accounting rate of return), 128–130 ask price, 153, 161, 302

asset-backed securities, 147–148 assets as basically same things as capital, money, and cash, 36 bundling of overview, 222 multi-asset bundles, 223 pass-through certificate, 223 unbundling, 224 current assets accounts receivable 50 cash and cash equivalents, 49 defined, 49 income tax assets, 50 inventories, 50 marketable securities, 49 other current assets, 51 prepaid accounts, 50-51 defined, 35, 48 hard assets, 294 intangible assets defined, 53 examples of, 53-54 long-term assets defined, 49 depreciation, 52 investments, 51 property, plant, and equipment (PPE) category of, 51 other assets, 54 understanding of, 49 working of DuPont equation, 90-91 fixed asset turnover, 91 gross profit margin, 92–93 long-term debt to operating property ratio, 95 net profit margin, 85-86

assets (continued) operating asset turnover, 88 operating income margin, 87 operating ratio, 93 operating revenue to operating property ratio, 94 percent earned on operating property, 93-94 return on assets, 86-87 return on common equity, 89-90 return on investment (ROI), 91-92 return on operating assets, 88–89 return on total equity, 89 total asset turnover, 86 Assets = Liabilities + Equity, 36 Association of Southeast Asian Nations (ASEAN), 309 auditor, getting a job as, 29 automotive sector, 166 average rate of returns, 262 aversion function, 207

B

backward integration, 281 balance sheet basic formula for, 48 introduction to, 47-48 portions of, 48 role of, 58 use of with income statement and statement of cash flows, 58 Bank of America, as commercial bank that bought securities firm known as Merrill Lynch, 20-21 banker, getting a job as, 31 banker's acceptance, as marketable security, 49 banking metrics deposits times capital, 107–108 earning assets to total assets ratio, 105 equity to total assets ratio, 107 loan loss coverage ratio, 106–107 loans to deposits ratio, 108-109 net interest margin, 105-106 banking underwriters, 22

banks commercial banks, 17 impacts of computerization in, 230 investment banks, 21 role of, 11 barter system, 7–8 basic earnings per share, as part of EPS, 65 "bean counters," use of phrase, 29 bear market, 167 bearer bonds, 150 behavioral finance being biased is human nature, 323-324 being irrational can be entirely rational, 315 development of, 313-314 financial stampeding can get you trampled, 319-320 framing affects decision-making prowess, 316-317 getting emotional about financial decisions can leave you crying, 318–319 letting relationships influence finances as being ruinous, 320–321 making financial decisions is never rational, 314 making sound financial decisions as involving identifying logical fallacies, 317-318 prospect theory as explaining the improbable, 322-323 satisficing as good enough, 321–322 benefits (regarding insurance), 19 Berkshire Hathaway, Inc., 205 bias cognitive bias, 324 confirmation bias, 264, 324 self-serving bias, 324 statistical bias, 323 status quo bias, 324 bid price, 153, 161, 302 bid-ask spread, 181 bill (legislative), 13 bills, paying of, 75-85 bin Laden, Osama, effect of death of on stocks in US. 319 blat (cronyism), 320

blue chip, use of term, 165 Bollinger bands, 267 bond rates fixed-rate bonds, 151 floating-rate bonds indexed bonds, 152-153 interest rate float, 152 inverse interest rate float, 152 Treasury Inflation-Protected Securities (TIPS), 151-152 bonds bearer bonds, 150 callable bonds, 149 catastrophe bonds, 150 convertible bonds, 148-149, 221 corporate bonds, 144 coupon bonds, 147 credit ratings, 154 fixed-rate bonds, 151 floating-rate bonds, 151–153 general obligation bonds, 146 government bonds, 144-147 holding period yield, 157 information about ask price, 153 bid price, 153 coupon/rate, 153 credit quality ratings, 153 credit ratings, 154 face value/par value, 154 issuer, 154 maturity/maturity date, 154 price, 154–155 price change, 155 volume, 155 yield, 155 vield change, 155-156 yield to maturity (YTM), 156 issuance of, as way to raise capital, 37 junk bonds, 150-151 puttable bonds, 149 registered bonds, 150

valuation of, 156-157 zero-coupon bonds, 156 book value per share, 103 bookkeeper, getting a job as, 29 box plots, 267 broker-dealers, 21 brokers, 21 budget metrics, 139-141 Buffet, Warren (CEO of Berkshire Hathaway, Inc.), 205, 239 bull market, 167 bundling, 222 Bureau of Economic Analysis (US), 265 business credit institutions. 24 business cycle, as macroeconomic influence, 171 Business Plans for Dummies (Tiffany, Peterson, and Barrow), 37 buying long (on stocks), 163–164 buyouts, 287

CAL (capital allocation line), 212, 213, 214 callable bonds, 149 capital allocation of overview, 134 calculating equivalent annual cost, 135 liquid asset management, 136-137 as basically same thing as assets, cash, and money, 36 budgeting of, 126 calculating cost of Cost of Capital = Cost of Equity + Cost of Debt, 234 debt expenses, 236 default risk, 236 dividend policy, 237-240 factoring in cost of debt, 235–236 looking at cost of equity, 236–237 overall corporate application of cost of capital, 234 project capital structure management, 234 capital (continued) sizing up shareholders, 97–104 WACC (Weighted Average Cost of Capital), 235 choosing proper structure for, 240-241 economic capital, 262 raising of overview, 35-36 diving into debt, 36-40 having your wish granted, 43 schmoozing of investors, 40-43 weighing of, 233-241 capital account, 298 capital allocation line (CAL), 212, 213, 214 capital asset pricing model (CAPM), 208-211, 212, 236, 241 capital gains, 16 capital investments, as primary type of investment, 125 capital lease obligations, 56 captive financing company, 24 Carroll, Lewis (author), 197 cash as basically same thing as capital, assets, and money, 36 and cash equivalents, 68 net change in, 71–72 as way to pay for M&A, 293 cash dividend coverage ratio, 104 cash flow, statements of financing cash flows, 70-71 investing cash flows, 69-70 operating cash flows, 68-69 reconciliation of net earnings and asset to cash by operating activities, 72 use of data from, 72-73 cash ratio, 83 catastrophe bonds, 150 certificates of deposit (CDs), 49, 222 Certified Public Accountant (CPA), 30 ceteris paribus, 269 CF₁ (cash flow number 1), 124 CF_n (cash flow number n), 124 CFO (magazine), 32

CFTC (Commodity Futures Trading Commission), 25 Chartered Financial Analyst Institute (CFAI), 26 cheap labor, and U.S. trade deficit, 299 Cheat Sheet, 4 chimera, 222 China, as having largest current account surplus and largest capital account deficit, 299 claim (regarding insurance), 19 closed-ended loan, 39 Coca Cola, as acquiring Energy Brands, 283 cognitive bias, 324 COGS (cost of goods sold), 61 coincident indicators, 9 collar, 226 collateralized mortgage obligations, 220 commercial banks, 17-18, 37 commodities trading, 218 Commodity Futures Trading Commission (CFTC), 25 common dividends, 238 common shares, 57 common stock, 42 common-size comparisons overview, 246-247 cross comparisons rate-of-change cross comparison, 250-251 time-distribution cross comparison, 251 horizontal common-size comparisons, 248–250 vertical common-size comparisons, 247-248 competitors, elimination of, 282-283 compound interest, 121 compounding interest loan, 40 computational finance, 228-231 computerization, impacts of, 229 confirmation bias, 264, 324 conflicts of interest, 16 conglomerate integration, 282 consultant, getting a job as, 30 consumer discretionary sector, 166 Consumer Price Index (CPI), 146, 152 consumer staples sector, 166 control premiums, 291-292 convertibility risk, 192–193

convertible bonds, 148-149, 221 convertible preferred, 57, 221 co-pay (regarding insurance), 19 corporate analysis, 169 corporate bonds, 144 corporate finance defined, 7k, 9 as influencing nearly every aspect of life, 12, 13 as intermediary for exchange of value of goods and services between individuals and organizations, 11 as measuring value, 10, 11 most fundamental equation in, 36 role of, 10 uniqueness of, 10, 11-12 corporate integration, 285 corporate organization, assessing success of, 9 corporations defined, 16 as determining financial impact of proposed laws, 13 as having limited liability, 16 primary goal of, 17 as required to disclose financial information, 16 as required to operate using Shareholder Wealth Maximization, 17 sectors in which they operate, 166-167 taxation of, 16 as typically run by professional managers, 16 cost of goods sold (COGS), 61 cost of inventory, 137 cost performance (CP) ratio, 140 cost push, 118 cost recognition, 258 cost variance (CV), 139 costs, looking at, 128 coupon bonds, 147 coupon/rate, 153 covered call, 226 CP (cost performance) ratio, 140 CPA (Certified Public Accountant), 30 CPI (Consumer Price Index), 146, 152 credit quality ratings, 153

credit risk, 186, 188-189 credit unions, 11, 17, 18 cronyism, 320 crop, 177 cross-listing, 305 cryptocurrencies, 310-311 cultural understanding, as vital to international finance, 309-310 currency, standardized minting of, 9 currency exchange, 302–303 currency swaps, 303 current account, 298 current assets, 49-51 current liabilities, 54-55 current portion of long-term debt, 55 current ratio, 82 current vield, 155 cuttings, 177 CV (cost variance), 139

Daimler

merger of with Chrysler, 280 as selling Chrysler operations to capital investing firm, 289 data collection (for forecasting finances), 264-265 data mining, 272 day orders, 163 days sales in receivables, 76–77, 78–79 DCF (discounted cash flows), 123–124 dealers, defined, 21 debt asking the right people for money, 37-38 diving into as way to raise capital, 36–40 keeping it healthy debt ratio, 110-111 debt to equity ratio, 111 debt to tangible net worth, 111–112 equity multiplier, 113 fixed charge coverage, 110 operating cash flows to total debt, 112 times interest earned, 109-110

debt (continued) making sure the loan pays off in the long run, 38-39 not all debt as toxic, 233 as way to pay for M&A, 294 debt expenses, 236 debt portfolio, 199 debt ratio, 110-111 debt to equity ratio, 111 debt to tangible net worth, 111-112 deductible (regarding insurance), defined, 19 default risk, 236 deferred income tax, 55 deferred tax. 50 deflation, 119 deflationary periods, 257 demand pull, 118 depository institutions, types of, 17-18 depository receipts (in cross-listing), 305 deposits times capital, 107-108 depreciation, 52-53, 258 depreciation and amortization, 63 derivatives defined, 173 types of, 174, 177-183 derived value, pricing probability from, 173382 diluted earnings per share, as part of EPS 65 discount broker. 21 discount value, 123 discounted cash flows (DCF), 123–124 disposition effect, 318 distribution, measurement of (for forecasting finances), 267, 268 diversification, 203-204, 279 divestiture, 289 dividend payments, 42 dividend payout, 102 dividend policy, 237-240 dividend puzzle, 237 dividend yield, 102-103 dividends. 238-240 Dollar Tree, 170 Dow Jones Industrial Average (DJIA), 168, 228

DuPont Corporation, method of for taking closer look at return on equity, 90–91 DuPont equation, 90–91

E

EAC (estimate at completion), 140 earned value (EV), 133, 138 earned value management (EVM), 137 earning assets, 105 earning assets to total assets ratio, 105 earnings, quality of. See quality of earnings earnings, taking closer look at to calculate present value (PV), 122-123 earnings before interest and taxes (EBIT), 60, 63-64 earnings per common share (EPS), 98–99 earnings per share (EPS), 60, 65 ECNs (electronic communication networks), 160 economic capital, 262 economic equilibrium, 200 economic troubles collapse of 2007, 11, 24, 299 Great Depression, 11, 17 1970s, 11 safeguards against, 17 economies of scale, 280-281 economies of scope, 281 economist, getting a job as, 30 EDGAR database (SEC), as source of information on corporate finance, 31 efficient frontier, 213-214 efficient market hypothesis, 200-202 electronic communication networks (ECNs), 160 embargoes (in international finance), 308 employment, as macroeconomic influence, 171 Energy Brands, Coca Cola as acquiring, 283 energy sector, 166 EPS (earnings per common share), 98–99 EPS (earnings per share), 60, 65 equity Assets = Liabilities + Equity, 36 defined, 35, 236

looking at cost of, 236–237 owners' equity, 48 selling of, 40 as way to pay for M&A, 294 equity multiplier, 90, 113 equity to total assets ratio, 107 equity valuation models (of stocks) overview, 168-169 absolute models, 169 hybrid models, 169 relative models, 169 equivalent annual cost, 135 ERP Financials, 231 estimate at completion (EAC), 140 estimate to complete (ETC), 140 ethnocentrism, as form of framing, 317 EV (earned value), 133, 138 EVM (earned value management), 137 exchange rate, 300 exchanges, examples of, 25 exotics, 225 expiration date, 174

F

face value/par value, 154 factor price equalization, 299 factoring, 287 FAF (Financial Accounting Foundation), 26 fallacy, 317 FASB (Financial Accounting Standards Board), 26 Federal Accounting Standards Advisory Board (FASAB), 26 Federal Deposit Insurance Corporation (FDIC), 25 federal funds rate, 24 Federal Reserve (the Fed), 26, 27 federally subsidized loans, 38 Fiat, as purchasing Chrysler, 289 fiduciary responsibility, 196 FIFO (first-in, first-out), 61, 257 finance, defined, 10 **Finance Land**

getting a job in, 28-31 main attractions in, 15-28 visiting information center of, 31-33 Financial Accounting Foundation (FAF), 26 Financial Accounting Standards Board (FASB), 26 financial advisors, role of, 31 financial collapse, 2007, 11, 24, 299 financial engineering bundling assets, 222-224 described, 217 exotics, 224-226 hybrids, 220-222 making securities out of anything, 218–220 mathematics of, 227 moving into computational finance, 228-231 Financial Industry Regulatory Authority (FINRA), 25 financial institutions corporations as, 16–17 depository institutions as, 17–18 exchanges as, 25 funds as, 22-23 Insurance companies as, 18–20 role of, 11 securities firms as, 20-21 underwriters as, 21-22 financial investments, defined, 125 financial leverage, 98 financial performance assessment of, 245-260 assessment of investment performance, 260-262 financial reports, 32, 265 financial sector, 167 financial software packages, 231 financial stampeding, 319-320 financial success, analysis of, 245-247 financing, defined, 70 financing cash flows dividend payments, 71 loans collected, 71 loans received, 71 purchase of treasury shares, 71 sale of securities, 70-71

financing institutions business credit institutions, 24 defined, 23 loan sharks, 24 personal credit institutions, 23 sales financing institutions, 23 subprime lenders, 24 finished products, defined, 136 first-in, first-out (FIFO), 61, 257 fiscal policy, as macroeconomic influence, 172 fixed asset turnover, 91 fixed charge coverage, 110 fixed rate loan, 39 fixed rate return, 186 flash crash, 228 forecasting finances overview, 263 evaluating forecast performance, 276 seeing with analytical eyes, 264-270 using reference class forecasting, 276 using statistics and probability, 274-276 viewing the past as new, 270-272 foreign exchange risk, 186, 190, 192-193, 304 foreign regulations, impact of on international finance, 304 forensic accounting, 29 forward contracts, 177-178 forward integration, 281 forwards (as type of derivative), 17 frame, 316 framing, as affecting decision-making, 316–317 funds, 22-23 future and forward transactions, 303 future value (FV), predicting of, 120-121 futures (as type of derivative), 179-180 futures contracts, 179-180

G

Gambler's fallacy, 318 GASB (Government Accounting Standards Board), 26 GDP (gross domestic product), 170, 171, 201 general and administrative costs (G&A costs), 62 general obligation bonds, 146 Global Finance (magazine), 32 global registered shares (in cross-listing), 305 GMAC (now Ally Bank), as financing arm of General Motors, 24 going public, defined, 40 Google Trends, 272 Gordon's Model, 239 Government Accounting Standards Board (GASB), 26 government bonds municipal bonds general obligation bonds, 146 revenue bonds, 147 Separate Trading of Registered Interest and Principal Securities (STRIPS), 146 treasury bills (T-bills), 49, 145–146 treasury bonds (T-bonds), 145 Treasury inflation-Protected Securities (TIPS), 146 treasury notes, 145 government loans, 37 government policy, corporations as financially assessing, 13 Graebner, David (anthropologist), 8 grants, as way to raise capital, 43 Great Depression, 11, 17 gross domestic product (GDP), 170, 171, 201 gross income, use of term, 61 gross margin, 62 gross profit, 60 gross profit margin, 92-93 guanxi (cronyism), 320

Η

Hang Seng, 168 hard assets, as way to pay for M&A, 294 health insurance companies, 19–20 health maintenance organizations (HMO), 20 healthcare sector, 167 hedge funds, 22, 23 hedge portfolio, 198 heuristic methods, 314 holding period yield (of bonds), 157 horizontal common-size comparisons, 248–250 horizontal integration, 282 hospitality sector, 167 hostile takeovers, 288–289 human resources (HR), getting a job in, 29 human sources, of information on corporate finance, 32 hybrids, 220–222 Hyperion, 231

IAS (international accounting standards), 26 icons, explained, 3 IFE (International Fisher Effect), 301 IFRS (International Financial Reporting Standards), 309-310 illegal activities, 195-196 income from sales, use of term, 61 income statements categories of, 60-65 putting it to good use, 66 role of, 60 supplemental notes, 66 types of, 59, 60 income tax assets, 50 income tax expense, 65 indemnify (regarding insurance) indexed bonds, 152-153 indicators, 9, 10 industrial sector, 167 industry performance, evaluation of, 170 inflation defined, 117, 118, 299 forms of, 118-119 as macroeconomic influence, 172 inflationary periods, 257 inflationary risk, 187 information on corporate finance, sources of, 31-33 infrastructure sector, 167

initial public offering (IPO), 41, 57 insurance companies, 18–22 intangible assets, 53-54 interest, 17, 38, 40 interest expense, 64 interest income, 64 interest rate float, 152 interest rate risk, 186 interest rate/inflation risk, 186–187 interest rates defined, 117, 119 as having muddled relationship with exchange rates, 300-301 interest-only loans, 226 internal rate of return (IRR), 130 Internal Revenue Service (IRS), 25 international accounting standards (IAS), 26 international finance cross-listing as allowing companies to tap the world's resources, 304-305 cryptocurrencies as coming with, 310–311 cultural understanding as vital to, 309–310 diversification as not completely eliminating risk exposure, 303-304 interest rates and exchange rates as having muddled relationship, 300-301 no such thing as trade imbalance, 298–299 outsourcing as taxing issue, 306-307 politics as complicating your life, 307–309 purchasing power and exchange rates are different things, 300 spot rate as not only type of currency transaction, 302-303 International Financial Reporting Standards (IFRS), 309-310 International Fisher Effect (IFE), 301 International Monetary Fund, 265 Internet as resource tool for people involved in corporate finance, 31-32 as source for looking for data to forecast finances, 265 inventory accounting, 257 inventory turnover, 79-80

inventory turnover in days, 80 inventory/inventories, 50, 136 inverse interest rate float, 152 investing, defined, 11 investing activities cash flows, 69 investing cash flows, 69, 70 investment banks, as securities firm, 21 investment performance, assessment of, 260–262 investment portfolio, 198 investments capital investments, 125 defined. 11 examples of, 11 financial investments, 125 long-term investments as long-term assets, 51 Investopedia, as source of information on corporate finance, 32 investors, schmoozing of, 40–43 IPO (initial public offering), 41, 57 iron condor, 226 ironfly, 226 IRR (internal rate of return), 130 IRS (Internal Revenue Service), 25 Isaac, Newton (scientist), 226 issuer, 154

J

JD Edwards, 231 joint ventures, 288 journals, as sources of information on corporate finance, 32 junk bonds, 150–151 just-in-time (JIT), 136

Κ

Kiplinger (magazine), 32 "Know Your Customer" (KYC), defined, 196

L

lagging indicators, 9 large cap, 165 leading indicators, 9 liability/liabilities Assets = Liabilities + Equity, 36 current liabilities, 54-55 defined, 48 long-term liabilities, 56 money obtained through loans as, 36 LIBOR (London Interbank Offered Rate), 24 licensing agreements, 288 life insurance companies, 20 LIFO (last-in, first-out), 61, 257 limited liability, of corporations, 16 liquid asset management, 136-137 liquidation, defined, 42 liquidity, 48, 72 liquidity metrics defined, 75 examples of accounts receivables turnover, 77-78 accounts receivables turnover in days, 78 acid test ratio (aka Quick Ratio), 82–83 cash ratio, 83 turrent ratio, 82 day sales in inventory, 78-79 days sales in receivables, 76-77 inventory turnover, 79-80 inventory turnover in days, 80 operating cash flows to current maturities, 84-85 operating cycle, 80–81 sales to working capital, 83-84 working capital, 81 liquidity risk, 186, 194–195 living "off the grid," 12 Lloyd's of London, examples of insureds of, 19 loan loss coverage ratio, 106–107 loan sharks, 24 loans from depository institutions, 17 as exotics, 226 federally subsidized loans, 38 fixed versus variable rate, 39 government loans, 37 making sure they pay off in long run, 38-39

as method for raising capital, 36 open-ended versus closed-ended, 39 secured versus unsecured, 39 simple versus compounding interest, 40 terms of, 39–40 loans to deposits ratio, 108–109 logic programming, 230 logical fallacies, identification of, 317–318 London Interbank Offered Rate (LIBOR), 24 long-term assets, 49, 50–53 long-term debt to operating property ratio, 95 long-term liabilities, examples of, 56

Μ

M&A (mergers and acquisitions). See mergers and acquisitions (M&A) macroeconomics, 171–172 magazines, as sources of information on corporate finance, 32 Makinen, Mikael (Valmet chairman), 284 manager compensation, 283 margin accounts, 163 market capitalization (cap) calculation of, 166 large cap, 165 micro cap, 165 mid cap, 165 nano cap, 165 penny stock, 166 small cap, 165 market order, 161 market risk, 186, 187-188 market value, defined, 103 marketable securities, examples of, 49 mature bond, 145 maturity/maturity date, 154 MBS (mortgage-backed securities), 148, 219 Mercado Común del Sur (MERCOSUR), 309 merger of equals, 284 mergers described, 284-285 Diamler as perfect example of merger-gonewrong, 289

merger of equals, 284 Valmet/Neles merger, 284 mergers and acquisitions (M&A) dissecting of overview, 277-279 conglomerate integration, 282 diversification, 279-280 economies of scale, 280-281 economies of scope, 281 elimination of competitors, 282-283 geographic expansion, 280 horizontal integration, 282 manager compensation, 283 synergistic operations, 283 vertical integration, 281–282 financing of cash, 293 debt, 294 equity 294 hard assets, 294 measuring what a business is worth to you overview, 290 cash-flow evaluation, 292–293 company worth by comparison, 292 control premiums, 291–292 future cash flows, 291 measures of market share, 293 Merrill Lynch, as bought by Bank of America, 20-21 metrics banking metrics, 104–109 budget metrics, 139-141 for calculating capital, 97-104 for keeping debt healthy, 109–113 liquidity metrics defined, 75 examples of, 76-85 sizing up shareholders, 97–104 value schedule metrics, 137-139 micro cap, 165 Microsoft Excel, for doing regression analysis, 273-274 mid cap, 165

mixed-interest class of hybrids, 220-221 modeler, getting a job as, 30 modern portfolio theory economic equilibrium, 200 efficient market hypothesis, 200-202 optimizing portfolio risk, 212-214 portfolio basics, 198-200 risking returns, 202-212 modified internal rate of return (MIRR), 130-131 Modigliani-Miller Theorem, 237, 241 monetary inflation, 119 monetary policy, as macroeconomic influence, 172 money asking the right people for, 37-38 as basically same thing as capital, assets, and cash, 36 as debt, 8 invention of, 8 measuring value of, 118 pitching your story for, 35-43 role of later on, 9 role of originally, 8 Money (magazine), 32 "money pit," 289, 318 Monsanto, 171 mortgage-backed securities (MBS), 148.249 mortgages, from depository institutions, 17 motivations, characterization of 10-12 multi-asset bundles, 223 multivariate regressions, 273 municipal bonds, 146 mutual cooperatives, 18 mutual funds, 22, 23

Ν

NAFTA (North American Free Trade Agreement), 309 nano cap, 165 NASDAQ, 25, 168 National Bureau of Economic Research (US), 265 National Credit Union Administration (NCUA), 26 negative correlation (in regression analysis), 273 negative-amortization loan, 226 nepotism, 320 net cash provided by financing activities, 71 net cash provided by operations, 69 net income, 64-65 net interest margin, 105-106 net present value (NPV), 124, 132-133 net profit margin, 85-86 net sales, 60-61 networking, as distinguished from cronyism, 321 Nikkei, 25, 168 nominal value, 118 nonprofit corporations, 17 normal distribution, 269-270 North American Free Trade Agreement (NAFTA), 309 notes payable, 56 NYSE, 25

0

off-balance-sheet risk, 186, 190 Office of the Comptroller of Currency (OCC), 25 on credit, defined, 188 on margin (on stocks), 164 open-ended loan, 39 operating activities cash flows, 68-69 operating asset turnover, 88 operating cash flows, 68-69 operating cash flows per share, 99-100 operating cash flows to current maturities, 84-85 operating cash flows to total debt, 112 operating cycle, 80-81 operating income, 62 operating income margin, 87 operating ratio, 93 operating revenue to operating property ratio, 94 operating risk, 186, 193-194 opportunity cost, 119-120 options (as exotic), 225 options (as type of derivative), 174, 175, 176 orders (for stocks), 160-163

organizational sovereignty, 286 other expenses, as part of EBIT, 63 other income, as part of EBIT, 63 outsourcing, 306 owners' equity, 56–58

Ρ

par value (of stock), 57 partnerships, 288 passive portfolio management, 200 pass-through certificate, 219, 223 Patient Protection and Affordable Care Act, 20 patterns, finding of (for forecasting finances), 271 payback period, 134 payday loans, 24 payroll, getting a job in, 29 P/E (price to earnings ratio), 100-101 Peachtree, 231 pegged order, 162-163 penny stock, 166 percent earned on operating property, 93–94 percentage of earnings retained, 101 performance comparatives comparison against the industry comparing changes in the industry, 25 using industry averages, 254-255 comparison over time, 252-254 personal credit institutions, 23 pharmaceutical sector, 167 pit (trading floor), 25 political instability, impact of on international finance, 304 pooling assets, 22 portfolio engineering, 226-228 portfolio management diversifying to maximize returns and minimize risk, 203–205 innovating risk management, 214–215 looking at trade-off between risk and return, 202-203 measuring risk arbitrage pricing theory (APT), 208, 211-212, 214

capital asset pricing model (CAPM), 208–211, 212, 213, 214 optimizing portfolio risk overview, 212 efficient frontier, 213-214 passive versus active management, 200 risk aversion overview, 205-206 determining "right" amount of, 206 measuring of, 206-208 strategies of debt portfolio, 199 hedge portfolio, 198 product portfolio, 199 property portfolio, 199 slush fund/petty cash portfolio, 198 positive correlation (in regression analysis), 273 PPE (property, plant, and equipment), 51 PPP (purchasing power parity), 300 preexisting conditions, defined, 20 preicred cumulative dividends, 238 preferred noncumulative dividends, 238 preferred shares, 56–57 preferred stock, 42 premium (regarding insurance), defined, 19 prepaid accounts, 50-51 present value calculation, 123 present value (PV), 120, 121-124. See also net present value (NPV) present value rate of future cash flows, 123 price (of bonds), 154–155 price change (of bonds), 155 price to earnings ratio (P/E), 100-101 primary industry, 166 primary market, 41 prime rate, defined, 24 print sources, of information on corporate finance, 32 probability, calculation of (for forecasting finances), 269-270, 274-276 probability of a particular outcome and the value placed on that probability (for options), 176 product portfolio, 199

profit/loss for discontinued operations, as part of EBIT, 64 project capital structure management, 234 Project Express, 230 project management overview, 137 budget metrics to-complete performance, 141 cost performance (CP), 140 cost variance (CV), 139 estimate at completion (EAC), 140 value schedule metrics schedule performance (SP), 138-139 schedule variation (SV), 138 projections, defined, 37 property, plant, and equipment (PPE), 51 property portfolio, 199 property-casualty insurance companies, 20 proposed law, determining financial impact of, 13 prospect theory, as explaining the improbable, 322-323 protective put, 226 proxy fight, 288 Public Finance (magazine), 32 publisher websites, as sources of information corporate finance, 32 purchasing power, 300 purchasing power parity (PPP), 300 puttable bonds, 149 PV (present value), 120, 121–124. See also net present value (NPV)

Q

quality of earnings accounting concerns overview, 256 cost recognition, 258 depreciation, 258 inventory accounting, 257 sources of cash flows overview, 258–259 temporary transactions, 259 volatile income sources, 259–260 quasi-governmental, defined, 27 Quick Ratio (aka acid test ratio), 82–83, 253 Quicken, 231 quotas (in international finance), 308

R

range, defined, 267 rate (r), 120, 123, 124 rate of return accounting rate of return (ARR), 128–130 calculation of overview, 127 calculating accounting rate of return (ARR), 128-130 calculating revenue, 128 looking at costs, 128 making most of internal rate of return through modification, 130-131 defined 127 internal rate of return (IRR), 130 modified internal rate of return (MIRR), 130–131 rate-of-change cross comparison, 250–251 rationality, factors that lead people to forego, 314 raw materials, defined, 137 real value, 118 receivables, defined, 76 reconciliation of net earnings and asset to cash by operating activities, 72 reference class forecasting, 276 registered bonds, 150 regression analysis overview, 272-273 knowing what to do with correlations, 273 using Microsoft Excel for, 273-274 regulatory bodies list of, 25-26 role of, 25 repatriation risk, 193 retained earnings, 58, 238-239 return on assets, 86-87 return on common equity, 89-90 return on common shares, 89–90 return on investment (ROI), 91-92

return on operating assets, 88-89 return on total equity, 89 revenue, calculation of, 128 revenue bonds, 147 risk categories of credit risk, 186, 188-189 foreign exchange risk, 186, 190 interest rate/inflation risk, 186 liquidity risk, 186, 194-195 market risk, 186, 187-188 off-balance-sheet risk, 186, 190 operating risk, 186, 193–194 cryptocurrencies as coming with, 310-311 default risk, 236 diversifying to maximize returns and minimize risk. 203-205 as a form of cost, 186 in investing internationally, 304 looking at trade-off between risk and return, 202-203 managing of with swaps, 181–182 measuring of, 208-212 risk aversion, 205-208 specific risk, 205 systematic risk, 205-206, 303 as unavoidable, 202 understanding that it is unavoidable, 185-195 risk adjusted return on capital 262 risk management, innovating of, 214–215 ROI (return on investment), 91–92

S

S&P 500, 168 sales financing institutions, 23 sales to working capital, 83–84 SAS, 231 satisficing, 315, 321–322 savings institutions, as type of depository institution, 17, 18 schedule performance (SP), 138–139 schedule variation (SV), 138

scientist, getting a job as, 30 secondary market, 41 sector rotation, 171 sectors assessing of, 171 list of, 166-167 secured loan, 39 securities asset-backed securities, 147-148 making securities out of anything, 218-220 mortgage-backed securities, 147-148 Separate Trading of Registered Interest and Principal Securities (STRIPS), 146, 156 Securities and Exchange Commission (SEC) criteria for keeping track of financial information and reporting it to the public, 40 EDGAR database 31 main purpose of, 47 as regulatory body, 25 as requiring all corporations to maintain balance 🔪 sheet, 47 securities firms, 20-21 securities underwriters, 22 securitization, defined, 218 self-serving bias, 324 selling expense, defined, 62 selling short (on stocks), 164-165 sentiment indices, 10 Separate Trading of Registered Interest and Principal Securities (STRIPS), 146, 156 Series 7 license, 30 Series EE bonds, 145 Series I bonds, 145 share value dilution, 236-237 shareholder wealth maximization, 241 Shareholder Wealth Maximization model, 17 shareholders defined, 98 sizing up of book value per share, 103 cash dividend coverage ratio, 104 dividend payout, 102 dividend yield, 102-103

shareholders (continued) earnings per common share, 98-99 financial leverage, 98 operating cash flows per share, 99–100 percentage of earnings retained, 101 price to earnings ratio (P/E), 100-101 shares (of ownership) capital gains earnings on, 16 in corporations, 16 stock, 40 sharia law, as forbidding charging or paying traditional forms of interest, 18 short-selling (on stocks), 164-165 sigma, 132, 133, 156 simple interest, 120-121 simple interest loan, 40 single asset class hybrids, 221 single-step income statements, 59, 60 slush fund/petty cash portfolio, 198 small cap, 165 Smith, Adam (economist), 7 SP (schedule performance), 138-139 specific risk, 205 spot analysis, 252 spot rate of exchange, 302–303 spread, 104, 161, 302 SPSS, 231 stampeding, 319-320 Standard and Poor's, 168 standard deviation, 268 standard preferred, 57 standard T-bonds, 145 startups, funding of, 12 **STATA**, 231 statements of cash flows financing cash flows, 70-71 investing cash flows, 69-70 operating cash flows, 68-69 reconciliation of net earnings and asset to cash by operating activities, 72 use of data from, 72-73 statistical bias, 323

statistics, use of for forecasting finances, 274–276 status quo bias, 324 stock exchanges, 159-160, 229 stock index, 168 stock market bear market, 167 bull market, 167 stock split, 43 stocks ask price, 161 bid price, 161 buying long, 163-164 buying on margin, 164 convertible preferred shares of, 221 day order, 163 defined, 40 exchanges ECNs (electronic communication networks, 160 OTC (over-the-counter) markets, 160 stock exchanges, 159–160 market order, 161 pegged order, 162 selling of to the public, 40-41 selling short, 164–165 spread, 161 stock split, 43 stop and limit orders, 161–162 time-contingent order, 163 types of, 42 valuation models of, 168–172 stop and limit orders, 161–162 straddle, 176, 226 straight-line depreciation, 52 strangle, 226 Strategic Finance (magazine), 32 strike price, 174 STRIPS (Separate Trading of Registered Interest and Principal Securities), 146, 156 subprime lenders, 24 sum of years depreciation, 52-53 Sun cost fallacy (or "money pit"), 318

supplemental notes, as part of income statement, 66 SV (schedule variation), 138 swap broker, 181 swaps (as type of derivative), 180–182 swaps contracts, 225 synergistic operations, 283 synergy, 278 systematic risk, 205–206, 303

T

tariffs (in international finance), 308 tax returns, 50 tax-exempt status, of nonprofit corporations, 17 T-bills (Treasury bills), 49, 145-146 T-bonds (treasury bonds), 145 teaser rates, 221 tech sector, 167 telecom sector, 167 temporary transactions, as source of cash flow, 259 Through the Looking Glass (Carroll), 197 time (t), 120, 123, 124 time-contingent order, 163 time-distribution cross comparison, 250-25 times interest earned, 109-110 time-weighted rate of returns, 262 TIPS (Treasury Inflation-Protected Securities), 146, 151, 152 total asset turnover, 86 total assets, 105 trade imbalance, no such thing as, 298-299 trader, getting a job as, 30 trading floor, 229 tranches, 219-220 transaction risk, 191 transfer pricing, 129, 306 translation risk, 191-192 treasurer, getting a job as, 30 Treasury bills (T-bills), 49, 145-146 treasury bonds (T-bonds), 145

Treasury Inflation-Protected Securities (TIPS), 146, 151, 152 treasury shares, 42, 57, 71 treasury stock, 42 trends, finding of (for forecasting finances), 271 turnover, defined, 77–78, 79

U

unbundling, 224 uncertainty managing of, 185–196 risk as nothing more than, 202 underwriters, 21–22 unearned income, 54–55 United Nations, as source of economic data, 265 United Nations, as source of economic data, 265 United States, as having largest current account deficit and largest current surplus, 299 unit-of-production depreciation, 52 university websites, as sources of information on corporate finance, 32 ur secured loan, 39 U.S. Treasury, described, 28

V

Valmet/Neles merger, 284 value corporate finance as measuring, 10, 11 earned value (EV), 133, 138 net present value (NPV), 124, 132–133 predicting future value (FV), 120–121 present value (PV), 120, 121–124 of stocks, 168–172 value over time (of options), 176 value schedule metrics, 137–139 variable rate loan, 39 vertical common-size comparisons, 247–248 vertical integration, 281–282 volatile income sources, 259–260 volume (of bonds), 155

W

WACC (Weighted Average Cost of Capital), 235 Walter's Model, 239 *wasta* (cronyism), 320 working capital, 81 work-in-process, defined, 136 World Bank, as source of economic data, 265

Х

Xilinx, acquisition of by AMD, 286

Y

yield (of bonds), 155 yield change (of bonds), 155–156 yield to maturity (YTM), 156

http://www.bookshop.com