FINANCIAL INVESTING AND ECONOMICS TERMINOLOGY

[Glossary of Important Definitions]

Much has been written and much has been opined on the topic of personal financial planning for physicians and healthcare providers in this textbook. But occasionally, we all still get lost in a wide array of acronyms, jargon and terms that are constantly changing in this ecosystem. And so, this glossary serves as a ready reference for those who want to know about these definitions in a quick and ready fashion.

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ACCOUNTING EQUATION: Assets equal liabilities plus owner's (stockholder's) equity.

ACCOUNTS PAYABLE: The amount of money a healthcare organization is obligated to pay vendors. A liability backed by general reputation and credit of the debtor.

ACCOUNTS RECEIVABLE: The amount of money a healthcare organization is due from insured patients, payers, vendors or other sources.

ACCRETION: Difference between bond price at original discount purchase and current par value; asset increase through internal growth and expansion.

ACCRUAL BASIS OF ACCOUNTING: A method of accounting which attempts to match health entity revenues with expenses and claims by recognizing revenue when a service is rendered and expense when the liability is incurred irrespective of the receipt or disbursement of cash.

ACCRUED INTEREST: Interest earned, but not received, when a buyer purchases a hospital or other bond (debt) from a bondholder. The buyer owes the bondholder interest for the period of time the bondholder held the bond. Because interest is paid semi-annually, the period of time that has elapsed is the accrual period.

ACID TEST RATIO: A liquidity ratio that measures how much cash and marketable securities are available to pay all current liabilities of a healthcare business organization (i.e., cash and marketable securities/current liabilities).

ADDITIONAL PAID-IN CAPITAL: Common stock plus donated capital or paid-in-capital excess of par value.

ADV: A two-part form filed by investment advisors who register with the Securities and Exchange Commission (SEC), as required under the Investment Advisers Act. ADV Part II information must be provided to potential investors and made available to current investors.

AFTER MARKET: A marketplace for a security either over-the-counter (OTC) or on an exchange after an initial public offering has been made.

ALPHA: The measure of the amount of a stock's expected return that is not related to the stock's sensitivity to market volatility. It measures the residual non-market influences that contribute to a securities risk unique to each security. Alpha uses beta as a measure of risk, a benchmark and a risk free rate of return (usually T-bills) to compare actual performance with expected performance. For example, a fund with a beta of .80 in a market that rises 10% is expected to rise 8%. If the risk-free return is 3%, the alpha would be –.6%, calculated as follows:

(Fund return – Risk-free return) – (Beta x Excess return) = Alpha
$(8\% - 3\%) - [.8 \times (10\% - 3\%)] = -.6\%$

A positive alpha indicates out performance while a negative alpha means underperformance.

AMERICAN DEPOSITORY RECEIPT (ADR): A receipt evidencing shares of a foreign corporation held on deposit or under the control of a U. S. banking institution; it is used to facilitate transactions and expedite transfer of beneficial ownership for a foreign security in the U.S. Everything is done in dollars and the ADR holder doesn't have voting rights; essentially the same as an American Depository Share (ADS).

AMORTIZE: To pay-off or liquidate a debt on an installment basis.

ANGEL: A wealthy private investor.

ANNUITY: A series of equal periodic payments. An investment product in which an investor contributes money into a plan and then elects to receive pay-out in a fixed or variable amount, usually at retirement. Two important features of this product: (1) Tax deferred growth of earnings during the accumulation period. However, it is important to note that when you elect to receive payment you will be taxed at ordinary income rates on everything exceeding the cost basis. (2) The annuity will provide lifetime retirement income for the annuitant through the mortality guarantee.

ARBITRAGE: The simultaneous purchase and sale of the same or equal securities, such as convertible securities, in such a way as to take advantage of price differences prevailing in separate markets. The risk is usually minimal and the profit correspondingly small.

ARBITRAGE PRICE THEORY (APT): A multi-variable systematic risks method to estimate the cost of equity capital.

ASK PRICE: (1) The price at which a healthcare security, stocks, bonds or mutual fund's shares can be purchased. The asking or offering price means the net asset value per share plus sales charge. (2) The offer side of a quote.

ASK PRICE: The price at which a seller is offering to sell an option or stock.

AT-THE-MONEY: An option is at-the-money if the underlying security is selling for the same price as the exercise price of the option.

AUCTION MARKET: A market for securities, typically found on a national securities exchange, in which trading in a particular security is conducted at a specific location with all qualified persons at that post able to bid or offer securities against orders via outcry.

AVERAGE ANNUAL TOTAL RETURN: The average annual profit or loss realized at the end of a specified calendar period, assuming all dividends and capital gains, stated as the percentage gained or lost per dollar invested.

BACK-END LOAD: A surrender charge deducted in some financial and insurance products. Most have a decreasing back-end load that generally disappears completely after a certain number of years.

BALANCED FUND: Investment companies that strive to minimize market risks while at the same time earning reasonable current income with varying percentages of bond, preferred, and common stocks.

BALANCE SHEET: One of four major financial statements for a healthcare organization. It presents a summary of assets, liabilities and net assets for a specific date. A condensed statement showing the nature and amount of assets and liabilities, shown in dollar amounts what the company owns, what it owes, and the ownership interest (shareholders' equity).

BALANCE SHEET EQUATION: Assets = Liabilities plus Stockholder’s (owner’s) Equity.

BARBELL PORTFOLIO: Bond distribution where most maturity dates either fall at the short-term or long-term end of a given time period, with few intermediate maturity bonds.

BASIS: Property basis is the original cost adjusted by charges (such as deductions for depreciation) or credits (such as capitalized expenditures for improvements); it sets the base for calculating depreciation and assists in establishing the gain or loss on sale of the

property. An investor's basis establishes the gain or loss on sale of the investor's unit(s) and sets an upper limit on his ability to take any losses generated by a property.

BASIS POINT: One tenth, of one percent of yield. If a yield increases from 8.25% to 8.50%, the difference is referred to as a 25 basis point increase. The exchange rate where: one percentage point equals 100 basis points (bps).

BEAR MARKET: A declining securities market in terms of prices.

BETA: Systemic risk measurement benchmark correlating with a change in a specific index. The measure of a stock's volatility relative to the market, where a beta lower than 1 means the stock is less sensitive than the market as a whole; higher than 1 indicates the stock is more volatile than the market. The healthcare industry is considered to be increasingly volatile and hence possess a higher beta.

BID PRICE: The price at which a buyer is willing to buy an option or stock.

BLACK-SCHOLES MODEL: A sophisticated options pricing method.

BLUE CHIP: The common stock of a large, well-known corporation with a relatively stable record of earnings and dividend payments over a period of many years.

BOOK-VALUE: Cost of capital assets minus accumulated depreciation for a healthcare, or other organization. The net asset value of a healthcare companies common stock. This is calculated by dividing the net tangible assets of the company (minus the par value of any preferred stock the company has) by the number of common shares outstanding.

BUCKET SHOP: Illegal brokerage firm that is slow to execute client order to augment profits.

BULL MARKET: A rising securities market in terms of price.

CAPITAL ASSET: All assets except property held for resale in the normal course of business (inventory), trade accounts and notes receivable, and depreciable property and real estate used in a trade, healthcare or other business.

CAPITAL ASSET PRICING MODEL (CAPM): An economic model that uses beta and market return to help investors evaluate risk return trade-offs in investment decisions.

CAPITAL STRUCTURE: The permanent and long term financing structure of a healthcare or other organization including long-term debt, preferred stock and net worth; but not including short term debt or reserve accountants.

CHINESE WALL: Artificial and imaginary separation between investments, research and financial departments of a brokerage house.

CHURNING: The practice of a provider seeing a patient more often than is medically necessary, primarily to increase revenue through an increased number of visits. A practice, in violation of SEC rules, where a salesperson affects a series of transactions in a customer's account which are excessive in size and/or frequency in relation to the size and investment objectives of the account. An insurance agent who is churning an account is normally seeking to maximize the income (in commissions, sales credits or mark-ups) derived from the account.

CIRCUIT BREAKERS: Exchange methods to temporarily stop trading following pre-specified market drops.

CLONE FUND: A mutual fund that mimics or attempts to match another, with reduced fees and expenses.

CONVERTIBLE PREFERED STOCK: Preferred stock that can be exchanged for common stock.

CORRECTION: Sharp reverse or downward movement in securities or commodities, prices, usually greater than 10%.

COUPON: (1) A detachable part of a bond which evidences interest due. The coupon specifies the date, place, and dollar amount of interest payable, among other matters. Some older coupons may be redeemed semi-annually, by detaching them from bonds and presenting them to the paying agent or bank for collection. (2) The term is also used colloquially to refer to a security's interest rate.

COVERED CALL: An option strategy in which a call option is written against a long stock (stock held in a client's portfolio).

COVERED PUT: An option strategy in which a put option is written against a sufficient amount of cash (or T-bills) to pay for the stock purchase if the short position is assigned

COVERED SHORT: The purchase of commodities or securities to cover a short position

CRAM DOWN: Slang term for the forced acceptance by stockholders of unfavorable terms in a corporate merger or acquisition.

CURRENT ASSETS: Assets used or consumed within 12 months. Cash plus any other assets that will be sold, converted into cash, or used during a hospital's "cash conversion cycle", or the cycle of cash to medical services, to third party insurance payer, and back to cash, again. Most commonly included with cash are marketable securities, patient accounts receivable and inventory.

CURRENT LIABILITIES: As a rule, debts or obligations that must be met within a year.

On a stock, the annual dividend divided by the current ask price; on a bond, the annual interest dividend by the current market value. "What you get, divided by what you pay".

CURRENT RATIO: A liquidity measure to determine how easily current debt may be paid (current assets/current liabilities).

CURRENT YIELD: On a stock, the annual dividend divided by the current ask price; on a bond, the annual interest dividend by the current market value. "What you get, divided by what you pay".

DEBENTURES: A type of bond that is issued by hospital or other corporations. Debentures do not have a special lien on the corporation's property, but the bondholders do have first claim on all assets not already pledged. Next are subordinated debentures, which have a claim on assets after the more senior debt is satisfied.

DEFLATION: A sustained period of falling interest rates, prices and economics.

DELTA: Relationship between the price of an option and its underlying futures contract or stock price.

DERIVATIVE: Derivatives are financial arrangements between two parties whose payments are derived from the performance of an agreed-upon benchmark. They can be issued based on currencies, commodities, government or corporate debt, home mortgages, stocks, interest rates, or any combination of the above. The primary purpose of derivatives is to hedge investment risk. In the case of debt securities, derivatives can swap floating interest-rate risk for a fixed interest rate. Because the possibility of a reduced interest rate is the most important risk to the investor's capital, coupled with changes in currency values, derivatives can be an important investment tool. Derivatives can be risky if they involve high leverage: Both parties to the transaction are exposed to market moves with little capital changing hands. Remember, when the market moves are favorable, the leverage provides a high return compared with the relatively small amount of investment capital actually at risk. However, when market moves are unfavorable, the reverse is true: Enormous losses may be incurred. International healthcare corporations are major investors in derivatives, because exports can suffer upon currency fluctuations or the corporations want to change a floating rate liability to a fixed-rate obligation. However, even though corporations were originally the main purchasers of derivatives (primarily because of the high minimum transaction size), the opportunity is now available for some individuals to take advantage of the benefits of derivatives. This is done primarily through private partnerships (not generally available to the public.)

DILUTIVE EFFECT: The lowering of the book or market value of the shares of a company's stock as a result of more shares outstanding. A company's initial registration may include more shares than are initially issued when the company goes public for the first time. Later, an issue of more stock by a company (called a "primary offering," distinguished from the "initial public offering") dilutes the existing shares outstanding.

Also, earnings-per-share calculations are said to be “fully diluted” when all common stock equivalents (convertible securities, rights, and warrants) are included. “Fully diluted” numbers are used in analysis when there is a likelihood of conversion or exercise of rights and warrants.

DIVIDENDS: Distributions to stockholders earned and declared by a corporate healthcare or hospital board of directors.

DIVIDED ACCOUNT (WESTERN ACCOUNT): A method for determining liability stated in the agreement among underwriters in which each member of an underwriting syndicate is liable only for the amount of its participation in the issue, and not for any unsold portion of the participation amounts allocated to the other underwriters

DURATION: The average time to collect a bond’s principal and interest payment. A measure of volatility, expressed in years, taking into consideration all of the cash flows produced over the life of a bond. For example, if the duration of a bond is five years, then the price of the bond changes 5% for every 1% change in interest rates.

DUTCH AUCTION: Auction market where price is reduced until sold (US T-bill system).

EARNINGS PER SHARE (EPS): The amount of a company’s profit available to each share of common stock. EPS = Net income (after taxes and preferred dividends) divided by Number of outstanding shares.

EASTERN ACCOUNT: An undivided brokerage account

ECONOMIC PROFIT: The difference between total healthcare revenue and the cost of all related inputs used by an entity over time; Net Present Value (NPV).

EFFICIENT MARKET HYPOTHESIS (THEORY): Belief that all market prices and movements reflect all that can be known about an investment. If all the information available is already reflected in stock prices, research aimed at finding undervalued assets or special situations is useless.

EITHER / OR ORDER: An order consisting of a limit and a stop for the same security at different prices. Execution of one order will cancel the other.

ELASTIC DEMAND: Occurs when the price of elasticity of demand for healthcare goods, products or services exceed one (1) unit.

EQUITY RISK PREMIUM: The risk-free rate-of-return, plus the rate-of-return to reflect the risk of the healthcare business entity over the risk-free-rate.

EQUIVALENT PRETAX YIELD ON TAXABLE BOND (EPYTB): Municipal bond yield / 1-Tax Rate

EUROPEAN OPTION: An option that can be exercised only on the expiration date

EX-DIVIDEND: Occurs when dividends are declared by a company's board of directors, they are payable on a certain date ("payable date") to shareholders recorded on the company's books as of a stated earlier date ("record date"). Purchasers of the stock on or after the record date are not entitled to receive the recently declared dividend, so the ex-dividend date is the number of days it takes to settle a trade before the record date (currently three business days). A stock's price on its ex-dividend date appears in the newspaper with an X beside it.

FACTORING: The sale of medical accounts receivable at a discount

FAIR MARKET VALUE (FMV): A legal term variously interpreted by the courts, but generally meaning the price at which a willing buyer will buy and a willing seller will sell an asset, in an open free market with full disclosure.

FILL-OR-KILL (FOK) ORDER: An order that requires immediate purchase or sale of a specified amount of stock. If the order cannot be filled immediately, it is automatically canceled (killed).

FIXED BUDGET: A financial plan in which specifically allocated amounts do not vary with level of activity or volume; static budget

FLIP: The purchase of stock shares, especially in an IPO, and immediately selling them for profit.

FLOAT: Time delay in the billing and collect cycle.

FOURTH MARKET: Direct institutional trading without the use of an intermediary or brokerage firm.

FRONT-END LOAD: Funds paid at the outset of the direct participation program that does not contribute materially to the actual investment vehicle. Front-end load typically consists of distributions to general partners, organizational fees, or acquisition fees.

FRONT-RUNNING: Form of market manipulation where a broker/dealer delays processing of a large customer trade in an underlying security until the firm can execute an options trade in that security in anticipation of the client' s trade impact on the underlying security.

FUNDAMENTAL ANALYSIS: This type of analysis uses a quantitative (using numbers) approach to market forecasting based on an analysis of corporate balance sheets and

income statements. A corporation's strengths and weaknesses, as shown by arithmetic formulas and other measurements of economic and industry trends, are used to predict future price movements of its stocks and bonds

FUTURES CONTRACT: A contract calling for the delivery of a specific quantity of a physical good or a financial instrument (or the cash value) at some specific date in the future. There are exchange-traded futures contracts with standardized terms, and there are over-the-counter futures contracts with negotiated terms

REGISTERED REPRESENTATIVE EXAMINATION: The Series seven (7) securities licensing examination for stock-brokers [aka FAs]

GEOMETRIC MEAN: The Nth root of the product of "n" numbers.

GHOST: One who works with two or more market-makers to manipulate stock prices; unethical behavior.

GLAMOR STOCK: Equities with wide public exposure, owned by institutions, and followed by many stock analysts with high growth rate potential.

GNP DEFLATOR: The ratio of real to nominal GNP as an index of average prices used to deflate GNP

GOING LONG: Purchasing and owning securities outright for potential profit.

GOING SHORT: Selling securities otherwise not owned.

GOOD TIL CANCELED ORDER: A limit securities order that remains valid indefinitely, until executed or canceled by the customer.

GROSS DOMESTIC PRODUCT (GDP): The total current market value of all goods and services produced domestically during a given period; differs from the Gross National Product (GNP) by excluding net income that residents earn abroad.

GROWTH FUND: A mutual fund whose primary investment objective is long-term growth of capital. It invests principally in common stocks with growth potential.

GROWTH INCOME FUND: A mutual fund whose aim is to provide for a degree of both income and long-term growth

GUNSLINGER: An aggressive portfolio manager prone to risk taking in order to achieve higher investment returns.

HAIRCUT: Slang term for a very steep broker-commission.

HAMMERING THE MARKET: An intense stock market sell-off period

HOSTILE TAKEOVER: Corporate shareholder transfer (takeover) against the wishes of management and directors, and usually financed by debt, such as junk bonds (low investment grade debt), and as in a Leveraged Buy-Out (LBO) situation.

HOT ISSUE: A security that is expected to trade in the aftermarket at a premium over the public offering price.

ILLIQUID: A dearth of cash flow to meet current obligations and/or maturing debt.

IMPUTED INTEREST: Rate or amount of interest considered to have been paid; although not actually paid.

INCOME ELASTICTY OF DEMAND: A patient-consumer purchase-sensitivity measurement compared to each one percent change in income.

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INCOME IN-RESPECT-OF-A-DECEDENT: Amounts due and payable to a decedent at his or her death because of some right to income. [IRC §691(c)(2)]

INCOME STOCK: Stock purchased for its income and dividend producing ability rather than its growth potential.

INDENTURE: A written agreement between issuer and creditors by which the terms of a debt issue are set forth, such as rate of interest, means of payment, maturity date, terms of prior payment of principal, collateral, priorities of claims, trustee.

INDEX: A stock market indicator, derived in the same way as an average, but from a broader sampling of securities.

INEFFICIENT MARKETS: Securities or commodities that do not reflect the risk-return relationship; allowing for profit or loss.

INELASTIC DEMAND: Occurs when the price elasticity of demand for healthcare services is equal to, or greater than zero but less than 1.

INELASTIC SUPPLY: Occurs when the price elasticity of supply for healthcare services is equal to, or greater than zero but less than 1.

INFLATION FACTOR: A premium loading to provide for future increases in medical costs and loss payments resulting from inflation. A loading to provide for future increases resulting from inflation in medical costs and loss payments.

INSIDER: Technically, an officer or director of a company or anyone owning 10% of a company's stock. The broader definition includes anyone with non-public information about a company.

INSIDER TRADING: The act, in violation of SEC Rule 10b-5 and the Insiders Trading Act of 1988, of purchasing or selling securities (or derivative instruments based on those securities) based on information known to the party purchasing or selling the securities in his capacity as an insider (i.e., as an employee of the issuer of the securities) or as a result of information illicitly provided to him by an insider. Extensive case law exists concerning the varieties of acts that may be considered to be insider trading or the circumstances in which a person may be considered to be an insider or to be trading illegally on the basis of inside information.

INVERTED YIELD CURVE: Long-term interest rates that are lower than short-term rates; unusual graphical situation

JANUARY EFFECT: The historic tendency of smaller stocks to rise in early January each year.

JESEN INDEX: Performance measurement comparing absolute realized investment returns with risk adjusted returns.

JUNK BOND: A speculative security with a rating of BB or lower. Sometimes called a "High Yield" security

KAPPA: Volatility measurement and pricing model for financial derivatives.

KITING: To drive securities prices higher through financial market manipulations or to take advantage of check cashing float time; unethical.

KONDRATIEF, NIKOLAI; WAVE: Russian economist who suggested that financial markets can be very long; up to fifty years in length.

LADDER: A series of increasingly longer and revolving debt issues to accommodate interest rate risks and changes regardless of economic cycle.

LAFFER, ARTHUR; CURVE: Suggestion that domestic economic output grows with decreased marginal income tax rates.

LAGGING ECONOMIC INDICATOR: An economic benchmark such as the unemployment rate, which changes after the economy has started to follow a particular trend.

LAW OF SUPPLY: Principle suggesting that the higher the price of a healthcare good or service, the greater the quantity that sellers are willing and able to make over time.

LEADING ECONOMIC INDICATOR: An economic benchmark such as new housing starts, which changes before the economy has started to follow a particular trend.

LEVELS: Level of service for NASDAQ trading firms:

- Level 1 - A single average price quote for those not trading OTC.
- Level 2 – Level 1 plus trade reports, executions, negotiations, networks, clearing; and bid-ask price quotes for all firms and customers.
- Level 3 – Level 1 and 2, plus the ability to enter quotes, execute orders and send information, for and by market-makers.

LIBOR: London Interbank Offered Rate is the rate international banks charge each other and varies throughout each business day reflecting global economic conditions. Standard

LIQUID ASSET: Asset easily and quickly converted to cash without price loss.

LIQUIDITY RATIOS: Relationships of short-term obligation payment abilities (i.e., quick ratio, current ratio, etc).

LOAD: The amount added to net premiums (risk factor minus interest factor) to cover the company's operating expenses and contingencies. The loading includes the cost of securing new business, collecting premiums, and general management expenses. Precisely, it is the excess of the gross health insurance premiums over net premiums.

LONG BOND: Government bonds with a maturity time frame greater than 10 years; usually 30 year US Treasuries, which suspended issuance in 2001, but was re-instituted on February 9, 2006.

LONG POSITION: A term used to describe either an open position that is expected to benefit from a rise in the price of the underlying stock (such as long call, short put, or long stock) or an open position resulting from an opening purchase transaction such as long call, long put, or long stock; securities bought or owned outright.

MAINTENANCE CALL: Sometimes called a “margin call”; a demand on a customer with a margin account to deposit cash or securities to cover account minimums required by regulatory agencies and the brokerage firm. Because these minimums are based on the current value of the securities in the account, maintenance calls can occur as a result of movements in the market price of securities.

MARGIN: The amount of equity required in an account carried on credit, presently 50 percent of total cost for eligible stock under Federal Reserve regulations, OR, corporate revenues less expenses. An amount, usually a percentage, is added an index to determine the interest rate for a variable loan at each adjustment period. For example, if the index is at 5.0, and the margin is 1.5, the interest rate is 6.5%.

MARK-TO-THE MARKET: As the market value of a margined security declines, the broker/dealer will demand more in cash to maintain the minimum requirement. The written notice for such demand is a mark to the market.

MARK-UP: The fee charged by a broker/dealer acting as a dealer when he buys a security from a market-maker and sells it to his customer at a higher price. The markup is included in the sale price and is not itemized separately in the confirmation except on a simultaneous (risk less) transaction.

MEZZANINE LEVEL: The time period just prior to the initial public offering (IPO) of a healthcare organization or other company.

MONEY MARKET ACCOUNT: A checking account that earns interest generally comparable to Money Market Funds, although the rates paid by any particular bank may be higher or lower.

MONEY SUPPLY: The amount of money in circulation. The money supply measures currently (1985) used by the Federal Reserve System are:

- M 1 - Currency in circulation + demand deposit + other check-type deposits. 35
- M2 - M 1 + savings and small denomination time deposits + overnight repurchase agreements at commercial banks + overnight Eurodollars + money market mutual fund shares.
- M3 - M2 + large-denomination time deposits (Jumbo CDs) + term repurchase agreements.
- M4 - M3 + other liquid assets (such as term Eurodollars, bankers acceptances, commercial paper, Treasury securities and U.S. Savings Bonds).

MULTIPLIER EFFECT: Money supply expansion from Federal Reserve member banks who lend money enhancing its supply.

MUTUAL COMPANY: A company that has no capital stock or stockholders. Rather, it is owned by its policy-owners and managed by a board of directors chosen by the policy-owners. Any earnings, in addition to those necessary for the operation of the company and contingency reserves, are returned to the policy-owners in the form of policy dividends

MUTUALIZATION: The process of converting a stock insurance company to a mutual insurance company, accomplished by having the company buy in and retire its own shares.

NAKED OPTION: An uncovered option position. When the writer (seller) of a call option owns the underlying stock (said to be "long" the stock), the option position is a "covered call." If the writer (seller) of a put option is short the stock, then the position is a

“covered put.” Writing a covered call is the most conservative options strategy, but writing a covered put is the most dangerous because there is no limit to how high the stock can go and thus to how great the loss can be on the short sale.

NEGATIVE YIELD CURVE: Graphical illustration where long-term interest rates are less than short-term interest rates.

NEGATIVELY CORRELATED: Two financial securities that move in opposite directions

NET WORKING CAPITAL: The difference between current asset and current liabilities for a healthcare or other entity.

NET WORTH: The surpluses and capital of a healthcare entity; but may occasionally refer to the common shareholder’s position, or assets minus liabilities plus stockholders equity.

NO-LOAD MUTUAL FUND: Mutual funds offered directly to the public at net asset value with no sales charge.

NOMINAL: Expressed in current dollars or actual money amounts.

NOTES PAYABLE: A legal obligation to pay creditors or holders of a valid lien or claim.

NOTES RECEIVALBE: A written promise for the future collection of cash.

OFF BALANCE SHEET FINANCING: The acquisition of assets or services with debt that is not recorded on the balance sheet, but may appear as a small footnote.

OPEN-END FUND: A mutual fund formed to continuously issue and buy back shares to meet investor demand. The share price is determined by the market value of the securities held by the fund's portfolio, and it may be higher or lower than the original purchase price. Open-end funds can range from load to no-load.

ORPHAN STOCK: Stocks neglected by research analysts

OUT-OF-THE-MONEY: An option that has no intrinsic value. A call option is out-of-the-money when the exercise price is higher than the underlying security's price. A put is out-of-the-money when the exercise price is lower than the underlying security's price.

OVER-THE-COUNTER (OTC) MARKET: A market for securities made up of securities broker/dealers who may or may not be members of securities exchanges. Over the counter is a market conducted anywhere other than on an exchange.

PAID-IN-CAPITAL: Money received by a corporation from investors, for equity.

PAR VALUE: For common stocks, the value on the books of the corporation. It has little to do with market value or even the original price of shares at first issuance. The difference between par and the price at first issuance is carried on the books of a corporation as “paid-in capital” or “capital surplus.” Par value for preferred stocks is also liquidating value and the value on which dividends (expressed as a percentage) are paid, generally $100 per share.

PAYMENT-IN-KIND: Securities that pay interest or dividend payment in additional securities of the same kind.

PENNY STOCKS: Stocks selling for under $1; usually highly speculative.

PHANTOM STOCK PLAN: An arrangement under which an employee is allowed the benefits of owning employer securities even though shares are not actually issued to the employee.

PHILLIPS CURVE: Relationship between interest rates and unemployment levels.

PINK SHEETS: Daily publication of wholesale prices of over-the-counter (OTC) stocks that are generally too small to be listed in newspapers; historically named for the color of the paper used. A list issued by the National Quotation Bureau identifying market makers dealing in corporate equity securities in the over-the-counter market.

PLOW BACK: Reinvesting profits back into a business, rather than distributing it as dividends or profit to shareholders, investors or capital suppliers.

PLUS TICK: A transaction on a stock exchange at a price higher than the price of the last transaction.

PRIME RATE: The cost of capital or interest rate a bank charges its most credit worth customer or institutions.

PUT BONDS: Put bonds allow bondholders to give bonds (put) back to the issuer at par on specified dates prior to maturity. Put bonds have either a fixed or variable interest rate and may have single or multiple tender dates. They can also be either mandatory (in which case the investor has a specified period of time to keep the bonds at the new rate) or optional (in which case the investor has a specified time period to tender the bonds).

PUT OPTION: An instrument that grants the holder the right to sell a stated number of shares (typically 100) of the underlying security within a stated period of time at the exercise price.

PUT WRITER: One who receives a financial premium and accepts for a time period, the obligation to buy an underlying security for a specific price at the put buyer's discretion.

QUBES (QQQQ): NASD technology laden tracking exchange traded fund (ETF) index on the American Stock Exchange (Amex).

QUICK ASSETS: Cash or those assets that can quickly be converted into cash.

QUICK ASSET RATIO: The ratio of cash, accounts receivable and marketable securities to current liabilities.

QUICK RATIO: A measure of healthcare entity financial liquidity: (cash+marketable securities+ARs/current liabilities); Acid Test.

RAIDER: One who buys controlling stock in a company and instills new senior management.

RATIO ANALYSIS: A method of analyzing a healthcare or other entities' financial condition calculated from line items in the financial statements. There are four major categories: Liquidity; Profitability; Capitalization; and Activity.

REAL ESTATE INVESTMENT TRUST (REIT): A company that manages a portfolio of real estate holdings for capital appreciation, income, or both; type of mutual fund.

REAL GNP: Gross National Product calculated from a base, nominal or reference year.

REBALANCE: To sell or buy securities in a portfolio in order to return to prescribed set allocation or proportional constraints.

REGULATION D: The part of the Securities Act of 1933 that deals with private securities placements. The major provisions deal with accredited investors and both dollar limits (aggregation) and investor limits (integration). Under this regulation, private placements meeting the stipulations are exempt from registration with the SEC.

REGULATION T: Federal Reserve Bank (FRB) regulation that explains the conduct and operation of general and cash accounts within the offices of a securities broker/dealer firm, prescribing a code of conduct for the effective use and supervision of credit. According to Regulation T, one may borrow up to 50% of the purchase price of securities that can be purchased on margin. This is known as the initial margin. Also, it dictates that payment must be received no later than 1-business day after the trade and what happens if you do not pay on time.

RE-HYPOTHECATION: Stocker-Broker-Dealer pledge of securities in a margin account as collateral for a loan.

RESTRICTED SECURITY: A portfolio security not available to the public at large, which requires registration with the Securities and Exchange Commission before it may be sold publicly; a "private placement" frequently referred to as a "letter stock"

RISK-ARBITRAGE: A purchase and/or short sale of the same or potentially equal securities at prices that do not immediately guarantee a profit. Alternatively it is to play one security against another to take advantage of a disparity in price. Usually used during corporate takeover attempts.

ROUND LOT: A unit of trading or a multiple thereof. On the New York Stock Exchange stocks are traded in round lots of 100 shares for active stocks and 10 shares for inactive ones. Bonds are traded as percentages of $1,000, with municipal bonds traded in minimum blocks of five bonds ($5,000 worth).

RULE OF 72: 72 divided by interest rate equals the time period in years for a doubling of a principle sum.

SANTA CLAUSE RALLY: Historic rise in stock market prices between New Year and Christmas Day.

SARBANES-OXLEY ACT (SARBOX): 2002 Corporate Responsibility Act (CRA), covering financial, accounting, certification and new protections governing securities fraud.

SECONDARY MARKET: (1) The aftermarket for securities; the resale of outstanding securities. (2) A public offering by selling stockholders. If listed on the NYSE, a member firm may be employed to facilitate such an offering in an over-the-counter net transaction for a purchaser, with prior approval of the Exchange. Both member and nonmember broker/dealers can participate in this distribution.

SECONDARY OFFERING: A sale of a large block of securities already issued by a corporation and held by a third party. Because the block is so large, the sale is usually handled by “investment bankers” who may form a “syndicate” and peg the price of the shares close to current market value.

SECURITIES INVESTOR PROTECTION CORPORATION (SIPC): A government-sponsored, private corporation that guarantees repayment of money and securities in customer accounts valued at up to $500,000 per separate customer ($100,000 cash), in the event of a broker/dealer bankruptcy.

SECURITIZATION: The act of aggregating debt or companies in a risk pool, as with Physician Practice Management Corporations (PPMCs), and then floating new securities with reduced risk backed by the pool.

SELLER’S MARKET: Situation when there is more demand for a healthcare good, product or service, than available supply.

SELL-STOP ORDER: A securities order that becomes a market order to sell if and when someone trades a round-lot at or below the stop price used to protect a long position.

SERIES 3: Sales license for commodities futures.

SERIES 6: Sales license for mutual funds and variable annuities.

SERIES 7: Sales license for all types of securities products, with the exception of commodities futures.

SERIES 26: Supervisory license for investment company and variable annuity products.

SERIES 63: License to sell securities and render investment advice.

SHARPE, WILLIAM; INDEX: A risk adjusted ratio measure of financial performance the correlates the return-in-excess of the risk-free-rate of return, by a portfolio’s standard deviation.

SHELF REGISTRATION: Corporate ability to sell pre-SEC registered shares under favorable economic climates with a minimum of paperwork.

SHORT: Selling a security not owned.

SHORT-AGAINST-THE-BOX: A short sale made when the investor owns securities identical to those sold short. The purpose is to defer, for tax purposes, recognition of gain or loss with respect to the sale of securities "in the box”.

SHORT COVER: Long (owned) purchase of securities by a short seller investor to replace those borrowed short (un-owned) sale.

SHORT SALE: The sale of a security (i.e., stocks and bonds) before it has been acquired. An investor anticipates that the price of a stock will fall, so he sells securities borrowed from the brokerage firm. The securities must be delivered to the firm at a certain date (the “delivery date”), at which time the investor expects to be able to buy the shares at a lower price to “cover his position.”

SKIMMING: The practice in health programs paid on a prepayment or capitation basis, and in health insurance, of seeking to enroll only the healthiest people as a way of controlling program costs.

SLEEPER: Security with little investor interest but with great potential.

SMALL FIRM EFFECT: The tendency of securities of smaller corporations to outperform larger ones.

SPOT PRICE: The currency price of a commodity.

SPREAD: (1) The difference in value between the bid and offering prices. (2) The difference between the public offering price and the amount received by the issuer.

SPREAD (OPTION): Purchase and sale of option contracts of the same class with different expiration dates and/or strike prices.

STAGFLATION: A time of inflation without GNP growth

STREET NAME: The registration of securities in the name of a brokerage firm, rather than the buyer.

STOCHASTIC INDEX: Technical tool to determine a financial market's over-sold or over-bought condition; risk dampening method.

STOCK BUYBACK: A corporation may repurchase shares outstanding on the open market and retire them as "treasury shares." This anti-dilutive action increases earnings per share, which consequently raises the price of the outstanding shares. Companies often announce a "share repurchase plan" when insiders feel the company is undervalued; the action strengthens the company and helps preclude a takeover.

STOP ORDER: A sale or purchase in order to preserve gains or limit securities losses.

STOP-LIMIT ORDER: An order that becomes a limit order to sell when someone creates a round lot transaction at, or below, the stop price.

STOPP-LOSS: Insuring with a third party against a risk that an MCO cannot financially and totally manage. For example, a comprehensive prepaid health plan can self-insure hospitalization costs with one or more insurance carriers.

STOP PAYMENT: A request to a bank not to honor or allow the payment of a check after it has been delivered but before it has been presented

STREET: The slang term for Wall Street.

SUICIDE PILL: Any anti-corporate takeover strategy that puts itself (company) in jeopardy.

SUPPLY SIDE ECONOMICS: Financial incentives used to influence the aggregate supply curve.

SUPPLY SIDE SHOCK: An abrupt change in aggregate supply.

SUPPLY CURVE: Illustration of how quantity supplied varies with the price of a healthcare good or service.

SUPPORT LEVEL: Security price level bottom caused by investor demand.

SWAP: A sale of a security and the simultaneous purchase of another security, for purposes of enhancing the investor's holdings. The swap may be used to achieve desired tax results, to gain income or principal, or to alter various features of a bond portfolio, including call protection, diversification or consolidation, and marketability of holdings.

SWEETNER: Any feature added in addition to-a-securities offering to make it more attractive to investors, for purchase.

SYNTHETIC POSITION: A strategy involving two or more instruments that has the same risk/reward profile as a strategy involving only one instrument. The following list summarizes the six primary synthetic positions.

- Synthetic long call—A long stock position combined with a long put.
- Synthetic long put—A short stock position combined with a long call.
- Synthetic long stock—A long call position combined with a short put.
- Synthetic short call—A short stock position combined with a short put.
- Synthetic short put—A long stock position combined with a short call.
- Synthetic short stock—A short call position combined with a long put.

TACTICAL ASSET ALLOCATION: Active portfolio rebalancing based on relative market attractiveness.

TAKEOVER: Usually a hostile change in the controlling interest of a corporation with a new management team; typically financed by debt, as in a leveraged buyout (LBO).

TECHNICAL ANALYSIS: An approach to market theory stating that previous price movements, properly interpreted, can indicate future price patterns, too. A Technical Analyst watches the market, not the company, and is sometimes called a chartist, for obvious reasons.

TED SPRAD: Commodity money price difference that occurs with interest rates between European denominated dollars (Euros) and US Treasury bills; slang for *Treasury over Euro Dollars.*

TEN-BAGGER: An equity that grows in price by a factor of ten.

THE THIRD MARKET: Over-the-Counter (OTC) transactions in listed stocks.

THIN ISSUE: A small number or volume of securities transactions.

TICK: A transaction (up or down) on the stock exchange.

TICKER SYMBOL: Stock symbol used on the ticker tape, in newspapers, or electronically, etc.

TIME VALUE OF MONEY: Money received in the present can earn money over a period of time (making the amount ultimately larger than if the same initial sum were received later). Therefore, both the amount of investment return and the length of time it takes to receive that return affect the rate of return (i.e., the value of the return).

TOMBSTONE AD: An ad announcing securities offering which merely gives the size of the offering, the name of the firm or underwriting group from which a prospectus is available, and a disclaimer that the ad is not an offer to sell nor a solicitation of an offer to buy.

TON: Slang for $100 million dollars.

TREYNOR INDEX: A risk adjusted measure of financial performance the correlates the return-in-excess of the risk-free-rate of return, by a portfolio's systemic risk-of-the-market.

TWISTING: Inducing the termination of a health or life insurance policy in order to purchase a new one, and/or the rapid turnover of securities to generate sales commissions for the agent or broker.

TWO-SIDED MARKET: A market with firm bid and ask prices; often requiring a *specialist* to maintain a fair and orderly market.

UNCOVERED OPTION: A short securities option position that is not fully collateralized if notification of assignment should be received. A short call position is uncovered if the writer does not have a long stock position to deliver. A short put position is uncovered if the writer does not have the financial resources available in his or her account to buy the stock.

UNCOVERED PUT WRITER: A put writer is uncovered (naked) when that writer does not hold a long put of the same securities class, with an equal or higher exercise price.

UNDIVIDED ACCOUNT (EASTERN ACCOUNT): A method for determining liability stated in a securities underwriting agreement in which each member of the underwriting syndicate is liable for any unsold portion of a securities issue according to each member's percentage participation in the syndicate.

VALUE INVESTING: A style of investing which searches for undervalued companies in hope of sharing in the future gains.

VELOCITY OF MONEY: The rate at which the money supply is used to make transactions for final gods and services.

VENTURE CAPITAL: Private capital supplied for a risky start-up business; usually in return for an equity share of the corporation.

VULTURE FUND: A fund of depressed or below market rate securities or other assets.

WALLAPER: Worthless, or near worthless securities.

WARRANTS: Certificates that allow the holder to buy a security at a set price, either within a certain time period or in perpetuity. Warrants are usually issued for common stock, at a higher price than current market price, in conjunction with bonds or preferred stock as an added inducement to buy. An inducement attached to new securities giving the purchaser a long-term (usually five to ten years) privilege of subscribing to one or more shares of stock reserved for him by the corporation from its unmissed or treasure stock reserve.

WASH SALE: When an investor sells a security at a loss, he can use that realized loss to offset a realized gain in order to reduce his tax liability on that gain. If the seller reacquires that or a substantially identical security within a 30-day period prior to or after the sale, he will lose the tax benefit of that realized loss

WHISPER NUMBERS: Unofficial projected corporate earning estimates by Wall Street analysts; Wall Street financial performance gossip.

WHITE KNIGHT: Friendly investor sought to save a company from a hostile takeover.

WILSHIRE INDEX: An equity stock index composed as a surrogate for 5,000 firms.

WINDOW DRESSING: Portfolio manager year-end buying or selling for shareholder presentations.

WIREHOUSE: A stock brokerage firm; usually retail or boutique and/or national or regional in nature.

WRAP ACCOUNT: A discretionary brokerage securities account where all sales, administrative fees and commissions are included in an annual percentage-based management fee [1-3%].

YELLOW SHEETS: Pink-sheet “bid” and “ask” OTC price listings for a market-maker in corporate bonds

YIELD (RATE OF RETURN): The dividends or interest paid by a company on its securities, expressed as percentage of the current price or of the price of original acquisition.

YIELD CURVE: Curvilinear relationship between time to maturity, and yield, for a specific asset class. A graph that plots market yields on securities of equivalent quality but different maturities, at a given point in time. The vertical axis represents the yields, while the horizontal axis depicts time to maturity. The term structure of interest rates, as reflected by the yield curve, will vary according to market conditions, resulting in a variety of yield curve configurations:

- Normal or Positive Yield Curve - Indicates that short-term securities have a lower interest rate than long-term securities.
- Inverted or Negative Yield Curve - Reflects the situation of short-term rates exceeding long-term rates.
- Flat Yield Curve - Reflects the situation when short- and long-term rates are about the same.

YO-YO- STOCK: An equity whose price fluctuates in an often wild manner.

ZERO COUPON BOND: A bond that pays both principal and interest at maturity. These debt instruments pay interest only at maturity, as compared with semi-annual interest payments on treasuries. Zero coupon bonds generate no coupon payments whatsoever throughout the life of the security. They are sold at a discount to the face value of the bond, and as the maturity date moves closer, the price of the bond will move toward par. Therefore, the investment return comes entirely from the price increase between the time of purchase and the maturity date (or redemption date, if it is sold prior to maturity). The coupon income is not reinvested and thus the potential income derived from reinvestment is not considered in valuing the zero’s investment performance. Zero coupon bonds can be applied in a variety of ways:

- STRIPS are an acronym for Separate Trading of Registered Interest and Principal Securities. STRIPS consist of either the interest or principal on U.S. treasury bonds. They are direct obligations of the U.S. government and are considered the safest and most liquid of all zero coupon bonds. They have maturities from 6 months to 30 years.

- CATS are an acronym for Certificates of Accrual on Treasury Securities. These are physical certificates representing cash flows of U.S. treasury bonds that are held in a separate trust. Because CATS represent cash flows of treasury bonds, they are considered to be backed by the government. They have maturities from 1 to 22 years.

ZERO-MINUS TICK: A transaction on the Stock Exchange at a price equal to that of the preceding transaction but lower than the last different price.

ZERO-PLUS TICK: A transaction on the Stock Exchange at a price equal to that of the preceding transaction but higher than the last different price.

ZETA: A type of volatile derivative pricing model; vega, kappa, omega or sigma.

ZOMBIES: Insolvent or bankrupt companies that are still in operation (i.e., dot com zombies).

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THE END